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CAT. NO. 1138—L.-M. CO. D33896

HOUSE OF COMMONS

First Session—Twenty-second Parliament,
1953-54

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HARRY P. CAVERS, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

MONDAY, MARCH 29, 1954
TUESDAY, MARCH 30, 1954
WEDNESDAY, MARCH 31, 1954
MONDAY, APRIL 5, 1954
TUESDAY, APRIL 6, 1954

C.N.R. Annual Report (1953) and Budget (1954).
C.N. Steamships Limited (1953) and Budget (1954).
C.N.R. Securities Trust (1953).
Trans-Canada Air Lines' Report (1953) and Budget (1954).
Auditors' Reports to Parliament.
Estimates for fiscal year 1954-55—Items 465, 469, 474 and 475.

WITNESSES

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

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, operated and controlled by the Government

Chairman: H. P. Cavers, Esq.,
Vice-Chairman: A. Dumas, Esq.

and

Messrs.

Benidickson,	Gillis,	Langlois (*Gaspe*),
Carter,	Hahn,	Macdonnell (*Greenwood*),
Churchill,	Hanna,	MacLean,
Conacher,	Harrison,	McCullough (*Pictou*),
Fairey,	Healy,	Murphy (*Westmorland*),
Follwell,	Holowach,	Pouliot,
Fraser (*Peterborough*),	James,	Villeneuve,
Fulton,	Knight,	Weaver.—26.

A. CHASSE,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

THURSDAY, March 18, 1954.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time and that notwithstanding Standing Order 65, in relation to the limitation of the number of Members, the said Committee consists of Messrs. Benidickson, Carter, Cavers, Churchill, Conacher, Dumas, Fairey, Follwell, Fraser (*Peterborough*), Fulton, Gillis, Hahn, Hanna, Harrison, Healy, James, Knight, Langlois (*Gaspe*), Macdonnell (*Greenwood*), MacLean, McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot, Shaw, Villeneuve, Weaver.

FRIDAY, March 19, 1954.

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

MONDAY, March 22, 1954.

Ordered,—That the annual reports for the year 1953 of the Canadian National Railways, the Canadian National (West Indies) Steamships Limited, the Canadian National Railways Securities Trust, and the Auditors' Report to Parliament in respect of the Canadian National Railways and the Canadian National (West Indies) Steamships Limited, tabled this day, be referred to the said Committee, together with the following items of estimates for 1954-55:

Vote 465—Prince Edward Island Car Ferry and Terminals—deficit.

Vote 469—North Sydney, N.S.-Port aux Basques, Newfoundland—deficit.

Vote 474—Maritime Freight Rates Act—payment of difference between tariff tolls and normal tolls to the Canadian National Railways and other railways operating in the territory designated by the Act.

Vote 475—Canadian National (West Indies) Steamships Limited—deficit.

And that the resolution passed by the House on February 5, 1954, referring certain estimates to the Committee of Supply, be rescinded insofar as the said resolution redated to Votes 465, 469, 474 and 475.

WEDNESDAY, March 24, 1954.

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

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

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

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FRIDAY, March 26, 1954

Ordered,—That the Budget of the Canadian National Railways and Canadian National (West Indies) Steamships Limited, tabled this day, be referred to the Sessional Committee on Railways and Shipping owned, operated and controlled by the Government.

MONDAY, March 29, 1954

Ordered,—That the Annual Report of the Trans-Canada Air Lines for the year 1953, tabled March 15, the Auditor's Report in respect of Trans-Canada Air Lines for the year 1953, tabled March 16, and also the Revised Capital Budget for the year 1953, the Capital Budget for the year 1954 and the Operating Budget for the year 1954 in respect of Trans-Canada Air Lines, tabled March 26, be referred to the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORTS TO THE HOUSE

WEDNESDAY, March 24, 1954.

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

FIRST REPORT

Your Committee recommends:

1. That its quorum be reduced from fourteen to ten members.

2. That it be granted permission to sit while the House is sitting.

3. That it be empowered to print, from day to day, 1000 copies in English and 250 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

HARRY P. CAVERS,
Chairman.

Note: The said report was concurred in on the same day.

THURSDAY, April 1, 1954.

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

SECOND REPORT

Your Committee has considered the following items of the Estimates for the fiscal year ending March 31, 1955, referred to it on March 22, 1954, and recommends their approval, namely:

Vote 465—Prince Edward Island Car Ferry and Terminals—deficit.

Vote 469—North Sydney, N.S.-Port aux Basques, Newfoundland—deficit.

Vote 474—Martime Freight Rates Act—payment of difference between tariff tolls and normal tolls to the Canadian National Railways and other railways operating in the territory designated by the Act.

Vote 475—Canadian National (West Indies) Steamships Limited—deficit.

All of which is respectfully submitted.

HARRY P. CAVERS,
Chairman.

WEDNESDAY, April 7, 1954.

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

THIRD REPORT

Pursuant to the Orders of Reference of the House of March 22nd, 24th, 26th and 29th, 1954, this Committee had before it for consideration the following:

1. The Annual Reports of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, for 1953, and the Auditors' Report to Parliament in respect thereto.

2. The Annual Report of the Trans-Canada Airlines for the calendar year 1953, and the Auditors' Report to Parliament in respect thereto.

3. The Annual Report of the Canadian National Railways Securities Trust for 1953.

4. The Capital budgets of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, for the year ending 1954, and the operating budget and capital budget of the Trans-Canada Airlines for the calendar year 1954.

Your Committee held nine meetings, during which the above-named reports and budgets and certain matters related thereto were considered and evidence adduced thereon.

The Annual Report of the Canadian National Railways for 1953 discloses a net income available for interest and dividends of $28,331,343, as compared with $24,305,448 in 1952. Interest charges in 1953 amounted to $28,087,326 as compared to $24,163,121 bringing about a surplus of $244,017 as compared to $142,327 in 1952. The said Annual Report was adopted.

Your Committee showed considerable interest in The Montreal Terminal project introduced in the Report. Plans are being made to erect a 20-storey hotel as the next stage of the terminal program. Plans for later development include the erection of a Railway office building, and eventually it is expected that in the Central Station Area which is in the heart of Montreal there will arise a great civic development. The Committee expresses the opinion that this new venture will satisfy a public need and will be profitable to Canadian National Railways as a whole.

The modern ice-breaking ferry "William Carson" was launched in November and the Committee was informed that it will be commissioned and in service between North Sydney and Port Aux Basques during the summer of 1954. The Ferry that is to be operated by the Canadian National Railways between Yarmouth, N.S., and Bar Harbour, Maine, will be a decided convenience and should result in additional summer visitors to the Maritime Provinces.

The Annual Report of Canadian National (West Indies) Steamships Limited, for 1953, discloses a net operating loss of $822,446, as compared with a net operating profit of $326,276 in 1952. This result was mainly due to a decline in volume of freight, intense competition from other Lines and to the cancellation of six voyages as a consequence of a strike by employees between September 28th and October 23rd. The Committee was informed that the operating results of this Company will be kept under review. The said Annual Report was adopted.

The Annual Report of Trans-Canada Airlines for 1953 discloses a net operating revenue of $1,322,120 and that after payment of interest amounting to $765,890 on capital invested and making provision for income tax of $300,000 there is a resulting surplus of $226,230 as compared with a surplus of $807,879 in the year 1952. The Committee viewed and were accorded a short air trip in the new "Super Constellation" which has adequate accommodation for 63 passengers and will be used on the Trans-Atlantic service. The Super Constellation fleet will commence operation on the North Atlantic by mid-summer.

Deliveries of Vickers Viscounts powered by Rolls-Royce Dart engines of the turbine-propeller type will begin late this year. These aircraft will enter domestic service in 1955. The said Annual Report was adopted.

The Auditors Report to Parliament with respect to the Canadian National Railways, the Canadian National (West Indies) Steamships Limited, and the Trans-Canada Airlines as well as the Annual Report of the Canadian National Securities Trust for the calendar year 1953, were severally considered and adopted.

The Financial Budgets of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Airlines, for the calendar year 1954 were examined and adopted.

The items of the Estimates for the year ending March 31, 1955, being votes 465, 469, 474 and 475, were considered and approved.

The task of your Committee was greatly facilitated by the valuable assistance of Mr. Donald Gordon, C.M.G., LL.D., Mr. S. F. Dingle, Mr. R. D. Armstrong, Mr. G. R. McGregor, Mr. W. S. Harvey, Mr. Turville and Mr. Morison.

A copy of the evidence adduced in respect of the matters referred is appended hereto.

All of which is respectfully submitted.

HARRY P. CAVERS,
Chairman.

MINUTES OF PROCEEDINGS

House of Commons, Room 497,
WEDNESDAY, March 24, 1954.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 10.00 o'clock a.m.

Members present: Messrs. Benidickson, Carter, Cavers, Dumas, Fairey, Follwell, Fraser (*Peterborough*), Fulton, Gillis, Hahn, Hanna, Healy, Hollowach, James, Knight, Langlois (*Gaspe*), Macdonnell, MacLean, McCulloch (*Pictou*), Pouliot, Villeneuve, and Weaver.

In attendance: Mr. F. T. Collins, Administrative Assistant, Department of Transport.

The Clerk of the Committee attended to the election of the chairman.

Mr. Weaver moved that Mr. H. P. Cavers be nominated.

Mr. Fulton moved that nominations be closed, whereupon the Clerk declared Mr. Cavers elected chairman.

Upon taking the chair, the chairman thanked the members for the honour conferred upon him, and then invited nominations for the post of vice-chairman.

On motion of Mr. H. B. McCulloch, Mr. A. Dumas, M.P., was elected vice-chairman.

On motion of Mr. Carter,
Resolved,—That the Committee ask leave to sit while the House is sitting.

On motion of Mr. Dumas,
Resolved,—That the Committee recommend that its quorum be reduced from fourteen to ten members.

On motion of Mr. Benidickson,
Resolved,—That the Committee recommend to the House that it be authorized to print from day to day 1000 copies in English and 250 copies in French of its minutes of proceedings and the evidence to be heard and, that Standing Order 64 be suspended in relation thereto.

On motion of Mr. James,
Resolved,—That a report, embodying the recommendation agreed to at this meeting, be made to the House forthwith.

The chairman informed the members that advice had reached him to the effect that the president and other officials of the Canadian National Railways are prepared to be in attendance before the Committee on Monday next and, in turn, the president and the other officials of the TCA, on the following Thursday.

After some discussion, it was agreed that the Committee would, as far as it was feasible so to do, arrange the date and time of sittings to meet the convenience of the officials of the Railway and Air Transport companies.

At 10.15 o'clock a.m., the Committee adjourned to meet again at 11.00 o'clock a.m., Monday, March 29, 1954.

House of Commons, Room 430,

MONDAY, March 29, 1954.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 11.00 o'clock, a.m. The Chairman, Mr. Harry P. Cavers, M.P., presided.

Members present: Messrs. Benidickson, Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fulton, Gillis, Hahn, Hanna, Harrison, Healy, Holowach, James, Knight, Langlois (*Gaspé*), Macdonnell (*Greenwood*), MacLean, McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot, Weaver.

In attendance: Honourable Lionel Chevrier, Q.C., M.P., Minister of Transport; Mr. Donald Gordon, C.M.G., L.L.D., Chairman of the Board of Directors and President of the Canadian National Railways; Mr. S. F. Dingle, Vice-President (Operations); Mr. R. D. Armstrong, Comptroller; Mr. S. H. Way, Assistant Comptroller; Mr. C. W. West, Deputy Minister of Transport; Messrs. F. P. Turville, C.A., J. D. Morison, C.A., and D. T. G. Padley, of the firm of George A. Touche & Co., Chartered Accountants, Auditors.

The Committee commenced consideration of the Annual Report of the Canadian National Railways for the calendar year 1953.

Mr. Gordon was called. He proceeded to the reading of the Annual Report. (The reading of the various financial and other statements appearing therein was, however, dispensed with but their inclusion in the printed record was, by unanimous consent, ordered.) Then, Mr. Gordon was questioned on each and every paragraph of the said report.

As Paragraph 4, dealing with Volume of Freight Traffic, was reached, Mr. Gordon's examination was temporarily suspended in order to allow Mr. Follwell, of the Committee, to read a memorandum, concerning the division of any traffic moving under the terms of construction contracts given by the Department of Transport, (*See today's printed report of evidence at page 63*) at the conclusion of which the following suggestion is made:

> That a recommendation be made to the effect that a transportation clause be inserted in the Department of Transport construction contracts in the following terms: 'The Transportation of Material and Plant—All material and plant used in connection with the execution of this contract must be transported over railways operating in Canada or Canadian waterways to the greatest possible extent'.

After some discussion, Mr. Follwell moved, seconded by Mr. Dumas, that a sub-committee be appointed to consider the proposed resolution.

The said motion was allowed to stand.

Mr. Gordon's examination was resumed.

Mr. Chevrier dealt with certain questions, arising out of Mr. Gordon's examination, relating to the Department of Transport and government policy.

At 1.00 o'clock, p.m., the examination of Mr. Gordon still continuing, the Committee adjourned to meet again at 3.30 o'clock in the afternoon.

AFTERNOON SITTING

The Committee met at 3.30 o'clock p.m. The Chairman, Mr. Harry P. Cavers, M.P., presided.

Members present: Messrs. Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fulton, Gillis, Hahn, Hanna, Harrison, Healy, Holowach, James, Knight, Langlois *(Gaspé)*, Macdonnell *(Greenwood)*, MacLean, McCulloch *(Pictou)*, Murphy *(Westmorland)*, Pouliot, Villeneuve, and Weaver.

In attendance: The same as those shown in attendance at the morning sitting.

Mr. Gordon's examination was continued during the resumed study of the Annual Report of the Canadian National Railways for the Calendar Year 1953.

Mr. Chevrier replied to certain questions on departmental and policy matters arising out of Mr. Gordon's examination.

Mr. Nesbitt, M.P., with leave of the Committee, was allowed to ask a few questions to Mr. Gordon.

At 6.00 o'clock p.m., the examination of Mr. Gordon still continuing, the Committee adjourned to meet again in the evening at 8.30 o'clock.

EVENING SITTING

The Committee met at 8.30 o'clock p.m. The Chairman, Mr. Harry P. Cavers, M.P., presided.

Members present: Messrs. Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fulton, Gillis, Hahn, Harrison, Healy, James, Knight, Langlois *(Gaspé)*, Macdonnell *(Greenwood)*, MacLean, McCulloch *(Pictou)*, Murphy *(Westmorland)*, Pouliot, Weaver.

In attendance: The same as those shown in attendance at the morning and afternoon sittings.

Mr. Gordon's examination was continued during the resumed study of the Annual Report of the Canadian National Railways for the Calendar Year 1953. Mr. Dingle replied to a few specific questions.

Mr. Chevrier took part in the deliberations where and when departmental and policy matters arose.

Mr. Knight, of the Committee, presented a petition from the people of the town of Kelvington, Saskatchewan, with reference to street crossing, interference by a railway (Y) and widening of a street near grain elevators. Mr. Chevrier and Mr. Gordon provided some information thereon and it was agreed that the Committee could not receive such a petition and that the Board of Transport Commissioners was the logical body to which it should be presented.

At 10.15 o'clock p.m., the examination of Mr. Gordon still continuing, the Committee adjourned to meet again at 10.30 o'clock a.m., Tuesday, March 30th, 1954.

TUESDAY, March 30, 1954.

The Sessional Committee on Railways and Shipping, owned, operated and controlled by the government met at 10.30 o'clock a.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fraser *(Peterborough)*, Fulton, Gillis, Hahn, Hanna, Harrison, Healy, Holowach, James, Knight, Langlois *(Gaspé)*, Macdonnell *(Greenwood)*, MacLean, McCulloch *(Pictou)*, Murphy *(Westmorland)*, Pouliot, and Weaver.

In attendance: Honourable Lionel Chevrier, Q.C., M.P., Minister of Transport, and C. W. West, Deputy-Minister; Mr. Donald Gordon, C.M.G., L.L.D., Chairman of the Board of Directors and President of the Canadian National Railways, with Mr. S. F. Dingle, Vice-President, Mr. R. D. Armstrong, Comptroller, and Mr. S. H. Way, Assistant-Comptroller; Messrs. F. P. Turville, C.A., J. D. Morison, C.A., and D. T. G. Padley, of the firm of George A. Touche & Co., Chartered Accountants, Auditors.

The Committee resumed from Monday the adjourned study of the Annual Report of the Canadian National Railways for the Calendar Year 1953.

Mr. Gordon's examination was continued. He was assisted by Mr. Dingle and Mr. Armstrong.

Mr. Chevrier dealt with certain questions relating to the Department of Transport and government policy.

On motion of Mr. Follwell, seconded by Mr. Weaver, the Annual Report of the Canadian National Railways for the Calendar Year 1953 was unanimously adopted.

The Committee then considered the Income Account and Capital Budget of the Canadian National Railways for the Calendar Year 1954, which was ordered to be printed in the record of the Committee's Proceedings and Evidence, and taken as read.

Mr. Gordon was questioned thereon and in addition to answers given orally, the witness undertook to supply the Committee with written replies to certain questions put to him by Mr. Macdonnell, Mr. James and Mr. Pouliot. It was agreed that the said written replies be published as appendices to the Committee's printed record of Proceedings and Evidence.

Mr. Gordon also filed for distribution to the members of the Committee a statement concerning "Capital Commitments in respect of Montreal Terminal Development Project". (*See to-day's minutes of evidence at page 142*). Considerable discussion took place in respect to the matter.

On motion of Mr. Dumas the Income Account and Capital Budget of C.N.R., 1954, was unanimously adopted.

The Committee then considered the Annual Report of Canadian National (West Indies) Steamships, Limited, for the Calendar Year 1953.

Mr. Gordon, in his capacity as Director and President of the said steamship Company, was questioned at length on the report.

At 1.00 o'clock p.m., the examination of Mr. Gordon still continuing, the Committee adjourned to meet again in the afternoon at 3.30 o'clock.

AFTERNOON SITTING

The Committee met at 3.30 o'clock p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Carter, Cavers, Dumas, Fairey, Follwell, Fraser (*Peterborough*), Fulton, Gillis, Hahn, Hanna, Harrison, James, Knight, Langlois (*Gaspe*), MacLean, McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot, Weaver.

In attendance: The same as those shown in attendance at the morning sitting.

Mr. Gordon's examination was continued during the resumed study of the Annual Report of the Canadian National (West Indies) Steamships, Limited. Mr. Armstrong, Comptroller, assisted. Mr. Gordon and Mr. Armstrong were also questioned on all other matters before the Committee at this sitting.

The Annual Report of the Steamships company was eventually adopted unanimously.

The Committee, thereafter, considered and adopted the Income Account and Capital Budget of Canadian National (West Indies) Steamships, Limited, for the calendar year 1954.

The Annual Report of The Canadian National Railways Securities Trust, for the year ended December 31, 1953, was in turn considered and adopted.

The Committee then took under consideration the Auditor's Report on the affairs of Canadian National (West Indies) Steamships, Limited. Mr. Turville, C.A., and Mr. Morison, C.A., were questioned in connection with the said Report which, eventually, was adopted.

The following items of the Estimates for the fiscal year ending March 31, 1955, were considered and adopted.

Vote 465—Prince Edward Island Car Ferry and Terminals—deficit.

Vote 469—North Sydney, N.S.-Port aux Basques, Newfoundland—deficit.

Vote 474—Maritime Freight Rates Act—payment of difference between tariff tolls and normal tolls to the Canadian National Railways and other railways operating in the territory designated by the Act.

Vote 475—Canadian National (West Indies) Steamships Limited—deficit.

It was ordered that a Report be made to the House forthwith to recommend the approval of the said items.

The reading of all reports considered during the present sitting was dispensed with, so taken as read, but same were ordered to be printed in the day's Minutes of Proceedings and Evidence.

Mr. Chevrier dealt with departmental and policy questions arising out of the examination of Mr. Gordon and other witnesses heard during the sitting.

Mr. Fraser (*Peterborough*), rising on a question of privilege, requested that a correction be made in respect to a newspaper report he had mentioned at the morning sitting.

On motion of Mr. Dumas, it was agreed that a reply tabled in answer to a question of Mr. Carter, be printed as an appendix to the Minutes of Proceedings and Evidence (*See Appendix "A"*).

The Chairman expressed his gratitude and that of the members of the Committee to Mr. Gordon and the other officials attending before the Committee for their valuable assistance.

The Chairman informed the members that the officials of Trans-Canada Air Lines would be before the Committee on the next day and that arrangements had been made for the members to be taken on a flight aboard a new Super-Constellation at or about noon.

Mr. Follwell voiced the members' thanks to the Chairman for the "expeditious manner in which the affairs of the Committee had been handled".

At 4.40 o'clock p.m., the Committee adjourned to meet again at 10.00 o'clock a.m., Wednesday, March 31, 1954.

Room 277,

WEDNESDAY, March 31, 1954.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the government met at 10.00 o'clock, a.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Benidickson, Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Fraser (*Peterborough*), Fulton, Gillis, Hahn, Harrison, Healy, Holowach, James, Knight, Langlois (*Gaspe*), Macdonnell (*Greenwood*), MacLean, McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot, Villeneuve, Weaver.

In attendance: Mr. G. R. McGregor, President of Trans-Canada Air Lines with M. W. F. English, Vice-President (Operations), Mr. W. G. Wood, Vice-President (Traffic), Mr. W. S. Harvey, Comptroller, Mr. R. C. MacInnes, Director of Public Relations, also, Commander C. P. Edwards, Ottawa, and Mr. H. J. Symington, Q.C., Montreal, Directors; Mr. F. P. Turville, C.A., Mr. J. D. Morison, C.A., and Mr. D. T. G. Padley, C.A., of the firm of George A. Touche & Company, Chartered Accountants, Auditors.

The Honourable C. D. Howe, M.P., Minister of Trade and Commerce, and Minister of Defence Production, was in attendance for part of the sitting.

The Committee took into consideration the Annual Report of the Trans-Canada Air Lines System for the calendar year 1953.

Mr. McGregor was called. It was agreed that Mr. McGregor read the annual report, but that the reading of the various financial and other statements contained therein be dispensed with. Their inclusion in the printed record of the Committee's Minutes of Proceedings and Evidence was, by unanimous consent, ordered. Following this Mr. McGregor was questioned on all aspects of the said report.

At 11.30 o'clock a.m., the Committee left from the Parliament Buildings, by motor conveyance, for Uplands Airport where the members, as guests of TCA, boarded a Super-Constellation. During the flight, lunch was served aboard the new TCA aircraft.

With the exception of Mr. Benidickson and Mr. Macdonnell who were otherwise engaged, all members of the Committee whose names appear above, boarded the plane at Uplands, together with the following ministers and other members of Parliament, viz:

The Right Honourable C. D. Howe, M.P., Minister of Trade and Commerce and Minister of Defence Production; Honourable Lionel Chevrier, Q.C., M.P., Minister of Transport; Honourable George A. Drew, Q.C., M.P., Leader of the Opposition, Mr. M. J. Coldwell, M.P., Mr. Solon Low, M.P.

At 2.45 o'clock, the Committee returned to the Parliament Buildings and the Committee adjourned to meet again at 3.30 o'clock in the afternoon.

AFTERNOON SITTING

The Committee met at 3.30 o'clock, p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Benidickson, Carter, Cavers, Churchill, Conacher, Dumas, Follwell, Fraser (*Peterborough*), Fulton, Gillis, Hanna, Healy, James, Knight, Macdonnell (*Greenwood*), MacLean, McCulloch (*Pictou*), Murphy (*Westmorland*), Pouliot, Villeneuve, Weaver.

In attendance: (All those whose names appear as in attendance at the morning sitting.)

Mr. Healy, of the Committee, speaking on a question of privilege, asked that a correction be made with respect to the amount of $295,000.00 he had mentioned as that set aside by the City of Montreal for the construction of a tunnel. The right amount should be $250,000.00.

The Committee then resumed from 11.30 o'clock, a.m., consideration of the Annual Report of the Trans-Canada Air Lines system for the calendar year 1953.

Mr. McGregor was again questioned thereon at length, and at the conclusion of his examination on the Annual Report, Mr. McGregor gave replies to questions which had been asked of him during the morning sitting by Mr. Murphy (*Westmorland*) and Mr. Macdonnell, of the Committee.

The said Annual Report was thereafter unanimously adopted.

The Committee then took into consideration the Operating Budget, the Capital Budget, for the calendar year 1954 and also Trans-Canada Air Lines Capital Budget (Revised) for the calendar year 1953, with Mr. McGregor supplying particulars thereon in answer to questions put to him by the Committee.

The said budgets were unanimously adopted.

The Auditors' report to Parliament on the activities of the Trans-Canada Air Lines system for the calendar year 1953 was also taken into consideration and in this connection the Committee heard, in addition to the Right Honourable C. D. Howe and Mr. McGregor, Mr. Turville, C.A., appearing on behalf of the Firm of George A. Touche & Company, Chartered Accountants, Auditors, whereafter it was unanimously adopted.

The said Auditors' report was taken as read but its inclusion in the printed record of the Minutes of Proceedings and Evidence was, by unanimous consent, ordered.

The Chairman expressed the Committee's gratitude to Mr. Howe, Mr. McGregor and all other officials of T.C.A. and the Auditors' firm for their contribution to the work of the Committee. Mr. Cavers extended his personal thanks and that of all members of the Committee for the very instructive trip on board of the new Super-Constellation

The Chairman then informed the members that there was one more item of business left to be dealt with, namely the proposed resolution of Mr. Follwell, of March 29th.

Whereupon, on motion of Mr. Dumas, seconded by Mr. Murphy (*Westmorland*), it was

Resolved, That the Chairman and Vice-Chairman, together with seven other members to be selected, after consultation, by the Chairman, act as a subcommittee to consider Mr. Follwell's proposed resolution and report thereon, and that the seven members be representative of the various parties as follows: Liberals, 3; Progressive Conservatives, 2; CCF, 1; Social Credit, 1.

It was agreed that the subcommittee to be named, meet on Monday morning, April 5th.

At 5.00 o'clock, p.m. the Committee adjourned to meet again at 3.30 o'clock p.m. Monday, April 5, 1954.

Room 430,
MONDAY, April 5, 1954.

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

Members present: Messrs. Carter, Cavers, Churchill, Dumas, Fairey, Fraser (*Peterborough*), Gillis, Hahn, Hanna, Harrison, Knight, Macdonnell (*Greenwood*), McCulloch (*Pictou*), Weaver.

The Chairman presented the report of the Subcommittee appointed to consider Mr. Follwell's proposed resolution of March 29th, as follows:

Monday, April 5, 1954.

The Subcommittee appointed to consider Mr. Follwell's proposed resolution of March 29th, met at 11.00 o'clock this day, at which time the following members were present: Mr. H. P. Cavers, Chairman, Mr. A. Dumas, Vice-Chairman, and Messrs. Carter, Fulton, Gillis, Hahn, Harrison, Macdonnell (*Greenwood*), and Weaver.

After careful consideration of the said proposed resolution, your Committee has unanimously agreed that no recommendation be made in the matter by the Committee at the present time.

All of which is respectfully submitted.

H. P. CAVERS,
Chairman.

On motion of Mr. Dumas, seconded by Mr. Weaver, the said report was adopted.

The Committee, on the motion of Mr. Macdonnell (*Greenwood*), agreed to hear Mr. T. M. Bell, M.P., in connection with the recent discontinuance by the Canadian National Railways of the overnight sleeping facilities between Saint John, N.B., and Halifax, N.S It was agreed that the Committee would consider this matter at a subsequent meeting

Whereafter, the Committee sat *in camera* to consider a draft report to the House.

At 4.15 o'clock p.m., the Committee adjourned to meet again at the call of the Chair.

THE SENATE, Room 368,

TUESDAY, April 6, 1954.

The Sessional Committee on Railways and Shipping, owned, operated and controlled by the Government, met at 4.00 o'clock p.m. The Chairman, Mr. Harry P. Cavers, presided.

Members present: Messrs. Carter, Cavers, Churchill, Dumas, Fairey, Follwell, Hahn, Hanna, Harrison, Holowach, James, Langlois (*Gaspé*), McCulloch (*Pictou*), Pouliot and Weaver.

The Chairman transmitted certain information he had obtained, after consultation with the competent authorities, concerning the matter relating to the discontinuance of overnight sleeping facilities between Saint John, N.B., and Halifax, N.S., which was brought to the attention of the Committee on the previous day.

It was agreed that the matter was not one to be the object of a recommendation in the Committee's report to the House.

The Committee afterwards sat *in camera* and resumed, from the previous day, consideration of a draft report on all matters which had been brought before it.

After certain modifications made thereto, the said draft report was adopted and ordered to be presented to the House as the Committee's Third Report.

Mr. Pouliot, of the Committee, moved a vote of thanks to the Chairman.

At 4.45 o'clock p.m., the Committee adjourned.

ANTOINE CHASSÉ,
Clerk of the Committee.

EVIDENCE

MARCH 29, 1954.
11.00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. We have with us today Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President of the Canadian National Railways. I am going to ask Mr. Gordon to read the annual report first. Last year we followed this procedure with success, I think, because rather than calling each individual item we went over the full report. In some instances questions might arise which will be answered in subsequent stages of the report, and I think if that is convenient for you, Mr. Gordon, we will follow the same procedure as last year.

Mr. DONALD GORDON, C.M.G., LL.D.: Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, may I say first that I have with me Mr. S. F. Dingle, vice-president in charge of operations, and Mr. R. D. Armstrong, recently appointed comptroller in succession to Mr. T. J. Gracey, who is retiring after 34 years of loyal and effective service to the company. Other staff officers are here with supporting information in order that I may be able to deal with as many as possible of the questions that may occur to members of the committee. As you suggested, Mr. Chairman, I might follow the procedure of past years and be permitted to read the report in its entirety as a preliminary to the committee's examination in detail?

The CHAIRMAN: I think that would meet with the approval of the members.

Mr. GORDON: I will commence on page 5 of the report, which is before the members, and read the letter of transmittal as a matter of record. It is addressed to the Honourable Lionel Chevrier, Q.C., M.P., Minister of Transport, Ottawa. It reads:

CANADIAN NATIONAL RAILWAYS
DONALD GORDON
Chairman and President

MONTREAL, February 26, 1954.

The Honourable Lionel Chevrier, Q.C., M.P.,
Minister of Transport,
Ottawa.

Dear Sir:

On behalf of the Board of Directors, I submit herewith the Annual Report of the Canadian National Railways for the year 1953.

The text is arranged under three major headings, dealing in turn with the financial results, the physical performance and improvements in facilities, and items of general interest. Together with the supporting statistical tables, charts, and illustrative pictures, the Report is designed to give a clear and comprehensive review of the System's activities during the year.

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

Yours truly,

D. GORDON.

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Now I commence on page 6 with the "Review of Financial Results", and I would ask that the table as submitted in the report be taken as read, Mr. Chairman.

The CHAIRMAN: Yes.

Mr. GORDON: Commencing with paragraph 2:

REVIEW OF FINANCIAL RESULTS

The following statement is a summary of the Consolidated Income Account which appears on page 24:

	1953	1952
Operating Revenues	$696,622,451	$675,219,415
Operating Expenses	659,049,086	634,852,915
Net Operating Revenue	$ 37,573,365	$ 40,366,500
Taxes, equipment rents and other income accounts Dr.	9,242,022	16,061,052
Available for interest and dividends	$ 28,331,343	$ 24,305,448
Interest charges	28,087,326	24,163,121
Surplus	$ 244,017	$ 142,327

The impact of higher wage rates and a decline in traffc more than offset the increase in operating revenue attributable to higher freight rates during 1953. As a consequence the benefits of improved operating performance were wholly absorbed, and the final income result was a disappointingly small surplus to be paid as a dividend on Preferred Stock.

Operating revenues

A new record in operating revenues was attained during 1953, exceeding the level of the previous year by $21.4 million, or 3.2%. Higher freight revenues accounted for most of the increase, but important contributions were made by improved earnings in the Express and Communications Departments.

Volume of Freight Traffic

The volume of freight traffic handled in 1953, measured in terms of revenue net ton miles, declined by 4.6% from the record level of 1952. This was the result of a reduction in both the tonnage handled and the average distance over which the traffic moved. Revenue tonnage amounted to 86.5 million tons, a decline of 3.9%, and the average haul was reduced from 427 miles to 424 miles.

The reduction in traffic volume was concentrated in the first and last quarters of 1953. A wider range of commodities was affected in the latter part of the year.

On Canadian lines there was no marked change in the quality of traffic handled; for the System as a whole a slight improvement was experienced.

The net decline in tonnage for the full year was more than accounted for by the reductions in pulpwood, coal, grain and grain products. Pulpwood tonnage reflected a reduction in industrial stocks during the early part of the year and, to some degree, the use of other forms of transportation. Coal shipments were affected by the usually mild winter seasons contained within the year 1953, and by the continued trend towards the substitution of oil and gas for coal fuel by industrial and household consumers. The tonnage of grain and grain products declined as a consequence of the marked reduction in export movements in the latter part of the year.

The major increase in tonnage occurred in automobile parts, chiefly on Grand Trunk Western Lines, reflecting increased production. Moderate increases were shown in other manufactured and miscellaneous commodities, sand and gravel, and iron ores and concentrates.

Freight Rates

Reference was made in the last Annual Report to the approval by the Board of Transport Commissioners of a 9% increase in freight rates effective January 1, 1953. On March 16, following a judgment issued by the Board on March 6th, a further increase of 7% was made effective. In both of the above mentioned cases graduated increases on coal and coke were specified, ranging from ten to twenty cents per ton.

On May 1, 1953, further reductions were made effective on traffic eligible in respect of the so-called "bridge subsidy", and moving between Eastern and Western Canada. Tariffs were amended to provide for reductions of 3·5% and (in addition) 9·5 cents per hundred pounds. Under the relevant legislation the railways affected are titled to seek a compensatory subsidy from the Federal Government up to an aggregate amount of $7 million annually.

A number of important rate reductions and other tariff changes were initiated by the Railway during the year to counter the effects of growing competition, especially from long-distance highway carriers.

During 1953 a series of public hearings were held in connection with the equalized class rate scale issued by the Board on December 12, 1952, for examination by interested parties. In the course of the hearings, the Board announced their intention, as an interim measure of equalization, to require the railways to reduce all class rates by 5% in Western Canada, and to permit the railways to increase class rates by not more than 10% within Central Canada. Their Order was issued under date of October 9th, and the changes became effective November 15th. Concurrent with this Order the Board postponed the effective date for the aforementioned equalized class rate scale from January 1, 1954 to January 1, 1955. The last hearings in connection with this phase of equalization were held on January 14, 1954.

Progress was made during the year in the review of the Canadian Freight Classification, and the draft revision is now under study by representatives of industry and the railways.

Reflecting changes in the composition of traffic, as well as the freight rate adjustments cited above, the average revenue per ton mile rose from 1·397 to 1·509 cents.

Passenger Traffic

Passenger revenues declined by 5·3% to $45,916,272 during 1953 as the result of a reduction in the volume of traffic. The number of passengers carried amounted to 18,080,958, a decrease of 4%, and since the average passenger journey was slightly lower, total passenger miles dropped by 5·9%.

The reduction in patronage was fairly general, can be attributed mainly to increased competition, accentuated by mild weather conditions in the winter season of 1953. Slight gains were recorded in traffic obtained from organized tour and special party movements, and from steamships calling at Canadian Atlantic ports.

On May 1st, in accordance with an Order issued by the Board of Transport Commissioners under date of March 24, the "Mountain Differential" was remove from passenger fares applying in British Columbia and westerly portions of Alberta. Under this Order one-way first class fares were reduced from 4½¢ to 4¢ per mile, and other related fares reduced in similar proportions.

Express Traffic

Higher rates and an improvement in the quality of traffic combined to raise express revenues by 6·8% to a new high of $38,258,227.

The number of shipments carried was practically unchanged, but a greater proportion of long haul traffic raised the average revenue yield.

Communications Traffic

Revenues earned by the Communications Department rose by 15% to a new record of $15,952,985 during 1953, as the result of higher message revenues and the substantial growth in private wire services.

An increase in message rates, averaging 10·9%, was made effective on February 1, 1953, following approval by the Board of Transport Commissioners.

Operating Expenses

Despite a better operating performance and the institution of prudent economy measures designed to adjust costs to the lower levels of traffic, operating expenses in 1953 rose by $24·2 million, or 3·8%, to a new high. This result can be attributed to the effect of wage increases on payroll costs, which accounted for 61·1% of total operating expenses, and absorbed 57·8¢ of every dollar earned in 1953.

Compared with 1952, the additional expenses due to higher wage rates amounted to $32,851,000. Of this increase, $7 million represented the effect of new wage settlements during, and applicable to, the year 1953; $21,351,000 resulted from a full year's operation under wage agreements concluded during 1952 (notably the increase granted to non-operating employees effective September 1); and $4·5 million representing the 1952 portion of back-time payments made in 1953 to trainmen and firemen under agreements signed in February and retroactive to April 1, 1952.

Other cost elements, which together accounted for $5·1 million of the rise in operating expenses, were increased pension costs, higher prices for railway materials, and an increase of $3 million in depreciation charges for equipment.

Wage Agreements

In addition to the settlements reached in February, 1953, with trainmen and firemen, as described in the last Annual Report, new agreements were concluded during the year with locomotive engineers on the Atlantic and Central Regions (excepting Newfoundland District). At the year-end negotiations were in progress with representatives of all other employees in the running trades.

During the year new wage agreements were signed covering most of the steamship, barge and ferry service employees.

Six agreements covering employees represented by the Order of Railway Telegraphers were opened for renewal on November 16 and were still under negotiation at the end of December.

On November 2, 1953, fifteen of the non-operating employees' unions presented the Canadian railways with requests for a number of "fringe benefits" to be included in the contracts effective January 1, 1954. For these employees alone the benefits would cost Canadian National an estimated $16 million annually, with a further liability of $15·7 million annually in respect of the request for sick leave with pay. Negotiations began on November 25 with a committee of union representatives and proceeded through conciliation stages without success. A Board of Conciliation and Investigation, under the chairmanship of Mr. Justice R. L. Kellock, conducted hearings on the dispute on February 9 and 10, 1954, and further hearings were scheduled to begin March 1.

On Canadian National lines in the United States a settlement was concluded with the trainmen during 1953, and as the year ended negotiations with the conductors', engineers', and firemen's representatives were being conducted through Carriers' Conference Committees. A Presidential Emergency Board was appointed on December 28 to review the dispute between the carriers and seventeen unions representing the non-operating employees on railroads in the United States. Hearings before this Board were continued into 1954.

Taxes, Rents, and Other Income Accounts

The net debit arising from this group of accounts, which can be identified on page 24, was reduced by $6·8 million. Because of our increased inventory of freight cars, the net rental paid in 1953 for the use of foreign lines' equipment was reduced by almost 50%, or $3 million.

Other items affecting this group of accounts included an improvement of $710,000 in the net earnings of hotels, and $2·1 million realized on the redemption of 4% and 5% perpetual debenture stocks having a par value of £969,486.

Hotel Operations

Three major hotel projects were brought to completion in 1953, and as a consequence the total revenues of the hotels and summer resorts showed an increase of 18·8% to a new record level of $11,041,652.

Accommodation in the new fifteen-storey wing of the Macdonald Hotel was fully in service by the end of January, and attracted new patronage from tourists visiting Edmonton. The new central building at Jasper Park Lodge opened on schedule on June 10 for the start of what proved to be a successful season. Improved revenues resulted from the completion, in the late spring, of extensive renovations and additions to the facilities of the Newfoundland Hotel in St. John's.

The number of guests accommodated during 1953 at the nine year-round hotels and three summer resorts was 742,978, an increase of 13·9 per cent over the previous year. Convention business showed an improvement in all of the hotels.

Total expenses amounted to $9,796,520, an increase of 11·9 per cent over the 1952 level. Higher payroll costs accounted for just over half of the increase in expenses.

Property Investment Account

As shown on page 30, expenditures during the year on additions and betterments, less the book value of property retired or transferred, amounted to $124,909,493, of which $79,440,264 represented net expenditures on equipment.

Major improvements to road property are dealt with under appropriate headings in the next section of this Report.

REVIEW OF OPERATIONS

Operating Performance

New records were established in freight train performance in 1953, largely as a result of a further application of diesel units. Heavier trains were moved at a faster speed than in any previous year, and the resultant average gross ton miles per freight train hour of 31,980 was 9·1 per cent above the previous high reached in 1952.

The average on-time record of principal passenger trains was improved by nearly 7 per cent compared with the previous year, and was better than any year since 1940.

Utilization of diesel power was maintained at a high rate. Evidence of this is provided by the fact that in 1953 over 36 per cent of the gross ton miles in freight service were hauled by diesel, while less than 16 per cent of the locomotive units assigned in freight service were diesel. Utilization of steam power declined as a natural consequence of the increased use of diesels, and was further reduced by the drop in traffic during the last quarter of the year.

Utilization of freight cars and passenger cars was maintained at a level consistent with the volume of traffic, and slightly reduced from 1952.

Equipment

Motive power

The five-year dieselization programme, due for completion in 1956, was advanced during the year, and altogether 110 diesel units were brought into service. These units were placed in through freight, way freight, and yard switching service, bringing these respective segments of the dieselization programme to 49 per cent, 9 per cent and 45 per cent of completion. As shown on page 36, there was on hand at the end of the year a total of 503 diesel units.

Progress in the development of new types of motive power has been carefully observed, and while the results so far do not call for modifications to the current programme, plans for the future are sufficiently flexible to enable the Company to take full advantage of technological improvements in this field.

During 1953, 99 steam locomotives in Western Canada were converted from the use of coal to oil fuel.

Freight and Passenger Equipment

Details of new units delivered during the year, and orders outstanding at December 31st, are shown on page 36.

The acquisition of 2,152 box cars during the year improved the quality and carrying capacity of our freight car inventory, although, because of retirements and conversions to work equipment, the actual number of box cars on hand at the year-end showed a slight decline.

While only 5 new passenger-carrying cars were delivered during 1953, the modernization of 14 units of older equipment in our shops made a modest contribution to improving the accommodation available to the public. Shortly after the year ended the first deliveries were made on orders placed in 1952 and 1953 for 359 passenger-carrying cars of all types. It is expected that by the fall of 1954 all of this equipment will be in our principal trains, providing our patrons with a standard of accommodation that will rank with the best on the North American Continent.

A new Budd Rail Diesel Car, delivered late in the year, is now in service between Newcastle and Fredericton, N.B. Under appropriate conditions this modern type of self-propelled air-conditioned equipment makes it possible to provide better service at lower cost.

Signalling Equipment

Good progress was made during the year in the installation of signalling equipment designed to facilitate the movement of heavy traffic, including iron ore, between Atikokan and Port Arthur. By the spring of 1954 Centralized Traffic Control equipment on the single track between Atikokan and Conmee, and automatic block signals on the double track between Conmee and Port Arthur, are expected to be in full operation.

During the year automatic block signals were placed in service over a distance of 74 miles on the main line between Jasper and Vancouver, bringing to 233 miles the trackage so equipped in this area. Further installations were begun in continuation of a ten-year programme (1948-57) for providing automatic signalling on all of the 512 miles of main track in the mountain territory.

Roadbed and Track Structure

Progress was made in improving the condition of the roadbed and structures as the result of programmed work during the year. However, shortages in the supply of new rail, which have been a chronic condition during the post-war years, continued into 1953, and as a consequence the actual installation of 576 track miles of new rail fell seriously short of the programme planned for the year. This deficiency will have to be overcome in 1954 and succeeding years as the anticipated improvement takes place in the availability of rail.

The mechanization of track maintenance was advanced during 1953 by the purchase of 412 roadway machines and power tools, including 9 mobile mutiple tamping machines for ballasting operation.

Terminal Facilities

The matter of terminal congestion has been the subject of intensive study over the past two years by technical officers at System and Regional levels. As a result there has emerged a general appreciation of the requirements for terminal facilities in relation to traffic patterns, and detailed planning for the modernization of strategic yards in all Regions of the System is well in hand.

In the Montreal area the re-arrangement and extension of trackage required at Turcot to improve the handling of existing traffic was brought close to completion by the end of the year. The projected new hump yard at Cote de Liesse is still in the design stage, but progress was made by the acquisition during 1953 of most of the necessary land. At Bonaventure Freight Terminals work was continued on the enlargement and re-arrangement of trackage, and a new Bond Shed was in the final stages of construction at the end of the year.

Further servicing and repair facilities were provided during the year as collateral requirements of the dieselization programme. The new diesel maintenance shop at Fort Erie was placed in service, and work was progressed on an extension to the electric locomotive shop at Point St. Charles to handle light diesel repairs. In addition, diesel fueling facilities were installed at various points on the System.

In Toronto construction was started in mid-summer on a six-storey office building, of which the two lower levels are designed as garage space for express trucks.

Construction of a 600-foot extension to the iron ore dock at Port Arthur, started in 1952, proceeded on schedule and the new facility is expected to be ready for use in 1955.

Work on a permanent marine slip for the handling of barge traffic at Prince Rupert was nearing completion at the year-end.

Coastal Steamship Services

The modern ice-breaking ferry "William Carson" was launched in November, and is expected to be commissioned during the summer of 1954 for service between North Sydney and Port aux Basques. Work is continuing on the terminal facilities for the ferry on the island and the mainland.

Construction was commenced during the year, on Federal Government account, of a ferry to be operated by Canadian National in a new service between Yarmouth, N.S., and Bar Harbor, Maine.

Communications

The modernization and expansion of plant was continued in 1953, keeping pace with a steady growth in the demand for communication facilities.

Late in the year contracts were awarded to Canadian National Telegraphs, jointly with Canadian Pacific, for the extension of the CBC television network to Windsor and Quebec. Shortly before the year ended the Toronto-London portion of the network was placed in operation. Another joint undertaking was the provision of facilities for the facsimile transmission of weather maps. This nation-wide system, inaugurated on August 28th, is fully automatic, and the first of its kind in the world.

Other major projects completed in 1953 included a trans-continental teletype network for internal Railway use, telephone circuit for Trans-Canada Air Lines from Gander, Newfoundland, to Vancouver, B.C., four new circuits for commercial telephone use between Newfoundland and the mainland, a 750-mile dispatching circuit for the Trans-Mountain Pipeline Company between Edmonton and Vancouver, and important additions to defence communications networks.

Methods and Research

The scrutiny of internal methods and procedures by specialists within the Company, assisted in some cases by outside consultants, was productive of further economics during the year.

Improvements were effected in routines and systems of record in a wide range of activities, including passenger reservation services, machine accounting, and personnel administration.

In the Toronto Terminals area a study by management consultants in collaboration with officers of the Express Department resulted in the introduction, during 1953, of new methods and equipment which, together with enlarged facilities, have produced a marked improvement in the efficiency with which express traffic is handled.

Research activities concerned with quality control in the purchase and use of railway materials were expanded during the year.

Further tests were conducted on experimental installations of mechanical refrigeration and airconditioning equipment. A newly developed less-carload refrigerated container has proved successful for the transportation of fish, and wider uses are anticipated.

GENERAL

New Trackage Facilities

The construction of two major branch lines continued during 1953, and other new trackage facilities were brought into existence in response to the needs of industry and the nation.

Clearing of the right-of-way for a 46-mile branch line from Terrace to Kitimat, B.C., was practically completed at the year-end and the grading was more than half finished. Progress was made on the construction of a bridge crossing the Skeena River at Terrace.

Track work on the branch line from Sherridon to Lynn Lake was completed on schedule in October, and by the end of the year shipments of ore concentrates were moving in regular train service.

At various centres across Canada 225 industrial sidings, spurs, and track extensions, totalling 60 miles in length, were built by the Company during the year.

Contracts were awarded in June for the diversion of approximately 14 miles of rail line required in connection with construction by the Federal Government of the Canso Causeway. The Causeway will carry Canadian National tracks to Cape Breton Island, thereby providing a direct link with the mainland in place of the existing rail ferry between Mulgrave and Point Tupper, N.S.

New Hotel Plans

On August 14th it was announced that plans had been prepared for a new hotel in Montreal, and that, following the usual procedure, the project would be included in the 1954 Capital Budget for presentation to Parliament. Sketches of the proposed hotel and the surrounding Terminal area are shown on pages 15-18.

Competition

A number of innovations were made during the year with a view to making Canadian National services more attractive to the travelling and shipping public.

In March, 1953, a Department of Tours was established to serve the needs of a promising market for "package" tours, offering a complete itinerary with hotel reservations, transportation, sight-seeing, etc., being arranged in advance at an all-inclusive cost for individual travellers or groups. This new service is gaining in popularity with the public.

Two types of incentive passenger fares were introduced during the year on an experimental basis. In order to encourage travel during the off-peak periods, selected tests were made with reduced fares offering a round trip for fare and one-tenth to coach passengers willing to travel in mid-week—that is, on Tuesdays, Wednesdays and Thursdays. Trials were also made of a Family Fare plan providing a much wider application of half-rate fares. The results of these experiment are not yet conclusive.

On November 9th a new bus operation was introduced as part of a through bus-and-rail service between Winnipeg and Flin Flon, Man. The buses operating between Flin Flon and Kamsack, Sask., have been scheduled to provide connections with regular trains operating between Kamsack and Winnipeg, making it possible to offer a more convenient through service at lower cost to the public.

The inauguration during 1953 of new fast schedules for diesel-powered merchandise trains on certain runs has effected improvements in delivery time for shipments from Eastern Canada to the West Coast and intermediate points.

In July, 1953, the trailer-on-flat-car merchandise service, introduced experimentally in December, 1952, between Montreal and Toronto, was extended to Hamilton, and the scale of operations increased. At the year-end 24 trailers and 12 flat cars were being used to good advantage in reducing freight handling costs and providing faster delivery service to consignees in these three major industrial cities.

Co-ordinated truck-and-rail operations were expanded during the year by the addition of five new truck routes, on which railway-owned vehicles carrying less-carload freight were operated essentially as part of through rail services. This type of operation, although limited in scope, and primarily designed to effect operating economies, has improved the quality of service offered to the public.

Corporate Reorganization

The plan for rationalization of the corporate structure of the System, mentioned in last year's Report, was progressed during the year. As a necessary preliminary, arrangements were made to acquire certain of the securities issued by predecessor companies. On the basis of studies completed during the year nineteen railway companies have been selected for amalgamation, and the formalities will be accomplished early in 1954. In the course of time, by successive amalgamation of this nature, it is expected that the entire rail operations of the System will be conducted by a single corporate entity.

Wholly owned subsidiaries of this parent corporation will be created to conduct the more important non-rail activities of the System—including communications, steamships, hotels, and real estate. Progress has been made in this direction by preparing the way for the amalgamation in 1954 of two communication companies and the consolidation of hotel properties into a single corporation.

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

No new items were added during 1953 to the list of co-operative projects previously reported as being under joint study and within the compass of the Canadian National-Canadian Pacific Act.

Progress in the direction of standardization of rolling stock was made during the year, and joint specifications were completed for box cars, automobile cars, gondolas and flat cars. This co-operative activity, although outside the scope of the above mentioned Act, will be productive of economies to both railways.

Personnel

Substantial progress was made during the year in the development and implementation of on-the-job training programmes.

The Staff Training Course, conducted over a period of seven weeks as a new venture in administrative training, was successfully completed on July 17th. A similar course has been planned for the summer of 1954.

Continued benefits, both to the Company and the employees, were obtained from the activities during 1953 of the Labour-Management Co-operative Committees and the Suggestions Plan.

The rest of the report, the balance sheet and so on follow: together with various statistical tables which are submitted for the information of the members of the committee.

The CHAIRMAN: Now, gentlemen, you have heard the report read by Mr. Gordon. I think I should call each of the headings and if there are any questions which the members of the committee would like to ask, they may then do so. First I shall call "Review of financial results," on page 6.

Mr. FULTON: Mr. Chairman, could we first have it agreed that the tables up to page 40 should be included in the record?

The CHAIRMAN: Yes, it is quite in order. I think that is the customary procedure which we follow.

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1953

ASSETS

Investments			
Road and equipment property	$2,488,946,890		
Improvements on leased property	1,216,308		
Miscellaneous physical property	71,584,067		
		$2,561,747,265	
Capital and other reserve funds:			
System securities at par	$ 748,500		
Other assets at cost	3,971,331		
		4,719,831	
Investments in affiliated companies		53,785,126	
Other investments:			
System securities at par	$ 205,000		
Other assets at cost	487,454		
		692,454	
			$2,621,944,676
Current Assets			
Cash		$ 16,996,743	
Temporary cash investments		1,200,000	
Special deposits		4,522,972	
Net balance receivable from agents and conductors		24,685,898	
Miscellaneous accounts receivable		21,029,259	
Material and supplies		108,898,665	
Interest and dividends receivable		53,722	
Accrued accounts receivable		7,495,246	
Other current assets		298,694	
			185,181,199
Deferred Assets			
Working fund advances		$ 538,321	
Insurance fund:			
System securities at par	$ 5,791,029		
Other assets at cost	8,267,116		
		14,058,145	
Pension fund:			
System securities at par	$ 9,010,500		
Other assets at cost	76,859,500		
		85,870,000	
Other deferred assets		1,795,763	
			102,262,229

LIABILITIES

Funded Debt		
Owned by public	$ 574,056,661	
Held in special funds	15,755,029	
		$ 589,811,690
Government of Canada Loans and Debentures		342,140,048
Current Liabilities		
Traffic and car-service balances	$ 6,878,125	
Audited accounts and wages payable	40,011,795	
Miscellaneous accounts payable	7,996,371	
Government of Canada	22,366,806	
Interest matured unpaid—Public	4,256,669	
Unmatured interest accrued	4,668,007	
Accrued accounts payable	8,372,348	
Taxes accrued	2,088,519	
Other current liabilities	1,656,186	
		98,294,826
Deferred Liabilities		
Pension liability	$ 85,870,000	
Other deferred liabilities	7,054,872	
		92,924,872
Reserves and Unadjusted Credits		
Insurance reserve	$ 14,058,145	
Accrued depreciation—Canadian Lines—Equipment only	186,653,701	
Accrued depreciation—U.S. Lines—Road and equipment	30,055,641	
Unadjusted credits	7,476,785	
		238,244,272
Stocks		
Capital stocks of subsidiary companies owned by public		4,514,490
Government of Canada—Shareholder's Account—(See note)		
6,000,000 shares of no par value capital stock of Canadian National Railway Company	$ 396,518,135	
775,894,217 shares of 4% preferred stock of Canadian National Railway Company	775,894,217	
Capital investment of Government of Canada in the Canadian Government Railways	379,637,715	
		1,552,050,067

Unadjusted Debits		
Prepayments	$ 903,096	
Discount on funded debt	2,557,650	
Other unadjusted debits	5,131,415	
		8,592,161
		$2,917,980,265

Sterling and United States currencies converted at par of exchange.

Contingent Liabilities	
Major contingent liabilities, as shown on page 35	
	$2,917,980,265

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

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st. December, 1953, and, in our opinion, proper books of account have been kept by the System.

The total amount of the investments in fixed properties and equipment as brought into the System accounts at the 1st. January, 1923, from the books of the several corporations and the Canadian Government Railways was accepted by us.

On the Canadian Lines, depreciation accounting has been applied from the 1st. January, 1940, retirement accounting continuing in effect for fixed properties.

The retroactive wage increases not given effect to in the 1952 accounts referred to in our certificate appended to the consolidated balance sheet at the 31st. December, 1952, were paid in 1953 and are included in railway operating expenses for the year under review.

In our opinion, subject to the foregoing, the above consolidated balance sheet and the relative consolidated income account are properly drawn up so as to give a true and fair view of the System's affairs at the 31st. December, 1953, and of the consolidated income and expense for the year according to the best of our information and the explanations given to us, and as shown by the books of the System.

They are prepared on a basis consistent with that of the previous year.

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

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

Dated at Montreal,
2nd. March, 1954.

CONSOLIDATED INCOME ACCOUNT

	1953	1952
RAILWAY OPERATING REVENUES:		
Freight	$ 553,618,614	$ 536,723,241
Passenger	45,916,272	48,466,128
Mail	8,732,737	7,907,232
Express department	38,258,227	35,820,500
Communications department	15,952,985	13,870,000
All other	34,143,616	32,432,314
TOTAL OPERATING EEVENUES	$ 696,622,451	$ 675,219,415
RAILWAY OPERATING EXPENSES:		
Maintenance of way and structures	$ 127,919,422	$ 121,363,896
Maintenance of equipment	148,100,818	145,533,632
Traffic	12,065,049	11,192,183
Transportation	327,757,447	316,482,722
Miscellaneous operations	6,635,991	6,422,539
General	36,570,359	33,857,943
TOTAL OPERATING EXPENSES	$ 659,049,086	$ 634,852,915
NET OPERATING REVENUE	$ 37,573,365	$ 40,366,500
TAXES AND RENTS:		
Railway tax accruals	$ 13,549,079	$ 13,921,243
Equipment rents—Net debit	3,567,132	6,529,937
Joint facility rents—Net debit	300,169	420,996
TOTAL TAXES AND RENTS	$ 17,416,380	$ 20,872,176
NET RAILWAY OPERATING INCOME	$ 20,156,985	$ 19,494,324
OTHER INCOME:		
Income from lease of road	$ 47,308	$ 46,808
Miscellaneous rent income	1,296,386	1,220,473
Income from non-transportation property	1,065,742	727,591
Results of separately operated properties	407,542	721,748
Hotel operating income	1,245,132	535,509
Dividend income	466,694	401,611
Interest income	1,600,767	1,785,817
Miscellaneous Income	3,780,916	1,829,618
Profit and loss—Net credit or *debit*	381,554	*145,144*
TOTAL OTHER INCOME	$ 10,292,041	$ 7,124,031
DEDUCTIONS FROM INCOME:		
Rent for leased roads	$ 477,732	$ 478,483
Miscellaneous rents	699,839	676,200
Interest on unfunded debt	322,935	269,805
Amortization of discount on funded debt	488,167	503,780
Miscellaneous income charges	129,010	384,639
TOTAL DEDUCTIONS FROM INCOME	$ 2,177,683	$ 2,312,907
NET INCOME AVAILABLE FOR INTEREST	$ 28,331,343	$ 24,305,448
INTEREST CHARGES:		
Interest on funded debt—Public	21,575,180	21,848,906
Interest on government loans	6,512,146	2,314,215
SURPLUS—PAYABLE AS A DIVIDEND ON 4% PREFERRED STOCK	$ 244,017	$ 142,327

OPERATING REVENUES

	1953	1952
Freight	$ 544,716,612	$ 528,128,689
Payments under M.F.R.A	8,902,002	8,594,552
Passenger	45,916,272	48,466,128
Baggage	146,710	157,198
Sleeping car	4,499,995	4,597,819
Parlor and chair car	407,602	403,390
Mail	8,732,737	7,907,232
Express department	38,258,227	35,820,500
Railway Express Agency	895,165	758,739
Other passenger-train	11,532	15,214
Milk	496,646	492,096
Switching	6,237,420	6,184,985
Water transfers	2,059,564	1,967,514
Dining and buffet	3,651,820	3,666,873
Restaurants	360,036	357,888
Station, train and boat privileges	422,944	454,682
Parcel room	69,263	75,194
Storage—Freight	432,636	395,825
Storage—Baggage	52,638	61,750
Demurrage	2,331,195	2,486,457
Communications department	15,952,985	13,870,000
Telegraph commissions (U S.)	14,562	11,348
Grain elevator	908,001	848,230
Rents of buildings and other property	1,205,725	1,075,822
Miscellaneous	9,173,613	7,612,099
Joint facility—*Credit*	918,911	938,115
Joint facility—*Debit*	*152,362*	*128,924*
	$ 696,622,451	$ 675,219,415

OPERATING EXPENSES

MAINTENANCE OF WAY AND STRUCTURES

	1953	1952
Superintendence	$ 9,762,624	$ 8,717,622
Roadway maintenance	12,679,179	12,787,967
Tunnels and subways	191,616	216,100
Bridges, trestles and culverts	5,255,078	5,149,770
Ties	13,173,003	11,592,753
Rails	6,143,620	5,858,134
Other track material	6,756,299	7,345,313
Balast	2,392,386	2,303,047
Track laying and surfacing	33,244,693	31,874,310
Fences, snowsheds and signs	1,659,937	1,491,007
Station and office buildings	5,732,426	5,584,485
Roadway buildings	947,485	769,475
Water stations	1,054,759	957,370
Fuel stations	476,087	501,188
Shops and enginehouses	4,207,546	4,086,943
Grain elevators	90,199	84,543
Storage warehouses	6,466	1,734
Wharves and docks	424,643	297,636
Communication systems	7,261,664	6,886,864
Signals and interlockers	2,221,565	1,971,025
Power plants	15,176	25,556
Power-transmission systems	399,965	407,851
Miscellaneous structures	19,609	27,780
Road property—Depreciation—U.S	1,022,650	986,791
Road property—Retirements	2,437,087	3,480,979
Roadway machines	2,174,870	1,823,227
Dismantling retired raod property	425,733	397,958
Amortization of defence projects—*Cr*	—	*3,051,276*
Small tools and supplies	1,937,854	1,999,679
Removing snow, ice and sand	3,563,631	5,273,551
Public improvements	688,691	812,221
Injuries to persons	957,362	958,437
Insurance	631,091	228,586
Stationery and printing	165,156	157,056
Other expenses	12,722	61,222
Right-of-way expenses	97,880	96,702
Maintaining joint facilities—*Dr*	1,892,795	1,593,687
Maintaining joint facilities—*Cr*	*2,204,125*	*2,393,388*
	$ 127,919,422	$ 121,363,896

MAINTENANCE OF EQUIPMENT

	1953	1952
Superintendence	$ 3,539,998	$ 3,171,373
Shop machinery—Repairs	4,471,098	4,422,577
Power-plant machinery—Repairs	280,579	316,686
Machinery—Retirements	335,960	163,380
Machinery—Depreciation—U.S.	81,826	77,340
Dismantling retired machinery	14,268	13,812
Steam locomotives—Repairs	35,951,908	38,953,152
Other locomotives—Repairs	5,951,990	3,835,699
Freight-train cars—Repairs	43,964,227	45,442,568
Passenger-train cars—Repairs	18,694,179	17,460,733
Floating equipment—Repairs	1,440,802	1,659,419
Work equipment—Repairs	4,200,083	4,173,588
Express dept. equipment—Repairs	528,661	439,349
Misc. equipment—Repairs	201,984	288,160
Misc. equipment—Retirements	14,255	12,444
Dismantling retired equipment	402,534	330,009
Equipment—Depreciation	26,199,800	23,215,889
Express dept. equipment—Dep'n	234,973	210,036
Injuries to persons	812,671	767,755
Insurance	489,271	335,459
Stationery and printing	131,790	123,182
Other expenses	192,893	124,827
Joint maintenance of equip.—Dr.	350,154	405,759
Joint maintenance of equip.—*Cr.*	*385,086*	*409,528*
	$ 148,100,818	$ 145,533,632

TRAFFIC

Superintendence	$ 4,263,317	$ 3,910,479
Outside agencies	4,705,912	4,325,671
Advertising	1,426,754	1,416,590
Traffic associations	270,457	229,940
Stationery and printing	679,878	642,480
Industrial and development	408,819	374,185
Colonization and agriculture	309,912	292,838
	$ 12,065,049	$ 11,192,183

TRANSPORTATION

	1953	1952
Superintendence	$ 7,619,489	$ 6,923,970
Dispatching trains	3,989,885	3,897,405
Station employees	45,500,111	42,961,957
Weighing, inspection and demurrage	192,000	174,118
Coal and ore wharves	100,840	96,294
Station supplies and expenses	3,293,176	3,203,721
Yardmasters and yard clerks	10,291,719	9,275,363
Yard Conductors and brakemen	18,228,247	15,635,247
Yard switch and signal tenders	1,811,517	1,589,480
Yard enginemen	12,148,341	11,047,299
Yard switching fuel	7,169,639	8,193,471
Yard switching power produced	39,211	33,720
Yard switching power purchased	101,684	102,501
Water for yard locomotives	192,697	213,177
Lubricants for yard locomotives	181,591	197,723
Other supplies for yard locomotives	122,701	142,065
Enginehouse expenses—Yard	3,867,223	3,707,789
Yard supplies and expenses	396,797	385,853
Train enginemen	28,215,866	26,637,714
Train fuel	49,162,135	54,036,313
Train power produced	64,764	54,815
Train power purchased	171,898	162,680
Water for train locomotives	1,773,298	1,977,854
Lubricants for train locomotives	1,137,367	1,172,206
Other supplies for train locomotives	669,510	721,138
Enginehouse expenses—Train	12,736,445	12,066,976
Trainmen	33,629,898	31,142,582
Train supplies and expenses	22,165,116	21,592,551
Operating sleeping cars	3,932,474	3,854,130
Signal and interlocker operation	1,119,410	1,043,087
Crossing protection	1,410,430	1,515,443
Drawbridge operation	334,834	293,255
Communication system operation	12,244,840	11,524,650
Operating floating equipment	6,453,788	5,154,397
Express department operation	25,856,665	23,238,894
Stationery and printing	1,433,016	1,387,759
Other expenses	1,843,286	2,361,586
Insurance	645,771	249,907
Clearing wrecks	934,264	1,059,478

TRANSPORTATION (Concluded)

	1953	1952
Damage to property	$ 178,997	$ 208,246
Damage to live stock on R/W	88,563	94,957
Loss and damage—Freight	3,483,564	3,345,975
Loss and damage—Baggage	8,457	10,145
Injuries to persons	2,253,024	2,247,474
Oper. joint yards and terminals—Dr	2,882,986	2,699,932
Oper. joint yards and terminals—*Cr*	*3,251,473*	*2,850,912*
Oper. joint tracks and facilities—Dr	1,729,116	1,439,024
Oper. joint tracks and facilities—*Cr*	*797,730*	*740,787*
	$ 327,757,447	$ 316,482,722

MISCELLANEOUS OPERATIONS

	1953	1952
Dining and buffet service	$ 5,099,171	$ 4,855,377
Restaurants	352,654	341,740
Grain elevators	320,153	365,053
Other miscellaneous operations	555,428	462,830
Oper. joint miscellaneous facilities—Dr	398,585	397,539
	$ 6,635,991	$ 6,422,539

GENERAL

	1953	1952
Salaries and expenses of officers	$ 831,163	$ 762,118
Salaries and expenses of clerks	11,877,760	10,806,672
General office supplies and expenses	785,998	741,378
Law expenses	701,471	614,191
Relief department expenses	42,500	42,500
Pensions	20,914,969	19,716,514
Stationery and printing	528,383	553,005
Valuation expenses	12,143	11,250
Other expenses	749,890	501,234
General joint facilities—Dr	142,614	124,837
General joint facilities—*Cr*	*16,532*	*15,756*
	$ 36,570,359	$ 33,857,943

PROPERTY INVESTMENT ACCOUNT

Expenditures Year 1953

ROAD:		
New lines constructed	$ 7,257,374	
Line acquired	1,164,821	
Montreal terminal development	498,328	
Abandoned lines—*Credit*	*199,189*	
Rails and fastenings	2,062,935	
Tie plates and rail anchors	2,556,897	
Ballast	732,528	
Large freight terminals	2,707,776	
Yard tracks and sidings	2,868,863	
Roadway machines	2,553,906	
Bridges, trestles and culverts	2,146,959	
Tunnels	105,843	
Crossing protection	385,982	
Stations and station facilities	2,838,091	
Docks and wharves	1,276,709	
Shops, enginehouses and machinery	3,613,720	
Automatic signals and interlocking plants	1,889,274	
Communications department	6,296,117	
Electrification—Sub-stations	230,595	
Stores department buildings and equipment	110,558	
General	935,370	
		$ 42,033,457
EQUIPMENT:		
Equipment purchased or built	$ 85,998,362	
Equipment retirements—*Credit*	*11,611,463*	
General betterments to equipment	3,454,007	
Equipment conversions	1,046,008	
Express and miscellaneous equipment	553,350	
		79,440,264
HOTELS		3,847,658
SEPARATELY OPERATED PROPERTIES—*Credit*		*367,357*
Net expenditures		$ 124,954,022
Capital investment of Government of Canada in the Canadian Government Railways—		
Transfer of property—*Credit*	$ *144,529*	
Construction of 2 new ships for Newfoundland coastal service	100,000	
		44,529
Net increase in property investment account		$ 124,909,493

Total property investment account at December 31, 1953, $2,561,747,265.

INVESTMENTS IN AFFILIATED COMPANIES

Company	Par value outstanding Total	Can. Nat. System percentage	Book value Can. Nat. System holdings	
Stocks:				
The Belt Railway Company of Chicago....	$ 3,120,000	7·69	$ 240,000	
Chicago & Western Indiana Railroad Company....	5,000,000	20	1,000,000	
The Detroit & Toledo Shore Line Railroad Company....	3,000,000	50	1,500,000	
Detroit Terminal Railroad Company......	2,000,000	50	1,000,000	
Northern Alberta Railways Company......	12,500,000	50	6,250,000	
The Public Markets, Limited..............	1,150,000	50	575,000	
Railway Express Agency, Incorporated (no par value)........	1,000 shares	0·6	600	
Shawinigan Falls Terminal Railway Company........	300,000	50	62,500	
The Toledo Terminal Railroad Company..	4,000,000	9·68	387,200	
The Toronto Terminals Railway Company.	500,000	50	250,000	
Trans-Canada Air Lines....................	5,000,000	100	5,000,000	
Vancouver Hotel Company Limited.......	150,000	50	75,000	
				$ 16,340,300
Bonds:				
Northern Alberta Railways Co. 1st. Mortgage Bonds..........	$ 24,685,000	50	$ 12,342,500	
The Toronto Terminals Railway Co. 1st. Mortgage Bonds..........	25,610,000	50	12,805,000	
Trans-Canada Air Lines Debenture........	20,000,000	100	20,000,000	
				45,147,500
Advances:				
The Belt Railway Company of Chicago..........			$ 33,173	
Chicago & Western Indiana Railroad Company..........			3,988,160	
Northern Alberta Railways Company..........			100,000	
Railway Express Agency, Incorporated..........			173,493	
Shawinigan Falls Terminal Railway Company..........			2,500	
				4,297,326
Deposit:				
Trans-Canada Air Lines — *Credit*..........				*11,000,000*
Total at December 31, 1953..........				$ 54,785,126

FUNDED DEBT

Rate %	Maturity (See note)		Currency in which payable	Principal outstanding at Dec. 31, 1953
5	Perpetual	Debenture Stocks—Various	Sterling	$ 919,824
4	Perpetual	Debenture Stocks—Various	Sterling	6,980,309
5	Feb. 1, 1954	Canadian National 30 Year Bonds	Canadian	50,000,000
4	Jan. 1, 1955	Canada Atlantic Bonds	Can-US-Stlg.	9,947,934
4	Apr. 1, 1955	Grand Trunk Pacific Bonds	Can-US-Stlg.	8,871,444
$4\frac{3}{4}$	June 15, 1955	Canadian National 25 Year Bonds	Can-US-Stlg.	48,496,000
$4\frac{1}{2}$	Feb. 1, 1956	Canadian National 25 Year Bonds	Can-US-Stlg.	67,368,000
4	Sept. 1, 1956	Pembroke Southern Bonds	Canadian	150,000
$2\frac{1}{2}$	Mar. 1, 1957(a)	Newfoundland Ry. Notes	U.S.	498,201
$4\frac{1}{2}$	July 1, 1957	Canadian National 30 Year Bonds	Can-US	64,136,000
$3\frac{1}{2}$	July 20, 1958	Canadian Northern Debenture Stock	Canadian	5,246,268
			Sterling	390,238
5	Nov. 15, 1958	Indebtedness to Province of New Brunswick	Canadian	380,023
3	Jan. 15, 1959(b)	Canadian National 20 Year Bonds	Canadian	35,000,000
$3\frac{1}{2}$	May 4, 1960	Canadian Northern Alberta Debenture Stock	Sterling	550,727
$3\frac{1}{2}$	May 19, 1961	Canadian Northern Ontario Debenture Stock	Sterling	3,597,518
3	Jan. 1, 1962	Grand Trunk Pacific Bonds	Can-US-Stlg.	26,465,130
4	Jan. 1, 1962	Grand Trunk Pacific Bonds	Can-US-Stlg.	7,999,074
3	Jan. 3, 1966(c)	Canadian National 17 Year Bonds	Canadian	35,000,000
$2\frac{3}{4}$	Jan. 2, 1967(d)	Canadian National 20 Year Bonds	Canadian	50,000,000
$2\frac{7}{8}$	Sept. 15, 1969(e)	Canadian National 20 Year Bonds	Canadian	70,000,000
$2\frac{7}{8}$	Jan. 16. 1971(f)	Canadian National 21 Year Bonds	Canadian	40,000,000
$2\frac{3}{4}$	June 15, 1975(g)	Canadian National 25 Year Bonds	U.S.	6,000,000
$4\frac{1}{2}$	Jan. 1, 1980	Grand Trunk Western Bonds	Can-US-Stlg.	400,000
Serial Equipment Obligations:—				
2	Dec. 1, 1957	Trust Series "R"	Canadian	2,240,000
$2\frac{1}{8}$	Mar. 15, 1958	Trust Series "S"	Canadian	14,000,000
$2\frac{1}{4}$	Nov. 1, 1958	Trust Series "T"	Canadian	10,750,000
$2\frac{1}{4}$	Mar. 15, 1960	Trust Series "U"	Canadian	14,300,000
$2\frac{3}{4}$	Jan. 15, 1961	Trust Series "V"	Canadian	10,125,000
	Total			$ 589,811,690

Note:—(a) Callable at par at any time.
(b) Callable at par on or after Jan. 15, 1954.
(c) Callable at par on or after Jan. 3, 1961.
(d) Callable at par on or after Jan. 2, 1964.
(e) Callable at par on or after Sept. 15, 1964.
(f) Callable at par on or after Jan. 16, 1966.
(g) Callable on or before June 14, 1954, at $102\frac{1}{4}$; thereafter at varying redemption premiums.

