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Canada. Parliament. House of
Commons. Standing Comm.on
Railways and Shipping Owned,
Operated and Controlled by the
Government, 1935.

Minutes of proceedings and
evidence.

NAME - NOM

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RAILWAYS AND SHIPPING

DEPARTMENT OF COMMERCE AND MARITIME

THE NATIONAL BOARD OF TRADE

MEMORANDUM

1. The National Board of Trade has the honor to acknowledge the receipt of your letter of the 10th inst. regarding the proposed amendments to the regulations governing the operation of passenger trains on the Great Northern Railway.

2. The Board has considered the proposed amendments and is of the opinion that they are in accordance with the public interest and should be approved.

3. The Board has also considered the proposed amendments to the regulations governing the operation of passenger trains on the Great Northern Railway and is of the opinion that they are in accordance with the public interest and should be approved.



SESSION 1935

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

THURSDAY, MARCH 14, 1935

THURSDAY, APRIL 4, 1935

WITNESSES:

- Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.
- Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.
- Mr. O. A. Matthews, of George A. Touche & Co., Chartered Accountants.
- Mr. S. W. Fairweather, Director of Economics, Canadian National Railways.

OTTAWA
J. O. PATENAUDE
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1935

MEMBERS OF THE COMMITTEE

Mr. G. R. GEARY, *Chairman*

and Messrs.:

Beaubien,
Beaubier,
Bell (*St. Antoine*),
Bothwell,
Cantley,
Chaplin,
Duff,
Euler,
Fiset (*Sir Eugene*),
Fraser (*Cariboo*),
Gray,

Gobeil,
Hanbury,
Heaps,
Speakman,
MacMillan (*Saskatoon*),
Manion,
Power,
Price,
Stewart (*Lethbridge*),
Tummon.

R. ARSENAULT,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

Monday, March 4, 1935.

RESOLVED,—That Standing Order 63 of the House of Commons, relating to the appointment of Standing Committees of the House be amended by adding to the Standing Committees of the House for the present session a Standing Committee on Railways and Shipping owned, operated and controlled by the Government to which will be referred the accounts and estimates of the Canadian National Railways and the Canadian Government Merchant Marine for the present session, for consideration and report to the House; provided, however, that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply, and that said Committee consist of Messrs. Beaubien, Beaubier, Bell (*St. Antoine*), Bothwell, Cantley, Chaplin, Duff, Euler, Fiset, (Sir Eugene), Fraser (*Cariboo*), Geary, Gray, Gobeil, Hanbury, Heaps, Speakman, MacMillan (*Saskatoon*), Manion, Power, Price, Stewart (*Lethbridge*), and Tummon.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, February 1, 1935.

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

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, March 4, 1935.

Ordered,—That the following Bill be referred to the said Committee, viz. Bill No. 24, An Act respecting the Canadian National Railways and to authorize the provision of moneys to meet expenditures made and indebtedness incurred during the calendar year 1935.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, April 3, 1935.

Ordered,—That the Order referring to the Committee of Supply the Estimates respecting the Canadian National Steamships and the Maritime Freight Rates Act presented to the House on the 18th March be discharged, and that the said estimates be referred to the Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, April 4, 1935.

Ordered,—That the said Committee be empowered to print from day to day 700 copies in English and 200 copies in French of its proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

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

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

FIRST REPORT

THURSDAY, April 4, 1935.

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

Your committee recommends that it be empowered to print from day to day 700 copies in English and 200 copies in French of its proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Your committee also recommends that it be given permission to sit while the House is sitting.

All of which is respectfully submitted.

G. R. GEARY,
Chairman.

MINUTES OF PROCEEDINGS

Room 268, House of Commons,

THURSDAY, March 14, 1935.

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

Members present: Messrs. Beaubier, Bothwell, Cantley, Duff, Euler, Fraser (*Cariboo*), Gobeil, Hanbury, MacMillan (*Saskatoon*), Price, Stewart (*Lethbridge*), and Tummon.

In attendance: Mr. V. I. Smart, Deputy Minister of Railways and Canals.

On motion of Mr. Tummon seconded by Mr. Duff, Mr. Geary was appointed Chairman of the Committee.

On motion of Mr. Hanbury,—

Resolved,—That the committee request permission to print from day to day its proceedings and evidence and that Standing Order 64 be suspended in relation thereto.

The committee adjourned to the call of the Chair.

HOUSE OF COMMONS,

Room 268,

THURSDAY, April 4, 1935.

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

Members present: Hon. Mr. Manion and Messrs. Beaubien, Beaubier, Bothwell, Cantley, Euler, Fiset (Sir Eugene), Fraser (*Cariboo*), Gray, Gobeil, Hanbury, Heaps, Speakman, MacMillan (*Saskatoon*), Price, Stewart (*Lethbridge*), and Tummon.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways; Mr. B. J. Roberts, Comptroller Government Guarantee Branch, Department of Finance, and Mr. O. A. Matthews, representing George A. Touche & Co., Chartered Accountants.

On motion of Mr. MacMillan,—

Resolved,—That the committee request permission to print from day to day, 700 copies in English and 200 copies in French, of its proceedings and evidence.

On motion of Mr. Fraser,—

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

The following reports, tabled in the House on April 2, were laid before the committee for consideration, viz.—

Annual Report of the Canadian National Railway System, for the year ended December 31, 1934;

Annual Reports of the Canadian Government Merchant Marine Limited and the Canadian National (West Indies) Steamships, Limited, for the year 1934;

Report of George A. Touche & Co., Chartered Accountants, on the financial accounts of the Canadian National Railway System for the year ended the 31st December, 1934;

Report of George A. Touche & Co., Chartered Accountants, on the financial accounts of the Canadian Government Merchant Marine, Limited, and the Canadian National (West Indies) Steamships, Limited, and Subsidiary Companies, for the year ended the 31st December, 1934;

Report of George A. Touche & Co., Chartered Accountants, on the Capital Structure of the Canadian National Railway System, as at the 31st December, 1934.

The committee proceeded with the consideration of the Annual Report of the Canadian National Railway System, the Hon. Mr. Fullerton and Mr. Cooper being examined thereon.

After a brief examination of said report, it was agreed, at the request of certain members of the committee, to deal with the Auditors' Report on the Capital Structure of the Canadian National Railway System.

Mr. O. A. Matthews, of George A. Touche & Co., Chartered Accountants, was called and examined.

At 12.55 the committee adjourned until 4.30 this day.

AFTERNOON SITTING

The committee resumed at 4.30, Mr. Geary presiding.

Members present: Hon. Mr. Manion and Messrs. Beaubien, Beaubier, Bothwell, Cantley, Duff, Euler, Fiset, Fraser, Gray, Gobeil, Hanbury, Heaps, Speakman, MacMillan, Power, Price and Tummon.

Mr. Matthews was recalled and further examined.

Witness retired.

At this stage, members of the committee were supplied with copies of a booklet describing the revised pension plan of the Canadian National Railways including its subsidiaries (except U.S. subsidiaries), which became effective on January 1, 1935, and Mr. S. W. Fairweather, Director, Bureau of Economics, was examined thereon.

Witness retired, and the committee adjourned at 6 o'clock until Tuesday, April 9, at 11 a.m.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 4, 1935.

Room 268.

The select standing committee on Railways and Shipping met at 11 o'clock, Colonel G. R. Geary, the chairman, presiding.

The CHAIRMAN: We will have to sit while the House is sitting, so I think we should have a motion to that effect. Then they tell me we shall want some 700 in English and 200 in French copies of the Proceedings and Evidence. Is that agreeable to the committee?

Mr. HANBURY: Carried.

Sir EUGENE Fiset: I wonder if we could get a copy of the Canadian National Merchant Marine Annual report? All that we have is the report on the Canadian National Railway system.

Hon. Mr. MANION: I think they have been distributed.

The CHAIRMAN: They have just been distributed. We have the annual report printed, and I think it would be well, if anyone wants to ask questions, to commence with the annual report on the Canadian National Railway system, and I suggest that we go through the balance sheet and the profit and loss statement and the different accounts set out at the back of the book. Is that satisfactory? Are there any explanations to make, or does it speak for itself, Mr. Fullerton?

Hon. Mr. FULLERTON: It speaks for itself, yes.

The CHAIRMAN: If there is no question to be asked on the general printed report running up to page 10, what do you say about page 12?

Sir EUGENE Fiset: We have not seen page 12 yet.

The CHAIRMAN: If you will turn to page 12 you will find the consolidated balance sheet as at December 31, 1934.

Hon. Mr. MANION: Have you not one of those reports?

Sir EUGENE Fiset: No.

Hon. Mr. MANION: They were to be distributed in the boxes this morning.

Sir EUGENE Fiset: They were not.

Mr. HANBURY: I received one.

Mr. MACMILLAN: I did not.

Hon. Mr. MANION: They certainly were to be distributed because I said so in the House. That was my information at the time. Have you spare copies?

Mr. FRASER: I have one now.

Mr. HANBURY: They put cards in the box and you had to send and get them.

Mr. STEWART: No.

Sir EUGENE Fiset: Mr. Hanbury has a preferred staff of his own.

The CHAIRMAN: Gentlemen, the first item on the consolidated balance sheet under the heading of investments is Investment in Road and Equipment. Are there any questions on any matter to be taken up in that account? The first item is investment in road and equipment, \$2,127,430,584.50; then improvements on leased railway property, \$3,807,673.67, sinking funds, total of \$23,860,365.22; deposits in lieu of mortgage properties sold—what are these?

Mr. COOPER: If mortgaged property which is secured by trust deed is sold, some of the trust deeds require that the proceeds be placed in the hands of trustees for the benefit of the bond holders, and this account represents such items.

The CHAIRMAN: "Miscellaneous physical property, \$60,404,737.61; investments in affiliated companies, \$31,553,318.58—

Mr. MACMILLAN: What is "miscellaneous physical property"?

Mr. COOPER: That is not transportation property, chiefly representing our hotel investment.

The CHAIRMAN: Is that the book cost?

Mr. COOPER: Yes, sir.

The CHAIRMAN: Is there any depreciation of that item?

Mr. COOPER: No.

The CHAIRMAN: This is its original cost?

Mr. COOPER: Yes.

The CHAIRMAN: That is a total investment of \$2,253,122,578.03. For my information would you tell me if that first item represents the book cost of your road equipment?

Mr. COOPER: Yes it is. That is the original cost of all property now comprised in the Canadian National Railway.

The CHAIRMAN: It has no reference to bonds or stocks or anything of that kind?

Mr. COOPER: Book investment.

Mr. FRASER: I suppose that item is carried forward from last year. Was that item shown last year?

Mr. COOPER: Plus additions during the year.

Mr. FRASER: Plus additions?

Mr. COOPER: Yes; there had been expenditures during the year 1934 which changed the figure carried forward.

The CHAIRMAN: Some of the property disappeared.

Mr. COOPER: Yes, during the year there were additions and betterments and retirements. As a matter of fact in 1934 the retirements exceeded the additions. There was a net retirement of some—

Mr. FRASER: Are the details of the account submitted somewhere else in the report?

Mr. COOPER: Yes, they are shown on page 21.

The CHAIRMAN: Are the retirements shown in this in detail?

Mr. COOPER: These are the net figures. The italics show the balance of retirement.

The CHAIRMAN: I think we are going to get into difficulty if we go from the general to the individual accounts. I think we had better run over each and then take up the individual accounts.

Mr. GOBEL: What is the item "Improvement on leased railway property"?

Mr. COOPER: It is of the same nature as the first item there except the property to which these betterments have been made is not owned by the railway. We have certain railways under lease and any capital expenditures on leased property is included in this second item.

Mr. TUMMON: Properties on long term lease?

Mr. COOPER: Most of them are long term; some of them are short.

The CHAIRMAN: Are there any further questions on those items of investment? We now come to current assets: cash, special deposits, traffic and car service balance receivable—

Mr. MacMILLAN: I wonder if I can get some information as to the branch lines purchased in the years 1929 and 1930?

The CHAIRMAN: That would be on page 21?

Hon. Mr. FULLERTON: 1929 and 1930?

The CHAIRMAN: What is it, Mr. MacMillan, expenditures in what?

Mr. MacMILLAN: Purchases of branch lines in 1929 and 1930.

Hon. Mr. FULLERTON: That won't be in those accounts; we can furnish it.

Mr. MacMILLAN: I have a series of questions here.

Hon. Mr. MANION: You had better read them out so that the rest will know about them.

Mr. MacMILLAN: 1. The names and location of six branch lines of railway taken over by the railway company in 1929.

2. The following information with respect to each branch.

- (1) The length in miles.
- (2) The amount paid.
- (3) The amount required to rehabilitate the railway.
- (4) The amount of the bonded and other indebtedness on each.
- (5) What portion, if any, of the bonds were guaranteed, by provincial governments?
- (6) Were any of these lines owned by provincial governments and if so which?
- (7) The operating surplus or deficit on each of said lines in each year since they were acquired.
- (8) The interest charges on each line in each year whether by way of interest on bonded indebtedness or on money used to purchase or rehabilitate the railways.
- (9) The total profit or loss with respect of each railway in each year, including interest, depreciation and other proper charges.

The CHAIRMAN: Mr. MacMillan, that information will be brought down as soon as it can be put together. Are there any other questions on current assets, gentlemen?

Hon. Mr. EULER: Mr. Chairman I came in a bit late, but I should like to know if the committee has decided on any definite course of action with regard to the various reports we have?

The CHAIRMAN: We were running through the general balance sheet.

Hon. Mr. EULER: This red book?

The CHAIRMAN: Yes.

Hon. Mr. EULER: I merely wish to say this: I have not seen it before and I think the other members of the committee have not seen it. It has just been handed to me now.

Hon. Mr. MANION: I sent out and made inquiries from the clerk in the distribution office and he says he put in every box of every member of the House a card permitting him to send and get these reports.

Hon. Mr. EULER: I know the card came last week that these other reports had been received, but none of the members have had an opportunity of perusing the books.

Hon. Mr. MANION: That is probably true, but it is largely their faults, due to those cards.

Hon. Mr. EULER: I do not find fault with anybody in particular; but the fact remains we have not had an opportunity of examining all those statements, and for my part I think it would be absolutely useless to attempt to go through these statements intelligently.

The CHAIRMAN: Suppose we take the consolidated balance sheet statement now? It seems to me when we come to the individual accounts such as maintenance of way structure, operating revenue and so on, we can then see how far we are stuck, and we may not be able to go on. But on this general statement we can go back to it any time.

Hon. Mr. EULER: Yes, but the chances, are we will not?

Hon. Mr. MANION: What do you suggest?

Hon. Mr. EULER: I do not like to suggest details, because the session is getting pretty well on, but ordinarily I would suggest that the members be given an opportunity of reading those statements, and perhaps we will go on with something else. If I might be bold enough to suggest one thing, I would say this: we left over a matter last year that should have been discussed and that is the auditor's report on capitalization, and we have a new one this year.

The CHAIRMAN: I doubt if all the members of the committee have that.

Hon. Mr. MANION: According to my information it was distributed to the members of the committee, but not all the members of the House.

Hon. Mr. EULER: They have all had it some time, but there is a newer one and later one submitted in those other reports. I am not trying to press it particularly at the moment, but I think that report should be carefully discussed with the representative of the auditing firm here.

The CHAIRMAN: I think that is quite true. He is not here now, is he?

Hon. Mr. MANION: Yes.

Hon. Mr. FULLERTON: Mr. Matthews is here.

The CHAIRMAN: Yes. I am in the hands of the committee. If the committee desire to do that now I should be very glad to.

Hon. Mr. MANION: I do not think you were here on Tuesday when we were discussing this matter in the House.

Hon. Mr. EULER: Yes.

Hon. Mr. MANION: I mention it because I do not think you were in when I spoke; I remember, I looked across and I did not see you in your seat. I did mention to the House the tabling of the report, and I did ask the committee if they could meet on Wednesday. Mr. Duff, I remember, and Mr. Hanbury were the two who suggested Thursday. It was arranged that the committee would meet on Thursday, at their request.

Hon. Mr. EULER: I was a few minutes late.

Hon. Mr. MANION: And I think you missed it, I do not think you were in the House. I hope we will be able to go on with some of the business because we have brought the officers here really at the request of the committee and I think we could start today, and then if there are any questions arising later out of what we take up we could go back. I hope we will be able to go on. I do not care personally, I have no interest in what you deal with at all. It was the suggestion of the chairman, and I think rightly, that we should consider the annual report. If the committee wishes to do differently it is up to the committee to decide what we are to deal with.

Hon. Mr. EULER: Might I by way of suggestion say this; I think we have always had some sort of a preliminary or general statement from the chairman of the Board. No doubt he is ready to go on, and possibly he might give it now. Following that, if it be the wish of the committee, we might have perhaps a more or less general statement by the auditor.

The CHAIRMAN: I asked the Chairman of the Board if there was anything he wanted to add to this (the general statement); but, of course, that does not mean much.

Hon. Mr. EULER: No.

The CHAIRMAN: But, if the Chairman would like to run through it, or if you would like to hear from him and have him run through it, he might like to indicate some of the salient points of the general report.

Mr. HANBURY: In what time I have had to study this statement it occurs to me that we have very complete information this year by the trustees and the auditors in connection with some of the matters that we have previously investigated. I think we should have an opportunity of going through them. We will save a great deal of time by going through them instead of having to ask questions here. But, in the meantime, I would suggest that we are all fairly familiar with the necessity for making some change in the capital structure of the railway, and as we have a very complete report prepared by the George A. Touche Company in that connection I would suggest that we might leave the balance sheet for the time being and consider the capital structure of the railways this morning.

The CHAIRMAN: It does not matter in the least to me, gentlemen; it is only a matter of getting on as fast as we can. Is it the wish of the committee that we deal with this grey-covered report from the auditors; there is one, the report on the capital structure; and the other, report and accounts for the year, on both the railways and the steamships?

Hon. Mr. EULER: Is Accounts really necessary?

The CHAIRMAN: Take this report, on capital structure; that is the one you had in mind.

Hon. Mr. EULER: Yes.

The CHAIRMAN: Is it the wish of the committee that we discuss that.

Some Hon. MEMBERS: Yes.

The CHAIRMAN: All right, gentlemen; we will proceed. Has every member had that in his hands and had an opportunity of going into it, because this is the more involved of the two and it would require study more than the other.

Hon. Mr. EULER: I think we we have had this a little longer.

The CHAIRMAN: I think most of the members have that. There are no new members on the committee this year, I think. These were distributed to the members of the committee of last year. I do not know that there are any new members. I should think that is a rather difficult matter to work out unless the members have gone through it in their rooms and in that way gained some idea of what is proposed.

Hon. Mr. EULER: Might we perhaps do this: many of the members have not read through that report with regard to capital structure and perhaps they could read it more intelligently if the auditor this morning were to give us a more or less bird's eye view of the whole situation; just presenting the reasons why he thinks that something should be done, and suggestions as to how the capital structure should be written down or altered. Then if you like we can still discuss it and ask him questions; or then in the light of what he has said read the report and come to some decision about it later on at another meeting.

The CHAIRMAN: Is that satisfactory, gentlemen?

Hon. Mr. EULER: I would move that the auditor be heard.

The CHAIRMAN: Is Mr. Matthews here? Would you just come up this way so we can all hear you.

O. A. MATTHEWS, called:

Mr. HANBURY: Mr. Chairman, just before Mr. Matthews proceeds, I would like to refer the Chairman of the Board of Trustees to the evidence which he

gave before this committee last year in connection with the capital structure, and for that purpose I will read a portion of his evidence:—

Referring further to the criticisms which I have read against the recommendations of the auditors:
this was with reference to the capital structure;

It has been said that what is proposed would be a distinctly dishonest form of bookkeeping and that those supporting the recommendations are parties to a calculated deception of the Canadian taxpayer. I regret that statements of this sort should be used in a public discussion of the matter. It is also said that it is simply a matter of bookkeeping and will effect no useful purpose. I disagree with this view. There are many reasons, one of which is the disheartening effect upon the management and the employees who must face year after year an insurmountable burden of debt. The effect of this should not be underestimated. The enterprise viewed as a business concern is also in my opinion prejudicially affected by this condition. I believe it would stimulate the organization if they were given an objective which it would be within their power to reach.

If that objective should be to earn the interest on the funded debt in the hands of the public that would constitute a task of real magnitude, but not beyond the possibility of accomplishment with a return of something like normal conditions. We must not forget that there can never be a repetition of expenditure on a scale such as existed during the last decade.

Now, with that is a preface to my remarks I would just like to ask the Chairman of the Board of Trustees if he still subscribes to this provision.

Hon. Mr. FULLERTON: I am still of the same opinion.

Mr. HANBURY: Yes.

The CHAIRMAN: Now, Mr. Matthews, perhaps you had better take as your text book this report on the capital structure.

Mr. MATTHEWS: I don't know just what line the members have in mind for me to summarize, but generally speaking it can be said that our purpose in making these recommendations in the last two years has been not only from the point of view of the accounts of the railways themselves, but having been appointed by parliament in 1934 as their representatives, and having found in the Canadian National-Canadian Pacific Act very definite instructions to the auditors, we felt that we should call to the attention of our clients (in this case the shareholders of the Canadian National) certain conditions that we have encountered in Canada and elsewhere in our organization, concerning the effect of these huge figures upon the finances of Canada. Now, we have in our report therefore dealt with misconceptions, and perhaps we should give a brief outline of the reasons for this confusion.

First of all it must be borne in mind that the corporate advances were originally considered as direct assets of the Dominion, in the early days. I think it was some time toward the end of the war or perhaps a little later that there was a change made in the basis of the Dominion accounting. In the second place, capital advances for corporate purposes have been treated as loans whilst capital advances for the Canadian government railways have been treated as appropriations or expenditures on behalf of the Crown. In the third place, the treatment of cash deficits covered by Government advances has been very difficult for the average investor to understand. And, we are not here criticizing any of that, we are simply reciting reasons for confusion. From 1923 to the 30th of June, 1927 cash deficits for the system were treated as loans. From the 1st of July 1927 to the end of 1931 the cash deficits were treated as loans, but only after the exclusion of eastern lines' deficits and the Maritime Freight Rates Act contributions; and from 1932 to 1934 these cash deficits were treated as direct contributions by the Dominion for the entire system.

Now, in the fourth place interest accruals were naturally subject to variation, in line with the treatment of cash deficits etc.; and the different treatment of interest on corporate loans as distinguished from others in the form of appropriations to the Canadian government railways caused confusion.

The fifth point of confusion that we encountered is the fact that the public balance sheet of the national system shows amounts advanced and appropriations for all purposes as liabilities, whereas the Dominion, which can be likened unto a parent company, shows in the public accounts these items as part of the net debt of Canada. And again let me emphasize, we are not criticizing the basis of computation of public accounts.

In the next place the deficit as shown on the published balance sheet of the National system is not the gross accumulation of losses. Much misconception has centered around that point, as the net figure is after eliminating Dominion contributions for deficits, subsidies and interest, thereon and without interest on Investment in Canadian government railway as Crown property. Furthermore, the profit and loss deficit on the published balance sheet of the National system appears as an unredeemed impairment of the shareholders' capital; and there is no one to our knowledge who has ever looked on it as anything else; that is, in a public way.

Mr. FRASER: Pardon me, Mr. Chairman; Mr. Matthews is evidently reading from a memorandum there. Is that memorandum included in the report submitted to the committee.

Mr. MATTHEWS: No. It is just a list of points that we wrote down in order to explain the reasons for these misconceptions.

Mr. FRASER: It is supplementary to this report?

Mr. MATTHEWS: Oh yes.

Mr. HEAPS: You are just reading from notes?

Mr. MATTHEWS: Yes, from my own notes.

Mr. HEAPS: That is quite in order.

Mr. MATTHEWS: I beg your pardon?

Mr. COWAN: That is quite in order, he says.

Sir EUGENE Fiset: That is quite all right.

Mr. MATTHEWS: Furthermore, the profit and loss deficit on the published balance sheet of the National system appears as an unredeemed impairment of the shareholders' capital; whereas the Dominion as the shareholder has already absorbed the losses by inclusion in the net debt, or partially by taxation raised in previous years.

In our capacity as public accountants in Canada and other countries, and as auditors of the National system during recent years, we have been brought face to face with the realities, and we have had to consider the misconceptions of the country's finances along with those of the National Railways on the part of private investors, and even investment groups which misconceptions are increasingly evident in published statements of various kinds in both Canada and the United States.

The CHAIRMAN: Just a moment; what you are reading there is as of to-day?

Mr. MATTHEWS: Yes sir.

The CHAIRMAN: That is, as of to-day; you mean that?

Mr. MATTHEWS: Yes; as a matter of fact this was only written this morning before we came down here.

The CHAIRMAN: I mean, in point of time.

Mr. MATTHEWS: In recent months misconception has been increasingly evident in public statements of various kinds in both Canada and the United States. For obvious reasons we cannot make specific mention of persons before

the committee, but we propose reading a few excerpts selected at random to illustrate the situation. I have these in our box, and I would be very glad to read them.

Mr. HANBURY: We would like to have them.

Mr. MATTHEWS: This question of misconception, I believe, has been challenged. We have selected a few excerpts to read to this committee, of what has been published both inside and outside of Canada, to indicate whether or not these misconceptions really exist.

Hon. Mr. MANION: Who challenged that?

Mr. MATTHEWS: Well, in the objections, starting on page 12 of our report on capital structure, Doctor Manion, we have indicated some of the points that have been raised; and they have all been raised: either in public statement in the past year, in the public press, by statements in the committee of last year or even on the floor of the House of Commons.

Mr. HEAPS: Let us have them.

Mr. FRASER: I suppose the statement you are making at the present time is an amplification of what we find on page 3 at the bottom of the page: "This misconception, which takes on even more serious proportions in some quarters, could be amplified should parliament so wish."

Mr. MATTHEWS: Yes. The note that I have been reading here is merely an explanatory outline which we have made really as a means of having available for the committee some detailed illustrations of what these misconceptions really are and how they have arisen.

The CHAIRMAN: I do not think that we should ask too many questions at this stage, in order that there may be a running statement and the notes may not be mixed up by interjections.

Mr. MATTHEWS: I shall read just a few of them. I shall not name the papers, as you will readily see that that would not be proper.

Mr. MACMILLAN: It will not do any harm to name them.

Mr. MATTHEWS: Well, if any private member wants to see them, he can.

Mr. GRAY: They have been made public and were issued to and read by the public. I do not see any reason why they should not be given out.

Hon. Mr. MANION: No. I do not imagine that we want a lot of straw men put up and knocked down. I think we might as well deal with facts.

Mr. MATTHEWS: All right. I think, however, there is the matter of policy from our point of view.

Hon. Mr. MANION: Some from ours, also.

Mr. MATTHEWS: Well, Doctor Manion, do you dispute that the statements have been made?

Hon. Mr. MANION: I have not heard the statements yet, so I cannot dispute them. I would like to know the source of them. I repeat that I do not want to see a lot of straw men put up and knocked down. I do not say you are attempting to do that. I think we should know the source of the statements.

Mr. HEAPS: I quite agree with Doctor Manion.

Hon. Mr. EULER: If they were made publicly, I do not see any reason why we should not have them.

Mr. MATTHEWS: Very well. In an article in the Campbelltown Graphic of March 7, in speaking of "why keep up a bookkeeping fiction", it makes this statement,

But of course if they are written down on the C.N.R. books, they must be written up on those of the Dominion Treasury, which is where the actual loss has occurred.

Mr. MACMILLAN: Is that an editorial?

Mr. MATTHEWS: Yes.

Mr. MACMILLAN: By the Campbellton *Graphic*?

Mr. MATTHEWS: Yes, by the Campbellton *Graphic* of March 7, 1935.

Mr. MACMILLAN: What is the circulation of that paper?

Mr. MATTHEWS: Well, I really could not tell you as to that. The Ottawa Journal made a statement which the Peterborough Examiner, for instance, and other papers quoted. One of the remarks they made was:

And that is what most of us and the others have been imagining. We ourselves have written profound articles upon our total liabilities, adding the total railway debt to the total of the national debt, and not knowing at all that a billion dollars of the railway debt was also in the national debt, that, consequently, we were a billion dollars wrong.

Of course, had we been more industrious, or more analytical, we should have discovered our mistake . . ."

And they go on.

Mr. MACMILLAN: That is from the *Journal*?

Mr. MATTHEWS: Yes.

Mr. HANBURY: Of what date?

Mr. MATTHEWS: That is taken from the *Peterborough Examiner* of February 23, and they were quoting from the *Ottawa Journal*. Now, the *Saskatoon Star-Phoenix* . . .

Mr. MACMILLAN: That is a good paper.

Mr. HEAPS: What is the circulation?

Mr. MATTHEWS: All right, gentlemen, you can check up the circulation of some of these papers later, if you so desire.

Mr. GRAY: We have a member of the committee here who can give that information. That was the reason for that question.

Mr. MATTHEWS: I must say that we are not familiar with the circulation of every paper in Canada, but I am just reading some of the things that we find, "And to make matters still worse . . .", that is from the *Saskatoon Star-Phoenix*:

Mr. HANBURY: Of what date?

Mr. MATTHEWS: The date is February 25.

The CHAIRMAN: What year?

Mr. MATTHEWS: These are all quite current.

The CHAIRMAN: 1935, are they?

Mr. MATTHEWS: Yes. This reads:—

And to make matters still worse, it is not uncommon when stating the public debt of Canada, to first include these advances to the C.N.R. as part of the direct debt, and then to add to that figure the total of the C.N.R. obligations, in which these have already been included once.

Then there is one from the *Hamilton Herald* of February 18; and I may say that these are articles all a year after this subject had been up. We are not going to read the earlier articles, because we assume that they were written before the question had been given current study; but this is a year after it has been made public.

Hon. Mr. MANION: I don't suppose you are suggesting that, because some of these editorial writers have made mistakes, it was only a year ago that the people discovered that they had these debts or that there was this situation of these debts?

Mr. MATTHEWS: I could not answer you that.

Hon. Mr. MANION: I could.

Mr. MATTHEWS: I beg your pardon?

Hon. Mr. MANION: I say I could, because I know that the ministers of railways—not only I, but the other ministers of railways, most of the members of the government, at any rate, and I presume a great many of the members of parliament, although not all of them, have understood the situation for very many years. They did not have to wait for any audit firm to point it out.

Hon. Mr. EULER: I think many members of parliament do not understand the situation.

Hon. Mr. MANION: I say most of them did.

Hon. Mr. EULER: Some still do not.

Mr. GRAY: And the public at large do not.

Hon. Mr. MANION: There is no doubt about the public at large, because it is a very complicated subject.

The CHAIRMAN: Let us get on with this statement.

Mr. MATTHEWS: The *Hamilton Herald*, under date of February 18, states:

We have been told over and over again that we have a national debt of something like \$2,750,000,000 and a railway debt of roughly the same size.

The *Chatham Gazette* of February 22, 1935, enters into an editorial in which they are discussing some argument with the *Telegraph-Journal* in which one paper is contending that the debt is some \$2,700,000,000 and the other paper is contending that it is some \$5,500,000,000, and they have quoted a financial authority in the town as the basis of their conclusion that it is approximately \$5,500,000,000.

Hon. Mr. EULER: When it really is what?

Mr. MATTHEWS: Well, what the duplication roughly is the amount of liability shown on the National Railway balance sheet to the Dominion government.

Hon. Mr. EULER: Over a billion and a half?

Mr. MATTHEWS: Approximately, yes. The *Tribune* of Winnipeg, some months ago, said:—

Auditors now propose to write off \$586,000,000 of which more than half is advances from the government on deficit account. These items can hardly be said to enter into the psychological picture since the deficit statement usually refers only to securities in the hands of the public.

Of course, the net income deficit takes in the interest on government advances. Another paper, the *Financial Post* on February 2, 1935, had an article—they have written quite a few articles—inspired by a professor of one of the universities in the United States.

Mr. MACMILLAN: What is his name?

Mr. MATTHEWS: Prof. Fournier.

Mr. HEAPS: Which university is he from?

Mr. MATTHEWS: I could not say at the moment.

Mr. COOPER: Princeton

Mr. MATTHEWS: Mr. Fournier makes the statement in one of the columns there:—

Therefore the railway's accounts should continue to show the amount of past advances and the amount of the accumulated deficits.

Of course, it has never done that, although he seems to clearly realize that fact in one other part of the article.

Now I would like to read something that comes from the United States.

In a reported address delivered before the Traffic Club of Minneapolis of February 28 of this year, these were some of the statements that were made—

The CHAIRMAN: Who is the speaker?

Mr. MATTHEWS: The speaker is Milton W. Harrison, president of the Security Owners Association of New York. First of all, he makes a statement that probably few of us will disagree with:—

Applying the frequently used rule where maximum fixed obligations are taken at 65 per cent of the capital structure, the Canadian National Railways are thus found to be carrying an excess debt burden of approximately \$1,150,000,000.

Then he goes on to say:—

. . . the outstanding bonds of the government system, including guarantees, represented no less than 71.7 per cent of the total Canadian National debt.

Formidable as is this burden already placed on the back of the Canadian taxpayer, he must further assume an annual operating deficit of approximately \$123,000,000. Thus it will be seen that when unpaid interest is compounded at the rate of 4%, representing the actual cost of borrowing to the Canadian Government, the railroad debt doubles itself by 1951. Were depreciation included, as in the case of all soundly managed private companies, the debt would double itself in sixteen years. . .

But even this is not the whole story. During that nine year period from 1923-31 the Canadian National expended on capital improvements a total of \$456,000,000 or an average of \$50,000,000 yearly . . .

Since no interest was paid on these capital expenditures, it also began to compound, thus raising the actual deficit from \$123,000,000 to \$174,000,000 per year, or from \$212 per minute to \$332 per minute. . . Thus we find if the concealed figures are added to those actually published, the railroad's debt doubles not in eighteen years, but in eleven."

He further goes on to say:

"Bear with me one moment more—"

Hon. Mr. MANION: Who is this gentleman, anyway? Surely a half-witted statement like that should not be taken seriously.

Mr. HANBURY: He is a most important man.

Mr. MATTHEWS: I still have another one here, Mr. Manion.

Hon. Mr. MANION: He has absolutely no knowledge of the situation. I do not think the public should waste its time on a man who shows such little knowledge.

Hon. Mr. EULER: There is just this to consider, the misconception he is spreading by these reports, which are certainly not right.

Hon. Mr. MANION: If the committee likes it, all right. Any man with an asinine brain like that who would charge up the Canadian National with having a deficit of \$174,000,000 a year knows nothing about it, because there is no such figure.

Hon. Mr. EULER: No. We are just wanting to show that it is asinine, so that the people of Canada will be disabused of the wrong conception that they have. That is exactly the purpose of the auditor.

Hon. Mr. MANION: I don't think anybody in Canada is so ignorant as to believe that. This fellow is asinine.

Hon. Mr. EULER: Why should they make those statements in the States, then?

Hon. Mr. MANION: I don't know. I have no idea. Go ahead, Mr. Matthews.

Mr. HEAPS: Mr. Matthews, would you kindly say again who that gentleman is, so that Doctor Manion will be impressed with his position.

Hon. Mr. MANION: I shall not be, no matter who he is.

Mr. GRAY: In any event, the speech was given publicity, and that is the matter we want to counteract.

Mr. MATTHEWS: Not only that. We have another one here from the United States, to indicate to you the type of information or misinformation that is available to those who want to look at the thing from a serious point of view and regard these misconceptions for what they are.

Hon. Mr. MANION: May I ask you, Mr. Matthews, do you suggest that, even if his statement was wiped out as to the losses and the deficits and all that, a man who could make so many mistakes in as short a space would not go on making mistakes?

Mr. MATTHEWS: I don't know.

Hon. Mr. MANION: I don't think you could correct that fellow, anyway. However, go ahead.

Mr. MATTHEWS: I don't know. I am only reading to this committee what is available to anyone if they want to extend their inquiry into this thing.

The CHAIRMAN: He is no friend of the Canadian National Railways.

Hon. Mr. EULER: We want it known that he is no friend of the National Railways, and to get right on this situation. I have heard it said, and seen newspapers who have figured, that the National Railways' deficit per year was over \$120,000,000, and I want it corrected, if it is possible to correct it.

That is not finished yet. He goes on to say:—

Bear with me one moment more, for the entire story is not yet told. Notwithstanding that the Canadian National railways was losing money at the rate of \$175,000,000 a year and that operating revenues had declined from \$250,000,000 in 1930 to \$200,000,000 for 1931, and then to \$161,000,000 for 1932, further capital expenditures were decided upon. In 1930 a program of improvements was begun and in that single year \$237,000,000 were spent—more than the entire gross revenue of the railroad: thus the debt we have seen doubling in eleven years increases its progression to something approaching our own—it now doubles itself in eight years, while the loss assessed against the taxpayer rises from \$332 to \$433 per minute.

I think that works out finally on his computation to something like \$225,000,000 a year. He continues:—

There was no escape from that debt now taking heavy toll from the national income and which exceeded the combined wealth of the provinces of New Brunswick, Nova Scotia, Prince Edward Island, Manitoba, Alberta and British Columbia.

I do not want to burden this committee, but I have something else to read—one more extract. There is in the United States today, as probably you all know—

The CHAIRMAN: The point in regard to that statement is that the whole statement is wrong, is that it?

Mr. MATTHEWS: Fundamentally, yes.

The CHAIRMAN: It is all wrong?

M. MATTHEWS: It is a misconception.

The CHAIRMAN: It is a misconception on Mr. Harrison's part. Whether it is a deliberate misconception or an innocent one you cannot tell?

Mr. MATTHEWS: No. The wider consideration in this matter is not alone a statement such as Mr. Harrison has made—there are many statements of that kind made, very similar to that; but when we have knowledge of the fact that in

the United States today there is a better controversy going on between those who advocate public ownership and those who advocate private ownership and in between those two contestants lies the Canadian National Railways, we think there is something vital to the Dominion to be considered in it. Now, I will refer here to a paper called Railroad Data. I will show you what kind of circulation this paper has.

Mr. HEAPS: Where is it published?

Mr. MATTHEWS: In a recent report in this magazine—

Mr. HEAPS: Would you give us some idea of this paper?

Mr. MATTHEWS: This is the publication here in bound form.

Mr. HEAPS: Where is it published?

Mr. MATTHEWS: It is published in the United States. As a matter of fact it has a good deal to do with the dissemination of information in this dispute between private ownership and public ownership in the United States. We are not taking any sides with regard to which is the more sound economically.

Mr. HEAPS: Who is responsible for its publication?

The CHAIRMAN: The eastern railways of the United States.

Mr. MATTHEWS: Yes, the Eastern railways of the United States.

Hon. Mr. EULER: Is it the organ of the privately owned railways?

Mr. MATTHEWS: Yes. Here are some of the facts given out by Railway Data: "It is now in its thirteen year, the circulation exceeds two and one half million annually and continues to increase solely as the result of individual requests from citizens in all walks of life." The bound volume which I have here "is widely used as an authoritative reference by college libraries and financial houses."

The CHAIRMAN: Whose statement is that?

Mr. MATTHEWS: This is from their own statement, giving an idea of what the circulation is.

Mr. MACMILLAN: How often is it published?

Mr. MATTHEWS: Weekly. I would like to read another extract.

Hon. Mr. MANION: I have never heard of this publication, but glancing through it I take it that there are a few pages published monthly. For example, this page is apparently of January 12, 1934, there is a page dated January 19, 1934, and one dated January 26. Apparently one page is put out every week. I am learning too. I notice that this publication is put out with the compliments of the committee on public relations of the eastern railways, 143 Liberty street, New York City. The names below are as follows: E. E. Loomis, chairman, president, Lehigh Valley Railroad, P. E. Crawley, president, Rutland railroad, W. W. Atterbury, president, Pennsylvania Railroad, C. E. Denny, president, Erie Railroad Company and John Henry Hammond, chairman, Executive Committee, Bangor and Aroostock Railway. That is on the front; it is not on the paper itself. The paper itself is a one page sheet put out containing specific information such as they wish to give out.

Mr. GRAY: Let us hear what they give out.

Hon. Mr. MANION: I am not trying to stop you; I am trying to give the information to the committee as I see it here.

Mr. MATTHEWS: Under date December 6, the chairman of the Eastern Presidents' Conference from New York gave out information that during the month of November 78 addresses were delivered before various organizations in thirteen states.

One of the statements under date December 21, 1934, made and asked to be circulated by one of the railway officers connected with this organization is as follows:—

Government operation of the Canadian National railways has piled up a public debt of nearly three billions of dollars in nine years.

And he finishes up by saying:—

After reading this statement—

Mr. HEAPS: Who made that statement?

Mr. MATTHEWS: John J. Cornell, chairman of the central committee of the Baltimore and Ohio Railway, the Public Relations department, December 21, 1934; and he goes on in his circular to quote some figures given by Mr. Beatty, and he finishes up saying:—

After reading this statement by Mr. Beatty will you not pass it along to your friends.

Mr. HANBURY: Would you read what Mr. Beatty is supposed to have said?

Mr. MATTHEWS: Yes, if you wish. Mr. Cornell spoke of the speech of Mr. Beatty delivered before the Board of Trade and service clubs of Vancouver in part as follows:—

The railway situation in this country is unsound and unhealthy. I do not know why we should continue to be sick just because we have heretofore been able to pay the doctor's bills. The railway experiments of the past have left us with a publicly owned system which has a debt of no less than \$2,895,799,134 as of December 21, 1933. These are astronomical figures. They still tend to increase. By no ingenious method of bookkeeping can they be reduced.

No serious student of economics—not even those who warmly advocate great expenditures of public funds as the road to the revival of business—has ever suggested that anyone can benefit by the operation of publicly owned utilities at a great loss. It is contrary to the whole philosophy of public ownership. It is not even in accord with the rules of any system of socialism.

IS THIS EXPLOITATION?

More than this, however, I should like to know if you have ever given a moment's serious thought to the question of whether the ownership of one of the transportation systems of this country by private interests constitutes an opportunity for exploitation. Do you realize that the publicly owned and privately owned railways of Canada make exactly the same charges for the same service, that, in fact, in the last analysis, neither company fixes these rates; that you can ship goods throughout Canada or travel where you will by one railway at exactly the same cost as you can by the other? How, then, can anyone allege that the private ownership of a railway permits exploitation of the public more than public ownership?

FAILED TO EARN INTEREST

Nor is this all. May I point out to you that the Royal Commission on Transportation reported that during the nine years, 1923-1931, the Canadian National railways failed by no less than \$456,053,195 to earn the interest which the government of Canada was bound to pay to private capitalists who owned the securities of that system. Whence came this sum of almost half a billion dollars? You paid as much for the service of that railway system as you would if it had been privately owned, and you paid in taxes almost half a billion dollars in those nine years to private capitalists for the privilege of saying that you owned the Canadian National railways.

In those nine years the private capitalists who owned the Canadian Pacific railway received in interest and dividends \$401,080,152. In this case, however, I wish to point out to you that this amount did not come from taxation in addition to your payment for services. It was saved by the owners of the private railway company from the money which they received from you for the transportation of persons and commodities. If this is exploitation by private capital, as contrasted with protection for the public by public ownership, then I do not understand the meaning of the English language.

We are not entering into any controversy with Mr. Beatty on his speech; we are simply reading what he has said.

Hon. Mr. EULER: I think this is important and serves the purpose for which it was read. I think the statement of Mr. Beatty is the most important of all. If it is true we would like to know it; if it is not true, especially with regard to the debt and the figures quoted, then I think Mr. Matthews should show wherein they are not true.

The CHAIRMAN: The difficulty I foresaw is borne out; we should have gone through the accounts first.

Hon. Mr. EULER: I do not think that has anything to do with this year's accounts.

The CHAIRMAN: It has to do with our capital structure and our indebtedness.

Hon. Mr. EULER: I think it would be more or less useless to quote statements which show a misconception on the part of the public and others unless they are not corrected. I think, if Mr. Matthews can, he should show wherein Mr. Beatty's statement was wrong, because it may have more of an impression on the people of Canada probably than anything else that has been said.

The CHAIRMAN: That has been published and the people of Canada have seen it. In my opinion we should not stop the proceedings at this point to have that analyzed and disputed. Somewhere we must have it done, but I do not think we are proceeding in an orderly way when we stop in the middle of Mr. Matthews' production of some figures to dispute this statement.

Hon. Mr. EULER: I should think this is the moment to do it. It is going out.

The CHAIRMAN: It went out months ago.

Hon. Mr. MANION: May be Mr. Matthews would pass an opinion as to that statement—whether it was correct or incorrect—the statement of the interest?

Mr. MATTHEWS: The statement of Mr. Cornwell?

Hon. Mr. MANION: No, with regard to \$452,000,000. That is what Mr. Euler is referring to.

Hon. Mr. EULER: Yes, and the debt.

Mr. MATTHEWS: Mr. Beatty was quoting from the Royal Commission. We have not analyzed this statement, Mr. Euler; we would have to look at it again and study it.

Hon. Mr. FULLERTON: It includes the interest to the government.

Mr. MATTHEWS: Yes.

Hon. Mr. MANION: My understanding was that Mr. Beatty said there were some \$450,000,000 odd interest in nine years; is that correct?

Mr. MATTHEWS: No, a deficit. It was not the statement of Mr. Beatty that we originally set out to deal with, it was the statement of the \$3,000,000,000 in nine years quoted by one of the officials—the chairman of this committee in the United States—and asking that the information be passed around.

Mr. HEAPS: Mr. Beatty is not connected with the committee you referred to, is he?

Mr. MATTHEWS: Oh, no; he is not connected with the committee. They are just using some of the statements he is reported to have made, and then they are drawing their own conclusions from them.

Hon. Mr. MANION: As a matter of information, you quoted a statement of Mr. Beatty in the December 21st, 1934, issue of that organ *Railroad Data*. I was searching while Mr. Matthews was quoting Mr. Beatty and I cannot find anything in the issue of December 21, concerning Mr. Beatty at all.

Mr. MATTHEWS: It would not be in that issue at all. We are quoting from a statement Mr. Beatty is reported to have made in Vancouver.

Hon. Mr. MANION: You were dealing with this *Railroad Data*?

Mr. MATTHEWS: Mr. Hanbury asked me to read Mr. Beatty's speech, which I did. In the first place I was giving to you the circulation of this paper, telling you what the purpose of the paper is and quoting a statement made by the chairman of the Public Relations department, Central Committee.

Hon. Mr. MANION: I was trying to link up where you associated Mr. Beatty with the December 21st issue that you were quoting?

Mr. MATTHEWS: Dr. Manion, they took Mr. Beatty's reported speech in Vancouver and they made some quotations from it.

Hon. Mr. EULER: I think, Mr. Chairman, I am becoming a nuisance, but we are just now talking about misconceptions in the minds of the public, and I take it that the citations given by Mr. Matthews are citations of misconceptions. He has read a portion of Mr. Beatty's speech, I suppose to support his argument that they are misconceptions. If they are wrongful statements or statements of misinterpretations of Mr. Beatty's speech, I think they should be contradicted here, shown to be wrong; that is my point. If there are misconceptions we want to clear them up.

The CHAIRMAN: Mr. Matthews has not the figures of Mr. Beatty; he cannot clear them up. Is there any further discussion in regard to that. Mr. Matthews is not in a position, not having analyzed the statement of Mr. Beatty, to make a reply at the moment.

Mr. MATTHEWS: I should like to make one statement in reply to the request of Mr. Euler. We would not, just offhand, without giving it some further thought, wish to give a final opinion on it. It does require a little study and checking up. We did not bring it into the picture.

The CHAIRMAN: What you brought into the picture was the speech in which Mr. Beatty was quoted, and naturally enough Mr. Hanbury asked the question; so you brought into the picture that speech.

Mr. BOTHWELL: Mr. Matthews gave to us a general statement as to misconceptions that had gone out regarding the Canadian National. He digressed a little to show some of the information that is going out to the public. Now, why can't he deny the statements that were originally made?

The CHAIRMAN: Quite so. He was interrupted by a question of Mr. Euler who said he thought he was making a nuisance of himself, which he was not, in asking the question.

Hon. Mr. EULER: All right; let us have it.

Mr. MATTHEWS: There is not very much more that we can say about the misconceptions other than what we have said. There is no use in re-reading what we have written on pages 2, 3 and 4 and therefore I propose to give a brief outline of the recommendations, if that is the wish of the committee.

Hon. Mr. MANION: Will the committee kindly express to Mr. Matthews what they want him to go on with?

Mr. HEAPS: Let him proceed in his own way.

Hon. Mr. MANION: He is asking for direction.

Hon. Mr. EULER: On page 3 he gives a list of supposed book assets to a total of a little over \$1,000,000,000, which I understand Mr. Matthews' firm recommends should be disposed of, written off, if you like, and I should like to have him explain why he thinks that should be done.

The CHAIRMAN: Then you turn to the recommendations, I suppose?

Hon. Mr. EULER: That is one.

Mr. MATTHEWS: The recommendations fall under four main heads. I should like to repeat again we have no quarrel with the public accounts, but in representing the shareholders here we are looking at it from a consolidated point of view. Therefore we must of necessity bring in public accounts insofar as they relate to the National Railways in order that parliament may have an understanding of what the combined result of the two actually is. The first recommendation calls for the adjustment of the Canadian National Balance sheet of the items detailed or mentioned by Mr. Euler. Now, the details of this recommendation can be seen in the appendix at the back in which there is a fairly complete outline of why it is submitted and what the advantages would be if the adjustments were made. I am not just clear on how much of the detail the committee would have me repeat, but on page 6 and the top of page 7 we take recommendation 1 and we split it up into a, b, c, d, and e, which takes care of the \$1,046,000,000 which Mr. Euler mentioned. And then by referring to the appendix 1 (a) you will get the explanation of 1 (a) on page 6 and 1 (b) on appendix page 2 and so forth. I do not know just what further detail we can give you.

Hon. Mr. MANION: Mr. Matthews, if I understand him right, is pointing out his recommendations are in this statement.

Mr. MATTHEWS: I do not think the committee requires me to explain the submissions; I think they are clear.

Hon. Mr. EULER: The reasons are given on page 6.

Hon. Mr. MANION: Are you anxious to have him explain the submissions, or anything of that nature?

Hon. Mr. EULER: If the committee is fully conversant with the reasons, it is not necessary.

Hon. Mr. MANION: The reasons are in the copy we all have.

Hon. Mr. EULER: Would it take very long to tell the reasons why they should be written off?

Mr. GRAY: While I would be perfectly agreeable to Mr. Matthews to giving a summary, I have not had sufficient time to study the report as I would like to, but I should be glad to have him, if he will, summarize it, as I certainly am not competent to pass on it now.

The CHAIRMAN: It is practically a matter of reading it over.

Mr. GRAY: I am only about half way through myself.

Mr. MATTHEWS: In the first place, gentlemen, it is clear, is it not, that the explanations of recommendations 1 (a) to (e) are summarized on pages 6 and 7, and further covered in detail in the appendix, page number (i) to (xi) and that recommendation No. 3 is outlined on the bottom of page 8 and pages 9, 10, and top of 11, and covered also in the appendix pages (xi) to (xiv) of which appendix there is an index. Now, with that thought in mind, the committee at its leisure might wish to read the details. Roughly the purpose is this, that the Grand Trunk stocks (when it was the Grand Trunk corporation) were submitted to a board of arbitration; that is to say the first, second and third preference shares and the ordinary or common stock of the company—

Hon. Mr. EULER: A total of \$165,000,000?

Mr. MATTHEWS: Yes, the figure of \$180,000,000 which is sometimes referred to. The difference is the \$14,000,000 which was the treasury stock of the Grand Trunk, which amount was included in the certificate, being \$180,000,000 odd issued to the Minister of Finance, after the arbitration; but the \$165,000,000 is the only amount involved in the adjustment of the published balance sheet of the National system, because that difference has never been set up in the published accounts. After the board of arbitration gave its award which predicated no value to those securities; the certificate was issued, as I say, to the Minister of Finance, and the Grand Trunk figures were carried forward as they were into the Canadian National Railway system, leaving the assets on the books as they were before the arbitration award. The same situation holds good in connection with the Canadian Northern. The value of the common stock was submitted to arbitration and it was found that the 600,000 shares that Mackenzie, Mann and Company at that time owned, were judged to have a value of \$10,800,000. Now, using that as a basis for the \$100,000,000 worth of capital stock, there would arise an equivalent value of \$18,000,000 for the total amount of the Canadian Northern stock, and what is proposed in the case of those two arbitrations is that the entries be made so that the published balance sheet of the National system will give effect to the findings of the arbitration boards.

In regard to the advances for deficits. It is a contribution to replace impaired capital. If a shareholder invests \$1,000 and he loses \$100 of it and advances that \$100 to make good and carries it as an advance, you can see that he is pyramiding his capital account. That would not be so serious; in fact we would have much less point in making these recommendations, gentlemen, if it were not for the fact that the consolidated result as between the railways and the public accounts of Canada is affected; that is, if it were just the Canadian National railway system, and if we could imagine for a moment that the public accounts took these up as assets before the determination of net debt there would be much less force in the proposals. Can anyone recall an instance of any large corporation anywhere where they advance money to subsidiaries to make good the losses, write them off to their own profit and loss account and require the subsidiary to maintain them as capital liabilities? You can see what an impossible situation would soon be created for the enterprise as a whole. We are just applying the same reasoning in the case of the government. Of course since 1932 the government have recognized that principle by absorbing the losses of the National system (excluding the non-cash items and government interest) into the consolidated fund of the dominion; so we have the picture from 1923 to the first of July, 1927, of the creation of those advances against the railways, as liabilities on the books of the railways, and from the first of July, 1927, to the end of the year 1931 that figure is reduced by the deficit contributions of the eastern lines and Maritime Freight Rates Act and for 1932, 1933 and 1934, it finds no place in the liability account at all. So that the principle has already been recognized in the last three annual contributions by the dominion.

Hon. Mr. MANION: Before you get away from that, may I ask you this: did I understand you to say that between 1923, if you like, or previous, and 1930, 1931 or 1932, when we began to recognize that the money was contributed towards deficits, the amount was charged up as part of the capital structure of the Canadian National. Is that right?

Mr. MATTHEWS: It was capitalized; whereas since the Maritime Freight Rates Act and later Railway Financing Acts came into being it was absorbed.

Hon. Mr. MANION: The rest was still capitalized?

Mr. MATTHEWS: Yes.

Hon. Mr. MANION: Since 1932 we have been charging it up to the consolidated revenue account?

Mr. MATTHEWS: Yes. Of course, Dr. Manion, as far as the public accounts are concerned, everything is in the net debt anyway, but the impossible situation arises through the manner of handling the Canadian National railway accounts in respect to it.

Hon. Mr. MANION: I appreciate that.

Hon. Mr. EULER: Is this so: since the government has recognized that the deficits from year to year are no longer charged against the National railways, but written into the dominion's consolidated account, that same principle should be recognized in the accumulated deficits of previous years.

Mr. MATTHEWS: Yes.

Hon. Mr. EULER: And written into the national debt which is now the practice? That should be made retroactive so that these old accumulated deficits would also disappear.

Mr. MATTHEWS: Yes, from the published Railway liabilities.

Hon. Mr. EULER: That is the argument, isn't it?

The WITNESS: On the published accounts of the National Railways.

Hon. Mr. EULER: Especially since the federal government does not carry as assets these accumulated deficits and interest, although the railways carry them as liabilities; which is certainly illogical and inconsistent.

Hon. Mr. MANION: Excepting, of course, that you have got it in the capital structure; if I understand Mr. Matthews correctly, and I think I do. You have here in the capital structure of the Canadian National Railways—whatever you may do in the future—you have the deficits that accumulated up to 1931, in the capital structure of the Canadian National. In other words, they were capitalized; to use that word.

Hon. Mr. EULER: And, of course, they should come out, in order to be consistent with the present practice.

Hon. Mr. MANION: He says they should come out, they are a bookkeeping entry.

Hon. Mr. EULER: Yes. I do not think the Canadian National Railways goes as far as that; but, because they are written into the national debt they ought also to be written out of the railway debt. In that way we would have a similar condition shown by the railway books.

Hon. Mr. MANION: Of course, they should be taken out in the same way.

Mr. HANBURY: I would like to ask Mr. Matthews, in view of his recommendation as to dealing with past deficits, whether the auditor has given consideration to the new capital structure, and whether they have given consideration to the physical value of the property, or to its earning capacity.

Mr. MATTHEWS: That we cover later, Mr. Hanbury. That is a broader aspect of the situation.

Mr. HANBURY: Yes. The point that I was anxious to make was that I do not think the impression should go abroad from here that we are just dealing with one phase of it.

Mr. MATTHEWS: This is only the first step. The public accounts of Canada and the published liabilities of the National system should be such that there would be no duplication of the net debt as understood by a large section of the public both in Canada and other countries.

Hon. Mr. EULER: You have this anomaly; in the national debt, there is a large sum of money, a billion or billion and a half dollars which is also in the debt of the railways—that is your point.

Mr. HANBURY: Could you give me what that exact sum is?

Mr. MATTHEWS: Oh yes; that is on page 2. The total Dominion of Canada account in round figures is \$1,817,000,000. Now, of that \$265,000,000 shown for the capital stock the only amount that is in the net debt of Canada is \$10,000,000 paid to acquire the Canadian Northern stock. Of the balance there is only \$15,000,000 that is not in the net debt, and that is a part of the \$404,000,000 of Dominion capital appropriations which former amount constituted the working capital turned over by the government at the time the Canadian government railways came into the National Railways for operation.

The CHAIRMAN: Just a moment, Mr. Matthews; taking these figures showing the amount of the public debt, \$1,800,000,000; about how much of that perhaps could be written off?

Mr. MATTHEWS: We recommend (on the next page) some \$1,046,000,000. The difference between these two figures after providing for non-cash items in 1934 deficit would be the amount of the capital stock proposed to be issued for advances and Canadian Northern common stock together with appropriations for Crown property. That would be the net result. As covered later on in the report. Take on page 9 for instance, it gives a summary of it—\$361,000,000 left for capital stock, and \$404,000,000 for the Dominion's appropriations for Canadian Government Railways.

The CHAIRMAN: Will you go back to appendix, page 1, and there you will see that the proposal contemplates a reduced value on the old Grand Trunk system by \$165,000,000.

Mr. MATTHEWS: Yes.

The CHAIRMAN: The principle of the award was based on the condition of the Grand Trunk at the time of acquisition; that had nothing to do with the assets; I mean, the assets were there.

Mr. MATTHEWS: It was primarily the earning position.

The CHAIRMAN: The earning position only.

Mr. MATTHEWS: Primarily, yes.

The CHAIRMAN: Is it \$165,000,000 still; there is nothing in the decision to show that it does not represent assets.

Mr. MATTHEWS: Not exactly.

The CHAIRMAN: But, because it was not earning money the Privy Council sustained the award, that it was of no value.

Mr. MATTHEWS: In regard to the property, Mr. Chairman, it might be borne in mind that there were two factors there. First of all, during the course of the arbitration the arbitration auditors found that there was a sum of \$129,000,000 improperly in the property account at the time, and in addition to that it was found during the course of the arbitration that there was some question about the condition of the property at the time of the acquisition.

The CHAIRMAN: Yes; but the arbitration rejected all the evidence as to the value of the property; they wanted to get evidence as to reproductive use and depreciation.

Mr. MATTHEWS: There was a dissenting viewpoint.

The CHAIRMAN: And because it was not earning any money the arbitrators say we will not consider the value of the physical assets.

Mr. MATTHEWS: The award of the arbitrators was based on earning capacity; whereas, the Canadian Northern arbitrators did indicate in their award that they were willing to give some thought to the value of the property, and they had Professor Swain, I think it was—

The CHAIRMAN: I do not want to go into that. As far as we know this \$165,000,000 represents the property, the material assets, whether they existed at the time or not, originally.

Mr. MATTHEWS: Yes, I would say so, generally speaking. We are not making the statement, of course, that all the Grand Trunk stock—

The CHAIRMAN: No, I understand not, it was not written off.

Mr. MATTHEWS: You see, we cover that just a little later on in our recommendations, where we deal with the balance sheet of the Grand Trunk at about the time of acquisition.

The CHAIRMAN: Where is that?

Mr. MATTHEWS: That is at the bottom of page 1 of the appendix.

The CHAIRMAN: Oh, yes; I quite understand that, but we are dealing now with the entire assets.

Mr. MATTHEWS: Well, they are simply—

The CHAIRMAN: And the valuation of this stock by the Privy Council and the Arbitration Tribunal has nothing whatever to do with the assets.

Mr. MATTHEWS: That was the value of the stock.

The CHAIRMAN: Just the stock; the assets are presumably still there although they may have depreciated.

Mr. MATTHEWS: The arbitrators, primarily considered the earning power.

The CHAIRMAN: Yes, the earning power.

Mr. MATTHEWS: But during the course of the arbitration, as we point out here—in case it might be overlooked—the arbitration auditors reported a sum of \$129,000,000 as being actually in the property accounts which on analysis should not have been there.

The CHAIRMAN: That is one side of it; of course, the other side were not allowed to give their evidence.

Mr. MATTHEWS: I think we tried to make clear that we are not commenting upon the propriety of the arbitrators' procedure.

Hon. Mr. MANION: Might I ask Mr. Matthews a question, just to clear up a point? Along the lines which you have just been discussing I notice there is the capital stock of the old Grand Trunk and also of the Canadian Northern, and along with that there are other items—it is on page 3—relating to the recapitalization suggestion of Mr. Matthews; namely two other items. There was, along with their capital stock, advances for deficits, and interest accrued on Dominion advances and loans. There are the two items there, one for \$459,000,000 for the latter; and \$324,000,000 for the former. That would be roughly \$800,000,000, which if governments in Canada in the past had not put up for the Canadian National Railways would have been the amount of money that would have been available either to pay interest on the national debt, or to be used for debt retirement purposes.

Mr. MATTHEWS: Yes, subject to variation in interest rates.

Hon. Mr. MANION: I just wanted to make that clear.

Mr. HANBURY: Oh, oh!

Hon. Mr. MANION: I just wanted to make that clear. I don't quite get the joke, Mr. Hanbury; I would be glad to have you explain.

Mr. HANBURY: I don't get the point of your question.

Hon. Mr. MANION: I get the point. The point is this: Mr. Matthews has explained the position of the capital stock of these two companies, and with them he has grouped the amounts advanced to meet deficits and also the interest which has accrued on Dominion advances and loans. I don't mind saying quite frankly that I do not think the amount shown as being the value of that capital stock should be charged against the Canadian National Railways; I think it is placed at many times its value. What has been done in the past is that we have charged the deficit and interest up to consolidated revenue, and on the last

two items in the statement alone that amounts to \$800,000,000. The net result of that is that if that \$800,000,000 had not been used as it was to meet railway deficits and accrued interest it would have been available to pay the debt, or the interest on the debt. I simply say it is questionable, so far as I am concerned, whether that item should be wiped out.

Mr. HANBURY: In other words, I interpret your remarks to mean that because the federal government did not let the Canadian National Railways go into bankruptcy at the time they should have they allowed them to drift into a position where they are in greater need of bankruptcy than they were.

Hon. Mr. MANION: I do not admit that. The suggestion made by Mr. Matthews makes no difference whatever from the standpoint of cash return to Canadian National Railways; it makes no difference whatever, though it clears the picture if wiped out. I don't quarrel with, it clears the picture; but it does not effect the Canadian National Railways to the extent of one cent if you wipe out this \$1,046,000,000 that Mr. Matthews suggests. That is what I want to make clear.

Mr. HANBURY: But, we have had evidence this morning to show what effect it has outside of Canada; and it probably has an effect as well on the ability of Canada to borrow money.

Hon. Mr. MANION: That is possible, I am not going to argue that point. There is perhaps something in that, but I certainly am not going to take the evidence of men like Harrison, who made so many misstatements, on a thing like that.

Mr. HANBURY: He is not the only one.

Hon. Mr. EULER: I think, in making that statement, the Hon. Minister has rather read himself out of court, when he says for example that the deficits up to 1932 should not be written off, particularly in view of the fact that the deficits of the last three years have been written off. Why not follow that principle all the way through?

Hon. Mr. MANION: I suppose you would, if you accept that principle—that what we have done during the last two years has been correct, and that what my honourable friends have done for the ten years before that has not been.

Hon. Mr. EULER: You may put it that way if you like.

Hon. Mr. MANION: It may be that we possibly should not have done what we did, that may have been a mistake.

Hon. Mr. EULER: Go ahead and make some more mistakes of that kind . . .

Hon. Mr. MANION: We have been busy correcting yours for a long time.

The CHAIRMAN: That was all you had, Mr. Matthews?

Mr. MATTHEWS: I was just answering a question. I think Mr. Hanbury asked me how much of the liabilities of the Canadian National were included in the net debt of Canada. I referred you to page 2 and referred you to capital stock being \$10,000,000, and of the balance only \$15,000,000 as the amount carried in current assets before determining the net debt (excluding temporary advances).

The CHAIRMAN: Now, gentlemen, Mr. Matthews will resume, if he has anything else.

Mr. MATTHEWS: I really was only dealing with one clause of the report.

The CHAIRMAN: That is quite right. And now that you have had a tack up wind you might resume your course, if you will.

Mr. MATTHEWS: We had completed the points, as far as we are concerned, in respect to the advances for deficits; and then we dealt with the matter of interest accruals of \$459,000,000. Of course, the argument which applies to deficits would certainly apply to accrued interest, insofar as that interest applies

to deficits. Insofar as that interest applies to advances for other purposes, it is based on the premise, of course, that at no time has the property—at least over a period of years—come within the range of earning interest on any of the advances. We are not taking the position that the government have no right to charge interest, or anything of that kind. We are just attempting to keep before this committee the fact that these are duplicated liabilities and duplicated losses. We are not here to convince anyone whether you should reduce the interest or whether you should not. We call it to your attention and repeat that the interest on the deficit advances follows the same line of argument as was advanced for the deficits themselves; and the interest on advances for other purposes has at no time over a period of years, taken as a whole, come within the range of being earned. The \$15,000,00 of Grand Trunk debentures is explained in this way, that they were junior to the first, second and third preference stocks of the Grand Trunk, and the common stock; in turn as the latter were declared worthless, it would automatically follow that the junior securities of the early pre-confederation period would also be without value. That covers our recommendation in respect of the first step of adjusting the published accounts of the National system. In the second place we touch on the question of public accounts.

Hon. Mr. EULER: Mr. Chairman, if I may interrupt once more, just for the sake of clearness would it be right to say that, boiled down, your recommendation for writing off the old Grand Trunk capital stock, Canadian Northern capital stock, advances for deficits, interest accrued on Dominion advances and loans at one billion dollars odd, is because there are no actual assets in the Canadian National Railways against that? Is that, putting it broadly, correct?

Mr. MATTHEWS: Well, that is our view.

Hon. Mr. MANION: Now, just a minute. Let us go into that for a moment. I think, perhaps, that is right; but the way I was looking at it, the money upon which the interest is charged, a good deal of it, was capital invested. There is a good deal of confusion—I may just get away from that for a moment—in the minds of a great many people in regard to what the interest is charged upon. In other words, the government has advanced money for the Inter-Colonial and the other government roads to the sum of four hundred million odd. Mr. Matthews will correct me if I am wrong, or if he thinks I am wrong; and it will save him repeating it he thinks I am right. There has been four hundred million odd given in past years for the Inter-Colonial and the other government roads. No interest is charged upon that, and never has been; but interest has been charged upon advances in the past ten or twelve years, upon money which was advanced for deficits and for capital investment. Is that right?

Mr. MATTHEWS: Yes, in respect of corporate units.

Hon. Mr. MANION: That is correct. In other words, the interest that is charged up to-day is interest charged against the money advanced during the years—do you know how many years?

Mr. MATTHEWS: From the beginning.

Hon. Mr. MANION: Since 19—?

Mr. MATTHEWS: Since the beginning of the corporate loans.

Hon. Mr. MANION: I just wanted to get that clear, because interest is only on part of the government advance since Confederation.

Hon. Mr. EULER: Just one question, is that interest still being charged at the moment?

Hon. Mr. MANION: On the books of the railways? Yes.

Hon. Mr. EULER: No, I mean on the books of the government.

Hon. Mr. MANION: I do not think the books of the government charge it, no.

Mr. HEAPS: Arising out of the statement just made by the Minister of Railways, as I apparently have not got the information as clearly as the other members of the committee, I would like to know what is the amount of the deficits or total losses of all the railways that were taken over by the government, say some few years ago. This just gives a picture as to what the position is as compared to the time we took these railways over. I do not presume that the information is available at this moment, but I do feel that at very short notice that information could be submitted to the committee here.

Mr. MACMILLAN: Up to what date?

Mr. HEAPS: I would like the amount of the annual losses of the railways at the time they were taken over by the government as a publicly owned utility.

Hon. Mr. FULLERTON: You mean the Grand Trunk?

Mr. HEAPS: All of them, every one of the railways which is a constituent part of the Canadian National Railway system.

Hon. Mr. FULLERTON: From the time they were taken over by the government?

Mr. HEAPS: Yes.

The CHAIRMAN: And before the time they were taken over.

Mr. HEAPS: Yes, for a few years previous, three or four years previous.

The CHAIRMAN: You can hardly segregate it since they were taken over.

Mr. HEAPS: Since they were taken over—we have that information. But at the time of taking over, I would like to have that information.

The CHAIRMAN: All right, that will be obtained, Mr. Heaps. May I ask Mr. Matthews, a question at this point with regard to page 6. I just want to get at these interest accruals on Dominion advances. I think Doctor Manion just said that the interest is not charged on the books of the government. It must be charged.

Mr. MATTHEWS: I presume it is meant not charged against the railways in public accounts.

Hon. Mr. MANION: Oh, yes, in our consolidated debt.

The CHAIRMAN: Certainly it is carried in the books.

Hon. Mr. MANION: The Chairman has just asked me to make clear something that I apparently did not make clear before. I said that that interest which is being charged by the railways or against the railways on government advances was not charged in the books of the government; I meant as a separate item. It is, of course, included in our consolidated debt. It is part of the consolidated debt, but I mean it is not charged, so far as I know, as a separate item against the railway in the books of the government.

The CHAIRMAN: The books of the company?

Hon. Mr. MANION: In the railway balance sheet. In the railway statement it is charged as an interest item at the bottom of page 15. It shows interest on Dominion government loans, \$35,000,000 odd. That is charged there. I think I am right that it is not charged as a separate item in the public accounts as against the railways; but it is included. Of course, in so far as government debt was incurred to provide the money for the railways, it is included as part of our consolidated fund expenditure.

The CHAIRMAN: And the principal is shown.

Hon. Mr. MANION: And the principal is shown, yes. That is correct.

The CHAIRMAN: I wanted to get at where the confusion in the minds of the public is. You make an analogy between this and the impairment of capital by ordinary shareholders?

Mr. MATTHEWS: Yes.

The CHAIRMAN: But when the ordinary shareholder impairs capital, he pays interest on the amount he put in to replace that impairment.

Mr. MATTHEWS: When the shareholders put in money to replace capital lost?

Some Hon. MEMBERS: Louder.

The CHAIRMAN: He must pay interest on the money himself.

Mr. MATTHEWS: Yes, if he borrows the money.

The CHAIRMAN: The government does.

Mr. MATTHEWS: Yes.

Mr. HANBURY: There has been some discussion which we could not hear, and which the reporter could not hear and was not taking. I would suggest that if it is of any importance, it should be repeated.

Mr. MATTHEWS: It was with regard to the question of interest. Doctor Manion created the impression, I think, that the interest we are discussing now is paid by the government and is shown somewhere in the government books, but not as an individual item, applicable to railway accounts; but it is paid. We have got to pay our interest. It is shown in two ways, either as part of the net debt or it has been raised partially by taxation in prior years and in fact as a defined item appearing nowhere in Public Accounts. It is an expense; it has been paid for, and it is gone, just like an old suit of clothes.

The CHAIRMAN: It is not quite, because you make an analogy between this and the case of an individual shareholder who is called on to contribute to a company some money to the extent to which the capital has become impaired. That is what is done here by the government to the Canadian National Railways. The point that Mr. Matthews makes is, that having been done, it should not be capitalized, because it is simply an impairment of capital. You get no more assets for it. What I say, is that the shareholder does have to pay, and in this case the Dominion government does not have to pay interest on the money that it puts in for impairment of capital.

Mr. MATTHEWS: Yes, on its borrowings.

The CHAIRMAN: And it has got to be paid, and it is shown in our accounts. Now, Mr. Matthews said it has provoked some misconceptions on the part of the public because an outside account, the Canadian National Railways, carries its capital. I mean to say, it might to the casual observer, but it does not make any difference to the real state of affairs.

Mr. MATTHEWS: Ordinarily, when interest would be accrued on deficits and treated as capital liabilities, then we would have to carry the other side of the thing to the extreme and expect to find it as a compensating asset item elsewhere if you are going to get a balanced picture. Otherwise you are just distorting the net result. That is the only point. I would say that the whole situation rests upon the fact that in this case the subsidiary company sets up a liability and the parent company writes it off and absorbs it into its loss. That kind of a picture is not sound.

Hon. Mr. MANION: If you have finished with that phase, Mr. Matthews, I would like to ask if you have ever read the recommendation of 1928—I presume you have—for recapitalization?

Mr. MATTHEWS: The Board of Audit?

Hon. Mr. MANION: No. There was a recommendation in 1928—my recollection is that it was 1928.

Mr. MATTHEWS: The Thornton recommendation?

Hon. Mr. MANION: Yes. Have you read that?

Mr. MATTHEWS: Yes.

Hon. Mr. MANION: That recommendation differs from yours by about \$200,000,000 or \$250,000,000. He recommended in 1928 to the government of that day—I am speaking from memory, but my recollection is pretty good, I think—that there should be something like \$800,000,000 cut off. Is that not about the figure, do you remember?

Mr. MATTHEWS: It was approximately \$800,000,000.

Hon. Mr. MANION: Yes, a little under \$800,000,000. You recommend cutting off about \$1,046,000,000, which is a difference of nearly \$300,000,000.

Mr. MATTHEWS: Accumulated interest and other items since that time.

Hon. Mr. MANION: Accumulation of what interest?

Mr. FRASER (Caribou): Principal.

Hon. Mr. MANION: Deficits and interest since? I do not think there is an accumulation of \$300,000,000 since 1928.

Mr. MATTHEWS: Doctor Manion—we will be very glad to furnish the reconciliation.

Hon. Mr. MANION: I would be glad to have that.

Mr. MATTHEWS: We can say that in the main it would be interest accruals and deficit advances.

Mr. HEAPS: Mr. Chairman, with reference to the statement made this morning in regard to the debts which show both in the national debt and in the Canadian National debt, have we any figure to show what the duplication really is?

Hon. Mr. MANION: Mr. Roberts is sitting beside you there. He can give you that better than anybody else in this room. Can you do that, Mr. Roberts?

Mr. ROBERTS: I am sorry, I was not listening at the moment and did not hear the question.

Hon. Mr. MANION: Would you repeat it, Mr. Heaps?

Mr. HEAPS: I was just asking if we had any figures to show what the duplication is of the debts of the Canadian National Railway system; that is, shown in the books of the Federal government.

Mr. MATTHEWS: I have already given that.

Mr. HANBURY: Yes. The figure is given here on page 3.

Mr. HEAPS: Do I understand that this figure of \$1,046,331,000 odd is shown as part of the debt of the federal government?

Mr. MATTHEWS: I would refer you to page 3, sections (a), (b), (c) of our report.

Hon. Mr. MANION: Parts of it, if it was paid out of the consolidated revenue. Is that not right?

Mr. MATTHEWS: It is partly in the net debt; but of the \$1,046,000,000, Mr. Heaps, if you refer to page 3-A, you will find there the two capital stock accounts (apart from \$10,000,000 direct costs) have never entered into the public debt picture at all; it is only the \$10,000,000 for the acquisition of the stocks that are taken into the net debt of Canada. The par balance was an acquisition, as it were, without cash consideration.

Hon. Mr. MANION: Mr. Matthews, you said it would be all net debt. See if I am right here. Suppose the government a few years ago paid off the deficit of \$20,000,000 out of the consolidated revenue. It would not be into the net debt.

Mr. MATTHEWS: The consolidated revenue fund is part of the net debt.

Hon. Mr. MANION: Yes, but suppose we had a surplus, suppose the government had a surplus of, say, \$10,000,000 of \$15,000,000. It would not appear in the net debt if used for interest or deficit?

Mr. MATTHEWS: As I said to Mr. Geary, or raised by taxation.

Hon. Mr. MANION: I just wanted that straightened out.

Mr. HEAPS: What is the present government debt of this country?

Hon. Mr. MANION: Around \$3,000,000,000, I think.

Mr. ROBERTS: The government of Canada owes three billion two hundred million dollars, made up of our funded debt of three billions on which we pay interest to the public, and two hundred millions in trust and different funds that we control, such as superannuation; the gross debt of the Dominion of Canada is about \$3,200,000,000. The only other liability we have is a contingent liability represented by guarantees outstanding, something about a billion dollars. That is the Dominion picture, giving everything.

Hon. Mr. MANION: Before you get away with that—I should not say with that but from that—in addition to that is there not another three or four hundred million dollars which we have not guaranteed and for which we are just as liable?

Mr. ROBERTS: \$200,000,000 odd.

Hon. Mr. MANION: I refer to the \$300,000,000 that we have not guaranteed, but for which we are liable.

Mr. ROBERTS: Now, when it comes to the relation of Dominion accounts with Railway accounts you are dealing with a situation as between the parent and a subsidiary organization, and the whole question is as to what the parent organization shows in its books as being due by the subsidiary organization and what the subsidiary organization shows as owing to the parent. The accounts are not in agreement on that. The railways show under liabilities to the Dominion a total of \$1,536,000,000 make up of loans, \$672,000,000 interest charged on same, \$459,000,000 and C.G.R. capital account, \$404,000,000. So far as the public accounts of the Dominion are concerned, on the assets side, the old Canadian government railways investment account of \$387,000,000 is shown simply as a capital expenditure. It is gone. It represents the expenditures of the past, and there is no interest accumulated or charged on that. The Canadian National railways, when they took over those government-owned lines, simply added into their account the amount of that investment; it was a routing bookkeeping representation of the situation as it existed when they took over the Canadian Government railways for operation. The \$16,000,000 of C.G.R. working capital stands in the public accounts as an actual asset. So far as the liability to the government of Canada for loans and advances are concerned, the 672,000,000 odd appear in our books as assets and because parliament authorized the Department of Finance to pay this money as loans, interest is charged at rates fixed at the time, some of them bearing 6 per cent. With the exception of a comparatively small amount, all these loans are shown as non-active assets and are therefore included in the net debt of the Dominion. When an advance is made we book it as an asset, not active, but as an asset. The railway company immediately put it in their books as a liability due to us. At the end of the year, they get a bill for interest and they enter this interest in their accounts as a further liability to the Dominion. So far as Dominion accounts are concerned the charge for interest is kept in memorandum form only and no entry is made as this would only complicate the Dominion accounts. Therefore, there will not be found in Public accounts any items corresponding to the \$459,000,000 of interest shown by the railways as due the government. It is apparent, of course, that in so far as the government has assumed debt obligations to advance this \$672,000,000 to the railways, the interest charge to the railways has been represented year by year by expenditures for interest on public debt charged to ordinary account.

Hon. Mr. MANION: Whatever you pay goes into interest on public debt?

Mr. ROBERTS: Yes; whatever is payable is through interest on public debt.

Mr. HEAPS: May I try to get this clear? We are told that the public sometimes have misconceptions and I believe that some of the members of the com-

mittee have also. I will try to get the matter boiled down. Of the \$3,000,000,000 of public debts do I understand there is included in that \$3,000,000,000, \$1,460,000,000?

Hon. Mr. MANION: Part of it.

Mr. HEAPS: I would like to know what part of it or how much.

Mr. ROBERTS: I think the answer is to the effect that all the expenditures, with the exception of the amounts for the capital stock of the Old Grand Trunk and Canadian Northern (for which the government made no cash payments except \$10,000,000 for Canadian Northern) have been absorbed through the Dominion accounts and our net debt has embraced all of that expenditure, with the exception of \$16,000,000 C.G.R. working capital and an amount for current advances.

Mr. HEAPS: I would like to get, if at all possible, a simple statement without any embellishment to show how much of Canadian National debts is included in that \$3,000,000,000 of government debt.

Hon. Mr. EULER: If I may say so in all modesty I can answer that question. I put that question on the order paper early in the session as the Minister knows and I was told that of the Canadian National railways debt a billion and a half is also included in the federal debt. There is a duplication of a billion and a half. I think it is a little more.

Mr. ROBERTS: I think the wording was "has been absorbed"; there is a difference. You cannot find the corresponding items there.

Mr. HEAPS: Am I right in assuming that of the \$3,000,000,000 of Canadian public debt owed by the federal government approximately one-half is Canadian National debt?

Hon. Mr. MANION: One-half, as Mr. Roberts says, has been absorbed at one time or another.

Mr. HEAPS: I want to know it in a definite way.

The CHAIRMAN: In other words, if we had never touched the railways would our debt be a billion and a half.

Mr. HEAPS: You can put it that way.

Hon. Mr. MANION: You can put it that way, but it would not be three billions.

Mr. HEAPS: I would like to find that out so that we can agree on that figure.

Mr. MATTHEWS: Mr. Heaps, I will make another attempt. I must confess I have not been very successful.

Mr. HEAPS: That is my fault.

Mr. MATTHEWS: I endeavoured to explain that point to Mr. Hanbury. If you will turn to page 2 of the report you will find the total amount of some \$1,817,000,000. If you take the \$1,817,000,000 and the \$265,000,000 of stock the only amount that is in the debt there is \$10,000,000. Now, that is \$255,000,000 to deduct from the total figure, and then there is \$15,000,000 of the \$404,000,000 of the Dominion appropriation. Roughly it is a billion and a half dollars, duplicated either in the present figures of the funded debt outstanding or duplicated by taxation paid in prior years.

Mr. HEAPS: Then, Mr. Matthews, what Colonel Geary has said is approximately correct, according to your ideas?

Mr. MATTHEWS: Approximately a billion and a half duplicated either in the existing figures or in the combination of the existing figures and the taxation in past years and in the latter particularly in regard to the interest.

Mr. HEAPS: If that is the interest figure, then we get a picture of the whole situation.

Mr. MATTHEWS: Yes.

Mr. HANBURY: Perhaps, Mr. Matthews, you could go a little further and reconcile the one billion and a half with the figure of \$1,046,000,000 on page 3?

Mr. MATTHEWS: First of all, if you take the \$1,817,000,000 and deduct \$1,046,000,000 and non-cash deficit items for 1934 you get \$765,000,000, which is the value of the capital stock—at the top of page 9—plus the value of Crown property appropriation \$404,000,000, roughly. In other words, you take \$1,817,000,000 and you write these adjustments out and you have left advances for capital purposes the value of the Canadian Northern stock and the Canadian Government railways less the impairment of capital in 1934.

