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Comm.on Railways and Shipping
Owned, Operated and Controlled by
the Government, 1947/48.

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SESSION 1948

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

FRIDAY, APRIL 16, 1948

MONDAY, APRIL 19, 1948

CANADIAN NATIONAL RAILWAYS ANNUAL REPORT (1947)

WITNESSES:

Mr. R. C. Vaughan, C.M.G., Chairman and President, Canadian National Railways;

Mr. N. B. Walton, C.B.E., Executive Vice-President, Canadian National Railways;

Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948

ORDERS OF REFERENCE

WEDNESDAY, April 14, 1948.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time, and that notwithstanding Standing Order 65, in relation to the limitation of the number of Members, the said Committee consist of Messrs. Bourget, Chevrier, Clark, Emmerson, Fulton, Gibson (*Comox-Alberni*), Hatfield, Hazen, Hlynka, Jackman, LaCroix, Lafontaine, Lockhart, Maybank, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Picard, Pouliot, Reid and Warren.

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, April 15, 1948.

Ordered,—That the Report to Parliament of George A. Touche & Company, Auditors of the Canadian National Railway System, for the year ended December 31, 1947, tabled this day, be referred to the said Committee.

Ordered,—That the Annual Reports for 1947 of the Canadian National Railway System, the Canadian National (West Indies) Steamships Limited, and the Canadian National Railways Securities Trust, tabled on April 12, 1948, and the budget of the Canadian National Railways and Canadian National (West Indies) Steamships Limited for 1948, tabled on April 14, 1948, be referred to the said Committee, together with the following estimates for 1948-49:

Vote 502—Maritime Freight Rates Act, Canadian National Railways;

Vote 503—Maritime Freight Rates Act, Railways other than Canadian National;

Vote 557—Prince Edward Island Car Ferry and Terminals, Deficit 1948; and that the said Votes be withdrawn from the Committee of Supply to which they were referred on March 9, 1948.

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, April 16, 1948.

Ordered,—That the said Committee be given authority to print from day to day 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 is suspended in relation thereto.

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

Ordered,—That the said Committee be empowered to reduce its quorum from 12 to 8 members, and that Section 3 of Standing Order 65 be suspended in relation thereto.

Attest

R. T. GRAHAM,
Deputy Clerk of the House.

REPORT TO THE HOUSE

FRIDAY, April 16, 1948.

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

FIRST REPORT

Your Committee recommends:

1. That it be given authority to print from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto;

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

3. That it be empowered to reduce its quorum from 12 to 8 members, and that Section 3 of Standing Order 65 be suspended in relation thereto.

All of which is respectfully submitted.

H. B. McCULLOCH,
Vice-Chairman.

Nota.—Concurred in this day.

MINUTES OF PROCEEDINGS

House of Commons,

Friday, April 16, 1948.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 10.30 o'clock.

Members present: Messrs. Bourget, Chevrier, Clark, Emmerson, Hlynka, Jackman, Lafontaine, McCulloch (*Pictou*), McLure, Moore, Mutch and Warren.

The Clerk invited nominations for the position of Chairman.

On motion of Mr. McCulloch, seconded by Mr. Emmerson, Mr. S. M. Clark was elected chairman.

Mr. Clark thanked the members of the Committee for his election which he deemed an honour.

On motion of Mr. Emmerson, seconded by Mr. Lafontaine, Mr. McCulloch (*Pictou*) was elected Vice-Chairman.

The Committee proceeded to discuss its procedure. A suggestion to increase the number of copies of its printed evidence was left in abeyance.

On motion of Mr. Lafontaine,

Resolved,—That the Committee ask leave to print 500 copies in English and 200 copies in French of it minutes of proceedings and evidence.

On motion of Mr. Warren,

Resolved,—That the Committee be empowered to sit while the House is sitting.

On motion of Mr. Hlynka,

Resolved,—That the House be asked to reduce the quorum from 12 to 8 members.

It was agreed to hold two meeting on Monday next at 11 and 4 o'clock to consider the annual report of the Canadian National Railways (1947) on which occasion the officials will be heard.

Two meetings were also tentatively set for the following Tuesday.

The chairman reminded the members that all relevant reports will have been distributed by Monday next.

At 10.30 o'clock, the Committee adjourned until Monday, April 19, at 11 o'clock in Room 429.

MONDAY, April 19, 1948.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 o'clock. The Chairman, Mr. S. M. Clark, presided.

Members present: Messrs. Chevrier, Clark, Emmerson, Fulton, Gibson (*Comox-Alberni*), Hlynka, Jackman, Lafontaine, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson and Reid.

In Attendance:

From the *Canadian National Railways*: Messrs. R. C. Vaughan, C.M.G., President; N. B. Walton, C.B.E., Executive and Vice-President; T. H. Cooper, Vice-President and Comptroller; S. H. May, Assistant and Comptroller; N. J. McMillan, General Counsel, Law Department; W. S. Thompson, C.B.E. Director, Public Relations, Publicity and Advertising.

From the *Department of Transport*: Mr. J. C. Lessard, Deputy Minister; Mr. F. T. Collins, Secretary; Mr. W. A. Thorton, Railway Auditor; Mr. N. C. Allen, Administrative Assistant.

The Chairman welcomed Mr. Vaughan and his officials and the committee began the consideration of the annual report (1947) of the Canadian National Railways.

Mr. R. C. Vaughan was called, heard and examined.

He was assisted by Messrs. Cooper and Walton.

At 1 o'clock, the Committee adjourned until 4 o'clock this day.

AFTERNOON SESSION

The Committee resumed at 4 o'clock. Mr. S. M. Clark, chairman, presided.

Members present: Messrs. Chevrier, Clark, Emmerson, Gibson (*Comox-Alberni*), Hazen, Hlynka, Jackman, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson and Reid.

In Attendance: Same officials as listed at the morning session. Also Mr. G. B. Isnor, M.P.

The Committee resumed its consideration of the annual report (1947) of the Canadian National Railways.

Messrs. Walton and Cooper gave information requested at the morning sitting. respecting car mile per car day and maintenance of the Chateau Laurier.

Mr. R. C. Vaughan was recalled and further examined.

At 6 o'clock, the Committee adjourned until eleven a.m. Tuesday, April 20.

ANTONIO PLOUFFE,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons,

April 19, 1948.

The Sessional Committee on Railways and Shipping met this day at 11 a.m. The Chairman, Mr. S. M. Clark, presided.

The Chairman: Gentlemen, we have a quorum. First of all I should like to welcome Mr. Vaughan and his officials here on behalf of the committee. I know we are always pleased to have them here. Whether it is an ordeal for them I cannot say; but we are pleased to have them back with us again.

Probably we should follow the procedure of the past and have Mr. Vaughan make a few remarks and read his report; following that we will have some discussion generally before going into the financial statements. I will ask Mr. Vaughan to take over now.

Mr. R. C. Vaughan, C.M.G. (President, Canadian National Railways): Thank you, Mr. Chairman. We are glad to be here again and we will do our best to give the members of the committee all the information that they desire. I shall now proceed with the annual report.

Montreal, March 10, 1948.

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

Sir: The following report is submitted of the operations of the Canadian National Railways for the calendar year 1947.

The magnitude of the work carried on year after year for the people of Canada by the System, in all its branches, and its importance as a primary factor in the national economy, were again demonstrated in 1947, when the Railway handled the heaviest volume of peacetime traffic in its history. The number of tons of freight carried, 86,221,279 tons, was nearly double the tonnage of 1939 and was even greater than that of any of the busiest years of the war.

This vast work was accomplished in spite of the handicaps caused by the continent-wide shortage of car equipment and was made possible by close attention to operating performance and by the co-operation of shippers. Maximum loading requirements introduced during the war were continued. Gross and net train loadings, the average carload and freight car miles per day were improved as compared with 1946 or any year before the war.

The business of the Canadian National Express and the Canadian National Telegraphs was greater than in any other year. The Company's twelve hotels continued to be operated at high levels of patronage.

The Company's property was maintained according to safety standards and some progress was made in carrying out repairs and renewals to equipment which had been deferred because of shortages of labour and materials. There is still, however, a backlog of deferred maintenance.

The following is a summary of the financial returns. The full income statement appears on the opposite page.

	1947	1946
Operating revenues	$438,197,980.00	$400,586,025.89
Operating expenses	397,122,607.00	357,236,718.29
Net operating revenue	$ 41,075,373.00	$ 43,349,307.60
Taxes, equipment rents, and other income accounts	13,136,222.82	7,629,780.68
Available for payment of interest	$ 27,939,150.18	$ 35,719,526.92
Interest on bonds held by the public	23,821,909.61	23,358,514.18

That is to say we have paid all the interest on the bonds held by the public.

Available for payment of government interest	$ 4,117,240.57	$12,361,012.74
Government interest	20,002,434.85	21,322,583.23
Deficit	*$15,885,194.28*	*$ 8,961,570.49*

Gross Revenues for 1947 were $438,197,980. This amount was only a fraction below the revenues of 1943 and 1944, when wartime traffic was at its peak.

Passenger Revenues amounted to $43,017,690, a decrease of $7,110,533 as compared with 1946 and of $26,758,567 as compared with the wartime peak, but an increase of $25,200,570 over 1939. While there was a reduction in passenger traffic as a whole in 1947, holiday travel increased. The Railway did its part in promoting the tourist industry and took full advantage of every opportunity to procure its full share of this increasing business.

Freight Revenues amounted to $342,582,003, an increase of $42,268,804 over 1946 and of $17,682,280 over the wartime peak year.

Approximately $21,000,000 in freight revenue resulted from orders of the Interstate Commerce Commission affecting the United States lines of the System, followed by related increases in Canada authorized by the Board of Transport Commissioners in respect of international traffic and competitive import and export traffic through Canadian ports. As a temporary measure, the Interstate Commerce Commission granted two increases effective July 1, 1946; one of 6 per cent and the other of 5 per cent. These were cancelled and superseded by a 25 per cent increase as from January 1, 1947. As of October 13, an interim increase of 10 per cent over the rates established in January was authorized. An additional interim increase of 10 per cent was authorized to take effect on January 5, 1948. As these two interim increases are imposed on the previous 25 per cent in combination they are equal to a second 25 per cent increase over the rates in effect before July, 1946, making a 50 per cent increase in all. Applications by the United States carriers for still further increases are now under investigation by the Interstate Commerce Commission. It will be understood that the percentages referred to are nominal. On some commodities lower increases were granted, the increase applied to all freight averaging 39·1 per cent.

In the same way the so-called 30 per cent increase asked for in Canada would average 20 per cent if applied to all freight;—

> I may say, incidentally, that this co-called 21 per cent only amounts to 13½ per cent over-all.

—so it will be seen that the application which the Board of Transport Commissioners now has before it from Canadian railroads is for an increase amounting to only half of that already granted to United States railroads.

Hearings on the application by the Railway Association of Canada on behalf of all Canadian railways for an increase in freight rates proceeded throughout the year to December 17, since when the case has been under review by the Board of Transport Commissioners.

> This report, of course, was prepared before the board rendered its decision.

During the progress of the hearings and following the modification of price control regulations, the Board disallowed a special application seeking authority to increase certain competitive rates in advance of decision on the main application. It is the view of the directors that the Railway should be compensated by increases in rates over and above any now to be granted, to the extent that costs of wages and materials have advanced beyond the levels prevailing at the time of filing the current application.

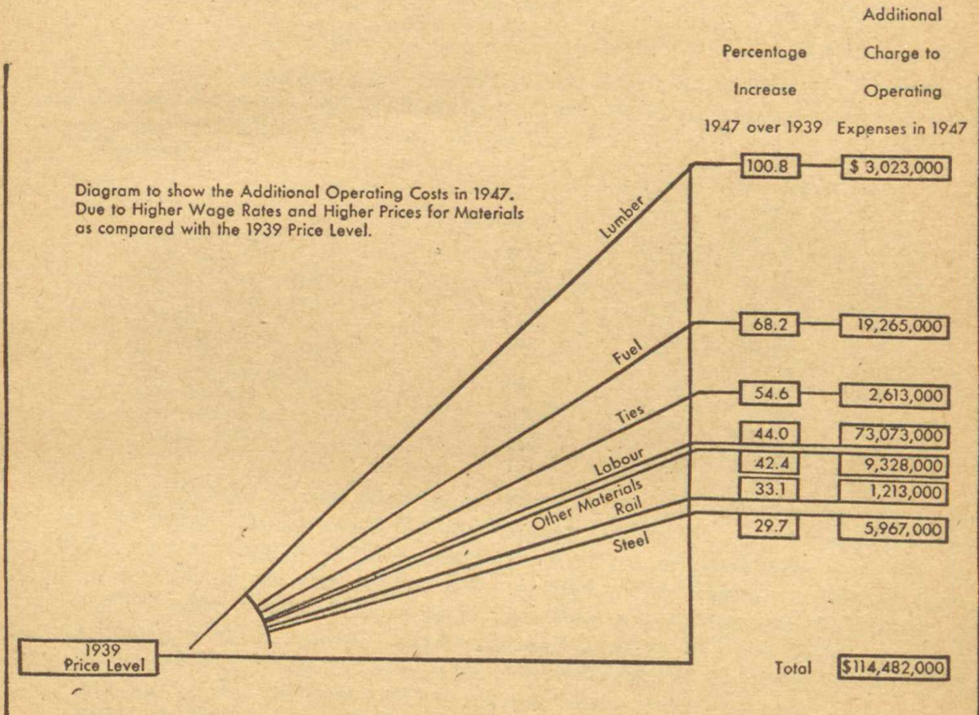

Diagram to show the Additional Operating Costs in 1947. Due to Higher Wage Rates and Higher Prices for Materials as compared with the 1939 Price Level.

It is inevitable that with increased business there should be increased expense, but what the railways find burdensome are the increased costs not related to additional traffic but brought about solely by increased wage rates and increased prices for material. For the Canadian National Railways these additional operating costs due to higher wage rates and higher prices for materials, 1947 over 1939, amounted to $114·5 millions, of which $73·1 millions was for labour and $41·4 millions for material.

It will be informative to show in more detail the increased costs which have taken place.

Labour

1947 Number of hours worked	251,110,294	
Average hourly rate	$0.952	
Labour charged to operating expenses		$239,057,000
1939 Number of hours worked	170,187,536	
Average hourly rate	$0.661	
Hours worked in 1947 at the 1939 average rate		165,984,000
Increase		$ 73,073,000—44·02%

The average compensation per employee in 1947 was $2,382.31. In 1939 it was $1,566.05. Since the beginning of the war, therefore, the average compensation has increased by $816.26 per annum per employee.

Materials

	Unit	December 1939 price	December 1947 price	Per cent increase
Ties, softwood	each	$0.59	$ 1.35	128.8
Ties, hardwood	each	0.72	1.45	101·4
Rail	gross ton	47.52	71.37	50·2
Axles, freight car	cwt.	4.21	5.67	34·7
Couplers	each	70.47	110.81	57·2
Steel castings	cwt.	11.07	18.79	69·7
Steel plates, firebox	cwt.	3.10	4.54	46·5
Tires, locomotive	cwt.	5.83	8.86	52·0
Car decking	mfbm	29.00	68.50	136·2
Car sheathing	mfbm	33.00	117.00	254·5
Bridge timber	mfbm	18.00	62.00	244·4
Coal	ton	4.09	7.50	83·4

The significance of an increase of $3.41 a ton for locomotive coal may perhaps be better realized when it is stated that the Railway used 6,872,000 tons in 1947. The average cost throughout the year for all materials used by the Railway was 50·65 per cent higher than in 1939. Apart from the impact these higher prices have on the costs of operation, they necessitate an enlargement of the Railway's working capital. Materials and supplies on hand at the year-end were valued at $62,945,537 as compared with $28,040,296 at December 31, 1939. Some portion of this increase reflects the increased traffic volume.

Operating Expenses in 1947 totalled $397,122,607. The usual provision was made for depreciation on rolling stock, the charge for the year being $16,920,929. Pension costs were $10,502,481. Eight million dollars was taken from Deferred Maintenance Reserve and credited to expenses. The amount remaining in this reserve at the end of the year was $25 millions.

Employees numbered 108,440 and their payroll for the year was $258,337,684. Current applications for wage increases and changes in rules in Canada alone would, if granted, add about $92,000,000 to the operating expenses of the Canadian National Railways. These applications have been declined and are now before boards of conciliation.

Operating Performance. Operating statistics all indicate a year of intense activity. Freight trains operated over 44 million miles and the tonnage movement exceeded 35,880 million net ton miles. Passenger trains operated 23⅓ million miles. Detailed statistical information is given on page 27 of this report.

Net Operating Revenue (revenues less expenses) was $41,075,373. In 1940, with $190 million less revenue, the Railway earned $4 million more net.

Taxes. The provision made in the accounts for taxes increased $2,765,075, mainly attributable to a settlement of claims by the cities of Halifax and Saint John, resumption of provincial taxes in Ontario and Quebec on the expiration of the wartime agreement with the Federal Government, and United States retirement and unemployment taxes, which were assessed at a higher rate on an increased payroll.

Hire of Freight Cars increased $2,604,486, attributable to heavier traffic, severe weather in the early part of the year, and an increase in the per diem rate from $1.15 to $1.50.

Hotel Operating Profit at $1,290,719 was $188,637 better than in 1946, due principally to the increased rates for rooms and meals, and capacity business at Jasper Park Lodge.

Interest on Bonds held by the public increased $463,395 and Government interest decreased $1,320,149, the net change being mainly due to refinancing at lower interest rates during the past two years.

The Net Income Deficit for the year was $15,885,194.

Capital Expenditures

The capital expenditures during the year, other than for new equipment, amounted to $11,257,154, details of which are given on page 19.

The new line of railway in Quebec from Barraute northerly towards Kiask Falls is about one-half completed and this section should be sufficiently completed for traffic by December 1, 1948.

The construction of the International Aviation Building above track level adjoining the Montreal Central Station is proceeding according to plan. The site has been cleared, the excavation in rock for the foundation columns is approaching completion, the steelwork, now being erected, should be completed by May 1948, and the contract for the building itself has been let. Work is proceeding on the construction of steam-heating plant to serve the Central Station and the Aviation Building, with provision for the future requirements of the whole development in this area.

The capital expenditures on new equipment delivered in 1947 amounted to $11,806,427 and included 25 diesel electric locomotives, 6 steam locomotives, 1,503 freight cars and 2 coaches. At the end of the year there remained to be delivered 28 coaches, 10 baggage cars and 10 mail and express cars, being the balance of the 1946 program; 23 diesel electric locomotives, 4,296 freight cars, and 50 express refrigerator cars, being the balance of the 1947 program.

FINANCE

The capital debt of the railway increased $23,369,826 during the year, details of which are given on page 21. In brief, the increase was to finance the 1946 capital budget and to provide Trans-Canada Air Lines with $18 million additional capital.

GENERAL

The new car ferry *Abegweit* built at Sorel for the service across Northumberland Strait between Borden, P.E.I., and Cape Tormentine, N.B., was taken over for operation on August 11. This vessel, the heaviest ever constructed in Canada, is believed to be the world's largest and most powerful ice-breaking car ferry. She is a quadruple screw motorship, powered by sixteen diesel engines operating two propellers at the stern and two at the bow, and has a service speed of approximately 16 knots. With a gross tonnage of 6,694 tons, the *Abegweit* has a carrying capacity of 19 railway cars, 60 automobiles and 950 passengers, as against the 16 railway cars, 41 automobiles and 800 passengers carried by the ss. *Charlottetown* which she replaces.

A contract was entered into with Yarrows Limited, of Esquimalt, B.C., for the construction of a twin-screw passenger and cargo vessel to replace the former ss. *Prince George,* destroyed by fire. The new vessel being built to accommodate 294 first class and 28 second class passengers, will have a cargo capacity of 400 tons and is designed to carry automobiles. Three hundred and fifty feet in length, with a speed of 18 knots, the vessel's gross registered tonnage is 5,700. Launched on October 6, 1947, the vessel was named after its predecessor, the *Prince George.* The main engines (oil-burning) and boilers were installed late in November and the fitting-out period has progressed satisfactorily. It is anticipated that the vessel will be available for service in the early summer, operating from Vancouver to Skagway, Alaska, in summer and to Ketchikan, Alaska, in winter. The *Prince George* is the largest vessel of its type ever constructed on the British Columbia coast.

In 1947 the Canadian National Express handled 20,548,605 shipments, an increase of 1,610,898 or 8·51 per cent over 1946. This was the largest number handled in any year.

Nearly 13,000,000 messages were transmitted by Canadian National Telegraphs, the largest number on record. Business in other services, such as radio programme networks and private leased wires, continued at a high level.

On September 18, the centenary of the Montreal and Lachine Rail Road, now a part of the Canadian National System, was celebrated in the two cities it has linked since 1847. The ceremonies, in which representatives of the Dominion and Provincial Governments, the municipalities of Montreal and Lachine and the Canadian Railroad Historical Association took part, included the unveiling of a bronze plaque in Bonaventure Station by His Excellency The Governor General and of a commemorative cairn at Lachine by a representative of the Premier of Quebec.

Under the terms of the tri-party agreement between the Canadian National, Canadian Pacific and Northern Alberta Railways, dated June 28, 1946, the Canadian National abandoned 12·21 miles of line between Trelle Junction and Morinville, in the province of Alberta, and began joint use of 20·24 miles of the Northern Alberta Railways line between N.A.R. Junction and Morinville on September 1, 1947.

The Research and Development Department continued its investigations of mineral areas, with particular attention to new mining developments. New projects undertaken included surveys of forest and fisheries resources. Studies of industrial localities were continued and an important aspect of the year's work was related to the reoccupation and adaptation to industrial use of wartime plants and structures.

Approximately 73,000 immigrants entered Canada during the year as independent settlers having resources enabling them to become established as workers in the primary industries, or as relatives nominated by Canadians. The Railway's Department of Colonization and Agriculture assisted in the movement and is organized to play an even greater part as immigration grows with the availability of shipping space.

Attention is once more directed to the lack of equality of competitive conditions as between rail and highway transport.

The directors express their appreciation of the loyalty and devotion to duty of the officers and employees throughout the System during the year.

There is a note at the bottom which says:

The results of 1947 operations of Trans-Canada Air Lines in both domestic and overseas services are contained in a separate report to Parliament as required by The Trans-Canada Air Lines Act, 1937.

That, gentlemen, is the narrative concerning the report.

The CHAIRMAN: Gentlemen, do you wish to start on page 4 and discuss the consolidated income account? Shall we take the report page by page? The result of 1947 operations is found on page 4. Are there any questions with regard to that?

Mr. NICHOLSON: Mr. Chairman, in connection with the item found at the bottom of the page, "Interest on government loans, $20,002,434.85," I wonder if the president could make a statement regarding the progress which has been made in persuading the government to give some relief in connection with capital charges?

Mr. VAUGHAN: All I can say about that is that I think the matter is still under consideration. Probably Mr. Chevrier could tell you something about that.

Hon. Mr. CHEVRIER: I could not add much more than I said in the House the other evening. The question of income bonds has not been up for study since—I think you asked the question at the last hearing—other than in a general way. The question of recapitalization is one which deserves serious consideration and Mr. Nicholson should have an idea of the reception it would have in the House of Commons following the debate of the other evening. There is certainly not unanimity on the question. Of course, what did delay any further serious consideration of either income bonds or capitalization was the freight rates investigation, and until that has been completed it was thought that no further consideration could be given to either of these two items.

Mr. NICHOLSON: When the matter was up in 1946—I am looking at the proceedings on page 27—the president was asked by Mr. Jackman as to what sort of adjustment would be necessary to give us a satisfactory position with respect to the Canadian Pacific and first-class railways in the United States, and the president said, "We would say that we should have a proper set-up, one which would make our fixed charges not more than 25 per cent of what they are today."

Do I understand that if we had that sort of set-up we would not have had any deficit at all last year; that the deficit of about $15,000,000 would not have existed if we had the sort of set-up that you think would be fair?

Mr. VAUGHAN: We still think our interest charges are entirely too high. If you look at the C.P.R. annual report you will find interest charges $15,000,000; ours come to nearly $44,000,000. It is a big handicap for us to begin with. However, there are a lot of matters which no doubt have to be considered in connection with the adjustment.

Mr. NICHOLSON: If your interest charges were a quarter of what they were last year there would not have been any deficit?

Mr. VAUGHAN: Oh, no, we paid all the interest charges; $24,000,000—due on securities in the hands of the public and we paid $4,000,000 of the government interest.

Mr. NICHOLSON: In addition to pressing for increased freight rates would it be one of the responsibilities of the board of directors to press the government for a more satisfactory adjustment?

Hon. Mr. CHEVRIER: I can say that they have been pressing.

Mr. VAUGHAN: We have not been backward in that respect.

Hon. Mr. CHEVRIER: If Mr. Nicholson and Mr. Jackman could agree on this thing, perhaps the government could give consideration to bringing something down in the House.

Mr. JACKMAN: It is so difficult to know where the government stands.

Hon. Mr. CHEVRIER: You agree and you will find out where we stand.

Mr. FULTON: Is there any statement available to the members of the committee, in respect to the matter which has just been mentioned?

Hon. Mr. CHEVRIER: Mr. Vaughan, I believe, made a submission in 1947. I think it is available.

Mr. FULTON: Could you refer us to that?

Hon. Mr. CHEVRIER: If you will look at the 1946 proceedings, you will find, in the minutes of evidence, practically all that is required.

Mr. REID: Is there an estimate of what the actual saving would be?

Hon. Mr. CHEVRIER: If the income bonds were accepted in lieu of the notes, I think it was estimated the saving would be about $12,000,000.

Mr. COOPER: In 1947, it would be $13,700,000.

Mr. HLYNKA: Would you have figures showing the operating loss or profit of the C.N.R. east of Fort William and also west of Fort William for the past year?

Mr. VAUGHAN: We could file a statement showing that.

Mr. HLYNKA: That is one of the contentious points. I should also like to ask for an explanation of the statement made by the president concerning the 21 per cent increase. It has been stated there was only an over-all increase of 13½ per cent.

Mr. VAUGHAN: That is correct.

Mr. HLYNKA: Would you explain that?

Mr. VAUGHAN: It is due to the fact there are so many exempted commodities. There was no increase granted on grain, domestic or export, from western Canada. This forms quite a large proportion of the business of both railways. Then, on coal, there is a specific increase of 25 cents which is, of course, a very small percentage of the coal rate. After all these exemptions and specific rates are taken into account, the over-all increase on all the traffic we handle is only 13½ per cent.

Mr. JACKMAN: The fact there is no increase on grain is understandable, but why was there such a small increase on coal? What is the philosophy behind that?

Mr. VAUGHAN: That is the increase which was granted by the Board of Transport Commissioners. They thought it was fair, having regard to all the circumstances.

Mr. JACKMAN: It bore heavily on the cost of living, is that the reason?

Mr. VAUGHAN: I could not say as to that. I believe the board spent a great deal of time in preparing its judgment. I do not know how many people will read it.

Hon. Mr. CHEVRIER: I think the answer to your question is that the railways did not apply for a greater increase.

Mr. VAUGHAN: The application we made was for 25 cents a ton because we felt that was all we should apply for, since the United States railways had made a similar application.

Mr. MUTCH: I think the president has said that the increase is an over-all increase in freight revenue of 13 per cent. However, the fact remains that there is a minimum increase of 21 per cent imposed on the commodities which are not exempt?

Mr. VAUGHAN: Yes, that is a correct statement.

Mr. REID: I notice that the passenger revenue is 9.8 per cent as compared with the 78 per cent from freight. I was wondering what the comparison would be as to expenditures on freight and passenger service?

Mr. VAUGHAN: That question, Mr. Reid, has been raised at different times. As you know, the railroads contended before the Board of Transport Commissioners that those charges could not be accurately separated. The railways did make an attempt to do it and I think some figures were given to the Board of Transport Commissioners, but they were not much more than guesses.

Mr. REID: What I have in in mind is this; we meet here every year and, according to this balance sheet, we will have to meet deficits every year. I know it is expensive to keep these trains running and they are up against stiff competition from cars, from automobiles and aeroplanes. I am just wondering whether the time has not come when we should have a clear picture as to what it is costing to keep passenger trains and freight trains running. It seems to me that freight is carrying the burden. I may be wrong. I believe the deficit comes largely from the passenger operations and that you are loading that on to the freight. We should have a clear picture of that.

Mr. VAUGHAN: I think it is true, Mr. Reid, that taking the over-all passenger picture into account we probably lose money in the operation of passenger trains. On some trains we are making money, and on others we are losing money. We do not think we are running any surplus passenger trains.

Mr. REID: It is for that reason I think the freight should be hauled into British Columbia over your line and the passenger traffic should be routed over the Canadian Pacific. There is this difference in the grades.

Mr. FULTON: What about the areas which are not served by the Canadian Pacific?

Mr. REID: We will have to make an agreement on that. Why should we be penalized because the Canadian Pacific took the wrong grade. It is for that reason there is no mountain differential on the Canadian National. I am taking a stand on it. I say the passengers should be carried by the Canadian Pacific and the freight should be hauled by the Canadian National.

Mr. NICHOLSON: I understand that the Canadian Pacific over the years, has given a breakdown showing the revenue from freight in the different regions?

Mr. VAUGHAN: The only time figures were given, so far as I am aware, was before the Board of Transport Commissioners. An attempt was made at the request of the board and the opposing counsel, to make a separation. Those figures were given to the board. I do not remember the figures, but they will be in the evidence.

Mr. NICHOLSON: Have you your figures available, that is for the Canadian National?

Mr. VAUGHAN: Mr. Cooper has not got them here, but we will get them for you.

Mr. NICHOLSON: In connection with this item on government loans, what rate of interest is paid?

Mr. COOPER: It averages 2·9 per cent.

Mr. VAUGHAN: Some rates are higher than others. For instance, on these vested securities, that is the securities vested in England during the war and brought out here, we pay 3½ per cent. Those are the securities for which we suggested income bonds should be taken.

Mr. COOPER: You will find all that information set out on page 19 of the report.

Mr. NICHOLSON: I understand the late Senator McGeer was very critical of the fact the Government charged its own public utility such a heavy interest rate. What negotiations have you had with a view to getting a lower rate?

Mr. VAUGHAN: We have been co-operating right along with the government and they have been adjusting these rates from time to time. The rate is now approximately 3 per cent which is considerably lower than it was at one time. We take that matter up continually with the Department of Finance, asking them to meet our views in connection with it.

Mr. NICHOLSON: What defence did you have in reply to Senator McGeer? What defence was offered by the government for such a large item each year in your balance sheet?

Hon. Mr. CHEVRIER: If you wanted to go into that question thoroughly. you would have to call the officials from the Department of Finance and ascertain why they insist on those payments.

Mr. VAUGHAN: Returning to those repatriated securities, as I understand it, the ruling from the Department of Justice says that the government could not accept income bonds except by an act of parliament, nor could the interest rate be reduced without an act of parliament.

Mr. NICHOLSON: How about Mr. Cooper, does he think these interest rates are fair in the light of present interest charges?

Mr. COOPER: On the repatriated securities, the rate is 3½ per cent. First of all, we do not think there should be any fixed interest rate. For the last three or four years, 3½ per cent has been in excess of the going rate.

Mr. NICHOLSON: You have made representations to the government?

Mr. COOPER: Yes, and we were told it would need an act of parliament to change the situation.

Mr. NICHOLSON: Acts of parliament are going through quite frequently. What is the trouble getting an act of parliament?

Hon. Mr. CHEVRIER: I answered that question a moment ago. I told you the government was of the opinion that, so long as the freight rates investigation was pending, it should not proceed to deal with this question; that is the answer.

Mr. FULTON: Mr. Chairman, I am afraid I am getting confused. I cannot reconcile the interest rate shown here on loans from the Dominion of Canada with the total shown in the Canadian National Railways Security Trust, where there are outstanding a large proportion of 6 per cent dominion notes. Are those loans advanced from time to time by the government, those dominion notes?

Mr. COOPER: All the securities which are held by the dominion government through the Security Trust are collateral securities. They do not carry a present fixed charge against the railway. They are only collateral securities for the loans which were transferred to the Security Trust in 1937. We are not paying interest on them.

Mr. FULTON: You are not paying 6 per cent interest on them?

Mr. COOPER: No. The loans on which we pay interest are those amounts set out on page 19, which amount to $689,000,000. The interest in 1947 was $20,000,000, and the average interest rate was 2·9 per cent. The securities which are held by the Security Trust are a different set of securities altogether. They represent old loans for deficits and for interest which were written off, so far as the railway is concerned, in 1937. They were transferred to the Security Trust. They are held there inactive, for certain reasons, but they are not currently an obligation of the railway system nor do they carry interest chargeable against the railway system.

The CHAIRMAN: Are there any further questions in connection with page 4?

Mr. MCLURE: There is a question in connection with the passenger revenue of $43,000,000. Is there a tax on all passenger rates at the present time, a government tax?

Mr. VAUGHAN: Yes, there is a tax. I do not recall what it is, but there is a tax which the purchaser has to pay. I believe it is 15 per cent.

Mr. MCLURE: Would that be included in this figure?

Mr. VAUGHAN: No, sir.

Mr. COOPER: That is revenue to the government, not revenue to the railway.

Mr. McLure: If the government was to remove that tax, but leave it for the benefit of the railway's passenger operation, what would it amount to, $7,000,000? Does the tax amount to about $7,000,000 now?

Mr. Cooper: Taking 15 per cent of $43,000,000, it would be something less than $7,000,000.

Mr. McLure: It is not included in the figure?

Mr. Cooper: No.

Mr. McLure: What about sleeping car and parlour car revenues?

Mr. Cooper: The breakdown of revenue is given in further detail on page 15. Sleeping car revenue is $3,176,000; parlour and chair car revenue amounts to $303,000. The $43,000,000 is for passenger fares. It does not include sleeping car or dining car revenue. It is not passenger train revenue, it is passenger fare revenue.

Mr. McLure: On that, there is a tax of approximately $7,000,000.

Mr. Cooper: If the tax were removed it might stimulate passenger traffic a little from which the railway would receive benefit.

Mr. Jackman: You did not ask for an increase in passenger rates at this recent inquiry?

Mr. Vaughan: No, sir, we have not asked for any increase.

Mr. Jackman: Why did you not ask for an increase which would, at least, be commensurate with the 15 per cent tax which the government is collecting? It would seem the traffic would stand that rate?

Mr. Vaughan: We thought we would deal with one thing at a time. We have had enough difficulty with the freight rates.

Mr. McLure: All you would have to ask would be for the government not to charge the tax but let you charge it and retain it as revenue for your passenger operations?

Mr. Vaughan: It is a tax assessed by the government. If the public did not have to pay it, we would not get the benefit of it.

Mr. Mutch: What is the difference between doing that and paying $7,000,000 as a deficit? It comes out of the same pocket.

Mr. Jackman: How much would you estimate the tax to be in round figures?

Mr. Cooper: On passenger fares, about $7,000,000.

Mr. Jackman: And on sleeping cars, the total tax?

Mr. Cooper: It would seem to be somewhere between $1,000,000 and $8,000,000.

Mr. Jackman: Are there other taxes on shipping which enter into our calculations? There is the sales tax which enters into all costs, of course?

Mr. Vaughan: Yes, it does. This is the only direct tax on passenger fares?

Mr. Jackman: Is there a tax on T.C.A.?

Mr. Cooper: There is a tax on domestic T.C.A. transportation. I doubt whether there is a tax on the overseas traffic.

Hon. Mr. Chevrier: The tax applies also on motor buses and so forth, all transportation.

Mr. Jackman: Returning to this increase on coal, is this 25 cents a ton all the railroads have received since they last received an increase?

Mr. Vaughan: No, I think they have received more than that. I think their first request was for 25 cents a ton. They have had subsequent increases since.

Mr. JACKMAN: Are you able to say what the actual cost is for hauling a car of coal over the line? Are you able to break that down?

Mr. VAUGHAN: I think perhaps we could do that. It would require a little accounting to do it. It depends, of course, on the part of the country in which the coal is located; the grades and the number of cars we can haul over those grades; the distance the coal moves and so on.

Mr. JACKMAN: As a major commodity item, could you say whether or not the railway is making or losing money on the hauling of coal?

Mr. VAUGHAN: I do not think I could say that, offhand, except to say that, in a general way, we are losing money on almost everything we handle if all the charges are taken into account.

The CHAIRMAN: Are there any other questions on page 4?

Mr. NICHOLSON: I do not think the revenue from mail is up very much. The Canadian Pacific, in its report, does not give the revenue received from mail. Have you any idea whether you are getting a fair proportion of the revenue from that source?

Mr. VAUGHAN: We take up with the Post Office Department, from time to time, the question of giving us an increased amount of mail. I believe our situation is improving.

Mr. NICHOLSON: What percentage of the amount of revenue paid by the Post Office Department is the Canadian National receiving?

Mr. VAUGHAN: We received an increase last year. The statement shows the increased revenue from mail in 1947 to be $307,000 of which $132,000 was on our United States lines.

Mr. NICHOLSON: Have you figures showing the percentage received by the Canadian Pacific? What percentage does the Canadian National receive?

Hon. Mr. CHEVRIER: The Canadian Pacific received around $4,000,000 and the Canadian National approximately $4,500,000, a little over 50 per cent.

Mr. VAUGHAN: According to the Canadian Pacific's last report, they received from mail $4,175,758. We show we earned $4,583,000 from mail. Some of that, of course, was on the United States lines. We have not got that broken down. We could handle more mail than we are handling. We have had this question before the Post Office Department from time to time. I think they are considering it. For instance, we do not get any mails between the east and Vancouver, the Canadian Pacific gets that mail.

Mr. NICHOLSON: You are not carrying any mail from Montreal to Winnipeg?

Mr. VAUGHAN: We carry some local mail, but most of the through mail between the east and the west is carried by the Canadian Pacific.

Mr. NICHOLSON: You are still negotiating to get your share?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: I imagine that is rather profitable mail to carry. I imagine the Canadian National should be able to carry it as well as the Canadian Pacific.

Mr. WALTON: We do have a mail contract between Toronto and Winnipeg.

Mr. NICHOLSON: But not between Montreal and Winnipeg?

Mr. WALTON: There is some closed mail; a mail car operates on our train No. 3 each day, Toronto to Winnipeg and return.

Mr. NICHOLSON: The Canadian National has well over 50 per cent of the mileage in Canada?

Mr. VAUGHAN: We have over 21,000 miles in Canada and the Canadian Pacific operates between 16/17,000 miles.

Mr. NICHOLSON: The Canadian National has 60 per cent of the mileage and therefore should be entitled to 60 per cent of the revenue.

Mr. VAUGHAN: We believe we ought to receive more mail. We are continually negotiating with the Post Office Department. As you will see from the report, we are improving our position.

Hon. Mr. CHEVRIER: The T.C.A. carries some proportion of the mail, too.

Mr. NICHOLSON: Do you know what proportion?

Mr. VAUGHAN: Their statement is here.

Hon. Mr. CHEVRIER: $3,000,000 approximately.

Mr. FULTON: The T.C.A. could not be said to be competing directly with the railway because it carries air mail.

Hon. Mr. CHEVRIER: It is a matter of dividing up the payments made by the dominion government in respect of the carriage of mail. The T.C.A. is a subsidiary of the Canadian National.

Mr. VAUGHAN: I do not think the T.C.A. mail revenue should be included in what the Canadian National receives.

Mr. MUTCH: It is a matter of apportioning what the government pays.

Mr. VAUGHAN: T.C.A. mail revenue in 1947 was $3,808,000.

Mr. NICHOLSON: I wonder if Mr. Cooper could work out the ratio of miles of railway and the ratio of the revenue the two companies are getting for mail? Could you do that and give us the information later?

Mr. COOPER: The Canadian National and the Canadian Pacific?

Mr. NICHOLSON: Yes.

The CHAIRMAN: Any other questions before we proceed?

Mr. JACKMAN: May I ask Mr. Vaughan why passenger revenues were down substantially last year? I assume wartime traffic, war personnel, was pretty well over in 1946?

Mr. VAUGHAN: The general passenger movement declined. The holiday and weekend traffic was not bad, but the ordinary day to day traffic showed a distinct falling off.

Mr. JACKMAN: Was that due to the loss of wartime traffic?

Mr. VAUGHAN: There are several reasons for it. I think one reason is the bus lines. They are getting more new buses. There are more private cars on the road than there were. People are not using railway facilities for passenger traffic as they did during the war.

Mr. MUTCH: On this point do you estimate that any considerable improvement could be made in that with the introduction of more modern equipment?

Mr. VAUGHAN: I doubt it. We are improving our equipment all the time trying to hold the business which we have.

Mr. MUTCH: Do you think that would be a substantial factor? During the war you were not able to do so but now you are able to bring your equipment up to date. Do you anticipate that will offset to any considerable degree the increasing popularity of bus and individual motor traffic?

Mr. VAUGHAN: It might in some cases and between some points, but generally speaking I do not think it will add a great deal to our revenue.

Mr. FULTON: Do you include there the speeding up of your passenger schedules? Mr. Mutch mentioned the improvement of equipment. What I am getting at is do you think if you are able to speed up your schedules considerably, which I understand potentially you are able to do, that would help to restore passenger traffic?

Mr. VAUGHAN: Have you reference to transcontinental trains?

Mr. FULTON: Yes, and the main points served by the transcontinental trains.

Mr. VAUGHAN: The transcontinental trains they are timed to depart from and reach destinations at convenient hours, to reach important places like Winnipeg, Saskatoon and Edmonton at convenient hours. We leave Montreal at night with a passenger train. We get to Winnipeg in the morning. We get to Saskatoon in the evening and to Edmonton the next morning and to Vancouver the next morning. There would not be much object in leaving Montreal later in the evening, and arriving at Vancouver at say 4 o'clock in the morning. It would upset the whole schedule from Montreal to Vancouver.

Mr. FULTON: You could cut 24 hours, or we will say 12 hours, off your transcontinental schedule. Some places might have to be inconvenienced a little, but do you not think it would help to restore passenger revenue?

Mr. VAUGHAN: I do not think we have got the population in Canada to warrant trains of that kind. If we had a large population like the United States it might be a different story, but after all we do not serve a very heavy population going across the country. In fact, we could carry more passengers than we are carrying at the present time. If we were going to take 24 hours off a train we would simply have to cut out a great many stops which we now have. We would arrive at Winnipeg, Saskatoon and Edmonton at inconvenient times, and I think we would lose more than we would gain.

Mr. REID: Of course, you have not tried that. Take the trip from the coast. I know if you want to go by plane you have got to book almost a month ahead of time. There are so many people coming to Ottawa, Toronto and Montreal from the Pacific coast. I know if you want to travel by air you have got to book one month ahead to get a seat. Why is it that traffic has increased there? You must have lost a percentage of that to them, probably not all. I do not agree with you about the inconvenient hour because if you travel by plane heaven knows you leave and land at any hour and still travel is increasing. I want to ask one question. If you had to could you not clip a great number of hours between here and Vancouver or New Westminster?

Mr. VAUGHAN: There would be no object in cutting the time between here and Vancouver unless we cut it 24 hours.

Mr. NICHOLSON: Twelve hours.

Mr. REID: I might say that I left here once ten hours late from Ottawa and I arrived on the dot right in New Westminster. It was a revelation to me. They clipped 10 hours off, picked up 10 hours.

Mr. WALTON: There is a distinct difference between making one trip under that condition and doing it day in and day out.

Mr. REID: I should like to know how many passengers from New Westminster and Vancouver are going down by the Great Northern and coming across to Toronto through the United States. To my knowledge I have met twelve at least who say that they enjoyed the trip and made it a little cheaper and almost a day faster. You say it cannot be done. You do not know whether it can be done.

Mr. VAUGHAN: We made a check on that situation. It is true there are passengers from Vancouver and New Westminster going east by the Great Northern. They go to Seattle.

Mr. REID: To save time.

Mr. VAUGHAN: I think some of them do it because it shows them something new. They have better equipment, that is quite true, and they make faster time although some we have talked to tell us they get a rather rough ride on these fast trains, but our passenger travel in Canada is an entirely different thing, of course.

Mr. REID: Do not talk about rough rides.

Mr. VAUGHAN: We have not got the population. Our passenger department is studying this situation all the time. We think we are losing enough money on passenger trains as it is now and, of course, as you know, under existing conditions if we put on a fast streamlined train equipment for one train would cost $1,000,000.

Mr. REID: I realize that.

Mr. WALTON: If we were going to speed up the service materially we would have to spend a lot of money on the track.

Mr. NICHOLSON: You are running two trains from Vancouver east an hour apart. Could you not run one of those as a fast train on an experimental basis to see what would happen?

Mr. WALTON: You have spoken of that before in this committee. We have developed it with our people and had them contact quite a large number of people, get a sample of opinion, and the morning departure from large cities is not favoured by the travelling public.

Mr. REID: Some day they will have a concrete highway right from coast to coast. I think the railways should be preparing for that because I maintain once we have that in Canada instead of compelling our people to go down through the United States you will have all kinds of buses the same as they have in the United States now. You are not preparing for that. Are we going to take the position forever we will not have a concrete highway just because it is going to take traffic from the railways? We might as well be candid. That is the chief reason we have not got it. The government would not admit that but everyone around parliament knows that. I think the C.N.R. should look ahead and start to modernize so that they will be able to compete. If the Great Northern can do it so can you.

Mr. MUTCH: Whether or not it makes sense the fact is that people, whether the six hours is worth anything to them or not, will stand very considerable amount of inconvenience to get some place in the middle of the night. I do not discount the fact that we like comfort in this country to a degree which may not be universal, but the fact remains that people fly. They leave at ungodly hours, three or four o'clock in the morning. They sit up often uncomfortably all night and arrive at equally inconvenient hours and try to do business that day without having had a night's sleep when in 12 or 14 hours longer in the summer time and perhaps more quickly in the winter time they could go by train. The fact remains that the idea of speed has popular appeal. I am inclined to think that the C.N.R. has not capitalized on that. It may not be sensible from a conservative point of view. The present vogue may be much more practical, more comfortable and more convenient, but I would be very much surprised if more people would not get up to catch a train or stay up to catch a train in the middle of the night to save six or seven hours than you are getting at the present time with your much more leisurely and comfortable trip.

Mr. VAUGHAN: It is interesting to get the two sides of the picture. Our passenger people periodically make a survey of the situation to get public opinion on it. We run our trains largely to meet the requirements of the public as expressed to us. There is no doubt it would be much nicer if we could run fast trains through to the coast but it would be a matter of tremendous expense, and we doubt very much if it would be warranted under existing conditions.

Mr. FULTON: Is it not a fact most of the expenditure would have to be made on the track, and if you had your track improved as I understand it you could cut some considerable time off were you permitted to do so by the Board of Transport Commissioners. Would not most of the expenditure have to be made on the track? If that is the case would it not be worth while doing that because I believe you could run with your present equipment on a good track with faster schedules. Am I not right?

Mr. VAUGHAN: The situation is a pretty difficult one to deal with. To run trains at 60, 70 or 80 miles an hour across the country you would have to spend a tremendous amount of money in improving our lines, straightening out curves. We have considered whether or not it would be warranted. We cannot see with the population of Canada as it is today that we would be justified in spending millions and millions of dollars in getting our road in shape to take 24 hours off our trains from Montreal to Vancouver. It would be a colossal undertaking to do it.

Mr. MCCULLOCH: Your deficit would be a great deal more than $15,000,000.

Mr. NICHOLSON: How about taking 12 hours off?

Mr. VAUGHAN: You throw your schedules out, the times of arrival and departure all across the country. We are constantly studying this train service, and I think Mr. Walton has a committee which is studying from time to time all these train schedules, with a view to finding ways and means to improve them but, of course, we always in the final analysis look at what it is going to cost us and what additional revenue we are going to get. Unless we can balance the two we do not feel justified in doing it.

Mr. WALTON: Whatever we might do it would take some little time to perform the work. During the war years we did not make very substantial improvements in our track condition because of the help situation. It kept us busy on many lines to keep the track in as good condition from year to year as it had been without making material improvements. It is only in the last couple of years that we have been able to do any substantial ballasting for considerable distances, and so on, to make improvements in the track.

Mr. EMMERSON: With regard to the maintenance of track and the matter of speed what proportion of it would be a matter of track and what proportion would be reduction of weight of your trains and your cars? You are building heavier cars rather than lighter cars now? You should have lighter trains.

Mr. VAUGHAN: The new cars we are building are lighter than the old cars. I think it would be more a matter of improving the road bed than one of equipment.

Mr. EMMERSON: Are these new first class cars not heavier than the old ones?

Mr. VAUGHAN: No, sir; they have an alloy steel in them. It is lighter.

Mr. EMMERSON: But on that first class car you use six-wheel trucks. I understand that the American roads use four-wheel trucks on the new cars, and I understand the C.P.R. are using four-wheel trucks?

Mr. VAUGHAN: That gets down to a matter of opinion. Our mechanical officers feel that six-wheel trucks are safer than four-wheel trucks. That is another matter that has been considered carefully by our people and we are still of the opinion that six-wheel trucks are safer than four-wheel trucks.

Mr. WALTON: Some of the United States roads have started to go back to the six-wheel trucks after using the four-wheel trucks for a considerable time.

Mr. MUTCH: As a result of the accidents they had last year?

Mr. WALTON: I do not know what it would be attributable to, but their experience seemed to indicate to them they should do that, and some have done it.

Mr. EMMERSON: It means about 12½ tons a car.

Mr. WALTON: It adds considerable weight to the car, but if it is a safer proposition we think it is better. We have stayed with the six-wheel truck and we think we have been well advised to do so.

Mr. EMMERSON: Are the new pullmans not much heavier than the old ones?

Mr. WALTON: The new pullman equipment on the streamlined trains in the United States is lighter. The other new pullman cars probably will not vary a great deal in weight from those of 15 or 20 years ago.

The CHAIRMAN: Gentlemen, may we go on?

Mr. JACKMAN: I presume you are interested in the operation of the pool trains even though it may not be your particular crews that are running them. I have reference to the Ottawa-Toronto train, the second section particularly. On Saturday morning last, for instance, the train was an hour and a half late on that run. It is not a very difficult run to make, and it is almost invariably late 20 minutes or more. Do you check with the other railway inasmuch as it is a pool train and giving service to your customers as well as to the C.P.R.?

Mr. VAUGHAN: These matters are constantly under discussion with the Canadian Pacific Railway. Are you referring to the night train or the day train?

Mr. JACKMAN: The night train, the second section. I think that is the C.P.R. one.

Mr. VAUGHAN: Yes. That runs over C.P.R. track from Ottawa to Toronto.

Mr. JACKMAN: I understand the first section, the C.N.R. one, is usually on time, but when the second section is an hour and a half late on a Saturday morning it is quite a serious matter.

Mr. VAUGHAN: There probably was a good reason for it. Do you find that as a customary thing?

Mr. JACKMAN: Not quite an hour and a half, but 20 minutes or more. That is usual. May I ask if you have a department which tabulates the lateness of arrivals of trains?

Mr. VAUGHAN: Oh, yes. We have our transportation department which keeps a record every day of the trains. There is a sheet on Mr. Walton's desk and on my desk every morning as to the train performance, and those delays are followed up in each case.

Mr. JACKMAN: Does that include pool trains?

Mr. VAUGHAN: Yes, it would include pool trains where the pool trains run over our line, but where they run over the C.P.R. we do not get that.

Mr. WALTON: We do not get the details of that from day to day. If there is some unusual case we may inquire about it, but we do not get the same detailed statement each morning on the pool trains that operate over the Canadian Pacific as we do on the pool trains which operate over our own tracks. That we get every morning.

Mr. JACKMAN: How do you find your first section to Toronto from Ottawa?

Mr. WALTON: You are speaking of the two sections of the same night train?

Mr. JACKMAN: Yes.

Mr. WALTON: They both operate on the Canadian Pacific.

Mr. JACKMAN: The second section carries some of your pool passengers. It may be an accommodation for your line against competitors, but it is very bad.

Mr. VAUGHAN: In these pool trains the mileage is balanced. The night trains run over the C.P.R. between Ottawa and Toronto. The day train comes down to Brockville and there hooks up with the pool train at Brockville on our main line.

Mr. JACKMAN: I understand the Rock Island Railway in the United States have some special passenger trains with diesel locomotives which are fast and very profitable.

Mr. VAUGHAN: They have put on several of what they call their rocket trains which are equipped with diesel engines and light weight passenger equipment. I believe they are doing fairly well with them.

Mr. JACKMAN: Is there anything in that idea that we could make use of for the run between Montreal and Toronto or other well populated sections?

Mr. VAUGHAN: We cannot as yet get equipment of that type in Canada, and we do not feel like paying the 35 per cent duty on it.

Mr. MUTCH: Probably they would not let you have it right now.

Mr. JACKMAN: I notice in the operating statement you have an outgo on the rental of equipment which is quite substantial, is it not?

Mr. VAUGHAN: Yes, that is true.

Mr. JACKMAN: $7,000,000. Why is it we cannot provide enough cars for our own haulage? Even though some may be used in the United States and we may have the use of some of their cars it seems to me it would be a very good source of American funds rather than to have to use American funds for American cars.

Mr. VAUGHAN: Ever since the beginning of the war we have taken delivery of all the equipment we could get from the car builders in Canada. The car builders in Canada have been a year to a year and a half late in delivering equipment. We have a lot of equipment on order now. We are catching up.

Hon. Mr. CHEVRIER: It is a question of steel.

Mr. VAUGHAN: Steel and other things. For instance, we cannot get delivery on new equipment from the car builders now until 1949. We have orders in effect which will not be delivered until 1949. We have been getting all the freight and passenger equipment we could all during the war. Of course materials were required for other purposes, and there were restrictions on the quantities that could be ordered.

Mr. WALTON: I might say that of the 5,700 box cars which were ordered last year over half of them have now been delivered. With the balance to come in the next few months, plus another 1,000 which were ordered in 1948, our equipment should be in fairly good shape in regard to box cars, but one big item of this expense that you speak of is in connection with the so-called open top equipment due to the large movement of coal from the United States which takes place all the time into Canada.

Mr. JACKMAN: Is there anything in our agreement with the American railroads with regard to the interchange of rolling stock which would prevent us from having a substantial credit item on that account?

Mr. VAHGHAN: Not if we had the equipment, in the ordinary interchange between the United States lines and ours the regular per diem charge would apply.

Mr. JACKMAN: Would you expect if we had a surplus credit on the interchange of cars that the American railroads via the American government might complain?

Mr. VAUGHAN: If there was a surplus of cars the American railroads would want to use their own cars where they originate traffic on the American railroads, but I do not think they would object to us sending our own cars down for our own coal, for instance, if we had sufficient of them.

Mr. JACKMAN: Could you get two-way traffic on that?

Mr. VAUGHAN: In that case we would have one-way traffic. We would have to send the cars down light to the mines in the United States to be loaded.

Mr. WALTON: We have done that at times when we have had cars to spare. It is quite permissible to send our cars down for the return load.

Mr. JACKMAN: Send them down empty?

Mr. WALTON: Yes.

Mr. JACKMAN: Is that a very costly operation?

Mr. WALTON: It pretty well balances up with their cars coming up loaded and in all likelihood going back empty, not entirely, but in large numbers.

Mr. JACKMAN: That would seem to be a waste to send empty cars both ways?

Mr. WALTON: We furnish loading any time loading is available to United States points, but there is a heavy empty return movement of coal cars all the time to the United States.

Mr. JACKMAN: Our reciprocal arrangements between the United States and Canada in regard to rolling stock are happy ones, are they?

Mr. WALTON: They are just as reciprocal as they are with any other United States railway. The Canadian National and Canadin Pacific and other Canadian roads are members of the American Association of Railroads and have all the privileges and arrangements that are available to members of the American Associtíon of Railroads.

Mr. JACKMAN: Not knowing anything about those regulations do they work?

Mr. WALTON: There is no regulation in them that makes any exception of Canadian roads.

Mr. NICHOLSON: We had some trouble last fall with cars, did we not?

Mr. WALTON: We cleared it up. Whether it will happen again I do not know. It was due to the very heavy movement of coal into Canada. Eventually we returned a considerable number of American cars and the complaints ceased.

Mr. VAUGHAN: The situation is now well in hand. We are having no trouble with the United States railroads or with the office of defence transportation in the United States at the present time.

Mr. JACKMAN: What can you send down from Canada in the coal cars?

Mr. VAUGHAN: Lumber, timbers.

Mr. JACKMAN: Moving from the same area where the coal arrives?

Mr. VAUGHAN: It is not always just the same area. We are permitted to move a car a reasonable distance if by doing so a return load can be obtained for it. That is within the car service regulations.

Mr. JACKMAN: Most of the coal cars that bring up coal from Pennsylvania and west Virginia go back with a full load?

Mr. VAUGHAN: Not most of them. That is the trouble. There is a one-way return movement to a considerable extent, but there is also quite a bit of return loading for them with lumber, and so on, moving into the United States. There is some pulpwood. Coal cars go into the maritimes in various places and get pulpwood or lumber or other commodities going back.

Mr. JACKMAN: Mr. Hatfield, one of our colleagues in the House from New Brunswick raised a complaint in the House one day that owing to the recent excise tax whereby we could no longer import as many fresh vegetables as formerly the American railroads would not send cars up to New Brunswick so he could have cars available for potatoes, I presume, and matters like that. Has that been a serious problem?

Mr. VAUGHAN: It did affect our business a little when these restrictions came on, but as far as refrigerator cars go, as I understand it, Colonel McLure, you have all the refrigerator cars you need now.

Mr. McLURE: At the moment we have. I should like to ask this question. Are those refrigerator cars Canadian National owned or are they rented from the American refrigerator car companies?

Mr. VAUGHAN: We have to rent many refrigerator cars from the United States refrigerator car companies. We are constantly building new refrigerator cars. We are building 300 in our own shops at Winnipeg at the present time. We are improving our situation. A good deal of this refrigerator movement is a seasonal one—taking apples from B.C. or potatoes from P.E.I.

Mr. WALTON: I notice the loading for this season up to April 15 of potatoes from Prince Edward Island was some 6,400 cars, which was about 200 in excess of the same period in the previous year.