GOVERNMENT OF CANADA LOANS AND DEBENTURES

Capital Revision Act, 1952			
Jan. 1, 1972	Debenture		$ 100,000,000
Canadian Government Railways			
	Advances for working capital, 1923		16,771,981
Financing and Guarantee Acts			
Loans for capital expenditures and working capital:—			
Jan. 1, 1967	Debenture—Act, 1951	$ 4,416,388	
Feb. 20, 1967	Debenture—Act, 1951	17,333,940	
Mar. 31, 1967	Debenture—Act (No. 2), 1951	3,225,924	
May 23, 1967	Debenture—Act, 1952	33,277,000	
Sept. 19, 1967	Debenture—Act, 1952	40,750,000	
Feb. 4, 1968	Debenture—Act, 1952	22,695,537	
Aug. 11, 1968	Debenture—Act, 1953	73,164,715	
——	Temporary Loans—Act, 1953	11,835,285	
			206,698,789
Refunding Acts			
Loans for debt redemption:—			
Mar. 28, 1967	Debenture—Act, 1947	$ 2,506,623	
July 18, 1967	Debenture—Act, 1951	9,560,000	
Dec. 30, 1967	Debenture—Act, 1951	213,309	
——	Temporary Loans—Act, 1951	6,389,346	
			18,669,278
	Total		$ 342,140,048

CHANGES IN EQUITY AND BORROWED CAPITAL

	Balance at Dec. 31, 1952	Transactions year 1953	Balance at Dec. 31, 1953
EQUITY CAPITAL			
Capital stocks of subsidiary companies owned by public	$ 4,516,490	$ *2,000*	$ 4,514,490
Government of Canada—Shareholder's Account:—			
Capital stock of Canadian National Railway Company	$ 396,518,135	—	$ 396,518,135
Preferred stock of Canadian National Railway Company	754,871,945	$ 21,022,272	775,894,217
Capital investment in Canadian Government Railways	379,682,244	*44,529*	379,637,715
Total Government of Canada	$1,531,072,324	$ 20,977,743	$1,552,050,067
Total Equity Capital	$1,535,588,814	$ 20,975,743	$1,556,564,557
BORROWED CAPITAL			
Funded Debt	$ 605,494,829		$ 589,811,690
Redemptions			
5% Perpetual Debenture Stocks—Various		$ *595,977*	
4% Perpetual Debenture Stocks—Various		*4,122,188*	
3% Can. Nor. Debenture Stock due July 10, 1953.		*1,162,768*	
2½% Newfoundland Ry. Notes		*142,206*	
Equipment Trusts—Serial payments		*9,660,000*	
Government of Canada Loans and Debentures	228,055,165		342,140,048
Financing and Guarantee Acts:—			
Debenture—Act, 1952		22,695,537	
Debenture—Act, 1953		73,164,715	
Temporary Loans—Act, 1953		11,835,285	
Refunding Act:—			
Temporary Loans—Act, 1951		6,389,346	
Total Borrowed Capital	$ 833,549,994	$ 98,401,744	$ 931,851,738
Total Capitalization	$2,369,138,808	$ 119,377,487	$2,488,516,295

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY GOVERNMENT OF CANADA

Company number		
1	Canadian National Railway Company (Common)	$ 396,518,135
	Canadian National Railway Company (Preferred)	775,894,217
		$1,172,412,352

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of issuing company	Owned by company number	Capital stock issued	Owned by public
2	Atlantic and St. Lawrence Railroad Company	1	$ 6,302,340	$ 5,840
3	The Bay of Quinte Railway Company	20	1,395,000	
4	The Bessemer and Barry's Bay Railway Company	20	125,000	
5	The Canadian Express Company	1	1,768,800	
6	Canadian National Electric Railways	20	1,750,000	
7	Canadian National Express Company	21	1,000,000	
8	*Canadian National Railways (France)—francs 30,000,000	1	1,886,114	
9	The Canadian National Railways Securities Trust	1	5 million shares	
10	*Canadian National Realties, Limited	20	40,000	
11	Canadian National Rolling Stock Limited	1	50,000	
12	*Canadian National Steamship Company, Limited	39	15,000	
13	Canadian National Telegraph Company	20	500,000	
14	*Canadian National Transportation, Limited	1	500	
15	The Canadian Northern Alberta Railway Company	20	3,000,000	
16	Canadian Northern Manitoba Railway Company	20	250,000	
17	The Canadian Northern Ontario Railway Company	20	10,000,000	
18	Canadian Northern Pacific Railway Company	20	25,000,000	
19	The Canadian Northern Quebec Railway Company	20	9,550,000	3,849,200
20	The Canadian Northern Railway Company	1	18,000,000	
21	The Canadian Northern Railway Express Company, Limited	20	1,000,000	
22	Canadian Northern Steamships, Limited	20	2,000,000	
23	Canadian Northern System Terminals (Limited)	20	2,000,000	
24	Canadian Northern Western Railway Company	20	2,000,000	
25	*The Centmont Corporation	28	176,400	
26	Central Counties Railway	1	500,000	12,000
27	The Central Ontario Railway	20	3,331,000	
28	Central Vermont Railway, Inc	1	10,000,000	
29	*Central Vermont Transit Corporation	25	5,000	
30	Central Vermont Transportation Company	25, 28	200,000	
31	The Champlain and St. Lawrence Railroad Company	1	50,000	
32	*Consolidated Land Corporation	42	64,000	
33	Duluth, Rainy Lake & Winnipeg Railway Company	35	2,000,000	
34	Duluth, Winnipeg and Pacific Railroad Company	35	100,000	
35	Duluth, Winnipeg and Pacific Railway Company	20	3,100,000	
36	*Grand Trunk-Milwaukee Car Ferry Company	42	200,000	
37	The Grand Trunk Pacific Branch Lines Company	39	200,000	
38	The Grand Trunk Pacific Development Company, Limited	39	3,000,000	
39	The Grand Trunk Pacific Railway Company	1	24,940,200	
40	The Grand Trunk Pacific Saskatchewan Railway Company	39	20,000	
41	*Grand Trunk Pacific Terminal Elevator Company, (Limited)	39	501,000	
42	Grand Trunk Western Railroad Company (Common)	1	20,000,000	
	Grand Trunk Western Railroad Company (Preferred)		25,000,000	
43	The Great North Western Telegraph Company of Canada (Including $331,500 held in escrow)	13	373,625	6,825
	Carried forward			$ 3,873,865

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM (Concluded)

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC *(Concluded)*

Company number	Name of issuing company	Owned by company number	Capital stock issued	Owned by public
	Brought forward			$ 3,873,865
44	The Halifax and South Western Railway Company	20	1,000,000	
45	*Industrial Land Company	42	1,000	
46	International Bridge Company	1	1,500,000	
47	The James Bay and Eastern Railway Company	20	125,000	
48	The Lake Superior Terminals Company Limited	20	500,000	
49	The Magnetawan River Railway Company	1	30,000	
50	Manitoba Northern Railway Company	1	500,000	
51	The Marmora Railway and Mining Company	20	128,600	
52	The Minnesota and Manitoba Railroad Company	20	400,000	
53	The Minnesota and Ontario Bridge Company	20	100,000	
54	*Montreal and Southern Counties Railway Company	1	500,000	140,600
55	The Montreal and Vermont Junction Railway Company	28	197,300	
56	*Montreal Fruit & Produce Terminal Company, Limited	1	500	
57	*The Montreal Stock Yards Company	1	$ 350,000	
58	*The Montreal Warehousing Company	1	236,000	10,440
59	Mount Royal Tunnel and Terminal Company, Limited	20	5,000,000	
60	Muskegon Railway and Navigation Company	42	161,293	
61	*National Terminals of Canada, Limited	1	2,500	
62	National Transcontinental Railway Branch Lines Company	1	500	
63	*The Niagara, St. Catharines and Toronto Railway Company	20	925,000	
64	The Niagara, St. Catharines and Toronto Navigation Company (Limited)	63	100,000	
65	*The Oshawa Railway Company	1	40,000	
66	The Ottawa Terminals Railway Company	1	250,000	
67	The Pembroke Southern Railway Company	1	107,800	
68	Prince George, Limited	1	10,000	
69	Prince Rupert, Limited	1	10,000	
70	The Quebec and Lake St. John Railway Company	20	4,508,300	489,160
71	The Qu'Appelle, Long Lake and Saskatchewan Railroad and Steamboat Company	20	201,000	
72	St. Boniface Western Land Company	20	250,000	
73	The St. Charles and Huron River Railway Company	20	1,000	
74	St. Clair Tunnel Company	1	700,000	
75	*The Thousand Islands Railway Company	1	60,000	
76	The United States and Canada Rail Road Company	1	219,400	425
77	Vermont and Province Line Railroad Company	1	200,000	
78	The Winnipeg Land Company Limited	20	100,000	
				$ 4,514,490

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

MAJOR CONTINGENT LIABILITIES

CHICAGO & WESTERN INDIANA RAILROAD COMPANY

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated May 1, 1952, between Grand Trunk Western Railroad Company and four other properietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of the other tenant companies. The bonds are First Collateral Trust Mortgage 4⅜% Sinking Fund Bonds Series "A" due May 1, 1982, and the amount outstanding at December 31, 1953, is $62,991,000.

THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY

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

THE TOLEDO TERMINAL RAILROAD COMPANY

Assumed by Grand Trunk Western Railroad Company in respect of $6,000,000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9·68%.

C.N.R. PENSION PLANS

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

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

EQUIPMENT PLACED IN SERVICE DURING 1953

DIESEL-ELECTRIC LOCOMOTIVES:

21 1600 HP road locomotives
18 1600 HP road switching locomotives
24 1500 HP road switching locomotives
14 1200 HP road switching locomotives
2 1200 HP switching locomotives
2 1000 HP switching locomotives
6 900 HP switching locomotives
22 660 HP switching locomotives

FREIGHT EQUIPMENT:

2050 50-ton box cars
100 30-ton box cars
150 30-ton flat cars
5 135-ton depressed centre flat cars
450 70-ton covered hopper cars
300 70-ton triple hopper cars
699 70-ton gondola cars
75 40-ton gondola cars
100 50-ton ballast cars
50 80-ton ore cars
200 50-ton refrigerator cars
50 30-ton refrigerator cars

PASSENGER EQUIPMENT:

1 Budd diesel rail car
5 mail and express cars
5 coaches
118 baggage cars

WORK EQUIPMENT:

30 30 cu. yd. 50-ton air dump cars
3 diesel locomotive cranes—25-ton
1 wrecking crane—250-ton steam—self-propelled
1 Burro crane—7½-ton
3 Jordan spreaders
19 snow plows
12 miscellaneous units built from salvage in railway shops
3 tank cars—second hand

INVENTORY OF RAILWAY EQUIPMENT

—	On hand Jan. 1, 1953	*Placed in service	Retired	Converted: Added	Converted: Retired	On hand Dec. 31, 1953	*Orders outstanding Dec. 31, 1953*
LOCOMOTIVES:							
Steam—Road	1,884	....	80	....	....	1,804	
Steam—Switching	533	2	37	....	....	498	
Electric	33	....	....	....	....	33	
Diesel-electric—Road	157	21	2	....	....	176	
Diesel-electric—Road switching	45	56	....	....	....	101	
Diesel-electric—Switching	193	33	....	....	....	226	*40*
Total	2,845	112	119	....	....	2,838	*40*
FREIGHT EQUIPMENT:							
Box cars	79,565	2,152	2,002	....	526	79,189	*3,050*
Flat cars	6,375	156	141	....	109	6,281	*200*
Stock cars	3,070	....	60	....	....	3,010	*15*
Hopper cars	5,889	750	490	....	....	6,149	*500*
Gondola cars	10,295	774	36	....	6	11,027	*901*
Ore cars	708	50	....	....	....	758	*1,000*
Ballast cars	1,853	100	33	....	....	1,920	*330*
Tank cars	33	....	....	....	....	33	
Refrigerator cars	4,421	250	28	....	24	4,619	....
Caboose cars	1,821	1	41	90	....	1,871	
Other cars in freight service	3	....	....	....	....	3	
Total	114,033	4,233	2,831	90	665	114,860	*5,996*
PASSENGER EQUIPMENT:							
Coach cars	1,071	5	26	....	1	1,049	*218*
Combination cars	260	5	12	....	....	253	
Dining cars	89	....	2	1	....	88	*20*
Colonist cars	144	....	....	....	....	144	
Parlor cars	60	....	....	....	....	60	*17*
Cafe cars	20	....	1	....	....	19	
Sleeping cars	375	....	....	....	1	374	*104*
Tourist cars	41	....	....	....	1	40	
Baggage and express cars	1,258	118	14	....	1	1,361	*30*
Postal cars	57	....	....	....	....	57	
Unit cars	42	1	....	....	....	43	
Other cars in passenger service	90	....	1	....	....	89	
Total	3,507	129	56	1	4	3,577	*389*
WORK EQUIPMENT:							
Units in work service	8,669	72	239	583	5	9,080	*28*
FLOATING EQUIPMENT:							
Car ferries	8	....	....	....	....	8	
Barges	6	....	....	....	....	6	
Steamers	14	....	....	....	....	14	
Tugs	5	....	....	....	....	5	
Work	3	....	....	....	....	3	

*Includes 1 diesel-electric locomotive, 2 steam locomotives and 4 freight units acquired from National Harbours Board.

STATISTICS OF RAIL-LINE OPERATIONS

	1953	1952
Train-Miles		
Freight Service	46,883,109	49,541,512
Passenger service	24,949,141	25,533,678
Work service	1,959,407	2,216,042
Total train-miles	73,791,657	77,291,232
Locomotive-Miles		
Freight service	49,201,735	52,478,053
Passenger service	25,032,931	25,469,027
Train switching—Freight	3,829,035	4,076,441
—Passenger	146,268	155,117
Yard switching —Freight	17,669,537	18,179,442
—Passenger	1,842,346	1,880,426
Work service	2,029,848	2,319,340
Total locomotive-miles	99,751,700	104,557,846
Car-Miles		
Freight Service:		
Loaded freight cars	1,307,912,853	1,348,044,272
Empty freight cars	632,298,695	636,698,594
Passenger coach and combination cars	6,282,582	6,306,354
Other cars	9,767,421	9,074,540
Caboose cars	46,399,773	48,778,742
	2,002,661,324	2,048,902,502
Passenger Service:		
Loaded freight cars	589,003	610,862
Empty freight cars	119,680	116,680
Passenger coach and combination cars	61,195,748	64,726,314
Sleeping, parlor and observation cars	55,575,899	56,249,942
Dining cars	8,764,185	9,031,094
Motor unit cars	1,021,566	969,111
Other cars (baggage and express cars, etc	89,793,346	89,249,973
	217,059,427	220,953,976
Work service	3,531,351	3,784,742
Total car-miles	2,223,252,102	2,273,641,220
Average Mileage of Road Operated	24,152.91	24,190.01
Freight Traffic		
Tons carried—Revenue freight	86,523,327	90,053,919
Ton-miles—Revenue freight	36,677,980,252	38,430,494,637
Freight revenue	$553,618,614	$536,723,241
Revenue per ton	$6·39849	$5·96002
Revenue per ton-mile	$0·01509	$0·01397
Average haul	423·91	426·75
Ton-miles—Revenue freight per mile of road	1,513,672	1,584,763
Ton miles—All freight per mile of road	1,626,843	1,708,033
Gross ton-miles of cars, contents and cabooses	85,911,012,262	88,651,930,140
Net ton-miles of freight (revenue and non-revenue)	39,293,001,731	41,317,325,044
Train-hours in freight road service	2,660,482	2,990,412
Gross ton-miles per freight train hour	31,980	29,309
Average speed of freight trains	17·6	16·6
Average gross load—Freight trains (tons)	1,815	1,771
Steam locomotive miles per serviceable day (excluding stored)	122	137
Diesel unit miles per serviceable day (excluding stored)	306	294
Passenger Traffic		
Passengers carried	18,080,958	18,832,815
Passenger-miles	1,538,832,219	1,635,201,983
Passenger revenue	$45,916,272	$48,466,128
Revenue per passenger	$2·53948	$2·57349
Average passenger journey	85·11	86·83
Revenue per passenger mile	$0·02984	$0·02964
Passenger-miles per mile of road	63,712	67,598
Percent on time arrival principal passenger trains	72·9	66·0
Steam locomotive miles per serviceable day (excluding stored)	220	225
Diesel unit miles per serviceable day (excluding stored)	160	152
Net Railway Operating Income		
Gross revenue per mile of road	$28,842.17	$27,913.15
Gross railway operating charges per mile of road	$28,007.62	$27,107.27
Net railway operating income per mile of road	$834.55	$805.88

REVENUE TONNAGE COMMODITIES

	Year 1953 Tons	Increase *Decrease* %
Agricultural Products		
Wheat	8,994,388	*·2*
Corn	514,432	13·7
Oats	1,735,093	*·9*
Barley	2,154,837	*11·9*
Rye	152,959	*23·2*
Flaxseed	112,228	*6·0*
Other grain	221,621	*3·3*
Flour	962,552	*1·4*
Other mill products	1,169,978	*13·9*
Hay and straw	72,354	22·4
Cotton	71,994	*16·8*
Apples (fresh)	60,388	*17·8*
Other fruit (fresh)	381,403	4·9
Potatoes	372,857	2·4
Other fresh vegetables	287,627	1·2
Other agricultural products	766,426	4·6
Total	18,031,137	*2·6*
Animal Products		
Horses	25,215	*16·6*
Cattle and calves	214,281	22·2
Sheep	7,755	10·7
Hogs	112,543	*28·6*
Poultry (live)	56	*27·3*
Dressed meats or dressed poultry	201,474	13·6
Dressed meats (cured or salted)	33,751	39·3
Other packing house products (edible)	64,287	*17·0*
Eggs	5,587	*25·7*
Butter	20,951	*24·1*
Cheese	30,812	39·8
Wool	23,866	*3·4*
Hides and leather	58,556	*2·5*
Other animal products (non-edible)	96,067	*2·8*
Total	895,201	·6
Mine Products		
Anthracite coal	1,796,740	*23·0*
Bituminous coal	9,120,258	*10·8*
Sub-bituminous coal	1,066,100	*10·6*
Lignite coal	582,463	*6·4*
Coke	778,263	*2·6*
Iron ores and concentrates	1,634,939	7·4
Copper ore and concentrates	179,153	*6·6*
Other ores and concentrates	3,252,096	1·1
Base bullion, matte and ingot (non-ferrous)	642,384	7·8
Sand and gravel	2,769,002	5·9
Stone (crushed, ground, broken)	3,353,683	2·7
Slate, dimension or block stone	71,476	14·5
Crude petroleum	349,450	*16·7*
Asphalt (natural, by-product petroleum)	412,612	*13·2*
Salt	502,352	*8·9*
Other mine products (not fully processed)	2,539,295	1·7
Total	29,050,266	*5·0*
Forest Products		
Logs, posts, poles, piling	979,704	*20·5*
Cordwood and other firewood	97,081	*41·3*
Ties	67,615	*33·3*
Pulpwood	4,339,336	*30·1*
Lumber, timber, box, crate, etc.	4,345,801	1·8
Plywood	205,117	60·5
Other forest products	252,245	9·4
Total	10,286,899	*16·6*

REVENUE TONNAGE COMMODITIES—*Concluded*

	Year 1953 Tons	Increase *Decrease* %
Manufactures and Miscellaneous		
Gasoline	2,274,121	1·4
Petroleum oils and petroleum products	2,154,060	3·1
Sugar	267,296	*4·3*
Iron, pig and bloom	327,944	*42·8*
Rails and fastenings	53,868	*17·1*
Iron and steel (bar, sheet, structural, pipe)	2,048,009	5·1
Castings, machinery and boilers	351,842	1·7
Cement	1,295,801	11·2
Brick and artificial stone	350,562	*7·7*
Lime and plaster	476,692	*7·4*
Sewer pipe and drain tile	58,420	19·5
Agricultural implements and vehicles	291,249	*11·3*
Automobiles, auto trucks and auto parts	2,324,530	25·5
Household goods and settlers effects	9,472	*19·0*
Furniture	75,930	3·8
Beverages	431,707	*·2*
Fertilizers, all kinds	840,841	*6·8*
Newsprint paper	2,112,744	*1·0*
Other paper	386,426	*2·9*
Paper board, pulpboard and wallboard (paper)	737,129	17·2
Woodpulp	1,214,128	*5·8*
Fish (fresh, frozen, cured, etc.)	78,040	*7·9*
Canned goods (all canned food products)	586,226	*1·9*
Other manufactures and miscellaneous	7,908,292	2·8
Merchandise (all L.C.L. freight)	1,604,495	*3·3*
Total	28,259,824	1·9
Grand total	86,523,327	*3·9*

OPERATED MILEAGE AT DECEMBER 31, 1953

	Owned	Leased	Trackage rights	Total
Operated Road Mileage				
Atlantic Region	3,790.08	6.41	82.95	3,879.44
Central Region	7,157.15	327.22	14.82	7,499.19
Western Region	11,485.48	34.84	94.88	11,615.20
Grand Trunk Western Lines	883.10	9.50	59.75	952.35
Central Vermont Lines	363.10	—	58.73	421.83
Total first main track	23,678.91	377.97	311.13	24,368.01
Lines in Canada	22,217.28	196.10	188.26	22,601.64
Lines in United States	1,461.63	181.87	122.87	1,766.37
Operated Mileage All Tracks				
First main track	23,678.91	377.97	311.13	24,368.01
Second main track	1,229.39	9.31	74.39	1,313.09
Third main track	26.76	—	3.49	30.25
Fourth and other main tracks	10.04	—	5.09	15.13
Spurs, sidings and yard tracks	6,341.07	127.26	1,395.05	7,863.38
Total all tracks	31,286.17	514.54	1,789.15	33,589.86

OPERATING EXPENSE DISTRIBUTION

	1939	1952	1953
Operating Expenses			
Total expenses—thousands	$182,965	$634,853	$659,049
Percent of total revenue	89.77	94.02	94.61
Distribution of operating expense dollar:—	¢	¢	¢
Labour	61.48	59.75	61.06
Materials	29.58	29.87	27.78
Other expenses	8.94	10.38	11.16
	100.00	100.00	100.00

The CHAIRMAN: I am now calling "Review of financial results" on page 6. Are there any questions in regard to that item?

Mr. FULTON: Might I ask what were the main reasons for the decline in the item of "Taxes, equipment rents and other income accounts"? Has that anything to do with taxes particularly?

Mr. GORDON: I think the decline is largely due to equipment rents. In paragraph 30 you will find a comment on that.

Mr. FULTON: You think it would account for the $3 million, I think you said?

Mr. GORDON: Paragraph 30 reads in part: "Because of our increased inventory of freight cars, the net rental paid in 1953 for the use of foreign lines' equipment was reduced by almost 50 per cent, or $3 million." And in paragraph 31 you will observe:

> Other items affecting this group of accounts included an improvement of $710,000 in the net earnings of hotels, and $2·1 million realized on the redemption of 4 per cent and 5 per cent perpetual debenture stocks . . .

That is a bookkeeping entry and it arises in this way: These perpetual debenture stocks were carried on our books at a rate of exchange of $4.86⅔, so that when we bought them in for cash, we paid the current rate for sterling. This produced an exchange profit which was taken into our income account for the year.

Mr. MACDONNELL: Mr. Chairman, I wonder if this would be the most convenient place—or perhaps at a later time—to ask Mr. Gordon to say something about the question of depreciation?

The CHAIRMAN: Do you wish to say something at this point, Mr. Gordon?

Mr. GORDON: Yes, it might as well come here as anywhere.

Mr. MACDONNELL: Would you mind saying something about that, particularly having regard to the Turgeon Report and the recommendations on page 281.

Mr. GORDON: On uniformity?

Mr. MACDONNELL: Yes, on uniformity.

Mr. GORDON: I can make a general statement on that: The Board of Transport Commissioners has been conducting an inquiry over the past two years for the purposes of coming up with proposals which will lead to uniformity of accounting. In regard to depreciation accounting in particular, I think that at this moment the board has before it tentative proposals for discussion. The matter is under active discussion between the railways and the board, and it is our expectation that the board will reach a decision some time this year.

Mr. MACDONNELL: It has been three years now since the Turgeon Report.

Mr. GORDON: Yes, but it is a very complicated matter, and a matter which is most time-consuming taking into account all the considerations which have to be kept in mind. But I think generally speaking progress has been about as fast as can be expected.

Mr. MACDONNELL: Can you say anything now as to the general tendency of the report? But before you answer, might I ask you this: At the present time you have been operating with a very substantial depreciation reserve in respect of equipment which was increased, this year. Might I ask you if you would explain what the depreciation plan was which was followed in respect of other than rolling stock, because as one reads the balance sheet and reads the general description it would appear that you rely almost wholly on upkeep as distinct from your rolling stock, where you have set up a large depreciation fund.

Mr. GORDON: I think perhaps Mr. Armstrong could answer that question.

Mr. ARMSTRONG: The United States lines are subject to the Inter State Commerce Commission regulations. U.S. equipment is depreciated as is. Road property but the track elements are not depreciated. Canadian lines rolling stock is subject to depreciation at straight line rates.

Mr. MACDONNELL: Straight line rates fixed by whom?

Mr. ARMSTRONG: We established what we consider to be the appropriate rates and these are approximately the same as the rates prescribed by the Interstate Commerce Commission.

Mr. MACDONNELL: How does it compare with other Canadian practice?

Mr. ARMSTRONG: The Canadian Pacific Railway Company employ the "user" method of depreciation on equipment and road property excluding track.

Mr. MACDONNELL: Could you explain the difference between the two methods and what the results are in terms of earnings?

Mr. ARMSTRONG: The straight line method which we employ amounts to this: Suppose a particular unit of rolling stock costs $100. We estimate that the service life will be 33 years. Therefore we write off $3⅓ per year as depreciation expense.

In the case of the user method, a period of life is also established in terms of 30 years, but in a period of high acitvity the rate would be increased, and in a period of low activity, the rate would be reduced.

Mr. GORDON: It is intended to be a measure of the rate of exhaustion of rolling stock and is based on the premise that in a period of high activity the rolling stock is worn out faster than would be the case in a period of lesser activity. The rates will vary according to fluctuations in traffic. But over the total life of the equipment the total depreciation charges would be the same as under the straight line method.

Mr. MACDONNELL: I was going to ask a question on the user method: Would it not result in a very much larger amount to be worked out?

Mr. ARMSTRONG: It would not if the estimate is correct. It would make no difference in total.

Mr. GORDON: Mr. Armstrong said that in the case of equipment one would assume a service life of approximately 30 years, but the annual depreciation charge would be geared to the traffic so that more might be written off in one year than in another year, but nevertheless the total cost would be writeen off in about 30 years.

Mr. MACDONNELL: I realize that, but if you should have a succession of lean years you would have more to take up.

Mr. ARMSTRONG: No, the mechanics of the calculation should compensate for that condition.

Our railway investment comprises rolling stock, road property and track elements. We have dealt with depreciation on rolling stock. In the case of road property we employ what is termed retirement accounting. In the case of track elements, which consist of ties, rails, other track materials, ballast and the associated labour, we apply replacement accounting.

Retirement accounting pre-supposes that the property as a whole has matured and that, through retirement and replacement, the property will be maintained in a state of balance. Retirements are charged off as an operating expense, and the replacement items are capitalized.

Mr. MACDONNELL: Mr. Chairman, for those of us who are not technical accountants I think probably the matter could be made more practical to us if you would compare the results of what you are doing with the results of the Canadian Paciffic.

Mr. GORDON: We could not speak for the Canadian Pacific and although this is a matter which we have been studying with some care because it is under consideration by the Board of Transport Commissioners we are not able to establish the effects of the different methods employed by the two companies.

Mr. MACDONNELL: But you do show a total of depreciation for rolling stock, do you not?

Mr. GORDON: Yes.

Mr. MACDONNELL: And does not the Canadian Pacific do the same?

Mr. GORDON: Yes.

Mr. MACDONNELL: Could we not have that figure taken for several years?

Mr. GORDON: The actual item in their published accounts is shown as a grand total.

Mr. ARMSTRONG: It is a grand total and the composition of the total could be very different from ours.

Mr. MACDONNELL: Mr. Chairman, might I drop that line for the moment and have permission to bring it up later?

The CHAIRMAN: Certainly.

Mr. FULTON: At this point might I ask if there is any indication from the board's suggestion to you as to which way they are tending, or which way they expect to go?

Mr. GORDON: I doubt if I have the right to discuss something under the jurisdiction of the Board of Transport Commissioners. They actually have it under discussion at this moment. They have not made up their minds, but there are alternatives for discussion with the board. I do not think it would be fair to the board to anticipate what they might decide.

Hon. Mr. CHEVRIER: Does it not boil down to this, that after the recommendations of the royal commission were made parliament passed legislation to authorize and direct the board to bring in uniform auditing methods and the board is now studying it? In fact, the board have employed a number of experts to help it in its study, and in my discussions with the Chairman of the Board of Transport Commissioners he told me some time ago, I think, following a question which you, Mr. Macdonnell, asked during the course of the discussion establishing this committee, that he was not prepared to make any recommendation on uniform methods at this time, but that he hoped to do so sometime during 1954. It is a rather complicated method. They have brought up here from the Interstate Commerce Commission some experts to give them advice. They have employed one or two experts from western Canada, and I can well understand Mr. Gordon's position in not wanting to discuss this matter further, because it is really sub judice.

Mr. MACDONNELL: I see the point, and I suppose we really want to discuss your estimates.

The CHAIRMAN: The next heading, "Operating Revenues". Are there any questions under that heading?

Mr. CHURCHILL: On that first paragraph you are dealing with?

The CHAIRMAN: Yes, Mr. Churchill.

Mr. CHURCHILL: That is a summary of the material on page 26 and so on. Are you going to deal with those pages later?

The CHAIRMAN: I think we will deal with those pages at a later time.

Mr. MACDONNELL: If we are on freight traffic, I wish Mr. Gordon would expand what is said there. In particular he mentions a reduction concentrated in the first and fourth quarters of the year. Would he say something more about that? I do not know if it is strictly relevant, but can he say anything about what has happened since the end of the year?

Mr. GORDON: I thought we might discuss that matter in more detail when we come to our budget, and the forecast for the year, but I can deal with it here if you wish.

Mr. MACDONNELL: If it is convenient for you, we could have time to think it over.

The CHAIRMAN: That would come under the budget and you would have an opportunity to consider it. It has been drawn to my attention by the secretary that the budget for the year 1954 is here, and I will ask him to distribute it to members, who will have an opporunity to go over it before we come to the budget later today or probably tomorrow.

Mr. MACDONNELL: I do not want to press you too much, but I find the budget rather difficult to digest in about an hour.

The CHAIRMAN: I will have it distributed right away.

Mr. MACDONNELL: If we could have a preliminary statement, it might perhaps be more intelligble.

Mr. GORDON: I hope you will find that the budget is prepared in a manner so crystal clear that you will have no difficulty whatever.

If I may speak to Mr. Macdonnell's request: In 1953 we forecast revenues of $720 million. In point of fact, you will observe from this actual result that we achieved earnings of $696 million. In that forecast of $720 million we had assumed that our revenue from freight itself would be $574 million, but that did not take account of the fact that on March 1st last year we had an increase in our freight rates which should have yielded us $16½ million, so that in point of fact our earnings should have been $720 million plus the $16½ million additional that are mentioned; or over $736 million. As our actual earnings were $696 million, we fell short by roughly $40 million of our guess as to what we would make in 1953. The main reason for this is that we did not foresee and could not foresee the very sharp decline in traffic which occurred in the last quarter of 1953. Up until about August, we were still reasonably hopeful that we would come within our forecast which, I must remind you, is purely a guess on which we base our operating plans. However there was a very sharp decline in traffic which started in August and September of last year, in the United States, which was aggravated by the effects on our own Canadian system of the slow marketing of the 1953 grain crop and by major strikes of long duration, such as the Noranda mine strike and those in the British Columbia lumber industries, and so forth which weren't settled until early 1954. These things all had a major effect upon our traffic. As I say, that situation has continued from about the 1st of September through into January and February, and we are still showing declines in traffic. Perhaps I should go back a bit and say that in the last part of 1953 we were showing declines of profit ranging up to as much as 30 and 34 per cent. We anticipated of course that this would carry on through the first quarter of 1954 in making our forecast.

Mr. MACDONNELL: Both freight and passenger?

Mr. GORDON: Both freight and passenger, but emphasizing freight. The passenger drop, of course, is not nearly so serious in dollar terms as the freight drop. So we have come to the conclusion that we may have serious difficulty in making what we forecast for this year unless we begin to see an upturn about now. We figured that if we ran through January, February and March and did not see an upturn about now we would be in for a very bad year. In point of fact in January and February we have been below our forecast for this year by about $4,300,000, and up to the third week of March, we are $5,600 thousand less than we hoped to earn.

Mr. MACDONNELL: The forecast you had already adjusted?

Mr. GORDON: Which we had made for this year. For operating purposes we make a forecast of what we expect to handle in the way of traffic. This is a very carefully calculated forecast and it is done on the basis of the best information we can obtain from our field forces in the traffic department and by a perusal of the business outlook generally. Having established what that figure is, then we commence to budget for it and set down month by month what we think should be our traffic for that month, and if we find that our traffic is running substantially below that, then, of course, prudent management dictates that we should adjust our expenses as fast as we can in the face of declining earnings. That is why it is important for us that we follow closely the actual result month by month in connection with our budget as forecast; otherwise we would not be taking the necessary steps to reduce transportation costs, and cut down expenses as much as we can in the face of a declining traffic situation.

Mr. MACDONNELL: It is too soon to ask anything about March?

Mr. GORDON: During the first three weeks of March our budget was running about $1,300,000 behind what we had anticipated. It had begun to improve in relation to the earlier months in that we were not so far out from our budget in February as we were in January. We think we see an improvement at the moment, but we do not know whether it is going to go up or down.

The CHAIRMAN: Mr. Knight.

Mr. KNIGHT: Could Mr. Gordon give us the amount of the decline in revenue in the last three months of 1953 as compared with the year before which is attributable to the decline in western grain shipments in the prairie provinces?

Mr. GORDON: Yes. I could probably pick that out. If we take grain as a group which covers wheat, oats, barley and rye, the actual decline in revenue figures was about $2½ million in the last two months of 1953. But, the decline is still continuing in January and February.

Mr. KNIGHT: In view of your statement that you expected that about now would be the time when one could look for a general improvement if there was going to be any, what would be your statement in respect to grain in relation to that particular statement?

Mr. GORDON: I cannot make any statement except that we are hoping.

Mr. KNIGHT: What is the hope?

Mr. GORDON: That the grain will start to move. It will move when it is sold. I have no information as to how it is going to be sold. I do know that recently the railways have been instructed to prepare the movement of some 20 million bushels. It has started to that extent.

Mr. KNIGHT: Of course, the grain is still there on the farms and has to be hauled at some time and I assume is a source of potential revenue ultimately?

Mr. GORDON: My information is that grain actually on the farm is not at a very much higher level that it was this time last year. There is only 20 or

30 million bushels difference. The real point is that the line elevators and terminal elevators are plugged full and the haul we will get will be from the line elevators.

Mr. POULIOT: Would it be possible to have a list of the operating revenues and operating expenses for each year since 1924?

Mr. GORDON: Yes, sir. We had a table in last year's report which gave that in detail. We did not include it in this year's report. I am sorry I did not realize it was such an interesting table. How would you like this?

Mr. POULIOT: I would like to have it tabled.

Mr. GORDON: May I pass this statement to you and see if that is what you would like. We can add this year's figures to it.

Mr. POULIOT: This is exactly what I want. Now will it be possible to have a list of the moneys advanced or loaned by the dominion government to the Canadian National Railways each year during the last 30 years?

Mr. GORDON: Yes.

Mr. POULIOT: And the amounts which have been raised during that period of time.

Mr. GORDON: I presume that you mean the recapitalization plan of last year?

Mr. POULIOT: Yes. But before that there was something. What I want is the amount that had been advanced by way of loans or otherwise to the Canadian National Railways by the Canadian government on the one hand, and on the other hand the amounts that have been deducted from the debt of the railways to the dominion government. I hope that I have made that question clear.

Mr. GORDON: I would suggest that you should also include the amounts advanced by the public in the form of bonds which have been sold to the public.

Mr. POULIOT: Yes. And a third question: what was the amount of the total debt of the Canadian National Railways to the Canadian government and the Canadian people at large each year since 1930?

Mr. GORDON: Yes, sir. We can do that quite easily.

Mr. POULIOT: For the last 30 years.

Mr. GORDON: We can start from the beginning of the system in 1923.

Mr. GILLIS: You might also show us the inherited debt, the debt the railways inherited by taking over bonds of defunct railways.

Mr. GORDON: That would be the commencing figure in 1923. I think that would answer your question.

Mr. GILLIS: You should make it clear on the statement that you are going to file.

The CHAIRMAN: Mr. Gordon has produced for Mr. Pouliot a table. Is it the wish of the committee that it should be printed?

Mr. GORDON: It is in last year's report.

The CHAIRMAN: We will not need to print it then.

Mr. POULIOT: I have it here and I am satisfied.

The CHAIRMAN: The next item is freight rates.

Mr. MACDONNELL: Before leaving number 7, could I ask Mr. Gordon to say a word about the use of other forms of transportation; how serious that is and whether it is a progressive threat or not?

Mr. GORDON: It is a continuing threat. You have in mind the competitive threat of trucking, water transportation and so on?

Mr. MACDONNELL: Yes.

Mr. GORDON: It is a continuing threat. It is very difficult for us to give any figures as to the amount of the business they take away from us. There are no actual statistics to that effect, but we are certainly very conscious of it.

Mr. MACDONNELL: Are the difficulties those which you have explained before in connection with freight rates; the fact that you have to take the less remunerative traffic, and the truckers the more remunerative? Is that still existing?

Mr. GORDON: It is still the case, and the railways complain about the fact that the competition is unfair in that the truckers are free to pick and choose their traffic and are not under the obligations of a common carrier, and where the railways attempt to meet the competition they are not able to do so specifically. Take, for instance, a piece of business under competition with the trucking companies. The trucking company quotes a rate for a haul from here to there and if the railway attempts to meet that, then any rate which the railway quotes must be made applicable to all business of the same type across the country, whereas the trucks can be specifically competitive. We can be restrained from quoting what otherwise would be a competitive rate by the necessity of making it applicable all over the system.

Mr. MACDONNELL: Does that apply to you also as truckers yourself?

Mr. GORDON: No.

Mr. MACDONNELL: You refer here to your entry into the trucking business.

Mr. GORDON: Yes. Entry into the trucking business is principally as part of coordinated activities. We have not embarked on specific trucking competition as such, but have enlarged our system from railhead to point of delivery, by truck, where it is cheaper than it is to do it by rail. It would be a continued piece of railway business, so to speak.

Mr. CARTER: Did you get that restriction removed with regard to the truck trailers? You have a flat car truck trailer?

Mr. GORDON: Yes. That is an example of what I mean. We call that a railway rate. The truck trailer, from our point of view, is merely an extension of a service. The trailer goes out, picks up a load, and we put that trailer on the railway and haul it from Montreal to Toronto and that cuts our cost in the sense that we are running the train anyway.

Mr. CARTER: But the same rate is applicable all across the country? You cannot get any specific rates?

Mr. GORDON: For that kind of movement, yes. If we had a trailer movement from one point to another, we would have to quote the same rate for anyone using that service.

Mr. FULTON: In paragraph 12 of the freight rates, Mr. Gordon, you refer to the intention of the Board of Transport Commissioners to increase class rates by not more than 10 per cent within central Canada as part of the equalization measures. Have you been able to, or do you think you could in general increase your rates by 10 per cent in central Canada?

Mr. GORDON: No, that is one of those things which looks very nice but in practice does not yield very much, because obviously we cannot raise competitive rates. We have been watching that situation carefully and we find that when we attempt to raise the rates we run the risk of losing business. In a number of cases we have had to change the rate in order to hold the traffic.

Mr. FULTON: You are relating that to the other part of that sentence where the board, as I understand it, required you to reduce your rate by 5 per cent in western Canada. They gave you this rate to increase this by 10 per cent as a counter balance?

Mr. GORDON: It is purely a temporary and interim order and it is applicable now. Since then, the Board of Transport has produced the plan for equalization of rates and that plan will be effective March 1, 1955. It is a very difficult job to get all the tariffs and rates adjusted, but the board has now announced what its plan is, and in a sort of general way I could tell you that this provides that all the class rates across the country be on a common basis. The objection that western Canada took was that there was a different scale of class rates in western Canada and eastern Canada. Now there is to be a common denominator, as far as class rates are concerned, with three exceptions.

There is the exception of the triangle covered by Sarnia, Windsor and Montreal—in which the rate is based really on Toronto as being a common point. That is to say, from points anywhere in that triangle to points outside it you get the same rate regardless of mileage. This exception is designed to preserve a situation which would take a good deal of explanation, but it is agreed by all that it is the only way to avoid serious dislocation by major communities in that area. The second exception is on maritime freight rates which are not affected by the order. The third exception is with respect to the rates between Victoria and Vancouver which are not affected and where the water mileage is calculated as half the whole.

Mr. FULTON: Apart from the three exceptions you mentioned, class rates will be equal all across Canada. Had the railways accepted that? Have you any right to object? If you do object, have you any right to appeal?

Mr. GORDON: Yes, we may appeal to the board itself and the order is now under examination by us. Generally speaking, I do not mind saying we are prepared to accept it with one exception and that exception has to do with lake rail rates and we may return to the board for further discussion on that. That is under consideration now. Remember we are talking class rates now and in adidtion to class rates there are commodity rates and other categories and presumably there will be a further order of the board dealing with equalization of commodity rates.

Mr. FULTON: You said, I understand, that you have gone back to the board about the lake-rail rates?

Mr. GORDON: No, we are only considering it. This is the first intimation to the board that we might be going back, incidentally.

Hon. Mr. CHEVRIER: This does not become effective until March 1, 1955?

Mr. GORDON: No, there is lots of time.

Mr. FULTON: I do not want to ask you a question you might find difficult to answer, but has the Canadian Pacific Railway gone back to them or taken any specific objection to any of the provisions of that order?

Mr. GORDON: Not yet. Again, the matter is under consideration. It is clearly understood, of course, that one of the reasons the order was made effective as of March, 1955 is because it was expected that in the course of working out the board's order we would run into various snags and various difficulties in pushing it into effect. Therefore, the board more or less expects to have further discussion with us, but they have laid down the principle and we are now working on it.

Mr. FULTON: If I understand it correctly, the principle is with regard to class rates; with those three exceptions, they would be the same all across the country. Did you have the opportunity to look at all your class rates and to say later then we should raise the rate for this particular thing so it will be raised all across the country, or is the effect of it going to be a general reduction in rates all across the country—what is the effect of the equalization order?

Mr. GORDON: It is hard to say. There will be a change all across the country.

Mr. MACDONNELL: Including the maritimes?

Mr. GORDON: The maritime provinces are excepted.

Mr. MACDONNELL: I know they have that special arrangement. Does that leave them entirely out of the purview of that? Does the special arrangement cover all their rates?

Mr. GORDON: I would not like to be too sure. This freight rate structure is a weird and wonderfully complex structure, as you know, and there are certain arbitraries which affect the maritime provinces but I do not think there will be any change through that section. Generally speaking, as the order has only recently been issued—we have not been able to figure out yet how it is going to affect our own revenue.

Mr. GILLIS: Mr. Gordon, would you tell me something in regard to the company service rate as applied to the movement of coal. Do you remember the last time this committee met we had a discussion that went like this, that you were moving American coal from Rouses Point to Moncton for 5 mills per ton mile while the rate from Sydney to Moncton was approximately 11 mills per ton mile. Now that looked like a rather rank piece of discrimination. That went to the cabinet and to the coal board and I understand you had meetings in Montreal, but I never did hear what the outcome was. Can you tell me the position now?

Mr. GORDON: Every time that question is raised, I have to start from the beginning. I never seem to be able to get it exactly right. I will try to make it as simple as I can. There was a subsidy provided by the Government covering the difference of the laid down costs between Eastern Canadian and imported coal at the consuming point. The application of the form of that subsidy has been very widely misunderstood. The rate of 5 mills was used when calculating the subsidy payments that the cost of moving the coal but 5 mills was never actually paid as the specific subsidy. The way it worked was this: the Dominion Fuel Board said that when we moved coal from the American border to a given Canadian consuming point that they would assume that it cost us 5 mills and that consequently when moving coal from a Canadian minehead to the same consuming point they would assume a cost of 5 mills in calculating the subsidy. Now in point of actual fact we moved coal and our cost of moving coal from the American border to the consuming point was less than 5 mills and the cost of moving coal from the Canadian minehead to the consuming point was more than 5 mills.

Mr. GILLIS: Why should that be?

Mr. GORDON: The cost of moving traffic from any one point to another has a lot of factors in it such as the movement of traffic, the grades, the curvature and everything of that kind involved in the physical moving of tonnage.

Mr. GILLIS: Better equipment and so forth?

Mr. GORDON: No, the same equipment, but we have a better line from the American border. It is nearer our main line and it has much better grades in most cases. That is the general reason. I could show you that, generally the cost of moving coal from the American border is considerably less than from any one of the Canadian mines.

We have said to the board: We cannot accept this basis for the payment of subsidies. We must work on our costs on what we actually pay at the consuming point. We always figure our own O.C.S. costs; and when we take

American coal and add our costs of moving and then take Canadian coal and add our costs of movement, we have for the most part found that we could lay down American coal more cheaply.

Discussions have taken place with the government on that point and last year the government said: Let us see how this thing works. You buy as much coal from Canadian mines as you did last year and keep a record of your actual costs and we will undertake to pay that as a subsidy. That was an experimental period for the purpose of working out a practical demonstration of what was involved. We did buy as much coal last year from Canadian mines as we did the year before, but it was specifically under the direction of the Dominion Fuel Board. They told us what mines to buy from and so on.

Another factor is the question of the quality of the coal. There is a discount factor, worked out to a standardization point which is included in the formula. On the basis of what was accomplished last year we had a further discussion with the government and I believe I am now free to say what has taken place. Might I ask if the order in council has been issued?

Hon. Mr. CHEVRIER: Not yet.

Mr. GORDON: But the general idea involves making Canadian coal competitive. With this in mind the government has under consideration whether or not this subsidy should remain on a basis which will move Canadian coal to the consuming point and make it competitive with American coal. I am hopeful, in the light of discussions which have taken place, that it will have the effect of our buying from eastern Canadian mines all the available coal—and mark you, I stress the word "available"—of proper quality that is offering to the railways.

Mr. GILLIS: I would say the explanation is a reasonable one and I assume from what you have said that you have arrived at some form or rate and that you are not going to worsen the competitive position of Canadian coal. That is all right, but it is a temporary solution. You also said that the railway lines in eastern Canada—and you are quite correct—certainly are not comparable to the lines over which you haul your American coal with respect to grades, curves and so forth. And it is in the interests of the Canadian National Railways, it seems to me, that they should have an improvement at least in the road bed in eastern Canada from Truro down, in order to take out some of the curves and so on. Would you say that the Canso causeway when completed would mean a general improvement in that direction in any way which would be a factor tending to reduce that cost?

Mr. GORDON: I would think so, yes. The question of cost, after all, is a question of fact at any given point, and if we do succeed in improving the railway facilities at any particular place, that improvement may succeed in reducing the cost. It may be that one way we can reduce the cost is by putting in diesel locomotives to haul coal. That is an ironical thing, but it is something which we have to face.

Mr. GILLIS: Yes.

Mr. GORDON: And when we hear the argument which some people put to us that we should not dieselize, that mean to a competitive disadvantage which in turn will lead you right out of the market.

Mr. GILLIS: I will have a word to say on that later on.

Mr. MURPHY (*Westmorland*): Does the situation you have outlined refer only to Nova Scotia coal, or to the coal mine in New Brunswick, which is in almost the exact center of the province?

Mr. GORDON: What I have said will apply to all eastern Canadian mines and will affect all the New Brunswick mines because of the competition provided to them by American coal. We are charging our actual cost of the haul which may be very much less from New Brunswick than from the Nova Scotian mines, which would mean that the over-all payment would be less, but it would not be a factor in the actual amount of coal that we buy.

Mr. MURPHY: (*Westmorland*): But if you bought coal only from the New Brunswick mine which is at a central place and you stockpiled it where the mines were, that even if you brought it from Nova Scotia or from the American mines, the coal might involve a lesser haul from New Brunswick, with reference to New Brunswick coal.

Mr. GORDON: To the extent that they are conveniently located, that the lowest cost of hauling the coal to the consuming point is an advantage that the New Brunswick mines have over American coal. The fact is that the cost of eastern Canadian coal at the mine head is actually higher than the cost of American coal at the mine head.

Mr. MURPHY (*Westmorland*): Could you give me a comparison of the mine head costs of Canadian coal and American coal?

Mr. GORDON: Yes, I can give you some examples of it.

Mr. MURPHY: (*Westmorland*): Yes.

Mr. GORDON: I have this table before me which covers some years. According to the table I see that the cost of coal in eastern Canada covers a range from \$8.25 to \$9.55; and when I look at the same type of coal in the United States I see there the range is from \$3.00 to \$3.65 with one at \$4.20. So in most cases the Canadian cost is more than twice that of the American coal.

And another factor which you have to keep in mind is that, considering the period of 1949 to 1953, every one of the Canadian mines in eastern Canada has increased the price of coal by \$1.00 to \$1.25, while in the same period every one of the American mines reduced its price of coal by 30 to 65 cents a ton. You have the fact that the Canadian cost of coal was going up while the American cost was coming down. That is a very real factor. And the American coal comes in with all the freight rates added as far as the border, and it includes of course the profit factor so far as the American railway lines are concerned, as well as the duty, the exchange factor and everything else.

And then there is even an additional factor namely, that we are not nearly so strict with Canadian mines. I can say that advisedly because I have been studying the subject for some time. Perhaps I should not say it because it might encourage Canadian mines to do something they should not be doing. But we are not nearly so strict in regard to our acceptance of Canadian coal as we are with regard to acceptance of American coal.

We get from the United States properly cleaned and washed coal of first grade; but we do not observe nearly the same quality requirements for Canadian coal. We do not get it picked over or cleaned in a way which will produce the maximum efficiency burning in the locomotives.

Mr. GILLIS: I would not want to go into that discussion. That may be true as far as the Canadian National Railways are concerned because you have proper inspection facilities and so forth; but this business of American coal being cheaper is not true all along the line. There seems to be a tendency on the part of the government, anyway, to get away from Canadian coal completely.

I saw a return from the area where Mr. Murphy comes from. It had to do with the supply of coal to the barracks. The barracks were being supplied with Canadian coal at \$17.50 but an order went out from the Department of

National Defence to supply the barracks with anthracite coal which had to be imported in small lots, and the result was that it stepped up the fuel bill by 100 per cent. They were taking American anthracite coal at twice the cost there. It was not efficiency. It was just stupidity on someone's part in the Defence Department.

Mr. GORDON: We have no stupid coal buyers in the Canadian National Railways.

Mr. GILLIS: I can appreciate that and you will recall that I have said that you have proper inspection.

Mr. GORDON: We have.

Mr. GILLIS: I would not let you leave that on the record.

Mr. GORDON: I have before me a report from our purchasing department, showing several specifications, quite rigid specifications, which apply to United States coal; they cover ash, size, combustible matter and so on. No coal is purchased from the United States which does not fully meet these specifications. But in purchasing Canadian coal, it is not possible for us to buy coal which meets these specifications. I do not want to be unfair, but there certainly is not such a supply of eastern Canadian coal available to us. We would like to get it. We will buy all of it that they will sell to us, but we have found that the general rule is that they will sell their good coal to other markets, to other purchasers in preference to the railways and they only give us what is left over. That is a fact. It may be good business for them. I am not criticizing them for it. I am simply stating it as a fact.

Mr. GILLIS: It is a very short-sighted sales policy on their part.

The CHAIRMAN: Are there any further questions?

Mr. CHURCHILL: I have a question on the general subject of freight rates. As a result of the revision of freight rates, there followed an increase in revenue of approximately $17 million. What do you anticipate would be the increase in revenue had the flow of traffic been maintained in the last quarter of the year?

Mr. GORDON: For 1953 we had forecast earnings of $720 million, and as I said at the time we made that forecast the freight rate increase that began in March 1953 was not in effect. Had it been we would have expected an additional $16 million; and if there had been that item of $16 million added in my forecast, the total would have become $736 million. That is what we forecast. Our actual earnings were $696 million odd, and we failed to meet the forecast by $40 million.

Mr. CHURCHILL: In the actual increase shown, what portion of the bridge subsidy is included?

Mr. GORDON: You mean is that included?

Mr. CHURCHILL: Yes.

Mr. GORDON: I can give you our share. You will remember that there was up to $7 million in each government fiscal year to be divided according to a formula and our share during the eight months May to December 1953 was $2,534,528.

Mr. CHURCHILL: In view of the anticipated shortage of revenue from freight, are you contemplating any further increase in freight rates?

Mr. GORDON: That is a difficult question to answer. We have no immediate application for freight rate increase in mind. That may change as we examine the situation and will depend on circumstances. Of course a freight rate increase is not the way to cure a decline in traffic; that is certainly not the cure for it. The first thing for management to do when traffic declines is to reduce expenses.

Mr. FULTON: While I realize you have not yet completed your study of the effect of the equalization order made, may I ask you whether I am right in saying that the general intention was to give western Canada the same rates as the central provinces, and I would imagine that it was hoped, so far as western Canada is concerned anyway, that our level or rates might come down somewhat, in as much as the central provinces' rates have been less than the western rates? Am I right in understanding that if rates were equalized all across Canada, we might get some lowering of rates, and it would then be expected that in the central provinces the rate would have to be raised somewhat, and you would meet somewhere in the middle with an equal rate all across the board?

Mr. GORDON: Therein lies our difficulty and we are still studying the situation. A great deal depends on the composition of traffic. You cannot simplify the problem by saying that because rates go up in the west and come down in the east they will come out even. The rate we may adjust slightly upward applies to a different mix of traffic altogether. Our first guess at it—and it is a crude guess—is that it is going to cost us some money, and that our revenues will decrease.

Mr. FULTON: Is that because you cannot increase your rates in central Canada and get the traffic, because competition will take it away from you?

Mr. GORDON: In part, but it also depends on the mix of traffic. There is also the rate called the Crows Nest Pass rate, which is not affected.

Mr. FULTON: That applies mainly to grain?

Mr. GORDON: I believe so, yes.

Mr. FULTON: I am trying to relate that to your statement in the report which I have asked you about already. You have been given permission to increase class rates in central Canada by not more than 10 per cent. If I understand you correctly, you said that you could not take advantage of that?

Mr. GORDON: That is right.

Mr. FULTON: I am wondering if that situation will also confront you with respect to equalization generally?

Mr. GORDON: It very well may do. We will know that better when we are dealing with commodity rates. At the moment only about 20 per cent of our traffic moves under class rates. The class rate is not a competitive rate. In other words, traffic that will move under the class rate, by definition, must be non-competitive. If you get into commodity rates, and class commodity rates and so forth, they vary in degree.

Hon. Mr. CHEVRIER: Has not that authority to increase rates in central Canada by 10 per cent been incorporated in the last judgment of the Board of Transport Commissioners?

Mr. GORDON: In effect it has, it is merely the amendment.

Hon. Mr. CHEVRIER: Is that the answer to your question? I think the answer to Mr. Fulton's question is this, that the reduction of rates by 5 per cent in western Canada and the increase of the permissive rates in central Canada by 10 per cent has now in effect been incorporated in the last judgment of the Board of Transport Commissioners, which becomes effective under its new schedule of rates on March 1, 1955. I presume the Canadian National Railways are now trying to adjust themselves to that situation.

Mr. GORDON: I understand that—

Mr. FULTON: Are you now compelled to increase your rates in central Canada when that order becomes effective?

Mr. GORDON: No, we are never compelled to increase a rate. It is permissive. There is a ceiling, not a floor.

Mr. FAIREY: Could I ask a question, Mr. Chairman?

Hon. Mr. CHEVRIER: Over and above that, on your point, this $7 million subsidy has the effect of reducing the rates by about 8 per cent. That plus the equalization certainly has the effect of bringing into being the recommendations of the royal commission on equalization.

Mr. FULTON: Yes, if it can be achieved.

Mr. GORDON: It is as far as the public is concerned. What it will do to railways still has to be demonstrated. That is why I hedged a little on your point, Mr. Churchill. When we do see what is before us, we may be before the Board of Transport Commissioners to seek adjustments.

Mr. FAIREY: When you speak of competitive rates, your chief competition in the future is to be by road, is it not—truck competition, on the long haul?

Mr. GORDON: We have competition on water and by truck, and the truck competition is our most difficult competition, because they go after our higher rated traffic.

Mr. FAIREY: Who sets the rates for trucking?

Mr. GORDON: There is no authority setting truck rates. There is a tariff in some provinces, but it is not a controlled rate in the sense that a railway freight rate is.

Mr. FAIREY: Therefore you are in a rather hopeless position if you try to meet competition from trucking?

Mr. GORDON: I would never admit to the word "hopeless". We still have a few shots in the locker.

Mr. FAIREY: What I am trying to say is that you have your rate set by the Board of Transport Commissioners and the truckers are free to undercut if they wish to.

Mr. GORDON: That is right. We find in practice that the scale set by the Board of Transport Commissioners for our freight rates become an obvious target for the trucker. He knows that if he goes after the business at something under that rate he is going to have a fairly good chance of getting it, But, remember, we can come down. We cannot go above the scale, but we can go down.

Mr. FAIREY: My next question would be obvious. Would it be fair to suggest that there should be some authority to set trucking rates?

Mr. GORDON: We would like to see it.

Hon. Mr. CHEVRIER: That raises a point which concerns my department. There certainly should not be provincially, because that is outside our jurisdiction. We have no right to control rates within the province. We could through the Privy Council control rates interprovincially and internationally. Whether we should do that, I do not know. I stated in the house that we feel reluctant to do that at this time. But, it is one thing we will discuss at the Dominion-Provincial Conference.

Mr. FULTON: Are you going to invite an observer from the railways to attend that conference?

Hon. Mr. CHEVRIER: No. It is not my intention. I think, I can get the views of the railways otherwise.

Mr. HARRISON: Has Mr. Gordon any intention of asking for any revision of the Crows Nest rates?

Mr. GORDON: That is a matter of legislation and I do not think it would be correct for me to discuss here.

Mr. MacLean: Perhaps Mr. Gordon would like to comment on the Crows Nest rates as to whether operating under them is a profitable operation. In other words, is there anything to be gained in hauling freight to which the Crows Nest rates apply?

Mr. Gordon: Well, that gets us into a pretty broad field. Our earnings on the Crows Nest rates on the basis of per ton mile are very substantially less than any of the averages of our other traffic, and the question as to whether or not it is profitable is something that could be debated pro and con.

Mr. Fulton: Are you able to say whether you show an operating profit on the movement of grain at those rates?

The Chairman: I do not know whether that question should be answered.

Hon. Mr. Chevier: Is not that a matter for the parliament to determine? Parliament has by statute to determine not what the rates shall be, but they shall be fixed at least by statute and cannot be amended except by statute, and I do not know of any intention of amending those rates at the moment.

Mr. Fulton: No government or parliament could make an intelligent decision unless they knew what the operating results are at the present rates.

Hon. Mr. Chevier: I was going to say this: I think that it is pretty easy to conclude what the position is when the rates were fixed in 1895 on certain grain moving through the Crows Nest as compared with the rates that are fixed today. We get some idea there as to what the differential might be, but I think that Mr. Gordon might be able to give a general figure.

Mr. Gordon: I should preview this with the statement that my reluctance to be drawn into a discussion of the Crows Nest rates is partly due to the fact that you are talking about a great mix of traffic. About 16 per cent of our traffic is covered under these grain rates, and to analyse that with any intelligence, one would have to get down to a consideration of overhead and what you would not have if you did not have that traffic and that sort of thing. Last year our revenue per ton mile in cents for the whole system was 1.509. That is a public figure. We obtained from grain in the group we are talking about .526 cents per ton mile. The average on all other traffic excluding the grain in question was 1.773 cents per ton mile, so that on the average we are getting more than three times the amount per ton mile from all other traffic that we are getting from grain.

Mr. Macdonnell: There is one other figure; that is the gross?

Mr. Gordon: The dollar revenue?

Mr. Macdonnell: You gave a figure of 16 per cent.

Mr. Gordon: That is the tonnage figure. On the dollar figure we took in from grain roughly $41 million last year, and from all our other traffic $513 million.

Mr. Macdonnell: Have you the figure for all this other traffic west of the Great Lakes?

Mr. Gordon: No.

Mr. Benidickson: Would the president tell us what the revenue per ton mile is for carrying iron ore from Atikokan to Port Arthur?

Mr. Gordon: We have never been drawn into a discussion of the costs of moving individual traffic I cannot give you the revenue per ton mile. We do not break our figures down in revenue per tone mile for each commodity. I am sorry I do not have that available.

Mr. MacLean: From the figures here I take it that in spite of the increase in freight rates in 1953 the operating revenues were approximately $23½ million less than was forecast and the forecast was made before the rates were increased?

Mr. GORDON: That is right.

Mr. MACLEAN: I noticed along with that that the fall off in traffic was chiefly in the last quarter of the year. Would it be possible that a factor of that loss in revenue might be due to the possibility that the rates were pricing the railways out of the market?

Mr. GORDON: I do not think that is so because we watch our competitive rates as closely as possible. Our results reflect a general business falling off. If you make an analysis as we have been trying to do for example the pulpwood and manufacturing industries, and related activities, we find their activity is what we would expect in light of our decrease in traffic figures.

Mr. MACLEAN: How much is it anticipated that the loss of traffic through gas and oil pipelines will be at the present time, not only with relation to the carrying of oil itself but coal and other fuels that will be replaced by oil and gas in the future?

Mr. GORDON: It is difficult to be precise about that question, because a lot of that oil would not move at all if it were not for the pipeline.

Mr. MACLEAN: I realize that, but in the past most of the oil distributed in Western Canada was probably distributed by rail.

Mr. GORDON: Yes. In other words, what you are saying is we get the rail haul until such time as the pipeline moves in and takes it away from us.

Mr. MACLEAN: In many cases.

Mr. GORDON: Our figures last year showed a steady decline month by month starting from May on, and we were declining at rates running up to 30 and 40 per cent each month as compared with the previous year.

Mr. FULTON: That is in hauling oil?

Mr. GORDON: One of these feeder pipelines which came in around about April or May was clearly involved in our traffic decline which ran from 30 to 40 per cent each month below the figures of the previous year.

Mr. MACLEAN: This may not be a fair question, but has your company ever considered the possibility of applying for a franchise to build pipelines in certain areas?

Mr. GORDON: The matter has been considered and we decided against it. We could see no particular advantage from the standpoint of the railway itself. In other words, moving oil by pipeline is a technical and specific business of its own, and if the railway had decided to go into it, there is not inherent in the railway any of the skills that would have given us a natural advantage. We would have had to set up another company with a new activity and find new people to run it, and no immediate advantage would accrue as far as the railway itself is concerned. In other words, it is better not to try to cover the universe but to let the other fellow do the job he is best suited to do. If there had been a natural affinity between pipeline and railway operations, in the sense that we could have used the same type of offices and operations and so forth, in short we could have used our existing organization to advantage then this would be another matter. But clearly this was not the case.

Mr. MACLEAN: If I might revert for a minute to the discussion of the first trucking franchise which was mentioned earlier, is it generally your policy to have trucking operations merely to extend the operations beyond rail head, or do you have trucking franchises in order to retain the traffic in areas where you already have rail services? Generally speaking what trucking franchises have you and where do you operate fairly large trucking services?

Mr. GORDON: Generally speaking, our policy is not to embark on trucking services as such, but only where we are able to make them a collateral part of railway operations or establish them on a basis which would enable us to obtain traffic which would otherwise depart from the railway. We are not going into the trucking business for the sake of conducting a trucking operation. It has to be an operation clearly identifiable with the railway's interest and for that reason we have only expanded and gone into trucking operations where that condition would be met. Did you say you wanted a list of trucking operations?

Mr. MACLEAN: Some idea—not necessarily a detailed list—but some idea where your major operations are as far as trucking is concerned?

Mr. GORDON: I could put that on the record for you. The ones that I refer to in the report are those on which we embarked in 1953. There were 5 of these; between Newcastle and Chatham, Newcastle to Fredericton, Campbellton to Bathurst, Montreal to St. Hubert and The Pas to Flin Flon. These were specific operations which we thought were to our advantage.

The CHAIRMAN: Mr. Follwell, have you a question?

Mr. FOLLWELL: Mr. Chairman, before we leave the volume of freight traffic, I have a matter I would like to bring before the committee. I will ask the clerk if we could have this memorandum distributed to the members. I think it would probably be best if the members had an opportunity to follow the memorandum which I have presented. The memorandum has to do with an action that was taken in 1942 by the sessional committee on railways during wartime—and I presume as a wartime measure—to make certain recommendations which I now propose to bring before the committee for the purpose of having amended.

The memorandum reads as follows:

Prior to September 1942, the Department of Transport construction contract form included a clause requiring the routing of materials, supplies, equipment and personnel over the lines of the Canadian National Railways in so far as possible.

The clause above mentioned was reviewed by the Committee on Railways and Shipping (1942) and their recommendation contained in the third report of the Committee on Railways and Shipping dated June 2nd, 1942, page 259, reads as follows:—

> In the opinion of your committee there should be no departmental instructions as to the routing of traffic but every transportation company should be allowed to compete on its merits.

The Department of Transport advises instructions were given on September 11, 1942, to delete the transportation clause in accordance with the above recommendation.

From the third report referred to above it appeared that the Department of Transport were desirous of dividing any traffic moving under the terms of their construction contracts more or less equally between the Canadian National and the Canadian Pacific Railways, and the reason for removing the clause was because it referred specifically to the Canadian National Railways.

It is suggested that there should be a transportation clause in the Department of Transport Construction Contracts and it is recommended the following be inserted:—

> The Transportation of Material and Plant—All material and plant used in connection with the execution of this contract must be transported over railways operating in Canada or Canadian waterways to the greatest possible extent.

Now, Mr. Chairman, as I pointed out, this recommendation in deleting the clause from the contracts of the Department of Transport, I would say, was done during wartime as a war measure, and as was also pointed out, it referred specifically to Canadian National Railways which somewhat did limit competition. Now, in the suggested recommendation you will note that all forms of transportation are given an opportunity to conduct business with the Department of Transport, not as expected, and I am sure everyone will agree that the Board of Transport may have considerable business to give to transport companies so for that reason I move, seconded by Armand Dumas that this motion be put before the committee, that the transportation clause in Department of Transport construction contracts be—

Mr. BENIDICKSON: What is that clause? Is it in a public statute?

Mr. FOLLWELL: The clause was formerly in the public statute and was taken out in 1942 by the recommendation of this committee. It referred particularly to the Canadian National Railways.

Mr. BENIDICKSON: Have you identified this in the public statutes?

Mr. FOLLWELL: I think the minister would agree it was there.

Hon. Mr. CHEVRIER: What I was going to say is this: that while I have a great deal of sympathy for what my friend has in mind, I do not think this is the place to do this. What you are asking this committee to do is to tell the Department of Transport to put in its clauses having to do with transportation of goods and certain things. I do not think this committee has the authority to do this. This committee was established for the purpose of considering matters concerning shipping and the like, controlled and operated and so forth by the government, but certainly not to control the contracts which the Department of Transport would enter into with various groups. First of all, that is the technical and legal objection which I have; but if I may be allowed for a second to go into the merits, I said at first that I have a great deal of sympathy for those who are anxious that we should move as much of the goods of this country by rail as possible.

Mr. Gordon has given some indication of the difficulties in which the railways find themselves vis-a-vis motor transportation. But what you are doing here is this: You are discriminating against air transportation as well as motor transportation. You are doing that at the moment that the government has instructed the Minister of Transport to hold a conference between the provinces to deal with this very matter. I think it is going to be a matter of great prejudice if the committee takes action and I go to the other provinces and say: We want to enter into some sort of an agreement for the control of traffic. It may be inter-provincial or international.

Then another point is this: The committee had good reason to do this in 1942 when it asked that the clause be removed. It did not order the removal of the clause; it just made a suggestion that it be removed, and the government or the department did so. They responded to that suggestion and I think you could make a similar suggestion to the department and the department or the government would then consider whether or not we could accept it; but in the form in which it now is, I would have no alternative but to resist it.

Mr. FOLLWELL: As the minister pointed out, this clause was deleted at the suggestion of the committee; but as the minister says, these things provide a suggestion which may be considered by the Department of Transport.

Mr. MACDONNELL: Did not the minister imply that if they were going to do something in the nature of a request, as it was in 1942, that it would be an easy way in which to deal with it?

Hon. Mr. CHEVRIER: That is what I was saying in fact. If they care to make a suggestion I would be glad to take it under consideration. What I think should be done is to refer this matter to a subcommittee and let the subcommittee give it some consideration because, if we get into a full discussion of it, we have the officers of the Canadian National Railways here to give evidence, and we would only be holding them up. However, if a subcommittee wants to deal with this matter after the officials have given their evidence on the report, I would have no objection.

Mr. FULTON: I think it is a matter which should be discussed in connection with the report of this committee anyway, and the officials of the Canadian National Railways might care to make some comments.

The CHAIRMAN: It seems to me that under the terms of reference, this committee is not empowered to deal with a situation of this kind. As has been pointed out by the minister, a recommendation might be made by the committee to the department as to what they feel might be done and in that event I would submit that it should go to a subcommittee of this committee to be dealt with. But as to whether this recommendation should or should not be made, is another question.

Hon. Mr. CHEVRIER: I would like to add that the Department of Transport is only one of 17 or 20 departments that deal with the railways. In fact, the Department of Public Works, and the Department of National Defence, and the Department of Defence Production do a great deal of business with the railways. Is it the intention of this committee to cover those departments? I think it would be most discourteous to those other departments to do so.

Mr. GILLIS: The main emphasis in this resolution seems to be on the system operating in Canada. I would like to ask the member who moved this resolution if Canadian transportation companies suffered by competition from American companies? Is there anything in that?

Mr. FOLLWELL: I do not believe they suffered in competition with American companies. I assume that where the Canadian National Railways have a parallel line running into the United States they would probably lose freight traffic.

Mr. GILLIS: That would seem to be the main emphasis, that the Canadian companies should get a preference.

Mr. MACDONNELL: Is the reason behind this resolution this: that here we are owning the Canadian National Railways; we are interested in its welfare, and here we have a chance, just like other people, to attract business and we are anxious to make that request. I would hope that if it could be turned into a request—with the minister's suggestion of referring it to a subcommittee—that seems to me very important and I believe it could be considered; and I would hope that this committee would see fit to take that view. We certainly would hear from Mr. Gordon with respect to some of his views, and if we could help employment in this way, I imagine he would not object.

Hon. Mr. CHEVRIER: Do you think it is the duty and responsibility of this committee to tell the railways or rather to tell the public how they should ship their goods?

Mr. MACDONNELL: No, certainly not. But I wonder if this committee which 12 years ago did make certain requests could not now make a request, or whatever be the proper form, if that were the view of the committee?

Hon. Mr. CHEVRIER: Perhaps it is worth while studying. But I do not think we should hold up the committee at this stage.

Mr. FULTON: Perhaps we could have a steering committee; have we got one?

The CHAIRMAN: We have not got one at the present time but we could probably arrange it.

Mr. FOLLWELL: If it could be referred to a subcommittee, I would be grateful.

The CHAIRMAN: I think probably that would be the best way to do it. Are there any further questions on freight rates?

Mr. CHURCHILL: Mr. Gordon pointed out that the volume of traffic in some areas had suffered a decline. Surely there must be some areas in which such traffic did not experience a decline. What about northern Manitoba? Is that an area in which the volume of traffic is now becoming revenue producing?

Mr. GORDON: Oh, yes, Mr. Churchill. And if you turn to page 39 of the report you will find there a detailed examination of the "Revenue tonnage by commodities".

Mr. FULTON: Mr. Chairman, I am sorry but I cannot hear.

The CHAIRMAN: Order, please.

Mr. GORDON: I was pointing out in answer to Mr. Churchill that at page 39 of the report there is a detailed breakdown of the revenue tonnage by commodities, which also shows the increase or decrease in percentage over the previous year. Does that answer the question which you had in mind? You will notice that it is not all a question of decreases by any means.