Mr. CANTLEY: On former occasions we got a small pamphlet showing the operations of the Canadian Mercantile Marine, the number of vessels and where they were; are we to receive such a pamphlet this year?

Hon. Mr. MANION: They were distributed this morning, and you can get them.

The CHAIRMAN: We will have to ask for permission to sit while the House is in session. We will do that and meet again at 4.30.

The committee adjourned at 1 p.m. to resume at 4.30 p.m.

The committee resumed at 4.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Had we finished with Mr. Matthews?

Mr. HANBURY: I think not.

Mr. HEAPS: Mr. Chairman, when we adjourned we were still in a state of confusion in regard to the national debt—

Mr. GRAY: Let us wipe it all out.

The CHAIRMAN: And start afresh. How far had you proceeded in your appendix, Mr. Matthews? I think you were at 1 (e), were you not?

Mr. MATTHEWS: Yes, page 7.

The CHAIRMAN: Of the appendix?

Mr. MATTHEWS: Page 7, of the report itself. In other words, we have dealt with the main ideas in recommendation 1, which was the adjustment of the published balance sheet of the railways.

The CHAIRMAN: That ran us down to 1 (e)?

Mr. MATTHEWS: Yes.

The CHAIRMAN: Of the recommendations on page 7.

Mr. MATTHEWS: Yes.

Mr. HEAPS: I do not want to start the discussion all over again, but there is still some confusion on the question of debts and the question of duplication, that I should like cleared up in my mind, because I am one of those who has been rather confused as to the relative position of the two.

The CHAIRMAN: You are now trying to confuse the rest of us.

Mr. HEAPS: I do not think I could do that.

Hon. Mr. MANION: May I, as a layman, like yourself, not a lawyer or a financial expert, of any kind, just in a couple of sentences, say what I conceive to be the national debt and its relation to the railways. I think I can do it very briefly, because I have given a great deal of study to it, naturally. In the first place, the national debt—leaving aside railways for the moment—is in round figures, \$2,800,000,000 or \$2,900,000,000. It does not matter whether we have the exact figure or not, but to find that figure all you have to do is to look up

the public accounts, but it is in the neighbourhood of \$3,000,000,000. In addition to that there is a sum owing by the Canadian National Railways on bonds for which the public has paid cash, in round figures \$1,300,000,000.

Hon. Mr. EULER: Not in addition to the \$2,800,000,000?

Hon. Mr. MANION: Yes. Let me finish. There is between \$1,200,000,000 and \$1,300,000,000 owing by the C.N. Railways, about 75 per cent, in round figures, of which we have guaranteed. To my mind it does not matter whether we have guaranteed it or not; we are just as liable, because a lot of the bonds are on parts of the railways which unlike the Guelph Suburban that Mr. Euler mentioned this morning, could not be swept aside. So that the debt of the people of Canada to-day—I am speaking here of the Dominion government; is that figure, whatever it is, in the public accounts, which is close to \$3,000,000,000 plus the \$1,200,000,000 owing by the Canadian National Railways, most of which we have guaranteed. In other words there is in round figures a little over \$4,000,000,000. Now, in regard to the balance of railway liabilities they are in government account—either absorbed in our debt of \$3,000,000,000 or paid from time to time out of consolidated revenue. That is the whole picture, so far as I know, and I think it is perfectly clear and perfectly true in the way I have given it.

Mr. HANBURY: If you do not mind my asking you this question, I should like to get this clear in my mind: if there never had been any connection between the C.N. Railways and the government is it fair to assume that the total national debt of \$3,000,000,000 would have been \$1,500,000,000 less?

Hon. Mr. MANION: No, I do not think it is.

Mr. HANBURY: That is the statement made this morning.

Hon. Mr. MANION: I think that is not the statement. It would be considerably less. How much less, I do not know, because some of it has been paid over the years by various governments out of revenue as they came in. That \$1,500,000,000 which shows against the railways in the railway books, as I have pointed out at various times, has been partly paid out of current revenue and part of it is incorporated in the national debt. What the exact figures are, I do not know, but undoubtedly if we had never had a government railway we would not have had as big a debt, but I do not say by \$1,500,000,000.

Mr. HEAPS: Let us taken then, this very simple illustration. It was claimed this morning that there is duplication in the accounts of the federal government and in regard to the Canadian National railway of approximately \$1,500,000,000. Now, if such is the case, let us assume that the Canadian national debt is \$3,000,000,000 and let us assume that the Canadian National Railway debt is \$5,500,000,000. Am I to assume that there is a duplication of \$1,500,000,000 in the net debt and both combined is \$4,000,000,000?

Hon. Mr. MANION: There is a duplication in the debt of a considerable sum, but some of it has been paid out of current account, as we went along, so therefore there is not a duplication of the total railway debt.

Mr. HANBURY: Let me interject there. If the money paid out of current revenue by the government which you refer to had not been paid out for the purposes of the C.N. Railway, could we not have reduced the federal debt by a like amount?

Hon. Mr. MANION: That is what I said when you laughed this morning; that is exactly what I said this morning.

Mr. HANBURY: What I am saying is this, using that, would not the debt have been \$1,500,000,000?

Hon. Mr. MANION: No, not in the total debt to-day, for the reason that as the various governments in the past went along—and this present government—they paid out of revenue a certain amount towards the railway, some of which

is charged up in our debt, but some of it was out of revenue we earned. Suppose we had a surplus of \$30,000,000, that \$30,000,000 was simply absorbed in the expenses. Let me see if I can illustrate it this way: suppose you had an income of \$10,000 a year.

Mr. HANBURY: Carried.

Hon. Mr. MANION: You spent \$8,000 and you had \$2,000 to spare, which you lent to somebody. You would not have a debt of \$2,000 because you had \$2,000 to spare, but that would not change the fact that you were owed \$2,000. Do you follow what I mean?

Mr. HANBURY: Yes.

Mr. DUFF: Tweedledum and tweedledee.

Mr. HANBURY: I think you have overlooked the fact that the federal government have a very heavy obligation on which they have been paying interest. If there had never been the Canadian National Railways, or if they had not handed that money to the Canadian National Railways, it could have been used to reduce the debt, and it was stated here this morning that the accruals from the various channels amounted to \$1,500,000,000.

The CHAIRMAN: It is a matter really of computation.

Mr. HANBURY: That statement was made here this morning.

Hon. Mr. MANION: I think it would have, but we might not have used it in that way. It might have been thrown in to something else.

Mr. FRASER: We might not have levied for it in the taxation.

The CHAIRMAN: We use the word "duplication" but that is not the exact word to use. It is not exactly the word to use. There is no duplication here; it is a matter of the same sum appearing in two different accounts.

Mr. HEAPS: What would that be?

The CHAIRMAN: It is not duplication.

Mr. HEAPS: Is there any way of finding the debt?

Mr. GRAY: It has not been spent twice, in other words.

The CHAIRMAN: No not at all. What you meant is that it appears in the public debt and also appears in the debt of one of the subsidiaries of the government. There may be other subsidiaries in the same position.

Mr. HEAPS: Have we any way of ascertaining definitely the net amount that appears by way of duplication?

The CHAIRMAN: No, nobody has stated that the net debt of the country is the national debt plus the Canadian National railways debt.

Mr. HEAPS: I think that is the common understanding. I should like to have that removed if it is not accurate.

Hon. Mr. MANION: Duplication of bookkeeping?

Mr. HEAPS: Could we not get some figures that would be understandable?

Hon. Mr. MANION: I do not suppose it would be possible to get an answer. This has gone on since confederation. Parts of the liabilities shown in the books are those which are applicable to the Intercolonial Railway. I do not suppose you could go back and figure out those amounts. No interest has ever been charged on the Intercolonial investment, and yet along the line of Mr. Hanbury's statement of a few moments ago, which I agree with, you might say if we had never built the Intercolonial the interest on the capital investment would have been saved; and could have been used to pay interest on the government debt. I do not think it is possible to make up such a statement as you suggest.

Sir EUGENE Fiset: Is it not possible for Mr. Roberts to prepare for the information of the committee a statement showing what the debt is at the present time and compare it with the Canadian National debt; give us a statement to that effect.

Hon. Mr. MANION: Mr. Roberts is not here but I will draw it to his attention.

The CHAIRMAN: Mr. Matthews I think you were at page 7, recommendation 2 of your report.

Mr. MATTHEWS: Having dealt with the adjustment of the published balance sheet of the C. N. Railways, the next proposal is to deal with the public accounts insofar as they are affected by the National railways. In the first place as I have said before, outside of current advances of which there are about \$17,000,000; there are only \$15,000,000 of assets of the Canadian government railways on current account taken over by the Canadian National railways at the time that the Canadian government railways were handed over to them for operation. That is all that would be added to the net debt of Canada if this proposal were carried out. In the second place the step would be the reclassification between what might be termed the capital expenditure division of the net debt of Canada and that which is referred to as the consolidated fund which might be described in a commercial sense as the deficit account of the enterprise; the most important step as we see it in the adjustment of public accounts, or if you like in the further detailing of public accounts, is the answer to the strong objection that has been made against these proposals in respect to the loss of perpetuity, the loss of continuity or loss of totality of the Canadian National Railways accumulated cost to the country.

On page 8 we have tried to meet that situation by outlining the information, if parliament deemed it necessary, that would forever maintain a record of the total cost in whatever detail or to whatever extent parliament may wish; and after all the record that many people think is now embodied in the Canadian National Railways published accounts as the cost is not so at all. We endeavoured to explain that to the committee here last year and we gave you a statement at that time of the items that were not then embodied in the liabilities to the dominion, deficits made good in prior years, subsidies and so forth. So that when we get down to the question of cost to the country the important point we would like to leave with you is that on page 8 we have outlined the best plan by which in our opinion very important record of cost to the country can be maintained. The argument has been made very strongly in many quarters that the proposals which we have made would somehow or other cause a disturbance to the record, and that on the resumption of good times past expenditures would be quickly forgotten and the country would be plunged into an orgy of future expenditure. Page 8 is our suggestion to meet that situation, and it would be in the place where we think it logically belongs, that is in public accounts. After all, that is the official record or the official basis upon which parliament from year to year could consider what the accumulated cost of this natural system project had been. Certainly the present Canadian National Railways accounts do not and never have since we have had anything to do with them show what are the total costs. They deal with what the government from year to year have set out to be the liability, depending upon the legislation of the different years. For instance the amount of money that was contributed in 1934 by the government to redeem the eastern lines, Maritimes Freight Rates Act deficits and the deficits of the Canadian National Railways proper, prior to 1927 would have been considered as an advance, and would have been set up as a liability in the books of the Canadian National Railways system. To-day they are not in there. Why? Change in legislation, and so forth. The third recommendation has to do with the exchange of the dominion's present capital stock holdings in the Canadian National Railway company which is the share certificate of some \$180,000,000 issued after the Grand Trunk arbitration award, plus stock holdings in the Canadian Northern, together with loans, advances, interest, accruals and so forth, excluding Canadian government railways.

On page 9 the figure of \$361,000,000 is shown and that is made up in this way: if you refer again to the \$1,817,000,000 figure on page 2 and if you apply against that the proposed write-offs of capital stock declared by arbitration to be worthless, advances for deficits and advances for interest etc, you have a residual figure of some \$765,000,000 which embodies the arbitration value of the common stock of the Canadian Northern, the dominion loans for capital purposes less the impairment of the shareholders' capital during the current year, 1934. There is also the Canadian Government Railways of \$404,000,000. Now some may ask why do you exclude Canadian government railways from the stock. There has been some controversy on the question of the Intercolonial railway in its relationship to past legislation and it is our judgment that for the time being at least, it would be more properly dealt with as an appropriation. It makes no difference whatever to the general plan whether it be covered by stock or left as an appropriation.

Hon. Mr. MANION: Before you get away from that, may I ask you a question? I notice here, if I understood what you said aright, on page 9 you show \$765,000,000 as in a sense government account; is that right?

Mr. MATTHEWS: Equity remaining to the shareholders.

Hon. Mr. MANION: In the Canadian National annual statement which we received this year page 30 shows government account to a total of \$1,500,000,000 in round figures.

Mr. MATTHEWS: Plus capital stock. \$1,800,000,000 includes capital stock.

Hon. Mr. MANION: That answers the question. I see what you mean. I was going to say if you subtract one from the other it would not agree with your thousand million. But one must add in capital stock. I see your idea now.

Mr. MATTHEWS: Is it clear, now, Dr. Manion?

Hon. Mr. MANION: That answers the question, I did not follow it.

Mr. MATTHEWS: On page 9 we make a passing reference to this question of no par stock. Last year we did include the definite proposal that the capital stock be no par. This year we have not made that a definite proposal for the reason we understand there is some question in the minds of the government as to future legislation in respect of no par stock. Now we say here again that is immaterial. It is only for flexibility or for convenience in the changing values of the shareholders' equity in future years. This changing equity will be governed by capital advance, non-cash deficit items, etc.

Mr. GRAY: You do not think we will be selling any of it?

Mr. MATTHEWS: And furthermore, there is this to be borne in mind: no par stock, which has been under some condemnation in recent years has been of a corporate nature and of course no par stock for the Dominion would not be subject to the same arguments as those applicable against private corporations. However in order to avoid any controversy on that point we left it open. It is immaterial.

Hon. Mr. EULER: Mr. Matthews, going back to what we were speaking of a while ago. What is the total debt of the railways to the Dominion government?

Mr. MATTHEWS: On page 2 again.

Hon. Mr. EULER: The balance sheet?

Mr. MATTHEWS: Page 13—

Hon. Mr. EULER: What page?

Mr. MATTHEWS: Page 13 of the printed report.

Hon. Mr. EULER: Yes.

Mr. MATTHEWS: These figures are taken from that. \$265,000,000 first of all.

Mr. HANBURY: What page?

Mr. MATTHEWS: Page 2 of the report. Mr. Euler is reading from the printed accounts.

Hon. Mr. EULER: \$270,000,000.

Mr. MATTHEWS: \$265,000,000 as intimated is now held by the government, next a figure of \$15,142,633.33 of old Grand Trunk debentures referred to in the printed accounts as advances prior to Confederation by the province of Canada, and the advances for loans and deficits which amount to some \$672,000,000.

Hon. Mr. EULER: Where is that, one page 13?

Mr. MATTHEWS: This is loans and advances.

Hon. Mr. EULER: All right.

Mr. MATTHEWS: Interest accrued \$459,000,000 and the Dominion capital appropriations, Canadian government railways, \$404,000,000.

Hon. Mr. EULER: Right.

Mr. MATTHEWS: Now, that makes up a total Dominion of Canada account—

Hon. Mr. EULER: How much is that?

Mr. MATTHEWS: \$1,817,000,000.

Hon. Mr. EULER: That is the total debt to the government?

Mr. MATTHEWS: That is the total debt to the government including capital stock.

Hon. Mr. EULER: Then there is funded debt to the public of about \$1,250,000,000?

Mr. MATTHEWS: That is right.

Hon. Mr. EULER: But these two items summed up make the total liabilities of the railways.

Mr. MATTHEWS: Plus their current liabilities.

Hon. Mr. EULER: All right, that is what I was coming to. That makes about \$2,800,000,000? How much do you get when you add them all together?

Mr. MATTHEWS: Approximately \$3,000,000,000.

Hon. Mr. EULER: But I understand the minister to say you have got to take that \$3,000,000,000 and add to it the funded debt.

Hon. Mr. MANION: No.

Hon. Mr. EULER: I want that clear. I understood you to say that, and I have been worrying about it ever since—it is only \$1,000,000,000. Is this clear then, that the debt to the government by the railways is about \$1,800,000,000 in round figures?

Mr. MATTHEWS: That is correct, including capital stock.

Hon. Mr. EULER: And then the funded debt to the bondholders is another \$1,250,000,000, making a total of \$3,000,000,000.

Mr. MATTHEWS: That is correct.

Hon. Mr. EULER: I definitely understood the minister to say you have to add to that—

Hon. Mr. MANION: No. I was explaining to Mr. Heaps in my humble way that the Dominion government federal debt—nothing to do with the railways—was in round figures \$3,000,000,000, and then you have to add in the collateral debt, \$1,246,000,000, of the railways for which we are also responsible.

The CHAIRMAN: May I question you concerning this point: you have stock of \$765,000,000—call it what you like—

Mr. MATTHEWS: Yes, stock and appropriations.

The CHAIRMAN: And an outstanding indebtedness of \$1,280,000,000.

Mr. MATTHEWS: Roughly, \$1,246,000,000.

The CHAIRMAN: Adding to the indebtedness to the equity you get a certain amount. Do you reconcile that with your figures here?

Mr. MATTHEWS: Yes. I can give it to you here. You can start with the \$1,817,000,000 on page 2 and deduct the write-off of \$1,046,000,000 and deduct the impairments of the shareholders' capital during the current year not made up in cash—

The CHAIRMAN: How much is that?

Mr. MATTHEWS: \$5,479,000 odd and you get \$765,000,000. I have the statement here, Mr. Geary, if it would be of any help to you.

Hon. Mr. MANION: May I ask you one question about the government debt. I know what the answer will be, but I want to make it clear. Of that \$1,800,000,000 on the books of the railway shown as government debt of one kind or another nothing has ever been paid in principal or interest; is that right?

Mr. MATTHEWS: Yes, that is right.

Hon. Mr. MANION: I want to make that clear.

Mr. MATTHEWS: When I say nothing, I have in mind that there might have been an exchange of money back from the railway to reduce loans temporarily but, speaking generally, your statement is the fact.

Hon. Mr. MANION: There has been nothing paid on that either in principal or interest.

Mr. BOTHWELL: In that \$1,800,000,000 there is \$100,000,000 odd. As I understand this only a part of that was paid?

Mr. MATTHEWS: The \$100,000,000? Yes, Mr. Bothwell, that is right. In the Canadian Northern arbitration the government paid \$10,000,000 for the 600,000 shares that Mackenzie and Mann owned as the contractors of the road, and in the Drayton, Acworth report of 1917 it was brought out that the stock was issued to them in lieu of contractors' commissions. Now, then, in the arbitration award they predicated a value of \$10,800,000 for those 600,000 shares, so that on that basis it gives a value to the stock of \$18,000,000. That write-out is \$82,000,000.

Mr. BOTHWELL: So that then actually that \$1,800,000,000 that is set out in page 2 is not the actual figure of moneys owing by the Canadian National railways to the government?

Mr. MATTHEWS: Not strictly—it includes capital stocks. As I have said, in the next page, 3-A in explaining the misconception we pointed out that the misconception from the asset side.

Mr. BOTHWELL: I understand that. I was wondering if I was mixed up.

Mr. MATTHEWS: You are quite right. The only cash consideration in the \$265,000,000 actually is \$10,000,000. Again that is confusing.

Hon. Mr. MANION: There is that \$18,000,000.

Mr. MATTHEWS: Not cash, excepting that you might take the subsidies as cash. There were subsidies given to the Canadian Northern railway in those days—a subsidy of \$7,000,000 which we refer to in the appendix. You can see that on page 4 of the appendix. Outside of that it can be said of the \$265,000,000 there is no cash consideration.

Hon. Mr. EULER: And yet it is held as a debt owing by the railways to the government. The government never paid anything for it, except \$10,000,000.

Mr. MATTHEWS: The \$10,000,000. It might be argued, of course, that the \$7,000,000 of subsidies were referred to, but that was not considered as part of the cost—part of the advance or loan or the purchase price of the stock. The purchase

price of the stock was set at a maximum of \$10,000,000 before the arbitration started.

Hon. Mr. MANION: That figure, Mr. Matthews, has been in there since the consolidated balance sheet was first made up in 1923, has it not?

Mr. MATTHEWS: Quite right.

Hon. Mr. EULER: There is \$255,000,000 charged against the railways by the government. The railways credit the government with \$255,000,000 for which the government never paid a cent.

Mr. MATTHEWS: That is right. Capital stock—leaving out the question of subsidy which I think only confuses us for the oment.

Hon. Mr. EULER: It would be pretty difficult to argue that that amount should be charged against the railways.

Hon. Mr. MANION: I admitted, Mr. Euler, in the House the other day when you and I were arguing on this matter—or when Mr. Munn had a resolution—I admitted that those items might well be argued, but nobody has ever proposed recapitalizing only on those items. I do not think they ever should have been put there. I think the mistake was made in 1923 when they were put there. They have been there all this time, and when we begin arguing on that we get into the whole question of recapitalization. That is the difficulty.

Hon. Mr. EULER: So far we are agreed that that \$255,000,000 ought to come out.

Hon. Mr. MANION: I have often agreed with you before.

The CHAIRMAN: That represents assets.

Hon. Mr. EULER: They did not pay anything for them.

The CHAIRMAN: They did not pay anything, but we got them because the arbitration tribunal refused to value them because they were not earning money; they refused to say whether they had any value as material; they simply said that they were of no value to the government because they were not earning money.

Hon. Mr. MANION: Remember, Mr. Chairman,—I am saying this to try to keep the record as straight as possible—probably at the same time there were bonds anterior to those on which they did put a valuation and upon which we are paying interest.

The CHAIRMAN: Oh, yes, that is quite true. They said that this stock was earning no money and had no value when transferred to the government, and they refused to accede to the request of the government and to say, "let us see what the assets are that will be represented by this stock."

Hon. Mr. EULER: If the government did not pay anything for it, why do they expect the railways to pay anything to them?

Hon. Mr. MANION: They do not. The Government never got anything on account of that.

Mr. MATTHEWS: There is one further point about the question of value. As Mr. Geary has pointed out, the Grand Trunk shareholders took that appeal to the privy council in London, and it was on a question of law as to whether the majority of the arbitrators erred in their decision not to admit the value of the property as evidence, and the privy council agreed with the majority award and dismissed the appeal. But as I pointed out this morning, Mr. Geary, during the course of the arbitration the arbitration auditors made an examination of the investment in road and equipment of the Grand Trunk and they found \$129,000,000 in their examination that should be written out. Now, that is the first thing we had in mind in the application of the adjustment of the capital stock.

Hon. Mr. EULER: Not even that value is there; that is admitted.

Mr. MATTHEWS: No. They said that they knew the \$129,000,000 should be written out.

The CHAIRMAN: Who are the accountants?

Mr. MATTHEWS: The arbitration auditors. I think it was Mr. Brown at that time.

The CHAIRMAN: Yes, but they did not allow the evidence of the other side to be put in.

Mr. MATTHEWS: I am not here to take up the cudgels one way or the other on that question of arbitration procedure. It is a question of fact.

The CHAIRMAN: As a matter of fact they went to the privy council on a pure question of law, not of fact and it was urged that the arbitrators should have admitted evidence as to the cost of reproduction new less depreciation. No one says for a moment now that the valuation of the board of arbitration was incorrect.

Mr. MATTHEWS: In the case of the Canadian Northern arbitration they differed slightly from the Grand Trunk. The Grand Trunk arbitrators seemed to emphasize earning power, whereas the Canadian Northern board of arbitrators seemed to give a little more consideration to the physical side of it although they said that primarily it resolved itself into a question of earnings. They did call in Professor Swain and they went to considerable expense and trouble in having a reproduction valuation made of the properties, and they apparently gave it consideration in their decision although in spite of what it still left the property account considerably overstated.

The CHAIRMAN: There have been many arbitrations where the reproduction costs less depreciation has been the basis of valuation.

Mr. MATTHEWS: Quite true.

Hon. Mr. EULER: Even if that were true, why should the government of Canada as a government get that profit just in taking over those railways,—if there was any profit,—getting those assets for nothing. Should not the railway get the benefit of that?

Mr. MATTHEWS: The boards of arbitration of 1918 and 1921 brought down decisions on a given basis and they did differ a little on this question of properties.

Hon. Mr. MANION: This question has been fairly well argued. May I suggest, and I do so with all respect, that it is just as well for us not to go too deeply into the question of the old Grand Trunk. There are lawyers still acting for the Grand Trunk in England—or they think they are acting in the case of some of them—and continually attacking all governments in regard to that. I do not know whether we should go into that if we can avoid it any more than is absolutely necessary. I say that without any ulterior motive.

The CHAIRMAN: I do not think that there is anybody disputing the fact that they were properly valued.

Mr. MATTHEWS: Of course, there is just this question that the continuing of these accounts in the published balance sheet of the Canadian National railway system is one of the factors for consideration as to the reason why these disputes continue. Certain investors take the position naturally that by arbitration these stocks were declared worthless and the assets naturally must have been without value, and yet those who succeed them in ownership continue to show them as good assets. Now, there is this psychological question which comes first, the hen or the egg; we do not know.

Hon. Mr. EULER: It is almost an admission on the part of the Canadian government that there is value there, else why should the railways be carrying that as a liability to the government? If it is a liability to the government it must also be an asset as coming from the railways.

Mr. MATTHEWS: That is precisely what we have said in our report.

Hon. Mr. EULER: Certainly.

Mr. MATTHEWS: Now, we got down to the bottom of page 9 where we had shown the original Dominion of Canada account of \$1,800,000,000. Take the write-offs and work down to what remains as the equity of the share-holder. And bye the bye, Mr. Euler, I think the confusion arises from the fact that it is \$3,000,000,000 in both places, both in the public accounts and in the Canadian National. On page 10 we outline the effect of such an exchange. First of all, the status of the Dominion would not be altered. That is to say any assets that now or in the future exist would belong to the Dominion in the same way as they now belong, because, after all, the Dominion, no matter how far it may insist upon the creation of these liabilities on the books of the railways, cannot step in ahead of the public claims as represented by the bonds and so forth. In the second place, the control by the Dominion of all corporate units of the National system would be centralized through the Canadian National railway company. That takes us back again. At the time the arbitration of the Grand Trunk was concluded there was a certificate issued to the Minister of Finance for some \$180,000,000 which represented the \$165,000,000 plus the treasury stock of \$14,000,000. It was issued by the Canadian National railway company, the Canadian Northern capital stock of \$100,000,000 was taken over by the government direct. So that you have the condition since that time of the Canadian National railway company being the banker for the enterprise and advancing money to the Canadian Northern and not controlling that company. Now, our proposal is that the capital stock of the Canadian Northern now held by the Dominion government be surrendered to the Canadian National railway company and in exchange there would be included whatever value—which is the \$18,000,000—in the total issue of the \$361,000,000 mentioned on page 9.

In the third place, we have already discussed the effect on the net debt of the Dominion of Canada, and there is little use in discussing that further. The appropriation account of the C.G.R. would remain unchanged. The amount of loans for capital purposes would remain unchanged.

Just at that point, Dr. Manion, this morning there may have been just a little confusion on the assets in regard to the \$1,046,000,000; but we were there dealing with interest. There is no disturbance of the advances themselves which, I think, we must assume are covered by assets. The arbitration value of the Canadian Northern railway capital stock would be set up and the findings of the Grand Trunk board of arbitration would be made effective in the accounts. In the appendix the further explanatory analysis of the proposals is given in detail, and that is available for the reading of the committee. The appendix runs from sheets 1 to 14.

Hon. Mr. MANION: May I ask a question that has no bearing at this point. Last year Mr. Matthews put in a statement very much along the line of this one. Now, is there any important modification in your suggestions of last years and this year?

Mr. MATTHEWS: Dr. Manion, in the first report we made last year we were brief, and later, if you will recall, in the meeting of the 7th of June we presented some more information, and then for the meeting of the 20th of June there was still further information. Now, this report is, as we have said, co-ordinated in orderly fashion with the figures adjusted to 1934, and with any additional points that we felt would be helpful for the consideration of parliament.

Hon. Mr. MANION: There are no important changes of any kind, are there?

Mr. MATTHEWS: Oh, no. There are no important changes. It is only what might be called a co-ordinated amplification of what was given in 1934 the report to parliament and the two memoranda prepared for the committee.

Hon. Mr. EULER: Is this the gist of your recommendation, that the amount of capital stock of the two old companies, the advances for deficits, the interest accrued, totalling \$1,046,000,000 should be written off for the reason, as I said this morning, that there are no actual assets there. And then in addition to that you suggest that the balance of something like \$700,000,000 instead of being carried on the books as a liability upon which certain persons like to reckon interest, would be cancelled by the issue of common capital stock to the government?

Mr. MATTHEWS: The \$765,000,000 at the bottom of page 9 would be covered partly by capital stock, in respect of corporate advances, and the Canadian Government railways shareholders' appropriation account. The shareholders' total equity would be \$765,000,000. It would be in the form of an equity and not a liability.

Hon. Mr. EULER: That would mean a capital set-up of the amount of stock that will be issued to the government, some \$765,000,000, plus the bonded indebtedness to the public of about one billion and a quarter.

Mr. MATTHEWS: It does not make any difference whether the Canadian Government railways are covered by common stock or not, but we feel that the question of the Intercolonial in its relationship to prior legislation is something that requires further consideration. The \$765,000,000 would be shareholders' equity represented by capital stock \$361,000,000, and the shareholders' appropriation of the C.G.R., and on top of that there would remain the bonds in the hands of the public aggregating one billion and a quarter approximately plus the current liabilities.

The CHAIRMAN: Am I right in this? You take the figure on page 2 and you subtract from it the figure on page 3; you subtract the impairment of shareholders capital during 1934.

Mr. MATTHEWS: Yes.

The CHAIRMAN: Which was the sum issued for advances.

Mr. MATTHEWS: These are non cash items; they are losses not reimbursed by the shareholders.

The CHAIRMAN: That is how you get your \$765,000,000?

Mr. MATTHEWS: That is right.

The CHAIRMAN: And you deduct from that item \$404,000,000 which appears on page 9?

Mr. MATTHEWS: Yes; rather than in the form of capital stock, because we hesitate with the discussion on the question of the Maritime Provinces in relation to the Intercolonial—

The CHAIRMAN: You leave that out of your capital stock?

Mr. MATTHEWS: Yes, but as a part of the shareholders' equity. It makes no difference in the set-up whether it is capital stock or a credit in account.

The CHAIRMAN: Does your whole general statement of recommendations of writing down to capitalization necessitate the adoption of recommendation 3?

Mr. MATTHEWS: Well, now, let me see. What is your thought there, Mr. Geary? Is it that you would just make the entries on the books of the National railways and just leave the stocks as they are—leave the Canadian Northern stocks as they are, and the Grand Trunk and Canadian National stock as it is, \$180,000,000? It would be a little difficult, I would say that recommendation 3 is a very definite supporting part of the plan.

The CHAIRMAN: You think that is an essential part of your plan?

Mr. MATTHEWS: I do, sir. I do not see how you could carry out this plan without doing that.

Mr. HANBURY: Before Mr. Matthews leaves his recommendations. I think you said, Mr. Matthews, in answer to a question which I put this morning that you had some recommendations to make basing valuations on the physical value or on the earning capacity; but I do not see anything in here in that connection.

Mr. MATTHEWS: I say we deal with that factor in the answer to the objections. It has been raised as an objection that these proposals do not extend far enough to allow for the write-down necessary to meet the established earning power of the railway or the utility value to the Dominion. Now, that is covered in these objections. There is one more recommendation. Is it the wish of the committee that I should continue to complete the recommendation number 42. The question of publicity. Our thought is that if parliament at any time in the future saw fit to adopt these proposals one of the important things would be publicity of the fact in as many ways as possible that whatever equity remains on the Canadian National railways' published accounts it is already embodied in the net debt of Canada (or absorbed in taxation). So that on page 11 recommendation 4 we made a special point in the second paragraph in which we suggest the consideration—just as a case in point—if we could visualize for a moment a new set-up in this balance sheet, and instead of having these various liabilities and capital stocks to the Dominion of Canada there was a figure in there of \$765,000,000 as covered on page 9—which is the residual value—and have a statement definitely made there that this is already embodied in the net debt of Canada. In other words, it would just make the step final that there could not be a continuance of confusion in that respect having once established the proper set-up in relation to the Dominion's equity. Then make the definite statement public in each year's accounts that this is already embodied in the net debt of Canada. That is one of the means that we have in mind about publicity. Of course there are other means, such as public accounts.

Now, gentlemen, subject to a detailed reading of our report and the appendices attached this covers the general outline of the recommendations in regard to the question.

And then we move on to the matter of obligations. Now, the only purpose we have in setting out these objections is that parliament may have the widest range of differing viewpoint. We have no wish whatever to impose our opinions upon anyone. We feel, therefore, that it is very necessary that you have the widest range of different viewpoints on the matter—one of such importance as this and that has been under study so many times and in connection with which so much money has been spent in one way or another. We would like to correct the impression that we have any wish to put wooden men up to knock them down. These are all genuine objections raised in the last year either in the public press, by public statements of men well known in Canada or remarks that have been made on the floor of the House of Commons, or remarks that have been made within our hearing in the committee. Mainly these are the sources. There have been two or three from private sources that we considered sufficiently important financially to embody. If it is the wish of the committee to consider these objections in the light of the other side of this picture we shall be very glad to lend further assistance.

Hon. Mr. EULER: I think the subject is of sufficient importance to go into it exhaustively. The objections are there. I understand you are answering those objections, and members of the committee might raise other objections.

Mr. MATTHEWS: We are prepared to deal with the objections.

The CHAIRMAN: Let us get through with them as quickly as possible. We have the officials from the railway here and I think we should make a start with them. You will be present on Tuesday, Mr. Matthews?

Mr. MATTHEWS: Yes.

The CHAIRMAN: Very well. Let us hear the officials now.

Mr. HANBURY: I should like to hear someone in connection with the new plan of insurance and retirement which I understand has been adopted—a new pension plan. I should like Mr. Fairweather to explain briefly what the new plan is.

Mr. FAIRWEATHER: The new pension plan?

The CHAIRMAN: Where does it appear?

Mr. GRAY: On page 9.

The CHAIRMAN: That is in the first part of the plan. I would rather we did not go into any of the accounts this afternoon.

Mr. FAIRWEATHER: During the year 1933 serious consideration was given to the pension plan of the Canadian National Railways. It was a non contributory plan and it was getting to create liabilities that were much greater than could be effected with equanimity. In any event, a plan was developed which is partly non contributory and partly contributory which will have the effect of reducing somewhat the company's cost of pensions but which at the same time enables the employees, if they so desire, to get larger pensions by contributing.

Mr. GRAY: A voluntary plan?

Mr. FAIRWEATHER: A voluntary system; and it also enables them to get those pensions in a form which will protect their dependents in addition to themselves. A plan as indicated was worked out by the company and laid before representatives of the men and was accepted by them, and I think has proved our policy. At the present time it is in the second month of operation and there are 18,000 contributors. The plan differs widely from the old plan but it is a plan that is modern in its type. The old plan was very simple in its form and provided that one per cent of an employee's compensation in each year of his service would be paid to him in the form of pension when he was pensioned. So that if a man had 30 years service he would get 30 per cent of his past average ten years compensation in the form of pension.

Mr. HANBURY: To which he did not contribute at all?

Mr. FAIRWEATHER: To which he did not contribute at all. The new plan provides that a man retiring gets a pension which is partly non contributory and partly contributory. The non contributory portion of it represents whatever pension, let us say, equity or rights he had on December 31st, 1934, when the new plan came into effect. For instance, an employee who was in service and had 20 years of service at the end of 1934 might at that time be 55 years of age. His pension rights would be established in the main on the 20 per cent of his average past ten years up to the end of 1934.

Mr. HANBURY: The company absorbed that liability?

Mr. FAIRWEATHER: Yes; and then when he reached pension age that would be given to him as a pension to be borne by the company only he did not have to pay any contribution to that. But he would be enabled under the plan to supplement that pension by contributing and his contributions are entirely voluntary and would be in any amount up to 10 per cent of his pay and the company would match that up to 5 per cent and the money—

Mr. HANBURY: Fifty per cent of his pension?

Mr. FAIRWEATHER: Well no, it would match per cent for per cent up to 5. Then if he went beyond 5 he would be contributing himself; the company would not contribute beyond 5 per cent. And the monies obtained from the employees' contributions would be invested in Dominion government bonds and

held in a fund and at the end of the period the monies would be used to purchase supplementary annuities. It may sound a little complicated but it is really quite simple. In that way the employee would get a bigger pension than he would under the old plan and the company's cost would not be so great. In addition to that the plan provided when a man desired to protect the age of his wife, he could do it by asking a smaller pension which would be adjusted on the real value of what is called "joint survivor annuity," instead of a simple pension. For new employees the maximum amount of non contributory pension was fixed at \$300 a year. That is, for an employee coming into the service new.

Sir EUGENE Fiset: Only for new employees?

Mr. FAIRWEATHER: Only for new employees. That is to say for those who did not have enough service to qualify for more than that under the old plan. An employee is not permitted to contribute, however, until he has been connected with the company for ten years. The reason for that is, if you did not make that provision you would always be paying money in and taking it out on account of the labour turnover. These men who are in and out never stay in the service long enough to become pensioners, and there would be no sense in providing for them. Those are the main conditions. Employees have to be with the company for 10 years. It is a pretty safe bet if he is there for 10 years he will become a pensioner, unless he dies.

Hon. Mr. EULER: When does he become entitled to a pension?

Mr. FAIRWEATHER: When he reaches the pension age; the retiring age is 65.

Hon. Mr. EULER: No matter when he begins?

Mr. FAIRWEATHER: Oh no. A new employee to qualify for a pension of \$300 a year non contributory has to join the company before the age of 45, and have been continued in the company's employment continuously until the age of 65.

Hon. Mr. EULER: Twenty years?

Mr. FAIRWEATHER: Twenty years.

Mr. GRAY: Ten years of which he would be contributing.

Mr. FAIRWEATHER: Yes, and ten years of which he would not be contributing.

Mr. HANBURY: Can he qualify above \$300?

Mr. FAIRWEATHER: Yes, by contributions.

Mr. GRAY: What is the provision for withdrawal before pensionable age?

Mr. FAIRWEATHER: Provision? There is absolutely no penalty to the man at all; he gets back every cent he put in, plus compound interest.

Mr. GRAY: At what rate?

Mr. FAIRWEATHER: The plan provides that the rate shall never be lower than one quarter per cent below the yield of government bonds, $3\frac{3}{4}$ per cent, if they are at 4 per cent. The interest rate is set by the trustees at a rate which will vary depending upon business conditions. They may go up or down.

Sir EUGENE Fiset: You stated the maximum retiring age is 65. You also stated a few minutes before that that a man would be entitled to a pension after 20 years service for other causes than age. I suppose for sickness, or something of that kind.

Mr. FAIRWEATHER: No, sir, if I gave that impression it was wrong. A man has to become eligible for pension. He must reach the age of 65 in the company's service except he falls sick or becomes mentally or physically disabled after the age of 60. But nobody can get a pension under the contributory plan retiring

from the company prior to the age of 65 if he is in health, and if he is not in health prior to the age of 60.

Sir EUGENE Fiset: What was the object of mentioning 20 years a moment ago?

Mr. FAIRWEATHER: Well the point is this: I was asked if there was any limitation in point of service in regard to the qualification for the company's portion of the pension. There is that qualification, a new employee joining the company—suppose we did have an employee who joined the company at age 47, he could not become eligible for the \$300 a year that I have mentioned.

Sir EUGENE Fiset: He would be entitled, if he retired before the age of 65—

Hon. Mr. EULER: Simply to the money he has paid in.

Mr. FAIRWEATHER: Plus interest.

Hon. Mr. EULER: That is right?

Mr. FAIRWEATHER: Yes.

Mr. HANBURY: This plan does not contemplate the possibility that the age limit for retiring will ever be reduced below 65?

Mr. FAIRWEATHER: The plan is certainly based upon the retiring age of 65.

Hon. Mr. EULER: Suppose a man went in at the age of 45 and for the first 10 years he contributed himself—as I understand it, he cannot contribute for the first ten years—and he is forced to retire at 63 or 64, is he then going to lose that benefit, the \$300?

Mr. FAIRWEATHER: Retiring from what cause?

Hon. Mr. EULER: Well, maybe sickness.

Mr. FAIRWEATHER: If for sickness he is pensionable.

Hon. Mr. EULER: At the same rate?

Mr. FAIRWEATHER: Pensionable in the main on his \$300 if he is a new employee, plus whatever his contribution is, plus the company's contribution combined.

Sir EUGENE Fiset: That is exactly what I asked you a moment ago and you said no.

Mr. FAIRWEATHER: If a man is in health he cannot retire before 65; if he is in ill health he may retire between 60 and 65.

Mr. GRAY: This perhaps does not arise out of your explanation of the new pension plan. Perhaps I should have addressed it to your principals, the chairman of the trustee board. In the past we have had some discussion about retaining some employees who have reached the pensionable age. Can you tell us anything about that?

Hon. Mr. FULLERTON: It is stated in the rules.

Mr. GRAY: Have you still some of these employees?

Hon. Mr. FULLERTON: No, the employees all must retire at 65. Certain supervisory officers may be retained.

Mr. HANBURY: Last year you had 682 of them.

Mr. FAIRWEATHER: There are still some, but I think that this is correct, is it not, Mr. Chairman, that in the course of, I suppose about a year, everybody over the age of 65 will be out of the service except certain officers.

Mr. GRAY: It is compulsory except as a matter of readjustment?

Mr. FAIRWEATHER: Of course, that applies to the lines in Canada.

Mr. GRAY: Does it apply to the Prince Edward Island fund?

Mr. FAIRWEATHER: To the lines in Canada; but the I.C.R. and the P.E.I. Provident Fund is separate and there is the Grand Trunk provision which covers only 300 people.

Mr. GRAY: It applies to the whole system with the exception of those two roads in Canada?

Mr. FAIRWEATHER: Yes.

Sir EUGENE Fiset: How will it affect the old employees who were practically due for pension and were still under the old system of pension on the Intercolonial; how will that affect them?

Mr. FAIRWEATHER: It does not prejudicially affect anyone who has pension A. With regard to conditions in the United States, of course we know that the United States congress passed about a year ago a retiring law and that is at present before the courts to test its legality.

Hon. Mr. FULLERTON: It has been held invalid by one court, and it is now before the Supreme Court of the United States.

Hon. Mr. EULER: What is the attitude of the men towards the plan?

Mr. FAIRWEATHER: I think it is quite popular.

Hon. Mr. FULLERTON: As a matter of fact, it has been fully discussed with the chairmen for weeks and weeks and they were thoroughly satisfied with it.

Mr. MACMILLAN: In arriving at these figures regarding the setting up of this fund, I suppose experience is an important factor?

Mr. FAIRWEATHER: Do you mean actuarial figures?

Mr. MACMILLAN: Yes.

Mr. FAIRWEATHER: Actuarial figures upon which the pensions would be based will have to be in accordance with the rule submitted to the Department of Insurance and approved by them. The tables would all be in accordance with standard experience.

Sir EUGENE Fiset: Did you ascertain before passing those regulations if there was any necessity of having legislation by parliament before you could apply them?

Mr. FAIRWEATHER: That is hardly a question to be directed to me, sir.

Hon. Mr. FULLERTON: I think we have acted under an old act which we think fills the bill all right.

Sir EUGENE Fiset: You do not want the same thing to happen in Canada as has happened in the United States if you can help it.

Mr. FAIRWEATHER: No.

Hon. Mr. FULLERTON: No.

Mr. HANBURY: What will be the effect after some of these present employees have been retired? Eventually will the effect be that the contribution of the railway to this fund will be less than it is today?

Mr. FAIRWEATHER: The cost of pensions falls and the company will undoubtedly pay less than before.

Mr. HANBURY: It will go down year after year?

Mr. FAIRWEATHER: The effect will be slight for the first few years, but as time goes on and the full effect of the fund develops then the big increase in pension cost has been halted.

Mr. HANBURY: Would it be difficult, if it is ever found advisable to do so, to change the pensionable age from 65 to 60?

Mr. FAIRWEATHER: I think it would be rather difficult, because the trouble is that the scheme is working nicely to permit a man having a reasonable pension at 65, and he is contributing to that end. If you move that back to 60 he will have to have his contributions boosted to get a reasonable pension and, of course, the opportunity will have gone by.

Mr. HANBURY: Of course, many people in Canada today think there are too many people over 60 years of age who are working.

Mr. GRAY: Wait until you reach that age.

Sir EUGENE FISET: Is it not a fact that a man will be receiving a pension and also an annuity?

Mr. FAIRWEATHER: He would receive a pension and an annuity, that is correct; but it would be in the form of one cheque and it would be made up in two pieces, his non-contributory pension plus a supplementary annuity, and if he did not elect to contribute he would get the supplementary annuity but no pension.

Hon. Mr. EULER: Have they a similar pension scheme on the other railway?

Mr. FAIRWEATHER: On the Canadian Pacific? The Canadian Pacific have a non-contributory scheme which is very similar to the one we abandoned.

Hon. Mr. EULER: Is there no place for co-operation there?

Mr. FAIRWEATHER: Well, there has been some, sir; yes.

Mr. GRAY: From comments I have heard along the road the men seem to be very much in favour of the scheme. That is my impression.

Mr. FAIRWEATHER: That corresponds with my information.

Mr. PRICE: As I understand it, previously if an employee wished to transfer from the Intercolonial and the Prince Edward Island Provident fund to the Canadian National fund he would have to appeal and have an order in council before the transfer could be made; is that correct?

Mr. FAIRWEATHER: Well, of course, the I.C.R. and the P.E.I. Provident fund is a fund under the direct jurisdiction of the government while the Canadian National pension is under the jurisdiction of the Canadian National Railways, and nothing can be done without the sanction of the government in connection with the I.C.R. and P.E.I. employees. That is quite correct.

Mr. PRICE: I am to understand that under this new provision the transfer can be made without an appeal, except to the railway?

Mr. FAIRWEATHER: At the present time there is no transfer.

Mr. PRICE: A transfer can be made from the P.E.I. Provident fund to the Canadian National fund by the officials of the railway, can it?

Mr. FAIRWEATHER: No. It is impossible without an order in council.

Hon. Mr. EULER: Would it not be worth while to try to get uniformity?

Mr. PRICE: I would also like to ask Mr. Fairweather if these pamphlets have been distributed to the different regions.

Mr. FAIRWEATHER: Thousands of them. Altogether we put out about 60,000.

Mr. TUMMON: Does the same application with regard to what Mr. Price was asking apply also to the Grand Trunk railway employees' superannuation Provident fund?

Mr. FAIRWEATHER: That is a very small group. There are only 300.

Mr. TUMMON: Only 300 all told now?

Mr. FAIRWEATHER: Yes. This plan does not apply to them at all.

Mr. GRAY: Following on the question asked by Mr. Euler I would like to ask if the board of trustees has considered making a change if it is necessary to bring all employees under the new pension scheme so as to have uniformity? Has that been considered?

Hon. Mr. FULLERTON: No. We hope it will come to that under the scheme.

Mr. GRAY: I understood they could not.

Hon. Mr. FULLERTON: If they are permitted by the employees.

Mr. GRAY: That is the Canadian National railway?

The CHAIRMAN: The Canadian government.

Hon. Mr. FULLERTON: We asked for an order in council. We have not got it.

Mr. GRAY: You have asked for it?

Hon. Mr. FULLERTON: Yes.

Mr. GRAY: That is different. How long ago was that asked for?

Mr. FAIRWEATHER: About a month ago.

Hon. Mr. FULLERTON: It was to make it permissible for these men to come under the compulsory scheme.

Mr. HANBURY: Without a separate organization in each case?

The CHAIRMAN: I wonder if Mr. Price heard that last statement.

Hon. Mr. FULLERTON: My statement was that an order in council has been applied for to enable the members under the Provident fund to come in.

Mr. PRICE: Now I wish to ask if the management of the railway has made any provision for an educational campaign in the way of instruction of the employees of the railways. I refer to the different railway centres. I have found a great deal of doubt in the minds of railway employees as to how this scheme will work out, and I would suggest that at various railway centres where a number of people are employed, lectures be given so that a thorough understanding of these regulations would be given to the employees. It might also say that I would like to suggest in connection with the general situation of railway matters all over the system—particularly in connection with our national railways—that the employees at various points be enlightened as to the causes of reductions in staff. I believe that such an explanation is possible. For instance, if meetings were held at various centres and some official of the railway would explain to the employees why reductions have been necessary in the number of employees, I think it would clear up a great deal of misunderstanding at the present time. It would show the railway employees why there have been these restrictive measures in connection with the reduction in staff and reduction in trains and so on. I do not think it would be a very heavy job, and I think it would do a lot of good.

Hon. Mr. EULER: Could you not use the Canadian National magazine for that?

Hon. Mr. FULLERTON: The whole pension scheme appeared in the Canadian National magazine.

Mr. BOTHWELL: After the 1st of June of this year there will be no longer a non-contributory pension scheme except as it is fixed on the 1st of January?

Mr. FAIRWEATHER: Yes, as is fixed on the 1st of January; with this further proviso that a new employee will get a non-contributory pension in the amount of \$300 if he has continued in the company's service to pension A and joined the service prior to age 45 and had the appropriate number of years service; but I may say in order to explain that that it is very difficult to get a pension plan which will meet all requirements from a humanitarian standpoint. For instance, a straight contributory plan makes it impossible for the small man to get a reasonable pension. He has to be given a leg up. And that is what that \$300 is for. He can afford perhaps only to put up 1 per cent of his pay. That backlog of \$300 of non-contributory pension plus his 1 per cent contribution will give him a reasonable pension, and if he did not have it it would be impossible for him to get a decent pension because he could not afford to contribute an amount necessary for such a pension.

Mr. GRAY: He would have to have a minimum of twenty years service.

Mr. BOTHWELL: All employees engaged prior to 1st of January 1935 are on the same basis as a new employee, only that he has a much longer term?

Mr. FAIRWEATHER: That is correct. He has a service pension. If he has service at fifteen years he is getting credit for it. Nobody's position prior to 1934 was jeopardized by reason of the new plan. With regard to publicity of the plan, we made it as public as we could through the magazines and also through the representatives of the men. We addressed them on a number of occasions. We met the general chairman who represent the men, and we also met representatives of the clerical forces and explained the scheme to them fully.

Sir EUGENE Fiset: I have some questions to ask with regard to these employees who have been retrograded or have been suspended for part time. Are they allowed to contribute to that fund during the time they are suspended?

Mr. FAIRWEATHER: Now what do you mean by suspended? Do you mean laid off?

Sir EUGENE Fiset: Yes.

Mr. FAIRWEATHER: Those laid off will continue to contribute but the company will not match their contributions.

Sir EUGENE Fiset: The time he is laid off for does not count towards his real pension, but only towards his annuity?

Mr. FAIRWEATHER: Yes. Only the amount he contributes.

Sir EUGENE Fiset: The maximum of the contribution is 10 per cent. Can the employee elect to contribute whatever he thinks fit from two, three, four up to ten?

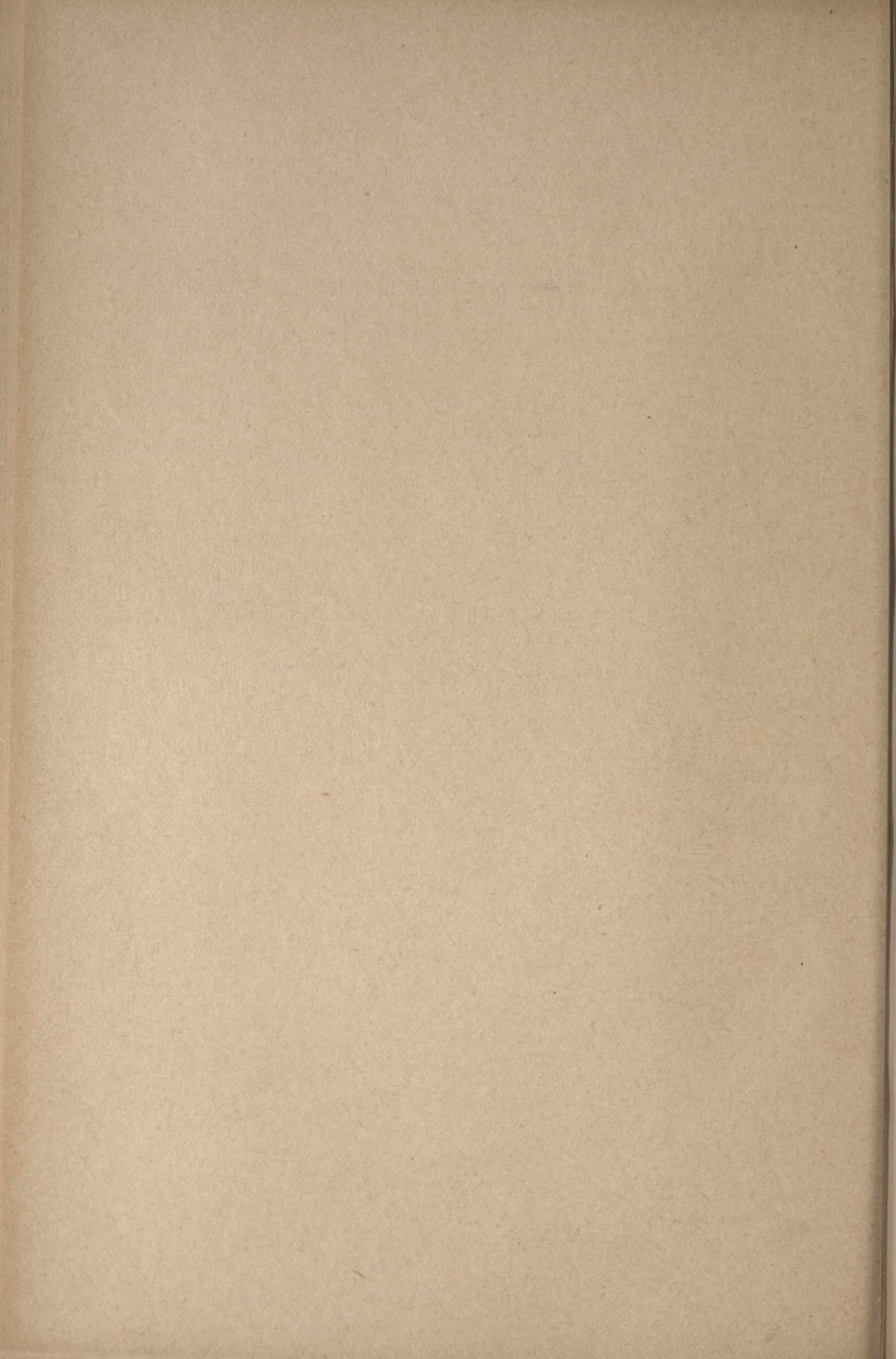
Mr. FAIRWEATHER: Yes; but the company will match only up to 5 per cent.

The CHAIRMAN: Mr. Matthews, will you be here on Tuesday?

Mr. MATTHEWS: Yes.

The CHAIRMAN: I am sure I am speaking for the committee when I say that we are much obliged to you for the information you gave to the committee today.

The committee adjourned to meet Tuesday, April 9th, at 11 o'clock.



SESSION 1935

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

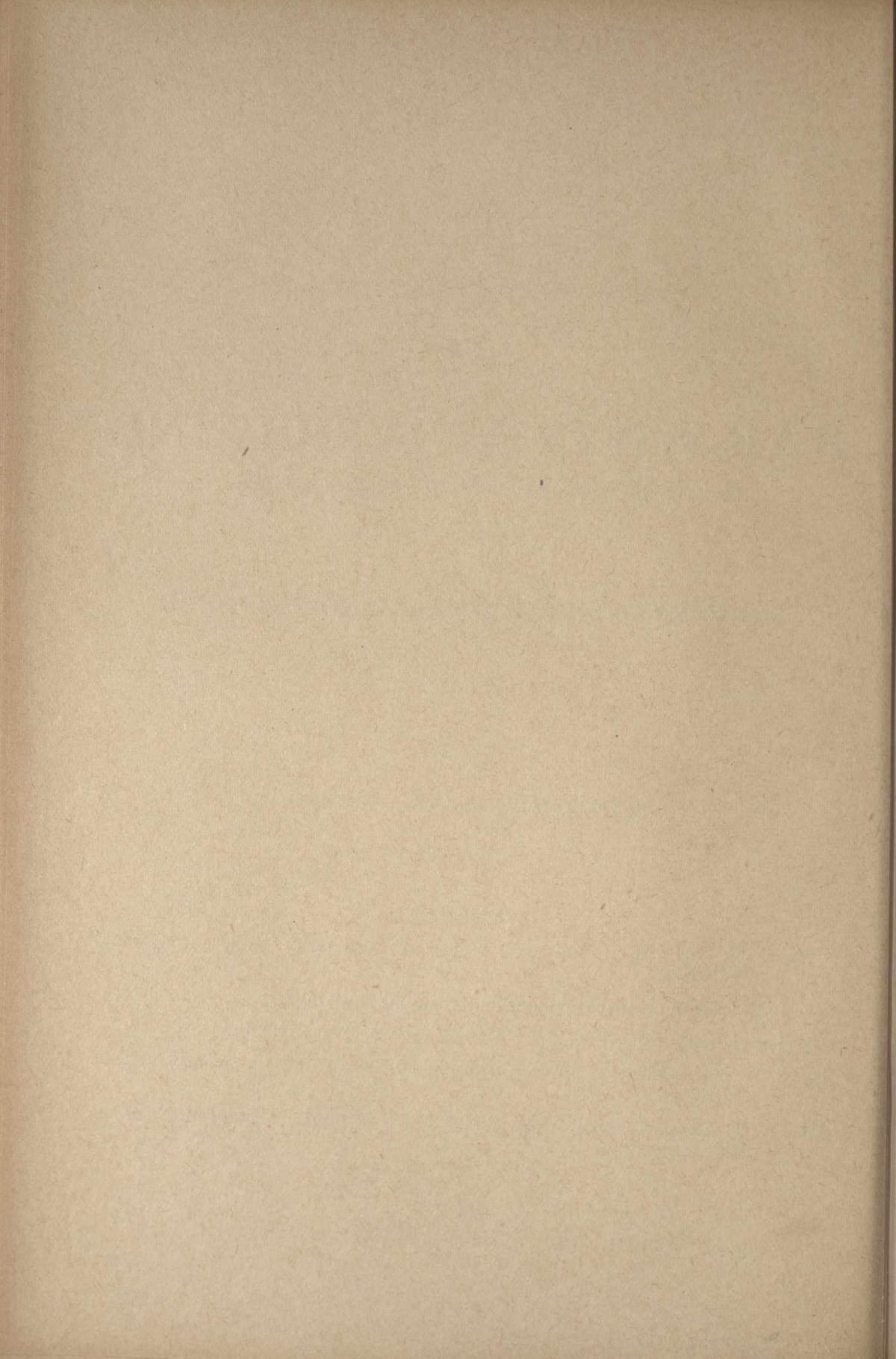
MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, APRIL 9, 1935

WITNESSES:

- Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.
- Mr. J. E. Labelle, Trustee, Canadian National Railways.
- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways.
- Mr. T. H. Cooper, Auditor of General Accountants, Canadian National Railways.



REPORT TO THE HOUSE

SECOND REPORT

TUESDAY, APRIL 9, 1935.

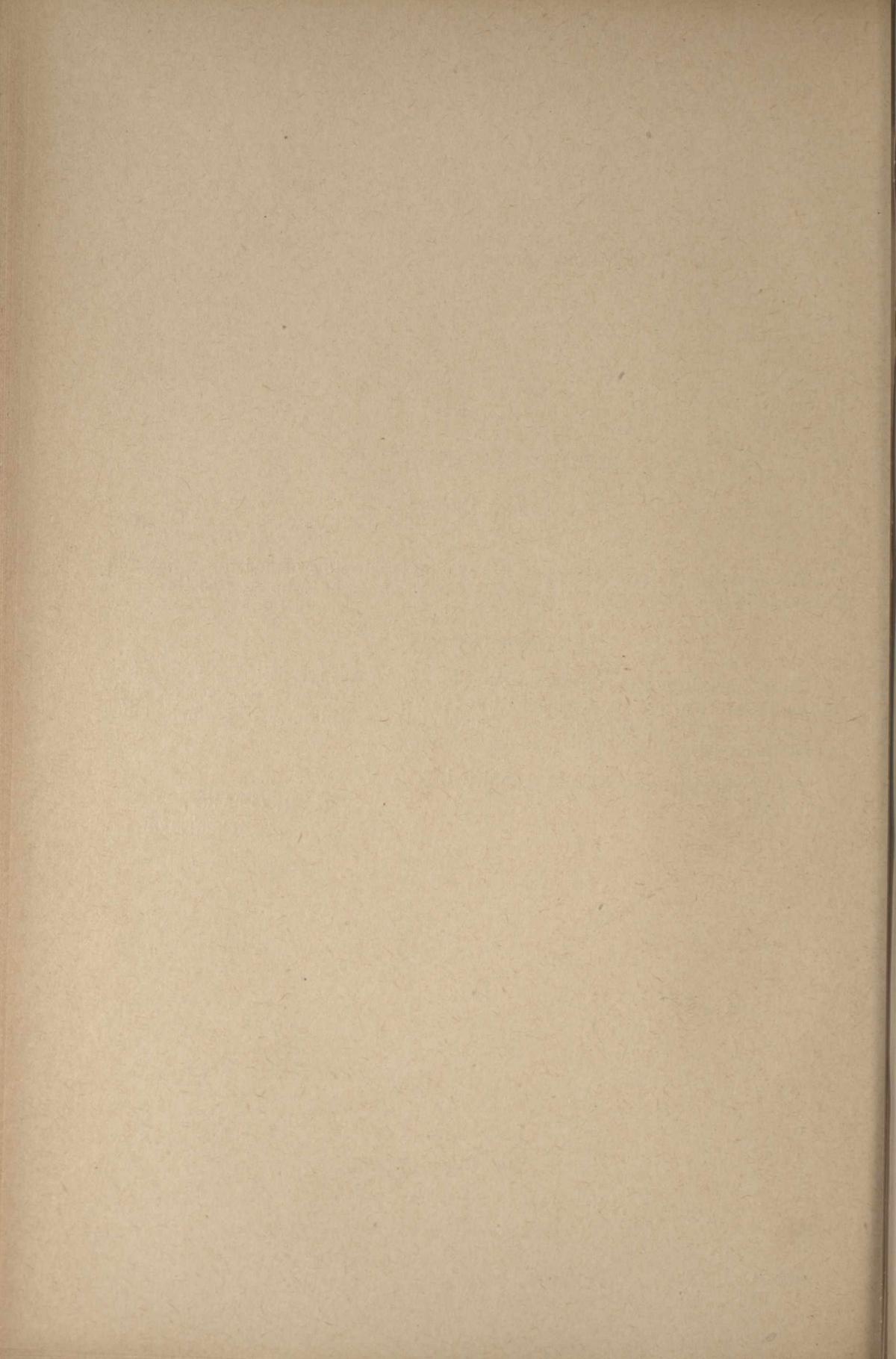
The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its

SECOND REPORT

Your Committee has considered Bill No. 24, An Act respecting the Canadian National Railways and to authorize the provision of moneys to meet expenditures made and indebtedness incurred during the calendar year 1935, and has agreed to report the said Bill without amendment.

All of which is respectfully submitted,

G. R. GEARY,
Chairman.



MINUTES OF PROCEEDINGS

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

Members present: Hon. Mr. Manion and Messrs. Beaubien, Beaubier, Bell (*St. Antoine*), Cantley, Euler, Fraser (*Cariboo*), Gray, Gobeil, Hanbury, Heaps, Speakman, MacMillan (*Saskatoon*), Power, Stewart (*Lethbridge*), Tummon.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. George W. Yates, Assistant Deputy Minister; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways; Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance; Mr. C. A. Matthews, of George A. Touche & Co., Chartered Accountants.

Hon. Mr. Manion made a statement on the recapitalization or writing down of the capital structure of the Canadian National Railways, as suggested by the Auditors.

The Committee then considered Bill 24, An Act respecting the Canadian National Railways and to authorize the provision of moneys to meet expenditures made and indebtedness incurred during the calendar year 1935, the said Bill being adopted without amendments, and the Chairman authorized to report same to the House.

The Estimates respecting the Canadian National Steamships and the Maritime Freight Rates Act for 1935-36, referred to the Committee on April 3rd, were taken into consideration as follows:

- Vote No. 293, adopted;
- Vote No. 294, ordered to stand until next sitting;
- Vote No. 295, adopted;
- Vote No. 296, adopted;
- Vote No. 297, adopted.

After general discussion on the financial reports of the Canadian National Railways, the Committee adjourned until 3.45 this day.

AFTERNOON SITTING

The Committee resumed at 3.45 p.m.

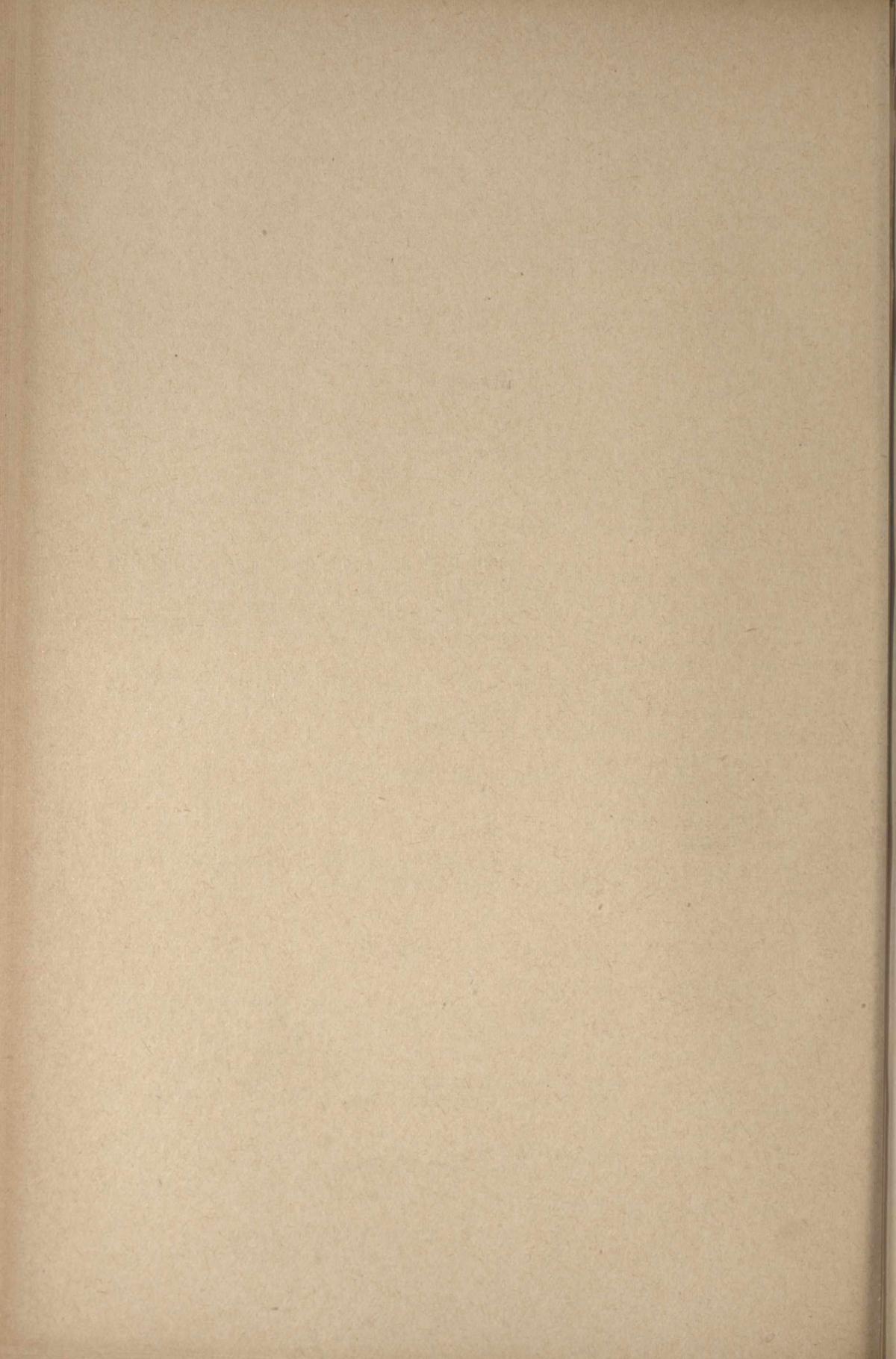
Members present: Hon. Mr. Manion and Messrs. Beaubien, Beaubier, Bell (*St. Antoine*), Cantley, Duff, Euler, Fiset, Fraser, (*Cariboo*), Geary, Gray, Hanbury, MacMillan (*Saskatoon*), Power and Stewart (*Lethbridge*).

The Committee reverted to the consideration of Vote No. 294 of the estimates, which was adopted, the Chairman being authorized to report said Estimates to the House.

The Committee then considered the Annual Report of the Canadian National Railway System, the officials of the Railway being examined thereon.

The Committee adjourned at 6.45 until to-morrow, Wednesday, at 3.45 p.m.

R. ARSENAULT,
Clerk of the Committee.



MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 268,

April 9, 1935.

The select standing committee on Railways and Shipping met at 11 o'clock, Colonel O. R. Geary, the chairman, presiding.

The CHAIRMAN: Order, gentlemen. Dr. Manion has a statement to make at this point with regard to the report of the auditors.

Hon. Mr. MANION: Mr. Chairman and gentlemen, unfortunately for myself I shall have to leave this meeting at 11.30 to attend an important council meeting which I could not refuse to attend. On account of the Committee having discussed the recapitalization scheme as proposed by Touche and Company, I wanted to make a short general statement merely to help the Committee as far as I can to view this matter, perhaps, along practical lines. In the first place, may I say that while Mr. Euler is very strongly supporting the recapitalization idea, I am not quarreling with that support in any way, shape or form. That is his position. Mr. Euler without doubt is sincere in his attitude, and I have no absolutely fixed idea on the question myself. The only point is that it is such a big question that I would like to explain it briefly to the Committee as I see it, because there is a vast difference of opinion in the country as to whether there should be this writing down of the balance sheet as proposed: there are many in favour and many against the plan. May I say here that I prepared this statement since I learned this morning that there was to be a council meeting at 11.30, so that if it appears to be a little disjointed I trust the Committee will have some indulgence in that regard.

May I remind the Committee that this is a very old question. I spoke on this matter in the House and I would like to repeat my viewpoint here, and members of the Committee who are not here at the moment will be able to read what I have said.

In the first place I mentioned that years ago, in 1921, Sir Joseph Flavelle made the suggestion and Sir Henry Thornton, in 1928, put his ideas up to the government of the day—I have his proposals by the way in my portfolio at the moment—suggested the cutting down of between \$700,000,000 and \$800,000,000. Mr. Matthews the other day suggested that the difference between Sir Henry's figure and his figure was made up of interest since then and perhaps deficits. I am not going to argue that one way or the other. There may be a good deal of truth in it. But Sir Henry Thornton also wrote me in 1931 a letter which I have suggesting that during this depression he did not think it would be proper to deal with this question. Then came the Royal Commission on Railways, and I want to quote from it to show the differences of opinion that exist in regard to this matter. I am quoting from paragraph 87, page 30, of the Royal Commission's report, which reads as follows:—I will read part of 86:—

And while this Commission is of opinion that it must be frankly recognized that a very substantial part of the money invested in the railways comprised within the Canadian National system must be regarded as lost and that its capital liabilities should be heavily written down, they do not consider that the time is opportune to deal with this important matter.

87. This question as well as that previously referred to, dealing with the present involved financial structure of the Canadian National system, should in the opinion of the Commission, have the early attention of the Board of Trustees, which it is recommended should be entrusted with the control and management of the system.

In other words they suggested that this matter receive the early attention of the Board of Trustees, and I wish to point out now that the Board of Trustees have never, so far, made any recommendation to us. It is true the chairman has said he personally thinks a change should be made, but the Board of Trustees has never made a recommendation as suggested by this report. That was the position taken by the Royal Commission. Then comes Mr. Matthews representing Touche and Company, and they take the attitude that there should be a writing-down of the capital structure. That, of course, is their opinion, and they have a perfect right to it. I have no quarrel with them but I do wish to point out that though Sir Henry Thornton suggested to the late government a recapitalization or a changing of the picture, they hesitated because they realized, probably, that it was a very complicated subject, just as we hesitate at the present time, partly, at least, for the same reason.

I want to point out further from this report how complicated this question is. Since the last meeting I made it my business to go into some of the details with my officers as to the complications involved. For example, if you attempted to change the capital structure it would require, probably, a great deal of legislation in the House of Commons. There is no doubt it would require some legislation—I am informed probably a great deal. Again I want to read from the Royal Commission report because it will be accepted more readily, perhaps, by those who do not agree with me politically than would my statement. I shall now read clause 84, a clause preceding the ones I have just read, and I should like to refer you all to those clauses, which will be found on page 30 of that report:—

Representations have been made with respect to the capital structure of the Canadian National Railway. This problem presents several aspects. One is the very large number of companies whose corporate existence must be maintained. Another is the large number of different bond issues and mortgages with different rate of interest, expiring at different periods and with all sorts of different clauses in them. It has been stated that included in the National Railway system there are 251 different bond issues and mortgages; that there are 80 different issues of certificates in the hands of the public; that there are 139 companies whose corporate existence must be maintained, and that 42 separate income accounts and 90 separate balance sheets have to be prepared each year.

That, without any elaboration from me, shows the complications of the whole picture. Now, may I say here that I entirely agree with Mr. Euler and any of the rest of you that the capital stocks held as liabilities, 200 and some odd million dollars, should be written down. But there is no use attempting to write down some \$200,000,000 odd of capital stock to their proper value without dealing with the whole question. So, while agreeing in regard to this capital stock, I submit that the whole question must be dealt with at the same time, for it would be foolish to attempt to take two bites of the cherry.

Then there is this question to show once again the complications: not only is there complication of the different companies, of the different bond issues, different mortgages at different rates of interest, not only are these questions involved, but on what basis are we going to change the capital structure? Are we going to do it on the basis of physical value, for instance, of the road, or on the replacement value of the road, or are we going to do it on the question of the earning power of the road? In regard to the earning power of the road, again I quote from the Royal Commission, clause 86: These figures have been quoted in the budget debate recently and by other speakers. Mr. Ralston quoted them and I agree with him:

The net operating income (i.e. the amount available for interest and dividends) of the Canadian National system for the period 1923 to 1931 inclusive averaged \$24,414,447 per annum.

In other words, the Canadian National system during those years—and they took them no doubt, because they were the years subsequent to the consolidation of the roads by the new management—earned towards interest an average of \$24,000,000; but on the other hand the total interest averaged for those years, and I looked up the figures this morning and checked myself carefully, \$43,000,000. In other words, even in those prosperous years of the Canadian National there was a deficit on interest owing to the bondholders of about \$19,000,000 per annum.

Mr. HEAPS: Is that the interest of the whole Canadian National you are referring to now?

Hon. Mr. MANION: On the whole of the debt owing to the bondholders, not the debt owing to the government. This is debt owing to the bondholders, the people who have loaned their money to the Canadian National, which is largely guaranteed by the Dominion government, but not entirely so. There was an average deficit during those years of \$19,000,000, but in addition to that there was the interest on government loans during those years which averaged \$32,000,000 annually, none of which has ever been paid. I repeat that, none of which has ever been paid, and none of which probably will ever be paid. In addition, the capital expenditure averaged \$46,000,000 during those years, additions and betterments, purchasing of branch lines, road building, hotels, and so on. On that account there was an average annual expenditure of \$46,000,000. I have not added these figures together, but I think they total \$97,000,000. Of the deficit, \$19,000,000 was the cash deficit so far as the public investor was concerned, and \$32,000,000 interest owing to the government.

Mr. HEAPS: May I ask again to clear up the doubt in my own mind, does the government actually pay interest on the whole of the indebtedness?

Hon. Mr. MANION: No, the government has probably absorbed into the national debt a good part of the expenditures, and some of it, as I said the other day, was paid out of consolidated revenue as we went along. Some of it is in the national debt and some of it was paid as we went along. If we had a surplus probably some of the surplus went into it.

Mr. HEAPS: You do not know how much of the debt is interest bearing?

Hon. Mr. MANION: No, I cannot tell you how much of that is interest bearing. As I said the other day, it is a complicated matter. I doubt if anybody in the world can figure it out because it goes back to the time of confederation, the building of railways as public works. However, I do not want to get off the track. I repeat, none of the money, either government interest or capital expenditures, was paid back to the government in any shape or form; so that changing the capital structure of the Canadian National on the books of the company, even in the case of the books of the government, which means the public accounts, only clears the picture and does not effect to the extent of one dollar the financial position of the Canadian National Railways.

Hon. Mr. EULER: That is well understood, I think.

Hon. Mr. MANION: Perhaps. But I think the whole picture is so complicated it is wise to repeat facts as clearly as I can, anyway, from time to time. It has been drawn to my attention by one of my officers that I should make it clear that the Duff report referred the entire capital structure—both the Dominion of Canada account and the funded debt—to the trustees. That is elaborated a little bit but it does not make any particular difference to the picture at the moment.

Now I want to agree with the Royal Commission report in which it is stated that to-day with the earning powers of the Canadian National Railways vastly decreased as compared with those years when they averaged \$24,000,000 towards interest, it is not a time for final decision; because the earning power to-day is

certainly abnormal. At least to my mind if this country is going to come back the earning power of the Canadian National system will have to greatly increase, and so will the earning power of the Canadian Pacific.

Hon. Mr. EULER: You mean sub-normal.

Hon. Mr. MANION: Yes, but abnormal in being sub-normal. At least I hope it is; because if it is normal, then I have not very much hope either for the Canadian National railway or the government of Canada. But I think it is sub-normal, very much sub-normal.

Mr. HEAPS: Mr. Euler has not got much hope for the government anyhow.

Hon. Mr. EULER: I thought you meant the railways.

Hon. Mr. MANION: May I sum up the government's position: in the first place I repeat that this question requires a good deal of legislation; how much nobody seems to know. I tried to make enquiry. I received this morning, for example, a memo consisting of three closely written pages, on the question of how much legislation would be required and it was not definite at all; it was merely a general summing up of the question.

Hon. Mr. EULER: From whom?

Hon. Mr. MANION: From the legal officers and the officers of my department. Secondly there would require to be very much enquiry of the different companies involved, of the railway management and of the trustees themselves. The management itself must be taken into the picture. This is only a suggestion that came to me this morning, and I am submitting it, subject to the possibility of something better being offered. I am suggesting this with the sincere desire of serving the railways themselves and serving the people of Canada. Because of its complications, a committee such as I now propose might be set up to deal with this in the current year in time to report to the next session of parliament, as it is too complicated to be dealt with at this session. I would suggest that the committee consist of the deputy minister of railways, Colonel Smart, the deputy minister of finance, Dr. Clark, and the deputy minister of justice. The reason they are suggested is that the deputy minister of railways is naturally very familiar with the problem, having spent a life-time in a study of the whole railway question. He was a professor, incidentally, of transportation, at McGill university for a number of years. The deputy minister of finance will naturally look at it from the standpoint of the finances of the Dominion of Canada, and the deputy minister of justice will look at it from the legal standpoint. They would have in addition to call in the railway management, the trustees, the legal and financial advisers of the railways themselves. That is my suggestion in entirety. I do not wish it discussed at the present time because the Chairman was not very anxious for me to make the statement because he said we were going back to a subject which we had left off. Since Mr. Euler mentioned it when he came in I thought perhaps the statement should be made. No recommendation from this committee could possibly result in this question being dealt with at this session of parliament, even if it lasted until July or August. It is absolutely impossible. I say that on my honour, as far as I know the question, and I think I know something about it. So I suggest to Mr. Euler particularly because he has been dealing with it more particularly from the standpoint of the opposition party.

Hon. Mr. EULER: It is not from the point of view of opposition at all.

Hon. Mr. MANION: He has been an important spokesman from the liberal party.

Hon. Mr. EULER: It is not a party question.

Hon. Mr. MANION: No, I did not mean to put it as a party question; neither am I making it a party question. Mr. Euler has been the man who has been giving more attention to it than others on that side of the House. I suggest, that being so, that some such arrangement as this might be brought

about in order finally to make recommendations to the government that will come in after the next election, whatever government that may be. I have tried to make a clear statement on the matter and I hope the members of the committee will act on my suggestion. I will be very glad to discuss it on another occasion. I won't have time to discuss it now, as I have to leave shortly.

Hon. Mr. EULER: It is a little unfortunate that the minister is not able to stay any longer, because I say there are two sides to that question. I want to refer for one moment and to ask a question with regard to the suggestion of the committee. What I should like to know is this: is the committee that is to be appointed to be charged with the work of bringing out a practical or practicable suggestion as to how the capitalization should be written down, or is that committee to deal with the matter of policy as to whether it should be written down or not. I think that is extremely important. You have cited all the authorities down to recent times, including the auditors, to the effect there should be a writing-down. Now what I should like to know is whether this committee is accepting the conclusion arrived at by those various bodies all the way down to the auditors, that there should be a substantial scaling down of the capital structure. If that is accepted, and I think it should be—that is my argument—then I have no objection to referring it to a committee to ask them to decide just how the writing-down shall be accomplished. But I do not think it would be right to exclude from the deliberations of the committee comprised as the minister suggests, members of the House or members of this particular committee from being associated with this new committee, if that committee is to be charged with the work of deciding whether or not this is going to be a matter of policy. I realize of course the government will always formulate policy, but after all, in theory at least, the members of the House, parliament itself and this committee as appointed by the House, should have something to do with the formulation of policy and advance reasons why certain things should be done. Is the minister able to tell me—

Hon. Mr. MANION: I have no objection to that committee sitting, in a sense, in association with this special railway committee or reporting to this railway committee. I think these are details and I have not had much time to go into them.

Hon. Mr. EULER: What is the committee to do? Are they to devise ways and means of doing this thing?

Hon. Mr. MANION: To look into the whole question.

Hon. Mr. EULER: I think the minister will agree that surely men who are not members of parliament, with all respect to their ability, should not be charged with the duty of formulating policy.

Hon. Mr. MANION: No. My hon. friend said a moment ago what everybody knows, that policy must be formulated by whatever government is in power, no matter what that committee may report or what this committee may report, whatever government is in power—

Hon. Mr. EULER: This committee, being members of the House are in a different position. Surely, members of the House should be permitted, probably, to influence, if they can the government as to what is a proper policy.

Hon. Mr. MANION: I see no objection to that.

Hon. Mr. EULER: If that committee is to deliberate with regard to policy then I think members of the House should have something to say with regard to it. That is my point.

Hon. Mr. MANION: The government of the day would deliberate as to policy but that committee would look into the practical possibilities. They would look into the whole question and the possibility of making a recommendation. The royal commission could only make a reference to the trustees—the trustees who have reported to us. Now, my submission is that some such

committee as that—and it was a hurriedly thought out suggestion—should go into all the practical financial, legal and railway aspects of the matter, call in whoever they wish—but that does not in any way, shape or form prevent you or any other member, or the committee as a whole differing from the final submission. The only thing I am trying to do is to get at something definite. We have nothing definite. The Touche report is only the Touche report after all.

Hon. Mr. EULER: It is very definite.

Hon. Mr. MANION: It is the opinion of one man.

Hon. Mr. EULER: It is the opinion of the auditors appointed by the government of Canada to do this work.

Hon. Mr. MANION: I am not finding fault with them.