Mr. MCLURE: There is a larger crop to move this year.

Mr. WALTON: We have had shortages from time to time due to the demand in various parts of the country. It is the same with refrigerator cars.

Mr. JACKMAN: Does the C.N.R. own enough equipment so that when we have these fresh fruits and vegetables coming in you have a surplus of cars that you could not dispose of? If you had to dispose of that surplus would you lend it to the American railroads?

Mr. WALTON: We never have had a surplus of refrigerator cars other than for short periods between seasons.

Mr. JACKMAN: With the ban placed last November what was the effect on the use of your refrigerator cars?

Mr. WALTON: The effect was that less United States cars were coming in, which put a greater demand on our cars in Canada.

Mr. JACKMAN: What would you use them for if there was no traffic from south to north?

Mr. WALTON: Six thousand cars were loaded from Prince Edward Island and three thousand from New Brunswick points with potatoes. There were exports of perishables in heavy volume to the Atlantic coast ports—fruit from Okanagan Valley, B.C.—which is a steady movement and comes to a peak in the fall.

Mr. JACKMAN: Would you be able to make full use of the equipment?

Mr. WALTON: Yes, we actually were short at various times.

Mr. REID: I had a complaint which I think was legitimate, and after hearing it I thought perhaps the railway authorities were not doing as much as they could to help these people. I have in mind the case of this particular person who ships carloads of rose-bushes east, and he at his own expense and experience has to find out about the heating of the cars. He found out that in the United States the railroads pay for the experimentation that is done by the railroads. Here they were not heating the cars; they were freezing them; he is thinking of taking his trade away from the Canadian National Railways and giving it to the American roads. He ships mostly to Toronto.

Mr. WALTON: From what point?

Mr. REID: From Sardis or Chilliwack. He made the complaint and I do not think the C.N.R. officials go far enough in helping the shippers to solve their problems in keeping these rose-bushes inactive in zero and sub-zero conditioned cars. At present they use heated cars and if they are taken out of the cars in zero weather the entire lot of rose-bushes may be spoiled. The buyers then claim that they sold them those rose-bushes that were dead, but of course they do not know that until the customers plant them. This man was put out about it. He said, "I think I will do most of my shipping by the United States railroads to Toronto, Montreal or Ottawa because they are helping the shippers." He says the shippers on the coast do not seem to care a great deal; they say it is up to the shipper himself.

Mr. VAUGHAN: We will go into that matter. It had not been brought to my attention.

Mr. WALTON: We have not heard of it, but we are co-operating with the shippers in regard to care of special shipments.

Mr. VAUGHAN: We have a development and research department which is constantly exploring ways and means of improving conditions. We will look into that matter.

Mr. EMMERSON: You have about 100,000 freight cars on the system.

Mr. WALTON: Yes; all classes.

Mr. EMMERSON: Have you any idea of the average number of American cars in operation on the system per day?

Mr. WALTON: Last week we had altogether about 7,000 U.S. cars on our lines in Canada and the U.S. lines had about 3,200 of our cars, all classes; an adverse balance of about 4,000.

Mr. EMMERSON: We could say that that would be around 105,000 or 107,000 operating in Canada.

Mr. WALTON: It varies from probably 103,000 to 106,000—somewhere around there.

Mr. EMMERSON: Have you got records, monthly or yearly, of the freight car mileage, per freight car day?

Mr. WALTON: Yes, I think that is in the report.

Mr. EMMERSON: How does that compare with what it used to be for the last five or six years?

Mr. WALTON: It has been climbing. We have been getting more mileage out of the cars, generally speaking.

Mr. VAUGHAN: It runs to over 40 miles per day.

Mr. JACKMAN: In relation to 1939 what would it be?

Mr. WALTON: It would be up, but we can get the figure for you. For the month of March it was 42 car miles per car day. That is the count of every car on the system and the total car miles as against 40·1 in March last year. It is on a separate report, but I can get it. It was up to 45 last September as against 44·1 the previous year.

Mr. EMMERSON: Is it possible to get the average for the year—for the last five years?

Mr. WALTON: We keep it as a matter of record. Would you like to have those figures—the car miles per car day for the past five years?

Mr. EMMERSON: The average. Have you got it monthly? It is a pretty important thing.

Mr. WALTON: It is something we are after all the time.

Mr. JACKMAN: We are harder on our equipment.

Mr. WALTON: Of course, that goes with the higher mileage; you are working your equipment that much harder.

Mr. EMMERSON: Around 100,000 or 105,000 would give you 5,000 more cars.

Mr. WALTON: That is why we are striving to get higher mileage. It is improving.

The CHAIRMAN: Gentlemen, perhaps the chairman should be seen and not heard, but in western Ontario we may have a particular problem in the future. We may need a special fruit train, a fruit and vegetable train over that area. I thought I might mention it now. Perhaps some of your officials will sit in on that problem. There will be a tremendous increase in production over that area. It will run into, perhaps, 1,500 carloads from my particular district—carloads of fruits and vegetables. There is a suggestion at the present time that a fruit-vegetable train may be necessary—a daily train. So I may be contacting you—and perhaps the other districts too—to get you to work on that. The C.N.R. does not run through that district, neither does the C.P.R.; the Pere Marquette runs through there and they connect with your railroad to go to Toronto and Montreal. I may be asking you to sit in with a group to discuss that problem.

Mr. WALTON: Some of that fruit every season is brought over to Jeanette's Creek and the passenger train picks up the cars. Something better than that may be needed because the volume is building up.

The CHIRMAN: I believe something more will be needed.

Mr. NICHOLSON: In connection with the serious accident at Dugald, Manitoba, perhaps the president could make some statement as to what progress has been made in taking these old type of cars out of the way, and also in connection with orders and signals. I understand that everything was in order; but to a layman it would appear as if the orders in connection with traffic of that sort are not stated very clearly.

Hon. Mr. CHEVRIER: I wonder if we could not go on to page 4 because we are going pretty far afield and this may start a discussion.

Mr. NICHOLSON: Well, we have had a pretty wide discussion on this matter.

Mr. VAUGHAN: In response to that question, the accident was caused through not following train orders. That is to say that the orders were not properly carried out.

Mr. NICHOLSON: Was there any ground for misunderstanding contained in the orders?

Mr. VAUGHAN: I do not think there should have been any misunderstanding. I do not think there was room for any misunderstanding. So far as equipment is concerned, it is customary for all railways to use the older type of equipment on special trains at such times. We have not got enough modern equipment for special services of that kind where equipment is required occasionally; but we are replacing our wooden equipment. We have a large number of steel cars on order now, but that is a process which will take years to overcome.

Mr. JACKMAN: On page 24 you give a detailed list of the railway equipment. How many of those passenger-coach cars, of which there were 1,145 in total, are wooden?

Mr. VAUGHAN: I think we have that information here. Quite a large number of them are wooden.

Mr. WALTON: —I will have to get that information for you.

Mr. JACKMAN: It would be quite big, probably.

Mr. VAUGHAN: I do not think there is quite half, I think one-third are wooden.

Mr. WALTON: I have the figure somewhere here. My recollection is that there are about 900 when baggage cars are included, but I would prefer to get the figures.

Mr. JACKMAN: Under the I.C.C. rules are the American lines allowed to use wooden cars for passenger traffic?

Mr. WALTON: Oh, yes.

Mr. JACKMAN: Are there any restrictions at all tending to enforce the use of steel cars?

Mr. VAUGHAN: They are tightening up the regulations all the time. They are still permitted to use wooden cars in certain circumstances.

Mr. WALTON: I think they have the same restrictions as we have against placing wooden cars between steel cars; but I know of no restrictions against the use of wooden cars provided they are used in compliance with the regulations.

Mr. JACKMAN: Have you any equipment that is not interchangeable in the states?

Mr. WALTON: We do not have occasion to interchange passenger cars with the United States, except equipment which runs on international runs such as the Montrealer or the Washingtonian or trains running to Chicago. Those are main line trains and have steel equipment. I do not know when we have had occasion to interchange anything except steel equipment on such lines. The question does not arise as to interchange.

Mr. JACKMAN: What I was getting at was whether they had issued restrictions different from our Board of Transport Commissioners?

Mr. WALTON: No; they do not have any greater restrictions than do Canadian lines.

Mr. JACKMAN: I suppose our colonist cars are all wooden?

Mr. WALTON: No, we have some 30 or 40 wooden colonist cars, but we have quite a large number of steel colonist cars. They were used extensively during the war.

Mr. JACKMAN: Is the whole trend towards steel?

Mr. WALTON: Oh, yes. We are not building any more wooden cars at all.

Mr. JACKMAN: It is to be expected that the car-building equipment facilities in Canada—your own and the privately owned ones—would have a full volume of business extending through 1949?

Mr. VAUGHAN: I would say so.

Mr. JACKMAN: And I suppose you have given contracts that will pretty well see them through 1949?

Mr. VAUGHAN: That is correct.

Mr. JACKMAN: Are they readily cancelable? Is the nature of the contract a firm one?

Mr. VAUGHAN: They are firm contracts.

Mr. WALTON: I have those figures, Mr. Jackman, you were speaking of. The total passenger equipment on the system—this includes not only coaches but baggage cars and all classes of passenger equipment—is 3,218. Of that number steel cars number 1,663; steel under frame, 633; wood, 922. In other words, 922 wooden cars out of a total of 3,218.

Mr. JACKMAN: 1947 was a most unfortunate year for accidents, I take it, not only on the C.N.R. but on other railways in Canada, was it not?

Mr. VAUGHAN: We had quite a few accidents in 1947. Probably a few more than usual.

Mr. JACKMAN: Is there a figure on that in the report?

Mr. VAUGHAN: No, we did not mention anything about accidents in our annual report.

Mr. JACKMAN: The number must be at least double—I do not know whether they were in seriousness—over previous years?

Mr. VAUGHAN: Well, I could not say offhand. We had two or three rather bad collisions. The human element is always with us. Sometimes for some reason that cannot be explained train orders are not properly carried out.

Mr. JACKMAN: Were any of the accidents due to the excessive use you have to make of the poor equipment?

Mr. VAUGHAN: No, I do not think so.

Mr. WALTON: No, I do not believe that is a factor. Our investigations do not indicate that that is responsible.

Mr. JACKMAN: Have the findings been published of all the investigating committees—independent ones as well as railway?

Mr. WALTON: Any that were independently investigated I think have been reported.

Hon. Mr. CHEVRIER: The findings of the Board of Transport Commissioners on the Dugald tragedy have been made known. The report of the Transport Commissioners was published in connection with that wreck, as well as a report made in connection with the one in northern Quebec.

Mr. JACKMAN: Would the human element be the reason given in all these cases? What do you do with those who were responsible for the errors?

Mr. VAUGHAN: Those who were responsible—would be properly disciplined—it depends upon the extent of responsibility—frequently men are discharged in cases of that kind.

Mr. MUTCH: Is it not correct to say that in both of those tragedies the disposition was to bury the men responsible? They were both killed.

Mr. VAUGHAN: Yes, I think they were.

Mr. WALTON: The engineer was killed in the Dugald wreck.

Mr. NICHOLSON: How many men have been discharged for infractions of rule 9?

Mr. VAUGHAN: There are men discharged from time to time. When they are discharged for violation of rule 9, they stay discharged.

Mr. NICHOLSON: How does the number compare with previous years?

Mr. WALTON: We do not have a list of just how many men we discharge under rule G; but I do not think it varies one year from another.

Mr. VAUGHAN: The number is becoming less all the time.

Mr. McCULLOCH: If the driver is responsible for the accident, is the whole crew laid off?

Mr. VAUGHAN: No; there are different degrees of discipline meted out.

Mr. WALTON: Are you speaking of the Dugald wreck?

Mr. McCULLOCH: Would the crew suffer? The engineer and conductor were both killed.

Mr. WALTON: The balance of the crew were laid off for a time and taken back to work because of what we considered a very secondary responsibility. The incidence of time between when they had an opportunity to know there was anything wrong and the moment of the wreck was very short.

Mr. EMMERSON: Have you had any accidents where your C.T.C. is in operation?

Mr. WALTON: I think there has only been one.

Mr. EMMERSON: When was that started?

Mr. WALTON: When was that started—in the fall of 1941.

The CHAIRMAN: Gentlemen, can we turn over and get a more detailed statement?

Mr. JACKMAN: Have you ever transferred men who have been involved in accidents from the running trades to other forms of railway employment?

Mr. WALTON: There is considerable difficulty in doing that because the various trades have seniority and it is difficult to introduce a person from one trade into another group. It has been done in odd cases.

The CHAIRMAN: Will it be O.K. if we discuss the consolidated balance sheet and call Mr. Cooper?

Mr. REID: Are we going to come back to these other matters?

The CHAIRMAN: If there is anything there we had better take it up now.

Mr. REID: I wanted to ask a question based on page 6. I should like to ask Mr. Vaughan whether he anticipated any loss of revenue in view of the notation on page 6 concerning the application before the Board of Transport

Commissioners for a 30 per cent increase. Do you anticipate any loss of freight due to the 21 per cent increase of which you have spoken. I have in mind the fact that some steamship companies, both in Prince Rupert and Vancouver, are now beginning to make arrangements to pick up freight. In view of this 21 per cent increase, they are going back into business.

Mr. VAUGHAN: We think we will lose very little, if any, business on account of that increase in freight rates. It is costing the truckers and other forms of transportation a great deal more than it did before. Their costs have not gone up in the same proportion as the railways, but their costs have increased very rapidly.

Mr. REID: I presume as these steamship companies go below the full rail rate with the 21 per cent increase added, you will lower your costs accordingly?

Mr. VAUGHAN: We will have to wait and see what develops.

Mr. REID: It comes back to the question of truck competition, of course, with Ontario and Quebec being favoured in that regard?

Mr. VAUGHAN: We have always had truck competition and steamship competition.

Mr. REID: I am interested in your statement made on page 6, about the middle of the page, which says:

> It is the view of the directors that the railways should be compensated by increases in rates over and above any now to be granted.

Mr. VAUGHAN: What we had in mind, Mr. Reid, is that if we have to pay increased wages or increases in the cost of material, we should be reimbursed in some way; otherwise how are we going to meet the increased costs? We are faced now with an application for increased wages which, if granted, would amount to $92,000,000. We have rejected this application because we could not afford to pay. The men have applied for a board of conciliation and the government has appointed a board of conciliation. We do not know what that board of conciliation will recommend. An increase of only 1 cent an hour in wages means $2,500,000 per annum to us. We have already had increases in the cost of materials since the first of the year amounting to $6,000,000 or $7,000,000. As you know, the price of coal was increased by 92 cents a ton in Alberta after the strike was over and the men were allowed an increase in wages. I believe there was an increase in the price of coal in Nova Scotia, too. How is the railway going to pay these increased costs?

Mr. REID: Could one infer from that statement that the 21 per cent increase granted will not cover any further increases in cost?

Mr. VAUGHAN: It is true.

Mr. NICHOLSON: Have you increased the rates all across the country the full 21 per cent?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: The minimum charges have been increased in Ontario?

Mr. VAUGHAN: Yes, they have been increased right across the board. There may be one or two variations of which I am not aware, but generally speaking, the increase of 21 per cent was applied to all commodities that are not exempt under the Board's order.

Mr. NICHOLSON: I understand there is a minimum rate of 75 cents in the west on eggs?

Mr. VAUGHAN: The increase would apply right across the country.

Hon. Mr. CHEVRIER: That is covered by the board's judgment.

Mr. NICHOLSON: I understand the railway is not obliged to increase the rate in Ontario if it wishes to compete with the trucks?

Mr. VAUGHAN: As a matter of fact, it has been applied right across the board.

Mr. REID: It comes back to my question of a few minutes ago; if the trucks and ships compete, you will drop your rates to meet theirs, I presume, to hold the freight.

Mr. VAUGHAN: We will just have to wait and see what develops. The trucks are a serious competition to the railways, there is no doubt about that; they always will be. The trucks are finding their costs are increasing rapidly. Most of the men engaged in the trucking business are organized, now.

Hon. Mr. CHEVRIER: The second paragraph of the Board of Transport Commissioners' judgment, page 87, authorizes the railway companies and express companies, without publishing, to file tariffs. In accordance with item 5 on page 88, the minimum charge for a single l.c.l. shipment between any two stations to be 100 pounds at first class rate, but not less than 75 cents.

Mr. NICHOLSON: How about this paragraph No. 2 on page 87.

> Competitive rates below normal rates established to meet motor truck and/or water competition, or other form of competition, may be adjusted within the discretion of the railway companies and the express companies concerned in accordance with a situation existing prior to issuing of order No. 69612, dated October 17, 1947.

What does that mean?

Hon. Mr. CHEVRIER: If the bus companies increase their rates and the truck companies increase their rates, then the raliways will probably do the same thing—and they have, I am informed, by 20 per cent.

Mr. JACKMAN: You are given the authorization to increase rates. Is there enough flexibility within the management to lower rates if you desire to meet a particular competition in any one section?

Mr. VAUGHAN: I think we still have that privilege by order of the board.

Mr. JACKMAN: It is not an inflexible rate fixed by the board which cannot be varied by you?

Mr. VAUGHAN: We do not have to go to the board to decrease our rates, just to increase them.

Mr. JACKMAN: Then, if you had a profitable package freight business and a truck line cut into your business, you could cut your rate to whatever you wished?

Mr. REID: I am rather intrigued by a statement made on page 7 of the report.

> The average cost throughout the years for raw materials used by the railway was 50·65 per cent higher than in 1939.

In the list of items given above that statement there are only two below 50 per cent and some of them go as high as 254·5 per cent. I was just concerned with how that average could be 50·65 per cent?

Mr. VAUGHAN: It would depend largely on the quantity of each material used. The 50 per cent figure is average applicable to all the material used. For instance, we used a lot of ties and we use a lot of coal.

Mr. MUTCH: It is 50 per cent of the average expenditure?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: The total percentage increase, not considering the varying amounts of commodities, but the average increase works out at 150 per cent for those items selected.

Mr. COOPER: Yes, but you will notice the headings at the top of the page: "December, 1947 price; December, 1939 price". Those two prices are year end purchase prices, which is a different thing from the average cost throughout the year.

It is quite correct to say the average cost throughout the year was 50·65 per cent higher than in 1939, and costs are still going up. Therefore, we included in the report the latest figures we had which were the purchase prices in December, 1947. They are very much higher than the 1947 average prices. For example, the average cost of ties charged out throughout the year would include all the ties in stock at the end of 1946.

Mr. JACKMAN: My next question will not be so far from what you are endeavouring to say yourself. I realize that costs in December 1947 might be a peak as against—

Mr. COOPER: No, sir, they are still going up.

Mr. JACKMAN: —a peak as of the time the report was prepared?

Mr. COOPER: At the present time, in April, 1948, we figure our material costs are about $6,000,000 higher than when we made our budget.

Mr. JACKMAN: The point I want to make is this; while we understand the increase in costs in the forest products field, if this selection by the railways has increased 150 per cent on the average and, yet your total average for the year 1947 was only up 50·65 per cent, there must be a great many commodities which have not increased as much as they are likely to increase, or else the selection of your representative commodities is extraordinarily inflated. In other words, you are going to have a great many commodities which are going to increase greatly in price, is that not a fair inference?

Mr. VAUGHAN: The average commodities taken were those of which we used most. Our stores classification shows something like 50,000 odd items which we use. Some have not had as large an increase as others.

Mr. JACKMAN: If you take only those which constitute your greatest volume of purchase, it would be impossible for the selection to be up 150 per cent over 1939 and yet December, 1947, prices are only up 50·65 per cent?

Mr. COOPER: How do you get your 150 per cent? Are you adding up these increased percentages and dividing by the number of items?

Mr. JACKMAN: Yes, I qualified it to that extent in the first question.

Mr. COOPER: After all, you might be talking about car decking, costing say $1,000,000, but when you are talking about coal, you are talking about $25,-000,000. You must weigh those figures to get a proper average.

Mr. JACKMAN: I understand your reference to that, but, on the other hand, I presume you have thousands of items which are reasonably substantial—

Mr. COOPER: We picked the typical items which we use in railway maintenance and operation. They were not picked out because they showed unusual increases. They are the materials which we thought you would be interested in seeing.

Mr. JACKMAN: As one of the members pointed out there is only one item in that list, namely, axles for freight cars, 34·7 per cent, which is below the 50·65 figure?

Mr. COOPER: Rail, for instance, is only 50 per cent. Steel, generally, would average around the 50 per cent.

Mr. JACKMAN: Ties are a great expense; couplers are a considerable item; steel castings—the remainder are lumber items, I presume?

Mr. MUTCH: It is abundantly clear what the contention is from the following paragraph.

Mr. JACKMAN: Are there not many items which have not gone up the average rate, or which we might expect will go up or else the others should come down?

Mr. MUTCH: Is it not a question, Mr. Chairman, of comparing a yearly average with a spot price? It is as impossible as mixing oil and water.

Mr. VAUGHAN: That is correct.

Mr. MUTCH: In the second place, is it not a fact that these items which are represented here are the items which represent the major portion of the expenditure?

Mr. VAUGHAN: That is correct.

Mr. MUTCH: You pick ten or twelve out of the 50,000 items and say, "While these which require a great deal of expenditure are exceedingly high, the following paragraph explains that our average is only 50 per cent"; it seems to be elementary.

Mr. COOPER: That is right, we wanted to be fair. While we gave the latest purchase price as compared with 1939 we wanted to be quite fair, so we also showed what the average cost throughout the year was as compared with 1939. It was only 50·65 per cent.

Mr. EMMERSON: Mr. Vaughan, might I draw your attention to the last paragraph on page 6, which reads as follows:

The average compensation per employee in 1947 was $2,382.31.

The only point I wish to raise there is that I noticed in the Canadian Pacific report their average compensation for the year was $2,322. This would mean the average compensation paid by the Canadian National was $60 a year greater than that paid by the Canadian Pacific?

Mr. VAUGHAN: Our figure takes into consideration the United States lines as well as the Canadian lines. The rates are higher on the United States lines.

Mr. EMMERSON: Does the Canadian Pacific figure take into consideration the United States lines?

Mr. VAUGHAN: No, sir, they only have a short mileage in the United States which is included in their report, principally the line running through the state of Maine to Saint John. According to the 1947 Canadian Pacific report, they show their annual wage as $2,322, and our average annual wage in Canada was $2,291. Ours was less than theirs.

Mr. MCLURE: I should like to ask one question concerning long haul carload freight versus local short haul freight and pick up and deliveries. Now, which of those types is the most profitable? Is it not your long haul carload freight? You are not making a loss on that? Does not the loss in freight revenue come from the local, short haul, pick up and general delivery business?

Mr. VAUGHAN: As a rule local freight rates are higher, proportionately, than long hauls. Naturally when you have a train to be hauled a long distance, it is cheaper proportionately to haul it than it is to haul a short train a short distance.

Mr. NICHOLSON: Mr. Chairman, I wonder whether, when we meet again, we could have the rates for shipping a 30 dozen crate of eggs 25 miles into Regina? Could we have the rate before the increase and the rate after the increase? Then, could we have a similar rate for shipment into Ottawa?

Mr. VAUGHAN: Yes, we could get it for you.

Mr. NICHOLSON: It is for a 25 mile limit on a 30 dozen crate of eggs.

Mr. VAUGHAN: You would want the rate on eggs coming from around 25 miles into Regina?

Mr. NICHOLSON: Yes, and from a 25 mile point coming into Ottawa.

Hon. Mr. CHEVRIER: Is it the express rate or the freight rate you wish?

Mr. NICHOLSON: Both the express rate and the l.c.l. rate.

The CHAIRMAN: Are there any further questions on page 7?

Mr. JACKMAN: I am still on page 4. I notice from the report you had 108,440 employees and the total number of hours worked was 170,187,536, which works out, if I figure it correctly, to 1,570 each. Taking two weeks out for holidays and dividing by 50 weeks, it would make about 30 hours according to my calculations. Is it a fact that the average number of hours worked was 31?

Mr. COOPER: The number of working hours in a year is 2,496. We have eight hours a day, 26 days a month and 12 months a year.

Mr. JACKMAN: That is what I thought, too, but your figures show 108,440 employees.

Mr. VAUGHAN: Some of those would be seasonal men who would not be employed the year around.

Mr. JACKMAN: The question I am asking has, perhaps, been answered by Mr. Cooper. What is the average weekly number of hours?

Mr. COOPER: Per month it would be 208.

Mr. JACKMAN: That works out at about a 40-hour week?

Mr. MUTCH: It is based on a 44-hour week.

Mr. WALTON: It is based on an 8-hour day.

Mr. JACKMAN: The figure I have used is the average number of employees. I see on page 31, 108,440. That is the average number of employees, and the number of hours worked was 170,000,000.

Mr. COOPER: No, sir, that was in 1939. The number of hours worked in 1947 was 251,000,000.

Mr. JACKMAN: That is right. I am sorry.

The CHAIRMAN: Is that all for that page?

Mr. MCLURE: There was one little item that was drawn to my attention when the president was reading his report. It is on page 6. He said, "In the same way the so-called 30 per cent increase...." and so on, and then he adds a little explanation of his own that this would only amount to 13 per cent increase.

Mr. VAUGHAN: Yes, sir.

Mr. MCLURE: That is in freight rates and we have been arguing all this time in the House about this 21 per cent. I would like an explanation how it is 13 per cent as against 21 per cent.

Mr. VAUGHAN: I made some remarks.

Mr. MCLURE: It is not in your report; you just made a remark.

Mr. VAUGHAN: Mr. Cooper has this statement.

Mr. COOPER: Based on 1947 freight revenue of $289,000,000, $69,000,000 of international traffic receives no increase under the recent order of the board; western region grain and grain products of $24,000,000 receives no increase. Coal and coke, $21,000,000 receives a specific increase of 25 cents a ton. So there is $174,000,000 subject to the 21 per cent—$174,000,000 out of $218,000,000 receives the 21 per cent increase; and that, plus the increase on coal, averages out at 13·6 per cent of the total freight revenue.

The CHAIRMAN: Are there any other questions?

Mr. JACKMAN: On the hotel operating income, which is for about $1,210,000, have you any idea how you are able to place worn-out equipment and decorations, as compared with what might be an adequate depreciation allowance on the property?

Mr. VAUGHAN: We have set aside a reasonable amount for refurnishing.

Mr. COOPER: For replacement of furniture and furnishings—that is a direct charge to operating expenses. All equipment is replaced by charges to operating expenses and the structure itself, of course, is kept in good repair by charges to operating expenses. The only thing we have not provided for is what might be termed obsolescence of the building itself.

Mr. JACKMAN: Do you feel that last year as much was spent on repairs and replacements as you would have provided from a percentage of depreciation rate on your hotel properties, excluding the building itself?

Mr. COOPER: Yes, definitely. I may say, too, during the war when we could not get the furnishings we wanted we set aside a deferred maintenance reserve for the hotels, in addition to the deferred maintenance reserve we have been talking about for the railway.

Mr. JACKMAN: With the shortage of furniture, have you been able to buy as much as you wanted?

Mr. VAUGHAN: That is the reason we set up this deferred maintenance for hotels.

Mr. JACKMAN: I am wondering about 1947—

Mr. VAUGHAN: Carpets are very hard to get.

The CHAIRMAN: Gentlemen, it is one o'clock, so we will adjourn until four o'clock this afternoon.

The committee adjourned until 4.00 p.m.

AFTERNOON SESSION

The committee resumed at 4 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. We are on page 8, but I seem to have a recollection that Mr. Jackman had a question to ask on page 4. I thought we might discuss it in detail.

Mr. JACKMAN: Generally speaking, most things are based on page 4. May I ask this: in the railway field have they statistics as they have in the aviation field on the number of accidents, fatal or otherwise, per passenger mile carried?

Mr. VAUGHAN: Yes, we would have that.

Mr. JACKMAN: I was wondering if it was available for the last year?

Mr. VAUGHAN: It can be made available. These accidents are all reported to the Board of Transport Commissioners.

Mr. JACKMAN: Is there an available figure as there is in aviation?

Mr. VAUGHAN: I do not know whether it has been computed, but it is easy to compute it, and we will get it for you.

The CHAIRMAN: Could we turn to page 8?

Mr. WALTON: I have some figures Mr. Emmerson asked for this morning in regard to car miles per car day for the last five years. These are the figures for the Canadian National Railway System; car miles per car day: 1943—44·0; 1944—48·2; 1945—44·7; 1946—41·2; 1947—41·7.

Mr. COOPER: Mr. Jackman asked if the maintenance of the Chateau in 1947 was about normal. It was not up to normal, Mr. Jackman, but we increased our expenses by $45,000 to take care of the difference between the actual maintenance we performed and what we thought we should have performed.

Mr. JACKMAN: You increased your expenses by $45,000?

Mr. COOPER: Yes.

Mr. JACKMAN: You took up what you should have and what you were able to do; you took it up and where did you put it?

Mr. COOPER: We have a reserve for it.

Mr. JACKMAN: General deferred maintenance?

Mr. COOPER: Yes. At the Chateau, altogether this deferred maintenance reserve amounts to $258,000.

Mr. JACKMAN: I agree it is needed in some cases.

Mr. COOPER: Last year we redecorated 125 bedrooms and in 1948 we expect to redecorate 150 bedrooms. We have had 60 carpets on order for over twelve months. It has been very difficult to get material, particularly furniture.

Mr. JACKMAN: It is a very well run hotel and I have nothing but commendation for it; but the only way we can get at the facts concerning the system that you have is to carefully examine an operating statement of the hotel as you operate it now and compare the balance sheet items, estimating the depreciation and the allowed amounts by the Income Tax Department and finding out whether the allowance which would be given for depreciation for income tax purposes is greater or less than the amount of repairs and renewals which you provide. I do not know whether at this moment we want to go into it except as a general statement.

Mr. COOPER: We think the accounts have been charged with everything that should have been charged to keep that hotel in good condition.

Mr. JACKMAN: If it were a private company and subject to taxation I suppose the Income Tax Department would allow some depreciation on the structure itself?

Mr. COOPER: Yes.

Mr. JACKMAN: Two and a half per cent on a structure of that nature?

Mr. COOPER: I really do not know, but I imagine it would be $2\frac{1}{2}$ per cent, which is rather high.

Mr. JACKMAN: It cannot be assumed that the Income Tax Department would allow that if there was not a semblance of reasonableness behind the logic.

Mr. COOPER: If we had been depreciating the Chateau at $2\frac{1}{2}$ per cent since it was built it would be about 90 per cent written off. Actually, the Chateau is worth a great deal more than at what it stands on our books.

Mr. JACKMAN: In that particular case I would say you are quite right. Generally speaking, the rule of depreciation on buildings is a pretty sound rule, is it not?

Mr. COOPER: A general rule.

Mr. VAUGHAN: The fact remains, in connection with your question, that we have set aside in the deferred maintenance account for the Chateau $258,000 for repairs and touching up, which we think would be sufficient. It would take us some time at the rate we are going to use that amount of money because we cannot get the materials we need.

Mr. JACKMAN: It is amazing how much things cost.

Mr. NICHOLSON: Has it been possible to get the information regarding the rates on eggs east and west?

Mr. VAUGHAN: I think we have to get that information from Montreal.

Hon. Mr. CHEVRIER: Is it urgent?

Mr. NICHOLSON: The only point is that it seemed to me this morning there was the suggestion there was no discrimination against the west versus the east. My information is that there is. While the order makes it permissible to increase by 21 per cent, the increase in force in the west is the maximum charge where it is not in the east.

Mr. VAUGHAN: We will get that information. These are all agreed charges, are they not, Mr. MacMillan?

Mr. MACMILLAN (General Counsel): Very likely, sir.

Mr. VAUGHAN: We will get that information for you.

Mr. JACKMAN: I presume we are going into the operating expenses. I wonder if the chairman would care to explain why the dividend income is down to $225,000 as compared with $530,000?

Mr. COOPER: It is due to the fact that in 1946 we received a dividend from Trans-Canada Air Lines, whereas in 1947 we received interest which is taken to credit in the item below.

Mr. JACKMAN: One year it was called a dividend and the next year—?

Mr. COOPER: In 1946 the T.C.A. had a deficit, but as they had an accumulated surplus they paid a dividend out of the surplus. In 1947 the Canadian National charged interest on its investment at the same rates which the government had charged against the railway, and the railway accounted for it as interest income instead of dividend income.

Mr. JACKMAN: How much did you get on the dividend basis—5 per cent?

Mr. COOPER: Not in 1946. We took 3 per cent in 1946.

Mr. JACKMAN: In 1947?

Mr. VAUGHAN: The original T.C.A. Act provided for 5 per cent, but that was altered subsequently.

Mr. JACKMAN: The interest was 3 per cent, was it, to offset the government rate?

Mr. COOPER: No, the government charged us 1 per cent on $16,000,000, which the government advanced to the railway for T.C.A.—the interest charge was 1 per cent and we charged the T.C.A. 1 per cent.

Mr. VAUGHAN: It was just a temporary loan. It is now being charged at the rate of 3 per cent.

Mr. COOPER: From the 1st of April.

Mr. JACKMAN: They are very peculiar.

Mr. COOPER: No, Mr. Jackman, it came about this way. When we borrowed that money for the T.C.A. it was fully expected that the railway would make an issue of bonds to the public and repay the government in short order. It was short-term money and the government, we thought, should charge us interest at short-term money rates.

Mr. JACKMAN: You were going to put out an issue?

Mr. COOPER: Canadian National bonds.

Mr. JACKMAN: Of the same type as was done in the case of the Canada West Indies Steamships—T.C.A. bonds guaranteed by the government?

Mr. COOPER: No, sir, these were to be railway bonds guaranteed by the government; and had we made that issue we would have repaid the government the amount we had borrowed from them for the T.C.A. So that this T.C.A. loan from the government was short-term money and it carried the appropriate rate for short-term money.

Mr. JACKMAN: This last year you drew interest from the T.C.A. on the original capital investment; you charged them for the money, even though it is an investment in the stock of the T.C.A. and not an obligation of T.C.A., it is not a debtor obligation.

Hon. Mr. CHEVRIER: Let us not get into a discussion on the T.C.A. We are going to discuss that subject next week.

Mr. JACKMAN: Very well. Perhaps I will ask this gentleman a question now that we have an item relating to the railway ownership of the T.C.A. You are railway managers and not, perhaps, acting under instructions of a higher nature; would you be in favour of advancing sums of money to the T.C.A. from the standpoint of making a return?

Mr. VAUGHAN: In this patricular case the C.N.R. has been used as the means of financing T.C.A. and most of these T.C.A. services have been put on as a matter of government policy.

Mr. JACKMAN: I suppose that answers the question.

The CHAIRMAN: Is there anything on page 8?

Mr. McLURE: I see that pensions cost $502,481. Personally I would like to see that a little larger, for this reason, that in our section of the railway we have a lot of old minimum pensions. Would there be any possible chance of getting this increased with some amount of living bonus to give the men, good railway men, something of a retiring allowance that would be sufficient for them to live on. Today those in the lower brackets are receiving practically nothing.

Mr. VAUGHAN: To alter our practice in that respect would cost us a good deal of money. We feel we could not afford it. These men have had an opportunity, I think, of contributing to the pension fund.

Mr. COOPER: I think it should be pointed out that we had, at the end of 1947, 13,501 people on pension, and their average pension is $667 a year. There seems to be a thought that the C.N.R. pension is $25 a month. Our average pension is $667 a year, and that covers 13,501 people. We had 2,648 people drawing pension of $25 or under but that is less than 20 per cent of our pensioners. Less than 20 per cent of our pensioners receive the minimum pension. Now, a large number of those—in fact all who have gone out since 1935—are employees who chose not to contribute towards a higher pension. I have here a statement which shows what a man who contributes $5 a month toward his pension would get. After twenty years of service his pension, if he contributes $5 a month, would be $45 a month.

Mr. McLURE: If he retired after 1935?

Mr. COOPER: Yes. Had he contributed for twenty years $5 a month his pension would be not less than $45 a month; if he had thirty years' service his pension would be $64 a month; if he had forty years' service his pension would be $89 a month. That means that someone coming into the service at age twenty-five and continuing to age sixty-five and paying $5 a month would receive a pension of $89 a month. Five dollars a month is only 5 per cent of $100 a month, and our average annual wage is over $2,300. If he paid 5 per cent of $2,300 he would be paying well over $10 a month and his pension would be what I consider quite an adequate one.

Speaking of this minimum pension of $25 a month, it must be remembered that most of these people had an opportunity to improve on that and they have chosen not to do so. The fact is that we have 13,500 people on our pension roll and that is a lot of pensioners, and their average pension is over $660 a year. I do not think it can be said that the C.N.R. pension plan does not provide adequate pensions. It does if the employees will join in with the company to see that their old age security is provided for.

Mr. EMMERSON: Are there many left on the old I.C.R. provident fund?

Mr. COOPER: Yes. On pension at the end of 1947 there were 2,900.

Mr. EMMERSON: Are there many employees now employed at that?

Mr. COOPER: Yes, something like 5,800 members are still in employment.

The CHAIRMAN: Page 9.

Mr. HAZEN: May I ask a question here? I wish to refer to section 14 of the Canadian National-Canadian Pacific Act of 1936, which states that the directors shall make a report setting forth the results of their operations, any co-operative measures, plans or arrangements effected pursuant to this Act, any economies or more remunerative operation thereby produced . . . that is between the Canadian Pacific and the Canadian National. Has any report been made?

Mr. VAUGHAN: Yes, I think each year we have made a report. If you refer to page 9, the second last paragraph, you will find the report that was made in that connection.

Mr. HAZEN: In addition to abandoning these lines, were there any other co-operative measures taken between the Canadian Pacific and the Canadian National Railways in the public interest last year?

Mr. VAUGHAN: I do not think there were any which would come under that Canadian National-Canadian Pacific Act. We are studying arrangements with the C.P.R. from time to time.

Mr. HAZEN: That is the only thing that has been accomplished during the last year?

Mr. VAUGHAN: In connection with abandonments, it is.

Mr. MUTCH: Would that rate as an accomplishment?

Mr. HAZEN: I would like to ask a question about the International Aviation building in Montreal. Did you start the construction last May and has the building been completed?

Mr. VAUGHAN: About a year ago, yes. No, sir, it has not been completed.

Mr. HAZEN: What is its present position?

Mr. VAUGHAN: It is set out on page 8 of the annual report.

> The construction of the International Aviation Building above track level adjoining the Montreal Central Station is proceeding according to plan. The site has been cleared, the excavation in rock for the foundation columns is approaching completion, the steelwork, now being erected, should be completed by May 1948, and the contract for the building itself has been let. Work is proceeding on the construction . . .

That is all about aviation.

Mr. HAZEN: What has it cost the railway to date?

Mr. VAUGHAN: I think we can get that for you.

Mr. COOPER: I will have to look that up. We have it here.

Mr. VAUGHAN: Coming back to this co-operative arrangement you, of course, understand that the agreements in respect to pool trains are still in existence.

Mr. NICHOLSON: Last year the new ferry service to Prince Edward Island was inaugurated, between Prince Edward Island and the mainland. I presume Mr. McLure and the people are satisfied with the freight rates.

Mr. VAUGHAN: I have heard of no complaints. I suppose there are some complaints; I would be surprised if there were not. I think the people on the island are satisfied. Perhaps Mr. McLure can tell us about it?

Mr. MUTCH: If there were not complaints you would have been told.

Mr. NICHOLSON: I travelled on the ferry last year; it is very beautiful.

The CHAIRMAN: O.K., Mr. McLure, you had better tell us the story.

Mr. MCLURE: We have still a little difference. Our claim is that as regards the operating of the ferry—this is a claim which has been put forward more than once, as the honourable Minister of Transport knows—according to the terms of union we should not have a rate on the ferry more than it would cost for carrying the same cargo or the same freight over the highway for the same distance. In other words, that is a service that the government should give to us on account of our insular position and on account of the terms of the confederation pact. Therefore, we will never be satisfied until those terms are met. Notwithstanding the fact that we have a very fine boat there now, still the truck traffic is not of any benefit to us until we get the minimum rate that we should get according to the terms of confederation.

Mr. COOPER: May I answer Mr. Hazen's question? The figure is $264,000.

Mr. HAZEN: That is the amount which has been expended to date?

Mr. COOPER: To the end of 1947.

Mr. HAZEN: Last year, when did you expect to get this building finished?

Mr. COOPER: By June 30, 1949.

Mr. HAZEN: What is your estimate as to the cost?

Mr. COOPER: $3,840,000.

Mr. HAZEN: Have you arranged, as yet, for the rental of that building?

Mr. COOPER: We have not made a final agreement. The arrangement will be that we shall get a rental sufficient to cover the carrying charges, together with a small profit to the railways on its investment.

Mr. HAZEN: Did you not tell me last year that you expected, in a week or two, you would have a commitment with ICAO, or whatever it is called?

Mr. COOPER: Yes, I did.

Mr. HAZEN: What happened?

Mr. COOPER: Negotiations were begun between ICAO and the dominion government. Instead of the ICAO people taking the lease directly from the railway company, an arrangement has been made whereby the government will be the lessee and ICAO will be a sub-tenant of the government.

Mr. HAZEN: ICAO?

Mr. COOPER: That is the International Civil Aviation Organization.

Mr. HAZEN: Who is going to rent it now, the dominion government?

Mr. COOPER: And sublet a portion of it to the aviation organization.

Mr. HAZEN: That was not the plan you had in mind, was it, when you started construction?

Mr. COOPER: No, when we were here a year ago, I thought we would have a direct lease with ICAO.

Mr. HAZEN: Not only did you think that, but you said that in about two weeks you expected a commitment on what you would consider satisfactory terms. What happened, then, did they back out of it altogether?

Mr. COOPER: No, sir.

Mr. HAZEN: You will make your agreement direct with the government; that is a very convenient thing for you because you and the government can agree on any rent you like. The government pays you the rent which you think will cover the charges. Could you not come to an agreement of that kind with this organization with which you were negotiating previously?

Mr. COOPER: I understand it is involved with the United Nations and a lot of other high government policies. I am not too familiar with them.

Mr. HAZEN: Did the negotiations break down between you and ICAO?

Mr. COOPER: No, sir, they did not break down at all.

Mr. HAZEN: Were you told to discontinue them by the government?

Mr. COOPER: We were notified that the government would be in the picture and that the arrangement would be satisfactory to the railway, leaving up to the government and IACO the negotiations between themselves as to the terms of the sub-lease.

Mr. HAZEN: You call it ICAO?

Mr. COOPER: ICAO is I-C-A-O—International Civil Aviation Organization.

Mr. HAZEN: I see, you call it ICAO?

Mr. COOPER: Yes, sir, in talking of these organizations we abbreviate them.

Mr. HAZEN: Will the International Air Transport Association rent part of the building?

Mr. COOPER: Yes, sir, they will.

Mr. HAZEN: Has any agreement been made with them?

Mr. COOPER: No, because we were awaiting the main agreement with ICAO.

Mr. HAZEN: Will there be any other corporations in the building?

Mr. COOPER: Yes, Trans-Canada Air Lines will be in the building and several other of the aviation companies will be in it. The Canadian Pacific Air Lines will be in it; B.O.A.C. will be in it and K.L.M.

Mr. HAZEN: Have any of them entered into leases, as yet?

Mr. COOPER: No, it is rather difficult to enter into a formal lease when a building is not constructed.

Mr. HAZEN: I understood you were going to get enough from the rentals to amortize this building in 31 years?

Mr. COOPER: We intend to do that.

Mr. HAZEN: You could, if the government gives you enough to do that.

Mr. COOPER: We shall charge what we consider to be a proper rent. It will be computed on the cost of ownership and maintenance. It will cover all the charges as we compute them.

Mr. HAZEN: Did the question of the amount of rent have anything to do with ICAO changing its mind?

Mr. COOPER: No, sir, the amount of the rent has not yet been determined because we are not certain of our final cost. Originally, we spoke of a rent of $2.75 a foot and, at the present time, we are thinking in terms of $3 a foot. I have told the ICAO people and the others their rent will be about $3 a foot.

Mr. HAZEN: The estimated cost of this building was $3,000,000?

Mr. COOPER: $3,840,000.

Mr. HAZEN: That was your estimate last year, and is that your present estimate?

Mr. COPPER: This is a little higher than last year because our costs have been higher.

Mr. HAZEN: Your estimate now is $3,840,000. What was it last year?

Mr. COOPER: For the building itself it was $3,572,000.

Mr. JACKMAN: I do not suppose this is a firm contract?

Mr. COOPER: It is subject to an escalator clause.

Mr. JACKMAN: It is based on wages and such things?

Mr. COOPER: Yes.

Mr. JACKMAN: Who is building it for you?

Mr. COOPER: Anglin-Norcross, that is the building itself. The Dominion Steel Company is erecting the steel work.

Mr. HAZEN: This is what you told me last year. You said you thought within the next week or two you would have a commitment with ICAO and that you were only taking a chance of a week or two. It was a much bigger chance than that?

Mr. COOPER: I made that statement in good faith. At the time I made it I believed we would have our commitment. I have not the slightest doubt, in my mind, in due course, before occupancy takes place, we shall have a binding agreement.

Mr. HAZEN: But not with them?

Mr. COOPER: It will be with the government. From our point of view, we shall be better off.

Mr. HAZEN: Much better off; you can probably make a better arrangement with the government.

Mr. COOPER: All through the negotiations we were concerned with what would happen if ICAO were to fold up and walk out of Montreal. We were constructing this building substantially to their specifications, or at least, to their requirements. We were asking for certain guarantees in case the lease was broken. From our point of view, it is much preferable to have the lease to the Government.

Mr. HAZEN: There was no agreement entered into with them; they are not committed to any penalties?

Mr. COOPER: I told you I expected we would have a commitment, that was a year ago. I have told you the reason why we have not yet made a formal agreement.

Mr. HAZEN: No person is committed to any penalties?

Mr. COOPER: If we have a firm lease from the dominion government, I say we are in a better position than if we had a lease with ICAO.

Mr. HAZEN: You have not a firm lease with them, but you expect to get one?

Mr. COOPER: Yes.

Mr. REID: What was the original estimate of the cost of that building and what is it going to cost now?

Mr. COOPER: A year ago we estimated the cost of this office building at $3,572,000. Our present estimate is $3,840,000.

Mr. REID: The reason I asked that is that we built a hospital in the city of New Westminster. It took us over a year before we completed it and it had doubled in cost from the time of the original bids.

Mr. COOPER: There is no doubt our costs have gone up, and our rent will go up as the costs go up.

Mr. NICHOLSON: The plans you had a year ago included a new hotel?

Mr. VAUGHAN: That is somewhat in the future. Nothing has been done in connection with that except the preparation of drawings.

Hon. Mr. CHEVRIER: I am afraid so long as steel is as scarce as it is now, the hotel will have to wait.

Mr. JACKMAN: Is the demand for this building such that its immediate erection is imperative?

Mr. COOPER: You mean for the aviation building?

Mr. JACKMAN: Yes.

Mr. COOPER: I think we could rent it twice over.

Mr. JACKMAN: For the $3 a foot?

Mr. COOPER: We are speaking of $3 at the present moment.

Mr. JACKMAN: So far as making contracts for the space before the building is erected is concerned, there was no difficulty in that connection with the Bank of Montreal building in Toronto.

Mr. COOPER: Someone said they were getting $3.50 a foot for space.

Mr. VAUGHAN: I think it is fair to say, in connection with this building, the government did step in and say they would guarantee the rental. It must be remembered, of course, there are a great many countries involved in this international aviation organization and there are many ramifications in connection with that organization. These people expressed a wish, finally, to have a lease with the government instead of with us. The government undertook to guarantee us against any loss in connection with the building.

Mr. JACKMAN: It would appear as if $3 a foot would allow you to amortize it over a 31-year period?

Mr. COOPER: Yes, at the moment. We do not know what will happen before it is completed.

Mr. JACKMAN: Has this ICAO organization any real financial substance? Has it the right to draw on its members if faced with deficits?

Mr. COOPER: I do not think I can answer that.

Hon. Mr. CHEVRIER: Each country pays into the organization. Canada pays into the International Aviation Financial Organization. To what extent, I do not know. All the countries pay into it and it is from that fund the money is taken.

Mr. JACKMAN: Canada pays in as a country and not as T.C.A.

Hon. Mr. CHEVRIER: Not as T.C.A.

Mr. MUTCH: This is all very interesting, but what has it to do with the question before us?

Mr. MCLURE: Are you still considering erecting a building near the central station to house your help?

Mr. VAUGHAN: Some day we will have to do that. We have tentative plans for a building which will adjoin the so-called aviation building. We have not done anything about the actual construction. We are very short of office accommodation in Montreal. We have our office help spread all over. We have nearly two thousand, I think, under the Viaduct in a space which was originally intended as warehouse space.

Mr. MCLURE: Last year, when you were making a statement here you considered that was hardly suitable space to be occupied by help?

Mr. VAUGHAN: That is so, but costs are so terrific today we hesitate to embark on any large building projects unless we actually have to do so.

Mr. MCLURE: One more question in connection with page 8. Have you already given the operating profit on each of the hotels which makes up that total profit of $1,000,000 odd?

Mr. COOPER: We have not filed it as yet. We put it in the minutes of proceedings last year. Do you wish it read out?

Hon. Mr. CHEVRIER: I think last year you put it in the minutes.

Mr. COOPER: Yes, I can do that again.

Mr. REID: How is the Hotel Vancouver doing?

Mr. COOPER: In 1947, after paying us our full rent of $280,000 and after paying income taxes and setting aside 10 per cent for depreciation on furniture and furnishings, the Hotel Vancouver had a net income of $288,000.

Mr. REID: I am interested in that because that hotel certainly charges a lot.

Mr. MOORE: Last year, I asked a question about the building of a railway from some point on the Hudson Bay railway to Lynn Lake. I notice the mining developments are more positive in that area. I understand they are putting down a shaft in the Lynn Lake area. Do you intend building in that area this year?

Mr. VAUGHAN: That is a big job. We have not done anything about it at all. It would cost many millions of dollars. I think the construction of that railway is some distance in the future as yet.

Mr. MOORE: There have been no representations made for it as yet?

HOTELS

—	Revenues	Expenses	Taxes	Net
	$ cts.	$ cts.	$ cts.	$ cts.
Year 1947:—				
Charlottetown	270,814 90	222,616 12	5,867 95	42,330 83
Pictou Lodge	40,408 18	30,298 77	373,08	9,736 33
Nova Scotian	762,867 27	604,608 60	24,760 80	133,407 87
Chateau Laurier	2,663,534 51	2,133,829 69	87,732 19	441,972 63
Prince Arthur	381,013 61	306,598 70	6,258 52	68,156 39
Minaki Lodge	122,797 58	119,290 62	442,03	3,064 93
Fort Garry	901,439 23	733,892 88	33,920 06	133,626 29
Prince Edward	239,205 38	220,511 24	4,390 26	14,303 88
Bessborough	788,624 73	626,719 99	3,815 15	158,089 59
Macdonald	898,758 94	732,725 10	16,673 71	149,360 13
Jasper Park Lodge	759,531 41	613,084 40	9,775 98	136,671 03
	7,828,995 74	6,344,266 11	194,009 73	1,290,719 90
Year 1946:—				
Charlottetown	225,324 95	189,749 48	5,825 45	29,750 02
Pictou Lodge	30,376 35	28,024 41	395 41	1,956 89
Nova Scotian	793,194 38	632,930 17	20,317 50	139,946 71
Chateau Laurier	2,366,685 61	1,909,235 44	74,413 69	383,036 48
Prince Arthur	334,025 64	280,237 73	5,968 61	47,819 30
Minaki Lodge	113,771 32	93,088 67	396 65	20,286 00
Fort Garry	860,421 11	715,257 87	34,035 20	111,128 04
Prince Edward	208,499 20	197,171 56	4,449 16	6,878 48
Bessborough	719,186 63	570,140 88	3,742 68	145,303 07
Macdonald	801,795 06	682,986 57	16,916 48	101,982 01
Jasper Park Lodge	598,237 92	477,085 43	7,066 86	114,085 63
	7,051,518 17	5,775,908 21	173,527 33	1,102,082 53
Increase or *Decrease*	777,477 57	568,357 90	20,482 40	188,637 27

	Investment Dec. 31/47	Date opened	Number of guest rooms	Percentage of occupancy
	$ cts.			
Charlottetown	864,314 04	April 14, 1931	107	63·0
Pictou Lodge	215,577 87	1926	50	79·3
Nova Scotian	2,491,960 50	June 23, 1930	149	94·8
Chateau Laurier	9,067,998 89	Old wing June 1912	519	84·0
Prince Arthur	1,221,748 93	March 14, 1911	101	84·7
Minaki Lodge	1,102,972 96	1920	98	86·7
Fort Garry	2,948,436 91	December 1913	244	86·7
Prince Edward	538,045 17	June 1912	80	73·0
Bessborough	3,569,471 17	December 1935	255	72·6
Macdonald	2,302,144 08	July 1915	186	92·1
Jasper Park Lodge	2,824,038 36	1922	345	84·4
	27,146,708 88			

Mr. VAUGHAN: No.

Mr. JACKMAN: When you explained the lowered dividend income for this year over last year by reason of the fact certain T.C.A. interest or dividends were not included in the interest income, it nevertheless turns out the interest income itself is down over the previous year.

Mr. COOPER: As you know, we have been drawing on our deferred maintenance fund. We have been selling the bonds which were in that fund to meet expenditures and, of course, as we sell the bonds the income of the fund is also reducing.

Mr. JACKMAN: You do not add interest on the bonds held in the deferred maintenance account to the deferred maintenance account?

Mr. COOPER: That is right, we have always done that.

Mr. REID: Have you given up any thought of taking over the P.G.E.?

Mr. VAUGHAN: We are not considering that very seriously at the present time.

Mr. JACKMAN: Is that the line which is connected to the P.G.E. which goes up to the Peace River country? Is that your potentiality or the Canadian Pacific's?

Mr. VAUGHAN: That would be a P.G.E. potentiality. The British Columbia government were looking for someone to complete the line from Quesnel up to Prince George and from Clinton down to the main line of the C.P.R. or the C.N.R. and to extend a line up to the Peace River country.

Mr. JACKMAN: If it goes through, would it come under your system or the C.P.R. or would you both want it?

Mr. VAUGHAN: We would not want it unless someone paid the operating expenses.

Mr. JACKMAN: You do not think it is within the immediate future?

Mr. MUTCH: What you mean is that whoever gets stuck with the P.G.E. gets stuck with that.

Mr. JACKMAN: It is great country.

Mr. VAUGHAN: It is great country, but it will be a long time before a railway could be made to pay in that area.

Mr. REID: Even with the coal reserves up there?

Mr. VAUGHAN: There has been a lot said about the coal, but there is a lot of coal in other parts of the country, too, in which railroads already exist.

Mr. JACKMAN: You think it is a long way off?

Mr. VAUGHAN: I would think so, unless some provincial or the dominion government is prepared to pay for it.

The CHAIRMAN: Are there any other questions?

Mr. HAZEN: Yes, I should like to tell the secretary of this committee that I did not receive any notice of this meeting. If he sent me one, it may have been mislaid in the mail. I have some regrets about this because there were quite a number of questions I should have liked to ask, and I am hardly prepared to ask them at the moment.

Hon. Mr. CHEVRIER: We will be here all week.

Mr. HAZEN: Yes, but you will not be on these items.

Hon. Mr. CHEVRIER: We shall not hold you up.

Mr. HAZEN: I should like Mr. Vaughan to tell us whether there was any statutory enactment which compelled the Canadian National Railways to reduce the freight rate to Portland, Maine, effective November 17, last?

Mr. VAUGHAN: I do not think so.

Mr. HAZEN: Did you reduce those rates at the request of Moore-McCormick?

Mr. VAUGHAN: I think, if you are going to discuss those freight rates we ought to have Mr. Fraser, our traffic vice-president here. Our traffic department handled that particular matter. I do not know whether the request came from Moore-McCormick or not. My understanding is that the move was done solely with the object of holding that business to the Canadian National Railways, rather than letting it go via foreign lines to Boston, New York, Philadelphia or some place else.

Mr. HAZEN: Do you expect Mr. Fraser will be here?

Mr. VAUGHAN: He could be here any time you wish.

Mr. HAZEN: I wish to ask someone some questions about it.

Mr. VAUGHAN: We could have him here tomorrow, if you wish.

Mr. HAZEN: That is all right with me.

Mr. VAUGHAN: We will see if we can get him here.

Mr. REID: The amount of grain going through Pacific ports in 1930 amounted to approximately a hundred million bushels, 50 per cent of which was carried by the Canadian National. What has happened to that traffic?

Mr. VAUGHAN: Did you say Portland?

Mr. REID: No, the trade going through Pacific ports in grain?

Mr. VAUGHAN: As you know, Mr. Reid, we do not route the grain. We carry the grain to any point as directed by the grain board.

Mr. REID: They are the ones I should hold to account for it?

Mr. VAUGHAN: We handle the grain to wherever it is directed.

Mr. REID: I put this before you; some thought should be given to your company getting on the water-front in British Columbia. As it is, you come to Port Mann, which is the terminus. Then, you have to operate over leased lines costing you $15 a car from there into Vancouver. You land on the flats. Then, you have to transfer your cars to the water-front and pay another charge to get your grain and goods out from the city of Vancouver. I believe you are losing a great deal of money by being subservient to the Great Northern, the Canadian Pacific and the Vancouver Harbour Railways. You are stuck in the centre of Vancouver. If you have goods to the Orient, you have to get to the water-front and pay $15 a car.

While I am at it, I should like to know this; why do the boats having cargoes for the east not go right up to the port of Vancouver instead of the Canadian National carrying from Vancouver island and paying freight charges to bring the cargoes from the Vancouver island to Port Mann? These ships from Great Britain and the other countries bringing wool, silk and other cargoes which are going to be shipped east, there is no reason why these boats could not be brought right up to the port of New Westminster, and the cargoes shipped by rail, instead of the Canadian National maintaining a car service to take the cargo off the boat on Vancouver island and bringing it across to Port Mann.