Mr. MACDONNELL: I have a question which I believe is supplementary.

Mr. FULTON: I wonder if Mr. Gordon could tell us what we are getting out of the Lynn Lake line, and how advantageous it has been in terms of dollars and tonnage?

Mr. GORDON: I am always puzzled to know how much of the business of a customer I should divulge. However, I do not see any objection to giving you carloads. You will remember that the movement only started in November 1953, and that we finished the line in October. So starting in 1953 we have: 44 cars in November; 104 cars in December; 102 in January; and 99 in February. The movement is just starting we are very well satisfied with the prospects.

Mr. GILLIS: I could not hear the beginning because of the conversation. Has that any relation to the Sherritt Mine?

Mr. GORDON: Mr. Churchill is asking me the question. He pointed out that there probably were increases in tonnage as well as decreases in tonnage, and gave an example. I covered both points of his question.

The CHAIRMAN: Can we deal with the subject of passenger traffic? I thought that, as we came to that heading, we might commence with that at 3.30.

Mr. MACDONNELL: I have a question on freight. Can I leave it till 3.30?

The CHAIRMAN: At 3.30 we will meet again. There will be no subsequent notices. I think you have all received notices to this meeting, one at 3.30 this afternoon and another at 8.30 this evening.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, we have a quorum now. On the item of freight rates, I said to Mr. Macdonnell before the lunch hour that I would permit him to put a question this afternoon, but I believe he is busy now, so that it probably could be reserved until a later time. Are there any further questions on freight rates?

Mr. FULTON: You might carry that item and let him go back to it.

The CHAIRMAN: We will carry that item on freight rates. Passenger traffic is the next item.

Mr. FULTON: I notice that the mountain differential was removed from passenger fares applying in British Columbia. Have you any figures showing any total revenue reduction? I suppose you could not really say?

Mr. GORDON: I do not have it divided up that way. I think I can say in a general way that it is not very important.

Mr. FULTON: I have not the full report of the Canadian Pacific Railway, but I have a resume of it as it appears in "Saturday Night". Have you seen it yet?

Mr. GORDON: No, I have not.

Mr. FULTON: All I want to say is that the current issue of "Saturday Night" gives an abridged version of the 37th annual report to the shareholders of the Canadian Pacific Railway. Their terms are not the same as yours throughout. Here is what they say, Mr. Gordon:

> Passenger traffic decreased 4.5 per cent in terms of revenue passengers carried and 4.1 per cent in terms of revenue passenger miles.

That would be approximately the same in terms of passengers as your report?

Mr. GORDON: It seems to be the case, yes.

Mr. CHURCHILL: Mr. Chairman, on this particular item I would like to ask a question in regard to the matter of safety of passengers. Perhaps Mr. Gordon could tell us what the accident rate is with regard to passengers carried?

Mr. GORDON: I have a summary of the accident record as between 1953 and 1952. Would that be sufficient?

Mr. CHURCHILL: I am interested in the safety of travel by rail.

Mr. GORDON: Our records show that in 1953, there were 36 accidents involving collisions which injured 17 passengers on trains throughout the year.

Mr. CHURCHILL: From collisions?

Mr. GORDON: From collisions, yes.

Mr. CHURCHILL: What other type of accident is there?

Mr. GORDON: We have other types of accidents that arise; for instance, by reason of derailments and defective equipment, and things of that kind, but the figure I gave is the one that affects passengers. There were 17 passengers injured during the year 1953 as a result of collisions.

Mr. POULIOT: I cannot understand it, because last year as an inducement to the passengers you allowed the sale of liquor on the trains. Liquor is now sold on the trains.

Mr. GORDON: On some trains, yes, that is correct.

Mr. POULIOT: And it did not increase the number of passengers.

Mr. JAMES: They are not driving.

Mr. POULIOT: I am very serious about it.

Mr. GORDON: At the moment I am trying to answer a question about accidents. The accidents have nothing to do with drinking liquor on the train.

Mr. POULIOT: No, but we are discussing passenger traffic. It has decreased. I wonder if it has decreased because you have allowed the sale of liquor?

Mr. GORDON: I cannot answer that question, however I do not think so.

Mr. POULIOT: I will take it up after you are through.

Mr. GORDON: There were 17 passengers injured on our trains last year as a result of collisions. Our system total train accident record for the year showed that in 1953 accidents to trains for every reason were 979, as compared with 1,104 in the year 1952.

Mr. CHURCHILL: That includes all trains?

Mr. GORDON: All kinds of train accidents. It includes passenger trains, freight trains, etc., and accidents for all reasons. I have a breakdown here giving the major types of reasons which, as I say, cover collisions, derailments, locomotive accidents, engines damaged, and things of that kind.

Mr. CHURCHILL: Just to pursue the question a little further, on pages 26 and 27 you show a breakdown under "Injuries to persons", giving the total amount expended in the years 1952 and 1953. You show "Injuries to persons" under "Maintenance of Way and Structures", "Injuries to persons" under "Maintenance of Equipment"; and "Injuries to persons" under "Transportation"?

Mr. GORDON: Yes.

Mr. CHURCHILL: Under "Transportation", that would include the passengers. I suppose the other two would affect employees?

Mr. GORDON: Yes, it includes employees, and our casualty accounts are spread, as you say, throughout that summarized total of $9,838,166. Of that figure $3,708,500 is attributable to injuries to persons, and that covers all classes of persons: employees, passengers, anybody for whom the railway had a liability. That would also include, you understand, of course, the workmen's compensation paid in regard to injuries to employees.

Mr. CHURCHILL: Have you taken any steps within the last year or two to make it safer for passengers and employees on the railway system, and if so, what?

Mr. GORDON: Yes, we have a very definite safety campaign going on all the time. We have an educational campaign organized throughout the system and we have a safety instruction car which travels throughout the system giving instructions to our employees from coast to coast. We have a system of moving pictures, for example, that demonstrates to employees the factors that they ought to be observing, and we have a regular series of meetings all through our system promoting safety and bringing to the attention of our employees the kind of things that they should give particular attention to. This covers, for instance, instructions in regard to the use of tools and equipment, and it also covers the use of safeguards during work—goggles and safety devices of all kinds. We have a safety supervisor, who is responsible for the development and production of these safety motion pictures and we keep ourselves fully informed on all the current practice of safety organizations in the community, as well as with the Association of American Railroads. So that we have a very intensive campaign going on all the time on this very point. In 1951 we embarked on a very specific campaign which emphasized this type of thing that I have mentioned and we since have readjusted our medical supervision of employees so that there was a drive made in respect to tests for vision and colour sense and general reaction in the physical way. Then we have a system of rule instruction that is underway all the time and is essential. The best way we can to reduce accidents is to insist on observance of our operating rules. They are devised out of experience to produce the best method of train operation, and operations of the railway generally. If our people obey the rules we know we are close to 100 per cent safe. In practically every case where we have a man failure, as we call it, it is because someone has not observed or has broken a rule. We, of course, also have some accidents that take place by reason of defective equipment and that also is under constant supervision. From the figures which I gave you you will notice that the actual number of accidents has declined from 1952, although naturally we are not at all satisfied with the record and are keeping up constant pressure in order to improve it.

The CHAIRMAN: Mr. Pouliot, had you a question?

Mr. POULIOT: Thank you. Coming back to the passenger traffic element, a protest was made to the minister about the sale of liquor on the trains.

Now, my experience is there is extravagance on the part of the members of the armed forces except when there are M.P.'s on the train—and I mean military police, not members of parliament. For instance, once there was a drunkard across the aisle in the car who was very difficult to handle and the porter complained about him. And very often they are noisy. I have seen soldiers with bottles of beer travelling from car to car and in a state of drunkeness that should not be tolerated. Now, when I conveyed that letter to the minister I wanted to warn the railway about what would occur if they sold liquor like that. The letter was left aside, and now we have to face a situation where it is necessary to have military police on the trains when there are soldiers on the train. Did you get in touch with the Department of National Defence to put military police on the train?

Mr. GORDON: Mr. Pouliot, the conditions that you refer to do not arise by reason of selling liquor on the train. As a matter of fact in our experience, it is better to have a controlled supervision of drinking on the train than it is to have the situation where people bring their own liquor on the train something we cannot prevent. We have no means of preventing a soldier or civilian from bringing liquor aboard a train and drinking it there. We find that if we do serve liquor there is less of that kind of thing taking place, and we are able to observe the individual ourselves and do not serve a customer who has had too much. I have not too much knowledge on the subject of drinking particularly on trains. To the extent to which we have gone into selling liquor on trains, I do not think the practice has been abused along the lines you mention.

Mr. POULOT: There is a difference between you and me. I travel on the train itself, you travel in a private car on the back of the train.

Mr. GORDON: I make a practice of going through every train I am on, but in addition to my own experience I have the reports of my officials on board the train who are constantly in a position to observe the actual conditions.

Mr. POULIOT: Many a time the conductors have told me that the situation was unbearable, and I have seen soldiers come in from the observation car where the liquor is sold at night carrying bottles of beer and they could hardly walk.

Mr. GORDON: We do not provide bottles of beer on the basis that they may be carried from carriage to carriage. They must have brought those on themselves.

Mr. POULIOT: I have seen it.

Mr. GORDON: They bring them on board themselves.

Mr. POULIOT: They were coming out of the observation car. I have seen them. I am not a detective but I heard some noise afterwards in the car and I knew where it came from. Besides that, it is very seldom that those who sold the beer would report it to you. You have inspectors who travel on the train but there is not an inspector on each train.

Mr. GORDON: It does not matter what the system is, there always will be isolated situations where individuals will misbehave themselves in travelling. You appear to be unfortunate in seeing more of it than most people do. When we have complaints we always investigate them, but we could not afford to install an army of inspectors on our passenger trains. We have to do that within reason, but I do not think it is fair to say that there is a generally bad situation on the Canadian National Railway trains. I think we have it under pretty good control all things considered, and I do not think that the records shows any particular misbehaviour on the part of the Canadian armed forces. They are usually a pretty well disciplined group who display a greater regard for discipline than other people do.

Mr. POULIOT: This is an old story. People in the best of families can get drunk, and this is not an insult to the soldiers, but I have noticed some soldiers. It is not a reflection on the whole armed forces. In the second place, why do you not use any more the notice "do not disturb"? We do not find that notice any more on the trains. It was very useful and gave an opportunity to the porter to point to that notice and show that that is a regulation. We do not see it any more.

Mr. GORDON: I have no knowledge that it is discontinued.

Mr. POULIOT: I see it no more. What do they do with it?

Mr. GORDON: I do not know.

Mr. POULIOT: Very often I have spoken to porters between Montreal and Ottawa and between Montreal and Halifax and they told me sometimes those on the train are out of control.

Mr. GORDON: We have isolated incidents that happen from time to time where there is rowdyism on the trains, and that will happen no matter what the conditions are, but by and large the behaviour of the Canadian public on our trains in Canada is good.

Mr. POULIOT: I agree with you on that but I must tell you that the situation was very bad during the war and some car windows were broken as you must have known?

Mr. GORDON: Yes.

Mr. POULIOT: Afterwards there was a lull, there was a quieter period, and then it resumed again for a time, especially during the holidays it was awful.

Mr. GORDON: We get cases where people coming from football games get excited about winning or losing, and express their jolification coming and going, but so long as it cannot alleged to be out of control we must live with it.

Mr. POULIOT: As we have been told, Mr. Gordon, now that there are military police on the trains there is not so much trouble.

The CHAIRMAN: May we go on to the next item?

Mr. POULIOT: As you pointed out, Mr. Gordon, very probably when there are M.P.'s on the train—I mean military police—there is not much confusion.

Mr. GORDON: If there is an official movement of soldiers, my recollection is that M.P.'s are supplied.

Mr. POULIOT: But you never ask for them?

Mr. MCCULLOCH: Mr. Chairman, I do not know whether this comes under this item or not.

Mr. GILLIS: Mr. Chairman, before we leave that discussion of liquor on the trains, I should like to say something about it. Were you going to change the subject, Mr. McCulloch?

Mr. MCCULLOCH: Yes.

Mr. GILLIS: I would like to say this, Mr. Chairman. About the only place where they do serve liquor on the train is east of Montreal and it is done by provincial licence. After you leave Montreal on the Ocean Limited, you can go into the club car at certain hours, and you can get a bottle of beer or a drink of liquor, but you cannot take it out of the car. I think this is a very desirable form of recreation on that train. That has been my experience with it. When you hit New Brunswick there is no licence and the club car is locked up as far as liquor is concerned. Then when you reach Nova Scotia you can get beer and wine with a meal. Now liquor is not sold on that line to any great extent. I have gone up and down there quite often and I find it is pleasant to go into that car and sit down and have a glass of beer with a friend; it breaks the journey and is a good form of recreation. I have never seen anyone abuse that privilege.

Concerning the other matter that my friend, Mr. Pouliot, speaks of, where the passengers go and buy liquor at a railway station and take it on board train, it is then on the loose and no one has any authority or control over it. I want to say definitely, as far as I am concerned, that the sale of liquor on the train itself is a big improvement and in the long run if it is extended and properly supervised I think it will eliminate the indiscriminate drinking you get on the train as complained of by Mr. Pouliot. And as far as M.P.'s are concerned, I have never seen one on that train going up or down unless there is a large movement of troops.

Mr. GORDON: If troops are moving officially they are accompanied by officers and are properly supervised.

Mr. GILLIS: Yes, and ordinarily when there are a few soldiers travelling, as there are today, I do not see any M.P.'s on the train.

Mr. KNIGHT: I think it should be explained for the benefit of the reporter and the record that M.P. means military police!

Mr. GILLIS: I want to be put on the record as suggesting that I think the sale of liquor on the club car under proper supervision is a big improvement over what we have had in the past.

Mr. POULIOT: I do not object to what Mr. Gillis mentioned but I would like Mr. Gordon to clear up one point: Would you please tell us what the return are from the sale of liquor on the train? Could you give us the returns from the sale of liquor on the trains for last year?

Mr. GORDON: It is a very small item; I will see if I can find it. Our total sales for 1953 appear to have been around about $77,000 in both provinces. That covers Nova Scotia and Quebec. That is the 1953 total. Now, it may be more than that this year because we have extended the licence somewhat for 1954.

Mr. POULIOT: That was the amount of the sales?

Mr. GORDON: Yes.

Mr. POULIOT: But what was the profit?

Mr. GORDON: I do not think I should be asked to divulge the profit, Mr. Pouliot.

Mr. POULIOT: 25 per cent?

Mr. GORDON: That is a good margin! But I do not think you should press me on that—it might discourage business!

Mr. MCCULLOCH: On January 27, the half past four train leaving here was held up for 25 minutes at Ottawa. There were 9 passengers on that train for the east and it was 8 minutes after 8 o'clock when we got into Montreal. The porter and the conductor told us that we would catch the Ocean Limited when we arrived in Montreal. When we got there we had to go upstairs and down, but the Ocean Limited had gone shortly after 8 o'clock and we all had our reservations for the Ocean Limited. We had to take another train and some of us could not even get upper berths on the Scotian. My suggestion is that the Ocean Limited should be on the siding when the train from Ottawa arrives, so that we could cross over and get on it. We have only 20 minutes anyway, and if the train is late we cannot make the connection.

Mr. GORDON: I should be glad to take note of that.

Mr. McCulloch: This situation has happened before and for a while it was rectified, but this time the Scotian was there alongside our train.

Mr. Gordon: We will take note of it, and see what can be done to improve the situation.

The Chairman: The next item is express traffic. Are there any questions? The next item is communications traffic, are there any questions?

Mr. Fulton: I would like to ask Mr. Gordon about plans for the taking over by the Canadian National Telegraphs of the government telegraph system in British Columbia. There might be a better place to discuss this point later on in the report, but because of other matters coming up in the House it may not be possible for me to be here. Would Mr. Gordon have any objections to discussing that now?

Mr. Gordon: None whatever, if it is appropriate, Mr. Chairman.

The Chairman: Very well.

Mr. Gordon: What do you want to know?

Mr. Fulton: The minister reported to us last week that officers of his department had seen officers of Canadian National Telegraphs to discuss the final details of the taking over, and I wonder if you would give us a word regarding your plans for the operation of the service, and also, at least in general outline, how far you have been able to go in absorbing the employees of the government-operated system into your own Canadian National Telegraphs operating staff, with respect to what arrangements were made to carry their seniority with them into the C.N. Telegraphs, and also with respect to what arrangements were made for carrying pension and superannuation rights into your operations?

Hon. Mr. Chevrier: I made a statement in the House and I think I covered certainly the last part of that question in my remarks. I am trying to find where the statement is.

Mr. Fulton: The minister's statement, I have no hesitation in saying, was very satisfactory in general outline, but I wonder if we could get some particulars perhaps?

Mr. Gordon: In a general way the minister fully covered in his statement what the understanding is with respect to the absorption of the personnel we are taking over from the dominion government telegraphs. We are doing our utmost to retain all the employees possible at the time of the transfer. Those who are over 65 years of age, and those who have under three years of service, will not likely be continued in service after a month's notice. That was the general agreement. At the moment, there are about 61 employees. I think the minister mentioned 60; however these figures will vary slightly while the process is being completed. We are finding that there is a fairly heavy turn-over in any event in personnel there, particularly with the rapid industrial development in British Columbia. But we do intend to give employment to all those who can be usefully absorbed in the system and to put them on the same basis so nearly as possible with the Canadian National Telegraph employees subject to remaining within the establishment of existing wage increase agreements now in force with the Canadian National Telegraph unions.

And as far as pensioners are concerned, those employees who remain with us will have their rights, under the Civil Service pension determined as at the date of transfer. If they meet the requirements they will become entitled to a deferred pension to be decided by the Civil Service. We are waiving the requirements of the Canadian National Telegraph or Canadian National Railways fund to provide them for the purpose of establishing service eligibility for Canadian National Pensions prior continuous service with Dominion

Government Telegraph will be allowed. They will be able, when they join with us, to have the benefit of such pensions as they have been able to accumulate under the Civil Service plus such pensions as they will be able to accommodate under the Canadian National rules.

As far as the operation of the system is concerned, we shall try to elminate overlapping and provide for efficiency in operating the system. Operations will be extended to meet requirements of the traffic as rapidly as they emerge.

Mr. FULTON: What will be the administrative arrangements so far as the supervision of that portion of the government system which we have taken over is concerned? Will you administer it from your present head office in British Columbia, or will you take over a region and administer it as it now exists?

Mr. GORDON: It will come over in the first instance pretty much as it now is; and it will be gradually integrated or absorbed into our British Columbia supervision and system so as to eliminate duplication.

Mr. FULTON: With regard to seniority, where eligible under the general terms as outlined in the minister's statement, all government telegraph employees will carry into the Canadian National Telegraph seniority on the basis of their length of service. Will that put them on an equal basis with the present Canadian National employees and with respect to bidding rights?

Mr. GORDON: You are talking about his right to bid in for a job?

Mr. FULTON: Yes.

Mr. GORDON: All these arrangements have been discussed with our union officials—and it has been agreed that the staff appointed to positions at Quesnel and Williams Lake will be homesteaded; that is, they will be secure against displacement under that agreement as long as they remain in these positions. The remaining provisions of the agreement being applied. With the exception of those at these two places, all the personnel will be accorded the rights and privileges which apply to comparable positions and service throughout the Canadian National system.

Mr. FULTON: Therefore, a man who is now working with the government telegraphs and wishes to continue there and is absorbed into your system will, so long as he wishes, continue at Williams Lake and will be able to continue there and no one else can bid in there?

Mr. GORDON: That is right. He is homesteaded there. Of course, the homestead position will apply only to the present incumbent of that position.

Mr. FULTON: Have you any plans for the extension or development of that system?

Mr. GORDON: It is too early for me to make a general statement. But we have certain things in mind to provide for the needs of the service. I have before me a specific analytical report of those requirements.

Mr. FULTON: Do you expect to continue the service at not less than its present level?

Mr. GORDON: We expect to provide a service as good, if not better, but not necessarily the same; however, it is to be the same type of service.

Mr. FULTON: If you are to provide an alternative which is different but which is shown to be superior, you are at liberty to do so?

Mr. HAHN: What regulations have you with respect to the policing of private wires into a place? I am thinking of the trouble we have on the coast with respect to booking agencies and betting?

Mr. GORDON: Our position with respect to private wires is governed by the regulations, as I understand it. What you are thinking of are criminal acts that might take place?

Mr. HAHN: Yes.

Mr. GORDON: I can only answer that it is governed by the general law of the province. We state in the contract the conditions under which the private line is provided, and if a situation should arise wherein the police asked for our co-operation, I assume that we would co-operate with them, just as any good citizen.

Mr. FULTON: One thing which was not covered in the minister's statement was the question of rates; as soon as it comes under the Canadian National Telegraphs, it would automatically come under the Board of Transport Commissioners with respect to the setting of rates, would it not?

Mr. GORDON: That is right.

Mr. FULTON: Have you any analyses with you which would enable you to answer a question whether the rates which are then in force in your own or other telegraph services are more or less those which are in force on the government portion of the system?

Mr. GORDON: I do not think I could answer that now. I could get information and I will do so if you like. But I have not got it before me at the moment.

Mr. FULTON: I should appreciate it if you would do so. Does the obligation to continue the service at an equivalent level to that being offered—would that bind you to continue that service at the present rates, even if at any time it was found that they were lower than the rates generally prevailing or in use on your system? I do not know what the situation is there.

Hon. Mr. CHEVRIER: In the conditions concerning the agreement for sale which I put on the record the other day, there is no mention of the question of rates and there is no mention of them because I do not think a sale would have been possible either to the British Columbia Telegraphs or the Canadian National Telegraphs if such a clause had been put in; not only that, but I think it would have been impossible. I think it would have been contrary to public policy. I doubt very much if conditions under which the purchaser agreed not to increase his rates would be binding on that purchaser.

Mr. FULTON: You might make it for a period of years. But what I have in mind is this: I am not a cost accountant and I cannot enter into the technicalities of the question; but I wonder whether the price paid by the Canadian National Telegraphs of $750,000 is a reflection of the physical value of the assets? And from such information as I have been able to get from you in answer to question, it would seem to me, certainly, that the price of $750,000 is not more, and indeed it might well be less than the worth of the assets which are being taken over. My point is that if there is that kind of a consideration with respect to the purchase price it would seem to me to be quite fair to require the purchaser, even if only for a specific period perhaps—not forever, but for some agreed period—to continue the service without an increase in rates because he has already got consideration with respect to it in the purchase price.

Hon. Mr. CHEVRIER: Do you think that we could have got the consideration that we did get, namely $750,000, for the telegraph side of these facilities if it had not been for the Canadian National Telegraphs? I do not think we could have got anywhere near $750,000; so we think that we made a good bargain in selling to the C.N.T. In so far as the other aspect is concerned, there are totally different considerations which come into the picture.

Mr. GORDON: If I might make a comment, I would think that a demand made to make rates a consideration in regard to any agreement between British Columbia Telegraphs and ourselves, would have resulted in a disadvantage to the community. In other words, obviously if you freeze rates you will have difficulty in obtaining the necessary money with which to modernize the system and to put in the sort of communications which would take advantage of the rapid developments in this particular area.

Mr. FULTON: I think you are on sound ground there, but what I was afraid of is this: You might take a look at that portion of the system and say: Obviously the rates applicable here are not as high and do not meet the needs reported to us as other rates of our system. Therefore we shall immediately apply for an increase in our rates. It might come about before there had been any modernization or improvement in the equipment. I do not suppose that one could object to an application for an increase in rates resulting after you were able to show you had been able to improve the service and that had cost you money. I am afraid that those rates may go up immediately.

Mr. GORDON: It may be possible that rates are higher in the C.N.T. We had better wait and see what we are talking about. I can get this information quickly, but I have not it before me.

Mr. CARTER: Before we leave that item, I notice that you show revenues as almost $16 million. You do not say anything about a corresponding figure for your operational cost in the other paragraph. Are the operational costs proportinately higher?

Mr. GORDON: The reason for that is that in our bookkeeping we keep records only of the revenues earned by the communications department from the general public. The communications department also provides services for the railways' own operations, so that the expense figure would cover both service to the railways and directly to the public, whereas there is no revenue figure shown in the communications department bookkeeping affecting the contra-entry, so to speak.

Mr. CARTER: I was interested in the breakdown of your revenues and expenditures with relation to other companies: the facilities that you lease to other companies and facilities that you rent from other companies.

Mr. GORDON: You mean the cost of that?

Mr. CARTER: Yes.

Mr. GORDON: This figure shows that total revenues earned by the communications department were $15,952,985. That is what they calculated from all branches of the public, which includes private wires, ordinary telegraphs, telephones, whatever we have in the communications business.

Mr. CARTER: From other companies as well?

Mr. GORDON: Yes.

Mr. CARTER: I mean other communication companies?

Mr. GORDON: Yes, everything we collect, all the income that we collect from others than ourselves.

Mr. CARTER: Yes, my reason for asking that question was that I was wondering what percentage or what fraction of the rate that you charge for messages finds its way, say, to other corporations, like C.O.T.C., and how much of that remains with the railway as actual revenue?

Mr. GORDON: That would be a matter of individual breakdown on every message. There is a formula for it, which depends on what portion goes over our line, what goes over other facilities, where we deliver the message, and so forth. If you turn to pages 26 and 27, I think there are some figures there that might meet the point you have in mind. Under "Maintenance of Way and Structures" on page 26, you will see "Communications systems", operating expenses of $7,261,664, and also under "Transportation", on page 27 in the left-hand column, you will see under "Communication system operation", operating expenses of $12,244,840. The sum of those two figures is $19,506,504, which means that on the basis of what we got from the public, that is $15 million that you are mentioning the cost of operations, or out-of-pocket expenses, exceeded revenue by $3,553,519. What you have to ask yourself is, how much were the services rendered by the communications department to the railway itself worth. We have not an exact breakdown of that figure, but we believe it fully covers that shortage.

Mr. MacLean: Does this item include revenue for lines leased for radio broadcasting networks and for microwave?

Mr. Gordon: It includes every dollar that we collect from everybody for whatever services the communications department renders.

Mr. MacLean: I take it that what the microwave systems used in 1953 might account for some of the increase?

Mr. Gordon: It could very well do, though there has been a good increase in our private wire business too.

The Chairman: The next item.

Mr. Knight: I cannot find any item here under which I could ask a question or two that I wish to ask. We had something to do with accidents today. I was thinking of accidents due to the absence of level crossings. I presume that it is an operating expense, that the railroads do make some contribution to the fund?

Hon. Mr. Chevrier: No, they do not. Parliament provides for a contribution to the railway grade crossings fund, and the railways make a contribution by order of the Board of Transport Commissioners only. They do not contribute to the crossing fund at all. The only contribution to the fund is by parliament. There is a statutory vote each year.

Mr. Knight: I presume that the railways would be interested in the greatest possible number.

Hon. Mr. Chevrier: They are.

Mr. Knight: I might dare to ask Mr. Gordon this question, if he would not favour an additional grant by the federal government?

Hon. Mr. Chevrier: May I say that the Board of Transport Commissioners have been asked by the federal government to make a detailed study of the grade crossing situation. They have held hearings all across Canada. They have listened to representations made by the railways.

Mr. Knight: During the past year?

Hon. Mr. Chevrier: And they are now getting their report ready, and I think that until they do report we had better—

Mr. Knight: Has the minister any idea when we will get that report?

Hon. Mr. Chevrier: I think this year, before the session is over.

Mr. Knight: I have often wondered why in the larger municipalities, in the ordinary cities, more advantage is not taken, and I would like to ask this: is it because the municipalities consider that their share of the expense is too great, or is it because the amount of money now available in this fund is not sufficient to cover enough municipalities?

Hon. Mr. Chevrier: I think it is a combination of the two. The Board of Transport Commissioners has generally taken the view that if the increased traffic at the level crossing is due to vehicular traffic, then it is the responsibility of the owner of the highway—the province, the municipality, or the county—but if the increased traffic is due to more trains, more freight trains or passenger trains, then there is a greater responsibility for the contributions by the railways. It is this whole question that the board is going to consider.

Mr. Knight: Is there a waiting list, in the sense that more municipalities are anxious to have these level crossings?

Hon. Mr. Chevrier: Yes, there is a heavy waiting list.

Mr. GILLIS: Who settles the damages? Provided a C.N. train—it happens quite often—smashes into a car or truck and there are several people in it, how do you settle that?

Hon. Mr. CHEVRIER: That is not a matter for the board to determine, that is a matter for the courts. If the negligence is that of the railway, I suppose the court will hold the railway responsible. If it is that of the truck or passenger car, or if it is the negligence of both, the courts can hold that the damage be apportioned between the two, but as a rule I know of very few cases that have gone to the courts because of negligence. Most of these cases take place at crossings where there is a bell—not all, but many of them—or where there is a barrier of some kind, and my experience is that very few of these cases get to the courts.

Mr. GILLIS: What happens now? Provided my car is damaged and I have two or three passengers with me, and I am negligent to the point where I tried to race a train and the train hits me, what protection have these passengers?

Hon. Mr. CHEVRIER: In the case of the passengers, in the province of Ontario I do not think they have any protection.

Mr. GORDON: The first thing that would happen, if you survived the accident, is that you would get a call from the claims agent of the C.N.R., and you would be well advised to settle before it gets to the court.

The CHAIRMAN: The next item is "Wage Agreements".

Mr. CHURCHILL: How many level crossing accidents did your records show for the last year?

Mr. GORDON: They are running at a rate of about 460 a year. This last report I have shows a grand total of 463 crossing accidents for all reasons, in which 201 people were killed and 598 injured; on all Canadian railways. This information is contained in a brief made by the Canadian National Railways to the Board of Transport Commissioners for Canada in discussing the railway-highway crossing question.

Mr. GILLIS: Was the Canadian National Railways declared liable for any of them?

Mr. GORDON: I do not have the specific data here but generally no. Very very seldom is negligence found on the part of the railway at level crossing accidents. Occasionally you would run into a case where the gateman would forget to close the gate, but that kind of thing is very rare.

Mr. HARRISON: It would appear most of the increases we have had in freight rates have been dissipated in wages. Saskatchewan is an inland province, and a non-manufacturing province, and therefore is interested very much in freight rate increases. I wanted to assess the responsibility for these increases. Are they all responsible to increased labour costs or has the railway been able to improve their facilities in any way outside that?

Mr. GORDON: In the report it says:

> Despite a better operating performance and the institution of prudent economy measures designed to adjust costs to the lower levels of traffic, operating expenses in 1953 rose by $24·2 million, or 3·8 per cent, to a new high. This result can be attributed to the effect of wage increases on payroll costs, which accounted for 61·1 per cent of total operating expenses, and absorbed 57·8 cents of every dollar earned in 1953.

Mr. HARRISON: Apparently you more than used up the increase in these increased cost of wages?

Mr. GORDON: Yes.

Mr. HARRISON: Is that true of the other increases you had?

Mr. GORDON: The additional expenses in 1953 due to higher wage rates amounted to $32,851,000 of that $7 million represented new wage settlements during, and applicable to, 1953. $21,351,000 was caused by a full year's operating under the new wage agreement which we concluded in 1952. Now, the amount of the freight increase we got in March of last year was not estimated to yield us more than about $16 or 17 million.

Mr. HAHN: How did the yield compare with your estimate?

Mr. GORDON: Specifically I do not know. All I can say is if the yield turned out as we hoped it would and if our traffic revenues maintained as we hoped, we could have had a total of $706 million, but we had in point of fact $696 million. It is spread through the whole computation of traffic, and I do not think I could identify it as it is applied to the share of freight rates you mentioned.

Mr. HARRISON: The increases you had in the last two or three years have not anymore than covered—

Mr. GORDON: May I interrupt. I think we estimated $60 million yield. We made an estimate of what we thought it would yield and came close to it.

Mr. HAHN: There is a possibility we might be pricing ourselves right out of the market and the truckers are looking after part of it?

Mr. GORDON: There is no doubt while freight rates will always be subject to competing transportation, however industries will themselves size up the situation to see whether they should not commence their own transportation system in the form of their own trucks. There are quite a number of industries operating their own trucks which compete with the railways.

Mr. HAHN: Have you noticed any large scale trucking business being carried on by a large institution, that is carrying its own traffic that would have been carried otherwise by rail?

Mr. GORDON: Yes, we have knowledge of companies that have turned to trucking either themselves or by agreement with some trucking company on the basis they were getting either better rates or better service. There would be a combination of both.

Mr. HARRISON: I take it, briefly, that your experience has been that the increases you have had have not any more than covered wage increases?

Mr. GORDON: We know specifically that the amount of the yield from our freight rate increases has not covered the increased wage cost, and the only reason we survived has been by greater efficiency as well as increased saving on labour costs resulting from increased mechanization.

Mr. FULTON: Mr. Nesbitt has two questions to ask. I understand that it is permissible for the committee to give consent to a member to ask questions. Mr. Nesbitt is not a member of the committee.

The CHAIRMAN: Is the committee in agreement that Mr. Nesbitt be given the opportunity to ask these questions?

All in favour.

Agreed.

Mr. NESBITT: The first question I would like to ask I think probably comes under operating expenses, although part of it comes under capital expenses. Does the C.N.R. as much as possible purchase materials from Canadian firms for the operation of the railways? I have in mind particularly the question of nuts and bolts. In the past I understand that the C.N.R. bought most of its nuts and bolts from the Morrow Screw and Nut Company of Ingersoll, and I understand at the present time that you are no longer buying from this company. Could you give me some information on that?

Mr. GORDON: I cannot give you information specifically, but generally the policy of the C.N.R. is to buy material and supplies in the most competitive market. Most of our larger requirements are in the form of tenders, and we buy, other things being equal, at the cheapest price. If the price is equal, then we favour the Canadian supplier.

Mr. NESBITT: The town of Ingersoll which has a population of around 7,000 persons is almost entirely dependent on the Morrow Screw and Nut Company and the Ingersoll Machine Company, and I understand a large portion of the market is lost through the recent lack of materials being supplied to the C.N.R.

Mr. GORDON: It must be another interpretation of what was said of someone else pricing themselves out of the market.

Mr. NESBITT: It has been my understanding that Holland, the United States, and England have been supplying a lot of materials at lower prices than some Canadian firms.

Mr. GORDON: I do not know specifically in this case, but it is quite likely, because we buy, as I say, at the best price.

Mr. NESBITT: Would any consideration be given in cases such as this—where the Canadian National Railways failed to buy from a supplier of materials such as nuts and bolts—to continue purchases, at least in part, to avoid disruption of the economy?

Mr. GORDON: We have Canadian suppliers who have been supplying us over a long period of years, but it really boils down to this question of the best price. We cannot regard ourselves in the C.N.R. as a means of paying a subsidy or any price above the competitive market price laid down at whatever the consumer point is which is the price we take for comparison. If we attempted to consider the circumstances and pay a higher price because of the effect on the particular company you mention, then to all intents and purposes that would be adopting to ourselves the right to pay subsidies and we just have not authority to do that.

Mr. NESBITT: A final question, Mr. Gordon. Would it be possible for you at some future date to supply me with some further information on the purchases of these nuts and bolts or would that be difficult?

Mr. GORDON: I would be delighted to take any specific case and tell you what happened. I cannot, of course, start giving competitive prices but we can tell you whether or not we are able to buy our supplies from several suppliers at a better price. I imagine the company you mentioned would be fully informed on that subject themselves. They ought to know the competitive prices and if they do not, they are not very good managers.

The CHAIRMAN: Shall operating expenses carry?

Mr. MACLEAN: I have one more question, Mr. Chairman. Could Mr. Gordon give us some indication whether or not there is a strong trend toward purchasing outside of Canada over the last year?

Mr. GORDON: No, I think our purchases in Canada, if I remember correctly, have been running about the same. My general impression is that the percentage is not rising, but I cannot specifically give you, for instance, U.S. suppliers as against Canadian suppliers for the simple reason it is very difficult to know which is which. After all, U.S. firms operate in Canada and to all intents and purposes they are Canadian firms. They do business here, and we deal with them as we would with any Canadian firm. It would be difficult to trace back whether a product is American or not. My general impression, however, is that they are running about the same level percentage-wise as they have been.

Mr. MacLean: Mr. Chairman, I wanted to ask some questions regarding the operation of the ferry service to Prince Edward Island.

Mr. Chairman: I think that comes in a later vote. There is a particular vote on that later and I think that would be the appropriate time to deal with it.

Mr. Fulton: I have one more question about operating expenses. I will read the sentence in the second line of the paragraph on this subject: "Despite a better operating performance in the institution of prudent economy measures designed to adjust costs to the lower levels of traffic," and so on. Now no one, Mr. Gordon, expects that the railway can take account of the revenues and take whatever measures prudent economy dictates, but on the other hand you will appreciate the concern of this committee, and everyone in the House of Commons, with respect to the continuation of employment. Would you be able to say to the committee whether or not the railway has any plans in connection with its own development, of a development nature, which might provide alternative employment to those whom your operating cost figures or financial operating results indicates you have to lay off?

Mr. Gordon: The answer to that is yes and no. We have not embarked on a program of what might be called special works for the purpose of relieving unemployment, but you will find when we come to our capital budget that on the other hand we have not cut our plans in respect of capital expenditures despite the fact of lower traffic. In other words, we feel we are justified in bringing before you for approval a capital budget which is based on an assumption that the Canadian economy is going ahead, that it is a sound economy, and we are planning for building in the future, so we have not reduced our capital expenditures, in the way it might be assumed one would in light of falling traffic. We are following the normal course in regard to our recommendation for capital expenditures, and that is important. We are however very definitely reducing our expenses, or trying to reduce our expenses, in relation to falling traffic It is perfectly obvious if we have not the traffic to haul, it would be senseless for us to employ crews and run trains up and down the line when there is no traffic. Therefore, it follows automatically, that if the traffic is not there, the employment is not there, and that is where our major cuts in expense must come from.

Mr. Fulton: Would you tell me whether the layoffs which have taken place and which have given rise to an obvious and justifiable concern are due to an increased mechanization or declining traffic or both?

Mr. Gordon: Both. The layoff recently would, I think, be more traceable to declining traffic, but it is a factor that as we get on with dieselization and as we spend capital moneys on mechanical tools, etc., then the labour content of the railway expenditure will be reduced That follows as a matter of necessity if we are not going to run into very substantial deficit.

The Chairman: Mr. Weaver, I think, is next.

Mr. Weaver: I wanted to ask Mr. Gordon what are the relative savings made in the closing down of the number of railway stations in western Canada. particularly in Manitoba?

Mr. Gordon: What are we saving by closing stations?

Mr. Weaver: Yes. Do you save a relatively large amount over the cost of keeping those stations going?

Mr. Gordon: That would vary very considerably I think. I do not think any stations were closed in Manitoba, come to think of it. If you could give me the specific points you have in mind, I would be glad to have the matter looked into.

Mr. WEAVER: I believe there was one at Grosse Isle.

Mr. GORDON: It depends on the type of station. When a station gets to the point where it warrants our abandoning it, it will be operating pretty much on a one-man basis and we estimate the cost would run from $5,000 to $7,000 a year. Is that what you have in mind?

Mr. WEAVER: Yes.

Mr. MACDONNELL: On page 6 this morning, speaking of the declining tonnage for the full year 1953, you say:

> The net decline in tonnage for the full year was more than accounted for by the reductions in pulp wood, coal, grain and grain products.

Is that true of the situation up to the moment?

Mr. GORDON: Yes, it is pretty much in those same things that we find the continuing decline.

Mr. MACDONNELL: No substantial items?

Mr. GORDON: There is nothing particularly new in it, although in the last couple of months there has been more of a decline in manufactured products than in the past year. Generally it is prety much the same trend. And as I said this morning we believe we detect just a turn in the last week or so but it is not sufficiently pronounced yet for me to say what it is.

The CHAIRMAN: Now, Mr. Hahn.

Mr. HAHN: This question which was raised a short time ago I consider to be very important inasmuch as large purchasers, such as the Canadian National Railways, are markedly affecting the industrial business of this nation. And I was wondering whether or not you are finding that the tenders that are being accepted by Canadian industrialists are probably just a bit higher than they used to be and have reached a point where they are gradually pricing themselves out of the market? Have you experienced that as compared with American tenders or others, such as British or Dutch?

Mr. GORDON: There is such a variation there, but if you are talking about specific contracts for a piece of construction such as building a bridge or a building or something of that kind, our experience has been rather that the bids which we have been getting have been below our own engineering estimates. There is an appreciable cut in costs in that respect. But if you try to trace it through to the great hodge-podge of materials and supplies, I could not answer you. I could only give you an impression that about the same percentage of purchases are from Canadian suppliers; but there again I am in difficulty because it is difficult for us to identify solely Canadian suppliers since there are lots of people with Canadian names who may be American controlled or otherwise.

Mr. CHURCHILL: What is that percentage? Is it large or small?

Mr. GORDON: Again I am merely estimating, but I would guess that it runs about fifty-fifty. If it were possible to trace our purchase of materials and supplies direct to the place of origin, that is as between the United States and Canada, my guess would be that it would be about fifty-fifty.

Mr. MACDONNELL: You get nothing at all from Europe?

Mr. GORDON: Yes, we get something from Europe but it is comparatively small.

Mr. MACDONNELL: Have Europeans done any tendering on large engineering contracts?

Mr. GORDON: No, but we have had some inquiries from the United Kingdom, and our purchases there, while originally small, have been increasing.

Mr. HAHN: Along that particular line, would they be mostly steel?

Mr. GORDON: I wonder if you could tell us, Mr. Dingle?

Mr. DINGLE: Steel, some tools and machinery.

Mr. GORDON: Mostly in the line of tools and shop machinery and things of that kind with some steel products; but the total is still relatively small.

Mr. HAHN: What percentage is it relative to United Kingdom tenders? In the percentage of increases, would it run as high as 10 per cent?

Mr. GORDON: I would not venture off hand to answer. I would have to analyse the position more carefully because when we call for tenders for instance on shop machinery, we call for certain specifications. In some cases the United Kingdom can supply those specifications better than Canada, and sometimes the Canadian manufacturers can do better than the United Kingdom. So we do not always decide on the basis of price. It is the basis of the performance of the machine that may be the deciding factor when he have bids from Canadian and United Kingdom markets. I think it would be very difficult to establish that there is a percentage relationship in regard to prices because we rarely get exactly comparable types of machines.

Mr. HAHN: Would you go so far as to say that our casting of dies and tools is not quite up to the same standard as that in Britain?

Mr. GORDON: I would not venture an opinion on that. That is something which might be damaging to both sides.

Mr. GILLIS: And what about your imports of coal from the United States?

Mr. GORDON: Imports of coal?

Mr. GILLIS: Yes. In 1951 you had over 4 million; in 1952 you had 3 million and 37,000. What did you have in 1953?

Mr. GORDON: You want the figures for purchases?

Mr. GILLIS: Purchases.

Mr. GORDON: We purchased coal from the United States for use in Canada of a total of 3,030,401 tons, which cost $27,841,561. That compares with a purchase in 1952 of 3,692,527 tons at $35,663,541 or roughly a decrease in American purchases of about 8 million tons.

Mr. GILLIS: It is coming down a little then?

Mr. GORDON: As a matter of fact our dieselization program is having a much more marked effect against American mined coal than it has against other coal at the moment because most of our American coal comes into that part of our country where we get the maximum effect of dieselization.

Mr. GILLIS: These figures are hard to understand in a country where the coal industry is declining practically out of the picture, with a market of that kind for oil.

Mr. GORDON: As I told you before, and I am glad to repeat it, that it is solely a question of price. If Canadian mines can produce coal at the going market price we will be glad to pay it, but if we buy coal or any other product at a price higher than the going market, then we become a subsidizing company and that is not our business. That is the business of parliament.

Mr. MACDONNELL: What is the tariff on American coal?

Mr. GORDON: I should know what it is.

Mr. MACDONNELL: It used to be 50 cents.

Mr. GORDON: I have it here. It seems to be 50 cents in each case.

Mr. MACDONNELL: Is there a draw-back on that for manufacturers for re-export, but not for you?

Mr. GORDON: I do not know of any draw-back for the railways. It certainly would not affect us because we consume it in Canada.

The CHAIRMAN: Now, Mr. Holowach.

Mr. HOLOWACH: Mr. Gordon, have you any figures to show the purchases made by the corporation with respect to Alberta coal for the year 1953?

Mr. GORDON: Yes. Do you know the names of the Alberta mines? I have figures here but I am not quite certain that these mines are all located in Alberta. In 1953 our western Canada purchases were 759,000 tons.

Mr. HAHN: How would that compare with this year?

Mr. GORDON: You mean compared with the 797,200 tons in 1952? It would be substantially reduced this year.

Mr. HAHN: Would that include British Columbia coal from the Crows Nest as well?

Mr. GORDON: That is Canadian Pacific and we do not use any from there.

Mr. MACDONNELL: How does that compare with the maritime figure?

Mr. GORDON: Last year the total of maritime province coal shipped to us was 758,278 tons which is about the same as the western total.

Mr. HAHN: What percentage of reduction would you expect this year from western Canada?

Mr. GORDON: That would depend on the arrangement made by the government in connection with the subsidy this year. But apart from that, our purchases from the market in western Canada are becoming reduced very rapidly due to our conversion to oil. Our estimated needs this year have been complicated as well by the fact that we are engaged in "unstocking" coal. Our stocks of coal are too high and we are reducing them. The figure could perhaps be cut to 400,000 tons, but the actual purchases will depend on the impact of the subsidy arrangement, whatever the final decision may be in that respect.

Mr. HAHN: What percentage of your rolling stock do you intend to convert to diesel this year in the west?

Mr. GORDON: It is really conversion to oil burning in the west with very little dieselization. We converted 90 odd engines last year and we are planning to do 92 more this year.

Mr. HAHN: What part of your whole fleet would that be?

Mr. GORDON: We expect to have—

Mr. HAHN: Mr. Chairman, I think my answer is on page 12, at a later time, under the "Review of Operations", under "Operating Performance".

Mr. GORDON: On page 12 we tell you how much has been converted, but I do not seem to have the number still to be converted. There are 92 to be done in 1954, and I should have before me the balance. I am sorry, but I do not seem to have it, but I will get it for you.

Mr. GILLIS: What is your program for diselization east of Montreal this year?

Mr. GORDON: Our dieselization program is a five-year program, as we described it here two or three years ago. We did 110 last year, I think. It has to be a rough estimate, because it is part of a five-year program, which we do not necessarily make exactly each year, but plans for 1954 contemplate that 179 diesel units are to be ordered in 1954. Those for the Atlantic region amount to 14 road switches and 12 passenger locomotives. In addition there are 7 for switching service ordered the previous year and not yet delivered.

Mr. MURPHY (*Westmorland*): Has the dieselization been more rapid in the Atlantic region, say, in comparison with the Central and Western regions? In other words, have we been dieselized more rapidly?

The CHAIRMAN: I think your question should come under "Operating Performance".

Mr. MURPHY (*Westmorland*): That is where I intended to put it, but this has come up now.

Mr. GORDON: The answer is that our dieselization program is not a regional program; it is based on the services to be performed; whether through freight, passenger, switching, etc., and we have applied the first part of the dieselization program generally speaking where we can get the maximum advantage, so with the result that we get a varying mixture of steam and diesel in different regions. The general impact of that program has been somewhat less in eastern Canada than in central Canada for the obvious reason that the traffic density in central Canada is much greater than it is in the martimes.

Mr. MURRAY (*Westmorland*): And the dieselization has been less rapid?

Mr. GORDON: Somewhat less.

The CHAIRMAN: Can we come to "Wage Agreements"? We are getting a little off the track.

Mr. FULTON: At another time I would like to ask a few questions on diesels.

The CHAIRMAN: I should think that should come under the question of "Operating Performance", where dieselization is dealt with. If we keep to the subjects, we will make better headway.

Mr. KNIGHT: I had one question. If you tell me where it comes, I shall not carry on here. I want to find out something about operating expenses and revenues of the dining car services.

The CHAIRMAN: That will be later on.

Mr. KNIGHT: If you could tell me where to do it.

Hon. Mr. CHEVRIER: It is under "Hotels".

Mr. KNIGHT: I do not think it says anything about dining cars under "Hotels".

Mr. HAHN: "Freight and Passenger Equipment" under "Operations".

The CHAIRMAN: That is better. "Freight and Passenger Equipment". We can go onto that. Could we deal with the subject of "Wage Agreements" now and get on with that item?

Mr. POULIOT: No. We have heard something about coal, and it is easy to find out the coal purchases in the United States and in Canada by dividing the total amount paid for coal by the quantity of coal, the number of tons. Now, could I have some information about charcoal? I would like to know where the charcoal is bought from.

Mr. GORDON: I will have to get that statement for you. That is one question I did not foresee.

Mr. POULIOT: I will tell you why I asked the question. It is because there are some people who manufacture charcoal in my county, and tenders were asked, and it was impossible to know what was the amount of the tender. Now, we are here to question you, and I am very much interested in knowing the price paid for charcoal, so that the competitors may have the chance of tendering with success.

Mr. GORDON: Mr. Pouliot, it has been clearly established practice, I believe, through this committee, that Canadian National Railways are not required to divulge the prices at which it buys materials which are purchased by tender. It would be obviously unfair to the people who tender, and it would make it impossible for us to get competitive bids. The C.N.R. gives an opportunity for anyone in the business of selling charcoal to quote a price, and the C.N.R. accepts, generally speaking, the lowest tender and that is that.

Mr. POULIOT: What about fence posts?

Mr. GORDON: The same would apply to any supplies of that character, ties, fence posts, any material where we invite people to make a tender. They all know the custom of the trade is to make a tender and we, generally speaking, accept the lowest tender, but do not divulge the range of competitive bids that come in because that would not be fair to the businesses concerned and would make it impossible for the Canadian National to deal in a reasonable way and get the commodities it requires. All these tenders are always regarded as confidential.

Mr. POULIOT: What difference does it make? The fellow who has the contract is supposed to have the lowest tender, and the others who have tendered at a higher price do not have the contract, and we cannot tell him that this fellow has the contract because his tender was so much under yours.

Mr. GORDON: You might contravene the Combines Investigation Act. The way to keep competition alive, is by not letting the other fellow know what the bid is.

Mr. POULIOT: We have it for hard coal, and we cannot have it for—

Mr. GORDON: I beg your pardon. I have not quoted any figures of individual prices from suppliers of coal. All I have given is some general information in regard to the minehead cost of coal, but we have 14 or 15 different companies who quote prices for coal and I have not divulged the name of any individual supplier.

Mr. POULIOT: As I say, it is very easy to calculate the average price of coal bought in Canada and the average price of coal bought in the United States. There is a $17 price being submitted to us for Canadian coal, and you said this morning that the price of coal bought in the United States was $3 or $4. That gives us an idea, and I would like to have the average price of charcoal.

Mr. GORDON: Bought all over the system you mean?

Mr. POULIOT: Yes.

Mr. GORDON: It may very well turn out that the difficulty here is that there is only one supplier and you might by indirection get what you would not get directly. The price of American coal covers a dozen qualities or mixtures and the average price does not mean anything to the supplier making individual offers because there is a wide range of price and quality. I do not mind giving that because it does not affect one individual. This, I think, affects one supplier of charcoal. If there are a number of suppliers, I have no objection to giving the average price.

Mr. POULIOT: Why do you consider it unethical to ask for that information about charcoal and fence posts?

Mr. GORDON: I only consider it unethical to give details concerning one private individual. It would be divulging information which is interesting to his competitor, and the only way we keep competition alive is by having tenders on a competitive basis. Everyone sharpens his pencil and tries to put in the lowest bid.

Mr. POULIOT: The supplier is from Portneuf county, and he sends in tenders and has no chance.

Mr. GORDON: It is a matter of price.

Mr. POULIOT: I do not find it unethical because we are here to get information, and we get big figures and cannot get the small ones.

Mr. HOLOWACH: In the matter of wage agreements, I wonder if Mr. Gordon would be good enough to give us some information with respect to what I have been led to believe is the cause of quite a lot of dispute between employees principally in hotels, namely the split shift system. I understand that various submissions and protests have been made to the corporation drawing attention to the inequity, and I wonder if there was any measure the corporation was considering to eliminate some of these discrepancies caused by that?

Mr. GORDON: I am afraid I could not speak in detail in regard to the enormous number of things which comes before us in connection with these wage agreements. We have about 180 individual wage agreements and each one may contain hundreds of different clauses representing employee relations, and I am not familiar with this split shift system dispute, if there is one, but I will look into it if you will tell me exactly what your are after.

Mr. HOLOWACH: I have been lead to believe that your staff in the Macdonald Hotel in Edmonton has made representations for some time drawing attention to the inequity that is creating.

Mr. GORDON: It may be considered an inequity, but these negociations are going on all the time. There are differences of opinion being discussed all the time, and I really would not feel I am qualified to pick one out of such a mass and deal with it. The proper place for those negociations is between the union representatives and management.

Mr. HOLOWACH: I thought you might care to make a statement on it.

The CHAIRMAN: The next item is: taxes, rents, and other income accounts. Carried.

The CHAIRMAN: Hotel operations. Are there any questions on hotel operations?

Mr. MACDONNELL: Could we have a word about the equipment under 30:

> Because of our increased inventory of freight cars, the net rental paid in 1953 for the use of foreign lines' equipment was reduced...

Would you say a word about your objective in the matter of equipment?

Mr. GORDON: I think if you turn to page number 36 you will see in detail there our inventory of equipment, and you will see the types that have been brought into service during the year, and those that have been retired and so forth. If you look under the column headed "freight equipment" you will see we have substantially increased our inventory of hopper cars, gondola cars, or cars, ballast cars, refrigerator cars. This is the type of equipment which is in heavy demand, and our objective there is, as we survey the composition of our traffic, to provide the kind of rail equipment which will meet the demands of traffic without having to borrow from the United States. Under operations between the two countries our cars are constantly in the United States and they have cars with us. We found over the years that we have a shortage of specific types of cars, and our objective is to relieve that shortage and in that way we save the rent of these cars.

Mr. MACDONNELL: Is it cheaper to own than to rent?

Mr. GORDON: Yes, I think that is so. Again it depends on the volume of traffic, but assuming our judgment is right in regard to the equipment that we buy and we can fully utilize that equipment, we make more money owning it than by renting it.

Mr. HAHN: How does the rate of demurrage compare with rental on cars?

Mr. GORDON: I do not quite see the connection in that question. I could tell you what our demurrage this year was compared with last year, but I do not think it has anything to do with the rental of cars.

Mr. HAHN: Thank you, it will come up at a later time.

The CHAIRMAN: Are there any questions on hotel operations?

Mr. POULIOT: Just a minute. Before that, Mr. Gordon said that the railways are using less coal now. Are they buying more oil?

Mr. GORDON: Yes, we are buying more oil now, as we convert to oil burning locomotives.

Mr. POULIOT: I thought it was evident, but I wanted that to be confirmed by the president.

Mr. GORDON: Very well.

Mr. POULIOT: Now, Mr. Gordon, referring to page 36 of the annual report there are three diesel locomotives mentioned. What is the price of each one?

Mr. GORDON: I am sorry to disappoint you, Mr. Pouliot, but I must ask the support of the committee that I am not required to give individual prices of units. I can give you an approximate price but I should not give you the actual price because again that is a competitive price. However, if you are satisfied with an approximate price I do not mind giving it to you.

Mr. POULIOT: If you cannot give me more than that, I will be satisfied with it.

Mr. GORDON: What particular type did you have in mind?

Mr. POULIOT: There are three electric locomotives listed on page 36.

Mr. GORDON: I do not see 3.

Hon. Mr. CHEVRIER: These are what he wants.

Mr. GORDON: The road locomotives?

Mr. Pouliot: There are four kinds of locomotives.

Mr. GORDON: This is an approximate price and again it has to be understood there are various types of diesel electric locomotives. There is the 660 horsepower locomotive, and it costs roughly—and I am giving it very roughly—about $110,000. The 800 horsepower switching diesel locomotive costs roughly $120,000. A 1,000 horsepower switching locomotive runs around $125,000. The 1,200 horsepower road switching locomotive costs around $150,000.

Mr. POULIOT: Well now, I got in touch with the Montreal Locomotive Works who sent me a pamphlet about diesels. Following the receipt of this pamphlet I wrote to them as follows:

OTTAWA, January 9, 1954.

Montreal Locomotive Works, Limited
Box 1030, Station "B",
Montreal, P.Q.

Gentlemen:

I have received your pamphlet in which you state that thanks to MLW research and engineering, crews of present day diesel-electric locomotives are no longer exposed to the intense cold of Canadian winters. At 50 degrees below zero they can sit in comfortable, insulated cabs, as warm and snug as in their own homes!

Will you please tell me if your diesel-electric locomotives can supply required heat to passenger trains and, if so, for how many passenger cars?

Seasons greetings.

Sincerely,

Jean-François Pouliot.

Now, here is the answer from Mr. Stephen G. Harwood, sales manager of the Montreal Locomotive Works:

JANUARY 22, 1954.

Dear Mr. Pouliot:

This is in reply to your letter of January 9 regarding the heating of passenger trains by diesel locomotives.

Diesel locomotives can be equipped with steam generators to supply heat for passenger trains. Steam generators come in various sizes to supply the quantity of heat required for the number of cars concerned.

We, and other Canadian manufacturers of diesel locomotives, have equipped diesel locomotives with steam generators for use in passenger service.

Yours very truly,

STEPHEN G. HARWOOD,
Sales Manager.

Now, sir, is it practical?

Mr. GORDON: The question of heating passengers from a diesel locomotive is very simple. It needs an auxiliary heating plant to be installed in the diesel locomotive usually using fuel oil. In other words, there has to be a separate boiler installed using fuel oil to heat the water which produces steam and which in turn is piped through the passenger train. It is a separate operation from the diesel locomotive itself.

Mr. POULIOT: Yes, because I have seen them in back of the locomotive.

Mr. GORDON: The operation of the diesel-electric locomotive has nothing to do with the question of heating. Inside the cab of the diesel-electric locomotive they put a heating unit which is quite separate and apart from the main part of the diesel locomotive itself.

Mr. POULIOT: That apparatus is to heat the cab?

Mr. GORDON: To heat the passenger train.

Mr. POULIOT: And to make it comfortable and snug, etc. But now for the passenger trains, there is another big thing, the size of the tender which is supposed to heat the train. I have seen the locomotive heated and that apparatus or machine in the back of the locomotive was about the size of a tender?

Mr. GORDON: That is the older type. You see, the problem of the diesel-electric locomotive in connection with the passenger train is that the diesel-electric locomotive itself does not produce heat. The steam locomotive produces heat as a by-product and the steam heats the passenger train. When the diesel locomotive came into being, the first way of meeting the problem was to put a separate unit which was a boiler unit, separately operated. Now, in the development of the diesel-electric locomotive they have put that heating unit into the cab of the locomotive itself. You see some older style diesels with an extra car behind them, which is the heating unit for it, but later types are designed so that the heating unit is put in the diesel locomotive cab.

Mr. POULIOT: What is the cost of that apparatus to heat a seven-car train?

Mr. GORDON: That is not given separately. The quotations I gave you cover, in all cases, a diesel-electric unit as delivered to the railways.

Mr. POULIOT: Do you remember, Mr. Gordon, that 2 or 3 years ago I spoke to you about atomic energy?

Mr. GORDON: Yes.

Mr. Pouliot: And reserch has made progress since then?

Mr. Gordon: We have been watching it pretty carefully. Its application is still theoretical to a big extent and we feel pretty definitely that the problem of adapting atomic energy to a locomotive is very far from solved. The difficulty is of course that the atomic energy problem among other things involves a safety factor. It will be very difficult to make an atomic reactor safe. When it is built into a stationery plant it is relatively easy to make it safe; but when built into a locomotive safety becomes almost impossible. If we ever had a collision with a locomotive employing atomic energy we might have atomic fission which would result in very serious complications. It is true that atomic energy has been employed in the case of submarines, but there is not so much danger because it is under the sea, and the problems are hardly the same. But apart from that, the problem of using atomic energy in locomotives is, as far as we are able to determine, very far from solution at this particular time, Mr. Pouliot.

Mr. Pouliot: You have made a nice speech about atomic energy.

Mr. Gordon: I beg your pardon?

Mr. Pouliot: I said that you made a fine speech about atomic energy.

Mr. Gordon: No. The only comment I made was one sentence in the whole speech out of goodness knows how many. I said we were not committed to any particular type of motive power, and that the time may come when there will be developments in the future, including the development of atomic energy. Those were the only three words I used relating to atomic energy.

The Chairman: I wonder if we could not get back to the report.

Mr. Pouliot: I have a clipping here from the *Montreal Gazette* of November 13, a resumé of a speech made in Montreal by Mr. Moffat.

Mr. Gordon: Yes.

Mr. Pouliot: And he said:

> The diesel locomotive is one of the most important technological advances in railway history, W. P. Moffat, transportation engineer, Canadian National Railways, last night told the Montreal branch of the Engineering Institute of Canada.
>
> Speaking on the 'Economics of the Diesel-Electric Locomotive in Railway Service,' Mr. Moffat said the railways are seeking an answer to the problem of how fast and to what extent should railways steam power be replaced by diesels.
>
> 'The answer must rest on how quickly we expect the operating savings of the diesel to amortize its capital cost,' he said. The main factor in favour of steam motive power was the high initial cost of a diesel unit which ranges from $100,000 to $250,000, depending on the size and type.

That is much more than you had mentioned, Mr. Gordon.

Mr. Gordon: He said "depending on the size and type."

Mr. Pouliot: But you did not mention $250,000.

Mr. Gordon: It depends on the number of units. You must remember that a diesel-electric locomotive comes in units. You can put two units together and double your cost. I gave it to you in single units.

Mr. Pouliot:

> Offsetting the diesel's initial cost were such factors as fuel economy. Diesel fuel costs ranged from one-third to one-half those of steam power.
>
> There was the greater availability of diesel motive power which

reduces the number of locomotives required. 'Diesel locomotives in road service should average about 85 per cent availability, while in switching service the percentage should be 90 or more. Steam locomotives rarely have an availability greater than 65 per cent,' he said.

Diesels can be operated at a 25 per cent reduction in repair costs and about 30 per cent in servicing, he noted.

I just wanted to put that on the record.

Mr. GORDON: I am glad that Mr. Moffat agreed with everything I had said.

Mr. POULIOT: That is probably so. Otherwise he would have been fired.

Mr. GORDON: Touché.

The CHAIRMAN: Mr. Pouliot, I think we are getting away from the report entirely. We have listened for a long time to this discussion, which is very interesting, about atomic energy and so on. But we are supposed to be dealing with hotel operations. There will be time later on in the report when these matters may be relevant. But I can see no relevancy right now to the matter of hotel operations.

Mr. POULIOT: Thank you for the ray of hope which you have given me. Could we not now deal with the matter of hotel operations, if there are any questions.

Mr. KNIGHT: Would I be in order to discuss dining room operations?

The CHAIRMAN: I think the matter might be dealt with further on, at page 12 under "Freight and passenger equipment".

Mr. KNIGHT: It is not the equipment I am interested in, but the expenditures and revenues and so on.

The CHAIRMAN: Well if Mr. Gordon wishes to have it now I think there would be no objection to our discussing it under hotel operations.

Mr. KNIGHT: Well, Mr. Chairman, my question would be directed specifically to the matter of dining car operations. I recall the background in last year's discussion. You will remember that Mr. Gordon had reported that we were losing money on each meal served in the dining cars and it was a question of how that situation could be remedied. Mr. Gordon I think stated it should be met but that it was not his business to subsidize meals in the dining car; and his remedy at that time appeared to be to go ahead and try what he had already done, namely raise the price of those meals.

There was this suggestion and I think Mr. Gordon said they were giving study to a type of buffet car perhaps where meals could be given more cheaply. My whole anxiety is about that particular subject because it will become of greater importance. It is already a matter of tremendous importance to the individuals who make up the travelling public. I would like to know to what extent there has been any amelioration in that situation?

As I see it, the important thing about the dining car service is the number of people who use it; and in this country, above all countries, where you have a five or six day and night travel across the country, it is vitally important that people should be going to those dining cars in flocks, not only from the 1st class, but from the coaches as well. I might say: Who am I to advise Mr. Gordon? But if you could create in the public the same enthusiasm over using your dining cars as the British railways have created it in the United Kingdom in getting their people to go to the dining cars for afternoon tea, you would have this problem solved.

My suggestion last year was that we have some sort of car where we could cut down the expense and the very high cost of labour and some of the frills, and serve a meal without too much ado and at a uniform price, and encourage people all through the train to eat when dinner time came. If there is one thing I feel ashamed about when I travel on our Canadian railroads it is to see some poor woman with three or four children get on the train at Halifax or goodness knows where and go into the dining car—and sometimes it makes me sick; I cannot buy meals for them—but you will see them "scrounging" about their menus and trying to get something cheap enough to eat and then perhaps buy only a glass of milk for the kiddies while the mother will go back without eating anything herself at all. I realize that is not altogether the responsibility of the railroad but I feel something should be done about it. I noticed under "hotel operations" that with those stationary units you were able to make some money, and that the expenditure on such stationary units was a good investment. I did suggest last year something like a buffet car with a uniform meal. I am going to make this suggestion which was offered to me by a man who had done a great deal of catering for the railroad in a certain capacity. His suggestion was: If we cannot have meals on wheels, then why can we not have stationary meals?

Would it not be practical to have places where the trains are going to stop anyway for 20 or 30 minutes to be serviced in the usual way, and to have some of your units there where, on certain lines, you could say to your people: there is going to be a 30 minute stop for dinner or a 45 minute stop for breakfast or whatever it may be.

I have come to the end of my speech and you will be glad of that. But let me ask you what success there has been with the experiment which Mr. Gordon has made with those buffet cars? I notice on page 36—if "cafe cars" means the same as buffet cars, and I imagine it does—that there were 20 in existence as of January 1, 1953, while at the end of the year there were only 19 in existence. That is a bad score. Now could I ask the question: how many of these buffet cars have been put on and what has been the result of experiments with them? Secondly, is the company losing as much per meal as it was a year ago, when Mr. Gordon reported to us? Next, have the number of meals served increased or decreased over that period? My own opinion at the time was that Mr. Gordon was going to price himself out of the market, even further than he was priced out of the market a year ago, and I am wondering if that has been the general result. Of course I know there has been a percentage decrease in the amount of traffic, and that is going to have an effect, but I am quite sure it can be figured out on a percentage basis. I have to ask for forgiveness, Mr. Chairman, for a bit of a speech, but I think this is a vital thing to the people of Canada. We, the people of Canada, own this railway and should be able to eat there and eat reasonably. The only people who are buying meals today—and I have watched it fairly closely—are the people on expense accounts, and those expense accounts are charged to the general public in any case, or else they are members of the armed forces who, quite rightly, get their expenses paid at the expense of the country; but I think that the public of this country are paying most for the few meals that are eaten in the dining cars today and that the general public, who pay the taxes, go hungry until they get home and then they say, "Thank God I am home and I can get a meal at a reasonable price".

Mr. POULIOT: The best meal is the breakfast.

Mr. KNIGHT: I would like some information.

Mr. GORDON: I think I can reply to you in a general way. Firstly, if I had not known better, I might have suspected that you had been listening to a staff meeting in the Canadian National Railways dealing with this very problem, because there is not a single point you have raised that has not been batted back and forth by all those concerned in the Railway, who are just as anxious as anybody could be to find a solution. We have done a great deal in the matter of reducing costs, but unfortunately I have to say to you once again that for every step that we have taken forward we slip back one in the matter of wage costs. We started 2½ years ago, and we cut about $850,000 out of our operating costs in our dining car services, and immediately lost just about the same amount in the wage increases that we had to recognize. That is point No. 1. The second point is that when it gets down to the cost of meals we cannot be responsible for the cost of the materials we buy. That is a question of fact. The operating cost is another matter as is the question of type of service. If I may say so, I think there is one solution, and that lies in the buffet car. What I have in mind is the experiment we are about ready to try in the use of what we call "Dinette" cars. The dinette car is being organized almost on the basis of a soda fountain. I have a picture of it right here. We have six of those cars on order. They cost a lot of money and take a lot of time to build, about 1½ to 2 years, so it takes time to get this programme going. The cost of that car would be, roughly, $250,000, so that when we commit ourselves to buying these we have committed ourselves to a heavy expenditure, and at that we only have enough to provide them on an experimental basis. The dinette is designed to try and reach volume traffic, to try to encourage the coach passenger to come in and patronize our dining car services. One of the things we have to know more about is the staff problem that this innovation will produce, because we hope to make the service of meals practically continuous, and we hope to encourage volume traffic by low-cost meals. We have done a lot of work in that respect. We have gone thoroughly into the question of frozen foods, and I thought we might get somewhere with that, but we found that by reason of operating conditions and various other matters there are no savings to be effected in the use of frozen foods. We have gone into such things as the removal of table linen. Well, we get a very conflicting reaction because, while it is true, as you say, that the gentlemen who travel on expense accounts do not mind paying higher prices, they will not do so unless they get table linen and hotel service. We have therefore decided that we would have to abandon that idea altogether, particularly in the face of competing transportation. It is not any easy problem.

Mr. KNIGHT: We would be better off if less money were spent on that.

Mr. GORDON: Yes, but we must remember that the dining car service is a service and we will not sell transportation to the luxury-minded traveller unless he gets the kind of dining room service he insists on getting. We have invested a huge amount of money in deluxe sleeping car accommodation and the type of traveller who uses this simply demands dining room service. You may have the notion that it is a lot of nonsense having table linen, napkins and flowers, etcetera, but nevertheless if we want that fellow's business we have to have those. We really have to ask ourselves how much loss we can afford on dining car services for the purpose of attracting this kind of traveller to the trains. If we do not provide certain service, he will not travel on our trains.

Mr. MACDONNELL: He will not come on the train at all?

Mr. GORDON: That is right. There are other people prepared to provide that service for him. We are competing not only with the Canadian Pacific Railway in Canada, but we are competing with American railways and they will provide that service. If we do not, we take the position of being a third-rate railway and people will not travel with us. As we say, we are very conscious of the intriguing possibility of getting volume traffic by attracting the coach passenger. We think, that is the answer but it will be the fall of this year before any of those cars are ready. Might I say that they require 18 months or two years to build, and even then we will have to see what kind of public acceptance they get. We have gone into all sorts of questions, including plastic tableware, for instance. That was a complete failure and we had to give it up. The public would not stand for it, and besides it did not stand up under the kind of treatment it gets in service. We considered food dispensing machines and we surveyed the American companies, but the net result of our efforts was that our system's financial results for 1953, taking earnings and expenses, showed us a loss of $1,028 thousand in 1953, as compared with $1,012 thousand in 1952. The average revenue per meal in 1953 was $1.68, and the average expenditure per meal was $2.27. The average loss per meal was, roughly, 60 cents.

Mr. KNIGHT: In 1953 or 1952?

Mr. GORDON: In 1953 the loss per meal was, roughly, 60 cents, and in 1952 it was 55 cents.

Mr. KNIGHT: In other words the situation financially is getting worse? You have no doubt studied the European and British systems. Of course, I know the comparison is not fair because the food is so much cheaper there and labour costs are less but after all you can get a good clean breakfast on the plane for three shillings, which at the present rate of exchange is 45 cents in our money.

Mr. GORDON: Did you ever, at the same time, compare general labour costs with Canadian?

Mr. KNIGHT: I prefaced my remarks by saying that the comparison was not fair, but the ordinary meal at about 7s.6d. is a good three course lunch.

Mr. GORDON: What you are doing is contrasting the standard of living in the United Kingdom and Canada, and I would suggest to you that there is nothing in this particular subject of dining room costs which is out of relation to other costs in Canada. We are a high cost country, let us not fool ourselves. There are a lot of things in which we are not able to compete.

Mr. KNIGHT: I am going to suggest too if you could get more customers you could reduce your overhead.

Mr. GORDON: I quite agree. That is what we are trying to do. The problem is, on the one hand if we try to save expense by cutting the standard of the service on the other hand we lose the customer.

Mr. KNIGHT: Is that a supposition?

Mr. GORDON: No. A man who leaves Montreal for Vancouver may travel by Canadian National; he may travel by Canadian Pacific; he may travel by one of two choices of American railways. He is travelling on an expense account or just happens to be a wealthy Canadian and likes comfort. He has three choices. If our car does not have the kind of deluxe dining car service he wants, he will pick the other train every time.

Mr. MACDONNELL: And that saves you a loss.

Mr. GORDON: Yes, but the trouble is we cannot abandon our overhead. The car is sitting there idle.

Mr. KNIGHT: With the consideration you have given this matter over the last year can you see any daylight?

Mr. GORDON: Yes. I have hopes for these dinette cars and some hopes in respect to a further simplification of menus. I believe—although you get the most varied differences of opinion on this subject even from our own dining car officials—I believe we can simplify the meals and that the passenger would be satisfied with two choices instead of three or four. But, again you get these fellows with the big bays and they must have their steaks.

Mr. KNIGHT: The method in England is that a chap comes around with a tray with three choices and says will you have the fish or chops, and that is the way they do it.

Mr. GORDON: I would be very glad to let you have a copy of a study showing why the English system would not work here. We have had officials examine it and analyse it.

Mr. KNIGHT: You agree that this is a very important subject?