Hon. Mr. EULER: The report is quite definite. While I am on that let me say that I do not want to hurry the minister; I think it is unfortunate that he started this matter without having an opportunity of discussing the whole thing and answering some of the points he has advanced.

Hon. Mr. MANION: We will have it up again. I wanted to make my statement and leave it with you.

Hon. Mr. EULER: The minister said there were very many complications. I am not an auditor, although I know something about it. My opinion is that the suggestions made by the auditors are very simple and deal with the question in such a simple way that I would prefer to hear the auditor again as to whether or not he thinks there would be any bookkeeping complications with regard to the matter and whether it would require any very extended legislation.

Hon. Mr. MANION: May I say now that Mr. Matthews has made in good faith his suggestions for the Touche company; and while his suggestions are definite enough the carrying out of those suggestions, I am informed by the best authorities I can get, is an exceedingly complicated matter, even with the best faith in the world. If we could carry out the suggestions of the Touche company, I do not think we could get them ready for this session of parliament even if it lasted until July.

Hon. Mr. EULER: That may be quite true.

Hon. Mr. MANION: As far as the legal end of it is concerned, in my opinion there are no better men than my legal advisors, and that is what they have said.

Hon. Mr. EULER: But from the bookkeeping end of it—the man keeping accounts—I think Mr. Matthews' opinion is probably worth more than that of anybody else.

Hon. Mr. MANION: I was speaking of the legal side of it. I see that Mr. Power and Mr. Gray have come in since I made my statement, and I would like to have the committee read my suggestions after which we can have a further discussion.

Mr. GRAY: I want to be appointed counsel.

Hon. Mr. MANION: You will need the job soon enough.

Mr. HANBURY: Mr. Power was enquiring why there should be only a sub-committee of the brain trust—why not the whole brain trust.

Mr. POWER: That is my first recommendation.

The CHAIRMAN: Now, we have got into the general report of the trustees and dealt with one phase of it—one paragraph relating to pensions—whether exhaustively or not I do not know; but may I say that Mr. Smart, the deputy

minister tells me that it is usual for this committee to take the estimates which have been referred to the committee together with the bill in connection with them and get them through and report to the House.

Hon. Mr. EULER: That should not take long.

The CHAIRMAN: You will find the estimates and the bill distributed.

Mr. HEAPS: I asked some questions at the last meeting, and I would now like to ask whether the replies will be given this morning.

The CHAIRMAN: Some questions were asked by both Mr. MacMillan and Mr. Heaps at the last meeting, Mr. Fairweather.

Mr. FAIRWEATHER: With regard to the questions asked by Mr. Heaps, I have them; but Mr. MacMillan's are still in the course of preparation.

Mr. HEAPS: May I have my answers now?

The CHAIRMAN: Your answers are ready, Mr. Heaps, and you can see them, but if you will accept the suggestion from me we will not discuss them until we get to the proper place and then the chairman of the board will put them on the record. They will go into the record through the committee. Now, gentlemen, will you take up bill 24. According to my recollection, the estimates were referred to this committee on the 18th of March and they are before you. Is it the pleasure of the committee to take up bill 24?

Carried.

The CHAIRMAN: The short title "Power to Issue Notes for Refunding and Capital Expenditures."

Hon. Mr. EULER: Does that clause deal with the deficit?

The CHAIRMAN: I think that is purely refunding and capital expenditures.

Mr. HANBURY: In that connection, may I ask whether the Canadian National are continuing to do their own financing or whether the financing is being done by the government?

Hon. Mr. FULLERTON: A little of both.

Mr. MACMILLAN: Can you do it through the Central bank from now on?

Hon. Mr. FULLERTON: No. We do not do any banking at the Central Bank direct.

Mr. HANBURY: You say that you do a little of both. Would you expand on that?

Hon. Mr. FULLERTON: We make a temporary loan from time to time. Perhaps it may not be the proper time to make a new issue. Perhaps we meet a maturity of bonds by a loan from the government and when the proper time comes we will make an issue of bonds.

Mr. HANBURY: And who has charge of that issue?

Hon. Mr. FULLERTON: Ourselves. Of course, we consult with the financial officials of the government; we work together on all these bond issues.

Mr. HANBURY: The Duff report did recommend that the government should do all the financing.

Hon. Mr. FULLERTON: They are doing it for all deficits.

Hon. Mr. EULER: Is there any reason why we should do it that way?

Hon. Mr. FULLERTON: There is no other way that I can see.

Hon. Mr. EULER: Do you get a better rate?

Hon. Mr. FULLERTON: Yes, it seems to work better.

The CHAIRMAN: In effect it is being done by the government.

Hon. Mr. EULER: There was some doubt.

Hon. Mr. FULLERTON: Yes. It is being done by the government.

Mr. POWER: You never have an overdraft at the bank?

Hon. Mr. FULLERTON: I think not.

Mr. POWER: You just draw on the government. You have your overdraft with the government until such time as you issue bonds.

Mr. COOPER: We have considerable working capital, and as our monthly estimates are submitted to the government they are reimbursed to the railway which keeps us in cash.

Hon. Mr. EULER: You are working at a deficit for the last year of \$48,000,000, and that means that you run short of money at times. How do you get that money?

Mr. SMART: In this bill there is an authorization for the Minister of Finance to make advances on account of deficits up to the total amount, and each month they draw down from the Minister of Finance with approval of the Minister of Railways. At the end of the year when they finally determine the total deficit it comes as a supplementary estimate to the House and is voted as a charge against consolidated revenue.

Hon. Mr. EULER: Since that is involved in the bill it suggests a question I wanted to ask.

The CHAIRMAN: That is under section 4. Let us take the sections in order. Section 2 is passed, and what about section 3?

Carried.

The CHAIRMAN: Section 4 is the deficit section.

Hon. Mr. EULER: I wanted to ask this question: the deficit, of course, is caused to some extent at least by the fact that business which the railways at one time received, now goes to certain competitors. I am not referring to the C.P.R. but to the trucks, automobiles, busses and so on. I would like to ask the chairman of the board what steps are taken or what definite policy, if any, has been evolved by the management of the Canadian National railways to compete for the business which is now being obtained by the trucks, busses and automobile traffic generally?

Hon. Mr. FULLERTON: I think our president could give you a better explanation than I could.

Mr. HUNGERFORD: We have been carrying on experiments in different parts of the country to determine the best course to pursue in each particular case. In western Ontario we inaugurated a pick-up on delivery services with an adjustment of rates, and that is under study, and we propose to extend it from time to time as conditions warrant it. On some of our American lines we have also inaugurated the pick-up system.

Hon. Mr. EULER: Have you taken any extended steps in that direction that show success; could you give any indication as to what has been done in that direction a little more specifically?

Mr. HUNGERFORD: I have no figures available.

Hon. Mr. EULER: Is this the extent of it, that at the various points you have pick-up and delivery service that carries the freight to the station and there it is loaded onto C.N.R. freight trains? You have not established any truck service between points where the railways do not do any of it at all?

Mr. HUNGERFORD: There are some small incidental services, particularly in connection with express, but it is very small.

Hon. Mr. EULER: Is the railway making a definite effort in that direction, or is it more or less—

Mr. HUNGERFORD: I would say that a serious effort is being made so far as Canadian territory is concerned. We are acting in collaboration with the Canadian Pacific and taking concurrent action at the same time.

Mr. MACMILLAN: The Canadian Pacific running between Regina and Moose Jaw have been trying experiments running trains every hour or two.

Mr. HUNGERFORD: I do not know exactly what they are doing.

Mr. GRAY: Arising out of Mr. Euler's question—I intended to bring this up at a later stage—I have been told by someone—I do not know who it was—that if it was not for the law that a train must have three men on it you could run single cars or Deisel self-contained transportation on the road and compete thereby with the busses for short runs. Mr. MacMillan has mentioned the instance from Moose Jaw to Regina, and I think it is being done from Winnipeg to Brandon and places of that kind. Am I correct, first, in saying that there must be three men?

Mr. HUNGERFORD: No; not on single unit cars.

Mr. GRAY: Must there be two men?

Mr. HUNGERFORD: Yes, two.

Mr. GRAY: Does that phase of it enter into the fact that it makes competition with the busses more difficult?

Mr. HUNGERFORD: That is one difficulty; there are many others.

Mr. GRAY: That is one difficulty. Is there any way in which that could be removed? Is it necessary to have two men?

Mr. HUNGERFORD: The regular provision for a train crew is engineer, fireman, conductor and two brakemen. That is the average crew for a steam train. A good many years ago we made a special arrangement with the labour organizations when we introduced the single unit. By this arrangement we can employ a reduced crew, and we are able to run a unit car with two men.

Mr. GRAY: Has any attempt been made to reduce that again to one man so as to compete with the motor truck?

Mr. HUNGERFORD: Yes, there have been one or two attempts, but they have not been very successful.

The CHAIRMAN: Do the labour people object to that?

Hon. Mr. EULER: Is that the real difficulty?

Mr. HUNGERFORD: Yes. There is a service difficulty too.

Mr. GRAY: The labour unions are very anxious, and have from time to time brought before your company and before the government the necessity of doing something to compete with motor transport; and I would think they would be very anxious even to get one man employed on a unit car to compete with the motor transport rather than not have any employed at all.

Mr. HUNGERFORD: There is no question at all that they are very anxious to see that class of traffic return to the railways; but from a service point of view there is quite a serious difficulty. For instance, if there is a break-down on the road, it is essential to have one man on the unit car and one man to go back and flag. That is not required on the highway. However, you must have that service on the track. There are only a very few exceptions such as the most unimportant branch lines where the train service is small where it would be feasible to employ only one man.

Mr. GRAY: We can take it, however, that the matter is under consideration and will be given serious study?

Mr. HUNGERFORD: So far as the operation of unit cars is concerned, we have been doing that for many years. The practice was begun about ten years ago, and we have a large number of units in service.

The CHAIRMAN: Have you that same service on the electrically driven unit cars—that is internal combustion driven units? What service have you with regard to that?

Mr. HUNGERFORD: That is the service I am speaking of.

Mr. GRAY: It is not quite correct to say that the main difficulty is with the labour unions; it is rather a question of service?

Mr. HUNGERFORD: There are fundamental difficulties in the way such as the truck being able to go from door to door, and altogether it is a complicated and difficult problem. The railway management are giving the matter most serious consideration. A great variety of experiments have been made all over the continent, in fact all over the world, and we are watching all the time to see the results. We have not come to any conclusion on the evidence as yet.

Mr. GRAY: I merely raised the question because it had been suggested that the labour unions were holding out for their present arrangements of two men to the unit or three men, and that was delaying development. I understand that is not correct. I do feel that the labour unions are very anxious to assist in the development of this means of meeting competition.

Mr. HUNGERFORD: I agree with you.

Hon. Mr. EULER: Have you ever considered going into the truck business as a definite development in transportation in this country, co-operating as far as possible with the railways?

Mr. HUNGERFORD: It has been discussed a great deal. We have never yet felt quite warranted in doing that except in isolated cases.

Mr. MACMILLAN: Would it be practicable to run a single unit car with one man?

Mr. HUNGERFORD: No. It is possible.

Mr. MACMILLAN: It is possible, but is it practicable from a transportation standpoint?

Mr. HUNGERFORD: Generally speaking, no.

Mr. MACMILLAN: Your reference to single unit cars refers largely to passenger traffic?

Mr. HUNGERFORD: Yes, to a large extent.

Mr. MACMILLAN: It would not affect your freight traffic at all?

Mr. HUNGERFORD: No. They do handle express, of course, and mail, and to some extent package freight.

Mr. MACMILLAN: Do you feel that the matter of transportation by buses and trucks is a factor that enters into the consideration of this whole freight business of the railways? Provincial taxation on trucks and buses is a serious matter with which you have to compete in the whole system of freight carriage, is it not, having regard to the fact that the highways are built at the expense of the public and the licence charge is low?

Mr. HUNGERFORD: I think, perhaps, I can answer your question this way: we feel, generally speaking, that the trucks have an advantage that the railways do not enjoy in that respect.

Mr. SPEAKMAN: There is another question that has been discussed in the country, and possibly some answer might be given upon it: that is that while it is generally realized that motor transport has provided competition that has eaten into the railway business badly there is the question of offsetting freight and expressage provided by the motor business itself to the railway. That is in the transportation of the vehicles and parts and the fuels such as oil and gasoline. I have heard it discussed frequently as to whether that offset in increased business due to the development in motor transport has not to some extent offset for the lossage through competition. Has any estimate been made of that form of business?

Mr. HUNGERFORD: No. I could not give an estimate offhand. There is no doubt that the railways have derived a substantial amount of business from the motor industry. However, we would like to have both.

Mr. SPEAKMAN: There is no question you have derived some benefit, but I wondered if it had been calculated.

Hon. Mr. FULLERTON: The competition is unfair. We are subject to regulation; they are not. They can accept the cream of the traffic and they can refuse what they like while we cannot. They file no tariffs whereas we have to file tariffs and keep them in force for thirty days. There is the unfairness of the competition. If we were on a fair and equal footing with them we would not object.

Mr. SPEAKMAN: I appreciate that.

Mr. BELL: Has this truck business been studied by the railway companies and, if so, to what extent has it been studied, and have the railways any recommendations or any report to make to the committee?

Hon. Mr. EULER: That is the question I was asking.

Mr. BELL: We all realize that truck transportation is taking away a lot of the transportation business suitable to the railways. I want to know whether this question has been studied by the officials of both railway companies and what advancement they have made in the study of it. And have you any statement to submit to the committee on how the traffic should be regulated in order that the railways would get their share of the transportation that is going to the competing organizations?

Mr. HUNGERFORD: Have any of the railways studied this question?

Mr. BELL: Yes.

Mr. HUNGERFORD: All railways affected are studying it and have been studying it for years past ever since it began to develop, and they have been studying it intensely all the time.

Hon. Mr. FULLERTON: The difficulties are largely constitutional because each province has jurisdiction within its limits and you cannot get them all to work together. If it were a question of Dominion legislation it would be simple to bring in regulations; but even if you got your regulations there would still remain the difficulty of enforcing them.

Mr. HEAPS: Was there not a conference called to discuss this question?

Hon. Mr. FULLERTON: Yes, there was; but not very much progress was made.

Mr. TUMMON: Has your road attempted to pick up package freight, particularly in cities, towns and villages from the place of business and deliver it to the station?

Mr. HUNGERFORD: Have they developed arrangements for picking up freight and delivering it to the door of the consignee in the same way as the trucks have done? The answer is yes. In many sections of the country, but not all over. In certain zones we have been carrying on extensive experiments.

Mr. TUMMON: You have been adopting that principle, have you?

Mr. HUNGERFORD: Yes.

Mr. TUMMON: The reason I asked that was that I noticed in our local papers when I was home over the week-end that the C.P.R. have adopted that principle in my home town of picking up package freight at the store door and taking it to the station and picking up incoming freight and delivering it to the store.

Mr. HUNGERFORD: Are you speaking of freight or express service?

Mr. TUMMON: Freight.

Mr. BELL: Following up the remark of Judge Fullerton—

The CHAIRMAN: Just let us finish with Mr. Tummon's question.

Mr. TUMMON: I think Mr. Hungerford answered it. His answer was that it was being tried out in certain zones or places.

Mr. HUNGERFORD: Yes.

Mr. TUMMON: I saw something about it in our local papers, and that is why I asked the question.

Mr. HUNGERFORD: These developments are in collaboration with the C.P. R.; we are following the same policy in the same territory.

Mr. BELL: Following up Judge Fullerton's remark, I understand that this is a matter which is regulated more by provincial than by dominion legislation at the present time. Now, do I understand that the railways have made representations to the various provinces and that no help has been forthcoming to the railways?

Hon. Mr. FULLERTON: I think representations have been made in the past to the provincial authorities.

Mr. LABELLE: The railway association deals with those questions, and they are still considering them.

Mr. HEAPS: Are any regulations being made by the different provinces?

Hon. Mr. FULLERTON: Yes. In each of the provinces more supervision has been exercised. There is no regulation, as far as I know, that requires the trucks to file their tariffs and prevents them from picking up the cream of the traffic. That is the big thing. They take traffic for any price they can get; we have to file tariffs and keep them in force for thirty days.

Mr. HEAPS: In other words, you have had no assistance from any province?

Hon. Mr. FULLERTON: Nothing very material.

The CHAIRMAN: Certain provinces do licence for the exclusive use of a certain highway?

Hon. Mr. FULLERTON: Yes, I think it is the Ontario Railway Board. If they find that a truck is not required on a particular route they refuse to give it a licence. I understand that is so.

Mr. HEAPS: Are they compelled on those routes to keep an all the year around service?

The CHAIRMAN: There are regulations. I could not tell you what they are. I am speaking from my own experience with the Ontario Railway and Municipal Board. They try to exercise supervision and demand an agreement, and I say it does provide for all the year round service.

Mr. GRAY: The regulations are gradually becoming more stringent, are they?

Hon. Mr. FULLERTON: Yes, they are.

Mr. HANBURY: Is it not a fact that if you really hope to compete with motor truck competition it will be necessary to have some of the restrictions in the Railway Act modified in order to enable you to compete?

Hon. Mr. FULLERTON: You are referring to classification and that sort of thing?

Mr. HANBURY: Yes, to give you more latitude.

Hon. Mr. FULLERTON: No doubt some of these regulations would have to be modified. There has been a large study of the whole subject.

Mr. FAIRWEATHER: We are studying it all the time.

Mr. HEAPS: Have the railways considered putting in their own truck service?

Mr. HUNGERFORD: I think I answered that some time ago—only in local services to a small extent.

Mr. HEAPS: You have not considered entering into competition with the truck services in this country?

Mr. HUNGERFORD: No.

Mr. HEAPS: Is not that what they did in Great Britain? Did they not buy up some truck services and go into competition with them?

Mr. HUNGERFORD: We have never found sufficient evidence to indicate that we could do that profitably.

Hon. Mr. EULER: Between Preston and Galt the C.P.R. actually conducts a bus service in competition with their own trolley line to keep the others out.

The CHAIRMAN: Is there anything further under No. 4?

Mr. TUMMON: In connection with the question I asked a moment ago, I do not know whether the committee got the point I was after or not. That service is being given without any extra cost. The freight rates include the service of picking up the commodity at the store door and delivering it to the station.

Mr. FAIRWEATHER: Do you mean sir, there is an all-inclusive rate?

Mr. GOBEIL: Existing freight rate.

Mr. TUMMON: Existing freight rate on your twenty minute service, whereby you pick up the packaged freight, take it to the station, and the incoming freight you deliver to their door at no extra cost.

Mr. FAIRWEATHER: That is included in what we call our pick up and delivery rate.

Mr. TUMMON: Extra service.

Mr. FAIRWEATHER: It is to meet the competition.

Hon. Mr. EULER: Your regular rates were not increased although you put on extra service?

Mr. FAIRWEATHER: In some cases we have reduced them.

Mr. FULLERTON: We had to reduce them to meet competition.

Hon. Mr. EULER: There have been no increases.

Mr. HUNGERFORD: I do not know of any case where the rate has increased. We have reduced the rate in many cases in order to secure more business.

Mr. HEAPS: Before you pass clause four, which says, "The Minister of Finance with the approval of the Governor in Council may make from time to time during the fiscal year 1935-36 accountable advances not exceeding in the aggregate \$44,000,000" I am going to ask you this. What I am interested in now is trying to get a fair picture of the operation of the railways as we have them to-day, as compared with the time when the government took over the whole system, and that is shown, Mr. Chairman, I think in the answers to the questions which I asked last Thursday, replies to which have been given to us this morning. I think this is the proper time to try to make a reasonable comparison. I think we are all staggered by the annual losses of the railway, but when I read the statement that has been submitted to us, perhaps the picture does not look quite as bad as it is usually painted. Now in the third line of the figures submitted here, I find four sets of losses—if I am wrong I hope I will be checked, because I received this a few moments ago. I find that in the five years prior to the taking over of the railways on the Canadian Northern railway system there was a loss as shown at December 31, 1922, \$100,827,852.13; on the Grand Trunk Pacific railway system for the same period there was a loss of \$50,652,322.01; on the Grand Trunk railway system for the same period there was a loss of \$39,391,251.72, and on the Canadian government railways for the same period there was a loss of \$31,630,668.07. Now, on the whole of those five years there was a total loss of \$222,502,093 on all those railways. Now, if I take it and divide it over the five years, I find according to the figures submitted, there was an annual average deficit of \$44,500,418.

I do not want to go too carefully into this statement, but it does not show any payment of any government advances to railways. We have to bear in mind we are now passing through rather depressed times and large deficits are more or less likely to occur. These deficits incidentally run from the years 1917 to 1922.

Mr. COOPER: 1918 to 1922.

Mr. HEAPS: At a time when there was a vast amount of traffic on the railways resulting from war conditions and after the war conditions, and at that time the railways that were taken over by the government showed annual losses equivalent to the estimated deficits for the years 1935 and 1936 when we are passing through one of the worst depression periods we have known in the history of the Dominion of Canada. I think it is only fair to publish those figures so as to get a reasonable picture of the railway situation here in Canada.

Mr. POWER: May I take it, Mr. Chairman, that we can say without fear of contradiction that the average annual losses on the four railways which now compose the Canadian National system for the five years prior to 1932, were something like \$44,000,000?

Mr. COOPER: That is correct.

Mr. POWER: And for the years from 1923 to 1932 the average annual loss was \$19,000,000 for the same roads in the same system.

Mr. COOPER: I do not have the ten years that you spoke of, 1923 to 1932, but from 1923 to 1934 the average annual loss was \$27,000,000. It would be less in the ten years you spoke of.

Mr. POWER: Then on the average the annual loss since the completion of the consolidation of the Canadian National system was \$27,000,000 whereas prior to the consolidation it was \$44,000,000.

Mr. COOPER: For the five years prior.

Hon. Mr. EULER: A comparison between private and public ownership.

Mr. POWER: May I continue? In the total deficits listed here for the five years, we find Canadian Northern Railway system, \$100,827,852.13. That was a privately owned system, was it not?

Mr. COOPER: Not in 1922.

Mr. POWER: Up to October 1, 1917?

Mr. COOPER: Yes, from 1918 to 1922.

Mr. POWER: The deficit on the Grand Trunk Pacific was \$50,652,322.01 at the end of the period, and it was privately owned to March 1919.

Mr. COOPER: Correct.

Mr. POWER: The Grand Trunk railway system had a deficit of \$39,391,251.72 up to the end of the period, December 31, 1922, and it had been taken over on May 21, 1920.

Mr. COOPER: Correct.

Mr. POWER: The Canadian government railways, which is the last, had a deficit of \$31,630,668.07 and it was a publicly owned railway.

Mr. COOPER: That is correct.

Hon. Mr. EULER: And if these railways when they were privately owned had the truck competition their losses would have been still more.

The CHAIRMAN: Are there any other questions on section 4? Shall section 4 carry?

Carried.

The CHAIRMAN: Section 5.

Carried.

Mr. GRAY: Is 5 the usual clause?

The CHAIRMAN: 5 is the usual clause, yes. Shall the preamble carry?

Carried.

The CHAIRMAN: Shall I report the bill?

Carried.

The CHAIRMAN: Now, gentlemen, the estimates are before you of the Canadian National Steamships.

Mr. POWER: Were any of those vessels sold during the year?

Mr. HANBURY: Yes, sir, one.

Mr. LABELLE: There was a ship that was sold by the late board in 1933. The offer was made to the Canadian National on the condition that the ship would be scrapped at Halifax. They did not take delivery of the ship in 1933 and in 1934 we revised the deal relieving them of scrapping the ship at Halifax.

Mr. HANBURY: What was the idea of asking them to scrap at Halifax?

Mr. LABELLE: They made their offer to the Canadian National to purchase the ship and it was to be scrapped at Halifax. That was embodied in the resolution of the board. Later on they decided not to scrap at Halifax, and before taking delivery they asked us to agree.

Mr. HANBURY: You had to pass a new resolution?

Mr. LABELLE: Yes, sir.

Mr. GRAY: We have had this matter up year after year. I know Col. Cantley and Mr. Duff and others have been urging the company to get rid of this whole system. I think I am right, Col. Cantley? Has any attempt been made to sell those ships as a whole instead of singly?

The CHAIRMAN: Are you speaking of the West Indies service?

Mr. GRAY: No, the Canadian government merchant marine.

The CHAIRMAN: We are not on that yet. 293 is West Indies.

Mr. GRAY: All right.

Mr. HEAPS: Mr. Chairman, I notice there is a very welcome decrease in the amount of the deficit this year as compared with other years. May I ask what the cause of that is?

The CHAIRMAN: In fact, we made a lot of money.

Mr. LABELLE: More freight, more passengers.

Hon. Mr. EULER: If you are going to get the actual loss, instead of it being \$316,000, you would have to add on the interest on the bonds.

Mr. LABELLE: Yes.

Hon. Mr. FULLERTON: Depreciation and all that sort of thing.

Mr. LABELLE: It is in the report, Mr. Euler.

Hon. Mr. FULLERTON: It is in the report.

Hon. Mr. EULER: \$316,000 means the amount you fell short of making operating expenses; is that right?

Mr. COOPER: The amount short, including bond interest.

Mr. HEAPS: It has the same ratio to the showing this year as the \$1,020,000 had last year. That \$1,020,000 included interest and all other charges?

Hon. Mr. EULER: It says "—not including non-cash items and interest on dominion government advances, occurring during the year ending December 31, 1935 in the operations of the company and of the vessels under the control of the company—". If you pay the interest on the Canadian government advances you would have to increase the \$316,000 of losses; that is right, is it not?

Mr. SMART: Yes; but there is a bond issue. The interest on the bonds is there.

Hon. Mr. EULER: That has been provided for.

Mr. SMART: Yes.

Mr. MACMILLAN: What is the amount of the bond?

Mr. SMART: \$9,400,000.

Mr. MACMILLAN: Where do the *Prince David* and *Prince Arthur* come in this report?

Mr. FRANKLIN: They are not in this picture at all.

Mr. MACMILLAN: Where are they?

Mr. FRANKLIN: Canadian National railways.

Mr. SMART: What do you mean?

Mr. MACMILLAN: The *Prince Arthur* and *Prince David*.

Mr. SMART: They do not belong here at all.

Mr. MACMILLAN: They are shown in the statement of the Canadian National Railways.

Mr. SMART: Yes.

Mr. MACMILLAN: As a steamship item?

Mr. SMART: Yes.

Hon. Mr. EULER: Would this be right, to get the correct actual loss you would have to add to the \$316,000 given there the non cash items such as depreciation, I suppose, and the interest on the dominion government advances; is that correct?

Mr. COOPER: That is correct.

Hon. Mr. EULER: Now tell me how much that would be?

Mr. LABELLE: You will find it on page 17.

Mr. COOPER: Add about \$600,000.

Mr. HANBURY: It is more than that.

Mr. HEAPS: That would not include the item of \$316,000.

Hon. Mr. FULLERTON: It will have to be added to the operating deficit.

Mr. HEAPS: This is the net showing of the operation after paying the charges on the system.

Hon. Mr. FULLERTON: Except depreciation.

Mr. HEAPS: How much is that?

Mr. COOPER: The money which the government will be asked for in the year 1935 is \$316,000.

Hon. Mr. EULER: It does not comprise the whole cost?

Mr. COOPER: No. It excludes depreciation and interest due the Dominion.

Hon. Mr. EULER: You have given the depreciation here for 1934 as \$319,000 and interest due the government \$288,000 and small charges of amortization and discount.

Hon. Mr. FULLERTON: That is right.

Hon. Mr. EULER: Which makes a total of \$600,000; so that the actual loss is a little under \$1,000,000. Is that right?

Mr. COOPER: Yes, sir.

Mr. HEAPS: Am I to infer the \$1,020,000 as shown last year did not include the items that Mr. Euler has just referred to?

The CHAIRMAN: It is on the same basis, exactly.

Hon. Mr. EULER: You have to add depreciation and interest on the debt owing the government to get the actual loss.

The CHAIRMAN: Now we come to item 294.

Mr. POWER: May I ask a question? I notice in the income account that in the year 1933 in regard to the West Indies there is an item of interest and exchange of \$54,369.61. There is an item also—

The CHAIRMAN: What is the page?

Mr. GRAY: Page 17. There is an item also of \$6,891.17. How do we account for that difference?

Mr. COOPER: \$54,000?

Mr. GRAY: Yes.

Mr. COOPER: These West Indies bonds are payable in three ways, Canadian, New York and London, and the exchange on New York last year was very heavy; it cost us about \$58,000 to purchase the New York funds to pay the \$470,000 bond interest.

Mr. HANBURY: Has any budget been made of the probable earnings for the year in the West Indies service?

Hon. Mr. FULLERTON: Yes, in the estimates.

The CHAIRMAN: \$45,000.

Hon. Mr. FULLERTON: An operating deficit of \$45,000 for the C.G.M.M.

Hon. Mr. EULER: In other years this committee has recommended that we dispose of the whole outfit—I mean the Canadian Merchant Marine.

The CHAIRMAN: We are now on vote 294.

Mr. MACMILLAN: Before you pass that item, Mr. Chairman I should like to say there evidently has been a very great increase of the traffic in this service.

Hon. Mr. FULLERTON: There has been a tremendous improvement in the West Indies service.

Mr. MACMILLAN: How do you account for that; is it freight and passenger, or both?

Hon. Mr. FULLERTON: Both freight and passenger.

Hon. Mr. EULER: Perhaps the British Empire agreements stimulated the service.

Mr. POWER: Hear hear, prosperity—

Mr. GRAY: My question was, in past years the members of the committee, and I think the committee pretty well unanimously urged upon the former president of the Canadian National and I think last year upon the new chairman of the board of trustees, that we dispose of this fleet if at all possible as a unit, or at least get rid of them all. On the 31st December, 1934, we were still carrying ten vessels. I should like to know from the Chairman of the Board if any attempt was made to dispose of the fleet last year, and if so with what results?

Hon. Mr. FULLERTON: Some time ago there was an offer made for the purchase of the fleet by some English companies who were willing to take it over, purchase our ships and operate them without subsidy, but the offer was not accepted.

Mr. GRAY: When was that offer made?

Hon. Mr. FULLERTON: I think it was made in November, if I am not mistaken, but I can tell you in a moment, as soon as I can get my file. The offer was made November 29, 1934.

Mr. GRAY: You have told us sir, there was an offer to take over the whole fleet and to operate the service; that we would maintain the New Zealand and Australian services, but there would be no subsidies.

Hon. Mr. FULLERTON: Yes.

Mr. GRAY: Did your board recommend that it be accepted?

Hon. Mr. FULLERTON: We did.

Mr. GRAY: And is it a matter that it has not been accepted or still under consideration?

Hon. Mr. FULLERTON: No.

Hon. Mr. EULER: Turned down?

Hon. Mr. FULLERTON: No, it was not accepted.

Mr. GRAY: Mr. Chairman, I do not know how the other members of the committee feel, but I feel from what the Chairman of the Board has just said, that I should like to hear him read his report to the government; because we have been carrying this year after year, and I again say that Col. Cantley has taken a decided stand with respect to this matter—what do you say, Col. Cantley?

Mr. CANTLEY: Pardon me, will you be good enough to let us know what the service offered?

Hon. Mr. FULLERTON: It was proposed to operate the Australian and New Zealand services practically the same as we operate them now.

Mr. CANTLEY: They are not operating at all now, as I understand it. They are laid up.

Hon. Mr. FULLERTON: What is laid up? We have a regular service to Australia and New Zealand.

Mr. CANTLEY: The whole ten in service?

Hon. Mr. FULLERTON: Eight in service.

Mr. CANTLEY: Where are the other two?

Hon. Mr. FULLERTON: The other two are laid up, one for repair and the other laid off.

Mr. CANTLEY: What is the cost of their lay-up?

Hon. Mr. FULLERTON: I can get you those figures.

Mr. LABELLE: There was one laid up in Halifax last winter, and the *Leader* is being repaired just now.

Mr. HEAPS: What size boats are they?

The CHAIRMAN: They are all listed on page 9.

Mr. SMART: I should like to say something about that. I think you ought to wait until the minister returns.

Mr. HANBURY: I think we should have full information.

Mr. SMART: I think you ought to wait for the minister. There are certain things in connection with the offer that the minister wants to take up. Rather than discuss it now I think you had better wait until the minister is here.

Mr. GRAY: Mr. Chairman, I am quite in accord with that. This is most important. I am amazed to find that the board of trustees had an offer and have been able to recommend it—that is what the chairman of the board has said.

Mr. SMART: It is not as simple as it sounds.

Mr. GRAY: Perhaps not, sir.

Mr. SMART: I think you ought to have the minister here.

Mr. GRAY: It seems to me that greater details must be given to this committee in connection with the offer; but I am quite prepared to accede to the suggestion that the minister should be here, although I do not particularly see the reason for it. We passed a bill in which we took away from the minister, so-called, the control of the Canadian government merchant marine and the Canadian National and placed them in the hands of the trustees, and as far as I am concerned, I would be quite prepared to hear Mr. Justice Fullerton's statement with respect to it.

Mr. SMART: That is not quite the position, sir.

Mr. GRAY: It is arguable.

Mr. SMART: The Canadian Government Marine is not turned over to the trustees.

Mr. GRAY: They are operating it.

Mr. SMART: Quite true. The trustees are the directors of the steamship line, the government owns those ships and the trustees cannot dispose of them themselves.

Mr. GRAY: The trustees cannot dispose of the railways themselves.

The CHAIRMAN: I suppose what is meant is, the matter must have come before Dr. Manion—

Mr. GRAY: I am quite prepared to let the matter stand until the minister is here.

The CHAIRMAN: I do not suppose it interferes at all with the estimate, does it?

Mr. GRAY: Yes. I am certainly not going to let the estimate pass without complete explanation.

Mr. POWER: Let that item stand.

The CHAIRMAN: Let us go on to 295, which is loan to the Canadian National (West Indies) Steamships Limited. Are there any questions in regard to this item?

Hon. Mr. EULER: What capital expenditures are proposed to be made there?

Mr. FAIRWEATHER: It is shown on schedule 5 of the pamphlet which was handed to you, \$178,000: "re-vote of unexpended balance of amount of \$253,500 approved in 1934 for additional refrigeration plant and insulation—".

Hon. Mr. FULLERTON: This amount was voted last year for refrigeration of the steamships.

Hon. Mr. EULER: You did not carry it out?

Hon. Mr. FULLERTON: The work is nearly completed now. It was not completed last year. \$178,500 will complete the refrigeration and \$17,500 will be used in the change we are making in five of the boats to provide more accommodation. We are turning two suites into double rooms.

Mr. MACMILLAN: Passenger accommodation.

The CHAIRMAN: Shall the item carry?

Carried.

The CHAIRMAN: Item No. 296. I am afraid we cannot do anything about that.

Carried.

Item 297, carried. This also is the splendid arrangement we have made down there.

Mr. GRAY: Is that under your breath?

The CHAIRMAN: Item 294 stands in the meantime.

Mr. MACMILLAN: That is all in regard to the steamships?

The CHAIRMAN: We have the report. This is just the estimates. We have to go through the report, I fancy.

Mr. HANBURY: Before you proceed with that, there was some discussion at our last meeting with reference to the pensions, and no statement was made with reference to the Grand Trunk Superannuation fund. I should like to have the information that is available in that connection.

Hon. Mr. FULLERTON: I have a statement here, and perhaps if I read it it will give the explanation required.

The Grand Trunk Railway of Canada Superannuation and Provident Fund Association was formed in 1874. Membership in the fund was compulsory and employees were forced to contribute to the fund, the Grand Trunk Railway company of Canada contributing an equal amount.

The present rate of contribution is $2\frac{1}{2}$ per cent of salary by the employee and an equal amount by the company.

The fund is administered by a committee of management.

The fund was closed to new members on December 31, 1907, and members at that time were given the option of withdrawing their contributions and coming under the provisions of the non-contributory pension plan of the Grand Trunk which was established at the same time, or of continuing in the Grand Trunk Superannuation Fund.

For many years after that date the assets of the fund continued to increase due to the income being greater than pension payments, but the time has now arrived when pension payments exceed income and it becomes necessary to liquidate the assets. Most of the society's funds are in the form of first mortgages on real estate in the city of Montreal, and the Society has been hampered in obtaining necessary liquid funds by reason of the current moratorium on the payment of mortgage principal. Also, due to the depression a number of properties have fallen into the hands of the society by reason of default on interest payments on mortgages. The taking over of these properties involved repossession charges and other costs which made further demands on the liquid assets of the Fund, the result being that the readily available liquid assets of the fund will be exhausted on May 1, 1936, unless favourable developments take place in the meantime. The position of the fund as of December 31, 1934, was as follows:—

Number of contributors	179
Number of pensioners (as at December 31, 1934)	149
Over 80 years of age	7
70-80 years of age	39
65-70 years of age	50
60-65 years of age	35
55-60 years of age	14
Under 55 years of age	4
Estimated pension payroll, 1935	\$ 286,245
Book value of assets in the fund	\$4,371,062 63

Actuarial reports on the fund which have been made from time to time on the assumption that the assets would yield 5 per cent compound interest per annum have shown the fund to be on a sound actuarial basis. If, however, the assets of the fund are valued on a more conservative basis than 5 per cent and allowance is made for possible losses in connection with properties which have been or may be taken over, the Fund has an actuarial deficit of approximately \$650,000. The smallness of the group, which comprises a total of 328 members, makes it impossible to accurately forecast the actuarial result.

As indicated above, the problem at the present time is one of a lack of liquidity of assets. The situation in this regard, as well as the future of the fund is receiving careful study.

Mr. HANBURY: Have the trustees come to any conclusion as to what is going to be necessary in order to maintain the fund?

Hon. Mr. FULLERTON: No. The report is not in yet; the matter is being studied by the committee. We have not received the report of the committee yet, but we are giving the matter very careful attention.

Mr. HANBURY: Could you say whether it is the intention to reduce the pensions or to ask the government or the railway company to augment the assets?

Hon. Mr. FULLERTON: I am afraid the latter may have to be the alternative, but the matter has not yet been considered.

Mr. HANBURY: The only alternative?

Hon. Mr. FULLERTON: The only alternative. I am doubtful that you could ask for a reduction of pensions.

Mr. MACMILLAN: How does their pension in amount compare with the new system you brought into effect?

Mr. FAIRWEATHER: It is a somewhat more generous amount. It is based on 1/60th of an employee's compensation with the maximum at the top, but you see that is a good deal more generous than the provisions under the old pension plan. So far as the company is concerned, of course, the contribution by the company would be, say, only half of that.

Mr. HEAPS: You gave us the book value of the assets of something over \$4,000,000. What is the actual value of those assets to-day?

Hon. Mr. FULLERTON: That is all under study. They are making a complete study of the whole thing. We expect a report within the next month. The matter is receiving attention.

Mr. MACMILLAN: Mr. Fullerton, you said the assets being valued at \$4,000,000 were arrived at upon an actuarial basis.

Hon. Mr. FULLERTON: Oh, no. Liabilities for pension were arrived at on an actuarial basis.

The CHAIRMAN: Book value.

Mr. HANBURY: Would legislation be necessary if you decided to augment that loan?

Hon. Mr. FULLERTON: Oh, yes.

The CHAIRMAN: If your assets were liquidated out of the value stated in the books now.

Hon. Mr. FULLERTON: There would be a surplus.

Mr. FAIRWEATHER: If the assets could be liquidated on a basis of 5 per cent compound interest there would be a small surplus of funds.

The CHAIRMAN: Your holding is liquidated and also there is a possibility of depreciation?

Mr. FAIRWEATHER: That is it.

Mr. HANBURY: Is it suggested that you might ask for legislation at this parliament?

Hon. Mr. FULLERTON: Not at this parliament. I think we can carry on for the time being, but next year if things do not get better we may have to ask if there are very many payments.

Mr. MACMILLAN: What are the investments?

Hon. Mr. FULLERTON: Nearly all are mortgages on real estate in Montreal which in the old days were considered gilt edged.

Mr. MACMILLAN: Have they been switched from time to time?

Mr. FAIRWEATHER: Yes.

Mr. MACMILLAN: Are there any Hydro bonds among them?

Hon. Mr. FULLERTON: I do not know.

The CHAIRMAN: Have you made any loans in the last two or three years?

Mr. FAIRWEATHER: I do not think any mortgage money has been put out for a few years. These mortgages are usually for three to five year periods, and as the mortgages come in they are renewed. Of course, they have to be because of the moratorium at present, so long as the interest is kept up.

Hon. Mr. EULER: Are there any interest defaults?

Mr. FAIRWEATHER: Yes.

Mr. MACMILLAN: It would seem to me that a fund of \$4,000,000 would become seriously frozen?

Mr. FAIRWEATHER: Of course, a great deal of money was invested in mortgages and the moratorium froze the situation.

Mr. HEAPS: It did not freeze the interest charges.

Mr. FAIRWEATHER: No; but the interest charges are not enough to meet the pension payment. The matter is at a point where the income from the funds is not sufficient to pay the pensions, and we have to liquidate like all other mutual insurance or pension groups which are closed.

Mr. HEAPS: Mr. Fullerton told us that you have taken over a number of properties in order to try to protect the equities there. Are those a losing proposition or are they paying their way?

Mr. LABELLE: They are a losing proposition in some cases. In some cases the city was going to sell the properties at public auction so the fund paid the taxes and sought to protect their mortgage on the property. That is what we are doing just now. It went on the property as the basis of a new valuation. In some cases the property would be for sale.

Hon. Mr. EULER: Do you think the capital value is sufficient to cover the mortgage?

Mr. LABELLE: I do not know. In some cases in Montreal the property would be sold for the book value provided the real estate market were better; but there is no purchaser now.

Mr. MACMILLAN: Who are the custodians for the fund?

Mr. FAIRWEATHER: It is a special committee.

Mr. MACMILLAN: How is it appointed?

Mr. FAIRWEATHER: By legislation.

The CHAIRMAN: I think the names were read out here by Mr. Fullerton.

Mr. MACMILLAN: What is the personnel?

Mr. FAIRWEATHER: The names of the committee of management are: S. J. Hungerford, W. S. Harrison, D. C. Grant, E. E. Fairweather, Alistair Fraser, C. W. Johnston, R. W. Long, J. P. Pratt, F. L. C. Bond, T. T. Irving and George H. Jenkins.

Hon. Mr. EULER: Who appoints them?

Mr. FAIRWEATHER: Some members are elected by the pension group, the balance are officers, stated officers of the company.

Mr. MACMILLAN: Has that always been so?

Mr. FAIRWEATHER: Yes. It is provided for in legislation.

Mr. HANBURY: Is there any salaried manager?

Mr. FAIRWEATHER: Naturally the fund has some managerial expense. There is no salaried manager but there is a secretary.

Mr. MACMILLAN: They do not happen to own the mortgage on the house in Montreal, do they?

Mr. HANBURY: Mr. Fullerton, in what way do you get authority to contribute to your new pension fund; is that by legislation?

Hon. Mr. FULLERTON: By legislation, yes.

Mr. HANBURY: You have not had legislation recently?

Hon. Mr. FULLERTON: No.

Mr. LABELLE: For the new pension scheme there is no legislation.

Hon. Mr. FULLERTON: We adopted an old act of parliament which seemed to provide the necessary facilities.

Mr. HANBURY: Would not that act of parliament give authority to augment this other fund?

Hon. Mr. FULLERTON: Oh, no. In connection with the Intercolonial Provident Fund we had to get authority. The money was being paid year after year without authority of parliament at all. Last year we had to come to this committee and get a recommendation—authority for the payment of it, and we may have to do the same thing with the Grand Trunk in case it is necessary.

The CHAIRMAN: Do you find, Mr. Labelle, that there has been any mistake in investment? Your experience is not unique as a property holder.

Mr. LABELLE: We find the same situation in Montreal for all those who have loaned money.

The CHAIRMAN: The investments seem to be justified—to be all right, do they?

Mr. LABELLE: Yes.

The CHAIRMAN: Are there any other questions under pensions?

Mr. FAIRWEATHER: Some questions were asked about the new and old plans. I thought it might be of assistance to the committee if I drew up a little statement showing points of comparison.

The CHAIRMAN: Will you put that in, or will we have it read?

Mr. HANBURY: I think we should hear it read.

COMPARISON OF C.N.R. CONTRIBUTORY PENSION PLAN MADE EFFECTIVE JANUARY 1, 1935, WITH THE NON-CONTRIBUTORY PENSION PLAN IN EFFECT PRIOR TO THAT DATE.

NEW PLAN

OLD PLAN

Age of Retirement

Compulsory at age 65 for all employees except certain officers.

Normally at 65, but many employees were continued in service beyond that age.

Qualifications for Pension

(a) To an employee in service January 1, 1935, who joined service prior to age 50 and who attains the age of 65 with at least 15 years allowable service.

(a) To an employee attaining the age of 65 or over, having joined service prior to age 50 and having at least 15 years allowable service.

(b) To an employee joining the service subsequent to January 1, 1935, prior to age 45 who attains age 65 with continuous service.

(b) To an employee if retired by reason of physical or mental disability at age 60-65 with 20 or more years allowable service.

(c) To an employee of age 60-65 if retired by reason of physical or mental disability with 20 or more years allowable service.

(c) To an employee if disabled in the company's service having 10 or more years allowable service.

(d) To an employee disabled in company's service with 10 years or more allowable service. (Gratuitous).

(d) To an employee discharged at age 50 or upwards for other than misconduct having 15 years or more allowable service.

(e) To an employee discharged for reasons other than misconduct at age 50 or upwards, having 15 years or more allowable service. (Gratuitous).

(e) Compassionate allowances in special circumstances.

NEW PLAN

OLD PLAN

Amount of Pension

Non-contributory service or basic pensions:

(a) To employees having 10 or more years service at January 1, 1935, and who at retirement have necessary service qualifications, a service pension in lieu of provisions of old pension plan, the amount of which is 1 per cent of average best 10 consecutive years compensation up to January 1, 1935, for each year of allowable service to same date with minimum of \$300 per year.

(b) To other employees who at retirement have necessary service qualifications a basic pension of \$300 per year.

Contributory supplemental annuity: To all employees who contribute such supplemental annuities as may be purchaseable at retirement age from combined employees and company contributions compounded.

Employees become eligible to contribute after 10 years from date of last entry into service. Contribution voluntary, and in any percent up to 10 per cent. Company meets this contribution up to 5 per cent, provided that the company's portion of any pension in the form of service or basic pension, together with the company's share of the supplemental simple annuity, shall not exceed 40 per cent of employee's best average compensation for any 10 consecutive years prior to retirement, provided further that this limitation shall not reduce any service pension.

Gratuitous Pensions:—

To an employee disabled in the company's service with 10 years or more allowable service, or to an employee discharged for reasons other than misconduct at age 50 or upwards with 15 years or more allowable

Generally fixed at 1 per cent of average best 10 consecutive years, compensation for each year of allowable service.

Example: Average best 10 years, compensation \$1,200 per year.

Years of service—40.

Pension, \$480.00.

service, a gratuitous pension, the amount being determined by the circumstances.

Other Provisions in the New Plan

If an employee dies before retirement or leaves service his contributions with accrued interest will be paid to his heirs or returned to him.

The pensioner may select any one of the following types of pension:—

(1) A straight life annuity.

(2) A life annuity guaranteed for a stated number of years.

(3) A joint and survivor annuity provided that no option as to type of annuity shall be allowable that would result in the total annuity payments to any retired employee being less than \$300 per year.

Options have the same actuarial value.

Mr. HANBURY: Mr. Chairman, I would like to enquire whether any employee discharged for misconduct receives any pension whatsoever?

Mr. FAIRWEATHER: Oh, no, sir.

Mr. HANBURY: Regardless of any contributions he may have made?

Mr. FAIRWEATHER: He would get his contributions back with compound interest.

The CHAIRMAN: That is somewhat different from our own fund in the civil service.

Hon. Mr. EULER: Yes. It is quite unfair in the case of the service.

The CHAIRMAN: I think so too. Now, gentlemen, are there any general questions which you want to ask about page 3?

Hon. Mr. EULER: What are you at now?

The CHAIRMAN: I thought we would run over this general report of the trustees, and it occurred to me, subject to other suggestions, that we could go over this as quickly as possible because it will all come up in separate accounts later.

Hon. Mr. EULER: Not all.

The CHAIRMAN: That is why I am suggesting that we go through it if there are any questions. Take operating revenue.

Mr. HANBURY: Mr. Chairman, in connection with the operating revenue, I should like to have some information from the trustees with reference to what effect the low rate for passenger traffic had on the increase of traffic and whether they are giving any consideration to a lower basis for passenger traffic in Canada.

Mr. HUNGERFORD: I think your question had two phases.

Mr. HANBURY: Yes.

Mr. HUNGERFORD: The first phase was what?

Mr. HANBURY: What was the result of your experiment last year in putting in low rates, or what you might call excursion rates, in encouraging passenger traffic.

Hon. Mr. FULLERTON: The excursion figures for 1932 were \$273,236; 1933, \$508,777; 1934, \$842,438.

Mr. HANBURY: That shows a remarkable increase.

Hon. Mr. FULLERTON: It does.

Mr. HANBURY: That is the number of passengers, I presume?

Hon. Mr. FULLERTON: No, the earnings. The number of passengers was 87,000 in 1932, 184,000 in 1933, and 329,000 in 1934.

Mr. HANBURY: That shows that if people can travel at an economical rate they will take advantage of the opportunity.

Hon. Mr. FULLERTON: There is no doubt of that.

Mr. HANBURY: Have you information to show whether there was a greater net return to the railway as a result of the increase in traffic, even considering the low rate?

Mr. HUNGERFORD: Yes, I think there was, Mr. Hanbury; but this has to be taken into consideration, that we can only secure sufficient patronage by running those excursions at rather infrequent intervals. If we run them too frequently we do not get the value from them. If we run them at infrequent intervals, they show us a very good return, but there is a limit beyond which you cannot go.

Mr. HANBURY: I think I can concede that point, Mr. Hungerford, but I have some criticism to offer in connection with your excursion trains last year. I travel on many of them and I find that you are running trains of 16, 17, 18 and I think sometimes 19 cars—I travel on a pass so I am justified on complaining. The average passenger sometimes gets a very rough ride on account of the weight of those trains. You require people who desire to take advantage of those low rates to travel at one particular time, and it occurred to me that if you had stated days, instead of requiring a man to return from Vancouver, we will say, in a period of a week or ten days, on which a passenger could leave his home and return, probably requiring him to notify the railway company in advance so the railway would have the equipment available on that particular train, I think it would be very advantageous. It seems to me it is hardly reasonable to expect people to go for a very definite period and travel on certain prescribed days. You are operating your trains anyway, and it is just a question of providing equipment. There is no reason why you cannot provide the equipment as well as on Tuesday, providing you knew what equipment you would be required to furnish.

Mr. HUNGERFORD: I am not quite sure how it would work out. Of course, we would like to have all people travel at the standard rate.

Mr. HANBURY: You realize they won't do that?

Mr. HUNGERFORD: No.

Mr. HANBURY: Are the railways considering the scaling down of their rate structure for general passenger traffic?

Mr. HUNGERFORD: No, there has been no serious consideration of it. It has been under discussion more or less all the time.

Mr. HANBURY: They have made some reduction in the United States.

Mr. HUNGERFORD: In various places.

Mr. GOBEL: How do they compare?

Mr. HUNGERFORD: Different rates have been put into effect in different parts of the country.

Hon. Mr. FULLERTON: The basic rate in Canada is 3.45; in the United States 3.6.

Mr. HUNGERFORD: That is simply the basic rate. They have departed from that in different parts of the country.

Mr. HANBURY: Has it been drawn to your attention that you are losing considerable traffic from the Pacific coast coming east in the first place as a result of cheaper—in the transportation field I don't think there is a great difference, but cheaper sleeping accommodation and further unquestionably better dining car accommodation. I know people who are leaving British Columbia coming east are travelling over the United States road, because you have scaled down your dining car perhaps a little too fine. Have you any information on that subject?

Mr. MACMILLAN: What do you mean by "scaling down too fine"?

Mr. HANBURY: In the first place charging more than competing roads in the United States.

Mr. CANTLEY: Up, not down.

Mr. HANBURY: I mean, they have cut it down too fine, trying too hard to balance the budget, put it that way. I think they have taken it to the point of diminishing returns, and I know they are losing traffic as a result of it. I know on many of the competing roads, particularly in the western United States, that they put a much finer meal in the dining car at a less price than either the Canadian Pacific or the Canadian National. My observation is that both railways are losing traffic not only on the railways, but in the hotels, as a result of it.

Mr. HUNGERFORD: It is a question of policy. On the whole our dining car rates are comparable with those in the United States, but you cannot compare one road with another on an isolated question.

Mr. HANBURY: I must have been unfortunate then, because I have not found it that way. I find that on the United States railway you can get a meal for 75 cents that will compare with a meal on either the C.P.R. or the C.N.R. for \$1.25.

Hon. Mr. FULLERTON: You mean a dinner?

Mr. HANBURY: Yes.

Hon. Mr. FULLERTON: I have never seen it.

Mr. HANBURY: If you travel from Vancouver down to Portland, on any of the railways, you will find that, I think.

Hon. Mr. FULLERTON: If you did it you would lose more money than you are losing now.

Mr. HANBURY: That is the point I should like to bring out. I assume in the first place that the dining car is operating on a loss. Can you give us information to show what the total operating cost of the dining car is, and what ratio the actual food bears to the total cost?

Hon. Mr. FULLERTON: We can get those figures for you.

Mr. HANBURY: It is not always just a question of the food. In many cases the food is served; but I am frank to say I feel as a result of the degree of economy that exists in both railway companies in Canada, many of the employees of the dining cars and of the sleeping cars and the hotels do not seem to have the same incentive to satisfy the public that they had in the past. I do not know whether it is the degree of economy that is responsible for that or not; I think it is, and I think the time has arrived when the Canadian railway companies have to instil in their employees again as they did a few years ago, the necessity of serving the public to the very best of their ability. I have no particular complaint to cite but that is the general feeling. I am frank to say I think perhaps in the hotels there is a better feeling among the employees of the C.N.R. than among the employees of the C.P.R. I think we have gone too far in our measure of economy; I think we are losing money as a result of the degree of economy we are practising to-day. I think both the railway companies are going to have to take that into consideration.

Hon. Mr. FULLERTON: So far as the dining cars are concerned, we did experiment with them last year. We tried cheaper meals and we found we were losing at a tremendous rate, losing very much faster. We tried to induce the people from the front end to come back by sending forward circulars showing the meal, what they would get it for, and all that sort of thing, but we found we were losing money too rapidly, and we had to increase prices. It does seem to me that the prices are very reasonable; that our dining car service is splendid—of course I should not say that, but I do say it is certainly closely watched.

Mr. CANTLEY: Mr. Chairman, I have been informed recently that you cannot get a fish dinner on the Ocean Limited.

Hon. Mr. FULLERTON: If that is so, it is serious; I agree with you, it is serious.

Mr. CANTLEY: Wait until I finish my story. The cost of the dinner was 75 cents and we got the best fish that could be obtained in this country. It was a very popular meal. Now it has been cut out and it is a great mistake in my judgment. I realize that you are losing a large amount of money in your dining car services and it is inevitable. You have to maintain it, but here is one point where you are making a loss, in my judgment. The range of food you are carrying in the car and the choice of the passenger is extravagant and out of all reason. You travel on the continent, you travel in England, and what do you get? As soon as you start on the journey from Glasgow, Scotland, a man comes in and wants to know if you want a dinner, and if you say yes, he asks you if you want the first choice or the second. He puts the menu before you; he gives you a meal for 2s. 6d., and another at 4s. 6d.

Hon. Mr. FULLERTON: That is the train going to Scotland?

Mr. CANTLEY: Yes, Englishmen go to Scotland, if you want to know who travels. Now the result of that is before they leave they know what supplies they want for that journey and it reduces the expense to the railways. We are carrying three times as much food on our passenger trains, and in our dining cars as we ought to carry, and the result is the waste must be tremendous.

The CHAIRMAN: I agree with you about the single journey from Liverpool up to London. When you get off a ship, anything they offer is good. It is the first meal and it is a good meal and you are prepared and ready to eat what is served to you. But suppose you are travelling for three or four days. Suppose you were going to the coast, you could not do that, could you?

Mr. CANTLEY: If you were going to the coast?

The CHAIRMAN: Yes, from here.

Mr. CANTLEY: You could pick up the supplies.

The CHAIRMAN: You could not do with the same meal for three or four days.

Mr. HANBURY: The same dining car does not go through.

The CHAIRMAN: I am citing Mr. Cantley's example of one particular meal. You do not want the same meal to-morrow and the day after.

Mr. CANTLEY: You change at Winnipeg and you change again further west.

Mr. MACMILLAN: Mr. Chairman, it is one o'clock, and I move we adjourn. Committee rose at one o'clock, to resume again at 3.45 p.m.

AFTERNOON SITTING

The committee resumed at 3.45 p.m.

The CHAIRMAN: The chairman of the board wishes to make an explanation.

Hon. Mr. FULLERTON: This morning I was asked with reference to the ships whether the trustees had approved the sale, and I said yes; but I find that I was mistaken. There was no formal resolution passed. On the day I received the offer I sent it forward to the Minister of Railways, and I consulted with Mr. Hungerford on that day, but I did not see Mr. Labelle until a day or two afterwards and I consulted with him and he approved, but I am not sure whether I consulted with Mr. Morrow or not. My impression is that I did, but I am not quite sure.

Hon. Mr. MANION: You never gave me any resolution of the trustees.

Hon. Mr. FULLERTON: Oh, no.

Hon. Mr. MANION: You wrote me a personal letter, saying that in your personal opinion—

Hon. Mr. FULLERTON: That is right.

Mr. GRAY: This morning the chairman of the board referred to a report that had been made by either himself or the trustees and he had the report before him, and I suggested then—you, Mr. Minister, were not here—that we should hear that report in detail so that we could get a clear explanation as to why the government, as I understood it this morning, had turned down the offer. Mr. Smart raised the question, and I rightly acceded to the fact, that perhaps there was some explanation. I said I was of the opinion that we should know what the offer was and have a full explanation as to why it was not accepted.

Hon. Mr. MANION: May I say, before Mr. Fullerton gives that, that I have no objection to him doing so, and I have no objection personally. The whole case as I remember it—and if Mr. Fullerton finds anything wrong with my statement of the case he can correct me—is that there was never any report from the trustees. There was the letter that Mr. Fullerton mentioned here and of which I have a copy with me. I looked through the file for it. Unfortunately, I was not here at the time the matter was introduced but my deputy told me that the subject was up, and I remembered that Mr. Fullerton had written me at some time on the matter—I think it was in November—

Hon. Mr. FULLERTON: December 1st.

Hon. Mr. MANION: That is right—telling me about this offer. Preliminary to that offer there had been a statement made by the Canadian National Steamships through Mr. Fullerton to me that our ships were naturally slow because of having been built about thirteen years ago and that some of the faster ships that were being run, partially at least, over that route from Australia to American ports at any rate were faster than our ships which were becoming obsolete and that, therefore, within a couple of years it would be necessary either to purchase new ships at a cost of about six and a half million dollars—to have them built or purchase them—or to get some private company to take these ships over since we ourselves would not be able to compete at that time. I do not mind saying that the idea of putting six and a half million dollars more by the Dominion government into ships considerably shocked me. Also I knew our past record of expenditures on ships and therefore I gave the subject considerable study and discussed it with the other members of the government. No final decision was arrived at because the question, like the other one we were

discussing this morning, is very complicated. For example, we have trade treaties with Australia and New Zealand, and the minute we begin dealing with this matter we have to deal with Australia and New Zealand. That adds a complication to it. I will illustrate that by one little instance. It had got into the papers some time ago that we were debating selling these ten or twelve ships which we have, and the representative of Australia got me out of council one day and wanted to know what we were going to do about the matter. They were particularly interested because there is a great deal of trade between the two countries.

Mr. BEAUBIEN: Is there anything in the agreement which compels the Canadian government to keep the steamships?

Hon. Mr. MANION: Not as far as I remember; but naturally in regard to Australia and Canada or New Zealand and Canada we would not like anything to interfere with our exchange of goods. Some companies—I do not wish to name them here, and there are certain things I do not like to say because the whole matter is sub judice so to speak—some private companies did come and make a proposal—at least they came and talked matters over with us first and made a proposal to Mr. Fullerton as chairman of the trustees because the trustees are also directors of the steamships—and I think the proposal took up about one page of ordinary writing paper, double spaced. I mention that because naturally in a proposal as brief as that there are many matters not dealt with. It is true that Mr. Fullerton wrote to me and said he was of the opinion that we should get out of the shipping business.

Mr. GRAY: We have been that way for some time.

Hon. Mr. MANION: Yes, for a long time. I have no quarrel with that.

Mr. HANBURY: As a matter of fact, it is part of the report of this committee.

Hon. Mr. MANION: I have no quarrel with that. I am of the same opinion. But it is not quite as simple as merely saying we should get out. That company when they made that proposal sent it to Mr. Fullerton and it was sent on to me, though I am not sure that they did not send me a copy direct. However, there are certain matters not dealt with at all. For example, their submission was very brief. They said they would take over the service but they did not say for how long.

Mr. GRAY: Perhaps, without prejudice, I might interrupt you there, because you were not here this morning, to say that when we were mentioning the question of the Dominion-Australian service that must be maintained it was stated to us this morning—if I am not correct, Mr. Fullerton will correct me—that they offered to maintain the service we have between Australia and New Zealand and they also offered to do it without a subsidy. Now, to my mind that is going a long way; I think it is a substantial offer.

Hon. Mr. MANION: Let me finish—

Mr. GRAY: I will.

Hon. Mr. MANION: That is correct in a sense; but they only said they would take over the service and do it without subsidy without saying for how long. They might take over the service—

Mr. HANBURY: You did not think to enquire?

Hon. Mr. MANION: I thought to enquire, of course, but I got no definite reply from them. They said they would take over the service and perform it without subsidy; but suppose at the end of a month or two they came back and said, "we have tried this out; we have taken over your ships; we thought we could do this without subsidy, but now we think we should be allowed a subsidy"—we would be in their hands. Now, they have never corrected that very important aspect of the case—never; and I may say that it is only one of the complications. They said they would put on the service, but they did

not even say in their submission anything about the class of boats they would put on. Conversationally, yes, they said they would be fast boats; but in this submission they did not say that and they did not say how often they would run the service, how often the trips would be. They implied that they would give the same type of service, and they implied, conversationally, that it would be a better service. It was not in the submission which they made to us, and they have never submitted to us a correction in regard to these definite points, the most important of which, without doubt, is that they shall carry on the service for some time. In my conversation with them before they made any submission—and I may say this that if they were going to make a proposition they must at least agree to carry out the service for a number of years—I pointed out what I am pointing out to you. Not only did I make the attempt to correct it, but I told them in advance before they made the submission that they must make a submission to us covering some stated period of time and I suggested five years at least and that naturally ten years would be preferred. They refused to tie themselves up that long and in their proposal to Mr. Fullerton they did not tie themselves at all.

Mr. HANBURY: Was that proposal after your conversation with them?

Hon. Mr. MANION: Yes. I am showing you how even with Mr. Fullerton's recommendation, and it was a personal recommendation—he said in his letter that he had not seen the other trustees—even with his recommendation and with the best intent we could not settle on a basis like that. They have never been more definite than that. I had them in my office. The negotiations are still going on. But what will ultimately come of it I do not know. I am most friendly to some proposal that will do the work, but I am not going to take a blind proposal of that kind, and I do not think any of my friends will suggest I should.

Mr. HANBURY: I understood that in your conversation with them that you laid it down as a requirement that in any deal that might be made they would have to enter into a contract for five or ten years. On a subsequent date they made a written offer to the chairman of the trustees.

Hon. Mr. MANION: That is right.

Mr. HANBURY: I think it is reasonable to assume that they were accepting your condition, otherwise they would never have made that offer.

Hon. Mr. MANION: Would you have accepted an agreement of that kind?

Mr. HANBURY: I would consider it of sufficient importance to do a little investigating and negotiating.

Hon. Mr. MANION: We haven't finished; but I told them that the offer was not definite enough, and they have never made it more definite.

Mr. HANBURY: Did you ever put down in writing to them what definite offer you would want from them?

Hon. Mr. MANION: No. They have made no other offer.

Mr. GRAY: Mr. Chairman and Dr. Manion, it seems to me that if the chairman of the board of trustees in whom is vested wide powers as chairman of the board of trustees, and one of the other commissioners recommended it, they must, as business men, have felt that it was definite enough for them to recommend to the government; and I think naturally—we are in the hands of the committee—without even giving the name because I am not concerned with the name—I think that this committee is entitled to know the offer and the recommendation which was made by Mr. Fullerton and the answer of the government. This is a very vital question. Mr. Hanbury has said we recommended in a report that the fleet be disposed of as soon as possible and apparently there was a definite offer, definite enough for the Chairman of the board to recommend to the government that it should be accepted. I think as far as I am concerned, and with all due respect to the reply of the minister, I am not satisfied. Perhaps you would not expect that it would satisfy me—

Hon. Mr. MANION: Apparently it is very hard.

Mr. GRAY: That is the position I find myself in.

Hon. Mr. MANION: I cannot understand such a position, because surely neither you nor Mr. Hanbury would suggest that if a steamship company offers in a most indefinite way, in a letter it is true, but in a most indefinite letter, to take over the services without any specifications as to time, that you would—

Mr. HANBURY: I submit the time has been taken care of by your statement here this afternoon.

Hon. Mr. MANION: You may be satisfied that the man would come forward, but I am not quite satisfied with an agreement that has for its basis a conversation—

Mr. BEAUBIEN: Did they offer a price for the taking over of the line and so forth?

Hon. Mr. MANION: They offered a figure in regard to taking over of our boats, yes. They made an offer and certain conditions in regard to the taking over of the boats, yes.

Mr. BEAUBIEN: Suppose they had bought the boats; suppose you had accepted the offer or the Canadian National had accepted the offer in this form and they had taken over the lines and discontinued them in the period of the year, how much would the Canadian trade with Australia and New Zealand have suffered. You have to-day competition in regard to the steamship services between Australia and New Zealand with Canada and these steamships belonging to the Canadian National are losing money.

Hon. Mr. MANION: How much would the trade have suffered?

Mr. BEAUBIEN: Yes. How much, or would it have suffered at all?

Hon. Mr. MANION: Well I do not know.

Mr. BEAUBIEN: The reason I asked that question is you made reference to it a few moments ago.

Hon. Mr. MANION: Let me put this to you: Suppose that this company that made the offer—and I have it right under my hand—had taken the boats over and carried on for six months and then came to us and said, "We won't carry on this without a subsidy; we demand \$1,000,000 or \$2,000,000 a year subsidy," and we said, "We cannot see our way clear to pay that subsidy," and then they said, "We will take the service off altogether," you can easily see that our trade would suffer a great deal if that happened.

Mr. BEAUBIEN: Are there not other services other than this company and the Canadian National between Australia and New Zealand to-day that are quite satisfactory?

Hon. Mr. MANION: Not that I know of, no. There is no service at all to-day between Australia and New Zealand and Canada except ours. I think I am correct in that; I do not know of any other service. There might be the incidental boat.

Mr. HANBURY: The Canadian Pacific have services.

Hon. Mr. MANION: On the Pacific coast.

Mr. DUFF: I wonder if I can ask the Minister of Railways a question. What would happen if all the boats on the Australia-New Zealand route were lost this afternoon? Would you replace them or let private companies take care of the service?

Hon. Mr. MANION: I think I would let the private companies take it.

Mr. DUFF: Then all this talk about this losing trade is just a waste of time.

Hon. Mr. MANION: Who is wasting time?

Mr. DUFF: Everybody.

Mr. GRAY: Here is a chance to get rid of all the boats.

Hon. Mr. MANION: I do not follow what you mean.

Mr. DUFF: I mean if those boats were lost to-day the business of the country would be looked after by private enterprise.

Hon. Mr. MANION: It may or it may not.

Mr. DUFF: Perhaps we should never have obtained the boats in the first place. They have lost the country twelve millions of dollars and this government and previous governments and the management of the railway kept them when they should have got rid of them long ago.

Mr. GRAY: Now we had a chance and you refused.

Mr. DUFF: Why are they not sold?

Hon. Mr. MANION: I have no quarrel with you there. I think I am perhaps just as anxious to get out of this business as you are. I am certainly not anxious to get out of it in such a way that some private steamship company may hold us up and cut off trade altogether.

Mr. DUFF: How can they do that? You do not have to pay them a subsidy unless you want to.

Hon. Mr. MANION: Suppose they said, "We won't run."

Mr. DUFF: Who?

Hon. Mr. MANION: The private company who is going to take them over. Suppose they said, "We are not going to carry on a service between Australia and New Zealand from Canada."

Mr. DUFF: I think it is none of your business if they do not want to carry on. It is their business, not yours.

Hon. Mr. MANION: It is some of our business in regard to the trade with Australia.

Mr. DUFF: Trade will take care of itself, and the quicker we realize it the better.

Hon. Mr. MANION: That is a matter of opinion.

Mr. POWER: Are we to take it the reason why these boats were not disposed of was a matter of government policy and not a matter of economical operation of the railway? That is to say, it would have been better for the railway, as a road, if we had got rid of the boats.

Hon. Mr. MANION: It has nothing to do with the railway. They are a separate entity altogether, and not run in connection with the railway.

Mr. POWER: It would have been better for the Canadian National system or the Canadian National Steamships. We would have saved money if we had got rid of the boats. Is that a fair assumption?

Hon. Mr. MANION: I do not know that it is necessarily fair.

Mr. POWER: The country would have saved money.

Hon. Mr. MANION: Probably. We are running these boats at the present time at an operating loss, generally speaking, not only a loss in depreciation and interest, but an operating loss generally. There are exceptions in regard to that. Generally speaking we are running them at a loss, but at the same time there are compensations. For example, we are doing a good trade with Australia. Surely it is important to us to sell our goods to Australia.

Mr. POWER: Wait a minute. This committee decided, and everybody that I ever heard mention the matter said the best thing for us to do was to get out of this Canadian National Steamship line. At that time we must have taken the business end of it into consideration, and we decided as a matter of principle that if there was any possibility we would get out of it. Then after hearing

what the minister says to us today I am all the more anxious to get out of it because of the possibility of it costing us \$6,500,000 shortly to renew those boats, to bring them up to date, to replace them.

Hon. Mr. MANION: Within two years.

Mr. POWER: The only reason why we did not take advantage of the offer made to us, which will first of all save us those deficits and, secondly, save us a proposed expenditure of \$6,500,000, is a matter of government policy?

Hon. Mr. MANION: No.

Mr. POWER: Administration policy. We would not get that trade with Australia?

Hon. Mr. MANION: No; I do not admit that. The reason we have not got rid of them is that they did not make an offer which was satisfactory. The offer to take over the boats, as I said—

Mr. HANBURY: The offer was satisfactory to the trustees, but not satisfactory to the government.

Hon. Mr. MANION: The trustees have to submit it to the government. It was not satisfactory to the trustees; it was satisfactory to one trustee.

Mr. HANBURY: Two trustees.

Hon. Mr. MANION: I have never had any word from any other trustee than Mr. Fullerton.

Mr. BEAUBIEN: Did you get an expression from one of the others?

Hon. Mr. MANION: Mr. Fullerton distinctly states in his letter to me that he had not discussed it with any of the trustees. What he might have done since, I don't know. I can only tell you what he said in his December letter. I have the letter here, and I think he will agree with me.

Hon. Mr. FULLERTON: I had not discussed it at that time.

Mr. GRAY: You admit that point?

Hon. Mr. MANION: What?

Mr. GRAY: The suggestion of Mr. Justice Fullerton.

Hon. Mr. MANION: The reason I did not accept it was I did not think it was a satisfactory offer, and I have not changed my mind by anything I have heard this afternoon.

Mr. GRAY: Might not the committee be taken into your confidence?

Hon. Mr. MANION: If it is the desire of the committee I don't mind at all.

Mr. DUFF: What was the offer?

Hon. Mr. MANION: The offer was to take over the boats or the service, without subsidy. There was no details as to the service or the length of time of the service. True, they said without subsidy, but they did not say without subsidy for any period of time. If they had said, we will do this for ten years, or some specific time, perhaps I might have cut it down to five years—

Mr. DUFF: How were they going to pay for the boats?

Hon. Mr. MANION: They were to be paid for in instalments.

Mr. GRAY: How much?

Hon. Mr. MANION: \$500,000.

Sir EUGENE Fiset: As the minister has given us parts of the offer, is there any objection to Mr. Fullerton's letter, as well as the offer of the company being given to the committee for our perusal?

Hon. Mr. MANION: I will tell you gentlemen. I do not know that there is any great objection except this, when a matter is still being considered by two parties, it is not, generally speaking, advisable to tell the whole world the details of the conversations. I have only the interests of the Dominion at heart. I am not arguing with anything personal in this matter.

Mr. POWER: We have the price offered. We have practically the terms; we have practically pretty nearly everything, I do not know anything else.

Hon. Mr. MANION: I do not mind saying I think you have got more than we should have given you in the circumstances. I have no personal feelings in the matter; but I do not think it is good policy.

Mr. DUFF: Is this the reason Mr. Allan resigned?

Hon. Mr. MANION: You had better ask Mr. Fullerton about that. I had nothing to do with it.

Mr. DUFF: I am asking somebody. Is this the reason the general manager of the Canadian National Steamship resigned?

Hon. Mr. FULLERTON: No.

Mr. DUFF: Why did he resign?

Hon. Mr. FULLERTON: The reason is that we asked him to resign.

Mr. DUFF: That is not sufficient for this committee. I want to know why he resigned. What was the reason for him resigning? We are entitled to know why he had to resign.

Hon. Mr. FULLERTON: I would prefer not to go into that matter unless the committee compels me to do it. If the committee compels me to do it, I am perfectly satisfied to give the reasons why his services were not satisfactory to the management.

Mr. POWER: That is enough.

Mr. DUFF: That is all right.

Mr. GRAY: Just one moment, Mr. Chairman. If there was an offer, whether it was indefinite or not is a matter of interpretation, perhaps, or certainly a matter of judgment. Certain instructions were then given why it would not be accepted at least in the terms in which I am taking it from what you have already stated. Now, what instructions were then given either by you or the Governor in Council to the Chairman of the Board of Trustees as to further negotiations to be carried on as between the company and the Merchant Marine.

Hon. Mr. MANION: No further instructions were given, but we took the attitude at that time—I on behalf of the government—took the attitude at the time we would not accept the offer as it was submitted to us.

Mr. GRAY: It apparently appeared a fairly decent offer? There are a few blanks to be filled in, but surely if the minister is sincere, and I have no doubt he is, in wanting to get rid of the service, and if he has told us there was this definite offer made with the exception that there are a few blanks, but there certainly was an offer upon which to base future negotiations. Are there any negotiations taking place?

Hon. Mr. MANION: Negotiations are on now.

Mr. GRAY: This was last November, six months ago.

Hon. Mr. MANION: No, December 1st.

Mr. GRAY: Then we will have the last day of November or the 1st of December, December, January, February, March, and part of April; will the minister tell us what further negotiations have taken place, because there has been plenty of time to have further negotiations.

Hon. Mr. MANION: I made it perfectly clear to the steamship company's concerned, unless they were definite in their proposal in regard to time, that we could not accept it, and they have never been definite since then. A few days ago,—and it has nothing to do with this committee—incidentally due to the fact there has been published—I will tell this, though perhaps I should not—some other foreign lines are thinking of getting into this service to a certain extent and would cut into the traffic of the Canadian National Steamships, I asked these companies to come and see me again. They saw me at the end of last week.

Mr. DUFF: The business would be done by other companies outside of the Canadian National Steamships?

The CHAIRMAN: Let us get this.

Hon. Mr. MANION: I do not know that.

Mr. DUFF: You said so.

Hon. Mr. MANION: No, I said some other companies were going to put certain services on that would cut in. Not necessarily regular services. The services the Canadian National Steamships are carrying on between Australia and Canada are regular services.

Mr. DUFF: True. But steamship services were carried on before this government ever built these boats in 1920 and 1921.

Hon. Mr. MANION: I presume so.

Mr. DUFF: And it will be done again.

Hon. Mr. MANION: I hope it will. But you will agree that we are carrying on quite a large trade with Australia and New Zealand, and incidentally a trade which is much more in our favour than theirs. In other words, we are selling them much more than they are selling us. Surely you will agree with me that it would not be wise to close out with a private company and unload all our boats and rest entirely in the hands of a private company. No matter how good a private company may be I should like some terms from the company as to the future carrying on of the service.

Mr. DUFF: What proportion of this business is done now by the Canadian Government Merchant Marine, with respect to Australia and New Zealand?

Hon. Mr. MANION: I don't know what proportion. I think most of it.

The CHAIRMAN: Most of it.

Hon. Mr. MANION: The Chairman says most of it. Incidentally, may I say that this is something they have added. Mr. Fullerton will bear me out in this, that the steamship management strongly recommended against the doing of this.

Mr. HANBURY: Why?

Hon. Mr. MANION: They gave reasons.

Mr. GRAY: Did they report to the Minister?

Hon. Mr. MANION: They reported to Mr. Fullerton and Mr. Fullerton sent it on to me.

Mr. GRAY: I can only judge by Judge Fullerton's expression of opinion, and I ask is that correct.

Hon. Mr. FULLERTON: I did not catch the statement.

Hon. Mr. MANION: He means the statement that the steamship management reported against selling these ships and perhaps building instead of selling.

Hon. Mr. FULLERTON: Yes. That was a long time ago. I think Mr. Allen was fully in favour of selling, as far as I know.

Mr. GRAY: Does the Minister agree with that opinion?

Hon. Mr. MANION: I would like to look up the date before I agree with it. I did not think it was so long ago.

Mr. GRAY: Let us have the date then.

Mr. POWER: I would rather hear you scrap than Bill Duff and Bill Euler.

Mr. CANTLEY: There is another point. Can the railway officials tell us how much freight originates on the Canadian National Railways, that is handled in connection with these boats?

Hon. Mr. FULLERTON: We could.

The CHAIRMAN: How much originates from the railways? It might originate on either of the roads.

Mr. GRAY: I will wait for Dr. Manion.

The CHAIRMAN: What is it?

Hon. Mr. MANION: I was looking up Mr. Allen's letter.

Mr. GRAY: The Minister's statement is that the officials of the Merchant Marine did not approve of this.

Hon. Mr. MANION: No, and they gave reasons. I might give some of the reasons. They said if we hand over these services to private companies, it would mean we would have fewer Canadian employees on the ship and less Canadian supplies would be purchased for the ships; and all these advantages would go to the British instead of Canadians.

Mr. GRAY: And the Chairman's statement is that that was some considerable time ago, perhaps before this definite offer was made?

Hon. Mr. MANION: I don't think so.

Hon. Mr. FULLERTON: I have a letter here from Mr. Allan, dated November 5, 1934, in which he says, after dealing with the ships:—

Unless, therefore, the government decides to build new tonnage for this fleet, the only alternative is to withdraw from the service, as certainly the amount of money involved in passing the present steamers through their second No. 1 survey is not warranted. I would recommend, however, that serious consideration be given to new tonnage, either built in Canada or the United Kingdom. If built in Canada, this tonnage would cost between 30 and 40 per cent higher than if purchased in the United Kingdom. But should the government decide to continue to operate this service, to build new tonnage at the present time would be of great benefit to the unemployment relief situation. The additional expenditure over the quotations of British yards could be paid as a subsidy to the builders in Canada from the emergency relief fund. This would mean the employment of approximately 750 men for each vessel in the yards and a similar number employed in the various trades making material for the construction of these vessels. I firmly believe that if this tonnage were laid down at a reasonable cost to the operating company, it would be a remunerative undertaking to the government and would also give the government control of the freight situation.

While it is true that, without doubt, private interests would be glad at the present time to take over the operation of this service as soon as the government fleet was disposed of, a demand would be made for subsidy. In the past a subsidy was paid prior to the inception of the C.G.M.M. service, but the steamers operating under the subsidy did not return to Canada. Their voyage was concluded in either Australia or New Zealand, from which countries they proceed to their home ports in the United Kingdom.

Further, by government operation the employment of masters, engineers and crew is secured to Canada. All repairs, purchases etc. are made in this country, whereas under a subsidy arrangement these moneys would all accrue to Great Britain.

There is still another point to be considered in respect to this matter, and that is if the ships are disposed of it will throw out of employment 400 men, not to mention the shore employees of this company, and the effect it will have on the longshoremen's situation in Montreal, Saint John and Halifax and the shipyards in those ports which depend on the government owned steamers for the basis of their revenue.

That is on November 5.

Hon. Mr. MANION: That is the letter to which I referred.

Mr. DUFF: Did I understand you to say that Mr. Allan recommended the selling of these boats?

The CHAIRMAN: That letter is in favour of the substitution of new tonnage.

Mr. GRAY: Either one or the other had to be done.

The CHAIRMAN: The Dominion of Canada had supplied all the service.

Mr. GRAY: Let me ask this of the Minister or the Chairman: I thought the firm making the offer apparently was a firm quite capable of giving the service.

Mr. MACMILLAN: How do you come to that conclusion?

Hon. Mr. MANION: I think that is quite correct.

Mr. MACMILLAN: Was it a new company?

Hon. Mr. MANION: No, it was not. It was an old standing company. As a matter of fact, before we get away from it, I have no particular objection to tabling the letter of the company and tabling the letter of Mr. Fullerton to me. But I repeat—and the committee can take its own responsibility—there is nothing to hide about this thing. The committee can take its own responsibility. If it is the desire of the committee that I table these letters, I have no particular objection.

Mr. GRAY: If the Minister says that the negotiations are still on, and the offer still being negotiated, I still reiterate that as far as I am concerned, it should have been accepted, from what we know now. That is merely my personal opinion. But if it is not, then I am prepared not to press the question further. But I think from what we know—and I have at least as much right to my opinion as anybody—I would be prepared to say that the recommendation of the Chairman should have been followed by the government.

Mr. MACMILLAN: Do I understand from that letter which Judge Fullerton just read that this would cause the throwing out of employment of 400 Canadian seamen?

Hon. Mr. FULLERTON: Necessarily it would throw a number of men, a number of Canadians, out of employment.

Mr. MACMILLAN: Who would they be replaced by?

Hon. Mr. FULLERTON: They would be replaced probably by Englishmen.

Mr. POWER: They are all Englishmen now.

Hon. Mr. FULLERTON: Yes, most of them.

Mr. POWER: They are all Englishmen on those boats now. I'll bet there is not 10 per cent of them that are Canadian born, on those boats.

Hon. Mr. MANION: I don't know anything about it. Mr. Allan, in that letter which Mr. Fullerton just read, does not quite agree with that.

Sir EUGÈNE FISET: What I would like to know is this: Was the offer by this famous company made direct to the Chairman of the Board of Trustees or to the Minister?

Hon. Mr. MANION: To the Chairman.

Sir EUGÈNE FISET: Then Mr. Fullerton wrote to the Minister recommending that the offer be accepted.

Hon. Mr. MANION: He, personally, did.