Mr. VAUGHAN: We should like to see some of those boats go to New Westminster. There again, we cannot compel them to go there. What you say about our situation in Vancouver is quite true. It is not good. It is one we have been trying to overcome. We have studied the situation on different occasions. We have a fairly good agreement with the Great Northern. The Harbour Board controls a certain number of tracks there, but the Canadian Pacific control most of them.

Mr. REID: The Canadian Pacific has control of the water-front in Vancouver.

Mr. VAUGHAN: On a number of occasions we have been considering the question of making a satisfactory arrangement. That matter is now being studied because we realize we are not in a good position in Vancouver so far as import and export traffic is concerned.

Mr. REID: You are working for the other railways. $15 a car to cross a bridge into Vancouver is a big toll.

Mr. VAUGHAN: I think the Harbour Board has been giving some study to it, Mr. Chevrier.

Hon. Mr. CHEVRIER: They have for some years.

The CHAIRMAN: Did I understand, Mr. Hazen, that you did not get notice for any meeting today?

Mr. HAZEN: No, I do not think I got any notice. I got no notice for any meeting. I do not know when I looked at my box last. It may have been a slip-up. Perhaps notice was sent and I did not get it. I might not have seen it. I do not blame anybody for it. That is just the explanation why I was not here this morning.

The CHAIRMAN: May I say also, Mr. Hazen, that I have a communication regarding the Portland scheme and the Moore-McCormick lines from another member of the House, Mr. Isnor. When Mr. Fraser comes here I will read that at the same time and he can answer all questions if that is O.K.

Mr. JACKMAN: On page 4 under deductions from income, results of separately owned properties, apparently we had a loss of $600,000 last year against a profit of $337,000 the year before.

Hon. Mr. CHEVRIER: Can we not discuss that on page 12? I understood we had passed page 4, and were now at page 12.

Mr. MUTCH: We rose on page 12. We have not got back to it this time.

Hon. Mr. CHEVRIER: Do you mind asking the question on page 12?

Mr. JACKMAN: I do not know what difference it makes.

Hon. Mr. CHEVRIER: It makes this difference, that if we want to spend two weeks discussing this report I suppose we can.

The CHAIRMAN: What was the question?

Mr. JACKMAN: There is an item here which I do not know anything about, and it is fairly substantial. It is under deductions from income, results from separately operated properties. To begin with I do not know what they are. In black letters it shows a loss of $600,000, and in italics there is a profit of $337,000 the year before, about a million dollars difference. I merely asked for an explanation of what it was.

Mr. COOPER: Would you mind turning to page 22 first?

Mr. JACKMAN: Would you rather have it raised afterwards?

Mr. COOPER: I can deal with it now. I will ask you to turn to page 22 which shows a list of companies comprising our system. You will notice a number of them are identified by an asterisk. They are the companies the results of which go into this particular account. You see there Canadian National Railways (France), Canadian National Realties Limited, Canadian National Steamship Company Limited, Canadian National Transportation, Limited. I think there are 27 of them altogether. Do you want the results of each one?

Mr. JACKMAN: Just generally. You lost money on them this year as compared with the previous year.

Mr. COOPER: Some of them made a profit and some of them made a loss, but in the aggregate there was a loss. One of them, for example, would be Northern Alberta Railways, a company which we operate jointly with the Canadian Pacific. In 1947 they had a loss of $663,000 (that is our one-half share) which compared with a loss in the previous year of $495,000. The loss of the Northern Alberta Railway Company alone, $663,000, accounts for the loss in that group. The Niagara, St. Catharines and Toronto Railway Company in 1947 had a loss of $220,000 as compared with a loss of $35,000 the previous year. The Canadian Northern Land Department, which in 1947 had a profit of $248,000, in the previous year had a profit of $618,000. There was a considerable reduction in the amount of western Canada land sold. The Canadian National Steamships on the Pacific coast had a loss of $95,000 in 1947 compared with a small profit in 1946. Those four or five companies I have mentioned are the principal companies in that group of 27 separately operated properties.

Mr. JACKMAN: In other words, some of the subsidiary companies—you call them separately operated properties—suffered the same as the railway did last year as compared with the year before?

Mr. COOPER: Yes, they also had to meet rising costs of labour and materials.

Mr. JACKMAN: The main loss is probably occasioned through the C.N.R. land development?

Mr. COOPER: It was not a loss.

Mr. JACKMAN: Less profit.

Mr. COOPER: Less profit. There was about $370,000 less profit on the land department.

Mr. JACKMAN: That is the sale of farm acreage, ranch acreage?

Mr. COOPER: Yes, acreage in western Canada land which was granted to the Canadian Northern and Grand Trunk Pacific when they were projected.

Mr. JACKMAN: I thought all your lands were taken over by the Canadian Northern Prairie Lands Company in the old days.

Mr. VAUGHAN: No, that was an independent company entirely apart from the railway.

Mr. JACKMAN: It did get railway lands, did it not?

Mr. VAUGHAN: It did. I think it bought some of these lands from the Canadian Northern Railways.

Mr. JACKMAN: Have you very much acreage left?

Mr. COOPER: I do not think we have a great deal, but I can get the figure and give it to you.

Mr. JACKMAN: Is there very much in Saskatchewan?

Mr. COOPER: I could not say.

Mr. JACKMAN: When you sold land did you reserve the mineral rights?

Mr. VAUGHAN: The mineral rights have been reserved in most cases.

Mr. JACKMAN: In Saskatchewan?

Mr. VAUGHAN: We had to give up some mineral rights in Saskatchewan to avoid taxation.

Mr. JACKMAN: You are following that policy where you are being assessed?

Mr. VAUGHAN: Yes. We will file a statement of the unsold lands.

Mr. JACKMAN: Have you been fortunate enough to discover any minerals in these properties?

Mr. VAUGHAN: There has not been any great mineral development on any of our property as yet.

Mr. JACKMAN: Do you expect your land department will continue for many years or is it almost gone now?

Mr. COOPER: They have certain lands which have not yet been sold, and they have land which is under contract, the payments on which are on an annual basis. Some of those contracts run along for a considerable time.

Mr. JACKMAN: Do you expect this account will be running for another ten years?

Mr. COOPER: I would think so.

Mr. VAUGHAN: Our land department looks after other things besides prairie lands. They have city land and right-of-way and matters of that kind to deal with.

Mr. HAZEN: I should like to clear up a point. In checking over the figures Mr. Cooper gave me about the International Civil Aviation building he told me, as I took it down, that your estimate last year was $3,572,000 and it is now $3,840,000. Those are the figures as I have quoted them. Is that right?

Mr. COOPER: Those are the figures I gave a few minutes ago.

Mr. HAZEN: I want to call your attention to that. I think there is something wrong there. On page 20 of the minutes of our proceedings of last year you say: "The estimated cost of this international aviation building—because that is the name of it—is $3,936,000. The estimate carrying charges are $406,000. That is per annum. The annual revenue is estimated to be $544,000." That was the gross revenue. You will notice the figure I have just read is $3,936,000. That differs from the figures you gave a few minutes ago. I was wondering if you could correct that.

Mr. COOPER: I would have to refer back to the figures but briefly the explanation is that last year we were talking about the aviation building including a connecting building, and the figures I gave also included certain railway work which was all in the one project. In connection with this we have done certain work which is purely for the railway and has nothing to do with the aviation building. Last year we were talking more or less about the project as a whole. I have broken it down this year and I have given you the figures for the aviation building separately from the connecting building and the railway works.

Mr. HAZEN: I am a little puzzled still about it because you gave us the estimated cost and the carrying charges.

Mr. COOPER: I have given you the explanation of it.

Mr. HAZEN: No mention was made of that last year.

Mr. COOPER: I grant you that. Last year the discussion was in a way sprung on us, and we did not have our estimates broken down. We knew what we were going to do and I gave you the figures at the time. Twelve months have gone by, and we have had an opportunity to break the work down to the different parts. You asked me today what the cost of the aviation building is separate from all the other things and I have given you the figures.

Mr. HAZEN: Just a minute. I am still puzzled because you say the estimated cost of the main building—that is the one here—is $3,936,000. That was the cost of the building. Then you told us what the carrying charges were going to be on that building, $406,000. Now you say that $3,936,000 included something else.

Mr. COOPER: It included—

Mr. HAZEN: You say the figures you gave us today are right and the others are wrong?

Mr. COOPER: No, I say they are both right. Strange as it may seem I say they are both right, but we are really talking about something a little different. The building we had in mind last year was the aviation building together with the connection which was intended to join to the office building which was going to be constructed. We had in mind a year ago we would be going ahead with the office building. I gave you the estimated cost of the first stage which included the aviation building and the connecting building. The connecting building is a small affair adjoining the two buildings together.

Mr. HAZEN: Then you gave me the carrying charges.

Mr. COOPER: I can give you the carrying charges again.

Mr. HAZEN: Were you referring to the carrying charges of the—

Mr. COOPER: Of both.

Mr. HAZEN: Just the aviation building or the connecting building?

Mr. COOPER: No, I gave you the carrying charges on the two. If you want the carrying charges on the aviation building I will give them to you.

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1947

ASSETS

INVESTMENTS:			
Road and Equipment Property	$2,009,365,828.19		
Improvement on Leased Property	2,152,436.91		
Miscellaneous Physical Property	62,363,084.92		
		$2,073,881,350.02	
Capital and Other Reserve Funds:			
System Securities at par	$ 666,500.00		
Other Assets at cost	6,781,396.90		
		7,447,896.90	
Deferred Maintenance Fund		25,000,000.00	
Investments in Affiliated Companies		59,794,603.17	
Other Investments:			
System Securities at par	$ 80,000.00		
Other Assets at cost	874,035.29		
		954,035.29	$2,167,077,885.38
CYRRENT ASSETS:			
Cash		$ 13,538,605.15	
Temporary Cash Investments		5,477,649.66	
Special Deposits		5,191,995.19	
Net Balance Receivable from Agents and Conductors		16,708,642.43	
Miscellaneous Accounts Receivable		9,979,480.59	
Trans-Canada Air Lines Advances		1,000,000.00	
Dominion of Canada—Balance due on Railway Deficit		3,885,194.28	
Material and Supplies		62,945,537 23	
Interest and Dividends Receivable		632,048.21	
Accrued Accounts Receivable		3,628,282.95	
Other Current Assets		356,308,35	
			123,343,744.04
DEFERRED ASSETS:			
Working Fund Advances		$ 383,586.10	
Insurance Fund:			
System Securities at par	$ 5,549,904.37		
Other Assets at cost	6,790,864.59		
		12,340,768.96	

LIABILITIES

STOCKS:		
Capital Stocks of Subsidiary Companies held by Public		$ 4,570,940.00
LONG TERM DEBT:		
Funded Debt Unmatured:		
Held by Public	$ 572,554,357.52	
Held in Special Funds	10,305,404.37	
		582,859,761.89
DOMINION OF CANADA—LOANS		689,470,348.51
CURRENT LIABILITIES:		
Traffic and Car-Service Balances—Credit	$ 11,920,679.59	
Audited Accounts and Wages Payable	21,203,965.16	
Miscellaneous Accounts Payable	6,767,441.33	
Interest Matured Unpaid	4,738,811.97	
Interest Payable to Dominion of Canada	18,858,212.91	
Unmatured Interest Accrued	5,984,356.75	
Accrued Accounts Payable	6,642,662.13	
Taxes Accrued	3,677,647.31	
Other Current Liabilities	1,856,785.42	
		81,650,562.57
DEFERRED LIABILITIES:		
Pension Contract Reserve	$ 40,915,000.00	
Other Deferred Liabilities	5,565,397.93	
		46,480,397.93
RESERVES AND UNADJUSTED CREDITS:		
Insurance Reserve	$ 12,340,768.96	
Accrued Depreciation—Canadian Lines—Equipment only	99,925,359.96	
Accrued Depreciation—U.S. Lines—Road and Equipment	25,120,276.76	
Accrued Amortization of Defence Projects	3,501,861.23	
Deferred Maintenance Reserve	25,000,000.00	
Other Reserves	1,023,474.84	
Other Unadjusted Credits	8,135,334.38	
		175,047,706.13
DOMINION OF CANADA—PROPRIETOR'S EQUITY—(See Note)		
Represented by:—		
1,000,000 shares of no par value capital stock of Canadian National Railway Company	$ 18,000,000.00	

Pension Contract Fund:			
System Securities at par..................	$ 4,009,000.00		
Other Assets at cost.	36,906,000.00		
		40,915,000.00	
Other Deferred Assets..................		2,850,123.59	
			56,489,478.65
UNADJUSTED DEBITS:			
Prepayments..............................		$ 71,821.18	
Discount on Funded Debt................		4,322,828.22	
Other Unadjusted Debits................		2,969,230.70	
			7,363,880.10
			$2,354,274,988.17

5,000,000 shares of no par value capital stock of The Canadian National Railways Securities Trust..................	378,518,135.02	
Capital Expenditures by Dominion of Canada Government Railways.........	377,677,766.12	
		774,195,901.14
CONTINGENT LIABILITIES:		
Major contingent liabilities, as shown on statement attached.		
		$2,354,274,988.17

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railways System for the year ended the 31st December, 1947.

The total amount of the Investments in fixed Properties and Equipment as brought into the System accounts at the 1st January, 1923, from the books of the several Corporations and the Canadian Government Railways was accepted by us.

On the Canadian Lines, depreciation accounting for Equipment has been applied only from the 1st January, 1940, retirement accounting continuing in effect for Fixed Properties.

Subject to the foregoing, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1947, and that the relative Income Account for the year ended the 31st December, 1947, is correctly stated.

As required by Section 13 of The Canadian National-Canadian Pacific Act, 1936, we have reported to Parliament in respect of our annual audit. Such Report for the year 1947 consists mainly of comments of an explanatory nature regarding the financial accounts but also includes references to other matters which we deem may be of interest to Parliament.

GEORGE A. TOUCHE & Co.,

10th March, 1948.

Chartered Accountants.

NOTE.—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act, 1937.

T. H. COOPER,
Vice-President and Comptroller.

Mr. HAZEN: I should like the carrying charges if we have not got them. I should like the carrying charges on the aviation building according to your present estimated cost.

Mr. COOPER: The annual charges are estimated to be $424,718.

Mr. HAZEN: They have gone up about $18,000. What is your estimated annual revenue now?

Mr. COOPER: If we figure it at $2.75 a foot our annual revenue is $555,000.

Mr. HAZEN: It remains the same?

Mr. COOPER: Is that the figure I had last year?

Mr. HAZEN: $544,000.

Mr. COOPER: It is $555,000. We are still figuring here at $2.75 a foot but I have explained we probably shall increase that rent, but at $2.75 a foot the annual revenue is figured at $555,365. The difference between the two figures I am quite sure is due to the square footage which changes from time to time the way the space is laid out.

The CHAIRMAN: Is that clear, Mr. Hazen.

Mr. HAZEN: There is nothing more to add?

Mr. COOPER: No, sir. Are there any questions?

Mr. HAZEN: I think when I first asked you you said you would have to go back to get further information but you have it all there.

The CHAIRMAN: Suppose we take page 12 and 13, the consolidated balance sheet. You may wish to ask Mr. Cooper a lot of questions or perhaps he would like to make a statement or discuss it with you first. I forget the procedure we used last year.

Mr. JACKMAN: There is a very big difference in the discount on funded debt, the amortization of discount on funded debt, between the two years. Is there anything special there?

Mr. COOPER: Yes. We had two issues which were callable in the early part of 1948. We had an issue of $20,000,000 3 per cent bonds which we could call for payment February 1, 1948, and we had an issue of $25,000,000 of 3 per cent bonds which were callable for payment February 15, 1948. In 1947 those issues were called for redemption and the unexpired discount was written off into the 1947 income statement.

Mr. JACKMAN: Were those bonds payable in Canada only?

Mr. VAUGHAN: Yes, sir.

Mr. COOPER: They are all Canadian bonds.

Mr. JACKMAN: And refunded in Canada?

Mr. COOPER: We borrowed the money from the government.

Mr. JACKMAN: On short term?

Mr. COOPER: It was long term.

Mr. JACKMAN: Three per cent?

Mr. VAUGHAN: We borrowed the money at $2\frac{1}{2}$ per cent.

Mr. JACKMAN: The next item is fairly substantial, too, miscellaneous income charges, $457,000 against $1,130,000. Is there anything special there?

Mr. COOPER: That is a reduction, of course. It is due to the abolition of the discount on United States money.

Mr. JACKMAN: July 5, 1945?

Mr. COOPER: 1946, I believe it was.

Mr. JACKMAN: So for half a year you had a 10 per cent premium and after that you did not?

Mr. COOPER: Yes.

Mr. JACKMAN: That largely accounts for this?

Mr. COOPER: This is a gain due to being freed from discount on United States funds.

Mr. JACKMAN: It is nice to know somebody is gaining by it.

The CHAIRMAN: Any other questions on page 12?

Mr. McLURE: I have one question on page 9. I did not think you were finished with page 8. It is in reference to the Northumberland ferry vote which was passed the other day, item 557. I take objection to calling it a deficit. It deals with the deficit for the Prince Edward Island ferries of some odd $900,000. My claim last year was this should not appear in the public accounts as a deficit but should appear as a service the same as all other government services that are paid out of the consolidated revenue. This is the only one and it appears as a deficit against Prince Edward Island.

Hon. Mr. CHEVRIER: The Hudson's Bay Railway appears also.

Mr. McLURE: Take the canals in Ontario and Quebec. They cost hundreds of millions of dollars to build and also have a deficit of $4,000,000 or $5,000,000 annually. That never appears against the province of Quebec or Ontario as a deficit but always as a service, and it should appear in our accounts the same way, a government service paid out of the consolidated revenue, and should not be marked as a deficit.

Hon. Mr. CHEVRIER: All subsidies for services appear as deficits when deficits exist in all provinces in Canada. In the further supplementary estimates on March 31, 1948, we voted to provide for deficits in Ontario and in Quebec and in the eastern and western provinces.

Mr. McLURE: Are they stated as deficits? Take your canals. They are never stated as deficits. They are always paid as services.

Hon. Mr. CHEVRIER: That is different.

Mr. McLURE: In the agreement of 1873 this was a service also and not a deficit.

Hon. Mr. CHEVRIER: It is a subsidy for a service.

Mr. McLURE: It is not a subsidy in the sense of a subsidy.

Hon. Mr. CHEVRIER: I suppose we could enter into a discussion on the legality of the term "subsidy".

Mr. McLURE: It would be just as easy to call it a service the same as the others instead of having it appear as a deficit.

Hon. Mr. CHEVRIER: The Hudson's Bay Railway appears as a deficitary operation as well.

Mr. McLURE: That is different. They are not under a contract for service. According to the agreement the province of Prince Edward Island is. I do not want to bring this up time after time but it is always a matter that is like a sore thumb.

Hon. Mr. CHEVRIER: I am seized of its importance now.

Mr. McLURE: I hope when the amount is coming up another year it will come in as a service instead of as a deficit.

Mr. JACKMAN: On page 7 the president reports: "Apart from the impact these higher prices have on the costs of operation, they necessitate an enlargement of the railway's working capital." I realize how you make up your deficit if you have one, by appropriation under parliament, but if you need more working capital you simply put it in the budget?

Mr. VAUGHAN: You will find something in our budget this year for that.

Mr. JACKMAN: We have not got the budget yet.

Mr. BROWN: No, we will deal with it at the end.

The CHAIRMAN: Is there anything else on page 12?

Mr. NICHOLSON: On page 12 I notice there is $12,340,768 in the insurance fund. I wonder if Mr. Cooper has the record for the past few years. How long has it been over $12,000,000?

Mr. COOPER: It has been stationary at about $12,000,000 for some time. We really have a ceiling on the fund. We feel it is sufficient now to protect us against the risks, and the arrangement is that if there is a surplus in the fund at the end of the year we transfer it to the railway accounts, and if there is a deficit we pay in the additional premium. I think only in one year have we had a deficit. The amount in the fund remains stationary from one year to another.

Mr. NICHOLSON: Have you the amount of the losses over a period of years? Have you those available?

Mr. COOPER: The losses charged to the fund?

Mr. NICHOLSON: Yes.

Mr. COOPER: I can give them for 1947. I can get them for the previous years. In 1947 our losses charged against the fund were $400,000. Our premium income was $102,000. Our income from investments was $597,000. Our losses were $400,000. The administrative cost was $21,000. That makes a profit of $277,000, which was transferred from the fund to the railway income statement.

Mr. NICHOLSON: How much?

Mr. COOPER: $277,000.

Mr. NICHOLSON: Would it be too much trouble to get the figures for the last ten years?

Mr. COOPER: We can do that without any trouble.

The CHAIRMAN: Any other questions on page 12?

Mr. HAZEN: I should like to ask a question. I do not know whether or not I am in order. On page 10 it reads:

> Attention is once more directed to the lack of equality of competitive conditions as between rail and highway transport.

I think that is a very important matter to direct the attention of the government to. What I should like to ask Mr. Vaughan is, have you considered any solution for the situation? Have you any suggestions as to what should be done?

Hon. Mr. CHEVRIER: We had a suggestion in 1939 when Mr. Howe brought down a bill to amend the Transport Act.

Mr. HAZEN: What year was it?

Hon. Mr. CHEVRIER: I am informed it was in 1938—in which he included a section which would give the Board of Transport Commissioners jurisdiction over the certain highways. The opposition of the provinces was such that it simply had to be withdrawn. The provinces take the view that they are the masters of their highways, and they do not like to have federal interference. Until you get agreement between the two bodies on that very delicate subject I do not think you will find the government, in view of the attitude that was taken in that session of parliament, very anxious to bring in legislation which might be interpreted as taking away from the provinces certain of their rights.

Mr. HAZEN: It does present a problem that is very difficult of solution.

Hon. Mr. CHEVRIER: I agree with you it is one that is difficult of solution. While I am offering only my own personal view on it I think it is one for dominion-provincial relations.

Mr. HAZEN: I was going to suggest that possibly some time it could be brought up at a dominion-provincial conference with the hope of getting something done.

Hon. Mr. CHEVRIER: There was in the green book a series of items on the agenda, and in the green book there was also reference to the transportation problem. Unfortunately it was never reached.

Mr. HAZEN: I think there is great lack of equality.

Hon. Mr. CHEVRIER: I agree.

Mr. HAZEN: As the president points out it is most unfortunate.

Mr. VAUGHAN: We have a department that has studied that very carefully and has full data on it, but as Mr. Chevrier says it is a delicate matter to deal with.

Mr. NICHOLSON: I wonder if the minister has taken any steps, since taking over the portfolio, to try to convene a dominion-provincial conference on this level to try to reach some agreement.

Hon. Mr. CHEVRIER: I have not taken any steps nor have I any intention of taking any steps after what I have seen take place in the last dominion-provincial conference. Before doing anything I should like to have some assurance there would be some possibility of agreement, but knowing what happened in 1938 I doubt very much whether the provinces have changed their views.

Mr. NICHOLSON: That is ten years ago. It is an important national problem. Just because one conference fails there is no reason why another might not be attempted.

Hon. Mr. CHEVRIER: That may be.

Mr. GIBSON: Is it not a fact that the railroads move a ton of freight a mile cheaper than any other form of transportation on land?

Mr. VAUGHAN: Mass transportation, yes, if all factors of cost are taken into consideration there is no doubt about that.

Mr. GIBSON: Do you think you would be in a competitive condition with trucks on that basic factor?

Mr. VAUGHAN: Yes. For instance, the railway has to build its own right of way. It has to maintain that right of way. It has to pay interest and taxes on that right of way.

Mr. HAZEN: You have to pay higher wages, too.

Mr. VAUGHAN: Yes, we have to pay higher wages. There is no doubt about that, but after all factors of cost have been taken into consideration it has been proven beyond doubt time and again that in the United States and Canada the railway is still the cheapest form of transportation in distances beyond 50 or 100 miles.

Mr. MOORE: It should be possible to arrange something whereby truck transportation would actually assist the railroad.

Mr. VAUGHAN: We have a good many arrangements with the trucking companies for highway and rail movements, wherever we think there is an advantage to ourselves to do that; and that is developing all the time.

Mr. JACKMAN: I should like to ask a legal question and perhaps Mr. MacMillan would go on the record in connection with the Saskatchewan lands which are owned by the railroad and where the mineral rights were reserved by the company, which mineral rights have now been given up because of the tax.

Was there anything in the agreement between the dominion and the newly created province of Saskatchewan protecting those who had mineral rights preserved to them, so that they would not be lost?

Mr. VAUGHAN: Perhaps Mr. MacMillan might answer you.

Mr. MACMILLAN: I really cannot answer that because I are not familiar with the terms of the agreement; but I would doubt that there is anything in the statute.

Mr. VAUGHAN: As far as I know, there is nothing.

Mr. JACKMAN: In connection with the Manitoba waterpowers, there is a very definite reservation as to what Manitoba can do with regard to the waterpowers which were granted to the various interests, if subsequently taken over. This is not, in form, a taking over, but it has the effect of compelling people who have mineral rights reserved to them to give them up.

Mr. VAUGHAN: All the interests concerned have made frequent representations to the province of Saskatchewan in this matter.

Mr. JACKMAN: From the legal point of view, you have no protection.

Mr. VAUGHAN: So far as I know, no.

Mr. JACKMAN: In regard to general information under taxes, you mentioned that, with the expiration of the agreement between the dominion and the provinces for war purposes, there is an item to be considered, inasmuch as the system, in general, is not showing a profit, with respect to its Ontario and Quebec assessed taxation.

Mr. VAUGHAN: Mr. Cooper has the particulars of that.

Mr. COOPER: It is according to the mileage of the railway in the province.

Mr. JACKMAN: That had been given up during the war?

Mr. COOPER: Yes. For five years the province agreed to get out of the corporation and personal income tax field, so they did not collect corporate taxes of any kind during that five-year period.

Mr. JACKMAN: In place of paying corporation taxes to either of those provinces?

Mr. COOPER: During the period of the agreement, there was no tax paid to the province.

Mr. JACKMAN: But prior to that time you paid not on the net result, but on the basis of mileage?

Mr. COOPER: That is so.

Mr. JACKMAN: So now you are actually back on a mileage basis, profit or loss?

Mr. COOPER: Exactly where we were prior to the five-year agreement.

Mr. JACKMAN: Have you readily available the amount of the taxes paid on the mileage basis?

Mr. COOPER: In 1947, for Ontario, we accrued $457,000. In Quebec, $60,000. There is a difference there, in that Quebec municipalities have wider taxing powers than in Ontario.

Mr. JACKMAN: Do you not feel in regard to this whole matter of profit taxation that if you can show you are not making a profit in either of these provinces, then there is good reason for the argument that you should not pay taxes, because you did not have any earnings on which to pay them?

Mr. COOPER: It is not a tax on earnings, but rather a tax on the value of the property, measured, in this case, by the mileage of the railway in the province.

Mr. JACKMAN: Surely. The basis of mileage was taken in lieu of being able to departmentalize earnings per province.

Mr. MACMILLAN: I do not think it is, because the province of Ontario, for many years, has had a railway assessment Act, which is a statute under which the railway facilities are assessed for municipal taxation. They exclude certain facilities and permit assessment, but the right-of-way is assessed on the value, on the average value of the adjoining lands. Facilities, structures, building, and things of that nature are exempt, excepting those facilities where labour is employed. That is not quite the way it is set forth in the statute, but it is a rough review of the situation.

Mr. JACKMAN: It is always in lieu of municipal taxation rather than income tax.

Mr. MACMILLAN: Yes.

Mr. JACKMAN: That was given up as part of the corporate and personal income tax during the war?

Mr. COOPER: No. This was an overriding provincial tax.

Mr. MACMILLAN: You have the two systems. The provincial tax which was vacated by the province during the term of the dominion-provincial agreement, and also municipal taxes on facilities.

Mr. JACKMAN: That was made part of the dominion-provincial agreement; this tax you are now paying to Ontario and Quebec, you did not pay during the war?

Mr. COOPER: We continued to pay municipal taxes during the five-year period.

Mr. JACKMAN: But the president's report says: "Taxes. The provision made in the accounts for taxes increased $2,765,075, mainly attributable to a settlement of claims by the cities of Halifax and Saint John, resumption of provincial taxes in Ontario and Quebec on the expiration of the wartime agreement with the federal government..." That is one of the reasons for the higher tax charge.

Mr. COOPER: The provinces came back into the tax field and began to assess corporation taxes. In the case of the railway, it is based on the mileage; in the case of telephones it is based on something else; and in the case of express companies it is based on something else. But, with respect to railways, it is calculated on the amount of mileage you have in the province.

Mr. JACKMAN: Well, it is something you have now which you did not have in the war years.

The CHAIRMAN: Is there anything on page 13?

Mr. MCLURE: Due to the fact that buses run down to the Borden ferry, has the Canadian National Railways any legal authority for charging those buses $1.50 a trip down to the ferry? It is a great inconvenience to the public. The bus service may run down, it may be from some part of the island where is no railway service. Then they have to get out of the bus at the station and buy a ticket for five cents or ten cents, which should be included in their sixty-five cents ride across, and they have to get their luggage all out. Whereas, the bus company, if they refuse to pay the $1.50, leave the passengers at the first station. So I would like to know if the Canadian National have that authority, legally, to say that the bus cannot run down to the pier.

Mr. VAUGHAN: I do not suppose we are doing anything that we have not got authority to do.

Mr. MACMILLAN: Where does the bus run from?

Mr. MCLURE: Oh, it may run from Victoria, where there is no railway, or from Rocky Point, where there is no railway service, or it may run from Charlottetown where there is a railway service.

Mr. MACMILLAN: Where is it? Is it on the dock, in respect to which the charge is made?

Mr. MCLURE: If the bus runs down to the steamer, you see, then the charge is made.

Mr. WALTON: The charge has been made for many years, and I understood there was justification for the charge on account of use of our property.

Mr. McLure: There could not be very much, if it is based on wear and tear, because the province itself keeps up the highway down to the pier. This is right to the boat.

Mr. Vaughan: Well, the buses ought to pay something for using our facilities.

Mr. McLure: No. They are using government facilities. It is only a small matter, but it is a terrible inconvenience. It does not amount to a great deal. Probably $1,000 or so, in the run of the year.

Hon. Mr. Chevrier: But that would add to the deficit, I would revert to a matter which you brought up a moment ago, to your complaint about the method by which it was shown in the estimates. I find now, in looking over the Duncan report, that there is contained therein a recommendation which the railways have followed down through the years. "We further recommend that, so far as the ferry boat service is concerned, it should not be run as part of the railway operations, but should be run by the railway administration under separate account for the department. We feel that, by reason of its association with railway accounts, this service does not get the attention it should receive." So, it is by virtue of this recommendation that the railways operate that as a separate account.

Mr. McLure: It was taken out of the railways' hands in 1932 on the recommendation of the Duncan commission.

Hon. Mr. Chevrier: That is the explanation of the manner in which it is set up.

Mr. McLure: But it was not supposed to be taken out and then appear as a deficit.

Hon. Mr. Chevrier: But that is exactly what it says.

Mr. McLure: No. It was supposed to be taken out of the railway account. That deficit was always chargeable to the operating of the railway, and in 1931 or 1932 we had that removed, so that it did not appear against our division of the Prince Edward Island railway.

Mr. Vaughan: We will have to look that up and see what it covers.

Mr. Hazen: Could we have a breakdown on the record of the taxes of $9,887,323?

Mr. Cooper: Yes.

Mr. Hazen: I did not mean for you to read it, if it is too long.

The Chairman: Well, it will be included in the record.

TAXES

Dominion Government	*1947*
Unemployment Insurance	$1,156,052
Excise Stamps	115,174
United States Government	
RR. Retirement Tax Act	1,937,103
Unemployment Insurance	1,011,086
Income and Excess Profits	140,454
Capital Stock	....
Other	18,119
Other Governments (Great Britain, Mexico)	20,145
Provincial	603,890
U.S. States Taxes	1,445,003

TAXES—*Concluded*

Municipal Taxes	
Halifax	364,883
Saint John	178,263
Montreal	1,092,233
Quebec	45,203
St. Lambert	24,496
Hamilton	41,478
London	44,486
Ottawa	96,618
Port Arthur	12,968
Stratford	36,469
Toronto	372,828
Windsor	35,935
Winnipeg	23,131
Calgary	11,837
Edmonton	74,227
New Westminster	21,492
Prince Rupert	21,733
Vancouver	52,567
Buffalo	40,716
Portland, Me.	42,792
Other Municipalities	805,942
	$9,887,323

The CHAIRMAN: Gentlemen, is there anything else on page 13, or can we go over to page 14, "Proprietor's Equity Account"?

Mr. JACKMAN: I wonder if the number of employees in the Canadian National Telegraphs is available?

Mr. VAUGHAN: We can certainly get it for you, if we have not got it here. It may be here.

The CHAIRMAN: Are there any questions with respect to page 14?

Mr. VAUGHAN: No, we have not got it here, but we will get it for you, Mr. Jackman.

The CHAIRMAN: Page 14, "Proprietor's Equity Account"; "Capitalizaztion of Canadian National Railways."

DOMINION OF CANADA—PROPRIETOR'S EQUITY ACCOUNT

	Balance at 31st. Dec., 1946	Transactions Year 1947	Balance at 31st. Dec., 1947
CAPITAL STOCK OF CANADIAN NATIONAL RAILWAY COMPANY	$ 18,000,000 00	—	$ 18,000,000 00
CAPITAL STOCK OF THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST:			
Initial stated value	$270,037,437 88	—	$270,037,437 88
Surplus earnings, years 1941-1945	112,502,061 64	—	112,502,061 64
Capital gains	19,105,651 38	—	19,105,651 38
Capital *losses*	*21,241,546 47*	$* *1,885,469 41*	*23,127,015 88*
	$380,403,604 43	$ *1,885,469 41*	$378,518,135 02
CAPITAL EXPENDITURES BY DOMINION OF CANADA ON CANADIAN GOVERNMENT RAILWAYS	$377,614,970 84	$* 62,795 28	$377,677,766 12
	$776,018,575 27	$ *1,822,674 13*	$774,195,901 14

* Details on page 19.

CAPITALIZATION OF CANADIAN NATIONAL RAILWAYS

		Balance at 31st Dec., 1947	Per Cent of Total
EQUITY CAPITAL:*			
Capital Stock of Canadian National Railway Company	$ 18,000,000 00		
Capital Stock of The Canadian National Railways Securities Trust	378,518,135 02		
Capital Expenditures by Dominion of Canada on Canadian Government Railways	377,677,766 12	$ 774,195,901 14	37·8%
BORROWED CAPITAL:			
Held by the public	$582,859,761 89		
Dominion of Canada—Loans	689,470,348 51	1,272,330,110 40	62·2%
		$2,046,526,011 54	100·0%

* Excluding shares of subsidiary companies held by public—$4,570,940.

The CHAIRMAN: Now, under "Operating Revenues" on page 15, perhaps there will be some questions on that.

Mr. JACKMAN: Just to refresh our memories with respect to the capitalization of Canadian National, because we only meet it once a year, and then sometimes our minds forget the details. The capital stock of the Canadian National is $18,000,000. That arises from what, Mr. Cooper?

Mr. COOPER: We issued $18,000,000; that is, the Canadian National Railway Company issued $18,000,000 of stock to the dominion in exchange for the capital stock of the Canadian Northern Railway Company.

Mr. JACKMAN: For stock?

Mr. COOPER: $18,000,000 is the stock of the Canadian National Railway Company through which the dominion controls the Canadian Northern, the Grand Trunk Pacific, and the other companies in our system.

Mr. JACKMAN: And the next item is the capital stock in the Canadian National Railways Securities Trust, $378,518,135.02.

Mr. COOPER: You will remember that in the Capital Revision Act of 1937 governmental loans for capital which amounted to some $270,000,000 were exchanged for shares in the Securities Trust. And since 1937 the value of those shares has been increased by $108,000,000, which is the net of the profits of the railway during the war years less certain capital gains and capital losses which, under the terms of the Capital Revision Act, had to be added to or deducted from the proprietor's equity account, which also is equivalent to shares in the Canadian National System owned by the Dominion of Canada. The third item of $377,000,000 represents government expenditures on the Canadian government railways practically all prior to their entering the Canadian National System in 1922; in total, $774,000,000, which really represents the shareholders' equity account in the Canadian National Railway System.

Mr. JACKMAN: How much was written off in 1937, in the 1937 capital reorganization?

Mr. COOPER: The Grand Trunk and the Canadian Northern capital stock which, by arbitration awards, was said to have no value, and some debentures of the province of Canada prior to confederation, amounting in all to $262,000,000, were written off; and loans amounting to $270,000,000, which, as I mentioned, represented loans for capital purposes, were transferred from interest-bearing debt into equity capital; loans for deficits amounting to $373,000,000 were written off and interest on loans amounting to $530,000,000 also were written off.

Mr. JACKMAN: Making a grand total of how much in all?

Mr. COOPER: As far as the government is concerned, we wrote off $904,000,-000, which represented loans for deficits and interest.

Mr. JACKMAN: $530,000,000 was accumulated interest?

Mr. COOPER: Yes. None of it was represented by assets. It is money that had been lost years ago, that is, prior to 1937; and it was always our contention that it had no place in the railway balance sheet; and that view was taken by the government when the Capital Revision Act was enacted, but no government money which had been used for capital purposes was written out. It is rather important to keep that in mind because the statement is made from time to time that the Capital Revision Act wrote down the capital investment in the Canadian National Railways. I do not think that is true. All the capital of the government is still in our capitalization, but to the extent of $270,000,000. It was changed from interest-bearing debt to equity capital.

The CHAIRMAN: Are there any other questions as to that, gentlemen? Now, operating revenue.

OPERATING REVENUES

	1947	1946
Freight	$338,440,473 29	$296,403,320 83
Payments under Maritime Freight Rates Act (20%)	4,141,529 39	3,909,878 07
Passenger	43,017,689 66	50,128,223 16
Baggage	159,926 67	182,522 20
Sleeping Car	3,176,570 61	3,587,104 21
Parlor and Chair Car	303,941 31	284,444 29
Mail	4,583,160 69	4,275,981 70
Railway Express Agency	460,112 11	118,269 78
Express	20,791,671 70	19,461,209 16
Other Passenger-train	19,479 13	41,901 84
Milk	478,090 37	504,275 89
Switching	4,061,705 77	3,334,010 96
Water Transfers	327,782 36	242,268 32
Dining and Buffet	2,488,583 51	3,104,899 44
Restaurants	304,198 06	281,704 48
Station, Train, and Boat Privileges	376,722 87	462,921 99
Parcel Room	94,459 66	118,919 06
Storage—Freight	174,740 50	140,305 04
Storage—Baggage	61,251 47	77,644 73
Demurrage	2,578,673 72	2,270,174 93
Telegraph Commissions (U.S.)	15,500 90	13,580 86
Telegraph—Commercial	7,685,919 00	7,340,019 34
Grain Elevator	293,964 15	205,476 07
Rents of Buildings and Other Property	784,272 74	868,635 14
Miscellaneous	2,662,906 54	2,524,982 72
Joint Facility—Credit	813,608 63	812,390 49
Joint Facility—Debit	*98,954 81*	*109,038 81*
	$438,197,980 00	$400,586,025 89

Mr. JACKMAN: Does the Canadian National require, proportionately, more capital expenditure than does the Canadian Pacific?

Mr. COOPER: I do not think so.

Mr. JACKMAN: But your rate of expansion, with new lines and improvments?

Mr. VAUGHAN: Our system is much larger than that of the Canadian Pacific, so it is reasonable that our capital expenditures might be larger.

Mr. COOPER: In the eight years, 1940 to 1947, our total capital requirements amounted to $59,000,000, which is approximately $7,000,000 a year; and that is not a lot of money for a railway system which has 24,000 miles of railway.

Mr. JACKMAN: During that time the Canadian Pacific, however, reduced its funded debt quite substantially.

Mr. VAUGHAN: But we have reduced our funded debt each year for a number of years back. We have reduced our funded debt very materially. For example, in 1932 our fixed charges were $59,690,000, and they have been coming down each year until they are now $45,925,000.

Mr. JACKMAN: And your indebtedness was what?

Mr. COOPER: In 1932 our total indebtednes was $1,289,000,000; and in 1947 it was $1,272,000,000. There is a decrease between 1932 and 1947 in the capital debt of $17,000,000; that is in spite of our large expenditures.

Mr. VAUGHAN: And the fixed charges have been reduced $14,000,000 per annum, in that period.

Mr. COOPER: You might be interested in how much we spent on new equipment. From 1940 to 1947, we bought $123,000,000 worth of new equipment. In the same period we charged operating expenses for depreciation, $131,000,000. Since 1940, every bit of new equipment has been paid for out of revenue.

The CHAIRMAN: Questions on operating revenue on page 15?

Mr. HAZEN: There is a decrease of over $7,000,000 in passenger revenue last year as compared to 1946. What has been puzzling me for some time—I do not know whether Mr. Vaughan would care to answer it—is why the railway did not ask for an increase in passenger rates as well as freight rates in their application to the board?

Mr. VAUGHAN: That was dealt with this morning.

Mr. HAZEN: Oh, then I shall not go into it again.

Mr. VAUGHAN: I think you will find the answer in the record.

The CHAIRMAN: Are there any other questions on operating revenue? What about operating expenses, maintenance of way and structures?

OPERATING EXPENSES

Maintenance of Way and Structures	1947	1946
Superintendence	$ 4,840,954.29	$ 4,467,817.94
Roadway Maintenance	8,940,967.02	8,761,886.50
Tunnels and Subways	62,197.42	51,215.45
Bridges, Trestles and Culverts	3,330,862.76	2,859,062.67
Ties	7,704,258.03	6,168,103.68
Rails	3,988,418.63	2,825,137.53
Other Track Material	3,155,437.37	2,660,235.82
Ballast	1,683,977.42	1,721,467.58
Track Laying and Surfacing	19,247,121.00	18,381,101.75
Fences, Snowsheds, and Signs	843,287.73	648,759.21
Station and Office Buildings	3,153,298.98	2,801,982.31
Roadway Buildings	353,104.40	362,193.55
Water Stations	633,854.04	563,851.22
Fuel Stations	351,992.46	315,665.52
Shops and Enginehouses	2,340,796.59	2,023,021.72
Grain Elevators	31,741.24	43,447.21
Wharves and Docks	168,346.15	197,504.42
Telegraph and Telephone Lines	1,476,683.02	1,255,079.31
Telegraph—Commercial	1,762,135.87	1,475,967.63
Signals and Interlockers	1,395,017.96	1,219,980.43
Power Plants	45,418.97	17,268.47
Power Transmission Systems	225,189.93	185,378.39
Miscellaneous Structures	3.902.60	2,490.45
Road Property—Depreciation—U.S. Lines	885,430.05	903,079.96
Road Property—Retirements	881,509.63	1,860,910.12
Roadway Machines	767,998.96	642,934.84
Dismantling Retired Road Property	160,393.32	248,973.14
Amortization of Defence Projects	......	2,147.41
Small Tools and Supplies	1,097,950.76	887,800.55
Removing Snow, Ice, and Sand	5,211,918.39	3,192,937.07
Public Improvements—Maintenance	491,985.65	656,394.58
Injuries to Persons	625,460.07	718,369.45
Insurance	26,256.18	28,329.53
Stationery and Printing	94,426.33	79,530.04
Other Expenses	20,394.90	41,343.70
Maintaining Joint Tracks, Yards, etc.—Debit	1,046,479.08	909,722.71
Maintaining Joint Tracks, Yards, etc.—*Credit*	*1,876,138.16*	*2,084,511.95*
Right of Way Expenses	77,955.30	59,905.78
	$ 75,250,984.34	$ 67,156,485.69

The CHAIRMAN: Shall we turn to page 16, "Operating Expenses, Maintenance of Equipment"? Are there any questions on that item?

OPERATING EXPENSES—(*Continued*)

	1947	1946
Maintenance of Equipment		
Superintendence	$ 1,934,402.08	$ 1,782,438.48
Shop Machinery	2,741,996.35	2,216,834.46
Power Plant Machinery	188,884.32	133,788.39
Machinery—Retirements	229,112.85	371,828.28
Machinery—Depreciation—U.S. Lines	67,505.36	66,352.14
Dismantling Retired Machinery	7,985.36	4,345.76
Steam Locomotives—Repairs	26,367,192.23	23,160,658.70
Other Locomotives—Repairs	472,660.21	386,951.98
Freight-train Cars—Repairs	21,939,842.15	19,060,111.97
Passenger-train Cars—Repairs	12,009,531.49	10,559,617.41
Floating Equipment—Repairs	502,682.89	483,483.83
Work Equipment—Repairs	2,688,872.93	2,239,503.28
Express Equipment—Repairs	242,555.77	226,514.32
Miscellaneous Equipment—Repairs	239,453.96	209,953.42
Miscellaneous Equipment—Retirements	10,189.79	11,154.35
Dismantling Retired Equipment	139,136.38	79,149.70
Equipment—Depreciation	16,920,929.13	17,701,420.95
Express Equipment—Depreciation	180,881.07	170,773.90
Injuries to Persons	629,673.92	527,141.28
Insurance	43,679.41	31,396.38
Stationery and Printing	78,214.76	63,278.45
Other Expenses	12,362.68	47,555.34
Joint Maintenance of Equipment—Debit	344,209.78	412,118.29
Joint Maintenance of Equipment—*Credit*	*221,706.80*	*213,041.34*
Deferred Maintenance—Equipment	*8,000,000.00*	*6,000,000.00*
	$ 79,770,248.87	$ 73,733,329.72
Traffic		
Superintendence	$ 2,563,871.38	$ 2,394,625.68
Outside Agencies	3,301,452.06	3,139,627.52
Advertising	914,598.05	729,962.98
Traffic Associations	138,281.18	124,634.02
Stationery and Printing	370,485.21	329,271.27
Industrial Bureau	162,650.38	138,375.29
Colonization, Agriculture and Natural Resources	256,776.93	236,392.04
	$ 7,708,115.19	$ 7,092,888.80
Transportation		
Superintendence	$ 4,396,299.30	$ 4,105,576.51
Dispatching Trains	2,403,190.11	2,313,357.02
Station Employees	29,520,061.13	27,621,315.08
Weighing, Inspection, and Demurrage Bureaus	114,217.49	130,763.83
Coal and Ore Wharves	53,132.90	78,885.12
Station Supplies and Expenses	2,161,786.44	1,806,146.24
Yardmasters and Yard Clerks	5,704,768.21	5,256,575.69
Yard Conductors and Brakemen	10,405,411.00	9,304,920.39
Yard Switch and Signal Tenders	964,415.81	907,568.58
Yard Enginemen	6,373,538.52	5,871,797.48
Yard Motormen	1,016,493.58	762,186.62
Yard Switching Fuel	8,195,195.03	6,457,988.44
Yard Switching Power Produced	16,212.60	16,216.95
Yard Switching Power Purchased	95,253.61	83,300.13
Water for Yard Locomotives	218,394.36	228,337.42
Lubricants for Yard Locomotives	104,478.40	91,655.52
Other Supplies for Yard Locomotives	79,783.56	64,643.58
Enginehouse Expenses—Yard	2,440,970.60	2,237,604.10
Yard Supplies and Expenses	225,217.80	207,415.36
Operating Joint Yards and Terminals—Debit	2,222,772.22	1,909,538.93
Operating Joint Yards and Terminals—*Credit*	*2,208,534.26*	*2,087,574.92*
Train Enginemen	17,551,318.84	16,035,536.72
Train Motormen	178,054.36	133,665.09
Train Fuel	40,900,739.83	32,185,554.37
Train Power Produced	4,690.34	5,309.93
Train Power Purchased	58,038.70	49,531.11
Water for Train Locomotives	1,488,387.11	1,415,603.09
Lubricants for Train Locomotives	664,488.21	595,205.92
Other Supplies for Train Locomotives	382,989.36	331,374.48
Carried Forward	$135,731,765.16	$118,119,998.78

OPERATING EXPENSES—*(Continued)*

Transportation (Continued)

	1947	1946
Brought Forward	$135,731,765.16	$118,119,998.78
Enginehouse Expenses—Train	6,850,009.39	6,379,506.62
Trainmen	20,523,147.49	18,710,228.33
Train Supplies and Expenses	13,083,400.27	11,445,162.14
Operating Sleeping Cars	2,158,181.92	2,150,487.70
Signal and Interlocker Operation	683,722.20	650,174.62
Crossing Protection	984,908.49	979,709.04
Drawbridge Operation	173,046.27	166,447.98
Telegraph and Telephone Operation	480,888.75	464,575.98
Telegraph—Commercial	6,251,398.21	5,798,271.25
Operating Floating Equipment	1,319,354.00	1,265,123.95
Express	12,790,800.30	11,117,190.76
Stationery and Printing	951,961.01	795,388.85
Other Expenses	1,900,191.98	1,505,911.48
Operating Joint Tracks and Facilities—Debit	1,228,652.86	1,102,710.56
Operating Joint Trucks and Facilities—*Credit*	*513,714.22*	*494,378.63*
Insurance	16,504.93	21,676.65
Clearing Wrecks	500,922.61	496,239.06
Damage to Property	135,038.97	99,436.65
Damage to Live Stock on Right-of-Way	89,983.27	76,434.34
Loss and Damage—Freight	2,790,464.18	2,318,846.70
Loss and Damage—Baggage	10,679.58	16,416.69
Injuries to Persons	2,209,168.58	2,168,016.61
	$210,440,476.20	$185,353,576.11

Miscellaneous

	1947	1946
Dining and Buffet Service	$ 3,753,190.08	$ 4,193,154.21
Restaurants	307,144.24	280,544.06
Grain Elevators	155,626.58	195,697.54
Other Miscellaneous Operations	45,870.22	40,280.84
	$ 4,261,831.12	$ 4,709,676.65

General

	1947	1946
Salaries and Expenses of General Officers	$ 567,250.20	$ 539,613.28
Salaries and Expenses of Clerks and Attendants	7,218,837.70	6,904,342.48
General Office Supplies and Expenses	369,338.80	354,481.91
Law Expenses	449,639.62	429,900.22
Relief Department Expenses	27,500.00	27,500.00
Pensions	10,502,481.04	10,446,942.09
Stationery and Printing	314,437.41	280,250.94
Valuation Expenses	15,215.00	15,075.89
Other Expenses	175,981.91	148,898.15
General Joint Facilities—Debit	63,457.31	55,756.14
General Joint Facilities—*Credit*	*13,186.91*	*11,999.78*
	$ 19,690,952.08	$ 19,190,761.32

Mr. GIBSON: These steam locomotives are very expensive to keep running, $26,000,000 for repairs. Perhaps you should get diesels.

Mr. VAUGHAN: We have a number of diesels on order.

Mr. MCCULLOCH: Then, they would not need coal.

Mr. VAUGHAN: We cannot get anything like the amount of coal we need in Canada, anyhow, Mr. McCulloch.

Mr. MUTCH: Did you say quantity or quality?

Mr. VAUGHAN: Quantity.

Mr. EMMERSON: So far as locomotives are concerned, there is a great shortage of power on the system?

Mr. WALTON: Yes.

Mr. EMMERSON: That is one of the difficulties you have been encountering. Could you give us the percentage of unserviceable locomotives there are on the system today and also the number on the Atlantic region?

Mr. WALTON: I will give you those figures. We have not them with us, but they are readily available.

Mr. EMMERSON: Could you give those figures for both freight and passenger locomotives?

Mr. WALTON: I cannot give it to you that way. Some of these locomotives are interchangeable and work on either passenger or freight. I could give you the system figure and the Atlantic region figure.

Mr. EMMERSON: We have rented locomotives, have we not?

Mr. WALTON: Yes, we rented some locomotives during the winter months when traffic was the heaviest from the American lines to help out our supply. The Canadian Pacific did the same thing this winter.

Mr. EMMERSON: What did they cost us per day?

Mr. WALTON: $80 to $90 a day; that does not include making any repairs to them other than ordinary running work to keep them up from day to day. When they have run long enough to require repairs, they go to the home road which repairs them at their expense. The rental is all we are charged.

Mr. EMMERSON: For example, in a case such as recorded in the papers, when one of these locomotives blew up in the Turcot yard this past winter—

Mr. WALTON: That was a year ago.

Mr. EMMERSON: That would be chargeable to the Canadian National?

Mr. WALTON: That is right; we had to pay for that the same as we would have had to pay for one of our own if it had happened to it. We failed to return it to the owners.

Mr. EMMERSON: What has been the position in the past year in regard to the repair of locomotives? Have we been keeping up the repair of locomotives, in this way, are we manufacturing as many miles as we are consuming?

Mr. WALTON: No, we are consuming more miles than we are manufacturing; that is, in recent months.

Mr. EMMERSON: Are our locomotives running as much mileage per month as they used to do?

Mr. WALTON: Yes, we have figures on that. The daily mileage is higher than it has been in previous times. The figures are available and we can look that up.

Mr. EMMERSON: Could you give us the mileage?

Mr. WALTON: Mr. Cooper shows me some figures which indicate the average daily mileage per locomotive in freight service in 1939 was 101; in 1947, it was 141. In the passenger service the average daily mileage per locomotive in 1939 was 166 and in 1947, it was 219.

Mr. EMMERSON: That is per locomotive in service?

Mr. WALTON: That is right. Those are miles actually made by the locomotives running.

Mr. EMMERSON: Could you give us the monthly mileage on the locomotives which the railway owns, that is not those that are in service, but all locomotives? Could you give us the monthly mileage or the average monthly mileage in the last five years?

Mr. WALTON: We will get those figures, Mr. Emmerson.

Mr. MUTCH: In connection with repairs and maintenance, Mr. Chairman, are any curtain sleepers being converted now, in our own shops, to room cars?

Mr. WALTON: Conversion is going on in connection with cars similar to the Fort Lawrence type which are four bedroom cars and a large loung, and also cars similar to the Brantford type which consist of certain open sections plus drawing room and two compartments. We have two sample cars of these types. Now, additional cars are coming along in our own ships to the same standards as these two.

Mr. MUTCH: Is it feasible to convert curtain sleepers to room cars?

Mr. WALTON: It is a very heavy job and expensive. What we would prefer to see done is that room cars be purchased and, in the changing of any cars which are converted, to use something like the Fort Lawrence type or the Brantford type which does not run into as heavy work on existing equipment.

Mr. MUTCH: There is a tendency to go in for more room cars?

Mr. WALTON: Yes, room cars are in demand today.

Mr. VAUGHAN: It is difficult to carry on these conversions and keep up with our ordinary repair work. We have a number of roomette cars on order with the car company.

Mr. MUTCH: I was looking ahead a little but, at the same time, looking back. I remember when we were not as busy in our shops as we are to-day and I was anxious to know if that question had been investigated and if the transformation was feasible.

Mr. VAUGHAN: The tendency today is, undoubtedly, towards closed accommodation. People, I think, are tired of the open Pullmans and, having that in mind, we are converting more of our cars to room cars and have bought a number of these duplex roomettes which probably will not be delivered for a year although we are promised delivery by late fall. I doubt if we will get them.

Mr. MUTCH: The cars of this type which you have are on the transcontinental run, are they?

Mr. VAUGHAN: Yes.

Mr. GIBSON: How many locomotives have you altogether?

Mr. WALTON: About 2,500.

Mr. MOORE: I should like to know if the mechanical department of the road has had sufficient time to compare the cost of maintaining steam power as compared to diesel power?

Mr. VAUGHAN: I do not think our information would be of much value. We have only had in service, up to the present time, diesel switch engines. We have no road diesels in service as yet, although we have some on order.

The CHAIRMAN: Are there any other questions on maintenance of equipment?

Mr. EMMERSON: There is one other question I wanted to ask concerning locomotives. In your return of locomotives or in the repair of locomotives in the shop, do you base your comparison on the number of locomotives shopped or repaired or do you figure out the amount of drawbar pull you are turning out and putting on the road?

Mr. WALTON: No, what is done is that locomotives are classified as heavy or light repairs. Repair No. 2 or No. 3 is a very heavy repair which may run into not only heavier machinery, but boiler work and firebox work. Nos. 4 and 5 repairs are getting lighter. When the engine is thoroughly overhauled, new available miles are calculated to have been put into that locomotive for service, and that is the way they are rated.

Mr. EMMERSON: In checking on your locomotive repairs and maintenance, have you any figures to show the comparative output of real power, the drawbar pull from month to month or year to year? How does it compare for the last five years? Is it going up or going down?

Mr. VAUGHAN: You mean the tractive effort of our locomotives?

Mr. EMMERSON: Yes.

Mr. VAUGHAN: It has been going up right along. It is considerably higher than it was in 1939. We have figures to that effect which we can give you.

Mr. WALTON: Of course, the size of our locomotives is increasing. One figure of which we have a note here is that, at the end of 1938, the total tractive effort, that is the number of pounds of tractive effort, was 108,000,000 all locomotives.

Mr. EMMERSON: That is at 100 per cent efficiency?

Mr. WALTON: No, that is allowing each locomotive its proper tractive effort according to the number of thousands of pounds of tractive effort it possesses. The total for the railroad was 108,000,000, whereas, at the end of last year it had risen to 112,000,000. The size of locomotive is rising. We are replacing some of the old small ones.

Mr. EMMERSON: As you go along, you use up a certain percentage of that, so what is the available usage of that locomotive. There is a certain mileage between shoppings which you have?

Mr. WALTON: Yes.

Mr. EMMERSON: You estimate you should have so many thousands of miles?

Mr. WALTON: That is right.

Mr. EMMERSON: Then, you consume that mileage.

Mr. WALTON: Yes,.

Mr. EMMERSON: Has the position of your effective power gone up or gone down, or have you been using up more than you have been putting back in?

Mr. WALTON: Lately, we have been using up more than we have been repairing in spite of the fact we have retained men who are now beyond the age of sixty-five, if they are physically fit to work and ready to do so. This repair department is the only department on the railroad in which we are extending the use of employees beyond the age of sixty-five. We are taking on additional men wherever we can get them if they are competent workmen in that line of work. In other words, we are not sparing any expense, as is indicated in this equipment statement here in the annual report, showing that reserves were used last year to the extent of $8,000,000. We are doing everything we can to overcome this locomotive situation, but it was run out so hard during the war and there has been no let up since. It is simply a case of putting forth every effort to overcome that situation, but we have not been able to do it yet.