Mr. GORDON: Yes. A loss to me of a million dollars is always an important subject.

Mr. POULIOT: There are the nice baskets that they bring you in the French trains.

Mr. GORDON: Yes, I have seen them. I have been on French trains and envied them. In any comparison you have to take a good many things into consideration. The runs in France are comparatively short, they do not have a four or five day run, or the difficulties in respect to extremes in climate and other things. The handling and keeping of food is a terrific headache in operating a train in Canada as compared to the U.K. and France. There is hardly a place there where an overnight run or a one day run would not get you to your destination there. That is the reason there are many things they can do that we cannot under our conditions.

Mr. KNIGHT: Do you think that there is anything in the idea of having a place where you stop and people get out and eat? It will be cheaper. We know you can get out in Winnipeg and eat for a dollar or 85 cents.

Mr. GORDON: There is the problem of peak load. If we set up facilities for a twenty minute stop, and the staff of the restaurant work their heads off for twenty minutes, the overhead necessary to service this rush would result in a substantial loss for the whole operation. In addition, we are fighting time always, and while there may be a twenty minute stop—

Mr. KNIGHT: I am not speaking at the moment of a place where the business of the restaurant would depend on the travelling public, but a place like that restaurant in Winnipeg where if you are hungry you can have an 85 cent meal and there is quite a trade around there.

Mr. GORDON: There are some such places.

Mr. MACLEAN: I have one question. It seems to me that a lot of people who take a trip of a couple days figure out their railway fare, berth, and add to that the cost of the meals, and the cost of the meals seems to be the deciding factor, they face the cost of perhaps six meals, and then they decide to go by air. If a system of dinette cars could be provided that would provide cheaper meals, would it not be that you might recover considerable of the trade you are now losing to the airlines?

Mr. GORDON: We hope so, but we cannot tell until we find out how the dinettes work. We have been studying this problem now to see what schemes might be worked out to put us on a good competitive basis. In this whole question there is the element of loss in the operation of a dining car which can be justified in terms of the traffic which it attracts. What we have to decide is how much we are willing to put up in a service to attract the other remunerative traffic on the train. If we are able to work out some system of an all-in fare then I think we can at least get on a fair competitive basis with the airlines and buses.

The CHAIRMAN: Shall the item "hotel operations" carry?

Mr. HOLOWACH: Mr. Gordon, during the past year we have read in the newspapers of certain changes which have been made in various hotels as far as the personnel management is concerned. What are the factors which govern the promotion or demotion of such persons, and have any of the ones that have taken place recently been of a disciplinary nature?

Mr. GORDON: Of what nature?

Mr. HAHN: Disciplinary.

Mr. HOLOWACH: Have these changes been promotions or demotions?

Mr. GORDON: It depends entirely on the circumstances. I would say, as a general rule, if I might put it this way, each of the hotel personnel is covered by wage agreements and they bid in for positions and are awarded the positions based on their seniority. We are not free to move our personnel or promote them. We have to recognize the bargains we made with the unions. Personnel who are not scheduled personnel would be promoted or demoted, as you call it, depending on the services of the individual and the judgment of management concerning the services of that individual.

Mr. POULIOT: The meals, Mr. Gordon, must be monotonous on account of the stubbornness of the steward who makes the requisitions for the food.

Mr. GORDON: The steward is not responsible for the menu or the food served. That is a matter of supervisory policy starting with the supervisor of the dining room car department.

Mr. POULIOT: I do not know who is responsible for them, and it is a minor matter, but as you have said that you try to please your customers I will relate a personal experience. You will agree that melted cheese is a frugal course, not well served, just plain melted cheese. I was travelling on the train with one of my colleagues and we ordered melted cheese. The steward said "impossible"! "Why?" my friend inquired. The steward replied, "The cheddar is like stone, and I have never ordered soft cheese for 30 years, since I have been on the train." Such stubbornness! He made the requisition and he did not want any soft cheese. That was a very frugal meal, and we could not get it.

Mr. GORDON: All I can say, Mr. Pouliot, is that you seem to have the most unusual experiences on your train rides! Every trip must be an adventure!

Mr. POULIOT: Oh, Mr. Gordon, I am only attempting to give you correct information, and I will tell you something else later, too.

The CHAIRMAN: The next item is property investment account.

Mr. HAHN: Mr. Chairman, before you leave that, I would like to know what comparison in the price of meals we have, let us say, with the Great Northern or the Union Pacific in the United States?

Mr. GORDON: I can get you such a comparison. I have not got it available here.

If I might, Mr. Chairman, perhaps we could put this on the record and clear up one point. Up to the end of 1953 there were 769 steam locomotives assigned to the western region. 329 were converted to oil at the end of 1953, and an additional 92 are to be converted in 1954, making a total of 421.

Mr. HAHN: Thank you very much, Mr. Gordon.

The CHAIRMAN: The next item is property investment account. Are there any question on that item?

Carried.

Mr. MACDONNELL: No, Mr. Chairman, I think there should be a word on that.

The CHAIRMAN: All right, Mr. Macdonnell.

Mr. MACDONNELL:

36. As shown on page 30, expenditures during the year on additions and betterments, less the book value of property retired or transferred, amounted to $124,909,493, of which $79,440,264 represented net expenditures on equipment.

37. Major improvements to road property are dealt with under appropriate headings in the next section of this Report.

Mr. GORDON: I would suggest this, if I may, that questions on property investment account could be covered in detail in the capital budget when we reach it. If you prefer to deal with it now, that of course could be done, but when we come to the capital budget it will deal in detail with equipment and expenditures on additions and betterments and all capital expenditures and you will have the comparison between 1952 and 1953. The figures will be there. This is just a table.

Mr. POULIOT: If railway yards do not come under this, we could talk about it later?

Mr. GORDON: Yes.

Mr. POULIOT: Thank you. Should we now adjourn?

The CHAIRMAN: Is there a motion to adjourn until 8.30 this evening? Carried.

EVENING SESSION

The CHAIRMAN: Gentlemen, I see a quorum. We have now reached the "Review of Operations", and the first item under that is "Operating Performance". Shall that carry?

Mr. GILLIS: Just a minute. I wonder, Mr. Gordon, under this first item here, "Operating Performance", if you might care to tell us something about your difficulties with the Drummond colliery at Westville, Nova Scotia. I ask you to tell us your side of the story because I have seen at least three conflicting statements in the press—breach of contract, faulty coal analysis, discrimination, and so forth—and the matter is still in the air as far as the press is concerned. What is the position at the present time?

Mr. GORDON: I think I can start off, Mr. Gillis, by handing you a piece of alleged coal. I do not think you need to be at all expert to assess it. The situation is very simple. We made a contract with the Drummond people to supply us with a certain amount of coal, and under our regular practice the quality was specified, and we stood prepared to accept delivery of the coal as it came to us. I understand that the new operator did not quite apply to the coal business the same detailed management as his predecessor, and apparently he assumed that anything that was black was coal. We found in no time at all that the quality of coal coming into our hands was so bad that our operating officers complained to the point that we had to refuse to take delivery of it. In other words, it did not live up to our specifications, and they were delivering to us a type of coal which was closer to stone. It is not coal at all. It just does not burn, and it was so bad that it would not even pass through the fireboxes in the locomotives. It reached the point where it interfered with the operation of the locomotives, and it was useless. We, therefore, had to say, "We cannot accept delivery of the coal unless it lives up to our quality specifications, and that is all there is to it". We did not break a contract. All that we did was to require that the contract be lived up to in terms of quality. When I saw the press reports you referred to I got these samples, and if anybody can allege that that is coal, then we do not know anything about it. It is not coal; it is black stone.

Mr. GILLIS: It would not be all in that condition?

Mr. GORDON: No, but the point is that under the old management that sort of thing that you see in front of you was picked out and screened, and under the new management it was not. Everything came right into the flow of the coal as if it were coal, and the selection and picking out which had gone on before was discontinued, and so when it was delivered to us we had the difficulties that I speak of. Actually the heating power of the coal was such that it could not even move the locomotives from one coaling point to another, and it was on the complaint of the operating officials, that the coal just would not function, that our purchasing department was obliged to require that the specifications under the contract be lived up to. As I said earlier today, we are much more lenient with Canadian mines than we are with the United States coal mines, but even with a wide margin of leniency it got to the point where the coal just would not operate our locomotives.

Mr. GILLIS: The position now is that, providing they can meet your specifications, you will still provide a market?

Mr. GORDON: Absolutely. The contract is there and we will live up to it.

Mr. GILLIS: What about the difference in the analysis of the coal, like BTU values, ash and so forth? You people took an analysis, the provincial government had one made, and also the operator, and they were all different.

Mr. GORDON: I understand that on the examination made after the dispute arose, all concerned agreed that our analysis was correct.

Mr. GILLIS: I just wanted to get that information.

Mr. GORDON: I am glad you raised the point, because there has been a good deal of misinformation, if not misrepresentation, about our position, particularly on the point that we broke a contract. We certainly did not break a contract; on the contrary, we are requiring that the contract be lived up to.

The CHAIRMAN: Shall the paragraph carry?

Mr. POULIOT: Before it is carried, I would like to mention some remarks made by Mr. Dingle about atomic-powered trains, in "The Gazette" for October 16, 1953, as follows:

> Atomic-Powered Trains on Horizon, Says S. F. Dingle
>
> Shawinigan Falls, Oct. 15—The transition in motive power from wood burners through steam to diesel was hailed here today by S. F. Dingle, vice-president of operation, Canadian National Railways, as evidence of the continuing progress made by railways to keep abreast of changing conditions.
>
> Speaking before the Rotary Club here, Mr. Dingle said the railways are constantly adapting themselves to meet the changing requirements of the nation. The strides made in motive power development will continue and already the possibility of gas turbine and atomic-powered locomotives has appeared on the horizon.
>
> Mr. Dingle singled out the C.N.R.'s management training plan as the most significant of recent business practices adopted by the railway.
>
> The plan was "tailor-made" to the railway's own requirements for supervisory personnel, he explained, and was evolved after lengthy discussions with experts in management education—

I understand that Mr. Dingle spoke with authority, and if I remember rightly, Mr. Gordon made a similar speech about a month before that. My point is obvious. It is: Why spend so much for diesel locomotives when you may change them at any time for atomic energy?

Mr. GORDON: I will be glad to answer that question. What I said about any form of alternative motive power is this: that the Canadian National

Railways are not committed to any particular type of motive power. We do not say that the diesel locomotive will be the last word in motive power, but we say this, that the diesel locomotive at the present time is the most efficient form of motive power for our requirements, and we, therefore, have a program to turn over to diesel electric locomotives based on the savings which we can accomplish. Under it we will write off the large capital cost involved in a period of not more than 10 years. Therefore, because we have a 10-year yardstick in regard to the diesel locomotive, we are satisfied that any new type of motive power which is foreseeable now will not become a practical possibility before we have written off our diesel investment. In other words, we are taking a prudent look, a careful and cautious look, at our capital expenditures to make certain that we do not get committed to a change-over and then suddenly find a more suitable alternative has been developed. We are sure, that whatever may come, whether it is a gas turbine or atomic or hydrogen powered, or anything else, before it can become a practical possibility the capital that we have committed to the diesel will have been written off.

Mr. POULIOT: I understand it, and I understand very well what you say. I am not in a position to discuss it with you, and no member of the committee is in a position to discuss it with you because we have no specified data about the prices. I do not know; everything is approximate. If there is a locomotive that hauls a passenger train from Montreal to Halifax at a speed of 60 miles per hour it must be an asset. It is unquestionably an asset and to put those locomotives aside and put them in the locomotive cemetery would be wrong. What is the value of each one in money? We do not know what is the value of the others in money? We have only approximate figures. It is not possible to discuss it.

Mr. GORDON: I am sure you would not want to be unfair with me. I have told you the cost of the diesel electric units in approximate figures, and I tell you I have given those in round figures because there are three manufacturers in this country who manufacture diesel locomotives and I do not want to give exact figures. The figures I have given you are accurate to a few thousand dollars one way or the other. The principle we are discussing is not changed by a few thousand dollars. When you get a unit that costs $125,000 it does not matter very much whether it happens to be $127,509 or $124,509. We can tell you the cost of oil, steam and diesel locomotives. We cannot tell you the cost of an atomic locomotive because none exists and we have no idea in the world what it will cost, nor what a practical gas turbine would cost us. There are none being offered, nor any companies building them. They are purely in the experimental stage, but if there is developed a practical locomotive—and what I mean by that is not only a locomotive than can work, but a locomotive that is produced at a cost which makes it possible for us to accept it; and if there is a practical locomotive powered by gas turbine, oil fired, or coal, or whether atomic energy, then we say that we are satisfied in the present state of experimentation that it will not be produced as a commercial possibility until such time as we have written off the capital cost of one diesel locomotive. If we save enough with diesels, to enable them to be written off in ten years or less, then we have not made an imprudent expenditure because we will be in a position to take advantage of new motive power when it becomes available.

Mr. POULIOT: What savings did you make last year by turning over to diesel locomotives?

Mr. GORDON: On the basis of the five year program to which I made reference and which commenced in 1951, our estimate is that at the end of 1953 we had achieved savings of $19,035,000.

Mr. POULIOT: On what total expenditure?

Mr. GORDON: On a total expenditure of roughly $51 million as at 1953. When we have completed the five year program we figure we will have spent $80 million all told and out of that we figure savings of about $60 million.

Mr. POULIOT: In five years?

Mr. GORDON: In the cumulative period of five years, yes. Let me put these figures more simply because what I was overlooking is that in addition to the program which we started in 1951 there had been previous expenditures on diesels. As at the end of 1953 we had spent $80 million on our diesel program and by reason of those expenditures we had made accumulated savings up until the end of 1953 of over $60 million.

Mr. POULIOT: What were those savings, a difference between the cost of oil and coal?

Mr. GORDON: It would cover the cost of fuel, it would include the cost of operation, and the fact that you make much better utilization of a diesel than a steam locomotive and you can work a diesel with less maintenance than a steam locomotive, and all the other factors which go into the economical operation of diesels. If we had taken care of our traffic with the steam locomotives during the period I mentioned instead of diesel locomotives it would have cost us $60 million more to handle that traffic. Those are the accumulated savings over the five year period. I do not want, however, to leave the impression that we will get savings at that rate in regard to the rest of the diesel program because obviously when we started the earlier part of the program we used the diesels where they would affect the largest savings and as we continue the program they will be used in roles which do not produce such large savings.

Mr. POULIOT: To conclude this point, I would like to pass over to you two very good articles by Eric Dennis of the Halifax Chronicle Herald about coal firing turbines. If you do not mind I will give them to you. This gentleman is one of the brightest members of the press gallery.

Mr. GILLIS: Mr. Gordon, while you are still discussing the gas turbine, the price has led a lot of people in this country to believe that the coal burning turbine engine is a possibility within the foreseeable future and it has been suggested that you might slow down your diesel program east of Montreal in order to determine just what value this is going to be to the coal industry. I have said that that new gas turbine, as I have seen it in Montreal, is at least two years away from the blueprint stage and is at least 10 years away from any commercial value?

Mr. GORDON: Then you are a realist, Mr. Gillis.

Mr. GILLIS: I would like to have your opinion on it.

Mr. GORDON: I would not want to be dogmatic on this. After all, this particular locomotive is a mechanical development which is in research stage. Now, there are all sorts of bugs in it. If we get technical, I do not pretend to be an expert. Overnight, however, someone may solve one of the bugs, but at the moment there are many technical problems for which we cannot see a solution in the immediate future, particularly in relation to the heat and fly ash. But some bright fellow tomorrow may discover the solution and may advance the day of the gas diesel, whether it is oil fuelled or gas fuelled, by five years. All I say at the moment is that we do not see it and are satisfied that our dieselization program is a prudent one in the sense we are only going on with it on the basis of writing off, through savings or other efficiencies, our capital cost over a period of 10 years. So even if the bright genius I mentioned did arise overnight with a solution, by the time it got into the blueprint stage and into the production, we will be in a position to welcome the advent of a new motive power.

Mr. GILLIS: Even if the genius did bring it about within the next year or so, would that turbine engine be interchangeable in the diesel engine you now have in that locomotive ?

Mr. GORDON: That is a question I cannot answer except that the manufacturers of diesels tell us that the container or body in which the diesel engine is located would still be useful in regard to a turbine engine but we do not know because it depends on what is actually found to be the case. We believe we perhaps could get some salvage out of it. But we cannot tell and we are not counting on it. What we are counting on is writing off the diesels in 10 years and we will then adjust ourselves to the new developments as they arise.

Mr. GILLIS: You do not think a suggestion to slow your diesel program down waiting for the turbine is a practical proposition?

Mr. GORDON: No, I do not think so. I think if we do we would be without the immediate benefits of the diesel for what is only a speculation at the moment. We cannot rapidly turn over to a new motive power if it is a major one. On any basis at any given point of time we will not be completely dieselized or completely gas turbined or what not—there will always be a time lag. If the gas turbine becomes possible within 10 years, we will gradually adjust to it. We are not fully dieselized on our present program. We believe from our knowledge of our business, although the manufacturers do not agree with us, that the steamer has a place. There are certain types of traffic where we feel from an economic standpoint we can use it. They might disappear in 20 or 25 years, I do not know; however, we are not going all out for diesel because Canadian conditions are such that we believe there are some places where the steamer can still be used to the best advantage.

Mr. GILLIS: Would you say there is an economic market for maritime coal between Montreal and Sydney providing they can give you quality and price?

Mr. GORDON: Yes.

Mr. GILLIS: There is one there now?

Mr. GORDON: Definitely. As a matter of fact, what I say to you right now is that on the basis of price, if they can meet the required prices we will take all the coal that the mines can produce not only in the maritimes but elsewhere. We are burning more coal in the central region right now than the eastern Canada mines can supply us with.

Mr. GILLIS: Can you give us a rough idea of the gap in price they have to close?

Mr. GORDON: As I mentioned this morning, if you start with the minehead cost you will find the cost of American coal is less than half of Canadian, and when you weigh the American coal with all its disadvantages such as freight rates, the duty and possibly exchange, it will still displace Canadian coal up to a point. If you took Canadian coal and produced it at an American minehead price, I think we could take Canadian coal in competition with American. That is the difference. It is not the freight rate. The freight rate is a factor, but the essential point is the minehead price which, as I say, is more than double in the Canadian mines.

Mr. GILLIS: We cannot get our costs down with the American cost. Theirs is a completely different type of mining. I am trying to get an idea how much money we should ask the government for.

Mr. GORDON: If the payment that is made will make the Canadian coal competitive at the consuming point then the Canadian National Railways will be able to buy all the coal that the eastern Canadian mines can produce provided that it is of the quality that we can burn in our locomotives properly. If it meets the specifications we have in regard to quality they will have no difficulty selling coal to us.

Mr. MacLean: Mr. Chairman, what are the economies that accrue from the conversion of locomotives in the west from coal to oil burning and roughly how long does it take to write off the cost of conversion against savings?

Mr. Gordon: I am sorry but I have not got the exact figure here and I like to deal in exact figures. But I can tell you that we propose to write off the cost of converting the coal-burning steamer to an oil-burning steamer on the average in less than 5 years. In all events we know that it is definitely a shorter period than the diesel write-off because naturally we are watching to see that we do not get caught on dieselization versus oil-burning. I will give you a more correct figure when I am able to get it, but it is around 5 years. I am speaking from memory.

Mr. Fulton: You used the phrase: We can write-off diesels in 10 years. I take it you meant by that that you could write-off the cost of converting to diesels in 10 years. You did not mean that the diesel itself is written off in that time?

Mr. Gordon: It is the capital cost of the diesel that is written off.

Mr. Fulton: But the life of the thing is not known?

Mr. Gordon: We do not yet know what the life is. But we are basing our program on the idea that wherever we put diesels in service it must produce a savings or economy in one form or another that will write off the capital investment in a period of 10 years.

Mr. Macdonnell: It pays for itself.

Mr. Gordon: It pays for itself in 10 years or less.

Mr. Fulton: You are a competitive line. You have to be. And I presume you have more locomotives than the Canadian Pacific, have you not, with which to operate your system?

Mr. Gordon: I think so. Is that the Canadian Pacific report?

Mr. Fulton: Yes, but it does not give the number of locomotives. It says:

> A further step of importance in the modernization of your railway service: a total of 73 diesel-electric units were acquired.

You acquired 110 diesel units. Would that be about a rough comparable proportion, do you think?

Mr. Gordon: I am glad to see this because I had not seen a copy of the Canadian Pacific report. As far as I know it is not issued yet. This is the official Canadian Pacific report?

Mr. Fulton: It was in an issue of Saturday Night to which we subscribe. The issue was dated April 3. It is the new one.

Mr. Gordon: Oh, it is a forecast.

Mr. Fulton: It is the Canadian Pacific Railway's 73rd annual report.

Mr. Gordon: I confess that I find it an interesting example of co-operation for Saturday Night to get a copy of the Canadian Pacific report before I get to see it. Last year's figure was what?

Hon. Mr. Chevrier: Mr. Macdonnell should not complain in the House that he is not properly serviced. I think this is excellent service.

Mr. Gordon: I had been trying to get the Canadian Pacific report.

Mr. Fulton: I do not want to create a company incident. I just happened to subscribe to Saturday Night.

The Chairman: You must have an "in" with Jack Kent Cook.

Mr. GORDON: It was a chance to twit my friendly competitors and I thought I should not miss it on this occasion. The last information we have is in the 1952 report—which showed 292 diesel-electric units in service against 395 in the Canadian National Railways. And this year they have 73 against our 110. So relatively, it would be about the same proportion.

Mr. FULTON: I suppose that if it is producing results for the one railway, it can be expected to produce decent results for the other?

Mr. GORDON: Yes. I understand that they are basing their dieselization program on a regional basis whereas we have decided to do it on a service basis.

Mr. FULTON: You still have to compete with them?

Mr. GORDON: Yes indeed.

Mr. FULTON: And if they find it enables them to operate more cheaply, they could undercut you unless you kept pace with them?

Mr. GORDON: There is no doubt about that and they have the same problem of making their costs as we have.

The CHAIRMAN: Can we take the next item now, "Freight and passenger equipment"?

Mr. MURPHY (*Westmorland*): Mr. Chairman, in paragraph 10 about the 3rd line down, I read:

> . . . the modernization of 14 units of older equipment in our shops made a modest contribution to improving the accommodation available to the public.

Could you tell me if any of the modernization or rebuilding of those units took place in the shops of the Atlantic region at Moncton?

Mr. GORDON: I wonder if Mr. Dingle could answer that question for you.

Mr. DINGLE: There were some built at Moncton, London, and Point St. Charles.

Mr. GORDON: Yes, Moncton, London, and Point St. Charles. It was divided between them.

Mr. MURPHY (*Westmorland*): Could you give me an idea, perhaps tomorrow?

Mr. GORDON: We shall make a note of it and supply you with the answer tomorrow.

Mr. MACLEAN: You are putting a new type of sleeper into service. It contains more rooms and some berths?

Mr. GORDON: That is right and it is called the 4-8-4 type.

Mr. MACLEAN: About what number of that type of car will be in service?

Mr. GORDON: 52 of these will go into service, we hope, this year. There is an interesting booklet we have released which you might find helpful. It describes all these types of cars. Deliveries on the coaches are well in hand now and these other deliveries we think will be completed about the fall.

Mr. MACLEAN: Perhaps you would not mind answering this question: Is it your intention to have one of them on the run from Montreal to Charlottetown? There is one car that goes on that run.

Mr. GORDON: I do not know if I can give you the details. But as the cars come into service, we propose to spread them out. I have before me a tentative schedule in regard to that. Which type did you have in mind?

Mr. MACLEAN: I think it is a sleeper anyway, one with the roomette.

Mr. GORDON: We have a tentative plan here as to how these cars will be distributed in the various services, but it is purely tentative and will depend upon actual deliveries. Which run are you interested in?

Mr. MacLean: Montreal to Charlottetown. One sleeper goes through each day.

Mr. Gordon: I do not think we have the details here.

Mr. MacLean: The reason I ask is: There has been a news report in the press last December I think that such a car would be brought into service in January.

Mr. Gordon: January of this year?

Mr. MacLean: Last January, yes.

Mr. Gordon: There are four of these cars going into the Sydney to Montreal run but I cannot tell you exactly when. It will depend on the deliveries as they come through.

Mr. Fairey: Might I ask a question, Mr. Chairman?

The Chairman: Certainly.

Mr. Fairey: I do not know whether this question should come at this point, but with this modern equipment is it not possible that the running time could be reduced between Montreal and Vancouver? I understand that the American railroads have reduced it, certainly on the run from Victoria to Chicago, and that they are doing it in a good deal shorter time. Is there any truth to the rumour that you propose to reduce the time of service?

Mr. Gordon: Well, I find it very difficult to keep up with the rumours that go around about the service. Also I find it very difficult to keep anything secret. It is perfectly true that—both railways have been studying carefully the transcontinental schedules from the standpoint of seeing how we could substantially reduce the running time from Montreal to Vancouver. At the present time, from the study that we have made, bearing in mind our obligation to serve intermediate points, it appears that we would have to add very substantially to our capital costs to produce any real saving in time. Indeed, it would almost require an additional train at a capital cost of $2 million or more to improve that service. Therefore, all I can say to you at the moment is that we have to convince ourselves that this kind of reduction in time between Montreal and Vancouver would produce a type of traffic which would justify our committing that large amount of additional capital. The matter is under very earnest study, however, and at this moment I would forecast that we will reach some sort of compromise that will reduce the running time from Montreal to Vancouver. But it all becomes a matter of cost. We can reduce the running time all right. There is no question about that. But to do so would cost a good deal of money both to meet operating expenditures and also in capital costs to provide the extra train that might be necessary because of an obligation to serve intermediate points.

Mr. Fairey: You know there is a strong rumour that the Canadian National could do it but the Canadian Pacific could not.

Mr. Gordon: If you are referring to the old story of a general agreement between the Canadian National and the Canadian Pacific about running time, let me say there is nothing to it at all. What hurts our schedules is the regard which passengers have for arrival times. Most passengers insist in arriving at main cities at reasonable times. They do not like getting into them at 3.00 or 4.00 o'clock in the morning. But if we could disregard our times of arrival at the main centers we could cut our time very substantially right now.

Mr. Fulton: I suggest you give them a dose of it. In Kamloops you usually arrive at midnight or 4 a.m. Perhaps you might put in a revised schedule for Edmonton and Calgary.

The Chairman: The next item is "Signalling Equipment".

Mr. Churchill: While you are on paragraph 10, under "Passenger Equipment", I notice that 359 passenger cars are expected to be delivered and put into use by the fall of 1954. Does that mean that you will then retire certain of your passenger equipment, for example, the colonist cars and other cars in passenger service which, I presume, are the oldest cars of wooden construction, and so on?

Mr. GORDON: Not necessarily. The wooden coaches are the first candidates, but the colonist car is a car for which we have a lot of use and which is quite useful, particularly in handling immigration traffic. In looking at page 36, you will see under the column headed "Orders outstanding Dec. 31, 1953" the equipment that is due to come into the system during 1954. It does not mean that we will retire an equal number. We retire cars which have reached the age where they are uneconomic for passenger use or we very often convert them to work equipment and other uses of that type.

Mr. CHURCHILL: Have you still in the coach car class some of wooden construction?

Mr. GORDON: Yes, indeed, a very large number of them. At the end of the year, we had 461 wooden coaches out of a total ownership of 971. In our baggage cars, which we record as passenger equipment, we had 121 wooden baggage cars out of a total of 605. We are more or less under commitment to rid ourselves of a reasonable number of wooden coaches each year. What we have done over the last two or three years has been the first real effort in that respect for many years.

Mr. FULTON: For the purpose of discussion when we come to your capital budget—and for no other purpose, just for comparison—how are you operating as compared with the C.P.R. in regard to modernization? From the report of the Canadian Pacific Railway, during the year 4,871 freight cars were placed in service, including 1,160 box cars. You placed in service 2,152 box cars. They go on to say:

> This brought to more than 26,000 the total of new freight cars added since the beginning of 1947. There was a concurrent increase of 20 per cent in the aggregate freight carrying capacity of all cars in service.

Then they give the figures for passenger cars, 130 new units of equipment, and say:

> Of these 40 were modern light-weight suburban coaches introduced on commuter runs, 40 were baggage and express cars replacing obsolete wooden equipment and 50 were express refrigerator cars.

We can bear that in mind when we come to your capital budget. How do you compare with them in your modernization? Are you as far advanced as they are or further advanced?

Mr. GORDON: I will see if I can find someone in the C.N.R. who is privileged to get their report tomorrow morning to look at those figures.

Mr. FULTON: That is fair enough. As far as the over-all modernization program goes, in locomotives, rolling stock and everything, as I say, will you bear it in mind?

Mr. GORDON: I will give this general answer now and I will give a more detailed answer in the morning. Up until recently we were lagging substantially behind, but we have been catching up in the last few years which explains the very large capital budget that this committee will be asked to approve. But I will get some figures on that for the morning.

Mr. FOLLWELL: I want to ask Mr. Gordon in regard to this little booklet showing a "Dinette". I think I recall that last year you said you were going to place some of these in service, and I wanted to know if they were in service.

Mr. GORDON: Six of them have been ordered and will be ready for delivery around September of this year.

Mr. FOLLWELL: What runs would they go on?

Mr. GORDON: We have not decided that. It is under study now.

Mr. MACLEAN: Are they included under the "Orders outstanding" on page 36?

Mr. GORDON: Yes, they would be included in those.

Mr. MACLEAN: Speaking of cutting down on scheduled time, would there be any considerable saving in equipment, supposing you would be able to cut a day off the run from Montreal to Vancouver. In other words, it would seem on the face of it that if you cut a day off you could do with two less complete trains.

Mr. GORDON: That would be a situation devoutly to be desired, if it were possible, but the fact is that the only way we could cut down our time to Vancouver would be to put another train on the run. We cannot speed up our travelling times of trains to a point where we can cut an appreciable amount off the service. We could perhaps cut off a few hours, but if we were to cut anything like a day off the service it would mean putting another train into the service between Vancouver and Montreal. Most people speak about a transcontinental train as a train. In point of fact, the transcontinental service covers 16 individual trains, both ways, constantly going around and around. If you put another train in the circle, you will speed it up, but remember that the laid-down cost of each passenger train, on an average, involves a capital cost of at least $2½ million.

Mr. MACLEAN: I do not quite follow that, but I guess it is all right. I would have thought that it was the other way around. If the journey takes six days, that is six trains on the track going and six coming back.

Mr. GORDON: You would be right if we could speed up the trains to a point where we could cut a day off the runs, but that is not possible. The only way we can speed up the elapsed time is to put another train in that circle going around, and that would cut down the time, but it would be at the expense of an additional unit.

The CHAIRMAN: Can we take the next item, "Signalling Equipment"? Carried?

Mr. FULTON: I have a question on block signalling in mountainous regions. The report says that 74 miles on the main line between Jasper and Vancouver were completed in the year, bringing to 233 miles the trackage so equipped in this area. You also point out that further installations were begun in continuation of a ten year program for providing automatic block signalling equipment amounting to 512 miles. You have got less than half of it done with just over half of the time gone. I ask you if that means you are behind schedule, or do I gather you are calling for an increasing amount to be done in the next few years?

Mr. GORDON: Well, we had completed at the end of 1953 232·6 miles. We have 279·6 miles to do. We expect to do 65·8 miles in 1954, that is between Jackman and Blue River. We expect to do Blue River to Kamloops Junction in 1955 a distance of 139·4 miles, and between 1956 and 1957 we hope to do between Hope and Port Mann which is 74·4 miles.

Mr. FULTON: Are you still experiencing difficulty in obtaining the equipment?

Mr. GORDON: Yes, up until the fall of last year, but we expect much better things this year. We may speed up the general program but that is all that is laid down at present.

Mr. FULTON: How many miles of your whole system is now controlled by automatic block signals?

Mr. GORDON: Now, there are different types of signals. On the automatic block signal double track we have 915·4 miles. On the automatic block signal single track we have 335·5 miles. Centralized traffic control covers 592·6 miles, making a grand total of 1775·8 miles. In addition, we have 112 miles actually under construction at the present time. Actually completed is 1775 miles, and we have 314 either under construction or ready to go ahead with. 2124·2 miles all told on that setup.

The CHAIRMAN: Shall the item carry?

Carried.

Mr. KNIGHT: Mr. Chairman, I have in my hand here a petition that I do not know what to do with. I am going to ask the permission of the Chairman to file it with the secretary of the committee because it is addressed to the railway committee of the House of Commons. This was sent apparently by the people of the town of Kelvington to Mr. Nicholson who is not a member of this committee, and he asked me to present it here. It simply asks for a certain change in arrangements of the tracks in the town of Kelvington. It mentions three things: to have a street crossing on a certain street and to have the present railway Y which is interfering with the business of the town moved out of the town limits; and to have the street providing the grain elevators widened. Mr. Gordon has already received a letter from Mr. Nicholson and answered it by his letter of February 24, file number 6620-41. On Mr. Nicholson's behalf I would file with this committee the representation here together with a blueprint of the items concerned.

The CHAIRMAN: Mr. Knight, I do not know whether we have the power to accept a petition of that kind at a committee, but I believe Mr. Gordon would like to say a word in connection with it.

Mr. GORDON: I think the answer is that all the matters which were referred to by Mr. Nicholson were before the Board of Transport Commissioners in 1952 and again early in 1953. The board advised the town that the report of their engineers revealed that these requests were not justified and they would not take any further action in the matter. I so advised Mr. Nicholson in my letter of February 24. There is nothing further to say. The situation was examined by the board and they agreed that no further action was justified at this time.

Mr. KNIGHT: I considered it was my obligation to Mr. Nicholson and the people who sent the presentation to present it to the committee as it was addressed to the committee.

The CHAIRMAN: I believe as a committee we are not able to accept a petition of that kind in that at this time were we to enquire into these matters we might receive hundreds of petitions of this nature from people all across Canada and it would become unwieldy to deal with them all. It could be referred to the Board of Transport Commissioners under whose jurisdiction it comes.

Hon. Mr. CHEVRIER: If it will help you, I will send it to the board.

Mr. POULIOT: Could I ask a question of Mr. Dingle or Mr. Gordon? I would like to ask Mr. Gordon when the Canadian National Railways expect to complete the roadbed structure at Temiscouata? Don't laugh; it is an important question.

Mr. GORDON: The arrangement with Temiscouata was that the line would be built up to standards of the C.N.R. It was to be a five year program and I am informed the 1954 capital budget will complete the program. In other words, the program will be completed this year.

Mr. POULIOT: Thank you. It is very good news, Mr. Gordon.

Mr. GORDON: I am delighted to be able to satisfy you.

Mr. POULIOT: Now, a supplementary question: when the roadbed structure is completed will you have a sleeping car from Edmundston to Riviere du Loup to make connection with the Ocean Limited?

Mr. HARRISON: For Mr. Pouliot?

Mr. POULIOT: No.

Mr. GORDON: It depends entirely on the traffic. If there is enough traffic to warrant the placing of a sleeper, we would be delighted to respond to it.

Mr. POULIOT: You could suspend the Fraser train between Edmundston and Quebec and then you could have a sleeping car that would do the same service and you would not have to go on with the direct train between Edmundston and Quebec City, and you could have a sleeping car to Edmundston and Riviere du Loup to make connection with the Ocean Limited.

Mr. GORDON: I imagine if we take the car off the people of that particular area might have views about it, too. But the real point is, Mr. Pouliot, that we are in a business of providing service, and if there is sufficient public demand and sufficient patronage for any of our equipment, it does not matter whether it is a sleeper or a coach or anything else, we will do so. If enough people desire the service and will buy tickets for it, we will be delighted to service them.

Mr. POULIOT: I thank you, and the first thing to do is complete the work and then I will see, if you do not mind!

The CHAIRMAN: The next item is general facilities.

Mr. GILLIS: Just a minute, please. I wish to say a word concerning road beds. I am rather surprised at this particular item wherein you state that shortages in supply of new rails have been a chronic condition during the postwar years and continued until 1953.

Mr. GORDON: Yes.

Mr. GILLIS: I am thinking in terms of that steel plant at Sydney, and since November last they have laid off approximately 1,650 men.

Mr. MACDONNELL: Steel men?

Mr. GILLIS: Yes.

Mr. GORDON: Since November last year?

Mr. GILLIS: Yes. Now, steel rails are one thing they do turn out there.

Mr. GORDON: That is right.

Mr. GILLIS: Do you mean to tell me you could not get steel from our own steel plants in Canada? They were unable to supply enough rails to meet your requirements?

Mr. GORDON: That is true during 1953. The situation has altered very materially in the last few months, and we have now been promised and can foresee enough rails to meet our requirements for the season we are getting ready for. You must remember we cannot lay rails in the winter time. It is a very seasonal operation. Therefore, we had to have rail for our 1953 season available by March of that year, which meant we had to purchase them prior to that. Up to March, 1953 we could not get enough rail.

Mr. GILLIS: It adds up then to poor planning on the part of the steel companies?

Mr. GORDON: No, it adds up to a very definite change in respect to steel. Steel seems to be one of those things of which there is either a surplus or a shortage and it seems to change just as rapidly as that. In the period from 1952 to the early part of 1953 we certainly could not get enough rail to met our needs and requirements. However, for the coming season we do feel we will have enough rail available to expand our plans to something much larger than they normally would be because we are going to try to catch up on what we fell short last year.

Mr. GILLIS: You fell short because our steel companies could not supply your requirements?

Mr. GORDON: We just did not have the rail.

Mr. GILLIS: But it has been a fact they are laying men off all over the place in the steel industry.

Mr. MACDONNELL: The steel comes from Sydney and Algoma?

Mr. GORDON: Yes.

Mr. FOLLWELL: Mr. Chairman, I wanted to know if you get rail only from Canadian sources or from United States sources as well.

Mr. GORDON: So far as our Canadian lines are concerned, the steel comes entirely from Canadian sources.

Mr. FOLWELL: Yes.

The CHAIRMAN: Shall the item carry?

Mr. FOLLWELL: I have one further question. It has been reported to me there have been many lay-offs on the maintenance division and it was also reported to me that you were laying off men who would ordinarily have seniority and yet you were retaining what might be termed so-called D.P.'s under contract. Is that true, or is it not true? Can you give us a statement on that?

Mr. GORDON: I do not quite know what you mean by that.

Mr. FOLLWELL: Haw many men have you laid off in the maintenance division this year. More than usual?

Hon. Mr. CHEVRIER: As of the 28th of January, 1954, the number was 1,459. That is the figure I gave the House.

Mr. FOLLWELL: Is that maintenance division?

Mr. GORDON: Main shops only.

Mr. FOLLWELL: I want to know about section men.

Mr. GORDON: In our employment we have to follow very rigidly the wage agreements we have with the particular unions concerned and men are laid off in rotation according to the seniority principles of those agreements.

Mr. FOLLWELL: That was just one point I wanted to get clarified for the employees. It was suggested you were laying off men who had some sort of rights and that you did have a contract with so-called D.P.'s who were working on a one-year basis or something like that. I am not sure of that.

Mr. GORDON: I am not clear as to what they would have in mind.

Mr. FOLLWELL: Would there be such a thing as that? If there is, I would like to hear about it, that is all.

Mr. GORDON: I do not quite follow what is meant by contracts. We have contractors working for us all the time on specific types of work and there may be certain contract work being carried out by specific contractors when our men are laid off. If we are talking about workers on the railway on the basis of work performed by railway forces then we are laying off men strictly in accordance with the seniority principles laid down in the individual wage agreement.

Mr. FOLLWELL: Have there been any so-called D.P.'s working for contractors and not for the C.N.R., is that true?

Mr. GORDON: I think it is generally right.

Mr. FOLLWELL: I just wanted to get it clarified.

Mr. GORDON: Perhaps I should make it clear that there is one exception to what I said of which Mr. Dingle reminds me. We have brought in a certain number of what might be called classified men from the U.K., for example, mechanics with skills, but in each case where we have done that it has been by agreement with the union concerned. In other words, we have told them of our shortage of workers with particular skills and they have consented to our introducing a few of these men with special skills in the mechanical trades.

Mr. FOLLWELL: They would not likely be in the section hand group?

Mr. GORDOÑ: I would not think so. They would be mechanics only and they were introduced with the consent of the union concerned.

The CHAIRMAN: Terminal facilities.

Mr. MURPHY (*Westmorland*): I have a question on terminal facilities. In paragraph 18 of terminal facilities you say:

> Further servicing and repair facilities were provided during the year as collateral requirements of the dieselization program. The new diesel maintenance shop at Fort Erie was placed in service, and work was progressed on an extension to the electric locomotiive shop at Point St. Charles to handle light diesel repairs.

On February 8 I asked a question of the Minister of Transport, as follows: "Is diesel equipment being repaired at the Canadian National Railways shops in Moncton and, if not, will diesel repair shops be built in Moncton?" And my answer which came from the C.N.R. originally was as follows: "All diesel equipment presently operating on the Atlantic region is repaired in that region, and most of the work is done at Moncton." Is the diesel repair shop in Moncton for the Atlantic region comparable to the diesel repair shops at Fort Erie and Point St. Charles for the other regions? Are we getting in the Atlantic region as good a type of repair shop as they are getting in the other regions?

Mr. DINGLE: I would say yes, very definitely.

Mr. MURPHY (*Westmorland*): And further, with respect to construction: Is there any construction planned for a truck and bus terminal for the Canadian National's new division for automotive vehicles in Moncton?

Mr. GORDON: You will find that we have a 1954 capital budget item for a building in Moncton which I think may cover the item you have in mind.

Mr. MURPHY: (*Westmorland*): A new division was set up last year for buses and trucks.

Mr. GORDON: No. It is simply a building for the region. Are you referring to a new building covering buses and trucks?

Mr. MURPHY (*Westmorland*): Yes.

Mr. GORDON: The answer is no. We are building or we intend to erect a building in Moncton which will have general reference to various railway requirements. It is not only to serve bus or truck purposes; and we are renting some additional space as well.

The CHAIRMAN: "Coastal steamship services".

Mr. FULTON: Mr. Nesbitt has a second question.

The CHAIRMAN: Under the rules we are not permitted to have members speak in the committee other than for themselves. If you would like to put the question yourself, Mr. Fulton, we would probably be complying. The rule in question is No. 615 at page 183 of Beauchesne's Parliamentary Rules and Forms and it reads as follows:

> 615. A member who is not a member of the committee has no right whatever to attend for the purpose of addressing the committee, or of putting questions to witnesses, or interfering in any way in the proceedings.

But if you put the question yourself it will probably be all right.

Mr. FULTON: Is there any provision for the renovation of the station at Woodstock, which station is approaching 100 years of age?

Hon. Mr. CHEVRIER: I can give you the names of half a dozen stations around my part of the country which are more than 100 years old.

Mr. NESBITT: Mr. Chairman, this afternoon you asked this committee if I could have permission to ask a question and then you said that permission was granted.

The CHAIRMAN: There were 2 or 3 questions asked.

Hon. Mr. CHEVRIER: In any event this is a question which should be discussed on the budget because in the budget are all the requirements for next year. I think that is the proper place to discuss stations, and if it could be left until then, perhaps tomorrow morning we could deal with it, or at least I hope so.

Mr. HEALY: Mr. Chairman, my question is this: What is the intention of the Canadian National Railways regarding the replacement of the tunnel on Wellington street between Congregation and Richmond? This tunnel is over 80 years old.

Mr. GORDON: You mean a bridge?

Mr. HEALY: It is a subway.

Mr. GORDON: An overpass.

Mr. HEALY: Yes, that is right. It is terrible, it seeps water all the time. The Montreal papers have been writing it up all the week. The city of Montreal has set aside $295,000 to help fix the subways in Montreal and they have been after the Canadian National Railways to draw up a plan for a new tunnel and they will help them. I believe the minister wrote in to the Canadian National Railways asking them if they would draw up some plans to fix this subway. Mr. Dingle knows what the subway is like. I brought it up last year. The water was all leaking down on the pedestrians. All they did was to take some angle iron and put angle iron over the head, but the water continued to run down into the drip-way. Cars come along and they splash the water on people passing by. Last week they had a picture in the *Star and Herald* showing 2 baby carriages in it. One baby carriage was caught in the tunnel and the other could not get through. That has been the case for 80 years. The property beside it belongs to the railroad and if they wanted to put in a new tunnel, they should put in some kind of by-way to enable people to get through. If you went through there in an open car, you would be splashed. People have been putting up with this for 10 years.

Mr. GORDON: It is a very unfortunate situation and I think we would be the first to agree that the subway is inadequate for present-day traffic. As a matter of fact the situation has been discussed many times between the city and ourselves, and we agreed to lay out a plan in connection with it. But subsequent to that discussion with the city the question of the St. Lawrence Seaway arose with which is associated the contingent Hydro Electric development, and the Wellington street project is affected by that general scheme. In other words, it seems quite clear that whatever money was spent in making a modern situation would be money which would be lost completely when the St. Lawrence scheme came into being. I do not know whether we can justify some expenditure that will improve conditions. Perhaps Mr. Dingle would care to see what could be done in that regard.

Mr. HEALY: The city of Montreal is still willing to spend $295,000 to help, if you would only draw up some plan.

Mr. GORDON: Are you speaking for the city of Montreal?

Mr. HEALY: Yes, I am speaking for them because I am a member from there also.

Mr. GORDON: And you are telling me that they are willing to spend $295,000?

Mr. HEALY: Yes. Fourteen years ago they were going to build a subway there but the city would not accept it. Then the war came along and they could not afford it, and now it is a waterway. But we want it fixed up because there is ground there and they could at least make a place for the people to go through.

Hon. Mr. CHEVRIER: Isn't that where we have the St. Remis and Atwater tunnel?

Mr. HEALY: No. This is over on Wellington street where the main line comes through, and goes over the Victoria bridge.

Mr. GORDON: The information on this very point which I have before me is as follows: Almost every proposal for a railway change made necessary by the seaway involves a change in the layout of Wellington street subway. Accordingly it would be most unwise to provide for this replacement at an estimated cost of over $1 million until the plans for operation are made necessary by the seaway, and the city recognizes this situation.

Mr. HEALY: The city called up Mr. Dingle just last week. One of the executives told him that if he did not use that $295,000 they were going to put it to some other use.

Mr. DINGLE: Mr. Hanly telephoned me.

Mr. HEALY: Yes. He is on the executive. If you sent a man down there in a couple of days you would see what it was like. They have some snow piled up, and it is frozen now but it will start to melt next week and it will all run down. People have to put up with it. They are poor working people and I do not see why they should have to put up with it.

The CHAIRMAN: Can we not go to the next item now? "Coastal steamship services?"

Mr. GORDON: In view of your statement, Mr. Healy, I will have the matter specially examined to see if we can do something to alleviate the situation temporarily. The point is that to make any cure of the situation involves a very large amount of money and that money would be lost when it came to the development of the St. Lawrence Seaway. But if we can do something at a reasonable cost to improve conditions, we shall undertake to do so.

Mr. HEALY: You could make a road for the people to go in.

Mr. GORDON: I am always told that these situations are very easily fixed. But by the time I examine them I find that they cost anywhere from $¼ million to $2 million.

Mr. HEALY: I wish you would send some engineer down there to see what could be done.

Mr. GORDON: I will certainly do that.

The CHAIRMAN: The next item is "Coastal steamship services."

Mr. MACDONNELL: It seems that the construction of your dock at Port Arthur started in 1952, but that it is not to be ready until 1955. It seems that has been a leisurely performance.

Mr. GORDON: There is an answer to it. It is scheduled to tie into the productive requirements of The Steep Rock Mine which it will service. It is going hand in glove with the actual need. It has proceeded on schedule because it is scheduled to be integrated with other needs as the Steep Rock area develops.

The CHAIRMAN: "Coastal steamship services."

Mr. MACLEAN: I have 2 or 3 questions to ask in connection with the new ferry service which will be brought into operation between Sydney and Port aux Basques. This new ship is the "William Carson". What accommodation will there be on that ship for cars and more particularly for trucks ?

Mr. GORDON: If you will turn to page 13 of the report you will see a picture of the new ferry, and in addition you will find that the new ship is one of the largest of its type and will accommodate 266 passengers and 58 automobiles and 800 tons of freight. Is that what you had in mind?

Mr. MACLEAN: What type of freight is that? Will it have accommodation for large trucks such as trailer trucks and that sort of thing? You may have an automobile or truck that passenger cars can get on, but it is impossible to get on with a large truck.

Mr. GORDON: My understanding is that it will handle trucks, but to the extent that it will handle trucks it will reduce our revenue. However, it is so arranged that they can be accommodated and freight is handled in a special way by what I suppose I could call a container. You will remember that we are trasferring from a standard gauge railway on the mainland to a narrow gauge railway on Newfoundland. We will load freight into this type container at Sydney and then take the container and stow it on board the ship. At the Newfoundland end it will be run off the ship on to flat cars and will continue on its journey without further handling with respect to its contents.

Mr. MACLEAN: Is it correct to assume that there will be accommodation for any truck traffic?

Mr. GORDON: Yes, any normal sized truck, as we know it today. If we had six trucks and two trailers on board, it would leave only 75 per cent of the accommodation for automobiles. That gives an idea of how the trucks cuts down the automobile space.

Hon. Mr. CHEVRIER: A committee composed of the Canadian National Railways' officers, the Department of Transport and the Newfoundland government spent almost six months working on details of this ship, and it was after consultation with them that their recommendations were accepted and I think they are very nearly satisfactory.

Mr. MACLEAN: I presume they are. I was just thinking that with the new Canso causeway coming into use there might develop a considerable through truck service from the maritimes to Newfoundland, provided there is a foundation on the ship to accommodate them.

Hon. Mr. CHEVRIER: There is, but not large numbers. They can take large trucks and trailers.

Mr. MACLEAN: I had two or three questions to ask regarding the services from New Brunswick to Prince Edward Island.

Hon. Mr. CHEVRIER: There is an item in the estimates. That comes in later.

Mr. FULTON: Is it expected that these ferries will show operating surpluses when they are put into service between North Sydney and Port aux Basques and between Yarmouth and Bar Harbor?

Mr. GORDON: I would not think so.

Mr. FULTON: In effect, then, there will have to be subsidies to continue the operation?

Mr. GORDON: Yes.

Hon. Mr. CHEVRIER: There has been a subsidy paid on behalf of the "Evangeline" for a period of years.

Mr. MACDONNELL: I understand that we have to have that subsidy but why do we have to maintain the subsidy at Bar Harbor?

Hon. Mr. CHEVRIER: Ever since I came to the Department of Transport I have been voting an amount each year to the Eastern Steamships for the operation of the "Evangeline" that plied between Boston, Maine and Yarmouth, the reason being that for tourist traffic and for the movement of Nova Scotia goods to Maine it was found that that was a good operation, and that the government was justified in paying a subsidy for that service.

Mr. FULTON: I asked the question because of the relationship between that matter and the matter discussed in the House today, that is the steamer service. It does seem to me to form a basis.

Hon. Mr. CHEVRIER: It is on a different basis altogether.

Mr. GORDON: On the Yarmouth ferry, there has been no decision made as to tolls. That will be worked out in due course. I presume that we will be asked for estimates of what can be accomplished for particular rates, and then there will be a decision as to whether the tolls will be set at a sufficient level to meet the costs or whether it will have to be subsidized.

Mr. CARTER: I would like to ask Mr. Gordon regarding these containers that he spoke about, that are really large boxcars without wheels. How are these things going to be handled at points along the line where you have to shift them from one point to another?

Mr. GORDON: They will open up just like boxcars, and we will make deliveries just as from ordinary boxcars. They will be shackled on to flat cars, and for all intents and purposes they will become Newfoundland boxcar.

Mr. CARTER: When you have to change from one car to the other can you do that?

Mr. GORDON: No. We would not do that.

Mr. CARTER: You would end up with one of these things on the car?

Mr. GORDON: Just the same as if it was a boxcar itself. It will be to all intents and purposes a Newfoundland boxcar. There is no reason why you could not move them from one flatcar to another if it suited our purpose.

Mr. CARTER: The second question is: can you give me any information on the progress of the two smaller boats that are being built?

Mr. GORDON: Yes. I think they are proceeding pretty much on schedule. The due date for delivery is sometime in 1955. We hope that we will get them in service sometime in 1955, but I cannot be any more definite than that right now.

Mr. CARTER: Are they approximately the same specifications as the Bar Harbour plans and specifications?

Mr. GORDON: The same general specifications.

The CHAIRMAN: Next item, communications.
Carried.

The CHAIRMAN: Methods and research?

Mr. MACDONNELL: I wanted to ask about this fascimile transmission of weather maps. Who uses them and is it a commercial proposition?

Hon. Mr. CHEVRIER: National Defence and the Department of Transport use them.

Mr. MACDONNELL: It is a service then?

Hon. Mr. CHEVRIER: Yes.

The CHAIRMAN: Carried.
Methods and research?
Carried.

Mr. JAMES: Under item 29, in the Toronto terminals area there is an improvement in express. As one of those who complained last year about the very poor express, I would like to pass on to Mr. Gordon our thanks from that area and state that the thing is very definitely much better. The only thing I am wondering is this: during that time when it was very poor a considerable amount of traffic must have been re-routed to trucks, and I am wondering now if there has been any concentrated effort to rectify that and whether the people in that area know the express has improved and returned to the railway?

Mr. GORDON: You will remember that in the meantime there was a very nasty truckers' strike which enabled a lot of people to discover our express facilities, so on balance we are going to get some new business.

Mr. GILLIS: Concerning item 30, I would like to have one point cleared up. You said you were unable to secure rails from the operating steel companies in Canada. Were your orders placed with the companies in time to give them a chance to get into production and make deliveries?

Mr. GORDON: Yes.

Mr. GILLIS: It was not the fault of the railway then?

Mr. GORDON: We made inquiries for the rail in ample time for them to fill our orders but their production schedules at the time we made our inquiries made it impossible for them to do so.

Mr. MACDONNELL: Did it mean they were using steel for other purposes?

Mr. GORDON: Yes, they were using steel for other purposes and perhaps for national defence priorities. In our timing, we must remember we are talking about something which occurred in the fall of 1952. In order for them to deliver the rails to us they would have had to have them ready for delivery not later than February 1953 so that we could go ahead with our programme during the summer of 1953.

Mr. GILLIS: I am thinking in terms particularly of the Sydney plant. They do very little fabricating down there, but they do turn out rails and ship them all over the world. In 1953 they laid off 1,650 men.

Mr. GORDON: In November 1953.

Mr. GILLIS: That is right. Did this show very poor planning for a few months previously?

Mr. GORDON: I could not confirm that.

Mr. GILLIS: I do not expect you to, but I intend to probe this and find out why.

Mr. GORDON: If you find out would you let me know?

Mr. GILLIS: I want to find out if the railways were at fault in placing their orders.

The CHAIRMAN: We now come to the general section. We have not made the progress we thought we could make. Would the committee prefer to go on and finish this report this evening or sit at 10 o'clock in the morning?

Mr. POULIOT: Would it not be better to start at 11 o'clock tomorrow?

The CHAIRMAN: If we could finish this tonight, we could start at 11 o'clock tomorrow. There is only one page left.

Mr. POULIOT: But the personnel paragraph is a big one and questions may be asked about it, and doubtless it will take a long time. I am ready to sit until 12 o'clock tonight, it makes no difference to me.

The CHAIRMAN: Shall we carry on?

Mr. POULIOT: I think we should adjourn until tomorrow so we can go and read the correspondence which we received today.

The CHAIRMAN: Can we start at 10 o'clock in the morning?

Mr. POULIOT: Yes.

The CHAIRMAN: Is that satisfactory to the committee?

Agreed.

Hon. MEMBERS: At least Mr. Pouliot is happy.

Mr. POULIOT: I am in the hands of the majority of the committee. I am fed up with it tonight, and I need a good sleep to start again tomorrow.

Mr. MACDONNELL: Could we not adjourn until 10.30 tomorrow morning?

The CHAIRMAN: The committee adjourns until 10.30 tomorrow morning.

The committee adjourned.

EVIDENCE

MARCH 30, 1954.
10.30 a.m.

The CHAIRMAN: We have a quorum. First I would like to say this, that the secretary informs me that Trans-Canada Air Lines have provided us with copies of their operating budget for the year 1954, and in view of the fact that they wish to come in tomorrow morning about 10 o'clock with their report I will ask the secretary to distribute copies of the budget now.

We have reached the general stage of the report of the Canadian National Railways, and the first item is, "New Trackage Facilities." Are there any questions on that item?

Carried.

The next item is "New Hotel Plans."

Mr. FULTON: On that section, I am sure we would all be most interested in looking at pages 15 to 18 of the annual report dealing with the Montreal terminal project. There are two or three questions that arise here.

The CHAIRMAN: Mr. Fulton, if I might interrupt for a moment, with regard to the matter of this project it will be included in the 1954 capital budget. It might be that the questions could be asked then rather than at the present time, in order to avoid duplication with regard to that.

Mr. FULTON: What I want to know is not so much about financing, but the prospects for this hotel.

Mr. GORDON: I had planned to deal in detail with it at the same time as I deal with the item on hotels in the capital budget, and I think that would be more satisfactory.

Mr. FULTON: That is fine.

The CHAIRMAN: Any other questions?
Carried.

The next item is "Competition". Any questions?

Mr. FRASER (*Peterborough*): What are you doing to compete with the buses?

Mr. GORDON: I can answer that only in a general way. As the report indicates on page 20, we have been bringing out quite a number of new ideas for the purpose of attracting traffic to the railways. In addition to that, of course, we have spent a large amount of money in providing new passenger equipment and generally improving our passenger facilities, to a point where we hope to be able to encourage people to realize the real comfort of travelling by train. The new passenger cars which we ordered two years ago are just coming into service, and by the fall of this year we will have in service much improved equipment which will enable us not only to better very materially the standard of service on the main lines but, as a consequence, to improve the service right through the branch lines as well. I have before me here a booklet which we have recently issued, which gives a detailed description of the kind of new equipment and the various new passenger-appeal facilities which we are making available and which, I think, you will find of considerable interest.

The CHAIRMAN: Carried?

Mr. HAHN: Mr. Chairman, in connection with competition in freight I have a question.

Mr. GORDON: I will see that each member of the committee is provided with a copy of this booklet.

Mr. HAHN: In connection with this question of competition, as far as freight is concerned, I was talking to a private firm a few months ago and they told me that one of the main reasons why they use trucking is that there is no speed to freight travel in comparison with trucking. You have your goods landed in Moncton or Saint John, New Brunswick, as an example, and about a week later you start getting your shipping bills by C.P.R. or C.N.R.—it does not matter which one it is—while the same thing does not hold true of trucking systems at all. It is a case of bringing it right there and speeding it up. Is there any possibility that we could get our freight speeded up?

Mr. GORDON: That is the competitive condition that we are faced with all the time. Quite naturally, the trucking interests will tell you how much better their services may be than the railways, and we admit readily in certain types of service that the trucks can provide a better service on a door-to-door basis than the railways can. It is not true to suggest however that there is a delay factor in rail freight of the character you mentioned. The rail freight usually runs on a schedule and shippers know well when to expect the freight to arrive and can make their arrangements accordingly. The big factor in the transport of rail freight is usually the matter of price, and that is the real competitive weapon that we have at the moment vis-a-vis the trucks. There will always be occasional instances where service will fail, and I have not the slightest doubt that if we had a look into trucking operations there are occasions on which they fail too. In fact, they fail so very often when any big storm arises on the highways that it lands on the railways to take up their obligations for them.

Mr. HAHN: Apparently they have been using both systems, and they find that trucking is much quicker than railway freight.

Mr. GORDON: It depends on the particular type of service you have in mind. I readily agree that the trucks have certain types of competitive advantages over the railways, but by the same token so has rail competitive advantages over them, and it is the balance of advantage that determines for the shipper what particular form of transport he uses.

Mr. HAHN: You are satisfied, then, that our freight is being carried as quickly?

Mr. GORDON: No, I will never be satisfied with that. That is one of the constant preoccupations of any railwayman to improve his service. As against that, I do not agree with the generalization that you started off with. Certainly we are striving all the time to improve our service and, as has been mentioned before, we have cut, 38 hours off our freight schedule between Toronto and Vancouver, and of course service to intermediate points, has improved at the same time. The elapsed time between Toronto and Vancouver has now been reduced to 114 hours.

Mr. FOLLWELL: Mr. Chairman, I just want to ask Mr. Gordon if you are now hauling the trailers from Toronto to Montreal? I think you said last year you were loading one or two cars with trailers?

Mr. GORDON: That was dealt with early in the report. You will find that we have already covered that point.

The CHAIRMAN: "Corporate Reorganization".

Mr. FULTON: I have one question on competition. You had quite considerable success in increasing your volume of express?

Mr. GORDON: Yes, the volume of express has been substantially increased and we hope to improve that branch of our service, particularly with the kind of improvement in speed demonstrated in our Toronto handlings mentioned yesterday.

Mr. FULTON: In some sense you are competing with the post office, but you are also competing with truck deliveries, are you not?

Mr. GORDON: Yes, with the post office, with the trucks, and in a sense with our own L.C.L.

Mr. FULTON: Do you see any room for expanding your express activities to provide a means of competition with trucking, or is that a very small facet?. Is there any room for taking more of what is now freight by express?

Mr. GORDON: I think there is. It is a matter of selling our services to shippers. The service is more expensive and it depends on the composition of the traffic and what services we can devise. We are working on that all the time and I think we have demonstrated that our express service has been materially speeded up and, of course, speed is what the express shipper pays for.

Mr. FULTON: This applies mainly to perishable commodities?

Mr. GORDON: The perishable commodity is an important part, but we still have a lot of other traffic.

The CHAIRMAN: Carried.

The next item is "Corporate Reorganization".

Mr. FULTON: You mentioned two communication companies at the bottom of paragraph 15. What are they?

Mr. GORDON: Well, that represents the Canadian National Telegraphs which took over at the time of the amalgamation the Canadian Northern Telegraph Company, and the Grand Trunk Pacific Telegraph Company. The main reason why they have been kept separate up until now is that the Grand Trunk Pacific Telegraph Company had certain corporate powers which were not nearly as well defined as those of the Canadian Northern Telegraph Company. Therefore, we kept the two separate, but in the interest of this clean-up we are attempting to correct this structure. The lawyers have now found a means whereby they feel they can put the two charters together and make one company and still retain the legal rights that went along with them individually.

Mr. FULTON: The hotels you mention, also they are not incorporated as a single company? They are just owned by the railway company?

Mr. GORDON: I missed the last part of your question.

Mr. FULTON: The hotels are now owned as a real property asset by the railway company rather than incorporating each one as a single company.

Mr. GORDON: It will not make any difference to the balance sheet. Under our present plan the hotel company will still form part of the railway company assets.

Mr. FULTON: But they will be shareholdings rather than real property holdings?

Mr. GORDON: As they stand now, some are separate companies, as you know. What we are planning to do is take each one of the companies after having sorted out the question of the titles and bring them together into one hotel holding company. Each hotel will however remain a separate entity for operating purposes. Nevertheless their assets will be transferred to one hotel company which will hold all the hotel interests of the Canadian National Railways.

Mr. FULTON: But what I wanted to clear up is this: when these hotels were incorporated, my impression was that the railway company owned simply a real property asset rather than the shareholding of an incorporated holding company. Is the Chateau Laurier incorporated? Is there a company which holds it?

Mr. GORDON: Yes, each hotel is held by a company.

Mr. FULTON: There is?

Mr. GORDON: Yes, but the difficulty is that there has been a very mixed up situation with regard to titles. Some of the hotels were owned by the Grand Trunk, some were owned and entrusted to the railway for operation. Some were owned by the Canadian Northern and some by the Grand Trunk Pacific, and so on. The Chateau Laurier, if I remember correctly, was a Grand Trunk hotel.

Mr. FULTON: That is why it does not appear in your investments?

Mr. GORDON: Yes. What we are doing is setting up the holding company which will purchase and operate the hotels. Each hotel will still be accounted for as a separate entity. The combined operating results of all the hotels will still come back to the railroad through the holding company. We will not organize the hotel company to be a complete operating company in all respects. Certain administrative services will be provided to the hotel company by the railway.

Mr. FULTON: These bills incorporating the company will come up before parliament?

Mr. GORDON: We are at the point now of submitting our concrete recommendations to the government concerning all the legal formalities including transfers and orders in council, etc.

Mr. MACDONNELL: When this is done, does that mean instead of showing $54 million as an investment in the company, we will instead have physical assets shown on the Canadian National balance sheet?

Mr. GORDON: The Canadian National has a consolidated balance sheet and the assets and liabilities of the hotel company, as a wholly-owned subsidiary, will be included therein.

Mr. MACDONNELL: When you say this, are you referring to the hotel-owned company?

Mr. GORDON: Yes.

Mr. MACDONNELL: Where does it appear now, under investments and affiliated companies?

Mr. ARMSTRONG: The hotels do not appear in the list of investments in affiliated companies. Those are companies which are not consolidated.

Mr. MACDONNELL: You show the investments and affiliated companies and are not in the consolidated balance sheets?

Mr. ARMSTRONG: That is right.

Mr. MACDONNELL: They are in the earnings?

Mr. ARMSTRONG: Yes, they are.

Mr. MACDONNELL: The figures will be substantially changed then?

Mr. ARMSTRONG: No, there will be no change at all in the consolidated picture.

Mr. GORDON: I think I see Mr. Macdonnell's difficulty. At the moment the hotels are shown as departments of the railway in the same way as the express department is. So the earnings of the hotels flow into the earnings of the railway now as a department of the railway. When this new procedure is put into effect we will have a hotel holding company, and the final result of the operations of the hotel in the over-all—will come into the income account of the railway system.

Mr. MACDONNELL: Where, for example, do the hotel assets appear now in the balance sheet?

Mr. GORDON: Right here as part of the assets of the consolidated balance sheet, on page 22. They are included in the item "miscellaneous physical property."

Mr. MACDONNELL: Actually by reason of what you are doing there will be no change in the figure shown for total assets, and there will merely be legal re-arrangements for your simplification and convenience.

The CHAIRMAN: Shall the item carry?
Carried.

"Cooperation under the Canadian National-Canadian Pacific Act, 1933"?
Carried.

"Personnel"?
Carried.

I would ask then for a motion for an adoption of the annual report of the Canadian National Railways for the year 1953.

Mr. FOLLWELL: I so move.

Mr. WEAVER: I second the motion.

Carried.

The CHAIRMAN: We will now go to the capital budget of the Canadian National Railways for the year 1954, and you will find if you will turn to pages 1 and 2 of the budget—

Mr. MACDONNELL: Mr. Chairman, does the president not wish to say anything about the consolidated balance sheet, or will he say that in the preface?

Mr. GORDON: I assumed that we had finished with the annual report as such and the balance sheet, and that we were starting on the capital budget presentation itself.

Mr. MACDONNELL: I thought you might have said a word or two about any changes in the balance sheet since the last year. Are there any?

Mr. GORDON: I think you will find that the tables such as that on page 30, for instance, give you the detail. First, in the "Property Investment Account" we show the expenditure for the year 1953, and each one of these tables attached to the report I think will bring out the changes in the individual items in the balance sheet.

CANADIAN NATIONAL RAILWAYS

SUMMARY OF FINANCIAL AND COMMITMENT AUTHORIZATIONS REQUIRED—YEAR 1954

CAPITAL BUDGET

FINANCIAL AUTHORIZATIONS	1954			Page No.	1953		COMMITMENT AUTHORIZATIONS
	Projects not Heretofore Authorized	Projects Previously Authorized	Total		Budget:	Actual:	
	$	$	$		$	$	
ADDITIONS AND BETTERMENTS							
General (excluding New Equipment)							
Obligations to be incurred and discharged in 1954	13,226,270	....	13,226,270	2	12,323,366		(1) Authority is requested to enter into obligations amounting to $12,855,931 respecting general additions and betterments (excluding new equipment) which amount will not become due and payable in the current calendar year.
Obligations authorized prior to 1954 and to be discharged in 1954	....	22,515,870	22,515,870	......	35,561,634	31,692,931	
Obligations authorized and incurred prior to 1954 and to be discharged prior to July 1st, 1954	....	8,957,860	8,957,860	......	....	....	
Total—General	13,226,270	31,473,730	44,700,000		47,885,000	31,692,931	
Branch Line Construction							
Sherridon-Lynn Lake (Authorized by Chapter 44, Statutes of Canada—1951)	....	....	....	6	2,758,513	2,758,513	
Terrace-Kitimat (Authorized by Chapter 20, Statutes of Canada—1952)	....	6,200,000	6,200,000	7	6,580,000	4,504,216	
Total—Branch Line Construction	....	6,200,000	6,200,000		9,338,513	7,262,729	
New Equipment							
Obligations authorized and incurred prior to 1954 and to be discharged prior to July 1st, 1954	....	63,646,000	63,646,000	3	31,707,000	28,623,459	
Obligations incurred prior to 1954 and to be discharged in 1954	....	44,054,000	44,054,000	3	47,584,685	47,716,913	(2) Authority is requested to place orders for new equipment contained in the 1954 Budget Program in the amount of $23,700,000 (see page 4) none of which equipment will be delivered in 1954.
Obligations to be incurred in 1954, $63,032,195, and to be discharged in 1954 to the extent of $39,332,195	39,332,195	....	39,332,195	4	9,959,000	9,657,990	
Total—New Equipment	39,332,195	107,700,000	147,032,195		89,250,685	85,998,362	

ACQUISITION OF SECURITIES	11,236,500	....	11,236,500	5	293,000	1,033,700
	63,794,965	145,373,730	209,168,695		146,767,198	125,987,722
ADDITIONAL WORKING CAPITAL			....		15,000,000	15,000,000
Total—Capital Budget	63,794,965	145,373,730	209,168,695		161,767,198	140,987,722
Less: Available from Depreciation Reserves and Debt Discount Amortization			19,545,000		19,900,000	15,979,221
Available from Sale of Preferred Stock			20,655,000		21,600,000	20,898,674
			168,968,695		120,267,198	104,109,827
Less: $72,603,860, being $8,957,860 for General Additions and Betterments, and $63,646,000 for New Equipment, for which financing authority exists under Canadian National Financing and Guarantee Act 1953 Section 3 (1) (c)			72,603,860		31,707,000	28,623,459
Net Financial Authorizations required			96,364,835		88,560,198	75,486,368

(3) Authority is also requested to the Minister of Finance to make advances in 1955, prior to the enactment of the Financing and Guarantee Act 1955, to the extent of $45,000,000 against capital expenditures made respecting new equipment ordered pursuant to the authority requested in (2) above or to similar authority contained in previous Financing and Guarantee Acts and respecting obligations for general additions and betterments incurred pursuant to the authority requested in (1) above, or otherwise.

FORECAST OF INCOME ACCOUNT

	1954	1953	
	Estimated $	Budget: $	Actual: $
Operating Revenues	688,500,000	720,000,000	696,622,451
Operating Expenses	643,700,000	676,600,000	659,049,086
Net Operating Revenues	44,800,000	43,400,000	37,573,365
Net Income Charges	12,900,000	14,700,000	9,242,022
Available for payment of Interest	31,900,000	28,700,000	28,331,343
Interest on Funded Debt—Public	25,500,000	21,600,000	21,575,180
Interest on Government Loans	5,900,000	6,700,000	6,512,146
INCOME SURPLUS	500,000	400,000	244,017

CANADIAN NATIONAL RAILWAYS

FINANCIAL AUTHORIZATIONS—1954 REQUIREMENTS BY REGIONS, DEPARTMENTS, ETC.