Sir EUGÈNE FISET: Why were not further negotiations carried on by the chairman of the Board of Trustees instead of by the government?

The CHAIRMAN: Negotiations, in the first instance, were carried on through the Minister by conversations.

Sir EUGÈNE FISET: As the chairman of the Board of Trustees the administration of the Merchant Marine as well as of the Canadian National Railways,

it seems to me that if the offer had been made to him after he had written the letter, the Minister should have carried on further negotiations through the chairman of the Board of Trustees.

Hon. Mr. MANION: Possibly, but remember this—

Sir EUGÈNE FISET: I remember the statement you have made now and in the House of Commons, that the government has nothing to do with the administration of the Canadian National Railways.

Hon. Mr. MANION: Yes. This is steamships.

Sir EUGENE FISET: And also that the same thing applies to the Canadian Government Merchant Marine. In view of the fact that the chairman of the Board of Trustees is a director with regard to the board of the Dominion Merchant Marine, it seems to me that he has power of dismissal as well, without interference.

Hon. Mr. MANION: That is true.

Sir EUGÈNE FISET: Therefore he is the administrator.

Hon. Mr. MANION: Yes.

Sir EUGÈNE FISET: It seems to me that negotiations with the company should have been carried on through the Chairman of the Board of Trustees.

Hon. Mr. MANION: Let me answer that as I see it. In regard to the operation of these lines—in regard, for example, to the dismissal or retention of Mr. Allen which has been brought out this afternoon here, I had nothing whatever to do with that. That is entirely in the hands of the directors of the Canadian National Steamships and the Canadian Government Merchant Marine, who have to be appointed by order in council; and we appointed the Canadian National trustees as steamship directors. But any question of policy, as to whether we will keep part of this line or sell that off, is entirely a question of government policy which has to be submitted to the government. Therefore it is a question which has to be decided finally by the government, just as it would be a question of policy for this government to decide to put the Intercolonial back under separate management from the rest of the roads. That is government policy. But the operation of the Intercolonial is entirely in the hands of the management of the Canadian National Railways.

Mr. POWERS: May I point this out. I sort of took that attitude when this Canadian National-Canadian Pacific bill was being discussed. I thought myself, and a great many others, that this bill was going to do away with political interference, divorce the road from politics. I pointed out then that it might divorce the road from petty politics in the way of making appointments, but it would not from the policy of the government; and I was more or less laughed at. I take it now that no matter what the decision of the Board of Trustees may be as to efficient management, if that decision interferes with what I might call the broad policy—I am not talking of the little, petty politics, but of the broad policy—of the government, then the government will step in and interfere.

Hon. Mr. MANION: I don't want my hon. friend to say what the government policy is for me. I will say what I think the government policy is.

Mr. POWER: It is a question of government policy.

Hon. Mr. MANION: It is certainly entirely a question of government policy; the question of our external trade, the question of our trade relations with Australia and New Zealand, the question of the conditions on which we carry on trade, is entirely a question of government policy. And furthermore, let me make this clear: We should not confuse the Canadian National Railways with the Canadian Government Merchant Marine. They are two entirely separate things. The Canadian Government Merchant Marine is run by the trustees, as it happens, at our appointment, as directors of the organization; but it has got nothing whatever to do with the Canadian National Railways.

Mr. POWER: May I ask this, and it is purely for information: I am reading from the Canadian National-Canadian Pacific Bill, Section 3, Subsection (e);—

“National Railways” means the National Company, as owner, operator, manager and otherwise, and its transportation, communication and hotel system, which system shall be deemed to comprise all companies which are elements of the Canadian National Railways as defined in the National Act, the respective undertakings of such companies, the National Company in its capacity as owner, manager or operator, in whole or in part, of any railways, including Canadian Government railways, or of any land, water or air transportation or communication services or hotel services, and the said railways and services, their works and property, and all such works and property as are ancillary.

How does the Canadian Government Merchant Marine come in that?

Hon. Mr. MANION: It does not come in there at all. It is not included in any shape or form.

Mr. POWER: It was not a water transportation system under the bill.

Hon. Mr. MANION: No. Let me explain what I mean by water transportation. The Canadian National Railways has some water transportation. They have some boats that run out on the Pacific coast, that have nothing whatever to do with the government at all. They are part of the Canadian National Railways. They have nothing whatever to do with the Canadian National Steamships or the Canadian Government Merchant Marine. The Canadian National Steamships and the Canadian Government Merchant Marine are separate companies. We appoint by order-in-council, as a rule, the Canadian National trustees as the directors of the steamships. But they are entirely separate and distinct from the railways. Their deficits have been dealt with separately, nothing to do with the railways at all.

The CHAIRMAN: Something like the Hudson Bay Railway.

Mr. POWER: Then I take it that the trustees have not the same authority in dealing with the Canadian Government Merchant Marine as they have in dealing with the railways.

Hon. Mr. MANION: They have the same authority in this way, that they manage them and operate them. We do not intrude at all in the operating. But when it gets down to a question of government policy in regard to their routes, in regard to the services between here and Australia, that is a matter of government policy.

Hon. Mr. EULER: Or even in regard to the sale of ships.

The CHAIRMAN: Sale of the assets of the company.

Hon. Mr. MANION: Of course they cannot sell one of the vessels without submitting it to us for approval.

Mr. POWER: And they are appointed, as I take it, as directors from year to year.

Hon. Mr. MANION: Well, I don't know about from year to year. I think it is done once, and they carry on until their successors are appointed.

Mr. POWER: They are not appointed by statute?

Hon. Mr. MANION: No.

Mr. HANBURY: Successors can be appointed at any time?

Hon. Mr. MANION: Yes.

Mr. POWER: I take it that we are operating this Canadian Government Merchant Marine service not in order to derive a profit, but in order that we may make it fit in with the Department of Trade and Commerce, for instance, or other branches of the government?

Hon. Mr. MANION: In a general way, that is more or less correct. That would have a bearing on the question.

Mr. POWER: It has more than a bearing; because I understood from the Minister the reason why he did not sell these ships or did not favour the sale of these ships, which otherwise would have been a good thing, is that we have certain trade arrangements with Australia which we want to carry out.

Hon. Mr. MANION: Partly that, but the most important reason is that the people who made the offer to me did not make a definite offer.

Mr. POWER: If that was not in the Minister's mind, he would not care.

Hon. Mr. MANION: Perhaps that is right.

Mr. POWER: What is in the Minister's mind is that he wants to carry out those trade arrangements with Australia.

Hon. Mr. MANION: That has its influence.

Mr. POWER: If he was looking at it purely from the standpoint of economic administration of these ships, he would say, "Yes, sell them."

Hon. Mr. MANION: I think so.

Mr. POWER: We all agree on that.

Hon. Mr. MANION: If there was no trade necessity mixed up in it.

Mr. GRAY: Does the Minister ever expect to be able to sell to a private corporation, with a definite time in which they must operate a service between Canada and New Zealand? If he does, we will have this competition, and we may as well get into the game and build new ships; because the Minister will not suggest that any private corporation, if they find the service losing money, will not get out of that service.

Hon. Mr. MANION: Let me show you how wrong you can be, with all your assurance.

Mr. GRAY: It is mutual.

Hon. Mr. MANION: This group that made this offer was in my office last week, and they left my office and were going to submit to us a more definite proposition within a few days; and they said they would endeavour—

Mr. GRAY: With respect to the time?

Hon. Mr. MANION: Certainly; that was my need. If these people had come to me and said that they would not only take over our boats, but that they would carry this out for some definite time, I think I would have recommended to the government to close out the deal at once. But when they came to me and made the offer they made, which might be disregarded at the end of three months or a month for that matter, as to which they might say, "We will not carry along this service at all between Canada, Australia and New Zealand, unless you pay us \$1,000,000, \$2,000,000 or \$3,000,000," since we have very important trade relations with Australia and New Zealand, I could not recommend it. That is the whole answer. I do not understand any of you gentlemen taking a view to the contrary.

Mr. DUFF: How could you bind them down?

Hon. Mr. MANION: They are responsible people, they are big people.

Mr. GRAY: Why bind them?

The CHAIRMAN: Gentlemen, we are talking about—

Hon. Mr. MANION: Let me answer that question.

Mr. DUFF: Well, what would you do if they didn't want to be bound?

Hon. Mr. MANION: If they made a contract with us for, say, five or six years; they are responsible companies—they are outstanding shipping companies—surely my honourable friend down there does not suggest that they would break

their contract, or that we would not have any redress in such a case. These people are operating a service to Europe and to other parts of the world at the present time.

Mr. DUFF: Things might turn up in the course of 2 or 3 years so that they might not be able to fulfil their contract.

The CHAIRMAN: Gentlemen, we are on section 294, the Canadian Government Marine, Limited. The discussion is as to the payment of \$45,000 to be provided, and Mr. Gray introduced the subject of the suggested sale of the fleet. That has been gone into very fully, and the Minister says it is still under negotiation. I think probably there is no further information they want on that then, is there? I mean, we have got to get along; if there is anything we ought to know, or that you think it is wise we should discuss, well and good; otherwise we might dispose of this item.

Mr. MACMILLAN: Carried.

Mr. GRAY: Oh, no; my hon. friend from Saskatoon should not say carried.

The CHAIRMAN: I just want to say this; I do not think there is much more to be said—unless you have a suggestion as to what we should discuss.

Mr. GRAY: I am quite prepared to take the word of the Minister.

Mr. BEAUBIEN: Do I understand that your answer to the question, Mr. Fullerton, is that Mr. Allan was dismissed for unsatisfactory services.

Hon. Mr. FULLERTON: I said, his services were unsatisfactory to the management.

Mr. DUFF: Might I ask if the docking of a ship in New York was not the reason for his resignation?

Hon. Mr. FULLERTON: No. The fact that he docked his ship in New York alone had nothing to do with it.

Mr. DUFF: Did he resign before that time?

Hon. Mr. FULLERTON: No, he resigned afterwards.

Mr. BEAUBIEN: How long was it after you wrote the letter which you have just read, the letter in regard to the sale of these boats?

The CHAIRMAN: What is the date of his resignation?

Hon. Mr. FULLERTON: About two weeks ago.

Hon. Mr. MANION: His letter was dated in November.

Mr. BEAUBIEN: What I mean to say is, what was said in that letter had nothing to do with his unsatisfactory services.

Hon. Mr. FULLERTON: Oh, no, no.

Mr. HANBURY: Mr. Chairman, I gather from what Hon. Dr. Manion said that there was approximately a value of about half a million dollars for all of these vessels.

Hon. Mr. MANION: That is right.

Mr. HANBURY: But I notice in the balance sheet of the Merchant Marine that they show these vessels valued at nearly \$20,000,000.

The CHAIRMAN: What page are you looking at?

Mr. HANBURY: That is on page 4.

Hon. Mr. MANION: That is the cost, Mr. Hanbury.

The CHAIRMAN: That is the book cost.

Mr. HANBURY: That may be the cost, but certain provision has been made in the past for depreciation.

The CHAIRMAN: Now, Mr. Hanbury, will you look at the next page; there is a charge against that of accrued depreciation of nearly \$10,000,000.

Mr. HANBURY: The point I am trying to establish is, what has been the total cost of these vessels to the people of Canada since the inception of the company.

Hon. Mr. MANION: What page is that, Mr. Hanbury?

Mr. HANBURY: Page 4; what I want to get at is the total cost of these ships to the Canadian people since the inception of the company—or the total loss—valuing the vessels remaining at \$500,000.

The CHAIRMAN: It shows a depreciation charge of nearly \$10,000,000.

Hon. Mr. FULLERTON: Putting the value of these ships at \$880,000, the total loss to date would be \$82,101,000.

Mr. DUFF: That would be nearly \$83,000,000.

The CHAIRMAN: On how many tons is that?

Hon. Mr. FULLERTON: At \$10 a ton that would be \$885,000.

Hon. Mr. EULER: Is that taken into account in these discussions?

Mr. HANBURY: It shows a total loss of \$80,000,000, over a period of how many years?

Hon. Mr. FULLERTON: From the beginning, about 1920.

Hon. Mr. MANION: From 1919 and 1920.

Mr. HANBURY: I am assuming from this report that the loss of 1933 was approximately \$18,000; as shown on page 7; and that the loss of 1934 was approximately \$127,000.

Hon. Mr. FULLERTON: That is correct.

Mr. HANBURY: And that the loss this year is approximately \$45,000.

Mr. COOPER: That is apart altogether from depreciation?

Mr. HANBURY: I understand that is operating deficit.

The CHAIRMAN: Well, that is the information you wanted. Did you want something, Mr. Euler?

Hon. Mr. EULER: It is just a passing thought in my mind; I wonder whether we could get the information. I am wondering if we could get the amount indicated as their value for these boats. What occurs to me is, would anybody want to buy them? If they bought them I suppose they would be bought for the purpose of making money; I was wondering whether they are worth a half a million dollars.

Hon. Mr. FULLERTON: I think probably whoever buys these boats will junk them and build fast boats.

Hon. Mr. EULER: Just to get them out of the way.

Hon. Mr. FULLERTON: It is just a nuisance value, that is all.

Hon. Mr. MANION: They may have real value in some foreign country, in certain sections of the world; that is true of some that have been sold during the past two or three years, but quite a few of these boats have been sold and broken up for junk.

Hon. Mr. EULER: The Japs got some of them didn't they?

Hon. Mr. MANION: Not directly.

Mr. POWER: What was the price obtained for these boats up to the present?

Mr. COOPER: It varies considerably.

Mr. POWER: I don't want it in detail, just in a general way.

Hon. Mr. FULLERTON: There were 25 vessels sold prior to 1930, aggregating in tonnage 98,735 at an aggregate sale price of \$1,608,526, an average of

\$16.29 per ton. Since 1930 up to date there have been sold 22 vessels with an aggregate tonnage of 148,878, and an aggregate sales price of \$411,410; or an average per ton of \$2.76.

Mr. POWER: What would this make it per ton?

Hon. Mr. FULLERTON: That would make it \$4.74 per ton.

Mr. POWER: That is just double what we have been getting up to the present.

Hon. Mr. FULLERTON: There was an average of \$2.76 per ton when we sold ships in 1930, and since. From 1930 to date there were 22 disposed of having an aggregate tonnage of 148,878; and that is \$2.76 per ton.

Hon. Mr. MANION: Just a moment now; your figures are probably correct, but according to the figure I have here on page 9 of the report, 10 vessels are shown with an aggregate tonnage of 88,579 tons; if you sold them for \$500,000 odd it does not work out at \$2.76 per ton; it works out at \$6 per ton.

Mr. POWER: He said \$4 something.

Hon. Mr. MANION: Later he said, \$2 something didn't he?

Mr. POWER: That was for the other boats.

Mr. CANTLEY: How much did you get for the *Pioneer* shown on page 6.

Hon. Mr. FULLERTON: \$10,000.

Mr. POWER: What was her tonnage?

Hon. Mr. FULLERTON: 8,408.

Mr. POWER: Then, for the last boat sold we got \$1.25 a ton.

Hon. Mr. FULLERTON: I did not think we had sold any as low as that.

Mr. POWER: What was obtained for the *Pioneer*?

Hon. Mr. FULLERTON: The price realized was \$10,000; she was a ship of 8,408 tons.

Mr. POWER: And the last vessel sold prior to this was in 1933—am I right in that?

Hon. Mr. FULLERTON: Yes.

Mr. POWER: And she was sold in 1933 for approximately \$10,000; she was an 8,000 ton vessel, therefore we received for her about \$1.25; and the offer for the whole lot was about \$4.75 per ton.

Hon. Mr. FULLERTON: The average was \$4.74.

Mr. LABELLE: At any rate, the *Pioneer* was only scrap value. She had been laid up at the wharf in Montreal for years. We sold some for much more than that. The *Prospector* was sold for \$35,000 in 1933, and she was an 8,000 ton ship. The price obtained depends on the condition of the ship.

Mr. DUFF: Mr. Chairman, if I may be allowed to answer hon. Mr. Euler's question as to whether a private company would take over these boats and operate them and hope to make a profit; perhaps one of the reasons is that the cost of operating these 9 ships last year, for management and so on was \$57,000. A private company in my opinion would operate them for at least a quarter of that amount.

Hon. Mr. MANION: I do not think they intended to operate these ships, according to the statement they made to me; they wanted to buy the ships and get them out of the way.

Mr. DUFF: Private management would operate these ships at a much smaller cost than is the case with the Canadian Government Merchant Marine. I notice here that management and office salaries are over \$42,000 for the 9 vessels. My opinion, and I have expressed it at other sittings of this committee,

is that this cost is ridiculous; that 9 vessels making a total of 24 voyages should cost the Canadian Government Merchant Marine \$57,000—there is something there.

Hon. Mr. MANION: And, might I add, they have made very marked economies in the last two or three years without which conditions would have been very much worse.

Mr. HANBURY: I would like if I might to get information from the officials as to the value of the commodities transported during the past year—if that information is available.

The CHAIRMAN: That can be got?

Mr. HANBURY: The point that I have in mind in connection with that is that it is absolutely contrary perhaps to many observations.

Hon. Mr. FULLERTON: You mean the value of the commodities, or the amount of freight?

Mr. HANBURY: The value of the commodities. The point that I wish to make in connection with that, Mr. Chairman, is this; we have absorbed the whole of the loss on these 9 or 10 vessels to date until they represent a value of only half a million dollars. That is possibly less than what we could get from somebody else for them; and it is going to cost us \$45,000 to operate them in a competitive service which will enable Canadian people to market their products in the other parts of the world, and to purchase the products of Australia, New Zealand and other countries. Having absorbed our losses, if we can maintain these boats in service at a cost of around \$45,000 a year, it might be a well advised policy on behalf of the Canadian people to continue them in service.

Hon. Mr. FULLERTON: Of course, Mr. Hanbury, you must remember this; if this service is to continue you must build new ships. At the present time our boats are slow, old tonnage that is out of date. At this very moment there is a service advertised by the American government which is to sail between Montreal and Australia and New Zealand—to come on I think next month if I am not mistaken.

Mr. POWER: Backed by the American government?

Hon. Mr. FULLERTON: Yes. We can't touch their fast motor boats, and we can't begin to compete with this competition; it is out of the question.

Mr. HANBURY: But the fact remains, Judge Fullerton, that in meeting this competition you have your cost reduced to \$45,000 a year.

Hon. Mr. FULLERTON: But we will not be able to compete with this new service, which is practically direct between Canada and Australia and New Zealand. They propose to put on a direct service right from Montreal to New Zealand in direct competition with us, and that is going on.

Mr. BEAUBIEN: Can you not compete?

Hon. Mr. FULLERTON: We cannot begin to compete.

Mr. BEAUBIEN: You suggest that your loss instead of being \$45,000 would be infinitely more?

Hon. Mr. FULLERTON: If they put on these boats we do not know what the loss would be.

Hon. Mr. MANION: May I say for the information of the committee that the reason we have begun to negotiate further was to try to make these people give us a definite offer.

Mr. POWER: All right. It would be a good foundation for a sale particularly if they know that in two years you are not going to have the service.

Hon. Mr. MANION: Suppose, when we are re-elected, we choose to build new ships?

Mr. POWER: If you do not spend six million you will not have the service at all.

Mr. HANBURY: Even you, after your re-election, if it were possible, will not have the nerve to ask for that much money.

Hon. Mr. MANION: I have not thought of doing it.

Mr. HANBURY: Have you any thought of being re-elected?

Mr. DUFF: Hope springs eternal in the human breast.

Sir EUGENE Fiset: May I ask the chairman one question: how many ships were sold since the board of directors took office?

Hon. Mr. FULLERTON: One.

Mr. LABELLE: One was sold before but the sale was completed in 1934.

Sir EUGÈNE Fiset: Was the sale directed by the trustees without consultation with the Department of Railways?

Hon. Mr. FULLERTON: No. We cannot do that.

Sir EUGÈNE Fiset: Do you need an order in council to dispose of any one of these ships?

Hon. Mr. FULLERTON: Absolutely. We must have it.

Mr. BEAUBIEN: I would like to ask Dr. Manion a question. In view of the fact that the chairman of the board of trustees has told us that there is a service that runs from Montreal to New Zealand and Australia which is a much faster service than these boats can give, would not your reason for negotiating a contract with these people be much stronger than when you got the first offer?

Hon. Mr. MANION: Possibly. Of course, we could not foresee that there was going to be some other group come in and carry on the service. As a matter of fact it is not a service, it is a trip or two. It may not be a service at all. They may put on an odd trip and then turn away altogether; but naturally if they put on a trip which is twelve days faster than ours they will get some of our traffic—there is no doubt about that—even if it is an odd trip. They have not advertised a service; they have said, "we are going to run a ship leaving Australia on the 15th of April."

Mr. POWER: Who said that?

Mr. LABELLE: An American line.

Mr. POWER: I thought possibly it was the American Government Shipping Board.

Hon. Mr. MANION: Mr. Fullerton said that, but I hardly think it is correct.

Hon. Mr. FULLERTON: That is hardly correct.

Mr. SMART: It is the Pioneer Steamship company.

Hon. Mr. MANION: The American Pioneer line operated for the United States Shipping Board by the Roosevelt Steamship Company Incorporated.

Mr. POWER: It is an American government concern, is it not? What is the American Shipping Board? It is operated for the American Shipping Board, is not that what you said?

Mr. SMART: That is what the heading says.

Mr. POWER: Is the American Shipping Board the American government?

Mr. SMART: No, I think it is a separate board under their shipping act, that has certain control.

Mr. POWER: Is the *Pioneer* by any chance our *Pioneer* that we sold? Is it?

Hon. Mr. MANION: You are too funny.

Mr. POWER: Perhaps they have speeded her up or something.

The CHAIRMAN: Mr. Duff, you had a question to ask.

Mr. DUFF: I understand that the vote for the Canadian National Steamships is passed. I am sorry I was not here. I would like to ask the trustees if they have had any complaints from passengers going from Canada to Bermuda with regard to paying a head tax when they arrive at Bermuda, and whether they have done anything about it?

Hon. Mr. FULLERTON: We have had no complaint.

Mr. DUFF: I may tell the trustees that there is a good deal of complaint that when passengers arrive at Bermuda they have to pay a head tax of \$10 a head. Now, passengers coming into this country from Bermuda pay nothing. It seems to me that negotiations should be carried on either by the Canadian National steamships or the trustees or the government to see that Canadian passengers landing at Bermuda should not have to pay this head tax.

Hon. Mr. FULLERTON: I knew they had a head tax, but we have heard no complaints.

Hon. Mr. MANION: You will hear it when you are landing in Bermuda.

Mr. DUFF: Yes.

Hon. Mr. FULLERTON: Speaking about these American ships, I think about 60 per cent of our imports are landed at New York and Boston—wool and that sort of thing.

Mr. BEAUBIEN: From Australia and New Zealand?

Hon. Mr. FULLERTON: Yes. We are afraid that those American boats are getting a lot of that traffic.

Mr. POWER: 60 per cent of the imports?

Hon. Mr. FULLERTON: From Australia. I am not sure of the exact amount.

Hon. Mr. MANION: Not imports into Canada.

Hon. Mr. FULLERTON: No. Carried in our bottoms to the United States to New York and Boston.

Mr. BEAUBIEN: Boston is the big wool market in the United States.

Hon. Mr. FULLERTON: Yes. Practically all our wool is landed in Boston, I understand.

Mr. CANTLEY: My objection in regard to spending \$45,000 a year is that the people who get the greatest advantage from the expenditure are the automobile people who are enjoying the protection of over 50 per cent to-day and for whom I have no sympathy at all. A great part of the traffic down to Australia, I think, is in automobiles.

Hon. Mr. MANION: I just want to keep the record straight. Our paper exports to Australia in 1934 were two and a half times as large as our automobile exports. Our automobile exports ran to 17,890 tons.

Mr. CANTLEY: That is not dollars.

Hon. Mr. MANION: The tonnage of newsprint was 41,623.

Mr. POWER: What was it in dollars?

Hon. Mr. FULLERTON: 50,256 tons.

Mr. CANTLEY: Newsprint has a comparatively low cost per ton while with regard to automobiles it is highest.

Hon. Mr. MANION: For the sake of giving the information to the committee may I read the list of goods that we shipped to Australia in 1934:—

	tons
Agricultural implements.	259
Autos.	17,890
Asbestos.	757
Building products.	813
Cement.	1,312
Canned goods.	941
Electrical goods.	139
Carbide.	15
Lime and plaster.	502
Newsprint.	41,623
Other paper.	1,228
Pipe.	1,103
Rubber goods.	296
Salt.	220
Wire, iron and steel.	36
General.	4,491

Mr. POWER: What is the value?

Hon. Mr. MANION: I have not the value here.

Mr. HANBURY: Have you the ports from which these sailings were made?

Hon. Mr. MANION: That is for the year 1934.

Mr. HANBURY: Twenty-four sailings.

Hon. Mr. FULLERTON: We have no values.

Mr. HANBURY: From what ports were those sailings made?

Hon. Mr. MANION: I presume all the sailings are made from Halifax, Saint John or Montreal.

Hon. Mr. FULLERTON: Yes.

Hon. Mr. MANION: This was by the Canadian Government Merchant Marine.

Mr. FRASER: Are any of our exports shipped via American ports as well as our imports; or do all our exports go via Canadian ports?

Hon. Mr. FULLERTON: The great bulk of them.

Hon. Mr. MANION: There was some complaint about some pulp or paper going via Portland the other day. One of our ships could not carry it and some American line carried it and insisted that they would not come up to our ports.

Mr. POWER: That is a Maritime grievance. Do we have to listen to that?

The CHAIRMAN: Shall this item be carried?

Mr. POWER: We want to listen to that. I would not let that go by.

Carried.

The CHAIRMAN: May I call your attention to this book entitled "Canadian National Railways—analysis of 1934 operations." It is better than the former report and follows the same heading. We are dealing with operating revenues. Is there any question with regard to operating revenues? It is on page 2 of the book under the heading "Railway Operating Revenues." Would it be of use to the committee if we read this as we go along?

Mr. GRAY: Oh, no.

The CHAIRMAN: It is very voluminous.

Mr. BEAUBIEN: I would like to ask the board of trustees if they have made a study on the lowering of the local freight rates on commodities and if they

have come to any conclusion? The reason I ask that from the trustees is that their representatives, such as station agents in these different localities, are really working very hard to get some of this business from the trucks, and my information from them is that if the local freight rate was reduced the railway companies would get a great deal of the traffic and they would not have to run any more trains than they are running to-day.

Hon. Mr. FULLERTON: That, of course, is a matter for the traffic department. We do reduce rates in order to meet truck competition; we frequently do that. We do everything that is possible, but if we kept reducing rates right along we would not have any income at all.

Mr. BEAUBIEN: Mr. Fullerton, have you made any substantial reductions in local freight rates, say, within a radius of 100 miles from the city for, say, farm products and things of that description—fowls and that sort of thing?

Hon. Mr. FULLERTON: We have made reductions in rates on lumber, canned goods, rice and import traffic from the Orient, from British Columbia to the eastern Canadian destinations; we have made reductions in rates on canned goods and iron and steel articles from eastern Canadian producing points to British Columbia; and we have made reductions in minimum weights on live stock between points on the central and western regions, and on eggs, fertilizer, furniture, lime and plaster between points on the central region. Now, those are reductions.

Mr. BEAUBIEN: I think those reductions you have made are on long hauls.

Hon. Mr. FULLERTON: Mostly.

Mr. HANBURY: Mostly competitive reductions.

Mr. BEAUBIEN: That is not the point I was trying to make. I know that in the district where I live in connection with a good deal of our produce all through that district, a representative of a railroad company told me that if the local freight rate, say, to Winnipeg, on those commodities was lowered they could get a good deal of the traffic and the railway companies would not have to increase its train service.

Hon. Mr. FULLERTON: I would not be very hopeful for that, for this reason that we find when we reduce rates to meet truck competition the truckman always lowers his rates.

Mr. BEAUBIEN: Let me give you an instance in passenger rates. Take from St. Jean where I live to Winnipeg your fare was \$1.60. Now, that fare was reduced on the Northern Pacific and the Great Northern to 80 cents, and I will say this, and I know whereof I speak, that the passenger traffic from my point all along that Emerson branch to Winnipeg on the railroads has increased and the traffic on the bus has decreased. I wonder if that would not apply to commodities as well as passengers?

Hon. Mr. FULLERTON: No, we have had quite a lot of experience with that. We have reduced rates. We have gone to shippers and said, "Here, you are carrying merchandise, you are carrying traffic at a certain rate, or having it carried by bus. Suppose we give you the same rate will you give us the traffic?" He says, "Yes." We go to work and file a rate which we have to keep for 30 days, and the first thing we know we find the trucker has lowered his rate and the traffic goes to him while we must keep our rate for 30 days for all that traffic. That has happened again and again.

Mr. BEAUBIEN: Have you ever thought of giving the same service that the trucks are giving by delivering the goods?

Hon. Mr. FULLERTON: We do. Mr. Hungerford dealt with that this morning.

Mr. BEAUBIEN: All right, it will be on the record.

Mr. FRASER: Have you any idea what the amount of those reductions you have just indicated have cost the Canadian National in the way of revenue?

Hon. Mr. FULLERTON: It has cost them plenty; I cannot tell you the exact figure without working it out.

Mr. BEAUBIEN: Have there been increases in the revenues from that policy?

Hon. Mr. FULLERTON: Oh yes, undoubtedly. It is our object to get traffic; that is our only reason.

Mr. BEAUBIEN: The increase in the revenues you would get would offset a great deal of the losses?

Hon. Mr. FULLERTON: Yes.

The CHAIRMAN: This has been done to meet the American competition?

Hon. Mr. FULLERTON: Mostly and chiefly.

Sir EUGÈNE Fiset: Mr. Fullerton, I think some time ago a petition was addressed to the provincial government of Quebec, particularly the Department of Agriculture and to the officials of the Canadian National Railway with a view to reducing the freight rate on potatoes, not only for the province of Quebec but I think also from the Maritime provinces. Quebec was asked to share in the matter. May I ask if this petition has been received, and if consideration is being given to it?

Hon. Mr. FULLERTON: I cannot answer that offhand. I should have to look it up because we receive a good many petitions asking for reduction in freight rates, dozens of them.

Sir EUGÈNE Fiset: What I am anxious to know is this—

Hon. Mr. FULLERTON: In fact we sometimes are asked to carry goods free.

Sir EUGÈNE Fiset: Yes, I know that; but I am anxious to know if such a petition is being received by the trustees of the Canadian National Railways and is it necessary either for the province or the board of trustees to make application to the railway board, with a view to having those rates fixed, or have you the authority?

Hon. Mr. FULLERTON: With a view to reducing rates?

Sir EUGÈNE Fiset: Yes.

Hon. Mr. FULLERTON: We would have to file new tariffs. We would have no difficulty in filing new tariffs if we approved of lower tariffs.

Sir EUGÈNE Fiset: I do not suppose you can tell me if the zones which were established a few years ago as far as the Maritime provinces are concerned, to appoint east of Riviere du Loup to Fort William, are still maintained, and if the rates that obtained at that time are still in effect.

Hon. Mr. FULLERTON: I could not tell you offhand, for our traffic department naturally looks after the question of rates. The question of rates is an anomalous one and necessarily our experts would look after that question. If an application comes in for reduction of rates, we do not deal with it; we hand it over to the traffic department to deal with it.

Sir EUGÈNE Fiset: The only reason I am asking is this—I do not suppose you would remember it, but I think Mr. Hungerford will remember that in 1924 and 1925 a deputation composed of members of the House of Commons—both parties—met the railway commissioners and certain zones as far as eastern Canada was concerned, were fixed, one of those zones was fixed east of Riviere du Loup, as far as the Maritime provinces and Quebec were concerned. And of course we are anxious to know if these zones have been maintained. If you have not got that information now, I should be glad to receive it some other time.

The CHAIRMAN: That would be obtained for you.

Mr. BEAUBIEN: May I ask you another question that is local in its character? Where I live a terrible accident happened not very long ago on your

railway crossing on the Emerson route. Two people were killed and six injured. Have you made any investigation about the affair, or does it come under your jurisdiction?

Hon. Mr. FULLERTON: We investigate every accident, of course.

Hon. Mr. MANION: It is exactly the same as if it were a private company.

Mr. BEAUBIEN: In regard to getting a subway, is that done by the Canadian National or does it come under the—

Hon. Mr. MANION: Board of Railway Commissioners.

The CHAIRMAN: There is a motion sometimes, but generally an application by a municipality.

Hon. Mr. FULLERTON: The difficulty with subways is that the municipalities have no money at present and there have been very few applications for subways.

The CHAIRMAN: The board passes a very substantial percentage on to the municipalities. We are now on page 2 and we start with the paragraph which shows an increase in the railway operating revenues, and then they cite the net railway operating revenues and they show how it compares with the percentage of increase of the American roads.

Sir EUGENE Fiset: May I suggest to the Chairman that this is a very long way to go on with this? I think it would simplify matters if you took the report as it stands. Take the operating revenues. We have the details of it under the headings, and if you do it in that way it seems to me you would save a great deal of discussion.

Hon. Mr. FULLERTON: We prepared this because we thought it would be simpler for the committee. The explanations are here; that is the reason we specially prepared it. It is more or less the same as the other.

Mr. GRAY: With explanations.

Mr. MACMILLAN: I should like to ask Mr. Fullerton on what principle the railway operates in places like the province of Saskatchewan where you have great drought conditions and the railways are asked to cut their rates on food fodder and all that sort of thing, which must show a great loss to the railway. On what principle do you arrive at such a conclusion that the rates should be cut?

Mr. HANBURY: National necessity.

Hon. Mr. FULLERTON: That is about it.

Mr. MACMILLAN: Should that loss be charged to the railway?

Hon. Mr. FULLERTON: Well, we bear the loss. People do not give us much credit for it, but we bear the loss in many cases to help out different parts of the country.

Mr. MACMILLAN: Both railways.

Hon. Mr. FULLERTON: Both railways do. No doubt about that.

Mr. MACMILLAN: While the railways are losing money, you are asked to make those great concessions and you do it at a further sacrifice of revenue?

Hon. Mr. FULLERTON: That is perfectly true.

Mr. MACMILLAN: Well then there is no guiding principle?

Hon. Mr. FULLERTON: None.

The CHAIRMAN: If you will turn to the maroon book at page 16 you will find the operating revenue, Sir Eugène Fiset, and then a running analysis.

Sir EUGENE FISSET: I know. That is for the information of the members as they read it.

The CHAIRMAN: Here you have compared 1924 and 1933. Are there any questions to ask in connection with any of those items that we have not already asked?

Mr. GRAY: I was going to ask a question with respect to the passenger revenues, Mr. Fullerton. Your week-end excursions have been successful, have they not?

Hon. Mr. FULLERTON: Undoubtedly, yes.

Mr. GRAY: Has your board given consideration or co-operated with the other railroad in regard to the extending of that cheap rate? In fact, years ago, as I recall it, they issued a book of tickets at a very cheap rate. I have forgotten whether it was one or two cents a mile, but you could ride any time by using those tickets. It seems to me, in discussing this with the public, if you could extend it—you have to run those trains in any event—to include time greater than week-ends, you would benefit. Everybody now saves up and looks to see when the next bargain day is. It seemed to me that this is an avenue that could be extended. Maybe there is some reason why it cannot, but I should like to know why.

Hon. Mr. FULLERTON: This is all worked out in connection with the Canadian Pacific railway. We work together, and we have given every study to this subject with the idea of increasing revenue, but I have not heard any suggestion of that.

Mr. GRAY: Do you know any reason why it should not be extended?

Hon. Mr. FULLERTON: Except this; everybody would travel on the one cent a mile; we would lose the bulk of our revenue; that is our only explanation.

Mr. GRAY: Your bargains have increased your traffic.

Hon. Mr. FULLERTON: Quite so. Of course they are of a special character.

Hon. Mr. EULER: They have increased your revenue.

Hon. Mr. FULLERTON: Yes, they have increased our revenues undoubtedly.

Hon. Mr. MANION: An excursion runs at certain times and uses a special kind of car, and so on.

The CHAIRMAN: Would Mr. Gray's proposition ultimately reduce the general rate?

Hon. Mr. FULLERTON: Reduce—

The CHAIRMAN: The usual rate.

Hon. Mr. FULLERTON: Oh, yes.

Mr. GRAY: I presume it would, Mr. Chairman, but there must have been a reason for giving it up. Do you recall, Mr. Hungerford, when the system of selling these books was in vogue?

Mr. HUNGERFORD: To some extent, but I think it was given up as a result of war disturbance; so far as I can recall those are the facts.

Mr. GRAY: Do you feel it would not increase revenue to adopt it now?

Mr. HUNGERFORD: It would be very doubtful. It would increase the patronage but through the reduced rate the net revenue would not be increased.

Mr. GRAY: By increasing the patronage and getting the people back to the railroads, when these people became familiar as using the railways as passengers, would not there be a tendency for these same people to use the railroads for freight and express?

Mr. HUNGERFORD: Well I have heard that argued, but I am not sure it would work that way.

Hon. Mr. FULLERTON: That is the stock argument in connection with applications for the reduction of rates. They say, reduce your rates and you will get so much more traffic that you will more than make up for any loss, but it never works out that way.

Mr. HANBURY: I am going to suggest in this year particularly, there should be a reduction in the passenger rate, particularly to those members of parliament who won't have their passes next year.

Hon. Mr. FULLERTON: That sounds reasonable.

The CHAIRMAN: The two of us up here do not need to bother about that. We have now got into hotels. What about hotels?

Mr. HANBURY: You are referring to page 4?

The CHAIRMAN: Page 16 and page 2.

Mr. HANBURY: I notice express and telegraph here. Last year there was a suggestion made that the express and telegram services should be amalgamated. Has the Chairman of the board any statement to make in connection with the matter?

Hon. Mr. FULLERTON: There is a reference to that in our report at the bottom of page 7:—

Studies have also been in progress with regard to the possibility of consolidating the telegraph properties and the express departments of the two systems. Legal difficulties have developed in attempting to work out a plan of consolidation of the telegraph properties. The chief legal difficulty is in connection with the lease hold of the Montreal Telegraph Company's lines, which expires in 1978. As regards the consolidation of the express departments of the two companies, the Canadian National is by no means convinced that maximum economy and convenience to the public would result from such action. Studies are presently in hand to determine whether an internal consolidation of the express and L.C.L. freight facilities would not yield greater economy and present a more effective front to highway competition than a consolidation of the express departments of the two properties.

Mr. FRASER: What does that mean, “—whether an internal consolidation of the express and L.C.L. freight facilities—”

The CHAIRMAN: Smaller lots than carload lots.

Mr. HANBURY: It is not the purpose to go ahead with the consolidation?

The CHAIRMAN: Less than carload lots.

Hon. Mr. FULLERTON: That is being studied now.

Mr. FRASER: How are you going to consolidate the express and L.C.L. departments?

The CHAIRMAN: Any amount of express is practically freight. To the layman—

Hon. Mr. FULLERTON: We are carrying a great deal of freight to-day at L.C.L. rates practically by express. We are carrying by express goods which ordinarily would go L.C.L.

Mr. BEAUBIEN: All over the weight of 300 pounds. Is there not a limit in that way?

Mr. HUNGERFORD: There is a limit, but I do not know what it is.

Mr. BEAUBIEN: I think it is 300 pounds.

The CHAIRMAN: Are there any other items?

Mr. FRASER: Was that to meet competition of the mail order houses? Is that where it comes in?

Hon. Mr. FULLERTON: No, to meet competition of trucks.

Mr. HANBURY: I would be interested to know whether the officials can give us a comparison of the revenue per ton mile with class I railways?

Hon. Mr. FULLERTON: We have it here somewhere.

Mr. FAIRWEATHER: I have it, but it will take a minute to look it up.

The CHAIRMAN: How many express cars do you have on a train? What is the maximum number of express cars on a train, a fast passenger train—three or four?

Mr. HUNGERFORD: It all depends on the train.

The CHAIRMAN: The old idea of one express car has gone long ago, has it not?

Mr. HUNGERFORD: One car is the average. It just depends on the capacity of the train.

The CHAIRMAN: While Mr. Fairweather is looking up that question, is there anything else?

Hon. Mr. EULER: What page is that, Mr. Chairman?

The CHAIRMAN: We are at page 16 of the red book, and you will find on pages 2 and those following an explanation of these items. We were now talking about page 4, and Mr. Hanbury was referring to the item of express cars, about eight lines down on page 4. He has asked a question of Mr. Fairweather. Mr. Fairweather has a book like an insurance agent's book. He turns over all sorts of tables.

Mr. FAIRWEATHER: I know this, that our ton-mile revenue in the last year is very, very slightly lower than the ton-mile revenue in the United States; our passenger-mile revenue is, I think, two-tenths of a cent below that of the United States. But to all intents and purposes the ton-mile revenue in the United States and Canada is the same. There is practically no difference.

Mr. HANBURY: I understood that the traffic density was much greater.

Mr. FAIRWEATHER: Yes, over there, much greater.

Mr. HANBURY: Can you give us a comparison of their traffic density?

Mr. FAIRWEATHER: For the average class I roads of the United States, yes, I think I have that.

Hon. Mr. MANION: If my recollection serves me right—and I think it does—the population of the United States per mile of road is 500, and over here it is 250. Naturally, that would make it much more dense.

Mr. HANBURY: That would have a considerable bearing upon the cost of operating roads in Canada.

Hon. Mr. MANION: And on the traffic density.

Mr. HANBURY: The point I am making is that, with the traffic density you might say adverse to Canada, it would reflect, in my opinion, on the more economic management of the railroads in Canada, in connection with the class I roads.

Mr. FAIRWEATHER: The average density of traffic on class I roads in the United States, that is with gross earnings of \$1,000,000 or over, is about twice that of the average Canadian road.

Mr. HANBURY: In what way is that reflected in your costs?

Sir EUGENE Fiset: A sad reflection.

Mr. HANBURY: Yes. Your costs here show you are operating on a more efficient basis than class I roads in the United States, and yet traffic density is against you.

Mr. HUNGERFORD: Only in some respects.

The CHAIRMAN: Are there any other questions under this heading?

Sir EUGENE Fiset: Under this heading of operating revenue I want to ask a question, because I do not see any other place where it can be asked. I do not wish to discuss it, but I want to get some information. I understand at the

present time, Mr. Fullerton, that the coal for distribution between Levis and Campbellton is carried by water to Levis and then loaded on cars and distributed from Levis to all intermediate points between Levis and Campbellton. I understand that a few years ago some inquiries were made at Rimouski, for one place, with a view to trying to secure necessary wharf accommodation to accumulate the coal there in order to distribute it from Rimouski to different intermediate points between Levis and Campbellton. Last year there was a protest on the part of the railway that the wharf conditions at Rimouski, for the very high tonnage that has been carried in the last two years especially, were getting to be unsafe. I would like to know if the railways have made any report on the subject matter either to the Department of Public Works or to the Railway department, with a view to having the wharf repaired in order to carry the weight of the coal? Of course, this service is getting extremely important at the present time, if you bear in mind that 1,200 carloads were carried from the wharf siding at Rimouski. I would like the matter to be considered, if possible, and some report or request made either to the Minister of Railways, who is always kind to me, or to the Minister of Public Works, on the subject matter.

Hon. Mr. MANION: You saved my life on one occasion.

Sir EUGENE Fiset: I would also like to know if the railway has taken any interest in the project put forward by the Chamber of Commerce of Rimouski, and also by the large companies of pulp and wood manufacturers not only in Rimouski but also the lower St. Lawrence region, with a view of doubling the capacity of the wharf there in order to handle the Atlantic traffic that is taking place. If I understand it correctly, over 90,000 tons of mercantile timber were loaded on the wharf at Rimouski for shipment to England. Wharf facilities are absolutely inadequate, and ships had to remain two, three and four days outside of the harbour, awaiting their turn to load. I understand also that pulpwood is being brought from points 200 and 300 miles from Rimouski in order to be loaded at Rimouski wharf; and of course the siding capacity is extremely low. I think that the local population, and not only the local population but I should say the population of the lower St. Lawrence, want to interest the railway in the subject matter, and ask them to join with the remainder of the population with a view to trying to induce parliament to increase these harbour facilities as soon as possible. May I ask if the matter has been submitted to the management in any way, shape or form?

Hon. Mr. FULLERTON: I have heard nothing of the matter, but I shall make inquiries.

Sir EUGENE Fiset: I suppose it would go to Mr. Appleton, the manager of the Eastern division?

Hon. Mr. FULLERTON: I would imagine so.

Mr. LABELLE: I did not hear anything of that particular question myself.

Sir EUGENE Fiset: I understand the request has been made from the Chamber of Commerce of Rimouski, from the big companies such as Price Brothers, Finlayson,—all these people shipping timber and pulpwood. Of course, what we are anxious to know is if these facilities are provided for and if the necessary wharf facilities are provided, will the Intercolonial give consideration to the establishing of a coaling station at Rimouski for distributing—

Hon. Mr. FULLERTON: Establishing what?

Sir EUGENE Fiset: A coaling station at Rimouski, with a view to distributing upwards to Campbellton and downwards to Levis. The project was suggested a few years ago. As a matter of fact, they unloaded a few shiploads of coal on the Rimouski wharf for that distribution; and the same thing applied also on the railway with respect to artificial manure—what do you call that?

Mr. HUNGERFORD: Fertilizer.

The CHAIRMAN: Sometimes they call it that.

Sir EUGENE Fiset: Fertilizer coming from all points for distribution, at the same time as the coal. I wish you would be kind enough to try to give a little bit of study to it.

Hon. Mr. FULLERTON: I shall make inquiries.

Sir EUGENE Fiset: And give a chance to our local population, if you can do so.

Hon. Mr. FULLERTON: I shall do that.

The CHAIRMAN: Are there any questions on maintenance of way and structures expenses, page 17?

Sir EUGENE Fiset: I hope I was not out of order in discussing what I did.

The CHAIRMAN: No, no; it was very laudable.

Mr. HANBURY: On page 5 of this analysis it refers to the pooling arrangements with the Canadian Pacific Railway. I would like to ask the Chairman whether the pooling arrangements entered into have been satisfactory to the Canadian National Railways?

The CHAIRMAN: Well, I cannot tell you. One of these gentlemen will, I hope. He is trying to think up an answer.

Mr. HANBURY: Probably Judge Fullerton would like to consider his answer?

Hon. Mr. FULLERTON: In a way, they have been satisfactory.

Mr. HANBURY: Does that mean that in a way they have not?

Hon. Mr. FULLERTON: Well, we would have liked very much to have extended the pool.

Mr. HANBURY: Yes? Where?

Hon. Mr. FULLERTON: West of Toronto, for instance.

Mr. HANBURY: West of Toronto?

Hon. Mr. FULLERTON: Yes. When we entered into this pool from Quebec to Toronto, we felt, of course, that later the pool would be extended to the river, the Detroit river.

Hon. Mr. EULER: Through London?

Hon. Mr. FULLERTON: Yes.

Mr. HANBURY: Extended to what?

Hon. Mr. FULLERTON: To the Detroit river. Otherwise it might have been questionable whether we would have entered into the pool or not. But we clearly understood that the study was going on west of Toronto, and that that pool would be arranged. But we have been working on it ever since and we are not very much nearer to it than we were when we started.

Hon. Mr. EULER: If it went through, would it be necessary to complete that new passenger station at London?

Hon. Mr. FULLERTON: I don't know about that.

Hon. Mr. EULER: I said "if" again.

Mr. HANBURY: Can you give any of the reasons why it has not gone through as yet?

Hon. Mr. FULLERTON: Well, of course one difficulty is that the C.P.R. do not want to break their Michigan connection. That is the main reason given. But we are still working on it; we are trying to secure a modified pool. We are trying to allow them to retain their Michigan connection and still pool. We think there is a large amount of saving that could be made, although not as large an amount of saving as though we were pooling completely.

Hon. Mr. EULER: I do not want to embarrass the Chairman, but if the pooling arrangements were made, as apparently you expected, west of Toronto to the river, would it not have been possible or advantageous to have worked out a union station proposition in the city of London?

Hon. Mr. FULLERTON: I am not familiar with London. Mr. Hungerford knows more about that.

Mr. HUNGERFORD: That is quite possible, dependent altogether on the arrangement of the pool.

Hon. Mr. EULER: That will become impossible if that station is completed.

Mr. HUNGERFORD: I beg your pardon?

Hon. Mr. EULER: I say it will become practically impossible if the new station is completed.

Mr. HUNGERFORD: Not necessarily.

Hon. Mr. EULER: You would expect to get the new station?

Mr. HUNGERFORD: Naturally.

Mr. HANBURY: Following up the question of pooling, as I understand the Canadian National-Canadian Pacific bill, it instructed the trustees of the Canadian Pacific Railway to enter into pooling arrangements where they could, where they were economically sound. In other words, the instructions were to amalgamate, although we were distinctly told you were not to do so. Frankly, I think the whole thing is inconsistent.

Mr. HUNGERFORD: Pooling is not amalgamation.

Mr. HANBURY: Well, I mean that is my view of it, and I wish to retain that view, because I believe that is the only practical view you can take of it. Consequently, the thought that is in my mind is has that feature of the Canadian National-Canadian Pacific bill had any effect upon the operation of either of the Canadian railroads?

Hon. Mr. FULLERTON: I do not just follow your question.

Mr. HANBURY: Well, I tried to point out that the Canadian National-Canadian Pacific bill instructed both railroads to enter into pooling arrangements. Very few pooling arrangements have been entered into, so that there has been very little effect given to the purpose of the bill.

Hon. Mr. FULLERTON: In other words, that very little has been accomplished?

Mr. HANBURY: Yes.

Hon. Mr. FULLERTON: Yes, that is perfectly true.

Mr. HANBURY: May I follow it up in this way, that if the Canadian National-Canadian Pacific bill had never been passed, there would have been very little change in the railway situation in Canada?

Hon. Mr. FULLERTON: Well,—

Hon. Mr. MANION: Pooling could have taken place without any bill of any kind.

Hon. Mr. FULLERTON: Oh, yes, we can pool here without any bill.

Hon. Mr. EULER: All you did was not done under that bill.

Hon. Mr. MANION: No. The most of what they did was done before the bill was passed.

Hon. Mr. EULER: There have never been any arbitral tribunals.

Mr. HANBURY: I am trying to place a value on the Canadian National-Canadian Pacific bill; and from any information I have been able to obtain, it is of no value whatsoever.

Hon. Mr. MANION: That is not very complimentary to the trustees.

Mr. HANBURY: I am referring to the bill, not to the trustees.

Hon. Mr. FULLERTON: I would like to say that the trouble is that the ordinary layman—I mean by layman a man who is not a railway man—does not appreciate the immense difficulty of bringing about pooling or any other economy on a railway. There are so many technical things to consider and discuss. For instance, take our duplicate function roads with the C.P.R. Our officers have been working for nearly a year to try to arrange an agreement covering the situation. It is a most technical agreement. I would like you to read it. It covers forty-five pages.

Mr. HANBURY: I am a layman.

Hon. Mr. FULLERTON: I am a layman too. I do not understand a great deal of it. It is very technical and very difficult. Our committees are working all the time, trying to bring these things about. For instance, on that question we have practically arrived at our agreement, and that can go right ahead now.

Mr. FRASER: What pooling arrangements had been entered into prior to 1934?

Hon. Mr. FULLERTON: There is the pooling arrangement between Quebec and Montreal, and the other pool has been extended.

Mr. HUNGERFORD: The pool service between Montreal and Toronto has been extended.

Hon. Mr. MANION: Was not the pooling arrangement between Montreal and Toronto, and between Ottawa and Toronto, in principle carried out before this Bill was put into effect at all?

Mr. HUNGERFORD: Partially so, we have extended it.

Hon. Mr. MANION: In other words, the pooling could have been done without this act.

Hon. Mr. FULLERTON: There is nothing in our act to prevent pooling. Under the Inter-state Commerce Commission Act you have to have permission.

Mr. FRASER: My point was that not much progress was made during the past year.

Hon. Mr. FULLERTON: Not very much in the way of making savings has been effected.

Hon. Mr. EULER: I think last year you reported a saving of about a millions worth because of pooling between Toronto and Ottawa, and between Toronto and Montreal.

Hon. Mr. FULLERTON: That is correct.

Hon. Mr. EULER: How much has been saved by further pooling arrangements within the last year?

Hon. Mr. FULLERTON: I think probably Mr. Fairweather could answer that better than I could.

Mr. FAIRWEATHER: The additional amount is about \$400,000 a year.

Hon. Mr. MANION: Is that for each railway or both?

Mr. FAIRWEATHER: That is the joint saving.

Mr. GRAY: The same ratio of labour would apply as applied last year in respect to those savings?

Mr. FAIRWEATHER: Yes.

Mr. HANBURY: In other words, that is displaced labour on a ratio of—what is it?

Mr. FAIRWEATHER: The direct ratio which would be displaced under these pooling arrangements I imagine would represent—oh, perhaps 50 per cent of the cost.

Hon. Mr. MANION: Of the saving.

Mr. FAIRWEATHER: Of the saving, rather. The balance would represent materials purchased.

Mr. HANBURY: Could you give us some estimate of the number of schemes under consideration by the two railways for pooling arrangements at the present time?

Hon. Mr. FULLERTON: Mr. Fairweather who is in charge of that work could probably give you a more intelligent idea of the situation than I could. I follow it in a general way. Mr. Fairweather knows the details.

Mr. HANBURY: I am not anxious to have publicity given to anything which you do not wish to have; but just in a general statement—if you could give us the information.

Mr. FAIRWEATHER: You mean, on co-operative projects?

Mr. HANBURY: What you are contemplating, or scheming, at the present time.

Mr. FAIRWEATHER: We have several hundreds of these projects and they are in various stages of investigation and proceeding. They range all the way from an extension of the train pooling arrangements to the consolidation of engine houses and terminals, freight sheds, and such things. We have at the present time I suppose 30 or 40 sub-committees that are reporting on different specific projects, and they stretch all over the country. Of course, only the ones that will yield the largest immediate economies, such as passenger train pooling arrangements—they are different from many of the other projects where in order to make any economy effective you have to spend money; and that requires much more careful consideration, because if you make a mistake in a pooling arrangement you can change it, but if you make a mistake on some of these other projects on which you have to spend money, or something of that character, you have no chance of fixing it up, you are stuck for all time with an inefficient operation.

Hon. Mr. EULER: Would you care to say whether there is a real disposition to co-operate on the part of the two railways.

Mr. FAIRWEATHER: I can only speak for the joint co-operative committee, of which I am chairman of the C. N. section, and I would put it this way; I say the same now as I said in giving evidence before the Senate committee. I was asked the same question, and the answer is this; that we sit down and deal with the technical aspects of any given problem. Speaking as engineers and as railway operators we are able to sit down and discuss the subject given us from that point of view—what should be done in ironing out the inter-company complications that arise is quite another matter, and naturally it is somewhat beyond my field. Have I answered your question?

Hon. Mr. EULER: As a matter of general policy, is the spirit of co-operation evident between the two companies?

Mr. FAIRWEATHER: Well, I can only answer, as I say, in that way.

Mr. HANBURY: In other words, you are not quite sure.

Mr. FAIRWEATHER: Well, of course, the thing about it is that naturally each company has certain slants on certain problems; and it is quite one matter to settle the technical aspect of it, and quite another matter to settle and adjust the problems arising out of the different managements. In some things we have very little trouble; for instance, you take a matter like to function of duplicate lines; for the most part the railways sit down and decide which line is the better line to be retained and which line we should ask or make an application to discontinue the service on. On things like that we have our little troubles.

Hon. Mr. EULER: How many miles of duplicated lines have been eliminated?

Mr. FAIRWEATHER: I think altogether—none have been actually eliminated.

Mr. GRAY: In other words, you have not as yet secured the consent of the Board of Railway Commissioners.

Mr. FAIRWEATHER: No; but we have reported on I think 538—about 600 miles; but there are a great many more hundreds of miles that we have under study.

Mr. HANBURY: Mr. Fairweather, could you give an estimate of what further savings there will be when these schemes you are considering are put into effect?

Mr. FAIRWEATHER: I could give you an estimate only.

Mr. HANBURY: Just a rough estimate.

Mr. FAIRWEATHER: I do not know that it would be very informative because it would depend so largely upon traffic conditions.

Hon. Mr. MANION: And on the working out of the proposals.

Mr. FAIRWEATHER: And, on the working out of the proposals, and things of that character. Take for instance the passenger train pooling arrangements; under present conditions you can get economy, for instance in our existing pool of we will say a million dollars a year, something of that character; but if the general passenger traffic increased 50 per cent that economy of course disappears in the cost of duplicate trains.

Mr. HANBURY: Then you would be right back where you started from?

Mr. FAIRWEATHER: Right back where you started.

But when traffic goes up another 50 per cent your economy comes back again—it is just a sort of jig-saw puzzle.

Mr. GRAY: And it would be the same thing when you applied to the Board of Railway Commissioners perhaps with respect to the abandonment of your 538 miles of duplicate functional lines—

Mr. FAIRWEATHER: Again, that depends to some extent on traffic. But at the present level of wages and of materials, and of our present market for scrap materials and things like that, that would represent perhaps a little better than half a million a year. But, you see, one thing about that is this; salvage material that we get from these lines at the present time is of very little value, it would practically cost us as much to pick it up as it is worth.

Mr. HANBURY: Has any general survey been made to give you the ultimate of co-operation of the two railroads?

Mr. FAIRWEATHER: Well, do you mean in general terms?

Mr. HANBURY: I mean between the two railways; what degree of co-operation can you hope for in the long term?

Mr. FAIRWEATHER: No general survey has been made.

Mr. HANBURY: What I am trying to get at is, and I said it before, I look on this co-operation as an amalgamation; and, of course, we have had a great deal of discussion about how much is going to be saved in the form of amalgamation—it is up to \$75,000,000, say—and what I am informed is, and I may be wrongly informed and that is why I am asking this—that if you made effective every operation throughout Canada that you could do economically that the total saving to both railroads would not amount to more than an additional \$10,000,000 over what you are to-day saving.

Mr. FAIRWEATHER: Well, if you want my personal opinion in regard to that—

Mr. HANBURY: That is why I asked whether any general survey had been made.

Mr. FAIRWEATHER: No; I would say no general survey has been made. But I do not mind answering personally your question. Anybody who thinks that at the present level of traffic any large measure of saving, anything in the nature of tens of millions of saving can be made without totally disrupting the service, is making a big mistake. It cannot be done.

Hon. Mr. EULER: Are you talking co-operation or amalgamation?

Mr. FAIRWEATHER: I don't care which.

Hon. Mr. EULER: There is a decided difference.

Mr. HANBURY: Oh, let him talk.

Mr. FAIRWEATHER: I make that statement; it does not matter which way you approach it, from the point of view of amalgamation or co-operation.

Mr. HANBURY: I quite agree.

Mr. FAIRWEATHER: Anybody who thinks that at the present level of traffic and with the present level of wages we can make economies which are measurable in terms of tens of millions of dollars—well, it can't be done; not without destroying the value of the existing services.

Hon. Mr. EULER: Are you making the deliberate statement that there is not more to be saved by amalgamation than by co-operation, such as you have been practising in the last two years.

Mr. FAIRWEATHER: That opens a very wide question.

Hon. Mr. EULER: It is a hard question. I am asking you whether you make that statement.

Mr. FAIRWEATHER: I made the statement, sir, that large economies at our present level of conditions now in effect cannot be measured in tens of millions of dollars by any means. That is sheer nonsense.

Hon. Mr. EULER: I ask you another question: are you saying there is no more economy to be made by amalgamation than by co-operation?

Mr. FAIRWEATHER: Again, sir, (answering that question personally) I think over a period of years that the amount of realizable economy which can be effected by co-operation is fully as great, probably greater than you could achieve from amalgamation.

Hon. Mr. EULER: I think that is absurd, absolutely; just absurd.

Mr. FAIRWEATHER: That is my opinion.

Hon. Mr. MANION: You are very definite, Mr. Fairweather, that even under amalgamation—or call it if you like unification—under either of these you cannot make any savings which could be measured in terms of tens of millions of dollars.

Mr. FAIRWEATHER: You could not, sir, at present levels of traffic.

Hon. Mr. MANION: I wholly agree with that.

Hon. Mr. EULER: You backed up on something else last year, you turned quickly when the minister made you, or at least suggested something to you; you backed up right away.

Hon. Mr. MANION: I don't remember that; you flatter me, Bill.

Hon. Mr. EULER: It is true.

Mr. FAIRWEATHER: May I ask that this be taken off the record. I would like to make an explanation of that.

The CHAIRMAN: Mr. Fairweather desires to make an explanation which will not be noted in the record.

Mr. GRAY: We have had a pretty busy day. I would move that the committee rise and report progress.

The CHAIRMAN: Just before you go, gentlemen; we are about at the end of "Revenues" and we have these other amounts from pages 16, 17, 18 and so on. We can almost say we are through with operating revenues, I think; and we are about ready to start in on the budget.

Some Hon. MEMBERS: Hear, hear.

The CHAIRMAN: What time shall we sit to-morrow?

Mr. HANBURY: We have a caucus in the morning.

Mr. GRAY: Make it 3.30.

Hon. Mr. MANION: If you don't mind, shall we say 3.45; that will give us more time to attend to the question period.

The Committee adjourned at 5.50 p.m. to meet again at 3.45 p.m. Wednesday, April 10, 1935.

SESSION 1935

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

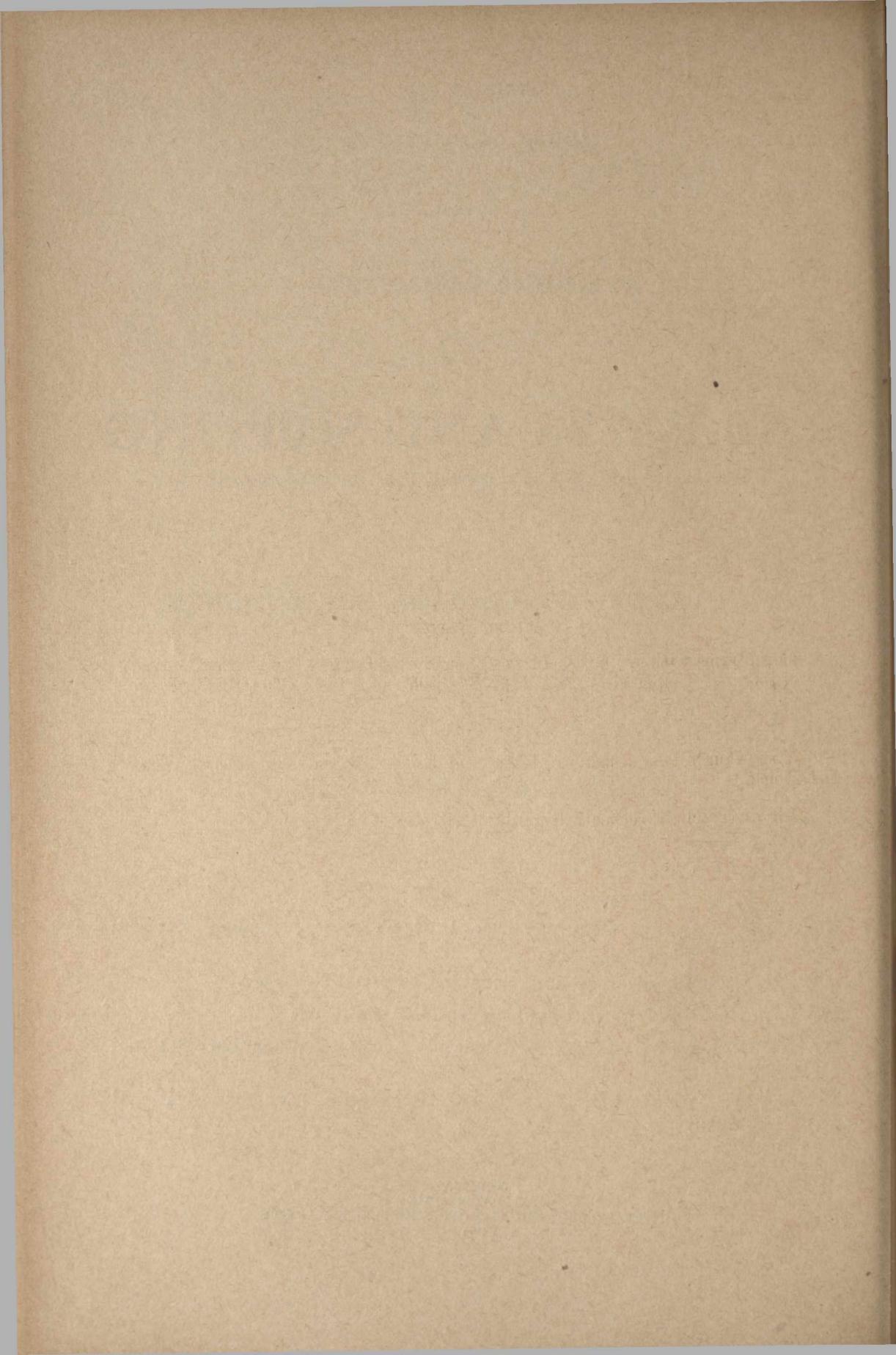
No. 3

WEDNESDAY, APRIL 10, 1935

WITNESSES:

- Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.
- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. J. E. Labelle, Trustee, Canadian National Railways.
- Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways.
- Mr. S. W. Fairweather, Director of Economics, Canadian National Railways.

OTTAWA
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PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1935



REPORT TO THE HOUSE

THIRD REPORT

WEDNESDAY, APRIL 10, 1935

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

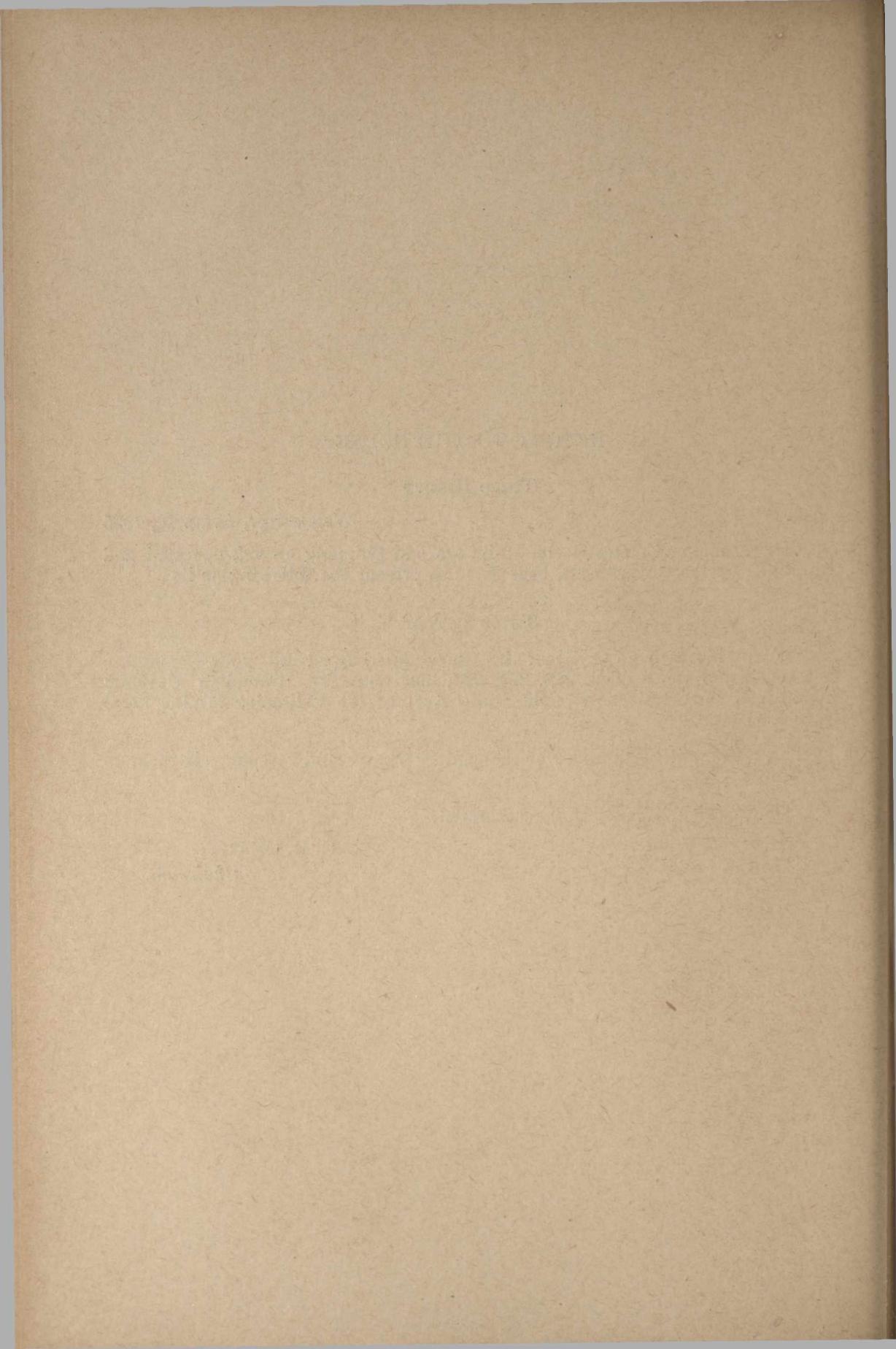
THIRD REPORT

Complying with an Order of the House dated April 3rd, your Committee has considered Items Nos. 293, 294, 295, 296 and 297 (Canadian National Steamships and Maritime Freight Rates Act) of the Estimates for the fiscal year 1935-1936.

Your Committee approves of the said Estimates and recommends them to the House.

All of which is respectfully submitted,

G. R. GEARY,
Chairman.



MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 231,
WEDNESDAY, APRIL 10, 1935.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 3.45 p.m., the Chairman, Mr. Geary, presiding.

Members present: Messrs. Beaubier, Euler, Fiset, Fraser (*Cariboo*), Gray, Gobeil, Hanbury, Heaps, Speakman, MacMillan (*Saskatoon*), Manion, Stewart (*Lethbridge*), Tummon.

In attendance: Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways; Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance, and Mr. O. A. Matthews, of George A. Touche & Co., Chartered Accountants.

The Committee resumed consideration of the Annual Report of the Canadian National Railway System, Officials of the Railway being examined in connection therewith.

On the item "Additions and Betterments less Retirements," of said Report, Messrs. C. R. McIntosh and P. G. Davies, members for North Battleford and Athabaska, respectively, were granted leave to appear before the Committee and make a statement advocating the construction or completion of certain branch lines.

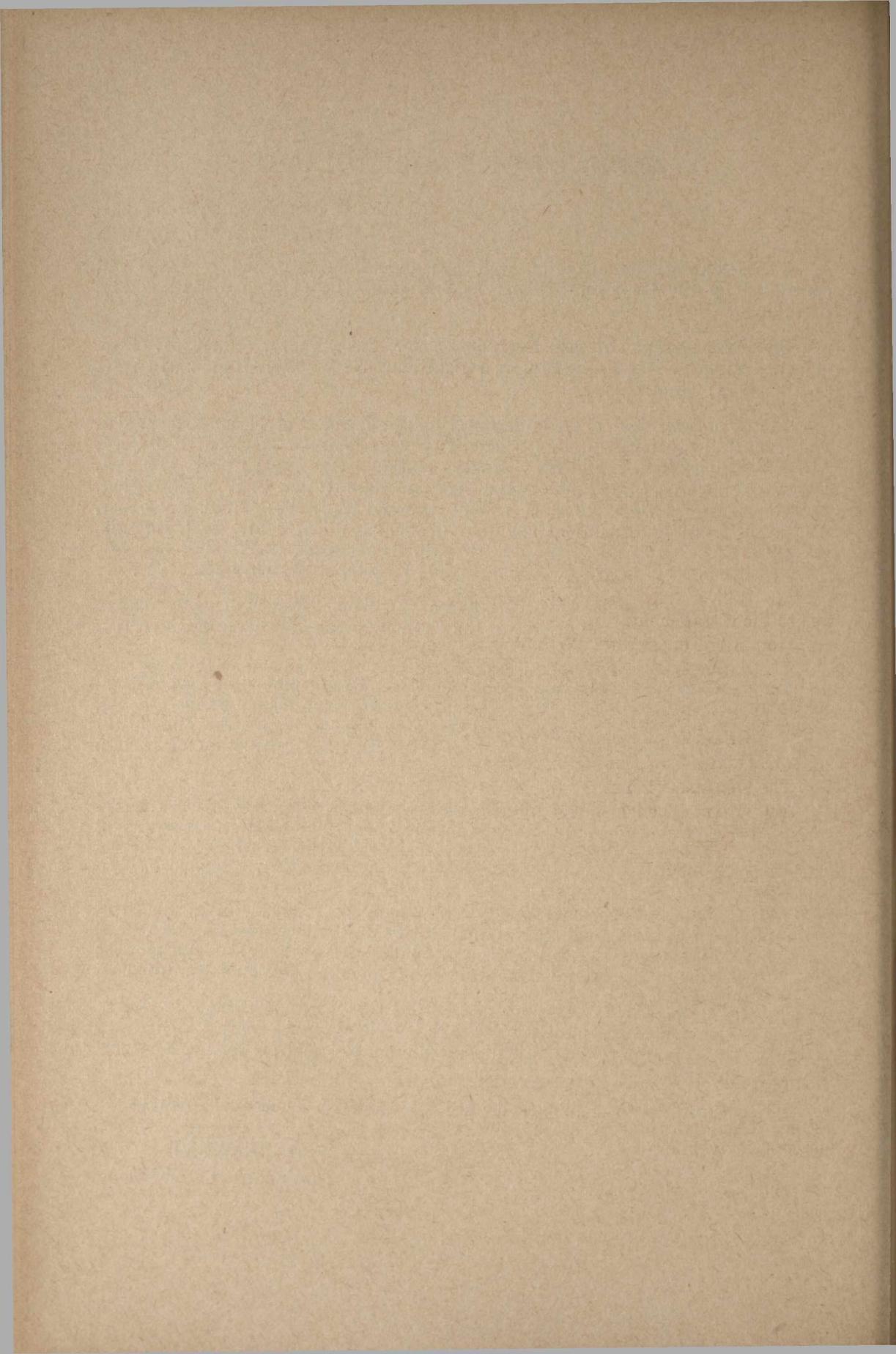
Following the consideration of the Annual Report, Hon. Mr. Euler referred to the statement of the Hon. Minister of Railways and Canals, appearing in yesterday's evidence, with respect to the recapitalization scheme as proposed by Geo. A. Touche & Co., and moved the following resolution, seconded by Mr. Gray, viz,—

That the report of Touche & Company be referred to the Board of Trustees of the Canadian National Railways for consideration and report, with special reference to the recommendation of Touche & Company for the re-casting of the capital structure of the Canadian National Railways.

It was suggested by Mr. Euler and agreed that Mr. Matthews, of Geo. A. Touche & Company be requested to express his views on the matter at the next sitting of the Committee, the motion being allowed to stand for further consideration at that time.

The Committee then adjourned until 3.45 p.m., on Thursday, April 11.

R. ARSENAULT,
Clerk of the Committee.



MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 268,
April 10, 1935.

The Select Standing Committee on Railways and Shipping met at 3.45 p.m., Colonel G. R. Geary, the chairman, presiding.

The CHAIRMAN: We were at page 17 of the report. We had finished operating revenues and were taking up maintenance of way and structures. Would there be any questions on that account?

Hon. Mr. EULER: What is the page?

The CHAIRMAN: Page 17 of the regular report.

Hon. Mr. FULLERTON: Page 6 of the report on the analysis of 1934 operations.

The CHAIRMAN: There is an analysis on page 6.

Mr. HEAPS: Before you proceed with the analysis on page 7, I should like to make an enquiry. There was a question that I asked on the opening day with reference to the debt that was to be answered. I was not here yesterday afternoon because I did not receive information on time. Has that question been answered?

Hon. Mr. FULLERTON: What question?

Mr. HEAPS: The question in reference to debt and duplication. Mr. Roberts was to file a statement.

Hon. Mr. FULLERTON: We have not received it.

The CHAIRMAN: Mr. Roberts is not here yet. I do not want to hurry the committee, but I think the sooner we get the officers back to their work the better.

Mr. GRAY: Is this under operating expenses?

The CHAIRMAN: Maintenance of way and structures.

Mr. GRAY: Under operating expenses.

The CHAIRMAN: Yes.

Mr. GRAY: Then I should like to ask the Chairman of the Board a question. I notice on page 6 of the analysis of operations there were no purchases of new equipment during 1934. There have been reports in the press, Mr. Chairman, and Mr. Sanderson in the House of Commons has asked questions from time to time, first on the 21st day of January, of the Minister of Railways, and he asked me to ask again with respect to this question of new equipment. There have been some newspaper suggestions that a large amount of money was to be spent for new equipments and that the orders were to be placed with private firms and that this would affect the Canadian National shops. The Minister at that time was not able to give an answer.

Hon. Mr. MANION: I gave an answer that the matter had been submitted to us and was still under consideration by both ourselves and the railway company, and it is still in the same position to-day.

Mr. GRAY: Is there any suggestion that there will be money spent?

Hon. Mr. MANION: There are lots of suggestions, particularly on the part of the Canadian railway equipment manufacturers, but there has been no decision arrived at.

Mr. GRAY: Is there anything in the budget?

Hon. Mr. MANION: No. When I say "nothing in the budget," I mean I do not think there is.

Hon. Mr. FULLERTON: There is nothing in the budget except betterments.

Mr. HEAPS: May I ask a question of the Canadian National regarding the equipment, are they short or have they too much?

Hon. Mr. FULLERTON: Mr. Hungerford can answer that question.

Mr. HUNGERFORD: What is the question?

Mr. HEAPS: There is a suggestion of new equipment being purchased from certain concerns who manufacture railway equipment. I should like to know whether the Canadian National Railways is actually short of any equipment in the operating of the railroad?

Mr. HUNGERFORD: We have enough equipment to take care of the traffic requirements.

The CHAIRMAN: Mr. Heaps, that comes under the next account.

Mr. HEAPS: I am asking the question because it arises out of Mr. Gray's question; I did not get the answer, I did not hear it.

Mr. HUNGERFORD: I say we have in repair enough equipment to take care of traffic requirements.

Mr. HEAPS: You have enough?

Mr. HUNGERFORD: We have kept in repair sufficient to do that.

Mr. HEAPS: You have enough equipment?

Mr. HUNGERFORD: It all depends, when we say we have sufficient equipment. There are peak periods during which we are short of certain types of equipment for a short period of time.

Mr. HANBURY: Would you make that statement again?

Mr. HEAPS: Speak a little louder.

Mr. HUNGERFORD: I say, in general we have lots of equipment, surplus of equipment, but again there are peak periods and it is during that time that all railroads may be short of a particular class of equipment for a short period of time.

Mr. HANBURY: How do you prepare for that shortage?

Mr. HUNGERFORD: We borrow from somebody who has it to spare. We all borrow and lend equipment as between railroads.

Mr. TUMMON: That is the practice of all railroads?

Mr. HUNGERFORD: Yes, sir.

Mr. HANBURY: You never have any difficulty in taking care of the peak in that way?

Mr. HUNGERFORD: No, not for many years.

Hon. Mr. EULER: There is an item that appears on page 17 under the heading of maintenance of way and structures which is quite small, \$46,601.76, and it says it applies to United States lines only. You have a similar depreciation of \$1,354,646.18 for maintenance of equipment expenses on the next page, which refers only to the United States lines. I suppose that is in accordance with the practice you are obliged to follow in the United States. The point I want to make is this: what method do you follow to provide for depreciation on Canadian lines? Is it done by means of replacements; that replacements are supposed to account for all the depreciation that took place, and if not, where does the depreciation show? I notice also on the analysis sheet on page 6, referring to what Mr. Hanbury has said, "There were no purchases of new equipment during 1934; the changes in the number of units of equipment are the result of retirements and conversions. The reduction of 10,081 freight train cars was brought about by the retirement of 6,540 freight cars and the conversion and transfer of 3,541 freight cars to work service." Now you have absolutely retired 6,540 freight cars. What is that charged against? Is there a depreciation account?

Hon. Mr. FULLERTON: That is charged to operating expenses.

Hon. Mr. MANION: What page?

The CHAIRMAN: Mr. Euler is reading from the analysis on page 6.

Hon. Mr. EULER: It is explanatory of the other item.

The CHAIRMAN: We are dealing with the accounts on page 17.

Hon. Mr. EULER: How is the depreciation accounted for in the national books so far as the railways are concerned in Canada? I see in the United States you do make a certain charge for depreciation, but how is it handled in Canada?

Hon. Mr. FULLERTON: It is charged to operating expenses.

Hon. Mr. EULER: You have no depreciation account in Canada at all?

Hon. Mr. FULLERTON: No.

Hon. Mr. EULER: How do you compensate for, for instance, the retirement of those cars? That certainly is a reduction in your assets.

Hon. Mr. FULLERTON: It is credited to the investment account, and charged to operating expenses.

Hon. Mr. EULER: Where is it found in the operating expenses?

Mr. FAIRWEATHER: Maintenance of equipment expenses on page 18.

Hon. Mr. EULER: Would you say that that sufficiently provides for your depreciation?

Hon. Mr. FULLERTON: Mr. Hungerford, you can answer that question better than anybody else. Do those retirements sufficiently provide for the depreciation?

Mr. HUNGERFORD: Those retirements take care over a period of time of cars, or units of equipment, that are worn out. We have a special condition of an accumulation of equipment not worn out that have become obsolete.

Hon. Mr. EULER: That is another item.

Mr. HUNGERFORD: That is another item altogether. So far as worn out units are concerned, those retirements are charged to operating expenses and take care of that.

Hon. Mr. EULER: I asked a pretty plain question, and I think I asked it last year, and the question was whether the amounts charged to operating expenses really in that way provide sufficiently for the depreciation that is undoubtedly taking place on the railway.

Mr. HUNGERFORD: You have to make a distinction between equipment worn out in service and that which becomes obsolete?

Hon. Mr. EULER: I quite understand that.

Mr. HUNGERFORD: So far as worn out equipment is concerned, it is quite sufficient. Now, in the United States they have a depreciation account for equipment but under conditions existing in the last few years they find the depreciation reserves are wholly inadequate to meet the requirements, and the Interstate Commerce Commission has authorized the retirement of large quantities of rolling stock, and that is charged to profit and loss.

Hon. Mr. EULER: I know, but that depreciation and obsolescence, will have some effect on your final profit and loss sheet, and I notice in your statement here you have an item wherein it is recommended that you write off in the 1934 accounts, an item of \$23,000,000 for obsolescence.

Mr. HUNGERFORD: Yes.

Hon. Mr. EULER: If that is all charged against 1934, it seems a pretty large amount for one year.

Hon. Mr. FULLERTON: We propose to follow the rules of the Interstate Commerce Commission and charge it to profit and loss.

Hon. Mr. EULER: What I was going to say is this, if you are going to charge \$23,000,000 for obsolescence into last year's operations you are certainly going to have a larger loss than apparently shows on your statement.