Mr. EMMERSON: In the various shops, take the Atlantic region for instance, are you putting out as much work? Are you getting as much tractive effort out of the shops as you used to get out of them?

Mr. WALTON: I think so. I am only speaking from memory at the moment. The performance at the Moncton shop has been good.

Mr. EMMERSON: Has it been keeping up its efficiency in the last five years?

Mr. WALTON: It has not been dropping off.

Mr. HAZEN: I see there is an item here for train fuel $40,900,739.83. Mr. Vaughan made some mention of the fact that the railways could not get all the coal they needed in Canada. I wonder if he could give us a breakdown, and put it in the minutes, showing how much coal is obtained in Canada; how much from the United States; how much oil is purchased; how much from the United States and what percentage of the fuel is used in Canada and what percentage in the United States.

Mr. VAUGHAN: Yes, sir, we have all that information here and we will be glad to file it.

Mr. JACKMAN: In connection with this deferred maintenance of equipment, $8,000,000, as against $6,000,000; is that drawn down from the deferred maintenance account? It does not refer to the amount outstanding?

Mr. COOPER: No, sir, it is the amount drawn down.

Mr. JACKMAN: You are depreciating your equipment each year, now?

Mr. COOPER: Since 1940.

Mr. JACKMAN: How much did you spend—equipment and maintenance would not necessarily be the same—how much did you spend, first of all, on equipment maintenance during the year?

Mr. COOPER: $79,000,000. I should have said $87,000,000 and we took credit from the reserve for $8,000,000 which made the net expenditure $79,000,000.

Mr. JACKMAN: How much was your depreciation on the equipment?

Mr. COOPER: It is shown there, $16,920,000.

Mr. JACKMAN: So, you were only able to charge the system with $16,920,000 for depreciation of equipment and you have taken $8,000,000 from the cumulative fund. Your total expenditures were $87,000,000 to do the job, is that so?

Mr. COOPER: That is correct, and the depreciation rate is 3⅓ per cent which gives our equipment an average life of 27 years. I think the rate is sufficient.

Mr. JACKMAN: At that rate, you have allowed for depreciation $16,000,000 and yet you have spent $87,000,000, even giving effect to the war years—

Mr. COOPER: You are talking about two different things. The $87,000,000 is the maintenance account for repairs and that sort of thing and including the $16,000,000 for depreciation. Depreciation has nothing to do with keeping the equipment in good order, it is only writing off the original cost.

Mr. JACKMAN: In other words, the maintenance of equipment is a vastly greater amount than the depreciation of it?

Mr. COOPER: Oh yes, four or five times.

The CHAIRMAN: Gentlemen, I believe it is six o'clock. Do you wish to meet again tomorrow morning at eleven and four in the afternoon?

Very well, gentlemen, there will be a meeting tomorrow morning at eleven and four.

The meeting was adjourned.

SESSION 1947-48

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, APRIL 20, 1948

CANADIAN NATIONAL RAILWAYS—ANNUAL REPORT (1947)

and

CANADIAN NATIONAL, CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LIMITED—BUDGET 1948.

WITNESSES:

Mr. R. C. Vaughan, C.M.G., Chairman of Board of Directors and President, Canadian National Railways;

Mr. N. B. Walton, C.B.E., Executive Vice-President, Canadian National Railways;

Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways;

Mr. N. J. MacMillan, General Counsel, Canadian National Railways;

Mr. A. Fraser, Vice-President, Traffic Department, Canadian National Railways.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948

MINUTES OF PROCEEDINGS

TUESDAY, April 20, 1948.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at eleven o'clock. Mr. S. M. Clark, the Chairman, presided.

Members present: Messrs Bourget, Chevrier, Clark, Emmerson, Hatfield, Hazen, Hlynka, Jackman, LaCroix, Lafontaine, Lockhart, McCulloch (*Pictou*), McLure, Moore, Nicholson, Pouliot, Reid and Warren.

In attendance:

From the Canadian National Railways: Messrs. Vaughan, Walton, Cooper, May, MacMillan, Thompson and Messrs. A. Fraser, Vice-President, Traffic Department, L. G. Knowles, Freight Traffic Manager.

From the Department of Transport: Messrs. Lessard, Collins and Thornton.

The Chairman read a letter adressed to himself on April 17, 1948, by Mr. G. B. Isnor, member for Halifax, relating to Moore, McCormack Lines Incorporated.

Mr. R. C. Vaughan was recalled. He commented on Mr. Isnor's letter.

Mr. Alistair Fraser was called and examined on the subject matter raised in Mr. Isnor's letter.

After discussion, on this question, the Committee resumed its study of the annual report (1947) of the Canadian National Railways.

Mr. Cooper tabled information requested by Messrs. Nicholson, Jackman and Hlynka.

It was agreed to incorporated these items in the evidence.

Other information asked will be tabled later.

Mr. Vaughan's examination was continued. He was assisted by Messrs. Cooper, Walton and MacMillan.

At one o'clock, the Committee adjourned until 4 o'clock this day.

AFTERNOON SESSION

The Committee resumed at four o'clock. Mr. S. M. Clark, Chairman, presided.

Members present: Messrs. Clark, Emmerson, Hatfield, Hazen, Hlynka, Jackman, LaCroix, Lafontaine, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Picard, Pouliot and Warren.

In attendance:

From Canadian National Railways: Messrs. Vaughan, Cooper, Walton, MacMillan, Thompson.

From the Department of Transport: Messrs. Lessard, Collins, and Thornton. Also Messrs. G. B. Isnor, M.P. and J. A. Bonnier, M.P.

It was agreed to consider the T.C.A. annual report on Thursday, April 22 next.

The Committee concluded its study of the annual report (1947) of the Canadian National Railways.

Messrs. Walton and Cooper tabled further information requested at the morning sitting. It was agreed to incorporate these in the evidence.

Mr. R. C. Vaughan's examination was continued.

By leave of the Committee, Mr. Bonnier questioned the witness on station facilities at St-Henri, Montreal.

On motion of Mr. McCulloch, the annual report (1947) of the Canadian National Railways was adopted.

The Committee began and concluded the examination of the Canadian National, Canadian National (West Indies) Steamships Limited—Budget 1948.

Messrs. Vaughan, Cooper and Walton were jointly examined thereon.

On motion of Mr. Lafontaine, the Canadian National, Canadian National (West Indies) Steamships Limited—Budget 1948 was adopted.

Mr. MacMillan supplied additional information to Mr. Nicholson respecting freight and express rates.

It was agreed to hold two meetings on Wednesday.

At 5.30, the Committee adjourned until Wednesday, April 21, at 11 o'clock.

ANTONIO PLOUFFE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 20, 1948.

The Sessional Committee on Railways and Shipping met this day at 11.00 a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Gentlemen, I believe we have a quorum. I had a communication from Mr. Isnor which I mentioned yesterday. I should like to read it to the committee. Mr. Hazen brought the same problem before the committee yesterday and it has been discussed in the House. I think Mr. Vaughan mentioned that Mr. Fraser would be here, perhaps, to answer some of the questions. This is re the Moore-McCormack Lines Incorporated correspondence. It is dated April 17, 1948.

> Dear Mr. CLARK,—On February 11, 1948, the Honourable Lionel Chevrier, Minister of Transport, in speaking in the House quoted from a letter from Moore-McCormack Lines Incorporated, to an official of the Canadian National Railways, in respect to the transfer of the Moore-McCormack Lines Incorporated from Halifax to Portland, Maine. Later a request was made by Mr. King-Hazen, M.P. asking that this and other correspondence relating to this matter be tabled.
>
> Mr. Chevrier stated that a practice had grown up in the House over the years by which the Canadian National Railways are not required to produce correspondence or telegrams of this nature so felt justified in declining to table said correspondence. On motion being put, the House supported the minister and the correspondence was not produced.
>
> I now wish to ask that a copy of all correspondence, telegrams and other documents exchanged between the Canadian National Railways or any official of said company and the Moore-McCormack Lines Incorporated, or employee or agent of said company during the year 1947 with respect to the matter of freight rates or the transfer of said lines from the port of Halifax, Nova Scotia, to Portland, Maine, be made available for the use of members of the committee.
>
> Trusting that your committee will, as usual when dealing with matters before committees, authorize that this correspondence be produced.
>
> Yours truly,
>
> (Sgd) GORDON B. ISNOR,
> *Member for Halifax.*

Gentlemen, Mr. Vaughan suggested Mr. Fraser would be here to answer Mr. Hazen's questions. Perhaps Mr. Vaughan desires to make a few comments?

Mr. VAUGHAN: The House seems to have disposed of the matter of the correspondence. We do not think it is desirable that our inter-departmental correspondence should be filed. If we started doing that sort of thing, every bit of our correspondence might be available. It would be a disastrous thing from the standpoint of the morale of the railway if we commenced filing correspondence on disciplinary matters and that sort of thing. The railway business is a very competitive business. While there is nothing in our correspondence which cannot stand the light of day, as a matter of principle, we do not like filing our correspondence. It was for that reason I suggested yesterday that Mr. Fraser come up here so he could answer Mr. Hazen's questions directly.

Mr. HAZEN: You said you did not think those letters should be filed and made available to the committee. Could you tell us, then, how it was that one letter was made available, namely, a letter from Moore-McCormack Limited to Mr. F. J. Stock, dated December 9, 1947.

Mr. VAUGHAN: I think that was submitted to the Minister of Transport, was it not?

Mr. HAZEN: It was a letter from the Moore-McCormack Lines Incorporated to F. J. Stock, Traffic Manager, of the foreign freight department, dated December 9, 1947.

Hon. Mr. CHEVRIER: May I answer your question? You asked how it was that letter was made available. The letter was made available in reply to a charge you made in the House to the effect the Canadian National Railways had discriminated against certain interests in the ports of Halifax and Saint John. That letter was tabled and read simply to show that was not the case because, on the contrary, the officials of the Canadian National Railways made every attempt to keep the business in the ports of Halifax and Saint John.

Now then, you proceeded to make a motion to produce all of the documents. I took the position which my predecessors have always taken in matters of this nature, namely, it is the practice of the Canadian National Railways not to give out information which might be of use to their competitors, and the House upheld that position.

Mr. HAZEN: I will ask you a question. Do you think it is fair to attempt to refute a charge by producing one letter out of a big file of correspondence and that letter written after the whole matter has been completed? Do you think that is fair?

Hon. Mr. CHEVRIER: In the first place, I will answer that the letter was not taken out of a big file. I did not see any big file. I do not know what the file is.

Mr. JACKMAN: That is not an answer to Mr. Hazen.

Hon. Mr. CHEVRIER: Are you asking a question?

Mr. JACKMAN: You are not answering Mr. Hazen's question.

Hon. Mr. CHEVRIER: The committee will decide as to whether the answer to the question is a proper one or not and a member of the committee does not decide that. The chairman, perhaps, may say it is not an answer.

Mr. JACKMAN: Well, all right.

Hon. Mr. CHEVRIER: If it is not an answer, the chairman can order the witness to answer, but the witness is not obliged to answer.

Mr. JACKMAN: I was expressing my own view and not that of the committee. I do not think you thought otherwise.

Hon. Mr. CHEVRIER: I did not. If you want to ask a question I will be glad to answer it.

Mr. HAZEN: I do not think you are in a much better position than I am in connection with this matter. You say you have not seen the files. You do not know how many letters are in the file, so neither you nor I know what went on.

Hon. Mr. CHEVRIER: I do not pretend I know.

Mr. HAZEN: When you try to refute a charge by producing one letter, and that a cover up letter—

Hon. Mr. CHEVRIER: The charge I was trying to refute was not a charge having to do with the rates. I think I disposed of that in the debates very clearly. The charge I was trying to refute by producing the letter was a charge to the effect that officers of the Canadian National Railways had discriminated against maritime ports; that is the only reason for producing the letter. It would not have been produced if, in your remarks, you had not made that charge.

Mr. HAZEN: I do not think we will get anywhere by discussing it.

Hon. Mr. CHEVRIER: Nor do I. I read the one paragraph of the letter to reply to your charge. Then, you insisted that because I read the one paragraph I should table the whole letter.

Mr. HAZEN: Yes.

Hon. Mr. CHEVRIER: Well, I did. Because I did that to accede to your request, now you come forward and suggest all the correspondence should be tabled. Your position is the unreasonable one, not mine.

Mr. HAZEN: I cannot insist, but I say it should be.

Mr. VAUGHAN: Perhaps you could get the information from Mr. Fraser.

Mr. HAZEN: I do not know what we can get from Mr. Fraser. What is your position?

Mr. FRASER: Vice-President in charge of Traffic.

Mr. HAZEN: What are your duties?

Mr. FRASER: Generally, I am in full charge of traffic.

Mr. HAZEN: Do you have to determine freight policies of the Canadian National Railways?

Mr. FRASER: They all come under my review.

Mr. HAZEN: Do you determine freight policies?

Mr. FRASER: In the final analysis, the president would have to determine them, but under him I do.

Mr. HAZEN: Do the directors have anything to say about it?

Mr. FRASER: I would not think so. I do not know of any case where they do, unless it would be a matter of very high policy.

Mr. HAZEN: Does the government or parliament have anything to do with it?

Mr. FRASER: I know of no case where they do, in so far as I am concerned.

Mr. HAZEN: What is the policy of the Canadian National Railways about traffic, about carrying freight, by and large? What is their policy about carrying Canadian goods over their lines?

Mr. FRASER: Well, that is a very broad question, Mr. Hazen, but the policy generally is to carry the maximum amount possible, both of freight and passengers, over our lines?

Mr. HAZEN: Is it the policy of the Canadian National Railways that the freight originating on its lines, not specifically routed otherwise shall, when destined for points in Canada be carried over the Canadian National Railways within Canada?

Mr. FRASER: Definitely, yes.

Mr. HAZEN: That is clear?

Mr. FRASER: Yes.

Mr. HAZEN: Is it the policy of the Cnadian National Railways that the freight rates on export traffic from the point of origin to the point of destination shall, at no time, be greater via Canadian ports than via United States ports?

Mr. FRASER: Definitely, yes.

Mr. HAZEN: So, that is your policy?

Mr. FRASER: Yes.

Mr. HAZEN: Is it the policy of the Canadian National Railways that all such traffic, not specifically routed otherwise by the shipper, shall be carried by the Canadian National Railways to Canadian ports?

Mr. FRASER: Yes.

Mr. HAZEN: Is it the policy that the Canadian National Railways shall not, in any way within its powers, directly or indirectly, advise or encourage the transportation of such freight by routes other than those we have just mentioned?

Mr. FRASER: Yes.

Mr. HAZEN: But shall, in all respects, in good faith, use its utmost endeavours to fullfil the conditions upon which public aid was granted to the railways?

Mr. FRASER: Yes sir.

Mr. HAZEN: Namely, the development of freight through Canadian channels and Canadian seaports; now, is that your policy?

Mr. FRASER: Yes sir.

Mr. HAZEN: Now, did the Canadian National Railways, last autumn, reduce the freight rates on a number of commodities including newsprint timber and pulp, from Canadian originating points to Portland, Maine, the United States of America?

Mr. FRASER: Yes sir.

Mr. HAZEN: Did you reduce the rate on paper and paper commodities, including newsprint, by 10½ cents per hundred pounds or about 26 per cent?

Mr. FRASER: I will check the rates to see. We reduced them to the Halifax and Saint John rate.

Hon. Mr. CHEVRIER: Would you repeat that?

Mr. FRASER: We reduced the rate to Portland on the commodities mentioned by Mr. Hazen, to the same figure as to Halifax and Saint John, including lumber. I will get the figures on that in a minute.

Mr. HAZEN: I was going to ask about one or two items. How many items were reduced?

Mr. FRASER: There were nine, seven at first and then two latterly.

Mr. HAZEN: Have you reduced the rate on newsprint, pulp and paper commodities about 26 per cent? Have you reduced the rate on lumber about 20 per cent? Have you reduced the rate on pulp about 26 per cent?

Mr. FRASER: I will give you a case in point which is typical, if I may.

Mr. HAZEN: I am asking about percentages.

Mr. FRASER: The rate from Shawinigan Falls to Portland was reduced from 35 cents to 25 cents, roughly 30 per cent in that case.

Mr. HAZEN: It is more than I thought. Will you figure out what it is in the case of lumber and pulpwood?

Mr. FRASER: It is wood pulp, not pulpwood. From Pembroke for example to Portland, the rates on lumber were reduced by approximately 24 per cent.

Mr. HAZEN: What about wood pulp?

Mr. FRASER: It would be the same as newsprint.

Mr. HAZEN: That would be about 30 per cent?

Mr. FRASER: About 30 per cent, yes.

Mr. HAZEN: Prior to making these reductions, did the Canadian National Railways carry on negotiations with Moore-McCormack Lines Incorporated?

Mr. FRASER: Yes.

Mr. HAZEN: Is the Moore-McCormack Lines Incorporated one of the best known and most influential United States steamship lines?

Mr. FRASER: It is a very prominent United States line, yes.

Mr. HAZEN: When did those negotiations with Moore-McCormack commence?

Mr. FRASER: Negotiations with Moore-McCormack commenced in April, 1947.

Mr. HAZEN: Who carried on those negotiations for the Canadian National Railways?

Mr. FRASER: Mr. Pullen, General Freight Traffic Manager.

Mr. HAZEN: Mr. John Pullen?

Mr. FRASER: Mr. John Pullen.

Mr. HAZEN: Does Mr. F. J. Stock come under him?

Mr. FRASER: He does.

Mr. HAZEN: Did the Canadian National Railways approach Moore-McCormack Lines Incorporated, or did Moore-McCormack Lines Incorporated approach the Canadian National Railways?

Mr. FRASER: The Canadian National Railways approached Moore-McCormack.

Mr. HAZEN: Is Mr. F. J. Stock, Traffic Manager, Foreign Freight Department, of the Canadian National Railways?

Mr. FRASER: Yes.

Mr. HAZEN: Does he come under your jurisdiction?

Mr. FRASER: Under Mr. Pullen's, and then Mr. Pullen under mine.

Mr. HAZEN: Did Mr. F. J. Stock go to New York last April to discuss this matter with McCormack Lines Incorporated in their offices?

Mr. FRASER: Either he or Mr. Pullen did, I am not sure which. I think it was Mr. Pullen.

Mr. HAZEN: No.

Mr. FRASER: It was first Mr. Pullen and then Mr. Stock, you are correct.

Mr. HAZEN: Was this the commencement of the negotiations?

Mr. FRASER: Yes.

Mr. HAZEN: Did you accompany Mr. Stock?

Mr. FRASER: I did not.

Mr. HAZEN: On whose instructions did he go to New York.

Mr. FRASER: Mr. Pullen's.

Mr. HAZEN: Did you know he was going?

Mr. FRASER: I did not.

Mr. HAZEN: On his return did he report to you or to Mr. Pullen?

Mr. FRASER: To Mr. Pullen.

Mr. HAZEN: Did you ever go to New York to discuss this matter with Moore-McCormack?

Mr. FRASER: No, I did not.

Mr. HAZEN: Did Moore-McCormack or any other officials discuss this matter with you in your office in Montreal?

Mr. FRASER: No, sir.

Mr. HAZEN: Now, it appears from what you have told me that the Canadian National Railways took the initiative in this matter and approached Moore-McCormack about getting a reduced rate.

Mr. FRASER: Perhaps it would be helpful for the record if I told you why, Mr. Hazen.

Mr. MCCULLOCH: Go ahead, give him an answer.

Hon. Mr. CHEVRIER: I think the witness is entitled to tell us why. I am interested in knowing and I am sure the committee is.

Mr. FRASER: The situation was this; Moore-McCormack had a service all during the winter operating between Saint John and Halifax, a sailing a month. In April, they had a ship destined for Halifax but they gave public notice that the sailing was cancelled, that the ship would not go to Halifax but would proceed to Boston. We went to Moore-McCormack and suggested that was a hasty decision, and urged that perhaps they would not have to go to Boston but could continue their service to Halifax and Saint John. They flatfootedly refused to do it.

Thereupon, we said to them, "If you will not come to Halifax or Saint John, will you go to Portland?" The reason for that was that the Canadian National Railways could participate in the business to Portland. They said, "We will go to Portland instead of Boston, if you will give us, as you always have done in the past, equal rates with Halifax and Saint John". We said we would and they changed from the port of Boston to the port of Portland.

Mr. REID: You would have lost the freight, otherwise?

Mr. FRASER: Yes, definitely.

Mr. HATFIELD: Did the United States government have anything to do with this?

Mr. FRASER: They did not.

Mr. HATFIELD: The United States government owns the ships?

Mr. FRASER: It may well be so, I do not know.

Mr. HAZEN: You say the United States owns the ships?

Mr. FRASER: I say I do not know. It may well be so.

Mr. HATFIELD: The ships are operated by Moore-McCormack on a cost plus basis.

Mr. FRASER: It may be so.

Mr. HAZEN: On what date did the Canadian National Railways decide to reduce its rates to Portland, Maine?

Mr. FRASER: About November 1st. At the time the discussions took place, of course, it was in connection with the next winter's sailings because this particular April sailing was the last which would be made to the maritimes. They would then go as they did, to Montreal.

Mr. HAZEN: On what date did the rates become effective?

Mr. FRASER: November 17, 1947.

Mr. HAZEN: Was the question of reducing these rates placed before the directors of the Canadian National Railways?

Mr. FRASER: Oh, definitely not.

Mr. HAZEN: Did the directors of the Canadian National Railways ever give their approval to this reduction in rates?

Mr. FRASER: I would think not. Mr. Vaughan would have to answer that.

Mr. VAUGHAN: The matter was never submitted to them.

Mr. HATFIELD: Why not?

Mr. HAZEN: Never mind.

Mr. HATFIELD: I asked why not.

Mr. FRASER: I was told not to answer.

Mr. HAZEN: Oh, all right.

Mr. FRASER: I can hardly imagine any case in which a change in rate of this character would ever get to the Board of Directors. It is an adjustment which would normally be made by a rate clerk.

Mr. REID: I was going to ask if rates had to go before the directors. This is news to me, if they do.

Mr. FRASER: Only if a matter of high policy were involved.

Mr. HAZEN: All right, let us discuss the matter of the duties of the directors for a moment. I refer you to the Canadian National-Canadian Pacific Act, 1933, section 14 (2), which was slightly amended in 1936 when the trustees were removed and directors appointed.

Mr. FRASER: Yes.

Mr. HAZEN: Now, sir in that section, does it not state that.

> The trustees shall so direct, provide and procure that all freight destined for export by and beyond the sea, which is consigned within Canada for carriage on the national railways, either at point of origin or between that and the sea shall, unless it has been by its shippers specifically routed otherwise, be exported through Canadian seaports.

Hon. Mr. CHEVRIER: There is no breach of that in this.

Mr. HAZEN: You can defend it afterwards. I am just asking if that is not a directive to the directors.

Mr. FRASER: The directors would have to answer that. The way we operate, any such understanding would be carried out by my department, that is by myself and my officers, and unless there was some breach of the directive the matter would not go to the directors.

Mr. HAZEN: You do not say that I have misquoted the section?

Mr. FRASER: No, I do not. I am sure you would not do anything like that.

Mr. HAZEN: Did the president of the Canadian National Railways know that this reduction had been made before it came into effect?

Mr. FRASER: He would have to answer himself; but I would think not.

Mr. VAUGHAN: I did not know about it. It was purely a routine matter. Those things do not come before the president—all of them.

Mr. FRASER: Nor the vice president.

Mr. VAUGHAN: No.

Mr. HAZEN: Does the use of Portland as an ocean terminal of a railway owned and controlled by the government of Canada give employment to United States workers?

Mr. FRASER: I would think so, yes.

Mr. HAZEN: Is there any law to compel the Canadian National Railways to reduce freight rates to Portland?

Mr. FRASER: Definitely not, nor do I know of anything that prevented them.

Mr. HAZEN: Was the reduction purely a voluntary one on the part of the C.N.R. officials?

Mr. FRASER: Yes.

Mr. HAZEN: Did the action of the Canadian National Railways in reducing freight rates to Portland, Maine, in the United States of America encourage the transportation of trade through American ports?

Mr. FRASER: No.

Mr. HAZEN: It did not?

Mr. FRASER: It did not.

Mr. HAZEN: Did it result—well, I will ask you another question. You say that the officials and directors of the Canadian National Railways were in all respects and in good faith using their uttermost endeavours to have Canadian goods carried to Canadian ocean ports as the law provides and to develop trade through Canadian channels and other Canadian ports when they lowered the freight rate to Portland?

Mr. FRASER: Yes. I am satisfied that is so and the reason why I say that is this: The business had already gone from Canadian ports, the business was in Boston, and the only question was one between Portland and Boston.

Mr. HAZEN: This is only one line?

Mr. FRASER: Yes, that is right.

Mr. HAZEN: Was not financial aid granted to the Canadian National Railways by the people of Canada through its government on condition that trade be developed through Canadian ocean ports?

Mr. FRASER: I should think so, yes.

Mr. HAZEN: Did Moore-McCormack Incorporated during the summer months of 1946 make use of the port of Montreal?

Mr. FRASER: Yes.

Mr. HAZEN: Did Moore-McCormack Lines Incorporated during the winter season of 1946-1947 make use of the ports at Halifax and Saint John?

Mr. FRASER: Yes, up until April.

Mr. HAZEN: Last summer did the Moore-McCormack Lines make use of the port of Montreal?

Mr. FRASER: Yes.

Mr. HAZEN: During the past winter season, 1947-1948, did the Moore-McCormack Lines make use of the ports of Halifax and Montreal?

Mr. FRASER: Halifax and Montreal?

Mr. HAZEN: Halifax and Saint John?

Mr. FRASER: Yes.

Mr. HAZEN: Was it after the freight rates on the lines to Portland were reduced that Moore-McCormack Incorporated used the port of Portland in the state of Maine instead of—

Mr. FRASER: They were done concurrently, yes.

Mr. HAZEN: Was it in consequence of the rates being reduced that Moore-McCormack Incorporated used Portland?

Mr. FRASER: Yes, I think I answered that, Mr. Hazen. They agreed to leave Boston and come to Portland if the rates were reduced, by us.

Mr. HAZEN: Would it be correct to say it was in consequence of rates being reduced to the Moore-McCormack Incorporated?

Mr. FRASER: Yes, I think that is a fair statement, and it is also fair to add the rider that they did not leave Halifax or Saint John. It was predicated upon them actually being in Boston. They had been there and they had already had a sailing from there.

Mr. HAZEN: Now, there is a company known as the International Freighting Corporation. It is a shipping company in a big way, the I.F.C. lines.

Mr. FRASER: I am not very familiar, but I accept your statement.

Mr. HAZEN: Do you know if the I.F.C. lines—the International Freighting Corporation—used Saint John and Halifax as base ports for its South American services prior to the war?

Mr. FRASER: I do not know that, but I accept your statement.

Mr. HAZEN: Is it using those ports now?

Mr. FRASER: Again I would have to get the information; I do not know.

Mr. HAZEN: Do you know what ports it is using during the winter season?

Mr. FRASER: No.

Mr. HAZEN: Do you know whether it uses the port of Montreal during the summer season?

Mr. FRASER: I am sorry to say I am not informed. There is no particular reason why I should know, but I will find out.

Mr. HAZEN: Do you know that the Sheppard line, another American line, entered into competition last autumn or last winter for South-bound Canadian newsprint?

Mr. FRASER: No, but it might be so.

Mr. HAZEN: Do you know whether or not those ships went to Portland when the reduction in freight rates became effective?

Mr. FRASER: I do not know.

Mr. HAZEN: Do you know whether or not the Sheppard line uses—

Mr. FRASER: Yes, I understand as a matter of fact—to keep the record clear, the Sheppard line changed their services from New York to Portland. I think they have never been in Halifax or Saint John, so far as I am informed, but I will get you accurate information.

Mr. HAZEN: Can you tell me if it is the intention of the International Freighting Corporation and the Sheppard lines to use the port of Montreal or St. Lawrence ports this summer?

Mr. FRASER: I am sorry I could not tell you that, but I can find out. If you are sure of that I will accept it.

Mr. HAZEN: No, I am asking the question. I am not sure of a great many things. I will ask you this: traditionally, as a matter of fact, is it not usual for the ports of Halifax and Saint John to become the winter terminals of lines operating from Montreal or other ports on the St. Lawrence during the summer season?

Mr. FRASER: For many lines, yes.

Mr. HAZEN: And in the ordinary course of events would it not be natural for the people of the maritime provinces to expect the Sheppard line and International Freighting Corporation to use Halifax and Saint John in the winter if they use the Montreal or St. Lawrence ports in the summer if it were not for the fact that the rates had been reduced to Portland?

Mr. FRASER: No, that does not follow at all because they had already left the ports of Halifax and Saint John in the winter although they were in Montreal in the summer. The only port the Sheppard company uses happens to be New York. I do not know about the International Freighting Corporation. There are a great many lines who use Montreal in the summer that do not use Saint John and Halifax in the winter.

Mr. HAZEN: Name a few.

Mr. FRASER: Yes.

Mr. HAZEN: Were you with the Canadian National Railways when they opened up New London, Connecticut, as it terminal to handle autos exported to Canada in 1926?

Mr. FRASER: Yes. I think that was in 1919. I was not in the traffic department.

Mr. HAZEN: Is it the policy of the Canadian National Railways to endeavour to develop United States ports? Let us get back at that.

Mr. FRASER: Our policy is to endeavour to develop Canadian ports. As a matter of fact, under Canadian National management Portland almost dried up and fell apart.

Mr. VAUGHAN: I would like to interject there to say that as far as New London is concerned we have no boats sailing from there, and New London is not a port with us at all.

Mr. HAZEN: I admit that but you attempted to make it one of the ports.

Mr. VAUGHAN: No, not for export traffic. New London was used to transport goods from there to New York as part of a through route going to New York.

Mr. HAZEN: Is it not your tendency or has it not been in the past—has not pressure been brought to bear to develop American ports on the short haul?

Mr. VAUGHAN: Most decidedly not.

Hon. Mr. CHEVRIER: Mr. Chairman, I think that question is one of the most unfair questions that can be put because of its inference; and I object to that question, Mr. Chairman. The question was: is it your policy to develop American trade in American ports? I think that is a very unfair question, and I object to it, Mr. Chairman. If you want to examine the witness fairly all right, but I know that in a court of law you would not be allowed to put that question in that language. If you want to cross-examine the witness do it if you like; there is nothing to stop you, but be fair about it.

Mr. HAZEN: I do not see anything objectionable to the question.

Hon. Mr. CHEVRIER: The inference in your question is that the Canadian National Railways are directing trade to the United States. Well you know that is not so.

Mr. HAZEN: I do not know anything of the kind. I am asking the question. I do know that as a result of their action in reducing the rates to Portland not only have the ports of Halifax and Saint John lost the Moore-McCormack Lines but I say they are going to lose the Sheppard line and the International Freighting Corporation line that I have referred to.

Hon. Mr. CHEVRIER: That is exactly what the witness has already told you. that the movement of the ships was not diverted from Saint John and Halifax to Portland; it was diverted from Boston to Portland in order to give Canadian National Railways the trade which we otherwise would not have had. No one knows that better than you do, and yet you insist on this particular thing.

Mr. HAZEN: What are the operating expenses—there is no use of us getting into a controversy over this—I have my point of view and the Minister of Transport has his point of view—but I am saying this, that the people in the maritime provinces say that the government is not living up to its policy.

Hon. Mr. CHEVRIER: That is not correct.

Mr. HAZEN: For Canadian ports. I have quoted the Act and I have quoted the directions that were given to the directors of the Canadian National Railways.

Hon. Mr. CHEVRIER: And the witness has replied to that question concerning subsection 2 of section 14 of the C.N.-C.P. Act, and that has not been contravened in any way. So how can you make the statement you have just made?

Mr. HAZEN: That is a difference of opinion. Now, what were the operating expenses of the line to Portland in 1947?

Mr. FRASER: You would have to ask the operating officers that question; I would not have the remotest idea.

Mr. VAUGHAN: We have not got that information here. The Portland line is operated as part of our central region.

Mr. HAZEN: Well, you can get those figures; I suppose you have them on record.

Mr. POULIOT: I understand, Mr. Vaughan, as the minister stated, that the only change was from Boston to Portland and not from Halifax or Saint John to Portland.

Mr. VAUGHAN: That is correct.

Mr. POULIOT: That is the whole point.

Mr. HAZEN: Can you give us those figures?

Mr. VAUGHAN: Yes, we can get them for you.

Mr. Hazen: Will you put them on the record?

Mr. VAUGHAN: Yes; the operating expenses?

Mr. HAZEN: The total operating expenses. How much of the amount is paid in United States funds?

Mr. VAUGHAN: We can give you that.

Mr. FRASER: As a matter of fact, I can answer that. All freights to Portland on export business are paid in Canadian funds and are not paid in American funds.

Mr. HAZEN: Those are not operating expenses?

Mr. VAUGHAN: On our New England lines in the United States all the employees and the materials are paid for in United States funds.

Mr. HAZEN: I am asking for that, and what they amount to in United States funds. I do not know whether they were paid in United States funds or not. How much traffic has been routed to date to the Moore-McCormack Lines Incorporated at Portland since the rates were reduced on November 17 last?

Mr. FRASER: I cannot distinguish between Moore-McCormack and any other line, but the total shipments of exports to Portland amount to 25,547 tons. Just for the sake of the record, during the same period the traffic to Saint John and Halifax was 688,479 tons.

Hon. Mr. CHEVRIER: May I ask Mr. Fraser a question, Mr. Hazen?

Mr. HAZEN: Yes.

Hon. Mr. CHEVRIER: How many shiploads are represented in the 25,547 tons that you have mentioned?

Mr. FRASER: I should think five or six ships.

Mr. VAUGHAN: I would like to make this statement, that in 1947 there were only 261,000 bushels of grain shipped through Portland from December to March, and in 1946 there were 760,000. In other words, there was less than one-third of the quantity of grain went to Portland in 1947 as compared with 1946.

Mr. HAZEN: That would be more satisfactory to the people of the maritimes. The figures you gave were up to what date?

Mr. FRASER: The end of March 1948, from December of 1947 to March 1948—the whole shipping season from the end of March. In percentage—that is approximately 4 per cent.

Mr. POULIOT: What is the percentage of the shipping through Portland compared to the shipping through Halifax and Saint John?

Mr. FRASER: I would think probably that is about the same—approximately 4 per cent.

Mr. POULIOT: Your shipping through Portland represents 4 per cent of what you would ship through Halifax and Saint John?

Mr. FRASER: That is right.

Mr. POULIOT: Over twelve months?

Mr. FRASER: No, during the winter.

Mr. POULIOT: What you ship to Portland during the winter season represents 4 per cent of what you ship during the whole year?

Mr. FRASER: No, sir, not for the whole year; 4 per cent of what we shipped during the same season—four months.

Mr. POULIOT: And during the balance, the eight other months, you shipped from Halifax and Saint John?

Mr. FRASER: Yes. Most of the shipping, of course, in the summer is done through Montreal, but there would be the odd ship at Halifax and Saint John.

Mr. POULIOT: It is done through Canadian ports?

Mr. FRASER: Yes.

Mr. HAZEN: There is one other matter on which I would like to ask a question and that is in connection with the shipment of rye through Portland last autumn. I understand that last autumn there were 1,000,000 bushels of rye shipped through Portland?

Mr. FRASER: Yes, sir, about 1,000,000 bushels.

Mr. HAZEN: Now, apparently one of the newspapers when this matter came to their attention got in touch with Mr. Hommey, the secretary-general of the French Supplying Council and they asked him about the matter and he said that he understood that the British ships were using the flat tops of aeroplane carriers to transport grain and that the facilities at Saint John and Halifax had been changed to handle this particular type of ship which made it difficult for them to accommodate ordinary freighters. Now, of course, that statement is incorrect. He also said in reply to a question that the elevators in Saint John and Halifax were full of grain for the United Kingdom and that is the reason they could not send them any. That was not correct. He said he was informed that Portland is just another Canadian port anyway, because the Canadian National Railways run there—you think that is not correct—and the maritimes do not like it as it is.

Mr. FRASER: I am perfectly sure he did not get it from me.

Mr. HAZEN: He also said they had uniform charges to ship grain through Portland, which undoubtedly is correct; and it would not cost them more to ship out; the rate is no less. This statement must have been furnished to the French supply mission by someone who was looking for business; I do not know who it was—but was any investigation made—did any of your officials ever approach the French secretary-general of the French Supply Council or any of its officers about attending to this business?

Mr. FRASER: The situation as I understand it is that the French government were anxious to keep their shipments out of the way of the British food commitments which were moving from Halifax and Saint John. This is the information I got.

Mr. HAZEN: May I ask where?

Mr. FRASER: I got it from Mr. Pullen's office; and the decision was entirely made by the French government. As you and I know, there is no reason why you cannot handle flat tops in Saint John, or any other type of ship.

Mr. HAZEN: Are you sure the department did not go after the business?

Mr. FRASER: It came to us without going after it. My understanding is that the French government came to us—anyway the decision to use Portland was made by them, and they notified us—not the steamship line, but the French government.

Mr. HAZEN: Would the officials of your company—you or those under you—make any effort to get that business to go through Halifax or Saint John?

Mr. FRASER: In this particular case I would think not because—

Mr. HAZEN: Somebody in your department?

Mr. FRASER: No, pardon me, I was going to say this: you have read carefully what our duty is with respect to unrouted business which is not routed by the shipper. This business was routed by the shipper. We cannot say to the shipper who has routed his business that it should be diverted from Saint John to Portland or from Portland to Halifax, and we do not do it. My understanding of our responsibility under the Act is that we do not have to do it. I understand that we are only concerned with business which is unrouted and which may go to one port or another.

Mr. POULIOT: Where you have freedom of choice.

Mr. FRASER: Quite so, sir.

Mr. POULIOT: It is a human right.

Mr. FRASER: The way it works is this: the shipper, whoever he may be—first arranges for space on his ship; then he has to get an export permit. Now, he chooses the route in accordance with the available space where he can get it. In those days there was not any unrouted business.

Mr. HAZEN: I am not clear on this one point: suppose that Moore-McCormack said to you, "We are not going to ship through Halifax and Saint John any more on account of the conditions which prevail", and which, I suppose were largely the fault of the Canadian National Railways?

Mr. FRASER: Oh, as a matter of fact, if you read the Moore-McCormack letter you will find that it is not the Canadian National Railways at all.

Mr. HAZEN: I could read a lot; different statements have been made by different companies; but I am not going into that.

Mr. FRASER: We cannot accept that responsibility.

Mr. HAZEN: Supose they said, "We are not going to ship that way," and with that you reduce the rates to Portland in consequence because you say you wanted to retain the business; was that it?

Mr. FRASER: Yes, for the Canadian National Railways.

Mr. HAZEN: Now, let us suppose that you did not reduce the rate to Portland, how would it have affected your business and to what extent?

Mr. FRASER: Instead of hauling it all the way to Portland we would have had to hand it over to another line at some junction point—one of the lines serving Boston and New York—the Boston and Maine—and taken less revenue than by hauling to Portland. We do not serve Boston.

Mr. HAZEN: You hauled 26,000 tons—25,000 tons; what revenue would you get from that?

Mr. FRASER: Well, I can give you that.

Mr. HAZEN: I am asking for information. You hauled 25,000 tons and received a certain amount of money for doing so. If you had hauled 25,000 tons a lesser distance how much less would your revenue of the railway have been?

Mr. FRASER: I will find that out. It would be several cents per hundred pounds less.

Mr. HAZEN: I would like to get that in dollars.

Mr. FRASER: I shall be able to do that for you.

Mr. POULIOT: Is the Moore-McCormack line an American line?

Mr. FRASER: Yes.

Mr. HAZEN: One of the largest and most influential lines.

Mr. FRASER: It would take a little time to get that information for you for this reason, that we will have to check each individual shipment; we will have to segregate the amount of newsprint and the amount of acetone, the amount of different things, because the rates and divisions are different. It would take time.

Mr. HAZEN: If this business was given to Moore-McCormack; if they had not gone to Portland and had gone to Boston, and this same amount of business had gone to them, what would be the difference?

Mr. FRASER: Three or four cents a hundred pounds. I am just picking this out of the air—approximately $150,000 to $175,000—no, I am sorry, it would be $15,000 or $16,000.

Hon. Mr. CHEVRIER: May I ask you one or two questions? Do I understand this correctly, that the Moore-McCormack line is an American line based at the port of Boston?

Mr. FRASER: And New York—both.

Hon. Mr. CHEVRIER: They operate normally in Canada through the port of Montreal in the summer months and through the ports of Halifax and Saint John in the winter months?

Mr. FRASER: That was true at that time, yes.

Hon. Mr. CHEVRIER: And what happened was that because of traffic congestion at some of these ports—which Mr. Hazen attributes to the Canadian National Railways and which you deny and with which I am not concerned at the moment—they decided to change their route. Now, what I am interested in knowing is how many ships and how much cargo in terms of ships were routed to the port of Portland and what does this mean in terms of ship loads?

Mr. FRASER: I think there were five ships.

Hon. Mr. CHEVRIER: Five ships per year?

Mr. FRASER: Of the Moore-McCormack company.

Hon. Mr. CHEVRIER: Of the Moore-McCormack company that would normally use the maritime ports?

Mr. FRASER: Yes.

Hon. Mr. CHEVRIER: In the winter season, I take it.

Mr. HATFIELD: How often did Moore-McCormack have a sailing?

Mr. FRASER: I think one a month, sometimes twice.

Hon. Mr. CHEVRIER: Mr. Hatfield, if you will allow me to continue, you can ask your questions afterwards. I have two or three more questions I should like to ask. Then, you say, you equalized the rate?

Mr. FRASER: Yes, sir.

Hon. Mr. CHEVRIER: To Portland, that is, to make the rate the same as it was to Saint John and Halifax?

Mr. FRASER: Correct.

Hon. Mr. CHEVRIER: In equalizating the rates, or in doing anything else which you have done, did you in any way commit a breach of the traditional policy of this country or of the Canadian National Railways?

Mr. FRASER: Not that I know of.

Hon. Mr. CHEVRIER: Are you familiar with the Canadian Northern Railway Act of 1911, which I should like to put on the record and which reads as follows:

Mr. HAZEN: Pardon me, now—

The CHAIRMAN: Could you not permit Hon. Mr. Chevrier to finish his remarks?

Mr. HAZEN: Are you not complimenting me by reading my summary of it?

Hon. Mr. CHEVRIER: No. If it is a compliment to you, I gladly make it.

Mr. HAZEN: I must say it is a compliment to me.

Hon. Mr. CHEVRIER: Then, you and I agree on this.

The company must agree:

1. That all freight orginating on its lines not specifically routed otherwise shall, when destined for points in Canada, be carried over the railway lines within Canada.

In connection with this matter now being discussed, did the Canadian National Railways do anything which would be a breach of that clause?

Mr. FRASER: No.

Hon. Mr. CHEVRIER:

> 2. That the through rates on export traffic from the point of origin to point of destination shall at no time be greater via Canadian ports than via United States ports.

Did the Canadian National commit any breach of that clause?

Mr. FRASER: No, sir.

Hon. Mr. CHEVRIER:

> 3. And that all such traffic, not specifically routed otherwise by the shipper shall be carried to Canadian ocean ports.

Did the Canadian National Railways commit a breach of that section?

Mr. FRASER: No, sir.

Hon. Mr. CHEVRIER: Now then, I ask you this question: section 14 of the Canadian National-Canadian Pacific Act reads:

> The trustees shall so direct, provide and procure that all freight destined for export by sea which is consigned within Canada for carriage to national railways, either at point of origin or between that and the sea shall, unless it has been by its shippers specifically routed otherwise, be exported through Canadian sea ports.

Has a breach of that section been committed by the Canadian National Railways?

Mr. FRASER: No, not that I know of.

Hon. Mr. CHEVRIER: Is it not traditional policy of the Canadian National Railways to encourage, at all times, the movement of freight or traffic on its own lines to Canadian ports?

Mr. HAZEN: A leading question.

Mr. FRASER: The leading answer would be, yes.

Hon. Mr. CHEVRIER: That is all.

Mr. HATFIELD: I should like to ask the witness whether Mr. Vaughan's speech in the city of Portland on July 4, 1947, had any effect in lowering the rates to Portland?

Mr. FRASER: None whatever.

Mr. HATFIELD: You know about that speech?

Mr. VAUGHAN: I did not make any speech in Portland?

Mr. HATFIELD: You were interviewed by the city manager of the chamber of Commerce.

Mr. VAUGHAN: Let me make a statement on that point. I did not interview them. Before leaving on the train at nine o'clock in the morning, these gentlemen came down to see me as a matter of courtesy. They said they were hopeful they could increase the business through the port of Portland by a substantial amount. I said, "How do you propose to do that"? They said, "By drawing business from Boston, New York and other United States ports." I said, "More power to you. We cannot help you on the Canadian business, but if we can assist you to get business over Boston or New York, we will do so."

Mr. HATFIELD: Here is what the newspaper says about your speech.

Mr. VAUGHAN: I did not make a speech, it was only a statement.

Mr. HATFIELD: You made a statement. They did not say to you they were going to take trade from Boston.

Mr. VAUGHAN: You are reading from a statement made in the newspaper by a reporter. I do not recall what was said now. I do remember that what he said was wrong and it was not properly reported.

Mr. HATFIELD: You said you were going to do everything you could to help the city of Portland.

Mr. VAUGHAN: I did not make that statement at all. I said we would do everything we could to influence business through Portland as against Boston and New York.

Mr. HATFIELD: Here is what the statement says—

Mr. VAUGHAN: That is a newspaper report given by a newspaper reporter.

Mr. HATFIELD: I was told by the city manager what you said.

Mr. VAUGHAN: I do not care what that says, I am telling you the context of what was said.

Mr. HATFIELD: You were coming back from the city of Boston after making arrangements to resume your service out of Boston.

Mr. VAUGHAN: I was coming back from Boston. I had been down there to see one of our Lady boats off. It does not carry freight out of Boston, it only carries passengers.

Mr. POULIOT: The question concerned three American cities?

Mr. VAUGHAN: Exactly.

Mr. POULIOT: New York, Boston and Portland?

Mr. VAUGHAN: Yes.

Mr. POULIOT: Was there any question about Halifax and Saint John?

Mr. VAUGHAN: No question about taking business from Canadian ports to Portland whatever.

Mr. POULIOT: From what you have said it was Portland in comparison with Boston and New York?

Mr. VAUGHAN: Absolutely.

Mr. POULIOT: And not Portland in comparison with Saint John or Halifax?

Mr. VAUGHAN: That is correct. The people in Portland know very well, we have told them time and again, that we could not divert business from Canadian ports to Portland.

Mr. HATFIELD: You invited these men to your private car. This photograph was taken in your private car.

Mr. VAUGHAN: That may be quite true. What has that got to do with it?

Mr. HATFIELD: You were going to do everything you could to help the city of Portland.

Mr. VAUGHAN: I said I was going to do everything I could to help Portland to get business against Boston and New York. I still say that and I think it is the duty of every Canadian National official to get business to Portland, so long as he does not divert business from Halifax or Saint John. It is keeping the business for the railway.

Mr. HATFIELD: You did divert business.

Mr. VAUGHAN: This business was going to New York or Boston, otherwise.

Mr. HATFIELD: There was a delegation came from the Argentine to interview you?

Mr. VAUGHAN: No.

Mr. HATFIELD: How many were there? I mean from the Argentine.

Mr. VAUGHAN: No, I did not see them.

Mr. POULIOT: An interview may be had, but it does not mean that interview is correctly reported?

Mr. VAUGHAN: That is correct. These statements against the Canadian National Railways and its officers are very unfair and very inaccurate.

I will tell you what happened during the war for the information of this committee. We had numerous excuses to divert business from Halifax and Saint John to Portland and, incidentally, it is only 290 miles to Portland as against 850 to Halifax and over 600 to Saint John via C.N.R. There is no rate to Portland which is lower than the rate to Saint John or Halifax, notwithstanding the difference in haul.

During the war, we could only get a very limited quantity of Nova Scotia coal. We actually railed coal from West Virgina and other points in the United States down into the maritime provinces so we could keep business rolling to these ports. We could very easily have said we could not get coal in the maritimes, so we will send the business to Portland.

What happened last spring when the strike occured in Sydney? We again railed coal all the way from the United States to New Brunswick and Nova Scotia to keep the business moving to Halifax and Saint John.

Mr. HATFIELD: What about the strike in the United States?

Mr. VAUGHAN: What has that got to do with it. We could have diverted business to Portland had we any desire to do so. Instead of that, we spent literally millions of dollars railing American coal into the maritime provinces to keep business flowing through the ports of Halifax and Saint John.

Mr. HAZEN: You had to keep it rolling through the ports of Saint John and Halifax in order to supply the overseas needs.

Mr. VAUGHAN: We could not get coal. We could have put the business through Portland and not have had to bring coal from as far as West Virginia. All I am saying is that you gentlemen are very unfair in your statements.

Mr. HATFIELD: I am talking about the Moore-McCormack ships.

Mr. VAUGHAN: The statement has been made and repeated time and again that Moore-McCormack were going to Boston or New York. All our officers did, and it was a proper thing for them to do, was to endeavour to hold the business for the Canadian National Railways which is owned by the people of Canada. Our people would not be true to their duty if they had not made every attempt to get the business for the Canadian National Railways so long as they did not divert it from Canadian ports. It has been proven beyond doubt that the Canadian National Railways officials took no action to divert business from Canadian ports.

Mr. POULIOT: I have another question to ask you concerning shipments through American ports. It is cheaper to make shipments through Portland than through Boston or New York?

Mr. VAUGHAN: Mr. Fraser could say whether the rates are the same or not.

Mr. FRASER: The rates are the same to Portland, Saint John and Halifax.

Mr. POULIOT: But to New York and Boston?

Mr. FRASER: We have made the rates under review lower than to Boston and New York.

Mr. POULIOT: Is the line shorter?

Mr. FRASER: Very much shorter.

Mr. HAZEN: How much did the Canadian National Railways spend last year on improvements or repairs to the port of Portland?

Mr. VAUGHAN: I could not say that. I think we spent very little. If you go down to Portland you will see our docks are falling into the water because of disuse. We dismantled one of our elevators because it was falling down on account of disuse.

Hon. Mr. CHEVRIER: May I ask you another question? The effect of what has been said here by Mr. Hazen and, I take it by Mr. Hatfield as well, is that Saint John and Halifax should, in effect, have a lower rate than the Portland port?

Mr. HAZEN: I did not say that.

Hon. Mr. CHEVRIER: That is what you said in the House of Commons and that is what you said in your statement this morning.

Mr. HAZEN: Whereabouts?

Hon. Mr. CHEVRIER: In the questions which you asked.

Mr. HAZEN: I object to you summing up the effect of my remarks. I think it is fair for you to ask questions the same as I did.

Hon. Mr. CHEVRIER: If you will permit me to continue, I will ask questions. Is it not a fact that the rates to these ports were on a parity before?

Mr. FRASER: Yes.

Hon. Mr. CHEVRIER: That is, Portland, Halifax and Saint John were on a parity?

Mr. FRASER: Prior to 1938.

Hon. Mr. CHEVRIER: Prior to 1938 they were always on a parity?

Mr. FRASER: Yes.

Mr. POULIOT: Even when Mr. Bennett was here? Let me re-phrase that question and say, even from 1930 to 1935 they were on a parity?

Mr. FRASER: Yes.

Mr. POULIOT: No change during that period?

Mr. FRASER: No, sir.

Hon. Mr. CHEVRIER: What was done here when the rate was equalized was to put it in the same position as prior to that time?

Mr. FRASER: That is correct.

Hon. Mr. CHEVRIER: In other words, the rates were equalized, not lowered?

Mr. FRASER: Yes, the situation—have you finished?

Hon. Mr. CHEVRIER: Yes.

Mr. FRASER: I am a little bewildered by this. The situation is this; for some years the rates to Halifax were one cent per hundred pounds higher than they were to Saint John. The Canadian National Railways, itself, without directions or anything of that kind from anybody made them the same. They reduced the Halifax rate by one cent making it the same as the Portland rate. That situation continued until 1938.

Now, in 1938 the rates to American ports, including Portland, were increased. The increases authorized in those rates were from 5 to 10 per cent and increases were also authorized in the rates to Halifax and Saint John.

Hon. Mr. CHEVRIER: By the Inter-State Commerce Commission and the Board of Transport Commissioners?

Mr. FRASER: Yes. Those gentlemen who were shippers and who were using the rates on those commodities in question came to the railways and said they were in a very difficult position. Their position was that they were just coming out of a depression. These rates affected, generally speaking, low priced commodities. These gentlemen besought us not to raise the rates on these commodities if we could possibly help it. We agreed not to raise them.

We might have been open to some criticism there, too, because someone who is shipping some of the other commodities might have said to us, "Well, that is a peculiar thing for you to do. You raised the rate on my commodity and you did not raise it on these commodities." There were a limited number of commodities only which were not raised but the rates were raised on all others in exactly the same way as to Portland. We thought we were doing the decent thing by doing that. We did not think we were doing anything unfair. I am rather astonished we do not get a little credit for that. This gave Halifax and Saint John no advantage whatever over Portland, nor did it give any disadvantage to Portland for the reason there were no sailings at Portland. Had there been ships at Portland, the Portland rate would have been held down in exactly the same way. I can only say to you that no railway man willingly carries what is known as a paper rate. You only change those rates which are immediately pressing you, so we continued that adjustment up until war broke out.

We did not take the increases at Halifax and Saint John amounting to, in some cases, 5 per cent and in other cases 10 per cent. We did not do that, I must confess, for Halifax and Saint John particularly; we did that to assist Canadian shippers who said if we did not do that they would have to go out of business, not go somewhere else through some other port, they just could not continue in business.

Then, war came and those rates were frozen for Halifax and Saint John. I need only say to you, at that time, there was no opportunity of raising them. Had there been such an opportunity, the rate to Halifax and Saint John might, then, have been raised and made the same as to Portland, giving us a great deal more revenue to Halifax and Saint John. However, rates were frozen and we could not change them.

When Moore-McCormack came to us, the rates were still frozen. The only way they could be equalized was by reducing the Portland rate. Had it happened otherwise, the Halifax and Saint John rates might well have been raised to the Portland rate, the net result being considerable more money for the Canadian National because of the heavier tonnage which moves through Halifax and Saint John. However by doing this we would not have got the business away from Boston so, instead of getting the Halifax and Saint John rate raised, we went along with the freeze and said we will do the next best thing and try to get the business to Portland. In reducing the rates, and not increasing the Halifax and Saint John rates, we thought we were doing a pretty decent thing, and a national thing.

Hon. Mr. CHEVRIER: You were, in my opinion.

Mr. FRASER: I hesitate to say whether it will be done again, but $15,000 is not to be sneezed at.

The CHAIRMAN: Gentlemen, I think you have had a full discussion of this question this morning.

Mr. NICHOLSON: There was a letter read from Mr. Isnor requesting that this correspondence be tabled. I think the Canadian National Railways would be placed in a most uncomfortable position if members were able to ask that correspondence be tabled. However, I must register my protest at the minister selecting one letter from a large file such as this when other members are not free to have access to that sort of correspondence. I hope it will not happen again.

Hon. Mr. CHEVRIER: I thought I had explained why I did that. The only reason I did it was to reply to the charges made by Mr. Hazen in the House.

I had no other way of replying to them other than making a statement, and reading the pertinent part of the letter. Since the statement was made in the letter. I quoted the paragraph containing that statement and Mr. Hazen demanded, that I then file the whole letter.

Mr. NICHOLSON: I think a very satisfactory explanation has been given for what the C.N.R. has done. I think if you had given that explanation without referring to the confidential letter, it would have been sufficient.

Hon. Mr. CHEVRIER: I tried to do that. However, you know that on a motion for the production of papers a member is out of order if he attempts to make a second statement. If I had been given the opportunity of making a second statement, that is what I would have said.

Mr. HATFIELD: Did not the representatives of Moore-McCormack call on the minister before the rates were reduced?

Hon. Mr. CHEVRIER: I am not a witness, but have no objection in saying that I do not know anyone representing Moore-McCormack; I have never seen anyone from that Company and no one called on me to discuss the matter.

Mr. HATFIELD: There was a man here representing Moore-McCormack for a week or two weeks before these rates were reduced. He told me he was here to interview you or an official of your department and he had seen the president in Montreal.

Mr. VAUGHAN: He never saw me. I never saw any Moore-McCormack man.

Hon. Mr. CHEVRIER: He did not see me. He did not see the deputy minister of my department.

Mr. HATFIELD: Did he see any official in your department?

Hon. Mr. CHEVRIER: He saw no officials, so I am informed by my officials.

The CHAIRMAN: There is one thing I should like to say. The question of Mr. Isnor's letter was settled in the House by the House itself. I think all the questions have been asked and answers have been given. Let us turn to page 16.

Mr. NICHOLSON: I understand some information was to be made available this morning. Could we have that now?

The CHAIRMAN: Just before you do that, if the committee will agree, Mr. Fraser has one more answer to make.

Mr. FRASER: Before I finish I want to say, just so the record will be clear, that while the Canadian National Railways are carrying the whole burden of this complaint, exactly the same action was taken by the Canadian Pacific Railway.

Mr. HAZEN: But after you took action.

Mr. FRASER: As a matter of fact, the Canadian Pacific published its rates shortly after we did. We agreed with them, before the rates were published that we would both publish the same rates. It is hard for us to believe that anyone would imagine that the Canadian Pacific, who have their own ships at Saint John, would take this action to divert business to Portland and give it to Moore-McCormack or anybody else.

I wanted to make it perfectly clear. Everyone seems to lose sight of the fact that the Canadian Pacific were equally to blame or deserve equal credit, as the case may be.

Mr. HATFIELD: Not at all, does the Canadian Pacific not have newsprint mills at which you do not have facilities for picking up this freight? They had to do it to compete and get that freight?

Mr. FRASER: Not at all; we both sat down together and discussed our policy with respect to the equalization of the rates.

The CHAIRMAN: I think that answers the question, Mr. Hatfield. They agreed before the rates were published. Let us turn to page 16, under traffic.