	Atlantic Region	Newfoundland District	Central Region	Western Region	Grand Trunk Western	Central Vermont Railway	Other	Total	Not Heretofore Authorized	Previously Authorized
	$	$	$	$	$	$	$	$	$	$
ROAD										
New Lines				153,800				153,800	153,800	
Abandoned Lines—Main and Branch Lines				Cr. 41,880				Cr. 41,880	Cr. 41,880	
Rails and fastenings—tieplates and rail anchors	1,833,865	172,916	2,806,405	3,064,459	418,300	133,946		8,429,891	8,267,831	162,060
Ballast	376,097	56,236	13,174	32,600		25,583		503,690	471,090	32,600
Roadway Betterments	92,970	88,845	11,939	215,298	34,800	3,000		446,852	340,452	106,400
Large Terminals	374,969	83,000	6,185,024	1,062,161	1,160,000			8,865,154	3,566,359	5,298,795
Yard Tracks and Sidings	114,974	75,725	1,199,553	2,518,616	31,400	15,066		3,955,334	2,448,010	1,507,324
Roadway Machines	322,981	99,927	784,205	238,830	15,000	10,488		1,471,431	1,406,831	64,600
Bridges, Trestles and Culverts	336,959	37,987	556,099	2,237,029	70,200	101,378		3,339,652	1,813,418	1,526,234
Tunnels				167,500				167,500	167,500	
Highway Crossing Protection	45,510		298,881	Cr. 3,615	Cr. 262,600	22,443		100,619	Cr. 131,436	232,055
Stations and Station Facilities	718,609	132,209	4,755,140	3,729,496	21,604	16,455		9,373,513	5,479,734	3,893,779
Water Supplies	2,140	16,530	90,449	39,650				148,769	73,275	75,494
Fuel Stations	120,230	119,162	407,786	1,454,605	3,400	91,898		2,197,081	1,932,952	264,129
Shops, Enginehouses and Machinery	131,362	56,043	2,633,735	1,760,074	267,095	17,907		4,866,216	2,697,027	2,169,189
Docks and Wharves				2,435,240	60,000			2,495,240	63,960	2,431,280
Grain Elevators			176,000	125,000				301,000	62,500	238,500
Signals and Interlockers	Cr. 11,463		476,097	3,426,650	47,700			3,938,984	1,667,334	2,271,650
Land			195,196	2,780	6,300			204,276	204,276	
Electrifying Lines			Cr. 190,335					Cr. 190,335	Cr. 190,335	
General — Including Contingencies	941,954	746,366	4,923,052	3,612,038	681,980	35,000	2,026,338	12,966,728	7,443,121	5,523,607
Separately Operated Properties							1,156,063	1,156,063	1,032,323	123,740
Communications—Commercial							15,724,720	15,724,720	10,876,992	4,847,728
Communications—Railway							485,034	485,034	373,848	111,186
Hotels							5,309,630	5,309,630	4,985,861	323,769
EQUIPMENT										
General Betterments							1,785,021	1,785,021	692,840	1,092,181
Conversions							1,384,874	1,384,874	699,759	685,115
Miscellaneous	6,832	19,600	9,858	4,600	22,200	7,519	279,061	349,670	312,355	37,315
Retirements							Cr. 9,832,596	Cr. 9,832,596	Cr. 9,832,596	
	5,407,989	1,704,546	25,332,258	26,234,931	2,577,379	480,683	18,318,145	80,055,931	47,037,201	33,018,730

			Cr.	Cr.	Cr.	Cr.	Cr.	Cr.	Cr.	Cr.
Commitments—Not payable in 1954	....	....	1,523,873	4,335,099	836,000	12,839	6,148,120	12,855,931	11,310,931	1,545,000
	5,407,989	1,704,546	23,808,385	21,899,832	1,741,379	467,844	12,170,025	67,200,000	35,726,270	31,473,730
Less portion of projects not completed during year								22,500,000	22,500,000	....
								44,700,000	13,226,270	31,473,730
New Equipment								147,032,195	39,332,195	107,700,000
BRANCH LINES										
Sherridon—Lynn Lake								....	....	....
Terrace—Kitimat								6,200,000	....	6,200,000
Net Additions and Betterments								197,932,195	52,558,465	145,373,730
ADDITIONAL WORKING CAPITAL								....	....	....
ACQUISITION OF SECURITIES								11,236,500	11,236,500	....
								209,168,695	63,794,965	145,373,730
Less: Available from Depreciation Reserves and Debt Discount Amortization								19,545,000		
Available from Sale of Preferred Stock								20,655,000		
								168,968,695		
Less: $72,603,860, being $8,957,860 for General Additions and Betterments, and $63,646,000 for New Equipment, for which financing authority exists under Canadian National Financing and Guarantee Act 1953 Section 3 (1) (*c*)								72,603,860		
NET FINANCIAL AUTHORIZATION REQUIRED								96,364,835		

CANADIAN NATIONAL RAILWAYS

NEW EQUIPMENT

Canadian National Railways System—New Equipment

Estimated Cost

Authority is requested for the financing of the undernoted New Equipment, the ordering of which was authorized in Financing and Guarantee Acts in prior years:

Diesel Electric Locomotives

6 1000 HP Switchers
25 900 HP Switchers
15 660 HP Switchers

Passenger Equipment

30 Baggage Cars
218 Coaches
5 Coaches (Newfoundland)
20 Diners
17 Parlor Cars
104 Sleepers
1 Sleeper (Newfoundland)
Furnishings, etc.

Freight Equipment

2850 Box Cars
100 Box Cars (GTW)
100 Box Cars (Newfoundland)
100 Flat Cars (GTW)
100 Flat Cars (Newfoundland)
10 Flat Cars—Heavy Duty
500 Gondolas
401 Gondolas (GTW)
300 Hoppers
200 Hoppers—Covered
200 Hoppers—Ore Type
100 Refrigerators (GTW)
15 Stock Cars (Newfoundland)

Work Equipment

15 Air Dump Cars
5 Air Dump Cars (GTW)
330 Ballast Cars
1 Burro Crane—Model 40
1 Locomotive Crane—50-ton (GTW)
2 Locomotive Cranes—40-ton
2 Locomotive Cranes—30-ton
4 Snow Plows

Traction Motors

Estimated Cost $107,700,000. To be financed as follows:

Pursuant to Financing and Guarantee Act, 1953, Section 3 (1) (c)	$ 63,646,000
Additional financing requested 1954	44,054,000

1954 Additional Equipment Orders

Authority is requested for the ordering and, to the extent indicated, for the financing in 1954 of the undernoted New Equipment:

Diesel Electric Locomotives

52	1600-1750 HP	Road Freight
15	1600-1750 HP	Road Freight (GTW)
38	1600-1750 HP	Road Passenger
18	1600-1750 HP	Road Switchers
2	1600-1750 HP	Road Switchers (GTW)
2	1500-1600 HP	Road Switchers (CVR)
38	1200 HP	Road Switchers
4	1200 HP	Road Switchers (GTW)
5	800 HP	Road Switchers
5	900-1000 HP	Switchers (GTW)

Passenger Equipment

30 Baggage Cars
50 Express Refrigerators
1 Self-Propelled (Budd RDC)

Freight Equipment

1750 Box Cars
100 Flat Cars Heavy Duty
200 Gondola Cars
50 Gondola Cars—Ore Type
100 Hoppers—Covered (GTW)
200 Refrigerators

Work Equipment

1 Air Dump Car (CVR)
1 Burro Crane—Model 40
2 Locomotive Cranes—30 ton
1 Wrecking Crane—250 ton
1 Flat Car
1 Snow Plow
1 Snow Plow (CVR)
3 Jordan Spreaders
Traction Motors (24) and Truck (1)

Provision for special experimental equipment and for new types of equipment to be tested in operation.

Total estimated cost \$63,032,195, of which \$39,332,195 will be required to cover deliveries anticipated during 1954	\$ 39,332,195
Total	\$ 147,032,195

CANADIAN NATIONAL RAILWAYS

ACQUISITION OF SECURITIES

—	1953 Budget:	1953 Actual:	1954 Budget:
	$	$	$
TORONTO TERMINALS RAILWAY (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Proportion 50%.......	Cr. 530,000	....	463,000
NORTHERN ALBERTA RAILWAYS (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Proportion 50%......	550,000	715,000	500,000
CHICAGO AND WESTERN INDIANA RAILROAD Advances under agreements of March 1/36 and May 1/52..	270,500	316,700	272,000
ATLANTIC AND ST. LAWRENCE RAILROAD Purchase of Capital Stock............................	1,500	2,000	1,500
THE SHAWINIGAN FALLS TERMINAL RAILWAY CO. (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Proportion 50%......	1,000	....	....
SUB TOTAL..	293,000	1,033,700	1,236,500
TRANS-CANADA AIR LINES Capital Expenditures..................................	....	....	10,000,000
TOTAL..	293,000	1,033,700	11,236,500

CANADIAN NATIONAL RAILWAYS

Construction of New Branch Line from Sherridon to Lynn Lake,

Province of Manitoba

Authorized by Chapter 44, Statutes of Canada 1951

Total Estimated Mileage: 155

Total Estimated Expenditures: $16,933,750

Progress of Work

Clearing, grading, etc. installation of culverts, erection of temporary telephone line and concrete substructure for steel bridges, erection of steel superstructures, have been carried out, and track was laid into Lynn Lake, 23rd October, 1953.

This branch line, as now constructed, consists of 143.91 miles of main line, 4.06 miles of passing tracks, and 2.44 miles of yard tracks, for a total of 150.41 miles.

The line was inspected by the Board of Transport Commissioners' Engineer 27th to 29th October and the Board issued Orders No. 82507 and No. 82772 dated 5th November and 18th December, 1953, respectively, permitting operation.

Fair deposits of gravel were discovered at mileage 81.5, 95, 112, 123 and ballast pits were opened up. The main track has given two lifts of ballast from Serridon to Mile 75 and first lift through to Lynn Lake.

Sections for maintenance of way are being established averaging 12 miles in length; buildings—section foreman's dwelling, bunkhouses and tool houses—are being set up at locations approximately in the centre of each section.

Station and agency were opened at Lynn Lake 20th November, 1953.

Sherritt-Gordon Mines Ltd., are shipping nickel concentrate to Fort Saskatchewan, Alberta, and copper concentrate is to be shipped to Copper Cliff and Noranda, Quebec.

Commercial fishing operations are being carried on at Reindeer Lake and fresh fish is being delivered to Lynn Lake for outward express shipments. Fishing operations are also being carried on at Russell Lake and other large lakes with shipments being made from sidings at Mile 104.5 and Mile 58.

Trains being operated to date consist of one mixed train per week leaving Sherridon on Friday, arriving Lynn Lake that evening and returning to Sherridon on Saturday, and trains for other freight are being run as necessary.

During 1954, after the Spring thaw, additional drainage, ballasting and surfacing will be necessary and it is expected that track over the deeper muskegs will settle appreciably and train filling will be required as well as rip-rapping to protect embankments subject to erosion of the direct current of waters at bridge end, etc.

Engine shed, fuel oil storage, enginemen's bunkhouse and employees' dwellings are yet to be built at Lynn Lake.

$15,878,271 has been expended under authority of the Act (P.C. Order No. 4348 amended by P.C. Order No. 1953-1804) to 31st December, 1953.

The estimated expenditure during 1954 is $1,055,479—$1,000,000 of which, it is estimated, will be expended after March 31st, 1954.

CANADIAN NATIONAL RAILWAYS

Construction of New Branch Line from Terrace to Kitimat,

Province of British Columbia

Authorized by Chapter 20, Statutes of Canada 1952

Total Estimated Mileage: 46

Total Estimated Expenditures: $11,500,000

Progress of Work

Grading by Railway forces Mile 0, opposite Terrace Station to Mile 0.9, the north approach to bridge crossing the Skeena River, is 97% complete.

Skeena River bridge concrete sub-structure—2 abutments and 6 piers—contracted to Dawson and Hall, Ltd., Vancouver, is 90% complete.

Skeena River bridge steel superstructure—1 D.P.G. and 6 T.T. spans—fabrication and erection contracted to the Dominion Bridge Co. Ltd., Vancouver, is 35% completed.

Clearing, grading, etc., installation of timber bridges, substructures for steel bridges and placing of culverts, from the south approach to the Skeena River bridge to Kitimat, is contracted to Campbell-Bennett Ltd., Vancouver.

Right-of-way has been cleared through to Kitimat.

Grading was commenced from the south bank of the Skeena River and from there southerly to the crossing of the Lakelse River, Mile 11.5, is 87% complete; much difficulty has been experienced in this section on account of very fine grained clay which it is impractical to excavate during the periods of heavy precipitation common to this territory; all work is suspended here until the spring of 1954. It will be necessary to excavate some of these clay cuts below sub-grade, place cross logging and back fill with granular material, prior to track laying. This class of clay is unfit for the construction of embankments and it has to be "wasted" and more stable material hauled in.

On the 1st September, 1953, a slide occurred from a clay ridge on the south approach to the timber trestle bridge crossing Alwyn Creek, Mile 6.6; this necessitated lengthening the bridge.

Between the crossing of the Lakelse River, Mile 11.5 and the summit Mile 20, grading is 60% complete; during the winter months work is being confined to solid rock excavating opposite Lakelse Lake, Mile 15 to 17.

Grading was also commenced from Kitimat, Mile 40.53, northerly, and it is 77% complete to Mile 31, near the crossing of the Wedeene River.

Total grading is approximately 55% complete.

Construction of timber bridges is 70% complete.

It is planned to lay track and ballast with Canadian National Railway equipment and personnel. Track materials are being stock piled at Terrace and track has been laid to Mile 0.9, the north end of the Skeena River bridge. This bridge is expected to be completed by 30th June, 1954, when tracklaying will proceed southerly as completion of grading permits. Every effort will be made to connect grading operations from the north and south, by the fall of 1954, in order that track may be laid through to Kitimat before severe Winter conditions set in.

$5,090,469.19 has been expended on the line, under authority of the Act, to 31st December 1953.

The estimated expenditure for the calendar year 1954 is $6,200,000.00.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

—	1953 Budget:	1953 Actual:	1954 Budget:
	$	$	$
INCOME ACCOUNT			
Operating Revenues	5,100,000	4,509,342	4,940,000
Operating Expenses	4,685,750	5,331,788	5,220,000
Net Operating Deficit	....	822,446	280,000
Net Operating Profit	414,250	....	....
Vessel Replacement fund earnings	162,000	170,866	175,000
Interest requirements on 5%—25 year Bonds due 1955, principal amount $9,400,000	470,000	470,000	470,000
Interest on Government Notes and Advances	5,250	5,250	6,000
Deficiency—Operations	....	1,126,830	581,000
Surplus—Operations	101,000	....	....
Profit on sale of vessels	....	477,168	....
Provisions for Income Tax	38,000	....	....
Income Profit	63,000	....	....
Income Deficiency	....	649,662	581,000
NOTE:—Additional Income Tax provision from surplus of Insurance Fund	144,000	....	....
CAPITAL BUDGET			
General Betterments	....	6,480	10,000
Vessels sold—Net sale price	Cr. 705,000	Cr. 227,832	....

NOTE:—Funds for Capital Expenditures have been provided from Vessel Replacement Fund.

Mr. GORDON: Perhaps I might start, Mr. Chairman, by just drawing the attention of the members of the committee to the fact that on the capital budget papers which they have before them, the first page is simply an index, and page 1, which opens up into a double sheet, gives the summary statement. I think the most enlightening way to proceed could be to consider the totals there in the first instance. You will recall that we discussed the forecast of income accounts fairly completely yesterday, so that perhaps I do not need to repeat the 1953 figures. But, I call your attention to the bottom of this sheet, which is headed "Forecast of Income Account" and you will see there the estimated figures for 1954 "Operating Revenues" of $688·5 million, and "Operating Expenses" of $643·7 million, with "Net Operating Revenues of $44·8 million. With the usual allowances shown for "Net Income Charges" and the amount available for payment of interest and actual interest on the funded debt and interest on government loans, we come up with the forecast that we may make a surplus of $500,000. I may repeat the qualification I mentioned yesterday that this estimate was made two months ago and is at the very best an informed guess, based on an assumption there would be no change in wage and price level however it is premised on an upturn of traffic from early in the year. As it stands at the end of the third week of March we are about $5,600,000 worse off than we estimated we could be at this time of the year. So, from that point of view alone it is very doubtful that we will in fact achieve the earnings which we have forecast.

Perhaps I might say something about the second major qualification which, I mentioned, and that is that we sustain no change in wage costs. Since that guess was made we have been faced with the certain prospect of making adjustments with the running trades in particular covering the outstanding discussions which were being held at the end of the year. These estimates have been based on bringing these other trades up to the general level of the adjustments which we made for the non-operating trades towards the end of last year. That will cost us this year about $1,300,000. So you see "bang"; there goes our surplus with that single $1,300,000 unless we get more traffic than we now foresee. And at this moment we have before us a request from the non-operating trades mentioned in my annual report respecting the so-called fringe benefits which, if granted, would cost the Canadian National Railways alone about $31,700,000. And if the same scale of benefits were applied through all branches of the railway, which would almost inevitably follow, there would be a total increase on an annual basis to the Canadian National Railways of $49,700,000.

Now, I am not suggesting that that cost is going to arise. I would hope that some degree of sanity and reason would prevail in that respect. But I mention, as a contingent matter, that the demands of labour if fully granted on the basis now before us would result in an annual additional cost of $49,700,000. Remember that I said "on an annual basis." You see the effect for next year would depend on whatever adjustment is finally reached, and it would depend on the date covering the additional cost of it for the year 1954.

I raise that point to show you the magnitude of our costs on the basis of these figures. It does not matter what it is; any increased cost beyond what we have assumed in making this forecast is almost bound to be substantial, and is bound to result in a substantial deficit in 1954. So we cannot arrive at a break-even point or a surplus, unless we hold the line at present-day cost standards and as well get an improvement in our traffic.

Mr. MACDONNELL: You have explained that the budget was made on the supposition of unchanged wages. Is there anything of note to mention as to the savings of $16 million that you hope to make? What would be the chief savings, and do you anticipate any increased expenses?

Mr. GORDON: As traffic falls, as I have explained, there are certain things which we obviously try to do. That is, we reduce our operating expenses as fast as we can in relation to the lower needs of traffic. And that results in a lay-off of employees or a cutting down in the maintenance service, let us say on locomotives and things of that kind. But we find in practice that it is quite impossible to reduce expenditures in the same ratio as the fall in traffic occurs.

The figures of course before you here show that last year we could reduce expenses by $16 million against a fall in traffic of about $24 million. In other words, that is what we were able to accomplish last year.

It is hard for me to say whether in fact we might do as well this year, because as traffic falls off it becomes perfectly clear that the extent to which a comparable reduction in expenditure can take place is limited by the fact that you have a very fundamental overhead to take care of all through the piece.

Mr. GILLIS: Your 49,700,000 forecast is quite high, but this is not the place to argue wage rates. However, I noticed in your forecast of income account you have approximately $63 million set out as interest charges. Would there be any chance of juggling that around a bit?

Mr. GORDON: What figure is that?

Mr. GILLIS: You have available for the payment of interest the sum of $31,900,000, that is, as interest on public debt, of which $25,500,000 is interest on funded debt, public and $5,900,000 is interest on government loans.

Mr. GORDON: That does not make $63 million.

Mr. GILLIS: It does when you add them all up.

Mr. GORDON: No. $31,900,000 is what we have available for payment of interest charges.

Mr. GILLIS: That is a lot of money. Is there any chance of juggling that?

Mr. GORDON: The $31,900,000 is available for payment of interest, $5,900,000 is interest payable to the government on temporary loans pending the sale of our bonds to the public on the market.

Mr. GILLIS: Could you not get a non-interest bearing loan from the government?

Mr. GORDON: Perhaps you could put that up to the Minister of Finance. I have not been able to.

Mr. GILLIS: You have an item for the payment to labour of these fringe benefits. It looks like a pretty bad figure when you set it out against your anticipated surplus.

Mr. GORDON: You must remember that we have already gone through a capital reorganization.

Mr. GILLIS: I know that.

Mr. GORDON: And in that capital reorganization the net effect was that the fixed charges of the Canadian National Railways in the form of interest was set at about $25 million anuually. When this was done we agreed that in the circumstances this was a reasonable one in relation to the Canadian National Railways' operations and that taking the good years with the bad we should be able to earn the interest to take care of the outstanding debt that was still left on the railway. In other words, we managed to convince those in authority that too large an amount of our debt represented a debt which was not incurred by the system but was taken over from the bankrupt companies at the origin of the system. It was all argued out and agreed to; and the equity capital was raised by about $736 million borrowed capital being reduced by a similar amount. This resulted in a reduction of fixed interest charges of about $25 million a year, which I think you will agree represents a major adjustment.

Mr. GILLIS: You are being charitable. That was a death-bed confession. C.N.R. carried it for too many years. It was only by argument over the years that they finally did acquiesce and make that confession.

Mr. GORDON: I had something to do with it, too.

Mr. GILLIS: There is no harm in arguing now.

Mr. GORDON: I think, with respect, Mr. Gillis, that it would be a great mistake for Canadian National to argue now, or again, that its capital structure should ever again be the subject of a change in form beyond the provisions of the Capital Revision Act. Relief from the burden of fixed charges was properly argued as something that ought to be done because it was a debt taken over from bankrupt companies. If we are going to run the C.N.R. on a competitive business basis, then the C.N.R. should be able to earn enough interest to take care of the funded debt now in the hands of the public, because that is now a fair debt and it is properly comparable with the average railway organization in this country or the United States. If you compare our figures now, generally speaking, our burden of fixed debt is relatively comparable and, therefore, we are in a fair business position competitively.

Mr. GILLIS: I have no argument at all with your summing up, if you are able to do it. The right of a man to eat is a prior right to that of wages or capital, that is all.

Mr. GORDON: That is a viewpoint in philosophy that you and I could talk about for a long time, but I did want to stress that what I say about the requests of labour, in respect to the costs of the C.N.R., is equally applicable to other railway companies, and the impact of such costs that I referred to is just as serious to our competitors as it is to us. Their ability to earn enough to take care of their obligations to the public is a very serious matter, because on that depends their ability to survive. If they cannot raise capital and pay the charges of capital, which is the interest cost, and if they cannot float their capital stock on a basis that can be reasonably expected to encourage the investor, then that railway company or other organization cannot survive. That is how important it is.

Mr. GILLIS: I am not arguing with you. I just wanted to leave that thought with you.

The CHAIRMAN: Shall page 1 of the budget carry?

Mr. MACDONNELL: I have a general question to ask. I am anxious to know just how the investment of the Canadian people in the Canadian National Railways has progressed in these last years. I was going to say to Mr. Gordon and his staff to carry it back to the outset. Each year we come along and for reasons which seem good to the railway and to us the Canadian public invests so much in the railway. I would like to get a picture going back as far as is convenient showing the total increase in the investment by the Canadian public in the railway. I take it that it is a relevant point which comes up when rates are discussed and it is part of the burden that Mr. Gordon carries. It seems to me that it would be very desirable to have that brought out.

Mr. GORDON: I have before me a statement which comes from the Dominion Bureau of Statistics, and it is, therefore, readily available in a form which is comprehensible. This shows from 1923 the year-by-year capital asset investment increase in the railway. I think that if that would serve your purpose, we can perhaps table it in that form.

Mr. MACDONNELL: Could you take out the chief figures for the record?

Mr. GORDON: This shows from the period 1923 to 1953 the capital expenditures made in the system. The grand total over that period is $1,190,500,000.

Mr. MACDONNELL: Will you relate to that the amount that was forgiven? That was an investment and there is no interest paid on that?

Mr. GORDON: Oh, yes.

Mr. MACDONNELL: I am referring now to the actual amounts advanced, not those that are loaned. We have here an item of interest on government loans, $5,900,000. That covers what?

Mr. ARMSTRONG: That covers estimated interest on the short term loans which will be outstanding during 1954. We are talking of two different things. This is the capital budget we are discussing, and we, therefore, assumed that your question had to do with investments by the railway in property. That is the question which Mr. Gordon has answered regarding the $1,190 million. That does not have regard to the source of the funds.

Mr. MACDONNELL: My question is in regard to the source of the funds. I want to know how much has been put in by the Canadian people.

Mr. ARMSTRONG: I think that information has already been asked for by Mr. Pouliot, and I believe that the answer to him will answer your question also. The information is being prepared in Montreal and will be sent on as promptly as possible.

The CHAIRMAN: Could we have a copy sent to Mr. Macdonnell as well as to Mr. Pouliot?

Mr. GORDON: Perhaps we could send it to you, Mr. Chairman, and you could arrange to have it published in the proceedings of the committee?

The CHAIRMAN: Fine.

Mr. MACDONNELL: This amount of $5,900,000 is interest on what?

Mr. GORDON: That is estimated interest during 1954 on temporary loans from the government. You will see from the balance sheet that the temporary Government loans were included in the figure of $342 million at the end of 1953. First of all there is our funded debt owned by the public. That is the amount on which we pay interest to the public. Then there is this amount of $342,140,000 odd which we owed the government at the end of the year. The reason that the interest payment to the Government will be less in 1954 is that we have sold an issue of $200 million to the public, thus reducing our government loans and increasing the amount due to the public.

Mr. MACDONNELL: You tied this to the $342 million. That is to say, the interest shown here, interest on government loans?

Mr. GORDON: That is the actual amount we think we will need this year to pay the government for temporary loans. That will assume that at some time—I do not know when—we will be floating another public issue for the purpose of paying off the government and that again will increase our funded debt due to the public. Our government loans are always temporary financing made with the intention of standing on our own feet with public borrowing.

Mr. MACDONNELL: Since the clean-up was made, in which the government forgave you the amount you mentioned earlier, you have stood on your own feet with temporary loans from time to time?

Mr. GORDON: That is the idea.

Mr. FULTON: You have the preferred stock?

Mr. GORDON: Under the terms of the Recapitalization Act, we may sell to the government preferred stock, equivalent to 3 per cent of our gross earnings in any one year. We hand our preferred stock to the government for that amount and they give us cash for it and we use that cash for capital investment in the railway as we see fit.

Mr. FULTON: That also carries interest?

Mr. GORDON: Not the stock.

Mr. FULTON: No, dividend rates?

Mr. GORDON: There is a preferred stock dividend up to 4 per cent. We have not earned that 4 per cent, but the provisions are that when we finish our year the amount of surplus which shows becomes payable first of all in the form of a dividend on our preferred stock. The $244,000 surplus that we had this year is paid as a dividend on our preferred stock.

Mr. MACDONNELL: How much of that preferred stock is outstanding now?

Mr. GORDON: It is all owned by the government and is shown here at the end of the year as being 775,894,217 shares.

The CHAIRMAN: Shall the first page of the budget carry?

Mr. FULTON: Could you give us a comparable figure on page 1 for the C.P.R. capital appropriations? They state in their annual report, at page 19, "Your approval will be requested also for capital appropriations for the year 1954 amounting to $75 million, as follows." Then they break it down and show that for new rolling stock they will ask for capital appropriations of just over $60 million. On page 1, what is the corresponding figure for that $75 million and the corresponding figure for the $60 million?

Mr. GORDON: Unfortunately, as I pointed out, I had not had a chance of seeing the C.P.R. report for this year, before I came here. This is new rolling stock?

Hon. Mr. CHEVRIER: Is that not a question for the C.P.R.?

Mr. FULTON: Which of these figures would it be, the $69 million figure?

Mr. GORDON: My trouble is that I find it is very dangerous to make offhand comparisons. If I may speak subject to qualification, as I have not had a chance to go into details in this report and they are not always as clear as they might be, as far as I can see, a comparable figure to "new rolling stock" and "additions and betterments," shown in the C.P.R. report as $69 million, would appear to be the figure here of $147 million, which covers our new equipment as shown on page 1. I do not know however if that is strictly comparable or not.

The CHAIRMAN: Shall page 1 carry?

Mr. GORDON: Let me qualify this again. I cannot make this comparison. I do not know whether the C.P.R. report is on a cash basis or a commitment basis. You see the way we have broken ours down, we cover our new projects for 1954 with the $39,332,195, whereas the equipment which was previously authorized and which will be delivered this year is $107,700,000. So, looking hastily at it, I do not know whether that figure of the C.P.R. is on a comparable basis. I would not like to say it is.

Mr. POULIOT: Mr. Chairman, in those estimates is there something for Riviere du Loup?

Mr. GORDON: Yes. I would suggest, in order to make progress, that I pass from the forecast of income account to explain what these summary totals mean and then take you through these sheets coming next to the summarization of the detail. At that point I will remember your question and let you know. Will that be satisfactory?

Mr. POULIOT: Yes.

Mr. MACDONNELL: Could you just break down that figure of preferred shares, $775 million. I understand they are at dollar par value each?

Mr. GORDON: Yes.

Mr. MACDONNELL: When did the government begin purchasing these?

Mr. GORDON: This special arrangement for the purchase of preferred stock, was provided for in the Capital Revision Act of 1952. That was when the government converted loans into preferred stock. In other words, we are no longer obligated to pay interest on it, but we are obligated to pay dividends. The amount so established plus what we have since issued to the government is the figure shown there.

Mr. MACLEAN: Do you operate any services which are directly subsidized by the government?

Mr. GORDON: Yes.

Mr. MACLEAN: What I was thinking of was a particular case which I might use as an illustration, the ferry service from Prince Edward Island to the mainland, which you operate at a loss, I suppose?

Mr. GORDON: Yes, the government takes care of that loss in the form of a subsidy payment.

Mr. MACLEAN: It does not appear as a loss?

Mr. GORDON: No, it does not appear in these accounts.

Hon. Mr. CHEVRIER: It is a separate item of the estimates.

The CHAIRMAN: Could you go ahead with the explanation of additions and betterments?

Mr. GORDON: I would suggest that members of the committee might like to turn their attention to the top of page 1, which is before them. First I will touch on the heading, "Additions and Betterments." The total additions and betterments (General) which we plan for this year you will find opposite the heading "Total—General", $44,700,000. That appears with actual expenses for 1953, $31,692,000 odd. There was a question asked last year that led us to the conclusion that this would be a clearer form of presentation. You will see that we have headed the first column "Projects not heretofore authorized." In that heading we have obligations which we propose to incur, finish and pay for this year. These are entirely new obligations and the first item is an amount of $13,226,270. In the next column you will see the heading, "Projects Previously Authorized". These are obligations which have been before this committee and approved prior to this year and which will now be completed and paid for this year. In other words, the common term that you use is a "revote", and it applies to the second and third items. The third item shows obligations incurred and to be discharged prior to July 1, 1954. The reason that we spread these items is that full authority has already been provided not only for the commitment, but for the payment of the money in the Financing Act of 1953. You will realize that the difference between this figure and the $22 million is that while the commitment of the $22 million has been approved by the committee, the financing of it has not been arranged. That is the breakdown for the $44,700,000, which is comparable to the budget figure of $47,885,000 for 1953, of which we actually spent only $31,692,931. On the following pages I will refer you to the detailed breakdown of additions and betterments. I thought you would get a better grasp if I first gave a full picture and then the details.

Mr. MACDONNELL: In that $44 million, as I understand it, there is the item for which the Minister of Finance has already authority to give you the money?

Mr. GORDON: That is right. That is covered in the Financing Act of 1953.

Mr. MACDONNELL: Then you include it again?

Mr. GORDON: So that we show clearly the amount of cash which we will need in 1954 to discharge these obligations.

Mr. MACDONNELL: Yes, I see, but the amount you mention is already authorized?

Mr. GORDON: Yes. Now, in regard to branch line construction, we propose to spend $6,200,000 on the Terrace-Kitimat line, which is already authorized by statute and which is included here in order that the Minister of Finance may have proper authorization for the payment. In "New Equipment", the same breakdown applies as I mentioned in regard to "Additions and Betterments—General". "New Equipment" shows here the grand total, of $147,032,195. That again compares with a similar budget for 1953 of $89,250.685. In taking you back again to the column, "Projects not Heretofore Authorized", it shows that of the $147 million-odd only $39 million represents obligations to be incurred in 1954 and to be paid for in 1954. You will find that the heading is slightly different from that under "Additions and Betterments—General", because we point out that the obligation in 1954 totals $63,032,195, but only $39,332,195 of that amount will be paid for in 1954. The difference between the $39 million and the $63 million, which you see there, is a commitment you will be asked to recommend. You will see a note under the heading, "Commitment Authorizations", to the right, covering requested authority to place orders in the amount of $237,000,000, which is the difference between the $39 million-odd and the $63 million-odd.

In the column, "Projects Previously Authorized", again you will see our estimate of $63,646,000 representing obligations already authorized and covered in the Financing Act of 1953. In other words, we need no further authority, but they are included there as a note showing the estimated cash expenditures prior to July, 1954. There is still another quirk in connection with that item, which I will come to in a moment. Then there are obligations to the tune of $44,054,000 which are already authorized as to commitment and which will be paid for after July 1st 1954. So that again is a revote for which we need financing authority. The total of these equipment items is $147 million. Again I call your attention to the fact that last year the budget figure was $89,250,685, against an actual expenditure of $85,998,362. The next item is "Asquisition of Securities", which covers largely the capital requirements of the T.C.A. for which we are obligated to furnish funds. I will deal with that when we get to the details on page 5. Which also covers any financing we have to do for jointly owned companies. Additional working capital last year was about $15 million, but this year we decided to squeeze ourselves because, notwithstanding the fact that there is some need for additional working capital, we think we can get along without it. The sum of the $44 million-odd shown above in the separate section, the $6,200,000, and the total new equipment of $147 million-odd, plus the acquisition of securities, brings the grand total to $209,168,695. Then we find $19,545,000, which is the balance available from our depreciation accruals during the year, and $20,655,000, the amount of preferred stock, which we will sell to the government, representing the 3 per cent of estimated total revenue of $688 million that I mentioned before. Under the Capital Revision Act it is provided that the government will buy preferred stock each year amounting to 3 per cent of our actual gross earnings. That leaves us with a sum of $168,968,695, and of that total $72,603,860 has already been authorized and completely provided for in the Financing Act of 1953, and a note to the left there tells you what the items are. In other words, we have full authority, for the items of $8,957,860 and $63,646,000, not only for commitment but for the Minister of Finance to pay out, and we need no further authority. We deduct them and come to a net figure of $96,364,835 for which we need to have authorization. While you still have that figure in your minds, may I ask you to turn to the heading "Commitment Authorizations", which appears on the right of page 1. Now, we ask for commitment authority to enter into obligations representing $12,855,000, That represents the estimated amount included in our general additions and betterments which, while we have it on a project basis, we will not spend in 1954. We specifically identify these items on which we will enter into commitment and for which we will not pay in 1954. In note No. 2, as I mentioned before, there is $23.9 million representing the equipment for which we ask authority to incur commitments, but for which we will not pay until after the year 1954. Note 3 is a little more difficult to explain. Like all these things that look difficult, it is simple when you understand the theory behind it. In the period January 1 to July 1, 1955 the Minister of Finance will find himself in the position that there will be payments falling due to be made by C.N.R. The Financing and Guarantee Act, as a matter of practical fact, does not get through the House of Commons until towards the end of the session, and so we estimate how much of our commitments will fall due and become payable in the first six months of the following year. The Minister of Finance then is given authority to make advances to us up to the amount of that estimate, which for the year 1955 is $45 million. This authority will be included in the Financing Act of 1954., and under the provisions of that Act we will be required to show you how much we estimate will be expended during the six months of the year 1955.

In this particular case, the $45 million, would cover a share or perhaps all of the $23·7 million. It depends on what is delivered. If that is delivered in the first half of the year, the minister finds his authority to pay out cash, which is later confirmed in the Financing Act of 1955. Now, the difference between the $23,700,000 and the $45,000,000 we have estimated represents revotes on "Additions and Betterments" which will be paid out in the first half of 1955. It is exactly the same thing as equipment, but in this case it refers to Additions and Betterments.

Mr. MACDONNELL: Are these $45 million, the $23 million, and also the other things which have been authorized in the past, exact figures?

Mr. GORDON: No, that is an estimate. Last year the amount was $80 million, and out of the $80 million we are paying or have paid these two items which I referred to here as being fully authorized under the Financing Act of 1953. In other words, we have authority for them now, but at the time we did not have. When the 1953 budget went through, we had commitment authority. The Financing Act of 1953 gave authority to the tune of $80 million and out of that these items are being paid as they fall due this year.

Mr. MACDONNELL: With regard to accrued depreciation, in your balance sheet for this year you show $186 million as against $171 million for the year before.

Mr. GORDON: You will find that figure right here in this column. You are talking about the difference?

Mr. MACDONNELL: Yes, and wondering why it has gone up. Last year it was $171 million and this year $186 million. This shows the amount of $15 million. It is less by about $4 million than what you estimate for this year. It is not clear to me why that amount should be built up.

Mr. GORDON: It is an accrued reserve. It is always an offset to the asset.

Mr. MACDONNELL: Quite so, but on the face of it it looked as though you were adding $15 million to that account. Why would you not use more of that account as a deduction from the amount you need? It is not clear to me why you want to build that up.

Mr. GORDON: Each year our depreciation produces a certain amount, and that amount, which is estimated in 1954, for example, as $19,900,000, is added to the depreciation reserve. The amount of $186 million represents the grand total of our depreciation on Canada lines equipment accumulated over the years.

Mr. MACDONNELL: You have this amount of $15 million built up in 1953. Why didn't you use the whole amount available for cutting down expenses? In other words, why has it been built up?

Mr. ARMSTRONG: You are speaking of the question of depreciation which we discussed yesterday. We are now discussing the addition in 1953, which is the amount set out.

Mr. MACDONNELL: Is the $19,900,000 the total amount you have available for the purpose?

Mr. GORDON: For this year. When we retire equipment from the service altogether, that is when it is completely used up and written off, the total of that equipment is charged to depreciation reserve. That refers to equipment because on the Canadian lines, only equipment is on a depreciation basis. I thought that you meant, what is the reason for the difference between the actual expenditures in 1953 and what we are estimating for 1954. The difference between the figures for the two years reflects changes in amounts accrued and in equipment retired.

Mr. GILLIS: Do you anticipate any difficulty in securing the materials necessary to carry out this program? There has been a continuous shortage of rails since the end of the war.

Mr. GORDON: Not this year. We had some doubts about getting the equipment in every case, but the equipment supply situation this year is much easier, and we think we ought to be able to discharge pretty well the work program we are laying before you here. Of course these things can change, as you know.

Mr. GILLIS: You will be able to get rails?

Mr. GORDON: We believe so. We already have committed ourselves for sufficient tonnage of rails to take care of the program we have in mind, and the only other factor is the availability of labour.

Mr. FOLLWELL: Can you get coal all right?

Mr. GORDON: Yes.

The CHAIRMAN: We go to page 2, the detailed report by regions, departments, etc.

Mr. GORDON: This is what I might call the summarized details, broken down by each region. Since these run into thousands, of individual items, we have broken these down into group headings, As an example, if you run your eye down the Atlantic Region, you will find the total capital expenditures to which we propose to commit ourselves for this year under the group headings which are spelled out in the statement. In other words, if you take the first item in the Atlantic region, "Rails and fastenings, tieplates and rail anchors", we propose to commit ourselves to getting on with the work to the extent of $1,833,865. As you run your eye across, you see in each region what the figure is. It varies by reason of the size of the region and by reason of the needs of the region. Some lines are in better shape than others, and so forth. Mr. Pouliot was inquiring about Riviere du Loup and this would be the appropriate time to inform him. Under the general heading of "Yard Tracks and Sidings", we have in the Riviere du Loup yard an item of $50,367 in capital and some $30,000 in maintenance charges, making a total of some $80,000 for the extension and rearrangement of the yard at Riviere du Loup, and we expect to get going with that sometime this summer.

Mr. POULIOT: That is $50,340?

Mr. GORDON: The charge to capital account is $50,340 and the other parts of the program are to be charged to maintenance and, therefore, are not capital and they would be some $30,000. So the gross expenditure is about $80,000.

Mr. POULIOT: Thank you, Mr. Gordon.

Mr. FULTON: Have you anything in the Central Region for Woodstock station?

Mr. GORDON: Woodstock, Ontario, station shows alterations and improvements of $25,857 changeable to capital and, roughly, around $5,000 chargeable to maintenance.

Mr. FULTON: What is the figure?

Mr. GORDON: Roughly about $5,000, I think. We propose to spend a total of $31,040.

Mr. FRASER (*Peterborough*): What about Peterborough station?

Mr. GORDON: Peterborough station? There is an item for modernization of station for a total of $41,000, of which $16,925 is chargeable to capital.

Mr. FRASER (*Peterborough*): I hope they make quite an improvement on it because it is certainly a dull looking place.

Mr. CARTER: Could you give any information about stations in Newfoundland, particularly new stations?

Mr. GORDON: We have a grand total covering "Stations and Station Facilities" for the Newfoundland district of $141,456, of which $132,209 is chargeable to capital. Within that total, we have the construction of station and agents' buildings at Goobie's which covers $20,000.

Mr. HARRISON: Could Mr. Gordon tell us what has been expended in the Western Region, in Saskatchewan, on stations?

Mr. GORDON: I have not the information by provinces, but I will find it for the Western Region for you.

Mr. HAHN: If that includes British Columbia, would you give that, please?

Mr. GORDON: We have in our budget this year a grand total for the Western Region for stations, and station services—that is the region which runs from Winnipeg west—of $3,955,246, of which $3,729,496 is chargeable to capital. If you would give me the individual names of stations in which you are interested, I can pick them out.

Mr. HARRISON: Is there anything for North Battleford or Prince Albert?

Mr. GORDON: For North Battleford we have projected a new station at a total cost of $250,000, of which $220,000 is chargeable to capital. I should tell you, however, that the plans for that station are not drawn yet; we have simply set down the amount of money and we are now studying the question of the best type of station we can get out of that amount. However, there is $250,000 allocated this year for getting on with that job.

Mr. HAHN: For New Westminster?

The CHAIRMAN: Mr. Harrison asked for Prince Albert.

Mr. GORDON: There is nothing for Prince Albert except a small item for installing electric lights. I beg your pardon, I am wrong; it is for Prince Albert division, and there are six small stations in the division where we are putting in electric lights.

Mr. LANGLOIS (*Gaspé*): Could you tell me if you have anything for a new station at Gaspé?

Mr. GORDON: I doubt it, but I will see.

Mr. LANGLOIS (*Gaspé*): There has never been any capital expenditure in the form of a new station at Gaspé.

Mr. HAHN: New Westminster?

Mr. GORDON: No, there is no provision at New Westminster.

Mr. GILLIS: With respect to this $1,833,000-odd you are going to spend on roadbed improvements in the Atlantic Region, could you give us an idea where those improvements are going to take place?

Mr. GORDON: That is our regular annual program for "Rails and fastenings, tieplates and rail anchors" only, and it covers them in a general way. I have no specific details, but the total of $1,833,000 referred to covers only the new capital, recorded as such for bookkeeping purposes. It embraces a program of $5 million for the year for laying of rails and fastenings, tieplates and rail anchors. We are, for instance, planning to lay 147·16 miles of new rail. We have about 54 miles to be laid with partly worn rail, and so forth. There are different funds for turn-outs, tieplates and so forth. The greater portion represents the day-to-day maintenance of the railway which will go on this year. The $1,833,000 represents new capital expenditures. Of course we go on from there, and when you say "roadbed" you have to include other items such as ballast and roadway betterment and so on.

Mr. GILLIS: I thought you might pinpoint where the improvements would take place. Would the Canso switch be included in that figure?

Mr. GORDON: The Canso development is paid for by the government. It is in the Department of Transport estimates.

Hon. Mr. CHEVRIER: A very substantial amount this year. I think it is about $8 million or $9 million.

Mr. FULTON: Which of these regions carries the largest volume of traffic? I do not want the actual figures.

Mr. GORDON: The Central Region is obviously the biggest earning and biggest traffic producer. That is where we get the highest rate of traffic.

Mr. FULTON: It is biggest in volume of traffic and earnings?

Mr. GORDON: It is biggest in volume of traffic and it is biggest in volume of earnings, but it is not biggest in trackage.

Mr. FULTON: The Western Region is the largest in mileage?

Mr. FRASER (*Peterborough*): Roadway betterment in the Central Region, I notice, is better than anywhere else. Why is that?

Mr. GORDON: That would mean that our railway in the Central Region is a more mature railway and does not need the same type of replacement in the way of odds and ends as others.

Mr. FRASER (*Peterborough*): In the Central Region, you show a credit of $190,335 for electrifying lines. What is that?

Mr. GORDON: That is a bookkeeping adjustment that the accountants insist on making.

Mr. FRASER (*Peterborough*): I was so surprised to see a credit in there that I thought I would ask about it.

Mr. GORDON: That is a bookkeeping adjustment that takes place when we decide to retire certain facilities, and it covers in this particular case the bookkeeping adjustments which took place following the erection of a rectifier substation at the eastern junction and the retirement of a substation at Portal Heights, outside Montreal. It is purely a bookkeeping matter. We have replaced one facility with another and this is the bookkeeping write-off to retire the old facility from our books. Certain parts of our write-off are in the form of retirement accounting, which means that the book value of a particular asset which we are retiring from the service becomes a credit to capital and a debit to operating expense.

Mr. FULTON: Where is your per capita division for the new hotel project in Montreal? Is that in "Other"?

Mr. GORDON: In part it is in "Other", where you will find $5,309,630 for hotels, but that is not all for the new hotel. If you want to discuss the new hotel, perhaps this is a suitable time.

The CHAIRMAN: If it is satisfactory for you, I think it would be a good time to deal with it.

Mr. GORDON: I have prepared a bird's-eye picture of this hotel proposition, and I will be glad to talk to it. I thought it would be useful to the committee not to regard this as a statement but as a sort of work sheet that would direct your attention to the highlights. With that in mind, I will speak to it and I will pass this around in whatever is the appropriate way to members of the committee.

Capital Commitments in respect of
MONTREAL TERMINAL DEVELOPMENT PROJECT

	1954 Commitments	Total Cost
Station Facilities and other work to proceed simultaneously with erection of hotel..	$ 1,337,991	$ 5,076,016
Hotel Structure	$ 4,355,217	$20,000,000
Hotel Furnishings and Equipment	Nil	$ 4,330,000

Size of Hotel:

Number of guest rooms in present plan	1,216	rooms
Number of storeys	20	storeys
Public Room accommodation at banquets	2,500	persons
Public Room accommodation at meetings	4,000	persons

Other Special Hotel Facilities:

Cocktail Lounge
Grill
Cafeteria
Night Club
Exhibition Hall, display area and Sample Rooms
Store Fronts
Garage, Taxi and Parking Facilities
12 Private Dining Rooms
2 Special Banquet Rooms
New Station Restaurant (Replacement)

Need for New Hotel:

1. Comparison of existing first-class hotel accommodation

	Per 100,000 of population
Montreal	308 rooms
Toronto	470 rooms
Winnipeg	660 rooms
Vancouver	1,250 rooms

2. Montreal is a natural convention centre. Within a radius of 500 miles of Montreal there is contained 61% of the population of Canada and 29% of the United States—a total of 52,720,000 people.
3. Key part of the development of the Montreal Terminal development Project leading to the full exploitation of the valuable site in the heart of Montreal.

Estimated Results of Operation:

Forecasts show that a range of from 2% to 6% on the invested capital could be realized and that an average return of at least 3% could be expected after meeting all charges, including maintenance, taxes and depreciation. This forecast makes no allowance or estimate for the collateral value to the railway of having a convention hotel in Montreal located on the terminal property and integrated with the Central Station. The collateral value would consist partly of the stimulation of passenger traffic due to increased convention activity and partly of the increase in value of the aerial rights in the terminal area, especially that portion lying north of Dorchester Street.

Construction Schedule:

Start demolition, excavation and foundations ..	June 1, 1954
Start steel erection	Nov. 1, 1954
Start general contract work	May 1, 1955
Complete hotel	May 1, 1957

Mr. POULIOT: Before you come to that, Mr. Gordon, if I understood rightly, yesterday you told the committee that you would complete the work of repairs on the roadbed and track on the Temiscouata railway this summer?

Mr. GORDON: That is correct. It is included in this project.

Mr. POULIOT: Now, when would I get the information that I asked for yesterday about the line?

The CHAIRMAN: They are still getting it ready.

Mr. GORDON: We have to get that from our books in Montreal, and it is in preparation now; I would think that they would have it ready in a few days, and I would send it either through the chairman or direct, whichever is appropriate.

Mr. POULIOT: I would ask you to send it to the chairman with a report.

Mr. GORDON: We will be glad to do that, and it should be ready in a few days.

Mr. POULIOT: Would you send a duplicate copy to the chairman, so that I will have one?

Mr. GORDON: I will see that is done.

Mr. GILLIS: Are you considering extensions to the hotel in Halifax?

Mr. GORDON: No extension is contemplated in this project.

Mr. GILLIS: It is badly overcrowded.

Mr. GORDON: We have to determine whether or not the demand for the particular type of hotel space that we have to sell is sufficiently great to justify the capital expenditure involved.

Mr. KNIGHT: Your expenditures on renovations and new structures last year were very profitable, as I recall from the main report.

Mr. GORDON: Expenditures where?

Mr. KNIGHT: You had added a wing to the Macdonald Hotel.

Mr. GORDON: We completed the Macdonald Hotel and that has turned out to be a very good venture. We have also completed the renovation of the Newfoundland Hotel, and that is working out very well, but we cannot do everything at once. We have to keep these situations under examination according to some established criteria. If we reach the conclusion that the demand for hotel space at any particular point where we are represented is such that it would justify extension of capital, we will come up with improvements.

Mr. GILLIS: That hotel in Halifax has the highest occupancy rate of any hotel in Canada, or at least that is my information. It is very convenient and a very good hotel, of course.

Mr. GORDON: That may well be.

Mr. JAMES: It might be helpful to the committee if we could have a breakdown of all the hotels in the C.N.R. system, with a review from 1946 listing the following, together with anything else that might be considered useful: the original cost of these hotels, the number of rooms, the average yearly percentage of occupancy, the gross revenue, the operating expenditures, and the net profit and loss for each year. That would give us a fairly complete survey of the set-up.

Mr. GORDON: We could have that statement prepared from our books, and I will see that it is done. Now, if we may turn attention to the Montreal hotel project, I should remind you that this hotel is really part of the Montreal terminal project that has been going on for 25 or 30 years, and we have now come to the construction of the hotel as a key part of the project. In the course of doing that, there are other expenditures which would flow naturally at that time, and that is why I have called your attention to the fact that, in thinking about the hotel, we have on this page an item which appears under the Central Region under the heading of "Large Terminals", $6,185,024. Of that amount, $1,337,991 represents station facilities and other work which will proceed simultaneously with the erection of the hotel, and be spent or committed in 1954. That would cover what might be called ancillary facilities that would be intelligently put into play at the same time as we start the erection of the hotel.

Mr. FULTON: In your work sheet you show a hotel structure commitment of $4,355,217.

Mr. GORDON: That is for 1954 only, but the total cost would be $20 million. That $4,355,217 is part of the $5,309,630 shown under "Hotels", but for the purpose of discussing this project I thought I should discuss this total. We have nothing in the 1954 commitment for the hotels covering hotel furnishings and equipment. That is mentioned in the estimate of $4,330,000 for furnishings and equipment of the hotel. We put down these estimates to the best of our knowledge and belief but, of course, we will not be able to crystallize the figure until we have actually called for tenders and are able to judge them in relation to our budget, etc.

Mr. MACDONNELL: That $5 million is in addition to the $20 million for the structure?

Mr. GORDON: Yes, but it could not be regarded as chargeable to the hotel as such, because it covers other works of a character that would contribute to the Montreal terminal project. If you will turn to page 15 of the annual report, you will see a sketch of the Montreal terminal project as it stands today, looking down from the bridge at Dorchester Street. The station itself is the small building across the bottom, and when the hotel is erected and if in due course we erect an office building, you will see nothing of that. That will be all covered, and this portion just north of Dorchester, we hope, will also be filled in with large office buildings. If you turn the page over you will see the same picture, but we have sketched in what will happen with the erection of the new hotel and the office building. At the moment we are talking about the hotel only; but we put in there a notion of what it could look like when we get the hotel built and the offices built too.

Mr. MACDONNELL: Does the erection of the hotel create a situation where you will be almost committed to go ahead on the office building?

Mr. GORDON: No.

Mr. MACDONNELL: I mean, structurally or architecturally, or otherwise?

Mr. GORDON: No, the office building is a completely separate project, but the point is that when we erect the hotel building there is certain work covering foundations, etc., which would be intelligently done at the time and would provide a base for the erection of the office building in due course. That would be all below grade, and would be part of this $5 million-odd which would take care of necessary, or at least sensible, work that would be done simultaneously with the erection of the hotel—would cover some of the work north of Dorchester, leading to the ultimate aim which I will discuss in a moment.

Mr. MACDONNELL: How much of the land do you own now?

Mr. GORDON: We own what is called the aerial rights covering the trackage shown in the sketch. We do not own everything north of Dorchester. There are some buildings along there that we do not own, but everything that you see which is in blank, so to speak, is owned by the company at the present time.

If you look at page 17, we have sketched in here a notional picture again looking from the south side up through our tracks into our passenger station, and that is what this part of skyline of Montreal would look like if we completed these projects. There is the hotel on the left; there is the office building on the right; that is taking a rear end view of it.

Mr. FULTON: And the International Aviation building is on the right?

Mr. GORDON: Yes, on the right. If you turn to page 18, that shows the ultimate aim, as we call it. It's accomplishment would depend on what we could do to interest private capital. Our present hope is that private capital will respond to the opportunity—and this sketch is an architectural concept of what the total result might be. On the left of, for example, item "D" is the new hotel, item "C" is the proposed railway office building, and item "A" is the International Aviation building already built. Dorchester street comes in at the arrow at point No. 1, and all the section north of that, which covers all these buildings in here, is simply a notional concept of what could be done with this very valuable property. We hope to interest private capital to take up the challenge and proceed with the erection of suitable office buildings, and so forth, on this valuable real estate.

Mr. FULTON: On what basis? Would you sell them the site or would you put it on a lease basis?

Mr. GORDON: We would be open to consider any type of offer, but generally speaking it would be a leasehold proposition.

Mr. MACDONNELL: When you say that it is planned to have private office buildings, are you including in that the offices that we are presently discussing?

Mr. GORDON: No, the office building, if it is gone ahead with, will be done by the railway.

Mr. FULTON: Everything south of Dorchester will be railway property?

Mr. GORDON: Yes, there is an important point there and that is that the attraction for private capital of embarking on office buildings, civic centre, stores, or anything else that may be saleable to the public, is very much influenced by the fact that the office building which we propose to build will not be for rent. We will not have rental space at all in that building. Our present requirements exceed the space that will be available in the present plan. We now have about 23 different rental locations in Montreal, all over the place, and we plan to bring them into this building as much as we can possibly do. I stress that I am not trying to put before you any commitment in respect to the office building at the present time. There is nothing in the budget covering an office building. This budget item is purely for the hotel, but I am explaining to you why, in the course of going ahead with the hotel, it is desirable that we spend some additional funds to prepare for what would be in the long term a valuable asset for the railways.

Mr. MACDONNELL: Can you suggest what that amount would be, roughly?

Mr. GORDON: It depends entirely on the character of the things proposed, but I could see expenditures north of Dorchester of $75 million to $100 million without any difficulty.

Mr. MACDONNELL: I meant the additional expense now being incurred by reason of preparing for further buildings.

Mr. GORDON: As I mentioned our estimate is $5,076,016, of which $1,337,991 is contemplated for 1954.

Mr. FULTON: If you look at page 18 of the annual report, you will see to the south, as I understand it, of the International Aviation building and the proposed new hotel, respectively, two other buildings. Are those also to be railway buildings?

Mr. GORDON: Yes. The one exception is smaller, this building that you see which is just by the figure "2", if we could interest somebody in putting it up. The other development in the middle of the sketch would be for railway account. That would be arranged with parking space as well, but the other building would be all for railway account.

Mr. FULTON: Those other buildings?

Mr. GORDON: Nothing has been decided yet, but those two buildings may be built either by private capital or by the railway. Personally, I would prefer to see them built by the railway, but that would depend entirely on the circumstances of the day.

Mr. FULTON: In this project, as you have it in the annual report and also in the work sheet, we are asked to consider only the new hotel and such other substructural work as should appropriately be done with the hotel to prepare foundations for the other building?

Mr. GORDON: Yes.

Mr. FULTON: Would it be the hotel and the other building for railway accounts?

Mr. GORDON: Just one other thing. When I talk about this figure of $5 million, I include in that the building of a plaza under an agreement with the city and involving the enlargement of McGill College avenue. We have agreements with the city that when this project is proceeded with McGill College avenue will be widened and there will be a magnificent boulevard running right to the gates of McGill University. That will come down here and end on street No. 5, Cathcart street, so far as the vehicular traffic is concerned, but continue through from the pedestrian's point of view over a plaza which will be built across from Cathcart through to Dorchester and will form a pedestrians' walk, nicely laid out. It will provide an opportunity for the development of stores and a shopping centre in that plaza area which will lead on to the hotel and will be a very important part of the approaches towards the hotel area.

Mr. FULTON: I would like to ask you a question, and I would like you to think carefully before you reply. Supposing we agree with this and the committee recommends it, and so on, on the basis of your present working sheet can we be certain that we will not find ourselves committed to something and that you will not say, "We have gone so far, we might as well go on with the rest of it"? In other words, can you be sure that once you have started this thing you have not got a tiger by the tail?

Mr. GORDON: I am positive that the hotel will stand on its own merits. We will endeavour to interest private capital in any project north of Dorchester. If we are not successful, then it will be a matter of business prudence to decide whether we can come up with a project which would justify putting up some buildings. We would have to justify to this committee for example that the erection of an office building to develop the area north of Dorchester was a sensible procedure from the point of view of revenue to be earned, and other considerations. There is nothing in what I am putting before you that may result in us saying, "We have gone so far, we must go on." Having spent the moneys on the substructure and so forth, we are not necessarily drawn into anything for these additional projects will rest on their own merits. I am not going to say that myself or a future president of the C.N.R. may not come before this committee with a proposal to exploit the very large capital value of that land and say that there should be a building put up because we have not been able to interest anyone else in exploiting this business opportunity. At the moment, however, our present managerial policy is to invite private capital to become interested in the devlopment of this north section, and we hope that we can do so, once we have crystallized this proposition. The erection of the hotel among other things has a collateral value over and above the actual merits of the hotel by itself.

Mr. CARTER: Are you taking into account the possibility of a tunnel or subway being constructed in Montreal similar to the one in Toronto?

Mr. GORDON: We do not see that any possible tunnel that might be constructed in Montreal would affect this construction at all. It is not part of any tunnel project.

Mr. MACLEAN: Two things occurred to me in connection with this. I suppose there has been a study made in cooperation with the city of Montreal as to what effect this might have on traffic congestion and traffic studies, and so on, in view of the fact that you are going to bring this large number of employees into this area.

Mr. GORDON: This entire project has been carefully studied in cooperation with the Montreal Planning Commission, and it has its full and enthusiastic approval. I think you will see that our plans for traffic facilities are more than adequate to take care of the problem you speak of. As a matter of fact, under the Montreal city bylaws no building is allowed to be built in that area unless there is proper provision for parking.

Mr. MACLEAN: In the United States they have now, I believe, some regulations which limit the areas in which certain vital installations may be placed, and so on. Private companies have to have the approval of some civil defence committees as to the suitability of the areas, how vulnerable they will be to bombing attack and that sort of thing. Has anything of that nature been done here in connection with this? Has it been cleared in any way through our own civil defence organization?

Mr. GORDON: I cannot tell you offhand if there are any requirements of that kind in law, but I know that our planning committee here has been in touch with just about every possible interested person or group and there has been a standing invitation over the years for anyone interested to come and see our plans. We have in Montreal Central station a model room in which our projected plan is built to an exact scale showing each one of these buildings. If anyone is interested in it, we are glad to go over it with them. Official bodies interested in the area have the opportunity to do so, and I am reasonably certain that they know everything involved in this plan.

Mr. MACLEAN: As an ex-bomber pilot, maybe I am more directly interested in this sort of thing, but it looks like a beautiful target.

Mr. GORDON: I wonder if it is any better a target than the Sun Life building or St. James Cathedral.

Mr. MACLEAN: It may be more essential.

Mr. GORDON: It would not be any more vulnerable than the station as it stands now. The target afforded there by the station, as you see on page 15, is even better. The hotel from that point of view might even be a protection.

Mr. MACDONNELL: That would be a special point in advertising.

Mr. CHURCHILL: Do the plans call for shelter accommodation for people? We have raised this point before in the House of Commons. In this age all buildings should have shelter accommodation arranged in basements.

Mr. GORDON: There are no specific bomb shelters in this hotel at present, but, of course, there is an automatic bomb shelter in the hotel, because the hotel leads to the station area which is underground. To the extent that the station is a bomb shelter it would certainly have better than ordinary facilities in that regard, but there is certainly not anything that you could specifically call a bomb shelter. I should say that it is readily adaptable for a bomb shelter if and when we get into that ugly proposition.

Mr. MACDONNELL: I want to ask Mr. Gordon another question about the figure of $5 million for station facilities and other work. I am still perplexed about that amount. I understood him to say, first of all, that it did not affect any work north of Dorchester street.

Mr. GORDON: Except the plaza.

Mr. MACDONNELL: That is the thing I wanted to ask you about. To what extent does the building of the plaza almost suck us in to the further beautification of McGill College avenue and up to the university?

Mr. GORDON: It does not do anything of that sort. Let me run over the engineers' tabulation of what is involved in the $5 million. As I say, these are accounting matters in part. There is the $519,000 for the substructure, as it is called. Owing to the existence of the railway station at the site where it is proposed to construct the hotel the cost of the underground work exceeded the amount estimated for ground elevation by an estimated amount of $519,000. As a matter of accounting that is charged to railway facilities, because it is part of our station facilities. The second item is one parking area. The construction of the hotel will provide additional auto parking at the 90 and 105 feet levels. As a matter of accounting the cost of this is charged to railway facilities also. It is increased parking space which would service the station as well as the hotel. That would cost $345,000 and should be done at the time the hotel is built.

Mr. MACDONNELL: It would be rental parking, I suppose?

Mr. GORDON: It would depend on how much space we wanted to make available for the patrons of the hotel. There might even be concessions granted.

The third item is this: we will fix up a number of temporary facilities at the station which have been pending until such time as we went ahead with the erection of the hotel. There is a relocation of the ticket office, some alterations to the concourse, both minor matters. The concourse of the station itself, which is inadequate for our present traffic, will be extended at a cost of about $295,000. It would be foolish to get the workmen in at that particular point and not to take advantage of the work being done to extend the concourse within the concept of the original plan. Then there is a restaurant in the station now which will be enlarged and moved over towards the hotel. We have no capital amount mentioned for that. Then there is $302,000, which is for a bridge structure to carry Belmont street, south of the concourse, east through to Mansfield. It is part of the cost of the hotel and the station area and part of this plan. There is $45,000 to provide a taxi entrance during the construction of the hotel and the extension of McGill College avenue. The taxi project will be built into the east street bridge structure to handle taxi traffic to and from the north plaza as a temporary measure while the hotel is under construction. That is chargeable to the railway account. Then there is $696,000, which will provide for a power plant on Nazareth street somewhat to the south, and that will be done at the same time and will be partially used by the hotel, but will service this whole area. The large item is $2·8 million, and this is actually a garage structure, which would naturally flow from the building of the plaza. This plaza, as I say, is part of the plan to extend McGill College avenue across the present hole north of Dorchester street and would tie into Dorchester street. Later on it would form an access to a series of shops, or other buildings. We are not, however, as I have said, committed to any of this latter development. In building the plaza we will provide underground parking at the same time for a total of about 400 or 500 cars which could be operated on a concession basis, rented, or in any one of a number of ways that would readily produce revenue. That, apart from one or two small items, covers the main amount of the $5 million.

Mr. MACDONNELL: Are you still clear that when that is done you will not have a half-finished thing sticking out north of Dorchester street?

Mr. GORDON: As a matter of fact, the common-sense development of North Dorchester will be a constant challenge for completion. We will be trying to sell people on the idea of constructing buildings there. It could either be a big project or a number of small ones. We would try to get any interested party to conform to our general scheme as much as possible, but we would consider whatever propositions came up. We have had a number of inquiries already, some of them small and some large. The scheme could contemplate any rate of progress—it does not have to be an all-in proposition. It may be a period of years before the whole project is complete but we will encourage other capital to enter.

Mr. MACDONNELL: The two buildings?

Mr. GORDON: No, North Dorchester. If we are able to interest other people to come in and develop the rest of the project, we will have clearly in mind that the people who come in first and construct buildings will obviously improve the value of that property and if we make leasehold arrangements or some other deal, we will definitely have in mind giving them an opportunity to share in the increased value of that property by reason of their risk-taking. It will call for a complicated legal arrangement but we are quite satisfied that it can be done. It was done in New York very successfully in connection with the Grand Central station there. The pattern is set and from a legal point of view we feel satisfied that we can work out the problem. That covers your question in connection with the $5 million, does it not?

Mr. MACDONNELL: Thank you.

Mr. GILLIS: Before we leave "Stations and station facilities" may I ask about the item of $718,000 listed for improvements and ask where these improvements will be in the Atlantic region?

Mr. GORDON: There are quite a number of sundry items there. Would you like me to run down the list and give you the larger ones?

Mr. GILLIS: Yes, if you please.

Mr. GORDON: There is $83,000 for widening and extending the freight shed at Bathurst; that is part of a total expenditure of $100,000. Then there is $32,000 covering the extension and alterations to the station at Mont Joli. There is $18,000 for replacing the station at Miscouche on Prince Edward Island; and there are a number of sundry and small items here, such as $9,250 to extend the freight shed at Stellarton; $4,280 to replace the station platform at Bic in Quebec; $1,800 to extend the platform at Newcastle; $4,950 to extend the station platform at Peticodiac, New Brunswick; $6,000 to replace the timber face of the loading wharf at Sydney, Nova Scotia; $1,140 to replace the timber face of the loading wharf at North Sydney; $379,000 to construct a three-storey extension to the C.T.C. building at Moncton, New Brunswick. Perhaps I should mention that the $379,000 item at Moncton is part of a total commitment of $392,000 covering the erection of a three-storey extension to our C.T.C. building at Moncton. Then there is $41,270 covering the replacement of a 150-ton scale at Newcastle, New Brunswick, making a grand total of $718,609.

I have given you all the items over $1,000.

Mr. MACLEAN: There is an item for a large terminal?

Mr. CARTER: Before we leave page 2, I have one question. I notice there is no allocation for communications.

The CHAIRMAN: Could we not hold that item until we finish with hotels?

Mr. CARTER: Very well, but I thought we had finished with hotels.

Hon. Mr. CHEVRIER: I thought we had too.

Mr. GORDON: I think that the item is self-explanatory. The new hotel at Montreal will have 1,216 rooms which we think will be about the economic limit in respect to such an hotel. We had studied two propositions. One was for 835 rooms and we came to the conclusion that the best economic use of the site is about 1216 rooms. That is governed by the fact that under the city by-laws, above 20 storeys the building must be stepped back. If that were done here it would not produce an economic enlargement beyond this 20 storey level.

There will be accommodation for banquets with a strong emphasis on conventions. I have noted some of the special facilities, and I would call attention to the fact that this is going to be a modern hotel which is specifically aimed at attracting large gatherings and that it will be of a type of construction which is not in any way to be compared with the sort of construction to be found in other Canadian National hotels with the single exception of the new extension to the Hotel Macdonald. The Chateau Laurier type is a highly uneconomic type of hotel construction. Therefore the opportunity for earnings by this new hotel should not be measured by the experiences with the older type of hotel. It could be more appropriately measured by the type of building at the Hotel Macdonald where we have already demonstrated that we can cut operating costs by about 10 to 12 per cent over the other type of hotel.

The need for the hotel is summarized by giving you some interesting figures in regard to Montreal's present complement of first-class hotel accommodation in relation to 100,000 of population. By every figure we show that Montreal is away below other cities of comparable size or importance in the matter of first-class hotel accommodation. Our new hotel in Montreal is in the center of the city and within 500 miles of it are nearly 53 million people; and we know from investigation there will be very intense interest in using the convention facilities of this hotel.

The new hotel will be a key part of the Montreal terminal development and will lead on to the full exploitation of that valuable site. The estimated result of its operation depends largely on the matter of occupancy. Our committee which considered the suggestion for this hotel came to the conclusion there would be a high degree of occupancy, but we have examined the results we might expect over a range from low occupancy to a reasonably high one and we feel sure of getting from 2 to 6 per cent on our invested capital with an average return of not less than 3 per cent after meeting all charges for maintenance, taxation, and depreciation. In that estimate we have not attempted to value the collateral benefits accruing to the railway. It will be a convention hotel and therefore we hope it will stimulate passenger traffic. Another important aspect of the hotel in this particular area will be its use as a civic centre. Moreover, it will give a large stimulus to the value of the property which we hope to develop in north Dorchester street.

Mr. CARTER: Have you decided on a name for the new hotel?

Mr. GORDON: Not officially yet, but we have some names under contemplation. However, there are one or two things we still have to clear up before we can absolutely decide. We hope that if this item is approved and if we can get going by June the 1st this year, we can get the hotel ready by about May the 1st, 1957. But that is of course very much a guess. It will depend on the kind of tenders we are able to get and the construction involved.

Mr. FRASER (*Peterborough*): Is it to be all your development?

Mr. GORDON: That is the intention.

Mr. FRASER (*Peterborough*): All the way through?

Mr. GORDON: Yes.

Mr. CARTER: I see there is no provision for commercial communication in any of the regions. What is implied by that so far as additional telegraphs and telephones are concerned?

Mr. GORDON: The figures for communications will be found on page 2 under the heading of "Other"; we have $15,724,000 in the system for commercial communications and $485,000 in what might be called purely railway communications. But if you have any particular district in mind, perhaps I could tell you about it.

Mr. CARTER: Could you give me some idea during the lunch hour? I would be very grateful. I do not want to take up the time of the committee now.

Mr. GORDON: I can tell you pretty quickly here. We have a very substantial program in Newfoundland at the moment in a number of districts. Our total program is estimated to cost $1,239,000 of which $1,070,000 is chargeable to capital.

The CHAIRMAN: Now, may we turn to pages 3 and 4 of the budget ?

Mr. MACDONNELL: I did not realize you were leaving hotels. I want to ask a little more about them. I note the figures that you give and I appreciate very much the fact that they are conservative figures. They are obviously not set out to try to emulate a prospectus. You would not actually sell securities in the hotel on the figures you have given, I would suppose. Now I want to ask with respect to the 3 per cent return which is expected after meeting all charges. You have already indicated to us first of all the occupancy. Could you say a word or two about the rise in room rents? For some years I lived at your hotel here in Ottawa but the room rent was raised. I wonder if you could give us some indication as to what your policy might be with respect to room rents? Are they to be stabilized or are they to be made strictly competitive?

Mr. GORDON: I think that we would want to make our room rents strictly competitive.

Mr. MACDONNELL: Is it a fair question to ask? Room rents constitute the back-bone of a hotel. On its room rents the hotel stands or falls. Can you not tell me whether you have taken the present rates as a norm?

Mr. GORDON: We studied that aspect of it in making our appraisal by way of a forecast. It is a matter of judgment; but having in mind that it is a commercial hotel aimed at the idea of handling a volume of business represented by conventions primarily, we have made a careful appraisal of the convention demand in Canada and the United States with particular emphasis on the United States. We realize that if we are going to attract conventions to Montreal we must be competitive with American rates, so that our rates will flow up or down according to what may be considered as the going market for convention facilities, room rates and so on.

Mr. MACDONNELL: If you were going to invest your own money in that hotel you would, I am sure—let us say you are a bond dealer going to put out a bond issue—you would concern yourself very seriously, I would imagine, with the present room rates.

Mr. GORDON: Yes.

Mr. MACDONNELL: And whether because of competition they have risen more or less faster than ordinary prices.

Mr. GORDON: We, of course, watch these things. The record of the larger hotels in the United States, over the last 4 or 5 years, shows a net return on investment after payment of depreciation and so on which runs about 5·15 per cent. Therefore from a private enterprise point of view we are not too far off. I would agree with you that this hotel would not appeal to an investor in bonds as such; but we have to remember that we start off with the fact we have a railway and that out of the erection of this hotel we will get a substantial collateral benefit. And that being the case, we feel it to be our duty to exploit that particular site because it is of such a nature that it can only be exploited by the railway. We hope to proceed differently in connection with north Dorchester, but we are reasonably satisfied that in this station area we must do the job ourselves if we are going to obtain the greatest advantage from this site.

Mr. MACDONNELL: You spoke about its being a convention hotel. Would you mind saying a word more about that and telling us, what I understood is a fact, that the convention facilities in Montreal at the present time are very inadequate.

Mr. GORDON: They are very inadequate, and that is demonstrated by the fact that we already have received a great number of inquiries from organizations which have not been able to hold their conventions in Montreal by reason of their size.

Mr. MACDONNELL: Do you mind comparing it with Toronto and Vancouver?

Mr. GORDON: Of course there is nothing in Montreal which can begin to compare with the Royal York Hotel with its facilities for handling conventions. That is another railway hotel, by the way. It is not possible to have a convention in Montreal with more than a certain number of delegates. One case comes to my mind. Recently the Railway Club, which has a large convention with about 1,500 members from all over North America, held a convention in Montreal but in order to handle it the hotel had to break it up into three different groups and to have three different dinners going on, and three different shows going on and that of course was not very attractive. No Montreal hotel at present can properly handle a convention with over 1,000 delegates.

But in addition to that, the new hotel will make a large amount of space available for the purposes such as motor shows, and other comparable demonstrations. At the present time there are not these facilities available at all in the city.

We have received inquiries, at this date, from 31 organizations all of which hold conventions. I think the interest being shown in the hotel long before we have begun at the site would indicate that we should not expect to have much trouble once the erection of the hotel takes place.

Mr. MACDONNELL: I feel we should have this as direct as possible in the record. Would you say a word or two as to what the coming of these conventions may mean to the railway collaterally? In the first place, I suppose the great bulk of the people who come to those conventions would stay at the hotel?

Mr. GORDON: It depends on the type of convention. But what actually happens is this. These organized conventions usually bring with them a lot of collateral travel as well as business to the hotel. However, some people prefer to live at less costly hotels, even while attending a convention at a better grade of hotel. They are content with simpler facilities, so to speak. And then there are those who at the end of the convention want to get out and tour the country. They take holidays and spread out through the surrounding country. So our tourist appeal is going to be very important to Quebec and Ontario. The tourist authorities feel that this new center will attract more tourists to Canada. All the tourists will not go via Canadian National by any means. It must be remembered that we will rent rooms to people even if they come by automobile or by plane. But our location is so unique that we are in a position to offer the best parking facilities in the city; and our aproaches in respect to people arriving at the hotel will be very good indeed, and this applies to buses and private automobiles as well; they will be better than at any other hotel in Montreal at the present time.