Hon. Mr. MANION: A larger deficit.

Hon. Mr. EULER: Yes.

The CHAIRMAN: You do not charge for obsolescence, you charge for retirements, don't you?

Hon. Mr. FULLERTON: We practice retirement accounting.

The CHAIRMAN: Not obsolescence, because it is a first hand charge that will be taken care of in the depreciation account.

Hon. Mr. EULER: Oh, no, that is separate altogether.

The CHAIRMAN: When you retire equipment, how do you treat it in your consolidated balance sheet. Do you credit your investment account?

Mr. FAIRWEATHER: Yes, it is written out of your investment.

The CHAIRMAN: How does it appear on the credit side of the ledger?

Mr. FAIRWEATHER: As our set-up is, it goes into our deficit account.

Hon. Mr. EULER: That was not done this year, because I read here from the auditors' statement on page 11:—

In the matter of accounting for obsolescence, our recommendations along the lines made in the aforementioned letter dated 18th February, 1935, to the Board of Trustees may be summarized as follows—

(a) That the profit and loss account of 1934 be charged with an amount of \$23,238,857 to provide for a reserve for obsolescence of equipment.

That has not been done, has it?

Mr. LABELLE: No, it has not been done yet. You have the story on page 10 of the annual report. We mentioned that in the annual report.

Mr. GRAY: I was going to suggest that "obsolete equipment," reported by the trustees on page 10, I think requires some further explanation and this might be the time to obtain it. For instance, the first line reads:—

The trustees have had under review the advisability of authorizing an exceptional program of equipment retirements.

Then a little further down it goes on:—

The president recommends the demolition of a large number of units of rolling stock equipment which will never again be required for service, or permitted to interchange.

It says "exceptional program," which would sort of bear out the point which the hon. member for North Waterloo has just raised. Would the president enlarge upon that?

Mr. HUNGERFORD: Mr. Chairman, we have a number of copies of a report that I made to the trustees covering this question, a sufficient number, I think, for every member of the committee. As the question is rather involved, it might serve the purpose if we distributed these copies, and the members had an opportunity to read them.

Mr. GRAY: And discuss it again at a later stage.

The CHAIRMAN: Let us have them, Mr. Hungerford.

Hon. Mr. EULER: I suppose it sums up in this way: The statement of the trustees is that depreciation is cared for by charging to the operating account, but obsolescence has not been dealt with. Is that correct?

Hon. Mr. FULLERTON: That is quite true. When it is obsolete, it is true the assets are not there. It is our duty to call that to the attention of the committee. The recommendation to the trustees was that we retire it in the

1934 accounts. Well, the trustees all did not see eye to eye as to that being done. However, we mentioned it in our report. But the assets are not there; there is no question about that.

Hon. Mr. EULER: There is impairment of capital there.

Hon. Mr. FULLERTON: Yes, there is impairment of capital.

Mr. HANBURY: Probably Mr. Fairweather or one of the officers could tell us what the C.P.R. practice is in that connection.

Mr. FAIRWEATHER: The Canadian Pacific I know does practise the same accounting procedure as regards retirements as we do, because it is prescribed, as a matter of fact, by the Dominion Bureau of Statistics, and the uniform accounting of Canadian railways. What they actually charge to retirements in each year is shown in their accounts, of course.

Mr. HANBURY: Yes.

The CHAIRMAN: Then, on page 10, to which you referred, Mr. Euler, it seems to me that we get the matter down to the last two paragraphs under obsolete equipment:—

The matter is receiving the careful attention of the trustees.

The Canadian National Railways will have to face a capital loss if as and when they are authorized to abandon thin traffic branch lines These abnormal retirements of property do not involve present cash outlay (except for salvage operations, where the salvage should exceed the cost of demolition). They are losses of a capital nature to be dealt with separately and distinct from operating charges . . .

And you are considering the whole matter.

Mr. GRAY: I think we ought to have a chance to read this.

Mr. HANBURY: Mr. Chairman, in connection with maintenance of ways, the suggestion has been made that as a result of deferred maintenance, the railways of Canada—and we are particularly interested in the Canadian National Railways—are faced during the next few years with spending a very large sum to put their right of way back in the condition it was before, you might say, the depression. I have had estimates given to me that it was going to require \$50,000,000 or \$60,000,000 by the Canadian National Railways. I would like the Chairman, if he could, to give me any information he can in that respect.

Hon. Mr. FULLERTON: The president, of course, knows more about that than I do.

Mr. HUNGERFORD: I disagree entirely with that statement. We have maintained the line to a standard proportionate to the traffic requirements.

Mr. HANBURY: In other words, it is not necessary to look forward to the people of Canada furnishing any large sum of money to take up the slack of this deferred maintenance.

Mr. HUNGERFORD: I do not think so; not so far as tracks, bridges and structures are concerned.

The CHAIRMAN: Are there any other questions on maintenance of way and structures expenses? If not, we will go on to maintenance of equipment expenses.

Mr. TUMMON: What page are you on?

The CHAIRMAN: Page 18.

Mr. GRAY: Mr. Chairman, I assume you will permit us, after we have had a chance to read this report filed by Mr. Hungerford on obsolete equipment, to again question the management in connection therewith. It is some seven pages long. Is that agreeable to you?

The CHAIRMAN: There will be no objection to that. Is there any other question on this item?

Mr. HANBURY: Under maintenance of equipment, Mr. Chairman, I would like to know from the officers what shops are maintained throughout Canada, and whether it is economical to maintain those shops; or whether perhaps some of the shops are maintained for political or sectional reasons. I think it is something of importance for the people of Canada to consider, whether the railways are operating on the most efficient basis, without consideration to sectional or political influences, or whether those influences have some bearing.

Mr. HUNGERFORD: We have a number of shops which, as the result of amalgamation, are not in every instance where they suit present requirements best; but to change them around would cost more money than the saving which would be effected. At the present time, of course, we have a greater shop capacity than we require, but under traffic conditions such as prevailed a few years ago, we need practically all the shops.

Mr. HANBURY: In other words, you suggest that if normal conditions return all of the shops you now have are properly located for economical operation?

Mr. HUNGERFORD: We will require all of the shop capacity. Of the shop capacity, it is quite true that they are not all located in ideal positions.

Mr. HANBURY: Would you go further and suggest what shops are not located economically?

Hon. Mr. MANION: May I suggest here that I do not think—if I may say so, and it is not with any purpose except the saving of future trouble for somebody—that Mr. Hungerford should be asked to say that. For example, suppose he named a shop in my city. Immediately my city is stirred up into a furore. Whatever city might be mentioned would be stirred up in the same way. I suggest, with all deference, that that is a question which might well be left out.

Mr. GRAY: Hear, hear.

Hon. Mr. MANION: Mr. Hungerford has given us a very clear and straightforward statement that some of the shops are not ideally located because of the bringing together of the two different railway systems. At the same time, he thinks they are economically situated in a general way and are satisfactorily placed for the railway. I should think that would be sufficient.

Mr. HANBURY: Well, Mr. Chairman, when we are considering deficits on the Canadian National Railway we are faced with a loss which is undisclosed, based on uneconomical location of some shops. That is not given consideration by the people of Canada, and there are many other features of the operation of the Canadian National Railways that are not given consideration. In other words, the Canadian National Railways are performing services which, if they were privately owned, they probably would not be performing; and unless we have some information to show what services they are performing over and above what a private company would perform, it is hardly fair to criticize the extent of their loss. That is the point that I wish to cover.

Hon. Mr. MANION: If it is the desire of the committee, I have not anything further to say.

The CHAIRMAN: I think you will agree that specific instances might be left out.

Hon. Mr. MANION: I will, personally.

The CHAIRMAN: —in order to deal with the whole situation quite fairly.

Hon. Mr. EULER: The same thing applies in many other things; for instance, the buying of coal.

Mr. HEAPS: Yes.

Hon. Mr. MANION: I wish you would go into the buying of coal.

Hon. Mr. EULER: I brought it up before. I think we buy Nova Scotia coal—and this is with no offence to anybody from Nova Scotia—or the railways do, at a cost much higher than they can obtain it elsewhere; and they do it in order to promote Canadian business. That is not particularly the duty of the Canadian National Railways; and in one sense is not a fair charge against the public operation of the railway.

Hon. Mr. MANION: In that regard I just wish to say this, that I find, for example,—I will not discuss Nova Scotia coal—in regard to western coal, the C.P.R. buys much more Canadian coal than does the C.N.R.

Hon. Mr. EULER: Why is that?

Hon. Mr. MANION: I find that to be the case by the figures I am given. I think that both railways;—if I may so say, with due deference—owe a duty to the country from which they are getting whatever business they are getting, to purchase Canadian goods, even if sometimes at a loss. We all do it in our own individual lives; and I think a corporation such as the C.N.R. and the C.P.R. should do it.

Hon. Mr. EULER: That is all right within reasonable limits. I think that is sound enough within reasonable limits.

The CHAIRMAN: Gentlemen, on the question of maintenance of equipment, are there any further questions? If not, we shall go on. We jumped ahead, on your question, to transportation expenses. Is there any further discussion on the coal item?

Mr. HEAPS: The question having been raised, perhaps we could have what the differential is between the coal that they actually purchase and what it could be purchased at from other sources.

The CHAIRMAN: Well, you have got your items in there for locomotives, fuel and so on. Is that too hard a question?

Hon. Mr. FULLERTON: It is a pretty hard proposition.

Hon. Mr. EULER: I think the officials answered last year. I think Mr. Fairweather could give us an approximate answer, if he so desires.

Mr. FAIRWEATHER: Of course, it is a thing that changes with traffic and changes with the market conditions for whom day to day—actually changes with our traffic conditions, because there are times when we have to move coal against the current of traffic and other times when we are able to move it with the current of traffic, which makes a big difference in our current costs. All these things are taken into consideration.

Hon. Mr. EULER: Is that \$1,000,000?

Mr. FAIRWEATHER: Well, at times it has exceeded that.

Hon. Mr. EULER: Yes.

Hon. Mr. MANION: That is, you mean the excess cost of Canadian coal over American coal, if you bought the latter.

Mr. FAIRWEATHER: If you had, let us say, a perfectly hard boiled basis, you would find, I think, that there would be offsetting factors, even if you did that. You see, that is the direct picture. But a railway participates so much in the vital life of the country and it uses so much of the raw products of the country, that if they change their purchasing policy in the way that it would be suggested, of purchasing on a perfectly hard boiled basis, although they might save say a million dollars in their operating expenses, the secondary results of diverting that purchasing power would have an effect on the railway.

Mr. HEAPS: Would you explain how it is in western Canada the C.P.R. uses western Canadian coal and the C.N.R. is not doing that to the same amount?

Mr. FAIRWEATHER: We are using western Canadian coal through western Canada.

Mr. HUNGERFORD: Just to the same extent, practically, as the C.P.R.

Hon. Mr. MANION: I am glad to have that mentioned, because according to a statement given to me by the secretary of the Dominion Fuel Board on January 29, the Canadian Pacific Railway used twice as much Canadian coal in western Canada east of Winnipeg as did the Canadian National. I only mention that because I think that both sides of the question should be given. I am not quarreling. I have not any quarrel with either company as to its policy. I have here some figures, and I will give them as given to me by Mr. F. G. Neat, secretary of the Dominion Fuel Board. I will give them for three years. He shows the Canadian National purchasing—this is Alberta coal.

Hon. Mr. EULER: Not B.C. coal?

Hon. Mr. MANION: Before I go on, I might say that I thought this was all western coal, but it is Alberta coal. Would there be more purchases of British Columbia coal by the C.N.R. than there would be by the C.P.R.?

Mr. HUNGERFORD: There might be, I don't know.

Hon. Mr. MANION: I thought this was the total, but it is Alberta.

An Hon. MEMBER: What about Saskatchewan coal?

Hon. Mr. MANION: However, they are going into the figures. I believe I am right in saying that the Canadian National purchased very much more Canadian coal on its Eastern lines than the C.P.R. I think that is true, isn't it?

Mr. HUNGERFORD: Yes.

Hon. Mr. MANION: Because we have many more lines in the east than the C.P.R.

Mr. HUNGERFORD: Both roads use western coal, so far as coal is used. There are some territories in which both the roads use oil. West of Winnipeg both use coal, and to a certain extent east of Winnipeg.

Mr. HEAPS: You could not use any more coal than you are using, so far as the western lines are concerned?

Mr. HUNGERFORD: Practically no.

Hon. Mr. MANION: I have had complaints made to me, the same as Mr. Hanbury has had, that because the Canadian National was a national road it should use Canadian coal to a greater extent than it does. However, that is another matter. I will give you the figures for the consumption of Alberta coal east of Winnipeg, Canadian coal; in 1932 the Canadian National used 83,000 tons, and the Canadian Pacific used 104,000 tons; in 1933 the Canadian National used 99,000 tons and the Canadian Pacific used 128,000; in 1933 the C.N. used 85,000 tons and the C.P.R. 150,000. I only mention it because I think we should realize that both railways, both the Canadian National and the Canadian Pacific, are as I think they should be favouring the Canadian product as far as they reasonably can economically.

Mr. HEAPS: Those figures only signify the amount they used, but evidently according to the statement made by Mr. Hungerford they could not use more coal than they actually require. It is quite possible that the requirements for the C.P.R. western lines might have been greater than the requirements for the C.N.; it is also possible that the C.N.R. made purchases of large amounts of coal from British Columbia which are not shown in these figures.

Hon. Mr. MANION: I don't think that that is true. I think the Canadian National business in the west is greater than that of the Canadian Pacific; is that not true?

Mr. FAIRWEATHER: My own figures on our coal purchases in western Canada, including Vancouver Island, bought for ordinary operating purposes, show that our purchases totalled 895,000 tons.

Hon. Mr. MANION: For what year, last year?

Mr. FAIRWEATHER: Last year.

Hon. Mr. MANION: How much did the C.P.R. purchase, have you that figure?

Mr. HEAPS: What were the figures you had there?

Hon. Mr. MANION: I just had Alberta, used east of Winnipeg, 85,000 tons.

Mr. HEAPS: What was the figure Mr. Fairweather gave us?

Mr. FAIRWEATHER: That was 895,000 tons, our total purchases in western Canada last year.

Hon. Mr. MANION: Did you say 895,000 tons in 1934?

Mr. FAIRWEATHER: Yes. We purchased in eastern Canada 1,529,000 tons.

Hon. Mr. MANION: That, of course, would include the ships on the Pacific coast.

Mr. FAIRWEATHER: That would include our ships.

Hon. Mr. EULER: I don't want to be understood as objecting to the purchase of Canadian coal; but I do say, if the price is not prohibitive and it does not cost too much; but it does not seem to be fair to charge extra because of something which is done for national purposes to the railways, anymore than in the case of reduced freight rates to the Maritimes. The federal government assumes the reduction in the freight rates entirely, because it is a national purpose; so that the railways need not suffer they reimburse them on that account. The Canadian government also has assumed the interest on the deficits these last three or four years.

Mr. HEAPS: Might I ask in regard to eastern lines whether the C.P.R. use Canadian coal, or whether they use American coal?

The CHAIRMAN: We should have to ask them I am afraid.

Mr. HEAPS: We are told that they use more coal out west than the Canadian National. I thought possibly you might have some information about that.

Hon. Mr. MANION: I made the statement that I thought (and I think it is right) that the Canadian National purchased much more Canadian coal in the east than did the C.P.R. I think that statement is correct.

The CHAIRMAN: There is one question which I suppose comes under transportation expenses which came to me in a letter. I haven't the letter now, but the substance of it was that apparently certain ex-service men claim they are not being properly taken care of in regard to their tour of duty; that they lost their runs, and lost their places; and that the Montreal agreement in their case was interpreted against them. Do you know anything about anything of that kind, Mr. Hungerford? I think this letter was from Winnipeg.

Mr. HUNGERFORD: We have had nothing but trouble in connection with that matter, and I expect that if I continue to railroad I will continue to have trouble of that sort. It is the result of the amalgamation of the lines, and the efforts that have been made by the men's organizations in connection with a readjustment of relationships.

The CHAIRMAN: This had reference more particularly to men who went overseas who on coming back found themselves dispossessed of a run, or of employment; and in other cases, where the men came back later, they found that others had taken their place.

Mr. HUNGERFORD: Such men retained their seniority right, that should not affect it.

The CHAIRMAN: I think it should not.

Mr. HUNGERFORD: They lost no seniority.

Mr. LABELLE: They did not lose any seniority on account of overseas service. Some of them lost their seniority because they left Canada to work in some of the industries on the other side. That is provided by a circular issued in 1931.

Mr. HUNGERFORD: I do not think any man lost anything who was connected with the war.

The CHAIRMAN: That was the charge, that it had caused an interruption in their service.

Mr. HUNGERFORD: No.

The CHAIRMAN: I will try to find the letter and see if there is anything more in it.

Mr. HANBURY: In this item I notice very large sums for injuries to persons. I would like to have some explanation of that. It is on page 19.

The CHAIRMAN: Three-quarters of a million dollars; the last item on the account.

Hon. Mr. FULLERTON: Is it that item of \$747,000?

Mr. HANBURY: Yes.

Mr. FAIRWEATHER: This is for transportation expenses.

Mr. HANBURY: Yes. Take the last item on page 19.

Mr. FAIRWEATHER: That item is in connection with employees injured or killed in the company's service; accidents that happen in the railway yards, on trains, and things of that character. Last year 29 employees were killed and 42 were permanently or partially disabled, as compared with 19 killed and 30 injured in 1933. Unfortunately, you cannot carry on an industrial activity without these things.

The CHAIRMAN: How is that compensation arrived at.

Mr. GRAY: Have you any estimate as to what it may cost the railway as a result of the Dundas wreck on Christmas day last.

Mr. HUNGERFORD: We have accurate figures in regard to the cost of the wreck itself; but as all of the settlements resulting from the unfortunate wreck have not been effected yet we will not have complete figures on that for a while.

The CHAIRMAN: This item represents practically a workmen's compensation?

Mr. FAIRWEATHER: Yes.

Mr. HANBURY: I understand it also covers passengers.

Mr. FAIRWEATHER: It would, yes.

Mr. HANBURY: So it is necessarily workmen's compensation?

Mr. FULLERTON: I think the bulk of it is.

Mr. FAIRWEATHER: In this particular year the bulk of it is.

The CHAIRMAN: Are there any other questions under that account? Then we have miscellaneous operating expenses; we had some questions on that. Restaurants—that is station restaurants I suppose.

Mr. HANBURY: Is this, miscellaneous operating expense, a loss; is that the balance between the receipts and the disbursements?

Mr. FAIRWEATHER: That is part of our operating expenses; it simply relates to items of operation such as dining car services, restaurant services and other miscellaneous operation.

Mr. HANBURY: Is this the total of the salaries paid for these operations?

Mr. FAIRWEATHER: These are the total expenses in connection with the operation of the items indicated under the headings.

Mr. HANBURY: There is that item for dining and buffet services, \$932,000; was that the expenses for the year for operating your dining car services on all railroads?

Mr. FAIRWEATHER: All that is chargeable to this account.

Hon. Mr. EULER: Could you tell me how much money you are making or losing on that dining car service?

Mr. FAIRWEATHER: Of course, our dining car service at any time is carried on at a loss. A question was asked yesterday with regard to that, and I think perhaps that answer could be given now. Mr. Hanbury asked what was the total cost of operating the dining cars, and what ratio does the actual food bear to the total cost? The answer to that is: the cost is best expressed in the form of controllable cost for meals served, including the cost of food and other supplies, and the cost of crew. These items amount to an average of \$1.08 per meal served. The food cost represents 29 per cent of this total. The average revenue per meal is 86 cents. The difference between these two figures represents our direct out-of-pocket loss.

Hon. Mr. MANION: Might I ask a question, just while you are at that point: I think within the last year or two you served a table d'hote meal on your dining cars; did that improve your revenues, or was the result the reverse?

Mr. FAIRWEATHER: We tried that as an experiment last year, we tried it in various forms, and it did not improve our revenues. We did it with the intention, as has already been explained, of attracting the head-end passengers back to the diner; but he proved to be a shy bird and we didn't get him. The result was that we had to cut it out because we were losing too much money.

Hon. Mr. MANION: That is what I understood. The question came up during my absence yesterday, and I just wanted to ask about it in case it might be of interest.

The CHAIRMAN: It was in that connection that Colonel Cantley made his complaint about the fish.

That includes the hauling of the car does it?

Mr. FAIRWEATHER: No, that does not include hauling the car. That would not be what I would call a controllable dining car expense; it does not include that, or the cost of the car, or things of that character.

Mr. MCGIBBON: What would be the loss on your parlour car and dining car services over the system, it must be heavy?

Mr. FAIRWEATHER: Naturally, they are heavy. We are making a profit on our parlour car operations, however; our parlour car operations are carried on at a profit. On the whole we are making a profit on our parlour car and sleeping car operations.

The CHAIRMAN: Then there is your general expenses; your salaries—legal expenses, which, unfortunately, are going down. Next is, additions and betterments less retirements (page 21); that has to do with your question Mr. Hanbury I think.

Mr. GRAY: Your suggestion, Mr. Chairman, I think perhaps Mr. McIntosh and Mr. Davies are here and would like to speak to the committee on a matter affecting northern Saskatchewan and Alberta.

The CHAIRMAN: It would not be about branch lines, would it?

Mr. GRAY: Perhaps it is, I rather think so.

The CHAIRMAN: I am sure we would be very glad to hear from them. We will hear Mr. McIntosh now.

Hon. Mr. MANION: I suggested to Mr. McIntosh the other day in the House that he should come before this committee; and to Mr. Davies also.

The CHAIRMAN: Shall we hear Mr. McIntosh?

Mr. MCINTOSH: Mr. Chairman, Honourable Dr. Manion, representatives of the Canadian National Railway, and members of the special Shipping and Railway Committee:—

May I say the reason I am here today is just simply because of two branch line railways that in my estimation ought to be completed between North Battle-

ford and Edmonton. On March 5th I had a question up in the House of Commons. I asked the Minister of Railways a question pertaining to these branch lines. The Minister gave an answer and he said that these two branch lines were only two of many throughout Canada; that the depression had interfered with branch line building and that the management had that matter under consideration. Then I asked another question of the Minister on April 1st, which also related to both these branch line railways, and the Minister said on that occasion that he would be pleased if I came before the special committee dealing with railways and the matter could be gone into fully. Now, I want to thank the Minister for that invitation, and because of the acceptance of that invitation I am here this afternoon.

With regard to these two railway extensions may I say, gentlemen, that they concern, as I have said, two branch lines between North Battleford and Edmonton. I am here to ask for the construction forthwith of the St. Walburg-Bonnyville branch line connecting North Battleford, St. Walburg, Red Cross, Loon Lake, Flat Valley, Goodsoil, and Pierceland in northern Saskatchewan with Cold Lake, Bonnyville, and Edmonton in northern Alberta. This branch line was authorized by chapter 32, Statutes of Canada, 1929.

In Saskatchewan this branch line extends from North Battleford in a northwesterly direction for a distance of over ninety miles to St. Walburg. The line runs through one of the best mixed farming areas in western Canada. By repeated extensions from North Battleford since the early part of the present century, it has covered a distance of less than one hundred miles in approximately thirty years, or a little over three miles per year. Its objective at the start was Edmonton—over two hundred miles away. Considering the one hundred and seventy miles built from Edmonton in a northeasterly direction towards North Battleford and the ninety miles built in the opposite direction from North Battleford there remains approximately a one-hundred mile gap to finish before these two projected parts are connected.

That is one of the branch line railways, gentlemen, on which I would like to ask for action if possible. The second consideration I ask is the closing also of the gap on the Canadian National railway's branch line south of the big loop above described that is the line between Heinsburg, Alberta, and Frenchmans Butte, Saskatchewan.

Heinsburg is the terminus of this Canadian National railway's branch line starting at Edmonton and continuing southeast to Heinsburg a short distance from the Alberta-Saskatchewan border. In Saskatchewan the terminus of this branch line starting at North Battleford and running northwestward toward Edmonton is Frenchman's Butte, also a short distance from the Saskatchewan-Alberta border. The distance between Heinsburg, Alberta, and Frenchman's Butte, Saskatchewan, is approximately forty-one miles. This is the second gap that must be completed before the country between North Battleford and Edmonton will be satisfactorily railroaded and the business men and farmers provided with the required rail accommodation. Construction should commence on this gap as soon as possible. There will have to be new legislation brought down for this branch line railway.

Now, then, so much with regard to the two branch lines. I shall say a few words about the country through which these two branch lines will run and speedily develop.

The area lacking development is practically seventy miles in length from the northerly line to the North Saskatchewan river and immediately north of the North Saskatchewan river the southerly branch will connect. Back from the boundary line the distance is about forty to fifty miles which is unrailroaded and about seventy miles deep. That is there is an area there of approximately 3,500 square miles, and I might say that this belt of territory is a mixed farming belt of the very first promise, and practically all that country is settled. The natural and economic outlet for this territory is eastward through North Battle-

ford and Saskatoon. This traffic eastward in natural products also applies to a large belt of country extending into the province of Alberta beyond the Saskatchewan border, and from a railway point of view these two developing areas should be thought of as one, and having them railroaded will do away with the back haul to Edmonton which is a very serious handicap to all the districts concerned.

With regard to the back haul from Beaver River Crossing—that is on the northerly branch line—the back haul is 340 miles; and this back haul has a penalizing effect on the movement of all machinery and other necessities of life coming into the districts concerned from the eastern parts of the Dominion.

On the southerly branch there will be a back haul of over 300 miles to Edmonton, and this back haul, as I said, interferes with the economic development of this great belt of country.

Now, another point to be considered is that the population on the Saskatchewan side—because I am not dealing with the Alberta side as Mr. Davies, the member for Athabaska, will present that side of the case—the population on the Saskatchewan side which will be affected will easily run into 30,000. Another factor to be considered is that in the territory from St. Walburg to Beaver River Crossing in Alberta, we must remember that this road will run from St. Walburg to Kilonan, Red Cross, Loon Lake, Flat Valley, Good Soil, Beacon Hill and Pierceland to the Beaver River, and into this great area live stock, flour, machinery and lumber mills have to be taken to enable the people to carry on. The needs of thousands of people run into a great deal of traffic and a big sum of money from year to year. The extra prices which are tacked on all goods brought in these districts make progress almost prohibitive for some and retard the self-sustenance of the settlers a great deal. As many of these settlers are on relief, the government is paying the high price of settling the country anyway, whereas the settlers, had they a railroad, would more quickly become self-supporting and provide a load both ways for the railway. Otherwise, they must use the Edmonton haul to Beaver River Crossing or make use of the railroad to St. Walburg and there taken by other means of transportation thirty, forty or fifty miles from the ends of the steel inland.

The CHAIRMAN: Who did you say was presenting the Alberta side of the case?

Mr. McINTOSH: The member for Athabaska, Mr. Davies.

The CHAIRMAN: Is he dealing with the same matter?

Mr. McINTOSH: He is dealing with the Alberta case.

The CHAIRMAN: We had better have him here.

Mr. McINTOSH: He is here now. I may say that another factor to be considered is that many people from southern Alberta, southern Saskatchewan and southern Manitoba have come into this area from the dry areas of the south to make new homes for themselves and find themselves thirty, forty and fifty or sixty miles from steel, and because of this isolation they find a great difficulty in carrying on. Further, may I say I believe that if the records of the Canadian National Railways are gone into and the experience of those connected with the Canadian National Railways in northern Alberta, northern Saskatchewan and northern Manitoba are investigated, it will be found that the branch line running out of North Battleford to St. Walburg and out of North Battleford to Spruce Lake and on to Frenchman's Butte is one of the best paying branch lines in Canada. There is no doubt about it. The C.N.R. has taken out of that country in the last twenty-five or thirty years millions of dollars. The traffic has been heavy and trade has been enormous; and after extending these two lines and completing them the Canadian National Railways will doubtlessly have a paying proposition.

Now, then, may I say that on the north branch of this road—the road is built from North Battleford to St. Walburg, a distance of ninety miles—the

road is graded from St. Walburg to Loon Lake, a distance of forty-two miles. There is another part of the road graded from the Alberta boundary line south-eastward to North Battleford of twenty miles; and that means that we have over sixty miles of graded road ready for the steel between St. Walburg and the Alberta boundary.

The CHAIRMAN: How long ago was that done?

Mr. McINTOSH: Oh, that was done five years ago, Mr. Chairman. That means that over sixty miles of that road were graded and ready for the steel five years ago and that about thirty-five miles have to be graded and got ready for the steel. In all, there is a gap of 100 miles between St. Walburg and Beaver River Crossing that ought to be bridged, and out of that 100 miles, as I said, over sixty miles is graded and the other thirty-five odd miles must be graded and gotten ready for the steel.

Now, the sixty miles or over that are graded will have to be reconditioned, because, as I said, during the last five years the grading, to a large extent, has been demolished. As a matter of fact, they are using it for a highway in parts of "The North." The consequence is that that grade will have to be reconditioned, and I believe that would cost about \$500 a mile. The grading would run, perhaps, to \$1,000 a mile and putting on the steel and ballasting would run to \$1,500 a mile. I would imagine that the 100 miles could be reconditioned and graded and steeled for approximately \$3,500 a mile, or a total of \$350,000. If the northern line could not be wholly done this year or if the southern branch could not be attempted, then, at least, there should be something done in Saskatchewan from the St. Walburg end. With regard to the grading from St. Walburg to Loon Lake, which is a distance of over forty miles, why could not that grading be reconditioned and second-hand steel laid in order to bring the railway nearer to the thousands of farmers who have settled there from the dried-out areas of the south and others who are trying to build up new homes for themselves in northern Saskatchewan? That will afford encouragement, although it will not wholly meet the production needs.

More than that, if the government is contemplating bringing down a public works construction bill, or, in other words, a real relief bill, why could not the government include in this relief bill at least some part of the work on the Saskatchewan end of these two railways in order to get the work started?

Lastly, Mr. Chairman and gentlemen, every board of trade between North Battleford and Edmonton and every retail merchants' association between those two points, business men in general and all the farmers in that area between St. Walburg and Beaver River Crossing and between Frenchman's Butte and Heinsburg on the Saskatchewan side are solidly back of any government and of the officials of the Canadian National railways in taking action to see that something is done this year on one of those roads, and, if possible, on both of them.

Now, as far as the work is concerned, I may say that it is urgent. I believe if an investigation were made—and I have no doubt that the Canadian National must have the facts on the situation—it would show this to be a sound business proposition. I do not believe the statement that because we have a depression in Canada is any answer for inaction. Neither do I believe any answer to the question, that these two roads should be built, is found in the statement that there are other roads to be built in Canada. I believe both these northern lines ought to be considered by themselves in a particular way—indeed may I say in a special way. If at all possible some extension work should be done this year in each line to encourage the development of the north and to bring hope and confidence to the hearts of thousands of farmers and business men who are intimately concerned with the building up of that part of northwestern Saskatchewan.

I thank you gentlemen for all possible speed in the building of these two greatly needed branch line arteries of trade and development.

MEMORANDUM TO SPECIAL RAILWAY COMMITTEE, HOUSE
OF COMMONS, WITH REGARD TO BRANCH LINES OF THE
CANADIAN NATIONAL RAILWAYS NOT YET COMPLETED
IN NORTHWESTERN SASKATCHEWAN

BY CAMERON R. McINTOSH, M.P., NORTH BATTLEFORD, SASK.

1. The branch lines referred to in memorandum and on which construction has been regrettably delayed for years are:—

(a) Construction forthwith of the St. Walburg-Bonnyville branch line connecting North Battleford, St. Walburg, Red Cross, Loon Lake, Flat Valley, Goodsoil, and Pierceland in northern Saskatchewan with Cold Lake, Bonnyville, and Edmonton in northern Alberta. This branch line was authorized by chapter 32, Statutes of Canada, 1929.

In Saskatchewan this branch line extends from North Battleford in a northwesterly direction for a distance of over ninety miles to St. Walburg. The line runs through one of the best mixed farming areas in western Canada. By repeated extensions from North Battleford since the early part of the present century, it has covered a distance of less than 100 miles in approximately thirty years, or a little over three miles per year. Its objective at the start was Edmonton—over 200 miles away. Considering the 170 miles built from Edmonton in a northeasterly direction towards North Battleford and the 90 miles built in the opposite direction from North Battleford there remains approximately a 100 mile gap to finish before these two projected parts are connected.

(b) The closing also of the gap on the Canadian National railway's branch line south of the big loop above described, that is the line between Heinsburg, Alberta, and Frenchman's Butte, Saskatchewan, Heinsburg is the terminus of this Canadian National Railway's branch line starting at Edmonton and continuing southeast to Heinsburg a short distance from the Alberta-Saskatchewan border. In Saskatchewan the terminus of this branch line starting at North Battleford and running northward toward Edmonton is Frenchman's Butte, also a short distance from the Saskatchewan-Alberta border. The distance between Heinsburg, Alberta, and Frenchman's Butte, Saskatchewan is approximately forty-one miles. This is the second gap that must be completed before the country between North Battleford and Edmonton will be satisfactorily railroaded and the business men and farmers provided with the required rail accommodation. Construction should commence on this gap as soon as possible.

AREA OF THE COUNTRY TO BE SERVICED BY THESE TWO IMPORTANT BRANCHES
OF THE CANADIAN NATIONAL RAILWAYS

(a) The area lacking development because of the non-completion of both of these branches is easily 70 miles deep on the Saskatchewan-Alberta boundary. It extends for a distance of between 50 and 60 miles eastward where it still is approximately 70 miles in depth. This is a very productive area. The natural and economic outlet for the grain, fish, lumber, wood, fur and livestock of this territory is eastward through North Battleford and Saskatoon. This traffic eastward in natural products also applies to a large belt of country extending into the province of Alberta beyond the Saskatchewan boundary. From a railway point of view these two developing areas should be thought of as one. In considering the back haul to Edmonton—a serious handicap in itself—the lack of through-railway service eastward and westward is indeed serious to the people of the districts affected.

(b) There is a costly back-haul from Beaver River Crossing westward in the direction of Edmonton for a distance of three hundred and forty-miles—a penalizing movement on all machinery and other necessities of life coming into the districts concerned from the eastern parts of the Dominion.

(c) The same statement can be made with reference to the branch line southward. There is a similar penalty or punishment because of extra mileage or back-haul of 300 miles or more on goods coming in from eastern Canada to points on this branch line between Heinsburg, Alberta, and Edmonton.

(d) The area in Saskatchewan affected by the non-construction of these two branch lines approximates 3,500 square miles, with a population of 30,000 to 40,000.

(e) The population of the country, the development of which has been retarded by the prolonged delay in completing the branch railway from St. Walburg to Kilronan, Red Cross, Loon Lake, Flat Valley, Goodsoil, Beacon Hill, and Pierceland, has endured great hardships in conveying into these districts supplies such as live stock, flour, machinery and lumber mills without which they would have been unable to "carry-on". The needs of thousands of people run into a great deal of traffic and a big sum of money from year to year. The extra prices which are tacked on all goods brought into these districts make progress almost prohibitive for some and retard the self-sustenance of the settlers a great deal. As many of these settlers are on relief the government is paying the high price of settling the country anyway, whereas the settlers, had they a railroad, would more quickly become self-supporting and provide a load both ways for the railway.

(f) For a small part of this immense unrailed portion of northern Saskatchewan, that is the Loon Lake area, the following statistics of two years ago are of importance:—

Number of poultry..	96,000
" " horses..	3,500
" " cattle..	10,000
" " swine..	10,000
" " population..	10,000
Acres cultivated..	40,000

Settlers coming into "The North" from "The South" annually have run into the hundreds. Practically every quarter section of land has been taken up although northward and westward new areas are being surveyed and good land yearly thrown open to people from the dried out areas in the three western provinces of Alberta, Saskatchewan, and Manitoba.

(g) The area tapped by these two branch lines is on the whole quite fertile and has proved during the last seven years a great boon to thousands of farmers and business men seeking a new home in the north because of their inability to remain longer in the drought stricken lands of southern Manitoba, southern Saskatchewan and southern Alberta.

(h) Experience and the records of the Canadian National railway will show that both these branch lines are and have been exceedingly profitable to the railway during the past quarter of a century. This would indicate that the country concerned is highly productive and not excessively burdened with railway development.

It is therefore urgently requested that the area dealt with should be railroaded immediately. If an adequate sum of money is not available to complete these two lines forthwith then the government should decide

at once the maximum program that can be gotten under way this year. Over 60 miles of grade on the northerly line in Saskatchewan—that is 42 miles between St. Walburg and Loon Lake and over 20 miles eastward from the Alberta boundary can be reconditioned and the steel put on it for approximately \$200,000. This would leave about 35 miles to be graded and the steel put on it next year if it could not be done this year. The feeling of the farmers and business men of the territory through which these branch lines run is that action should be no longer delayed to give them an economic outlet eastward and westward in order that their part of the west may go forward to the great future that awaits it.

(i) In the event of the government presenting to parliament a public works construction program to relieve unemployment it is suggested that serious consideration should be given by the government to this railway problem in order that these two branch lines might be included in the program.

(j) We might say in conclusion that all the boards of trade between North Battleford and Edmonton, and all the Retail Merchants' Associations between the same two points as well as the rural areas surrounding them are solidly back of the demand for the construction of these two branch line railways that will mean so much for northern Alberta and northern Saskatchewan.

The CHAIRMAN: We are glad to hear you, Mr. McIntosh. Mr. Davies, do you want to say something on this?

Mr. DAVIES: Mr. Chairman and gentlemen, I am, I assure you, most grateful for the opportunity of presenting to the committee a few words regarding those two branch lines as far as northeastern Alberta is concerned. As I have sat at the rear of the committee and listened to the maze of figures that have been presented respecting coal, salaries, expenses and so on, I am not unmindful of the fact that it is not difficult for those who are residing in the hinterland perhaps to be overlooked. I do not propose to take very much of the time of the committee and for the sake of brevity, with your permission, I shall read a short memorandum that I have prepared. It is divided into three parts. First, the lines involved, second the territory involved, and third the suggested program. In respect to the lines involved, firstly there is:—

1. Completion of what is known as the Bonnyville-St. Walburg line which has been authorized by Chapter 32, Statutes of Canada, 1929.

The present line extends from Edmonton in a northeasterly direction for a distance of about 170 miles up to the Beaver River crossing, in the vicinity of Cold Lake, Alberta. There remains a gap of approximately 75 miles to connect this line with the Saskatchewan extension.

2. Completion of the line between Heinsburg, Alberta, and Frenchman's Butte, Saskatchewan, a distance of about 41 miles.

Heinsburg, the end of the steel on this line, is approximately 150 miles east of Edmonton and slightly north. There is no branch line bill passed yet authorizing the completion of this gap.

II. TERRITORY INVOLVED

1. The area adversely affected through the non-completion of both of these branches is 70 miles deep on the Saskatchewan boundary, running for a distance of 60 miles west, where it is about 40 miles deep. In this area the natural and economic outlet for the larger part of the grain and live stock should be eastwards, but because of the lack of completion of either of these railway gaps, no eastern outlet is available without a back-haul to Edmonton.

2. Most of the territory referred to above, and an additional area lying westwards to Edmonton, is penalized by the back-haul on all machinery and other supplies which come into the district from eastern Canada, which is, of course, a substantial part of the commodities they purchase.

3. This extra mileage at Heinsburg, Alberta, on goods shipped in from eastern Canada, amounts to 300 miles.

4. At Beaver Crossing, Alberta, the present terminus of the Bonnyville-St. Walburg line, the extra haul involved on goods from eastern Canada is approximately 340 miles.

5. The area concerned which is adversely affected by these two branch lines has a population (in the province of Alberta) of approximately 42,000 people.

6. The town of St. Paul, situated about 125 miles northeast of Edmonton, on the Edmonton-Heinsburg line, in 1933 shipped out 12,115 hogs, 650 head of cattle, 300 sheep and approximately 700,000 bushels of grain, and has a population of approximately 1,200. The shipments from the above point give some indication of the penalty involved through lack of direct connection with the east.

7. The area concerned is, generally speaking, quite fertile and during the past four years a very large number of new settlers have established themselves, so that to-day there is little, if any, homestead land available for settlement.

8. I am informed that the records of the railway will indicate that both these branch lines are exceedingly profitable to the railway, which would indicate that the area concerned is a highly productive one and that there has not been excessive railway development.

Now, with respect to the suggested program, may I say this: It is urgently requested that the area concerned should be given an eastern outlet immediately. In the event that only a small amount of money is available, it is suggested that the central span should be placed on the bridge over the Beaver river at Beaver Crossing, and that the steel should be laid at least as far as Cold Lake, Alberta, a distance of some $3\frac{1}{2}$ miles. The total cost involved in this work is estimated by the Canadian National Railways at \$150,000.

The long and precipitous hill which the wagon road has on both sides of the Beaver river makes it most difficult for settlers on the north of the river to haul their produce to the end of the steel at Beaver Crossing.

The completion of the bridge would overcome this difficulty, and at the same time would most likely assure to the railway and the extensive fish business emanating from Cold Lake, which is at present largely handled by trucks.

In the event that a public works construction program is brought down by the government, it is suggested that serious consideration should be given to including branch lines work on such program.

I must confess, Mr. Chairman, that I have not infrequently wondered why it was that in respect to public works construction program, some consideration has not been given to further construction of needy branch lines in districts which really do justify themselves. It would seem to me, and I do most respectfully suggest to the committee that the Canadian National railways, in respect to national public works program are just as much entitled to benefit from a vote from the government as is a municipality or as is a province; and I most sincerely hope that the committee will give some consideration to that viewpoint. I shall leave my memorandum with the reporter and I thank you very much for the opportunity of coming before you.

The CHAIRMAN: We are very glad to hear you and your remarks will appear on the record.

Hon. Mr. EULER: It is not my intention to interfere with any course of procedure you may wish to follow, but I rise at this moment to make a suggestion which has to do with the presence here of Mr. Matthews, the auditor of Touche and company. I think he would like to get away and it occurred to me that we might with convenience to himself, complete the discussion we had with regard to his proposal for the writing-down of the capitalization.

The CHAIRMAN: Mr. Euler, we have those additions and betterments, and we brought in Mr. McIntosh and Mr. Davies under this heading, although they might have come in at some other place, but once we have finished this account, the rest, I think, is what we have gone over many times. We may very well finish this matter and carry out the procedure you suggest.

Hon. Mr. EULER: All right.

The CHAIRMAN: Is there anything further under additions and betterments on page 21?

Mr. HANBURY: I notice here a large item for treating ties, creosoting. I was wondering if the management could give us a general statement as to the relative value of treated and untreated ties.

Hon. Mr. FULLERTON: You mean the benefit derived from treating ties?

Mr. HANBURY: The life and cost.

Mr. HUNGERFORD: It just doubles the life of a tie.

Mr. HANBURY: What is the general figure of a treated and untreated tie in the contract?

Mr. HUNGERFORD: Well it depends on the locality and the character of the tie to a very considerable extent.

Mr. HANBURY: Give it to us for a treated tie. Is it a fair statement to say the treated tie is a more economical unit than an untreated tie?

Mr. HUNGERFORD: On the whole I think yes.

Sir. EUGÈNE FISET: When you are purchasing those ties, is the price fixed by the railway?

Hon. Mr. FULLERTON: To a very large extent, yes.

Sir. EUGÈNE FISET: Is there any possibility of getting a statement as to a certain contract for ties that has been given at Rigaud? I do not want the item for the committee; if I can get it privately I will be perfectly satisfied.

Mr. HEAPS: He won't tie himself down.

Sir. EUGÈNE FISET: I am quite willing to make it public. I should like to know the number of ties that have been supplied by Mr. Elzear Cote, merchant of Rimouski, either under his name or under the firm name of Auedine Cote and Fils, operating at Luceville, or Rimouski, P.Q. I would like to know the number of ties furnished by them and I should like to know also the price paid.

Mr. LABELLE: In 1935?

Sir. EUGÈNE FISET: From 1930 up to the present day. I should be quite satisfied if you will furnish me with the information later on.

Mr. GOBEL: Mr. Chairman, have there been different prices for the same district? I always understood the price was settled for certain districts.

Hon. Mr. FULLERTON: I think that is quite correct.

Mr. GOBEL: The contractors all receive the same price.

Hon. Mr. FULLERTON: I think that is quite correct.

Mr. HEAPS: How are the prices set?

Hon. Mr. FULLERTON: The prices are set by the purchasing department.

Mr. HEAPS: How do you determine whether the prices are fair or unfair?

Mr. BEAUBIER: Tenders are invited in all cases.

Mr. LABELLE: Tenders are asked from some firms, and then the prices fixed for everybody in the same territory.

Sir. EUGÈNE Fiset: I should like to know by whom the price is set and the quantity that is furnished at that price.

Hon. Mr. FULLERTON: As I understand the practice, details of the contracts are not given before this committee. I am in the hands of the committee, I suppose.

Sir EUGÈNE Fiset: We have had information before and the purchasing agents appear here to furnish the information.

Hon. Mr. MANION: Gentlemen, if I may interject, the information was never given for the current year. I do not think there is any objection to the information being given. I do not think there is any objection. What years are you asking for?

Sir EUGÈNE Fiset: I have given the years 1930, 1931, 1932, 1933 and 1934.

Hon. Mr. MANION: 1934 is the current year. That is the year we are dealing with. They have taken the attitude in the past regarding those ties that the figures should not be given for the year we are dealing with. As far as the contracts up to 1933 are concerned, I see no reason why you should not get it.

Sir EUGÈNE Fiset: The work on the contracts for 1934 would be completed before now.

Hon. Mr. MANION: I do not know.

Mr. FRASER: They are delivered and paid for in the current year.

Sir EUGÈNE Fiset: Certainly.

Mr. GOBEL: Do you mean 1934-35 or the year 1933-34?

Hon. Mr. MANION: The contracts for 1934 would not be completed. They would be current contracts.

Mr. FRASER: They are 1935 ties.

Mr. LABELLE: Delivered in 1935.

Mr. GOBEL: These are not completed.

Mr. HEAPS: I should like to get some information on the question of how the prices for ties are fixed. I understand that tenders are called for. Am I right there?

Mr. LABELLE: We were informed by the purchasing department that that was their practice.

Mr. HEAPS: Call for tenders?

Mr. LABELLE: They do not call for tenders as such; they call for different quotations, if you like.

Mr. HEAPS: They get quotations from a number of firms and then what?

Hon. Mr. MANION: Then they do not take the quotations; they fix the price. That certainly has been my information.

Mr. HANBURY: Quite correct.

Hon. Mr. MANION: That exactly is my information.

Mr. HEAPS: When they fix the price do they go according to the lowest quotation submitted to the department?

Hon. Mr. FULLERTON: I think they go a little lower; we do not go any higher, in fact.

Hon. Mr. MANION: In fact the prices last year were just under half what the prices were a few years ago, they have been bringing them down so much.

Mr. GOBEL: Just about half.

Hon. Mr. EULER: Is there a selected list from whom tenders are asked? Or is it open to everybody?

Hon. Mr. FULLERTON: Open to everybody, as far as I know.

Mr. LABELLE: No, not the fixing of prices.

Hon. Mr. FULLERTON: Did you say "fixing prices"?

Hon. Mr. EULER: I said, is there a selected list from whom tenders are invited or is it open to everybody to tender?

Hon. Mr. FULLERTON: I think it is open to anybody to tender, as far as I know.

Mr. HANBURY: Anybody can tender?

Hon. Mr. MANION: Anybody can write in about them.

Hon. Mr. EULER: I should like to ask as a matter of information, curiosity perhaps, whether the authorities asking for tenders have a list of firms from whom tenders are invited, and that no others are invited. Is that the case?

Hon. Mr. FULLERTON: As far as I know with regard to ties that have been purchased since I was connected with the railway, the purchasing department has all to do with the purchasing. They look after it all.

Hon. Mr. EULER: That may be true, but that does not answer my question.

Hon. Mr. FULLERTON: I cannot answer it without consulting with the purchasing department and finding out.

Hon. Mr. EULER: With all respect to yourself, is there anyone else here that could answer that question?

Mr. LABELLE: I can give you the information that the purchasing department gave me, which was that they had a certain number of firms known to them as being tie contractors, and that about June or July they are asked what price they would quote for ties this year, to be delivered next year. Then they take these different quotations that come to them, and the purchasing department set their own figure. That is the information that I got myself from the purchasing department.

Hon. Mr. EULER: Can you tell me how the list is made up?

Mr. LABELLE: No, sir.

The CHAIRMAN: Then, after that does the purchasing department go into the field and buy, or do they buy from these people that have quoted?

Mr. LABELLE: The procedure is this: The purchasing department takes the list of the previous year of the different contractors; and if a contractor has contracted for 2,000 ties and has not delivered the ties, his name is not supposed to be on the list for the year. Then they report to the trustees. At the time they gave them the list of what were tentative contractors for the year 1935. Every letter that was sent to the department was supposed to be investigated by the purchasing department, as to whether the man who was writing was qualified to deliver the ties or not.

Mr. HEAPS: When you set a price which is lower than the lowest tender, do you expect these people to make anything on the tender?

Mr. LABELLE: Well, there was a rule established, I think it was two years ago, that the contractors should not get a greater profit than five cents per tie, and I think that is printed in the contract.

Mr. GOBEIL: Yes, it is.

Mr. HEAPS: If that is the case now, they are getting five cents profit. Ties are half the price they were a few years ago. Once upon a time it was a pretty good business.

The CHAIRMAN: Those days are gone.

Mr. HANBURY: Mr. Chairman, probably I have had more experience in ties than any member of the committee.

Mr. GRAY: Hear, hear.

Mr. HANBURY: As a matter of fact, Dr. Manion was kind enough one time, during my absence, to disclose my connection with the tie business.

Hon. Mr. MANION: I do not believe I used your name.

Mr. HANBURY: Yes, you did. You produced a stolen letter, or at least a photostatic copy of a stolen letter.

Hon. Mr. MANION: I did not steal it, anyway.

Mr. HANBURY: Well, I will accept your explanation, but I have always had my suspicions. I think perhaps Dr. Manion will let me make my statement, and if he wishes to correct it afterwards, I shall be very pleased to have him do so. I am frank in saying this to the committee, and to the public generally, that to the best of my knowledge and belief—and I have some knowledge and belief of what took place, particularly in the province of British Columbia—up until July 28, of 1930 I know of no case where any political influence was used in the purchasing of ties by the Canadian National Railway. Following that period, and when this government came into office there was a period up until the trustees were appointed when tie contracts were let based primarily upon the influence that a man could bring to get a contract. Subsequent to the time of the appointment of the trustees, I feel satisfied that political considerations are not given the same weight, or perhaps not any weight whatsoever in the placing of contracts; although I have no doubt that the trustees have been subject to a great deal of pressure by many people—some of it from high places—that contracts should be placed in a certain way. I am satisfied that they are trying to operate the road outside of political influence, in that particular regard at any rate.

With reference to the system adopted in the purchasing of ties in the province of British Columbia, the railway company at a period of a year will ask those people, who have in the past proved their ability to furnish ties in accordance with a contract, to tender on their requirements for the ensuing year. After they make up their appropriation of the quantity of ties that is going to be required, then they apportion those ties among the contractors. In arriving at the price, they have asked originally for what price the ties will be provided; and the railway company then, by taking into consideration various conditions as existing, we will say, on the Pacific coast as compared with the interior, and of the interior as compared with the province of Alberta, taking into consideration the hauling of the ties and the cost of the hauling of the ties—and unfortunately, in my opinion, taking into consideration some things which they should not consider—arrive at a price. This price is offered to these contractors, and if they wish to accept the order, it is sent to them. If they do not wish to, then they can reject the order. As I understand it, that is generally the system that has been adopted in British Columbia, at any rate.

I am going to take advantage of this opportunity, also, to voice some criticism I have of the, you might say, preference given to Alberta in the placing of tie contracts over and above the interior of British Columbia. Either rightly or wrongly, the railway company have allowed the industry to establish on their line in the interior of British Columbia. They are not giving it the support which, in my opinion, the lumber industry is entitled to. In the first place, they place them against the competition of the coast mills where they have the advantage of water borne traffic; and they will take distress quotations from the coast sawmills and use them as a yardstick with which to make their purchases from the interior sawmills, notwithstanding the fact that these mills have been established on their lines and are entitled to some support as a result of having been established there, and they having permitted them to establish there.

Then in connection with the relation between the interior of British Columbia and Alberta, for some reason which I have never yet been able to get a satisfactory explanation of, the railway company in purchasing their Alberta ties on one side of the boundary which may be ten miles from another place, pay a higher price in the province of Alberta than they do in the province of British Columbia; notwithstanding the fact that in the province of British Columbia they are obliged to pay, in many cases, higher government dues; also that they in the province of British Columbia, are endeavouring to maintain fair conditions of labour, pay minimum wages and regulate the hours of labour, whereas in the province of Alberta there is no regulation as to the hours of labour, and no regulation as to minimum wages. That is something that I think the railway company have not given the full consideration to which it is entitled. Generally speaking, I feel that the present policy of the railway company, in the purchase of their ties in British Columbia, is fair, and in my opinion, not subject to very much criticism.

Mr. HEAPS: Have you got a statement showing how many ties were bought in British Columbia as compared with Alberta?

Mr. STEWART: May I say that there are regulations as to hours of labour in Alberta just as much as in British Columbia?

Mr. HANBURY: I do not think it is in operation, being enforced.

Mr. STEWART: I know it is in operation and it is being enforced; because we have a very large plant in my riding which works twenty-four hours a day for over one hundred and twenty days, and they must work not more than eight hours per day. That is the law of the province and it is enforced.

Hon. Mr. MANION: I just wish to say a word here. I do not want to get into a long discussion on the tie question. We have had many discussions in this committee. I certainly did not start it to-day. But with regard to Mr. Hanbury's statement, he did say that he did not consider there was any politics in the purchasing of ties previous to 1930.

Mr. HANBURY: In British Columbia.

Hon. Mr. MANION: All I can say in regard to that is that I think there was a great deal of politics in the purchasing of ties previous to 1930 all over this country. The Canadian National Railways bought from 12,000,000 to 14,000,000 ties each of the two years before the election, and the best allowance that they said they required at the time when it was discussed even in this committee, was about 7,000,000. Since this government came into power we have purchased very few ties. I mean, the railways have purchased very few ties. I admit quite frankly, as I admitted in reply to my friend Euler down there some couple of years ago, that finding when we came into power that, according to my investigations, 75 to perhaps 85 per cent of the contracts were let to the friends of one political party, I protested strongly against that, and I had that altered, to some extent, by my protest. What I had to do with it was that when names were submitted to me by friends or political enemies—if I may use the term not offensively—I submitted these names to the management. That policy was changed, that is, giving them to one particular party. In the last two years I have not been in the country at all when the tie contracts were let. I was at Geneva two years ago, in 1933, and I was ill last year. The contracts were all let in my absence. I don't mind admitting very frankly that had I had the letting of the contracts, a great many of the people who got them would not have done so. But I did not have the letting of the contracts. I do not wish to criticize, but certainly if there is any politics at the present time in the letting of tie contracts, it is certainly not politics in favour of the party in power.

Sir EUGÈNE FISER: As I am responsible for the discussion, to a certain extent, I would like to call attention to the fact that I do not criticize in any way, shape or form the method of the disposal of the contracts for ties by the Canadian

National Railways. I do not criticize even the distribution. I do not care if Mr. Cote got a contract or not. What I want to ascertain is simply the quantity of ties that he has furnished to the Canadian National Railways during the years 1930, 1931, 1932 and perhaps 1934, if possible. I simply want to know the circumstances. I do not criticize the action that has been taken. I simply want the information; and if a report is given to me in writing, I am quite satisfied, and that is all there is to it.

Mr. LABELLE: To the best of my knowledge, nobody in Quebec has been favoured as far as price is concerned.

Sir EUGÈNE FISET: I do not even say that. I am quite sure that the price is all right. That is not the reason I am asking that. I simply want information.

The CHAIRMAN: Is that the name of the contractors?

Sir EUGÈNE FISET: Yes. The man has it there. He may have only got a sub-contract. I simply want the information.

The CHAIRMAN: It has not been usual, the chairman says, to give the names of contractors.

Mr. GRAY: I think you were on the committee back in the years when we had long schedules attached to the minutes in which the names and the amounts of the contracts were shown.

Hon. Mr. MANION: I think you will agree that they dealt with years that were not what I called the current year a few minutes ago.

Mr. GRAY: I think that is right.

Hon. Mr. MANION: I have no objection to the management giving any information they wish; but the attitude of the management has always been—as Mr. Fullerton just said to the Chairman—that they will not give information of that sort, about ties, about purchases of any kind for the current year, for the reason that they claim it gives information out that should not be made generally public. I do not care what is done.

Sir EUGÈNE FISET: I am simply asking for the report for my own information; that is all.

Hon. Mr. FULLERTON: I certainly have no objection to giving the information, but I think it might create a precedent for asking for almost any contract that we may give in connection with the business of the railway.

Mr. HANBURY: I am inclined to agree with that view just expressed. I do not see any reason why any member of parliament should not have that information confidentially, if he wishes to obtain it. I do not even restrict myself to the members of this committee. But I do not think it would be in the interests of the public generally that all tenders should be subject to review at any stage of the game. I think that is a wrong principle.

The CHAIRMAN: It does not seem to me that it is very good business to disclose the internal workings of the railway.

Sir EUGÈNE FISET: If Mr. Cote was one of the contractors who had been asked to submit a price on which the price of these ties was fixed, I will not ask the question. But I am under the impression that an order was simply given to Mr. Cote. I want to know at what price, the price fixed for the general purchase of ties. I simply want to know the quantity that have been furnished, nothing else.

Hon. Mr. FULLERTON: Perhaps this would enable us to get along; suppose I gave this information personally to you?

Sir EUGÈNE FISET: That is what I want.

Hon. Mr. FULLERTON: That is all right.

The CHAIRMAN: I do not think it should clutter up the record.

Sir EUGÈNE Fiset: I do not want it to go on the record.

Hon. Mr. FULLERTON: I think it is just as well that it should not go out to the public.

Sir EUGÈNE Fiset: I think you can trust me for that.

The CHAIRMAN: What is next?

Mr. HANBURY: Mr. Chairman, getting back to the business, I notice on here an item under hotels, of \$258,000. I assume that most of that would be the expenditure on the hotel in Vancouver?

The CHAIRMAN: What page are you on?

Mr. HANBURY: On page 21 of the report.

Mr. GRAY: Are you still paying for that?

Hon. Mr. MANION: Yes, and will pay for a long time.

Mr. HANBURY: Is it going to open at any time in the near future?

Hon. Mr. MANION: That was just a little conversation—and I am speaking to Hansard now—in a jocular vein which was going on at the end of the table.

Mr. HEAPS: I heard it, Doctor. I will tell.

Mr. HANBURY: Are the management in a position where they can make any statement as to what their plans are in accordance with the Vancouver hotel?

Hon. Mr. FULLERTON: I am afraid not. I wish you could make some suggestion to us.

Mr. HANBURY: My suggestion to the Chairman of the Board, and to the people of Canada generally, would be that when we get back to reasonable conditions, which I feel sure we will within a year or two, and particularly in view of the action taken by the Minister of Railways (Hon. Mr. Manion) as head of the Tourist Bureau, that if the Minister will co-operate with the Tourist Bureau in bringing people to Canada, this hotel can very shortly be opened. Frankly, I am reaching the point where I am a little critical about the degree of economy in the railway situation in Canada, we seem to be paying a little too much attention to our position instead of using what I may call imagination, in connection with both our hotel and our railway situation. I think we might use a little imagination, get people to come to Canada in various ways, and other things. Frankly, I think the time will come, notwithstanding Dr. Manion's fears in connection with it. I do not suggest that the hotel is ever going to pay a big return on the investment, but I think that hotel can very well be made to carry the expense of operating.

And, in connection with hotels, I would like it if the management could give us some general information as to what was the relative loss or profit in connection with the operation of the hotels last year, in comparison with previous years.

Hon. Mr. FULLERTON: Last year we had, for the first time in the history of the railways, a profit over operating expenses for our hotel.

Mr. HANBURY: For all the hotels?

Hon. Mr. FULLERTON: On all the hotels, for the first time we had an operating profit.

Mr. HEAPS: Could you give us a statement as to that?

Hon. Mr. FULLERTON: It was about \$37,000 altogether, as compared to a loss last year of \$176,000.

Mr. HANBURY: They all lost but two, did you say?

Hon. Mr. MANION: All of them made operating losses except two, and these two made an operating profit sufficient to show a general operating profit on all.

Mr. HANBURY: Could you tell us which ones they were?

Hon. Mr. FULLERTON: The Chateau Laurier made an operating profit, and the other one was the Nova Scotian.

Mr. HEAPS: Would you mind giving us the amounts?

Hon. Mr. FULLERTON: The Chateau Laurier made an operating profit of \$152,000; and the Nova Scotian made an operating profit of \$9,500.

Mr. HEAPS: I would say that the Chateau was the most expensive hotel, probably, to maintain in the whole country.

The CHAIRMAN: Of course, that does not include overhead, interest charges or things of that kind.

Hon. Mr. FULLERTON: No, but it includes taxes.

Mr. HEAPS: I maintain, however, that the Chateau is the most expensive hotel to maintain in the country.

Hon. Mr. FULLERTON: That is about the only hotel that gives an operating profit.

Mr. BAUBIER: It is running at capacity practically all the time.

Mr. HANBURY: How is the improvement accounted for?

Hon. Mr. FULLERTON: By the improvement in gross business for one thing, and I think also by good and careful management.

Mr. HANBURY: There has been a change in the management?

Hon. Mr. FULLERTON: Yes, there has been a change in the management, and I think the management to-day is splendid.

Mr. HANBURY: Yes.

Mr. STEWART: How much money have we invested in the Vancouver hotel at the present time, and how much will it require to complete the building?

Hon. Mr. FULLERTON: We have \$8,544,000 invested, and two million seven to complete.

Mr. HANBURY: That includes furnishing doesn't it?

Hon. Mr. FULLERTON: Yes.

Mr. HANBURY: What portion of that would be furnishing?

Hon. Mr. FULLERTON: Now, I haven't that here. I would say about a million dollars.

Mr. HANBURY: Yes; so that \$1,700,000 would be needed to complete the building.

Hon. Mr. FULLERTON: Yes.

Mr. HANBURY: What appropriation has been made for that work this year?

Hon. Mr. FULLERTON: \$300,000.

Mr. HANBURY: So then, on that ratio, it will be five or six years before the hotel is completed.

Hon. Mr. FULLERTON: Well, of course, if the situation were such that we would be justified in opening it I suppose we would ask for the money to complete it; but we do not regard the situation as opportune for opening at the present time.

Hon. Mr. MANION: May I just interject there for the information of Mr. Hanbury, the government has not even been consulted as to how much they would spend. I mention that to show that this matter is one which is entirely up to the management.

Mr. HANBURY: May I say that I am not criticizing the government of the day at all, and I am not criticizing the management of the railway; but I do think we should try and have a little vision for the future, and a little hope for the future. I would like to know if the management have any estimate as to what the loss would be in operation if the hotel were opened?

Hon. Mr. FULLERTON: We have no figures made on that at the present time, no estimate is available at the moment.

The CHAIRMAN: Now, gentlemen, shall we take up the matter on which Mr. Euler was to speak?

Hon. Mr. EULER: Mr. Chairman, the discussion we had yesterday on the recasting of the capital structure of the National railways was the direct outcome of a very definite and concrete suggestion, made by the auditors, Touche and Company. To me that suggestion seems the very essence of simplicity, but the Minister made a statement afterwards in which he referred to the complications involved in it; I think he referred both to the bookkeeping complications and to complications by way of matters of legislation. My own opinion was and is that the bookkeeping complications at least do not exist to any great extent, but on that point I was desirous of having Mr. Matthews give his opinion. I hope that you will permit him to do that after I have finished, because I have a motion to submit; I fancy it may perhaps be satisfactory even to the Minister, who made the suggestion yesterday that the whole matter be left for the consideration of a committee comprised of the Deputy Minister of Commerce, the Deputy Minister of Justice and the Deputy Minister of Finance. I raised the objection, if I may put it that way, that the matter should be considered by representatives of the people, perhaps, or the government itself; with all due respect to the gentlemen who were to comprise that committee; but they after all would not properly be authorized to frame policies, or anything of that kind. My thought was this: that the report of Touche and Company on this matter should be referred to the Board of Trustees for consideration. I say that because it is taken for granted now, and the report stated—and especially in the bill we passed two years ago—that the Board of Trustees of the National railways was to have approached the matter of consolidating these charges of the railways of Canada. Further than that, the Royal Commission on Railways, which sat three years ago, made a very distinct recommendation that the Board of Trustees, which they recommended should be appointed, should consider, and I suppose take action, on some scheme of writing down the capitalization of the National Railways. With that end in view then, I want to propose a motion here which it seems to me should meet with the approval of almost everybody, and it is this:

Moved by Hon. W. E. Euler, seconded by Mr. Gray, that the report of Touche and Company be referred to the Board of Trustees of the Canadian National Railways for consideration and report, with special reference to the recommendation of Touche and Company for recasting the capital structure of the Canadian National Railways.

I might add, just by way of observation, that while I consider that the Board of Trustees are the proper body to consider this question, they might also comply with the suggestion of the Minister by calling in as expert witnesses, or if you like, as technical advisers' the gentlemen who have just been named. And I would further suggest that as soon as the report, at least as soon as the definite recommendations by Touche and Company are submitted to the Board, that they could very well have a consultation with them, Mr. Matthews, or any other representatives of the old board of officers they might desire, despite the fact that they have been relieved of their duty. Now, it seems to me that that whole procedure would be logical, and it seems to me it should meet with the approval of everyone. With regard to the complications referred to by the Minister yesterday, I would like to suggest that Mr. Matthews be heard as to what his opinion is with regard to that matter.

Hon. Mr. MANION: Before you sit down; you mentioned that I said something about bookkeeping complications.

Hon. Mr. EULER: I may be wrong, but that is my impression.

Hon. Mr. MANION: You may be right, but I certainly do not remember saying it; and I do not know to what my honourable friend refers because I happen to have sticking into this copy of the Duff report the notes which I used. They were very roughly gotten up, but I don't remember that. I see nothing here on them that indicates that I suggested any great difficulty about book-keeping. What I did say was that there was much legislation involved and much inquiry would be needed; that the management must be heard by the committee I suggested. I did give the difficulties, for example one thing I mentioned was as to whether or not the roads be revalued as to its physical value, or its replacement value, its earning power and so on. I gave the broad complications merely to show that it would take considerable time to get anything in the nature of a report in connection with these questions. That is all I had in mind. What my honourable friend (Honourable Mr. Euler) has suggested is merely the reverse of what I said. I just suggested a committee—I am not married to it at all—I did suggest a committee of the Deputy Minister of Railways, the Deputy Minister of Finance and the Deputy Minister of Justice, as three men who would see all the phases of it—the financial, the legal and the railway. I suggested also that they should confer with the management and the trustees; and of course also with the auditors. I would not have any objection to having representatives of Touche and Company appear, as well as representatives of the auditors who have replaced them. I do not think there is a great deal of difference between the suggestion made by my honourable friend and the one made by myself.

Sir EUGÈNE Fiset: There is a difference, Mr. Minister. The report of Touche & Co., is addressed to parliament. It is submitted by parliament through the Minister of Railways to this committee for consideration. Last year when we considered the interim report sent in by Touche & Co., it was the first time that the resolution of this committee was placed officially before us. This report which was sent to parliament, and through the Minister of Railways referred to this special committee carried the request that the matter should be submitted officially to the Board of Trustees for their consideration and report; and it seems to me that that is the only way in which we can get it properly before them, and officially before them for consideration. There is nothing to prevent them consulting with any special body such as you have mentioned, sir; but it seems to me that it is the duty of the Board of Trustees first to consider this report, in accordance with the wishes of parliament.

Hon. Mr. MANION: Might I just offer one suggestion in that regard. I am not opposing the motion at the moment, I think it might wait over until another meeting anyway. There is this suggestion or thought that comes to my mind. The auditors—who were Touche & Co., in the past and who at present are Clarkson, Gordon, Dilworth—are parliamentary auditors to audit the trustees, so to speak. They are to audit the management, and in that I include of course the trustees. Now, we are suggesting a rather extraordinary course it seems to me, we are submitting to the trustees themselves the audit which we have had made on the trustees, to get the opinion of the trustees on that audit. It seems to me to be a rather extraordinary course.

Hon. Mr. EULER: It has really nothing whatever to do with the audit at all. It is merely a suggestion with regard to the writing down of the capital structure.

Hon. Mr. MANION: I do not wish to take up any more of the time of the committee on this matter at the moment.

Hon. Mr. EULER: I mean that I am quite satisfied to accept the explanation or correction which the Minister made with regard to what he said yesterday. I was under the impression that he has said something about complications arising out of bookkeeping entries. To me it seems to be a very very simple matter, merely the re-aligning of the railway books with the public accounts; but while

perhaps as the Minister says we cannot decide on it absolutely to-day I think we might in the interests of Mr. Matthews himself, and to meet his convenience, have him at least give his views on the objections that were raised by the Minister. I don't know what he is going to say, but to my mind on the matter of book-keeping entries he ought to be able to give us something. It is very simple. It can be done so easily. The object we seek to accomplish could be accomplished without any regard to the matter of physical valuation at all.

Mr. GRAY: I was just going to call your attention, Mr. Chairman, to what perhaps you are now engaged in looking up. I just want to add to what Mr. Euler said by drawing the attention of the committee to the report of the Royal Commission, at page 30, in which, dealing with the capital structure of the Canadian National Railways they say:—

This question (that is, the capital structure) as well as that previously referred to, dealing with the present involved financial structure of the Canadian National system, should, in the opinion of the Commission, have the early attention of the Board of Trustees, which it is recommended should be entrusted with the control and management of the system.

Now, that is the recommendation by the Commission which, as the minister pointed out, is also the intent of the Canadian National-Canadian Pacific bill passed in 1933, to follow as closely as possible the recommendations by that commission. They investigated this, gave it careful thought, and we tried to follow as closely as possible their recommendation. On top of that when Touche and Company first introduced the recommendation last year the Chairman of the Board of Trustees, Hon. Mr. Fullerton, then stated that ever since taking office, and I presume following out the suggestion made by the commission in respect to this matter, he had given careful consideration to it. I feel like Mr. Euler that the place where this should first be considered and a report presented from should be the Board of Trustees which you have appointed in this connection. And, as Mr. Euler pointed out, there can be no objection to the Board of Trustees calling in whatever assistance they require.

Hon. Mr. MANION: May I utter one sentence. I read 87 in my remarks the other day, and I quite agree with it; but I do wish to say that while that report was before the board of trustees we have never had anything from the board of trustees in regard to the matter. It is true that Mr. Fullerton did say last year and this year that he thinks there should be recapitalization, and Mr. Fullerton is one of the board of trustees; but we have never had from the board of trustees any recommendation of any kind that I can remember in regard to recapitalization.

Hon. Mr. EULER: But we have had from the royal commission.

Hon. Mr. MANION: Yes.

Hon. Mr. EULER: I would suggest that if a committee is to be appointed it is surely logical that the board of trustees should be the committee and that they should call in these gentlemen rather than that they should be the committee and confer with the board of trustees. It is only logical.

Hon. Mr. MANION: Let us hear Mr. Matthews.

Mr. HEAPS: Do you intend calling Mr. Matthews now at this late hour?

The CHAIRMAN: Let us call him and get through with him quickly.

Mr. STEWART: I have to speak to the returned soldiers and I would like to get away, but I would also like to hear Mr. Matthews.

Hon. Mr. MANION: I cannot be here in the morning; there is a large deputation from the Maritime Provinces that I have to meet.

Mr. HEAPS: Let us meet in the afternoon.

The CHAIRMAN: While it is nobody's fault, still we are keeping the railway officials away from their work.

Hon. Mr. MANION: Would there be time to hear Mr. Matthews now?

Mr. MATTHEWS: I do not know what Dr. Manion's statement was.

Hon. Mr. EULER: You heard Dr. Manion's statement yesterday, did you not?

Mr. MATTHEWS: Yes.

Hon. Mr. EULER: I would like to have the difficulties pointed out.

Mr. STEWART: Will I have the right to ask questions on the profit and loss statement?

The CHAIRMAN: You can ask anything you like. However, if there is likely to be interrogation we had better not rush through.

The committee adjourned to meet Thursday, April 11, at 3.45 p.m.

SESSION 1935

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

THURSDAY, APRIL 11, 1935

WITNESSES:

Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways.

Mr. O. A. Matthews, of Geo. A. Touche & Co., Chartered Accountants.

Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance.

OTTAWA
J. O. PATENAUDE
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1935

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 231,

THURSDAY, April 11, 1935.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 3.45 p.m., the Chairman, Mr. Geary presiding.

Members present:—Messrs. Beaubien, Beaubier, Cantley, Chaplin, Euler, Fiset, Fraser (*Cariboo*), Gray, Gobeil, Hanbury, Heaps, MacMillan (*Saskatoon*), Manion, Power, Stewart (*Lethbridge*), Tummon.

In attendance:—Hon. C. P. Fullerton, Chairman, Board of Trustees, Canadian National Railways; Mr. J. E. Labelle, Trustee, Canadian National Railways; Mr. S. J. Hungerford, President, Canadian National Railways; Mr. V. I. Smart, Deputy Minister, Department of Railways and Canals; Mr. S. W. Fairweather, Director, Bureau of Economics, Canadian National Railways; Mr. T. H. Cooper, Auditor of General Accounts, Canadian National Railways; Mr. B. J. Roberts, Comptroller, Government Guarantee Branch, Department of Finance; Mr. O. A. Matthews, of George A. Touche & Co., Chartered Accountants.

The Committee took into further consideration the question of the writing down of the Financial Structure of the Canadian National Railways as recommended by the Auditors.

Mr. O. A. Matthews was called and examined.

Witness retired.

Mr. B. J. Roberts was called and examined.

Witness retired.

Mr. Matthews was recalled, further examined and retired.

Hon. Mr. Manion, seconded by Mr. MacMillan, moved, in amendment to Hon. Mr. Euler's motion (appearing in yesterday's proceedings):—

That, in the opinion of this committee, the question of changes in the capital structure of the Canadian National Railways, at present before the Board of trustees at the instance of the Duff Commission, and not yet reported upon, is too large and complicated a matter to be dealt with by this committee at this stage of the session and of parliament, and on the basis of information presently available.

The committee is further of opinion that it would be in the best interests of all concerned if, before any recommendation is made to parliament by this committee, the entire question should be studied by a committee consisting of the Deputy Minister of Railways and Canals, the Deputy Minister of Finance, and the Deputy Minister of Justice in order that due consideration may be given the important practical, financial and legal questions involved, and that for this purpose, the present report of Touche & Company should be referred to the proposed

committee of deputy ministers, who should be instructed to consult with the board of trustees and necessary officers of the Canadian National Railways with respect to the recommendations of both the Royal Commission and of Touche & Company.

Without the question being put, the Committee adjourned, on motion of Mr. Hanbury, until after the Easter recess, at the call of the Chair.

R. ARSENAULT,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, Room 268,

April 11, 1935.

The select standing committee on Railways and Shipping met at 3.50 o'clock, p.m., Colonel O. R. Geary, the chairman, presiding.

The CHAIRMAN: Order, gentlemen. The minister would like to make a statement.

Hon. Mr. MANION: I would like to make a little statement about coal. Yesterday I unintentionally gave some information which could be twisted around a bit; it was wrong, but it certainly was not intentionally wrong. This morning, in order to straighten it out, I asked the Bureau of Statistics to give me the figures on the purchases of coal in western Canada for the two railways—the Canadian National Railway and the Canadian Pacific Railway; and I find the totals for the provinces of Manitoba, Saskatchewan, Alberta and British Columbia are as follows:

By the Canadian Pacific	1,052,434 tons
By the Canadian National	1,109,478 tons

That shows a slightly larger figure for the Canadian National Railways, but the figures are practically the same for the two. The figures are for the year 1933. The Bureau of Statistics has not the figures for the year 1934. The figures by provinces are as follows:

Coal used by Canadian National and Canadian Pacific in western Canada during the year 1933:		
Province	Canadian Pacific	Canadian National
Manitoba	239,162	355,579
Saskatchewan	342,795	409,839
Alberta	287,470	296,988
British Columbia	183,007	47,072
Total	1,052,434	1,109,478

The above figures are short tons.

The CHAIRMAN: Now, then, we were going to ask Mr. Matthews for some remarks. I do not know exactly what those remarks were to be about, but in connection with the report he has made. Do you want a general statement, Mr. Euler?

Hon. Mr. EULER: No, Mr. Chairman. The statement I wanted from Mr. Matthews is on a quite definite matter; I wanted to ask him whether the suggestion he has made for the writing down of capitalization—especially the first part concerning the billion dollars—whether that would involve any serious bookkeeping entries, and possibly he might speak with regard to legislation; and I was going to ask him for this reason: I have before me a copy of the proceedings of April 9th, and I find that the minister made this statement—I am not going to read all of it:—

Then there is this question to show once again the complications: Not only is there complication of the different companies, of the different bond issues, different mortgages at different rates of interest, not only are these questions involved, but on what bases are we going to change the capital structure?

I was going to ask Mr. Matthews whether, in his opinion, there would be any complications caused with regard to the bond issues and the matter of different companies and all that sort of thing? My impression is that that would not be involved at all; that the company would go along just the same as it is doing now.

The CHAIRMAN: He has covered that in his report.

Hon. Mr. EULER: I want him to elaborate it.

O. A. MATTHEWS recalled.

The CHAIRMAN: Mr. Matthews, you heard the question which Mr. Euler wants you to answer?

Mr. MATTHEWS: Yes.

Mr. MATTHEWS: After the question was raised yesterday afternoon concerning the matter of Dr. Manion's statement we prepared a short memorandum with a view to dealing as briefly as possible with the facts of the proposals. In our report on the capital structure on the 22nd of March last, and in our appearance before the committee on Thursday of last week, we dealt with the matter of misconceptions in the public mind both in Canada and abroad, of the effect of the National Railway finances upon the published net debt and budget deficits of the Dominion. Since that time there has come to our notice in the public press the reported address of Mr. Beatty, President of the Canadian Pacific Railway Company, before the Board of Trade and service clubs in Toronto on the 9th of April last; an editorial in the Montreal Gazette of this morning; and the subject matter of Dr. Manion's statement made before this committee on Tuesday last on the complexities of the present capital adjustment proposals. Apart altogether from the misconceptions which we illustrated to the committee a week ago, we cite the aforementioned statements and editorial as a further indication as the extent of these misconceptions, even in the minds of such well informed authorities as Hon. Dr. Manion, Mr. Beatty and the Montreal Gazette. We concede to these and all other authorities the inviolable right of opinion on a matter of such importance as the capital structure adjustment proposals of the National system. We furthermore make plain that we have no desire to discuss the matter in any controversial spirit, but we propose nevertheless to deal with the facts as they are. It is an axiom that fact or truth may be misunderstood or misinterpreted, but not changed. We invite reference to our report. After all that is the official record of the actual proposal. In its consideration there should be nothing read into the report that is not there, nor should there be ignored any facts or proposals therein contained.

In response to the request of the committee we will now reply to the statement of Dr. Manion in which he indicated that many corporate complexities would be involved in the carrying out of the capital structure proposals. We do so, however, with all due deference to Dr. Manion as Minister of Railways.

Hon. Mr. MANION: In response to your request, Mr. Euler; not the request of the committee.

Hon. Mr. EULER: Well, all right; I don't see that it makes any difference.

Hon. Mr. MANION: Well, it makes a difference; Mr. Euler is not the whole committee.

Hon. Mr. EULER: I might say that the Minister is not the whole committee either.

Mr. GRAY: Only a part of it.

Mr. HANBURY: Carried.

The CHAIRMAN: We will proceed, Mr. Matthews.

Mr. MATTHEWS: The capital structure adjustment falls under two main headings; first, the elimination of duplication of liabilities and losses aggregating roughly \$1,500,000,000 in the published accounts of the National system and

those of the Dominion of Canada. This is the only step advocated in our proposals and embraces only negotiation between the railways and the Dominion. Second, the possible adjustment at some unknown time in the future of some unknown part of the funded debt in the hands of the public by the transference from the published accounts of the railways to the published net debt of Canada. This is the step if ever undertaken in the future would involve the many complexities referred to by Dr. Manion. Let us reiterate once again, however, that our proposals do not involve any such step or complexities.

Permit me to read from our report on the capital structure under date of 22nd of March last: (page 5, paragraph 3)

Furthermore, the remedial proposals hereinafter submitted do not deal with the funded debt in the hands of the public, but rather with such methods to improve the presentation of facts, as are now at hand and which, in our opinion, are possible of early application.

Page 14, paragraphs 3 and 4:

In view, however, of the income deficits of the system during the past few years and the practical impossibility of ascertaining other than the theoretical value of the system to Canada from a utility point of view, we would deprecate any intensive and meticulous examination into this matter at this time as such an undertaking could not now be otherwise than costly to the Dominion and barren of practical results.

Furthermore, such an undertaking, carried on to its logical conclusion, would involve either the direct assumption of a part of the present railway funded debt by the Dominion or the payment of an annual interest subsidy to the National system on the basis of the national needs of Canada as distinguished from railway operations of a purely commercial nature. Neither of these steps would we be prepared to recommend until more normal times.

We have dealt with the two steps that are involved in what you might term the capital structure adjustment and its purpose. I would like now to give a brief summary of the real facts of the present proposal. On page 5, paragraphs 2 and 4:—

These capital adjustment proposals are not suggested for the consideration of parliament as a cure-all for the Canadian National Railway problems, but rather as a step in support of such measures as have already been provided for in the Canadian National-Canadian Pacific Act (1933) having as its purpose the ultimate establishment of the national system on a sound basis.

Then, paragraph 4 on page 5:

These recommendations to parliament, made with a view to establishing in the public mind both in Canada and abroad a fundamentally correct interpretation of the effect of the National Railways finances upon the Dominion public accounts, embody four main steps—

First—The adjustment of Canadian National Balance Sheet by the elimination of duplicate liabilities and losses.

Second—The reclassification of Public Accounts in respect of the Canadian National Railway System so as to show the accumulated cost to the country since pre-Confederation days.

Third—The exchange of the Dominion's present capital stock holdings and creditor claims in respect of corporate loans, advances and interest accruals for shares of capital stock in the Canadian National Railway Company.

Fourth—The use of explanatory publicity.

Now, that leads us to the first question of legislation. We have indicated to you roughly from the report what the steps proposed really are. The legislation required undoubtedly would be in the direction of alteration of the terms of the security and interest rates applicable to the corporate loans and advances. Let me draw a very distinct line of demarcation however, between parliamentary approval to a change in the requirements in regard to these original loans, and all of these complexities injected by Dr. Manion, regarding the public holdings of securities in the various corporations of the national system. There is a very wide difference. They are not the same, they are not related in any way. We are not as a firm in a position to say to parliament what legislation you will have to pass, we simply say that there is parliamentary legislation involved to the extent of changing the terms upon which the parliaments of other days made these loans and advances to the original corporate enterprises. Now, we think that you are in a better position to pass on that mode of procedure than we are.