Mr. Cooper will file these reports for which requests were made yesterday and then we will commence with page 16, traffic.

Mr. COOPER: Mr. Nicholson asked what the result of the Canadian National Insurance Fund had been for the last ten years. Mr. Jackman asked for the number of telegraph department employees in the service in 1947. Mr. Jackman asked for the acreage of unsold land in western Canada divided between the provinces of Manitoba, Saskatchewan and Alberta. Mr. Nicholson asked for a comparison of mail revenue in comparison with miles operated as between the Canadian National and the Canadian Pacific. Mr. Hlynka asked for a division of our revenues and expenses for the year 1947, divided between lines west and east of Port Arthur.

I now table the answers to those questions which might be incorporated in the minutes of the proceedings of this committee.

Question by Mr. A. M. Nicholson

Result of C.N.R. Insurance Fund—10 years—1938 to 1947 inclusive.

—	Income		Expenses		Net income
	Premiums	Net income from investments	Losses	Administration expense	
	$	$	$	$	$
1938	42,154	583,712	305,939	15,213	304,754
1939	32,962	826,811	295,468	15,213	549,092
1940	47,775	496,171	410,107	12,917	120,922
1941	51,636	258,667	413,190	14,871	*117,758*
1942	64,685	492,250	374,968	16,846	165,121
1943	197,857	562,313	518,725	18,105	223,341
1944	98,431	1,523,461	389,470	21,696	1,210,725
1945	131,627	1,046,687	1,692,228	22,435	*536,349*
1946	119,727	424,810	562,016	23,163	*40,642*
1947	102,397	597,346	400,598	21,860	277,285

Question by Mr. H. R. Jackman

Number of Telegraph Department employees in service in 1947: 3,878.

Question by Mr. H. R. Jackman

Province	Acres
Manitoba	10,288·30
Saskatchewan	233,507·98
Alberta	4,567·90
Total Acreage	248,364·18

Question by Mr. C. H. Nicholson

Comparison of mail revenue to mileage operated—Canadian National vs Canadian Pacific:

	Dominion Bureau of Statistics	
	C.N.R.	C.P.R.
Average *miles* of road operated	21,735·7	17,034·1
Ratio of total miles operated	56·1%	43·9%
Mail revenue	$3,830,045	$4,172,010
Ratio of total revenue	47·8%	52·2%

Questions asked by Mr. A. M. Nicholson and Hlynka

Revenues, expenses and net revenue, year 1947, divided between lines West and East of Port Arthur:

	Revenues	Expenses	Net
Lines *West* of Port Arthur and Armstrong	$119,964,915	$110,207,860	$ 9,757,055
Lines *East* of Port Arthur and Armstrong	257,340,180	236,693,906	20,646,274
U.S. Lines	60,892,885	50,220,841	10,672,044
Total	$438,197,980	$397,122,607	$41,075,373

Mr. NICHOLSON: I enquired about the rates on eggs to Regina and Ottawa.

Hon. Mr. CHEVRIER: I hope that inquiry will not take as long as the Portland case.

Mr. VAUGHAN: They tell me they will file that information in the morning.

The CHAIRMAN: We will file that.

Mr. NICHOLSON: It should be a simple matter to obtain that information.

Mr. MACMILLAN: We are trying to give you the rates on which the traffic actually moves. I think the president, yesterday, in answer to one of your questions, stated there was a possibility this might be an agreed charge. There is a certain volume of traffic which moves on the terms of agreements, contemplated by the Transport Act, under which a shipper covenants to deliver to the railway all his traffic in consideration of which a specific rate is designated. Eggs is one of the commodities frequently handled in that manner. We want to give you a comprehensive statement of the situation.

Mr. NICHOLSON: The minister had some information available in that connection on April 15 when he replied to a question by Mr. Coldwell. I should like to have that information before the committee completes its task. I understood the president to say yesterday there was not any discrimination against western points, that the increases have been made all across Canada.

Mr. MACMILLAN: That is right.

Mr. NICHOLSON: My information is there is a difference; that the rate of increase in Ontario is not as high as it is in Saskatchewan. I should like to find out whether I am wrong or not. How long will it be before I can obtain that information?

Mr. MACMILLAN: We could give it to you by tomorrow.

Mr. VAUGHAN: It would be in your interest if we could give you a comprehensive statement rather than picking out something here and there which might be misleading. We will have that information for you in the morning.

Mr. EMMERSON: I should like to ask Mr. Walton one or two questions. What is the ratio of apprentices to mechanics in the various shops?

Mr. WALTON: Our regulations provide for one to five.

Mr. EMMERSON: Could you say what is the actual ratio now, say at the end of 1947, for the whole system as well as the Atlantic region, not of the various apprentices but the total number of apprentices?

Mr. WALTON: I have not that information with me. What you want is the ratio of apprentices to mechanics at the end of 1947 lumped into one figure.

Mr. EMMERSON: For the Atlantic region and for the system.

Mr. MCLURE: Last year, I asked the president if there would be any opportunity for our province to have an allocation of a certain number of apprentices. Due to the fact that our shops were moved from Charlottetown to Moncton, we have not had apprentices for a number of years. Applications are always coming in from fellows who want to learn the trade. At that time, I think the statement was made that proper allocations would be made for apprentices coming into the Moncton shops, based on the population of the three maritime provinces?

Mr. WALTON: That is correct.

Mr. VAUGHAN: I recall you asking that question.

Mr. WALTON: I had occasion to look that up for the year 1947. Our records show that on the Atlantic region we took on 15 apprentices, three of whom were from Prince Edward Island. They were the only three applicants from the island. So far as we can, we will follow that proportion which is, approximately, a reasonable pro-rate as between Prince Edward Island, New Brunswick and Nova Scotia.

Mr. POULIOT: With reference to the two questions which have been put to you by Mr. Emmerson and Mr. McLure, do I understand that you mean there is one apprentice—

Mr. WALTON: One to five, that is one apprentice to five mechanics.

Mr. POULIOT: Will you please check up, for my personal information, the number of apprentices at Riviere du Loup? I believe you will be surprised to learn that the number of apprentices is far below that. I hope it will be corrected in due course.

Mr. WALTON: I will be glad to do that.

Mr. POULIOT: It is impossible to get apprentices at Riviere du Loup. The situation has been improved since Mr. Johnson has been in Moncton. He has done a marvellous job which I hope will be continued by Mr. Robinson. Before that, the situation was not good. We suffered injustices from Moncton continually. Because of the actions of former superintendents, Mr. Johnson had a very difficult job, but he improved conditions. He did exceptionally well and I am sure that he will do well wherever he is. I hope his successor will follow in his footsteps.

The CHAIRMAN: Are there any other questions concerning traffic?

Mr. JACKMAN: Could we have on the record how many new employees were taken on during 1947, not ex-service men, who were resuming their positions with the company, and of that total how many were university graduates?

Mr. VAUGHAN: I think we can get that for you.

Mr. JACKMAN: The matter of interest charges came up yesterday and I should like to have on the record a table showing the amount of interest charges on funded debt and government loans separately and in the aggregate, expressed as a percentage or as a decimal of: (a) total operating revenue; (b) net operating income—or should I use the term "net operating income"?

Mr. COOPER: I am not sure which you have in mind. If you mean the difference between revenues and expenses you should use the term "net operating revenue"; if you want to include taxes, joint facility rents and equipment rents, you should use the term "net railway operating income"; but if you want to speak of the final result you should use the term "net income". I am not sure which of the three you wish.

Mr. JACKMAN: I want it for comparative purposes and on your statement I think you have the figure for net railway operating income. That would probably be the best one for my purposes.

Mr. COOPER: All right, sir.

Mr. JACKMAN: (c) Net available for payment of interest. I should like to have those figures for 1939 and for your best year, 1944 or 1945, was it?

Mr. COOPER: When you speak of "net" in relation to the amount available for payment of interest, the amount in 1947 was $27,939,000.

Mr. JACKMAN: I want it as percentages.

Mr. COOPER: Our interest was $43,000,000, which would be something like 150 per cent. Is that the figure you want?

Mr. JACKMAN: It would result in a minus figure. You have a deficit figure.

Mr. COOPER: Yes, $15,000,000.

Mr. JACKMAN: Which was your best year during the war? I leave that to you to find out.

Mr. COOPER: All right.

Mr. JACKMAN: Or for 1947. And then I should like to know what were the interest charges for the C.N.R., the Grand Trunk Pacific and the Grand Trunk Railway. Does that include the Transcontinental? It was C.N.R., was it not?

Mr. COOPER: The Transcontinental was a Canadian Government railway and it had no fixed charges.

Mr. JACKMAN: I wanted the railways which went into the Canadian National Railway System.

Mr. COOPER: I can give you that now.

Mr. JACKMAN: The C.N.R. and the Grand Trunk Pacific and the Grand Trunk Railway.

Mr. COOPER: In 1922, which was the year prior to the amalgamation, the interest charges of the railways which entered into the consolidation amounted to $35,123,236.

Mr. HATFIELD: How many perpetual bonds have you still outstanding?

Mr. COOPER: They are set out, Mr. Hatfield, on page 20 of the report. I would say between $13,000,000 and $14,000,000.

Mr. HATFIELD: They carry an interest of 7 per cent, do they not?

Mr. COOPER: No, sir, there are no 7 per cent interest bonds; some are at 5 and some are at 4 per cent.

Mr. HATFIELD: You cannot refund those bonds, can you?

Mr. COOPER: No, sir, you cannot call a perpetual security—you could negotiate, possibly—but you remember, no doubt, that during the war all the securities held by U.K. residents, including perpetuals, were repatriated.

Mr. HATFIELD: I know that.

Mr. COOPER: And far the greater portion of our perpetual securities were retired at that time.

Mr. HATFIELD: What perpetual securities you now have are still held in Canada or the United States?

Mr. COOPER: They are held in Canada, the United States or Europe, excluding the United Kingdom. There are some in Ireland.

The CHAIRMAN: Mr. Jackman, you wanted to finish your questions.

Mr. JACKMAN: In 1922 the Canadian National Railway System was formed; is that the date?

Mr. COOPER: January 1, 1923.

Mr. JACKMAN: Were there any bonds on the Intercolonial Railway at all?

Mr. COOPER: No, sir.

Mr. JACKMAN: How much of those charges have been written off by reason of writing off debt or transfer of the proprietorship account? I am not asking for that now. What is the amount of interest charges on debt incurred since the government took over the C.N.R. system, less refunding of previously incurred debt? Will you give me those figures later?

Mr. COOPER: Yes.

Mr. MOORE: I notice an article in the Winnipeg *Free Press* stating that a token payment was to be made on taxes on railway property in the city of Winnipeg. Are negotiations under way now for railway properties to be taxed?

Mr. MACMILLAN: That is right, sir. The situation in Manitoba is that we have never had municipal taxation within the province of Manitoba until the current year and this year the railways become liable to some form of municipal taxation. Normally there is a Railway Assessment Act which determines the extent to which railway facilities become taxable. The city of Winnipeg has not any special provisions in its charter, and rather than introduce special provisions to this section, the Manitoba legislature, which is now in its dying days—we have had negotiations with them, using as a base very largely the Ontario Assessment Act. It will be for the term of one year and at that time it will be regularized by an amendment of the statute of some nature.

Mr. MOORE: I noticed that the city of Halifax has a particularly unique problem in that a large amount of their property is owned either by the dominion government or by the transportation companies, which is not taxable. Will the C.N.R. also have to pay taxes in the city of Halifax on their properties?

Mr. MACMILLAN: We make a grant to the city of Halifax in lieu of taxation. The property there is vested in the name of the dominion Crown and as such is exempt from taxation.

Mr. LOCKHART: Are there varying rates of compensation in different regions? In certain sections of Canada are the rates different from what they are in other sections, depending upon the municipal demands?

Mr. MACMILLAN: Yes, it depends upon the terms of the provincial statute to establish municipal taxation.

Mr. LOCKHART: Of the particular province?

Mr. MACMILLAN: Yes.

Mr. LOCKHART: Do you set it up in regions or how is it set up—in districts?

Mr. MACMILLAN: You mean the administration?

Mr. LOCKHART: Any compensation granted to the municipalities—is it done by districts?

Mr. MACMILLAN: It is done by municipalities.

Mr. LOCKHART: By municipalities. Does that mean urban or rural municipalities as well?

Mr. MACMILLAN: In Ontario it is for both rural and urban.

Mr. LOCKHART: You have a table set up for that now?

Mr. MACMILLAN: Yes, we operate under the terms of the Ontario Railway Assessment Act.

Mr. LOCKHART: Have you anything compiled at the present time which would show what that is in a particular municipality?

Mr. MACMILLAN: Yes, we could give you the taxes.

Mr. LOCKHART: Could that be prepared without much trouble?

Mr. MACMILLAN: I think so.

Mr. VAUGHAN: That statement was filed yesterday.

Mr. LOCKHART: I am sorry. I was not here. I was detained at home. I was wondering if anything had been said about it. That is going to be available?

The CHAIRMAN: I think that was tabled yesterday. Are there any questions on transportation on page 16?

Mr. JACKMAN: With regard to maintenance of equipment I notice in the auditors' report the following:

> Maintenance of equipment accounts reflect the utilization during the year 1947 of $8,000,000 from the deferred maintenance reserve. No similar utilization of the reserve was made in respect of maintenance of way and structures.

Further on it says:

> . . . subject to the utilization of the unexpended balance of $25,000,000 in the deferred maintenance reserve, the fixed properties and equipment have been maintained in a proper state of repair and in an efficient operating condition during the year.

Does that mean that the condition of certain of the railways' properties are not in as good a state as they should be and will not be until you are able to spend these moneys?

Mr. VAUGHAN: Our lines are in an entirely safe condition, but we thought, so long as that condition exists, it was more desirable to put the extra maintenance on our equipment and get it in shape and modernize it because that equipment got a terrible beating during the war and we are now only able to get at it. We are, of course, doing a large amount of work on maintenance of way, and we would have done more, had material and men been available. The line is being maintained in a safe condition and we are spending, notwithstanding the fact that we do not apply any deferred maintenance money to it, a large amout of money on ballasting and new rail, new bridges and everything that goes into the improvement of the structure.

Mr. LOCKHART: Are you still restricted because of the unavailability of employees and the lack of satisfactory employees?

Mr. VAUGHAN: Yes. More men are becoming available for track work now. We are short of skilled help in our shops.

Mr. NICHOLSON: I suppose there is an increase in the use of fuel. Ostensibly you are using fuel from the Lloydminster field? Is it satisfactory; and can the amount be increased?

Mr. VAUGHAN: Yes, we have been taking all the oil these people could give us. It is a heavy oil, but we are able to use it satisfactorily.

Mr. NICHOLSON: Where is it being used?

Mr. VAUGHAN: West of Jasper in the territory where we have oil-burning locomotives.

Mr. NICHOLSON: In what territory are you using the oil?

Mr. VAUGHAN: West of Jasper. Nearly all our engines west of Jasper are oil burning. There are a few coal burners.

Mr. NICHOLSON: Is it going to be possible to use more of this oil on these oil burners?

Mr. VAUGHAN: Certainly, if the oil is available at a satisfactory price we will use it.

Mr. NICHOLSON: It has been quite satisfactory, has it?

Mr. VAUGHAN: Yes, it has been satisfactory.

Mr. MCCULLOCH: Is anything going to be done about straightening the line between New Glasgow and Mulgrave?

Mr. VAUGHAN: That matter, as you know, has been considered on several occasions, but it is not active at the present time.

Mr. JACKMAN: I still do not get clear exactly what is referred to in the auditors' report. Perhaps we might leave it until we discuss the auditors' report, but it does qualify the proper state of repair and efficient operating condition by the contingency to spend the balance of the $25,000,000. Now, what particular properties would not be in a proper state of repair: "in an efficient operating condition"? You say you have spent the money on railway stock as much as you could, but that there are certain other properties that are not in a proper state of repair or in an efficient operating condition until this money is spent. What does that refer to?

Mr. VAUGHAN: That refers to items such as ballast. We are catching up on the work that was deferred during the war, but certainly lines are being maintained in a safe condition and we will continue to do work from time to time to improve their condition.

Mr. JACKMAN: Do you agree with what the auditors say in regard to maintenance? As I have mentioned, the wording is: "fixed properties and equipment have been maintained in a proper state of repair and in an efficient operating condition . . . subject to the utilization of the unexpended balance of $25,000,000."

Mr. VAUGHAN: I do not know what Mr. Matthews meant by that. Perhaps he can tell you.

The CHAIRMAN: Perhaps you should leave that to a later time.

Mr. JACKMAN: I want to get the railways' point of view, anyway. You are satisfied that there is a proper state of affairs and an efficient operating condition?

Mr. HATFIELD: What about refrigerator cars?

Mr. VAUGHAN: Yes, decidedly. Mr. Hatfield, that question was answered yesterday.

The CHAIRMAN: Is there anything more on transportation?

Mr. MCLURE: With regard to supplies do you have to pay the usual 8 per cent?

Mr. VAUGHAN: Yes, we pay the full 8 per cent sales tax. We pay I would say about $7,000,000 in sales tax and we pay about $5,000,000 a year in duty.

Mr. HAZEN: I asked that question about fuel and I was going to get a breakdown.

Mr. VAUGHAN: Yes, that statement will be ready this afternoon.

The CHAIRMAN: Is there anything else on that matter? Let us go on to merchandise.

Mr. LOCKHART: Could we have a brief statement with regard to services. There have been a lot of changes in cafe services.

Mr. WALTON: That was mentioned yesterday in connection with what we call the rear and equipment, the sleepers and the lounge cars. We have one car of the Fort Lawrence type which consists of four bedrooms and a large lounge.

Mr. LOCKHART: I do not want to cause any repetition of what was said yesterday.

Mr. WALTON: I think it was very well covered in the record yesterday as to the reconditioning and the general modernization of equipment, and mention was also made, I think, of the thirty new first-class coaches, the last of which has been delivered.

Mr. LOCKHART: One of which I noticed in the area going through to Buffalo.

Mr. WALTON: We would naturally put one there.

Mr. LOCKHART: Oh, yes. Was a statement made as to the reconversion to the more modern type of cafe service? Last year there was mention made of the fact that you were going to try out new ideas in connection with cafe service. I have not run across any and I was wondering if that matter is still under consideration.

Mr. WALTON: We have turned out certain buffet and parlour cars which are exceptionally nice cars. We are reconditioning certain dining cars.

Mr. LOCKHART: The service is about on the same basis as always?

Mr. WALTON: So far.

Mr. LOCKHART: No changes?

Mr. WALTON: No.

Mr. NICHOLSON: In connection with loss and damage to freight, I notice there is quite an increase in the operating expenses. How does that compare with previous years? Is there any explanation why the losses and damages should be going up?

Mr. VAUGHAN: That is a matter that is giving us serious concern. A great many of the packages are not shipped in proper containers; one reason why that amount is up is because the value of the commodities has been greatly increased. Nevertheless, it is something that is giving us a good deal of concern. We consider our claims are too high and we are doing everything we can to reduce that item.

Mr. NICHOLSON: What sort of educational campaign are you carrying on?

Mr. WALTON: We are carrying that on with our employees. We have a special department looking into that matter.

The CHAIRMAN: If there is nothing more in general let us turn to page 18.

Mr. JACKMAN: May I ask whether many of your salaried and white-collared class of workers, such as clerks, are unionized?

Mr. VAUGHAN: Some of them belong to the Canadian Brotherhood of Railway Employees and some to some other unions in the states and elsewhere, but there are many who are not unionized.

Mr. JACKMAN: Would half of the white-collared class of employees be unionized?

Mr. VAUGHAN: I would say at least half.

Mr. JACKMAN: I just noticed in one of the graphs that your labour costs are 44 per cent over 1939. Could you answer a general question as to whether or not the white-collared class have had their salaries increased as much as the average employee?

Mr. VAUGHAN: They have been increased pretty much in the same ratio. When we give advances to our organized men we give similar advances to our unorganized men.

Mr. JACKMAN: More or less automatically?

Mr. VAUGHAN: That is correct.

Mr. NICHOLSON: With regard to the dining and buffet services, I presume that the revenues are down. Has the increase in the price of meals improved your financial position or worsened it?

Mr. WALTON: Are you speaking of the dining cars?

Mr. NICHOLSON: Yes.

Mr. WALTON: It has improved.

Mr. NICHOLSON: The meals have gone up in price a great deal; what is the percentage?

Mr. WALTON: The point where it affects patronage has to be watched pretty closely. We carry it as far as we can without seriously affecting the net result.

Mr. NICHOLSON: Have you an estimate of the increase in the cost of meals in the past twelve months?

Mr. WALTON: We could get that.

The CHAIRMAN: Let us turn to page 19.

Mr. JACKMAN: Mr. Chairman, I wish to speak about executive classes whom I might denominate as the men getting $5,000 or $6,000 or over. Is that a figure you might wish to put in, Mr. Vaughan? Have you increased their salaries comparatively? Suppose a man was getting $5,000, is he now getting $7,500 which would compensate him for the increased cost of living, to say nothing of the taxes he pays?

Mr. VAUGHAN: I think it was in the spring of 1946 that we gave an increase of 10 cents an hour to the men, which worked out at about $25 per month and we gave our officers and non union men an increase of $25 a month. It was not on a percentage basis.

Mr. JACKMAN: Twenty-five dollars a month is not very much in the executive class.

Mr. VAUGHAN: No, but that is what we gave them.

Mr. JACKMAN: With regard to the man getting $5,000 in 1939 is he getting over $7,000 now?

Mr. VAUGHAN: No, sir; his increase would be comparatively small. If he were getting $5,000 in 1939 for a similar position it would be between $5,500 and $6,000 now.

Mr. JACKMAN: How do you expect them to get along?

Mr. VAUGHAN: They have been paid what we considered was the additional cost of living and if we had given them an increase on a percentage basis they would have been getting more money, but we felt that we could not afford to do that.

Mr. JACKMAN: How can you keep your men or get the best service out of them if you are constantly reducing their standard of living?

Mr. VAUGHAN: We have been able to keep them. We have lost some men because they considered they were not receiving satisfactory salaries and could get more money elsewhere, but generally speaking on account of pension rights and other advantages our men stick with us.

Mr. JACKMAN: Is it your opinion that these men should get some compensation along the lines you have given to the system as a whole, namely, 44 per cent?

Mr. VAUGHAN: I would have to check up and see what we have given the so-called white-collar class. We have given them what we consider fair increases, having regard to the increased cost of living.

Mr. JACKMAN: You know that the cost-of-living index is up over 100 per cent, approximately 150 per cent, and many people complain that the index itself is not a true reflection of the actual costs; yet you have come out with the statement that what you have done for these men is greatly less. Is that a fair increase?

Mr. VAUGHAN: These men, according to our records, have had three increases which gives them a total increase of $638.52 per annum.

Mr. JACKMAN: On a salary of how much?

Mr. VAUGHAN: It does not make any difference what their salary was, they got the same amount.

Mr. JACKMAN: They are on a general level of income, now, with respect to the contribution made by the system?

Mr. VAUGHAN: It was considered the cost of living was practically the same for every man, regardless of his salary. Therefore, we gave them the same increases.

Mr. HLYNKA: Would you have figures to show how much the Canadian National Railways collected in the form of educational tax for the government in Saskatchewan over the years and whether the Canadian National Railways were paid for the services which they rendered in collecting those taxes for the government of Saskatchewan?

Mr. VAUGHAN: We could get that information.

Mr. NICHOLSON: I might answer that by saying, all those who collect money for the government of Saskatchewan are paid and they are all paid on the same basis.

Mr. VAUGHAN: I do not believe we have ever been paid for collecting money for governments.

Mr. NICHOLSON: I suggest you put in a bill, then, if you have not been paid.

Mr. VAUGHAN: Do you think it would be paid?

Mr. MOORE: Is that true of the province of Quebec, too?

The CHAIRMAN: Could we go to 19?

PROPERTY INVESTMENT ACCOUNT

Expenditures Year 1947

ROAD:		
New Lines Constructed	$ 1,183,283.41	
New Lines Acquired	77,012.49	
Abandoned Lines	*41,990.25*	
Rails and Fastenings	962,188.60	
Tie Plates and Rail Anchors	1,092,280.94	
Ballast	524,389.53	
Widening Cuts and Fills, etc.	265,409.16	
Large Freight Terminals	86,484.39	
Large Passenger Terminals	419,408.79	
Yard Tracks and Sidings	751,690.60	
Roadway Machines	376,822.09	
Bridges, Trestles and Culverts	547,161.20	
Stations and Station Facilities	781,220.33	
Water Supplies	153,791.00	
Shops, Enginehouses and Machinery	891,435.19	
Docks and Wharves	68,657.39	
Automatic Signals and Interlocking Plants	83,979.57	
Telegraphs—Railway	190,628.88	
Telegraphs—Commercial	1,117,746.06	
Stores Department Buildings and Equipment	105,263.74	
Land	*412,337.70*	
General	347,925.33	$ 9,572,450.74
EQUIPMENT:		
Equipment Purchased or Built	$11,806,427.49	
Equipment Retirements	*1,751,223.58*	
General Betterments to Equipment	1,369,671.74	
Equipment Conversions	*83,248.79*	
Express and Miscellaneous Equipment	411,238.81	11,752,865.67
HOTELS		201,804.74
SEPARATELY OPERATED PROPERTIES		1,536,459.88
NET ADDITIONS AND BETTERMENTS DURING 1947		$23,063,581.03
Ledger Balance 1st January, 1947	$2,052,640,443.12	

Net Additions and Betterments during the year		$23,063,581.03	
Abandonment of 12·21 miles, Trelle Jct. to Morinville, Alberta	*$ 106,034.46*		
Sale of Inner Dock Property, Victoria, B.C.	*246,582.22*		
Equipment Retirements—proportion of ledger value charged to Proprietor's Equity	*1,532,852.73*	*1,885,469.41*	
Canadian Government Railways:			
Construction of aqueduct at Fairview, N.S.	$ 63,045.78		
Transfer of property to Department of National Defence	*250.50*	62,795.28	21,240,906.90
Ledger Balance at 31st December, 1947			$2,073,881,350.02

DOMINION OF CANADA—LOANS

	Principal Outstanding at Dec. 31, 1947	Interest Accrued 1947	Average Interest Rate
Loans for repatriation of U.K. securities	$391,431,960.40	$13,699,344.41	3·50%
Loans for debt redemption	222,576,029.45	5,077,818.78	2·28%
Loans for new rolling stock	42,047,355.41	1,123,804.91	2·57%
Loans for investment in T.C.A.	16,643,022.71	71,614.02	1·00%
Canadian Government Railways—Working Capital at consolidation 1923	16,771,980.54	—	
Interest on loans repaid	—	29,852.73	
	$689,470,348.51	$20,002,434.85	2·90%

Mr. JACKMAN: If you are taking on new men in the executive field, how could you attract capable men who will effect economies in the operation and bring business to you, if you cannot offer them a better rate than you apparently do?

Mr. VAUGHAN: There are some of our men to whom we would like to pay higher rates. Generally speaking, we are not getting any complaints from our men. We have a system in effect now under which we are training young university men. We are taking so many men each year from the universities, men who are recommended by the Deans of the universities as being outstanding men. We are taking a definite number each year and we move them around from department to department. We hope, in that way, to develop a lot of good railway men. They will be paid adequate salaries as they progress.

Mr. JACKMAN: My suggestion is that, since you have not done more for your executives than you appear to have done since 1939, your salaries are not adequate?

Mr. VAUGHAN: We deal with special cases from time to time where we believe a revision is necessary.

Mr. NICHOLSON: How does the item for stations and station facilities of $781,000 for 1947 compare with the budget for this year?

The CHAIRMAN: What page is that?

Mr. NICHOLSON: Page 19.

Mr. COOPER: I will have to examine our budget details in order to answer that, Mr. Nicholson. When we come to the budget, we can answer that question.

Mr. NICHOLSON: Could you tell me how this compares with your budget for 1947?

Mr. COOPER: Again, I would have to go back to the details of the budget.

Mr. VAUGHAN: In general, we have been spending much less than our budget each year.

Mr. NICHOLSON: Because of the shortage of materials?

Mr. VAUGHAN: The shortage of materials and labour.

Mr. LOCKHART: Are we dealing with page 19?

The CHAIRMAN: Yes, page 19.

Mr. LOCKHART: What lines have been constructed, what new lines have been acquired and what lines have been abandoned?

Mr. VAUGHAN: You mean during the year?

Mr. LOCKHART: Yes.

Mr. VAUGHAN: There is a reference in the report to one line abandoned in Alberta amounting to approximately twelve miles. This was the only abandonment. The only new line being constructed is the line to Barraute in Northern Quebec.

Mr. LOCKHART: There has been no change in that connection since last year?

Mr. VAUGHAN: No.

The CHAIRMAN: What about page 19, those two paragraphs? 19 carried.

Mr. MCLURE: There is an item in connection with hotels of $201,804.

Mr. VAUGHAN: We would have to get the details of that for you, Colonel McLure. It is for general improvement work done on various hotels across the system, not on any one hotel.

The CHAIRMAN: Well, gentlemen, it is one o'clock. We will meet at four o'clock this afternoon.

The committee resumed at 4 p.m.

AFTERNOON SESSION

The committee resumed at 4 p.m.

The CHAIRMAN: Gentlemen, let us proceed. There is one question I would like to put to the committee. I must advise Mr. Howe when to bring the T.C.A. officials before the committee. Now, from the progress we have made I think we should be able to meet them by Thursday. Is there any objection to that? One of the officials has to come from Winnipeg and I do not want to have him here waiting around, but if we can get started on T.C.A. on Thursday we should finish by Friday and have the work all cleaned up. Is there any reason why we cannot take the T.C.A. on Thursday Mr. Jackman?

Mr. JACKMAN: I think we can make that an objective.

The CHAIRMAN: I will advise Mr. Howe to have the T.C.A. officials here on Thursday.

Now, Mr. Walton has some information to table for some of the members before we start.

Mr. WALTON: The first reply is in answer to a question asked by Mr. Emmerson in regard to the average yearly mileage per locomotive.

CANADIAN NATIONAL RAILWAYS

Average Yearly Mileage per Locomotive

Year	System	Atlantic Region
1947	37,655	32,009
1946	36,206	31,775
1945	36,938	32,067
1944	37,343	33,665
1943	38,098	36,310

The next question was in regard to the percentage of unserviceable locomotives generally and with particular reference to the Atlantic region.

CANADIAN NATIONAL RAILWAYS

Per Cent Unserviceable Locomotives

Period	System	Atlantic Region
December 31, 1947	19·6	26·7
December 31, 1946	20·3	28·8
December 31, 1945	19·6	25·8
December 31, 1944	18·6	30·2
December 31, 1943	16·6	22·3

The third one was with regard to manufactured miles and consumed miles, again generally and specifically for the Atlantic region.

CANADIAN NATIONAL RAILWAYS

	Manufactured Miles		Consumed Miles	
Year	Canadian Lines	Atlantic Region	Canadian Lines	Atlantic Region
1947	76,306,902	10,042,377	82,572,997	12,559,506
1946	79,213,129	11,998,009	80,239,232	12,833,020
1945	84,080,406	16,930,581	82,970,806	13,697,930
1944	89,936,000	15,280,000	84,163,024	13,748,779
1943	71,426,000	10,082,000	84,948,607	13,900,378

There was also a question asked with regard to the apprentice situation. I said this morning that our standard ratio was 1 to 5. That is the ratio we are working to. At the moment the situation in the system is that apprentices to mechanics are on a ratio of 1 to 8, and on the Atlantic region 1 to 9·7. The reason for that is that as the apprentice system got out of its normal course during the war years due to so many young men entering the services we are only now approaching a point where we can get back to the normal 1 to 5 ratio because of the first-year men coming in being restricted in regard to the number of machines available on which they can work and the number of men who can properly be instructed by the experienced mechanics in the various shops.

The CHAIRMAN: I believe Mr. Cooper has answers to some questions.

Mr. COOPER: There was a question asked by Mr. Jackman as to accidents on the Canadian National Railways and the Canadian Pacific Railway, and a question by Mr. Nicholson as to the amount included in the 1947 budget for stations and station facilities and the actual expenditures during that year.

Question by Mr. H. R. Jackman as to accidents.

Comparative statement of accidents.

DOMINION BUREAU OF STATISTICS

	Number of passengers killed per 100,000,000 passenger miles		Number of passengers injured per 100,000,000 passenger miles (see note)	
Year	C.N.R.	C.P.R.	C.N.R.	C.P.R.
1940	·189	·324	11·626	14·703
1941	·178	·457	8·304	22·544
1942	·155	1·860	4·886	23·987
1943	·118	·114	3·775	10·030
1944	·146	·069	3·652	9·270
1945	·130	·174	2·151	8·539
1946	nil	·094	2·996	11·665
1947	1·770	·180	11·445	8·043

NOTE: Definition of a passenger injured: An injury which would prevent a person from following his regular mode of life for one day.

Question by Mr. C. H. Nicholson.

Amount included in 1947 capital budget for stations and station facilities compared with actual expenditures during that year.

The amount included in the 1947 capital budget for stations and station facilities was $3,218,745. The actual expenditures during the year were $1,287,113.

The CHAIRMAN: Page 20, "Funded debt—principal and interest." Are there any questions on that page?

FUNDED DEBT — PRINCIPAL AND INTEREST

NAME OF SECURITY	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1947	Interest Accrued 1947
GUARANTEED BY DOMINION OF CANADA:					
5 % Perpetual Debenture Stock	G.T.R.	1875 to 1883	Perpetual	$ 1,473,495.26	$ 73,925.15
5 % G. W. Perp. Debtr. Stock and Bonds	G.T.R.	1858 to 1876	Perpetual	848,406.00	41,585.11
4 % Perpetual Debenture Stock	G.T.R.	1883 to 1918	Perpetual	5,954,741.40	236,601.58
4 % Nor. Rly. Perpetual Debtr. Stock	G.T.R.	July 31, 1884	Perpetual	27,457.73	1,098.31
3 % 1st. Mortgage Bonds	G.T.R.	July 1, 1905	Jan. 1, 1962	26,465,130.00	793,953.90
4 % Sterling Bonds	G.T.P.	July 1, 1914	Jan. 1, 1962	7,999,074.00	319,962.96
3 % 1st. Mortgage Debenture Stock	Can. Nor.	July 29, 1903	July 10, 1953	1,162,768.33	34,883.04
3½% 1st. Mortgage Debenture Stock	Can. Nor.	Mar. 1910	July 20, 1958	5,636,507.49	197,277.73
3½% 1st. Mortgage Debenture Stock	C.N.A.	Mar. 22, 1911	May 4, 1960	550,726.60	19,275.49
3½% 1st. Mortgage Debenture Stock	C.N.O.	Dec. 8, 1911	May 19, 1961	3,600,262.68	125,507.56
5 % 30 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1924	Feb. 1, 1954	50,000,000.00	2,500,000.00
4½% 30 Year Guaranteed Gold Bonds	Can. Nat.	July 1, 1927	July 1, 1957	64,136,000.00	2,886,120.00
5 % 40 Year Guaranteed Gold Bonds	Can. Nat.	Oct. 1, 1929	Oct. 1, 1969	57,728,500.00	2,886,425.00
5 % 40 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1930	Feb. 1, 1970	17,338,000.00	866,900.00
4¾% 25 Year Guaranteed Gold Bonds	Can. Nat.	June 15, 1930	June 15, 1955	48,496,000.00	2,303,560.00
4½% 25 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1931	Feb. 1, 1956	67,368,000.00	3,031,560.00
4½% 20 Year Guaranteed Gold Bonds	Can. Nat.	Sept. 1, 1931	Sept. 1, 1951	48,022,000.00	2,160,990.00
3 % 17 Year Guaranteed Bonds	Can. Nat.	Feb. 15, 1936	Feb. 15, 1953	25,000,000.00	750,000.00
3 % 15 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1937	Feb. 1, 1952	20,000,000.00	600,000.00
3 % 20 Year Guaranteed Bonds	Can. Nat.	Jan. 15, 1939	Jan. 15, 1959	35,000,000.00	1,050,000.00
2¾% 20 Year Guaranteed Bonds	Can. Nat.	Jan. 2, 1947	Jan. 2, 1967	50,000,000.00	1,348,630.14
Total				$536,807,069.49	$22,228,255.97
GUARANTEED BY PROVINCE OF BRITISH COLUMBIA:					
4 % 1st. Mortgage Debenture Stock	C.N.P.	Nov. 16, 1911	Apr. 2, 1950	$ 798,055.48	$ 31,899.02
4½% Terminal Debenture Stock	C.N.P.	1913 and 1914	Apr. 2, 1950	1,154,052.13	51,919.20
Total				$ 1,952,107.61	$ 83,818.22
EQUIPMENT TRUST ISSUES:					
2¾% Series "P"	Can. Nat.	Sept. 15, 1938	Ser. 15, 9, '53	$ 3,100,000.00	$ 94,989.58
2½% Series "Q"	Can. Nat.	July 1, 1939	Ser. 1, 7, '49	1,300,000.00	40,625.00
2½% Series "G.T.W."	G.T.W.	June 1, 1941	Ser. 1, 6, '51	1,988,000.00	59,182.08
2 % Series "R"	Can. Nat.	Dec. 1, 1947	Ser. 1, 12, '57	5,600,000.00	4,116.89
Total				$ 11,988,000.00	$ 198,913.55

Other Issues:					
4 % *Canada Atlantic 1st. Mtge. Bonds*	G.T.R.	Jan. 1, 1905	Jan. 1, 1955	$ 9,947,934.00	$ 397,917.36
4 % 1st. Mortgage Bonds	Pem. Sou.	Sept. 1, 1906	Sept. 1, 1956	150,000.00	6,000.00
4 % 2nd. Mortgage Bonds, Prairie "A"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,574,530.00	142,981.20
4 % 2nd. Mortgage Bonds, Mountain "B"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,144,906.00	125,796.24
4 % 1st. Mortgage Bonds, "Lake Superior"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	2,152,008.00	86,080.32
4 % Perpetual Cons. Debenture Stock	Can. Nor.	1903 to 1912	Perpetual	3,992,929.66	159,386.72
4 % Perpetual Cons. Debenture Stock	C.N.O.	June 21, 1909	Perpetual	890,084.13	35,564.67
4 % Perpetual Cons. Debenture Stock	C.N.Q.	Oct. 1906	Perpetual	465,545.33	18,610.68
4 % 1st. Mortgage Perpetual Debenture Stock	Q. & L. St. J.	June 1, 1912	Perpetual	287,289.07	11,491.56
4 % 1st. Mortgage Bonds	G.T.W.	Nov. 30, 1900	July 1, 1950	6,527,336.00	261,237.76
4½% 1st. Mortgage Series "A" Bonds	G.T.W.	Jan. 1, 1930	Jan. 1, 1980	400,000.00	18,000.00
4 % 1st. Mortgage Gold Bonds	M. & P. L.	Oct. 1, 1900	Oct. 1, 1950	200,000.00	8,000.00
5 % Indebtedness to Province of New Brunswick	Can. Nat.	Sept. 3, 1929	Feb. 15, 1958	380,022.60	19,001.12
Interest on Securities retired in 1947				—	20,854.14
Total				$ 32,112,584.79	$ 1,310,921.87
Total Debt held by Public as per Balance Sheet				$582,859,761.89	$23,821,909.61

There is included in the above $10,305,401.37 par value of System Securities held in Special Funds and Accounts.

These obligations are stated in Canadian currency, Sterling and United States currencies being converted at the par of exchange.

This schedule does not include securities in the Railway treasury or those held by The Canadian National Railways Securities Trust, or by the Dominion Government as collateral.

The CHAIRMAN: Page 21, "Investment in affiliated companies." Are there any questions on that page?

INVESTMENTS IN AFFILIA D COMPANIES

COMPANY	Total Par Value Outstanding	Owned by Can. Nat. System Par Value	Owned by Can. Nat. System Book Value
STOCKS:			
The Belt Railway Company of Chicago	$ 3,120,000.00	$ 240,000.00	$ 240,000.00
Canadian Government Merchant Marine, Limited	800.00	800.00	800.00
Chicago & Western Indiana Railroad Company	5,000,000.00	1,000,000.00	1,000,000.00
The Detroit & Toledo Shore Line Railroad Company	3,000,000.00	1,500,000.00	1,500,000.00
Detroit Terminal Railroad Company	2,000,000.00	1,000,000.00	1,000,000.00
Northern Alberta Railways Company (representing amount paid up, i.e. 10%)	625,000.00	312,500.00	312,500.00
The Ontario Car Ferry Company (Limited)	500,000.00	250,000.00	179,007.53
The Public Markets, Limited	1,150,000.00	575,000.00	575,000.00
Railway Express Agency, Incorporated (no par value)	1,000 shares	6 shares	600.00
The Toronto Terminals Railway Company	500,000.00	250,000.00	250,000.00
The Toledo Terminal Railroad Company	4,000,000.00	387,200.00	387,200.00
Trans-Canada Air Lines (representing amount paid up, i.e. 90.4%)	22,600,000.00	22,600,000.00	22,600,000.00
Vancouver Hotel Company Limited	150,000.00	75,000.00	75,000.00
			$28,120,107.53
BONDS:			
Northern Alberta Railways Co. 1st. Mortgage Bonds	$31,530,000.00	$15,765,000.00	$15,765,000.00
The Toronto Terminals Railway Co. 1st. Mortgage Bonds	25,910,000.00	12,955,000.00	12,955,000.00
			$28,720,000.00
ADVANCES:			
Chicago & Western Indiana Railroad Company			$ 2,651,123.59
Northern Alberta Railways Company			125,000.00
The Railroad Credit Corporation			5,555.86
Railway Express Agency, Incorporated			164,684.42
Vancouver Hotel Company Limited			8,131.77
			$ 2,954,495.64
			$59,794,603.17

FINANCING

Year 1947

FUNDED DEBT—NEW ISSUES		
2¾% Canadian National Railway Company Guaranteed Bonds, due January 2, 1967	$50,000,000.00	
2% Equipment Trust Certificates, Series "R"—1947, maturing serially to December 1, 1957	5,600,000.00	$55,600,000.00
FUNDED DEBT—Retirements		
Equipment Trusts—annual principal payments	$ 3,149,000.00	
Various securities repatriated	14,235.66	3,163,235.66
Increase in Funded Debt		$52,436,764.34
DOMINION OF CANADA LOANS—New		
Loans for acquisition of Trans-Canada Air Lines Capital Stock	$16,643,022.71	
Loans to retire Atlantic and St. Lawrence Railroad Stock and various securities repatriated at market value	41,487.29	$16,684,510.00
DOMINION OF CANADA LOANS—Repaid		
Loans repaid out of proceeds of 2¾% Canadian National Guaranteed Bonds, due January 2, 1967, as above	$41,932,256.57	
Equipment Hire Purchase—annual principal payments	3,819,190 85	45,751,447.42
Decrease in Dominion of Canada Loans		$29,066,937.42
Increase in Capital Debt 1947		$23,369,826.92

The $50,000,000.00 2¾% Dominion Guaranteed Bonds, maturing January 2, 1967, were sold at a price of 99.68, representing an annual interest cost to the Company of 2.77%, and are callable on any interest payment date on or after January 2, 1964, at par, on sixty days' prior notice. The proceeds were utilized to repay Government loans to the extent of $41,932,256.57; to cover 1946 Capital Budget requirements to the amount of $6,710,766.14, and to recoup the Railway Company for subscriptions made to Trans-Canada Air Lines Capital Stock to the amount of $1,356,977.29.

The issue of $5,600,000.00 2% Equipment Trust Certificates, Series "R"-1947, dated December 1, 1947, was made to provide for part payment of new equipment costing $7,549,995.00. The Certificates, which mature serially in 10 annual instalments, were sold at a price of 99.5625, representing an annual interest cost to the Company of 2.085%.

The Company has called for redemption at par on February 1, 1948, $20,000,000.00 Canadian National Railway Company 3% Dominion Guaranteed Bonds due February 1, 1952, and on February 15, 1948, at par, $25,000,000.00 Canadian National Railway Company 3% Dominion Guaranteed Bonds due February 15, 1953.

Mr. JACKMAN: I am interested in the footnotes about the financing. I wonder if Mr. Cooper could give us the date of call of the two issues in the last paragraph or footnote—$20,000,000 and $25,000,000.

Mr. COOPER: The date on which they were called, or the payable date?

Mr. JACKMAN: The date on which they will call for payment at a future date.

Mr. COOPER: The $25,000,000 issue, which was callable for payment on February 15, 1948, required sixty days' notice and the $20,000,000 issue called for payment on February 1, 1948, also required sixty days' notice.

Mr. JACKMAN: At what time did you issue the $50,000,000 2-3/4 per cent bonds mentioned in the first paragraph of the footnote?

Mr. COOPER: They were dated January 2, 1947.

Mr. JACKMAN: 1947; over a year ago this financing was done?

Mr. COOPER: Yes.

Mr. JACKMAN: Did you do any financing this year—in 1948?

Mr. COOPER: Yes.

Mr. VAUGHAN: We had some equipment issues.

Mr. COOPER: On March 15, 1948, we made an issue of $28,000,000 2-1/8 per cent equipment trust notes, series "S".

Mr. JACKMAN: What was your net cost on this?

Mr. COOPER: The net cost to the company was 2·30 per cent.

Mr. JACKMAN: Would you have liked to have issued this sometime prior to March 15, 1948? Why did you not issue them prior to March 15, 1948?

Mr. VAUGHAN: The negotiations were completed by that date and the rate was arranged for that date.

Mr. JACKMAN: It was arranged prior to that date. You were not delayed in issuing these bonds by any instructions or advice you had from government officers, were you?

Mr. VAUGHAN: No, sir. We naturally confer with the Bank of Canada and with the Finance Department at Ottawa with respect to these issues and we try to put them out at a time which is prudent, which will give us the money at the lowest cost.

Mr. JACKMAN: As much as you do not ordinarily confer with the government on matters in connection with the operation of the railway why do you have to consult the government or the Bank of Canada in regard to this financing? Private companies do not do that.

Mr. VAUGHAN: As I said, we wanted to get the money at the lowest possible rate and if we can borrow money from the government cheaper than outside we want to do it.

Mr. JACKMAN: Except that sometimes the government has other irons in the fire—matters of financial policy which may be working against the interests of the railway. Did you borrow this $28,000,000 from the government?

Mr. VAUGHAN: This was borrowed from the public. We called, I think, $50,000,000 last year, and we borrowed the money from the government.

Mr. JACKMAN: If some private company were to do some refunding or financing of some equipment notes they would not discuss the matter with and take the advice of the government. Why did you go to them on a matter like this when we always have understood that the government does not interfere with your policy?

Mr. VAUGHAN: The advice of the Bank of Canada ought to be worth something to us. We study the trends and confer with them on the trends in order to be sure we are doing the right thing and going on the market at prudent times.

Mr. JACKMAN: Do you not think you might have got a better rate had you gone to the market a few months earlier?

Mr. VAUGHAN: No, sir, I do not think so. Anyway we could not have done that because the equipment was not delivered.

Mr. JACKMAN: You might have been able to fulfil all of the requirements of the equipment issue.

Mr. VAUGHAN: I think too I should state that we were almost compelled to discuss these matters with the government because in some instances they carry government guarantees.

Mr. JACKMAN: On that equipment you would not have had any worse rate than 2-1/8 per cent if you had not had a government guarantee.

Mr. VAUGHAN: Equipments are considered good security. They do not have government guarantee as it happens.

Mr. JACKMAN: No. What was your particular reason for having to consult with the government?

Mr. VAUGHAN: That reason falls short in that particular case, but I am referring to other cases, the general situations. It may be that the government had money available and they would prefer to let us have the money at a lower rate than we could borrow from outside.

Mr. JACKMAN: I understand that some months prior to this date of issue the market would have given you a more favourable rate. It has been suggested in some quarters that if you had been entirely free you might have been able to get a better rate from the public market.

Mr. VAUGHAN: This rate we have got is a better rate than has been obtained by most United States companies on issues made at the same time.

Mr. JACKMAN: It is a better rate than the American rate?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: All right.

The CHAIRMAN: Let us go on to page 22—"Major contingent liabilities" and "Companies comprising the Canadian National Railways System." Are there any questions on that page?

MAJOR CONTINGENT LIABILITIES

TRANS-CANADA AIR LINES:

At 31st December, 1947, Canadian National Railway Company had subscribed for $25,000,000 of the Capital Stock of the Air Lines of which $23,000,000 has been called and $22,600,000 has been paid in.

NORTHERN ALBERTA RAILWAYS COMPANY:

At 31st December, 1947, Canadian National Railway Company had subscribed for $3,125,000 of the Capital Stock of the Railways Company of which $312,500 has been called and paid in.

THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of $3,000,000 First Mortgage 4%—50 Year Gold Bonds due 1953.

THE TOLEDO TERMINAL RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company in respect of $5,800,000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9·68%.

CHICAGO & WESTERN INDIANA RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company, pursuant to joint supplemental lease dated 1st July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 Year 4% bonds due 1952 and the amounts outstanding at 31st December, 1947, are:—

Issued for "common" property	$ 39,973,019 39
Issued for "exclusive" property	252,535 36

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st March, 1936, between Grand Trunk Western Railroad Company and other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of four other tenant companies. The bonds are First and Refunding Mortgage 4¼% Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at 31st December, 1947, is $16,393,000.

C.N.R. PENSION PLAN:

Reserves have been set up against contracts in force under the 1935 contractual plan, but not against pensions conditionally accruing under that plan or prior non-contractual plans.

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY DOMINION OF CANADA

Company Number		
1	Canadian National Railway Company	$ 18,000,000.00
2	The Canadian National Railways Securities Trust	378,518,135.02
		$396,518,135.02

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
3	Atlantic and St. Lawrence Railroad Company	1	$ 6,302,340.00	$ 47,440.00
4	The Bay of Quinte Railway Company	21	1,395,000 00	
5	The Bessemer and Barry's Bay Railway Company	21	125,000.00	
6	The Canadian Express Company	1	1,768,800.00	
7	Canadian National Electric Railways	21	1,750,000.00	
8	Canadian National Express Company	22	1,000,000.00	
9	Canadian National Land Settlement Association	1	—	
10	*Canadian National Railways (France)—francs 30,000,000	1	1,893,573.92	
11	*Canadian National Realties, Limited	21	40,000.00	
12	Canadian National Rolling Stock Limited	1	50,000.00	
13	*Canadian National Steamship Company, Limited	43	15,000.00	
14	Canadian National Telegraph Company	21	500,000.00	
15	*Canadian National Transportation, Limited	1	500.00	
16	The Canadian Northern Alberta Railway Company	21	3,000,000.00	
17	Canadian Northern Manitoba Railway Company	21	250,000.00	
18	The Canadian Northern Ontario Railway Company	21	10,000,000.00	
19	Canadian Northern Pacific Railway Company	21	25,000,000.00	
20	The Canadian Northern Quebec Railway Company	21	9,550,000.00	3,849,200.00
21	The Canadian Northern Railway Company	1	18,000,000.00	
22	The Canadian Northern Railway Express Company, Limited	21	1,000,000.00	
23	Canadian Northern Steamships, Limited	21	2,000,000.00	
24	Canadian Northern System Terminals (Limited)	21	2,000,000.00	
25	Canadian Northern Western Railway Company	21	2,000,000.00	
26	Cannar Oils Limited	1	100.00	
27	*The Centmont Corporation	29	176,400.00	
28	The Central Ontario Railway	21	3,331,000.00	
29	Central Vermont Railway, Inc	1	10,000,000.00	
30	Central Vermont Terminal, Inc	29	5,000.00	
31	*Central Vermont Transit Corporation	27	5,000.00	
32	Central Vermont Transportation Company	27, 29	200,000.00	
33	*Central Vermont Warehouse, Inc	27	5,000.00	
34	The Champlain and St. Lawrence Railroad Company	1	50,000.00	
35	*Consolidated Land Corporation	46	64,000.00	
36	*The Dalhousie Navigation Company, Limited	21	50,000.00	
37	Duluth, Rainy Lake & Winnipeg Railway Company	39	2,000,000.00	
38	Duluty, Winnipeg and Pacific Railroad Company.	39	100,000.00	
39	Duluth, Winnipeg and Pacific Railway Company.	21	3,100,000.00	
40	*Grand Trunk-Milwaukee Car Ferry Company	46	200,000.00	
41	The Grand Trunk Pacific Branch Lines Company	43	200,000.00	
42	The Grand Trunk Pacific Development Company, Limited	43	3,000,000.00	
43	The Grand Trunk Pacific Railway Company	1	24,940,200.00	
44	The Grand Trunk Pacific Saskatchewan Railway Company	43	20,000.00	

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM—Cont.

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC—Cont.

Company Number	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
45	*Grand Trunk Pacific Terminal Elevator Company, (Limited)	43	501,000.00	
46	Grand Trunk Western Railroad Company (Common)	1	20,000,000.00	
	Grand Trunk Western Railroad Company (Preferred)		25,000,000.00	
47	The Great North Western Telegraph Company of Canada (Including $331,500.00 held in escrow)	14	373,625.00	6,825.00
48	The Halifax and South Western Railway Company	21	1,000,000.00	
49	*Industrial Land Company	46	1,000.00	
50	International Bridge Company	1	1,500,000.00	
51	The James Bay and Eastern Railway Company	21	125,000.00	
52	The Lake Superior Terminals Company Limited	21	500,000.00	
53	The Maganetawan River Railway Company	1	30,000.00	
54	Manitoba Northern Railway Company	1	500,000.00	
55	The Marmora Railway and Mining Company	21	128,600.00	
56	The Minnesota and Manitoba Railroad Company	21	400,000.00	
57	The Minnesota and Ontario Bridge Company	21	100,000.00	
58	Montreal and Province Line Railway Company	27	1,000,000.00	
59	*Montreal and Southern Counties Railway Company	1	500,000.00	165,600.00
60	The Montreal and Vermont Junction Railway Company	29	197,300.00	
61	*Montreal Fruit & Produce Terminal Company, Limited	1	500.00	
62	*The Montreal Stock Yards Company	1	350,000.00	
63	*The Montreal Warehousing Company	1	236,000.00	12,240.00
64	Mount Royal Tunnel and Terminal Company, Limited	21	5,000,000.00	
65	Muskegon Railway and Navigation Company	46	161,293.00	
66	*National Terminals of Canada, Limited	1	2,500.00	
67	National Transcontinental Railway Branch Lines Company	1	500.00	
68	*The Niagara, St. Catharines and Toronto Railway Company	21	925,000.00	
69	*The Niagara, St. Catharines and Toronto Navigation Company (Limited)	68	100,000.00	
70	*The Oshawa Railway Company	1	40,000.00	
71	The Ottawa Terminals Railway Company	1	250,000.00	
72	The Pembroke Southern Railway Company	1	107,800.00	
73	Prince George, Limited	1	10,000.00	
74	*Prince Rupert, Limited	1	10,000.00	
75	The Quebec and Lake St. John Railway Company	21	4,508,300.00	489,160.00
76	The Qu'Appelle, Long Lake and Saskatchewan Railroad and Steamboat Company	21	201,000.00	
77	*Rail & River Coal Company	1	2,000,000.00	
78	St. Boniface Western Land Company	21	250,000.00	
79	The St. Charles and Huron River Railway Company	21	1,000.00	
80	St. Clair Tunnel Company	1	700,000.00	
81	*The Thousand Islands Railway Company	1	60,000.00	
82	†Trans-Canada Air Lines	1	22,600,000.00	
83	The United States and Canada Rail Road Company	1	219,400.00	475.00
84	Vermont and Province Line Railroad Company	1	200,000.00	
85	The Winnipeg Land Company Limited	21	100,000.00	
			$224,976,731.92	$ 4,570,940.00

The Income Accounts of Companies indicated (*) are included in the System Income Account as "Separately Operated Properties."

† Treated as an Affiliated Company.

Mr. MOORE: I would like to ask one question. The member for Skeena asked me to find out if it would not be possible for the Canadian National Railways to make use of their dry-dock at Prince Rupert for the repairing of Canadian National ships. I understand it has not been used for the last year or so.

Mr. VAUGHAN: The overhauling of our boats has been given to Vancouver and Victoria firms in the last two years because as a matter of fact we have only had one vessel and we could not afford to have her out of commission for very long and we found we could get the work done much quicker at one of the Vancouver or Victoria concerns than by sending the boat to Prince Rupert. What we will do in the future I cannot say; it depends upon conditions. We are still operating the shipyard and dry-dock at Prince Rupert. We are doing considerable repair work for outsiders—small work for fishing boats.

Mr. JACKMAN: I notice there are still seven companies that the system owns almost completely, but there is still a small share-holding interest by the public. Does any one of these seven companies pay dividends? They are all set out on pages 22 and 23.

Mr. VAUGHAN: We have been working on a number of these, but I am sorry to say we have not made very much progress. There are a lot of legal questions involved in connection with them and while we consider some of the stocks have no value at all the holders of them and ourselves cannot agree.

Mr. JACKMAN: Do you pay dividends on any of them?

Mr. VAUGHAN: No.

Mr. JACKMAN: Not even on the Canadian Northern Quebec Railway, of which there is $3,849,000 par value owned by the public?

Mr. VAUGHAN: No. We do not pay any outside dividends. We own by far the larger amount of the stock in all those cases and we are making an effort to get in the stock of those companies where there is a minority interest.

Mr. JACKMAN: Take that particular case I mention. For what reason are the minority stockholders who have about one-third of that stock holding onto it? Why do you not buy it in at what it is worth and if it is not worth anything why do you not negotiate with them?

Mr. VAUGHAN: Are you talking of the Canadian Northern Quebec Railway?

Mr. JACKMAN: It is the largest item of that group.

Mr. VAUGHAN: We do not think the stock is worth anything. Some of it is held, I think, by the provincial government and they would like us to pay them something for the stock and we do not think it is worth anything and we are still carrying on our negotiations with them.

Mr. JACKMAN: In that particular case do they attempt to interfere with the management or do they insist on representation?

Mr. VAUGHAN: We never hear from them at all.

Mr. JACKMAN: But you are still actively endeavouring to get rid of those accounts?

Mr. VAUGHAN: Yes, we are.