The facilities of the hotel, such as the elevators and so on will be the best possible types in respect of a modern development comparable to any hotel built recently in the United States. No modern hotels have been built in Canada for some time—other than the extension of the Hotel Macdonald, The Laurentien hotel in Montreal was about the last.

Mr. MACDONNELL: Are the other hotels in Montreal keen about this ?

Mr. GORDON: I have not questioned them about it. It is, however, a peculiar thing, that according to records, a large hotel of this kind and the appeal that it has in bringing conventions to the city usually has a beneficial effect on the smaller hotels, because there always is an overflow. There are always some people who prefer to stay at cheaper hotels and to maintain an address at the larger hotel, but the cheaper hotel is more satisfactory to them.

The CHAIRMAN: Are there any further questions on hotels? Does the item carry?

Carried.

Mr. FRASER (*Peterborough*): According to a magazine article that appeared a month or so ago, it was said in respect to the Members of Parliament who stayed at the Chateau that the government was subsidizing the members who stayed at the Chateau Laurier hotel. I resented that statement because we pay by the session and I think we pay a fair amount. I do not think it was a fair article.

Mr. GORDON: Who wrote the article?

Mr. FRASER (*Peterborough*): I do not know who it was now.

The CHAIRMAN: What was the magazine?

Mr. FRASER (*Peterborough*): I think it was in "Macleans".

Mr. GORDON: I hope that I shall not be held responsible for what appears in various periodicals. If I were, I think my burdens would be overwhelming.

Mr. FRASER (*Peterborough*): I know that the rates are fair at the Chateau, and to say that we are being subsidized is not correct. We are paying for Saturdays and other days when we are not here, and the room is occupied, and I think we pay our fair share.

Mr. GORDON: So far as the management of the hotel is concerned, the rates to members are fair rates, having regard to the special type of trade—if I may use that term. We do not approach this on the basis of our subsidizing anyone.

Mr. FRASER (*Peterborough*): I did not think so.

The CHAIRMAN: Carried. Can we go on to pages 3 and 4 dealing with new equipment?

Mr. MACLEAN: I have a number of questions on page 2. There is an item under hotels of a large terminal in the Atlantic region, with the figure of $374,000, which is almost $375,000. What does that represent? Is it for one project?

Mr. GORDON: No. It represents an expenditure this year at Campbellton of $195,500, which is part of a total cost expenditure of $305,500, covering the purchase of land and an extension of the yards by the construction of storage sidings; and then at Edmunston it covers alterations and additions to the yards there this year with an expenditure of $179,469, with an estimated total cost of $1,057,140 in capital. That project starts this year and will go through perhaps 1955 or perhaps into 1956. The total cost is expected to be $1,057,140 with an over-all cost of $1,232,718.

The CHAIRMAN: Carried. With regard to new equipment I think that Mr. Gordon dealt with that at considerable length last evening and if there are no questions now, shall we carry that item?

Carried.

Acquisition of securities on page 5. Are there any questions on that item? Shall the item carry?

Carried.

Acquisition of new lines on pages 6 and 7; does Lynn Lake carry?

Carried.

Does Kitimat carry?

Carried.

Shall the budget of the Canadian National Railways carry?

Carried.

Now, the annual report of the Canadian National (West Indies) Steamships Limited will be the next item.

Mr. GORDON:

MONTREAL, February 26, 1954.

THE HONOURABLE LIONEL CHEVRIER, Q.C., M.P.,
MINISTER OF TRANSPORT,
OTTAWA.

Sir:

The following report is submitted of the operations of the Canadian National (West Indies) Steamships, Limited, for the calendar year 1953.

The operating results for the year compare with those of the previous year as follows:

	1953	1952	*Decrease*	
Operating revenues ..	$4,509,342	$7,449,247	*$2,939,905*	*39·5%*
Operating expenses ..	5,331,788	7,122,971	*1,791,183*	*25·2%*
Operating *loss*	*$ 822,446*	—		
Operating profit	—	$ 326,276	*$1,148,722*	

Freight revenues amounted to $4,336,008, showing a decrease of 25·3%. This result was mainly due to a decline in volume and a substantial drop in rates on northbound cargoes of raw sugar, and to the cancellation of six voyages as a consequence of a strike by employees between September 28th and October 23rd.

The total northbound tonnage decreased by 67,807 tons, or 29·4%. Southbound tonnage decreased by 13,799 tons, or 11·4%.

Passenger revenues were reduced from $869,400 to $132,823 mainly due to the withdrawal of the two remaining "Lady" vessels from service at the end of 1952. At the same time subsidies paid by certain of the British Caribbean countries in respect of the operation of these vessels were discontinued.

Charter revenues decreased by $620,592 to $13,069. During the winter months of 1953 the Company had only two vessels available for charter, and satisfactory time charter rates could not be obtained as they were in the early part of 1952.

Operating expenses declined by $1,791,183, or 25·2%, to $5,331,788 due principally to the removal of the "Lady" vessels from service. The savings on this account were partly offset by higher vessel operating costs, increased overhaul expense, and by other expenses of $130,000 arising out of the employees strike.

After inclusion of Vessel Replacement Fund earnings and payment of interest charges there was an income deficit for the year of $1,126,830 compared with $3,909 in 1952. However, as shown on page 8, the amount due from the Government of Canada on deficit account was reduced by $477,168 representing profit realized on the sale of the "Lady Nelson" and "Lady Rodney" in February, 1953.

No change was made during 1953 in the active fleet which now consists of:

		Gross tonnage	Dead-weight tonnage
"Canadian Challenger"	Diesel-powered and refrigerated	6,745	7,460
"Canadian Constructor"	Diesel-powered and refrigerated	6,745	7,460
"Canadian Cruiser"	Diesel-powered and refrigerated	6,745	7,460
"Canadian Conqueror"	Non-refrigerated	2,930	4,532
"Canadian Highlander"	Non-refrigerated	2,966	4,532
"Canadian Leader"	Non-refrigerated	2,930	4,532
"Canadian Observer"	Non-refrigerated	2,967	4,532
"Canadian Victor"	Non-refrigerated	2,963	4,532
		34,991	45,040

The balance in the Vessel Replacement Fund at the end of the year, as shown on page 6, was $5,508,352, an increase of $490,123 over the previous year. During the year there was added to the Fund $268,771 in depreciation accruals on the fleet and $227,832 representing the net ledger value of the two vessels sold. An amount of $6,480 was released from the Fund to meet the capital cost of additional radio equipment installed on six vessels of the fleet.

The Insurance Fund stood at $2,565,565 compared to $2,354,572 at the end of 1952. The surplus, after providing for losses, amounted to $140,993. To this was added $70,000 which, having been appropriated in 1952 for payment of income tax, is now recoverable under the loss carry-back provisions of the Income Tax Act.

For the Board of Directors,

D. GORDON,

President.

ASSETS

INVESTMENTS			
Vessels		$6,420,023	
Less accrued depreciation		*2,978,375*	
		$3,441,648	
Vessel replacement fund		5,508,352	
			$ 8,950,000
CURRENT ASSETS			
Cash in banks	$399,753		
Special deposits	5,625		
		$405,378	
Accounts receivable		83,840	
Freight, passenger and agency balances		213,479	
Government of Canada—Due on deficit account		649,662	
Inventories		22,178	
Advances to captains, crews, etc.		18,290	
Due from insurance and replacement funds		22,599	
			1,415,426
INSURANCE FUND			2,565,565
DISCOUNT ON CAPITAL STOCK			40,000
			$12,970,991

LIABILITIES

CAPITAL STOCK:		
Authorized and issued 400 shares of $100 each		$ 40,000
FUNDED DEBT:		
25 Year 5% Government of Canada Guaranteed Bonds, maturing March 1, 1955		9,400,000
GOVERNMENT OF CANADA ADVANCE:		
For working capital		150,000
CURRENT LIABILITIES:		
Accounts payable	$553,156	
Interest matured unpaid	5,625	
Unmatured interest accrued	156,667	
		715,448
UNADJUSTED CREDITS		99,978
INSURANCE RESERVE		2,565,565
		$12,970,991

T. J. GRACEY,
Comptroller.

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited, for the year ended the 31st. December, 1953, and, in our opinion, proper books of account have been kept by the steamships.

The above balance sheet and the relative income and profit and loss accounts are prepared on a basis consistent with that of the preceding year and are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Steamships' affairs at the 31st December, 1953, and of the income and expense for the year according to the best of our information and the explanations given to us, and as shown by the books of the Steamships.

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

Dated at Montreal,
2nd March, 1954.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

INCOME ACCOUNT

	1953	1952
OPERATING REVENUES		
Freight	$ 4,336,008	$ 5,801,570
Passenger	123,823	869,400
Miscellaneous	28,628	57,168
Subsidies	*1,186*	87,448
Charter	13,069	633,661
Total	$ 4,509,342	$ 7,449,274
OPERATING EXPENSES		
Voyage accounts	$ 4,671,897	$ 6,394,663
Lay-up expenses	64,666	46,308
Depreciation on vessels	268,772	372,392
Management and office expenses	16,960	228,105
Pensions	91,832	22,731
Other expenses	17,679	58,772
Total	$ 5,331,788	$ 7,122,971
Operating profit or *loss*	*$ 822,446*	$ 326,276
Vessel replacement fund earnings—*Cr*	*170,886*	*145,065*
Interest on bonds held by public	470,000	470,000
Interest on government advances	5,250	5,250
Income deficit	*$ 1,126,830*	*$ 3,909*

PROFIT AND LOSS ACCOUNT

AT 31st DECEMBER, 1953

Balance at 31st December, 1952		Nil
Income *deficit* for year 1953	*$ 1,126,830*	
Profit on sale of vessels	477,168	*$ 649,662*
Deficit assumed by Government of Canada		649,662
Balance at 31st December, 1953		Nil

The CHAIRMAN: Are there any questions on the annual report of the Canadian National (West Indies) Steamships Limited?

Mr. MACLEAN: Has the company been able to absorb the personnel who have become unemployed owing to the discontinuance of the two "Lady" ships? Have the former crews of the "Lady" ships been absorbed in part?

Mr. GORDON: In part, but not all of them. We made such adjustments as we could, with special reference to long-service officers, who were absorbed into other operations of the railways as far as possible.

The CHAIRMAN: Carried?

Mr. MACDONNELL: Mr. Chairman, I cannot regard this as a very enthusiatic report. I would like to know a little more of what the president has to say about this enterprise, what is his view as to its continuance? What is his feeling about it? Are we virtually liquidating it?

The CHAIRMAN: If Mr. Gordon wishes to. Would you wish to adjourn now?

Mr. MACDONNELL: I would not want to see this dealt with in five minutes.

The CHAIRMAN: We will adjourn now, to sit again at 3.30.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, I see a quorum. We will take questions on the annual report of the Canadian National (West Indies) Steamships Limited.

Mr. KNIGHT: This report seems pretty dismal. It seems to me, from my recollection of last year, that the corresponding report said that some of the lack of success was due to competition by air passenger services to the West Indies—I have not the record and I have not read it, but I think the idea was expressed at that time that the sale of these "Lady" ships, whose operations had not been profitable during that year, at a price which, I think, was considered rather good at the time, would put the organization in better shape, and that greater hopes were held for the freight operations which would be carried on during this year. Is that a fairly correct interpretation of the ideas expressed at that time or is it not?

Mr. GORDON: Perhaps I could put it this way: We considered in giving up the operation of the "Lady" ships that we were eliminating their obvious and very large deficit operations. We expressed some hope that the curtailment of the fleet to the freight ships, would enable us to see a better result. In point of fact, however, after getting rid of the luxury ships we ran into an abnormal year in 1953, arising for the most part out of the strike that took place. We estimated that the strike cost us a loss in gross revenue of not less than half a million dollars, and the laying-up and other incidental expenses cost us another $130,000, so that abnormal expense is reflected in the 1953 accounts. The question really is whether or not the potential traffic for the future is such as to lead one to hope that, outside of these abnormal incidents, we will be able to at least break even.

Hon. Mr. CHEVRIER: What I was going to say in answer to the question put by Mr. Macdonnell and your own question, Mr. Knight, was that these two matters raised a matter of government policy as to whether or not we should continue with this operation . . .

Mr. KNIGHT: That is what is in my mind.

Hon. Mr. CHEVRIER: It is not the first time we have given this matter thought. Two years ago Mr. Gordon brought it to the attention of the government, and we accepted his recommendation to dispose of the two "Lady" ships.

Again, I must say, this year Mr. Gordon wrote me a letter outlining the difficulties as they are set out in the report and in the budget, but, as he has himself stated, 1953 was an abnormal year because of the fact that there was extreme loss referable to the strike and the lay-up, and other expenses were of such an extraordinary nature that we did not think that that was a normal year on which to base a decision to cease these operations. Then, again, these operations concerned not only the Canadian National Railways but they concerned other departments, such as the Department of Trade and Commerce and the Department of Finance. It is difficult to know whether there will be any increase in the trade between the Caribbean and Canada during 1954.

Mr. KNIGHT: Can the amount of loss due to that strike be estimated with any considerable accuracy?

Hon. Mr. CHEVRIER: I think that Mr. Gordon gave some figures this morning which would indicate that they were fairly high, but in any event those losses were such that I do not think it would be fair to base a decision with regard to cessation of these operations on that year. For that reason, it was felt that we could carry on for another year to see what the position would be. I was coming to the other point, the three-year agreement with Cuba, which will expire this year, covering sugar. That may mean that Canada will buy additional quantities of sugar from the West Indies, and if it does it should reflect an increase in the amount of freight on these steamships, but there is no doubt that if the position continues as it is now we will have to give serious consideration to winding up the whole operation.

Mr. KNIGHT: What is the competition with which you are faced?

Mr. GORDON: The main competition is the Alcoa Steamships Co., and the Saguenay Terminals Ltd., both using for the most part ships of foreign registry. They operate largely in the interest of the aluminum industry. The difficulty arises that on northbound trips these ships are fully loaded with bauxite, for the Aluminum Company at Arvida, and on the southbound trips they go empty and are in a position to take cargo at any price that will take it away from other competitors. That is our principal competitive difficulty but, as Mr. Chevrier has pointed out, we think that this year we ought to do considerably better in regard to sugar, which is an important traffic item in this trade.

Mr. KNIGHT: I was going to make the comment that in the whole question of decreasing trade, what is actually the fact at the moment is going to affect this situation too. Would it affect it unfavourably?

Hon. Mr. CHEVRIER: If it keeps on decreasing, we will have to take the same decision as we took earlier with reference to the "Lady" ships.

Mr. KNIGHT: I am not suggesting you should; I am merely asking questions about it.

Mr. FULTON: Could you see any chance for improvement in extending the sphere of operations for the ships into South America?

Mr. GORDON: We would not be tempted to do that. In the first place, the ships would not be suitable for extending operations in that way, and, secondly, the competition existing already would mitigate against our expanding these operations. If a decision has to be taken regarding abandonment of this fleet as operated by the Canadian National Steamships the basic consideration will be the effect such abandonment would have on the flow of trade between Canada and the West Indies. If it can be demonstrated that there are enough shipping interests in the trade to South America to take care of any trade which may be offering, and if our service cannot be operated at a profit then it may be the part of wisdom to abandon it; as Mr. Chevrier has pointed out, that is a policy decision of the government that remains to be discussed. This presentation that I put before you is based on the assumption that we continue the operations for the year 1954.

Mr. FRASER (*Peterborough*): How many ships are you running now, eight?

Mr. GORDON: Yes, as shown in the report.

Mr. FRASER (*Peterborough*): Would there be any chance of curtailing the number of ships? Could you operate with less ships?

Mr. GORDON: No, we have surveyed that, and if we are to conduct an operation at all and have a regular sailing, we regard this as the minimum fleet that would have any hope at all of picking up the traffic that becomes available. The minister asked us to examine that question, and I sent him the report on February 19. I pointed out that we could not hope to compete successfully with other lines on the West Indies trade unless we provided a regular fortnightly service all the year round, and that if we were going to reduce it beyond that point we might as well give up.

Mr. FRASER (*Peterborough*): You have five non-refrigerated ships. Has that anything to do with the lack of trade?

Hon. Mr. CHEVRIER: There is just no trade.

Mr. FRASER (*Peterborough*): Competition with other companies, Mr. Gordon, in South America, I know, is very tough, and I just wondered if the situation was the same here, and whether you could handle it better if you had more up-to-date ships.

Mr. GORDON: No, I would not recommend any further capital expenditure for new vessels. I think, our shipping people believe that the fleet as it now stands is able to respond to the demands of available traffic. In other words, we are not losing freight by reason of lack of facilities. What we are losing out to is the intensive type of competition that exists in the trade.

Mr. FRASER (*Peterborough*): It is likely to get worse instead of better.

Mr. GORDON: It might, although I would not like to be dogmatic about it. Things change very rapidly, and I think that when you come to our budget item you will see that our budget for 1954 shows a substantially reduced deficit as compared to 1953.

Mr. KNIGHT: What would this type of ship be worth, this 6,000 tonnage? What would one of those ships be worth in terms of this vessel replacement fund? I was trying to get a comparison between the value of the ships. Let us get the approximate price in terms of money.

Mr. GORDON: Perhaps it would be of interest, in considering that figure, that having in mind that there is maturity of $9·4 million in bonds falling due in March next year, if we take the assets of the company, which would include the vessel replacement fund, the self-insurance fund, and assuming we could sell the vessels now in operation at a reasonable price, then we think that, all told, we woud be able to liquidate the company without any further contribution of capital. The vessel replacement fund, in my report, is $5,500,000. We have got the maturity in March 1, 1955, and that will mean that the government will have to arrive at a decision how to finance the rest of it. One way to finance it would be to sell the assets of the company and in the process of doing so our case is that we could liquidate the vessels and take the assets of the company in whatever form and liquidate them and come out with a figure which would take care of the liabilities.

Mr. KNIGHT: Is it government policy to operate for another year on an experimental basis?

Hon. Mr. CHEVRIER: No, there is no decision taken to that effect. I simply expressed the opinion earlier that those were the views that I entertained. Of course, a matter of this nature, I think, would have to be studied very carefully.

Mr. FOLLWELL: Are these ships operated on a seasonal basis all year round?

Mr. GORDON: Year round.

Mr. FOLLWELL: Where do they run to, for instance?

Hon. Mr. CHEVRIER: From Halifax to Saint John.

Mr. GORDON: They change, on a seasonal basis, the eastern services run from Halifax in winter, and from Montreal in the summer.

Mr. FOLLWELL: Do all these ships carry passengers?

Mr. GORDON: No, only three ships carry accommodation for 12 passengers each. We do not regard them as passenger ships.

Mr. FOLLWELL: You do accept passengers?

Mr. GORDON: We accept 12 passengers on each of the ships equipped for passengers. There are three of them, I believe; the diesel-powered ships mentioned in the report.

Mr. GILLIS: Is it not the general trend today, as far as Canada is concerned, to get out of the shipping business altogether?

The CHAIRMAN: I think it would depend on whether you could run it at a profit or not.

Mr. GILLIS: As I see it, across the country, I interpret the government approach to the whole question of maintaining a merchant fleet as this, that they are not prepared to hold out subsidies, and anyone who is going to ship has to use ships with foreign flags, British ships or Greek ships. They can ship it cheaper. Mr. Gordon is just following the general trend that exists in the country. For example, the Dominion Steel Company used to have a fleet of 14 boats; they have only two today, and that seems to be the picture right across the country.

The CHAIRMAN: I think the reason for that is that they are able to hire Greek and Panamanian ships, and so on, at much lesser cost.

Hon. Mr. CHEVRIER: The point was that we did not feel like subsidizing these ships at considerable cost. Neither do we feel like doing it in this case, and if the situation keeps on over a period of years we would have to give consideration to some decision with regard to these ships.

Mr. GILLIS: I do not blame you for not subsidizing the general merchant fleet, but I think it is wrong to consider for a minute dropping the fleet that we now have.

Mr. GORDON: Even with an annual deficit of half a million dollars?

Mr. GILLIS: I think that with Mr. Gordon's business ability if the thing was looked into properly and a proper appeal made to shipping people in Canada to use their own lines—I do not believe that we should pull our standards down in this country to meet the standards either of the Greek or the British; I think our policy is to increase them. A country that has to export about one-third of its total production should have at least the nucleus of a merchant fleet. It is going to grow bigger as we go along and I think it is wrong to place ourselves in a position where we are dependent on the Greeks or the British, or anyone else. We should have the nucleus of a fleet.

Hon. Mr. CHEVRIER: We still have a couple of million tons of ships, either deep sea, coastal or inland.

Mr. GILLIS: You will not have them very long if the trend I see is going to continue.

Hon. Mr. CHEVRIER: That is what we did a few years ago when we decided to curtail expenditure. We had to sell the two "Lady" ships, and I am afraid we will have to look at it sometime in 1954.

Mr. GORDON: It is the type of competition you have to keep in mind. You have been good enough to refer to my business ability, but I am fresh out of miracles. When you have competition as in the the case af Alcoa and the Saguenay Terminals, who run ships southbound on the basis that they will take cargo at almost any price to fill the ships, it makes a pretty hopeless competitive situation. We do not do too badly with the northbound freight, when the ships of these other lines ar loaded with bauxite for the alminum industry. The sort of thing which makes competition practically impossible is when you have a competitor in the position where he does not care what price he quotes. If we reduce our rates, he goes below us.

Mr. GILLIS: I do not think that we should accept this apathetic report.

Mr. GORDON: From a careful examination of the interests of the Canadian National Railways as such, we cannot say that the traffic engendered through this fleet is of any particular interest to us. In other words, whatever traffic arises by reason of the fleet would come to us whether we operated it or not. It becomes merely a matter of trade policy of the government in respect to whether or not you are going to ask the taxpayers of this country to maintain a fleet which is almost bound to show an annual deficit. The amount of that deficit will vary according to different years, but with all the application that we have been able to bring to bear on it, we do not see how this operation can earn its own keep.

The CHAIRMAN: Is it carried?

Mr. FRASER (*Peterborough*): May I ask this question? It mentions here that the company has only two vessels available for charter. What two vessels are they?

Mr. GORDON: They would vary, depending on the particular time of the season.

Mr. FRASER (*Peterborough*): That is two?

Mr. GORDON: Two of the existing fleet, depending on what place in the cycle of movement they happened to be in.

Mr. FRASER (*Peterborough*): You mean by that that you charter two of those vessels at almost any time?

Mr. GORDON: No, what we said here was that we had only two vessels available for charter, and at the time they did become available and could be released satisfactory time charters were not available. It is always a gamble as to whether or not you are able to find charters for ships.

Mr. FRASER (*Peterborough*): Your charters would be for short terms anyhow?

Mr. GORDON: Yes, that is right, because the ships have to get back to the regular service.

The CHAIRMAN: Carried.

The next item is the budget of the Canadian National (West Indies) Steamships, found on page 8, which was presented to us yesterday.

Mr. GORDON: This presentation is relatively simple. The figures are shown here in the right-hand column for operating revenues, $4,940,000, and operating expenses, $5,220,000, which would produce an operating deficit of $280,000 in the actual operations of 1954. Then you have vessel replacement fund earnings, and also the interest on Government Notes, etc., all of which add up to a deficiency in operations of $581,000 for the year, compared with $1,126,830 for the year 1953. That $1,126,830 is the actual deficiency in 1953, but we were able to take the book profit on the sale of the "Lady" ships, $477,168, and that reduced the amount of the actual income deficiency for that year; but if our forecast is right you will see that the income deficiency is likely to be well over half a million dollars, $581,000 in the coming year, if we continue to operate the ships for a full season.

Mr. FULTON: Why do your operating expenses go up so substantially over your estimate for 1953? To what could you attribute that?

Mr. GORDON: In part, because of the strike situation. We not only lost revenue by reason of the strike, but it cost us money to lay up the vessels.

Mr. FULTON: More than it would have cost to operate them?

Hon. Mr. CHEVRIER: Do you pay the crew when they are strike?

Mr. GORDON: You do not pay the crew. The report refers to the savings on account of the removal of the "Lady" ships being partly offset by the increased over-all expenditures and other expenditures of $130,000 arising out of the employees' strike. This amount arose from a number of factors: one that we were under commitments for certain traffic in our ships at the time of the strike—and it became our responsibility to deliver the traffic that was on board the ships at a cost of about $30,000. Your question, Mr. Fulton, is why is our estimate of operating expenses so much higher compared with the budget of 1953?

Mr. FULTON: Why your operating expenses in 1953 exceeded your estimate something over $600,000. I do not mean to imply that you were a bad estimator. But, this is a substantial excess, and I notice that you happen to think that will continue because your 1954 budget is fairly close to it.

Mr. ARMSTRONG: I think we can deal with it more effectively by explaining 1952 against 1953 since an estimate involves so many intangibles. The operating expenses decreased by about $1,800,000 in 1953 as against 1952. This is mainly represented by a decrease in voyage accounts of $1,700,000. This amount of $1,700,000 is made up as follows: the Lady ships were taken out of service which accounts for a decrease of $2,200,000, there was a $35,000 increase in fuel costs. That is mainly due to the shorter period that the vessels were on charter. Our port and shore expense increased by $50,000. We had extraordinary overhaul costs due to structural change and surveys which cost $100,000 in 1953.

Mr. FULTON: The structural changes were recommended?

Mr. ARMSTRONG: Yes, recommended by underwriters. We had a $20,000 increase in lay-up expenses because the vessels were laid up for longer since we did not have as much business. Freight handling nevertheless increased by $280,000. The decreases comprise these items: crew wages went down by $12,000, provisions by $28,000, deck, engine and steward supplies by $55,000, which decrease was partially attributed to withdrawal of the Lady vessels. Maintenance and normal maintenance repairs went down by $15,000, and insurance went down by $20,000. Then we have $130,000 strike expense, which would be an increase. That should add up to the appropriate net decrease.

The CHAIRMAN: Shall the budget carry?

Carried.

The CHAIRMAN: We will then go to the annual report of the Canadian National Railways Securities Trust, and I assume members will not want this to be read. There is a great deal of data here setting out various investments, but I assume it will not be necessary to read that through. Are there any questions with respect to this annual report?

Mr. FULTON: I move it be included in the record.

The CHAIRMAN: Thank you.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

MONTREAL, 2nd. March, 1954.

The Honourable Lionel CHEVRIER, Q.C., M.P.,
Minister of Transport,
Ottawa.

Sir,

The Trustees submit herewith their report of the transactions for the calendar year 1953 of The Canadian National Railways Securities Trust, as reconstituted under the provisions of The Canadian National Railways Capital Revision Act, 1952.

The collateral securities referred to in section 5 of the Act have now been transferred by the Minister of Finance to the Securities Trust. These securities are reflected in Schedule A. 2 of the balance sheet of the Securities Trust.

There were no other transactions during the year affecting the securities held by the Securities Trust.

The Trustees present herewith the balance sheet at 31st. December, 1953.

D. GORDON,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

BALANCE SHEET AT 31ST DECEMBER, 1953.

ASSETS		
Claims for Principal of Loans—		
Canadian Northern Railway	$ 312,334,805.10	
Grand Trunk Railway	118,582,182.33	
Grand Trunk Pacific Railway	116,006,599.08	
Canadian National Railway Company	96,936,971.75	
	$	643,860,558.26
Claims for Interest on Loans—		
Canadian Northern Railway	$ 309,702,897.65	
Grand Trunk Railway	103,250,802.95	
Grand Trunk Pacific Railway	107,326,622.84	
Canadian National Railway Company	54,501,313.57	
		574,781,637.01
Transactions of Canadian National Railway System from 1st January, 1937, to 31st December, 1951, affecting the book value of the capital stock of the Securities Trust		108,480,697.14
Securities Held—		
Collateral Securities—Schedule A.1		....
Other Securities —Schedule A.2		....
		$1,327,122,892.41

LIABILITIES	
Capital Stock Owned by Canadian National Railway Company—	
5,000,000 shares of no par value capital stock:—	
Stated value at 1st January, 1952	$ 378,518,135.02
Amount by which the book value of claims and interest thereon exceeded the initial stated value as of 1st January, 1937	948,604,757.39
	$1,327,122,892.41

T. J. GRACEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1953.

The Collateral and Other Securities, as set out in Schedule A. 1 and A. 2 attached hereto, were verified by examination or by certificates from the depositaries.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st December, 1953, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

2nd March, 1954

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

SCHEDULE A.1

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

Loans Outstanding		*Notes and Collateral Held*	
CANADIAN NORTHERN RAILWAY:			
3½% Loan, Chapter 6, 1911	$ 2,396,099.68	None. Charge is on premises mortgaged October 4, 1911.	
4% Loan, Chapter 20, 1914	5,294,000.02	None.	
5% Loan, Chapter 4, 1915	10,000,000.00	None.	
6% Loan, Chapter 29, 1916	15,000,000.00	Mortgages dated June 23 and June 26, 1916.	
Temporary Loan, 1918, repaid through subsequent issues of guaranteed securities and loans	....	6% Demand Notes	$ 497,566.80
†6% Loan, Chapter 24, 1917	25,000,000.00	6% Demand Notes	33,012,414.32
†6% Loan, Vote 110, 1918	25,000,000.00	6% Demand Notes	27,203,003.65
†6% Loan, Vote 108, 1919	35,000,000.00	6% Demand Notes	40,031,122.27
†6% Loan, Vote 127, 1920	48,611,077.00	6% Demand Notes	53,008,779.65
†6% Loan, Vote 126, 1921	44,419,806.42	6% Demand Notes	50,259,312.47
†6% Loan, Vote 136, 1922	42,800,000.00	6% Demand Notes	46,691,634.60
6% Loan, War Measures Act, 1918	1,887,821.16	6% Demand Note	5,700,000.00
		3½% Debenture Stocks	5,109,999.99
†6% Equipment Loan, Chapter 38, 1918	56,926,000.82	6% Demand Notes	56,858,496.44
Indebtedness refunded by Government under Chapter 24, 1917, and Chapter 11, 1918	....	Miscellaneous Debenture Stock and Debenture	14,097,470.59
		Miscellaneous Debenture Stock	10,783,564.86
†Mortgage covering loans above	....	Mortgage dated November 16, 1917	....
Total Canadian Northern	$312,334,805.10		
GRAND TRUNK RAILWAY:			
6% Loan, Vote 478, 1920	$ 25,000,000.00	6% Demand Notes	$25,479,226.97
6% Loan, Vote 126 1921	55,293,435.18	6% Demand Notes	26,646,816.12
6% Loan, Vote 137, 1922	23,288,747.15	6% Demand Notes	23,288,747.15
4% Loan to G.T. Pacific, Chapter 23, 1913, guaranteed by Grand Trunk	15,000,000.00	4% Demand Note	15,000,000.00
		4% G.T.P. Debentures	15,000,000.00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans	....	4% Debenture Stock	60,801,700.00
		6% 2nd Mortgage Equipment Bonds	1,693,113.88
Total Grand Trunk	$118,582,182.33		

GRAND TRUNK PACIFIC RAILWAY:

3% Bonds, Chapter 24, 1913	$ 33,048,000.00	3% 1st Mortgage Bonds	$33,048,000.00
6% Loan, Chapter 4, 1915	6,000,000.00	4% Sterling Bonds	7,499,952.00
6% Loan, Vote 441, 1916	7,081,783.45	Mortgage, June 28, 1916	....
6% Loan, Vote 444, 1917	5,038,053,72	Mortgage, October 18, 1917	....
6% Loan, Vote 110, 1918	7,471,399.93	Mortgage, October 18, 1917	....
Receiver's Advances, P.C. 635, March 26, 1919	45,764,162.35	Receiver's Certificates	53,339,162.74
Interest guaranteed by Government of Canada	8,704,662 65	Cremation Certificates, coupons destroyed	8,698,170.42
Interest guaranteed by Provinces of Alberta and Saskatchewan	2,898,536.98	Cremation Certificates, coupons destroyed	2,925,723.88
Agreement with Government under Chapter 71, 1903	....	G.T.P. Development Company, Limited, Capital Stock	2,999,000.00
		forward	
Total Grand Trunk Pacific	$116,006,599.08		

SCHEDULE A.1—*Concluded*

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

Loans Outstanding		*Notes and Collateral Held*	
CANADIAN NATIONAL RAILWAY COMPANY:			
6% Loan, Vote 139, 1923	$ 24,550,000.00	6% Canadian Northern Demand Note	$ 12,655,019.57
		G.T.P. Receiver's Certificates	3,313,530.01
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,831.96
5% Loan, Vote 137, 1924	10,000,000.00	5% Canadian Northern Demand Note	1,318,315.86
		G.T.P. Receiver's Certificates	4,691,173.58
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,822.24
5% Loan, Vote 377, 1925	10,000,000.00	5% Canadian Northern Demande Note	9,496,718.21
		G.T.P. Receiver's Certificates ... *Cr.*	*1,422,425.17*
		G.T.P. Interest Coupons (Cremation Certificates)	1,530,802.80
5% Loan, Vote 372, 1926	10,000,000.00	5% Canadian Northern Demand Note	9,062,624.30
		G.T.P. Receiver's Certificates ... *Cr.*	*364,898.78*
		G T P Interest Coupons (Cremation Certificates)	1,530,880.56
5% Loan, Vote 336, 1929	2,932,652.91	5% Canadian National Railway Company Demande Notes	2,932,652.91
5% and 5¼% Loans, Chapter 22, 1931	29,910,400.85	5% and 5¼% Canadian National Railway Company Demand Notes	29,910,400.85
5¼% Loans, Chapter 6, 1932	11,210,815.56	5¼% Canadian National Railway Company Demand Notes.	11,210,815.56
Temporary Loan, 1930, repaid through subsequent issues of guaranteed securities and loans	....	166,877.6376 shares of Capital Stock of Grand Trunk Western Railroad Company	4,171,940.94
		5% 1st and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc., due January 1, 1960	8,609,000.00
Less: adjustment authorized by the Capital Revision Act, 1937, ... *Cr.*	*1,666,897.57*		
Total Canadian National Railway Company	$ 96,936,971.75		
Total Loans	$643,860,558.26		

SCHEDULE A. 2

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Securities transferred from the Government of Canada to the Securities Trust pursuant to the provisions of The Canadian National Railways Revision Act, 1952

Description of Issue	Amount: Sterling Currency	Amount: Dollar Currency
Canada Atlantic Rly. Co. 4% Consolidated First Mortgage Sterling Bonds, due Jan. 1, 1955	£1,245,300	
Canadian National Rly. Co. 4½% Twenty Year Guarantee Bonds, due September 1, 1951		$ 1,978,000.00
Canadian National Rly. Co. 4¾% Twenty-five Year Guaranteed Bonds, due June 15, 1955		1,504,000.00
Canadian National Rly. Co. 4½% Twenty-five Year Guaranteed Bonds, due Feb. 1, 1956		2,632,000.00
Canadian National Rly. Co. 4½% Thirty Year Guaranteed Bonds, due July 1, 1957		864,000.00
Canadian National Rly Co. 5% Forty Year Guaranteed Bonds, due July 1, 1969		3,317,000.00
Canadian National Rly. Co. 5% Forty Year Guaranteed Bonds, due Oct. 1, 1969		2,271,500.00
Canadian National Rly. Co. 5% Forty Year Guaranteed Bonds, due Feb. 1, 1970		662,000.00
Canadian National Rly. Co. 2% 1927 Guaranteed Debenture Stock	3,813,250	
Canadian Northern Alberta Rly. Co 3½% First Mortgage Debenture Stock, due May 4, 1960	534,097	
Canadian Northern Ontario Rly Co. 3½% First Mortgage Debenture Stock, due May 19, 1961	6,294,345	
Canadian Northern Ontario Rly. Co. 4% Perpetual Consolidated Debenture Stock	1,609,832	
Canadian Northern Pacific Rly. Co. 4% First Mortgage Guaranteed Debenture Stock, due April 2, 1950	3,208,545	
Canadian Northern Pacific Rly. Co. 4½% First Mortgage Terminal Debenture Stock, due April 2, 1950	1,533,131	
Canadian Northern Quebec Rly. Co. 4% Perpetual Guaranteed Debenture Stock	983,183	
Canadian Northern Rly. Co. 6½% Twenty-five Year S.F. Debenture Bonds, due July 1, 1946		145,000.00
Canadian Northern Rly. Co. 3% First Mortgage Debenture Stock, due July 10, 1953	1,684,362	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958	359,869	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958		508,666.00
Canadian Northern Rly. Co. 4% Perpetual Consolidated Debenture Stock	8,414,402	
Canadian Northern Western Rly. Co. 4½% First Mortgage Debenture Stock, due Oct. 22, 1943	187,937	
Canadian Northern Western Rly. Co. 4½% First Mortgage Debenture Bonds, due Oct. 22, 1943		6,000.00
Grand Trunk Pacific Rly. Co. 4% Mortgage Sterling Bonds, Series "A" (Prairie Section), due April 1, 1955	1,364,500	
Grand Trunk Pacific Rly. Co. 4% Mortgage Sterling Bonds, Series "B" (Mountain Section), due April 1, 1955	1,402,900	
Grand Trunk Pacific Rly. Co. 4% First Mortgage L. S. Branch Sterling Bonds, due April 1, 1955	1,107,200	
Grand Trunk Pacific Rly. Co. 3% First Mortgage Sterling Bonds, due Jan. 1, 1962	1,754,500	
Grand Trunk Pacific Rly. Co. 4% Sterling Bonds, due Jan. 1, 1962	90,900	
Grand Trunk Rly. Co. of Canada 5% Perpetual Borrowed Capital Debenture Stock	3,967,602	
Grand Trunk Rly. Co. of Canada 4% Perpetual Consolidated Debenture Stock	23,401,438	
Grand Trunk Rly. Co. of Canada 4% Perpetual Guaranteed Stock	12,500,000	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950	649,500	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950		1,293,500.00
Great Western Rly. Co. of Canada 5% Perpetual Borrowed Capital Debenture Stock and Bonds	2,548,750	
Northern Rly. Co. of Canada (G. T. Rly. Co. of Canada) 4% Perpetual Debenture Stock	302,573	
Northern Rly. Co. of Canada 6% Perpetual Third Preferential Bonds	14,400	
Quebec & Lake St. John Rly. Co. 4% First Mortgage Perpetual Debenture Stock	815,170	
St. John & Quebec Rly. Co. 4% First Mortgage Debenture Stock, due June 1, 1962	432,600	
Wellington, Grey & Bruce Rly. Co. 7% First Mortgage Bonds, due July 1, 1891—Extended	6,100	

The CHAIRMAN: The next item will be the auditors' report dealing with the Canadian National Railway System and the Canadian West Indies Steamships Limited. Does the committee wish to dispense with reading the auditors' report? The auditor is here and will be willing to answer any questions that might arise.

Mr. FULTON: I move it be included in the record.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
CORISTINE BUILDING
410 St. Nicholas Street
MONTREAL 1

CANADIAN NATIONAL RAILWAY SYSTEM

The Honourable the Minister of Transport,

Ottawa, Canada.

Sir,

We have audited the accounts of the Canadian National Railway System for the year ended the 31st. December, 1953 under authority of The Canadian National-Canadian Pacific Act, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting and financial officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The System is further protected by fidelity bond insurance with outside underwriters. The audit tests were carried out in the offices of System Headquarters, Regions and Separately Operated Properties in Canada, the United States, London (England) and Paris (France).

Our audit of the accounts included the verification of the consolidated balance sheet and the consolidated income account and certification thereof.

Apart from the investment in Trans-Canada Air Lines, the holdings in the capital stocks of the Affiliated Companies are insufficient to give voting control and accordingly the Companies are not treated as units of the System nor have their accounts been audited by us. In the majority of instances they are audited by joint committees composed of System accountants and representatives of outside interests.

CONSOLIDATED INCOME ACCOUNT

Depreciation

Provision for depreciation of fixed properties has been charged to railway operating expenses on the following bases:

(*a*) On bridges, buildings, stations, shops, etc., the loss of service value has been taken up at the time of replacement for Canadian Lines while for United States Lines of the System depreciation has been provided at rates defined by the regulations of the Interstate Commerce Commission, resulting in a composite rate of approximately 1·5 per cent.

(*b*) On track structure, the loss of service value has been taken up at the time of replacement or retirement on both the Canadian and United States Lines.

(c) On equipment at the rate of 3⅓ per cent for the System, this being approximately the latest available composite of the rates used by Class I Railroads in the United States.

The Royal Commission on Transportation recommended that the Board of Transport Commissioners be empowered and directed to prescribe as soon as practicable the classes of property for which depreciation may properly be charged in the rail accounts of all railways subject to its jurisdiction and the rate or rates to be charged in respect to each class. This recommendation is still under study by the Board of Transport Commissioners.

We have received certificates from responsible operating and executive officers to the effect that the fixed properties and equipment have been maintained in a proper state of repair and in an efficient operating condition during the year; that insofar as traffic demands would permit, such physical retirements, which should have been made during the year as a result of wear and obsolescence, have been made and that notification of all such retirements has been given to the Accounting department.

Surplus for the Year

We would point out that in arriving at the surplus of $244,000, retroactive wage increases of approximately $4,500,000, not given effect to in 1952, have been charged against income for the year, and the gain of $2,561,000 on the redemption of certain sterling securities has been credited thereto.

CONSOLIDATED BALANCE SHEET

Assets

Against the Corporate portion of the property investment brought into the National System accounts at the 1st. January, 1923, there have been properly applied the reductions authorized by The Canadian National Railways Capital Revision Act, 1937, but no similar reductions were authorized at that time covering the Crown property investments in the Canadian Government Railways. Since the 1st. January, 1923, the additions and betterments less retirements of the System have been shown on the general basis of cost.

The several special funds including Capital and Other Reserve Funds, Insurance Fund and Pension Fund, amounting in total to $104,648,000 are represented by investment in the securities of the Government of Canada, the National System and securities of or guaranteed by the provinces, together with cash and sundry current assets. At the year end, System securities included in these special funds were valued at par and aggregated $15,550,000. Securities of the Federal Government and those of or guaranteed by the Provincial Governments amounting to $85,391,000 were based on cost which exceeded the market value by 4·59 per cent.

Investments in Affiliated Companies are represented by the capital stocks, bonds and obligations for advances, of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, these investments have been made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. The amount appearing on the Balance Sheet under this heading is after deduction of deposits with the Railway by the Trans-Canada Air Lines totalling $11,000,000.

Other Investments are comprised partly of unlisted investments of a miscellaneous nature including those in hotel and grain elevator companies held primarily for purposes of traffic benefit and are valued at or below cost. The balance is represented by securities of the Government of Canada and the National System (Government Guaranteed), the book figure of which is based on cost for Government bonds and par for securities of the National System. The cost of the securities of the Government of Canada included therein exceeded the market value by 4·94 per cent.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual debtors and creditors.

A physical inventory of Material and Supplies was taken by the Railway as at the 30th. September, 1953, and in connection therewith we have received certificates from the responsible officers to the effect:

(a) That the quantities were determined by actual count, weight, or measurement or by conservative estimate where such actual basis was impracticable, and

(b) That the inventory pricing was laid down cost based on weighted average cost for ties, rails and fuel and on latest invoice prices for new materials in General Stores, and on estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable allowances for condition thereof.

The physical inventory valuation exceeded the ledger balances, and the latter were brought into agreement with the physical inventory through a credit to railway operating expenses.

The Insurance Fund, which at the year end amounted to $14,058,000, increased during the year by $1,215,000 after the special transfer thereto by the Railway of $1,500,000 (compared with $500,000 in 1952).

Other Deferred Assets consist principally of Contracts Receivable in connection with land sales and sundry deferred accounts collectible.

Other Unadjusted Debits consist of the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted interline freight claims paid in advance of investigation with other carriers, and miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Liabilities

Current Liabilities include an amount of $22,367,000 payable to the Government of Canada. This amount is comprised of (a) $16,000,000 received in March and April, 1953, under authority of Section 9 of Canadian National Railways Financing and Guarantee Act, 1952, (b) $6,123,000 interest payable on loans from the Government and (c) $244,000 dividend payable on Preferred Stock in respect of surplus earnings for the year.

Other Deferred Liabilities consist principally of the outstanding capital value of the workmen's compensation awards by the Provinces of Ontario and Quebec, together with the percentage retained from contractors pending completion of work in progress.

Reserves and Unadjusted Credits

Accrued depreciation on Canadian Lines equipment amounts to $186,654,000. During the year the full ledger value of equipment retired, less salvage, was charged to this reserve.

Unadjusted Credits include the estimated proportion of prepaid revenues on freight in transit; excess of actual revenues over year-end estimates carried in suspense; estimated liability for injuries to persons; estimated liability for overcharge claims, and miscellaneous items not otherwise provided for or which cannot be disposed of until additional information is received.

Capital Stock

In compliance with Section 6 of the Canadian National Railways Capital Revision Act, 1952, the Minister of Finance purchased during the year from the Company at par 21,022,272 four per cent preferred shares of one dollar par value equal to three per cent of the gross operating revenues of the System for the twelve months ended the 30th. November, 1953. 1,646,444 additional preferred shares were purchased in January, 1954, of a par value equivalent to three per cent of the gross revenues for the month of December.

General

A survey has been made of the benefits to be derived through the additional utilization of mechanical accounting both for accounting and statistical purposes, as recommended by us, and we are pleased to report that during the year under review considerable progress has been effected, which will result in a substantial extension of machine accounting in 1954.

Where foreign currencies are involved, the balance sheet accounts of the System are converted generally as follows:—

(a) United States Currency—at the dollar par of exchange.

(b) Sterling Currency—at the former par of $4·86⅔ to the pound.

(c) French Currency—at approximately 15 francs to the dollar for the original investment in Hotel Scribe and 359 francs to the dollar for working capital accounts.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & CO.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
Coristine Building
410 St. Nicholas Street
MONTREAL 1

5th March,1954.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

The Honourable the Minister of Transport,
Ottawa, Canada.

Sir,

We have audited the accounts of the Canadian National (West Indies) Steamships, Limited for the year ended the 31st December, 1953, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Steamships in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Company is further protected by fidelity bond insurance carried with outside underwriters.

Our audit of the accounts included the verification of the balance sheet and the income and profit and loss accounts and certification thereof.

Income Account

Provision for depreciation was made during the year on the following bases:

(*a*) The three diesel powered and refrigerated vessels—5%;

(*b*) The five non-refrigerated vessels—3%.

We have received a certificate from the responsible officers that all equipment has been maintained in a proper state of repair and in an efficient operating condition during the year; that such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence, have been made, and that notification of all such retirements has been given to the accounting department.

Balance Sheet

Assets

Investment in vessels is carried on the general basis of cost less accrued depreciation. The *Lady Nelson* and the *Lady Rodney* were sold during the year and the investment in vessels and accrued depreciation thereon reduced accordingly.

The Replacement and Insurance Funds are composed of investments in the securities of the Government of Canada, the Canadian National Railways (Guaranteed by the Government of Canada), the Province of Ontario and securities guaranteed by the Province of Ontario together with cash and sundry current assets. The year-end market value of these securities was 6·76% less than cost.

The Replacement Fund increased by $490,000 during the year, as a result of depreciation accruals charged to income account and the transfer of the net book value of vessels sold. The profit on the sale amounting to $477,000 was credited to Profit and Loss Account. The sum of $6,000 was charged to the fund to cover the cost of additional radio equipment.

The Insurance Fund increased during the year by $211,000. Included in the increase is the amount of $70,000 appropriated for income tax in 1952, which was paid in 1953 and is recoverable under the provisions of the Income Tax Act. The insurance risks on all vessels are carried in the fund.

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

Discount on capital stock represents the amount set up at the time of incorporation equal to the par value of the shares issued in consideration of the guarantee by the Government of Canada of the Steamships' bonds.

* * * * *

Where foreign currencies are involved, the balance sheet accounts of the Steamships are converted generally as follows:—

(*a*) United States Currency
—at the dollar par of exchange.

(*b*) Other Foreign Currencies
—at the current rates.

* * * * *

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & CO.

Mr. FRASER (*Peterborough*): Mr. Chairman, I have a correction to make.

The CHAIRMAN: Was it that the publication you were referring to was the Saturday Night?

Mr. FRASER (*Peterborough*): I said that I thought it was Macleans. I should have said Saturday Night.

Mr. FULTON: I wonder if for the benefit of the new members of the committee you would introduce Mr. Turville and his associates.

The CHAIRMAN: We have here Mr. F. P. Turville, C.A., of the firm of Messrs. George A. Touche & Co., Chartered Accountants, who will present his report. He is accompanied by Mr. J. D. Morison, C.A., and Mr. D. T. G. Padley, C.A., all members of the firm of chartered accountants.

Mr. FULTON: My questions are not very extensive, except that I would like to ask Mr. Turville if he would say whether there is anything of particular significance in this report as compared with last year's, and particularly anything arising out of the recapitalization to which he would like to draw our attention from an accountant's point of view?

Mr. TURVILLE: Mr. Chairman, Mr. Fulton, and members of the committee, we have tried to simplify to some extent, the wording, which we have been using in connection with depreciation. We have in previous years detailed the requirements of the Interstate Commerce Commission and their regulations. I think that the manner of this year's presentation will be more effectively appreciated by the committee. By the way, there has been no change in the manner in which depreciation has been provided in 1953. You simply find at the foot of page one and the top of page two, a description of the rates that have been charged on United States lines and Canadian lines with respect to equipment and the basis on which those rates have been charged. We have referred, as you will note, to the fact that the Railway Commission on Transportation recommended that the Board of Transport Commissioners be directed to prescribed not only a uniform system of accounting, but are also called upon to define what rates should be used. We are all of us awaiting the report on these points.

Mr. FULTON: Under depreciation, in paragraph (a) on page one you say: "On bridges, buildings, stations, shops, etc, the loss of service value has been taken up at the time of replacement for Canadian lines, while for United States lines of the system depreciation has been provided at rates defined by the regulations of the Interstate Commerce Commission, resulting in a composite rate of approximately 1.5 per cent." That is the depreciation on that type of asset?

Mr. TURVILLE: Yes.

Mr. FULTON: Is that usual or is it low?

Mr. TURVILLE: What we are drawing attention to there is the fact that there are different methods of arriving at depreciation. There is no rate of 1.5 per cent, as it represents a composite rate. The rate which is uniform throughout the United States on Class 1 railroads works out to approximately 1.5 per cent. It varies slightly from year to year.

Mr. FULTON: It is only the Interstate Commerce Commission rates that average that?

Mr. TURVILLE: Yes, which we had to use for our American lines in any event.

Mr. FULTON: There is another aspect on page 2. It is perhaps not significant, but I would like to draw attention to it. It is your note on surplus. Had it not been that the railway was required to pay wages which included $4½ million retroactive to 1952, the surplus would have been something over what it is?

Mr. TURVILLE: That is right. And we referred also to the gain on the redemption of debenture and sterling securities.

Mr. FULTON: Balancing one off against the other, your surplus would have been something over $2 million had it not been for the retroactive wages?

Mr. TURVILLE: Yes.

Mr. FULTON: Now, under assets, you note: "Securities of the federal government and those of or guaranteed by the provincial governments amounting to $85 million were based on cost which exceeded the market value by 4·59 per cent." We are dealing with assets in the pension fund account. Is there any significance to be attached to the fact that the book value assets, the value which they are carried on in the books, affects the market value?

Mr. TURVILLE: It is a matter which should be drawn to the attention of shareholders and to this committee because it should be known that the investments carried in the pension and other funds are carried in some cases at par, and the system securities we know are not at par at the moment. The practice of the railway since its beginning has been to treat system securities in that manner. It is interesting to note that the market value is 4·59 per cent less than the cost. Last year it was 7·02 per cent less than cost, so an improvement has taken place.

Mr. FULTON: It would not have any significance because the purpose of the fund is to produce an income to pay pensions?

Mr. TURVILLE: Yes.

Mr. FULTON: And it stays the same?

Mr. TURVILLE: It has been the practice of the railways to hold the securities until redemption or maturity.

Mr. FULTON: They will be redeemed at par?

Mr. TURVILLE: Yes.

Mr. FULTON: In the next paragraph: "The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission." Here, we have assets carried on the books at less than the valuation of the I.C.C. Is there anything we can do about that?

Mr. TURVILLE: That is carefully worded. We cannot say these U.S. investments are carried at cost. It is a valuation which has been used for 20 years or so. For example, on the Detroit and Toledo Shoreline Railway the I.C.C. valuation is $2,142,000 while the C.N.R. carries that investment at $1,500,000.

Mr. FULTON: Then you refer to other investments comprised partly of unlisted investments, etc., including those in hotel and grain elevator companies held primarily for purposes of traffic benefit and valued at or below cost. Is that the figure that shows on the balance sheet?

Mr. TURVILLE: Yes.

Mr. FULTON: Is there really very much of importance there?

Mr. TURVILLE: The difference between the excess of the cost over the market values shows an improvement there too as compared with the previous year.

Mr. FULTON: Are the hotel companies to be included in that?

Mr. TURVILLE: There is approximately $78,000 of investment in hotels included therein.

Mr. FULTON: Why are they carried separately from investments in affiliated companies?

Mr. TURVILLE: As we pointed out here they are not part of the hotel system as such. The Admiral Beatty Hotel is one, for example.

Mr. FULTON: Could I ask Mr. Armstrong why that is held separately from the investments in affiliated companies?

Mr. GORDON: In the hotels which you have in mind we only own the Chateau Laurier. That is merely a share interest we have in the Admiral Beatty hotel. We also own a small number of shares in others. Totalled up, the $78,000 is a very small matter, but it is a stock interest distinct from an ownership interest.

Mr. FULTON: Coming to liabilities, you draw attention to the fact that current liabilities include an amount of $22 million payable on loans from the government. What year is that?

Mr. TURVILLE: 1953.

Mr. FULTON: Loans made in 1953, or interest accruing in 1953?

Mr. TURVILLE: Interest accruing in 1953.

Mr. FULTON: Is there from your point of view any provision made for retiring that interest obligation?

Mr. TURVILLE: For paying it, you mean?

Mr. FULTON: Yes.

Mr. TURVILLE: It is probably paid now.

Mr. GORDON: We simply gave the amount at the closing date of the balance sheet. It may have been paid the next day.

Mr. FULTON: You draw attention to the fact that accrued depreciation on Canadian lines equipment amounts to $186,654,000, and during the year the full ledger value of equipment retired, less salvage, was charged to this reserve. Is there anything significant in that comment?

Mr. TURVILLE: No. The reason we mentioned it is to point out to the committee that this provision for depreciation on the balance sheet is becoming a sizable amount. When one remembers that it only started in 1940 and has been built up to that figure in 13 years, I think it is an interesting item to show.

Mr. FULTON: Interesting, but it there anything else about it which you care to comment on?

Mr. TURVILLE: I know what you mean. It is also linked up with the previous reference in our report to the fact that depreciation was taken into account on Canadian lines equipment but not on fixed properties. I think that the committee will be interested to know that the C.N.R. have accrued $186 million in that way.

Mr. FULTON: So there was a surplus in the depreciation?

Mr. ARMSTRONG: No. That reserve is in respect to depreciation accrued to date on equipment that has not yet matured.

Mr. FULTON: You have written it off in terms of bookkeeping?

Mr. ARMSTRONG: Let us speak of this in terms of freight cars. One freight car may be 90 per cent depreciated and another 10 per cent, but they are still in service and will continue in service until they are scrapped or otherwise disposed of. This figure of $186 million represents that type of reserve. It is not in any sense a surplus.

Mr. TURVILLE: No.

Mr. FULTON: I did not mean that. I was wondering whether the fact that attention was drawn to the auditors' report would have any significance in the minds of those who are not chartered accountants?

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Mr. TURVILLE: There is one thing I might say. If you look at the newspaper report on the Canadian Pacific I do not think you will find the amount of accrued depreciation separately stated.

Mr. GORDON: Some balance sheets will show the asset as less depreciation. It is merely one method of showing the balance sheet.

Mr. FULTON: It is one of those things which the board of directors will make a recommendation on as to how it should be done.

The CHAIRMAN: Shall the report carry?

Carried.

The CHAIRMAN: Then the auditors' report of the Canadian National Steamships Limited. Shall the report carry?

Carried.

The CHAIRMAN: Now, we come to four items of estimates. The first is vote 465 relating to Prince Edward Car Ferry and terminals Deficit.

No. of Vote	Service	Details on Page No.	1954-55	1953-54	Compared with Estimates of 1953-54	
					Increase	Decrease
			$	$	$	$
465	Prince Edward Island Car Ferry and Terminals—To provide for the payment during the fiscal year 1954-55 to the Canadian National Railway Company (hereinafter called the National Company) upon applications approved by the Minister of Transport made from time to time by the National Company to the Minister of Finance and to be applied by the National Company in payment of the deficit (certified by the auditors of the National Company) in the operation of the Prince Edward Island Car Ferry and Terminals arising in the calendar year 1954.............	534	1,558,000	1,459,000	99,000	

Mr. MACLEAN: This item is to cover the line deficit for 1953? What is the intention in operating this ferry?

Mr. GORDON: The present intention is to carry on as we did last year. During the tourist season we had to make an additional trip. In fact last year the "Abegweit" made more trips than in 1952. To be exact there were 4,689 trips made in 1952, and in 1953, 5,028.

Mr. MACLEAN: How many complete crews are required?

Mr. GORDON: Three crews operating on an eight hour basis. I am talking about the "Abegweit" now.

Mr. MACLEAN: You require three complete crews there?

Mr. GORDON: Yes.

Mr. MACLEAN: Three masters, and all the way down?

Mr. GORDON: Yes.

Mr. GILLIS: There is no danger of passing that business over to foreign ships?

Hon. Mr. CHEVRIER: Not at the rate we are going here.

The CHAIRMAN: Are there any further questions?

Carried.

The CHAIRMAN: Vote 469, North Sydney, Nova Scotia, and Port aux Basques.

No. of Vote	Service	Details on Page No.	1954-55	1953-54	Compared with Estimates of 1953-54	
					Increase	Decrease
			$	$	$	$
469	To provide for the payment during the fiscal year 1954-55 to the Canadian National Railway Company (hereinafter called the National Company) upon applications approved by the Minister of Transport made from time to time by the National Company to the Minister of Finance and to be applied by the National Company in the payment of the deficit (certified by the auditors of the National Company) in the operation of the North Sydney, Nova Scotia—Port-aux-Basques, Newfoundland, Ferry and Terminals arising in the calendar year 1954.......	535	26,00,000	1,870,000	730,000	

Carried.

Mr. MACLEAN: Is that up or down?

Hon. Mr. CHEVRIER: Up about $500,000.

Mr. FULTON: Do you think that when you get this new William Carson in operation you will require that much?

Hon. Mr. CHEVRIER: That is hard to say. The William Carson is an up to date ship. If the costs of the William Carson are in proportion to the Abeweit then I do not anticipate much of a change. Most of the revenues are increasing substantially and there is an excellent reason for that with the construction of the causeway. There should be through traffic in greater quantity and a greater amount than heretofor.

Mr. FULTON: Who uses this? Will it mostly be used by the railway in shipping their freight on the mainland of Nova Scotia?

Mr. GORDON: It will be used by the railways for freight and passengers. I have not the figures for 1952-53. The number of tons of freight carried was 120,000 tons and that compares favourably with the number across the Northumberland strait, where the ship is a better ship than the one in operation at Port aux Basques.

Mr. FULTON: I was wondering why this is carried on in this way instead of being operated in another way.

Hon. Mr. CHEVRIER: For the same reason that the "Abegweit" is operated in this manner. The Canadian National Railways felt that this was not a proper charge in their accounts. It is a rather substantial deficit amount, and they carried it for a time, but when it was brought to our attention that this was one of the terms of the union of Canada and Newfoundland, we came to the conclusion that we should carry it in our estimates, and that was done.

Mr. GORDON: This comment covers to all intents and purposes the requirements as of today, and it is available for all forms of transportation, whoever needs to go from the mainland to Newfoundland. It will cover individuals, automobiles, trucks, any form of transportation that wishes to use it. It is treated from the standpoint of freight rates, for example, the same as if it were on the mainland.

Hon. Mr. CHEVRIER: Mr. Gordon is quite right. In fact, the expressions that he used are in one of the sections of the terms of the union.

Mr. FULTON: What I was thinking was this. Normally, if you had an operation of this kind, you would charge for carrying trade on it. I assume that no charge is made to the railway for carrying freight on that project.

Hon. Mr. CHEVRIER: This ferry is entrusted to the railway for operation by the government. They charge the going rate.

Mr. GORDON: We credit the operation with our portion of the revenue which belongs to the freight that may go over.

Hon. Mr. CHEVRIER: In the same manner as in the "Abegweit".

Mr. FULTON: Could you elucidate that?

Mr. GORDON: In the common practice followed for arriving at the figure of a deficit, we give the operation credit for that portion of the freight rate which belongs to that operation. In other words, there may be traffic moved from Toronto to Saint John. Then it is through traffic. We figure out the proportion that belongs to that mileage.

Mr. FULTON: I was wondering.

Mr. GORDON: And by the same token the operation would credit full value of fees and charges collected on automobiles and trucks. That would go to the operation, it would not go to the railway. Against the operation you would charge the operating costs averaged for our operations. We act as a trustee, so to speak, for operating ships.

Mr. FULTON: You charge yourself what you charge the general public?

Mr. GORDON: That is right, the operation is charged with the amount properly belonging to that activity.

Mr. MACLEAN: How does the depreciation enter into your bookkeeping?

Hon. Mr. CHEVRIER: I am informed by Mr. Turville that they are not depreciated.

Mr. MACLEAN: I had a few other small questions on this. Roughly, what is the total wage paid with regard to the "Abegweit"? Is an increase in wages an important factor in the increase of the deficit?

Hon. Mr. CHEVRIER: They have been increased substantially in the case of the "Abegweit", and what has been equally a cause of the increased deficit is the increased number of crossings. The cost of taking the "Abegweit" across Northumberland strait 700 times more in 1953 than in 1952 would increase the cost substantially.

Mr. MACLEAN: In that regard, there is no connection between the number of operations and the amount of railway business offering? It crosses if it is carrying, for instance, only automobiles?

Hon. Mr. CHEVRIER: It crosses at certain times on a schedule.

Mr. MACLEAN: It makes extra trips, does it not?

Hon. Mr. CHEVRIER: In the tourist season it does.

The CHAIRMAN: Carried.

Vote 474, Maritime Freight Rates Act.

No. of Vote	Service	Details on Page No.	1954-55	1953-54	Compared with Estimates of 1953-54	
					Increase	Decrease
			$	$	$	$
474	Maritime Freight Rates Act—For the payment to the Railway Companies operating in the select territory designated by the Act, during the fiscal year 1954-55, of the difference occurring on account of the application of the Act, between the tariff tolls and normal tolls under approved tariffs (estimated and certified to the Minister of Transport by the Canadian National Railway Company and approved by Auditors of the said Company respecting the Eastern Lines of the Canadian National Railways, and in the case of the Other Railways by the Board of Transport Commissioners for Canada) on all traffic moved during the calendar year 1954 (Chap. 174, R.S.)...........	537	10,948,000	10,453,000	495,000	

Mr. FOLLWELL: Is there any subsidy in the maritimes?

Mr. MURPHY (*Westmorland*): No, just what we were promised.

Mr. MACLEAN: What is the amount?

Hon. Mr. CHEVRIER: $10,948,000. It is about a half million dollars more.

Mr. MACLEAN: What is the area that that applies to?

Hon. Mr. CHEVRIER: It is east of Diamond Junction.

The CHAIRMAN: Carried.

The next vote is 475, Canadian National (West Indies) Steamships Limited deficit. We have just discussed that.

No. of Vote	Service	Details on Page No.	1954-55	1953-54	Compared with Estimates of 1953-54	
					Increase	Decrease
			$	$	$	$
475	Canadian National (West Indies) Steamships, Limited —To provide for the payment from time to time to the Canadian National (West Indies) Steamships, Limited (hereinafter called "The Company") of the amount of the deficit occurring during the year ending December 31st, 1954, in the operations of the Company and the vessels under the control of the Company, as certified by the Auditors of the Company, and upon applications made by the Company to the Minister of Finance and approved by the Minister of Transport, not exceeding.....	537	581,000	....	581,000	

Carried.

Then, I believe that is the work that has been assigned to us in connection with these matters. Before going further, I might say that tomorrow I will make a report to the House on the four votes which we have discussed, the items of estimates, in order that they might be returned again in essence.

At this time I think you would want me to express to Mr. Gordon and the other officials of the Canadian National Railways and the Canadian National (West Indies) Steamships Limited, and to the auditors who have been here today, our thanks for the very efficient and careful manner in which they have reviewed the activities of these organizations. They have appeared many times in the past and on each occasion they have acquitted themselves in a highly efficient manner, and we want them to know that we appreciate very much the way these various matters have been handled. I think there is nothing further to come before the committee.

Mr. FOLLWELL: I think that we should thank you, as chairman of the committee, for the expeditious manner in which you have handled our work.

The CHAIRMAN: Tomorrow morning we will deal with Trans-Canada Air Lines at 10 o'clock, in room 277. The reason for arranging an earlier time of meeting is so that we will be able to go with the Constellation at 11.30, and I understand that we will be gone until about two o'clock in the afternoon. We will return in time to be in the House by 2.30.

Mr. FULTON: You guarantee a return?

The CHAIRMAN: I hope so.

The committee adjourned.

EVIDENCE

MARCH 31, 1954.
10.00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. We have with us today Mr. G. R. McGregor, President of Trans-Canada Air Lines. With him as his associates he has Mr. W. S. Harvey, Comptroller; Mr. W. F. English, Vice-President of Operations, who is in the city but not in the room at the present time; W. G. Wood, Vice-President in charge of Traffic; and Mr. R. C. MacInness, in charge of Public Relations. I will ask Mr. McGregor to commence by reading the report of Trans-Canada Air Lines for 1953.

Before you commence, Mr. McGregor, I might just say this. I talked with Right Hon. C. D. Howe last evening. He is not with us now and is engaged at Uplands Airport until about 12 o'clock. However, he will be with the committee this afternoon and will answer any questions that may be directed to him.

I will just ask Mr. McGregor to commence proceedings by reading the annual report now.

Mr. G. R. McGREGOR: (President, Trans-Canada Air Lines): Thank you, Mr. Chairman.

MONTREAL, February 27, 1954.

To the Right Honourable,

The Minister of Trade and Commerce, Ottawa.

Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1953.

The Company reached new high levels of both traffic and gross earnings. Capacity for public service was again expanded and far-reaching preparations made for future growth. TCA's record of dependable operations was maintained, as was the efficiency of both staff and equipment.

The buoyant Canadian economy and an active merchandising programme combined to produce increases in all categories of traffic. Passenger transportation rose in volume by 16 per cent while air express and air freight rose by 12 per cent and airmail by 11 per cent.

TCA made available for sale a record total of 149,140,771 ton miles of air transportation in 1953. This provided a 23 per cent increase in seat miles.

Final preparations of a comprehensive nature were made for the introduction into the Company's fleet of new and advanced types of aircraft.

For the fifth successive year TCA was able to conduct its business without provision of new capital. The year's operations again resulted in a financial surplus after taxes although this was reduced from the previous year by higher costs and by development expenses for which there was no compensating revenue in the period under review.

Financial Review

There follows a tabulation of the 1953 operating results compared with those of 1952:

	1953	1952	Increase or (Decrease)
Operating Revenues	$62,236,564	$55,057,708	$7,178,856
Operating Expenses	61,433,700	52,744,741	8,688,959
Operating Income	$ 802,864	$ 2,312,967	($1,510,103)
Non-operating Income—Net	519,256	444,912	74,344
	$ 1,322,120	$ 2,757,879	($1,435,759)
Interest Expense	765,890	750,000	15,890
Income	$ 556,230	$ 2,007,879	($1,451,649)
Provision for Income Taxes	300,000	1,200,000	(900,000)
Net Income	$ 256,230	$ 807,879	($ 551,649)

There was a system surplus of $256,230, representing the third successive year in which the Company has recorded a net income. The decrease of $551,649 from the 1952 net indicates however, the heavy expenses with which the Company is being confronted during a period of expanding operations, a condition that will continue in 1954 and 1955.

Contributing to the year's earnings were $48,242,942 of passenger revenue, an increase of 15 per cent. $7,786,119 of mail revenue up 1 per cent; and $3,673,440 of air express and air freight revenues, an increase of 9 per cent.

There were, however, attendant problems of rising costs related to the broader scale of Company operations and the handling of the greater traffic volume. The Company payroll alone increased by $3,605,892, reflected higher wage rates and the employment of additional staff required by the increased traffic. In addition there were heavy expenses associated with the planned introduction of new aircraft during the next two years.

Although operating revenues increased 13 per cent, there was a related rise of 16 per cent in operating expenses.

Revenue per available ton mile of transportation increased slightly to 41·73 cents as compared with expense per available ton mile of 41·19 cents, also up from the previous year.

In 1953 the Company made provision for income taxes of $300,000.

No further commitments were made for additional aircraft during 1953; however, previous commitments for the purchase of major spares were increased. The $35,000,000 contingent liability outstanding from 1952 was reduced by the delivery of the Bristol fleet and payments on the Toronto hangar. Capital expenditures for which TCA is committed over the next eighteen months total $32,500,000, against which progress payments of approximately $7,000,000 have already been made.

Royal assent was given on May 14th to an amendment to the Trans-Canada Air Lines Act of which the principal provisions were the elimination of the corporate distinction between Trans-Canada Air Lines and Trans-Canada Air Lines (Atlantic) Limited and the substitution of a $20,000,000 debenture bearing interest at 3¾ per cent due January 1, 1973, for 200,000 shares of the capital stock previously held by the Canadian National Railway Company.

Operations and Traffic Review

In almost every phase of its activities the Company showed marked growth as indicated in the following statistical comparison between 1953 and 1952:

	1953	1952	Per cent Increase
Total Aircraft Miles Flown	31,737,638	28,600,919	11
Passengers Carried	1,307,810	1,132,518	15
Passenger Miles Flown	759,319,800	653,961,415	16
Passenger Miles Available	1,079,676,170	881,585,954	23
Mail Ton Miles	5,373,841	4,843,052	11
Air Freight Ton Miles	6,245,368	5,643,920	11
Air Express Ton Miles	1,648,741	1,398,507	18
Revenue Ton Miles Flown	89,149,605	77,497,093	15
Ton Miles Available	149,140,771	133,177,327	12

Service Development

While there were no major changes in the Company's route structure in 1953 there were increases in the frequency of flights between many of the cities served by the airline and 11% more aircraft miles were flown than in the previous year. Of particular interest was the scheduling of a sixth daily trans-continental service. This involved the extension of North Star operations to Regina and Lethbridge, cities previously served by DC-3 equipment only. Unfortunately, subsequent deterioration of the Lethbridge runways due to abnormally wet weather required an indefinite suspension of the North Star stop at that point. In November, North Star service was also extended to Cleveland.

On June 14 a summer service was inaugurated between Toronto and Muskoka as part of the Company's Northern Ontario route. Designed to serve the tourist needs of this resort area, it proved highly popular on a seasonal basis.

Trans-Atlantic services during the summer months were increased to eight flights weekly between Montreal and London. Of these, Prestwick was served by four flights, Paris by two, and Shannon and Dusseldorf by one each. Additional flights were also operated to accommodate heavy pre-Coronation traffic. There was little change in flight frequencies to Bermuda and the Caribbean area, but in December operations were extended to Montego Bay serving a major resort area on Jamaica's north shore.

In the interest of better service to air travellers from Ontario and Western Canada, arrangements were made, effective November 3, to originate and terminate a weekly Trans-Atlantic flight in Toronto. This had the effect of eliminating time-consuming flight connections at Montreal. The latter city remains, however, the principal North American gateway for the Company's Trans-Atlantic flying.

Another measure of the year's service standards was the high level of "on-time" flight performance. 85% of flights operated on schedule or arrived at destination within one half-hour of schedule. 96% of all scheduled flight mileage was completed.

Passenger Traffic

The rapid growth of air travel continued in 1953. The 1,307,810 passengers carried by TCA were not only the greatest number accommodated in a single year but twice as many as in 1949 and more than in the full five-year period 1943-47. In the last five years the number of TCA passengers has increased by 131%.

In 1953, 759 million revenue passenger miles were flown as compared with 654 million in 1952 and 350 million five years earlier in 1948. During the year the airline carried its 6 millionth passenger since operations began in 1937.

Once again there was no increase in the cost of air transportation in Canada. Indeed passenger fares have remained virtually unchanged since 1947, a situation that is in marked contrast with the general price trend of other services and commodities. Consistent with the maintenance of a sound economic position and good standards of service it is the Company's policy to provide air transportation at the lowest possible price. Not only were fare increases avoided in 1953, but plans made and necessary aircraft modifications undertaken to introduce low-cost transcontinental air tourist (coach) service in 1954.

The Company continued to offer low off-season fares on its North-Atlantic service and within Canada the Family Fare Plan not only made air transportation available to more persons but also stimulated airline traffic during normally slack travel periods.

Passenger traffic on the North Atlantic route was 9% greater than in 1952, with Coronation visitors to Britain contributing to the heavier demand.

Air travel to and from Bermuda and the islands of the Caribbean continued to be popular, with the emphasis upon vacation travel.