Hon. Mr. EULER: Well, Mr. Matthews, if I may interrupt; if that method were adopted would there in your opinion be any complicated amount of legislation required?

Mr. MATTHEWS: Judging from the way in which we have observed succeeding parliaments to have changed the terms and conditions of former parliaments, we naturally assume that parliament would have the right at any time to change the term that had been made by it with any debtor of a former day.

Hon. Mr. EULER: No; my question is, would any complicated piece of legislation be required, in your opinion?

Mr. MATTHEWS: Well, I don't think so; but then, we take the position that we are not legislative authorities.

Hon. Mr. EULER: That is all right.

Mr. MATTHEWS: But we want to make this clear, gentlemen; that the legislation that would be required has nothing whatever to do with the multitude of problems that are involved in the corporate adjustment of the funded debt structure of this system. I will touch on that a little later.

Hon. Mr. MANION: May I suggest that Mr. Matthews' opinion on legal matters and on parliamentary matters must be somewhat limited.

Hon. Mr. EULER: That is all right, perhaps I should not have asked him the question I did, perhaps I should have asked it of somebody else. I have one other question that I would like to have clear in my own mind, and possibly also the committee would like to have it clear: Is legislative action required also for the purpose of writing off of this, so-called, billion dollar item; or only in regard to any change in the capital structure with respect to the other items?

Mr. MATTHEWS: It is our view, Mr. Euler, that if parliamentary authority were given to change the terms of the loans and advances and to authorize the Canadian National Railway Company to issue its capital stock in exchange on this basis it would automatically give approval to the company to make these entries; it would be I think a simple matter if parliament reached that point in its final deliberations to embody in that authority the direct approval to the National Railways to make such entries.

The CHAIRMAN: You will agree, of course, that that is a matter of draftmanship?

Mr. MATTHEWS: Yes.

The CHAIRMAN: I do not quite understand you, Mr. Matthews; you will give an example of what you call a legislative change in terms.

Mr. MATTHEWS: When these loans were first made, Mr. Chairman, they were made on such terms as, orders in council would from time to time determine; and in the beginning they were made as repayable loans. Naturally, parliamentary authority would be required to rescind the basis upon which these loans

were originally made. In other words, if parliament has made a loan in the beginning to a company and the authority required that there be certain securities pledged behind that loan at a defined interest rate, obviously that same authority must ultimately deal with any change in terms.

Sir EUGÈNE Fiset: For the most part these orders in council related to specific items; is there any place where they are listed?

The CHAIRMAN: You will find that on page 25, Sir Eugène.

Sir EUGÈNE Fiset: Mr. Chairman, then some of these orders in council were passed under a former regime.

The CHAIRMAN: Prior to 1930, yes.

Mr. MCGIBBON: What practical difference would that make in the picture of the railways?

Mr. MATTHEWS: It has to do, Dr. McGibbon, with the elimination of just plain duplication.

Hon. Mr. EULER: Yes quite.

Mr. MCGIBBON: With reference to the loans governments in the past have made to the railways does it make any difference?

Mr. MATTHEWS: Dr. McGibbon, they are treated as corporate liabilities of the National Railways, whilst at the same time they are imbedded and embodied in the published net debt of Canada.

Mr. MCGIBBON: I know there is duplication so far as that is concerned; but, taking the railway picture, they got their money and they spent it.

Mr. MATTHEWS: We are not saying they did not; that is quite true.

Mr. MCGIBBON: Why do you change the picture as far as railway loans are concerned, I can understand, so far as the country and railway combined are concerned.

Mr. MATTHEWS: Dr. McGibbon, the other day we read to this committee some half dozen or more illustrations of the misconceptions that are held concerning the financial position of Canada, and they the misconceptions, are the foundation of our proposals for correction.

Mr. MCGIBBON: I understand that. We are not dealing with the financial condition of Canada. We are dealing with the National railways.

Mr. HANBURY: They are both together.

Mr. MATTHEWS: We are treating them as one. After all, we were appointed as auditors by parliament.

Mr. MCGIBBON: I do not think they come to this committee. They are not referred to this committee as an order of reference.

Hon. Mr. EULER: Oh, yes.

Mr. GRAY: That is in the act.

Mr. MCGIBBON: The financial condition of Canada? Not a bit of it.

Mr. GRAY: Section 13 of the bill says that the auditors in making their annual report, shall call attention to any matters which in their opinion require consideration or remedial action.

Mr. MCGIBBON: I was not talking about that.

Mr. HANBURY: The liabilities of the Canadian National are certainly something for this committee.

Mr. MCGIBBON: Quite true, and that is our whole consideration. That is what we are here for.

The CHAIRMAN: Will you go on, Mr. Matthews?

Mr. MATTHEWS: We were briefly summarizing what the real facts of the proposals are; and if you will turn to page 14 of the Appendix, the second paragraph—

The CHAIRMAN: If you have finished with that one part, if you don't mind—I did not know you were going to pass on from the latter part of page 5 and the beginning of page 6—may I ask about this paragraph on the reclassification of public accounts. That means some consideration by those having charge of the public accounts of the Dominion, does it?

Mr. MATTHEWS: Yes, Col. Geary. This is an objection that has been widely raised by those opposing any change in the present capital structure of the National Railways. On page 8 we outline the basis upon which the total second of costs of the railways of Canada could be made perpetual, and that would surely be the logical and proper place since the parliaments of the future would have standing in front of them forever the costs of the so-called railway experiments in Canada. That is the express purpose of that recommendation. We read in many places to-day that the carrying out of these recommendations in some way or other would deceive the Canadian taxpayer, that in some way or other there would be a loss of the totality of the cost of the railways to Canada, and so forth. Let me repeat what I said to this committee the other day: You have not got it now; you never have had it, and this proposes to give it to you. Those who maintain such position surely must have read that part of the report, but singularly enough they seem to avoid that important provision as if it did not exist. As a matter of fact, these proposals in the report go very much further in making provision for keeping the people of this country forever informed on the railway problem, but at the same time they inform parliament of the effects of the duplicating of one and a half billion dollars in your accounts. We will come to that, if I might just be permitted.

The CHAIRMAN: I am afraid I have not made myself quite clear in asking that question. The point to which I intended to direct the question was as to the persons who would have to do with the reclassification of public accounts. They would be officers of the Dominion government, would they?

Mr. MATTHEWS: Yes.

The CHAIRMAN: That is the point I had in mind.

Mr. MATTHEWS: Oh, yes, quite.

Mr. GRAY: Go ahead.

Mr. MATTHEWS: We had referred to pages 5 and 6 of our report, and we had touched on the question of the legislation. We have attempted to make a clear separation between legislation for our proposals and the involved problems of the corporate structure of the National system as injected by Dr. Manion. On page xiv of the Appendix, supplementary to the matter of legislation, we make a secondary provision from the Dominion's point of view in regard to the surrender of these securities of the National system that are now held as collateral to loans originally made to corporate units.

Mr. HANBURY: By the Dominion government?

Mr. MATTHEWS: By the Dominion government. This plan contemplates an issue of stock by Canadian National Railway Company in exchange for obligations of the Canadian National Railway Company, Canadian Northern Railway Company and Grand Trunk Pacific Railway Company. It is proposed that the Canadian Northern and Grand Trunk Pacific shall remain obligated to the Canadian National Railway Company in precisely the same way and to the same extent that those companies are presently obligated to the Dominion. This is a precautionary measure to preserve in their respective priorities the legal claims the Dominion has against those companies for aid granted. These obligations would then become inter-corporate transactions, appearing in the separate corporate accounts of the companies, but having no place in the National system published balance sheet.

I might move next to the brief summary of the complexities.

The CHAIRMAN: As I understand it, that contemplates changes in the capital structure to some extent, a good deal of change in the capital structure; that is, that the National stock would be taken over by the government, and that it would have to be so done that the Canadian Northern and Grand Trunk Pacific remain still under obligation.

Mr. MATTHEWS: Not to the government.

The CHAIRMAN: No.

Mr. MATTHEWS: To the Canadian National Railway Company, which, in turn, would be completely controlled by the Dominion.

The CHAIRMAN: Yes, but if I am the Dominion government and I am contemplating this sort of thing, I have to have quite clear legal advice on that in order to do it.

Mr. MATTHEWS: Yes, quite. But it is only, as it were, a secondary line of protection. First of all, of course, there would be the legislative authority required from parliament for the transfer from the loan category with interest to the position of capital stock representing shareholders' equity. This would be the complementary step to it if, as and when parliament so chose to act.

The third explanation we would like to make is this—

Hon. Mr. MANION: Before you get away from that, may I ask one question. Has anybody suggested at any time that parliament could not, if it chose, put in this legislation? I mean, it seems to me that Mr. Matthews is arguing quite extensively that parliament could do this and that. I have never heard anybody suggest that parliament cannot do the things he suggests parliament might do. I am wondering what the object of the argument is.

Mr. MATTHEWS: I am not arguing, Dr. Manion. I am trying to outline, as we see it, the steps that would be necessary.

Mr. GRAY: How it could be done.

Hon. Mr. MANION: All right.

Mr. GRAY: Proceed, Mr. Matthews.

Mr. MACMILLAN: On what page is this?

The CHAIRMAN: On page xiv, in Roman numerals.

Mr. MACMILLAN: Page xiv of what?

The CHAIRMAN: Of this report, called "Report on the Capital Structure as at the 31st December, 1934."

Hon. Mr. EULER: I take it, Mr. Matthews, that you are merely outlining the procedure.

Mr. MATTHEWS: That is all. There has been so much confusion about it.

Mr. GRAY: There should not be any confusion, Mr. Matthews, if you just proceed.

Hon. Mr. MANION: The only persons asking questions are you fellows.

Mr. GRAY: We are down here in the front seats.

The CHAIRMAN: I may say that I may be rather dull, but I do want to be clear on it. There are things I must have explained. That is why I am asking the question. It is not altogether clear to me yet what the procedure is. I know what you want to get at all right.

Mr. MATTHEWS: Well, I will be very glad to answer any question.

The CHAIRMAN: I am following you very well, but I do want to ask you questions occasionally if there is anything I do not understand.

Mr. MATTHEWS: After all, we are here for that purpose.

The CHAIRMAN: This particular paragraph you are now reading does not deal with immediate action. It deals with the future, if it should be, some time, wished to enlarge the scope.

Mr. MATTHEWS: You mean the one that I have just started now?

The CHAIRMAN: Page xiv, yes.

Mr. MATTHEWS: No, Col. Geary; that would be the final step in the present proposals if as and when parliament chose to act.

The CHAIRMAN: That is what I mean. Mr. Gray, I do not think, is quite as clear on it as he thought he was. This is the final step not now contemplated.

Mr. MATTHEWS: It is contemplated now.

Mr. GRAY: It is absolutely contemplated in the report.

The CHAIRMAN: No, no; it is rather a step to be taken if, as and when parliament should choose.

Mr. GRAY: Any step we may take, whether it is the first or last, requires parliament, Mr. Chairman.

The CHAIRMAN: No, the point is, as I gather it—I may be wrong; and that is why I am asking the question—from what Mr. Matthews said, this procedure dealt with in the second paragraph of page xiv of the Appendix is not the first thing you propose to do now, as part of your immediate plan.

Mr. MATTHEWS: Oh, yes, it is Col. Geary.

Mr. GRAY: Of course, to-morrow or next year.

Mr. MATTHEWS: The next step that would not be part of our plan.

Mr. GRAY: A step which does not require 250 bond issues or revaluation of physical assets, or the cumbersome cluttering up that the Minister of Railways suggested in his speech a few days ago.

Hon. Mr. MANION: I suppose that is the last word.

Mr. GRAY: No, you will have the last word.

Hon. Mr. MANION: Not around here.

Hon. Mr. EULER: You must have changed, doctor.

Mr. GRAY: My goodness, that is hopeful.

Hon. Mr. EULER: I suggest that the witness be allowed to go on.

Mr. HANBURY: Carried.

Mr. MATTHEWS: Thus far we have dealt with a brief summary of the real facts of the proposals, which is covered on pages 5 and 6 of our report; reference to the legislation and reference to the supplementing of the legislation, on page xiv of the Appendix. Now, those are the facts of the proposals. In the third place, maybe for the information of the committee, if you would care to listen further, we could give a brief summary of the complexities in any future adjustment of the funded debt in the hands of the public, which we reiterate forms no part whatever of our capital adjustment proposals. Any adjustment which might be attempted in the future in respect of the various funded debt issues in the hands of the public would necessitate taking into account six main factors. We are dealing here now with what are not in our proposals. They relate themselves to these problems referred to by Dr. Manion. There would be certainly six main factors under consideration if, as and when that day ever comes: First, the determination of the so-called "value"; secondly, the effect upon Dominion public accounts; thirdly, the effect upon the published accounts of the National System; fourthly, adjustment of interest rates and the simplification of capital structure which might be expected to take place over the next decade or two through the automatic processes of refunding or redemption; fifthly, unguaranteed issues; and sixthly, but not the least important, is the heavy expenditures of money in the past studies of funded debt in the hands of the public.

If I remember correctly, Dr. Manion made reference to the fact that the Royal Commission in 1932 and the late Sir Henry Thornton in 1931, had rendered opinions on the time not then being opportune to make capital adjustments. May we respectfully remind the committee that the report of the Royal

Commission was rendered in September, 1932, some two and a half years ago; and at the same time they recommended that the matter of the capital structure should have the early attention of the Board of Trustees. May we further draw the attention of the committee to the fact that the Thornton recommendations of 1928-29 originally anticipated, amongst other things, the issuance of first and refunding mortgage bonds on the strength of the net earnings, apart from Dominion guarantees. Obviously in the intervening years the original proposals lost much of their force and practicability; and with all due deference, we find it difficult to see where this change in conditions between 1928 and 1931 has any vital bearing on the present proposals which have for their main objective the elimination of the duplication of liabilities and losses in the published accounts of the Dominion and of the National system. If it is the wish of the committee, we would be glad to give further details on these six points.

The CHAIRMAN: Yes.

Mr. MATTHEWS: First on the determination of so-called value.

Mr. GRAY: I should like to hear that.

Mr. MATTHEWS: These are the problems that would be involved in an adjustment of this monstrous funded debt of the national system.

Mr. GRAY: Let me understand. This is not suggested in your recommendation.

Mr. MATTHEWS: Definitely no. This is no part of it in any way; but if it is the wish of the committee we will be glad to give you as much information on that side of the question as we can, information that may be of value at some future time.

Mr. MACMILLAN: How long is it going to take?

The CHAIRMAN: Is it in your report at all?

Mr. MATTHEWS: No. It will take about 6 or 7 minutes.

Hon. Mr. EULER: Those complications have nothing whatever to do with your written suggestions.

Mr. MATTHEWS: No.

Hon. Mr. MANION: Let him elaborate the complications.

Hon. Mr. EULER: They are not in his report?

Hon. Mr. MANION: They are here.

The CHAIRMAN: No, but later procedure would involve consideration of this.

Mr. GRAY: Exactly.

Mr. MATTHEWS: Yes, Col. Geary.

The CHAIRMAN: Following this procedure if desired.

Mr. MATTHEWS: That is right. If it ever came to the point where you gave serious consideration to those things, then these complexities and problems would have to be met. I think we left the impression definitely that in 1922 and 1923 Mr. D. E. Brown made a very extensive study of this funded debt situation.

Hon. Mr. MANION: Who is Mr. Brown?

Mr. MATTHEWS: Mr. Brown came into the picture first on the Grand Trunk Board arbitration, then he came on to the railways after amalgamation, Dr. Manion, and later on as is familiar to the committee, I think Mr. Gaston was brought in and spent several years—

Mr. MACMILLAN: Henry Gaston?

Mr. MATTHEWS: George Gaston.

Mr. MACMILLAN: The man who got \$50,000 to \$75,000 a year?

Mr. MATTHEWS: Yes, that is the man.

Hon. Mr. MANION: \$62,000 to be correct.

Mr. HANBURY: In that connection, Mr. Matthews, was that the salary he received or did he have to pay some staff out of that?

Mr. MATTHEWS: Well, I think he maintained a staff in New York.

Hon. Mr. MANION: No, he did not, not out of \$62,000. All he paid was income tax like the rest of us.

Mr. BEAUBIEN: Sommerville got \$32,000.

Hon. Mr. MANION: What has that got to do with this committee?

Mr. BEAUBIEN: What has the other got to do with this committee?

Hon. Mr. MANION: Somebody asked who the gentleman was.

Hon. Mr. EULER: I would respectfully suggest all these things have nothing whatsoever to do with the concrete suggestion made by the auditors.

The CHAIRMAN: The question was asked as to the identity of somebody and it was answered.

Mr. MATTHEWS: Is it the wish of the committee—

The CHAIRMAN: Yes.

Mr. MATTHEWS: Is it the wish of the committee to have me elaborate at all upon those six complexities that would be involved if you have the contemplated changes?

Hon. Mr. EULER: Mr. Chairman, I do not want to interrupt, but I am more or less responsible for having Mr. Matthews explain as he has. My point, entirely, was this: I wanted Mr. Matthews to explain that those complications had nothing whatsoever to do with his proposed recapitalization. He has said that it has nothing to do with it, and I do not see any special purpose being served in discussing the adjusting of those complications at a much later date, and which have nothing whatsoever to do with his present plan. For my part I do not want to hear it at all.

Hon. Mr. MANION: It may have nothing to do with the present plan but it has something to do with the whole question of recapitalization.

The CHAIRMAN: We have Mr. Matthews here on this, and I think we had better hear what he has to say.

Hon. Mr. EULER: It is not on the plan suggested by him.

Hon. Mr. MANION: You called him and you might at least let him answer.

Hon. Mr. EULER: I am not objecting, but it does not pertain to this plan.

The CHAIRMAN: Will you conclude those 6 or 7 minutes?

Mr. HANBURY: Let him talk as long as he can give us valuable information

The CHAIRMAN: Will you proceed?

Mr. MCGIBBON: It is information we want.

The CHAIRMAN: Let us have it.

Mr. MATTHEWS: We are prepared to give you as much information as we can on the subject. Is it the wish of the committee—

The CHAIRMAN: I have said that Mr. Matthews, will you proceed?

Mr. MATTHEWS: First, on the question of the determination of values; in measuring value we must take into account both cost value and utility value. Normal cost value will deal with cost of original construction, and current cost value will deal with cost of reproduction; utility value will deal with many things, not merely the earning power expressed in an interest return on the capital invested, but also usefulness as an agency of government. As such, the railway has functioned in a pioneering way, opening up for development sections of the country, without expectation of direct return on the capital, but much more surely looking for additions to the developed natural resources and capital wealth of the nation. The political and economic advantages proceeding from confederation find some portion of their purchase price in the capital cost

of the railway. The farming industry is enabled to transport its products to the seaboard, notwithstanding the great distances involved, at rates which enable these products to compete with other peoples more favourably placed as regards inland mileage. In fact the entire national life has been, and still is involved in its every phase and this usefulness must be a consideration when we speak of the value of our railways.

Who then shall say what is the money value of the railway owned by and operated for the people of Canada? Original costs are unknown, and it is not humanly possible to find what they were. Reproduction cost might be computed by employing a corps of engineers at great expenditure of time and money, but that cost varies as the value of money varies. John Stuart Mill compared normal values to the level of the sea and current values to the movement of the waves constantly upsetting this level. A value fixed to-day must be recomputed tomorrow. Even if we ignore all utility values (I do not think we should), except as may be represented by capitalizing the earnings available to pay an interest return on the capital invested, we meet insuperable difficulties. That value varies from year to year with the fortunes of the enterprise.

Value, based on the results of 1931 to 1933, would have been zero. In 1928 it would have been in excess of the par value of all funded debt in the hands of the public. From 1921 to 1928 the value increased by over a billion dollars, but that value since disappeared as a result of the business depression. It is an elusive base on which to build a capital structure. Someone will argue we should take the average over a period of years. This would produce a capitalizable value on the basis of the 12-year period 1923-1934, of say half a billion dollars or less, but nobody will accept so low a figure. Potential earning power is then introduced. We can only guess about the future, but assuming we do arrive at a figure of, say, three quarters of a billion dollars who will accept such a maximum value. We must also have in mind that no action would be taken without a public hearing, and any witness under expert examination would be forced to admit his figures were hypothetical, based on rapidly changing averages of the past and personal opinion or mere guess as to the future.

The next step is the effect upon Dominion public accounts. Such an undertaking—that is to say the adjustment of the funded debt in the hands of the public, as we have said before—carried to its logical conclusion, would involve either the direct assumption of a part of the present railway funded debt by the dominion or the payment of an annual interest subsidy to the national system on the basis of the national needs of Canada as distinguished from railway operations of a purely commercial nature.

The next problem would be the effect upon published accounts of the national system. We do not see how it would be practicable to leave out of the railway published accounts any of its outstanding securities in the hands of the public. They are all valid and legal obligations to the public of some company comprised in the Canadian National system. The balance sheet of the railway system includes a complete and correct presentation of all its liabilities to the public. There is nothing to be added or deducted. Public confidence in the railway accounts would be destroyed if important liabilities to the public were to be omitted. Whatever may be said about the railway situation no charge has ever been successfully made that the railway accounts have not at all times presented the facts. The difficulty since the inception of the national system has been the inherent corporate accounting complexities on the one hand and an unbalanced governmental capital structure on the other.

No. 4: The reduction of interest charges due to the public and the simplification of the capital structure by way of legal amalgamation of the corporate entities comprising the national system or by way of unification of the funded debt structure are dealt with on pages 13, 15 and 16 of our report on capital structure. You will find this on page 13.

"Interest charges due the public on the dominion guaranteed issues can only be reduced by refunding at lower rates or by redemption through government financing in the capacity of shareholder along the lines already undertaken by the government."

Then, on page 15 and page 16, you will find the following;

"the centralization of corporate control by the dominion through one holding company is already embodied in our capital adjustment proposals."

We unreservedly favour the simplification of the capital structure of the national system as far as at all practicable, with the potential reduction in accounting and other costs. The difficulty, however, lies in the legal and other problems arising as a result of the diversification of public holdings of securities in the numerous constituent companies of the system and also the international complications caused by state laws."

It should be borne in mind, nevertheless, that a substantial unification of the funded debt structure should automatically take place over the next decade or two through the process of refunding issues in the name of the parent corporation, Canadian National railway company, and through redemption either at maturity or under the callable clauses of the numerous securities of the national system outstanding in the hands of the public.

The fifth matter for consideration is unguaranteed issues, which is a delicate subject. That would be purely a question of government policy.

Hon. Mr. EULER: Leave that to the next government.

Mr. MATTHEWS: There is, for instance, the consideration of whether a line is strategic or not, and so forth. As a matter of record the unguaranteed securities are \$210,000,000; they would have to be considered separately from the guaranteed issues. Now, with regard to the sixth point, we should say this, repeating what we said before, that the late Mr. D. E. Brown, who as I have mentioned here, was formerly on the Grand Trunk arbitration and later came into the Canadian National system, made an extensive survey of the funded debt question and that survey was followed in due course by a further survey by Mr. Gaston over a period of several years. It has been estimated that some \$300,000 or \$400,000 was spent on these studies. I should like to read to you three or four excerpts from the Thornton report, based largely on the Brown and Gaston surveys.

Mr. MCGIBBON: Did Mr. Gaston ever make a report?

The CHAIRMAN: No.

Mr. MACMILLAN: Did Mr. Gaston ever make a report?

Mr. MATTHEWS: It came in through the Thornton report.

Mr. MACMILLAN: He never made a report to this committee?

Mr. MATTHEWS: Not to this committee so far as I have knowledge.

Hon. Mr. MANION: Sir Henry Thornton made a report to the late government, the report to which I referred the other day. It was prepared, I understand, by Mr. Gaston, the gentleman of whom we have been speaking. It was submitted to the Minister of Railways either at the end of 1928 or the beginning of 1929 but never acted upon.

Mr. MACMILLAN: Which minister was that?

Hon. Mr. MANION: Mr. Dunning.

The CHAIRMAN: I think it was mentioned in the House.

Mr. MATTHEWS: The Thornton report on page 2 says:—

While the above activities—and they were referring to the matter of earnings, etc.—were visible and understandable to even a casual observer, there was undertaken almost simultaneously a more difficult work, which,

while less apparent, was of outstanding importance; that is to say, a comprehensive study and survey of the companies comprising the Canadian National system, especially in respect to their financial structures. Now may I specially mark this:—

As this work progressed, the complexity of the situation and the magnitude of the task became vastly greater than originally suspected. On page 3, it gives an idea of some of the problems that years ago have been studied in detail and found to have been impossible of precipitate change in the funded debt, no matter how desirable such a change would have proven to be from the standpoint of both the National system and the Dominion.

Some of these carried fixed interest, others were income securities; some were guaranteed by the government and others were not; some were guaranteed by the provinces, others not; some had fixed maturity dates, others were perpetual; in some cases entire issues, and in others parts of issues, had been pledged and repledged as collateral to notes and bonds.

Of the outstanding mortgages, deeds of trust, or statutory charges, some were a charge on certain definite property of the railway, while some were not. These did not in all cases cover contiguous properties, the same mortgage often covering properties separated by many miles.

On portions of the railway there were as many as eight different mortgages. They varied in priority on each of the several properties, had different conditions, and as stated above, secured bonds of varying maturities, rates of interest and tenor. The condition above described, while largely the result of circumstances, was what the present administration found when it came into being and what it has been struggling to unravel ever since.

A survey of the outstanding mortgages or statutory charge securities has been made and a chart prepared showing the exact situation with regard to each, their varying terms, maturities, relative priorities and the conditions of the guarantee, if any, so that at the present time there is available complete information relating thereto.

The reason we read these excerpts from the Thornton report is to indicate to you that all possible study with any hope for productive results has already been made; a great deal of money has been spent by the Canadian National and in turn by the country on these meticulous examinations into this question of funded debt; but again we emphasize that these problems are not in any way related to our proposals and in our opinion offer no justifiable reason for withholding parliamentary action on the correction of duplicated liabilities and losses.

HON. MR. EULER: That is the point.

THE CHAIRMAN: Is that all?

MR. MATHEWS: Nearly all. We would like to refer to this point: Dr. Manion has made reference to the fact that our proposals are not new. We have surely made this abundantly clear: first, our report on the financial accounts, pages 2 and 3, will bear repetition;

Section 13 of the Canadian National-Canadian Pacific Act, 1933, requires the auditors in their annual report to parliament to call attention to any matters which, in their opinion, require consideration or remedial action. We conceived it to be our duty under this Act to do what we could to clarify a difficult and involved question by co-ordinating the facts as we knew them, and bringing them together with remedial proposals to the notice of parliament in order that parliament might take whatever action it, in its wisdom, saw fit, in view of the widespread misconception of the situation in the mind of the public of Canada and investors in Great Britain and elsewhere.

We would point out that the matter of the capital structure has been the subject of several studies involving a large expenditure of time and money in the past; as, for instance, the investigations under the Board of Audit Act in 1925, and the preliminary report of the late Sir Henry Thornton in 1928 as a result of the Gaston surveys. Considerable data have also been prepared and made available for our use by the financial and accounting officers of the railways at various periods during the last five years.

No official action was taken as a result of these investigations, and it was not until the passing of the Canadian National-Canadian Pacific Act, 1933, that the opportunity presented itself to us as your auditors of reporting direct to parliament on this matter.

In the report on the capital structure on pages 24 and 25 we make this statement:—

For the fuller information of parliament and in elaboration of the recommendations made in this report we attach, as an appendix hereto, certain explanatory details of the capital structure which have been selected by us from agreed data and recommendations prepared over a period of years by the financial and accounting officers of the railways. During our studies of this question we have also drawn upon the data and certain of the recommendations made by the investigators appointed under the Board of Audit Act in 1925 and upon certain of those of the late Sir Henry Thornton in 1928, in so far as we are in agreement therewith. We have further drawn upon the report of the Drayton-Acworth commission of 1917, the findings of the arbitration boards of 1918 and 1921; the report of the Royal Commission on Railways and Transportation in Canada, 1931-32; statutory acts of the Dominion, and various other sources of information and authority.

In short we have utilized the studies and governmental commission deliberations and findings during the last twenty years in conjunction with our own knowledge of the situation to make a report to parliament embodying recommendations, the carrying out of which, in our opinion, is both practicable and needful and in the best interests of both the National system and the Dominion at this time.

In conclusion we are persuaded that we would be remiss in our duty if we failed to make reference to the existing unsettled financial conditions of Canada as in other countries. Uncertainties and obscurities both corporate and governmental create misconceptions of fact; misconceptions create doubt; doubt engenders lack of confidence; lack of confidence, both national and international, ultimately attacks credit. When credit is affected, increased cost of financing is the inevitable result. For this latter reason we urge upon the committee the impartial consideration at an early date of this whole question of capital structure of the national system as it deals with duplicate liabilities and losses.

HON. MR. EULER: Mr. Chairman, the information which Mr. Matthews has given, entirely apart from the practical recommendation he has made, is very interesting but, to my mind, is more or less academic at this point because we do not intend to deal with these complications at this time, and it is not necessary to do so in order to carry out his definite recommendation. To me his recommendation is very simple and, to my mind, it is desirable to accept or at least to consider it very very seriously because it will do away with this duplication of the billion and a half dollars and remove the misconception that is in the minds of the public.

There are then just the two points upon which I desire information—I am speaking for myself, of course—one has been cleared up so far as Mr. Matthews is concerned and it is that there would be no great difficulty from an accounting point of view, if I may put it that way, in carrying out his simple suggestion.

There is some difference of opinion, as voiced by the Minister of Railways, so far as the legislative necessities of the case are concerned; he seems to think it would require quite complicated legislation. Now, I would like to ask—I am not trying to dispose of Mr. Matthews as someone else may want to ask him questions—but I would like to ask with regard to the legislative side of the question what is the opinion of the chairman of the board of trustees as to the legislation that would be required to carry out the suggestions of the auditors, and, for my part, I would like him to confine his answer entirely with regard to the suggestion that has been made by the auditor dealing with the writing off of that billion dollars and the method of taking care of the other \$800,000,000?

Hon. Mr. FULLERTON: We have never given the matter careful study; that is a legal situation.

Hon. Mr. EULER: You have read the report?

Hon. Mr. FULLERTON: Yes. Evidently the lawyers for the crown think it is a very complicated thing. I must confess I do not agree with that; I think it is a rather simple thing. I think legislation could be drawn in a very simple bill to bring about the results required. If we were going into all these complications in connection with subsidiary companies that would be another matter, and a very complicated matter; but where you are simply dealing with the matter as between the government and the Canadian National Railways I cannot see—I may be wrong; I would not like to give a definite opinion without study, but, personally, at the moment I cannot see any very great complication involved.

Hon. Mr. MANION: May I say a word. I did not suggest—at least I did not mean to suggest that the type of legislation that would have to be brought in would be so complicated—but what I did suggest was that the consideration of all the issues involved require so much study to work out the proper legislation that it could not be done in the short time at our disposal.

Mr. HANBURY: What do you mean by “the short time at our disposal”; do you mean at this session?

Hon. Mr. MANION: Yes, at this session. What I wish to imply is that the whole question is so complicated that it requires a great deal of legal study to know just what legislation is involved. Once the legislation is worked out we can pass that legislation in the House.

Hon. Mr. EULER: May I ask a question of the minister? I am dealing now entirely with a suggestion made by the auditors. Does the minister think that if that suggestion were acceptable it would require a great deal of legislation?

Hon. Mr. MANION: I do not know. I was not dealing only with the suggestion made by the auditors because I did state definitely that I did not think this should be done in two bits, so to speak. I think if we were going to deal with the matter it should be properly cleared up, and I think if I ever had proof that I was right, in listening to Mr. Matthews I got that proof; because he showed, if he showed anything, the many complications of all kinds in the whole question of recapitalization.

Hon. Mr. EULER: With regard to his suggestion, I am afraid, with all due deference to Mr. Matthews, that he has obscured his own suggestion by the further discussion of things which are not immediately to be considered.

Hon. Mr. MANION: We have heard Mr. Matthews, and Mr. Roberts of the Finance department is sitting in the rear of the hall, and he comes here representing the Finance department. He is one of the experts from the Finance department, and I think he is a legal man—he shakes his head, so I am wrong in that—he did not know until about ten minutes ago that I wanted him, but I asked my deputy ten minutes ago to ask Mr. Roberts if he would have any objections to making a general comment on this whole question and he said he would not. Would the committee object to hearing Mr. Roberts?

Mr. GRAY: I would like to ask a few questions of Mr. Matthews first. I agree with Mr. Euler that what we have before this committee is the definite report of Touche and Company as presented March 22, 1935, and before we get away from that I would like to ask Mr. Matthews as to whether or not, in his opinion, we had strayed from that report when Dr. Manion, in his suggestion of the day before yesterday, stated that this whole scheme would require dealing with some 250 different bond issues and mortgages? Does your suggestion in any way deal with that matter?

Mr. MATTHEWS: Not in any way.

Mr. GRAY: Secondly: Dr. Manion asked would the basis of writing down be on the physical valuation or replacement valuation or earning power and matters of that kind which you have discussed under your six points; does your report deal in any respect with that?

Mr. MATTHEWS: Not at all.

Hon. Mr. MANION: No, but at the same time he has pointed out that there was much dispute in regard to that.

Mr. GRAY: May I take it, Mr. Matthews, that your report merely deals with the duplication which you feel is a first step, and a very definite step, which we may take in order to rid the public mind of misconception which you believe the public has; is that correct?

Mr. MATTHEWS: That is correct.

Mr. GRAY: May I ask this further question? In an address given by Mr. Beatty of the Canadian Pacific Railway at Toronto on the 9th of April before the Board of Trade at Toronto—perhaps you have had an opportunity of seeing that report?

Mr. MATTHEWS: Yes, we have.

Mr. GRAY: Do you agree with Mr. Beatty's statement that he has examined these proposals with great care—I am reading from the Montreal Star of April 10th—Mr. Beatty had examined these proposals with the greatest care—that is your proposals in connection with the report on the debt I have mentioned—and they were entirely unreal. Now, having studied Mr. Beatty's speech in which he states you have perverted the facts, I would like to have your comments on it?

Mr. MATTHEWS: Yes. He has made more definite statements than that, and this is the first opportunity we have ever been given to reply to Mr. Beatty.

Mr. GRAY: I think it is time that somebody did reply.

Hon. Mr. MANION: Mr. Beatty made his speech in public; why not let Mr. Matthews reply to him in public? I do not know why this committee should deal with Mr. Beatty. I have not even read the speech.

Mr. GRAY: Dr. Manion, I am amazed at you for making a statement of that kind.

Hon. Mr. MANION: I am amazed at some of yours.

Mr. GRAY: And that has been mutual for some time. I do not propose to be muzzled in this committee by any suggestion by the Minister of Railways. Mr. Beatty has gone up and down this country from coast to coast, and I hold in my hand some five or six speeches, covering a period of some months, in which he stated that, while the co-operative features of the bill had been introduced, he would go on and pretend that they were co-operating, but he had no thought that there would be any real purpose accomplished. We have from the chairman of the board the statement that, while they co-operated with respect to certain matters dealing with the pooling of trains from Montreal to Toronto and from Ottawa to Toronto, there were certain misconceptions; and if you can take anything from the statement of the chairman of the board you can only take

this, that they entered into that agreement anticipating that certain other arrangements would be made with respect to Toronto and west to Chicago, Detroit, Sarnia and Windsor.

I am going to read what Mr. Beatty said, as reported in a pamphlet dated May 22, 1934. He goes on to say,—

when the inefficiency of co-operation is clearly established we do not propose to leave the Canadian Pacific open to the charge that by its attitude it did anything to wreck the plan.

Now if Mr. Beatty is going to be allowed to go up and down from one end of this country to the other making the statements that he has made, addressing Boards of Trade and Chambers of Commerce and Canadian Clubs, asserting the statements that have been made by our auditors are a perversion of the facts; and going even further than that in some of the statements he has made, and if we are not to be allowed to hear from our auditors—that is a matter Mr. Beatty is dealing with, it is not any statement that I have made or any statement that Mr. Matthews has made—I think our auditors should be heard in reply.

Hon. Mr. MANION: We will save time by going ahead, I have no objection.

Mr. GRAY: I propose to finish what I have to say.

The CHAIRMAN: Just a moment, Mr. Gray; the matter of your going on is not in question, there is no objection to that. As I have heard it, Dr. Manion has asked whether Mr. Matthews should be asked this question. Now, Mr. Gray goes into a long effort on something that is not apparent to me as being pertinent. You have not heard anything by way of objection from the chair, Mr. Gray.

Mr. GRAY: I have not had any objection from you, Mr. Chairman; and I think the Chairman would be one of the first to welcome the facts.

The CHAIRMAN: I am neither welcoming nor retarding, I just want to get on.

Mr. GRAY: I am stating that I am surprised that the Minister of Railways should state that we should not have an answer given by the witness we have on the stand, in view of the fact that he represents the official agency concerned up to the time this report came to us; because, in the House of Commons, the Minister of Railways stated that up until the time they actually ceased as auditors Touche and Company were still our representatives as far as this committee is concerned, and the representatives of the Canadian National Railway.

The CHAIRMAN: Mr. Gray, suppose we get on.

Hon. Mr. MANION: That would not be good politics, to get on; Mr. Gray wants to get the political side of it out through the country. That is what it amounts to.

Mr. GRAY: If I am doing that I am only following the example set by the minister.

Hon. Mr. MANION: I am not aware of just who ever agreed with Mr. Beatty. May I say that I have a number of times disagreed with Mr. Beatty. The only man I know of who agrees with Mr. Beatty on amalgamation, or unification, is one of your own party, not myself.

Mr. GRAY: I want to complete my statement, Mr. Chairman.

The CHAIRMAN: All right. Now, gentlemen, let us have no interruptions so that Mr. Gray may complete his statement.

Mr. GRAY: And that is this: If Mr. Beatty is to be allowed to make these uncontradicted statements—

Hon. Mr. CHAPLIN: Why don't you muzzle him?

Mr. GRAY: You can't muzzle him because he goes about in the guise of a taxpayer, for that reason you can't check him apparently. I may say, also,

that he has his henchman who sits daily in this committee; and perhaps he has that right as a shareholder; who carefully makes note of anything that he thinks will be of use. He is in the room right at the present time, and I would ask Mr. Apps to take down this particular statement that I am making. Then I say this, that it is time that this committee asked—because we cannot do more than that—asked Mr. Fullerton as Chairman of the Board of Trustees to go up and down this country from one end of it to the other and give a true statement of the facts as we understand them here in the committee. That is why I am going back again to this “perversion of facts”, as Mr. Beatty has stated; if that is so then we are entitled as shareholders to know it. And now I come back again to my first point, namely to ask Mr. Matthews to give an answer to Mr. Beatty with respect to what he has stated were “perversion of facts” and thus destroying the whole picture contained in the report which we have before this committee.

Mr. STEWART: Mr. Chairman, I hold no brief for Mr. Beatty, or the action he has taken in this regard. I do say that I will take objection to the statement made by the previous speaker when he says that his (Mr. Beatty's) action in this matter has been unethical. I fancy Mr. Beatty is as good a Canadian as any man who sits in this committee; and in the light of the facts as he sees them he has the right to express his opinion to the people of Canada. I do not know whether his views are correct or not; but I do certainly object to any man criticizing a man of Mr. Beatty's calibre, who in my opinion is trying to give the people of Canada an insight into the railway situation as he sees it. As far as I am personally concerned I do not think we should have a reply from these auditors with regard to this matter. If they want to reply to Mr. Beatty let them do it at some other time and place.

The CHAIRMAN: This is not a general reply; it is a reply to something that Mr. Beatty is supposed to have said about him.

Mr. STEWART: He has made addresses to Boards of Trade and Canadian Clubs, he goes there at their invitation and tells them about the railway situation. If the statements he makes are not correct then it is up to some other person in some other place than this committee to contradict them, or to argue against the statements which have been made.

The CHAIRMAN: It is not my view that there should be any controversy allowed between these two; but it is reported—I don't know what he is referring to—that Mr. Beatty made a certain statement—

Mr. GRAY: I cited the report of Mr. Beatty's address to the Board of Trade, as reported in the Montreal Star.

The CHAIRMAN: He is reported as stating something about a statement by these auditors being a perversion of facts.

Hon. Mr. EULER: It is only fair that he should be allowed to reply.

The CHAIRMAN: I think on that point it is quite clear.

Mr. McMILLAN (*Saskatoon*): Before you proceed, I would like to ask the auditor if his long resume, not in reference to his report but in reference to other matters which he covered, is predicated upon a report made by Mr. Gaston to Sir Henry Thornton. You refer to it right along in your report, isn't that true?

Mr. MATTHEWS: Not that I know of. The only statement that we have had occasion to take special note of in connection with Mr. Beatty—

Mr. MACMILLAN (*Saskatoon*): I am not speaking about Mr. Beatty, I am speaking about Mr. Gaston and the report he made to the late Sir Henry Thornton.

The CHAIRMAN: Mr. MacMillan has asked you in this report which you read is based upon the report made to Sir Henry Thornton by Mr. Gaston.

Mr. MATTHEWS: This report here? Oh yes; it was the result largely but not altogether of Mr. Gaston's studies.

Mr. GRAY: Is your report based on that?

The CHAIRMAN: Is your report based on studies made by Gaston?

Hon. Mr. MANION: He said it was.

Mr. GRAY: No he doesn't, he says it is based on the Thornton report.

Mr. MATTHEWS: Our report is based upon our own conclusions in conjunction with references that we have already referred to in some detail.

Mr. GRAY: Hear, hear.

Mr. MATTHEWS: We have naturally referred to other sources where there was any information, any matter of opinion, any arbitration or governmental commission. We lay no claim to discovering something new, but we have endeavoured as we said before to coordinate the facts in a way that parliament might be in a position to deal with them.

Mr. MACMILLAN (*Saskatoon*): And I suppose you did take into consideration the sources from which that information came.

Mr. MATTHEWS: Let me say this definitely, that as far as the Thornton recommendations are concerned they contemplated the legal consolidation of the system, they contemplated the issue of income bonds; they contemplated the issue of first and refunding mortgage bonds without the guarantee of the Dominion. None of these are in our report.

The CHAIRMAN: You might answer the question categorically; it only needs yes or no.

Hon. Mr. MANION: Yes; Mr. Matthews stated in his remarks that he had taken into account the report of Mr. Gaston—which was Sir Henry Thornton's report—and he said to my friend Mr. MacMillan a moment ago that they had based their report on that.

Mr. MATTHEWS: Would you just allow me to read what we said.

Mr. GRAY: That is not my understanding of it at all, Dr. Manion.

Hon. Mr. MANION: Mr. Gray put the words into your mouth as far as I can see.

Mr. GRAY: Thanks.

Mr. MATTHEWS: We actually said: "During our studies of this question we have also drawn upon the data and certain of the recommendations made by the investigators appointed under the Board of Audit Act in 1925, and upon certain of those of the late Sir Henry Thornton in 1928, in so far as we are in agreement therewith."

Hon. Mr. MANION: That is clear enough.

The CHAIRMAN: That is exactly what was said before.

Mr. GRAY: Quite.

The CHAIRMAN: That is just what Mr. Matthews said a few minutes ago.

Mr. GRAY: Might we get back to my original question?

Sir EUGÈNE Fiset: Pardon me, Mr. McGibbon wants to ask a question.

Mr. MCGIBBON: I would like to ask Mr. Matthews to tell me about this proposal; is it not a fact that the governments of this country have invested something like \$404,000,000 in the railways?

Mr. MATTHEWS: In the Canadian government railways.

Mr. MCGIBBON: Yes; and have they not also loaned the railways of this country something over \$606,000,000?

Mr. MATTHEWS: Yes.

Mr. MCGIBBON: And, have they not guaranteed bonds to the public of about \$1,280,000,000?

Mr. MATTHEWS: The Dominion government have guaranteed something under a billion dollars.

Mr. MCGIBBON: How are you going to write off a billion and a half and be fair to the taxpayer of Canada; you have \$1,280,000,000, \$404,000,000 and \$600,000,000—there is over \$2,000,000,000.

Mr. MATTHEWS: Government advances are already written off, Dr. McGibbon, that is into the net debt of Canada.

Mr. MCGIBBON: It is written off in the fact that we have never paid any interest.

Mr. MATTHEWS: It is written off into the net debt of Canada, and it is already represented in the present bonded indebtedness of this country, less what has been raised by taxation; but the point at issue is, the duplication in the published accounts of the national system.

Mr. MCGIBBON: Suppose it is duplicated in the published accounts, the fact is so far as the railway is concerned that the people of this country had an investment of \$1,280,000,000 of public money; there is \$600,000,000 of railway loans, of which not a cent has ever been returned; and there is \$404,000,000 invested by the government—there is over \$2,000,000,000 that the country has put into the railway. Now, how are you going to write off a billion and a half of that and be fair to the taxpayers?

Mr. MATTHEWS: I am sorry, Dr. McGibbon, but we are not proposing in the presentation of the case so far as the Dominion is concerned to do anything else than have the amount of monies that have been advanced to the railways from the beginning set out very definitely as part of the record behind the net debt of this country back to the time of Confederation; and as far as writing off is concerned, on the books of the national system, the proposal would not disturb the equity of this country in the least.

Mr. MCGIBBON: No, but it would give a false picture to the taxpayer; there is no question about that.

Mr. MATTHEWS: We absolutely disagree with that.

Mr. MCGIBBON: Well, I have the right to disagree with you, too.

Mr. MATTHEWS: Very well, sir.

Mr. MCGIBBON: If I loan a man money and he never pays it I still have the right to consider that as mine until it is paid.

Mr. MATTHEWS: But the whole of these liabilities are suggested as a definite part of this proposal to be incorporated in their entirety.

Mr. MCGIBBON: But not in full.

Mr. MATTHEWS: Yes, sir, in full.

Mr. MCGIBBON: The \$2,000,000,000?

Mr. MATTHEWS: Every cent of loans, interest and contributions. If you will please read page 8—that is one page of our report we find a good many people ignore entirely.

Mr. MCGIBBON: How are you going to write off a billion and a half then; that would make the debt over \$3,500,000,000.

Mr. MATTHEWS: There is nothing of the \$1,046,000,000 to be written off in the Dominion accounts.

Hon. Mr. MANION: I should like to have time to hear Mr. Roberts before 6 o'clock.

Mr. GRAY: I should like to have my question replied to.

Mr. MACMILLAN (*Saskatoon*): I should like to hear Mr. Roberts.

Hon. Mr. MANION: Let this witness finish with the question asked by Mr. Gray.

The CHAIRMAN: That is as to some statement said to have been made by Mr. Beatty.

Mr. GRAY: As reported in Toronto when he was speaking before the Board of Trade on April 9th, in which he referred to a statement by the auditor to be a "perversion of facts," and whatever else he said in addition.

Mr. MATTHEWS: Yes. Mr. Beatty made a statement concerning the adjustment proposals on the 22nd of May, 1924; that the capital adjustment proposals, and my firm made those proposals—are "a calculated deception of the Canadian taxpayer" and "a distinctly dishonest form of bookkeeping." Now, Dr. Manion, you have said that we can make a public speech in reply to Mr. Beatty.

The CHAIRMAN: Well, will you?

Mr. MATTHEWS: You must surely know that, as auditors, we will not do so. We can only make a reply in this committee.

Hon. Mr. MANION: I do not see why not. However, I do not want to argue that. I thought you, just as any other citizen, could make a public statement.

Mr. MATTHEWS: As auditors, never.

The CHAIRMAN: Make your comment, then.

Mr. MATTHEWS: Yes. Our answer to that statement and particularly to this charge of improper motive—

The CHAIRMAN: Oh, we have heard it.

Mr. MATTHEWS: —these are somewhat extravagant—

Mr. POWER: Just a minute.

Hon. Mr. EULER: Give him a chance. He is being attacked.

Mr. POWER: You have no right to interject, Mr. Chairman, in his evidence any more than we have.

Hon. Mr. EULER: Go on, Mr. Matthews.

Mr. MATTHEWS: As I was saying, "these are somewhat extravagant and illogical charges to make against a plan which contemplates the correction of the railway accounts by the elimination of capital stocks declared by arbitration to be worthless, the adjustment of the capital structure to a basis more in accordance with realities, the clarifying of the situation regarding duplicate liabilities and losses as between railways and public accounts and concurrently the reclassification of public accounts in such form that the accumulated cost to Canada of the National System would be shown in total and in perpetuity.

We would point out that the view that a capital adjustment is necessary was also definitely expressed by the Royal Commission on Railways and Transportation in Canada, 1931-2, which Commission was composed of distinguished Canadians and outstanding railway executives of Great Britain and the United States. The three following excerpts are from the report of the aforementioned Royal Commission in respect of the National System capital structure:—

- (1) There is no reason to believe that the capital sum will ever be repaid or that it will have at any time a realizable value. (Page 14).
- (2) It is obvious that on this basis of earnings the capital liabilities would require a very drastic writing down. (Page 30).
- (3) This Commission is of the opinion that it must be frankly recognized that a very substantial part of the money invested in the railways comprised within the Canadian National system must be regarded as lost and that its capital liabilities should be heavily written down. (Page 30).

The principle which has led us to place before parliament these capital adjustment proposals is far from any desire to suggest a form of bookkeeping which would deceive the Canadian taxpayer. We have been actuated by the same motives as those which prompted the Royal Commission to make similar recommendations.

Again in a recent address on the 9th April, Mr. Beatty is reported to have made a statement regarding these proposals for which proposals we are responsible. He is reported as saying:—

As far as you and I are concerned, "writing off" National Railway debt is merely a transfer on our books. We can "absorb the loss," but only in the sense that by perverting facts we can make railway debt appear as something else. Are we wise in engaging in devices intended to make us forget it? . . . All that the suggestion for the issue of stock would accomplish would be to say that, the government of Canada still remaining responsible for every cent of the losses of the system, and meeting these year after year, in another exceptional year such as 1928, the treasury, with great publicity, might receive a small dividend cheque in place of a return of advances for deficits, or of payments on account of interest overdue. If it is to this foolery that we are to resort to prove the success of public ownership, then I fear that public ownership will not commend itself to men of common sense. . . . Writing down of this debt would be, in plain words, no more and no less than a statement that the people of Canada are to be invited to attempt to forget.

If any of the debt due the government be taken out of the government's railway account, where is it to be put? Is it to be charged as part of the cost of the war? Or to the debit of our legislative expense? Or as a part of the civil administration of the country? . . . It was wrong to distort or gloss over past errors. . . . The Canadian National debt could be written down to one dollar provided every statement of its finances plainly indicated that this railway policy added three billions to the financial obligations burdening Canadian citizens.

This reported address in the *Montreal Star* of 9th April, indicates that once more Mr. Beatty, besides again making imputations, has entirely ignored the fact that far from attempting to suggest anything that would make the people of this country forget, there is again the definite presentation and recommendation that the total cost of this so-called railway experiment be incorporated in public accounts and there be kept forever. Again, Mr. Beatty refuses evidently to accept that part of the report where we attempt to deal with the matter of duplication of liabilities and losses; and I ask any gentleman in this committee to-day if he can find a corporate precedent anywhere on the face of the earth where the parent corporation, in making good the losses of a subsidiary, and writing those losses off to its own profit and loss account concurrently requires the subsidiary to maintain them as capital liabilities. Where, anywhere, is there a corporate precedent for such an unsound practice? It cannot do other than create a false impression of any enterprise as a whole. Whether it be a company or a government is immaterial. The ultimate damaging effect is the same. Those facts Mr. Beatty and others refused to face; and in refusing to face them, they involve my firm in imputations of motive that are not according to the facts. We make that statement without any fear of contradiction from any source whatever. We invite the reading of our report but we ask that there be not interjected things that are not there, and that important things that are here be not left out.

The CHAIRMAN: Is that everything you wanted to say, Mr. Matthews?

Mr. MATTHEWS: Yes.

Hon. Mr. MANION: I should like to have Mr. Roberts, if the committee will permit it. I should like to have him heard from the government standpoint. I mean, government in general; I do not mean this government particularly.

B. J. ROBERTS, recalled.

Mr. ROBERTS: Mr. Chairman, I think the question is as to whether or not the writing down of these various loans amounting to \$600,000,000, which have been made from 1911 onwards would involve any complication.

Mr. HEAPS: Is that the question, Mr. Chairman?

Hon. Mr. MANION: Yes, I should like to have Mr. Roberts discuss it in a general way.

Mr. HEAPS: A billion and a half?

Mr. HANBURY: No, \$600,000,000.

Mr. ROBERTS: \$600,000,000 standing as loans.

Mr. MCGIBBON: \$600,000,000 loans.

Hon. Mr. MANION: There is nearly \$400,000,000 interest.

Mr. ROBERTS: \$672,000,000 standing as loans. These loans have been made under various authorities of parliament, by statute and by vote, which called for the tendering of security, and in some cases that security may be found to be underlying certain outstanding securities which are now held by the public and which are not guaranteed. Ever since the Canadian National Railways have been in operation, in any of the financial changes that have taken place we have endeavoured to keep the security of the government of Canada as intact as possible, because the system is not an integrated system. There are some securities involved in these loans perhaps even for deficit purposes—yes, I will say even for deficit purposes, which, if the loans are written off, and if it involved the surrendering of the security, would to some extent involve departure from that policy, in that the government would be surrendering certain securities against parts of the lines. It would have the effect, perhaps, of improving the security behind certain outstanding securities which are not now guaranteed. For instance, the Grand Trunk Pacific Receiver's certificates. During the period of receivership of the Grand Trunk Pacific, there was cash payment made to the Grand Trunk Pacific of \$46,000,000. We have a prime security in respect of this advance. There would be a question of policy to be considered which would lead into the rather intricate set-up of the railway capital structure; and any report to be made to the government and parliament would have to point out what would be the implication of altering the present position. That is the complication I have in mind. Just one other point—

Hon. Mr. EULER: Would you think that would impair the rights of the Dominion government, by adopting the plan suggested by Mr. Matthews?

Mr. ROBERTS: No, but I think there are questions of policy to be considered before you start.

Hon. Mr. EULER: What policy?

Mr. ROBERTS: A question as to whether or not you are going to hand back securities which may have prior rights to certain securities outstanding in the hands of the public, which are not guaranteed by the Dominion.

Hon. Mr. EULER: I didn't understand it was a matter of policy at all.

Mr. ROBERTS: I think if you are going to pass legislation to wipe out a debt, naturally the security goes back, does it not?

Mr. HANBURY: No.

Hon. Mr. MANION: Let Mr. Roberts finish.

Mr. ROBERTS: I would say that was the implication. Parliament could make any reservation it liked. If you are going to wipe out a debt it would be very illogical not to wipe out the security which you took against that debt.

Hon. Mr. EULER: I would like to have Mr. Matthews answer that.

Hon. Mr. MANION: Let Mr. Roberts finish.

Mr. ROBERTS: I just want to mention one other complication. The scheme involves the writing down of the capital stock of the Canadian Northern Railway. It so happens that a block of the Canadian Northern capital stock is held by the province of British Columbia and which has never been returned

to us. We have tried to get them to let it come back for a great many years. That complicates the situation to some extent. I don't know to just what extent, but that is one of the outstanding items.

Hon. Mr. EULER: How much is that?

Mr. ROBERTS: \$600,000.

Mr. GRAY: Mr. Matthews mentioned it in his report.

Mr. ROBERTS: There are complications of that nature. For instance, in connection with the payment of interest on underlying securities, where we paid that interest directly, we have taken coupons; in that way we have underlying security. The point is that parliament should be advised as to whether or not a departure is being made from the plan that has been in force from the beginning; and whether so long as these lines are not an integrated system, and so long as there are securities outstanding that the government has not guaranteed and which are not obligations of the government in any way, you should surrender any of your security. That is the question of policy involved. So far as bookkeeping is concerned, I agree with Mr. Matthews that it is a very simple matter.

Hon. Mr. MANION: I just want to get a direct answer to this: I understood Mr. Roberts to say—and he will correct me if I am wrong—that there are a great many more complications to the change of capital structure of the Canadian National Railways, in his opinion, than apparently there are in the opinion of Mr. Matthews.

Mr. ROBERTS: Yes. I think that involves the question of whether or not the government is surrendering good security which it may hold in the event of, for instance, some parts of the line having to fall back.

Hon. Mr. MANION: Has that ever been investigated by the Department of Finance of this government?

Mr. ROBERTS: No.

Mr. BEAUBIEN: How much are the securities?

Mr. ROBERTS: You find them all the way through.

Mr. BEAUBIEN: Have you the total amount?

Mr. ROBERTS: There are several. One item is \$33,000,000. That may be a capital item, of course. It is difficult to separate these deficit items from capital items for any period. It would be rather intricate.

Mr. BEAUBIEN: Have you got them separated?

Mr. ROBERTS: No, because the loans have been made simultaneously for capital and for deficit.

Mr. HANBURY: I would like to ask Mr. Roberts a question. If the entire debt to the public had been guaranteed by the Dominion government, then your argument would not be the same?

Mr. ROBERTS: No.

Mr. HANBURY: Your entire argument as to the advance is based on the fact that there are certain of the bonds or mortgages not guaranteed by the government.

Mr. ROBERTS: Right.

Mr. HANBURY: Is there any thought in your mind that any small amount, even, of the unguaranteed debt of the Canadian National Railways might ever be voided?

Mr. ROBERTS: I am afraid I cannot foretell the future.

Mr. HANBURY: No, but I think that is a very important question.

Mr. ROBERTS: I think that has to be determined as the situation arises.

Mr. HANBURY: Yes. That is, after all, the basis of your entire argument, is it?

Mr. ROBERTS: Yes.

Hon. Mr. EULER: May I ask this: What is the amount of such unguaranteed securities in existence?

Mr. ROBERTS: \$200,000,000.

Hon. Mr. EULER: So your whole argument is directed against the item of \$200,000,000?

Mr. ROBERTS: Yes.

Hon. Mr. EULER: Upon which the security of the Dominion might be impaired by reason of this writing down; is that right?

Mr. ROBERTS: I had no argument.

Hon. Mr. EULER: We will not call it an argument then. Your total objection would be on the score of that \$200,000,000?

Mr. ROBERTS: I simply stated that there were certain complications that might well be pointed out before the plan was adopted.

Hon. Mr. EULER: I will take you at your own word. But it involves only the \$200,000,000?

Mr. ROBERTS: Yes.

Hon. Mr. EULER: That is all.

Mr. ROBERTS: Yes.

Hon. Mr. EULER: All right.

Mr. ROBERTS: \$280,000,000, I think.

Hon. Mr. EULER: Well, what is a mere \$80,000,000? Just to clear up that one point, I would like to get a reply from Mr. Matthews, if he cares to make any, as to whether Dominion rights would be prejudiced by following out his plan.

The CHAIRMAN: Before he does that, I would like to ask a question of Mr. Roberts. Is it your view that, in considering this report of Touche & Company, the matter should be investigated by the Finance department of the Dominion?

Mr. ROBERTS: Well, I think that every step in dealing with the writing down of each item, the disposition of the security which we hold should be carefully considered item by item, and the legislation drafted with these difficulties in view, and with a view to having any policy involved being made clear to the government and to parliament.

Hon. Mr. EULER: We would not quarrel with that.

Mr. BEAUBIEN: In the report they recommend reduction of the capital structure by a certain amount. Can the recapitalization be arrived at, with the amount raised by \$280,000,000, without any complications?

Mr. ROBERTS: No, the two things are not together.

Mr. HEAPS: Before Mr. Matthews is recalled, I should like to know if you have the statement with regard to the questions I asked the other day.

The CHAIRMAN: I asked him about that.

Mr. HEAPS: When may we have that?

Mr. ROBERTS: I could give you a brief statement now, sir. Questions raised as to the relationship of government and railway debts have been in two forms:

1. What part of the railway debt is included in the government debt; and
2. What part of government debt is due to expenditure on our railway system.

The first question can be answered precisely and in fact has been answered in exact terms to the House and committee. All advances to the railways and whatever additional charges such outlays have involved in the way of interest on public debt, as well as the government investment in the Canadian government railways, have been fully absorbed in our net debt figures, with the excep-

tion of some \$42,700,000. The latter figure is made up of \$15,700,000 of Canadian government railways working capital advances, which has been carried as an active asset since the days of government operation of these lines, and \$27,000,000 of advances to the Canadian National Railways in 1932-1933 and 1934 for capital and refunding, also carried as an active asset. Apart from this \$42,700,000, there is nothing shown in the accounts of the railways as liabilities to the dominion that has not been absorbed in the dominion net debt.

Hon. Mr. EULER: How much duplication is there?

Mr. ROBERTS: Well, the duplication will amount to the sum of \$600,000,000 of advances, plus capital account of the railways, approximately \$1,000,000,000.

Hon. Mr. EULER: I understood \$1,500,000,000.

Mr. ROBERTS: No, because the interest is not in our accounts at all.

Mr. MACMILLAN: No interest on the \$27,000,000.

Mr. ROBERTS: No interest charged in our accounts. The other question is, what part of the existing government debt is due to expenditure on the railway system, and it cannot be answered. It is a similar question to this: what would our debt be if we never had any railways? And there are a great many considerations involved before you can answer a question of that kind, as the public accounts are operated on a consolidated fund basis, and there has been no separate accounting for railway expenditures. Borrowings have not been earmarked, nor have revenue surpluses been allocated to specific expenditures. The facts set out in our accounts are as follows: at March 31st last the total direct liabilities of the Dominion were \$3,200,000,000. As against this the accounts showed cash, loans to provinces and other active assets amounting to \$357,000,000; capital expenditures since Confederation of \$966,000,000, in which figure is included \$443,000,000 spent on Canadian government railways; loans to Canadian National Railways, \$655,000,000; old railway accounts, Grand Trunk and Canadian Pacific, \$88,000,000; other loans and advances, \$93,000,000. These items aggregate \$2,160,000,000. To account for the total amount of the liabilities of the Dominion outstanding today, you add to that \$1,040,000,000, which represents the net deficit since the beginning of Confederation—that net deficit of over \$1,000,000,000 is after absorbing the total cost of the war. So that as the accounts stand today, the railway items shown above charged in the first instance either to capital or loans, total \$1,180,000,000, taking no account for interest. Any interest charges arising out of this outlay have been paid as a current expenditure and have added to the deficit on ordinary account. To sum up, any answer to the question must necessarily be hypothetical, especially when interest charges are involved. What has been expended on railway is a matter of record. What of our present debt is attributable to railways can only be answered after certain arbitrary assumptions are made; (1) as to application of surpluses, to particular capital expenditure; (2) as to particular borrowings or rates of interest to apply on expenditures. This would appear to involve long and tedious calculations which have no practical value.

Hon. Mr. EULER: Now, if I may just sum that up again, the plan that the auditor has reference to, the recasting of the capital structure to the extent of \$1,800,000,000—these figures are too big for me—am I correct in assuming, Mr. Roberts, that your concern as to possible complications—I want to put it fairly—applies only to some \$280,000,000 of the \$1,800,000,000 that is involved?

Mr. ROBERTS: I think the correct way to say it is that it applies to the disposition of whatever security we hold for the \$600,000,000 advanced. Half, approximately, would be written off under this scheme.

Hon. Mr. EULER: Which you say is the unguaranteed security, over \$280,000,000.

Mr. ROBERTS: Yes, sir.

Hon. Mr. EULER: In regard to the balance of the \$1,800,000,000 you have no particular concern?

Mr. ROBERTS: Yes. There is one thing I should like to say. In dealing with those accounts, Mr. Matthews stated that the position of the dominion accounts with the railway accounts exhibited a condition that you would not find in a business where there was a corporate company as parent and then a subsidiary organization, because he implied that we had written out of our books those loans to the railways. As a matter of fact, they have not been written out; they stand there on the assets side to-day, the asset side of the books representing expenditures.

Hon. Mr. EULER: Inactive assets.

Mr. ROBERTS: But for the purpose of exhibiting our net debt position to the country and the world at large, we do not take them into account as assets, because they have not any realizable value.

Mr. HANBURY: You keep them on the records.

Mr. ROBERTS: Yes. So far as bookkeeping is concerned, there is no inconsistency between our system and that of a commercial organization.

Hon. Mr. EULER: If I may I should like to have Mr. Matthews recalled.

Mr. HANBURY: Before Mr. Roberts leaves, I should like to understand a little further a statement of your argument in regard to the difficulties of carrying out the Touche recommendations as based on the approximately \$280,000,000 of unguaranteed bonds.

Mr. ROBERTS: I would rather you turned to page 25 and looked at the list of Canadian National loans outstanding totalling the sum of \$672,000,000. There is some security held by the Dominion of Canada for those loans. Now, to the extent that some unguaranteed security were effected —

Mr. HANBURY: That is where it becomes involved.

Mr. ROBERTS: Yes, to the extent of that security which underlies some unguaranteed securities, it would be a consideration.

Mr. HANBURY: But then you made a statement, Mr. Roberts, if the balance of the bonded indebtedness had been guaranteed by the government, what difference would there be?

Mr. ROBERTS: There would not be any difference at all; we would be responsible for the whole debt.

Mr. HANBURY: I just wish to call your attention to the \$72,000,000, as I understand it, guaranteed by the provinces.

Mr. ROBERTS: No. I think that \$72,000,000 is in addition.

Mr. HANBURY: No, I think not.

Mr. ROBERTS: \$280,000,000 altogether.

Mr. HANBURY: A total of \$282,000,000 as I understand it, of which \$72,000,000 had been guaranteed by the provinces of Canada, leaving a net unguaranteed amount of \$210,000,000.

Mr. ROBERTS: The dominion has never relieved the provinces from their position?

Mr. HANBURY: I appreciate that, but we are all the same taxpayers. I see here of that remaining \$210,000,000 approximately \$61,000,000 is for equipment trust issues and the balance, \$150,000,000 approximately, is just general. Then, I see an item here on which I should like to have an explanation, of four per cent perpetual consolidated debenture stock, Canadian Northern, \$45,000,000. Is that held by the public generally?

Mr. ROBERTS: Yes.

Mr. HEAPS: I should like to ask Mr. Roberts a question to satisfy my curiosity. When we discussed the debt problem the other day we found the

government debt of approximately \$3,000,000,000 and the Canadian National debt was about the same amount. Now I find those figures are not the correct figures. What is the duplication, approximately \$1,000,000,000 in the two accounts?

Mr. ROBERTS: More than that, sir.

Hon. Mr. EULER: \$1,500,000,000.

Mr. ROBERTS: Duplication of the whole amount which the Canadian National Railways show as loans from the Dominion or Dominion investment in railways, excepting the \$42,000,000 I mentioned. After all, if you look at it from the dominion viewpoint, all you have in mind is the fact that we have \$3,200,000,000 of debt in various forms. In addition to that, if you want to embrace the whole of the C.N. Railways, the only other debt you have to take into consideration is the funded debt to the public of the Canadian National Railways amounting to \$1,132,000,000.

Hon. Mr. MANION: No, \$1,300,000,000.

Mr. ROBERTS: \$1,246,000,000.

Mr. HEAPS: What I am trying to get at is what is the combined debt of the Canadian National Railways and the government?

Mr. ROBERTS: The gross debts?

Mr. HEAPS: No; after you deduct the duplication.

Mr. ROBERTS: The gross debt, not taking into consideration any assets the dominion may have?

Mr. HEAPS: Absolutely.

Mr. ROBERTS: The gross debt of the dominion \$3,200,000,000 and the debt of the railways \$1,200,000,000.

Mr. HEAPS: So the total combined debt of the railways and the government is \$4,000,000,000.

Mr. ROBERTS: \$4,400,000,000 is the whole picture without consideration being taken of any assets at all.

Mr. HEAPS: I am glad I have those figures because the impression is abroad to-day that the debt owing by the railways is \$3,000,000,000 and a similar debt is owing by the national government.

Mr. ROBERTS: \$4,400,000,000.

Hon. Mr. EULER: May we get an answer from Mr. Matthews?

Hon. Mr. MANION: I have no objection. But may I just say I presume that it is the opinion of this committee that Mr. Roberts should know more about national financing than Mr. Matthews. He is a business auditor. I just interject that here because I cannot quite see the purpose—

Mr. HANBURY: I think we can place our own valuation on the witness.

Hon. Mr. MANION: I can place my own on him too. I am placing my own on him.

Mr. HANBURY: I do not think you need to point it out to us.

Hon. Mr. MANION: I do not need any suggestions from you; you get that straight.

Mr. HANBURY: I suggest we do not need any instructions from you.

Hon. Mr. MANION: I suggest a little less politics from yourself.

Mr. GRAY: Of course the minister never plays politics, no.

Hon. Mr. MANION: Oh, yes, I do; I admit I do.

The CHAIRMAN: I think Mr. Matthews is ready.

Hon. Mr. EULER: I do not need to repeat the question.

Mr. MATTHEWS: The question, as I understood it, was on the matter of security now held by the dominion. As a matter of fact, to repeat that so-called second line of defense for the government, it is covered on page 14 of the appendix, which I have already read, but expressed perhaps in a little simpler language. It is this: The securities that are now held by the dominion, given in the first place as security for loans made to the corporations, are suggested in this proposal not to be surrendered outright but to be held by the Canadian National Railway company on their books against the original corporation; so that the dominion owning all of the capital stock of the C.N.R. company would still preserve its priority position with regard to those original corporations.

Hon. Mr. EULER: Just as it is now.

Mr. MATTHEWS: In effect, yes.

Mr. HANBURY: In other words, in the form of a holding company. You would suggest that would be the effect of it.

Mr. MATTHEWS: The Canadian National Railway Company is the company through which the system financing is done. Our proposal is a precautionary measure to preserve in their respective priorities the legal claims of the dominion as against the original companies for aid granted.

The CHAIRMAN: That is all.

Hon. Mr. EULER: Thank you.

The CHAIRMAN: You therefore are in disagreement with Mr. Roberts.

Hon. Mr. EULER: Mr. Roberts was not sure. He thought it might make for complications; Mr. Matthews says it would not.

The CHAIRMAN: I think he said he should look into it.

Hon. Mr. MANION: Mr. Roberts said it should be investigated.

The CHAIRMAN: That is your side, anyway. I am not saying it is a controversy, but you do disagree to that extent.

Mr. MATTHEWS: We say we have made provision.

Mr. MACMILLAN: We have been here all afternoon.

The CHAIRMAN: And tonight, I was going to suggest. I hope that won't displease you too much. I think we should get along.

Hon. Mr. EULER: We want to be in the House once in a while.

Mr. GRAY: Let them go back home.

The CHAIRMAN: I suggest that we go to work at half past eight and we might get a long way towards completion. The first thing you know we will be confronted with recess.

The CHAIRMAN: I do not know how the committee views the matter, but I should like to let these gentlemen get back to their work over the week-end.

Mr. MCGIBBON: A little holiday will not hurt them.

Hon. Mr. FULLERTON: We have a lot of work piled up, and we would like to have to-morrow and Saturday free to catch up.

Hon. Mr. MANION: And also remember that the government hopes to adjourn on Wednesday, and judging from the discussion this afternoon it might possibly be Tuesday.

Mr. HANBURY: I think, perhaps, the best thing to do is to adjourn over the Easter recess.

The CHAIRMAN: I do not know. Mr. Euler has a motion and I suppose we are ready for that.

Hon. Mr. MANION: I was going to move an amendment, but I had a few remarks to make.

Mr. MCGIBBON: What strikes me, Mr. Chairman, is this: this is probably the most important matter that comes before parliament; we sit here for an hour or two, but with all due deference after the subject matter has been discussed I do not think it amounts to a damn. As far as solving the problem is concerned, I think we could well adjourn until after the 20th of May, and let these people go home.

Hon. Mr. MANION: Is there any real objection to going on to-night?

Mr. GRAY: With Mr. Euler's motion?

Hon. Mr. MANION: Yes. Perhaps we could dispose of that, and then the committee would be in a position to go on to something else.

Mr. HANBURY: I might say that it would be a little inconvenient for me. I happen to be a member of the housing committee, and that committee has been considering its report, and I would like an opportunity to give some study on that before we meet to-morrow in the housing committee. Mr. Gray is also a member of that committee.

Mr. BEAUBIEN: It seems that we shall not be able to get through before the recess in any event, so if the officials want to have the week-end to catch up with their work why not let them go.

Hon. Mr. MANION: I should like to say a few words before we close. I may move an amendment, but I may want to change it because, as a matter of fact, I drew it up hastily. However, I wish to make a few remarks, and I think five minutes will be all the time I shall require.

First of all, with regard to Mr. Matthews' statement, I want to say that I have no quarrel with his suggestions at all. He put up a lot of arguments in favour of his proposals, and there are many arguments that can be put up the other way. Mr. Roberts, in his very brief statement, indicated some of them in the complications involved and in the investigation necessary; and my remark here—and I think it is an important one—is that while it is true as Mr. Euler suggested to Mr. Roberts, and quite rightly, that out of all the railway debt the part that Mr. Roberts is greatly worried about amounts to two hundred odd million dollars on guaranteed debt of the C.N.R. In contradistinction to that, the write-down of this account suggested by Mr. Matthews of one billion dollars in round figures would not affect the C.N.R. to the extent of one cent, so that whatever damage there might be done to the securities of the government, those securities that Mr. Roberts referred to, amounting to something over \$200,000,000, would be a dead loss in that regard.

Now, I want to elaborate that for a moment. If you will look at page 13 of the annual report you will notice that the items which Mr. Matthews dealt with are four in number: capital stocks \$270,000,000—I will speak in round numbers; government grants \$17,000,000; loans from Dominion of Canada \$1,100,000,000; Dominion expenditures on Canadian government railways \$404,000,000. I totalled those up hurriedly, and I make the total out at \$1,820,000,000. Mr. Matthews' suggestion only refers to the writing off of \$1,046,000,000. In other words, even if we carried out Mr. Matthews' suggestion there is still left \$800,000,000 against the railway on the books of the railway itself and on the books of the Dominion of Canada.

Hon. Mr. EULER: Of course, he has a suggestion in regard to that.

Hon. Mr. MANION: All right. It still leaves that \$800,000,000. Even if we wipe out that figure of one billion suggested by Mr. Matthews you still would not affect the Canadian National to the extent of one cent because nothing has ever been paid upon that in any shape or form.

Hon. Mr. EULER: That is our argument.

Hon. Mr. MANION: You gentlemen understand the matter thoroughly, that is plain; but the public generally do not understand this question so well as you

do. It is clear that there would still be \$800,000,000 owing by the railways to the government upon which nothing would be paid, as has been the case in the past.

The third point I want to make is that this becomes a question of government policy—not necessarily this government but some government has to deal with it. Because it wipes off one billion dollars of the railway debt in their books there has to be an adjustment of the public accounts and an adjustment of railway accounts; it affects government guarantees as pointed out by Mr. Roberts; and there are legal implications that must be considered because the shareholders are the owners and parliament represents the shareholders. On the other hand, the trustees are the managers, and, without reflecting on them in any way, they are prejudiced witnesses when it comes to putting such a question in their hands.

I will explain that. I am not saying that offensively. But they are prejudiced witnesses to decide upon such a question as this.

Mr. HANBURY: Just explain what you mean.

Hon. Mr. MANION: I am not saying it offensively; because the trustees would like not only to adopt Mr. Matthews' proposal of wiping off the billion dollars—they would like to make a good showing—but they would like to wipe off still more. In other words, to make a good showing any board of trustees or any group of directors naturally would like to cut the liabilities to nothing if necessary.

Therefore, my suggestion was—and I come back to it now and I still adhere to it—that after listening to all the discussion very interestedly and with no object except that of getting the railway into a fair general financial position—my suggestion is now that it would be far better not to place this matter in the hands of those whose whole interest would be the decreasing of the liabilities of the Canadian National railways, but to leave it in the hands of the gentlemen I suggested—my own deputy, the Deputy Minister of Finance and the Deputy Minister of Justice—who would deal with all aspects of the case in a non-partisan way, because they are non-partisans; there is not one of those three deputies to whom I refer who, as far as I know, has ever been a conservative.

Hon. Mr. EULER: We are not thinking of that.

Hon. Mr. MANION: I am only trying to show that we are not trying to place this power in the hands of any political group.

Mr. HANBURY: Nobody is suggesting that.

Hon. Mr. MANION: The deputies are trained men, all three of them. If we are going to submit to the trustees a question like this—and I say without offence that they are naturally prejudiced in favour of decreasing the liability of the railway—why not submit all other questions to them? And again I say this without offence, if the trustees are the proper people to deal with this refinancing why not also submit to the trustees Mr. Euler's suggestion made in Chatham in December for unification.

Hon. Mr. EULER: I have never given it here.

Hon. Mr. MANION: No, not here; nobody asked for it.

Hon. Mr. EULER: I did not make my speech here either.

Hon. Mr. MANION: No, that is true; but some of the speeches I have made elsewhere have been quoted here quite ad lib.

Mr. HANBURY: That is how they were made.

Hon. Mr. MANION: I have no objection, but I beg to be permitted to quote from the speeches of other people when my own speeches are quoted also.

I am going to move an amendment. It is rather lengthy, but it covers the ground. It is moved by myself in amendment to Mr. Euler's motion, and I will ask Dr. McGibbon or one of the other members to second it.

Mr. GRAY: They may not want to second it.

Hon. Mr. MANION: If Dr. McGibbon does not, I will ask one of you gentlemen to second it. My amendment is as follows:—

That, in the opinion of this committee the question of changes in the capital structure of the Canadian National railways, at present before the board of trustees at the instance of the Duff commission, and not yet reported upon, is too large and complicated a matter to be dealt with by this committee at this late stage of the session and of parliament, and on the basis of information present available.

The committee is further of opinion that it would be in the best interests of all concerned if, before any recommendation is made to parliament by this committee, the entire question should be studied by a committee consisting of the Deputy Minister of Railways and Canals, the Deputy Minister of Finance, and the Deputy Minister of Justice in order that due consideration may be given the important practical, financial and legal questions involved, and that for this purpose the present report of Touche & Company should be referred to the proposed committee of deputy ministers, who should be instructed to consult with the board of trustees and necessary officers of the Canadian National Railways with respect to the recommendations of both the Royal Commission and of Touche & Company.

Hon. Mr. CHAPLIN: And you might add the words "and report back to the committee."

Hon. Mr. MANION: That is in the hands of the committee. I have no objection.

Mr. MACMILLAN: I would like to point out that due to illness Dr. McGibbon was not put on this committee, so I shall have the pleasure in replacing him as the seconder of the amendment.

Hon. Mr. MANION: My amendment is seconded by Mr. MacMillan. I am sorry I did not have an opportunity to ask one of you other gentlemen.

Mr. GRAY: We would have been glad in order to have an opportunity to speak to it.

The CHAIRMAN: How long will it take to dispose of this matter?

Mr. GRAY: I propose to speak to it.

Hon. Mr. EULER: So do I.

Mr. BEAUBIEN: It is too late in the session to consider anything of this kind; we might just as well dissolve parliament.

The CHAIRMAN: We could keep the officials here until to-morrow night if we thought we could get through.

Mr. HANBURY: Judge Fullerton said he would like to get away to catch up with his work over the week-end.

Hon. Mr. FULLERTON: We will stay if we can get through.

The CHAIRMAN: After we finish with this we have the budget which is not very extensive this year and will not take very long to dispose of.

Mr. HEAPS: I happen to be a member of the Housing Committee too, and we are sitting to-morrow morning.

The CHAIRMAN: I see we cannot go on to-night as we will not be able to finish by six o'clock.

Hon. Mr. EULER: We can't finish by 6 o'clock as it is one minute to six now.

The CHAIRMAN: Shall we meet to-morrow?

Mr. HANBURY: I suggest, Mr. Chairman, that we adjourn until after the recess.

Hon. Mr. MANION: I am only one member of the committee, and I am in the hands of the committee; naturally it is rather a difficult proposition for the Minister to be here with the committee sitting day after day, but I want to be here because I never know when somebody is going to try to put something over.

Hon. Mr. EULER: I think perhaps this motion of mine if put should carry, as it ought to.

Mr. GRAY: As it will.

Hon. Mr. EULER: The trustees would then have an opportunity during the recess of studying the whole thing and perhaps then have a recommendation to make, and then we could put this through before the House closes.

The CHAIRMAN: That is very optimistic.

Mr. HANBURY: I am inclined to think that Dr. Manion's amendment might carry; I would like to have it delayed as long as possible.

The CHAIRMAN: Gentlemen, what do you wish; it is in the hands of the committee.

Hon. Mr. EULER: After the recess.

The CHAIRMAN: What do you gentlemen down here say?

Hon. Mr. CHAPLIN: Let us get through.

The CHAIRMAN: Will someone make a motion to adjourn?

Mr. HANBURY: I move that the committee adjourn until after the recess, and then to meet at the call of the chair.

On the motion being put, on a showing of hands there were five supporting the motion and five opposing:

The CHAIRMAN: I think then gentlemen we will sit to-morrow.

Hon. Mr. MANION: The Chairman has the casting vote; I did not even vote.