Mr. JACKMAN: All right.

The CHAIRMAN: Is there anything on page 23? What about page 24? "Railway equipment." Somebody may have some questions to ask on that.

RAILWAY EQUIPMENT

	Dec. 31, 1946	Additions during year	Retirements during year	Conversions during year		Dec. 31, 1947
				Added	Retired	
LOCOMOTIVES:						
Passenger—Freight	1,967		24		8	1,935
Switching	522	6		8		536
Electric	24					24
Diesel Electric	50	25				75
Total	2,563	31	24	8	8	2,570
FREIGHT EQUIPMENT:						
Box Cars	70,692	954	630		310	70,706
Flat Cars	51,312		30		88	5,194
Stock Cars	3,029		22			3,007
Coal Cars	15,562	250	97		24	15,691
Tank Cars	141				1	140
Refrigerator Cars	3,198	299	22			3,475
Caboose Cars	1,613		23	24		1,614
Other Cars in Freight Service	10		5	3		8
Total	99,557	1,503	829	27	423	99,835
PASSENGER EQUIPMENT:						
Coach Cars	1,145	2	38		24	1,085
Combination Cars	266		5	13		274
Dining Cars	96		10		1	85
Colonist Cars	189		1		19	169
Parlor Cars	50			11		61
Cafe Cars	28				1	27
Sleeping Cars	298		1			297
Tourist Cars	47					47
Baggage and Express Cars	1,050		14			1,036
Postal Cars	49					49
Unit Cars	37		2			35
Other Cars in Passenger Service	58				5	53
Total	3,313	2	71	24	50	3,218
WORK EQUIPMENT:						
Cars in Work Service	7,462	19	317	423	1	7,586
FLOATING EQUIPMENT:						
Car Ferries	8					8
Barges	5					5
Tugs	4					4
Work	3					3

Mr. NICHOLSON: I notice that there have been 25 diesel electric locomotives added during the year. How many are on order now? Where are these 25, are they eastern or western?

Mr. WALTON: They are in various locations. The last lot that we got of 20 were distributed, roughly, 12 to the central region and 4 to the Atlantic region, and 4 to the western region. There are 20 diesel switchers and 2 road diesels on order for Canada and eleven for U.S. lines.

Mr. JACKMAN: How many of these locomotives on order are steam locomotives?

Mr. VAUGHAN: We have no steam locomotives on order.

Mr. JACKMAN: Are steam locomotives then passing out of the picture entirely?

Mr. VAUGHAN: Except on certain coal roads. I think last year 1,000 locomotives were ordered by the railways in the United States and of them not more than 50 were steam locomotives.

Mr. JACKMAN: And that situation would be the same in Canada?

Mr. VAUGHAN: I would not say that. We have not got the same concentrated runs as they have over there; but the diesel switchers we have put into service show a decided economy.

Mr. JACKMAN: I noticed in a clipping that out of 1,226 locomotives only 30 were steam.

Mr. VAUGHAN: I think a few have been ordered by the different coal roads.

Mr. JACKMAN: How many places manufacture diesel locomotives in Canada?

Mr. VAUGHAN: The Montreal Locomotive Works are now making diesel switchers; and the Canadian Locomotive Company at Kingston, Ontario, are making small diesels. But the larger diesel road engines are not made in Canada.

Mr. JACKMAN: Is there anything so very complicated about making a diesel or does it require mass production.

Mr. VAUGHAN: There is not sufficient demand for these large diesel road engines in Canada to enable them to be constructed economically. That is the answer.

Mr. WALTON: Might I correct my answer of a moment ago. In referring to locomotives on order I overlooked, apparently, 18 on order for Prince Edward Island, which are starting to come forward now. Mr. McLure would not like me to leave those out.

Mr. JACKMAN: In the past did we usually get our locomotives made in Canada, the steam locomotives.

Mr. VAUGHAN: Steam locomotives have been made in Canada for many many years back by the two companies. We always bought our steam locomotives from Canadian companies.

Mr. JACKMAN: It would look then as if Canada would not get the business, if they are not making diesel locomotives at a reasonable cost.

Mr. VAUGHAN: Some of the companies in the United States now, the large locomotive builders, are looking into the situation with respect to Canada with a view to determining whether or not they could make diesel locomotives in Canada. That study is under way now. It may be that some of the companies which are making switching locomotives may go into the business of making road locomotives.

Mr. JACKMAN: Is one of the locomotive works owned by the system?

Mr. VAUGHAN: Oh, no. The Montreal Locomotive Works is owned by an American company, and the Canadian Locomotive Company at Kingston is an independent company.

Mr. WALTON: The Prince Edward Island locomotives are being made at Kingston.

Mr. NICHOLSON: How many small units have you that operate on the branch lines, and where do they appear, on what page?

Mr. VAUGHAN: They are not separated as to tractive efforts.

Mr. WALTON: They are shown in this statement on page 24.

Mr. NICHOLSON: On page 24?

Mr. WALTON: Yes, about 7 or 8 lines from the bottom, under the line entitled "unit cars . . . 37." That is at December 31, 1946; and 35 at the end of 1947.

Mr. NICHOLSON: I was referring to these unit cars. Have they not been satisfactory?

Mr. WALTON: One difficulty is to find a run that they can handle. Frequently they can handle passengers, but the express or mail gets beyond their capacity.

The difficulty is to find a run where the traffic, from all sources, is not so heavy that it renders it necessary to substitute a steam train so often that the economy is lost.

Mr. NICHOLSON: So they have not answered your problem as to bus competition on branch lines?

Mr. WALTON: In some places, yes.

Mr. EMMERSON: Is anything being done about the gas-turbine-electrics?

Mr. VAUGHAN: Not by us; but our department of research and development in co-operation with our mechanical department is following very closely the experiments being made in the United States on these turbo-electrics, gas turbines. One or two, yes, several of the railroads there have combined jointly and are paying the cost of developing these gas turbines. Another one has ordered one on its own account, I think, the Santa Fe; and our people are following them very closely. Some of our people think there is an opportunity for a decided economy in the use of gas turbines; but that remains to be seen.

Mr. EMMERSON: And you could use a different kind of fuel?

Mr. VAUGHAN: Yes, we could use different kinds of fuel.

The CHAIRMAN: Is there anything else?

Mr. EMMERSON: I was going to ask Mr. Walton with respect to passenger and freight locomotives retirements during the year, 24 engines, whether he could give us an idea of what type of engine was retired; is that the small engine or the large engine?

Mr. WALTON: The greater number are the small obsolete types usually built in 1900 to 1905, but there might be the odd larger engine which was so badly damaged that it had to be retired. But most of them are small old locomotives.

The CHAIRMAN: Is there anything more there, gentlemen, or shall we turn to the next page?

Mr. JACKMAN: What is being done to combat the smoke nuisance which has arisen in Toronto and in some other communities?

Mr. VAUGHAN: We are co-operating with the municipalities in that connection. We have a combustion engineer who is keeping closely in touch with the situation and we are trying to improve the situation wherever we can. The diesel locomotives are improving it to some extent, but wherever you have big yards using steam locomotives, it is very difficult to get away from the smoke.

Mr. JACKMAN: Is it because of the cost that you cannot adopt diesel locomotives to bring the trains into the cities and do all the switchings?

Mr. VAUGHAN: That is one reason, and we have a great many steam switchers which have a large life yet and we would not care to discard them. But I think in the process of time diesel will be used for switching purposes entirely.

Mr. JACKMAN: What authority have municipalities got to insist upon your doing away with the old steam types?

Mr. VAUGHAN: Some of them have put ordinances into effect.

Mr. WALTON: The whole thing has to be handled by the Board of Transport Commissioners.

Mr. JACKMAN: We have an awful smoke nuisance in Toronto and a lot of it comes from the railroads.

Mr. VAUGHAN: The city and ourselves have been co-operating with the board as to the type of order that should be issued in connection with the smoke issue.

Mr. BONNIER: You have never made a decision to have a station in St. Henri?

Mr. VAUGHAN: We have some diesels operating around there.

Mr. BONNIER: There are about 150,000 people there without any station at all and the trains go right through without stopping.

Mr. VAUGHAN: I know what you are referring to and that has been up on many occasions. Do you know the present position there, Mr. Walton?

Mr. WALTON: You probably mean in the vicinity of where the electric engines come off and where the steam engines go on.

Mr. BONNIER: Where you change engines; you could have a station right beside the church there; because there is a vacant lot which used to be a yard for freight and now you do not use it for that purpose, so you already have the ground there in the right place to have the station.

Mr. VAUGHAN: There was quite a difference of opinion as to where that station should be located, if one were to be constructed, and the people, I think in Verdun and in St. Henri had some different views as to where the station should go.

Mr. BONNIER: Well, you cannot get into Verdun because you have no line there, so you must take St. Henri; and you can stop before you cross Notre Dame street, where you do stop, and you could take that old station from St. Henri and bring it over there.

Mr. VAUGHAN: Well, some day we may do something, but that is not a promise. We are looking into it very carefully and it has been up two or three times lately.

Mr. BONNIER: Because your trains pass 150,000 people, and they are without any station, they have got to go all the way to the other end of the city to the main station. The result is that those people travel via the Canadian Pacific and they do go via the Canadian Pacific railway all the time, and because of that they go to Westmount and take the train there. Lots of people do the same thing because your trains pass right through without stopping and therefore cannot take on any passengers.

Mr. VAUGHAN: It has been said that Verdun is the only city in the North American continent with 75,000 people without a railway station or a pub.

Mr. BONNIER: But at St. Henri you have 85,000 people who have no station at all.

Mr. VAUGHAN: It is not so long ago since we appointed some of our officers to make a study of that situation but I have not seen their report yet. No doubt it will be out at an early date.

Mr. MUTCH: Take the separate operating costs of the unit type of cars. Is there any record kept of the operating costs?

Mr. VAUGHAN: Oh yes, I think so.

Mr. WALTON: Yes, and they are reasonably low, as a matter of fact. Although I have not got the figures with me.

Mr. MUTCH: Is there any possibility there, on account of the fact that their operating cost is low, of any increase in their post office or mail carrier use?

Mr. WALTON: In answer to a question put by Mr. Nicholson some time ago, when he asked me about the unit cars, I said that they performed satisfactorily but that our difficulty in many cases was to find a run where conditions permitted their use. You see, there is a limit to what they can haul. On many runs, with mail express and passengers, when those are considered, there is too much for one of those cars, and if we have to substitute a steam service for them very often and leave them idle, then your economy disappears very quickly, and that is our main difficulty. But on runs on which they can handle the volume, they do a very good job.

Mr. MUTCH: Your fast freight on short lines is too heavy for them?

Mr. WALTON: Oh yes. We have a few of them which handle two cars behind the unit car. Others handle one car satisfactorily, but when you get beyond that on a grade, then they cannot make the time.

Mr. MUTCH: Their main value I take it would be on suburban lines.

Mr. WALTON: On what we would call light branch lines they do very well.

Mr. JACKMAN: When you say that you are co-operating with the city of Toronto authorities on the smoke problem just what are you doing in the year 1948 to help to eliminate some of that smoke?

Mr. VAUGHAN: How many more diesels have we put in?

Mr. WALTON: We added 4 diesels at Toronto, and in addition to that, we are trying out a jet arrangement in the fire box which is some help in dissipating the smoke, and we will add more of them, if they come up to expectation. And we have also put on a man at two or three of the larger points to instruct especially the men who work in the yards and handle the engines in the cities as to the very best method of firing in order to reduce the smoke niusance.

Mr. MOORE: Do you ever have trouble with diesels smoking?

Mr. VAUGHAN: The trouble with the diesels is that they are noisy. If we do not get the smoke we get the noise.

The CHAIRMAN: What about page 27, "statistics of rail-line operations"?

Mr. HAZEN: May I ask a question which I probably should have asked this morning. I do not know if Mr. Vaughan could answer the question now, but perhaps, if not, an answer could be furnished afterwards. This is the question: Has there been an additional operating cost or has there been an operating saving over your line to Portland since the reduction in freight rates to that United States port became effective?

Mr. VAUGHAN: We can get that for you.

Mr. HAZEN: What does this additional operating cost or saving, if there was one, amount to in dollars and cents?

Mr. VAUGHAN: The amount either way was so very small it was not a factor at all in going after this business which was going to New York.

Mr. HAZEN: But you will get us the figures?

Mr. VAUGHAN: Yes, we can get you the gross revenue and expenses for specific purposes in both cases. We will be glad to give you that.

The CHAIRMAN: Is there anything on page 27, "statistics of rail-line operations"?

STATISTICS OF RAIL-LINE OPERATIONS

	1947	1946
Train-Miles:		
Freight Service	44,027,737	41,817,432
Passenger Service	23,346,277	23,581,125
Total	67,374,014	65,398,557
Work Service	1,804,867	1,583,828
Total	69,178,881	66,982,385
Locomotive-Miles:		
Freight Service	46,793,909	44,374,635
Passenger Service	23,318,818	23,380,822
Train Switching—Freight	4,092,796	3,797,979
—Passenger	138,844	118,597
Yard Switching—Freight	16,662,192	15,339,794
—Passenger	1,625,954	1,647,359
Total	92,632,513	88,659,186
Work Service	2,458,541	2,154,186
Total	95,091,054	90,813,372
Car-Miles—Freight Service:		
Loaded Freight Cars	1,214,440,166	1,140,162,216
Empty Freight Cars	510,831,225	477,233,755
Passenger Coach and Combination Cars	6,097,450	6,605,024
Sleeping, Parlor and Observation Cars	317,779	308,517
Dining Cars	17,308	20,328
Other Cars	6,583,280	6,851,524
Caboose	43,365,340	41,314,017
Total	1,781,652,548	1,672,495,381
Car-Miles—Passenger Service:		
Loaded Freight Cars	326,345	213,046
Empty Freight Cars	55,634	29,557
Passenger Coach and Combination Cars	62,266,663	67,830,334
Sleeping, Parlor and Observation Cars	50,052,285	54,245,384
Dining Cars	8,401,777	9,189,041
Other Cars	72,011,184	70,863,420
Motor Unit Cars	791,663	890,569
Caboose	612,939	1,147,231
Total	194,518,490	204,408,582
Car-Miles—Total	1,976,171,038	1,876,903,963
Work Service	4,366,715	4,598,630
Total	1,980,537,753	1,881,502,593
Average Mileage of Road Operated	23,402·08	23,437·12
Freight Traffic:		
Tons carried—Revenue freight	86,221,279	78,950,008
Tons carried one mile—Revenue freight	32,945,415,090	30,811,920,078
Freight revenue	$342,582,003	$300,313,199
Revenue per ton	$3·97329	$3·80384
Revenue per ton mile	$0·01040	$0·00975
Miles per revenue ton	382·10	390·27
Ton-miles—Revenue freight per mile of road	1,407,799	1,314,663
Ton-miles—All freight per mile of road	1,533,213	1,425,942
Gross ton-miles of cars, contents and cabooses	76,607,077,276	71,654,047,848
Net ton-miles of freight (Revenue and non-revenue)	35,880,383,954	33,419,975,710
Train-hours in freight road service	2,918,906	2,723,640
Passenger Traffic:		
Passengers carried	21,226,889	22,320,490
Passengers carried one mile	1,844,649,873	2,289,022,387
Passenger revenue	$43,017,690	$50,128,223
Revenue per passenger	$2·02657	$2·24584
Miles per revenue passenger	86·90	102·55
Revenue per passenger mile	$0·02332	$0·02190
Passenger-miles per mile of road	78,824	97,667
Net Railway Operating Income:		
Gross Revenue per mile of road	$18,724·74	$17,091.95
Gross Railway operating charges per mile of road	$17,711·56	$15·745·41
Net Railway operating income per mile of road	$1,013·18	$1,346·54

The CHAIRMAN: Is there anything on page 28, "operated mileage, 31st December, 1947."

Mr. NICHOLSON: Before you leave page 27, I wonder if we could have the information on the revenue per ton mile on eastern and western lines and also for 1939 as compared to 1947? Could we have that information brought down, I wonder, under freight traffic?

Mr. COOPER: We can get it for you; but it will take us a day or two.

Mr. NICHOLSON: The revenue per ton, and per ton mile, 1939 as compared to 1947 and also a breakdown for the western region versus the eastern and the central.

Mr. VAUGHAN: We will file it with you.

The CHAIRMAN: Operated mileage?

Mr. JACKMAN: On this subject of revenue per ton mile, it is .01 cent.

Mr. COOPER: One cent.

Mr. VAUGHAN: One cent per ton mile.

Mr. JACKMAN: That is your revenue per ton mile. Now, in the Canadian Pacific report, if I recall it correctly, it gave out the figure—I cannot put my hand on it at the moment.

Mr. COOPER: On the Canadian Pacific it was .95 of 1 cent.

Mr. NICHOLSON: The same as yours for 1946?

Mr. COOPER: In 1946 theirs was .93 cent, and .95 cent in 1947, while ours was 9.75 mills in 1946, and 1 cent in 1947.

Mr. JACKMAN: You are a wee bit better than the Canadian Pacific.

Mr. COOPER: That is due to the class of traffic carried; they carried more agricultural and less manufactured products than we did.

Mr. JACKMAN: And on the passenger miles, they are 2·4 cents while you are 2·3 cents.

The CHAIRMAN: Is there anything more on page 27? Now, page 28, operated mileage.

OPERATED MILEAGE, 31st DECEMBER, 1947

Operated Road Mileage				
Territory	Owned	Leased	Trackage	Total
Atlantic Region	2,985·78	6·41	82·95	3,075·14
Central Region	7,093·85	348·05	27·86	7,469·76
Western Region	11,415·08	34·84	84·35	11,534·27
Grand Trunk Western Lines	903·19	9·50	59·75	972·44
Central Vermont Lines	237·92	125·18	58·73	421·83
Total First Main Track	22,635·82	523·98	313·64	23,473·44
Lines in Canada	21,279·28	216·97	190·77	21,687·02
Lines in United States	1,356·54	307·01	122·87	1,786·42
Operated Mileage all Tracks				
First Main Track	22,635·82	523·98	313·64	23,473·44
Second Main Track	1,221·34	9·34	85·42	1,316·10
Third Main Track	26·65	....	3·49	30·14
Fourth and Other Main Tracks	10·78	....	5·09	15·87
Spurs, Sidings and Yard Tracks	5,938·60	172·71	1,206·62	7,317·93
Total All Tracks	29,833·19	706·03	1,614·26	32,153·48

Mr. MOORE: The member for Skeena again asked me to ask a question. He tells me that the United States has passed what is known as the Jones Shipping Act, and freight arising in the United States can be shipped to Prince Rupert at the same price that it goes to Seattle, but because of this Act freight originating in the United States must go to an American port. Now, could any arrangement be reached whereby the Canadian railroads could get some of this business coming to Prince Rupert?

Mr. VAUGHAN: That Jones Act has been in effect for a great many years and the matter is up now in Washington. The Governor of Alaska has taken it up and has made representations to Washington, that the Jones Act should be suspended so far as the movement of United States traffic through Prince Rupert to Alaska is concerned, and the matter is actually up at the present time. We had one of our men, Mr. Fairweather, down there last week in Washington giving some evidence on it.

Mr. NICHOLSON: According to the information I was given this morning, the Canadian National operates 21,735 today compared to 17,034·1 Canadian Pacific, and I inquired yesterday about the revenue from mail and I find that the Canadian National with 56·1 per cent of the miles, gets 47·8 per cent of the Dominion Government postal revenue while the Canadian Pacific with 43·9 per cent of the miles gets 52 per cent of the revenue. Can the president tell us anything about that?

Mr. VAUGHAN: I said something about it yesterday, that we are constantly making representations to the post office department to get a larger share of the mails.

Mr. NICHOLSON: It seems to me that this matter has been up year after year.

Mr. VAUGHAN: Yes, but we are making some progress.

Mr. NICHOLSON: Can we have additional information over the last ten years as to whether you are getting a larger or a worse percentage?

Mr. VAUGHAN: We could give you our mail earnings for the last ten years.

Mr. MUTCH: They are up about $400,000.

Mr. NICHOLSON: But the Canadian Pacific is up as well.

The CHAIRMAN: Is there anything more there, or shall we go on and take page 31? Is there anything on page 31?

DISBURSEMENT OF TOTAL OPERATING REVENUES AND EXPENSES

	Operating revenues were disbursed:—		Operating expenses were disbursed:—	
	1947—%	1946—%	1947—%	1946—%
Labour	54·55	55·10	60·20	61·79
Fuel	11·21	9·65	12·36	10·82
Other Expenses	24·87	24·43	27·44	27·39
Total Operating Expenses	90·63	89·18	100·00	100·00
Available for Taxes and Other Accounts	9·37	10·82		
Total	100·00	100·00	100·00	100·00
Maintenance of Way Accounts	17·17	16·76	18·95	18·80
Maintenance of Equipment Accounts	18·20	18·41	20·09	20·64
Traffic Accounts	1·76	1·77	1·94	1·99
Transportation Accounts	48·02	46·27	52·99	51·88
Miscellaneous Accounts	·98	1·18	1·07	1·32
General Accounts	4·50	4·79	4·96	5·37
Total Operating Expenses	90·63	89·18	100·00	100·00

EMPLOYEES AND THEIR COMPENSATION

	*Average Number of Employees	*Total Payroll	% Inc. over Previous Year Employees	Payroll
1939	78,129	$122,354,101		
1940	82,831	132,584,063	6·02	8·36
1941	89,536	153,654,368	8·09	15·89
1942	94,592	177,042,773	5·65	15·22
1943	101,126	195,555,045	6·91	10·46
1944	102,764	222,649,839	1·62	13·86
1945	105,624	220,507,637	2·78	*·96*
1946	105,353	237,335,781	*·26*	7·63
1947	108,440	258,337,684	2·93	8·85

*Includes railway, express and telegraph employees. Excludes hotel and subsidiary company employees.

REVENUE TONNAGE BY COMMODITIES

	Year 1947 Tons	Year 1946 Tons	Increase or *Decrease* Tons	Per cent
AGRICULTURAL PRODUCTS:				
Wheat	5,682,704	5,630,365	52,339	·93
Corn	571,085	442,398	128,688	29·09
Oats	1,472,167	1,724,535	**252,368*	**14·63*
Barley	1,185,407	1,141,953	43,454	3·81
Rye	220,853	76,929	143,924	187·09
Flaxseed	122,072	104,275	17,797	17·07
Other Grain (including dried peas, beans, soya beans)	159,306	166,668	*7,362*	*4·42*
Flour	1,222,383	1,216,415	5,968	·49
Other Mill Products	2,362,341	2,235,176	127,165	5·69
Hay and Straw	208,363	242,828	**34,465*	**14·19*
Cotton	75,396	92,383	**16,987*	**18·39*
Apples (fresh)	109,979	110,715	**736*	**66*
Other Fruit (fresh)	432,027	470,823	**38,796*	**8·24*
Potatoes	472,754	397,721	75,033	18·87
Other Fresh Vegetables	269,586	262,100	7,486	2·86
Other Agricultural Products	678,649	747,320	**68,671*	**9·19*
Total	15,245,072	15,062,603	182,469	1·21
ANIMAL PRODUCTS:				
Horses	55,859	68,869	**13,010*	**18·89*
Cattle and Calves	318,005	390,505	**72,500*	**18·57*
Sheep	19,060	27,983	**8,923*	**31·89*
Hogs	159,402	153,108	6,294	4·11
Poultry	227	990	**763*	**77·07*
Dressed Meats or Dressed Poultry (fresh or frozen)	226,116	230,219	**4,103*	**1·78*
Dressed Meats (cured or salted)	122,777	132,800	**10,023*	**7·55*
Other Packing House Products (edible)	56,621	55,474	1,147	2·07
Eggs	80,326	73,970	6,356	8·59
Butter	52,379	50,205	2,174	4·33
Cheese	52,320	61,519	**9,199*	**14·95*
Wool	47,402	72,043	**24,641*	**34·20*
Hides and Leather	90,654	85,239	5,415	6·35
Other Animal Products (non-edible)	96,528	127,285	**30,757*	**24·16*
Total	1,377,676	1,530,209	**152,533*	**9·97*

REVENUE TONNAGE BY COMMODITIES—*Concluded*

	Year 1947 Tons	Year 1946 Tons	Increase or *Decrease* Tons	Per cent
MINE PRODUCTS:				
Anthracite Coal	2,884,036	3,077,841	**193,805*	**6·30*
Bituminous Coal	11,108,778	9,882,636	1,226,142	12·41
Sub-Bituminous Coal	1,282,751	1,346,812	**64,061*	**4·76*
Lignite Coal	440,564	489,580	**49,016*	**10·01*
Coke	942,499	1,274,250	**331,751*	**26·04*
Iron Ores and Concentrates	1,353,480	977,456	376,024	38·47
Copper Ore and Concentrates	180,520	161,310	19,210	11·91
Other Ores and Concentrates	2,110,800	1,348,638	762,162	56·51
Base Bullion, Matte, Pig and Ingot (non-ferrous metals)	584,576	506,658	77,918	15·38
Sand and Gravel	2,032,852	1,944,218	88,634	4·56
Stone (crushed, ground, broken)	2,802,921	2,030,272	772,649	38·06
Slate, Dimension or Block Stone	101,407	103,640	**2,233*	**2·15*
Crude Petroleum	571,879	523,124	48,755	9·32
Asphalt (natural, by-product petroleum)	335,703	268,972	66,731	24·81
Salt	527,107	515,273	11,834	2·30
Other Mine Products (not fully processed)	1,911,149	1,440,335	470,814	32·69
Total	29,171,022	25,891,015	3,280,007	12·67
FOREST PRODUCTS:				
Logs, Posts, Poles, Piling	972,063	988,519	**16,456*	**1·66*
Cordwood and Other Firewood	424,265	553,648	**129,383*	**23·37*
Ties	53,680	56,505	**2,825*	**5·00*
Pulpwood	5,719,321	4,842,085	877,236	18·12
Lumber, Timber, Box, Crate and Cooperage Material	5,102,127	4,461,841	640,286	14·35
Other Forest Products	343,578	254,088	89,490	35·22
Total	12,615,034	11,156,686	1,458,348	13·07
MANUFACTURES AND MISCELLANEOUS:				
Gasolene	1,771,692	1,726,698	44,994	2·61
Petroleum Oils and Petroleum Products (except asphalt and gasolene)	1,921,540	1,382,975	538,565	38·94
Sugar	281,504	294,174	*12,670	*4·31
Iron, Pig and Bloom	430,574	290,772	139,802	48·08
Rails and Fastenings	42,105	48,110	*6,005	*12·48
Iron and Steel (bar, sheet, structural, pipe)	2,093,002	1,479,516	613,486	41·47
Castings, Machinery and Boilers	377,146	308,264	68,882	22·35
Cement	740,366	728,357	12,009	1·65
Brick and Artificial Stone	366,417	309,630	56,787	18·34
Lime and Plaster	434,930	371,760	63,170	16·99
Sewer Pipe and Drain Tile	48,395	36,479	11,916	32·67
Agricultural Implements and Vehicles other than Autos	319,432	249,980	69,452	27·78
Automobiles, Auto Trucks and Auto Parts	1,725,981	1,255,043	470,938	37·52
Household Goods and Settlers Effects	24,021	26,815	*2,794	*10·42
Furniture	63,798	64,680	*882	*1·36
Beverages	506,870	506,792	78	*·02
Fertilizers, all kinds	1,189,576	1,266,345	*76,769	*6·06
Newsprint Paper	1,966,108	1,833,686	132,422	7·22
Other Paper	430,121	419,293	10,828	2·58
Paper Board, Pulpboard and Wallboard (paper)	589,387	440,603	148,784	33·77
Woodpulp	1,353,003	1,237,955	115,048	9·29
Fish (fresh, frozen, cured, etc.)	117,885	152,113	*34,228	*22·50
Canned Goods (all canned food products)	762,948	681,801	81,147	11·90
Other Manufactures and Miscellaneous	7,741,115	7,736,068	5,047	·07
Merchandise (all L.C.L. Freight)	2,514,559	2,461,586	52,973	2·15
Total	27,812,475	25,309,495	2,502,980	9·89
Grand Total	86,221,279	78,950,008	7,271,271	9·21

* Decrease.

The CHAIRMAN: That finishes the report. Now, will someone make a motion that we adopt the report?

Mr. McCULLOCH: I move that we adopt this report.

Mr. LAFONTAINE: I second the motion.

The CHAIRMAN: It is moved by Mr. McCulloch and seconded by Mr. Lafontaine. Is that sufficient, gentlemen? Did we give you plenty of time to discuss the problem in connection with it? All those in favour?

Carried.

Now we have the Canadian National West Indies Steamships, but perhaps we had better take the railway budget. Perhaps you will want to take up the Canadian National West Indies Steamships before you take up your budget. Have you all got copies of the Canadian National budget?

Now, gentlemen, would you like Mr. Cooper to make some explanation of this before you ask him any quesitons? Would that be in order? Would you like to do that, or Mr. Vaughan?

Mr. VAUGHAN: I think Mr. Cooper might read the budget.

Mr. COOPER: The operating budget for 1948 indicates a deficit of $23,400,000. A breakdown of that, showing revenues and expenses as well as other charges, is shown on page 2 of the budget statement. The capital budget amounts to $65,882,200. Additions and betterments amount to $20,250,000. A breakdown of that amount is given in the budget statement on pages 3 and 3*a*. New equipment is estimated at $59,000,000. A breakdown of that is given on page 4 of the budget statement.

The Barraute branch line: The expenditure for that in 1948 is estimated to be $1,440,000. Information with respect to that project is given on page 5 of the budget statement.

Acquisition of securities amounting to $1,007,200, details of which are given on page 6 of the budget statement. Those items all add up to $81,697,200, against which we have $15,815,000 available from depreciation reserves and debt discount amortization, drawing down to a net capital budget of $65,882,200.

In addition to the operating and capital budgets, we are asking for additional working capital to the extent of $20,000,000.

Then, there are two footnotes attached to page 1 which read as follows:

> The 1948 equipment program is estimated to cost $59,000,000. It is anticipated that of this total, the cost of the equipment to be delivered during 1948 will approximate $22,509,000. It is necessary, however, to budget for the additional amount so that there shall be proper authority for the placing of orders not to exceed $59,000,000.

In connection with the Trans-Canada Air Lines, the paid in capital at the end of 1947 was $22,600,000. Their authorized capital is $25,000,000. During 1948, the railway expects to pay the balance of $2,400,000 to enable Trans-Canada Air Lines and its subsidiary to finance the air line's 1948 capital budget.

CANADIAN NATIONAL RAILWAYS

SUMMARY OF FINANCIAL REQUIREMENTS—YEAR 1948

—	1947 Budget	1947 Actual	1948 Budget	Details on page
OPERATING BUDGET—				
Deficit	31,000,000	15,885,194	23,400,000	2
CAPITAL BUDGET—				
Additions and Betterments	18,000,000	10,394,438	20,250,000	3
New Equipment	41,500,000	9,600,860	59,000,000	4
Barraute branch line	2,684,000	1,183,283	1,440,000	5
Acquisition of Securities and retirement of Capital Obligations	1,057,000	795,544	1,007,200	6
	63,241,000	21,974,125	81,697,200	
Less amounts available from Reserves for Depreciation and Debt Discount Amortization	16,518,000	16,087,559	15,815,000	
Total Capital Budget	46,723,000	5,886,566	65,882,200	
Additional Working Capital	....	....	20,000,000	

The 1948 equipment program is estimated to cost $59 millions. It is anticipated that of this total, the cost of the equipment to be delivered during 1948 will approximate $22,509,000. It is necessary, however, to budget for the additional amount so that there shall be proper authority for the placing of orders not to exceed $59 millions.

The authorized capital stock of the Trans-Canada Air Lines is $25,000,000. The capital paid in to December 31, 1947, by the Canadian National Railways was $22,600,000. During 1948 the railway may be required to pay the balance of $2,400,000 to enable Trans-Canada Air Lines and its subsidiaries to finance the air lines 1948 capital budget.

CANADIAN NATIONAL RAILWAYS

OPERATING BUDGET

—	1947 Budget	1947 Actual	1948 Budget
Operating Revenues—			
(a) Operating revenues, excluding (b) and (c)	398,411,000	433,124,595	439,816,000
(b) Payment under Maritime Freight Rates Act (20%)	3,042,000	4,141,529	4,280,000
(c) Payment of deficit in the operation of P.E.I. Car Ferry and Terminals	707,000	931,856	904,000
	402,160,000	438,197,980	445,000,000
Operating Expenses	380,500,000	397,122,607	413,000,000
Net Operating Revenues	21,660,000	41,075,373	32,000,000
Net Income Charges, excluding interest	8,106,000	13,136,223	11,087,000
Interest on Funded Debt—Public	22,485,000	23,821,910	23,133,000
Interest on Government Loans	22,069,000	20,002,434	21,810,000
Deficit	31,000,000	15,885,194	23,400,000

NOTE: The 1948 Budget includes $2,847,000 for contribution to the deficit of the I.C.R. & P.E.I. Provident Fund also $100,000 for contribution to the Grand Trunk Superannuation Fund Association.

No provision is made in the 1948 budget for any additional revenue which may result from hearings now before the Board of Transport Commissioners in respect of increased freight rates; neither is there any provision for further wage increases included in the 1948 operating expenses.

CANADIAN NATIONAL RAILWAYS

Additions and Betterments

—	1947 Budget:	1947 Actual:	1948 Budget:
Additions and Betterments—			
Atlantic Region	1,912,944	1,145,720	1,909,665
Central Region	7,420,829	2,729,056	9,916,680
Western Region	3,878,047	2,323,210	4,882,085
Grand Trunk Western Railway Company	2,476,568	1,135,373	3,684,877
Central Vermont Railway	333,362	164,187	386,670
Subsidiary Companies	3,173,504	2,212,175	1,376,503
Express, Telegraphs, and other Departments	3,157,068	1,371,213	2,588,590
Additions and Betterments to Equipment (Canada)	2,708,541	1,331,062	3,240,595
Equipment Retirements	Cr. 2,060,863	Cr. 2,017,558	Cr. 2,735,665
	23,000,000	10,394,438	25,250,000
Less—Portion of projects included in the above requirements not physically completed by the end of the year	5,000,000	....	5,000,000
Total	18,000,000	10,394,438	20,250,000

(see attachment Page 3-A)

CANADIAN NATIONAL RAILWAYS SYSTEM

ADDITIONS AND BETTERMENTS BUDGET-YEAR 1948

Expenditures Less Retirements Applicable to Capital Account

—	Atlantic Region	Central Region	Western Region	Grand Trunk Western Lines	Central Vermont Railway	Other	Total
	$	$	$	$	$	$	$
Additions and Betterments—							
Rails and Fastenings	110,534	813,178	661,002	216,700	7,038		1,808,452
Tie Plates and Rail Anchors	218,626	597,982	488,320	131,000	42,337		1,478,265
Ballast	366,170	276,750	138,400	239,200	65,895		1,086,415
Widening Cuts and Fills	212,572		72,900		4,750		290,222
Rip-Rap, Retaining Walls and Cribwork	7,850	5,700	94,525				108,075
Ditching, Drainage and Sewers	4,583	6,563	15,720	4,500			31,366
Yard Tracks and Sidings	126,080	953,380	301,512	246,200			1,627,172
Roadway Machines	60,720	119,515	96,125	57,500	6,050		339,910
Bridges, Trestles and Culverts	137,192	525,999	601,050	211,500	36,919		1,512,660
Tunnels		6,450	120,760				127,210
Highway and Crossing Protection	10,000	258,152	43,812	139,400			451,364
Montreal Office Building		2,500,000					2,500,000
Stations and Station Facilities	75,631	1,096,999	1,123,205	301,810	20,296		2,617,941
Water Supplies	4,700	121,309	86,832	22,116	27,486		262,443
Fuel Stations		132,281	77,301	25,000	8,949		243,531
Shops, Enginehouses and Machinery	377,786	2,286,713	520,410	291,547	31,230		3,507,686
Docks and Wharves	36,320	49,360	10,090	267,600			363,370
Grain Elevators		75,000					75,000
Signals and Interlockers	Cr. 639	123,408	161,908	6,000			290,677
Telegraphs—Railway						500,000	500,000
Telegraphs—Commercial						2,000,000	2,000,000
Land	5,000	20,000	6,235				31,235
General Additions and Betterments and Contingencies	156,540	Cr. 61,319	Cr. 192,432	140,000	36,740	Cr. 434,830	Cr. 355,301
Express and Miscellaneous Equipment		9,260	454,410	23,400	2,100	357,770	846,940
Subsidiary Companies						1,376,503	1,376,503
Hotels						165,650	165,650
Additions and Betterments to Equipment				1,361,404	96,880	3,240,595	4,698,879
Equipment Retirements						Cr. 2,735,665	Cr. 2,735,665
Total Estimated Additions and Betterments	1,909,665	9,916,680	4,882,085	3,684,877	386,670	4,470,023	25,250,000
Less—Portion of projects included in the above requirements which will not be physically completed by December 31, 1948							5,000,000
Net Estimated Additions and Betterments							20,250,000

CANADIAN NATIONAL RAILWAYS SYSTEM

NEW EQUIPMENT

Canadian National Railways System

2000	50-ton box cars
700	50-ton box cars (G.T.W. Lines)
1000	40-ton automobile cars
500	70-ton gondola cars
500	70-ton hopper cars
250	70-ton service cars
300	50-ton overhead refrigerator cars
50	50-ton overhead refrigerator cars (G.T.W. Lines)
500	60-ton flat cars
75	8000-gallon tank cars
20	1000-HP diesel-electric switching locomotives
10	steel cabooses (G.T.W. Lines)
11	3000-HP diesel-electric road locomotives (G.T.W. Lines)
1	1000-HP diesel-electric switching locomotives (C.V.R.)
2	4500-HP diesel-electric road locomotives
3	electric locomotives
6	multiple unit cars
15	multiple unit steel car trailers (Montreal Suburban Service)
25	air-conditioned coaches
20	sleeping cars
50	baggage cars
50	overhead express refrigerator cars
50	cabooses (converted from box cars)

Total Cost, including Sales Tax and Inspection Charges: $59,000,000.

CANADIAN NATIONAL RAILWAYS

Construction of New Branch Line from Barraute to Kiask Falls, Province of Quebec

Authorized under Statutes of Canada 10 George VI Chapter 41
Assented to August 31, 1946

SCHEDULE OF ACT

Location	Mileage	Estimates: To be Expended: $	Estimates: Average Expenditure Per Mile $
From Barraute to Kiask Falls on the Bell River, in the Province of Quebec	55	4,125,000	75,000

The location surveys for the above line were completed in September 1946 and contract was awarded to the lowest tenderer on December 26, 1946, namely the Therrien Construction Company Limited, for the clearing, grading, culverts and trestles from mileage 0 to mileage 39·02.

Up to December 31, 1947, the contractor completed all of the clearing, 57 per cent of the grading, 56 per cent of the culverts and 57 per cent of the bridges. During the same period the railway has completed 23 per cent of the track laying and 18 per cent of the ballasting.

$1,206,928.56 has been expended on the line under the authority of this Act to December 31, 1947, of which $1,183,283.41 was the expenditure between January 1, 1947, and December 31, 1947.

During the calendar year 1948 it is anticipated that the contractor will complete his contract and the railway the balance of the track laying and ballasting, up to mileage 39·02. While all railway buildings, fuel stations, final ballasting and sidings will not be completed, it is nevertheless expected that the line to mile 39·02 will be in suitable condition to take care of any traffic that may be offering by December 1, 1948.

The estimated expenditure for the calendar year 1948 is $1,440,000.

CANADIAN NATIONAL RAILWAYS

Acquisition of Securities and Retirement of Capital Obligations

	1947 Budget $	1947 Actual $	1948 Budget $
Toronto Terminals Railway			
Joint with Canadian Pacific Railway Co. General Additions and Betterments —C.N.R. Proportion 50%	87,500	50,000	25,000
Northern Alberta Railways			
Joint with Canadian Pacific Railway Co. General Additions and Betterments —C.N.R. Proportion 50%	350,000	125,000	375,000
Chicago and Western Indiana Railroad			
Advances under agreement of March 1/36	169,500	168,580	172,000
Atlantic and St. Lawrence Railroad			
Purchase of Capital Stock	20,000	21,296	5,000
Final Payment to State of Michigan re Wider Woodward Avenue, Detroit	430,000	430,668	430,000
	1,057,000	795,544	1,007,200

CANADIAN NATIONAL (WEST INDIES) STEAMSHIP, LIMITED

	1947 Budget $	1947 Actual $	1948 Budget $
Operating Budget			
Operating Revenues	6,359,000	7,857,470	6,998,500
Operating Expenses	5,293,000	7,028,193	5,929,632
Net Operating Income	1,066,000	829,277	1,068,868
Vessel replacement fund earnings	250,000	266,698	90,000
Interest Requirements on 5%—25-Year Bonds due, 1955, principal amount $9,400,000	470,000	470,000	470,000
Interest on Government Notes and Advances	126,000	103,298	98,868
Surplus	720,000	522,677	590,000
Capital Budget			
General Betterments	—	—	30,000
3 diesel-driven cargo vessels	2,549,900	2,568,268	—
5 vessels from Park Steamship Company	1,540,000	1,334,677	—
	4,089,900	3,902,945	30,000
Less vessels sold—Sale Price	Cr 500,000	Cr 578,000	—
Net Cash Requirements	3,589,900	3,324,945	30,000

NOTE: Funds for Capital expenditures will be taken from the Vessel Replacement Fund.

The CHAIRMAN: Now, are there any questions on that?

Mr. JACKMAN: You are asking parliament, then, for a total of how much, Mr. Cooper?

Mr. COOPER: For the operating budget, $23,400,000. Perhaps, at that stage I should say that figure was made up in January before the award of the Board of Transport Commissioners was given. Of course, it is also exclusive of any wage rate increases which we may be required to pay, if any, under the applications which are now before conciliation boards.

Mr. JACKMAN: Have you made a preliminary estimate on the basis of the 21 per cent advance in freight rates?

Mr. VAUGHAN: Yes, we have a statement here, Mr. Jackman.

Mr. JACKMAN: Have you made allowance for meeting wage demands?

Mr. VAUGHAN: We have made no allowance for that because we have objected to those wage awards. We have no idea what kind of finding the board of conciliation will bring in, so it is impossible for us to make any provision for that.

Mr. JACKMAN: You are now collecting under the rate decision.

Mr. VAUGHAN: We do not like to admit there is going to be an award against us.

Mr. JACKMAN: You are collecting under the rate decision and, on the basis of that, you would surely want to amend this budget.

Mr. VAUGHAN: Mr. Cooper has some figures which he will give you in that connection.

Mr. COOPER: May I read the revisions which should be made in the budget. It appeared in January the operating revenue, as shown in the budget on page 2, would be $445,000,000. To that should be added the estimated increase under the board's order No. 70425, $30,570,000.

Additional increases granted by the Interstate Commerce Commission under Ex Parte 166, effective about May 1, 1948, is expected to produce additional revenue of $5,700,000. Therefore, at the moment, our estimated revenues in 1948 amount to $481,270,000.

On the operating expense side, we budgeted for $413,000,000. Since the budget was prepared, there has been an increase in material prices. As now estimated there has been an increase of $6,043,000 in material prices since this budget was prepared.

In addition, on our United States lines a 15½ cent an hour increase was granted to the engineers, firemen and switchmen, effective from November 1, 1947. The estimated cost of this to us in 1948 will be $540,000, making a revised operating expense budget of $419,583.

The net operating revenue, as revised, will therefore be $61,687,000. Our interest and other income charges are estimated to be $55,400,000. Therefore our revised net income, as we stand at the present time is $6,287,000 of a surplus as compared with $23,400,000 of a deficit in the budget presented to the committee.

I wish to mention again that the revised budget figures do not make any allowance for any wage increases in Canada which may be granted as the result of applications which are now before boards of conciliation, and the revised budget is also on the assumption that $8,000,000 will be transferred from our deferred maintenance reserve to reduce our operating expenses.

Mr. VAUGHAN: It is made on the assumption that the present high traffic levels will continue, too.

Mr. JACKMAN: What budget do you want us to consider?

Mr. VAUGHAN: You will see, gentlemen, how difficult it is for us to put in a budget until we have something definite concerning this wage situation.

Mr. JACKMAN: What is the aggregate amount of the wage demands?

Mr. VAUGHAN: It will amount, on our lines, to over $90,000,000. As I explained yesterday, every 1 cent per hour added to wages means $2,500,000 increase to us.

Mr. Jackman: Do you want us to consider the figures which are not very realistic which have been presented to us in the operating budget, or do you want us to consider some figures which are, perhaps, a little more realistic, if not very real?

Mr. Vaughan: We should like you to be realistic about it. We should like to be realistic too, but I think it will be apparent to you why it would not be wise to even assume what the increase in wages may be.

Mr. Jackman: In other words, you would not want us to consider the budget as presented to us before the adjustment for the freight rate increase?

Mr. Cooper: Our budget was prepared in the ordinary way at the ordinary time. A number of things have happened since it was prepared. It was obvious the committee would want to have more up to date information. It was for that reason we have supplied the additional figures.

Mr. Jackman: It does seem a little futile to pass on this operating budget when we have certain information concerning changes which have transpired since the end of the year?

Mr. Cooper: What could we do? We could not put the recent events in a budget prepared in January, that was impossible.

Mr. Jackman: I am not finding fault with you, but if we are doing anything at all except going through some motions, it seems to be we should work on the present figures. I am not saying they will be much good, either, because you are faced with difficulities.

Mr. Cooper: If you consider our operating budget, you should consider we are estimating a surplus of $6,287,000, but we are making the reservation that it is exclusive of any wage awards which may be granted.

Mr. Jackman: May I just ask you something which we all should know on this committee, what is the effect of this committee passing this budget?

Mr. Cooper: I do not believe there is any appropriation being brought down in the House for you to approve. The custom is, that at the end of the fiscal year which will be early in 1949, when the actual results of the operations in 1948 are available, an item will be included in the supplementary estimates presented for approval at that time.

We are of course required under the Canadian National-Canadian Pacific Act, to submit to the government each year a budget for operating and capital purposes. We are complying with the Act. Actually, I do not believe you do anything with this operating budget in the way of voting any money, but the custom is, if the committee is satisfied it is a good estimate, for them they approve it.

Mr. Jackman: You have just told us that this revision was made on the basis of present known factors and, in place of a $23,000,000 deficit, you are going to have a $6,000,000 surplus. I am not suggesting that will actually be the case. However, there is a difference of $29,000,000 at the moment. Why should we approve a budget which is drawn up when you were $29,000,000 worse off than you are at the moment?

Mr. Vaughan: The main thing in connection with this budget is our capital budget.

Mr. Jackman: The difference of $29,000,000 includes some capital items. I just want to know what is the use of working on this budget at all? Why does it come before us? We could approve the capital items, the essential items if necessary, and let the rest go. In other words, I just want to know what we are doing.

Mr. COOPER: Then, I suggest the committee—if I may make a suggestion—should approve the budget as submitted and as revised by the information given to the committee during the proceedings of the committee. In that event, you would be approving a budget estimated to produce a surplus of $6,287,000.

Mr. JACKMAN: In other words, all we do is go on record as having received the evidence.

Mr. COOPER: That is all.

Mr. HLYNKA: Would you care to comment on the reports which have been made in the press that the railways may ask for additional revenues over and above the 21 per cent increase which was recently approved by the Board of Transport Commissioners?

Mr. VAUGHAN: No action has been taken by the railways in that connection. I made a statement, it was more with the idea of pointing out to this committee that, if we have further increases in wages and material costs, we should be able to recover them from some source. Otherwise, how is the railway going to carry on except by going to the government for money.

In answer to your question, no action has been taken or data prepared as yet in connection with a further application.

Mr. HAZEN: Do I understand that a further application has not been made?

Mr. VAUGHAN: No, sir.

Mr. JACKMAN: What is the effect of putting in the budget an amount for new equipment of $59,000,000 and yet you only expect $22,500,000 to be delivered? I realize you want to place contracts for the full amount, but in addition to having a large reserve of $37,000,000 there which you cannot use next year because you cannot get delivery you nevertheless want working capital of $20,000,000.

Mr. VAUGHAN: We want to keep this committee fully informed of the situation. We have to have authority to spend this money to order equipment even if it should not be delivered this year. Much of this equipment will not be delivered until next year, but we would not want to mislead this committee and give the committee the idea we had only ordered the amount of equipment that would be delivered this year.

Mr. HATFIELD: I see in this list you have on order 1,000 automobile cars and you only have 350 refrigerator cars.

The CHAIRMAN: What page is that on?

Mr. HATFIELD: It is on this revised equipment list.

Mr. VAUGHAN: Page 4 of the budget.

Mr. HATFIELD: I would think it should be just the reverse of that. Automobiles today are carried by trucks throughout Ontario and Quebec east and west. We are very short of refrigerator cars at all times. You have only ordered 350 refrigrator cars and you have odered 1,000 automobile cars.

Mr. VAUGHAN: There are 300 refrigerator cars on order in our shops now, and there is another order for refigeator cars to be placed later on. We are determining the type of refrigerator. We do a very heavy automobile business. The large automobile plants are located on our lines, at Oshawa and Windsor, and we have been very short of automobile cars. It is true a number of automobiles do move by truck, but there is still a very substantial quantity of them moved by railway.

Mr. HATFIELD: Those automobile cars are practically useless.

Mr. WALTON: No, they are used a lot for lumber and other loading if automobile loading is not available for them.

Mr. VAUGHAN: They are used for other purposes if there are not automobiles to be carried. They are general purpose cars.

Mr. HATFIELD: They might be used for lumber. They could not be used for grain. You are very short of refrigerator cars, especially since the number of refrigerators coming from the United States has been cut down. That has made a great difference in the supply of refrigerator cars.

Mr. VAUGHAN: We are catching up on our refrigerator cars all the time. There have been difficulties in getting cars in the United States, but these will certainly improve the situation very much. We could not get any outside car builders to build refrigerator cars until the end of 1949. We are fully aware we ought to have more refrigerator cars. Of course, a refrigerator car takes a longer time to build and is much more expensive.

Mr. HATFIELD: I realize that, but I think you should have less automobile cars and more refrigerators. That is the way it looks to me.

Mr. VAUGHAN: Mr. Cooper has just drawn my attention to the fact we have on order at the present time about 20 per cent of our ownership in refrigerator cars, that is, we are increasing our ownership by one-fifth in refrigerator cars, which is quite a substantial increase.

Mr. HATFIELD: What does it mean by Grand Trunk Railway refrigerators?

Mr. VAUGHAN: That is what we call the Grand Trunk Western lines, which we operate between Detroit and Chicago and the northern peninsula, Grand Rapids.

Mr. HATFIELD: Do you have to have a different class of equipment to go over that line?

Mr. WALTON: It is not so much a different class as it is a separate item on account of United States construction.

Mr. VAUGHAN: We have to have certain United States ownership for United States lines. We are compelled to do that.

Mr. HATFIELD: You have to have different under equipment, but why should you not order cars to go over all lines when you are ordering them? They do not cost very much more.

Mr. WALTON: They may go over all lines, in the movement of them, but in the construction of them the item is separate because the 300 cars will be built in Canada and the 50 Grand Trunk cars will be built in the United States. The item is separate in the list for that reason.

Mr. HATFIELD: Why do they have to be built in the United States?

Mr. WALTON: I think the customs people would object to us building cars in Canada for definite earmarking to a United States subsidiary ownership.

Mr. HATFIELD: There is no customs tariff on empty cars or cars loaded, is there?

Mr. VAUGHAN: These cars would perhaps come into Canada in the usual interchange of business. Otherwise they would be used for local service on the Grand Trunk.

Mr. HATFIELD: I believe 75 per cent of your reefers were loaned from the different refrigerator companies in the United States?

Mr. VAUGHAN: A large number of them were rented. In seasons when fruits and potatoes and other commodities were moving we rented refrigerator cars from the United States refrigerator line companies.

Mr. HATFIELD: Why should they object to building 50 in Canada?

Mr. VAUGHAN: The Grand Trunk Western Railway, of course, is entirely in the United States, and we are being constantly reminded by the authorities in Washington that we should have more equipment ownership for our Grand Trunk Western lines, for the reason that this equipment is all interchangeable.

As you know there are car service rules in the United States and we are using other railways' equipment all the time. They feel we are not contributing enough cars to the so-called pool over there.

Mr. HATFIELD: That is quite true.

Mr. VAUGHAN: Therefore we have to build a certain number of cars of Grand Trunk Western ownership.

Mr. HATFIELD: I think that is quite true but that is because we have not enough refrigerator equipment. Prince Edward Island and New Brunswick have been short of reefers all season, practically all season, all the winter months to ship potatoes and vegetables, turnips. We have not had half the refrigerators we should have had. Necessarily you have lost the business. The business in my constituentcy has been handled by the Canadian Pacific Railway. You have lost that business on account of not having equipment.

Mr. VAUGHAN: We have lost some business by not having refrigerator cars We had how many delivered last year?

Mr. COOPER: 299.

Mr. VAUGHAN: We had 299 delivered last year. We have got 350 here, and that is going to improve the situation materially.

Mr. WALTON: Plus another 350 in addition to that, which is the carry-over from last year's equipment. They will start to build them in June this year.

Mr. EMMERSON: Are any of those cars being built in the railway shops?

Mr. WALTON: Those 300 which are contemplated will all be built in the railway shops. The 350 we will start in June are also being built in the Transcona shop, our own shop.

Mr. EMMERSON: Are any box cars or flats being built in the Atlantic region?

Mr. WALTON: No. The only new cars, other than the odd piece of work equipment or something of that kind, that we are building or have built in recent years are these refrigerator cars, and the Transcona shop is set up particularly well for that job. They take on the new work and the repair work is distributed elsewhere on the system to make up, so far as we possibly can, for the man-hours that are represented in the new refrigerators.

Mr. EMMERSON: The statement as to increased car work made by one of your officials in Moncton as reported in the papers would refer to additional car repairs?

Mr. WALTON: Yes, not to new building.

The CHAIRMAN: Are there any more questions, gentlemen?

Mr. EMMERSON: There is one question. On page 3 it does not seem very clear. I refer to additions and betterments. What struck me was that item for ballast. I notice the Atlantic region has an item in there for ballast greater than any of the other regions. Is that some policy of improving the quality of the ballast or reballasting?

Mr. WALTON: The quality of the ballast has been improved in recent years since we began to get rock ballast from a pit at Trois Pistoles, but this represents some improvement in quality and some in quantity.

Mr. EMMERSON: It must be mostly quantity?

Mr. WALTON: Very largely quantity.

Mr. NICHOLSON: According to the information I am given the amount for stations and station facilities approved last year was $3,218,000, whereas the actual expenditure was $1,287,000. That means less than half of the amount approved was actually spent. Would it follow that the projects which were approved a year ago will be undertaken this year in all probability?

Mr. VAUGHAN: That work will be carried over into this year, most of it.

The CHAIRMAN: Anything else?

Mr. JACKMAN: There is an item of $2,735,000 for equipment retirement. That is the excess above depreciation on equipment, is it?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: There is a large item here for shops, engine houses and machinery, $2,186,000. What are the major projects included in that item?

Mr. VAUGHAN: That will be spread across the country and used in various shops.

Mr. COOPER: We have the details by regions.

Mr. NICHOLSON: It is quite high in the central region as compared with the Atlantic and western regions.

Mr. COOPER: Which item?

Mr. NICHOLSON: Shops, engine houses and machinery. How is it that item is so much higher for the central region?

Mr. COOPER: I can give you the details of the central region. The estimate is $2,286,000. Suppose I give you the larger items.

Mr. NICHOLSON: That will be quite satisfactory.

Mr. COOPER: At Point St. Charles there is under construction new car repair facilities, wheel shop, extension of storage buildings, including the purchase of the munition buildings from War Assets Corporation. The total capital cost of that project was $1,023,000. We spent $817,000 in 1947. We are revoting $206,000 in 1948, and asking for new funds of $573,000. In all in 1948 we expect to spend $780,000 on the new car shop at Point St. Charles. At Stratford we are constructing an extension to the motive power erecting shop. The amount we expect to spend in 1948 is $346,000. When I say expect to spend, that is the amount for which we ask authority. Whether we have the men and materials to do the work is somewhat of a question. Those two items together amount to $1,126,000. The remainder of the vote is made up of three pages of small items spread across the system.

Mr. NICHOLSON: I notice the total expenditures for the central region are about twice as high for the western region and yet in this one item for shops and engine houses it is about four times as high, but there are those two major items.

Mr. COOPER: The two items I mentioned, Point St. Charles and Stratford, happen to be in the central region.

The CHAIRMAN: Anything else, gentlemen?

Mr. JACKMAN: May I ask how is your progress in getting the AB type brake instead of the K type?

Mr. VAUGHAN: We are progressing on that. We are putting them on as fast as we can obtain them from the air brake company.

Mr. JACKMAN: About what proportion of the equipment of the railway has it now?

Mr. VAUGHAN: I do not think we have got that. We can give it to you.

Mr. WALTON: We are planning to apply AB brakes to 4,300 freight cars this year. That must get us up pretty close to 50 per cent equipped. I am taking that figure from memory, but we are doing as many each year as we can get the AB equipment from the manufacturer. They are prorating them out to everybody, turning out as many as they can manufacture.

Mr. JACKMAN: I understand the United States is approaching about 73 per cent now?

Mr. WALTON: They have probably got pretty well up towards that figure, but as I say, we are limited by what we can get.

Mr. VAUGHAN: We have been taking all they would give us for the last few years.

Mr. JACKMAN: Are they made by the Westinghouse people in Hamilton?

Mr. VAUGHAN: In Hamilton.

Mr. McLURE: If you could persuade the government to refund that tax of about $7,000,000 on sleeping cars and the $9,000,000 in 8 per cent sales tax and the $1,000,000 on telegrams you would not have very much of a deficit. There is $17,000,000 you have paid out.

Mr. VAUGHAN: We would like very much to get it, but I am afraid if they relieve the passenger of paying it they would not give it to us.

Mr. McLURE: The government would not miss it this year based on their $800,000,000 surplus.