Mail Traffic

The carriage of "all-up" mail, up to one ounce letter weight, inaugurated by the Post Office Department in 1948, continued in 1953 with increased loads.

The 5,373,841 ton miles of mail flown over the TCA system in 1953 established a new record. Marked increases occurred both within Canada and on the North Atlantic. TCA's overseas mail traffic was 18% heavier than in the previous year, the majority being Eastbound Atlantic load. Negotiations with the Canadian Post Office Department resulted in a 17% reduction in the Atlantic mail rate payable to the Company, effective July 1, 1953.

Mail revenue represented only 12% of the Company's gross earnings in 1953 as compared with 14% in 1952 and 41% ten years previously.

The Company's unit rate of domestic mail remuneration again decreased as the volume of mail load continued to grow, and aggregate mail pay remained virtually unchanged under contract. TCA received $1.27 per ton mile in 1953, as compared with $1.39 in 1952. The consistent decline of unit pay is illustrated on page 11.

Commodity Traffic

TCA's carriage of air freight and air express continued the steady expansion of recent years. 7,947,113 commodity ton miles were flown on domestic and overseas routes. Freight capacity was provided on all TCA flights. In effect, this meant that Canadian business had at its disposal as many as six daily transcontinental services as well as numerous inter-city flights. This shipping network was in turn coordinated with TCA's international air freight facilities.

The extent of the Company's available freight capacity was well demonstrated by the February carriage of emergency Red Cross flood relief supplies from all Canadian stations to Montreal for overseas forwarding. In a matter of days, TCA moved 135,000 pounds of such aid without delay or inconvenience to the travelling public.

Continuing its policy of progressive air freight rate reductions the Company in January, 1953 applied to the Air Transport Board for a further domestic rate reduction of approximately 30%. Approval was received late in the year and plans made for a January 1st, 1954 effective date. While it was anticipated that the heavier traffic stimulated by the rate reduction could be accommodated in most cases on existing services, purchase was made of three Bristol freighter aircraft to provide supplementary air freight capacity over selected routes.

On the North Atlantic TCA maintained its position as the principal carrier of air freight between Canada, the British Isles and Europe. Aggregate load was substantially the same as in 1952.

There was also a healthy increase in commodity traffic on the Company's services to Bermuda and the Caribbean due largely to improving trade conditions.

Property and Equipment

Until the arrival in November of the three Bristol Freighters, the TCA fleet remained unchanged at 23 North Stars, 26 DC-3's, and 1 DC-3 cargo liner. All these aircraft continued to provide efficient and reliable service and it was thanks to their high utilization that the Company found it possible to offer a considerably increased carrying capacity in 1953.

The passenger appeal of the Company's North Stars was further enhanced by the installation of a TCA-designed exhaust system which has the effect of reducing cabin noise level by approximately 50%. The entire domestic fleet of four-engined aircraft was so equipped by year end and public response was favourable.

The conversion of the domestic North Stars from 40 to 48 seat accommodation was completed. This had the effect of substantially improving TCA's passenger carrying capacity on mainline routes without any sacrifice of passenger comfort or loss of operational efficiency.

The three Bristol Freighters were rapidly modified in the Company's Montreal shops to fit them for Canadian operating conditions. These aircraft, specifically designed for freight carrying purposes, were available for service by year end.

There follows on the next page a cutaway picture of the aircraft in which we hope most of you will come for a flight at noon today.

Under the Company's building programme, construction of Canada's largest commercial aircraft hangar neared completion at Malton Airport. This will meet the heavy requirements of aircraft housing and maintenance at Toronto. At Dorval airport a three-story hangar annex was built for the accommodation of technical and administrative staff.

Throughout the year TCA continued the overhaul at Winnipeg of R.C.A.F. training aircraft from Western Canada. 1,018 such aircraft passed through the Overhaul Base, bringing to 2,590 the number overhauled since the programme began in 1951.

Airport and Airway Facilities

The rapid growth of Canadian airline traffic continued to outrun the development of adequate airport terminal facilities in Canada. With few exceptions airport accommodation proved inadequate in capacity for passenger and commodity traffic. However, welcome progress was made at several points and the Department of Transport and the Company cooperated effectively on many occasions.

New and adequate airport terminal buildings were constructed by the Department at Moncton and the Lakehead. A badly-needed extension was also made to the Winnipeg building and construction of a new Saskatoon terminal begun.

Imported runway improvements were made at Vancouver, Regina, Sudbury and Timmins. High intensity lighting installations took place at Vancouver, Regina, Ottawa, Montreal, Stephenville and Gander.

Routes

By December 1953, Trans-Canada Air Lines, which began operations sixteen years earlier on a 122-mile route between Vancouver and Seattle, had grown to a route pattern of 9,916 miles in North America and 9,078 miles overseas. It had become one of the world's great international air transport organizations, spanning Canada and the Atlantic, and serving Canadian air transport needs both at home and abroad.

In the route map of pages 14 and 15 can be seen the comprehensive nature of the Company's operations.

Personnel

By year end Company staff numbered 7,072, as compared with 6,224 a year previously. This increase of 14 per cent corresponded generally with the 15 per cent increase in revenue ton miles flown. It was occasioned principally by the greater workload now being borne by the Company. Also, over 100 new employees were required by the imminent delivery of new types of aircraft.

The Company's best asset remained the growing reserve of experienced and well-qualified staff. By the end of 1953, 171 employees had been with the Company over 15 years; another 938 had completed 10 years of service; and an additional 2,368 had served TCA over 5 years.

In early October, Trans-Canada Air Lines and Canadian Pacific Airlines were joint hosts to the Annual General Meeting of the International Air Transport Association, attended by the senior executives of 57 airlines throughout the world. The meeting, second of its kind to be held in Montreal, was under the chairmanship of the President of Trans-Canada Air Lines. At the first meeting in 1945, Mr. H. J. Symington, then IATA's first President, presided.

Under the terms of the amendment to the Trans-Canada Air Lines Act which provided for an enlargement of the Company's Board of Directors from 7 members to 9, appointment was made of Mr. W. J. Parker, M.B.E., of Winnipeg and Mr. F. M. Ross, C.M.G., M.C., of Vancouver and St. Andrews.

The amendment to the Act also provided formally for use of Air Canada as the French language equivalent of Trans-Canada Air Lines, the literal translation of the latter being cumbersome.

The death occurred in November of Mr. E. T. Howe, Director of Passenger and Station Services. One of the Company's earliest employees, Mr. Howe gave loyal and able service to the airline and his loss will be keenly felt.

Planned Development

The Company's long-range development programme continued to receive the closest attention. Aviation is by nature an industry of constant change, yet at no time in TCA's history have undertakings of such proportions been impending.

Equipment Planning

The Company entered a phase of major re-equipment activity. TCA's new Super Constellation fleet, first ordered in August, 1951, will be put in North Atlantic service in May, 1954 and there was intensive preparatory work in all departments. This was particularly the case in view of the Company's decision to extend the Super Constellations to the transcontinental route by the late Summer of 1954. TCA Super Constellation service will reach from Vancouver to continental Europe, reducing transcontinental flight time by two hours and the Trans-Atlantic crossing to an even greater extent.

This new aircraft type, powered with radial compound engines, is one of the finest long-range transports in the air. It is larger and faster than any equipment previously employed by TCA. In domestic service it will seat 63 first-class passengers, while on the North Atlantic there will be 54 tourist class and 9 first-class seats together with a four-seat lounge in the first-class compartment. The first Super Constellations will be assigned to the North Atlantic route and by September will be introduced to domestic service on a twice-daily transcontinental flight schedule.

Deliveries of Vickers Viscounts will begin in the Fall of 1954, these aircraft to enter domestic service early in 1955. The Viscounts are equipped with Rolls-Royce Dart engines of the turbine-propeller type. Of advanced modern design, this will be the first aircraft incorporating the gas turbine power principle to be employed in North American scheduled airline service. Upon delivery to TCA it will have the advantage of being thoroughly tested in European services where an efficient operating record has already been established. Its fast, quiet and vibrationless flight characteristics will mean a high standard of passenger service on Canadian inter-city routes. A prototype Viscount visited Canada early in the year for cold-weather tests and performed satisfactorily under the most severe conditions.

To provide for the operation of the expanded fleet the airline embarked upon an intensive programme of pilot employment and instruction; 115 new First Officers underwent training during the year. Groups of Flight Engineers and supervisory maintenance staff were given Super Constellation training at the Lockheed aircraft factory at Burbank, California.

Service Planning

Acquisition of this additional flight equipment will mean improvements in both the extent and variety of TCA services. The airline will be able to meet with flexibility, the growing demand for air transportation.

On the North Atlantic the Company will be in a position to provide first-class service as well as tourist accommodation and its competitive position will be greatly strengthened.

Low cost tourist (coach) class service will be introduced within Canada. One daily flight will be operated between Montreal and Vancouver, another between Toronto and Vancouver and a third between Montreal and St. John's, Newfoundland. Seating and cabin service standards will be modified accordingly. Substantial fare reductions, particularly on one-way travel, will bring air transportation within the financial reach of even more Canadians. The tourist flights will supplement first-class Super Constellation and North Star operations.

The 30% reduction in domestic air freight rates coupled with the use of Bristol freighter aircraft will mean a further broad expansion of the Company's commodity transport. Freight and express loads are expected to show a marked increase.

It has recently been proposed that the carriage of "all-up" mail be extended to include all first-class matter the delivery of which will be expedited thereby. The Company will provide adequate accommodation for any additional mail volume that may result from the adoption of this policy.

Route Planning

TCA service to Mexico which had been planned for 1953 will begin early in 1954. Initially these weekly flights will be routed via Tampa, but without traffic rights between that point and Mexico City. The new service is designed to stimulate both business and social contact between these two North American trading nations.

Within Canada, TCA service will be extended to Sudbury. A new route across Northern Ontario between Sault Ste. Marie, Sudbury, North Bay, Ottawa and Montreal with connections east and west, will bring substantial transportation benefits to that area. There will be Toronto-Sudbury service via North Bay. Future plans also call for operations to Timmins on the Company's flights to and from Kapuskasing.

North Star service will be made available for the first time to Halifax and Saint John, New Brunswick. An all-North Star service to Newfoundland will also be introduced.

Financial Prospects

Although record traffic of all types is anticipated in 1954, the Company must regard its immediate financial prospects with a good deal of caution. TCA is at present in a transitional period of expensive fleet expansion involving a great many related financial commitments. Although the long-term strength of the Company will benefit, there are immediate economic problems. The introduction of new types of aircraft is necessarily a costly undertaking and 1954 and 1955 will bear the brunt of this. It is also the case that the average rate of return per passenger will be somewhat less in 1954 as a result of the introduction of tourist service. The Company must depend upon increased volume of passenger traffic to support its gross earnings. Under these circumstances Management's first concern will be the greatest possible efficiency of staff and equipment. The Company will endeavour to maintain the high operational standards that have won its good reputation, and by progressive policies keep the airline abreast of current technical developments.

Appreciation

The Board of Directors take this opportunity of thanking directly the men and women of TCA for loyal and effective work. Their performance more than any other factor has made possible another year of satisfactory airline operation.

For the Directors:

G. R. McGREGOR,
President.

The CHAIRMAN: Thank you, Mr. McGregor. Now then, I will ask for questions on the various headings in the report. First, however, I would ask that Mr. Dumas, the vice-chairman, move that the balance sheet and the statement of income be printed along with a copy of the annual report.

Mr. DUMAS: I would so move.

Carried.

BALANCE SHEET

At December 31st, 1953

Assets

Current Assets			
Cash			$ 1,637,717
Working funds			41,387
Deposits with Canadian National Railways			11,000,000
Special deposits			17,545
Accounts receivable			
Government of Canada	$ 1,711,232		
Traffic balances from other air lines	1,104,591		
Air travel plan	784,278		
Agents	403,210		
Other	699,559		
			4,702,870
Materials and supplies			4,131,338
Other current assets			90,284
			$ 21,621,141
Insurance Fund			5,782,262
Capital Assets			
Property and equipment	$ 36,219,961		
Less: Accrued depreciation	25,094,347		
	$ 11,125,614		
Progress payments on purchase of aircraft	6,951,001		
			18,076,615
			$ 45,480,018

Liabilities

Current Liabilities		
Accounts payable		$ 3,071,772
Traffic balances payable to other air lines		1,629,568
Air travel plan deposits		1,039,125
Salaries and wages		999,958
Prepaid transportation		1,691,677
Income taxes		372,221
Other current liabilities		77,605
		$ 8,881,926
Long Term Debenture		
Canadian National Railways, $3\frac{7}{8}$%, maturing January 1st, 1973		20,000,000
Reserves		
Insurance	$ 5,782,262	
Overhaul	860,764	
		6,643,026
Capital Stock		
Common stock—authorized 250,000 shares par value $100 per share —issued 50,000 shares fully paid		5,000,000
Surplus		
Surplus, January 1st, 1953	$ 4,698,836	
Net income, year 1953	256,230	
Surplus, December 31st, 1953	$ 4,955,066	
Reserved for replacement of capital assets		4,955,066
		$ 45,480,018

W. S. HARVEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st December, 1953, and, in our opinion, proper books of account have been kept by the Air Lines.

The above balance sheet and the relative statement of income are prepared on a basis consistent with that of the preceding year, and are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Air Line's affairs at the 31st December, 1953, and of the income and expense for the year according to the best of our information and the explanations given to us, and as shown by the books of the Air Lines.

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

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

Dated at Montreal,
23rd February, 1954.

STATEMENT OF INCOME

	Year 1953	Year 1952
OPERATING REVENUES:		
Passenger	$48,242,942	$42,022,616
Mail	7,786,119	7,698,641
Air Express and Freight	3,673,440	3,380,337
Excess Baggage	438,016	350,184
Charter	155,597	139,667
Incidental Services—Net	1,940,450	1,466,263
Total	$62,236,564	$55,057,708
OPERATING EXPENSES:		
Flight Operations	$13,044,443	$11,317,143
Ground Operations	10,037,292	8,590,652
Maintenance	16,318,973	14,438,386
Depreciation	5,339,271	4,378,715
Passenger Service	3,805,865	3,281,646
Sales and Reservation Service	7,837,869	6,512,953
Advertising and Publicity	1,513,726	1,183,906
General and Administrative	3,536,261	3,041,340
Total	$61,433,700	$52,744,741
OPERATING INCOME	$ 802,864	$ 2,312,967
Non-Operating Income—Net	519,256	444,912
	$ 1,322,120	$ 2,757,879
Interest Expense	765,890	750,000
INCOME	$ 556,230	$ 2,007,879
Provision for Income Taxes	300,000	1,200,000
NET INCOME	$ 256,230	$ 807,879

The CHAIRMAN: I think we can take first page No. 3. Are there any questions?

Mr. MACDONNELL: Mr. Chairman, do you think it might be convenient for Mr. McGregor to say anything further on the Statement of Income or has he anything further to say on it?

Mr. McGREGOR: I do not think there are any comments. If there are any questions on the matter when we come to that page I will be very glad to deal with them.

Mr. CHURCHILL: May I ask a question on the increase shown in air travel? Is there a comparable increase going on in other air lines and is this on a par with that increase?

Mr. McGREGOR: Yes. It varies considerably between one air line and another but I think in general there is a decline in the percentage increase between year and year with the actual volume increasing about the same amount. Different percentages apply to different air lines in the United States but I think this is about par for the course.

Mr. FRASER (*Peterborough*): With the air mail up 11 per cent and revenue up only 1 per cent on that, are you getting enough for your air mail?

Mr. McGREGOR: As you know, sir, it is a very vexed question.

Mr. FRASER (*Peterborough*): I know it is.

Mr. McGREGOR: Yes, I think our remuneration for mail is fair.

Mr. FRASER (*Peterborough*): Would you expect this would gradually grow owing to the fact that air mail stamps do not have to go on letters any more?

Mr. McGREGOR: Yes, although that has been true with respect to each letter between zero and one ounce for the last three years.

Mr. FRASER (*Peterborough*): Yes, but there are a lot of people who do not realize that and still put such stamps on. With the five cents on the regular letter starting on April Fool Day, tomorrow, there is liable to be an extra quantity put in?

Mr. MCGREGOR: I think perhaps it would be of interest for you to know that in March, which has just concluded, in order to make some approximation of what that volume will be we have been carrying mail on an experimental basis with the co-operation of the Post Office. Indications are that the increase in volume may be of the order of 30 per cent.

Mr. FRASER (*Peterborough*): In your air transport you say you had a 23 per cent increase in seat miles. Now, that would mean you have 23 per cent more passengers?

Mr. MCGREGOR: No, that is a 23 per cent increase in the seats in which passengers can be put, but the actual increase in passengers is 16 per cent—so the load factor decreased as planned.

Mr. KNIGHT: What proportion of your available space are you selling now?

Mr. MCGREGOR: About 70 per cent.

Mr. FRASER (*Peterborough*): On air express what are your rates?

Mr. MCGREGOR: On a per ton mile basis?

Mr. FRASER (*Peterborough*): Yes.

Mr. MCGREGOR: It varies, depending on several things including the length of the trip. I think twenty cents could be considered an average per ton mile—

Mr. FRASER (*Peterborough*): Twenty cents? The reason I ask is because of the fact that excess baggage is carried at a percentage of your fare?

Mr. MCGREGOR: One-half of one per cent per pound.

Mr. FRASER (*Peterborough*): Is that just straight now?

Mr. MCGREGOR: Yes.

Mr. FRASER (*Peterborough*): There was a variation before—after so many pounds?

Mr. MCGGEGOR: That only applies to the excess.

Mr. FRASER (*Peterborough*): But there is a variation?

Mr. MCGREGOR: No, I think not.

Mr. FRASER (*Peterborough*): I was very pleased to hear the T.W.A. agent, I think it was, say that TCA inaugurated that excess baggage idea and by doing so helped T.W.A. pay their way.

Mr. MCGREGOR: I think he does us too much credit.

Mr. MACDONNELL: The figures per pound mile I find difficult to put into ordinary everyday language. Could you give us a comparison of an article weighing so many pounds being taken from Ottawa to Winnipeg and from Ottawa to any other place you would select—to give us a comparable figure between railway express and air express?

Mr. MCGREGOR: I think we can have that after lunch—something say of 50 pounds?

Mr. MACDONNELL: Yes.

Mr. BENIDICKSON: What would it cost to move a suit of clothes from Montreal to Vancouver—something of that kind?

Mr. FRASER (*Peterborough*): With a man in it?

Mr. MACDONNELL: Anything you think is typical. Now, you speak about a 23 per cent increase—that was in capacity and not in actual business?

Mr. McGregor: Sixteen per cent in passengers.

Mr. Macdonnell: Can you give us comparable figures for the United States, that being the most comparable country? Can we have figures to show what is going on elsewhere?

Mr. McGregor: Yes, although they are not exactly comparable or for the comparable period because the fiscal years of many of those companies do not correspond with the calendar year.

Mr. Macdonnell: It would be roughly comparable?

Mr. McGregor: Yes.

Mr. Carter: That factor, the difference between 16 per cent and 23 per cent is not a uniform thing—it involves slack seasons of the year?

Mr. McGregor: Those are the two figures for the year and they are over-all company figures.

Mr. Carter: But there is a considerable part of the year where the whole 23 per cent would be utilized?

Mr. McGregor: Yes, a very high percentage of it in the peak seasons.

Mr. Carter: From your graphs and charts you know pretty well when that takes place and you utilize the extra 7 per cent in some other way?

Mr. McGregor: That is one of the pleasant features about our service to the Caribbean islands and Bermuda. The traffic there tends to peak, out-of-phase with the domestic traffic peaks. There is a reduction in the domestic fleet service in the late fall when we reduce from six to five transcontinental flights as was done, for instance last fall, and that allows us to utilize the aircraft thus released on carriage to the Caribbean resort areas.

Mr. Carter: So you can interchange traffic to compensate?

Mr. McGregor: Yes.

Mr. Fulton: Do I understand you to say your average figure over the year is about 70 per cent—that is passenger capacity being used?

Mr. McGregor: Yes.

Mr. Fulton: With the new aircraft you are going to bring into service you will have a quite substantial increase in capacity, will you not?

Mr. McGregor: Yes.

Mr. Fulton: What do you anticipate as a result of that increased capacity?

Mr. McGregor: There will be a slight reduction in our load factor if our forecast of traffic is correct. I think it will come down to about 68 per cent in 1954.

Mr. Fulton: Do you anticipate that the increased speed in service will, over a period of a few years, bring your load factor up again? Or do you rely on your increased capacity?

Mr. McGregor: We believe the normal growth will contribute largely, but we also believe the introduction of tourist rates will have a strongly stimulative effect and will keep the load factor up—and we will break about even.

Mr. Fraser (*Peterborough*): You did not mention how many seats you plan to increase by?

Mr. McGregor: The increase is from 48 to 57 at the present time with a possible further increase being undertaken on the North Stars.

Mr. Fraser (*Peterborough*): I think on American air lines, I believe T.W.A., they have put in three seats wide and then two—

Mr. McGregor: That is what we are doing.

Mr. FRASER (*Peterborough*): Some of them have been increased to about 80 seats?

Mr. MCGREGOR: Yes, they have put a great number of seats in some of their DC-4 and DC-6 aircraft.

Mr. FRASER (*Peterborough*): On your tourist flights like that will you serve a lunch or meal to the tourists?

Mr. MCGREGOR: A box lunch.

Mr. FRASER (*Peterborough*): Not a tray lunch?

Mr. MCGREGOR: No.

Mr. FULTON: What other factors do you have in mind as contributing to the increased load? You mention tourist flights, but do you have anything else such as utilization of your aircraft on what I might call more branch lines or with more stops in other places in Canada?

Mr. MCGREGOR: No, we have no definite plans other than those mentioned in the report for additional stops. Timmins and Sudbury have both been referred to and we will be resuming main line operations into Lethbridge when the runway has been rectified. Regina has been added this year. There will be improvements in the maritimes but no additional places are planned for service at the present time. I think we can look forward with legitimate hope to the increased traffic volume we expect from the trend of the past and from the continued activity in regard to sales of service through advertising and other sales activity as well as through the fairly rapid gain in popularity of air travel.

Mr. FULTON: What did you say was to be the increased saving in time from Montreal to Vancouver?

Mr. MCGREGOR: About two hours for the transcontinental flights and a little more than 2 hours on the transatlantic operation.

Mr. FAIREY: Is there a difference between tourist traffic and coach traffic?

Mr. MCGREGOR: No. We put the word in brackets because "tourist" is the air line name blessed by the International Air Transport Association but by usage "coach" is the more familiar term.

Mr. FAIREY: You will be carrying first-class and tourist passengers on the same aircraft?

Mr. MCGREGOR: Only on the Atlantic.

Mr. FAIREY: Domestically will those tourist flights be at less desirable hours or have more stops than in the case of the first-class flights?

Mr. MCGREGOR: Yes, but due to the width of the country the relative desirability changes as the flight progresses.

Mr. FAIREY: Undesirable from the passenger's point of view, I meant.

Mr. MCGREGOR: It might start at an undesirable hour from the passenger's point of view, but terminate at a desirable time.

Mr. FAIREY: From the Pacific coast will it be a night flight?

Mr. MCGREGOR: There will be two flights across the country.

Mr. FAIREY: Instead of stopping only at Winnipeg, Calgary and Vancouver there may be more stops on the tourist flights?

Mr. MCGREGOR: We are already doing that—we are stopping this year in Regina for example.

Mr. FAIREY: What would be the approximate reduction in cost for tourist flights as against first-class flights?

Mr. MCGREGOR: About 20 per cent one way and that reduces itself when the first-class round trip ticket discount applies.

Mr. FAIREY: I was rather amazed to find when I made inquiry that I would save only $15 on the return flight to Vancouver.

Mr. McGREGOR: There is no great difference on the return flight as the tariffs now stand.

Mr. FAIREY: Why are you making a better saving on the single flight than for the return flight?

Mr. McGREGOR: It is tied up, I must admit, with the procedures that have been in use in the United States for some years. We have always had a 10 per cent round trip reduction, but in the United States it is 5 per cent. When they introduced coach service some years ago they declined to make no reduction in round trip traffic and in an effort to achieve uniformity of tourist fares between the United States and Canada we felt that we should follow that plan but since we already had a 10 per cent reduction on first-class return tickets the saving from using tourist return fares, diminished.

Mr. HAHN: How would the 70 per cent passenger utilization compare with the American lines?

Mr. McGREGOR: I think it is very nearly identical.

Mr. HAHN: How does the capacity rate compare with the others?

Mr. McGREGOR: It varies with the length of the route but I would say that on an average we are 5 or 6 per cent higher.

Mr. HAHN: Seeing that the two are comparable in the passenger rate, how do you account for the difference?

Mr. McGREGOR: It is the difference in cost of fuel, principally which is 30 per cent higher in Canada.

Mr. KNIGHT: I was going to pursue the difference between first-class and tourist accommodation but I did not know whether we were in order in discussing that on page 3.

The CHAIRMAN: We might have that when we come to the proper page.

Mr. KNIGHT: Well, could we not finish it now?

The CHAIRMAN: It is not in the report and I suppose you might as well cover it here.

Mr. KNIGHT: Well, it is covered on one page where they talk about Constellations—having in the domestic service 63 first-class passenger seats and on the north Atlantic 54 tourist class seats and 9 first-class seats. Now, is it the same aeroplane—it has the same furnishings?

Mr. McGREGOR: No, the cabin arrangements would be quite different in the domestic aircraft.

Mr. KNIGHT: The aircraft would be quite different?

Mr. McGREGOR: The aircraft to us is an aircraft, but the arrangement of the interior is quite different.

Mr. KNIGHT: I may be stupid about this, but is the arrangement altered for a tourist flight?

Mr. McGREGOR: No. Of the fleet four are assigned to the Atlantic operation and four to the domestic operation.

Mr. KNIGHT: That is the point. It is the same aircraft but there are different types of furnishing for the tourists as compared with the first-class passengers.

Mr. McGREGOR: It is still a Cadillac, but in the one case it is a five-passenger and in the other a seven-passenger.

Mr. FOLLWELL: I would like to ask a question for clarification. I notice that a number of directors seem to be appointed by the Governor in Council and the others by the shareholders. I was under the impression that the people of Canada were the shareholders and probably the appointments should all be made in the same way. I wonder if Mr. McGregor would explain the corporation structure there?

Mr. McGREGOR: The ownership of TCA is vested in Canadian National Railways so that TCA is the property of the people of Canada but through the medium of the Canadian National Railways. There is only the one shareholder and that is why they have a right to appoint a majority of the directors.

Mr. CARTER: Could Mr. McGregor tell us whether any comparison has been worked out on a unit basis between the cost of moving a passenger and a unit of freight—on the same basis?

Mr. McGREGOR: Figures have been compiled on that but nobody in the industry, whether in Trans-Canada Air Lines or not, trust them; because it is almost impossible to relate a pound of passenger to a pound of cargo or a pound of mail, due to the many different things that must be taken into consideration in treatment—the influence on schedules, for instance, for the mail operation; the fact that a passenger walks on by himself and has to be fed and heated, whereas a pound of mail or a pound of other cargo has to be carried on but it does not have to be fed or heated.

Mr. MACDONNELL: With regard to your over-all earnings your passenger revenue is about fifteen times the size of air express and air freight and for that reason one might have perhaps expected that in the freight and express department your increase might have been greater because I take it it began later—but actually your increase is only 9 per cent as against 15 per cent in the passenger department. Would you say a word about the freight situation and, without our asking difficult questions, are you absolutely free to go after freight and air express? You have a shareholder who is in a sense a competitor. Now, knowing the circumstances anything you can say on that—as to your freedom in going after freight—would be of interest. Perhaps it might be relevant to ask the respective amounts spent on advertising of passenger traffic and freight traffic. That might give one an idea.

Mr. McGREGOR: To answer the basic question, we are under no hint of restriction in the development of air cargo or air express due to the ownership of the company. In fact you can see from the report that there was a 30 per cent reduction in air freight rates and that was made without any voice of objection being raised by our shareholder.

Mr. MACDONNELL: You were kept waiting a long time on it?

Mr. McGREGOR: About a year. We have done our best to develop air freight and it has come along quite rapidly, but it seems to have a fairly definite ceiling.

Mr. FULTON: A fairly sharp what?

Mr. McGREGOR: Ceiling of development. It is very much more expensive than ground transportation and once you have exhausted the traffic that is in an extreme hurry to be delivered then the development is quite slow. One of the things that affects air freight is the extremely directional character of the traffic. Automobile parts and commodities of that kind tend to move entirely in a westerly direction and the only compensating traffic that comes east in good volume, are furs and, during the season, cut flowers from the west coast. So, there is not an even flow in the two directions.

Mr. MACDONNELL: I suppose it is not possible to ask you whether you can distribute your costs in such a fashion as to know how much profit you derive from your freight as against your passenger operation?

Mr. McGREGOR: No. I think that was covered in a previous question. It is a very difficult thing to allocate costs accurately between one type of service and another.

Mr. MACDONNELL: How much freight goes in aircraft that are also carrying passengers?

Mr. MCGREGOR: Virtually all of it.

Mr. FULTON: That will not be the case with the three new Bristols?

Mr. MCGREGOR: No, but in total they provide a small percentage of the movement.

Mr. BENIDICKSON: What is the difference between air freight and air express?

Mr. MCGREGOR: Very little, except one is picked up at an address and delivered to an address while the other is moved from an airport to an airport.

The CHAIRMAN: Shall page 3 carry?

Carried.

Page 5. Are there any questions on Financial Review?

Mr. MACDONNELL: Mr. McGregor, in the second paragraph from the last you say:

> "There were, however, attendant problems of rising costs related to the broader scale of company operations and the handling of the greater traffic volume."

That seems to be something different again there—actually the increases were labour costs?

Mr. MCGREGOR: That includes labour costs, Mr. Macdonnell, but it simply is showing that the company is doing more work and is paying more for it. It does not mean rises in unit costs in that particular sense.

Mr. MACDONNELL: That is the gross?

Mr. MCGREGOR: Yes.

Mr. MACDONNELL: You have an increase of 13 per cent in revenue and 16 per cent in expenses?

Mr. MCGREGOR: Yes.

Mr. MACDONNELL: Now that in a way is disappointing. Can you break that down at all? Would that excess of cost be attributable to your wage expenses mainly—the fact that it is increasing more rapidly than your revenues or, are you tied down by a comparison of fares in the United States?

Mr. MCGREGOR: We must remain competitive with the fare structure in the United States because three big transcontinental air lines in the United States are operating parallel to us and, in many cases, they are not very far south of our route pattern. However, that is not exactly the case in this reference to the 13 per cent increase in revenue and the 16 per cent in expenses. That is associated to a large degree with the increase in unit pay that has been undertaken and also incorporates, as I explain on the next page, the fact that there was quite a lot of expense undertaken in 1953 that had to do with the development of the air line that would take place in 1954. For instance, there was the preliminary operating training involved in the increase in fleet that has been undertaken. Schools have been operated, men have been hired and throughout the year flight engineers have been under training at Burbank, California, for the new aircraft. Those are all expenses for which there is no compensating revenue in the period dealt with in the report.

Mr. MACDONNELL: One over-all question. These gross figures are strictly comparable with 1952 but you recall to my mind the change in the corporate structure which was made to your Atlantic and West Indies set-up. The figures a year ago were consolidated, so it is purely a technical change which has taken place?

Mr. MCGREGOR: Yes.

Mr. MACDONNELL: There is a change in your balance sheet, of course, due to substitution of a debt to the Canadian National Railways?

Mr. McGREGOR: That is correct. There is one other small change and that is in the company's interest cost. The change you refer to provides for the substitution of a debenture at $3\frac{3}{8}$ per cent for capital stock on which we paid previously 3 per cent. I think the increase in interest expense is $15,000 for the year.

Mr. MACDONNELL: You paid 3 per cent before?

Mr. McGREGOR: Yes.

Mr. MURPHY (*Westmorland*): May I ask a question? In this Financial Review we are not concerned with the figure brought out in going over the Canadian National Railways yesterday. There are certain subsidies paid for maritime operations and I want to ask whether, as far as Trans-Canada Air Lines is concerned, there is any subsidy paid? The maritime business carries its own weight, does it?

Mr. McGREGOR: Yes, there is no subsidy paid in the maritimes or elsewhere, to TCA.

Mr. FULTON: Are you fully staffed to handle the new equipment?

Mr. McGREGOR: As far as the Super Constellations are concerned the answer is yes—but not so far as the Viscounts, which are nine months away.

Mr. FULTON: They presumably will not go into use in 1954?

Mr. McGREGOR: They begin to arrive at the end of this year—September or October—but they will not go into schedule service until 1955.

Mr. FULTON: So you might anticipate some increase in expenses related to the Viscount in 1954 as was the case in 1953 for the Constellations?

Mr. McGREGOR: Yes. I think I make reference to the fact that 1954 and 1955 will reflect that situation.

Mr. FULTON: As far as the Constellations are concerned there will be no further increase arising out of their being placed in operation unless and until there is an increase in the volume of freight and passenger traffic which might reflect in the operations, and the actual placing of them into operation should not involve additional expense except for fuel and other direct operational costs?

Mr. McGREGOR: Not quite. I think your statement is quite correct in so far as expenses for personnel are concerned—and I defer to hiring people and training them. There will be additional expenses associated with the purchase of tools and equipment for overhaul and maintenance—expenses other than direct operating costs of fuel and food and so on that you refer to.

Mr. FULTON: By and large there will not be any increase except that attributable to the actual operation and maintenance of the aircraft?

Mr. McGREGOR: And one other large item, that of depreciation.

Mr. FULTON: Do you have in your own figures now information which would enable you to compare the results of the Atlantic, the Caribbean and the domestic services?

Mr. McGREGOR: Yes, we have, but those figures naturally make assumptions as to the division of overhaul and shop expense—costs assigned between one service and another. While we have figures that do incorporate a number of assumptions as to the proportion of engine overhaul and shop cost that should be attributed to one—

Mr. FULTON: It was for that reason you wanted to combine them?

Mr. McGREGOR: Yes.

Mr. FULTON: What do those figures lead you to believe with respect to the financial operations of your undertaking?

Mr. MCGREGOR: They show that the domestic operation is profitable, the Atlantic operation is marginal, and the the Caribbean operation is unprofitable. That very question brings up one interesting point mentioned before about the use of equipment. The Caribbean operation shows itself to be unprofitable yet if it did not exist I am quite sure that the Atlantic operation would show itself as being unprofitable, because the equipment would be doing nothing in the winter months.

Mr. FULTON: Is the Caribbean picture improving year by year?

Mr. MCGREGOR: Yes, I am glad to say that it is.

Mr. MACDONNELL: What is the state of the equipment on the north Atlantic? The only time I flew across the ocean I sat up all the way—and it was not one of the most pleasant experiences.

Mr. MCGREGOR: Are you coming on the flight at noon?

Mr. MACDONNELL: No, I am not.

Mr. MCGREGOR: Well it would show you what would happen on a north Atlantic flight now.

Mr. GILLIS: You mentioned that fuel cost in Canada was 30 per cent higher than in the United States?

Mr. MCGREGOR: Yes.

Mr. GILLIS: How do you account for that difference?

Mr. MCGREGOR: Aviation fuel is a rather special type of fluid with a very high octane rating and, at the present time, virtually all aviation fuel of the high octane type used in the higher powered aircraft is imported.

Mr. GILLIS: It is imported?

Mr. MCGREGOR: Yes.

Mr. GILLIS: We are paying a 30 per cent subsidy to protect Standard Oil or Imperial Oil and these people in Canada. There is something wrong, it is too big a spread.

Mr. MCGREGOR: On the other hand, the length of transportation is extremely long and it can be accomplished by water only in the summer months. I must say that as purchasers to the tune of some $8 million a year we have had rather hectic investigations into it and we can find no real reason for quarrelling with the difference between United States prices and our own. You might say, "Why have they not set up facilities for that manufacture in Canada?" Well, there is an answer. The trend of consumption of aviation fuel would appear to be headed directly away from high octane as turbo engines come into being and these high octane plants if built, would appear to have a very short life ahead of them.

Mr. GILLIS: You mean you are using a higher type fuel in Canada than they are in the United States?

Mr. MCGREGOR: No, the type of fuel being used now threatens to go out of production with the introduction of the turbo type engines.

Mr. GILLIS: Do you pay tariffs or taxes on it?

Mr. MCGREGOR: Yes.

Mr. GILLIS: It is pretty high?

Mr. MCGREGOR: It is nothing like the tax on automobile fuel and I could get the figure if you would like it.

Mr. FRASER (*Peterborough*): That would be because of it being of a type not made in Canada?

Mr. McGREGOR: That would account for the small percentage on it.

Mr. MACLEAN: When you become equipped with jets will the jet fuel be available in Canada and will this difference in price still obtain?

Mr. McGREGOR: No, I think what we plan to use—we have no jet aircraft on order and turbo propellor can be confused to some degree with other aircraft, but from a fuel standpoint this can be considered as a common problem. Our intention is to use what is called wide-cut gasoline which is available in Canada in quantity. I think the price differential I have referred to as applying to high octane will be reduced or even disappear. Certainly the quotations we have now on the price of that turbine fuel is a great improvement over present prices for high octane.

Mr. MACLEAN: When turbo engines come into general use it will be more advantageous to TCA than to the American lines and you will be in a better relative competitive situation?

Mr. McGREGOR: I think that is a fair assumption, yes.

Mr. MACLEAN: I have a couple of other questions. Can you give us a rough outline or estimate of the charges you pay for airport facilities to the Department of Transport or to the municipally-run airports?

Mr. McGREGOR: Yes.

Mr. MACLEAN: About what percentage of your cost is it, or is it a definite figure? Can you give us the charges say for a representative airport?

Mr. McGREGOR: The charges divide themselves into three classes if you are considering the air line as a whole rather than one flight. We pay rental for the space we occupy in the Department of Transport buildings, which is I think on the order of $2.50 per foot or $3 per foot per annum. We pay landing fees which are based on the over-all weight of the aircraft and we pay additional charges for the communications facilities associated with air to ground communications with respect to the aircraft. I think it can be said in general that the landing fees are satisfactorily low. The communications costs are high and the rental of the space occupied in buildings on the airports seems to be quite reasonable. I would say the over-all expense to the company would be in the order of $1 million a year.

Mr. MACLEAN: Are those charges set by regulation? Do you pay the same in the case of an airport operated by the Department of Transport and one operated by a municipality—if there are any of those?

Mr. McGREGOR: Yes. I think there are only two—Edmonton and Vancouver—and the same scale of charges applies. To answer your question in more detail, our total expense with respect to landing fees was $798,000 last year. Airport assessments amounted to $239,000, and airport building and office rental amounted to $214,000—giving a total of $1,252,000.

Mr. FULTON: Is there not another additional municipal airport—the Saint John airport is municipal, is it not?

Mr. McGREGOR: Controlled but not owned, I believe.

Mr. MURPHY (*Westmorland*): This question does not exactly come within this item, but I want to have it on record so that it may be answered this afternoon—and it may take some time. I am reading from the Moncton transcript of March 25 in connection with a report of proceedings of the legislative assembly. The report reads:

> "Speaking in the budget debate Joseph W. Bourgeois said...:
>
> 'Moncton's importance as a transportation centre was emphasized by the extensive facilities of Trans-Canada Air Lines and the federal department of Transport in the city. Yet, he said, 'every once in a while a report reaches us that other centres within the province covet our prize.'

> He said such a report was currently circulating and he suggested that the present was a good time for the responsible federal minister to make 'a final and definite statement that it will never be the policy of the federal government to dislocate or relocate the federal air services now established at Moncton.'"

I would like you to say something about it when the time comes, but I wanted to give notice of what I was asking for. This is a report of the legislative assembly in Fredericton. We have just completed the new terminal in Moncton and it does not seem reasonable that anything like that would happen. Would you make a statement on it this afternoon?

Mr. McGREGOR: Yes, but I could make it now. I rather think that refers to some publicity given a short time ago to the transfer of some personnel from Moncton to Toronto. We operate our reservation system at the present time through three centres called control centres. One is located at Winnipeg, one at Toronto, and one at Moncton. They represent a very small proportion of the staff at any one point. A study extended over eighteen months revealed that considerable economies and improvement in service could be obtained by consolidation of those control centres into one. That concentration of those three centres at Toronto is taking place at the present time. So far as the operation of air line services in Moncton is concerned we plan no reduction, certainly. I quite agree with you that the administration building in Moncton is the best on the system, I would think.

Mr. MURPHY (*Westmorland*): It is. Last August there was a rumour in the newspapers or a report in the newspapers that the TCA headquarters might be moved from Moncton to some other city in the maritimes.

Mr. McGREGOR: I must say that I was somewhat baffled by that. We have never had any headquarters in Moncton unless you confuse that expression with the control centre.

Mr. MURPHY (*Westmorland*): The TCA facilities are not to be moved from Moncton—with the exception of this control part?

Mr. McGREGOR: That is right.

Mr. MURPHY (*Westmorland*): How many people are involved?

Mr. McGREGOR: I believe fourteen, but I could perhaps tell you this afternoon.

Mr. MACLEAN: In connection with your overseas operation I presume you have considerable earnings in sterling and considerable expenditures in sterling. Now, what is the net—speaking of the sterling transactions by themselves?

Mr. McGREGOR: I could get the exact figures but the fact is we export dollars to the sterling area because, as you say, the operating expenses and the revenues about even off. In addition, however, we have very heavy expenditure in sterling for Rolls Royce parts and, at the present time, for the Viscount parts. In addition, a great many transatlantic tickets are sold round-trip in Canada—a greater number than vice versa.

Mr. MACLEAN: In connection with the bookkeeping, I suppose the exchange is calculated at the actual rate of exchange?

Mr. McGREGOR: Yes.

Mr. MACLEAN: What about your assets in the United Kingdom—would the rate of exchange apply to them for bookkeeping purposes?

Mr. McGREGOR: I think the rate of exchange is mentioned and I think it is $2.80 throughout.

Mr. MACLEAN: I notice in the auditors' report of the Canadian National Railways they make this statement:

> Where foreign currencies are involved, the balance sheet accounts of the system are converted generally as follows:—
>
> (b) Sterling currency—at the former par of $4.86⅔ to the pound.

That does not apply to TCA?

Mr. MCGREGOR: I think that may refer to certain financing, but $2.80 is the figure we use.

The CHAIRMAN: Shall page 5 carry?

Mr. JAMES: This fuel question looks like a pretty large item and I wonder if you could, Mr. McGregor, later on give up a breakdown of say the gallon cost of a gallon of gasoline—an imperial gallon—showing what the American counterpart would be for the same thing, and where the difference comes in. Break it down so we know where we are—giving the over-all difference on your volume.

Mr. MCGREGOR: I think I could give that now. We buy quite a bit of fuel in the United States because we operate seven trans-border routes. It can be stated as 22 cents per Imperial gallon for the equivalent delivery on an American airport—as against 32 cents in Canada for the same size gallon.

Mr. FOLLWELL: I was going to ask Mr. McGregor regarding Mr. Gillis' suggestion that there was a 30 per cent differential due to customs duties and taxes whether it might not be useful information to the committee if he could give figures or later put them in the record as to what the differential is with respect to duties and taxes—as apparently this particular type of fuel is not one that should be taxed in Canada because it is not made here.

Mr. MCGREGOR: Yes, I will be glad to do that.

Mr. MACLEAN: In connection with fuel, do you do much refuelling in the United States? I am thinking of the run to Mexico.

Mr. MCGREGOR: Yes, we refuel at virtually all points where we touch down in the United States. Quite frequently on turn-around flights we do so—such as Montreal to New York and Toronto to New York and back.

Mr. MACLEAN: Are there any restrictions on you if you have a flight where you can buy it—

Mr. MCGREGOR: We buy no more fuel in the United States than is required by the aircraft. We cannot import.

Mr. MACDONNELL: Under what regulation is that?

Mr. MCGREGOR: We would actually be importing fuel as a sort of a by-product of our operation, if we took off from New York with the requirement only of 600 gallons to get to the destination with a safe reserve, and if we put 1,600 gallons on board we would have illegitimately imported 1,000 gallons of fuel.

Mr. FRASER (*Peterborough*): In this Financial Review what were your revenues from insurance which passengers place?

Mr. MCGREGOR: None.

Mr. FRASER (*Peterborough*): I thought that you came in on that?

Mr. MCGREGOR: No, those policies are vended by machines.

Mr. FRASER (*Peterborough*): But I thought you had an interest in it?

Mr. MCGREGOR: A commission interest?

Mr. FRASER (*Peterborough*): What do you get through commission?

Mr. MCGREGOR: They are not on our property. Those machines are in D.O.T. buildings—except perhaps in the ticket offices. I do not know what the arrangement is with the landlord, but we do not act as landlord with respect to those machines.

Mr. FRASER (*Peterborough*): You do not get anything out of them?

Mr. McGREGOR: No, I believe not.

Mr. CARTER: When Mr. McGregor is preparing figures on fuel I wonder if he could give us some idea of the percentage of volume that is purchased in the United States and the percentage that is purchased in Canada?

Mr. McGREGOR: I can do that now.

Mr. FOLLWELL: You must buy fuel in Britain too?

Mr. McGREGOR: Yes.

Mr. FOLLWELL: Is it cheaper there?

Mr. McGREGOR: No, it is more expensive.

Mr. HAHN: Where in Canada is this small proportion of high octane gas manufactured?

Mr. McGREGOR: Calgary.

Mr. HAHN: In what quantity?

Mr. McGREGOR: It is very small.

Mr. HAHN: It is not sufficient to operate an aeroplane?

Mr. McGREGOR: It might handle our refuelling at Calgary, but I could not be sure of that.

Mr. GILLIS: If you take a load of gas on at 22 cents a gallon and there is a lot left when you hit the border, do you have to pay tax on that?

Mr. McGREGOR: Not unless we violated the regulation which says that we must not carry an excess of fuel across the border. Then I think they might assess us.

Mr. GILLIS: You could make a saving by loading up?

Mr. McGREGOR: We do not vary from our normal operations on fuel, due to the fact that some of it is bought in the United States and some is bought in Canada.

Mr. GILLIS: Would you give us some idea where the difference comes in—the difference between 22 cents in the United States and 31 cents in Canada? What percentage is taxed?

Mr. McGREGOR: I have been asked for that and I will give you those figures after lunch.

The CHAIRMAN: Is page 5 carried?

Carried.

Page 6?

Mr. MACLEAN: Would you like to comment on the probable effect of the reduction in the air mail rates effective tomorrow?

Mr. McGREGOR: In volume, you mean?

Mr. MACLEAN: In volume.

Mr. McGREGOR: As I think I mentioned previously, on the basis of this test carried on in March it looks as though it may produce something like a 30 per cent increase in the air lift.

Mr. MACLEAN: What effect might that have on air express? Will there be cases in long distance runs where it might be advantageous to mail a small parcel—as opposed to sending it air express—under the new rates?

Mr. McGREGOR: Yes, I think the cut-off point is about 15 pounds. I think you know that the Post Office has put in air parcel post. Up to 15 pounds the rates are advantageous on parcel post. I am almost certain that is the cut-off point and I do not think that the Post Office will take a parcel beyond 15 pounds.

Mr. MacLean: I was thinking more of distance. I take it that air express charges go up with distance whereas air mail charges are fixed regardless of the distance.

Mr. McGregor: I would have to look up the postal rates to see whether that applies to parcel post. I think that the function of distance is put into that, but we will find out.

Mr. Macdonnell: Here you say that the $35 million contingent liability outstanding from 1952 was reduced by the delivery of the Bristol fleet and the payments on the Toronto hangar. Then you speak of capital expenditures for which T.C.A. is committed over the next eighteen months—and you refer to a total of $32,500,000 against which progress payments of approximately $7 million have already been made. Would you say a word about the two amounts that have been detailed there and what is the provision for taking care of the $32 million for the next few months?

Mr. McGregor: As I think you know, TCA had some $13·5 million on loan to the C.N.R. which had been produced through accruals of depreciation. It is planned to draw from C.N.R. all of that amount and very nearly half has already been drawn to meet payments on new equipment as it is delivered—and then it is planned to make further borrowings from the C.N.R. to discharge the balance of this amount, less depreciation accruals over the period during which equipment payments are made.

Mr. Macdonnell: Would you direct me to the amount of depreciation accrual in 1953?

Mr. McGregor: Yes, our total depreciation accruals during 1953 were $5,339,000.

Mr. Macdonnell: Then you have $13,500,000 which you have drawn down —that does not appear in the balance sheet at the end of 1953?

Mr. McGregor: There was $11 million remaining on loan to the C.N.R. at the end of the year.

Mr. Macdonnell: So you have $11 million plus $5 million—that makes $16 million—and can you just relate that to the $35 million and the $32 million?

Mr. McGregor: Assuming the commitment is $32,500,000, reduced by $7 million referred to on page 6—which has already been paid on equipment—the outstanding amount is $25 million, against which we have $11 million by the remainder of the loan outstanding, and the depreciation that you refer to which means additional borrowings of $9,200,000 which will be required in 1954.

Mr. Macdonnell: That $32,500,000—what do you mean by $35 million contingent liability outstanding in 1952?

Mr. McGregor: That was the total value of equipment which we had committed ourselves to purchase and we say that the $35 million was reduced as a commitment to payment by the delivery and payment for the Bristol aircraft and by progress payments on the Toronto hangar. At the end of the year we had promised to pay on equipment $32,500,000—and the $35 million is reduced to $32,500,000 by those payments.

Mr. Follwell: I wonder what principal pieces of equipment there are there, and what is this $32,500,000 for?

Mr. McGregor: Eight Super Constellation aircraft, fifteen Viscount aircraft, and a $3½ million hangar at Toronto—and smaller items.

Mr. Carter: Looking at the graph on page 7, showing passengers carried, the rate of increase has been practically uniform for the last nine years and somewhere there must be a point where this is going to level off. I wonder if Mr. McGregor has any idea now just what maximum is possible before that levelling off takes place?

Mr. McGregor: We have extended our forecast of passenger growth for the next seven years. It is quite true that there is a reduction in the slope of the curve but it does not become level within that period, if our forecast is correct.

Mr. Carter: It will go on uniformly for another seven years?

Mr. McGregor: No, I say that the slope begins to diminish in degree of slope—

Mr. Carter: When do you expect it to begin? Next year?

Mr. McGregor: It has begun. It does not show well on that small scale.

The Chairman: Well, are pages 6 and 7 carried?

Carried.

I think we will now have to adjourn and there are conveyances at the front of the building to take us to Uplands where we will board a Constellation. We will meet again in this room at 3.30 this afternoon.

AFTERNOON SESSION

March 31, 1954
3:30 p.m.

The Chairman: Gentlemen, we have a quorum. Mr. Healy, is there something you wanted to bring before the committee at this time?

Mr. Healy: Yes, Mr. Chairman. When I was speaking the other day before the committee I said that the city of Montreal had voted $295,000 for the tunnel.

The Chairman: I think it was the night before last.

Mr. Healy: Yes. But in looking through the correspondence I see that the vote was for $250,000 and I wondered if the figure could be changed.

The Chairman: The correction will be noted in the minutes.

Mr. Healy: They have more than $295,000 allotted for tunnels, but there is only $250,000 allotted for this particular one.

The Chairman: That is fine. Thank you.

Mr. Healy: Thank you, sir.

The Chairman: Now we shall resume at page 8 of the report of Trans-Canada Air Lines, dealing first with "Service development".

Mr. Knight: I have a question on the development of the service. I am going to ask it on behalf of my colleague from Moose Jaw who is not a member of this committee. The question has to do with the fact that the T.C.A. does not stop at Moose Jaw. I understand that the Moose Jaw Chamber of Commerce and others have repeatedly written in about it, and I suppose that Mr. Thatcher feels it is incumbent upon him that we should make an inquiry here. At the moment those flights go over Moose Jaw and do not stop there. That means that people from Moose Jaw have to go 45 miles away to Regina in order to catch the plane. That is the nearest point. Now, planes do stop at Brandon, Yorkton, Swift Current, Medicine Hat, and smaller points, and if is economical to drop down at those points, why would it not be economical to drop down at Moose Jaw? Maybe we could have a word on that.

Mr. McGregor: If I may answer that question: Frankly it is not economical to land at any of those points. But the TCA has an obligation to give service to intermediate points on the route over which it flies, and the question of service to Moose Jaw has been taken up directly with the company. Our reply was that we felt that Moose Jaw was as economical a place to operate to and from as some of the other points of modest size, and that it would be our hope and intention so to operate when the equipment situation permitted.

It might be difficult for somebody outside the industry to understand why, if a plane was flying over, it required any more equipment to land at that point. We are using our equipment extremely heavily in the matter of time, and the business of introducing a stop can be counted upon to cost about 50 minutes per flight operation.

As I told the secretary of the Moose Jaw Chamber of Commerce in a letter, I was hopeful that when the delivery of TCA's additional short and medium range equipment took place this coming autumn and went into service in the spring of 1955, we would then have DC-3s available, and there could then be a stop at Moose Jaw.

Mr. Knight: You think that a stop at Moose Jaw would be tied up with the delivery of equipment?

Mr. McGregor: Very definitely.

Mr. Knight: I wonder if the fact that there is a C.P.A. franchise there is in any way responsible for the fact that TCA is not operating there?

Mr. McGregor: No. The stop on an east and west service would not conflict in any way with C.P.A. service which is to Saskatoon, I understand.

Mr. Knight: How are the facilities at Moose Jaw from the point of view of landing? They have a new military airport, have they not?

Mr. McGregor: The airport is there but the technical facilities such as lighting and radio are not what we would consider satisfactory at the moment for commercial operations, and so far as I know the building accommodation is hardly adequate.

Mr. Knight: I suppose it is correct to say that they cannot expect to get this service until these other machines come into operation?

Mr. McGregor: Yes, and I think that was well understood by the chamber of commerce.

Mr. Knight: I merely asked the question on behalf of my colleague from Moose Jaw, and I thank you very much.

The Chairman: Now, Mr. Weaver.

Mr. Weaver: I wonder if we might turn back to page 7. Mr. McGregor has commented on the "passengers carried" chart at the top of the page, but I was wondering about the one at the bottom. What does that projection show for the future?

Mr. McGregor: It is rising at the moment quite a bit faster in volume, but not so fast in revenue dollars. That is directly attributable to the recent 30 per cent reduction in rates. What happens in the future is very closely tied to the rates for the carriage of air cargo which will apply. It may be steepened if we can afford to reduce the rates, and it could be flattened out if the rates were required to go up. But we think that the present rate reduction that was put into effect three months ago of 30 per cent will probably steepen that volume curve.

The Chairman: Are there any further question on "Service development" on page? Now, Mr. Fraser.

Mr. FRASER (*Peterborough*): I saw an article in the paper which said that the United States was taking away its customs facilities from various places in Canada. Have they taken them away from any of the airports?

Mr. MCGREGOR: Not that I know of. In fact, I think there is only one place in Canada where so-called pre-examination by United States customs takes place and that is at Toronto, and so far as I know that facility is still there.

Mr. FRASER (*Peterborough*): You mean at Malton?

Mr. MCGREGOR: Yes.

Mr. FRASER (*Peterborough*): In regard to service development, your plane leaves Toronto at 8:20 in the morning for Chicago. That means that the traveller has to leave his hotel at 7:10 and there is absolutely no way at all for him to get breakfast because nothing is open at that time in the morning. Do you not think it would be wise to offer breakfast on that 8:20 plane?

Mr. MCGREGOR: That is always a difficult question. I think there is one way, however, he could get breakfast and that would be at the restaurant at Malton, but he would have to leave his hotel a little earlier than he otherwise would if he were going to board the plane directly.

Mr. FRASER (*Peterborough*): But he would not be able to leave on the bus?

Mr. MCGREGOR: I think the bus service is fairly elastic at that time, but I would not be sure of it.

Mr. FRASER (*Peterborough*): By the time they leave at 7:10 and get out to Malton it takes quite a while.

Mr. MCGREGOR: Yes, particularly at that hour of the morning.

Mr. FRASER (*Peterborough*): And then with the immigration inspection they would not have any time left. The passengers have to remain in that one room until they leave. They would not have time for breakfast.

Mr. MCGREGOR: No.

Mr. FRASER (*Peterborough*): But the plane that goes from Ottawa to Malton offers breakfast on board and I wonder why you would feed the one that gets on here and not the other.

Mr. MCGREGOR: The approach to the meal service problem has always been to provide what are considered reasonable service hours. Now, 8:00 o'clock happens to be the deadline for breakfast. That is the reason the 8:20 departure has not had meals served on it. But I think the question is a good one and we will have a look at it.

Mr. FRASER (*Peterborough*): I know, because I was caught on it, and I know that many other people have been caught in the same way.

Mr. MCGREGOR: I am glad to have it brought to our attention.

Mr. FRASER (*Peterborough*): In regard to your station at Chicago, what do you do there, rent it, or rent space in it?

Mr. MCGREGOR: Yes.

Mr. FRASER (*Peterborough*): There are a number of other air companies there too?

Mr. MCGREGOR: Yes, but we are one of the few scheduled air lines that is in that particularly old building.

Mr. FRASER (*Peterborough*): I am glad you stated it was an old building because it is almost a shame to go into it.

Mr. MCGREGOR: Quite.

Mr. FRASER (*Peterborough*): Have you any idea of making a change?

Mr. MCGREGOR: We had an idea of attempting to get accommodation in the new building, but we have been unable as yet to obtain space in it because it is awfully crowded.

Mr. FRASER (*Peterborough*): I know, and I was wondering.

Mr. McGREGOR: We have made several approaches. We have approached the air lines directly in the hope that they would split some of their space, but so far we have been unsuccessful.

Mr. FRASER (*Peterborough*): You think there is no chance of ever landing there?

Mr. McGREGOR: There has been talk of expanding the new building latterly, and we are still hopeful that it will take place.

Mr. FRASER (*Peterborough*): I would suggest that you pursue the matter further because I think it would give you more business. The way it is now it is most awkward for passengers, and I think you would lose business on account of having to transfer from one building to another.

Mr. McGREGOR: It is not unusual for a taxi driver to be unable to find our place.

Mr. FRASER (*Peterborough*): That has happened; and if a plane is delayed for a few minutes, you miss the flight entirely.

Mr. McGREGOR: Yes.

The CHAIRMAN: Now, Mr. Conacher.

Mr. CONACHER: In your trip from Malton down town you go down the highway, but now that No. 401 has been built, is it not possible to run your service over that way? Fifty per cent of the people who fly live in the north end of Toronto, and they have to go down to the Royal York and have to go the whole length of the city; but with No. 401 now running into Avenue Road, could they not go down through the park? If they did that it would shorten it for those people who live at the north end of the city. If one has to go right across from Toronto it costs a person $7 for the cab.

Mr. McGREGOR: I am not certain on this point, but I think the route is determined for the ground transportation company and not by the T.C.A. I would not be certain about it but I shall find out. Exactly the same situation occurs in Montreal where the route is through the northwest end of the city and there is a great deal of pick-up and drop-off of passengers when the route passes close to where they live in the city, and it is not easily reached from down town. I am almost certain that the route is stipulated when the licence is granted to the ground operator.

The CHAIRMAN: Now, Mr. Murphy.

Mr. MURPHY (*Westmorland*): You plan to control your operations from one central point. Would this affect planes travelling out of Moncton?

Mr. McGREGOR: The three offices will be moved into one place at Toronto, and the reservations will be concentrated by means of a teletype system to a central office in Toronto. I think you have already asked me how many people would be affected by that move and I guessed 14. Now I can give you the exact figure and it is 16. Would you like to have a copy?

Mr. MURPHY (*Westmorland*): I would, and that is the only move concerning Moncton?

Mr. McGREGOR: Yes.

Mr. MURPHY (*Westmorland*): And the rest of the service of T.C.A. would remain there according to your present plans?

Mr. McGREGOR: According to the present plan there is no change or reduction.

Mr. MURPHY (*Westmorland*): You definitely are not moving?

Mr. McGREGOR: No.

Mr. McCulloch: Mr. Chairman and Mr. McGregor, after being on that lovely plane today and finding it so well air-conditioned I was wondering if you would bring up that question of pipe smoking.

Mr. McGregor: I should have realized that that question would be advanced and I should have been prepared for it, but I am afraid that we have not investigated the possibilities yet.

Mr. McCulloch: I am not talking about old pipes, but new pipes.

Mr. Conacher: Is there objection to the pipe?

Mr. McGregor: I speak in front of Mr. McCulloch with trepidation, but on this point the opinion was often expressed by passengers that pipe smoking was more objectionable than cigarette smoking, and the same has been said of cigars; and for that reason, and having nothing to do with fire hazards, smoking in aircraft has been restricted to cigarettes as being less pungent to nearby passengers; but Mr. McCulloch's pipes do not come under that category at all.

Mr. Churchill: I would like to ask Mr. McGregor a question in regard to the time factor. We all recognize that getting out to airports is the time consuming element in air travel. What progress is being made with helicopters anywhere in the world and what plans, if any, has T.C.A. with regard to getting passengers to airports more speedily?

Mr. McGregor: As you know, this is a subject that is being investigated exhaustively. At the present time the cost of helicopter operation is such that, I think, very few passengers, in spite of the time saving, may be induced to get into them. As between downtown city locations and airports, if the service was operated at a price which was related to the cost per seat mile for operation, the best price would be 22 cents a seat mile, which compares with something of the order of 4½ cents per seat mile on ground transportation. There are other limitations. They can virtually not yet be flown on instruments; I think that is not so much of a setback as in conventional aircraft because they can be operated at lower levels. They have not the same degree of safety, because they are completely dependent on the effectiveness of the rotors. Whether they have one or two rotors, they are still dependent on both rotors, and if one should go, the other would hang the aircraft on its end instead of in a horizontal position. Multi engines have been installed in them, but the main trouble so far is the small number of seats per aircraft. There have been experiments carried on, and they are still being carried on. There is one in New York, where there is a $5 helicopter service between three main airports, LaGuardia, Newark and Idlewild. It is not well patronized. There are experiments going on of actual helicopter point-to-point services in Belgium operated by Sabina Air Lines. It is one of those services that I hope will come. It does not seem to be around the corner by a long way.

Mr. Fulton: How does the cost of 22 cents per seat mile compare with the cost of ground transportation between airports and downtown terminals, when you bear in mind the fact that the helicopter presumably would go straight and thus there would be fewer miles of travel?

Mr. McGregor: I would think it is probably in the order of seven times as much. Three cents a seat mile, I think, would be average for ground transportation. The difference in route distance would not be very great, I think.

Mr. Churchill: I have another question on getting out to airports. What is your arrangement with regard to passengers? Do they in all instances pay bus or taxi fare, or is that in some instances included in the air transportation fare?

Mr. McGREGOR: In Europe it has been included until recently, but that has been changed and I think it is true to say that in every case of the scheduled air line operations, certainly with members of the International Air Transport Association, it is a separate charge.

Mr. FRASER (*Peterborough*): I have one other question. What do you pay for the transfer service from the old building where you are in Chicago to the other air line services in Chicago? You have a bus service that runs there and does not charge the passengers anything.

Mr. McGREGOR: Between the two terminal buildings?

Mr. FRASER (*Peterborough*): Yes.

Mr. McGREGOR: I do not know what we pay.

Mr. FRASER (*Peterborough*): You would have to pay some part of that service, I imagine.

The WITNESS: It is about 200 or 300 yards.

Mr. FRASER (*Peterborough*): It is only a short distance, but it is continuous, at the beck and call of passengers, and it carries baggage and everything.

Mr. McGREGOR: It could be included in our general charges for our space at the airport. I am not sure on that point.

Mr. WEAVER: Would Mr. McGregor comment on liaison between air lines for passengers? Is there good liaison or do you have difficulity with other air lines in getting seats for passengers?

Mr. McGREGOR: There is liaison and, as you know, it is called "interline traffic". When a passenger requests a reservation involving an interline connection, there are good facilities for communication with the reservations organization of the second or third air line, as the case may be. Very frequently we find that we can confirm our own leg of the space and have considerable difficulty in getting confirmation on the continuing air line, and I am sorry to say that not infrequently we find that even with the space confirmed on the second line it does not happen to be there when the passenger arrives. It is a rather complicated business, but I would think that in the main you could call the liaison good. Certainly the intention is good and the practice fair.

Mr. WEAVER: I have had difficulty in going from here to northern Manitoba in not being able to get reservations on the C.P.R. lines out of Winnipeg. I would think from my own experience that the two air lines would benefit if the liaison were closer, because I have had to cancel trips rather than take a chance on not being able to get a seat when I got to Wininpeg. After all, Winnipeg is central, but when I have reached there I am nowhere near where I want to go and I do not want to have to turn around and come back.

Mr. McGREGOR: There is certainly no coyness on the part of the air lines in co-operating, because it is to their monetary advantage to do so, but there are difficulties, particularly if in the flight requested there is no opportunity for an air line receiving a request to exert any judgment. They do not know whether the next flight would be satisfactory to the passenger, so they simply teletype back that there is no space and another request has to be made to see if the passenger can be placed on the next flight or the next day, or the passenger may be prepared to change his plans on the initial flight. It is by no manner of means foolproof or as smooth an arrangement as we would all like to see, but this is not through a lack of realization of the problem or through any lack of desire for liaison between one air line and another.

Mr. WEAVER: There is one more point on this. On the picture on your map—I think it is on the back of page 13—I noticed the connecting air lines all through the United States and overseas are shown, but you do not show

Canadian connecting air lines except one to Alaska. This map gives the impression that Canada is only east and west, and not north and south. I think that anything that can direct Canadians' attention to the fact that their country is north and south would be of advantage, not only to Canada but to Trans-Canada Air Lines as well.

Mr. McGREGOR: I think that is right. That map actually is a scale-down from a mural that we use in the back of our counter offices, and it is considered a T.C.A. piece of publicity, as such, but I think your criticism is quite correct. The north and south connecting line should be shown.

Mr. WEAVER: I would like to point out that when I, unfortunately, could not get reservations north from Winnipeg, I got a larger plane from Ottawa to Toronto to catch the T.C.A. plane from Toronto. It is not a small one.

Mr. McGREGOR: I am glad to say that you will not be able to say that after next spring.

The CHAIRMAN: Shall the item carry?

Carried.

"Passenger Traffic", pages 8 and 9.

Mr. FRASER (*Peterborough*): In regard to the family fare plan, that covers only the father and the mother, and does not cover anyone above the age of 18, or what is your age limit?

Mr. McGREGOR: There is no age limit. It applies to children, immediate members of the principal traveller's family.

Mr. FRASER (*Peterborough*): It does not matter how old they are?

Mr. McGREGOR: No, but we draw your attention to the fact that it applies only to certain days of the week and months of the year.

Mr. FRASER (*Peterborough*): It only applies to—?

Mr. McGREGOR: Monday, Tuesday and Wednesday, I believe.

Mr. JAMES: If a man of 75 had with him his wife, and children of 40 and 45?

Mr. McGREGOR: That is all right.

Mr. JAMES: The same deal?

Mr. McGREGOR: Yes.

Mr. FRASER (*Peterborough*): Supposing you travel by T.C.A. on the family plan and leave on one day, say Wednesday, and you have to transfer to another plane of a different company, do these rates still carry?

Mr. McGREGOR: If the company has the family plan.

Mr. FRASER (*Peterborough*): Most of them have that?

Mr. McGREGOR: Yes.

Mr. CHURCHILL: In connection with the fact that passenger fares have remained virtually unchanged since 1947, I would like to ask a question concerning meals served on planes. The meal cost is included in the fare. The reason I ask is that we have had quite a discussion in the committee dealing with the C.N.R. about their difficulty with meals. Does T.C.A. face the same difficulty? For example, you have carried over a million passengers. Have you figures to show the number of meals served during the course of the year and the cost of those?

Mr. McGREGOR: Yes. Would you like to know the total cost?

Mr. FRASER (*Peterborough*): Yes, and then we could have an average.

Mr. McGREGOR: Our food service in 1953 cost $1,296,000.

Mr. CHURCHILL: How many meals would that represent?

Mr. McGregor: I could not give you that offhand because it requires a definition of "meal". A cup of coffee with two biscuits beside it would be a "serving", as we call it, and not a full meal. I suppose our average passenger travel is within a few miles of 500 miles. That would seldom involve the serving of one meal per passenger on the average.

Mr. Fraser (*Peterborough*): Would you have any idea of the cost of that meal we had today? I am presuming that that is the standard service.

Mr. McGregor: That service is rather below standard for the first-class transatlantic. That was a transatlantic aircraft, but the first-class transatlantic passengers will be given three vintage wines with their meals, but I would think that the cost of that meal airborne would probably be in the order of $3, including the cocktail and the liqueur, of course.

Mr. Fulton: The meal itself was a little above the standard of the transcontinental—the food portion of the meal?

Mr. McGregor: Oh, no, Mr. Fulton.

Mr. Fulton: One does not want to question your hospitality, but we do not get the quantity on the transcontinental. I do not think we need it either. I think the meals you have served are perfectly adequate. What would be your estimate of the average cost of the transcontinental meal?

Mr. McGregor: I would think that it would lie between $1 and $2, based on the total number of passengers and the cost we have mentioned. I think $1½ would be a good average. You are right about the standard. That was a first-class transatlantic meal as we propose to establish it.

Mr. Fulton: I do not mean the food served on the transcontinental is of lower standard, but the quantity is somewhat less.

Mr. McGregor: And the number of courses.

The Chairman: Shall the item "Passenger Traffic" carry?

Carried.

"T.C.A. Fares versus Consumer Price Index".

Mr. Fraser (*Peterborough*): How much have you reduced your fares?

Mr. McGregor: We have not reduced our fares except in minor cases. The drop from 1951 to 1952 included the off-season rates on the Atlantic.

Mr. Fraser (*Peterborough*): It would not affect that?

Mr. McGregor: Yes. Our domestic fares have virtually remained unchanged for six years.

Mr. Fraser (*Peterborough*): You do not contemplate any change in that except the tourist fare?

Mr. McGregor: No, except the tourist, which is already in force.

The Chairman: Shall the item carry?

Carried.

Page 10, "Mail Traffic".

Carried.

Page 10, "Commodity Traffic".

Mr. Macdonnell: The information which you give as to the development of commodity traffic seems to relate, as far as I can observe, to main line traffic. I wanted to ask what happened with regard to branch line traffic. How much is there? I am interested in that. Is that left to others?

Mr. McGregor: Over the routes on which we fly, we are very much interested in it and we carry amounts of traffic depending on the nature of the route. A typical branch line would be Toronto, Kapuskasing, through North Bay.

Mr. MACDONNELL: That is your own line?

Mr. MCGREGOR: Yes.

Mr. MACDONNELL: What I am anxious to get at is, what volume of traffic is airborne outside of your main lines? What is done by the small lines?

Mr. MCGREGOR: A very large volume is carried, Mr. Macdonnell; for instance, north into the mining territories of Yellowknife, and so on. Canadian Pacific Air Lines do a large business.

Mr. MACDONNELL: What I am trying to get at, I suppose, is whether your main line service is connected with that. Do you feed each other mutually: do you feed them and do they feed you?

Mr. MCGREGOR: Yes, both.

Mr. MACDONNELL: I suppose that good deal of what goes on branch lines may move because there is no alternative form of transportation?

Mr. MCGREGOR: Yes, I think that is very true. Things move by air not because there is an urgency as to their delivery but because, as you say, particularly at certain seasons of the year, there is no alternative for them.

Mr. MURPHY (*Westmorland*): Mr. McGregor, in this "Commodity Traffic", are lobster and other fresh fish carried on the T.C.A.; how are they handled? Are there refrigerator compartments or how are they shipped?

Mr. MCGREGOR: That is among one of the five questions that you gave notice of, and I was going to answer them all together whenever the chairman would prefer.

Mr. MURPHY (*Westmorland*): I would prefer to have them answered all together.

Mr. MACDONNELL: I want to know about Dover sole. Can you tell me whether you bring the Dover sole by air—the Dover sole that comes from Dover, England?

Mr. MCGREGOR: I have been interested myself to notice Dover sole on the menu. I can assure you we do not carry it.

Mr. MACDONNELL: You disappoint me.

Mr. CONACHER: It is from Port Dover.

Mr. MCGREGOR: There is a rumour that that statement on the menu is justified by transportation by air through New York, but I have not been able to confirm that.

Mr. MACLEAN: I have a question that I should have asked on the last item. You carry transatlantic air mail, I take it?

Mr. MCGREGOR: Yes.

Mr. MACLEAN: Do you have any priority on that? Is there a possibility that you might lose the transatlantic air mail contract to some foreign company?

Mr. MCGREGOR: Yes, although we would hope not. As a matter of fact, we only carry it virtually one way, that is, Canada, originating mail eastbound. We get practically no mail westbound from the U.K., both countries adopting the point of view that the national air line is entitled to the lion's share of their own mail.

Mr. MACLEAN: That is what I wanted to clear up.

The CHAIRMAN: Shall "Commodity Traffic" carry?

Mr. CONACHER: I was discussing B.O.A.C. operations with Sir Victor Tait and he was very much interested in getting the T.C.A. to combine its Atlantic flights with B.O.A.C. He felt that there would be a great saving of money and equipment. Was thought given to that?