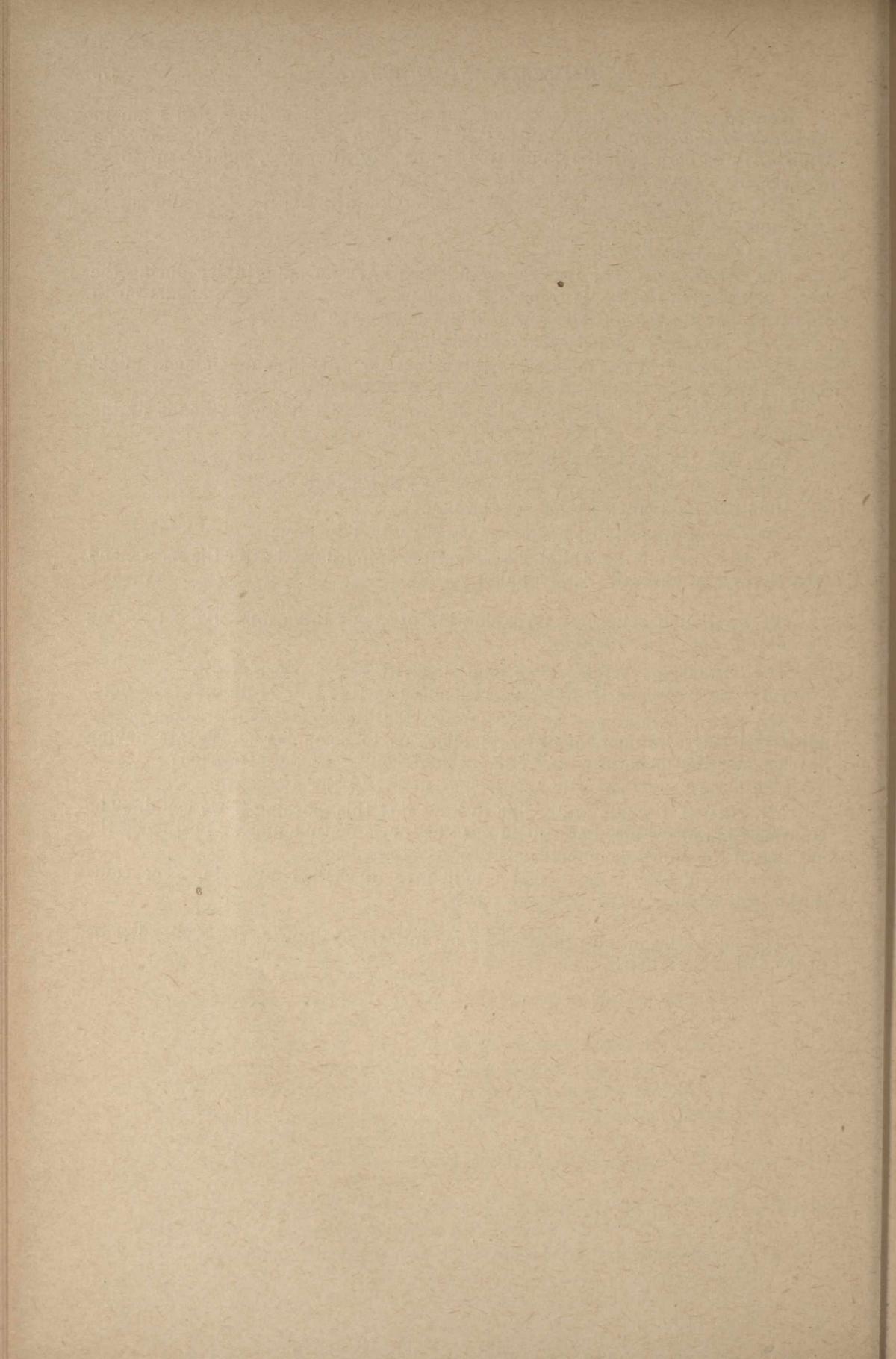
Mr. GRAY: Would you do this for us; the Housing Committee purposely adjourned this afternoon in order to allow us to come here. We are having another meeting to-morrow morning. Could you sit in the afternoon?

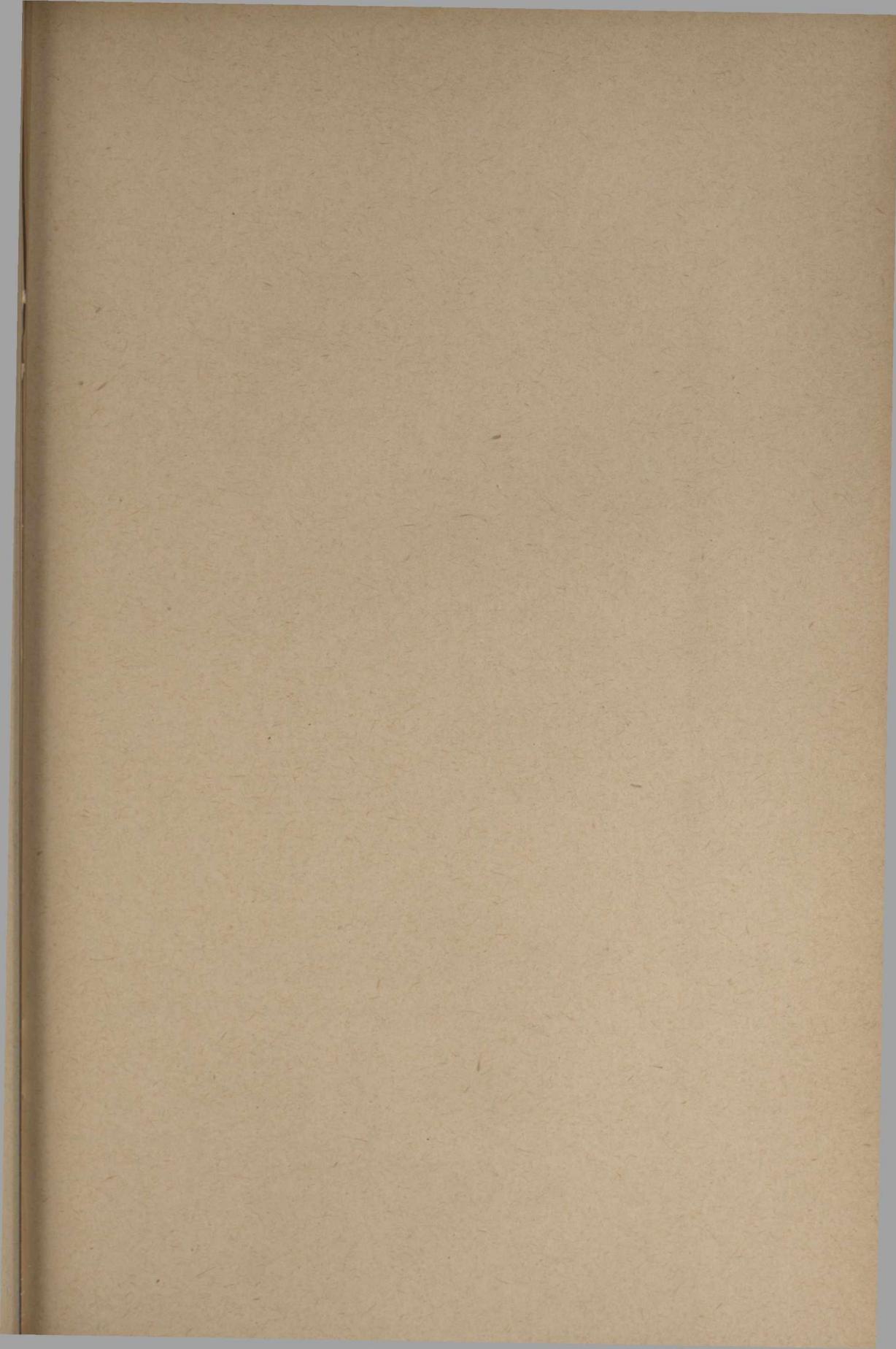
The CHAIRMAN: There is no use just sitting in the afternoon.

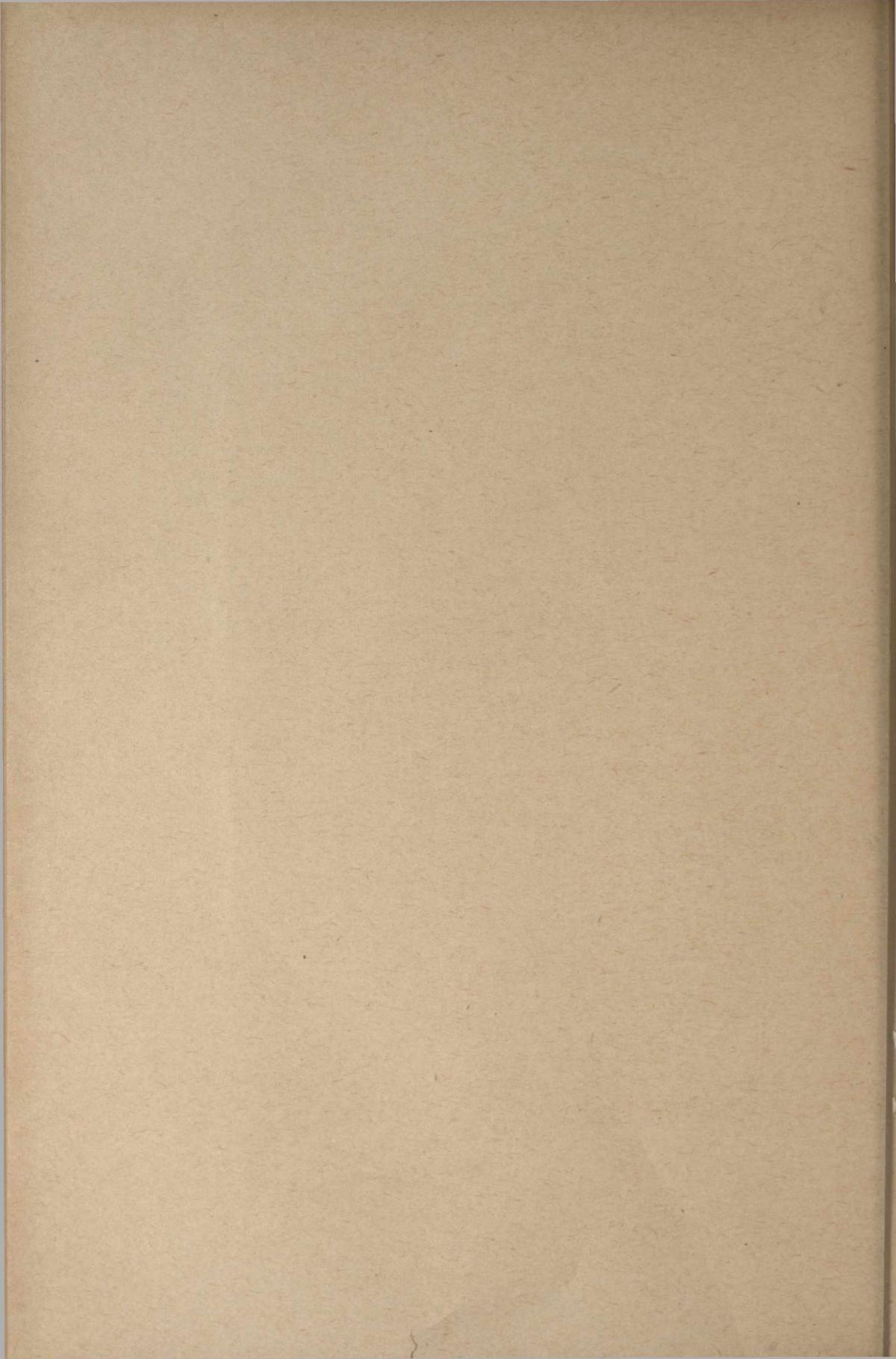
Mr. HEAPS: I would really like to have met this morning if we could. The Housing Committee also happens to meet at the same time and we postponed the meeting of the Housing Committee purposely to be here.

The CHAIRMAN: I am afraid I will have to change my vote. The committee will adjourn until after the recess.

The committee adjourned at 6.05 p.m., to meet again after the Easter Recess at the call of the Chair.







SESSION 1935

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

TUESDAY, MAY 28, 1935

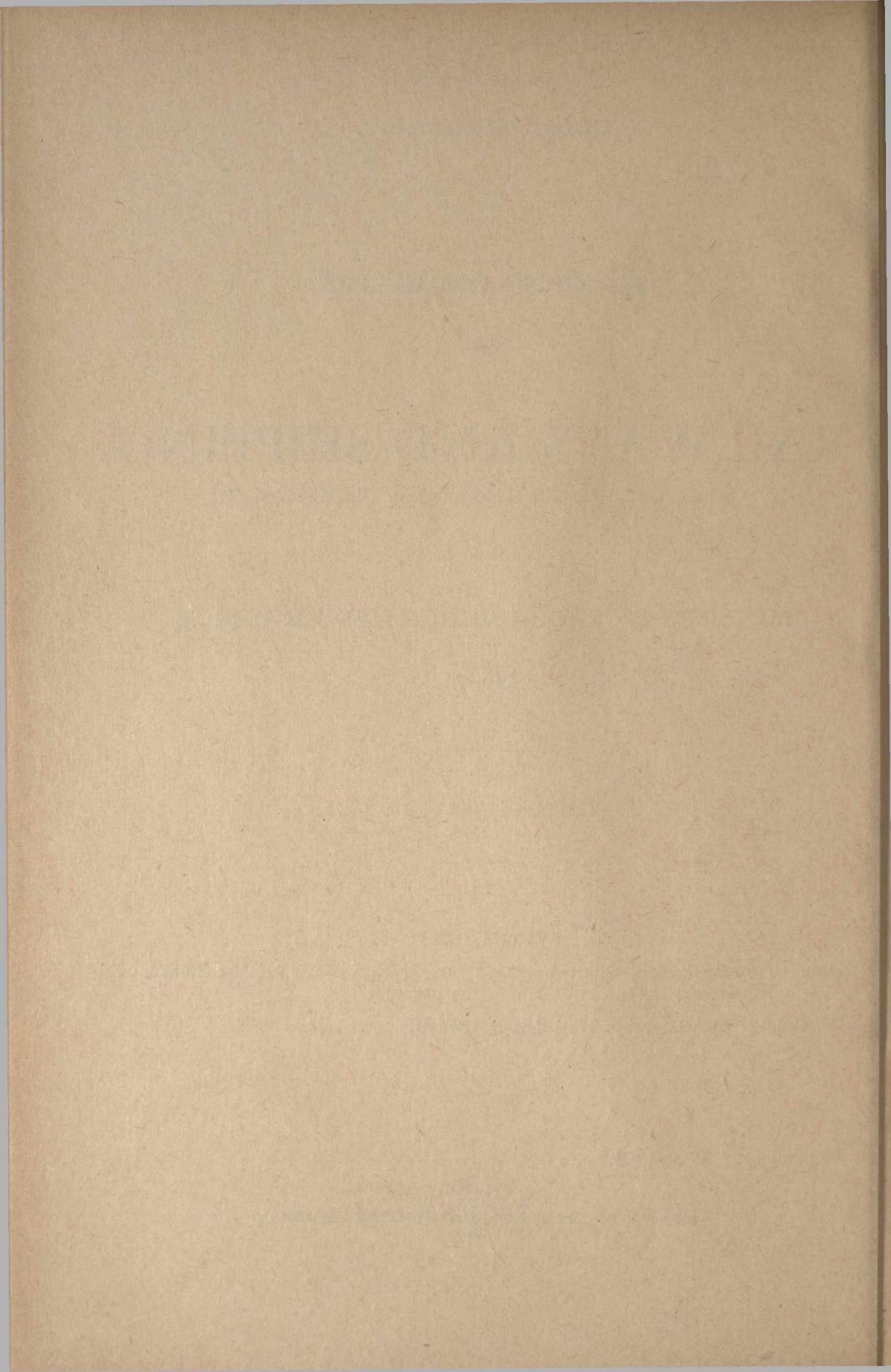
WITNESSES:

Hon. C. P. Fullerton, Chairman, and Mr. J. E. Labelle of the Board of Trustees, Canadian National Railways.

Officials of the Canadian National Railways.

Appendices "A" and "B."

OTTAWA
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1935



MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,
TUESDAY, May 28, 1935.

The meeting came to order at 11 a.m., Mr. Geary presiding.

Members present: Messrs. Beaubien, Beaubier, Bothwell, Cantley, Duff, Euler, Fiset, Fraser, Geary, Gray, Gobeil, Heaps, MacMillan, Manion, Price, Stewart, Tummon.

In attendance, Hon. Mr. Fullerton and Mr. Labelle of the Board of Trustees, and Officials of the Railway.

President Hungerford being called upon, outlined the position relative to the repair, construction and purchase of equipment.

The Canadian National Railway budget for the year 1935 was taken under consideration.

The Chairman referred to a letter received from Mr. O. A. Matthews of Touche & Co., Chartered Accountants, and handed same to the Railway Officials for consideration.

Discussion took place as to complaints respecting "Seniority" of railway employees.

The meeting adjourned at 1 o'clock till 4 p.m.

The committee re-convened at 4 p.m., Mr. Geary in the chair.

Members present: Messrs. Beaubien, Beaubier, Bothwell, Cantley, Euler, Fiset, Fraser, Geary, Gray, Gobeil, Heaps, MacMillan, Manion, Price, Stewart, Tummon.

The Chairman ruled the motion of Mr. Euler, "That the report of Touche & Company be referred to the Board of Trustees of the Canadian National Railways for consideration and report, with special reference to the recommendation of Touche & Company for the re-casting of the capital structure of the Canadian National Railways," and the amendment thereto of Mr. Manion, "That, in the opinion of this committee, the question of changes in the capital structure of the Canadian National Railways, at present before the Board of Trustees at the instance of the Duff Commission, and not yet reported upon, is too large and complicated a matter to be dealt with by this committee at this stage of the session and of parliament, and on the basis of information presently available.

The committee is further of opinion that it would be in the best interests of all concerned if, before any recommendation is made to parliament by this committee, the entire question should be studied by a committee consisting of the Deputy Minister of Railways and Canals, the Deputy Minister of Finance, and the Deputy Minister of Justice in order that due consideration may be given the important practical, financial and legal questions involved, and that for this purpose, the present report of Touche & Company should be referred to the proposed committee of deputy ministers, who should be instructed to consult with the Board of Trustees and necessary officers of the Canadian National Railways with respect to the recommendations of both the Royal Commission and of Touche & Company," were not in order as the subject matter of the said motion and amendment is sub-judice in a case now pending.

Mr. Euler appealed from the ruling of the Chair. Upon the question being put the chairman's ruling was sustained. Yeas 9, Nays 6.

The Chairman of the Board of Trustees outlined the consideration given by him and the Board to the question of reporting on the re-casting of the Capital Structure of the Railway.

Mr. MacMillan filed a list of questions to be answered by the Board respecting the Capitalization of the Railway; the answers to be filed with the clerk and incorporated in the printed minutes.

The meeting adjourned at the call of the Chair.

A. A. FRASER,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
May 28, 1935.

The select standing committee on Railways and Shipping met at 11 o'clock, Colonel O. R. Geary, the chairman, presiding.

The CHAIRMAN: Gentlemen, I think I see a quorum. I am in the hands of the committee as to procedure. I observe that when we left here on the 11th day of April we had the motion of Mr. Euler and the amendment of Dr. Manion before us, and we had some illusory idea that we might finish that evening. We did not.

Mr. HEAPS: Did we not have a statement from the Minister of Railways yesterday in the House that Mr. Hungerford was to make a statement to the committee today.

The CHAIRMAN: Had we not better go ahead and finish with what we have and then take that statement from Mr. Hungerford? I think it will be a little more in order if we proceed that way.

Mr. HEAPS: There has been such a long recess, and this matter only occurred yesterday.

Mr. MACMILLAN: I think Dr. Manion had better be here when the statement is made.

Mr. HEAPS: Dr. Manion made the statement in the House yesterday that Mr. Hungerford would have a statement for the committee this morning.

The CHAIRMAN: I do not know that Mr. Hungerford has a statement, but would the committee be agreeable to allow Mr. Heaps to ask Mr. Hungerford about this matter and let us get through with that point?

Mr. HUNGERFORD: I will be glad to make a verbal statement.

The CHAIRMAN: Any statement is a statement. Mr. Heaps can ask any questions concerning it.

Mr. HEAPS: If Mr. Hungerford is prepared this morning to make a statement on the subject, naturally I would be glad to have it.

The CHAIRMAN: May I say that yesterday somebody said that the question of added equipment was one that was always settled by a conference of railway officials throughout the continent who agreed as to what extra equipment each road should buy.

Mr. MACMILLAN: Do you include United States railways?

The CHAIRMAN: Yes, railways on the continent.

Mr. MACMILLAN: They determine what the equipment should be?

Mr. HEAPS: And also the equipment that should be discarded.

Mr. HUNGERFORD: I have never known of that before.

Mr. HEAPS: Is the Canadian National Railway in any way associated with the international organization of railway executives that discuss this question?

Mr. HUNGERFORD: Not in respect to the supply of equipment; but there are rules and regulations in respect of details of design.

Mr. MACMILLAN: And interchange?

Mr. HUNGERFORD: Yes, and interchange rules.

Mr. HEAPS: Was any arrangement made with regard to what equipment should be discarded this year between the railways on this continent?

Mr. HUNGERFORD: None at all. It is a matter for each individual railway to determine for itself.

Mr. MACMILLAN: And no international committee decided whether our Canadian National Railway or our Canadian Pacific Railway should buy equipment or should not buy equipment?

Mr. HUNGERFORD: No organization that I know of has any say about that.

Mr. CANTLEY: It is never done.

Mr. HEAPS: I wanted to have that statement.

The CHAIRMAN: Mr. Hungerford, how about your statement?

Mr. HUNGERFORD: The situation in regard to equipment of the Canadian National is this: in general we have a large supply, a very considerable surplus of a great many lines of equipment; but there are certain kinds of equipment—you understand that we require a great variety of types of cars and locomotives—there are certain types of equipment that we are periodically short of, notwithstanding the fact that we have a great surplus of other kinds; and during the periods of shortage we exercise the usual privileges of renting from other lines that have a surplus to rent at that particular time. The renting of that equipment in a peak period represents certain costs. Ordinarily that amount is not sufficient to justify ownership; but under the terms we have discussed with the government, the purchase of these particular classes of equipment we have under consideration is justified on an economic basis.

Mr. HEAPS: Will you tell us what are the classes of equipment that you are short of at the present time and that you intend purchasing?

Mr. HUNGERFORD: Yes. Refrigerator cars, coal cars and automobile cars.

Mr. HEAPS: Has any of this equipment ever been manufactured in the Transcona shops or other railway shops?

Mr. HUNGERFORD: Some of the refrigerator cars have.

Mr. HEAPS: Have they been satisfactory?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: Is that the kind of car you intend to purchase from the private contract shops?

Mr. HUNGERFORD: In the past we built some few and we bought a great many more.

Mr. HEAPS: May I ask if you can inform the committee as to the relative cost of producing that equipment in our own shops and purchasing it from the private contractor?

Mr. HUNGERFORD: Well, that is a debatable question because one gets into the argument about the proper assessment of overhead and on what basis that really would count; but the cost of refrigerator cars that we have built has been about the same.

Mr. HEAPS: Do you know anything about the wage rate as paid in the railway shops and as paid in the private contracting shops?

Mr. HUNGERFORD: I could not tell you that, because in the contract house piece-work applies almost entirely, I think.

Mr. HEAPS: You could, if the order was given, manufacture some of the equipment in your own shops?

Mr. HUNGERFORD: We could manufacture a certain amount of certain types only; that is all.

Mr. MACMILLAN: Mr. Hungerford, are your railway shops equipped to build general equipment including refrigerator cars and that sort of thing to any extent?

Mr. HUNGERFORD: They are only suitable for and equipped to build certain kinds of equipment.

Mr. MACMILLAN: Are they suitable to build any great quantity of certain kinds in a given period in a given year?

Mr. HUNGERFORD: To build any large quantity at any particular time would involve a considerable development of our plant. It will depend on circumstances. It depends on the amount of repair work they have to take care of.

Mr. MACMILLAN: Is your plant built primarily for the purpose of building railway equipment?

Mr. HUNGERFORD: No.

Mr. MACMILLAN: It is built as a sort of auxiliary?

Mr. HUNGERFORD: No. Our plants were built primarily to take care of repair requirements.

Hon. Mr. EULER: Have you built new cars in these shops?

Mr. HUNGERFORD: We built some of a certain type.

Hon. Mr. EULER: Can you build as cheaply as the private companies?

Mr. HUNGERFORD: I just answered Mr. Heaps in that regard. We were speaking particularly of refrigerator cars, and they are about the only type of car that we have built in our own shop; and allowing for difference in charging overhead, because the same conditions do not apply, the cost is generally about the same.

Mr. HEAPS: So far as the car itself is concerned—the quality of the equipment you produced—is it as good as that produced by private shops?

Mr. HUNGERFORD: I do not think there is any difference; they are built to the same standard.

Mr. HEAPS: Is it the considered opinion of the management that large orders for equipment such as are contemplated now should be given to private shops beyond a certain point which you can look after yourselves?

Mr. HUNGERFORD: Well, speaking for the Canadian National—the Canadian National shops are not equipped suitably for the construction of some of the types of equipment under consideration now.

Hon. Mr. EULER: At a previous meeting of the committee held before the recess I think you made the statement in reply to a question by a member of the committee that you did not require any new equipment, that you had sufficient except during peak periods at which time you followed the regular railway practice of borrowing. You said you did not think it was economically justifiable to build enough cars so that you would have sufficient during the peak period. Am I right in that statement?

Mr. HUNGERFORD: I do not think I made myself clear—

Hon. Mr. EULER: Perhaps I will complete my question and you can make any explanation that you wish afterwards. You said this morning—I am putting it in my own words—that under new circumstances—that is the conditions under which the government proposes to advance the monies or guarantee the monies—that you think now it is justifiable. What are the conditions? Is it simply the fact that the railway escapes the payment of interest for two years? Is it that one factor that makes justifiable the thing that was not justifiable before?

Mr. HUNGERFORD: I do not know that those details are finally settled; but the conditions we have been discussing were the basis of my statement. I would like to go back and make clear this point relating to some misunderstanding that may have been due to my remarks on a previous occasion. I repeat what I said a few minutes ago, that we have a surplus in many forms

of equipment. We would not think of buying equipment of those particular kinds at all under any conditions; we could not justify buying that; but there are certain other classes of equipment, such as those under consideration at the present time, that we are periodically short of, and in order to secure those particular classes of equipment we have had to rent them from other people and we have to pay rental, of course, for their use. I have said before that the rentals so far on the average did not equal the cost of ownership, but when we get favourable terms with relief from the interest for a period of time, it really brings it back to a point where it is profitable to buy the equipment.

Hon. Mr. EULER: I will ask you another question. I think there was a remark made by the minister in the House yesterday—perhaps I am wrong—I am sorry the minister is not here at the moment—I think he made a remark somewhat to the effect that perhaps the Canadian National Railways would never be asked to repay the capital cost of this equipment. I suppose that would be quite satisfactory to the railways?

Mr. HUNGERFORD: That might be so, Mr. Euler, but I assure you that was not taken into consideration.

Mr. BOTHWELL: In connection with the exchange of equipment, the same rule that you have with American lines holds good with regard to exchanges with the C. P. R.?

Mr. HUNGERFORD: Right.

Mr. BOTHWELL: And, are payments made periodically by one railway company to the other for the use of their respective equipment; that is, if the Canadian National use more C. P. R. equipment than the C. P. R. uses of Canadian National, is there any compensating payment made at any time during the year?

Mr. HUNGERFORD: Oh, yes; the use of cars is paid for on the basis of one dollar a day for use.

Mr. HEAPS: Could you tell us how much you paid last year for the use of railway equipment belonging to other lines?

Mr. HUNGERFORD: That is, involved in the general interchange of traffic.

Mr. HEAPS: Yes.

Mr. HUNGERFORD: The interchange rules provide that cars loaded on any line must be received and transported by any other line. We are subscribers to these rules, and practically all the railways in North America are subscribers to the interchange rule. They also provide that from the time a car is received on your line until it leaves, as forced by the interchange of goods, you are required to pay the per diem of one dollar a day.

Mr. HEAPS: But you have some idea of what these payments were from say last year?

Mr. FAIRWEATHER: I have the figures here for 1934.

Mr. HEAPS: What are they, if you have them?

Mr. FAIRWEATHER: For the year 1934 we paid foreign lines per diem—taking the net figures in the annual report—the net figure was a debit balance of \$904,000. That was made up of payments to foreign lines of \$2,400,000; and of payments to private lines—that is, there are certain companies that make a business of owning cars and renting them out to railway companies, chiefly refrigerator cars and tank cars—\$1,500,000. We received from foreign lines per diem allowance amounting to \$3,200,000 for the use of our cars; and after a few other adjustments of a minor nature that gives you the net figure of \$900,000.

Mr. BOTHWELL: You say that is a debit?

Mr. FAIRWEATHER: A net debit of \$900,000.

Mr. HEAPS: Could you give to the committee any idea as to what would be the change in these figures given to us just now by Mr. Fairweather if you had this new equipment?

Mr. HUNGERFORD: I think it is very difficult to do that, Mr. Heaps, because these figures will fluctuate with the flow of traffic.

Mr. HEAPS: Then, if you get this new equipment that is proposed, there will still be a very large amount of interchange of cars, I presume, between the railways.

Mr. HUNGERFORD: The situation will be just the same, it may change with the times to some extent, but the extent to which it may change would depend upon the flow of traffic, and on commodities.

Hon. Mr. EULER: You are willing to do this because the government are willing to take your money, the interest, out of the national coffers instead of out of the coffers of the Canadian National Railway.

Mr. HUNGERFORD: I am prepared to say this: looking at it simply from the standpoint of the Canadian National Railways, so far as we may calculate, and you have to make some assumption as to the future, we think that the purchase of this equipment on the basis of the terms offered by the government is justifiable.

Hon. Mr. EULER: Because they pay the interest for two years?

Mr. HUNGERFORD: Yes.

Hon. Mr. EULER: And it does not come out of the Canadian National?

Mr. HUNGERFORD: No.

Hon. Mr. EULER: I would have thought that was rather a short period to justify such an expenditure when you have to carry the rest of it for probably fifteen years.

I would like to ask the president another question, if I may, Mr. Chairman, he might not wish to answer this; I would like to ask him whether, in his final opinion on the question, he is swayed by any considerations other than the financial consideration. What I mean by that is this: is there in his mind the thing that is in the minds of all of us; that is, the matter of unemployment and the general good of Canada rather than the Canadian National Railways as a strictly business proposition. I do not know whether I have made myself clear or not.

Mr. HUNGERFORD: So far as we are concerned, we are looking at it purely from the standpoint of a business proposition.

Hon. Mr. EULER: That is different.

The CHAIRMAN: Are there any other questions on this point?

Mr. HEAPS: There was something said in the House yesterday in connection with the allotment of this work and repairs; I think Sir Eugene Fiset raised a point yesterday in the House.

Sir EUGÈNE FISSET: Yesterday the statement was made to us that \$4,000,000 was to be allowed for repairs and the balance was to be allotted for the purchase or construction of new equipment.

Mr. HEAPS: Yes.

Sir EUGÈNE FISSET: But we could not get any exact figures as far as the Canadian National was concerned. I would like to know what amount of this \$4,000,000 is going to the Canadian National for repairs; and of the remainder what amount is to go to the Canadian National for purchases.

Mr. HUNGERFORD: Would it be all right to hold that over until the Minister is here?

The CHAIRMAN: It would, if it is satisfactory to you, Sir Eugène?

Sir EUGÈNE FISSET: That is satisfactory to me.

The CHAIRMAN: You might bring that matter forward again when the Minister is here, Sir Eugène, would you?

Sir EUGÈNE Fiset: Perhaps the question I was about to ask would elucidate the whole thing. I understood the Minister was reading a memorandum which he had in his possession. That must have been prepared by an official of the Canadian National Railways, possibly by Mr. Hungerford himself, and if so possibly he could give us the distribution of these orders. I think the Minister mentioned twenty locomotives for one thing, also a certain number of refrigerator cars; and I think Mr. Hungerford could give us the exact quantity he intends to order.

Mr. MACMILLAN: My recollection is that the Minister did not mention any quantity or number.

Sir EUGÈNE Fiset: Oh, yes, he read from a memorandum prepared by Mr. Hungerford himself.

Mr. MACMILLAN: Have you got that memorandum with you, Mr. Hungerford?

Mr. HUNGERFORD: I am rather handicapped in not knowing what the Minister said.

Sir EUGÈNE Fiset: Then, Mr. Chairman, we had better wait until the Minister is here.

Mr. HUNGERFORD: I presume the Minister was dealing with the combined orders of the two railways, I do not know.

Mr. MACMILLAN: The Minister read a statement.

Sir EUGÈNE Fiset: And one statement he read was from the Canadian National.

Mr. MACMILLAN: Yes, and one was from Mr. Coleman of the C. P. R.

Sir EUGÈNE Fiset: But he made reference to the amount intended for the Canadian National.

The CHAIRMAN: We will leave that until the Minister comes.

Sir EUGÈNE Fiset: Perhaps Mr. Hungerford could give the committee some information as to how this will affect the local shops, and the standing of the men in connection with repairs.

Mr. HUNGERFORD: We expect to be able to increase the working staffs of the shops generally; I don't know just how much yet, but to the extent that this money is used for repairs it will have the effect of increasing the working time of the men who have been on very, very short time for a long period. If certain of the new equipment is built in the shops it will probably have the effect of our taking on some additional help, but we have not reached any definite conclusions in regard to that as yet.

Mr. BEAUBIEN: The effect of that, Mr. Hungerford, will be that you will increase the personnel of the railway shops across the country, and you will also increase the hours over what they are at the present time.

Mr. HUNGERFORD: If there is an increase in inventories and work available that will be apparent all over the system. There will be a proportionate amount of repair work done in all the shops throughout the system. If new equipment is built in our own shops it can only be built in certain shops and it will affect the personnel possibly to some extent in these particular shops, it will have no effect upon the others.

Sir EUGÈNE Fiset: That is exactly what was discussed in the House last night. The Minister read a list of these large shops where these repairs were to be carried on—the list was prepared by his Deputy Minister—he told us that he had not included the small shops that needed the work as much as anybody else, and we tried to enlist his sympathy, and the sympathy of the

officials of the Canadian National to distribute the work as much as possible in order to help to relieve unemployment; because after all that is the only part of that \$4,000,000 that is really going in order to relieve unemployment. I think everyone of us would be extremely glad if it might be possible to help the small terminals. I had in mind, as I mentioned in the House, Riviere du Loup and Moncton, at which places we have a population dependent upon railway employment. We would like to see this work distributed over as large an area as possible, particularly this repair work; and what we tried to do in the House, and what I am trying to do here, is to enlist the sympathy of the officials of the Canadian National Railway.

Mr. HUNGERFORD: I think it will work this way, gentlemen; that the working time of the shops everywhere throughout the system, particularly in the general repair shops, will be increased in some measure. Our thought is to try to distribute the repair work, and the new work, if there is any, in our own shops.

Sir EUGÈNE Fiset: That is quite satisfactory to us.

Mr. HUNGERFORD: Some portion of it, if not all of it.

Sir EUGÈNE Fiset: That is the point we were trying to make in the House yesterday, that this was intended for relief.

Mr. BEAUBIEN: A little while ago you mentioned about some more cars being needed in the peak years; has the service of the Canadian National Railway ever been impaired by not being able to borrow the equipment required at such a time?

Mr. HUNGERFORD: Have we been hampered by not being able to get it?

Mr. BEAUBIEN: By not being able to borrow equipment?

Mr. HUNGERFORD: At times, yes; generally speaking, we have been able to borrow equipment, but there are problems in connection with it at times.

Mr. BEAUBIEN: Could you say off hand, Mr. Hungerford, what would be the cost of one of these refrigerator cars—approximately?

Mr. HUNGERFORD: Oh, they run between \$4,500 and \$5,000, depending on their dimensions and equipment.

Hon. Mr. EULER: You would still have to borrow a number even if you spent this money, wouldn't you?

Mr. HUNGERFORD: It is quite possible, that would depend entirely upon the volume of traffic and where it originates. Let me try to make this point plain; there is a difference between borrowing equipment in the sense that you enter into an agreement to loan a certain number of cars for a specific time, and the general interchange; the interchange goes on automatically so far as cars loaded on foreign lines and destined to some point on the Canadian National are concerned, we are required to accept them and bill them to destination. During the time that that car is on our line we pay one dollar per diem; so you see rental in a case of that kind is involuntary. Our position in that regard would be exactly the same.

Hon. Mr. EULER: Would you get rid of this borrowing which you do when you have this peak demand?

Mr. HUNGERFORD: It would certainly lower the peak.

Mr. BOTHWELL: Could you give us the figures for interchange between the C. P. R. and the C. N. R. for last year?

Mr. FAIRWEATHER: We haven't got that available here.

Mr. HUNGERFORD: We will get that for you if you wish. Cars are going back and forth between the two railways daily.

Hon. Mr. EULER: Certainly.

The CHAIRMAN: Now, gentlemen, I think perhaps it was somewhat along these lines that Mr. Sanderson wanted to address the committee. Would this be the appropriate place for you, Mr. Sanderson?

Mr. SANDERSON: If it meets with your approval?

The CHAIRMAN: It does. I am sure the committee is agreeable.

Mr. SANDERSON: Mr. Chairman, and gentlemen: I am only going to detain the committee a few minutes. What I was going to speak about has been very well discussed within the last five or ten minutes. It is in regard to equipment, and Bill 63 that passed the House last night. First of all I want to ask Mr. Hungerford a question to clear up what is in my own mind. Last night the Minister stated that of the \$15,000,000, of which \$8,000,000 is to go to the C. N. R. for equipment and repairs, there would be an amount of approximately \$4,000,000 for repairs which would go to the railway shops, apportioned to the C. N. R. and to the C. P. R.; is that right, does Mr. Hungerford agree with that, that there will be at least \$4,000,000 in repairs—that is, counting the C. P. R.?

Mr. HUNGERFORD: I can't answer that, Mr. Sanderson; because I do not know what the C. P. R. comes to.

Mr. SANDERSON: Can you tell me approximately what your company will require for repairs?

Mr. HUNGERFORD: Somewhere between \$2,000,000 and \$2,500,000, including also new construction.

Mr. SANDERSON: Yes; and that will all go to your repair shops?

Mr. HUNGERFORD: Yes.

Mr. SANDERSON: Well, will there be any equipment manufactured in your own shops?

Mr. HUNGERFORD: Probably some.

Mr. SANDERSON: Any locomotives?

Mr. HUNGERFORD: No.

Mr. SANDERSON: Any cars?

Mr. HUNGERFORD: Yes.

Mr. SANDERSON: What type of cars?

Mr. HUNGERFORD: Principally refrigerator cars.

Mr. SANDERSON: Any coal cars?

Mr. HUNGERFORD: No.

Mr. SANDERSON: Any box cars?

Mr. HUNGERFORD: No.

Mr. SANDERSON: My only object in asking to present my views before the committee this morning is simply this: I think I stated in the House last night what I want to repeat here this morning; to my mind this whole bill is a relief bill, its purpose is to give employment to more men and to increase the hours of employment to many men who are now working on short hours. I would ask Mr. Hungerford if he would take it into his consideration that in addition to the repairs which will go to his own shops he will give as much new equipment as possible to his own shops for his own men; will he do that?

Mr. HUNGERFORD: Well, it is rather difficult to answer that.

Mr. SANDERSON: Will you take the matter into your serious consideration, Mr. Hungerford?

Mr. HUNGERFORD: Yes.

Hon. Mr. EULER: They are trying to turn you into a politician now.

Mr. SANDERSON: You will do that?

Mr. HUNGERFORD: Yes.

Mr. SANDERSON: That is all, Mr. Chairman; I thank you for the privilege extended to me.

The CHAIRMAN: That is all right, Mr. Sanderson.

Mr. TUMMON: I regret I was not here earlier but I had to be in another committee. It has been mentioned to me on several occasions that the railway has considerable equipment, some of which has not been used very extensively. This equipment has been placed on sidings, or has not been used, at any rate. That perhaps could be utilized by being repaired or rebuilt. What I am interested in is this: That no great amount of the bill that was passed by the House last night be used in buying new equipment for the railway if this old equipment can be remodelled and rebuilt to serve the same purpose. I am not familiar with the facts, but I think, nevertheless, that this is a point we should have cleared up.

Mr. HUNGERFORD: Well, the situation is this. We have a lot of equipment awaiting repairs, but it is not being repaired because we have not got the traffic to warrant it.

Mr. TUMMON: What is that?

Mr. HUNGERFORD: We have a lot of equipment awaiting repairs, but there is no object in repairing it because we have a sufficient quantity of that particular kind of equipment available for service to meet the service required. We have not equipment of the type that we propose to buy now, available for repair.

Mr. TUMMON: That is the point I want to get. I presume that you now want a certain type of equipment.

Mr. HUNGERFORD: Yes.

Mr. TUMMON: That while there may be a considerable amount of equipment available for certain uses, it is not suitable to be repaired or rebuilt for the purposes for which you want this new equipment?

Mr. HUNGERFORD: That is quite right.

Mr. TUMMON: Are you making any provision for passenger coaches or equipment?

Mr. HUNGERFORD: No.

Sir EUGÈNE Fiset: Mr. Chairman, last night the Minister proposed an amendment to Bill 63, and we could not get exactly the substance of the amendment. I wonder if Col. Smart has the amendment with him.

The CHAIRMAN: Did you vote for it?

Sir EUGÈNE Fiset: We all did.

Col. SMART: There were two amendments.

Sir EUGÈNE Fiset: The one I had reference to is the one that authorizes the Minister of Finance to purchase equipment instead of the officials of the Canadian National Railways. I was not quite sure what guarantee was offered in regard to the second amendment, especially.

Col. SMART: I have not the amendments here.

The CHAIRMAN: Does that conclude that point? We have the motions I spoke of at the beginning, and we have the budget, which we have not gone through. We did vote the money, but I think we should take up the budget, which I think will provoke a good many questions.

Hon. Mr. EULER: You propose to leave the motions until the Minister is here?

The CHAIRMAN: The Minister is coming back. He has a good deal to say about these things.

Hon. Mr. EULER: Almost everything.

The CHAIRMAN: We shall now deal with the budget of the Canadian National Railways for the year 1935. You will find it in this ochre coloured book. On page 1 appears a summary and a schedule. What is the schedule, Mr. Fullerton?

Mr. FAIRWEATHER: Schedule 1 is the summary.

The CHAIRMAN: What is it a schedule to?

Mr. FAIRWEATHER: Schedule to the vote.

The CHAIRMAN: It is just a division?

Mr. FAIRWEATHER: Yes.

The CHAIRMAN: The first is a summary; the second is a schedule to the first and does not show anything. Do you not think we had better begin with the details? Turn to schedule 2, the second page, Net Income Deficit. Will the gentlemen of the committee just draw attention to what they think they would like information on. Then follows Operating Revenues Deficit, excluding Maritime Freight Rates, 20 per cent contribution, which is a contribution from the government under the act; total operating revenues; operating expenses; net revenue; other income debits or credits—what is that?

Mr. COOPER: Taxes, joint facility rents, dividend income, interest on unfunded debt—

Sir EUGÈNE Fiset: What are you reading from?

The CHAIRMAN: Schedule 2, details. I have got down to the fifth line.

Col. SMART: Schedule 3 gives you those funded debts.

The CHAIRMAN: Interest on funded debts due the public, \$54,000,000; income requirements—

Mr. MACMILLAN: What do you mean by that?

Mr. FAIRWEATHER: That is the amount by which our income falls short of our outgo on operating account after paying our fixed charges. The amount required, in other words—

Mr. MACMILLAN: That is your operating losses?

Mr. FAIRWEATHER: You would not call it operating losses; these are income losses.

Mr. MACMILLAN: Break it up.

Mr. FAIRWEATHER: You can see from the statement here we would take in \$180,000,000 estimated revenue and we will pay out \$163,000,000 in operating expenses, which leaves \$17,000,000 as a balance. From that we have other income debits and credits of \$6,000,000, which brings it down to around \$11,000,000—

Mr. MACMILLAN: What would the other income debits and credits be?

Mr. FAIRWEATHER: That is everything, sir, except what we technically know as operating expenses. It includes taxes, dividend income, joint facility rents, everything.

Mr. MACMILLAN: It leaves a balance of something over \$44,000,000.

The CHAIRMAN: It does not include interest on debt owed to the government.

Mr. FAIRWEATHER: No. It shows the \$54,000,000 interest requirements and the income deficiency \$44,000,000; then there is \$1,000,000 profit and loss which are items not shown ordinarily in the Income Account. That makes \$44,800,000. Of that, \$1,020,000 and \$780,000 are non cash items. Therefore the cash requirements after paying all our interest charges to the public, are \$44,000,000.

The CHAIRMAN: You budgetted on an estimated revenue of \$180,000,000?

Hon. Mr. FULLERTON: Yes. We estimate operating expenses of \$163,200,000, leaving an operating profit of \$16,800,000.

The CHAIRMAN: And a deficit at the end of the year of \$44,000,000.

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

Hon. Mr. EULER: How do you arrive at \$180,000,000 of revenue?

Hon. Mr. FULLERTON: It is an estimate. Our officers get together and try to figure it out as to what it should be. Last year we made a wonderful shot. We estimated \$165,000,000 and the amount was \$164,902,501; but we are not always so fortunate in our estimate.

Mr. MACMILLAN: It is a sort of shot in the dark.

Hon. Mr. FULLERTON: It is really; but experienced men get together and thrash out the whole thing, try to figure out what the revenue will be as near as they can. We must make some estimate.

The CHAIRMAN: What increase in wages will be carried out this year?

Hon. Mr. FULLERTON: \$5,000,000.

The CHAIRMAN: Representing what?

Hon. Mr. FULLERTON: Restoration of deductions taken from the men.

The CHAIRMAN: Restoration of deductions?

Hon. Mr. FULLERTON: Restoration of deductions, which will amount to about \$5,000,000, American and Canadian lines.

Mr. BEAUBIEN: Can you tell us how much taxes the Canadian National Railways pay?

Hon. Mr. FULLERTON: Yes.

Mr. FAIRWEATHER: The question of taxes is a very indefinite thing.

Mr. BEAUBIEN: You know how much you pay.

Mr. FAIRWEATHER: In the account called Railway Tax Accruals, \$5,241,000; but of course that is not the whole story by any manner of means. That is only what comes within the common classification. The total tax bill including sales tax and other forms of taxation, which are not shown in the account, would amount to a very considerable amount.

Mr. BEAUBIEN: What is the total?

Mr. FAIRWEATHER: \$6,164,000, excluding sales tax.

Mr. BEAUBIEN: What sort of taxes were they?

Mr. FAIRWEATHER: Railway Tax Accruals, \$5,241,857.95; Taxes on Hotel Property, \$141,638.54; Non-operating Property, \$161,570; Separately Operated Properties, \$524,000; Land Department, \$94,798, making a total of \$106,225. Then there is Sales Tax in addition to that, amounting to \$1,075,000.

The CHAIRMAN: Under what statute does the railway taxation come?

Mr. FAIRWEATHER: Our taxes are largely, of course, provincial. We pay no federal tax; it is all provincial and municipal.

Mr. BEAUBIEN: Are they based on income?

Mr. FAIRWEATHER: No; they are based mostly on property valuation or mileage.

Hon. Mr. FULLERTON: We make the best arrangement we can with every province.

Hon. Mr. EULER: Your estimated cash deficit for the present year is practically the same as the cash deficit for the last year?

Hon. Mr. FULLERTON: No.

Hon. Mr. EULER: Would it not be \$45,000,000?

Hon. Mr. FULLERTON: It is \$4,000,000 better. It was \$48,000,000 last year.

Mr. FRASER: Is the assessed rate standard throughout the Dominion?

Hon. Mr. FULLERTON: For taxation purposes?

Mr. FRASER: Yes.

Hon. Mr. FULLERTON: It is separate in every province.

Mr. FRASER: Separate in every province?

Hon. Mr. FULLERTON: Yes.

Mr. MACMILLAN: Is it the same for both railways?

Mr. FAIRWEATHER: We cannot say as to that.

Mr. LABELLE: It is a question of valuation.

The CHAIRMAN: It is a matter of assessment by the officials.

Mr. FAIRWEATHER: Yes. Railway property is usually assessed so much per mile, although some provinces assess the gross revenues, but when it comes to municipalities, they assess on the valuation of the property.

Mr. HEAPS: Is it not a fact that in many parts of the country the municipalities and the provinces have agreements with regard to percent?

Mr. FAIRWEATHER: That is quite true.

Mr. HEAPS: But some provinces assess on a percentage basis as well as the municipalities?

Mr. FAIRWEATHER: Quite true.

Hon. Mr. EULER: What was the total operating revenue last year?

Hon. Mr. FULLERTON: \$164,902,501.66.

Hon. Mr. EULER: You are figuring on \$180,000,000 this year?

Hon. Mr. FULLERTON: Yes.

Mr. BEAUBIEN: Is your higher estimate being justified so far?

Hon. Mr. FULLERTON: No.

Hon. Mr. EULER: How much has it fallen short?

Hon. Mr. FULLERTON: I could not tell you right at the moment. Perhaps this may be of interest to the committee. To the end of May 21st our revenue shows an increase of \$946,936 over the previous year, or 1.55 per cent. To the end of April our net revenue shows an improvement of \$445,866 over the first four months of 1934. Now, let us take the Canadian Government Merchant Marine. For the first four months of 1935 our operating results show a betterment of \$85,587, a loss of \$90,520 in 1934, having been reduced to a loss of \$4,933. In regard to the West Indies Steamships, for the first four months the operating results are better than last year by \$50,572. Our hotels—to the end of April our revenue shows an increase of \$94,528 and to the end of April net revenue is up \$35,351. Our dining cars improved for the first three months, \$12,525; our sleeping cars and parlour cars show improvements for the first three months of \$18,150.

The CHAIRMAN: How much do you want of an operating revenue to do away with deficits?

Hon. Mr. FULLERTON: If we had the revenue of 1928 we would have no deficit.

Hon. Mr. EULER: \$314,000,000.

Hon. Mr. FULLERTON: \$312,000,000.

The CHAIRMAN: That was the big year.

Hon. Mr. FULLERTON: In my judgment, if we had a revenue of \$275,000,000, there would be a very small deficit.

Hon. Mr. EULER: An increase of \$115,000,000 over last year.

Hon. Mr. FULLERTON: \$110,000,000.

Mr. HEAPS: What about the increase in your operating costs because of the increased income?

Hon. Mr. FULLERTON: You mean by a return of deductions?

Mr. HEAPS: No; I mean an increase in cost due to more traffic on the road, a greater operating ratio.

Hon. Mr. FULLERTON: Last year out of an increase of \$16,000,000, in gross revenues we made a net of about 47 per cent—the increase in net was 44 per cent. Out of \$16,380,000 increase, we increased the net \$7,209,000.

Hon. Mr. EULER: So far?

Hon. Mr. FULLERTON: Last year.

Mr. HEAPS: How does it compare with this year's increased income?

Hon. Mr. FULLERTON: I just gave it to you.

Mr. HEAPS: How does it compare with operating costs?

Hon. Mr. FULLERTON: I gave it to you up to the end of April. We have not any figures for May.

Hon. Mr. EULER: Would it be fair to say this, Mr. Chairman: That your rate of increase so far has not been nearly so great as it was last year?

Hon. Mr. FULLERTON: You are speaking of the gross?

Hon. Mr. EULER: Yes. I am speaking of your making the \$180,000,000, which is about \$16,000,000 more than last year. In the first third of the year, if I have your figures right, you have \$1,000,000 more than you received last year.

Hon. Mr. FULLERTON: No, we won't make our budget, no question about that. We cannot make it unless something extraordinary happens.

Hon. Mr. EULER: Even if the prospective wheat crop in the west is as good as they expect, it all depends on whether they can sell it or not.

Hon. Mr. FULLERTON: Yes.

Mr. MACMILLAN: It depends on whether it rolls.

Mr. FRASER: What is the percentage increase in your gross for the first five months?

Hon. Mr. FULLERTON: 1.55 per cent.

Mr. FRASER: You are budgetting for an increase of 12½.

Hon. Mr. FULLERTON: Different months bring different revenues.

The CHAIRMAN: The way to compare that would be to find out how that rate of increase compares with the one for the year previous.

Hon. Mr. FULLERTON: Our net at the end of April was \$500,000 over our net in 1934; our increase was \$1,000,000 gross.

The CHAIRMAN: What you say is that if you had \$110,000,000 more of operating revenue, bringing it up to \$275,000,000, you could wipe out that deficit of \$44,000,000?

Hon. Mr. FULLERTON: I would not say we would wipe it out; we would make it look very sick.

The CHAIRMAN: Of course, you cannot tell us very much about the prospects.

Mr. MACMILLAN: You cannot tell us whether that is going to last or not?

Hon. Mr. FULLERTON: I am afraid I would not like to say that.

The CHAIRMAN: I see you have operating expense and you have a sort of summary. Is there any prospect—I will not say prospect—have you any intentions that may result in a decrease in expenditure or anything to lessen that \$44,000,000 in the future? Or are you down to bare bones now.

Hon. Mr. FULLERTON: We are pretty well down to bare bones now.

Hon. Mr. EULER: We have an increase of \$5,000,000 on labour account alone.

Hon. Mr. FULLERTON: Yes.

Mr. HUNGERFORD: That is taken into consideration in arriving at the \$44,000,000 net. It represents improvements of \$9,000,000 net.

Mr. MACMILLAN: That is based on the \$180,000,000.

The CHAIRMAN: If you had not restored that cut and continued on the same scale of wages, you would be \$5,000,000 better off.

Hon. Mr. EULER: We will have to hope, that is all.

Mr. HUNGERFORD: We always have to hope. We cannot determine accurately. If there is a good crop, and there is an indication of it, it will move to a larger extent than last year.

Hon. Mr. EULER: What do you base that on?

Mr. HUNGERFORD: It will have to be taken somewhere for storage.

Hon. Mr. EULER: I see. Even if it remains in the country.

The CHAIRMAN: Your pooling arrangements do not hold out any hope of a substantial saving, a large saving, beyond what you are effecting now?

Hon. Mr. FULLERTON: So far we have not been very successful in bringing about additional pooling arrangements.

The CHAIRMAN: Other than those which you put in at first?

Hon. Mr. FULLERTON: Yes. Other than those which we put in at first.

Mr. HEAPS: Are there any more in contemplation?

Hon. Mr. FULLERTON: They are still under consideration.

Mr. MACMILLAN: You have an item here "co-ordination of facilities." That is the same thing—\$500,000.

Mr. HUNGERFORD: That is contingent account in connection with the possibility of having to build a connecting line in order to give effect to some of these things. At this stage we do not know what will be expended on that account.

The CHAIRMAN: At all events, you do not contemplate any further reductions in personnel or in equipment?

Mr. HUNGERFORD: We are continuously making economies in detail.

The CHAIRMAN: The major ones have been effected?

Mr. HUNGERFORD: Yes.

The CHAIRMAN: Have we not gone as far as expenditures which you will find in schedule 3? Is there any interest on this?

Hon. Mr. EULER: That will have to be increased by \$8,000,000 which we voted last night, will it not?

Hon. Mr. FULLERTON: We do not pay any interest for two years.

Hon. Mr. EULER: I know. It is capital expenditure.

Hon. Mr. FULLERTON: It will not go into the 1935-36 account.

Mr. HEAPS: Do you generally classify repairs as capital expenditure?

Hon. Mr. FULLERTON: No.

Mr. HEAPS: These repairs which are contemplated under this government bill—are they going into the capital expenditure?

Hon. Mr. FULLERTON: No, they are not.

Mr. HEAPS: Will they be paid out of current revenue?

Hon. Mr. FULLERTON: The government must pay the interest on that money. We cannot capitalize it.

Hon. Mr. EULER: That will be charged to the National railways by the government.

Hon. Mr. FULLERTON: No.

Hon. Mr. EULER: Is it understood they are going to get that as a gift?

Hon. Mr. FULLERTON: We cannot capitalize that, you know.

The CHAIRMAN: Not until you assume it.

Hon. Mr. FULLERTON: We assume it later on.

Mr. HEAPS: Speaking politically, can the government capitalize it?

Hon. Mr. FULLERTON: I am not responsible for what it may do.

Mr. BEAUBIEN: Is this \$5,000,000 the only capital expenditure the Canadian National railways is going to make on their pool system for the year?

Hon. Mr. FULLERTON: Yes, that is the net amount.

The CHAIRMAN: That is \$5,000,000.

Mr. BEAUBIEN: \$5,279,000.

The CHAIRMAN: That includes right-of-way. Or what does it include? Where are the details of that?

Mr. FAIRWEATHER: The summary is on schedule 2; on schedule 3 you will find the details.

The CHAIRMAN: I do not find the details. I do not find what is to be done.

Mr. FAIRWEATHER: It is made up of a great many small items, and we have them available if you want them.

Mr. HEAPS: I notice in schedule 3 a small item and, perhaps, we might get a statement with reference to it. It is Montreal Terminal development, \$121,287. What do you propose to do with all that work that has been done there on the Montreal Terminals? It is a big question.

Hon. Mr. FULLERTON: I wish you would tell us.

Mr. HUNGERFORD: That money was asked for to effect land settlement.

Hon. Mr. EULER: I see \$940,000 for hotels. Which hotel?

Mr. HEAPS: May I continue with the Montreal Terminals for a moment? Is it contemplated to do anything with all that land and development work that has been done in the city of Montreal?

Mr. LABELLE: There is no amount.

Mr. HEAPS: I want to know if the management have anything in view with regard to the whole Montreal Terminal situation?

Mr. HUNGERFORD: Not this year.

The CHAIRMAN: You are holding property. Mr. Heaps directed his question to what is being done about the property.

Mr. HEAPS: About the whole situation. The railway owns an enormous amount of property. I think about \$40,000,000 worth, if I am not mistaken. I am wondering whether in the near future it is proposed to continue with the matter or whether the management have reached a point where they propose discontinuing entirely. If that is the case, we should have some disposition of the property.

Mr. HUNGERFORD: We are holding all that property.

Hon. Mr. FULLERTON: The fact is it would be impossible to dispose of any of the property to-day. We have a great deal of it rented. The buildings are rented and the rents are being collected and so on. We are doing the best we can.

Mr. HEAPS: There is some revenue coming in, is there?

Hon. Mr. FULLERTON: Yes.

Mr. HEAPS: It is such an unsightly pile to have in the heart of Montreal. I wonder if it would not be as well to develop the property as a railway site or carry out some other scheme there which might, perhaps, take it off the Canadian National system?

Mr. MACMILLAN: Make a sunken garden?

Mr. CANTLEY: Roof it over.

The CHAIRMAN: Are there any other questions?

Hon. Mr. EULER: I was asking about the hotels?

Hon. Mr. FULLERTON: I was getting information on that point. As a matter of fact we had not decided about opening Saskatoon. We put in our estimates \$600,000 for opening the Bessborough hotel, and \$300,000 is for Vancouver, and \$40,000 is for sundries.

Hon. Mr. EULER: Are you going on with it?

Hon. Mr. FULLERTON: Are we opening the Bessborough?

Mr. MACMILLAN: I hope so.

Hon. Mr. FULLERTON: We have not decided, although we rather anticipate that we will open it. The property has been standing idle for a long time. Our hotel manager does not contemplate a very heavy loss in opening it the first year. I think he said it would be about \$25,000. But it has got to be opened some time. It costs a lot of money just to keep it as it is. For instance, take Manaki last year. We made a tremendous loss on it in 1933 and we wondered what we would do—whether we would open it in 1934 or not. Finally we decided to make a reduction in the rates and open it, because we felt if it was allowed to go it would go out of the picture completely. As a matter of fact, we about broke even last year on that hotel—actually on the running of the hotel—and that necessarily meant a good deal of railway traffic, but it is hard to figure that out, of course. We feel that we must open the Bessborough sooner or later.

Hon. Mr. EULER: Would this amount finish it?

Hon. Mr. FULLERTON: Yes, this would finish and open it.

Hon. Mr. EULER: There is the sum of \$300,000 for Vancouver?

Hon. Mr. FULLERTON: They have to do a certain amount of work in Vancouver each year in the hotel. We cannot stop the work altogether.

Mr. BEAUBIEN: In schedule 2 you have "co-ordination of facilities—C.N.-C.P. Act, 1933" \$500,000.

Hon. Mr. FULLERTON: For instance, where we agree with the C.P.R. in the function of duplicating lines. We agree to go over the C.P.R. lines and they agree to go over our lines. We have a good many of those we are working on now, and if we get permission of the railway board we expect to put a number of them through. We have to make certain connections to go onto the other line, and that represents provision for that.

Mr. BEAUBIEN: Would what you would get from the Canadian Pacific railway for the same reason counterbalance it?

The CHAIRMAN: They are doing that work too, are they not?

Hon. Mr. FULLERTON: Yes. The agreements are equitable as between the railways. They divide the benefits. It took about six months to work out the agreement. I think the agreement covered about forty-five pages, and it was a very difficult thing to work out; but the formula was finally agreed upon.

Mr. BEAUBIEN: Has there been very much co-ordination between the two companies?

Hon. Mr. FULLERTON: Yes, considerable.

Mr. BEAUBIEN: Does it work favourably—

Hon. Mr. FULLERTON: In fact, the railways are co-operating all the time on different matters.

Mr. BEAUBIEN: You find that it works satisfactorily?

Hon. Mr. FULLERTON: Well, I would hesitate to express an opinion.

Hon. Mr. EULER: Are you going on with the London station? I am asking some difficult questions this morning.

Mr. MACMILLAN: The member is not present.

Hon. Mr. EULER: It does not matter.

Hon. Mr. FULLERTON: We hope to go on with it. We do not like to make rash promises.

Mr. HEAPS: I would like to refer again to the Montreal Terminal development. I wonder if the management of the railway could give us an idea as to what the minimum cost would be if the present terminals of the Canadian National railway were moved from Bonaventure station to the new site?

Hon. Mr. FULLERTON: Mr. Hungerford made an estimate a short time ago as to the cost of finishing the terminals on a modified scale; he could give you the particulars.

Mr. HUNGERFORD: About six and a half million dollars.

Mr. HEAPS: I feel that you are losing a lot of traffic by having a station where it is now.

Hon. Mr. FULLERTON: There is no doubt about it.

Mr. HEAPS: People will not go there, and will not come in there.

Hon. Mr. FULLERTON: There is no doubt about that.

The CHAIRMAN: Is there a crossing there from one line to the other in Montreal?

Mr. FAIRWEATHER: There is at Dorval.

Mr. HEAPS: Did you ever figure out what the advantages would be to the railways if this six and a half million dollars was spent in new railway station facilities?

Mr. HUNGERFORD: That is difficult to say. With the fluctuating volume of traffic and all that sort of thing it is uncertain. There might be some increased business; it is hard to tell exactly.

Mr. HEAPS: You figure on the broad basis of six and a half million dollars to move your terminal facilities to the new location?

Mr. HUNGERFORD: Yes, in a modified way.

Mr. HEAPS: How much is being spent now on the present site?

Mr. HUNGERFORD: The total expenditure for land and work is \$16,430,000. Out of that the land absorbed about \$10,000,000.

Hon. Mr. EULER: Would you say that with the expense of another six million dollars that you could put it into a condition where you could use it favourably?

Mr. HUNGERFORD: Yes. We could accomodate all the Canadian National trains in Montreal with the exception of only a few. We could accomodate all the other trains.

Mr. FRASER: Would that alter the original plans entirely?

Mr. HUNGERFORD: No, it would be a partial development of the original plans.

Mr. FRASER: You could go ahead and finish it from time to time, could you?

Mr. HUNGERFORD: Yes.

Mr. HEAPS: As an unemployment measure, it would not be a bad idea?

Hon. Mr. FULLERTON: I think it would be a splendid idea.

Hon. Mr. EULER: I think it would be a better idea than spending \$8,000,000 on equipment.

Hon. Mr. FULLERTON: I think it would be a good idea.

The CHAIRMAN: You are going to leave Montreal as it stands?

Hon. Mr. FULLERTON: We cannot do anything else.

The CHAIRMAN: Now we have hotels. Is that what is wanted now?

Mr. MacMILLAN: That is it.

The CHAIRMAN: How about these retirements?

Hon. Mr. EULER: They are pretty much routine, I suppose.

The CHAIRMAN: You are really retiring that amount.

Mr. GRAY: I have been asked to ask the chairman if there is anything in the budget for the new station at Windsor?

Hon. Mr. FULLERTON: My recollection is that there is. That is my recollection.

The CHAIRMAN: Let us see where it is.

Sir EUGENE FISET: You had better look up Rimouski while you are at it.

Mr. MacMILLAN: And Rivière du Loup.

Sir EUGENE FISET: No. Rivière du Loup is done.

Hon. Mr. FULLERTON: \$100,000 at Windsor.

The CHAIRMAN: Gentlemen, I have received a letter which is a long one, but I think we should give it some attention. You may remember that Mr. Matthews adverted to a speech made, I suppose, by this man Martin W. Harrison, president of Security Owners Association Incorporated—the members of the committee may remember it—I remember it quite well; and this man has written me under date May 22, a five page letter. He admits having made some mistakes, and he gives the statement of how he made up his figures, and he also says he did not fall into the common error of duplicating that portion of the debt which is carried both in railroad and government statements. We do not want the letter to go on the record. Probably we will file it. It is *ex parte*, and we cannot ask him questions about it.

Mr. MacMILLAN: Why don't we want it to go on the record?

The CHAIRMAN: Here is a man who makes a statement; we have no opportunity of asking him about it.

Mr. MacMILLAN: Is it in reply to the auditor's statement?

Mr. HEAPS: May I ask who writes it?

The CHAIRMAN: The writer is president of Security Owners Association Incorporated. He made this statement. Mr. Matthews referred to it. As indicated here, people had a misconception of the relationship in regard to the debt of the railways to the government.

Mr. BEAUBIEN: Does he live across the line?

The CHAIRMAN: Oh, yes. He writes from Madison avenue, New York city. We will file it; but I do not think we should spread it on the record. If you care to hear it I will read it.

Mr. GRAY: Refer it to the officers of the company.

The CHAIRMAN: I have marked two or three things that we may want to have discussion on, and during the noon hour the officials can look over this letter. Now, gentlemen, we have these two motions.

Mr. MacMILLAN: Mr. Chairman, in regard to these retirements and maturing capital obligations, is the Canadian National now selling their own bonds or does the government sell them? In the old days they guaranteed these, and there was a slight—

Hon. Mr. FULLERTON: The last issue was disposed of by the railway itself.

Mr. MacMILLAN: When the Canadian National markets its own securities it does so with the consent of the Minister.

Hon. Mr. FULLERTON: They always get the consent of the government.

Mr. MACMILLAN: The question arose that you had to pay a little more, or you did not get quite as much as the government gets in the sale of its securities.

Hon. Mr. MANION: That is true; generally speaking guaranteed bonds have not sold quite as high as direct government bonds. Generally speaking that has been true.

Mr. MACMILLAN: Is it the function of the Bank of Canada to put out issues of this kind?

Sir EUGÈNE Fiset: They could, if you authorized them to do so. The first bill brought down in the House provided in the body of the bill that all loans being offered by the Canadian National Railway were to be offered by the Department of Finance. We had a change of policy last year, and we have a change of policy again this year. That is exactly what we were discussing while you were away, sir. Last night you proposed an amendment to Bill 63 with regard to the terms of which none of us appear to be exactly informed. We would be extremely glad if you could possibly give us the substance of that amendment to-day.

Hon. Mr. MANION: You mean, the amendment I moved to Bill 63?

Sir EUGÈNE Fiset: Yes; the second amendment, authorizing the Minister of Finance to purchase equipment in accordance with the schedule provided. We are not exactly clear as to how that is to work.

Hon. Mr. MANION: I will try to make it clear. The original idea was that the government was to guarantee equipment purchase notes with which the equipment was to be purchased. The railways suggested that it might be wise for the government itself to purchase the equipment and take a mortgage on it; therefore, the amendment was merely to give the government power, if it so chose, to purchase the equipment instead of guaranteeing payment for the equipment purchased.

Sir EUGÈNE Fiset: Does that apply to both railways?

Hon. Mr. MANION: They are both in the same position; except that they are not in the same position in regard to repairs. On repairs whatever we lend to the Canadian Pacific for the purpose of making repairs they give us something in the shape of notes promising to pay the money back. So far as the Canadian National is concerned it was found that, or I was so advised by the legal officers of the Canadian National Railway, that they could not charge up to deficit either repairs or interest on repairs. Therefore, we took the power in one of these amendments which I moved to give them the repairs so far as they are concerned. In other words, if they carry out these repairs they will not be charged up as a deficit, it will merely be paid by the government of Canada; it will in a sense be a gift to the Canadian National Railways.

Sir EUGÈNE Fiset: With regard to the purchase of new equipment, what guarantee are you going to exact from either the C. P. R. or the C. N. R.?

Hon. Mr. MANION: We will take the C. P. R.—the same applies I think to the C. N. R., as far as the purchase of new equipment is concerned—we will take back from them a mortgage on it. So far as the Canadian National is concerned, of course, if they can't meet it it will just be a part of the deficit, the deficit will be increased by that amount. So far as the Canadian Pacific is concerned, we will expect them to pay.

Hon. Mr. EULER: Will you have only security on the equipment?

Hon. Mr. MANION: Yes.

Hon. Mr. EULER: Won't that security be impaired over the lapse, say of 15 years?

Hon. Mr. MANION: Of course, a great deal of it will be paid off before that.

Mr. SMART: It is exactly the same as the plan under which they purchase their equipment now. It is a rental purchase scheme, and the railway companies would have to maintain the equipment intact for the full period of time.

Hon. Mr. EULER: If they did not, what would you do—they would have to replace losses, of course.

Mr. SMART: Yes; they have got to maintain it in the position it is in.

Sir EUGÈNE FISET: In other words, the guarantee is not worth the paper that it is written on.

Mr. SMART: Yes; each year they pay so much but we can still hold them for the full equipment issued. I mean, we have the security of all the equipment but the amount outstanding is reduced each year by the payment of principal and interest.

Hon. Mr. MANION: Undoubtedly what the General says is correct; if you take a hundred per cent mortgage on the equipment the first year it goes down more than the payment made, but you still have the security on the equipment although it is not as valuable as is the value of the security; undoubtedly, that is correct.

Hon. Mr. EULER: Would it not be possible to induce them to put all of their assets back of that special guarantee?

Hon. Mr. MANION: They could not do that, Mr. Euler, for the reason that there are mortgages now on the different assets of the Canadian Pacific; that is one of the reasons why the security takes this form.

Hon. Mr. EULER: I agree, they would have to be secondary to the prior rights.

Mr. BOTHWELL: Is it decided that they will buy the equipment?

Hon. Mr. MANION: There is no definite decision. The bill has now passed in the House, but it still awaits Royal assent and so on. I take it for granted that the railways will go ahead with it. I talked it over with Mr. Hungerford, Mr. Fullerton and others, and they are all anxious to do it. Incidentally, if you have not already asked him, Mr. Hungerford has a statement with regard to what his railway plans to do. You might ask him to give you that statement now. At least, I thought he was going to prepare a written statement.

Mr. MACMILLAN: He has given us a statement on that.

Sir EUGÈNE FISET: May I point out, Mr. Chairman, that this is a special measure, and the heading of the measure is "Relief"; and the bill as introduced in the House was introduced as a relief measure. That is the reason why in view of the special circumstances provision for both the C.P.R. and the C.N.R. was included in the bill; for they are special circumstances, there is no doubt about that, and we have extremely little hope I think of getting a refund of whatever loans we make to both of the railways.

Mr. LABELLE: You cannot deprive the bond owners generally of the trust deeds. There will be a guarantee of the equipment.

The CHAIRMAN: This equipment does not come under the ordinary mortgage covering the assets of the railway.

Mr. MACMILLAN: Isn't it the same, Mr. Chairman, as the Philadelphia proposition, except that you save 25 per cent on the cost?

Hon. Mr. MANION: No. Under the Philadelphia arrangement the railway concerned paid 25 per cent, and the mortgage was for the balance spread over a period of fifteen years. In this case there is no 25 per cent paid, and the government has the total amount.

Mr. MACMILLAN: So that the final result of this thing should be, so far as the security is concerned, that having regard for the business that has been carried on by the Philadelphia arrangement, you have the same security they have except for the 25 per cent paid by the company.

Hon. Mr. MANION: That is correct.

Sir EUGÈNE Fiset: Another thing we were discussing in your absence was the list you referred to in the House last night of at least part of the equipment to be purchased for the railways. Do I understand that that list is not complete?

Hon. Mr. MANION: No, it is not complete.

Sir EUGÈNE Fiset: Would it be possible for you, sir, to give us an inkling of what the Canadian National Railway will purchase as their part. I think you mentioned 20 locomotives and so many refrigerator cars. Possibly you could give us a list of these.

Hon. Mr. MANION: I haven't got that with me, but maybe Mr. Hungerford could give you that information?

Mr. HUNGERFORD: What is that, again?

Sir EUGÈNE Fiset: The Minister has certain details which he gave to the House last night, which were based on reports made by yourself and by Mr. Coleman. Could you give us the details of your intended purchases in so far as your road is concerned?

Mr. HUNGERFORD: I don't know just how it was made up.

Hon. Mr. MANION: I had it last night, it was for both railways. It was a general list, and while I do not recall numbers specifically I know that it did include box cars, gondolas, sand cars, refrigerator cars, passenger cars, and a variety of engines of various kinds—what else was there now, in addition to that, Mr. Hungerford?

Sir EUGÈNE Fiset: You see, Mr. Hungerford told us that there was no intention so far as they were concerned to buy any passenger coaches.

Hon. Mr. MANION: That would be the Canadian Pacific then, because I had a joint list.

Sir EUGÈNE Fiset: You have the list?

Hon. Mr. MANION: Unfortunately it is over in my other office; I thought we were through with that and it is not in this bag.

The CHAIRMAN: I do not know whether you gentlemen from the West will be interested in this or not; Mr. Labelle was good enough to go into some matters that I sent to him, representative I imagine of a disturbed lot of men, objecting to seniority of returned soldiers being interfered with. I submitted the matter to Mr. Labelle and pointed him to the agreement—what do you call the agreement, Mr. Labelle?

Mr. LABELLE: You are referring to Circular No. 68, I think, Mr. Chairman.

The CHAIRMAN: Yes, it is Circular No. 68. As Clause 5 observes—and I think members of the committee should know this because probably you have all been getting some complaints similar to the one I received. It provides:—

(5) *War Service 1914-1918:*

(a) Employees who, while actually in the service of the Company, enlisted in the army, navy or air forces of the British Empire, or any allied nation, and who returned to the Company's service within three months of their demobilization or release from control of military authorities, will be credited with the time spent on active service as if it were in the service of the Company.

(b) Employees who, by reason of war service, were not physically fit to resume duty within three months from date of demobilization, upon satisfactory evidence as to such disability, will be considered as having complied with the three months' ruling, if re-entering service within three months from date of recovery.

(c) Employees who applied for re-employment within three months, but for whom there was no vacancy, will, upon satisfactory evidence, be considered as having complied with the three months' ruling, provided they actually re-entered the service within six months.

Now, a gentleman named Erratt has written me two or three times complaining about the loss of his seniority. Mr. Labelle tells me, at least I infer, that he means that he has looked into this man's case, and there has been no departure from the rules in his case.

Mr. LABELLE: As far as the file about which you wrote me is concerned there was no departure at all. If you think it desirable to have an answer in more detail we will get it for you. I think, Mr. Chairman, and Mr. Fullerton, that the same man wrote to you both and that you have a file on him in your own offices.

Hon. Mr. FULLERTON: There are so many who have written that I do not remember clearly.

Mr. MacMILLAN: I think that this is a matter which can be left to the management for them to deal with.

The CHAIRMAN: In this case this gentleman wanted it brought to the attention of the committee.

Hon. Mr. MANION: Perhaps one of the officers might give to us in a few sentences a statement as to the general treatment of the men who went to the front, in regard to their seniority. What was the practice followed?

Mr. HUNGERFORD: I think it is fully expressed in the language of that circular just read by the Chairman. That is my belief. There are a good many variations and differences of conditions which have led to a good deal of argument on certain occasions. Things have been represented that could not be justifiably allowed.

Mr. HEAPS: Have there been many of these complaints?

Mr. HUNGERFORD: Quite a few, from time to time; there are not very many now.

Mr. BEAUBIEN: In regard to seniority I have had several complaints from men in my constituency, especially from section men, charging that they have been deprived of their seniority through others "bumping" them at different places, that they have been "gypped" out of their seniority. I have taken the matter up with the officials in Winnipeg myself, with the railway company. As far as I can find out the whole question of seniority is left to the officers of the men's organization. The question I would like to put to Mr. Hungerford is, if the organization of the men themselves through certain influences or otherwise gyp a man of his seniority is there any way of redress?

Mr. HUNGERFORD: The question of seniority involves an almost endless story. From time immemorial there have been disputes about the seniority as the result of lines being acquired and consolidated. Every time you acquire a little branch line you had this question crop up. It arose in its largest form when a number of the constituent railways which now form the Canadian National Railways were consolidated. The first amalgamation took place in 1918 between the government railways and the Canadian Northern, in 1920 the Grand Trunk Pacific came in, and in 1922 the old Grand Trunk. A chaotic condition existed for a number of years. It was hard to get an organization worked out, but the railways got together and formulated arrangements satisfactory to the men and themselves. The majority of the men were themselves quite satisfied with it.

Mr. BEAUBIEN: Did these officials organize the railway employees?

Mr. HUNGERFORD: I am speaking now of the running trades, we had our greatest difficulty with the running trades—the engineers, the firemen, the con-

ductors and the trainmen. This condition went on until the latter part of 1925. It was in 1925 as a matter of fact that the organizations themselves decided they could not agree as between themselves and the various groups appealed to their Grand Lodge officers to get together and formulate some kind of a scheme that would be generally fair under the conditions. That is what was done, and it was done in collaboration with the management. We took the broad stand that in determining the relative position of the men and their seniority that the organizations themselves had a great background of experience, and also they had rules of their own applicable to their members, and to a very large extent they formulated the agreement of 1926. The company stipulated, however, that in determining the seniority districts geographical location was to a certain extent to be considered. We also facilitated the work of investigation. The result of it was a general agreement signed by all of the Grand Lodge officers of the various organizations concerned. It was made effective on the eastern lines, that is on lines each of Fort William, immediately. There were injunction proceedings in the west that had the effect of delaying application of the agreement in the west for almost two years. Finally the injunctions were dissolved and the agreement was made effective there. Well, almost immediately there were protests of all kinds, and the agreements have since been revised, on the eastern region at least once, and in the west two or three different times because of efforts to meet objections, but this was always done through negotiations between representative organizations and the management. These are questions which cannot be settled to the satisfaction of all concerned; no matter what you do you still have complaints and protests from some men because all men cannot have the same job—and that is the root of the whole trouble.

Mr. BEAUBIEN: The point I wanted to make, Mr. Hungerford, is this: Supposing a man has been laid off on account of the depression during the last few years, or suppose he has been "bumped" by somebody else; this man makes a claim that he has more seniority than other men working—I mean, speaking of the divisions in the west—according to the officials of the organization evidently they have this seniority established, but this man claims that he has been gyped out of his seniority by even the officials of the organization. In such a case can the man secure redress on appeal to officers of the Canadian National Railway?

Mr. HUNGERFORD: Only by going to the organization.

Mr. BEAUBIEN: You can do that?

Mr. HUNGERFORD: If we are successful in our negotiations.

Mr. BEAUBIEN: In such a case as that could you get redress for a man? Supposing I could prove that my seniority is higher than what is given to me by the officials of the organization of the men; supposing I could prove that to the railway company, and the officials of the union do not obtain any representation for me, can the Canadian National Railway officials readjust that seniority?

Mr. HUNGERFORD: I cannot visualize a situation such as you describe in view of all that has gone before.

Mr. BEAUBIEN: You have had no cases of that kind before you, or any evidence of such cases?

Mr. HUNGERFORD: If the evidence was clear in regard to that, so far as my experience goes, the officers of the organization would be the first one to want it redressed.

Mr. LABELLE: They have the right of appeal, too.

Mr. BEAUBIEN: I am speaking of Canadian National officials. The point I want to make is this: I had a case of that description and I spoke to some

of them about it, one of them I think was a Mr. Devonish in Winnipeg. As far as I could get it from him, the whole question of whether a man's seniority was rightly established or not rested with the officials of the union.

Mr. HUNGERFORD: It is a matter of negotiation between the company and the organization.

Mr. BEAUBIEN: These negotiations are pretty hard to bring about.

Mr. HUNGERFORD: You cannot speak in general terms. You have to know the details of the case, and then we can give an intelligent answer. I shall be very glad to report fully on any case you have.

Mr. LABELLE: Personally I am acquainted with many cases in Montreal. I always study the files. I have yet to find an injustice suffered by any man, because he has the right to appeal. Some of them do not take advantage of that right; but they have the right to appeal within six months.

Mr. BEAUBIEN: His only right of appeal is to the Grievance Committee of the organization.

Mr. LABELLE: The justification body.

Mr. HEAPS: The inference there is that the officials of the union have not dealt honestly with one of its own members, and I do not think it is a fair imputation to make.

Mr. MACMILLAN: It is quite a reflection.

Mr. BEAUBIEN: I am just asking the Canadian National officials if there is any way the officials of the Canadian National Railway can make an adjustment if an injustice has been committed.

Mr. HUNGERFORD: I do not know any way we can force the issue. We can negotiate and do negotiate changes.

Mr. HEAPS: May I ask Mr. Hungerford if he has found in his negotiations with the officials of the organization any effort being made to create injustices on any of its members?

Mr. HUNGERFORD: I have never run across a case like that.

Mr. HEAPS: Have you seen any effort or attempt made to mispresent?

Mr. BEAUBIEN: I am not making an accusation of misrepresentation, Mr. Heaps. I do not want you to put words in my mouth. All I say is this: Certain men made representations to me that they were gypped of their seniority by officials of their order, and when I took the matter up with Mr. Devonish I was given to understand, or the impression was left with me, that the whole question of seniority rested with the officials of the order.

Hon. Mr. MANION: May I say a word in that regard, because as Minister I have had many letters along the same line. Is it not true that due to the Montreal agreement, it is in a sense the greatest good to the greatest number? In other words, there may be some cases of injustice, and there are some cases of injustice that simply cannot be straightened out. Is not that in a general way correct?

Mr. HUNGERFORD: Substantially, yes.

Hon. Mr. MANION: That is my understanding. I have had many cases of it, and due to the fact the Canadian National is made up of the old Grand Trunk on the one hand and the Canadian Northern and the Intercolonial and the different subsidiaries, it is impossible to settle satisfactorily the disputes which have arisen. There are cases of injustices which simply cannot be straightened out.

Mr. BEAUBIEN: I understand that, but there are not the disputes I am talking about. I know under the agreement there would be injustices in the matter of seniority which are unavoidable. I know that; but once you have established

seniority in a certain division after the agreement and the man claimed he was gypped out of the seniority and could not get any redress, it is different. That is what I am talking about.

The CHAIRMAN: His own organization.

Mr. BEAUBIEN: His own organization; I have several representations made to me to that effect and I want to find out if there is any way the officials of the Canadian National can give this man his seniority, if he is entitled to it.

Mr. HEAPS: In the case Mr. Beaubien has raised, I wonder if you would give full facts to the officials of the Canadian National and let them look into it; because I have often been asked to handle individual cases and when I have come to look into it from the other side I have found that facts were quite different from those represented.

Mr. BEAUBIEN: I took this matter up with Mr. Devonish in Winnipeg, and as far as I could gather from his remarks, the whole thing rested with the officials of the union.

The CHAIRMAN: Which union, Canadian or international?

Mr. BEAUBIEN: Most of those fellows were sectionmen.

Hon. Mr. EULER: As a matter of principle, if it came to the point where the opinion of the railway conflicted with the opinion of the union, which would govern?

Mr. HUNGERFORD: Well, it is hard to say. No condition of that kind has arisen yet.

The CHAIRMAN: This man has written me as Chairman of the committee—he is from Winnipeg.

Mr. HEAPS: What is his name?

The CHAIRMAN: Erratt. I ask that this case be looked into and a letter written to him.

Mr. HUNGERFORD: I shall be very glad to do it.

The CHAIRMAN: That completes the individual cases? Mr. Gray and Mr. Euler indicated that they had a few questions to ask and I suggest we leave them until four o'clock.

Mr. GRAY: Before we adjourn I should like to say this: I quite realize it is the desire of the committee to close as rapidly as possible. I had hoped that the three trustees would be here to-day, because I had some questions I proposed to ask to the individual trustees if they were here. Mr. Morrow is not here. Is there any chance of him being present at any of the sittings?