The CHAIRMAN: Will someone move the adoption of the budget?

Mr. LAFONTAINE: I so move.

Mr. McCULLOCH: I second that.

The CHAIRMAN: It is moved by Mr. Lafontaine and seconded by Mr. McCulloch. I think the Canada West Indies report is next. It is a small report.

Mr. NICHOLSON: Before we finish with the railways I have been given a statement in connection with the rate on eggs. I think we will have to have some additional information on it at some stage. Mr. MacMillan has given me this memorandum which makes it clear that the rate from points within twenty-five miles of Ottawa still remains at 42 cents for a shipment of 30 dozen in a crate whereas from Edenwold to Regina it does not seem to be very clear to me. The information I have reads:

> Prior to April 8, 1948, a single crate of eggs was carried on a specific minimum of 35 cents provided in tariff issued to meet motor truck competition. Order No. 70425 provided for increase in all minima in motor truck competitive tariff to a single minimum of 75 cents. However, the result of this adjustment is that a single crate of eggs will now move under the normal class rate tariff which provided a specific charge of 55 cents for a 30-dozen crate of eggs.

It does not make it very clear. It is either 55 cents or 75 cents into Regina as compared with 42 cents into Ottawa. Mr. MacMillan spoke to me before we commenced our afternoon meeting. Maybe he can give me some additional information as to why there is this discrimination?

Mr. MACMILLAN: You are satisfied with the freight?

Mr. NICHOLSON: Yes, that seems to be quite clear.

Mr. MACMILLAN: The position with regard to the express is that in the vicinity of Ottawa on this particular commodity there has never been a motor truck competitive tariff, and the traffic moved on the normal class rate. The normal class rate when applied to a 30-dozen crate of eggs gives a rate of 42 cents from Limoges to Ottawa, which is about twenty-five miles. That was the distance you asked us to take.

In the application that resulted in the increase recently there was nothing dealing with express rates other than those express tariffs which had been issued to meet motor truck competition. This was a supplementary application actually to deal with motor truck competition express rates. It was necessary to adjust them to keep express rates related to freight rates. Otherwise you would have had the unusual position of express being carried at a lower rate than freight. Consequently this supplementary application was made and the board in its order authorized an increase in all minima to 75 cents. That was confined to motor truck competitive tariffs. As there was no existing motor truck tariff at Ottawa the order does not affect the rate here at all, and it remains at 42 cents. In the vicinity of Regina prior to April 8, there were in effect a number of tariffs, express tariffs. Originally the rate that was used to move traffic there was a class rate but because of intense motor competition in the vicinity of Regina a special tariff was published to secure traffic to the railways particularly eggs, bread, cake and ice cream. These commodities were assigned a specific minimum; in the case of eggs it was 35 cents; in the case of cake and bread, they were also 35 cents; but ice cream was 40 cents. This was one of the classes of tariffs, express tariffs which were affected by the board order No. 70425, and under the authority of that order, these specific minima were increased to a minimum of 75 cents, and that competitive tariff is still in effect, but the single crate traffic does not move under that tariff because there is another tariff, the original class rate tariff, which gives the shipper the advantage of the 55 cent minimum. Consequently we provide the lower charge to the shipper, and now the 30-dozen crates of eggs from points in the vicinity of Regina will move into Regina on the class rate tariff, with a specific minimum of 55 cents, and the empty crate is carried back again for ·06 cents.

Mr. HATFIELD: What authority did you have for collecting the 10 per cent increase in the American freight rates in Canada? When the first increase was made they had not authority either in Canada or in the United States for making that charge. Now, what authority did you have in Canada for collecting that 10 per cent increase on cars going to the United States? When you carried a car from Nova Scotia or Prince Edward Island clear to Windsor through to Detroit Michigan, you charged the 10 per cent increase on the whole haul. Now, what authority did you have for doing that ?

Mr. MACMILLAN: Any increase, Mr. Hatfield, was—and I am not familiar with that situation,—but it would be by order of the Canadian Board of Transport Commissioners.

Mr. HATFIELD: But you had no order from the Canadian Board of Transport Commissioners; neither did the United States railways have any authority until November. They increased it 20 per cent; and then you had an order from the Canadian Board of Transport Commissioners making the tariff applicable in Canada on goods going into the United States, but you had no authority from anyone to collect that 10 per cent which you collected for two or three months.

Mr. MACMILLAN: I cannot imagine that we would increase any rate 10 per cent without it being pursuant to a board order.

Mr. HATFIELD: There never was any order that I knew of.

Mr. VAUGHAN: I am satisfied that we never increased any of these rates without a specific order from the Board of Transport Commissioners.

Mr. HATFIELD: But the American Congress did not give them any authority until November to increase that 10 per cent rate.

Mr. VAUGHAN: As a matter of satisfaction we will get those orders and furnish them.

Mr. MACMILLAN: When was that, Mr. Hatfield?

Mr. HATFIELD: All you had to do was to carry the cars from Windsor over to Detroit.

Mr. MACMILLAN: Do you know the date?

Mr. HATFIELD: It was during August or September and perhaps October, and the only time you had authority was in November, some time, you had authority.

Mr. MACMILLAN: Of what year?

Mr. HATFIELD: This year.

The CHAIRMAN: Would it be all right if they furnish that information?

Mr. NICHOLSON: The farmer living within 25 miles of Ottawa, in his case, there is no change on the express rate on his eggs, coming into Ottawa while with respect to the farmer living near Regina, he pays an increased rate of 58 per cent.

Mr. MACMILLAN: Since your question I have ascertained that there have been a number of representations about this very subject and it is under very active consideration at the moment.

The CHAIRMAN: Can we adjourn now? I did promise the boys that we would leave at 5.30, but we will come back at 11 tomorrow and 4 o'clock in the afternoon in order to try and clean up the rest of the bill.

SESSION 1948

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

WEDNESDAY, APRIL 21, 1948

CANADIAN NATIONAL (West Indies) STEAMSHIPS LIMITED, Annual Report (1947)

ITEMS 502, 503 and 557 of the Main Estimates—1949

CANADIAN NATIONAL RAILWAYS SECURITIES TRUST, Annual Report (1947)

AUDITORS' REPORT (1947) to PARLIAMENT—CANADIAN NATIONAL RAILWAYS, CANADIAN NATIONAL (West Indies STEAMSHIPS, LIMITED

WITNESSES:

Mr. R. C. Vaughan, C.M.G., President, Canadian National Railways;
Mr. N. B. Walton, C.B.E., Executive Vice-President, Canadian National Railways;
Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways;
Mr. N. J. MacMillan, General Counsel, Canadian National Railways;
Mr. O. A. Matthews of George A. Touche & Co., Auditors.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948

MINUTES OF PROCEEDINGS

WEDNESDAY, April 21, 1948.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at eleven o'clock. Mr. S. M. Clark, Chairman, presided.

Members present: Messers, Bourget, Chevrier, Clark, Emmerson, Hatfield, Hazen, Jackman, LaCroix, Lafontaine, Lockhart, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Pouliot, Reid, Warren.

In attendance:

From *C.N.R.:* Messers. Vaughan, Cooper, Walton, MacMillan, Thompson.

From Transport: Messrs. Lessard, Collins and Thornton.

Before proceeding, Messrs. MacMillan and Cooper tabled answers to questions of Messrs. Hatfield, Hazen, Hlynka, Jackman, Nicholson and Reid. It was agreed to incorporate these in the evidence.

Mr. Cooper supplied answers to additional questions of Messrs. Nicholson, Hatfield and Jackman.

The Committee began and concluded its examination of the Canadian National (West Indies) Steamships Limited Annual Report (1947).

Mr. R. C. Vaughan was recalled.

On motion of Mr. McCulloch, the Annual Report of the Canadian National (West Indies) Steamships Limited was adopted.

The Committee then began and concluded its study of Votes 502, 503 and 557 of the Estimates (1949) as referred.

On motion of Mr. Lafontaine, Votes 502, 503 and 557 of the Estimates (1949) were approved and referred back to the House.

The Committee considered the Annual Report of The Canadian National Railways Securities Trust for the year ended December 31, 1947.

On motion of Mr. Lafontaine, this report was adopted.

Messrs. Vaughan, Cooper, Walton and MacMillan were retired.

The Committee began its study of the Canadian National Railways System, Canadian National (West Indies) Steamships, Limited—Auditor's Report for the year ended December 31, 1947.

Mr. O. A. Matthews was called and proceeded to read the Auditor's Report.

At one o'clock the Committee adjourned until 4 o'clock this day.

AFTERNOON SESSION

The Committee resumed at four o'clock. Mr. S. M. Clark, Chairman, presided.

Members present: Messrs. Clark, Emmerson, Fulton, Hatfield, Hazen, Jackman, LaCroix, Lafontaine, Lockhart, Maybank, McCulloch (*Pictou*). McLure, Moore, Nicholson, Warren.

In Attendance: Same as listed above at the morning session.

Mr. McLure praised Mr. W. S. Thompson, Director, Public Relations, Publicity and Advertising for the manner in which the C.N.R. and T.C.A. Reports were printed.

Mr. Cooper tabled further information in reply to Messrs. Nicholson, Jackman and Hatfield.

The Committee resumed and concluded its examination of the Auditors' Report to Parliament, C.N.R. and C.N. (West Indies) Steamships Limited.

Mr. O. A. Matthews was recalled and questioned.

On motion of Mr. Lafontaine, the Auditors' Report to Parliament—C.N.R., C.N. (West Indies) Steamships Limited, was approved.

In the course of Mr. Matthew's examination, Messrs Vaughan and Cooper supplied answers directly related to the Railways.

Mr. Cooper made a lengthy statement on uniform railway accounting methods referring to depreciation particularly.

Replying to Mr. Fulton, Mr. Walton made a brief statement relating to safety devices.

Mr. Jackman asked for the tabling of the Consolidated Income Account for 1947-48 and fiscal year 1946-47, (not final), of the Hudson Bay Railway

This report was tabled forthwith and it was ordered printed as an appendix. *(See Appendix A to this day's evidence)*.

Answers to questions of Messrs. Nicholson, Jackman and Hatfield were ordered printed as appendices. (*See Appendices B. C. D.*)

The Chairman expressed his appreciation to the President of the Canadian National Railways, Mr. Vaughan, and his officials and to the Members of the Committee.

At 6.10, the Committee adjourned until Thursday, April 22, at eleven, to examine the Annual Report of the Trans-Canada Air Lines and the Auditor's Report relating thereto.

ANTONIO PLOUFFE
Clerk of the Committee.

ANSWERS TO QUESTIONS BY Mr. HAZEN

Question: Do you know if the I.F.C. Lines—International Freight Corporation—used Saint John and Halifax as base ports for its South American services prior to the war?

Answer: They did not.

Question: Is it using those ports now?

Answer: No.

Question: Do you know what ports it is using during the winter season?

Answer: Portland, Boston and New York.

Question: Do you know whether it uses the port of Montreal during the summer season?

Answer: No, but it had occasional sailing from Three Rivers in the summer. Its home ports are Boston and New York.

Question: Do you know that the Shepard Line, another American line, entered into competition last autumn or last winter for southbound Canadian newsprint?

Answer: Yes, I am so informed.

Question: Do you know whether or not the Shepard Line uses—?

Answer: The Shepard Line has not used the ports of Halifax, Saint John or Montreal. Their home port is New York.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 21, 1948.

The Sessional Committee on Railways and Shipping met this day at 11.00 a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Well, gentlemen, I believe we have a quorum. I believe Mr. MacMillan and Mr. Cooper have some statements to file this morning. Then, perhaps, we could start work on the Canadian National (West Indies) Steamships, Limited.

Mr. MACMILLAN: Mr. Fraser was asked for some information by Mr. Hazen which is contained in this sattement. Mr. Hatfield requested information regarding the international freight rates imposed during the fall of 1947 and requested information as to the authority therefor. The answers to these questions might appear in the minutes.

(Agreed.)

Mr. H. H. Hatfield referred to an increase in international freight rates imposed during the fall of 1947 and requested information as to the authority therefor.

Answer: Effective October 13, 1947, an increase of 10 per cent in these rates was authorized by orders of the Interstate Commerce Commission in application *Ex Parte* 166 and Order No. 69570 of the Board of Transport Commissioners. This was the only increase imposed during the fall of 1947.

Mr. COOPER: Mr. Hazen asked a question concerning the earnings on the tonnage to Portland during the winter season of 1947-1948. Mr. Hazen asked a question concerning the operating expenses for the year 1947 on the line to Portland, showing how much was paid in United States funds. Mr. Nicholson asked about the amount of educational tax collected by the Canadian National Railways in Saskatchewan and the commission thereon.

Mr. NICHOLSON: Mr. Hlynka asked that question.

Mr. COOPER: I believe we said we did not collect any commission, but I find there was a 4 per cent commission.

Mr. Jackman asked for certain percentages which our interest charges bear to the total revenues, and to net railway operating income. He also requested the amount of interest available for the payment of interest, the amount of interest charges in 1922; the amount which was written off under the Capital Revision Act, and how much had been added in the interval.

Mr. Hazen requested the amount of coal purchases divided between Canada and the United States in 1947 and the percentage of coal used on the Canadian lines; that is, the percentage of U.S. coal used on Canadian lines as well as the percentage of Canadian coal used on Canadian lines. He requested similar information with respect to oil.

The answers to those questions might be printed in the minutes.

(Agreed.)

Answers to question by Mr. D. K. Hazen.

Earnings on export tonnage through port of Portland, Maine.

Gross earnings of C.N.R. on export tonnage through the port of Portland, Maine, for the winter season 1947-1948 were $157,965.

Answers to question by Mr. D. K. Hazen.

1. Operating expenses for the year 1947 on C.N.R. line to Portland, Maine, showing amount paid in United States funds.

	Operating expenses excluding depreciation accruals
Canadian funds	$ 236,549
U.S. funds	2,339,322
Total	$2,575,871

2. Expenditures during 1947 for improvements to facilities at Portland, Maine.

Total expenditures amounted to $3,283 against which there were retirements of facilities having a value of $11,222.

Answer to question by Mr. A. Hlynka.

Amount of Saskatchewan Educational Tax collected by C.N.R. and commission thereon:

Tax Collected, $19,899; Commission, $796.

Answers to questions by Mr. H. R. Jackman.

	1939	1943	1947
Interest on Funded Debt	$49,814,378	$30,998,196	$23,821,909
Interest on Government Loans	916,165	18,664,848	20,002,435
Total Interest	$50,730,543	$49,663,044	$43,824,344
Percentage of interest charges to total operating revenues			
Interest on Funded Debt	24·4%	7·0%	5·4%
Interest on Government Loans	·4	4·3	4·6
Total interest	24·8	11·3	10·0
Percentage of interest charges to net railway operating income			
Interest on Funded Debt	400·5	38·0	100·5
Interest on Government Loans	7·4	22·8	84·4
Total interest	407·9	60·8	184·9
Percentage of interest charges to net income available for the payment of interest			
Interest on Funded Debt	398·8	36·3	85·3
Interest on Government Loans	7·3	21·9	71·2
Total interest	406·1	58·2	156·5

The amount of interest charges in 1922 for the various corporations which were consolidated in 1923 to form the C.N. Railway System was $35,123,236.

Under the Capital Revision Act, 1937, all government loans to December 31, 1922 for capital purposes were exchanged for shares of the C.N. Railways Securities Trust. Such loans amounted to $270,037,437. By this adjustment the interest charges of the National System were reduced by $10,801,500 ($270,037,437 at, say, 4% per annum).

Deducting this interest relief under the 1937 Act from the interest charge of $35,123,236 carried forward into the consolidated system accounts in 1923, means that the present system has been required to assume $24,321,736 of an annual interest charge in respect of the debts of the predecessor corporations. The present interest charges of the system (1947) are $43,824,344, the difference, $19,502,608, being the additional interest charge added during the twenty-five-year period 1923-1947. It should be noted although the interest charges in 1922 were $35,123,236, that in the five-year period 1918-1922 the system not only failed to earn any portion of such interest, but had a deficiency from operations (before interest) of $60,784,005 or an average of $12,157,000 per annum.

Therefore the situation is that in the twenty-five-year period since amalgamation the system has incurred interest charges of $19,502,608 per annum, but has inherited (after allowing for the relief afforded by the 1937 Capital Revision Act) $24,321,736 per annum of the interest charges of the bankrupt predecessor corporations, which of themselves were incapable of earning any portion of their interest.

NOTE.—To afford a measure of comparison there is also furnished figures showing the ratio of fixed charges to revenues for Canadian National Railways, Canadian Pacific Railway and the larger railways in the United States.

RATIO OF FIXED CHARGES TO REVENUES

		Miles of Road Operated	Operating Revenues	Total Fixed Charges	Ratio of Fixed Charges to Operating Revenues 1939	1946
Pennsylvania	1939	10,270	430,930,778	79,595,750	18.47	
	1946	10,113	822,007,585	71,200,374		8.66
New York Central......	1939	11,008	341,086,708	48,103,444	14.10	
	1946	10,745	616,784,755	40,958,739		6.64
Southern Pacific	1939	13,069	217,572,889	30,007,291	13.79	
	1946	12,558	484,836,393	23,112,413		4.77
Atchison, Topeka	1939	13,443	160,039,967	11,056,699	6.91	
and Santa Fe	1946	13,084	411,604,239	8,815,145		2.14
Union Pacific	1939	9,901	164,253,371	14,221,976	8.66	
	1946	9,775	361,395,534	11,749,783		3.25
Baltimore & Ohio	1939	6,307	161,030,252	20,421,656	12.68	
	1946	6,153	304,984,716	17,826,520		5.84
U.S. Class I Roads	1939	233,277	3,995,004,251	607,740,479	15.21	
	1946	227,620	7,627,313,391	469,368,148		6.15
Canadian Pacific	1939	17,176	152,148,993	25,506,522	16.76	
	1946	17,037	294,545,601	18,488,113		6.28
Canadian National	1939	23,668	203,820,187	53,488,165	26.24	
	1946	23,437	400,586,026	46,685,317		11.65

Answers to questions by Mr. Hazen:

Coal purchases divided between Canadian and United States origin—1947:

	Canadian Origin Tons	*U.S. Origin Tons*	*Total Tons*
COAL			
Used on Canadian Lines......	1,725,225	5,298,584	7,023,809
Used on U.S. Lines............	...	986,819	986,819
Total	1,725,225	6,285,403	8,010,628

Total coal used on Canadian Lines: U.S. Coal, 75·5; Canadian Coal, 24·5.

OIL

	Canadian Origin Bbls.	*U.S. Origin Bbls.*	*Total Bbls.*
Used on Canadian Lines......	675,000	538,300	1,213,300
Used on U.S. Lines............	...	167,700	167,700
Total	675,000	706,000	1,381,000

Total oil used on Canadian lines: U.S. Oil, 44·4 per cent; Canadian Oil, 55·6 per cent.

Answer to question by Mr. A. M. Nicholson:

Revenue per ton mile C.N.R. Lines West of Port Arthur and Armstrong and East thereof for the period 1939 to 1947:

	Revenue to Ton Mile Canadian Lines West	*East*
1939	$.00794	$.01017
1940	.00761	.00937
1941	.00759	.00902
1942	.00846	.00920
1943	.00864	.00911
1944	.00822	.00933
1945	.00820	.00972
1946	.00867	.01015
1947	.00895	.01081

Answer to Question by Mr. A. M. Nicholson:

Cost of providing meals, including provisions, wages, laundry and supervision: 1939, $1.23; 1947, $1.52.

Prices charged for meals on dining and cafe cars:

Breakfast		*Luncheon*		*Dinner*	
1939	1947	1939	1947	1939	1947
$ .50	$ .60	$ .75	$ .95	$1.00	$1.35
.75	.95	.85	1.15	1.25	1.60
1.00	1.25	1.00	1.40	1.50	2.00*

*Special Steak Dinner.

Mr. REID: May I be permitted to ask one question? I think this is the fourth year I have asked this question, but what was the amount of the tax collected in the province of Saskatchewan by the Canadian National Railways? This is the fourth year I have asked for information concerning the amount collected for the province of Saskatchewan. I want to know who gets that and what the amount is.

Mr. VAUGHAN: We have just filed a statement showing the amount of educational tax collected in the province of Saskatchewan, which amounted in 1947, to $19,899.

Mr. REID: Is that the tax on meals?

Mr. VAUGHAN: Yes, sir.

Mr. NICHOLSON: I think someone asked yesterday for the amount collected in Quebec.

Mr. COOPER: We were not sure whether it was a question or not.

Mr. NICHOLSON: I think we should have that, too, if it is not too much trouble, the amount collected in Quebec and the commission.

Mr. COOPER: I do not think there is any commission, but we will get the information.

The CHAIRMAN: Are there any more statements to file, Mr. Cooper?

Mr. COOPER: No, sir.

Mr. NICHOLSON: Before we commence consideration of the West Indies Steamships, I am still not satisfied with the treatment accorded western farmers in connection with the shipment of eggs. I am wondering whether there is any more information available in respect to that.

I have a copy of a telegram sent to the Minister of Transport on April 9, by the Honourable L. F. McIntosh, which reads as follows:—

> Reference Transport Commissioner order 70425 express rate thirty dozen crate eggs Stoughton and Duval to Regina formerly thirty-five cents now seventy cents stop Former rate Dafoe and Davidson to Regina thirty-five cents now seventy-five stop Bulk of eggs handled FOB plant stop Opinion expressed special concessions granted egg shippers has been replaced by regular rate plus twenty-one per cent appreciate your earnest consideration.

Members of the committee will probably recall that Mr. Coldwell raised this question on the orders of the day. The Minister of Transport replied on April 5th confirming this. The information I was given yesterday confirms my claim there is unfair discrimination. The information given yesterday showed the rate from Limoges to Ottawa, prior to April 8, 1948, was 42 cents. As the application for increased express rates was confined to those issued to meet motor competition, the recent order of the Board of Transport Commissioners did not affect this tariff and this express rate was not changed on April 8. From Edenwold to Regina, a similar distance to that from Limoges to Ottawa, prior to April 8, a single crate of eggs was carried on a specific minimum of 35 cents provided in the tariff issued to meet motor truck competition. Order No. 70425 provided for an increase in all minima in motor truck competitive tariff to a single minimum of 75 cents. However, the result of this adjustment is that a single crate of eggs will now move under the normal class rate tariff which provided a specific charge of 35 cents for a thirty dozen crate of eggs.

I should like to get some information as to why the application applied only to those points where there was struck competition. What is the reason for having a rate of 42 cents in Ontario as compared with 55 cents in Saskatchewan.

Mr. MacMillan: In answer to the first part of your question, Mr. Nicholson, the proceedings which were concluded by board order No. 70425, did not deal with express tariffs other than those tariffs which had been issued to meet motor truck competition. The only reason they were included was because they were related to l.c.l. freight rates and it was necessary to adjust them at the same time as the freight rates were adjusted. Otherwise, we would have had them out of line and express package shipments would have been carried on a lower rate than freight shipments.

Express, of course, is a more expensive service. The goods are carried faster and are handled much more quickly. Consequently, they should bear a heavier rate.

There was no intention, in the application which was made in the fall of 1946, to include express rates generally. Consequently, the only express rates which are affected by the order are the motor truck competitive rates. The rates on this type of shipment which prevail around Ottawa are the normal class rates. I imagine this is due to the fact that, at no time, was there motor truck competition carrying the goods at a lower rate and there was never any need, on the part of the railways, to issue a competitive tariff.

In the vicinity of Regina, there was motor truck competition and, in order to secure this class of business for the railways, some years ago, the railways issued a motor truck competitive tariff which gives to the shippers in that community the advantage of a very much lower rate. In this rate, a specific minimum was provided for a thirty dozen crate of eggs.

You will remember I enumerated four commodities, eggs, cakes, bread and ice cream which, when shipped in individual units, were carried at a nominal rate. Since this rate was a motor truck competitive rate, it was affected by the recent board order. These specific charges, being below the minimum specified in the order, were cancelled and, in lieu of them, a single minimum of 75 cents was provided.

Now, it happened—and this in addition to the motor truck competitive tariff—that in the basic express rate which was not affected by these proceedings, there is a specific minimum for a thirty dozen crate of eggs. This rate was 55 cents. This rate was not changed, nor did the railway possess authority to change it. Consequently, we still have two rates applicable to individual crates of eggs but now the lower rate appears in the normal tariff and the traffic moves under the normal tariff.

Prior to April 8, there were two rates in effect, being 55 cents and 35 cents. The railways gave the benefit of the lower rate to the shipper and they are doing that today. It is 75 cents and 55 cents, and the commodity moves under the lessers rate.

This is one of those things which will, in all probability, be adjusted. It is a situation which has appeared and will be studied.

Mr. Nicholson: Why the difference between 42 cents and 55 cents. Assuming the logic of the remainder of the argument, why do you figure it costs 42 cents in the Ottawa area as compared with 55 cents in Saskatchewan where we have long stretches of level country; railway employees get the same wages; operations are more economical? Why the 42 cents versus the 55 cents?

Mr. MacMillan: To answer that, Mr. Nicholson, it would be necessary to examine the basis upon which these rates were originally set. They are very old rates. The actual explanation is something I cannot give you at the moment.

Mr. Nicholson: Does this not confirm our fears that this increase is permissive and you are going to make it 21 per cent in some parts of Canada—

Mr. MacMillan: No, that is the impression I wish to put at rest. There is no power to increase the 42 cent rate. The railways have no authority to do so.

The Chairman: Might I interject at this point? I may be wrong, but I believe Mr. Nicholson is under the impression the 42 cent rate applies all over Ontario, and that is not correct?

Mr. MacMillan: No.

The Chairman: It happens that at Ottawa a truck competitive rate prevails, but in other parts of Ontario it does not prevail.

Mr. Nicholson: Is that correct? In what part of the central region does the 55 cent rate apply on eggs?

Mr. MacMillan: It is a mileage rate.

Mr. Nicholson: If I had selected Toronto or Windsor, would this rate not have applied?

Mr. MacMillan: No.

Mr. Nicholson: You would have had a rate of 55 cents in those areas?

Mr. MacMillan: You would have had a mileage rate. I would expect it to be on a parity with the rate out of Regina.

Mr. Hatfield: I would like to ask the witness a question with respect to the matter of an increase in rates on potatoes from New Brunswick, or any maritime province being shipped to Detroit, Michigan. The rate to Windsor is 46 cents a hundred, or it was 46 cents a hundred before the 21 cent increase. The rate to Windsor, Ontario, is 77 cents a hundred which means $190 for a car of potatoes from Charlottetown, Prince Edward Island, to Windsor, Ontario, a distance of 1,800 miles. On the other hand it costs $120 more to get that car of potatoes taken 2 or 3 miles across the river to Detroit.

Mr. Vaughan: With resepct to those rates, Mr. Hatfield, we have not the information here but we can obtain information for you with respect to them. There is no doubt a good reason for the rate existing.

Mr. Hatfield: We used to ship potatoes to Windsor at the 46 cent rate and then just chuck them across to Detroit, Michigan, but then you put in an order that with respect to potatoes destined to the United States the American 77 cent rate would apply instead of the 46 cent rate.

Mr. Vaughan: We will file an answer to that question.

Mr. Hatfield: I have never quite understood that rate which is in effect to Cleveland, Ohio, and some other points in the United States.

The Chairman: You will file that information Mr. Vaughan?

Mr. Vaughan: Yes.

The Chairman: I will ask Mr. Vaughan to now read the report of the Canadian National (West Indies) Steamships, Limited.

Mr. Jackman: Before Mr. Vaughan reads that report I would like to say that I received the return on fatal accidents and injuries in the system for 1946 and 1947. Apart from the misfortunes last year I think the Canadian National Railways is to be complimented on its record in Canada, but I would just like to ask for a comparison over the years as between the C.N.R. record and the records of the class 1 railroads in the United States.

Mr. Vaughan: Our record compares very favourably. We have not got the figures here but we check them from time to time and they are favourable.

MONTREAL, March 10, 1948.

THE HONOURABLE LIONEL CHEVRIER, K.C., M.P.,
MINISTER OF TRANSPORT,
OTTAWA.

Sir,—The following report is submitted of the operations of the Canadian National (West Indies) Steamships, Limited, for the calendar year 1947.

The operating results for the year compare with the previous year as follows:—

	1947	1946	Increase or *Decrease*	
Operating Revenues	$7,857,470.82	$6,669,128.45	$1,188,342.37	17·82%
Operating Expenses	7,028,193.20	4,959,240.08	2,068,953.12	41·72%
Operating Profit	$ 829,277.62	$1,709,888.37	*$ 880,610.75*	

Operating revenues were higher than in any previous year. The number of completed voyages was 64 as compared with 49 in 1946. Export tonnage increased 50,886 tons and import tonnage increased 49,766 tons. Freight revenue increased $1,665,011. Passenger revenue increased from $96,727 in 1946 to $439,799 in 1947. The increase in passenger revenue followed the resumption of regular sailings by the *Lady Nelson* and *Lady Rodney* in July and August, 1947. The demand for accommodation is greatly in excess of the capacity of these two ships. Freight and passenger revenue combined showed an increase of $2,008,083 over the previous year. On the other hand revenues from charter-hire, subsidies, agency fees, etc., fell off by $819,741. The decrease in charter-hire rises from the fact that, while in 1946 four ships were under charter, in 1947 all ships were operated by the Company.

Operating expenses were substantially increased because of—(*a*) the additional number of voyages; (*b*) increased rates of pay and the increased price of fuel, ship stores, etc., and (*c*) increased insurance and depreciation charges. Furthermore, the composition of the fleet in 1947 was substantially different from what it was in 1946. A further $700,000 was charged to operating expenses, representing the balance of the cost of reconversion and overhaul (on owner's account) of the two "Lady" ships after their return from war service.

Operating profit for the year was $829,277, a decrease of $880,610 from the previous year. After adding interest earnings and providing for fixed charges the income surplus for the year was $522,677.

The *Chomedy* and *Colborne* were sold during the year, completing the disposal of the old "C" type ships. The two vessels were sold for $92,535 in excess of their depreciated ledger value, which amount was credited directly to profit and loss accounts.

During the last ten years the operating results, after providing for depreciation on vessels, were as follows:

Year	Operating Revenues	Operating Expenses	Operating Profit
1938	$ 4,915,355 40	$ 4,497,756 42	$ 417,598 98
1939	4,642,306 28	4,347,275 58	295,030 70
1940	5,750,341 42	4,874,386 38	875,955 04
1941	6,756,463 57	5,291,751 92	1,464,711 65
1942	5,600,496 25	4,380,852 94	1,219,643 31
1943	4,492,188 94	3,188,578 72	1,303,610 22
1944	5,378,058 55	3,403,725 74	1,974,332 81
1945	4,412,251 34	2,849,091 51	1,563,159 83
1946	6,669,128 45	4,959,240 08	1,709,888 37
1947	7,857,470 82	7,028,193 20	829,277 62
	$56,474,061 02	$44,820,852 49	$11,653,208 53

During this ten-year period, in addition to paying the interest on its bonds, the Company paid to the Dominion Government $7,683,637, of which $3,126,192 was principal and $4,557,445 was interest. In addition it financed the replacement of its fleet and still has a balance of $2,871,762 in the Vessel Replacement Fund. There is also $1,560,107 in the Self Insurance Fund. In reviewing these results it should be kept in mind that prior to 1925 the Dominion Government paid an annual subsidy of $340,666 to private operators for a service to the eastern group of islands. No such subsidies have been paid since this Company took over the service.

Before the war the fleet comprised the following vessels:—

		Gross Tonnage	Deadweight Tonnage
Lady Drake	Lost by enemy action	7,985	6,370
Lady Hawkins	Lost by enemy action	7,989	6,370
Lady Somers	Lost by enemy action	8,194	4,665
Lady Nelson	Refitted and service resumed	7,970	6,370
Lady Rodney	Refitted and service resumed	8,194	4,665
Cathcart	Sold	3,708	2,950
Cavelier	Sold	3,663	2,950
Chomedy	Sold	6,136	8,600
Colborne	Sold	6,230	8,650
Cornwallis	Lost by enemy action	5,458	8,390
Connector	Sold	1,789	2,781
		67,316	62,761

As presently constituted, the fleet comprises:—

		Gross Tonnage	Dead-weight Tonnage
Lady Nelson	Freight and Passenger	7,970	6,370
Lady Rodney	Freight and Passenger	8,194	4,665
Canadian Challenger	Diesel powered and refrigerated	6,745	7,460
Canadian Constructor	Diesel powered and refrigerated	6,745	7,460
Canadian Cruiser	Diesel powered and refrigerated	6,745	7,460
Canadian Conqueror	Non refrigerated	2,930	4,532
Canadian Highlander	Non-refrigerated	2,966	4,532
Canadian Leader	Non-refrigerated	2,930	4,532
Canadian Observer	Non-refrigerated	2,967	4,532
Canadian Victor	Non-refrigerated	2,963	4,532
		51,155	56,075

The Company now faces keen competition in the trade it has done so much to build up. There is some apprehension as to the effect of the import restrictions which the Colonies have seen fit to impose as a result of their shortage of dollars, and the costs of operation have sharply increased. Nevertheless, the outlook for 1948 is reasonably good; and it must be remembered that over and above the financial returns is the tremendous goodwill for Canada which has been engendered and is being continually expanded by this national flag line.

The Directors again record their thanks to the officers and employees for the loyal and efficient services rendered the Company.

For the Board of Directors,

R. C. VAUGHAN,
President.

CONSOLIDATED BALANCE SHEET

AT 31st DECEMBER, 1947

ASSETS

INVESTMENTS:			
Vessels		$9,844,445 48	
Less Accrued Depreciation		*3,113,759 84*	
		$6,730,685 64	
Vessel Replacement Fund		2,871,762 26	
			$ 9,602,447 90
CURRENT ASSETS:			
Cash in Banks	$1,942,818 62		
Special Deposits	5,750 00		
		$1,948,568 62	
Accounts Receivable		68,612 56	
Freight, Passenger and Agency Balances		256,356 13	
Inventories		25,382 17	
Advances to Captains, Crews, etc.		28,927 54	
Due from Insurance Fund		11,382 20	
			2,339,229 22
INSURANCE FUND			1,560,107 75
DISCOUNT ON CAPITAL STOCK			40,000 00
			$ 13,541,784 87

LIABILITIES

CAPITAL STOCK:		
Authorized and issued 400 Shares of $100 each		$ 40,000 00
FUNDED DEBT:		
25 Year 5% Dominion of Canada Guaranteed Gold Bonds due 1955		9,400,000 00
DOMINION OF CANADA ADVANCES		3,954,796 59
CURRENT LIABILITIES:		
Accounts Payable	$ 546,357 92	
Interest Matured Unpaid	5,750 00	
Unmatured Interest Accrued	156,666 67	
Passage Money paid in Advance	185,237 27	
Accrued Reconversion and Overhaul Expense	588,596 56	
		1,482,608 42
UNADJUSTED CREDITS		150,641 32
INSURANCE RESERVE		1,560,107 75
PROFIT AND LOSS—*Deficit*		*3,046,369 21*
		$ 13,541,784 87

NOTE:—A reserve has been provided for pension contracts in force under the 1935 contractual plan, but not for pensions conditionally accruing.

T. H. COOPER,
Vice-President and Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1947. We certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Steamships at the 31st December, 1947, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1947, are correctly stated. We have included in our Report to Parliament comments of an explanatory nature regarding the financial accounts.

10th March, 1948.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

CONSOLIDATED INCOME ACCOUNT

	1947	1946
Operating Revenues:		
Freight	$7,365,132 12	$5,700,121 21
Passenger	439,798 74	96,726 72
Agency Fees, etc.	47,307 65	97,436 71
Subsidies	33,567 00	119,587 00
Charter	*28,334 69*	655,256 81
Total	$7,857,470 82	$6,669,128 45
Operating Expenses:		
Voyage Accounts	$6,255,313 10	$4,427,367 90
Depreciation on Vessels	493,593 60	288,092 02
Management and Office Expenses	213,536 62	209,980 03
Pensions	38,449 38	29,021 99
Other Expenses	27,300 50	4,778 14
Total	$7,028,193 20	$4,959,240 08
Operating Profit	$ 829,277 62	$1,709,888 37
Vessel Replacement Fund Earnings	*$ 266,697 59*	*$ 196,887 28*
Interest on Bonds held by Public	470,000 00	470,000 00
Exchange on U.S. Funds	....	8,225 00
Interest on Government Advances	103,298 14	126,499 02
Surplus	$ 522,677 07	$1,302,051 63

CONSOLIDATED PROFIT AND LOSS ACCOUNT

AT 31ST. DECEMBER, 1947.

Balance at 31st. December, 1946—*Deficit*	*$3,661,581 59*
Surplus as per Income Account, Year 1947	522,677 07
Profit on Sale of Vessels	92,535 31
Balance at 31st. December, 1947—*Deficit*	*$3,046,369 21*

The CHAIRMAN: Are there any questions, gentlemen?

Mr. REID: With reference to page 7, does the accountant charge for the reconversion?

Mr. VAUGHAN: The two boats, the *Lady Nelson* and the *Lady Rodney*, were chartered to the government during the war. The government gave us a lump sum for the reconversion of those two boats but that sum was not sufficient to cover the work. In addition, there were substantial amounts to be paid on the owners' account. We received $1,300,000 from the government for those reconversions, in accordance with the charter agreement, but it cost us $1,400,000 more than we received from the government to complete the reconversion. That amount has been included in the operating expenses, part of it in 1946, and $700,000 in 1947.

Mr. JACKMAN: Do I understand that you loaned two boats to the government during the war?

Mr. VAUGHAN: We chartered a number of boats to the government during the war.

Mr. JACKMAN: And the undertaking was to give them back to you in the same condition in which they were taken from you?

Mr. VAUGHAN: Yes, sir.

Mr. JACKMAN: And they gave you how much money?

Mr. VAUGHAN: They gave us $1,300,000 for these two boats.

Mr. JACKMAN: Plus a fee

Mr. VAUGHAN: We received the charter hire all during the war.

Mr. JACKMAN: Yes, that was separate and on its own feet.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: And they gave you $1,300,000 for reconditioning?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Did it cost that much?

Mr. VAUGHAN: It cost us over $2,500,000.

Mr. JACKMAN: When are they going to pay you the balance?

Mr. VAUGHAN: They consider the balance is not due because their argument is the additional amount which the reconversion of these vessels cost is a charge which the owner should pay. The government contends that it is maintenance work which would have been required under any circumstances. We were not entirely satisfied with the amount we received. Unfortunately, I think some of our people made an estimate when those negotiations were being carried on with the government, and the estimate was low.

Mr. JACKMAN: The argument is that the boats would have suffered a certain amount of normal wear and tear and the government claims that the $1,300,000 which it gave you to put them in ship-shape condition was merely a measure of that wear and tear? Is that their argument?

Mr. VAUGHAN: That was their argument.

Mr. JACKMAN: Did you write-off a certain amount during each of the charter years?

Mr. VAUGHAN: We wrote-off nothing other than the ordinary depreciation.

Mr. COOPER: Five per cent depreciation.

Mr. JACKMAN: If you take that amount into consideration as a usable fund to put these ships back into condition, does that make up the extra cost?

Mr. VAUGHAN: It would not make up the entire amount.

Mr. COOPER: It is a factor which is to be allowed for in determining the amount due to the owners.

Mr. HATFIELD: I would like to ask this question. How much more tonnage had you in operation in 1947 as against 1946?

Mr. VAUGHAN: I think we had one less boat. We had eleven boats in operation in 1946 and we had ten boats in operation in 1947.

Mr. HATFIELD: You had more in operation in 1947 than in 1946?

Mr. VAUGHAN: I am wrong there. The list in the report contains the fleet which we had prior to the war, and the fleet we had last year. We had more boats under charter last year.

Mr. HATFIELD: You bought some ships during the year?

Mr. VAUGHAN: We lost quite a few ships during the war.

Mr. HATFIELD: Yes, I know but last year did you not buy some ships?

Mr. VAUGHAN: Yes, in the last two years, outside of the two Lady boats, we disposed of our old fleet and purchased new boats with our own money. We bought those boats from the government on exactly the same basis as they sold boats to others. We did not get any preference in prices.

Mr. HATFIELD: I made a protest last year with regard to your not taking freight on in Saint John but taking it on in Halifax, consequently requiring the shippers to pay 8 cents a hundred more freight to ship goods to Halifax when, in fact, the same boat was sailing from Saint John? You have never done anything about that protest and you still refuse to take on potatoes or perishable goods at Saint John. The ship comes to Halifax, stays two or three weeks. You take on freight at Saint John but not at Halifax. What is the reason?

Mr. VAUGHAN: Well Halifax is the home port of those vessels—they usually bring sugar, molasses, or some other commodity which is discharged at Saint John or through the port of Halifax, but the main cargo for the boats is taken on at Halifax. That is found to be the most satisfactory way of operating the vessels.

Mr. HATFIELD: What do you mean by saying Halifax is the home port? Why is not Saint John the home port?

Mr. VAUGHAN: Halifax is the more suitable home port and has always been the home port for those vessels trading with the West Indies.

Mr. HATFIELD: Yes, but why the discrimination against New Brunswick in favour of Halifax? We have to pay 8 per cent more freight to get our goods to Halifax. We have to ship them a week sooner than we would when shipping to Saint John.

Mr. VAUGHAN: There does not seem to be any way of overcoming that.

Mr. HATFIELD: I do not see why you cannot overcome it, when the vessel sails from Saint John and it could take on cargo at Saint John. Certain cargo originates in New Brunswick but you will not take it on board at Saint John and you make us ship it to Halifax. I do not see any reason for that practice and it has never been explained to me.

Mr. VAUGHAN: Our base of course is Halifax, and that is the reason you have to ship potatoes and other commodities to Halifax and pay the additional freight rate.

Mr. HATFIELD: That is right.

Mr. VAUGHAN: I do not know just how these freight rates work out. Probably in the final analysis the main difference in the freight rate would not be very much. You say it is 8 cents.

Mr. HATFIELD: It is 13 cents a hundred, and 26 cents under the new schedule.

Mr. VAUGHAN: We will look into that. We looked into it once before for you.

Mr. HATFIELD: Last year, but you didn't do anything. I was just wondering why they didn't stop at Saint John, or when they stop at Saint John why they did not take our freight on there.

Mr. VAUGHAN: It would not be practical. We did look into that for you following our discussion last year. We went into it very fully.

Mr. HATFIELD: The only reason that has been given to me so far to account for it is that you open the holds of your boats and keep them up at Halifax for lumber and other cargo, and you put perishable goods in certain holds that would not be opened after Halifax.

Mr. VAUGHAN: We have to have one port for taking cargo on and Halifax is the most convenient port.

Mr. HATFIELD: But you could take on cargo at Saint John too; as a matter of fact, you do.

Mr. VAUGHAN: Yes, we could at Saint John on the northbound voyage but most of our cargo is generally taken on at Halifax.

Mr. HATFIELD: I know, but the ship sails from Saint John. Why does the New Brunswick shipper have to pay a double price to get his goods to Halifax when you load at Saint John?

Mr. VAUGHAN: There is a reason for it, as I explained; that is, the question of the operation of the ships. If you would like a detailed explanation in writing we would be glad to give it to you.

Mr. HATFIELD: I haven't had anything yet.

Mr. VAUGHAN: We will get you something.

Mr. HATFIELD: I cannot see what explanation you can make. If the ship sailed from Halifax I could see why we would have to ship our goods to Halifax, but when the ship sails from Saint John—there are certain ships that do not sail from Saint John—but when they use these ships that do call at Saint John we have to ship our goods to Halifax, I know that. But there are certain ships which sail from Saint John, and I do not see why those ships cannot take on New Brunswick goods when at that port.

Mr. VAUGHAN: They simply call at Saint John and go to Haliax to complete their voyage.

Mr. HATFIELD: What is that?

Mr. VAUGHAN: They sail from Saint John to Halifax to complete their voyage.

Mr. HATFIELD: I know that.

Mr. VAUGHAN: Their voyage begins from Halifax and ends at Halifax.

Mr. HATFIELD: The voyage begins at Saint John and ends wherever they have to go to.

Mr. VAUGHAN: And it so happens that the crews—

Mr. HATFIELD: And if the ship sails from Saint John you do not need to send goods to Halifax.

Mr. VAUGHAN: The crews are signed on and off at Halifax, supplies are all put on at Halifax, and that is a convenient place from which to operate vessels. However, as I say, I will be very glad to give you an explanation in writing about it.

The CHAIRMAN: Is that satisfactory to you, Mr. Hatfield?

Mr. HATFIELD: That is all I can get.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. HAZEN: I see that the operating expense incurred was $2,066,953. Is there any explanation to be given as to the reasons for that increase? I do not know if it is possible, but is it possible to break those figures down and show what percentage of increase is due to different factors involved; for instance, what part of the increase is due to additional ships employed, what is due to increased rates, what percentage is due to increased insurance, what is due to higher depreciation rates, interest payments and so on. Is it possible to get that?

Mr. VAUGHAN: We could give you information on that. I do not know whether Mr. Cooper has that with him or not.

Mr. COOPER: The cost of freight handling increased $494,795; crew wages increased $433,797; provisions increased $91,814; fuel increased $162,974; deck, engine and steward supplies increased $122,291; repairs $65,968; port and shore expense $258,020; overhaul $66,066; charter hire decreased $163,689; insurance increased $201,270; other vessel expense which included loss and damage claims and incidentals increased $74,316; diesel training expense decreased $32,006; layup expense increased $61,311. Those items add to a total of $1,827,945. Then depreciation increased $205,502. Management and office expense increased $3,557. Pensions increased $9,427; and other expenses, which include advertising and odds and ends, increased $22,522.

The CHAIRMAN: Is that satisfactory, Mr. Hazen?

Mr. HAZEN: It looked to be more than $288,000 odd.

Mr. REID: On page 4, there is an item there which I have been following, the payment of interest of a period of ten years. It appears to me that the interest paid to the government is greater by $1,471,453 than the amount of principal which has been repaid. Could I have an explanation of that?

Mr. VAUGHAN: Mr. Cooper can explain that.

Mr. REID: Over the ten-year period how was it that increased payments are greater by well over a million dollars?

Mr. Cooper: I do not see any relation between the two things. We must pay our interest year by year irrespective of whether we pay off any principal. If in addition to paying our interest we have some surplus money we reduce our indebtedness, that is, to the extent we have surplus funds we reduce the principal. But there is no relationship between the amount of principal paid off and the amount of interest paid.

Mr. Reid: What amount of money do you owe the government now, is it $13 million something?

Mr. Cooper: Oh, no.

Mr. Vaughan: I should explain, Mr. Reid, that the government charged us, have always charged us interest on deficits which we felt they never should have done, but we are gradually getting that down until the figure is very low. Mr. Cooper can give you those figures.

Mr. Cooper: First, in answer to Mr. Reid, I think he suggested that we owe the government something like $13,000,000. No, we owe the government $3,954,000.

Mr. Vaughan: That has been reduced over the years.

Mr. Cooper: In the beginning, in 1929, when this line was being developed we naturally incurred some operating deficits. In the years 1929 to 1934, we incurred deficits amounting to $5,059,000. That has now been reduced to $3,954,000. Now, with respect to the amount of interest which we paid to the government, we have paid to the government during the entire period of operation interest on capital amounting to $1,106,000, and interest on deficit amounting to $3,456,000.

Mr. Pouliot: Mr. Vaughan, could you give me some information about the competition in the West Indies trade which comes from the Alcoa Company, the boats they operate to the West Indies. They operate boats there, do they not?

Mr. Vaughan: Yes, sir; we have two competitors. There is Alcoa Company, which operate their own ships to British Guiana; and I understand there is a new line being started up by a Swedish company which is going to operate a line from Montreal to the West Indies.

Mr. Pouliot: Who owns the Alcoa Company boats?

Mr. Vaughan: I understand those are owned by the United States, the parent company.

Mr. Pouliot: You have competition in operating your service?

Mr. Vaughan: We have one competitor now and we expect to have another when this new line out of Montreal gets in operation. Then, of course, there is the competition with the Pickford and Black, who operate a service to the West Indies out of Halifax.

Mr. Hatfield: Are your ships filled to capacity the way they have been sailing, were they in 1947?

Mr. Vaughan: During 1947, our ships were pretty well filled. We are having greater difficulty now in filling them up. The competition is keener; but we are hoping we can hold our own.

Mr. Jackman: Is that Alcoa line owned by the American Aluminum Company?

Mr. Vaughan: Yes. They fly the United States flag. There is also the Saguenay Terminal Company, their terminals owned by the Aluminum Company of Canada, and they have some ships. Both of these lines carry bauxite up the Saguenay River and then come to Montreal in summer to load cargo.

Mr. Jackman: Where they fly the American flag they have to pay the American merchant marine standard of wages. Their cost of operation must be higher than it is for the Canadian ships.

Mr. VAUGHAN: I think that is right. Their rates are higher than the Canadian rates. But these, both the Saguenay Terminals and the Alcoa Company have the advantage of carrying their product, bauxite, up the Saguenay; and, of course, anything they can handle that is going south as general cargo is all to the good.

Mr. JACKMAN: I do not see why ships owned by an American company should be allowed to do that. By the way, are the bauxite mines owned by the Canadian Aluminum Company?

Mr. VAUGHAN: The bauxite is used by the Aluminum Company. It comes from British Guiana.

Mr. JACKMAN: I suppose the mines are owned by the Canadian company?

Mr. VAUGHAN: I do not know who owns the mines, whether it is the American company or the Canadian company. But, getting back to the operation of United States ships; as you know, most of the United States lines get a subsidy directly or indirectly on the construction or operation of their vessels.

Mr. HATFIELD: That is just the reason I was asking you about not taking on cargo at Saint John. Why don't you load cargo at Saint John, and then we would give you the preference, because we would get a cheaper freight rate from Saint John.

Mr. VAUGHAN: Well, as I said—

Mr. HATFIELD: But if you are taking on cargo at Saint John and have to ship the stuff to Halifax you are going to lose out to a competing line.

Mr. VAUGHAN: As I said, I will look into that and give you a report.

Mr. JACKMAN: Mr. Vaughan, do you consider the subsidy received by the American merchant marine to be unfair competition, that it is holding you back?

Mr. VAUGHAN: There are many factors involved in that, Mr. Jackman. For instance, I think it would be difficult for the United States vessels, vessels flying the United States flag, to compete with other maritime nations if they were not subsidized in some form by the United States. In a great many cases the United States, I understand, has constructed boats and chartered them to operating companies.

Mr. JACKMAN: To operating companies outside of the United States?

Mr. VAUGHAN: No, in the United States; but they do not have to pay the full interest on cost, as I understand it.

Mr. JACKMAN: These American lines are cutting into your traffic, according to the statement you made a little while ago.

Mr. VAUGHAN: Yes, the Alcoa Company cuts into our traffic very heavily, especially from Montreal.

Mr. JACKMAN: There is no corresponding subsidy on the part of the Canadian government to our merchant marine, is there?

Mr. VAUGHAN: No, sir.

Mr. JACKMAN: Then I have another question on the point which came up some time ago about the cost of reconditioning these two ships. If you were a privately-owned company with no government content whatever would you feel justified in going to the Exchequer Court of Canada for an interpretation of the contract to get a claim?

Mr. VAUGHAN: It is difficult to say what we would do under those conditions. I think the situation with regard to these boats is a little different. The Canadian National West Indies Company is not a Canadian National corporation. We do not own any stock in it. In this case it is a question of charging the amount to operating expenses and returning less profits to the government.

Mr. JACKMAN: You just manage these companies, is that it?

Mr. MOORE: I wonder if Mr. Vaughan could tell us the relative cost of operating steam-driven ships and diesel-engined ships?

Mr. VAUGHAN: We think it is cheaper to operate these diesel vessels. For instance, you take a Lady boat, every day she is at sea it costs $1,947 to operate her. On the diesel boats the cost is $975 per day. And on these smaller ships the 4,500 tonners, the operating cost is $681 per day. The cost of operation and the wages for the men, have gone up very materially. Consider an able-bodied seaman in 1939; he got $52.50. Now he will earn—

Hon. Mr. CHEVRIER: $132.

Mr. VAUGHAN: He got $155 in 1947. Take the ordinary seaman as distinguished from the able-bodied seaman. In 1939 he got $36.75; now he gets $135. An oiler got $43.20 in 1939; now he gets $160. In 1948 they will get more because their rates have been revised upwards again.

Mr. REID: That was with meals and linen and everything found?

Mr. VAUGHAN: Yes, they get their meals and they are paid for an 8-hour day.

Mr. MOORE: These diesel boats will require fewer men to operate, will they not?

Mr. VAUGHAN: With ships of similar capacity they require fewer men to operate because they do not need so many firemen. That is where the saving is made.

Mr. NICHOLSON: On page 6 in connection with the insurance fund I notice there has been some improvement during the year. Could we have some statement as to the losses paid out of this fund during the year? A year ago the insurance fund was $1,338,000; this year it is up to $1,560,000.

Mr. COOPER: In 1947 our income from investments was $38,000; profit on securities, $38,000; premium paid into the fund, $217,000, making a total of $294,000. The losses were $65,000; administration expense, $6,000. There was a credit adjustment with respect to unadjusted losses of $33,000, making the disbursements of the fund $38,000; the net income of the fund for the year therefore was $225,000.

Mr. HAZEN: Take the *Chomedy* and the *Colborne;* how much did you get for each one?

Mr. COOPER: The *Chomedy* was sold to some firm in South America for $300,000. It stood in our books at $235,000. We made a book profit of $64,000. The *Colborne* was sold to some Greek interests. The net ledger value was $250,000 and we recovered $277,000; making a book profit of $27,000.

Mr. HAZEN: That does not show in the statement.

Mr. COOPER: No, not in the income statement.

Mr. HAZEN: You show us the profit on the sale. That is the only place it appears on profit and loss?

Mr. COOPER: Yes. We considered the $92,000 as profit from the sale of capital assets.

Mr. VAUGHAN: It is mentioned in the report.

Mr. HAZEN: I am asking for information as to why these items do not show under your income account.

Mr. COOPER: We do not think the profit on the sale of a ship which is a sale of a capital asset is an income item; it is a capital gain and creditable to surplus rather than to income.

Mr. MOORE: I notice the government lost several of the Lady boats during the war due to enemy action. Does the company receive anything for those losses or is that a dead loss?

Mr. COOPER: In the case of the *Lady Somers* we recovered from the British Ministry of War Transport $1,800,000; for the *Lady Hawkins* we recovered by way of insurance $1,500,000; and for the *Lady Drake* we recovered insurance of $1,500,000.

Mr. NICHOLSON: Each year we have some discussion on this profit and loss deficit item. Have any representations been made to the government during the year to get parliament to vote sufficient money to relieve you of this obligation?

Mr. VAUGHAN: Representations have been made on a great many occasions. We did not make any progress on it. I do not think we had it up during last year. We did get them to reduce the interest rate on the deficits, from 5 to 2½ per cent.

Mr. COOPER: That was three or four years ago.

Mr. VAUGHAN: Yes, from 5 per cent to 2½ per cent. Five per cent deficit was charged by the government for many years on deficits incurred in the early stages of operation. You will notice, notwithstanding that we have paid all this interest, we are paying substantial amounts on the principal. We have also built up a substantial reserve and have a new fleet.

Hon. Mr. CHEVRIER: The matter has not been up for discussion since the statement I made in the committee in 1946—I think it was in 1946.

Mr. NICHOLSON: Yes. Two years ago the minister made a statement, and the matter was up again a year ago.

Mr. VAUGHAN: I think it is considered that an Act of parliament would be necessary.

Mr. NICHOLSON: In view of the circumstances outlined two years ago, members of the committee thought that the officials of the company made a good argument and might get support in parliament for getting legislation passed to right an injustice which has extended over a number of years.

Mr. VAUGHAN: We have made as strong representations as we can on many occasions and we have got the interest reduced from 5 per cent to 2½ per cent on these deficits. There is still $9,400,000 worth of bonds outstanding which are 5 per cent bonds and which are not callable. If we could refund those bonds we could probably do so at 3 per cent, but we cannot; they are not callable until they expire.

Mr. JACKMAN: Inasmuch as an Act of parliament is not required to reduce interest rates from 5 per cent to 2½ per cent, perhaps the minister will tell me what the reasons were for allowing the reduction of 2½ per cent—

Hon. Mr. CHEVRIER: The question of interest is not one handled by the minister, it is dealt with by the officers of the Finance Department. I think you are familiar with that; it was discussed last year. What Mr. Nicholson has in mind is pretty much the same thing as the recapitalization of the Canadian National Railways.

Mr. JACKMAN: I think the deficits are on a different footing.

Hon. Mr. CHEVRIER: There is not a great deal of difference between that and the wiping out, for instance, of arrears of interest of a government agency such as the National Harbours Board or a Crown company, if that is thought fit; but the Department of Finance, which is chiefly responsible to the government for the financial position, has taken the view they should not do it. The reasons I gave are set out in the report of the committee in 1946, and it has not been up for discussion as far as I am aware, in the interval—certainly not in 1947.

Mr. NICHOLSON: As Mr. Jackman points out, it is a different category. We paid a subsidy of $340,000 per year prior to the Canadian National Steamships company being set up, and it is not fair that such a large deficit should be allowed to accumulate without something being done.

Hon. Mr. CHEVRIER: The Department of Finance officials do not think so.

Mr. HATFIELD: It is all one family.

Hon. Mr. CHEVRIER: Yes.

Mr. LOCKHART: With regard to this balance sheet and the income on operating expenses and revenues, Mr. Vaughan, are all your inland services included in this?

Mr. VAUGHAN: No, sir, this is just the West Indies Steamships.

Mr. LOCKHART: There is nothing else?

Mr. VAUGHAN: Nothing else.

Mr. JACKMAN: Mr. Cooper, as much as you do not take any capital profit arising from the sale of the two ships, do you think it was reasonable to load last year's operating expenses with the full $700,000 representing part of the cost of reconversion of the two Lady ships?

Mr. COOPER: I think you have a point there; we gave it some thought. I think some portion of the cost could have been charged to profit and loss or depreciation reserve, but we stated our accounts on a conservative basis. We had this $700,000 to pay out during 1947 and we dealt with it as an operating expense.