Mr. McGREGOR: Yes, a great deal. We came to the conclusion that there would be a saving, but largely on the part of B.O.A.C.

Mr. CONACHER: Don't you want to help the English?

Mr. McGREGOR: Yes, but not at too stiff a price.

The CHAIRMAN: Carried.

Mr. FULTON: I believe that you said in answer to a question of Mr. MacLean's something to the effect that you had to make sterling payments for parts for the Rolls Royce engines. I was wondering whether, now that you have the three Bristol aircraft and are buying Vickers Viscounts, you will still be using the North Stars with Rolls Royce engines? To what extent will those aircraft be serviced for their parts requirements by Canadian factories that are subsidiaries of British firms?

Mr. McGREGOR: In two different ways, a quite large percentage. All aircraft, I think, are purchased with a specification as to what is called customer-supplied equipment, and any customer-supplied equipment is purchased locally. Such things as radios, galley equipment, and so on, which have no direct bearing on the design of the aircraft as such, are purchased in Canada and, in the case of the Viscounts, inspected by our own inspectors and then shipped to England for installation in the aircraft prior to delivery. In addition to that there is, as you say, the branch organizations of the British firms, as in the case of Bristol Aircraft, and we are told that the manufacturers of the Viscount are planning to set up shop in the same way. They do not, in doing so, require us to buy our parts from the branch organization. We can buy from the home organization if we see fit. With the ability to carry equipment across the Atlantic on a space available freight charge, we often do that.

Mr. FULTON: Take the ones that have been in the longest time, the engines in the North Star. Do you find that you can get satisfactory parts replacement service from the Rolls Royce Canadian factory, or do you frequently have to look to the parent company in England for that service?

Mr. McGREGOR: It depends largely on the parts. A major part that would hold up an engine overhaul, such as a crankshaft, parts that we have specified shall be stocked in Canada, we have no trouble with, and we buy them from the local organization. Parts in large supply, such as nuts and bolts and so on, on which we may be able to save a few pence by buying in England, and where delivery is not critical, we buy there.

Mr. FULTON: Did you say in the first part of your answer that you did not make it a condition that they establish branch factories?

Mr. McGREGOR: We have not done so because it has not been necessary, since each has been anxious to do so.

Mr. FULTON: Where has your major purchasing of replacement parts so far been?

Mr. McGREGOR: Over the last four years, in Canada, by a large margin.

Mr. FULTON: The Vickers Aircraft factory or concern has no connection with Canadian Vickers of Montreal?

Mr. McGREGOR: No, Canadian Vickers, I believe, was sold by the Vickers company between the two wars.

Mr. FULTON: They have said that they were going to start up a factory in Canada.

Mr. McGREGOR: That is the Vickers air division of England. It has nothing to do with Canadian Vickers of Montreal.

Mr. FULTON: I understand that. Do you know what the extent of that factory is going to be? Have they indicated their plans to you, and if so would you be able to answer, without revealing confidences?

Mr. McGREGOR: Yes, but I think I have created confusion. I did not use the term "factory". As far as I know they have no intention of establishing a factory. They will start operating a stores depot purely for the servicing of their aircraft here.

The CHAIRMAN: "Property and Equipment".

Mr. MACLEAN: What would be the approximate cost of the hangar at Malton airport?

Mr. McGREGOR: $3,800,000.

The CHAIRMAN: Carried.

"Airport and Airway Facilities".

The CHAIRMAN: Mr. McGregor, I wonder if I might bring to your attention the matter of the concession at Gander. It has been brought to my attention that it is in very poor condition at the present time, and some people who were going to the coronation from Canada brought to my attention the contrast with the establishment at Prestwick, which was so much finer than ours at Gander, and they thought that a great improvement could be made by selling the type of thing that was typical of Newfoundland there, and that the Grenfell Mission and people like that might be interested in taking that on. Has any effort been made to do that?

Mr. McGREGOR: As you know, that is outside the prerogative of T.C.A., but I certainly agree with the comparison that was conveyed to you. My understanding from the inquiries that we have made of the D.O.T. is that they have the greatest difficulty in getting anybody to take the concession for that restaurant-cafeteria. I gathered that costs are high, particularly labour costs, the load is very spasmodic, depending on the aircraft that come in, and the profits are negligible. But it is not a good front window for Canada.

Mr. CARTER: May I follow that up? I have a similar question on Torbay. The terminal station is far too small for the number of passengers that have to be accommodated. Now, if it were doubled it would not be too big. I have two questions. I wonder if you could tell us what plans are in being to enlarge the station there. This may not come within your department, but that little strip of road leading from the street right to the airport is quite an eyesore and I would certainly like to get that fixed up.

Mr. McGREGOR: Answering the last part of your question first: The road, I understand, is not classified as a main road. There has been some argument as to whether it runs on airport property or not. That accounts for the fact that the road up to a point is good, while the road beyond it is poor. I do not know of any plan being entertained at the moment by the Department of Transport for the enlargement of the building. I think some time ago a plan was charted and some consideration was being given to it, but I am speaking largely from hearsay. The criticism you offer of the passenger facilities is quite general across the country.

The CHAIRMAN: Now, Mr. Macdonnell.

Mr. MACDONNELL: Speaking of Gander, it has already been said that Gander is the front window of Canada, and I would add that it is also one of the cross-roads of the world. You have an extraordinary assembling of people there from all over the world and it seems a pity that there should be such a rather rundown place?

Mr. McGREGOR: Yes, I think that is quite true.

The CHAIRMAN: Now, Mr. Gillis.

Mr. GILLIS: There was a discussion some time ago about a new airport at Halifax. I understand you people are very anxious to get in there. Might I ask if there has been any progress?

Mr. MCGREGOR: Yes; and as I mentioned to the committee last year the plans at Halifax were delayed for 12 months if not longer by the fact that weather tests as to continuously satisfactory weather were being undertaken. That was done at one site and they were found to be unsatisfactory at the end of a 12-months sample. Then tests were commenced at another site, and the weather observations at the other site have just recently been completed and they were found to be satisfactory. So I think we might see something beginning to happen there soon.

The CHAIRMAN: Now, Mr. James.

Mr. JAMES: I think there was some discussion last year about Oshawa being used as an alternative airport to Malton. What has the experience been?

Mr. MCGREGOR: Field Aviation which charted Oshawa has turned in a brief to the Department of Transport and to the Air Transport Board and I understand that it appears to have quite interesting possibilities. But undoubtedly a lot of money would have to be spent at Oshawa in order to make it a satisfactory air line alternative to Malton.

Mr. JAMES: We would not complain.

Mr. MCGREGOR: No, a good alternate would be an advantage.

The CHAIRMAN: "Airport and airway facilities". Does the item carry?

Carried.

"Routes". Are there any questions?

Carried.

Mr. MACDONNELL: I wonder if you would say a word about the Caribbean route and what is happening there? The report we had from the shipping company seemed to indicate that trade by sea in that part of the world had suffered badly. How have you found it?

Mr. MCGREGOR: I think it has suffered because they discontinued at least a part of their service.

Mr. MACDONNELL: That is true; but they spoke about the discontinuance of the movement of sugar.

Mr. MCGREGOR: Yes.

Mr. MACDONNELL: And that would not interest you?

Mr. MCGREGOR: Our experience on the Caribbean has been that traffic is growing quite rapidly; and under "Caribbean" I include our service to Tampa which, in season, is extremely heavy.

Mr. MACDONNELL: Does that apply to freight as well as passenger, or is it practically all passenger?

Mr. MCGREGOR: Practically all passenger.

Mr. FRASER (*Peterborough*): What about this run from Tampa to Mexico? What would you say about that?

Mr. MCGREGOR: It operates only once a week which is never a great stimulant to traffic volume, but it is doing well for the first year, having regard to the fact that it started under a cloud, when we were not sure of securing a license and therefore it was required that we not advertise it well in advance; I think it is doing surprisingly well. The average load is about 14 passengers per flight. It is not economical in itself but on the other hand it is a begining and it is doing much better than for example the service to Paris when it started. Furthermore, the representations we have received from people who have spent winter holidays in Mexico have been most enthusiastic.

Mr. FRASER (*Peterborough*): Do you carry any express on that run?

Mr. MCGREGOR: Very little so far.

The CHAIRMAN: Carried. The next item on page 17 is "Personnel".

Mr. MURPHY (*Westmorland*): With respect to your comparison of staff with last year, and in the year previous, could you give me a breakdown for Moncton.

Mr. MCGREGOR: I have the dollars.

Mr. MURPHY (*Westmorland*): No, this is just the number.

Mr. MCGREGOR: I do not believe I have the number, but I think you could regard Moncton as showing an increase comparable to the company growth of 6,400 to 7,200. Moncton had in 1953 217 employees as against 203 in 1952.

The CHAIRMAN: Carried.

Mr. MACLEAN: What percentage of the personnel are air crew? How many air crew do you have?

Mr. MCGREGOR: I will give you the actual number. We shall have to make an approximation of the percentage.

Mr. MACLEAN: The percentage is not important. Just give me the actual number.

Mr. MCGREGOR: There are 500 air crew roughly to 7,200; about 1/14th or about 7 per cent.

Mr. MACLEAN: What are the age limits for pilots or flight engineers? What are the regulations in that regard? Do you employ them as long as they continue to pass their medical examinations?

Mr. MCGREGOR: That is right. There is no top age limit set.

Mr. MACLEAN: You do not agree with the publicized opinion of some of the American lines for example that stewardesses outlive their usefulness at the age of 29?

Mr. MCGREGOR: We draw a distinction between the cabin crew and the air crew of the aircraft.

Mr. MACLEAN: Yes, I know. What is the age regulation regarding the cabin crew?

Mr. MCGREGOR: We have no top age limit and the reason for that may be the nature of the employment. It might constitute a problem at some time but actually the marriage rate amongst stewardesses is so high that it has not reached the point of being a problem as yet.

Mr. MACLEAN: You have a training school?

Mr. MCGREGOR: Yes.

Mr. MACLEAN: Where is it?

Mr. MCGREGOR: We train people at Winnipeg, Toronto, and Montreal depending in which region the take-in is occurring.

Mr. JAMES: Could you give us the marriage rate amongst the stewardesses?

Mr. MCGREGOR: I used to have it. The average service life of a stewardess was very low at one time but I understand that it shows a tendency to increase.

Mr. MACDONNELL: I think you ought to charge a bonus for the job.

Mr. MCGREGOR: It is an occupational hazard.

Mr. FULTON: Do your pilots and crew have what the railways call bidding rights?

Mr. MCGREGOR: Yes.

Mr. FULTON: And in accordance with their length of service they can bid in?

Mr. MCGREGOR: Yes.

Mr. FULTON: Do you find any marked preference for any particular area of the country?

Mr. McGREGOR: Yes, for Vancouver.

The CHAIRMAN: Shall "Personnel" carry?

Carried.

Mr. MACLEAN: Are all your employees Canadian, that is, air crew and cabin crew?

Mr. McGREGOR: With one or two exceptions, yes. We have a Latin American stewardess operating on one of the services, Tampa to Mexico; but with the exception of Britishers in England you could say that 100 per cent of our employees were Canadian.

Mr. MACDONNELL: If you have no age limit on pilots, I take it it is purely a matter of keeping track of their physical condition?

Mr. McGREGOR: They have a medical examination every six months which is very stiff, and any partial failure to keep up to the standard under that examination will put them on the ground.

Mr. MACLEAN: But you would try to continue to employ them on the ground?

Mr. McGREGOR: Yes, so far as possible.

The CHAIRMAN: "Personnel" is carried. The next item is "Equipment planning", on page 19.

Mr. FOLLWELL: I wonder if Mr. McGregor would say a word about jet-propelled passenger planes? I understand that some of the air lines are trying to use jet-propelled passenger planes, and according to reports they seem to be very satisfactory.

Mr. McGREGOR: Well, the T.C.A. technical people I think have studied in detail every aircraft for which they have been able to obtain technical data. Our decision so far has been that we cannot "prove-in" the use of any full jet aircraft which we have so far studied. We have very carefully investigated the only type in commercial service, namely the Comet, both the Mark I, and the Mark I-A as well as the Mark II, and just this past week we were given by the manufacturers the complete data on their Mark III. Full jet aircraft are not to be confused with turbine-propeller aircraft such as the Vickers Viscount which we like very much and we have ordered 15 of them. We like the principle of turbo propeller power. We think that we can see a pattern developing in which it could be said that up to 400 miles an hour the turbo propeller power is ideal; and between 400 miles an hour and 550 miles an hour what is known as the By-pass engine which is coming into being seems to be best and beyond 550 miles an hour the full jet engine is economically sound.

Of course we have no plane in civilian use operating at 550 miles an hour or beyond and for that reason we have not been able to convince ourselves that full jets would be satisfactory or productive of advantages. However, that is a subject on which we could talk for hours, and a very interesting one as well as a very profitable one; but I think without being at all smug about it, that in the "Viscount" we have made the correct choice for that range of aircraft.

Mr. FULTON: Have you any information as to when the American Transcontinental air lines intend to put jets into transcontinental operation?

Mr. McGREGOR: No. The only thing we know about it is the manufacturing position. Neither Douglas nor Lockheed have an aircraft available for sale which is powered with a jet.

The manufacturers of the Stratocruiser have an aircraft of which the prototype is now nearing completion and it is jet powered. I think it would be 1957 or 1958 certainly before any American-built aircraft was available for civilian use which was powered with jets, and I doubt very much if American air lines would purchase foreign-built jet aircraft.

Mr. FULTON: I understand they had them under observation for a time?

Mr. McGREGOR: Yes. I think Pan-American was doing that but I do not know of anything unusual going on at the present time.

Mr. FULTON: Pan-American does not operate a transcontinental run ?

Mr. McGREGOR: No.

Mr. FULTON: When the American transcontinental air lines put in jets then you may have to take another look at your own conclusions with regard to jet aircraft.

Mr. McGREGOR: Not for that reason. If we could be convinced that it was the correct thing from the point of view of regularity of operation, safety, and economy we would; but I do not think we would be unduly influenced by another air line's choice.

Mr. FULTON: You might have to take another look though?

Mr. McGREGOR: Yes.

Mr. FULTON: You must always be aware of their competitive position, and even if they do not operate in Canada, they do operate between Vancouver and Chicago and Vancouver and Toronto.

Mr. McGREGOR: It is the business of our technical people to watch all new developments.

Mr. FULTON: I should have said from Seattle to Chicago; and there is one trip from Seattle to Toronto with respect to American continental air lines.

Mr. McGREGOR: My point was that a T.C.A. decision on the purchase of a certain basic aircraft type would be based on economic and technical study rather than the action of another company.

Mr. FULTON: Oh, I did not mean to imply that. But I understood from what you said in answer to Mr. Follwell that you have come to the conclusion for the time being at any rate that jet aircraft would be very satisfactory if they were in production today, but there was no demand in the immediate future, not that you did not think they would be suitable for T.C.A. operations.

Mr. McGREGOR: That is correct, at this time.

Mr. FULTON: That certainly seems to be a reasonable conclusion, but it is only a conclusion for the time being; and if the American transcontinental air lines should put a fleet of jets into operation which were not subject to operational hazards, that would be one factor which would make you reconsider your conclusions. I think it would have to.

Mr. McGREGOR: Yes, but not simply because the Americans thought it was a good idea.

Mr. FULTON: But if they tried it out.

Mr. McGREGOR: We would certainly have had a look at it.

Mr. MACLEAN: How many "Viscounts" have you on order?

Mr. McGREGOR: Fifteen.

The CHAIRMAN: Does "Equipment planning" carry?

Carried.

"Service planning" on page 20.

Mr. CARTER: I wonder if Mr. McGregor would tell us when the service between Montreal and St. John's, Newfoundland, will go into effect? I refer to the low-cost tourist "coach" class service which will be operated from Montreal to St. John's.

Mr. McGREGOR: I believe it is May 14.

Mr. CARTER: The 14th of May coming?

Mr. McGREGOR: Yes.

Mr. CARTER: Will it be the same service or will it be a new route? Is it the one which is referred to under "present route planning"? Is that the same thing?

Mr. McGREGOR: I think that wording is a little unfortunate. That means that we would not plan to operate a through service into Newfoundland except with "North Star" aircraft. Anything going to and from Montreal, whether it be through Halifax, Moncton, or elsewhere, would be via North Star.

Mr. CARTER: Via North Star aircraft?

Mr. McGREGOR: Yes.

Mr. CARTER: That does not mean a new service then?

Mr. McGREGOR: No.

The CHAIRMAN: Shall "Service planning" carry?

Mr. FULTON: One flight on tourist class would be to Vancouver, and another will be introduced. Will one of those flights go via Edmonton and the other via Calgary?

Mr. McGREGOR: Yes. They have been inaugurated as of February 1st last.

The CHAIRMAN: Does "Service planning" carry?

Carried.

"Route planning".

Mr. MACLEAN: On what routes will the "Bristol" freighters operate?

Mr. McGREGOR: They will operate between Montreal and Winnipeg, and Montreal and New York. They are also available for such intermediate services as to Goose Bay and other places.

Mr. BENIDICKSON: There is not very much west-east traffic, is there?

Mr. McGREGOR: Not a great deal.

Mr. MACLEAN: What equipment have you available for sudden demands for non-schedule or extra loads at the present time?

Mr. McGREGOR: There is a fair amount of elasticity spread into the commitment of aircraft schedules, and it is very seldom that such a matter as a Grey Cup final or a dock strike in New York cannot be accommodated by extra sections. There were two extra North Star flights and an extra DC flight between Halifax and New York within the last four days.

Mr. MACLEAN: You can only operate those flights on your regular runs, can you not?

Mr. McGREGOR: We can apply for permission to operate a specific charter flight on a route other than the one for which we hold a licence, and such a request is usually acceded to.

Mr. FULTON: Is it an everyday matter?

Mr. McGREGOR: Yes.

Mr. FOLLWELL: Who would give you the permission?

Mr. McGREGOR: The air authorities of the countries involved. In the case of the United States it would be the Civil Aeronautics Board and in the case of Canada it would be the Air Transport Board.

Mr. FRASER (*Peterborough*): Are there any new routes which you are contemplating?

Mr. McGREGOR: Not other than the ones which are mentioned here; Sudbury recently, and Timmins still to come.

Mr. Fraser (*Peterborough*): You put in a route to Muskoka last year.

Mr. McGregor: Yes, and we propose to do so again.

Mr. Fraser (*Peterborough*): You are running it again this year?

Mr. McGregor: Yes.

Mr. Fraser (*Peterborough*): Did you make any money out of it?

Mr. McGregor: I would say that we did, and that it was a very encouraging service.

Mr. Fraser (*Peterborough*): Are there any other summer or tourist places where you contemplate you might put in a run and make money out of it, or open up the country?

Mr. McGregor: The only other one that I think is under consideration is Gore Bay.

Mr. Fraser (*Peterborough*): That is on Manitoulin Island.

Mr. McGregor: Yes.

Mr. Fraser (*Peterborough*): And would that be this year?

Mr. McGregor: I think not, because the equipment situation would not permit it.

The Chairman: Shall "Route planning" carry?

Carried.

"Financial prospects"?

Mr. Macdonnell: I should like to ask a question with respect to the first sentence of the paragraph which reads as follows:

> Although record traffic of all types is anticipated in 1954, the company must regard its immediate financial prospects with a good deal of caution. T.C.A. is at present in a transitional period of expensive fleet expansion involving a great many related financial commitments.

I observe in your budget the amount which you are going to ask for by way of additional capital. Would you mind saying a word or two as to the related financial commitments or the nature of the relative amount?

Mr. McGregor: By that is meant the cost not directly associated with the acquisition of the new equipment.

Mr. Macdonnell: I want to get an idea of the nature of the magnitude.

Mr. McGregor: It is the expansion of facilities for maintenance and the purchase of ramp equipment for moving passengers and cargo on and off additional aircraft; overhaul and maintenance shops require different equipment and the training of personnel to operate it and maintain it, and the training of personnel to handle the actual commercial traffic through the reservation and ticket-selling offices.

Mr. Macdonnell: I take it that part of that expenditure falls on the shoulders of the Department of Transport?

Mr. McGregor: No, all of it falls on the airline.

Mr. Macdonnell: I see. Then the facilities which the Department of Transport provide are another matter?

Mr. McGregor: Yes.

Mr. Macdonnell: And with respect to one sentence further down, you have already told us I think about the new types of aircraft which you say would be a costly undertaking in 1954 and 1955. I think you mentioned that this morning.

Mr. McGregor: Yes.

Mr. MACDONNELL: And you say that the average rate of return per passenger would be somewhat less because you are trying to broaden out the services and increase your clientele by means of a cheaper type of travel.

Mr. McGREGOR: That is correct.

Mr. MACDONNELL: I take it that you have surveyed as best you can the earnings picture and you think you could get a return from the capital expenditure which you are going to make?

Mr. McGREGOR: Yes, very definitely.

The CHAIRMAN: Carried. Now, "Appreciation"?

Carried.

Are there any questions on the balance sheet of Trans-Canada Air Lines?

Carried.

"Statement of Income"?

Mr. MACDONNELL: Am I right in my understanding that the change in your relationship with the Canadian National Railways really just involved the turning of one kind of security into another, and that it does not mean there was any cash involved in it?

Mr. McGREGOR: That is correct.

Mr. FULTON: Except for a slightly higher interest rate.

Mr. McGREGOR: Yes, but on a slightly lesser amount; the $3\frac{7}{8}$ per cent applied to $20 million, whereas the 3 per cent applied to $25 million.

Mr. FULTON: Do you not still have to pay 3 per cent on the outstanding $5 million?

Mr. McGREGOR: No.

Mr. MACDONNELL: This might be a convenient time to ask you to relate the depreciation which you show in the statement of operating expenditures with the actual amount of depreciation which you are showing in your capital budget. Here you show depreciation. First of all, your depreciation is set up on aircraft and on your assets. While in the railways it is on rolling stock, here it is on all your assets?

Mr. McGREGOR: Buildings, aircraft, certain capitalized item of equipment and tools.

Mr. MACDONNELL: You show here in your capital requirements depreciation accrual. I am not quite sure of the meaning of that word. Is that depreciation accruing in 1954 or what is it?

Mr. McGREGOR: Yes.

Mr. FRASER (*Peterborough*): In regard to operating revenue derived from mail you show a very small increase, nevertheless the amount of mail really has gone up very much. Now, what arrangements have you made for this year?

Mr. McGREGOR: No new arrangements except in the matter of trans-atlantic mail. The conditions to which you made reference arise due to the increase in traffic volume and the arrangement we have with the post office under the contract which requires us to move a certain volume of mail.

Mr. FRASER (*Peterborough*): So many tons?

Mr. McGREGOR: Yes; and that requires us to make available to the post office 1,200 pounds of mail loading in each DC-3 flight, and 3,600 pounds on each North Star flight for which we get a fixed sum of money. It has been the case in the past that the post office have not yet reached the maximum for which they are paying that amount. I think that in 1953 it was something like 85 per cent. At the time that the contract was drawn it was predicated on the assumption that there would be more mail developed from this first-class "all-up" mail to the extent of one ounce than it actually did, and that there would be an early extension of parcel post by air mail. The parcel post development did not occur until about 18 months ago, with the result that the post office has been under-running the amount of life that it was entitled to make use of. With the more recent change, going into effect on April 1, as I think I mentioned this morning, the test case in March looked as though it would produce a 30 per cent increase over the 1953 volume.

Mr. FRASER (*Peterborough*): You will be 15 per cent over the top?

Mr. MCGREGOR: Yes, and the contract provides for a rapidly descending rate of mail pay per ton mile as that over-run occurs.

The CHAIRMAN: "Statement of Income", then, is carried. I think, Mr. McGregor, you have some questions you would like to report on.

Mr. MCGREGOR: Thank you. There were several questions asked this morning on which I promised information this afternoon. Mr. Murphy gave us a list of five under notice. First, "What are the plans for Moncton, New Brunswick, for 1954-1955, enlargement of buildings, etc., money to be spent." TCA does not own any buildings at Moncton and does not propose to build any for its own account. Moncton is fortunate in being one of the places where an excellent administration has been built, and I would say that it would accommodate the traffic quite handily for at least the next two years.

"Budget plans for the maritimes". I think they are well dealt with in the pages of the report that we have now covered; that is, to extend services as required, to expand the tourist services, and generally to meet the demand, particularly as we are faced with the early arrival of additional equipment.

Question No. 3: "How many refrigerated planes for lobsters and other fish—comment on this traffic." So far as I know, there is no such thing as a refrigerated aircraft available, certainly not civil types. Perhaps for that reason the movement by air of fish, carrying with it the additional weight of its own refrigeration by dry ice or other means, has never been done consistently because, frankly, I do not think the price of fish can bear the cost of the transportation by air.

In answer to questions 4 and 5, the total payroll and other expenditures at Moncton, I will give you a copy of this, Mr. Murphy. Our total payroll for the year 1953 was $1,075,000. The total expenditures, including payroll, rentals, landing fees, teletype facilities, gasoline and oil and other operating costs, $1,700,000. The total expenditures for property and equipment, $14,000. Does that dispose of that group of questions, Mr. Murphy?

Mr. MURPHY (*Westmorland*): Very well, thank you.

Mr. MCGREGOR: I think that the next question was from Mr. Macdonnell: Comparison of increase in available seat miles as between T.C.A. and U.S. air carriers. The T.C.A. percentage increase in 1953 over 1952 was 23 per cent, as mentioned in the annual report, which, I think, was the comment that occasioned your question. The average increase for U.S. air carriers, that is, all carriers reporting through the Civil Aeronautics Board, was 15 per cent. American Airlines, 15 per cent; Eastern Air Lines, 17 per cent; United Air Lines, 15 per cent; Trans-World Airways, 20 per cent; and Northwest Airlines, 28 per cent.

Mr. MACDONNELL: May I ask a question about insurance? You reserve an appreciable amount for insurance. Does that mean that you do your own insuring?

Mr. MCGREGOR: Up to a point. We self-insure under the present policy for the first $2 million aggregate loss in any one year and we underwrite outside from $2 million to $10 million.

Mr. FRASER (*Peterborough*): Then on your balance sheet you show "Insurance Fund, $5,782,000"?

Mr. MCGREGOR: Those are the assets of the fund, as it has built up over the years.

Mr. MACLEAN: I notice that your rate of depreciation is different for every type of aircraft. You allow six years for the North Star and five years for the Bristol freighter. What will be the rate of depreciation on the Constellation?

Mr. MCGREGOR: Seven years.

Mr. MACLEAN: Has a decision been made on the Viscount?

Mr. MCGREGOR: Yes, seven years is planned at the present time.

The CHAIRMAN: Shall the annual report of the Trans-Canada Air Lines for 1953 carry?

Mr. CARTER: May I just ask one question arising out of the answer given to Mr. Murphy about the transportation of fish? Is Mr. McGregor familiar with the container developed by the C.N.R. which will keep chilled fish for 100 hours at 29 degrees?

Mr. MCGREGOR: I know of it, but we think it is too heavy for use in an aircraft. The container must be charged for as well as the contents of course.

Mr. MACDONNELL: May I ask some further questions?

The CHAIRMAN: There are other questions to be answered, I believe.

Mr. MACDONNELL: The depreciation shown for 1953 in the income account is $5,339,000. Will you relate that to your depreciation accruals, shown as $3,800,000, as I understand it, for 1954?

Mr. MCGREGOR: Yes. The reason for that change is that the North Stars in May of this year become fully depreciated. We only start to accrue depreciation on the new aircraft as they come into service and it will be October before all the Super Constellations are being depreciated.

Mr. MACDONNELL: I think this is the last question. In the balance sheet you show "Reserved for replacement of capital assets, $4·9 million". You do not use that? Is that for working capital or what?

Mr. MCGREGOR: That is the accumulated surplus of the company over the last three years.

Mr. MACDONNELL: I realize that, but you marked "Reserved for replacement of capital assets". I suppose that what you are asking us to grant is not for replacement but new acquisitions ?

Mr. MCGREGOR: That is correct.

The CHAIRMAN: Do you have some other answers?

Mr. MCGREGOR: Yes, there were some other questions asked this morning. Someone requested a comparison of the rail and air carriage for, say, a typical parcel of 50 pounds. I do not think that the example was well chosen, because 50 pounds is rather large for an air express parcel. They are usually much smaller. The rates for a 50-pound rail shipment are as follows: from Ottawa to Winnipeg, rate $5; by air express, rate $24; by air freight, $7. The rates Montreal to Vancouver are: by rail express, $7; by air express, $48; by air freight, $14.50.

There are two other questions. A question was asked about the differential between the average cost per gallon of 100 octane gasoline in Canada and the United States. The following are the figures, and they refer entirely to imperial gallons: average cost to T.C.A. in the United States, $22.15 cents; duty and sales tax, 2·80 cents; refuelling charge, 2·00 cents; airport service fee, 1·00 cent; shipping charges in excess of amount paid by U.S. carriers, 3·69 cents; average cost to T.C.A. in Canada, 31·64 cents.

We were also asked our percentage gasoline purchases by countries. In Canada we purchased 85·87 per cent of our total acquisition of fuel; in the United States we purchased 6·04 per cent; and in all other countries, 8·09 per cent.

Mr. MacLean: In that connection, I presume that the gasoline purchased in Canada is not produced here but is imported in the first place?

Mr. McGregor: Yes.

Mr. MacLean: You actually purchase it here?

Mr. McGregor: Yes.

Mr. MacLean: It is not a Canadian product?

Mr. McGregor: No.

A question was asked about a comparison between the air express and air parcel post rates on a 15-pound shipment. From Ottawa to Winnipeg, air express would be $7.20 and air parcel post, $3.75. From Montreal to Vancouver air express would be $14.40; air parcel post, $11.25.

There was a question asked as to whether it was the same for a long haul as for a short haul. I have a card here which, I am afraid, will not be very helpful, which indicates that odd things happen to air parcel post. If it is moved within a province it is one rate; if it is moved from province to province it is another; and if Newfoundland is involved it is still higher; and the Yukon Territory is higher again. So there is a function of distance applied in the rates.

Mr. MacLean: There are cases, though, where the parcel post is cheaper than air express?

Mr. McGregor: Yes, very much so.

Mr. MacLean: In that case, it occurred to me that under the new rates which come into effect tomorrow you might in those cases have almost no air express at all for certain types of package, but you are carrying packages as air mail, which may not be so profitable to you.

Mr. McGregor: On the contrary, that is a desirable situation. The carriage of a small parcel by air express is certainly costly, because each requires complete documentation, waybills and billing, and if we can get that same carriage, even at lower unit prices, bundled up in a mail bag, we are much happier about it.

The Chairman: Shall the annual report of the Trans-Canada Air Lines for 1953 carry?

Carried.

Now we will go to the Operating Budget of Trans-Canada Air Lines for 1954.

TRANS-CANADA AIR LINES

OPERATING BUDGET — 1954

Operating Revenues	$ 69,300,000
Operating Expenses	68,400,000
Operating Income	$ 900,000
Non-Operating Expense—Net	550,000
Income	$ 350,000
Provision for Income Taxes	200,000
Net Income	$ 150,000

The CHAIRMAN: Are there any questions with regard to the Operating Budget for 1954?

Carried.

Capital Budget for the year 1954.

TRANS-CANADA AIR LINES

CAPITAL BUDGET

YEAR 1954

	Revotes	Estimates	TOTAL
Airplanes and components			
Airplanes	$	$14,164,000	$14,164,000
Airframe equipment		662,000	662,000
Power plants and engines	273,000	777,000	1,050,000
Propellers	78,000	101,000	179,000
Radio	116,000	245,000	361,000
Miscellaneous flying equipment		118,000	118,000
Aircraft spares	771,000	2,418,000	3,189,000
Total	$1,238,000	$18,485,000	$19,723,000
Ground facilities and components			
Ground communications	$ 48,000	$ 51,000	$ 99,000
Hangar and shop equipment	211,000	613,000	824,000
Ramp equipment	67,000	200,000	267,000
Motorized vehicles	49,000	230,000	279,000
Office equipment	103,000	306,000	409,000
Storage and distribution equipment	1,000	38,000	39,000
Miscellaneous ground equipment		5,000	5,000
Total	$ 479,000	$ 1,443,000	$ 1,922,000
Buildings	$ 1,255,000	$ 1,000,000	$ 2,255,000
Contingency		$ 300,000	$ 300,000
Grand Total	$ 2,972,000	$21,228,000	$24,200,000

The expenditure in respect of each of the above items may exceed the amount shown by not more than 10 per cent, without further approval, provided the total expenditure on the said items does not exceed $24,200,000.

STATEMENT SHOWING SOURCE OF FUNDS FROM WHICH CAPITAL EXPENDITURE IS TO BE FINANCED

Net Income	$ 150,000
Depreciation accruals	3,800,000
Recall of deposits with C.N.R.	11,000,000
New capital required	9,250,000
	$24,200,000

Mr. FULTON: May I ask a question on the item at the bottom of the page, "New capital required, $9,250,000"? What is your anticipated source of that capital?

Mr. MCGREGOR: The Canadian National Railways.

Mr. FULTON: I think perhaps this was answered in the answer you gave to Mr. Macdonnell a few moments ago, but I did not follow it. I am very stupid at these balance sheets and capital budgets. But what about the $4,955,066 shown in your balance sheet? Is any of that available to meet this $9,250,000?

Mr. MCGREGOR: No, not the $9,250,000.

Mr. FULTON: Then what is the purpose of carrying the $4,955,000 in your balance sheet as a reserve for replacement of capital assets?

Mr. MCGREGOR: Our reason for retaining our surplus is shown by the comment that it is for the purchase of additional equipment and it has been used as such, but once it is established as a surplus, whether it is earmarked for a specific disposition or not, as is the case there, it is spent as such.

Mr. FULTON: I am sorry. I should have asked the question the other way. Why are you not going to use that to meet part of the $9,250,000 that you will require?

Mr. MCGREGOR: We definitely are.

Mr. FULTON: I am sorry. I thought you said that you were going to get the whole of that from the C.N.R.

Mr. MCGREGOR: The $9 million is all that is left to get from the C.N.R. after these other sources have been used.

Mr. FULTON: I am very sorry, but I have not followed you. You show that you will need a total capital for 1954 of $24,200,000. You show that you expect to get a net income of $150,000, depreciation accruals during the year of $3,800,000, recall of deposits with the C.N.R., $11,000,000, leaving a balance of new capital required of $9,250,000. I understand you to say you are going to call on the C.N.R. to provide the whole of that balance of $9,250,000. What I was asking you was why would that figure not be reduced by your reserve of $4,955,000, which is carried as a surplus on the balance sheet?

Mr. MCGREGOR: It is carried as a surplus on the balance sheet, but that actual money was not put in a separate account and held. That is part of the $11 million which was loaned to the C.N.R.

Mr. FULTON: They are your earned surpluses now held by the C.N.R.?

Mr. MCGREGOR: That is right.

Mr. FULTON: So the $4 million is now included in the $11 million?

Mr. MCGREGOR: Yes.

The CHAIRMAN: Any further questions on the Capital Budget?

Carried.

"Trans-Canada Air Lines Capital Budget (Revised), Calendar Year, 1953".

Trans-Canada Air Lines Capital Budget (Revised)

Calendar Year, 1953

	Original Budget	Revised Budget
Aircraft and equipment		
Airplanes	$ 206,000	$ 750,000*
Engines	864,000	890,000*
Propellers	107,000	107,000
Instrument equipment	72,000	72,000
Radio equipment	492,000	492,000
Passenger Service equipment	233,000	233,000
Spare units and assemblies	894,000	1,034,000*
Ground equipment		
Ground communication equipment	$ 54,000	$ 54,000
Hangar, shop and ramp equipment	526,000	526,000
Motor vehicles equipment	287,000	287,000
Office equipment	260,000	260,000
Storage and distribution equipment	33,000	33,000
Buildings	$4,559,000	$4,559,000
Contingency	$ 200,000	$ 200,000
Total	$8,787,000	$9,497,000

*—Revisions due to:

Airplanes

Payment in full of 3 Bristol aircraft. Original purchase plan was on deferred basis over 3 years.

Engines and spare units

Additional equipment for Bristol aircraft.

NEW CAPITAL REQUIRED—NIL

Mr. McGregor: I should say that the 1953 Capital Budget was underspent, but it is required of us that we record the change in it and the increase in authority that was given.

The Chairman: Shall this item carry?

Carried.

Shall the budget for Trans-Canada Air Lines, 1954, carry?

Carried.

We will now deal with the auditors' report of Trans-Canada Air Lines. I note that Mr. Turville, C.A., Mr. J. W. Morrison, C.A., and Mr. E. T. G. Hadley, C.A., of the firm of George A. Touche & Co., chartered accountants, are here for questioning, if you desire to have them. I assume you will not require us to read the auditors' report?

Agreed.

These gentlemen are here. Do you move that it be added as an appendix to the record?

Mr. FULTON: I suggest it be included in the record as though it had been read.

The CHAIRMAN: It will be included in the record.

GEORGE A. TOUCHE & CO.

CHARTERED ACCOUNTANTS

Coristine Building

410 St. Nicholas Street

Montreal 1

25TH FEBRUARY, 1954.

TRANS-CANADA AIR LINES

The Right Honourable the Minister of Trade and Commerce,
Ottawa, Canada.

Sir,

We have audited the accounts of the Trans-Canada Air Lines for the year ended the 31st December, 1953, under authority of the Trans-Canada Air Lines Act, as amended and we now report, through you, to Parliament.

Our examinations of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Air Lines in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Air Lines are further protected by fidelity bond insurance with outside underwriters.

Our audit of the accounts included the verification of the balance sheet and the statement of income and certification thereof.

STATEMENT OF INCOME

Depreciation

Provision for depreciation on capital assets was made during the year on the following bases:

(*a*) Flight equipment in service—

North Star M2, depreciated over period of six years from date of being put into service.

Bristol, depreciated over period of five years from date of being put into service.

DC3, having been fully depreciated in 1951, no provision required.

(*b*) Ground facilities, estimated useful life, the period depending upon the type of asset.

Interest Expense

Interest at the rate of 3% per annum was paid to the Canadian National Railway Company on its investment in the capital stock of the Air Lines to the 14th of May, 1953. At that date 200,000 shares of $100 par value were exchanged for a $20,000,000 debenture, on which the agreed interest rate of 3⅞% per annum has been paid to the Railway Company.

Non-Operating Income—Net

This account is principally comprised of interest on deposits with the Canadian National Railways and discounts earned on purchases.

BALANCE SHEET

Assets and Liabilities

During the year the Air Lines withdrew surplus funds of $2,500,000 which were on deposit with the Canadian National Railways. The total of such surplus funds remaining on deposit with the Railway at the year end was $11,000,000. Interest at the rate of 3% was paid to the Air Lines on these deposits.

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information, but such accounts have not been verified by direct communication with the individual debtors and creditors.

A physical inventory of material and supplies was taken late in 1953. We have received a certificate from the responsible officers to the effect:—

(*a*) That the quantities were determined by actual count, weight or measurement or by a conservative estimate where such actual basis was impracticable, and

(*b*) That the inventory pricing was based on latest invoice price for new materials, and that proper allowance for condition has been made in pricing usable second-hand, obsolete and scrap material.

Ledger values were brought into agreement with the physical inventory by a credit to operating expenses.

The Insurance Fund investments consist of securities of the Government of Canada, Canadian National Railways (Guaranteed by the Government of Canada), and securities issued or guaranteed by Provincial Governments, together with cash and sundry current assets. The year-end market value of these securities was 7·61% less than cost.

Capital Assets

Property and equipment is carried on the basis of cost less accrued depreciation. Net addition during the year amounted to $4,656,000, the major items included therein being expenditures on the construction of an aircraft hangar at Malton, an annex to hangar No. 1 at Dorval and the purchase of three Bristol freighters.

Further progress payments amounting to $1,345,000 were made during the year in connection with the purchase of eight Lockheed Super-Constellations and fifteen Vickers-Viscount aircraft.

Insurance Reserve

The Insurance Reserve increased during the year by $617,000, and at the year end amounted to $5,782,000.

Capital Structure

Pursuant to the amendment to the Trans-Canada Air Lines Act, 1937, assented to on the 14th. May, 1953, the Canadian National Company surrendered to the Air Lines 200,000 shares of T.C.A. capital stock having a par value of $20,000,000, in exchange for a long term debenture of the face value of $20,000,000 maturing on the 1st. January, 1973 bearing interest at the rate of $3\frac{7}{8}$% per annum.

As a result of the above, the issued capital stock of the Air Lines has been reduced from 250,000 shares to 50,000 shares of a par value of $5,000,000.

Surplus

After providing $300,000 for income taxes, the net income for the year amounted to $265,000, which has been reserved as a further contribution towards increased cost of future purchases of capital assets, bringing to $4,955,000, the total amount reserved for that purpose at the 31st. December, 1953.

Where foreign currencies are involved, the balance sheet accounts of the Air Lines are converted generally as follows:

(*a*) United States Currency—at the dollar par of exchange.

(*b*) Sterling Currency—at the rate of $2.80 to the pound.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,
GEORGE A. TOUCHE & CO.

Mr. MACDONNELL: I want to ask a question or two on this report.

The CHAIRMAN: You may ask questions on this.

Mr. MACDONNELL: What is the life of the North Star M2?

Mr. McGREGOR: The actual physical life?

Mr. MACDONNELL: Yes.

Mr. McGREGOR: I would say that it would be almost indefinite. The aircraft are maintained steadily so as not to allow physical ageing to go on in the normal sense of the word.

Mr. MACDONNELL: Then how do you arrive at the six years as a period of depreciation?

Mr. McGREGOR: That is the period in which we consider the aircraft becomes obsolete as to passenger appeal for first-class travel. I would think that if the aircraft are operated beyond that time, as a general rule it will be for such things as tourist services and cargo services.

Right Hon. Mr. HOWE: Like the DC3 that was written off some time ago.

Mr. MACDONNELL: You take more risks with the tourist passengers?

Mr. McGREGOR: No; as I said, there is not physical ageing.

Mr. CHURCHILL: What do you do with these aircraft when they go out of service?

Mr. McGREGOR: We sell them if there is a market for them. We sold the Lockheed fleet, and the Department of Transport are still using one or more of them for communications.

Right Hon. Mr. HOWE: We are still operating the first Lockheed that the government ever owned.

Mr. MACLEAN: There is, generally speaking, a market for these aircraft?

Mr. McGREGOR: There has been so far; in fact, a very brisk one for DC4's, many of which are 10 years old or more and are being sold for $400,000 each today.

Mr. MACLEAN: From an accounting point of view that is going to be a complete profit, because the aircraft were completely depreciated?

Mr. McGREGOR: It will produce an increase in capital assets if we are lucky enough to have that market when the time comes.

Mr. MACDONNELL: Would the depreciation not be lessened because of the fact that some of the aircraft are fully depreciated already?

Mr. McGREGOR: Yes.

Mr. FULTON: Is there any comment that Mr. Turville would like to make as to the soundness from the accounting point of view in depreciating those capital assets, when they will still go on earning money from the public?

Mr. TURVILLE: I can answer that question, Mr. Fulton, by stating that Trans-Canada Air Lines capital assets are depreciated as shown on page 1 of our report. Depreciation accounting has been properly applied on a sound and conservative basis.

Mr. FULTON: You would not care to criticize government policy?

Mr. TURVILLE: I do not think that that is my function

Mr. BENIDICKSON: It is the general practice of practically all businesses to take the full amount allowed?

Mr. TURVILLE: Yes, generally.

Mr. McGREGOR: I would like to point out that that same rate applied before T.C.A. was exposed to corporate income tax. It is a somewhat longer period than in the United States where, I think, new equipment is depreciated on a five-year basis.

Mr. MACLEAN: You have to depreciate it at that rate because you calculate that you will be forced to replace it at that time because it would become obsolete?

Mr. McGREGOR: Yes.

The CHAIRMAN: Are there any further questions on the auditors' report? Shall the auditors' report carry?

Carried.

On behalf of the committee, I would like to extend our thanks to Mr. McGregor and his associates and to Mr. Turville, Mr. Morrison and Mr. Hadley, for their services in coming here today and giving us such a fine explanation of the activities of Trans-Canada Air Lines.

Mr. TURVILLE: May I make one remark in conclusion? I would like to thank Mr. McGregor on my behalf, and on behalf of my colleagues, for the trip we had this morning. Perhaps it sounds in light vein when I say this, but I do not intend it to be so. We are the auditors of the Trans-Canada Air Lines, and we have gone in some detail into the examination, and so on, of the purchases and acquisitions. We have seen the contracts, for example, for the purchase of the aircraft, we have vouched payments and so on, and now we have completed our audit, because we have actually inspected it and seen that the plane does fly.

The CHAIRMAN: I am sure that we, as members of the committee, Mr. McGregor, are appreciative of the trip we had today. It was certainly a revelation to most members and greatly appreciated by all. Thank you.

There is just one other item of business that should be dealt with before we adjourn tonight. It has nothing to do with Trans-Canada Air Lines; but you will recall that a resolution was presented by Mr. Follwell, and it was to be referred to a subcommittee. I thought that we should set up a subcommittee now and we might have an opportunity to deal with the recommendation that was brought in. A motion has now been presented to me by Mr. Dumas, seconded by Mr. Murphy, that the chairman and the vice-chairman, together with seven other members of the committee, to be selected, after consultation by the chairman, act as a subcommittee to consider Mr. Follwell's proposed resolution and report thereon, and that the seven members be representatives of the parties as follows: three government members, two Progressive Conservative members, one C.C.F. member and one Social Credit member, the names of whom shall be submitted to the chairman. What is your pleasure?

Mr. MACDONNELL: To whom does that subcommittee report?

The CHAIRMAN: To this committee. We will have to meet again to consider our report, and I thought that if we met again next Tuesday, say, that the subcommittee in the meantime could have met and discussed this matter and could report to the committee again, which will meet in camera next Tuesday morning at 11 o'clock.

Mr. FRASER (*Peterborough*): The Banking and Commerce Committee will be meeting next Tuesday. Could we make it on Monday afternoon at 3.30?

The CHAIRMAN: Monday afternoon is satisfactory to me. We will meet again on Monday afternoon at 3.30.

The committee adjourned.

EVIDENCE

April 5, 1954,
3.30 p.m.

The Chairman: Gentlemen, we have a quorum. The first matter with which we have to deal is the report of the subcommittee. You will recall that there was some discussion a week ago today on Mr. Follwell's proposed resolution, and it was decided to refer it to a subcommittee of this committee. The subcommittee was directed to report back to this committee at a later time.

I am now able to say that the subcommittee met this morning, April 5, at 10.00 a.m. and on their behalf I present the following report:

Monday, April 5, 1954.

The subcommittee appointed to consider Mr. Follwell's proposed resolution of March 29th, met at 11.00 o'clock this day, at which time the following members were present: Mr. H. P. Cavers, Chairman, Mr. A. Dumas, Vice-President, and Messrs. Carter, Fulton, Gillis, Hahn, Harrison, Macdonnell (*Greenwood*), and Weaver.

After careful consideration of the said proposed resolution, your committee has unanimously agreed that no recommendation be made in the matter by the committee at the present time.

All of which is respectfully submitted.

HARRY P. CAVERS,
Chairman.

That is the report and recommendation of the subcommittee. I believe now Mr. Macdonnell would like to say a word.

Mr. Macdonnell: Mr. Chairman, I would like to say a word with regard to this report. I was in favour of this matter and so expressed myself the other day. I was favourably impressed with the idea of working this thing out if it could be done but I acquiesced this morning for two reasons: 1, because the minister indicated that he thought such a resolution now would be embarrassing to him in dealing with the provinces, and 2, because the resolution was stated to be for the present time. Therefore it seemed sensible under the circumstances not to present it to the railways but to reserve it for further consideration. We can of course bring it up at a later time.

Mr. Dumas: I should like to move that the committee concur in the report of the subcommittee.

Mr. Weaver: I second the motion.

The Chairman: It is moved and seconded that the report of the subcommittee be adopted. All those in favour?

Mr. Fairey: Agreed!

The Chairman: Agreed; carried.

Mr. Macdonnell: Mr. Chairman, I should like to raise a question which just cropped up today. I am sorry it was not brought to the attention of our committee last week. It has to do with the discontinuing of the night train service between Saint John and Halifax. I would like our member from Saint John-Albert (Mr. Bell) to speak on this matter. He is not a member of this committee but I understand that members who are not members of a committee may be heard even though they may not vote.

The CHAIRMAN: My understanding is that a member who is not a member of the committee may not question any of the witnesses; however if the member for Saint John-Albert (Mr. Bell) wishes to address the Committee, I think there is no objection to that.

(Agreed.)

Mr. BELL: Mr. Chairman and members of the committee, I cannot speak with too much authority in this matter because it only came up over the weekend. But I do feel very strongly about it personally, and I feel it is something which should be considered by this committee. It concerns the overnight sleeping facilities which are provided by the Canadian National Railways between Saint John, New Brunswick, and Halifax. We learned today in the House that the government intends—or they have announced, I would imagine from the report today—that these facilities would be discontinued. Therefore I feel that the committee should have an opportunity to inquire into the losses and other factors which are connected with it. For example, it has been mentioned that there has been a loss on the service. I imagine that is true, but I would like to know, and I think the rest of your committee would wonder, if this loss is out of proportion with the losses sustained on other similar facilities provided by the Canadian National Railways.

Without having the background of the entire committee, one other thing comes to my mind. Are the losses just in the dining car facilities, and if so what proportion do they make up of the total loss? Mr. Gordon has mentioned that they must carry those losses, or words to that effect. I only bring that up in this way because I wonder why it is that at the time when our committee is completing its discussion and is just about ready to hand in a report, word has leaked out that the government intends to do away with this very necessary service down east.

The CHAIRMAN: Are there any questions?

Mr. DUMAS: The committee was not aware of the situation or some of the members of the committee would have questioned Mr. Gordon on this situation. I wonder if it would not be the function of the chairman of the Board of Trade of Saint John or the chairman of the Board of Trade of Halifax and other people in that district to apply pressure if that train is really a necessity. I mean by that they might apply the proper pressure to have it resumed.

Mr. BELL: Well, I believe they are.

Mr. DUMAS: We were not aware of the situation or the committee doubtless would have discussed this matter with the president of the Canadian National Railways.

Mr. BELL: I have only learned of it. They discussed it in Saint John at their meeting on April 2, and evidently the Halifax Board of Trade did not know anything about it. That is how I received my information—they passed a notice of the minutes of the meeting to me. I am doing this unofficially, but they have indicated they wanted me to publicize this fact.

Mr. McCULLOCH *(Pictou)*: Was it a daily service, Mr. Bell?

Mr. BELL: Yes, it was a daily overnight service—that is the difficulty with it. It means, for example, that a person in Halifax will have to leave at 8 o'clock in the morning and spend all day on the train, whereas before he could simply hop on the train at night and be in Saint John for business the next morning. It is similar to the Toronto service that is provided from Ottawa. The discontinuation of this service is a definite hardship.

Mr. DUMAS: Did not Mr. Chevrier state there was only an average of 12 passengers?

Mr. BELL: I agree that it is a very low average, although I do not know anything about it and would not dispute it. I fully appreciate that, and I admit it now, but I feel we should have some comparable figures.

The CHAIRMAN: I think this is a matter for the Board of Transport Commissioners.

Mr. BELL: I do not know what has happened. We have our Maritime Transport Commission.

Mr. DUMAS: We had the same thing happen to us on the connecting train with the O.N.R., where we had a daily service which was taken off because there were not enough passengers. Everybody was travelling by plane so the C.N.R. was losing money.

Mr BELL: Mr Chairman, may I ask this question? Have similar problems such as this ever been discussed by the committee?

Mr. FAIREY: Mr. Chairman, as a new member of the committee I was going to ask if this is a subject for discussion in a committee of this kind. Are we the people to make recommendations with respect to the various schedules?

The CHAIRMAN: That was the point I intended to raise.

Mr. FAIREY: I have half a dozen similar situations in British Columbia which I could show you.

The CHAIRMAN: I think it is a matter for the Board of Transport Commissioners to decide upon as to whether this line has been improperly discontinued and if the service should be maintained.

Mr. MCCULLOCH (*Pictou*): They must have given permission.

Mr. HAHN: There is one point that might be kept in mind and that is when they talk about extending lines or service—we heard about it—and at the same time they planned to curtail existing services, I think we should know something about it. It certainly is evident that we did not have the information when Mr. Gordon was here.

The CHAIRMAN: It is.

Mr. HAHN: However, I do not think we can do too much about it other than handing it on to the Board of Transport Commissioners for their consideration.

Mr. GILLIS: This type of question has been discussed before this committee on several occasions. This is a commuter service. Dozens of commuter trains run in and out of Montreal and Toronto, not only for commuters, but that service is given to the commercial travellers at a reduced fare. Mr. Gordon has pointed out to this committee several times in discussing this question that as far as he is concerned they lose money on all of those services. He did suggest at one time that perhaps a bus service would be better than continuing the operation of trains which involve such a heavy cost. However, to my knowledge, none of the services have been discontinued. Now, this is a service between Halifax and Saint John which is largely for the benefit of commuters who do business in and out of these two cities. It is an overnight run and is on a par—"on all fours"—with what they are doing in the two central provinces for the convenience of commercial travellers in transacting their business. Now, when the decision was made we had no knowledge of it here, and I think the Maritime Transport Commission must have fallen down on the job. Otherwise they should have known about this and should have known the committee was meeting and presented some evidence here, but I do not think it would be amiss now if we mentioned in the report that this matter was brought to our attention and that we would recommend to the Board of Transport Commissioners that they take another look at that situation and see if it was not possible to maintain that service.

The CHAIRMAN: Mr. Bell, as member for that area, and other maritime members have now had the opportunity of directing this matter to the attention of the Canadian National Railways, because the evidence will be in the report for them to see, together with whatever your wishes are in that regard. I did not know anything about it. I drafted a report here for the guidance of the committee. I had no knowledge that this was discussed in the House a few months ago.

Mr. GILLIS: That is the first knowledge I have had.

The CHAIRMAN: I think that is the best we can do.

Mr. CARTER: We have no authority to interfere with the administration of the railways. We cannot interfere with the operation of the railways in order to do this or that. That is up to the Board of Transport Commissioners.

Mr. GILLIS: We are merely suggesting.

Mr. CARTER: All we can do is to make a recommendation to the Board of Transport Commissioners.

Mr. GILLIS: That is right.

Mr. CARTER: And they can handle it.

Mr. MACDONNELL: I suggest something to this effect, that the Board of Transport Commissioners have their attention drawn to this discontinuance which has now come to our attention, and be asked to reconsider it?

Mr. FRASER (*Peterborough*): It might be up to the Board of Transport Commissioners to reconsider it, but I know that in regard to the line which runs from Port Hope to Millbrook, in spite of the fact that they had considered it was the C.N.R. to whom we had to appeal in order to have it extended. They extended it for a few years and eventually it was cut out, but it was the C.N.R. itself who recommended that it be discontinued.

Mr. GILLIS: The C.N.R. cannot discontinue that service without the approval of the Board of Transport Commissioners.

Mr. FRASER (*Peterborough*): They have to make the recommendation that it be discontinued, and it is up to the C.N.R. to reconsider their decision.

Mr. GILLIS: This service is discontinued.

Mr. FRASER (*Peterborough*): It is up to them. The C.N.R. now have to make the recommendation. They have to make the recommendation to the board.

Mr. GILLIS: That is what we are asking for.

Mr. FRASER (*Peterborough*): You do not want to go to the transport board first.

Mr. GILLIS: They are the boss.

Mr. FRASER (*Peterborough*): The C.N.R. have put in the recommendation.

Mr. GILLIS: Let the board check with them and get some more facts first. What do you think of it?

The CHAIRMAN: Are you prepared now, gentlemen, to consider the report? If so, I would ask that others than members of the committee—

Mr. MACDONNELL: Wait a minute. We have not reached any conclusion on this matter. Is Mr. Gillis not going to make a motion on that?

Mr. GILLIS: I thought you were writing one out.

Mr. MACDONNELL: Is there any objection to our passing a resolution to the effect that this discontinuance was drawn to our attention, and that we request the Board of Transport Commissioners—I think that they would wish to see it before we send our request to the railway—

Mr. FRASER (*Peterborough*): Both the railway and the Board of Transport Commissioners.

Mr. MACDONNELL: Both to the railway and the Board of Transport Commissioners; and we request that they reconsider this decision.

The CHAIRMAN: I am wondering whether we have had enough evidence before us to say "reconsider", or should we say to "look into the matter again". "Reconsider", I suppose, is the same thing. We have heard one side of the story, but we have heard nothing from the railway.

Mr. MACDONNELL: It would be so much better if we adjourned for 24 hours and got someone here from the railway.

Mr. DUMAS: I think that would be the proper way to proceed, because we do not have enough information.

Mr. MACDONNELL: That is very true, and it would also give us a chance to consider this report a little more. It is a matter of very considerable importance to the people in the east. Also, I feel that it is a great pity that they did not tell us at the time.

Mr. CHURCHILL: If they had, the general policy might have been considered.

Mr. DUMAS: I do not think that we can blame anyone for not bringing this matter to the attention of the committee.

Mr. McCULLOCH (*Pictou*): I think that we should adjourn for an hour and have the minister here.

Mr. MACDONNELL: I would move that we request the C.N.R. to send someone here. They could send the proper official to discuss this situation with us, and we could recall the meeting when we receive an answer to that request. It would be very simple for someone to come up here and meet with us tomorrow. I would so move.

Mr. GILLIS: I second the motion.

Mr. HAHN: Would there be some means of finding out whether this is in our jurisdiction? Someone might come before us and say that this matter should be referred to the Board of Transport Commissioners.

Mr. MACDONNELL: Should we not have someone with knowledge to tell us what we should do? Could we move that this committee adjourn at the call of the chairman. The chairman could speak to the railway company and the Board of Transport Commissioners and find out who should be here and we would get the most suitable person. I will alter my resolution to that effect, if the seconder agrees.

Mr. GILLIS: I am agreeable.

The CHAIRMAN: May we adjourn until tomorrow morning at 11 o'clock.

Mr. MACDONNELL: That is a bad time. I think we should leave it to the call of the chairman.

Mr. CARTER: Could we consider the report now?

The CHAIRMAN: If you wish.

(The meeting proceeded in camera).

EVIDENCE

April 6, 1954
4:00 p.m.

The CHAIRMAN: Now, gentlemen, we have a quorum. Mr. Chassé is now passing out the draft report which we will deal with in a moment or two. The first matter to be discussed is this: For the benefit of those who were not at yesterday's meeting, at the beginning of the meeting yesterday Mr. Bell, the Member of Parliament for Saint John-Albert was concerned about the fact that certain over-night sleeping services had been discontinued between Saint John and Halifax. He presented his position to the committee at that time.

I felt that sufficient evidence had not been heard on the other side and I said that every effort would be made to provide the committee with further information. Therefore I called the Canadian National Railways and received some information from them which I think will be helpful to the committee in this regard.

First of all I was informed by an official of the Canadian National Railways that notice was given by the Canadian National Railways to the Board of Transport Commissioners on March 15, 1954, that they intended to discontinue this sleeping car service which had been provided between Truro and Moncton. But since the service was not abandoned as a pasenger train service, under the Railway Act they are permitted to discontinue this type of sleeping car service without going to the Board.

However, the Board of Transport Commisisoners informed me that any complaints that might be received from either Halifax or Saint John should be submitted to them, the Board of Transport Commissioners, and they would then hear the complaints and decide whether the service should or should not be discontinued. The reason for the service being discontinued was this: Upon making a check over the past year it was found that an average of 12 people have used the sleeping car service and the net earnings per train mile on train No. 11 proceeding from Truro to Moncton were 51 cents per train mile. The net earnings per train mile on train No. 12 which was the train proceeding from Moncton to Truro amounted to 53 cents per train mile; and the net earnings per train mile required to meet minimum expenses should be $2 per train mile. Therefore the loss per month by operating this sleeper service was in the sum of $9,000 per month; on a yearly basis it amounts to $108,000 per year; that was the loss to the Canadian National Railways.

They informed me that the commuter service out of Saint John, N.B., which continues as far as Hampton and Sussex is still being continued and that this train will continue to maintain New Brunswick operations. The night train leaving Halifax for Truro and connecting with Sydney, N.S., continues as usual and is not being interfered with, and neither is the day-time train which leaves Saint John to go to Halifax and returns from Halifax to Saint John during the day-time being interfered with. So it is only the stretch from Truro to Moncton carrying the sleeper that has been discontinued.

If a resident of Halifax or a resident of Saint John wishes to express his complaints, those complaints should be sent to the Board of Transport Commissioners rather than to this committee.

Is the committee satisfied with that explanation?

Mr. CARTER: It is none of our business, in any case.

The CHAIRMAN: That is right.

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Mr. FAIREY: We could bring up numerous examples of the same kind of thing, but that is not what we are here for

The CHAIRMAN: They told me there probably would be many places across Canada where similar things have occurred and which could be objected to. The representations that have been made have been given publicity in the fact that they will appear in the record of proceedings of this committee. If that is satisfactory, now we will deal with the third report of the committee which, to some extent, we dealt with yesterday but we can go over it again for the sake of those who were not then present. I think this ought to be done in camera.

The committee then went into camera.

APPENDIX "A"

RETURN TO A QUESTION BY MR. C. W. CARTER

I would like to have names and amounts of other plans included under heading "Station and Station Facilities" in Newfoundland.

Station and Station Facilities—Newfoundland

		Total	*Capital*
Goobies	Construct station and Agent's Dwelling; retire station at Northern Bight.....$	20,000	$ 20,000
Notre Dame Jct.	Install generating plant, and electric lighting in station and shed........	5,000	5,000
Corner Brook	Extend freight sheds; construct 350 ft. retaining wall; relocate roadway	59,577	53,860
Clarenville	Construct Enginemen's Bunkhouse ...	20,000	17,680
Lewisporte	Renovate bunk house for Enginemen and Trainmen	6,471	5,916
Millertown Jct.	Build curb and pave station platform	7,028	7,028
Alexander Bay	Install platform and plank tracks	7,500	7,500
Clarenville	Construct unloading ramp	1,408	1,408
Gander	Extend station for Express Traffic	14,472	13,817
	Total ....$	141,456	$ 132,209

Communications Department budget includes a new building at St. John's. Total cost (capital) $878,050 of which $200,000 will be spent in 1954.
March 30, 1954

APPENDIX "B"

RETURN TO A QUESTION BY MESSRS. POULIOT AND MACDONNELL

CANADIAN NATIONAL RAILWAYS

STATEMENT OF CHANGES IN BORROWED CAPITAL 1923–1953 INCLUSIVE

	Increase or (Decrease) during Year					Borrowed Capital at end of Year		
	Government of Canada Loans and Debentures							
Year	Advances or (Repayments)	Surplus earnings applied in reduction of loans	Debt written Off	Debt transferred to equity capital	Bonds sold or (refunded) —Public	Government of Canada	Public	Total
1923	$ 58,775,954				18,595,912	583,374,445	823,099,056	1,406,473,501
1924	(6,909,776)				90,814,027	576,464,669	913,913,083	1,490,377,752
1925	13,075,678				17,416,220	589,540,347	931,329,303	1,520,869,650
1926	21,790,390				(5,849,059)	611,330,737	925,480,244	1,536,810,981
1927	1,237,982				55,901,493	612,568,719	981,381,737	1,593,950,456
1928	19,373,872				(3,492,704)	631,942,591	977,889,033	1,609,831,624
1929	18,877,072				144,670,460	650,819,663	1,122,559,493	1,773,379,156
1930	17,019,099				46,006,370	667,838,762	1,168,565,863	1,836,404,625
1931	(11,652,291)				107,891,344	656,186,471	1,276,457,207	1,932,643,678
1932	56,308,717				(11,940,040)	712,495,188	1,264,517,167	1,977,012,355
1933	(33,890,312)				(9,215,012)	678,604,876	1,255,302,155	1,933,907,031
1934	10,748,048				(8,971,716)	689,352,924	1,246,330,439	1,935,683,363
1935	82,019,967				(91,551,438)	771,372,891	1,154,779,001	1,926,151,892
1936	(33,516,885)				29,833,248	737,856,006	1,184,612,249	1,922,468,255
1937	(14,742,900)		(373,823,120.)	(270,037,438)	37,385,150	79,252,548	1,221,997,399	1,301,249,947
1938	(14,335,762)				27,999,024	64,916,786	1,249,996,423	1,314,913,209
1939	(2,762,723)				13,404,888	62,154,063	1,263,401,311	1,325,555,374
1930	68,500,252				(63,584,977)	130,654,315	1,199,816,334	1,330,470,649
1941	81,463,550				(65,422,031)	212,117,865	1,134,394,303	1,346,512,168
1942	321,526,904	(14,016,327)			(325,178,229)	519,628,442	809,216,074	1,328,844,516
1943	79,530,572	(45,063,268)			(64,983,601)	554,095,746	744,232,473	1,298,328,219
1944	133,419,519	(25,639,412)			(114,778,567)	661,875,853	629,453,906	1,291,329,759
1945	52,124,666	(23,026,925)			(56,273,908)	690,973,594	573,179,998	1,264,153,592
1946	32,319,822	(4,756,130)			(42,757,000)	718,537,286	530,422,998	1,248,960,284
1947	(29,066,937)				52,436,764	689,470,349	582,859,762	1,272,330,111

1948	71,024,476				1,372,896	760,494,825	584,232,658	1,344,727,483
1949	(16,833,663)				40,633,262	743,661,162	624,865,920	1,368,527,082
1950	(3,813,648)				34,164,321	739,847,514	659,030,241	1,398,877,755
1951	117,726,260				(43,833,206)	857,573,774	615,197,035	1,472,770,809
1952	106,866,796			(736,385,405)	(9,702,206)	228,055,165	605,494,829	833,549,994
1953	114,084,883				(15,683,139)	342,140,048	589,811,690	931,951,738
	$1,310,289,582	(112,502,062)	(373,823,120)	(1,006,422,843)	(214,691,454)			

APPENDIX "C"

RETURN TO A QUESTION BY Mr. JAMES

CANADIAN NATIONAL RAILWAYS
HOTELS

—	Capital cost at Dec. 31, 1946	Revenues, Expenses and Taxes, and Net Income 1947	1948	1949	1950	1951	1952	1953	Capital cost at Dec. 31, 1953	Number Guest Rooms
Bessborough	$3,566,081								3,680,249	255
Revenues		788,625	850,815	873,207	833,146	850,508	922,143	1,013,355		
Expenses and Taxes		630,535	749,987	784,848	755,628	764,827	830,932	910,077		
Net Income		158,090	100,828	88,359	77,518	84,681	91,481	103,278		
Room occupancy %		72·6	81·1	79·9	72·8	66·7	69·8	73·7		
Charlottetown	863,683								870,809	106
Revenues		270,815	295,916	258,457	248,507	268,599	254,220	271,612		
Expenses and Taxes		228,484	276,058	272,808	256,788	255,742	240,163	248,548		
Net Income		42,331	19,858	*14,351 Dr*	*8,281 Dr*	12,857	14,057	23,064		
Room occupancy %		63·0	59·0	53·9	49·3	46·7	55·3	62·4		
Chateau Laurier	8,981,702								9,111,798	518
Revenues		2,663,535	2,893,321	2,884,517	2,774,283	3,067,324	3,132,648	3,148,363		
Expenses and Taxes		2,221,562	2,543,477	2,469,308	2,515,506	2,679,777	2,709,951	2,727,532		
Net Income		441,973	349,844	415,209	268,777	387,547	422,697	421,831		
Room occupancy %		84·0	82·1	85·4	77·2	80·3	75·8	73·4		
Fort Garry	2,941,915								3,022,663	243
Revenues		901,439	942,370	986,265	922,069	1,017,495	1,050,134	1,037,535		
Expenses and Taxes		767,813	903,064	937,198	902,989	957,868	949,357	960,266		
Net Income		133,626	39,306	49,067	19,070	59,627	100,777	77,269		
Room occupancy %		86·7	84·2	83·5	79·5	84·2	85·6	82·8		

Jasper Park Lodge	2,749,591								5,540,847	342
Revenues		759,531	724,313	833,813	767,269	780,416	602,589	951,787		
Expenses and Taxes		622,860	606,398	684,741	677,719	673,606	693,158	955,032		
Net Income		136,671	117,915	149,072	89,550	106,810	*90,569 Dr*	*3,245 Dr*	Note 1 (on next page)	
Room occupancy %		84·4	73·0	74·8	73·8	70·9	59·2	80·9		
Macdonald	2,298,721								8,501,471	480
Revenues		898,759	996,656	1,050,080	1,061,640	1,100,987	1,112,040	2,173,715		
Expenses and Taxes		749,399	876,832	913,683	1,095,763	1,265,268	1,280,363	1,796,152		
Net Income		149,360	119,824	136,397	*34,123 Dr*	*164,281 Dr*	*168,323 Dr*	*377,563*	Note 2 (on next page)	
Room occupancy %		92·1	95·6	97·1	94·0	92·4	94·0	74·5		
Maniki Lodge	1,105,188								1,195,372	92
Revenues		122,798	137,588	165,447	141,551	141,685	156,496	166,369		
Expenses and Taxes		119,733	127,305	136,546	118,930	128,595	121,705	140,828		
Net Income		3,065	10,283	28,901	22,621	13,090	34,791	25,541		
Room occupancy %		86·7	83·0	81·5	72·2	71·7	73·7	70·0		
Newfoundland									1,575,725	137
Revenues					556,489	469,020	449,792	634,677		
Expenses and Taxes					534,471	478,358	451,417	558,399		
Net Income					22,018	*9,338 Dr*	*1,625 Dr*	76,278		
Room occupancy %					79·3	83·7	90·0	84·5		
Nova Scotian	2,491,444								2,518,558	150
Revenues		762,867	814,128	876,129	798,454	851,604	905,105	913,881		
Expenses and Taxes		629,459	726,776	767,669	746,354	794,147	813,812	809,822		
Net Income		133,408	87,352	108,460	42,100	57,457	91,293	104,059		
Room occupancy		94·8	94·7	93·7	89·4	87·7	89·5	87·8		
Pictou Lodge	215,578								216,321	48
Revenues		40,408	46,217	48,843	42,404	43,364	46,675	48,929		
Expenses and Taxes		30,672	39,043	38,177	37,585	40,222	42,665	44,478		
Net Income		9,736	7,174	10,666	4,819	3,142	4,010	4,451		
Room occupancy %		79·3	87·0	71·8	70·0	74·0	70·1	70·5		

CANADIAN NATIONAL RAILWAYS

HOTELS—*Concluded*

—	Capital cost at Dec. 31, 1946	Revenues, Expenses and Taxes, and Net Income 1947	1948	1949	1950	1951	1952	1953	Capital cost at Dec. 31, 1953	Number of Guest Rooms
PRINCE ARTHUR	1,194,456								1,286,830	109
Revenues		381,014	417,287	411,763	362,425	357,982	379,780	392,398		
Expenses and Taxes		312,857	367,642	350,744	344,707	341,682	343,284	367,739		
Net Income		68,157	49,645	61,019	17,718	16,300	36,496	24,659		
Room occupancy %		84·7	81·8	77·4	77·1	64·6	68·6	67·2		
PRINCE EDWARD	538,045								591,177	77
Revenues		239,205	278,296	289,544	300,217	300,918	279,552	289,031		
Expenses and Taxes		224,902	265,150	269,063	266,151	281,325	279,128	277,647		
Net Income		14,303	13,146	20,481	34,066	19,593	424	11,384		
Room occupancy %		73·0	73·0	69·4	77·5	68·0	62·5	64·0		
TOTAL CAPITAL COST	$26,946,404								$38,111,820	
Revenues		7,828,996	8,396,907	8,678,065	8,808,454	9,249,902	9,291,444	11,041,652		
Expenses and Taxes		6,538,276	7,481,732	7,624,785	8,242,601	8,661,417	8,755,935	9,796,520		
Net Income		$1,290,720	915,175	1,053,280	565,853	588,485	535,509	1,245,132		

NOTE 1—*Jasper Park Lodge*—Year 1953 loss of $3,245 includes $73,816 covering expenses incidental to the July 15, 1952, fire, "the exclusion of which would reflect a net profit for the year 1953 of $70,571."

NOTE 2—*Macdonald Hotel*—Net income results for the years 1950 to 1953 include amounts charged to operating expenses covering alterations due to construction of new wing, viz:—1950—$174,000; 1951—$348,000; 1952—$348,000 and 1953—$144,000. The exclusion of these amounts would have resulted in net profits for those years as follows:—1950—$139,877; 1951—$183,719; 1952—$179,677 and 1953—$521,563.

APPENDIX "D"

RETURN TO A QUESTION BY MR. MACLEAN

Economies resulting from conversion of coal to oil burning steam locomotives

Cost of conversion from coal to oil is $5,280 per locomotive, plus capital cost for 45 days oil storage per locomotive of $12,000, or a total of $17,280 capital.

Estimated average write-off period, taking into account the current subvention rates on coal, is 4·4 years.

Gross returns is 26·9% on investment before interest and depreciation.

Gross saving is $4,650 per year per locomotive.

The write-off period was approximately 2 years prior to the time of the change in subvention (approximately a year ago), at which time the conversion was even a more attractive feature.

The oil-burning apparatus is good for the life of the locomotive.