Hon. Mr. FULLERTON: When I received notice from the Department that the meeting was to be held to-day I immediately wired Mr. Morrow who was at La Tuque, fishing. I had a wire from him on Monday saying that he would be here; but I cannot exactly see how he can get here before one o'clock, because the way the trains run I doubt if he could be here before one o'clock. He wired me he would be here to-day.

Hon. Mr. EULER: He may be here at four o'clock.

The committee rose at one o'clock, to resume again at 4 p.m.

The committee resumed at four o'clock.

The CHAIRMAN: Gentlemen, I think the only thing we were going to discuss further in regard to this report is the writing down. I do not know whether it is my fault or not, but a certain matter entirely escaped my notice. As a lawyer I suppose I should have known it, but I did not because it is not in any official report as yet. But the action taken in the Ontario courts by a Mr. Lovibond which I know pretty well up to the finish, the Ontario courts, has entered a new phase that makes all this discussion impossible in my view.

Mr. Lovibond was a man who took an action in regard to the Grand Trunk stock and when the action was tried it was dismissed because it was held that he impugned the title of the crown and he had no right to take the action calling into question the validity of the acts taking over the Grand Trunk and the obligations and all that sort of thing, because he had no fiat and his proper action was by a petition of right.

Mr. GRAY: And he had been refused a fiat.

The CHAIRMAN: Now, that is my difficulty. It went in various ways from the first judge who was the chief justice of the high court, then to Mr. Justice Kerwin, and there was an appeal by the plaintiff to the court of appeal from Mr. Justice Kerwin's judgment declaring that the man had no right of action and dismissing his action. The court of appeal dismissed the appeal, so that up to that point Mr. Lovibond was out of court. Then he sought for an order allowing him to appeal to the privy council, and an order allowing appeal was made by Mr. Justice Middleton, if I remember rightly—I have the report here but have not had the time to go through it—an appeal was taken from Mr. Justice Middleton's order to the full court of appeal in Ontario, and the appeal was allowed refusing leave to appeal to the privy council on the ground really that there was no sum of money involved. It was only a moot question as to the jurisdiction of a court which was involved, and no sum of \$4,000 or more was involved, which is the basis of an appeal to the privy council. Up to that date the courts were through with Mr. Lovibond, but since this committee adjourned he has made an application for leave to appeal to the privy council—that was made since we adjourned, some time in the last few weeks, and I knew nothing about it; it was called to my attention just within the last half hour or hour—and leave to appeal has been granted. So the whole matter is sub judice; it is all for determination. The privy council has given leave. The appeal is to be heard by the privy council and that appeal involves the validity of the acts taking over the Grand Trunk stock and the whole business.

Hon. Mr. EULER: Surely you are not suggesting that my motion is out of order.

The CHAIRMAN: I am suggesting exactly that. We should not in parliament discuss this matter as long as it is in the courts.

Hon. Mr. EULER: Mr. Chairman, I am not a lawyer or a son of a lawyer. However, I have a bit of common sense judgment if I may put it that way. I will submit to you that my amendment has nothing to do whatsoever with that question. The rights of the Grand Trunk shareholders are not mentioned.

The CHAIRMAN: No, the stock is.

Hon. Mr. EULER: No. The stock is not mentioned.

The CHAIRMAN: Certainly it is involved in the recommendation.

Hon. Mr. EULER: And besides that, if the chairman so ruled, the amount at issue with regard to the Grand Trunk stockholders is only a fraction of the amount involved in the recommendations of Touche and Company; and if you care to do so you can exclude that from the discussion altogether.

The CHAIRMAN: It is all in one report. It is all involved in the question of writing down, and how we could deal with it part and parcel is beyond me.

Hon. Mr. EULER: I should say, with all deference to yourself, sir, it is a most extraordinary proceeding that a parliamentary committee cannot discuss anything that it pleases and refer it for whatever consideration they may care to give to it to the managing board of the Canadian National railways. As I say, I am not a lawyer and I do not pretend to know the technical points, but as a matter of judgment I fail to see the point.

The CHAIRMAN: Where is your resolution?

Hon. Mr. EULER: It is in No. 3 at page 137, moved by myself and seconded by Mr. Gray ". . . that the report of Touche and Company be referred to the board of trustees of the Canadian National railways for consideration and report, with special reference to the recommendation of Touche and Company for recasting the capital structure of the Canadian National railways." I would submit that even in the unlikely event that this were referred to the board of management and in the event of the board deciding to accept the suggestion of Touche and Company, I would suggest that the action could not possibly affect the rights of the Grand Trunk shareholders.

The CHAIRMAN: I am going to read from the judgment of the chief justice in the court of appeal:—

" . . . the plaintiff alleges that he was the owner of certain preference and common stock of the Grand Trunk Railway Company; that the same had been illegally transferred to the Government of Canada in the books of the defendant company under cover of certain statutes of the Parliament of Canada which he submits are invalid, and prays for a declaration that the transfers of said stock are illegal and void and for an order directing a rectification of the stock register in accordance with such declaration. He also asks for a declaration for a certain Act of the Parliament of Canada, 1920, 10-11 Geo. V, Ch. 13, being an Act confirming an agreement under which the said government acquired the stock, was ultra vires of the Parliament of Canada. . . ."

Now that is all for argument.

Hon. Mr. EULER: May I suggest this: strike out \$165,000,000 from the discussion and let us deal with the rest of it; there is a great deal more than that involved.

Mr. GRAY: May I point out, Mr. Euler, that I do not think that even that is necessary because as I understand it no part of this \$165,000,000—correct me, Mr. Minister, if I am wrong—is pledged outside the government; and, therefore, a decision even adverse cannot surely affect us: if we have to pay, we have to pay. I would also point out to the chairman that I know this matter has just come to his attention, apparently, but it is not a question of as recent occurrence as he would indicate, because the Prime Minister pointed out as long ago as February 26th, when this matter came up in the discussion of whether we would change the auditors or not—we got into this matter of recapitalization at that time and the Prime Minister pointed out, using it as an argument as you have against being able to undertake this—the Prime Minister pointed out that all decisions against Mr. Lovibond had gone in the Canadian courts, but there was at that time a petition pending to the privy council, and, since then, they have agreed to let it proceed. I again point out, and I agree with Mr. Euler, that I do not think it can possibly make any difference; and to whatever committee this is sent, whether it be to the trustees, as Mr. Euler's motion submits, or to the three deputy ministers, as Dr. Manion's motion submits, surely they would be quite competent, but let us get on with this scheme. We have dilly dallied with it; we had it up last year when Touche and Company first reported on it, and I think all of us anticipated that it would have been dealt with during the year; and it is one of the questions which I proposed to ask of the various trustees this afternoon; it is one of the reasons why I wanted Mr. Morrow here. But let us get on with it and get somewhere. If it is sent to the committee recommended by Dr. Manion, it will not be satisfactory to me, but let us get on.

Hon. Mr. MANION: May I say just in regard to the question as submitted by the chairman that it was not drawn to the attention of either of us until after the House met this afternoon. It was the Prime Minister who drew it to our

attention. I incidentally mentioned this matter to him, and he was very emphatically of the opinion that we should not discuss it here this afternoon. I then asked the chairman—because of the reasons given by the chairman—to talk it over with the Prime Minister. I said, “You are a lawyer and you can discuss it more intelligently than I can”; and he did.

The CHAIRMAN: I had only about a minute; I did not discuss it with him.

Hon. Mr. MANION: That is true, but he has got the Prime Minister's viewpoint briefly; and since then the chairman has looked it up himself, and he is familiar with the matter. In view of the Prime Minister's very strong attitude I should not like to see it put up to a vote at all, although I am not afraid of a vote, it is not that; but I personally think, gentlemen, that a matter that is sub judice should not be discussed. I cannot agree with what Mr. Euler says. There are \$165,000,000 odd worth of old Grand Trunk stocks involved and there is \$100,000,000 worth of Canadian Northern. I do not think that comes into the picture—but the \$165,000,000 of Grand Trunk stock does come into the picture; and I believe in view of the Prime Minister's very emphatic attitude—and the chairman, apparently agrees with him—that I should like to see it shelved, frankly.

Mr. GRAY: Am I right in saying that no part of the \$165,000,000 is pledged outside of the government?

Hon. Mr. MANION: I do not know. I think, probably, you are.

Hon. Mr. EULER: I would like to ask the minister if he cares to say whether the Prime Minister's view is this: that we should not discuss it or that we cannot discuss it. In my opinion he thinks it is inadvisable to discuss it, in which case I would very respectfully disagree with him. On the other score, from the legal point of view, as to whether it is in order, I cannot, for the life of me, see why this committee cannot refer this report for consideration; and it does not follow that anything that the board of trustees may do in regard to it would have any binding power—it has not any possible binding power until it is accepted by the government.

Hon. Mr. MANION: Undoubtedly we could do as you suggest; we could refer it for report.

Hon. Mr. EULER: That is all it is.

Hon. Mr. MANION: That is your motion; but I do not agree that that clears up the difficulty of dealing with it. I made the other motion as an alternative.

Hon. Mr. EULER: Your motion may be out of order, but mine is not.

Hon. Mr. MANION: Mine is an amendment to yours and, therefore, comes first.

Hon. Mr. EULER: I can discuss my own.

Hon. Mr. MANION: I do not know what attitude the chairman takes. I have not discussed it with him. But frankly I am of the opinion that since the lawyers have taken the attitude they have on these matters, that a question of this sort should not be discussed, generally speaking, for fear of prejudicing our position with the Grand Trunk.

Hon. Mr. EULER: That is a matter of its being judicious or not; but as a matter of law, as to whether this motion is in order, I certainly would insist that it is in order. The chairman has read the motion and I will read it again to the committee. Listen to the reading: “. . . that the report of Touche and Company be referred to the board of trustees of the Canadian National railways for consideration and report with special reference to the recommendation of Touche and Company for recasting the capital structure of the Canadian National railways.” That refers merely to the consideration of the report; it does not bind anyone to anything; it cannot possibly prejudice anyone. With

regard to the amendment to my motion by the Minister of Railways, he may be right, that it is out of order. Perhaps it is; but I am not specially concerned with that at the moment. That is his affair. I certainly do think it is quite proper and competent for this committee to debate this and refer it to the board of trustees.

Hon. Mr. MANION: Is it wise to debate it in view of the fact I have stated? Suppose, for example, that our debate in some way aided and abetted, if I may put it that way, those who are intending to sue the Dominion of Canada on this \$165,000,000. Of course, it is only a picuyanne sum in these days when we talk of billions; but at the same time if we should by our discussion prejudice our case is it wise to take any chance on that in view of the fact which has been pointed out, and with which you agree, that whether we do or do not immediately deal with the capital structure of the Canadian National it does not affect the Canadian National railway to the extent of one penny.

Hon. Mr. EULER: That is true.

Hon. Mr. MANION: We all agree; and that being true is there any particular hurry? Might the matter not wait over until the next session of parliament, and be done with it.

Hon. Mr. EULER: I can see no purpose in it.

Mr. GRAY: It has been bandied around for two or three years.

Hon. Mr. MANION: It has been bandied around for longer than that—for ten years.

Hon. Mr. EULER: With regard to your suggestion that we might prejudice the position of the Canadian National railways, I think it is actually the reverse. If there is any tendency in the report—not only a tendency but a definite recommendation—it would be that the Grand Trunk shareholders have no equity, and the longer we leave it—probably I am getting dubious of what the minister and the chairman said—but so long as we leave the Grand Trunk stock at a valuation of \$165,000,000 on the books of the railway I think that puts ammunition into the hands of the shareholders, and this would tend to contradict that. I do not see how we can do any harm by discussing it. Anyway, discussion is not going to do any harm.

The CHAIRMAN: I do not think your last point is correct. I do not think they will take that as evidence. It is not evidence. It has not been adduced as evidence. The principle is that when there is a matter in litigation even the newspapers, and certainly the House of Commons, have always felt that they really should not open that matter for discussion. Mr. Euler's motion is to refer this for consideration and report with special reference to the recommendation of Touche and Company for recasting the capital structure. If they report, then they report. Either it has no value or it has some value. They deal with this in connection with their whole report, and we have a report which has been asked for and which goes to the House of Commons on a matter that is before the courts.

Hon. Mr. EULER: They may report on that point. They may say that with regard to the \$165,000,000 which is in litigation now that they cannot deal with that at all, but they might make a very intelligent and valuable report with regard to the rest of the report of Touche and Company and the recommendation of Touche and Company.

Mr. BEAUBIEN: The discussion has been carried on in all the newspapers throughout the country.

The CHAIRMAN: Not as to the matter that is concerned in this case as far as I know.

Mr. GRAY: Perhaps we need not touch specifically the matter referred to in the case which has been described here. What the motion by the Hon. Mr. Euler deals with is the report by Touche and Company which has been published. Not only has it appeared in the press but it has been discussed here. Mr. Matthews has been on the stand and we have questioned him as to its advisability, and we have discussed it here, not only this year but last year, openly. I may say, Mr. Chairman, that the Prime Minister's hands would have been strengthened, as far as I am concerned, if he had not coupled with the Privy Council petition the other reason which he gave; namely, that the capital structure should stand as a monument to our Canadians of the past.

The CHAIRMAN: We are not concerned with that.

Mr. GRAY: That may be, but it is on record. I am concerned with it, sir, because to my mind it shows the obvious intention of the government if possible not to consider this matter from the very first time it was raised in the House of Commons.

The CHAIRMAN: I do not think so.

Mr. GRAY: I think it certainly does.

The CHAIRMAN: Not at all.

Mr. GRAY: From the time it was first discussed, on February 22, when the question of the appointment of the new auditors was before the House, right down to the present time. Now, I promised the Minister that I would not get onto any controversial subject; but as soon as my friend and colleague the Hon. Mr. Euler proposes a motion the Minister proposes an amendment. For the life of me I cannot see, and I think the Hon. Mr. Euler could make out a perfectly good case for it, why the matter should not be referred to the Board of Trustees. I cannot possibly see how it could possibly prejudice the Canadian National Railways, the Canadian people or anyone else if we discussed this matter; because all Mr. Euler proposes in his resolution is to send this report to the trustees for consideration and report.

Hon. Mr. MANION: May I make one suggestion, Mr. Gray?

Mr. GRAY: Yes.

Hon. Mr. MANION: I have no ulterior motive in this, as I said, I bow to those who have a better knowledge of legal matters than I have in a case such as this; my suggestion is this, that the Duff Commission, so-called—the Royal Commission on Railways—did suggest that one of the matters that should first be dealt with by the trustees would be this very matter. The trustees have not found it convenient so far to deal with the matter, except that the chairman did give us his views.

Hon. Mr. EULER: Are you quite sure the trustees have not discussed it?

Hon. Mr. MANION: I am not sure at all, I am simply making it clear that the only opinion so far received from the trustees has been the opinion of Mr. Fullerton.

Hon. Mr. EULER: So it is under consideration.

Hon. Mr. MANION: All I was going to say was, is it not obvious, and without any motion at all and without any discussion at all, in view of what the trustees have heard here, that this very matter will be considered by the trustees, and that they will report back without any other discussion here, or without the passing of any motion here; and, if both your motion and my amendment to it were quashed, would not the situation really be the same?

Mr. GRAY: Dr. Manion, I would almost be in complete agreement with that—

Hon. Mr. MANION: You might shock me if you were.

Mr. GRAY:—if I were certain that it would be discussed and reported on by the trustees; and if you will allow this committee to stand until I can have before me the three trustees so that I may ask from them what steps have been taken during the year in which this has been before them—because it was mentioned as long ago as the last session, and certainly the last sitting of this committee, by the chairman, that he had read the report and agreed to a large extent with it, and we took it I think all the members of the committee took it at that time that during the year ensuing—that is, 1934—and before this committee would meet this year that the Board of Trustees would be in a position to bring in some report on this subject matter. I may quite frankly tell the committee that the questions I propose to ask are questions directly to the three trustees as to what consideration has been given to this subject matter, what disposition they personally took in connection therewith, and why there has been the delay in bringing out a report. Now, if one could be assured by the Board of Trustees that this matter will be considered and reported upon then I think Mr. Euler perhaps himself would agree to the withdrawal of his motion.

Hon. Mr. EULER: The only objection I would have to that is that the Board of Trustees had before them no request from this committee, and they would feel under no obligation at all to report to this committee.

Hon. Mr. MANION: Perhaps Mr. Fullerton could give us a statement. I have not discussed it with him at all, but suppose he makes a statement that they will go into the matter and report; that should be satisfactory.

Hon. Mr. EULER: Aren't they committing almost a crime by doing this?

Hon. Mr. MANION: I do not think my honourable friend has the right to say that.

Mr. MACMILLAN: In view of what has taken place in regard to the appeal to the Privy Council would the Board of Trustees want to do that now.

Mr. HEAPS: There was nothing to prevent the Board of Trustees from considering anything they want to.

Mr. MACMILLAN: They might examine it and then find that they would not want to make a report until after the findings of the Privy Council had been announced.

The CHAIRMAN: You will recall that the Duff Report recommends:—

This question as well as that previously referred to, dealing with the present involved financial structure of the Canadian National system, should, in the opinion of the commission, have the early attention of the Board of Trustees, which it is recommended should be entrusted with the control and management of the system.

I suppose that is a direction, in a way; that report has been adopted by the House.

Mr. HEAPS: Possibly the Board of Trustees might report at a later date and in the meantime they might take this matter under their advisement. I think that ought to be satisfactory to those who propose the motion.

Mr. GRAY: Leaving it in that state would not satisfy me, just looking at it from the surface. From the fact that this was a duty delegated to the Board of Trustees by the Duff Commission; from the fact that it was dealt with almost immediately by Touche & Co., and that they filed a report with the Board of Trustees; and from the fact that the Chairman last year stated that he had read the report and agreed with it I am satisfied that this matter surely has been discussed. And we should know the position that the Trustees have taken or propose to take in this matter before we leave it in this way, in the way which has been suggested.

Hon. Mr. EULER: Mr. Chairman, another suggestion: Is it not reasonable to believe that if the Trustees have no right to consider this matter of the

Grand Trunk stock—I am mentioning it now, the issue involving \$165,000,000—if they are prohibited by that application from considering that part of it, might not this Committee instruct them to consider the whole report of Touche & Co., their main report? They might report to this Committee their finding, stating then that as far as a certain portion of the amount involved is concerned that in view of the litigation now proceeding they can make no report or recommendation with regard to that one item. What I want to bring out is this; surely every member of the Board of Trustees is conversant with what is right and proper in connection with a matter of this kind, and they will do what is right and proper; and when we merely suggest that they consider it and report they may make whatever report they please; they may say they will not report at all.

Hon. Mr. MANION: You have suggested that; suppose you let it go at that.

Hon. Mr. EULER: Why not do it in that way?

The CHAIRMAN: Because, Mr. Euler, we are taking a definite part in it, and through us Parliament is taking a definite part, and we would all be regarded as doing what I think we should not do. I can't see it myself.

Hon. Mr. EULER: Do you so rule, Mr. Chairman?

The CHAIRMAN: Yes, I so rule.

Mr. MACMILLAN: You will recognize that the committee should not proceed with the matter while it is sub judice; isn't that the idea?

The CHAIRMAN: I say there is a report of Touche and Company which embraces that among other recommendations; they are interwoven. I may be wrong but that is my view.

Hon. Mr. EULER: Would you so rule if I altered my motion and excepted that portion of the report?

The CHAIRMAN: I think I would.

Hon. Mr. EULER: You would still rule it out of order?

The CHAIRMAN: Yes; you have one report of which this is an integral part.

Hon. Mr. EULER: Mr. Chairman, if you so rule I will challenge your ruling, if I may.

The CHAIRMAN: I think there is provision in the rules for that; shall I put the motion?

Hon. Mr. EULER: Yes.

The CHAIRMAN: The Chairman has made a ruling to the effect that the subject matter of Mr. Euler's motion, and the amendment thereto by the Hon. Dr. Manion, should not be allowed for the reasons I have stated. Perhaps I had better summarize them: That the matter of the Grand Trunk stock, and the validity of the Act of Parliament authorizing its transfer is now the subject of litigation before the courts, before the judicial committee of the Privy Council. Mr. Euler now appeals from my ruling.

Sir EUGÈNE Fiset: May I call your attention to the fact that this matter was not sub judice when it was before this committee before, this leave has been granted only during the recess and this motion was before the committee before that leave to appeal was granted.

Mr. GRAY: Might I ask for this information: If your ruling is sustained does that preclude members of the committee from questioning or going into what has been done or considered by the trustees in connection with this matter during the past year?

The CHAIRMAN: Those in favour of sustaining the rule of the Chair please indicate; those opposed likewise.

The ruling of the Chair was sustained by a vote of 9 for, and 6 against.

Hon. Mr. EULER: We have nothing more to do, have we?

Mr. GRAY: Where does that leave it, Mr. Chairman? If it is understood by this committee that the trustees are to consider this whole subject matter of the Touche Report on the recapitalization and report—and mind you I emphasize the necessity of a report by the trustees—if that is to be their bounden duty, that they are to consider this and report, then I am prepared not to press the matter at the moment to a greater extent; but if it is merely left in the old position of the Duff Commission or of something that may have been said here, that we have indicated our desire or something of that kind, then I will not be satisfied, sir. I repeat, if it is clearly understood by this committee and by the Board of Trustees that they are to consider and report then I would not press at this time what has taken place in the past. What is the position now? I would like to have your ruling.

The CHAIRMAN: There is no ruling from me, Mr. Gray; we take no action as far as that goes. I do not know what the trustees will gather from the discussion.

Mr. GRAY: Then, I propose to ask for this, Mr. Chairman; that this committee do not conclude its sittings until I can have before me as well Mr. Morrow, another member of the Board of Trustees. I propose to ask Hon. Mr. Fullerton if he will give a very full statement to this committee as to what has taken place since the report of Touche and Company was first filed with the Board a year ago—perhaps not a year ago, because as I recall it we sat in June of last year—and at that time you, sir (Hon. Mr. Fullerton), stated that you had considered it and indicated that you were favourable to it; and more or less indicated at that time, if I recall it correctly, that perhaps the next step would be up to parliament. Since that time we have had from the Minister of Railways and others statements, but there has been no report from the Board of Trustees. I would like to ask you, sir, to indicate what steps the Board of Trustees as a Board have taken in connection with this matter.

Hon. Mr. FULLERTON: As a Board?

Mr. GRAY: As a Board; has it been considered by the Trustees as a Board? I do not know how you hold your meetings, but I presume the trustees meet and consider certain matters as they are brought up; has this particular matter been discussed?

Hon. Mr. FULLERTON: You want to know just exactly what happened?

Mr. GRAY: I want to know exactly what happened since last year.

Hon. Mr. FULLERTON: When I went to the Board on January 1, 1934, I was familiar with the Duff Report and the recommendation contained therein that we should immediately take steps to look into the question of the capital structure. I called for all the material, and there was a great deal of material in connection with the capital structure, I think Mr. Gaston had done a great deal of work in connection with it, and our own officers had done a great deal of work also. I read over all of this material and I think about the middle of January I got in touch with Mr. Matthews and he and I discussed the thing several times very fully. I also discussed the matter with the different officers of the company, and I asked Mr. Matthews to prepare a report, a recommendation. Mr. Matthews prepared the recommendation and that was presented to the Prime Minister. I had a long conference with him about it. Later on Mr. Matthews at my request prepared a further treatise dealing with the subject for the Prime Minister. That also was sent to the Prime Minister. Then I prepared a resolution recommending action along the lines of the Matthews' recommendations. That resolution was discussed at some length before the Board.

Mr. GRAY: Pardon me, before the Board?

Hon. Mr. FULLERTON: Before the Board. It was discussed a number of times but no action was taken; as a matter of fact there were several opinions expressed by the other trustees to the effect that it did not go far enough, that it should go much further, that it would not put us in a position where we could earn anything on the capital that would be left in our capital structure, and that if we got this partial readjustment of capital structure we might preclude ourselves from taking any further action. Well then, if I remember correctly, a change was made in the resolution so as to permit of our making a further application. However, later on I received a letter from the Prime Minister which in effect said that he was not in favour of it; and I have done nothing since, I have made no effort whatever; he said, no, the government is not in favour of it; and I have made no attempt since in connection with the capital structure to do anything, because I concluded it was useless.

Mr. HEAPS: What was the date, approximately, of the last communication?

Hon. Mr. FULLERTON: I think I can tell you.

Hon. Mr. EULER: In other words, the government did not agree with the recommendation of the Duff commission?

Hon. Mr. MANION: I did not get that. That was not a recommendation of the Duff commission. The recommendation of the Duff commission was that the trustees should look into the whole question and report.

Hon. Mr. EULER: They were in favour of the writing down of the capitalization.

Hon. Mr. MANION: I do not think that is true. The government did not oppose any recommendation of the Duff commission at all.

Hon. Mr. EULER: I have not it here, but actions speak louder than words.

Hon. Mr. FULLERTON: The communication from the Prime Minister is dated May 15, 1934.

Hon. Mr. MANION: The government has carried out nearly all the recommendations of the Duff report. I should like to ask Mr. Fullerton one question. You mentioned a report being sent to the Prime Minister; was it sent to me?

Hon. Mr. FULLERTON: No, it was not sent to you.

Hon. Mr. MANION: As Minister of Railways?

Hon. Mr. FULLERTON: I explained that to you, Doctor Manion, in a letter which I wrote in February. I explained to you that being new on the job I had taken this matter up with the Prime Minister; that I should have taken it up with you. I made that mistake.

Hon. Mr. MANION: I don't remember the explanation.

Hon. Mr. FULLERTON: I think if you look up your files you will see I wrote you a letter and sent you an apology for having taken it up with Prime Minister; and explained it was on account of my unfamiliarity with government methods that I had taken it up with the Prime Minister.

Mr. HEAPS: Could not that communication go in the record, Mr. Chairman?

The CHAIRMAN: Not of this committee. A record could be called for in the House.

Mr. HEAPS: I do not want to press it if there is any objection to it; it is personal correspondence.

Sir EUGÈNE Fiset: Mr. Chairman, you know very well if it were called for in the House we would simply be told that we could not possibly get it.

Mr. GRAY: I am not going to press it.

The CHAIRMAN: All the more reason for not putting it on the record here.

Sir EUGÈNE Fiset: The committee is the only place we can seek and get that information. The answer of the Prime Minister in the past has been that

any information concerning the Canadian National Railways could be obtained in the committee, not in the House.

Mr. HEAPS: This is a very important letter, Mr. Chairman. It affects the work of this committee to a very large extent.

Hon. Mr. EULER: I suggest, Mr. Chairman, that the chairman of the board of trustees has already given us the gist of the letter and it might be just as well to have it perfectly accurate as to what the Prime Minister said.

The CHAIRMAN: Why not ask for that in the House?

Hon. Mr. EULER: All right.

Mr. GRAY: Have you anything further to add?

Hon. Mr. FULLERTON: Nothing that I know of.

Mr. GRAY: So that the matter is still in that position?

Hon. Mr. FULLERTON: The matter is still in that position.

Mr. GRAY: This clearly indicates—and I am only going to add a word—that the whole purpose of Bill A, by which we appointed three independent men as trustees to operate and run the railway in order to get it away from any political control—and one has only to think back to the pages of Hansard upon which hundreds and thousands of words were spoken to recall the absurdity of the position in which the trustees now find themselves. The chairman of the board has stated quite frankly the first resolution apparently did not meet with the approval of either Mr. Labelle or Mr. Morrow—and again I repeat I am sorry Mr. Morrow is not here)—because it did not go far enough. The chairman of the board would have had it passed as it was but the other members were not agreeable, and Mr. Labelle will be able to tell us his reason for his stand. Subsequently the chairman amended the resolution and apparently complied with the wishes of one or both of the remaining trustees. It was then that the Prime Minister came into the picture and said he did not want any rewriting of the capital structure, and apparently the trustees have dropped the matter.

Hon. Mr. FULLERTON: I might explain I felt it was a matter for the government. We could not do anything with the capital structure; it was a matter for the government.

Mr. GRAY: The resolution was drawn up.

Hon. Mr. FULLERTON: We made this resolution.

Mr. GRAY: What I am asking Mr. Labelle is what stand he took with respect to the two resolutions referred to by the chairman of the board?

Mr. LABELLE: I take full responsibility for my action, Mr. Gray. I disagreed with my chairman because I had the Duff report and the Duff report asked me to go a little further and try to recapitalize and take into consideration nearly \$24,414,000 average net earnings per annum. The first thing I heard about recapitalization was the report from our vice-president of finance. I read it carefully and I discovered—I regret I have not my copy with me, because I had some notations of my own in it—that that is a difficult legal problem and the trustees no doubt will be advised thereon by the legal officers of the company. A legal amalgamation would have little effect, and so on. Secondly, reading page 16 of the first report I found it stated "That the Canadian National will still be over-capitalized per mile; that we will have a capitalization of \$55,600 per mile as compared with lines in the United States of \$49,800 per mile, indicating that after the adjustments which are proposed have been made the interest bearing debt per mile of road on the Canadian National will still be 12 per cent higher than that on lines in the United States;" and that if we were going to propose something to parliament we should make a very careful study and at least have the auditors' report and our own report on what should be the real capitalization, taking into consideration the earning capacity of the railway. That is the stand I took from the first day that my chairman spoke to me about it, and I am still of the same opinion.

Mr. GRAY: You received the report from Touche & Company last year?

Mr. LABELLE: Yes.

Mr. GRAY: What action did you take then?

Mr. LABELLE: No other action, Mr. Gray, than what the chairman told you about. The question came up, and my opinion is the same to-day as it was then. We must make a thorough study of the question and present the report in accordance with the Duff report, on the earning capacity of the road.

Hon. Mr. EULER: May I ask the chairman of the board a question? Mr. Fullerton, was the Prime Minister's objection to the particular proposal made by the auditors, or was it in general terms as against any consideration of recapitalization?

Hon. Mr. FULLERTON: Well, the best answer I could make would be to read what he says. I would say it was generally against a writing down of the capital; that what was there should remain.

Mr. GRAY: Does Mr. Labelle say that?

Mr. LABELLE: I say I have not that letter of the Prime Minister.

Mr. GRAY: When Mr. Fullerton first brought the resolution forward, someone, and I take it now it was not you who said it did not go far enough—

Mr. LABELLE: I am one of the parties. I was the first one to say to the chairman it did not go far enough. I take full responsibility for that because that was my opinion, and I am still of the same opinion.

Mr. GRAY: You subsequently recommended something should be done?

Mr. LABELLE: As a matter of fact, if I take the auditor's report, I think the Canadian National will still be over capitalized on a per mile basis, taking into consideration the earning power. Rather than make just a report, I should like to make a good one.

Hon. Mr. EULER: I take it you are in favour of proceeding leading to the lowering of the capitalization. You support the recommendation of Touche & Company?

Mr. LABELLE: If I follow the Duff report, yes, sir, taking into consideration the earning capacity of the railway.

Mr. MACMILLAN: Does the physical valuation not come into the picture at all?

Mr. LABELLE: It may, sir.

Mr. GRAY: Unless some recommendation goes to parliament, have you any hope that the trustees will ever be able to make a recommendation to parliament, having regard to the position you found yourselves in during the past year? Have you any hope of that?

Mr. LABELLE: I am perfectly prepared to do all that is necessary and comply with the resolution of the committee or of the Duff report. Just here, you must not forget there has been a survey made in every department; economies have been effected, and we have been recommending economies—

Hon. Mr. MANION: You must remember the trustees were appointed January 1, 1934 and have been in power a little over a year.

Hon. Mr. EULER: To my mind the thing that stands out particularly is the remark of Mr. Fullerton, that the Prime Minister is entirely opposed to any writing down of the capital structure.

Hon. Mr. MANION: As a matter of fact, I can say the Prime Minister is not opposed to any such thing.

Hon. Mr. EULER: That contradicts what we have heard.

Hon. Mr. MANION: I make the statement the Prime Minister is not opposed to any such thing.

Mr. GRAY: With all due respect to the minister, I entirely disagree, because if one reads page 1200 of Hansard, one finds from beginning to end of his speech that he is totally opposed for the two reasons I have already given, (1) There is litigation pending in the Privy Council, and on page 1200 you will find (2):—

As far as concerns the writing down of the capitalization of any company, it is well known that the methods to be pursued and the reasons for the action to be taken have been settled by long lines of decisions. It is well for this young country that an investment which it has made in railroads and which has become valueless should be constantly before it as a deterrent from practising the same thing in the future.

and so on, and so on. There could not be, I submit, Mr. Chairman, with all due respect to the minister, any doubt, reading what the Prime Minister said on the floor of the House on February 22, 1935, and what he said to the chairman of the board in 1934, as to his attitude, and I think the public will judge from what has been said, that the Prime Minister is opposed to the rewriting of the capital structure of the Canadian National Railways. In addition to that, he has politically interfered with the management of the railways.

Hon. Mr. MANION: I do not admit that at all. I am not quarrelling with what Mr. Gray read; but I say that the Prime Minister is not opposed to a writing down of the capitalization providing there is reason shown for it, and I have a statement from him in that regard as recently as this very day. But it brings forward again the very thing that the Chairman has ruled out of order, and I think quite rightly ruled out of order, a question which is sub judice at the present time. I do not intend to go into the matter further except to say that the Prime Minister is not opposed to a writing down of the capital structure.

Mr. HEAPS: Mr. Chairman,—

Hon. Mr. MANION: May I add this: I do not think, unless the whole object of this discussion is for the purpose of playing politics, that this discussion is relevant. In regard to the statement made by Mr. Gray a moment ago, that the Prime Minister is interfering with the management of the railway, I should like to say that the Prime Minister has not politically interfered, and neither have I. This government has interfered less with the management of the railway than has any government in the past.

Mr. MacMILLAN: May I ask the Minister of Railways a question?

Hon. Mr. MANION: Yes.

Mr. MacMILLAN: Has any member of the government interfered to your knowledge, in a political way, with the Canadian National Railways?

Hon. Mr. MANION: Not at all, not since we came into power. There was plenty of interference before.

The CHAIRMAN: May I ask a question before I forget it? Mr. Labelle, did you say that the general proposal was that there should be a writing down to such an extent that would enable the Canadian National Railway to show a return on its earnings?

Mr. LABELLE: That is the Duff report.

Hon. Mr. EULER: A writing down in the Duff report is recommended, is it not?

Mr. LABELLE: Yes.

The CHAIRMAN: To such a point as would enable the Canadian National to show a return out of its earnings?

Mr. LABELLE: That is the way I read it.

Sir EUGÈNE Fiset: Don't you think, in justice to the Prime Minister, in view of the fact that extracts have been read from the letter, and deductions are being made from that letter that are not justified, that it would be better to have the letter put on the record now? I think it would be.

Hon. Mr. MANION: I have no objection.

Hon. Mr. EULER: The chairman of the board made a distinct statement in reply to myself that the Prime Minister was opposed to any recapitalization, any writing down.

Hon. Mr. MANION: I do not deny Mr. Fullerton's statement.

Hon. Mr. EULER: I think it would be better to let the letter speak for itself, but at the same time I do not want to ask anything that should not properly be given.

Hon. Mr. MANION: The attitude I am taking in regard to the letter is this: I do not think the Prime Minister should be hauled into this matter at all in his absence. That is my feeling about it. It must not be forgotten the trustees are not under the control of the Prime Minister or under my control. The trustees can make any report they like in regard to recapitalization irrespective of the wishes or desires of the Prime Minister or myself, if they wish to do so. There was nothing to prevent them from making a report, and there should be no hiding behind the skirts of the prime minister.

Hon. Mr. FULLERTON: Personally, I could not see what earthly use there was for us to work over a report and present it, if the government were opposed to it.

Hon. Mr. MANION: You did not come to any decision on making a report. One of your own trustees says you did not come to a unanimous conclusion; therefore you could not have made a report.

Hon. Mr. FULLERTON: We did not; but the resolution was up once before, and this letter came in afterwards, and I made up my mind it was useless to bother further with it.

Hon. Mr. EULER: You were quite justified, too.

Mr. GRAY: There is not much use in repeating it, but I should like to say this, that what will happen in years to come is the very thing that Mr. Euler is asking in his resolution, namely, Mr. Chairman and Mr. Minister, definitely to place on record a mandatory order, if one may call it such, for the trustees to consider and report. Now, you see, Mr. Minister, what position we are in. I think you are quite favourable; I feel from what you have said you are favourable that this matter should be considered and reported on, but you are just leaving it, unless, as I said before when I started to ask my question—

Hon. Mr. MANION: As a matter of fact, Mr. Gray, my amendment to Mr. Euler's motion was to the effect that the deputy ministers of Railways, Finance and Justice should deal with this question and report to this committee. Had it not been for the statement of the Prime Minister, and had I insisted that the matter should not be dealt with by the trustees but by the committee of deputees I think I could have got the support of the party to my side of the question to carry my motion, which would have been another method of bringing the report back to this committee. It was only a question of a difference of opinion between Mr. Euler and myself as to how it should be done.

Mr. GRAY: Don't you see now how useless it would be to send it to a committee of three deputy ministers who, after all, must, if they are to be deputy ministers and proper deputy ministers, follow along the lines that the government is thinking, and after what has been shown here, it is clearly the opinion of the Prime Minister, at least, that there should be no rewriting down of the capitalization. It would be useless to send the Touche report to three deputy ministers as a committee, no matter how well qualified they are, and I quite appreciate all three are men of high standing in the civil service.

Hon. Mr. MANION: May I state that that statement has been made in a previous argument regarding this matter. Whether the deputy ministers resent this or not, I resent it on behalf of the deputy ministers, because I know of no

civil servants in any country in the world who are of a higher class of civil servants than the various deputy ministers, the ones with whom I have come in contact. I do not think it is doing justice to the deputy ministers concerned to suggest that because of their positions in the civil service they would not be able to come to a just and fair conclusion in the matter.

Hon. Mr. EULER: The minister has brought this up himself. I just want to add a few words on what you say about the trustees, which you will find on page 171 of the Minutes of Evidence:—

On the other hand, the trustees are the managers, and without reflecting on them in any way, they are prejudiced witnesses when it comes to putting such a question in their hands.

Now, the trustees have not protested that, but I do protest on their behalf. After all, they are the appointees of the government, and I would think they would have the confidence of the government. They were placed in charge of a \$2,000,000,000 business, and now the minister says before the committee and before the country—he said at the time, because I read his exact words—that they are prejudiced, and again these are my own words, it seems to me that the minister pretty nearly owes the trustees an apology when he states they are prejudiced witnesses when they suggest a recapitalization of a business they were charged with administering.

Hon. Mr. MANION: If I did anything wrong, I should not hesitate to apologize. When I do anything that I think is wrong I never hesitate to apologize. I repeat exactly the words, so far as I can remember them, that these trustees are prejudiced witnesses in regard to a matter of this kind. I say that to-day, and I do not say it offensively. My hon. friend would not have brought that up to-day to the extent he has except that he wants to make a little political capital out of it.

Hon. Mr. EULER: You cannot charge me with that.

Hon. Mr. MANION: I have known my hon. friend for a long time and he plays politics as hard as anybody else. I made no reflection on anybody and I make none now. All I have to do is to call my friend Mr. Labelle, for whom I have the utmost friendship and respect, to prove my statement. Let me explain just exactly what my statement was. I am not taking a word of it back. I certainly have no reflection to make on the trustees. Mr. Labelle a moment ago argued that he thought the recapitalization should come down precisely to an earning basis, if I synopsise his words correctly. I do not think that would be a fair method of recapitalizing the Canadian National. If you put it on an earning basis you would put the capitalization of the Canadian National at nothing at all. You would put their resources, their investment as having no value, because they are making nothing on the investment to-day; so if you put it on earning capacity you would simply say that there should be no capitalization at all; no bonded indebtedness of the Canadian National Railways. Why did Mr. Labelle say that? Mr. Labelle said that because he is interested in making the best showing that he can for the Canadian National. That is all to his credit, not to his discredit; but it proves that he is a prejudiced witness because he would like to recapitalize the Canadian National to such an extent that it would have no bonded indebtedness to pay at all.

Hon. Mr. EULER: I suppose the trustees can speak for themselves. My answer to you would be this: the trustees may be wrong, any man may be wrong, but to charge them with prejudice is an entirely different thing.

Hon. Mr. MANION: There is nothing offensive in saying that a man is a prejudiced man.

Mr. MACMILLAN: That is drawing a herring over the trail.

Hon. Mr. MANION: I would be glad to have the trustees make any comments. I have not noticed that the trustees are very hesitant to make comments.

I would be very glad to have them make comments, but I want the same liberty myself, of course.

Mr. MACMILLAN: I would like to ask a few questions.

Hon. Mr. EULER: I would like to ask the chairman of the board whether he regards himself or any of his colleagues as prejudiced in a matter of this kind. Oh, never mind—

Hon. Mr. FULLERTON: I would not say anything about prejudiced witnesses. Naturally we want to get the capital down as far as we can.

Hon. Mr. MANION: That proves my statement.

Hon. Mr. FULLERTON: I know perfectly well we cannot go beyond what we propose, but I think half a loaf is better than no bread. That is why I was in favour of it. To say you are going to cut down to an earning basis, you cannot do it. No parliament would attempt to assume any of the public liabilities, the public indebtedness owing to the bondholders; at least, I would not expect any parliament to do it.

Hon. Mr. EULER: I can understand that there would be a difference of opinion, but I do not like to think that these men who are placed in charge of this business are prejudiced. However, let it go.

Mr. MACMILLAN: I have a number of questions I would like to have answered. I have them all typed out. I find it very difficult to get clear in my mind as to the total of the capital structure of the Canadian National railways at the present moment. I have asked these questions having in view enlightenment for myself. They have been answered several times in different ways, but with the permission of the committee I ask the committee to incorporate my questions into the record.

The CHAIRMAN: Are these questions which you want to ask the trustees?

Mr. MACMILLAN: Yes. Mr. Fairweather will give me the answers. I know I cannot get the answers to-day. On the fourth day of April I asked certain questions in regard to the purchase of some branch line railways. When the committee rose just before the adjournment Mr. Hungerford was good enough to give me the answers, but they were not placed upon the record, and I would like to have these answers placed upon the record by the officers of the road. It will satisfy me to have these questions recorded. They are simple questions. (For answers see appendix "A" hereto.)

Sir EUGÈNE FISER: If the questions are recorded, I suppose the answers will also be recorded.

Mr. MACMILLAN: Of course. I want the whole thing.

The CHAIRMAN: Do you suggest that these questions should be answered offhand?

Mr. MACMILLAN: No. They cannot be answered offhand.

The CHAIRMAN: Would the committee like to hear the questions? I will read them:—

1. On what dates were Canadian Northern railway system; Grand Trunk Pacific railway system, and Grand Trunk railway system taken over by the Dominion government?

2. What was the profit and loss deficit or surplus of each of such systems on the date it was so taken over?

3. On what date were the Canadian government railways entrusted to the Canadian Northern railway company for management and operation?

4. What was the profit and loss deficit or surplus of the Canadian government railways on the date referred to in question 3?

5. What was the profit and loss deficit or surplus of the Canadian National railways as at December 31, 1922? If available, please show this separately

for each of the systems mentioned in question 1 and the Canadian government railways.

6. What was the profit and loss deficit or surplus of the Canadian National railways as at December 31, 1934?

7. What amounts did the Dominion government advance?

(a) For cash deficits of eastern lines for the years 1927 to 1934, inclusive?

(b) For cash deficits of the remainder of the Canadian National railway system for the years 1932 to 1934, inclusive?

8. Are the amounts referred to in question 7 included in the amount set out in answer to question 6? If not, should they not be included in order to obtain an amount properly comparable to the amounts given in answer to questions 2 and 4?

9. The report of the auditors on the accounts of the Canadian National railway system dated March 22, 1935, sets out on page 23 an amount of \$38,358,332 made up of interest items not recorded in the Canadian National accounts—

Should the whole or any part of this amount be added to the amount set out in answer to question 6 in order to obtain an amount properly comparable with the amounts given in answer to questions 2 and 4?

10. Are there any other amounts which should be added to the amount set out in answer to question 6 in order to obtain an amount properly comparable with the amounts given in answer to questions 2 and 4? If so, please give particulars.

11. The annual report of the Canadian National railways for the year 1934 shows the long term debt owing to the public, loans from the Dominion of Canada with interest thereon and expenditures for Canadian government railways as aggregated \$2,782,677,478—

Does this amount include the amounts advanced as referred to in question 7 and the other amounts referred to in question 10?

Do you want to have these answers sent to you?

Mr. MACMILLAN: I would like to have them recorded in the proceedings. The minutes of this meeting will not be printed for a day or two, and I suppose these answers could be readily got out by the officers of the road. I think they have been given before.

Hon. Mr. FULLERTON: Do you wish us to send them to you?

Mr. MACMILLAN: Is the committee closing its proceedings to-day?

The CHAIRMAN: I hope so.

Mr. MACMILLAN: If you are closing up to-day, I should like to have these answers forwarded to the chairman of the committee and have them placed on record.

Mr. HEAPS: How long would it take to have the answers got ready?

Hon. Mr. FULLERTON: To-morrow. Most of them can be answered without difficulty.

(For Answers see Appendix "B" hereto.)

The CHAIRMAN: Did you make any comments on this letter from the Security Owners Association? It is too long to read.

Hon. Mr. EULER: I move we adjourn, Mr. Chairman.

Mr. STEWART: I would like to ask one question. Here is the annual report, and on page 14 I find the system's net loss is \$89,662,352 for 1934, and last year it was \$97,651,956. Now, on page 5 we are informed that we have saved about \$10,547,488 between 1934 and 1933. I get it that we have saved the

difference of about \$7,989,603. In our net loss there is less net loss in 1934 of \$7,989,603 than there was in 1933. I want to know if that is correct. That loss in 1933 amounted to \$1,878,000 a week and in 1934 to \$1,725,000 a week. You took down our loss \$150,000 a week between the years 1933 and 1934. That is the way I make it according to page 14 of this report. There is a difference as far as I can see, of nearly \$2,000,000 between the savings which you claim to have made and the saving which actually occurred.

Mr. COOPER: You are speaking of two different things: one is what we call cash deficit and the other is a bookkeeping deficit. Our cash deficit as you said is shown on page 3 at the beginning of the report. Cash deficit for 1934 is \$48,400,000 as compared with \$58,955,000 for the previous year, the decrease of ten and a half million dollars. That is a decrease in the cash deficit and is correct. Now, when you come to what we call the book deficit we have charged up there a great many items that are merely bookkeeping entries. For instance, we have interest due the government, an item of something like \$39,900,000 due the government. With accrued depreciation in our accounts, that is a bookkeeping item of \$800,000. We charge income with discount on bonds. Again that is not a cash item; and while all these entries are set up in the first place they are afterwards eliminated in arriving at the cash deficit, which reduces the amount we have to go to the government for.

Mr. STEWART: The difference is the government assumes the responsibility of paying the loans on the money they have advanced and you keep it as a bookkeeping entry. Do I understand it that way?

Mr. COOPER: Yes.

Mr. STEWART: It goes into the consolidated debt of Canada.

Mr. COOPER: The amount of the cash deficit, yes; the balance of the bookkeeping deficit is carried forward on the railway books. That represents this huge figure of some \$785,000,000.

Hon. Mr. EULER: That is already absorbed in the national debt of the country.

Mr. TUMMON: I would like to ask some questions in connection with the appointment of the medical officers in certain places such as Belleville. How are they appointed? Whom do they represent?

Hon. Mr. FULLERTON: It depends on the organization. In some cases they are elected by the men. That is true in the majority of cases in Ontario.

Mr. TUMMON: Under what organization? Do the men have a separate organization?

Mr. FAIRWEATHER: In the Grand Trunk days it was a company-sponsored organization. I think it is called the Grand Trunk Employees' Sickness Insurance Provident Fund which is sponsored by contributions from the men and it is run on democratic lines. The men have their own board of management. The company makes a small contribution toward the cost of management, a very small contribution, and that is all the company's interest in it is. All of the doctors who are engaged by that society are engaged by the board of management which in turn is elected by the men.

Mr. TUMMON: They are engaged by the board of management of the railway?

Mr. FAIRWEATHER: The board of management of that fund,—the board of management is elected by the men.

The CHAIRMAN: Sick benefits and so on.

Mr. FAIRWEATHER: It is a sick benefit society. It runs a mutual insurance scheme, and it also pays in case of accident.

The CHAIRMAN: And each branch appoints its medical officer?

Mr. FAIRWEATHER: Yes. They have a board consisting—I think there are forty or fifty members on the board—and then, of course, they have an organization of section chairmen and things of that character.

Mr. TUMMON: Is that appointment subject at all to the approval of the board of management of the railway?

Mr. FAIRWEATHER: Only in this sense that the medical department of the railway naturally advises the Provident Fund board as to the qualifications of the doctors; that is to say they would say whether a man is a competent doctor. That is all. The men pick their own doctors.

Mr. TUMMON: But the medical officer of the railway has the final say?

Mr. FAIRWEATHER: Oh, no. He advises. That is entirely different from picking.

Hon. Mr. MANION: I suppose he practically never overrules the men?

Mr. LABELLE: That is right.

Mr. FAIRWEATHER: He never has.

Mr. TUMMON: Does the medical officer get a pass on the railway?

Mr. FAIRWEATHER: The medical officers of this society? I could not say as to that detail.

Mr. LABELLE: They have passes in their own territory.

Hon. Mr. FULLERTON: They have passes in their own territory—the region in which they are appointed.

The CHAIRMAN: So that they can attend cases.

Hon. Mr. FULLERTON: Yes.

Mr. TUMMON: I would like to know if that is the fact because we have information that they do not get passes.

Hon. Mr. FULLERTON: Oh, yes, they do.

Mr. LABELLE: I do not know, but I thought the board of railway commissioners intervened in that matter.

Hon. Mr. FULLERTON: Oh, no. In the old days the doctors had passes not only in their own districts but in many cases over the system. The board of railway commissioners cut that down and said, “now, you can have passes in your own district,” and I think they give them one pass a year to any particular point they may want to go on the system. That is my recollection. I am not clear about it, but I think that is correct.

Mr. TUMMON: Is that Board of management about which you were speaking a moment ago one which covers the whole system or is it a local board?

Mr. FAIRWEATHER: I explained that this was a society of the old Grand Trunk Railway.

Mr. TUMMON: Yes.

Mr. FAIRWEATHER: And it applies to the former Grand Trunk lines; that is, the lines which were previously Grand Trunk; but does not apply, for instance, in western Canada.

Mr. TUMMON: And is that Board of management about which you were speaking which appoints that doctor, representative of all the different points connected with the society or is there a local board in each place?

Mr. FAIRWEATHER: As I understand it they have what really amounts to both; they have a general board that meets from time to time, and they also

have section chairmen, local district chairmen, who report to the board. They have no authority, all authority is vested in the board of management of the Provident Fund. But for the purposes of administration the section chairmen would act.

Hon. Mr. MANION: When you say, board of management, you mean the board of management of the men.

Mr. FAIRWEATHER: Oh yes, the board the men elected.

Hon. Mr. MANION: I don't want it to get crossed with the Board of Management of the railways.

Mr. TUMMON: Have you any figures to show what contribution the railway makes to that board annually?

Mr. FAIRWEATHER: I think our contribution amounts to \$15,000 a year, the whole thing I think.

Mr. TUMMON: It makes no difference whether the doctor who has been acting is in his usual practice or not, he still holds the position does he?

Mr. FAIRWEATHER: The thing in regard to that, as I say, is that the men themselves determine the doctor.

The CHAIRMAN: Now, Mr. Gray?

Mr. GRAY: Mr. Chairman, I want to say this, in view of the fact that earlier in the day I asked whether or not Mr. Morrow would be present, and we were informed on the opening of this committee that he would not be here certainly until late to-night; I just want to say this that I think it is a matter of regret to the committee, certainly to myself, that Mr. Morrow has not been present up to this time. I did propose to ask a number of questions of the trustees if they were present as a body. There are some that I would like to ask, but I do not propose to ask them because it is not fair that the two of the trustees who are here should take the responsibility for the three. At the opening of the sitting I asked if Mr. Morrow would be present and as I recall it I was informed that he was not then in the country; but later on when he had returned I had anticipated that Mr. Morrow would be present and sit in as a member of the Board of Trustees. At the time the recess was called it was hardly expected that our sittings would only last for one day, or that he would not be present or I certainly would have asked this committee to have Mr. Morrow present. While he may have a perfectly legitimate excuse for being absent, I repeat that I think it would have been quite fitting if Mr. Morrow had seen fit to have been present during the various sittings of this committee.

Mr. TUMMON: Mr. Chairman, I am not altogether satisfied in the matter that I brought up, and I am going to be plain. The doctor whom I have reference to is the Honourable Dr. Faulkner, Minister of Public Health in the Province of Ontario, and he still holds it to-day I believe. I do not think it is fair either to the other doctors of the city, especially in a time of unemployment, that he should continue to hold that position in connection with the railways.

Mr. GRAY: He has a pass anyway, Mr. Tummon.

Mr. TUMMON: He has a pass anyway.

Mr. MACMILLAN: He can't practise his profession and hold that position.

Mr. TUMMON: He is in Toronto all the time.

The CHAIRMAN: Is there anything further? That is what you wanted, Mr. Tummon?

Mr. TUMMON: That is a matter which I think the management should take into consideration.

Sir EUGÈNE Fiset: The management has nothing whatever to do with it.

Hon. Mr. FULLERTON: I do not think we have anything to do with it.

Mr. LABELLE: He is appointed by the local authorities.

Mr. TUMMON: He must meet with the approval of the medical officer of the railway; also, the Canadian National is contributing a certain amount of money toward that fund annually, and that being so I do not see why there is any reason that he should continue.

The CHAIRMAN: You will bear that in mind.

Hon. Mr. FULLERTON: We will look into that.

The CHAIRMAN: We will adjourn, to meet at the call of the Chair.

The committee adjourned at 5.27 p.m. this day, to meet again at the call of the Chair.

APPENDIX A

QUESTIONS ASKED BY MR. F. R. MACMILLAN—APRIL 4TH, 1935 AND ANSWERS THERETO

QUESTIONS		NAME: Quebec Oriental Railway, Quebec & Atlantic, Quebec & Western Ry.	Inverness Railway.	Kent Northern Rly.	Quebec, Montreal & Southern Ry.	St. John & Quebec Railway.
		LOCATION: Matapedia to Gaspe.	Inverness Jct. to Inverness.	Kent Junction to Richibucto.	St. Lambert to Sorel and Fortierville with Branch to Noyan.	Centreville to Westfield Beach.
1.	The names and location of six branch lines taken over by the Railway Company in 1929					
2.	The following information with respect to each Branch.					
1.	The length in Miles.....	202.25	60.79	26.49	190.47	157.86
2.	The amount paid.....	\$3,500,000.00	\$375,000.00	\$60,000.00	\$5,920,361.51	\$6,000,000.00
3.	The amount required to rehabilitate the Railway.	\$757,129.00	\$361,513.00	\$75,317.00	\$791,961.00	\$131,448.00
4.	The amount of the Bonded and other indebtedness on each.	C.N.R. purchased the physical assets for cash.	C.N.R. purchased the physical assets for cash.	C.N.R. purchased the physical assets for cash.	C.N.R. purchased the physical assets for cash.	\$6,000,000
5.	What portion, if any, of the bonds were guaranteed by the Provincial Governments.					\$3,272,023
6.	Were any of these lines owned by Provincial Governments, and if so, which.	No.	No.	No.	No.	Yes.
7.	The operating surplus or deficit on each of said lines in each year since they were acquired.	1929 95,495	43,481	9,631	23,214	141,080
		1930 471,546	115,773	42,714	43,209	316,466
		1931 521,567	99,911	23,987	241,098	217,580
		1932 430,830	73,186	26,042	191,333	126,220
		1933 367,584	77,507	27,404	150,789	118,398
		1934 433,471	65,456	27,418	180,574	134,866
		2,320,493	\$475,314	\$157,196	\$830,217	\$1,054,610
8.	The interest charges on each line in each year whether by way of interest or bonded indebtedness or on money used to purchase or rehabilitate the Railways.	1929 102,083	10,304	1,000	135,676	92,738
		1930 178,834	25,285	4,441	306,555	278,697
		1931 194,890	29,892	6,268	327,490	279,183
		1932 199,379	33,412	6,575	338,232	279,253
		1933 203,435	34,505	6,660	335,480	279,333
		1934 206,897	35,228	6,758	335,020	279,470
		\$1,085,518	\$168,626	\$31,702	\$1,778,453	\$1,488,674

9. The total profit or loss with respect of each	1929	197,578	53,785	10,631	158,890	233,818
Railway in each year, including interest,	1930	650,380	141,058	47,155	349,764	595,163
depreciation and other proper charges.	1931	716,457	129,803	30,255	568,588	496,763
	1932	630,209	106,598	32,617	529,565	405,473
	1933	571,019	112,012	34,064	486,269	397,731
	1934	640,368	100,684	34,176	515,594	414,336
		\$3,406,011	\$643,940	\$188,898	\$2,608,670	\$2,543,284

NOTE AS TO ANSWERS 7 AND 9:—No figures are available to show the amount of earnings accruing to the System at large arising from traffic originating at or destined to points on the lines in question. The figures shown as relating to the line are approximations based on pro rates, and because the earnings on the balance of the System are not available, the statement does not show the net System result.

APPENDIX "B"

QUESTIONS ASKED MAY 28TH BY MR. MACMILLAN, M.P., AND ANSWERS THERETO

1. *Question:* On what dates were Canadian Northern Railway System, Grand Trunk Pacific Railway System, and Grand Trunk Railway System taken over by the Dominion Government?
- Answer:* Canadian Northern Railway System October 1, 1917
Grand Trunk Pacific Railway System March 9, 1919
Grand Trunk Railway System May 21, 1920
2. *Question:* What was the Profit and Loss Deficit or Surplus of each of such Systems on the date it was so taken over?
- Answer:* Canadian Northern Railway System *\$ 2,086,568.08 Deficit
Grand Trunk Pacific Railway System 22,897,595.62 Deficit
Grand Trunk Railway System 1,166,499.57 Surplus
* Does not include Land Surplus Account credit of \$37,030,668.39.
3. *Question:* On what date were the Canadian Government Railways entrusted to the Canadian Northern Railway Company for management and operation?
- Answer:* Canadian Government Railways were entrusted to Canadian Northern Railway for management and operation by Order in Council P.C. 2854—November 20, 1918.
4. *Question:* What was the Profit and Loss Deficit or Surplus of the Canadian Government Railways on the date referred to in Question 3?
- Answer:* Absorbed in Consolidated Revenue Fund.
5. *Question:* What was the Profit and Loss Deficit or Surplus of the Canadian National Railways as at December 31, 1922? If available, please show this separately for each of the Systems mentioned in Question 1 and the Canadian Government Railways.
- Answer:* Canadian Northern Railway System . . . \$120,346,777.37 Deficit
Grand Trunk Pacific Railway System 76,636,809.59 Deficit
Grand Trunk Railway System 25,945,844.99 Deficit
Canadian Government Railways 12,022,469.52 Deficit
6. *Question:* What was the Profit and Loss Deficit or Surplus of the Canadian National Railways as at December 31, 1934?
- Answer:* \$789,040,675.42 Deficit.
7. *Question:* What amounts did the Dominion Government advance:—
- (a) For cash deficits of Eastern Lines for the years 1927 to 1934, inclusive?
- (b) For cash deficits of the remainder of the Canadian National Railway System for the years 1932 to 1934, inclusive?
- Answer:* Eastern Lines \$ 46,007,202.68
Remainder of Can. Nat. Rly. System 148,276,305.68
8. *Question:* Are the amounts referred to in Question 7 included in the amount set out in answer to Question 6? If not, should they not be included in order to obtain an amount properly comparable to the amounts given in answer to Questions 2 and 4?
- Answer:* The amounts referred to in Question 7 are not included in the amount set out in answer to Question 6. The amount set out in answer to Question 6 is according to the certified accounts.

9. *Question:* The Report of the Auditors on the accounts of the Canadian National Railway System dated March 22, 1935, sets out on page 23 an amount of \$38,358,332 made up of interest items not recorded in the Canadian National Accounts.

Should the whole or any part of this amount be added to the amount set out in answer to Question 6 in order to obtain an amount properly comparable with the amounts given in answer to Questions 2 and 4?

Answer: The amount set out in answer to question 6 is according to the certified accounts.

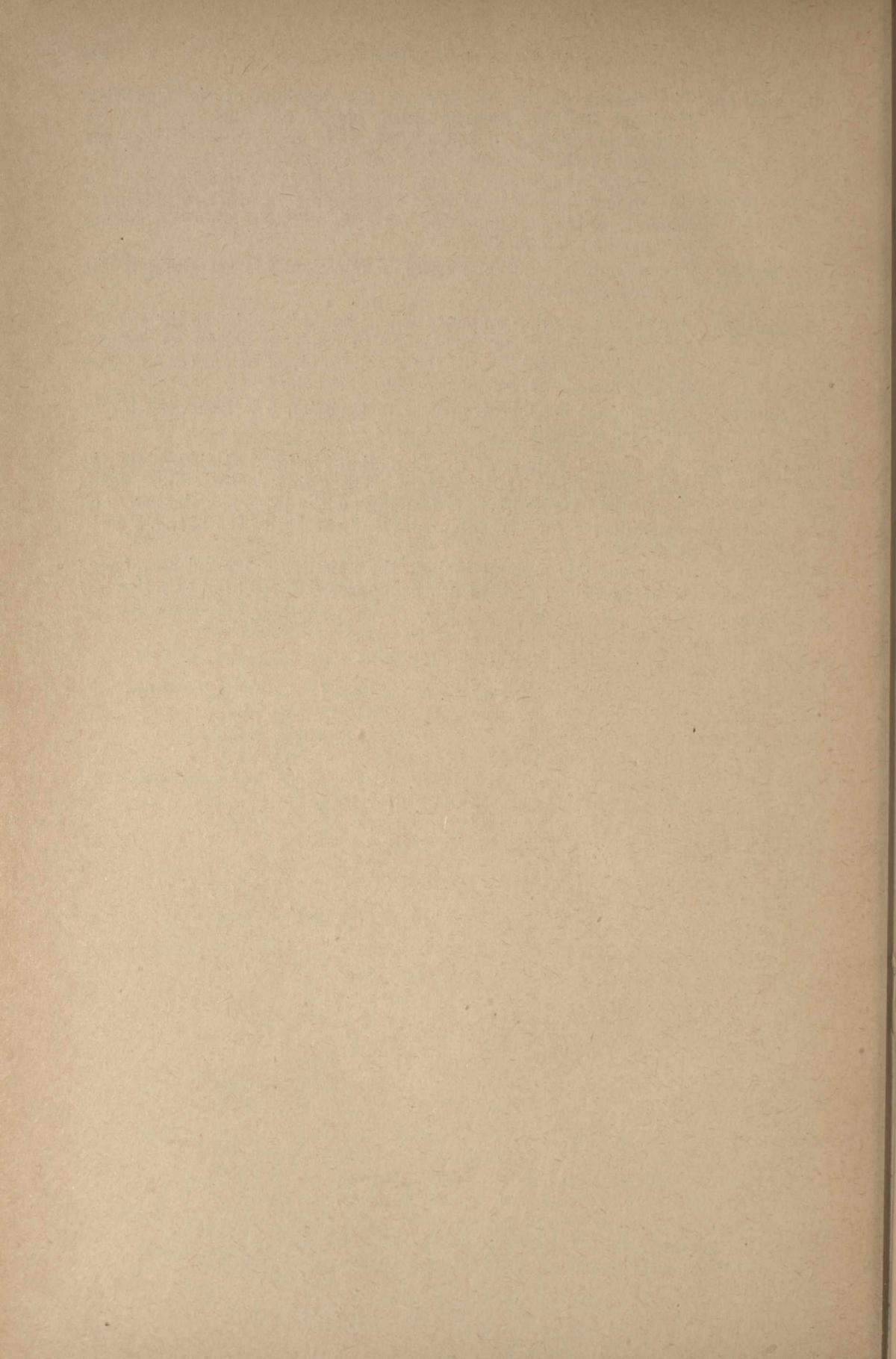
10. *Question:* Are there any other amounts which should be added to the amount set out in answer to Question 6 in order to obtain an amount properly comparable with the amounts given in answer to Questions 2 and 4? If so, please give particulars.

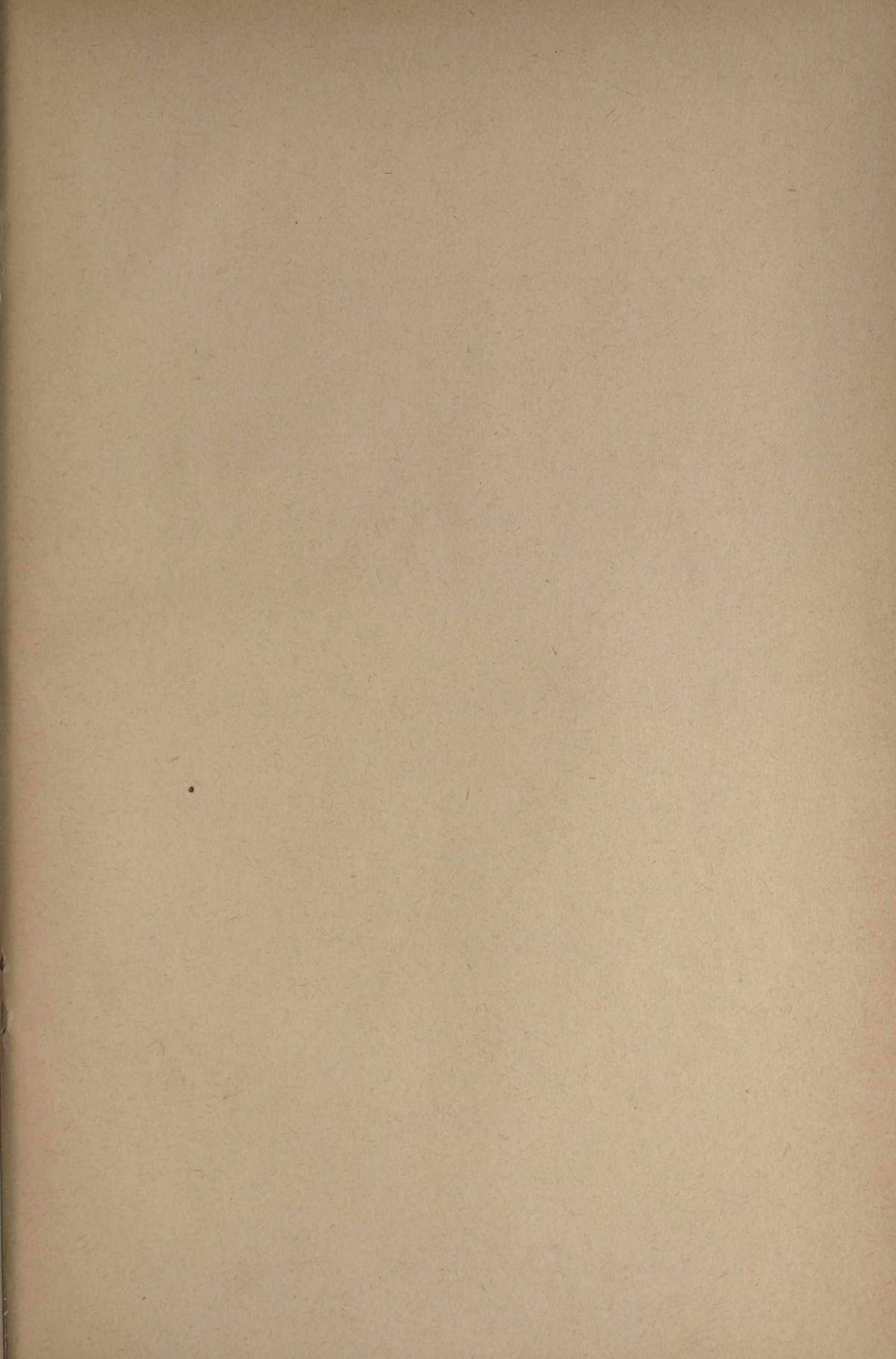
Answer: The amount set out in answer to Question 6 is according to the certified accounts.

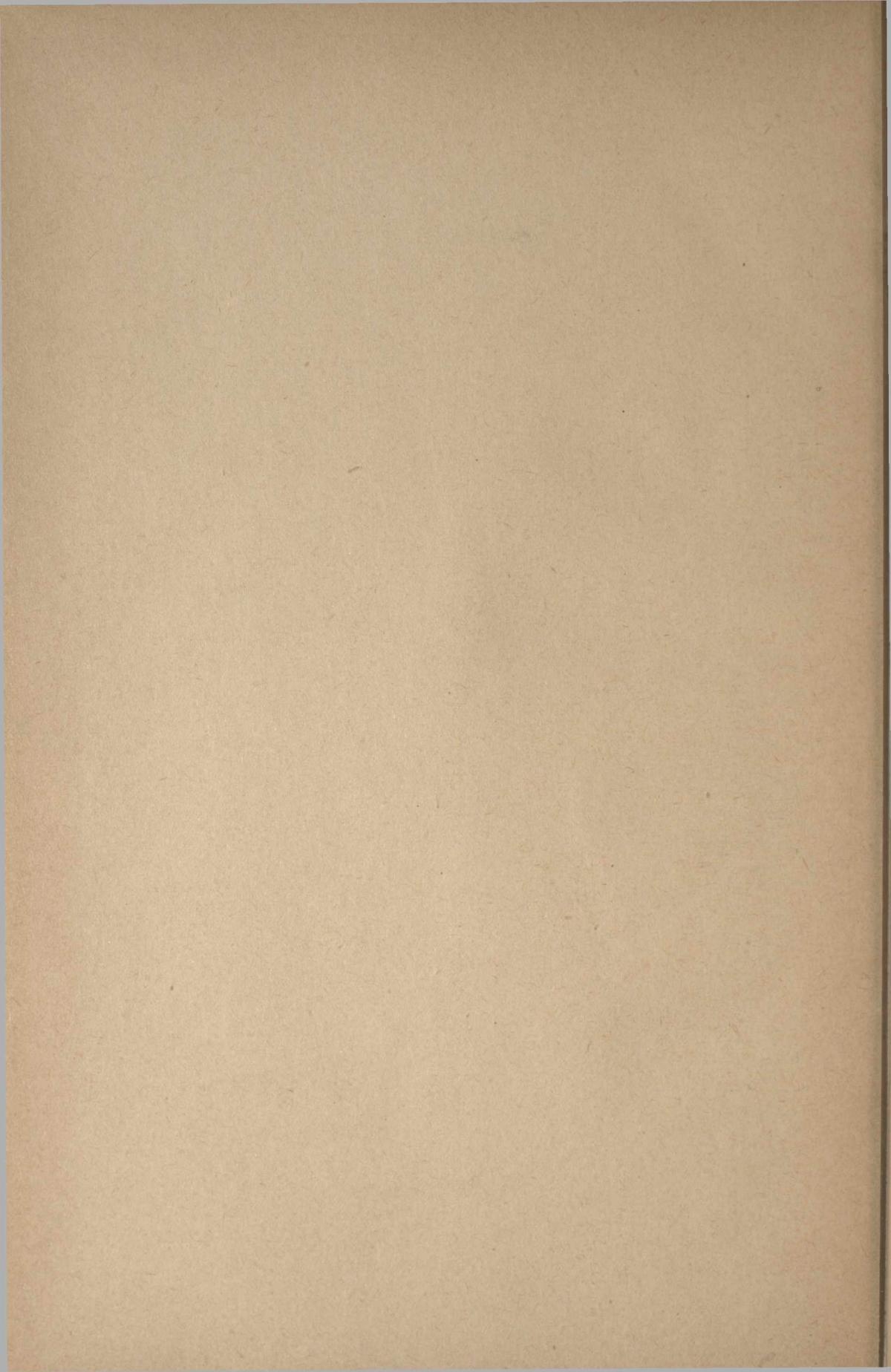
11. *Question:* The Annual Report of the Canadian National Railways for the year 1934 shows the long term debt owing to the public, loans from the Dominion of Canada with interest thereon and expenditures for Canadian Government Railways as aggregated \$2,782,677,478.

Does this amount include the amounts advanced as referred to in Question 7 and the other amounts referred to in Question 10?

Answer: No.







SESSION 1935

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

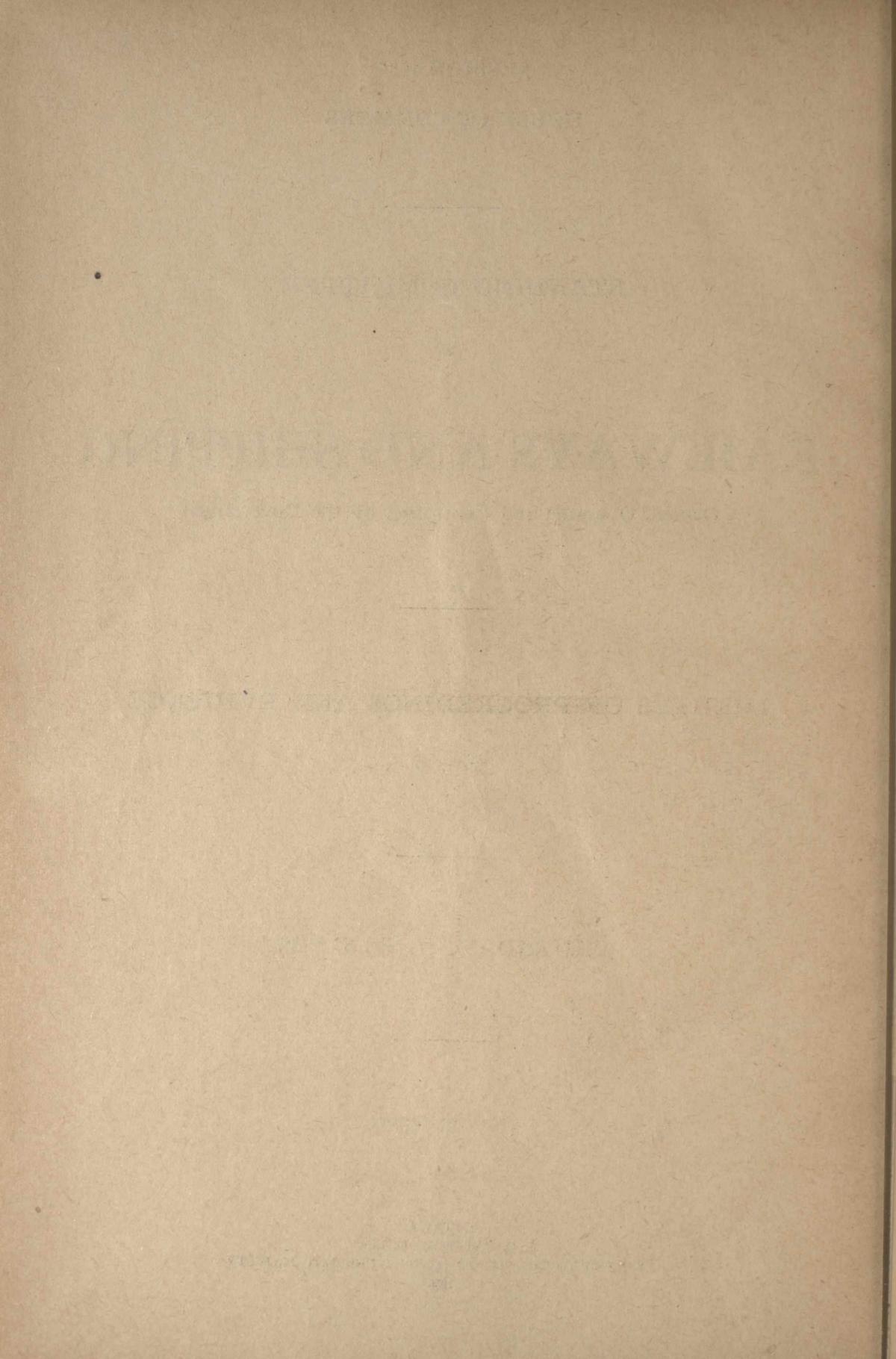
MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

THURSDAY, JUNE 6, 1935

Fourth Report.

OTTAWA
J. O. PATENAUDE, I.S.O.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1935



MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

THURSDAY, June 6, 1935.

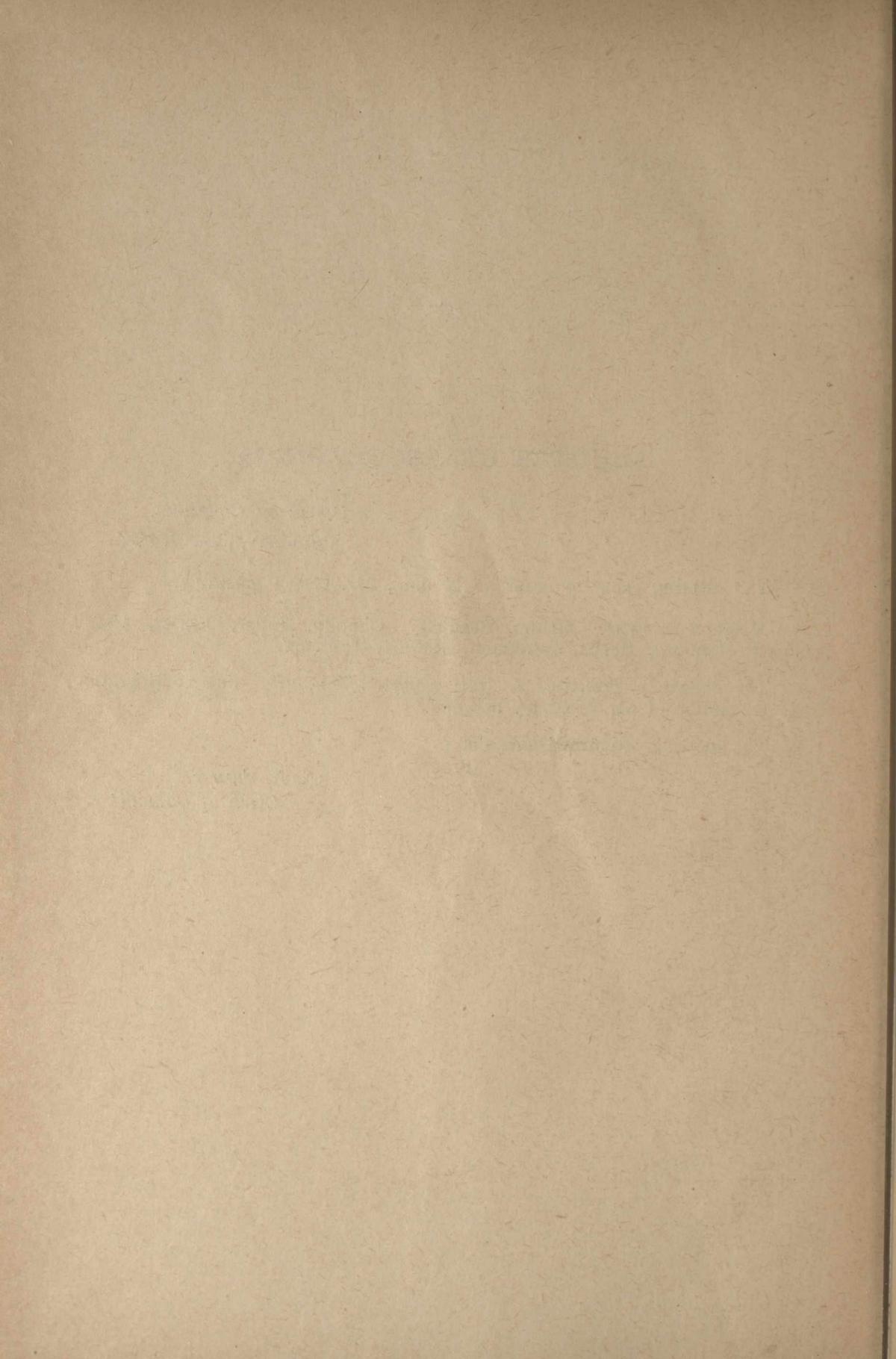
The meeting came to order at 11 a.m., Mr. Geary presiding.

Members present: Messrs. Beaubien, Chaplin, Euler, Fraser, Geary, Gobeil, Hanbury, Heaps, Speakman, Stewart, Tummon.

The chairman presented a draft report which, after due consideration, was on motion of Mr. Hanbury adopted.

The meeting adjourned sine die.

A. A. FRASER,
Clerk of Committee.



FOURTH REPORT

HOUSE OF COMMONS,

THURSDAY, June 6, 1935.

Your Committee, in accordance with Order of Reference, March 4, 1935, has considered the Annual Reports respecting the accounts of the Canadian National Railways and the Canadian Government Merchant Marine, and, in connection therewith has examined the following witnesses:—

Honourable C. P. Fullerton, K.C.,
Chairman, Board of Trustees,
Canadian National Railways;

Mr. J. E. Labelle, K.C.,
Trustee,
Canadian National Railways;

Mr. S. J. Hungerford,
President,
Canadian National Railways;

Mr. S. W. Fairweather,
Director, Bureau of Economics,
Canadian National Railways;

Mr. T. H. Cooper,
Auditor of General Accounts,
Canadian National Railways;

Mr. B. J. Roberts,
Comptroller,
Government Guarantee Branch,
Department of Finance;

Mr. O. A. Matthews,
George A. Touche & Company,
Accountants and Auditors.

Your Committee had under consideration Bill Number 24, an Act respecting the Canadian National Railways and to authorize the provision of moneys to meet expenditures made and indebtedness incurred during the calendar year 1935, and in its second report presented on the 9th of April, 1935, reported the said Bill without amendment. A full explanation of this Bill was given in the House of Commons by the Minister of Railways and Canals.

Your Committee had under consideration Items Number 293, 294, 295, 296 and 297. (Canadian National Steamships and Maritime Freight Rates Act) Estimates of the fiscal year 1935-1936, approved the same and recommended them to the House in its Third Report, dated the 10th of April, 1935.

The Budget for the year 1935 of Canadian National Railways and Canadian National Steamships estimates totals Operating Revenues for the year at \$180,000,000 and Operating Expenses at \$163,200,000. In addition to Operating Expenses there are sundry other items charged against Operating Revenues including interest on funded debt due to the public amounting to \$62,600,000, showing an estimated deficit on the year's operations of \$45,000,000. Of this amount, however, \$1,020,000 depreciation reserve and \$780,000 amortization of discount on funded debt, or \$1,800,000 in all, are not required in cash; so that the estimated net cash requirement on deficit account for the year is \$44,000,000.

The total capital expenditures for the year, estimated as follows:—

For Additions and Betterments	\$5,279,600
For Investments and Securities representing Capital Expenditures	220,400
	<hr/>
Total of	\$5,500,000

call for no special comment beyond the fact that under the item of "Hotels" some \$600,000 is provided for opening the Saskatoon Hotel, and \$300,000 to continue the construction of the Vancouver Hotel.

All of which is respectfully submitted.

Chairman.