Mr. JACKMAN: Looking over the statement on page 8 of operating expenses where does one find the $700,000? Is it in the voyage account?

Mr. COOPER: Yes, it is in the voyage account.

Mr. JACKMAN: That is rather odd, is it not, to include a capital reconversion expense in a current operating account?

Mr. COOPER: Well, it is really overhaul—delayed or deferred maintenance, if you wish. It is definitely an operating expense. Some portion of it could be—

Mr. JACKMAN: Is it not a capital expense rather than an operating expense?

Mr. COOPER: Well, it is putting the ship back into condition; it is not improving the ship. It is putting it back into a serviceable condition. Basically it is an operating charge. Some portion of it might be assigned to the prior period, but it would add up to the same thing.

Mr. JACKMAN: What I had in mind is that certain private yachts and other small craft turned over to the government—I think in many cases free of charge —were returned to the private owners fully reconditioned and that expense was borne by the government. Would it not have been fair if the government had returned your ships fully reconditioned or given you a sufficient sum to recondition them yourselves?

Mr. COOPER: You must remember that during the war they paid us a charter hire which was intended to cover interest, depreciation and management expense. Now, the dry-docking of the vessel which ordinarily would have taken place during the war years had to be deferred because the ship had to be kept running; and to the extent that work was considered a charge against the owner (because he had received charter hire for it), the contention was, (and I think there is considerable justification for it) that the shipping company should assume a portion of the reconditioning expense. The government figured they should pay $1,300,000 and the balance should be charged to the owner.

Mr. JACKMAN: Without being critical of the accounting procedure, and having the benefit of hindsight, what really happened was that you did not set up enough charges against these vessels during the war years. It costs far more, considering the increased cost of reconversion at the end of the period, than had been estimated. Is not that the case?

Mr. VAUGHAN: It is fair to say, I think, that when these ships went into dry-dock for the reconditioning it was found there was a lot more wear and tear on the ships than we expected. I believe that would have occurred whether the boats were in the service of the government or not. There were a great many deck plates and partitions and such things which had gone to the point where they absolutely had to be renewed. Probably, that would have taken place whether the boats were in the service of the government or not. These defects were not apparent until the boats were opened up.

Mr. HATFIELD: I should like to ask why it takes your boats twice as long as your competitors' boats to load at ports? Why is that?

Mr. VAUGHAN: I do not think that is a fact, it does not take longer.

Mr. HATFIELD: I beg your pardon?

Mr. VAUGHAN: I think it takes about the same time to load our ships as it does any other boats loading similar cargo.

Mr. HATFIELD: You hold your boats ten days and the Alco boats come in and load in two days.

Mr. VAUGHAN: As I said before, Halifax is the home port of our boats and New York is the home port of the Alco boats. We have to do general work on our boats in Halifax since the voyage is terminated there, but they do their work in the United States.

Mr. EMMERSON: Is it not generally considered to be a fact that it takes a longer time to turn a ship around in Halifax than it does in Saint John? Does it not cost you more to operate out of Halifax than it does in Saint John?

Mr. VAUGHAN: There is quite a controversy between Halifax and Saint John as to which is the best port to use.

Mr. HATFIELD: Your boats do not get service?

Mr. VAUGHAN: Our boats run on a schedule and the other boats do not always run on a schedule. These boats arrive at and depart from the islands on scheduled dates. Sometimes the boats are behind time due to labour conditions.

Mr. EMMERSON: Do you find it takes a longer time to handle a cargo in Halifax than it does in Saint John?

Mr. VAUGHAN: I believe during the war period it did.

Mr. EMMERSON: I am thinking of this past winter and a year ago.

Mr. VAUGHAN: I do not think so. I would say conditions are about the same. We take on a great deal more cargo at Halifax; that is where our boats take on their principal cargoes.

Mr. HATFIELD: I think it costs more in Halifax. I have watched them load.

Mr. VAUGHAN: The stevedoring rates are the same.

Mr. EMMERSON: The rates are the same, but the amount of work may not be the same.

Mr. HAZEN: May I ask one question? Perhaps it is a minor one, but I do not understand it. The consolidated income account shows a surplus of $522,677.07. I just happened to be glancing at the auditor's account and he shows the surplus as $523,000. There is a difference of one thousand odd dollars and I am wondering how that comes about?

Mr. COOPER: You will have to ask the auditor about that.

The CHAIRMAN: Could we ask the auditor about that when he is on the witness stand?

Mr. JACKMAN: I have no background of the earnings of the other shipping companies—

Mr. COOPER: I can answer the question now. We show the precise figure, $522,677.07 and the auditors say, "For the purpose of simplified reference, the amounts shown in this report in connection with the West Indies Steamships as well as the railways are to the nearest thousand dollars."

Mr. JACKMAN: Mr. Vaughan, I have no background of the earnings of other shipping companies, but were they generally lower last year? In this case, you had an increase in operating revenues; your ships were fully loaded; your passenger lists were filled and yet you show a substantially less amount of earnings than the previous year. Do you feel satisfied with the work of the management of the Canadian National (West Indies) Steamships Line?

Mr. VAUGHAN: Yes, I think the Canadian National (West Indies) Steamships Line is very well managed. It is handled by experienced men. Of course, there is seven hundred odd thousand dollars in there for the reconversion of these boats. There are, tremendously increased costs of operation but our situation is in line with all other steamship companies.

These expenses are watched very carefully. There have been unusual operating conditions in the West Indies; labour conditions have been very bad; there have been strikes at the ports of call and the cost of handling has gone up tremendously.

Mr. JACKMAN: Have you not raised your freight or passenger rates?

Mr. VAUGHAN: Yes, we have raised both the freight and passenger rates to try to meet that situation. Our freight and passenger rates are comparable with the rates out of New York for similar destinations.

Mr. JACKMAN: Apart from the $700,000 charged for the reconditioning, it was not a very satisfactory year in view of your volume, or do you think your profits in the war years and the first post-war year were rather exceptional?

Mr. VAUGHAN: During the war years, Mr. Jackman, the expenses were not nearly as high as they are today. They do not compare with expenses today both in respect to wages and the cost of material, nor did we experience the labour troubles in the West Indies islands which we have at the present time. I do not know whether we have the charge for handling which applies in the West Indies islands, but at some of those islands it cost us $6 a ton to handle freight.

Mr. JACKMAN: Is it a fact that some of the ships were under charter to other parties? They were not under charter to the government?

Mr. VAUGHAN: No, sir.

Mr. JACKMAN: To private parties?

Mr. VAUGHAN: To outside parties.

Mr. JACKMAN: You made more money by leasing your ships to private interests than you did operating them yourselves?

Mr. VAUGHAN: I would not say so. We had some ships chartered this winter and we did not do very well on them.

Mr. POULIOT: Your freight rates must be quite similar to those of competitive companies?

Mr. VAUGHAN: Yes, they are similar.

Mr. POULIOT: When someone uses your ships for shipment, it is due to the fact the service received from your company is appreciated?

Mr. VAUGHAN: We hope it is. We think so, yes.

Mr. POULIOT: It must be so.

Mr. McCULLOCH: I move the adoption of the report.

Mr. LAFONTAINE: I second the motion.

Carried.

The CHAIRMAN: Gentlemen, the minister will have to be in the House this afternoon, because the House is considering the freight rates question. Could we take his estimates next? There are just three items.

Hon. Mr. CHEVRIER: There are three small items which are taken from the committee of supply and referred to this committee. There is vote 502, the Maritime Freight Rates Act. It is a vote of $4,280,000 which covers the 20 per cent reduction in the tariff of tolls on freight movements over the Canadian National Railways lines only in the preferred territory.

The CHAIRMAN: We are considering item 502 on page 74 of the estimates for 1949.

Hon. Mr. CHEVRIER: This year it amounts to $4,280,000, and last year it was $3,042,000. Then, perhaps you will remember, in a further supplementary prior to March 31, 1948, there was another small sum voted.

Mr. REID: Will this 21 per cent increase in freight rates mean the country will be paying less under the Maritime Freight Rates Act?

Hon. Mr. CHEVRIER: It will mean an increase in the amount to be voted under the Maritime Freight Rates Act.

Mr. REID: The consumer will pay 21 per cent more under the Act plus the addition here?

Hon. Mr. CHEVRIER: Not plus the addition; this has no reference at all to the increase in freight rates.

Mr. LOCKHART: That is an additional amount which will be added on top of this?

Hon. Mr. CHEVRIER: Yes, it is statutory. It is provided by the Maritime Freight Rates Act.

Mr. REID: This is to take care of the difference between the normal toll and what the railways consider it costs to carry the freight?

Hon. Mr. CHEVRIER: No, the Maritime Freight Rates Act, section 9, which is somewhat lengthy but which perhaps can be paraphrased this way says; if it costs a dollar to move an article in the preferred territory, 80 per cent of that is paid by the shipper and 20 per cent is paid by the government. The Canadian National Railways get the dollar. In other words, the railways get the normal rate, but the difference between the normal rate and the subsidized rate is voted by parliament.

The CHAIRMAN: Shall vote No. 502 carry?

Carried.

What about vote No. 503?

Hon. Mr. CHEVRIER: It is for the same thing except that it is for other railways in the preferred territory.

Carried.

The CHAIRMAN: There is another item, vote No. 557.

Mr. NICHOLSON: I thought votes Nos. 498 and 499 were to be referred to this committee. There was a request a year ago or so that the Hudson Bay Railway Company be referred to this committee.

Hon. Mr. CHEVRIER: Those items have never been referred to the committee because there was no provision for it. A request was made a year or two ago to have a full discussion of the Hudson Bay Railway. We brought Mr. MacLachlan, who is manager of the railway down to Ottawa so he might be examined. There was no request for that this year. It is a rather costly thing to have him come all the way from Churchill or The Pas.

Mr. NICHOLSON: I think he has only been here once. I have not any questions to ask, particularly, this year, but I imagine it would be in order to ask questions of the Canadian National Officials?

Hon. Mr. CHEVRIER: I doubt whether those officials are ready to reply to questions concerning the Hudson Bay Railway. Mr. MacLachlan, who is the manager, is fully familiar with the details. There was a specific request that be be brought here a year or two ago. The custom over the years, has been to refer only these three votes to the committee. I do not see how you are going to be affected in any way. If you wish to ask any questions which I can answer, I shall be glad to do that. If I cannot answer you here, I will be ready to do so in the House when the estimates are being considered.

The CHAIRMAN: We are considering vote No. 557. Shall it carry?

Hon. Mr. CHEVRIER: This is concerned with the Prince Edward Island Car Ferry deficit.

Mr. HAZEN: I do not know whether you are correct in calling it a deficit.

The CHAIRMAN: It is to take care of that deficit. Shall it carry?

Carried.

Then, we have the Canadian National Railways Securities Trust.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

OTTAWA, 19th February, 1948.

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

Sir,—In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of The Canadian National Railways Securities Trust for the calendar year 1947.

The book value of the capital stock of the Securities Trust has been decreased during the year by $1,885,469.41 due to the following capital losses charged to Proprietor's Equity and in respect of which His Majesty has not made cash reimbursement to the Railway:—

Abandonment of 12·21 miles of line, Trelle Junction to Morinville..	$ 106,034 46
Retirement of Victoria, B.C. Dock Property........................	246,582 22
Retirement of Canadian Lines' Rolling Stock Equipment...........	1,532,852 73
	$1,885,469 41

There were no transactions during the year affecting the collateral securities held by the Securities Trust.

The Trustees present herewith the Balance Sheet of the Securities Trust as at December 31, 1947.

(F. P. VARCOE,)
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Balance Sheet at 31st December, 1947

Assets

Claims for Principal of Loans—			
Canadian Northern Railway		$312,334,805 10	
Grand Trunk Railway		118,582,182 33	
Grand Trunk Pacific Railway		116,006,599 08	
Canadian National Railway Company		96,936,971 75	
			$ 643,860,558 26
Claims for Interest on Loans—			
Canadian Northern Railway		$309,702,897 65	
Grand Trunk Railway		103,250,802 95	
Grand Trunk Pacific Railway		107,326,622 84	
Canadian National Railway Company		54,501,313 57	
			574,781,637 01
Transactions subsequent to 1st January, 1937, affecting the book value of the capital stock of the Securities Trust—			
Canadian National Railway System:	Year 1947	Total to Date	
Surplus Earnings	....	$112,502,061 64	
Capital Gains	....	19,105,651 38	
Capital *Losses*	*$1,885,469 41*	*23,127,015 88*	108,480,697 14
Collateral Securities—			
As per Schedule A.1			....
			$ 1,327,122,892 41

Liabilities

Capital Stock Owned by His Majesty—		
5,000,000 shares of no par value capital stock:— Initial stated value	$270,037,437 88	
Gain from transactions subsequent to 1st January, 1937—per contra	108,480,697 14	
		$ 378,518,135 02
Amount by which the book value of claims and interest thereon—per contra—exceeded the initial stated value		948,604,757 39
		$ 1,327,122,892 41

T. H. COOPER,
Comptroller.

Certificate of Auditors

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1947.

There have been produced for our inspection the Notes and Other Evidences of Indebtedness, the Collateral Securities and the Certificate of the Special Depositary, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st December, 1947, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

19th February, 1948.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

Loans Outstanding		**Notes and Collateral Held*	
CANADIAN NORTHERN RAILWAY:			
3½% Loan, Chapter 6, 1911	$ 2,396,099.68	None. Charge is on premises mortgaged October 4, 1911.	
4% Loan, Chapter 20, 1914	5,294,000.02	None.	
5% Loan, Chapter 4, 1915	10,000,000.00	None.	
6% Loan, Chapter 29, 1916	15,000,000.00	Mortgages dated June 23 and June, 26, 1916.	
Temporary Loan, 1918, repaid	....	6% Demand Notes	$ 497,566.80
†6% Loan, Chapter 24, 1917	25,000,000.00	6% Demand Notes	33,012,414.32
†6% Loan, Vote 110, 1918	25,000,000.00	6% Demand Notes	27,203,003.65
†6% Loan, Vote 108, 1919	35,000,000.00	6% Demand Notes	40,031,122.27
†6% Loan, Vote 127, 1920	48,611,077.00	6% Demand Notes	53,008,779.65
†6% Loan, Vote 126, 1921	44,419,806.42	6% Demand Notes	50,259,312.47
†6% Loan, Vote 136, 1922	42,800,000.00	6% Demand Notes	46,691,634.60
6% Loan, War Measures Act, 1918	1,887,821.16	{6% Demand Note	5,700,000.00
		{3½% and 4½% Debenture Stocks	7,139,399.00
†6% Equipment Loan, Chapter 38, 1918	56,926,000.82	6% Demand Notes	56,858,496.44
Indebtedness refunded by Government under Chapter 24, 1917 and Chapter 11, 1918	....	{Miscellaneous Bonds and Debentures	14,097,470.59
		{Miscellaneous Bonds and Debentures	20,721,191.12
†Mortgage covering loans above	....	Mortgage dated November 16, 1917	....
Total Canadian Northern	$ 312,334,805.10		
GRAND TRUNK RAILWAY:			
6% Loan, Vote 478, 1920	$ 25,000,000.00	6% Demand Notes	$ 25,479,226.97
6% Loan, Vote 126, 1921	55,293,435.18	6% Demand Notes	56,646,816.12
6% Loan, Vote 137, 1922	23,288,747.15	6% Demand Notes	23,288,747.15
4% Loan to G.T. Pacific Chapter 23, 1913, guaranteed by Grand Trunk	15,000,000.00	{4% Demand Note	15,000,000.00
		{4% G.T.P. Debentures	15,000,000.00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans	....	{4% Debenture Stock	60,801,700.00
		{6% 2nd. Mortgage Equipment Bonds	1,693,113.33
Total Grand Trunk	$ 118,582,182.33		
GRAND TRUNK PACIFIC RAILWAY:			
3% Bonds, Chapter 24, 1913	$ 33,048,000.00	3% 1st. Mortgage Bonds	$ 33,048,000.00
6% Loan, Chapter 4, 1915	6,000,000.00	4% Sterling Bonds	7,499,952.00
6% Loan, Vote 441, 1916	7,081,783.45	Mortgage, June 28, 1916	....
6% Loan, Vote 444, 1917	5,038,053.72	Mortgage, October 18, 1917	....
6% Loan, Vote 110, 1918	7,471,399.93	Mortgage, October 18, 1917	....
Receiver's Advances, P.C. 635, March 26, 1919	45,764,162.35	Receiver's Certificates	53,339,162.74
Interest Guaranteed by Dominion	8,704,662.65	Cremation Certificates, coupons destroyed	8,698,170.42
Interest Guaranteed by Provinces of Alberta and Saskatchewan	2,898,536.98	Cremation Certificates, coupons destroyed	2,925,723.88
		Grand Trunk Pacific Development Company Capital Stock	2,999,000.00
Agreement with Government under Chapter 71, 1903	....		
Total Grand Trunk Pacific	$ 116,006,599.08		

forward

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

Loans Outstanding		**Notes and Collateral Held*	
CANADIAN NATIONAL RAILWAY COMPANY:			
6% Loan, Vote 139, 1923	$ 24,550,000.00	6% Canadian Northern Demand Note	$ 12,655,019.57
		G.T.P. Receiver's Certificates	3,313,530.01
		G.T.P. Interest Coupons	1,530,831.96
5% Loan, Vote 137, 1924	10,000,000.00	5% Canadian Northern Demand Note	1,318,315.86
		G.T.P. Receiver's Certificates	4,691,173.58
		G.T.P. Interest Coupons	1,530,822.24
5% Loan, Vote 377, 1925	10,000,000.00	5% Canadian Northern Demand Note	9,496,718.21
		G.T.P. Receiver's Certificates	*Cr.* *1,422,425.17*
		G.T.P. Interest Coupons	1,530,802.80
5% Loan, Vote 372, 1926	10,000,000.00	5% Canadian Northern Demand Note	9,062,624.30
		G.T.P. Receiver's Certificates	*Cr.* *364,898.78*
		G.T.P. Interest Coupons	1,530,880.56
5% Loan, Vote 336, 1929	2,932,652.91	5% Canadian National Railway Company Demand Notes	2,932,652.91
5% and 5¼% Loans, Chapter 22, 1931	29,910,400.85	5% and 5¼% Canadian National Railway Company Demand Notes	29,910,400.85
5¼% Loans, Chapter 6, 1932	11,210,815.56	5¼% Canadian National Railway Company Demand Notes	11,210,815.56
Temporary Loan 1930, repaid	....	166,877.6376 shares of Capital Stock of Grand Trunk Western Railroad	4,171,940.94
		5% 1st. and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc	8,609,000.00
Less: adjustment authorized by the Capital Revision Act, 1937	*Cr.* *1,666,897.57*		
Total Canadian National Railway Company	$ 96,936,971.75		
Total Loans	$ 643,860,558.26		

* The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the vaults of the Department of Finance, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st. Mortgage Bonds in the amount of £5,307,000 ($25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depository.

The CHAIRMAN: This is a very short report. Are there any questions?

Mr. JACKMAN: This first page simply means that, owing to the abandonment of 12 miles of track, and certain retirements, $1,885,000 is taken from the debt of the government and transferred to the private account.

Mr. COOPER: The amount of $1,885,000 covers three items. It is not restricted to the abandonment of the 12 miles.

Mr. JACKMAN: No, it is transferred from debt to the proprietorship account.

Mr. COOPER: It is written out of the investment account and charged against the shareholders' account, which is called the proprietor's equity.

Mr. JACKMAN: Does it make for a lessening of the debt?

Mr. COOPER: No, it results in a reduction of the proprietor's equity

Mr. JACKMAN: That is just a loss?

Mr. COOPER: It is a capital loss.

Mr. JACKMAN: It is lost sight of?

Mr. COOPER: It is not lost sight of; it is reported to parliament and it is in the record. There is no concealment about it.

Mr. JACKMAN: Not this year, but after we adopt this there might be.

Mr. COOPER: The proprietor's equity account is reduced by this amount and that is the end of it.

The CHAIRMAN: Are there any other questions?

Mr. LAFONTAINE: I move the adoption of the report.

Mr. EMMERSON: I second.

Agreed.

The CHAIRMAN: Now, we have the auditor's report.

Mr. EMMERSON: Mr. Chairman, what about the Canadian National Steamship budget?

Hon. Mr. CHEVRIER: That was passed yesterday.

Mr. VAUGHAN: It was on the last page and the capital charge was very small.

Hon. Mr. CHEVRIER: I was not here yesterday having had to be in the House, but I am informed that it went through with the budget of the C.N.R.

Mr. JACKMAN: As a matter of form it did not, but I do not object.

The CHAIRMAN: We will proceed with the auditor's report.

Mr. O. A. Matthews, of George A. Touche & Company, Chartered Accountants, called:

The CHAIRMAN: Gentlemen, this is quite a long report and I do not believe that it is necessary to read it all. Perhaps Mr. Matthews could take a paragraph, or a section, or a page at a time and the members may ask questions.

Hon. Mr. CHEVRIER: Perhaps Mr. Matthews might give us the highlights. This is a pretty difficult document to follow; it is very technical, but of course I have no objection to it being read.

Mr. NICHOLSON: I think we are making very good progress and I do not see why Mr. Matthews should not take the time to read the report.

Mr. MCCULLOCH: Time means nothing.

Mr. JACKMAN: Well, you may be excused.

Mr. MCCULLOCH: I am not taking any back talk from you.

Mr. JACKMAN: Time may be nothing to you but it is to me, and this is a most important matter before the committee.

Mr. NICHOLSON: I think it is unfair that government members of the committee should rush us constantly. I think the member for Rosedale is quite in order in the comment he has made.

Hon. Mr. CHEVRIER: There has been no rushing.

Mr. NICHOLSON: There have been rude remarks passed as we have been proceeding.

Hon. Mr. CHEVRIER: I have not made any rude remarks.

Mr. NICHOLSON: No, but I think there have been a number of rude remarks that have been uncalled for.

The CHAIRMAN: I have tried to work with the committee. I do not know whether you were here yesterday at 4.00 o'clock, Mr. Nicholson, but I suggested that the committee should give me some advice as to when I should ask the Trans-Canada Air Lines officials to come before us. I was asked by the minister when I needed his officials. I discussed the matter with the committee, and the committee thought we would finish the Canadian National Railways today and that we would be able to hear the Trans-Canada Air Lines officials tomorrow. One of the officials had to come from Winnipeg and the necessary arrangements were made. I hope I have not tried to rush things. I have taken the committee into my confidence as I knew the situation, but I must have some assistance at times. We have the rest of this morning and this afternoon to discuss the auditor's report and surely that cannot amount to crowding.

Mr. NICHOLSON: I am not complaining but I think, as a matter of policy, when parliament expects us to review the business of the railway, that government members should not try to rush these matters through.

The WITNESS:

The Honourable the Minister of Transport,
Ottawa, Canada.

Sir:—Under authority of Section 13 of The Canadian National-Canadian Pacific Act, 1936, and Chapter 12, 1947, "An Act respecting the appointment of Auditors for National Railways," we have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1947, and we now submit, through you, our report to Parliament. In the aforementioned Section 13 of the 1936 Act there is a specific direction to the Auditors that "Their annual report shall call attention to any matters which in their opinion require consideration or remedial action."

Audit Certificate

Our Audit Certificate, appended to the 1947 accounts published by the Railway, sets forth the two specific qualifications we make to the Financial Accounts, i.e.,

(*a*) The acceptance by us of the total amount of the Investments in Fixed Properties and Equipment as brought into the System accounts at the 1st January, 1923, from the books of the several Corporations and the Canadian Government Railways, and

(*b*) In respect of the Canadian Lines, the application by the Railway of depreciation accounting for Equipment only from the 1st January, 1940, and the continuance of retirement accounting for Fixed Properties.

The reference to Contingent Liabilities in the body of the Consolidated Balance Sheet is supported by a schedule setting out, *inter alia*, the principal qualifying factors in the capitalization of Pensions.

Summarized Outline of this Report

Supplementing our Audit Certificate appended to the 1947 accounts published by the Railway, we submit for the information and consideration of Parliament our comments under the following captions:—

Consolidated Income Account

Deficit for Year 1947

The Deficit amounting to $15,885,000 for the year 1947 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before Fixed Charges and Depreciation	$48,433,000
Less: Fixed Charges	45,926,000
Surplus before Depreciation	$ 2,507,000
Less: Depreciation of System Equipment and United States Lines Depreciable Fixed Properties	18,392,000
Deficit	$15,885,000

Wage and Material Costs vis-à-vis Transportation Rates and Traffic Volume

The general expenses of operation consist largely of wages and materials which continued to increase during 1947 to a new high level, without compensatory return in 1947 through increased transportation rates for domestic traffic on the Canadian Lines similar to those granted by the Interstate Commerce Commission to the United States railways. As a consequence, the operations resulted in a Deficit for the year notwithstanding that the over-all traffic volume and related Operating Revenues of $438,198,000 were the greatest in the peace-time history of the System. Failing a realistic recognition on the part of all interests involved and some long-term levelling out of this form of maladjustment, we suggest to Parliament that the problem could develop over the years into one of concern to the Dominion, and more particularly so, should any serious recession from the present level take place in traffic volume. Our reference here is to the Dominion solely in its capacity as owner of the System—not to its inherent position in the broad economics of Canadian transportation rates vis-à-vis Canadian domestic and export trade.

At the date of this report no decision has been made public by the Board of Transport Commissioners for Canada in connection with the recent hearings on freight rates for domestic traffic on the Canadian Lines. To whatever degree the Canadian Railways' request for increased domestic rates is granted to supplement the previously increased international and special import-export rates, it will be of aid to the National System, but the extent to which such aid will provide any long-term solution of the System's economic problems will depend not only on the proportions of the domestic award, but also on the future trends of the System's basic operating costs, fixed charges and traffic volume.

Fixed Charges

Fixed Charges through the Income Account, shown in the foregoing summary and in accordance with the principles defined by the Interstate Commerce Commission, cover Interest on Funded Debt held by the Public, Interest on Loans from the Government, Interest on Unfunded Debt, Amortization of Discount on Funded Debt and Rent for Leased Roads and Equipment. The ratio of Fixed Charges to Operating Revenues was 10·5 per cent. We would again call to the attention of Parliament this disproportionate ratio of Fixed Charges as borne by the National System in comparison with other major railways in North America.

Interest on Funded Debt averaged 4·10 per cent and Interest on Loans from the Dominion Government 2·90 per cent or a composite rate of 3·45 per cent at the year-end.

Depreciation and Maintenance

In respect of "depreciable" Fixed Properties—defined in the 1943 Order of the Interstate Commerce Commission as including bridges, buildings, stations, shops, etc., but excluding track structure—depreciation provision in the composite rate of approximately $1\frac{2}{5}$ per cent has been made during the year for the United States Lines of the System in accordance with the 1943 Order whereas the Canadian Lines take up through Maintenance of Way and Structures accounts the loss of service value at the time of replacement or retirement.

Mr. Jackman: May I interrupt just there. What was the amount, at $1\frac{2}{5}$ per cent, for depreciation on this item on United States lines, and what was the amount of depreciation through retirement on the gross amount of the Canadian profits?

Mr. Matthews: Your first question was, how much was charged in depreciation on the National Lines?

Mr. Jackman: What was the value of the property in the United States that would be depreciable fixed properties; and, second, what was the amount of depreciation at that rate you give—150 per cent?

Mr. Matthews: Your first question, Mr. Jackman, as to the property value subject to depreciation on the United States lines is \$67,739,000; and the amount accrued was \$952,000, for an average of $1\frac{2}{5}$ per cent.

Mr. Jackman: And in Canada we have depreciable property of, how much?

Mr. Matthews: I could not tell you that, Mr. Jackman. There has never been a valuation inventory taken. You see, in the United States under the Interstate Commerce Commission regulations the property has to be valued for depreciation purposes. We have no such figure for the Canadian property.

Mr. Jackman: Is there any breakdown of office accounts for the Canadian National system setting forth the book value of the depreciable fixed properties?

Mr. Matthews: Is there—what?

Mr. Jackman: Of the fixed properties. I think that is what you call it. On the ones which correspond to the depreciable fixed properties under the I.C.C. regulations.

Mr. Matthews: There have been no valuation figures prepared for the Canadian company similar to those in the United States, Mr. Jackman. They are not available.

Mr. JACKMAN: Could we not make an estimate? Let us say 10 per cent of the system operates in the United States and 90 per cent of it is Canadian. Would it be a fair assumption that the depreciable property in Canada would be—first of all, what is the proportionate amount in the United States and in Canada?

Mr. MATTHEWS: Well, that would be a guess, the amount of the structure in Canada as compared with the Grand Trunk Western and the Central Vermont; and that would not necessarily be comparable in Canada because of construction and other factors which might mean quite a difference. But I suppose you might make an estimate for your own purposes if you care to, taking if you like the mileage in the United States, and if you want to use that as a basis of comparison I suppose one might do so but we would not care to make an estimate of what the amount is, Mr. Jackman. But you could take the trackage of the United States lines in relation to the system here.

Mr. JACKMAN: What is the relationship between the trackage in the States and in Canada?

Mr. MATTHEWS: The total mileage of the Canadian National Railways is 23,473; of that mileage 21,687 miles is in Canada and 1,786 in the United States. That would be about 8 per cent.

Mr. JACKMAN: That might not be an unfair figure to take for depreciable properties in Canada as a basis for a broad general estimate.

Mr. MATTHEWS: You have a different situation in Canada, but on a mileage basis you might do it that way.

Mr. JACKMAN: How much is set aside as equivalent for depreciation in Canada on fixed properties through the retirement policy of depreciation?

Mr. MATTHEWS: You mean, how much was charged to the operating account for the retirement of properties on the National system?

Mr. JACKMAN: Yes. I am trying to get the corresponding figure for the Canadian lines as against the $952,000, which had to be set up under the I.C.C. regulations in the States.

Mr. MATTHEWS: Well, the amount of retirement charged to maintenance of way and structures in 1947, was $881,509. That is principally the Canadian lines. That covers both retirements and replacements, and that would be described largely as depreciable fixed properties.

Mr. JACKMAN: Would that not be the method by which we cover depreciation on our road properties in Canada as against depreciation accounting?

Mr. MATTHEWS: Yes. There is no depreciation accounting for fixed properties in Canada.

Mr. JACKMAN: As auditor of the system, Mr. Matthews, what do you think of the I.C.C. regulations requiring $952,000 to be set up for deprecation of the properties which are set out on the books at $57,000,000, in the States, and only $881,000 being set up for deprecation through this retirement and replacement policy against properties which perhaps have a value in the neighbourhood of $7000,000,000 in Canada?

Mr. MATTHEWS: Mr. Jackman, I think you heard the expression of opinion last year. You will recall that there is a difference of viewpoint on this between the railway management and ourselves. We have stated our opinions in this matter since we were first appointed auditors under the C.N. Act; and you had an opportunity last year of hearing the railway's views. I think so far as we are concerned we have nothing to add to what we have already said; excepting that with the passing of another year we feel that we have to consider the fact that we are living in fast changing days. On the Canadian National Railways system account I would like to state again as I have stated on other occasions and made clear in our 1946 report, all properties are kept at a high degree of efficiency, but there is a point at which we as auditors of this property on reporting to parliament feel that we have to look at the thing in a light broader than that. In these days there are three fundamental interests in all enterprises; you have the owner, you have labour and you have the customer. Each one with an individual interest to serve. There was a time when the owners of businesses took some pride in talking about their profits. Today there is a tendency on the part of the management, especially on account of inflationary conditions of one kind or another, to offer apologies for profits. You will find any number of these companies in the States today attempting to explain why their profits are so large. You will see them taking their profits over a year that may have been in some cases double the previous year; you find that they take an apologetic attitude, and they will try to explain to their stockholders that based on the volume of 1939, or some other year they are making no more profit on turnover than they did then. So we turn then to labour. Labour these days first of all are concerned with the factors that they find in the family budget. They have a cost of living. They in turn look at these profits. Management also has in mind that labour will be kept informed as to what these conditions are. The customer, he gets his bill for merchandise or for transportation or anything else and he looks at it from his point of view.

All this leads us to the conclusion in this day that it is important for all enterprise; and the Canadian National Railways we think is no exception simply because it is government owned; that all costs should be set out in their annual statement for the benefit not only of their stockholders but many other interests who read this. So we feel that on the matter of depreciation today, in view of the fact that replacement costs are rising so rapidly—there again if anyone cares to read the account for the large companies in the United States, they are telling their stockholders in some cases of the fact that they are working under an inflated dollar on the one side and they are only charging out the use of the facilities on the basis of its cost, which in many cases is not more than half of what it would cost them to replace. The result of that has been this; take the steel companies, for instance, they have gone so far as to state in their annual report that in addition to depreciation they had made appropriations out of income to supplement depreciation charges to offset the inflated dollar that they are taking in their sales. And for that reason we feel, together with the fact that in the transportation field there is a need from time to time to appeal to government authorities for adjustment of freight rates and other requirements of revenue, there is a continuing need to negotiate with labour; and our feeling is that the costs, all costs on operating any property should be set out in the accounts of the companies today with greater need than ever before because of those factors to which I have referred. Depreciation is one of them. In the railway field as in other heavy industry fields the matter of cost of the use of your facilities per dollar of revenue is considerable, and for that reason it is of greater importance that the account should state with the fullest clarity the costs that are involved in the performance of the service for any given year. And our view is that as equipment has already depreciated, so also are there equally good arguments for some form of recognition of cost for the use of the large units of fixed properties in any enterprise. For that reason we again recommend to parliament on our report that the matter of depreciation of fixed properties be given further consideration.

Mr. Jackman: Am I clear in understanding then, Mr. Matthews, that in place of depreciation reserves which are not being charged against operations that under the accounting methods of the National system in Canada the equivalent of depreciation is a loss of service value when certain ways and structures are replaced; and then the result of that would be setting up as a reserve certain sums. Now, Mr. Chairman, I wonder if somebody would answer this question. If the railway were not practically forced to use all of its available equipment of ways and structure because of the highest volume of traffic in its history would there not have been more retirements and replacements, in which place the reserves instead of being $881,000, would be a very substantially greater amount; and that is brought about by conditions of operation rather than by election on the part of the management itself. If we were in more normal times would there not be a great deal more charged to replacements and retirements?

Mr. MATTHEWS: It naturally follows, Mr. Jackman, that when operations are close to capacity that all the railways' facilities will be maintained as against the condition where there was not such a full capacity; and I think the natural result would be, looking back over the years, that there would have been higher retirements in any given year during which time the traffic was at a high level such as we see today.

Mr. JACKMAN: What deduction should parliament take from the fact that out of depreciable properties in the states of $67,000,000 counting a reserve of $9,250,000 which has been set up under I.C.C.—and $67,000,000 only represents less than 10 per cent of the total properties of the system—against the other 90 per cent only $881,000 has been set up through this policy of retirements and renewals, and the 90 per cent is a lesser amount set up in Canada than is the 10 per cent; what deduction must parliament draw from that?

Mr. MATTHEWS: Just the fact that depreciation charges are not made on the Canadian lines.

Mr. JACKMAN: Or any other charge which would in the aggregate amount to anything near a corresponding charge to the 1⅝ per cent depreciation charge under the I.C.C. rules?

Mr. MATTHEWS: That is right.

Mr. JACKMAN: In other words, against the $67,000,000 in the states you have depreciated $952,000 and under our system in Canada against properties equal to 90 per cent or more, we have set up only $881,000 as depreciation through the retirements and renewals account; that is the fact, is it not?

Mr. MATTHEWS: It is not set up as depreciation; it is a factual write-out of a property that has been retired without the loss of the service at all.

Mr. JACKMAN: It is fair to say that the retirements and renewals principal is simply in lieu of depreciation; there is no other account of depreciation on the ways and structures; is not that so?

Mr. MATTHEWS: That is right.

Mr. JACKMAN: May I ask a question with regard to uniform accounting which we have under the I.C.C.? Some years ago, when we went into this matter fully, two reasons were given either by the auditors or the management for not desiring to adapt I.C.C. accounting in Canada. Those two reasons were, first of all, that the American roads had adopted it partly because of their large wartime earnings; they wanted to be able to charge up as much as possible; and flowing from that was the fact that the experience of the states with depreciation accounting on ways and structures was fairly new, and it was desirable to see how it worked out before we gave further consideration to it in Canada. The second reason was that owing to the shortage of clerical help during wartime it was not desirable to have to channel a lot of the staff of the railway accounting system into setting up a property account which would be subject to depreciation?

Mr. MATTHEWS: Yes, we said that several years ago.

Mr. JACKMAN: May I ask you what is your feeling in regard to the experience in the states during the passage of the years? Has the system worked out satisfactorily there?

Mr. MATTHEWS: The Interstate Commerce Commission have given no intention whatever that they are going to abandon the rule that they set in 1943. In 1928 the Interstate Commerce Commission set up a set of regulations for depreciation that were models of perfection in theory, but it took them from 1928 to 1943 before they finally made them effective. Now, that is five years; and, as I say, we know that no indication has been given by the Interstate Commerce Commission that they intend to revoke the decision they made after at least fifteen years of study and negotiations between the American railroads.

I have heard it said many times that the American railroads opposed depreciation accounting on fixed properties because of their earnings position and that they were agreeable to it from a tax point of view by 1943. Be that as it may, the fact still remains that there is a depletion of life in a fixed property or any other enterprise. You will hear it sometimes said that you fix a rate of 2 per cent and after forty years the building may be in as good a condition as it was when you built it; but there does come a time when because of the fact that the structure—any kind of structure—has worn out, it may be of no further value economically. We see that in many instances. Take the case of the C.P.R. hotel in Vancouver as an example. That hotel would stand for a hundred years, but the fact of the matter is that it has ceased to be a hotel as was originally intended. So the fact of obsolescence is a very important thing in this question of depreciation. In fact, the I.C.C. in their reference to depreciation makes reference to obsolescence.

Mr. JACKMAN: Do they use that obsolescence as a component of their factor of depreciation in their system?

Mr. MATTHEWS: In effect; because in making reference to the basis of depreciation they set out the elements of wear and tear of other elements, including obsolescence. This factor of loss-of-service value is not related only to wearing out, and in these changing days obsolescence is becoming more and more a factor that an enterprise must take into account in looking at annual costs of operation. I think that it should be said, however, that the section of fixed properties that is known as track structure is handled on a very conservative basis. The I.C.C. do not provide depreciation as such for ties, rails and other track material and ballast; but what they do require—and the Canadian lines follow that—is that when a line of track is taken up, say it is 100-pound rail, they relay 100-pound rail. The charge to operation is added to its current cost. So you see to the extent of track structure replacement it will take care of this very well. But it is in respect of the so-called depreciable fixed properties as defined by the I.C.C. that we have consistently kept before parliament the need to give this matter consideration; and we are more persuaded of that today than we have ever been before because of change in conditions. We never can forget that whilst it may be said that the Canadian National Railway accounts are never taken as a basis, the fact remains that if we are going to talk about costs we should include everything; and certainly the use of the fixed properties, apart from track structure, is a facility that in one form or another is involved in the cost.

The CHAIRMAN: Gentlemen, it is 1 o'clock, we will adjourn until 4 o'clock.

AFTERNOON SESSION

April 21, 1948.

The committee resumed at 4.00 p.m.

The Chairman: Mr. Matthews was answering questions of Mr. Jackman.

Mr. McLure: Before we proceed I should like to make one observation. I should like to compliment Mr. Thompson of the Publicity and Advertising Department on the wonderful work he has done in preparing the report.

Mr. Matthews:

> In respect of track structure, i.e. ties, rails, other track material and ballast and which are defined in the 1943 Order of the Interstate Commerce Commission as "non-depreciable," the loss of service value is taken up through Maintenance of Way and Structures accounts at the time of replacement on both the Canadian and United States Lines of the System.
>
> Depreciation provision has been made through Maintenance of Equipment accounts for the Equipment of both the Canadian and United States Lines of the System, the $3\frac{1}{3}$% annual depreciation rate used for Rail Equipment of the Canadian Lines being comparable with the latest available composite of the rates used by the Class I Railroads in the United States under the authority of the Interstate Commerce Commission.

Mr. Jackman: Could we have there the amount of depreciation which was assigned against equipment over United States lines?

Mr. Matthews: For the year?

Mr. Jackman: Yes.

Mr. Matthews: I may have that. I will see.

Mr. Jackman: Perhaps Mr. Cooper has it handy.

Mr. Matthews: I may have it here.

Mr. Lafontaine: Could we not have the report read and have questions afterwards?

The Chairman: What do you think about that, gentlemen?

Mr. Jackman: I think we can make pretty good progress. We may have to revert to it. That is the only suggestion I have.

The Chairman: You think it is better to do it as you go along?

Mr. Jackman: I think we will make more progress.

Mr. Hazen: Are we going to ask questions as we go along or read the report and then ask questions afterwards, or are we going to be allowed to ask questions both as we go along and after the report is read?

The Chairman: When we started out I thought the report was going to be read and then questions afterwards, but Mr. Jackman stepped in when depreciation and maintenance came along. I did not stop him. If you would rather have Mr. Matthews read the whole report before questions are asked we can do so.

Mr. Lafontaine: That would be the best way.

The Chairman: Very well. Go ahead, Mr. Matthews. We will clean it up and ask questions afterwards.

Mr. Jackman: May I suggest it is a long report, and there may be certain parts of it that will only have to be referred to by headings later on. I think this present paragraph should be finished. Unless there is some real reason, unless it is inconvenient to other members I would put in a strong plea to continue asking questions as we go along.

The CHAIRMAN: What about reading it all? Do you think it is necessary to read it all?

Mr. JACKMAN: I think we can eliminate a lot of it shortly.

The CHAIRMAN: Perhaps we can eliminate some of it that is not very important as we go long. Is that all right? Very well, we will try to eliminate some as we go along and ask questions as we go along.

Mr. MATTHEWS: You wanted a breakdown, Mr. Jackman. I will get that for you.

> Maintenance of Equipment accounts reflect the utilization during the year 1947 of $8,000,000 from the Deferred Maintenance Reserve. No similar utilization of the Reserve was made in respect of Maintenance of Way and Structures.

Mr. JACKMAN: May I ask is the $8,000,000 in addition to the regular $3\frac{1}{3}$ per cent depreciation on the equipment on Canadian lines, or did the $8,000,000 constitute a part of the $3\frac{1}{3}$ per cent?

Mr. MATTHEWS: Well, it is on the other side of the account. The $8,000,000 is a utilization of the reserve and a credit back to the maintenance accounts. The depreciation of $8,000,000 is a charge. As to this $8,000,000, if you refer to your maintenance of equipment account on page 16 of the railways report, you will see the last item there, deferred maintenance equipment in italics.

Mr. JACKMAN: Yes, $25,000,000.

Mr. MATTHEWS: With the utilization of that $8,000,000 it leaves $25,000,000 still in the reserve.

Mr. JACKMAN: What I am getting at is were the operations for the last year charged the $3\frac{1}{3}$ per cent, and in addition $8,000,000 was drawn down from the deferred maintenance account? Is that right?

Mr. MATTHEWS: It is not in addition.

Mr. JACKMAN: I merely wanted to know whether or not there was an overstatement of earnings last year because of the deferred maintenance account which had been set up in prior years. There was a full $3\frac{1}{3}$ per cent charged to operating account last year?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: That is all I want to know.

Mr. MATTHEWS: The equipment charges are very complete so far as depreciation is concerned.

> In addition to charges for depreciation and those for loss of service value taken up at the time of replacement or retirement, the Maintenance accounts as a whole include the cost of "day-to-day" or "running" repairs and partial renewals on both the Canadian and United States Lines. These repairs and partial renewals are recognized costs of maintenance whether or not depreciation accounting is in effect.
>
> In the matter of Maintenance policy we have received certificates from the responsible operating and executive officers to the effect that, subject to the utilization of the unexpended balance of $25,000,000 in the Deferred Maintenance Reserve, the Fixed Properties and Equipment have been maintained in a proper state of repair and in an efficient operating condition during the year.
>
> With respect to Physical Retirements of Fixed Properties and Equipment, we have been furnished with certificates from the responsible operating and executive officers to the effect that, insofar as traffic demands would permit, such Physical Retirements as should have been made

during the year, as a result of wear and tear and obsolescence, have been made and that notification of all such Retirements has been given to the Accounting Department.

Future Replacement Costs of Railway Facilities

The operating charges in 1947 for depreciation and those for loss of service value taken up at the time of replacement or retirement, as previously referred to herein, are (apart from track structure replacements) based on the original book cost of the facilities. This basis of costing is in accordance with the regulations of the Interstate Commerce Commission. In view, however, of the substantial increase during recent years in the level of replacement costs, we would suggest the consideration of Parliament to the possible effect of future replacements on the System's future operating charges covering the use of its numerous facilities. The problem, of course, is not peculiar to the National System but one of common application to railways and "heavy" industries generally in view of their substantial ratio of "depreciating" or "wasting" capital investment either per annual revenue or expense dollar.

Mr. JACKMAN: May I ask if the auditors have any relationship with the board of directors at all or is it all with the management, and primarily with parliament, of course. Do you discuss these matters at board meetings?

Mr. MATTHEWS: With the board?

Mr. JACKMAN: Yes.

Mr. MATTHEWS: No. We have never requested that.

Contingencies of Railway Obsolescence

Whilst Obsolescence has not been a particular problem of railways generally, at least in an accounting sense, in the past decade because of the unprecedented demand for transportation services of all kinds it might, nevertheless, be well for Parliament to bear in mind the nature, fundamental causes and contingencies of railway obsolescence upon which we offer the following explanatory comments:—

(*a*) Obsolescence may be described as being that element of capital loss due to causes other than predictable loss of service value from wear and tear and the action of the elements during ordinary service life. Under these conditions there is a resultant falling into disuse of a portion of railway facilities—particularly Equipment in the older groups.

(*b*) Obsolescence in the past has been mainly attributable to three causes, i.e.:

(i) The creation in abnormal proportions of facilities to meet public demands or competition for transportation services during periods of early national development, trade and financial booms, wars, etc., followed in due course by protracted periods of economic recession and later by what may be regarded as merely normal times;

(ii) Changes in public demand for specific types of transportation services—other than those furnished by railways, and

(iii) Improvements in the types of railway facilities in the interests of public safety or to meet competitive labour and material costs of operation.

(*c*) The contingencies of obsolescence, in our opinion, will be largely influenced by:

(i) The availability of new capital moneys and the extent to which railways can carry the burden of additional fixed charges;

(ii) The extent to which bus, truck, inland waterways and air lines operations are expanded and regulated;
(iii) The extent to which operations are pooled by railways generally—through statutory or voluntary co-operative measures;
(iv) The extent to which the per capita ownership of automobiles is increased, and
(v) The increase of population, over-all trends of international and domestic economic conditions, etc.

Where a policy of liberal depreciation reserves for both "depreciable" Fixed Properties and Equipment has been in effect for a long period, the impact of obsolescence would not be so pronounced as where a policy of retirement accounting has been in effect for any considerable portion of the service life of the facilities.

Mr. JACKMAN: In the last sentence in paragraph (*a*) you say:—

Under these conditions there is a resultant falling into disuse of a portion of railway facilities—particularly equipment in the older groups.

Is there anything there you would care to be more specific about because it is just a general statement and means nothing to the members.

Mr. MATTHEWS: Of course, that particular situation as you know, developed in the early 30's with all railways. Even the United States railroads which had adopted depreciation accounting several years prior found themselves faced with very low traffic volume and the necessity to retire quite a proportion of equipment. In the United States even with depreciation accounting there was a very substantial amount necessary to be written off and charged against surplus of the railroads. In the early 30's the revenues of the Canadian National fell below $150,000,000, as you well remember. There was a considerable retirement of equipment in 1935, and its relationship to the subnormal level of revenues of that day hardly needs any explanation. So far as the future is concerned it is anybody's guess as to what the trend of traffic in this country is going to be over the next five years or so. The factors that we feel will have an effect on that are set out, and it depends, too, on how obsolescence takes place. If obsolescence takes place as the result of development of a new type of facilities that reduces the cost of operation the loss of obsolescence is not serious, but if it is due to a serious decline in traffic volume, as has happened, we feel that depreciation accounting is at least a measure of protection against that possibility.

Mr. JACKMAN: This obsolescence you have reference to is mainly what may come about in the future rather than anything that is observable at the moment.

Mr. MATTHEWS: I do not think anybody can say today. If one reads the forecasts of the past two years, and realizes how far away the majority of the experts were two years ago on what was going to take place in 1947 one must realize that in an inflationary period such as this it is nothing more than a guess. I have not any means of knowing what the trend of economic conditions will be in this country in the next five years. That depends on so many things outside of the control of any one country today. We are living in a world where the affairs of one continent have a very definite effect on the affairs of another continent. In other words, the day of insular living is past, so that if anyone can tell us what the situation in western Europe, for instance, will be in the next five years we might have a fair idea of what we may look forward to. At the moment I do not think that we or anyone else can look into the future beyond that.

Mr. NICHOLSON: I suppose the construction of a trans-Canada all-weather highway might affect the situation.

Mr. MATTHEWS: Several factors.

Mr. HAZEN: Has the policy of a liberal depreciation reserve been in effect for a long time on this railway? I am referring to the last paragraph. I do not understand it.

Mr. MATTHEWS: On the United States lines, of course, they have followed depreciation accounting for a long period of time because they come under the authority of Interstate Commerce Commission, but on the Canadian lines depreciation accounting was adopted for equipment in 1940, so that you have eight years of accrued depreciation of equipment, but nothing in respect to fixed properties of the system.

Insurance Premium Charges and Fund Operations

> Insurance premium charges are not made through Operating Expenses covering the bulk of the risks carried directly on System account in the Insurance Fund. The profit on the overall operations of the Fund for 1947 is credited to Miscellaneous Income whilst the related amount of Cash is transferred to the current Cash Account of the Railway. The present general level of the Fund and corresponding Reserve has been maintained for several years. The increased level of replacement costs in recent years with its possible effect on the amount of the risk coverage by the Fund is a matter to which the Board of Directors of the System has given some consideration.

Mr. JACKMAN: If my recollection serves me correctly the insurance fund was considered to be fully, if not more than adequate for the risk involved? Is that not the situation?

Mr. VAUGHAN: That is correct.

Mr. MATTHEWS: Yes.

Mr. JACKMAN: So that the earnings on the fund have gone into your general income statement rather than a credit to the fund itself?

Mr. VAUGHAN: That is so.

Mr. JACKMAN: Have the directors decided anything in regard to the extra cost that applies to new equipment now?

Mr. VAUGHAN: That matter has been taken into account and it has been decided the $12,000,000 which we have set up in reserve is adequate to meet the situation.

Mr. JACKMAN: For the year 1948 you feel you should take the earnings of the fund and add it to it and transfer that amount?

Mr. VAUGHAN: No, we think if we keep that fund at a level of $12,000,000 it is going to be sufficient for our requirements.

Mr. MATTHEWS:

Pension Charges vis-à-vis Actuarial Estimates

> Pension charges through Operating Expenses cover the Railway's portion of payments to retired employees under all C.N.R. Plans and the increase in the Pension Contract Reserve for the Railway's portion of the estimated capital amount of all Pension Contracts in force at the year-end under the 1935 Plan. Another way of describing these charges would be to say that they relate to retired employees on pension in 1947 under all C.N.R. Plans but not to accruing pensions for employees presently in service.
>
> From time to time in past years the question has been raised at the Sessions of the Standing Railway Committee of Parliament as to the sufficiency of the annual Pension charges on the foregoing accounting

basis in relation to an actuarial estimate of currently accruing pensions on the System. This question involves the consideration, *inter alia*, of the potential factors of employee compensation and contributions, investment income, life expectancy and, as far as practicable, long term employment turnover.

The following explanatory comments in respect of the year 1947, therefore, might be of interest at this time:—

In respect of Canadian Lines:

(*a*) An approximate actuarial computation made by the responsible Railway officials indicates that the Canadian Lines portion of the Pension charges for the year 1947 exceeds by something approximating $3,700,000 a tentative actuarial estimate of currently accruing Pensions for employees presently in service. It is anticipated that with the passing of time, under the present basis of accounting, this excess will progressively decline and that eventually the trend will reverse itself.

(*b*) The aforementioned estimate of currently accruing Pensions theoretically assumes that as of the 1st January, 1947 all existing Pension payments and all past accruals for employees in service on the Canadian Lines were capitalized through an overall Pension Reserve.

In respect of United States Lines:

(*a*) On the United States Lines of the System the major portion of currently accruing Pensions is taken up in the form of Taxes paid to the Federal Government under the Railroad Retirement Act which accounting, through the Income Account, is in accordance with the regulations of the Interstate Commerce Commission.

(*b*) It may be of further interest to note that, apart from the foregoing Pension charges provided for under the Railroad Retirement Act, the amended Interstate Commerce Commission Regulations effective as of the 1st January, 1948, provide as follows:—

> A carrier may account for pensions on an accrual basis provided it has established a retirement plan whereby it definitely agrees to pay pensions to its retired employees. If the carrier elects to adopt the accrual plan, this account (Pensions and Gratuities) shall be charged and account 769 (Pension and Welfare Reserve) credited each month with amounts representing benefits currently accruing under the plan and borne by the carrier. Contributions by employees shall be credited direct to account 769. Pension payments shall be charged to account 769. Before adopting the accrual plan for pensions, the carrier shall inform the Commission of the details of its pension plan. No charges shall be made to this account in anticipation of discretionary pension payments in the future.

Perhaps I might explain on that one particular point that previous to the adoption of this regulation the Inter-State Commerce Commission required that accruing pensions for those borne by any American carrier, over and above that covered by the payment through taxes, had to be a funded reserve, that is, they had to put the money up. The result was some railroads of the United States with sufficient funds could set up a reserve for accruing pensions while other railroads without the same means were unable so to do. So that this new regulation provides that all railroads in the United States from the 1st of January, 1948, can accrue their currently accruing pensions without the necessity of putting up an equivalent amount of cash.

Mr. LOCKHART: Perhaps the witness can answer this question, or perhaps Mr. Vaughan. In the light of the very materially increasing wage costs has there been any consideration as to increasing the pension amount?

Mr. VAUGHAN: No, sir. We have not changed our pension scheme. We feel that outside of the minimum pensions our pensions are adequate. The additional cost of changing our pension scheme would amount to so much money we feel we cannot afford it.

Mr. LOCKHART: Are pensions in the lower brackets considered satisfactory?

Mr. VAUGHAN: Mr. Cooper gave some figures the other day as to how a man can build his pension up. If a man contributes he can get an adequate pension if he has a reasonable length of service. If he does not contribute he does not get very much of a pension.

Mr. LOCKHART: And there is no consideration being given to any change in the system?

Mr. VAUGHAN: No, sir; not at the present time.

Mr. FULTON: Would the witness clarify paragraphs (a) and (b) with respect to the Canadian lines? I would like to be quite clear whether my impression is correct. I take it that in general paragraph (a) means that at the present time there is a pension fund on hand which exceeds that $3,700,000 of anticipated claims by way of pension?

Mr. MATTHEWS: No. This is an endeavour to answer a question that has been raised heretofore as to whether the annual amount that is being charged to operating expenses is greater or lesser than the accruing pensions if they were on actuarial basis. In 1947, due to the capitalization of the pension contracts at the time, a man retired on pension under the 1935 plan. This had the effect of running the charges up very substantially in the operating expenses for pensions, and this indicates to the committee that for the year 1947 the operating expenses for pensions are very little, so that it would be some little time yet before an accrual basis would exceed the actual charges, due to the fact of charging to operating expenses each year the increase in the capital value of the contract under the 1935 plan issued to retired employees under the plan.

Mr. FULTON: You go on to say, ". . . under the present basis of accounting, this excess would progressively decline and that eventually the trend will reverse itself." By that I take it you mean that the amount charged to operating expenses for pensions will be less than the capitalized value of the pensions?

Mr. MATTHEWS: It means that eventually if the railways were to continue their present basis of accounting for pensions that the actual accruing pensions on the Canadian lines would be higher than the amounts that would be charged on the basis of present pension payments with the capitalization of the contracts.

Mr. FULTON: You say, higher than the amounts charged; higher than the amount charged to what?

Mr. MATTHEWS: Operating expenses.

Mr. FULTON: Where would the deficit be met from?

Mr. MATTHEWS: It would not be met at all. At that time then it would mean that the operating charge shown by the railways would not be sufficient to meet the accruing cost of pensions; in other words, there would be a sense in which then the operating expenses would not be sufficient an amount to actually reflect the cost of pensions. So for 1947 we can see that the charge to pensions is in excess of what it would be on an accrual basis.

Mr. JACKMAN: If all the accruing pensions had a reserve sufficient to support them set up now the company could have charged $3,700,000 less for operating expenses for the year 1947?

Mr. MATTHEWS: That is right.

Mr. JACKMAN: That was a heavy charge on operations. That is the understanding. It is a heavy charge. It is $3,700,000 more than would have been charged had there been set up a fund to take care of the accruing pensions in the past.

Mr. MATTHEWS: Of course, on the other side, Mr. Jackman, when we reach that point—this has to do with the operating expense side—of course the setting up of reserves for capital values would constitute a very substantial amount, as you know.

Mr. JACKMAN: I realize that. The railway has not been in a position to set up enough money to capitalize the accruing and not matured pensions.

Mr. MATTHEWS: I think that the capitalization of pensions, when we get there, is a matter really of the policy of the owner; because what would be necessary would be for the owner to give its consent to the transfer from proprietor's equity to a reserve for the actuarial capital value of the pensions.

Mr. JACKMAN: I only want to be clear as to what the situation is today.

Mr. MATTHEWS: My point is that it is not a question of the railway being able to afford; it is a question of whether or not when you come to the capitalization feature of pensions—whether the proprietor would be willing to authorize the railway to establish a capital reserve out of the present proprietor's equity. The question of affording is hardly the question.

Mr. FULTON: Do we take it from this that there was no pension fund built up?

Mr. MATTHEWS: Oh, yes, there is, definitely.

Mr. FULTON: The pensions have been charged to operating expenses.

Mr. MATTHEWS: You see in the balance sheet that the railway has gone a long way, and as I said last year, the Canadian National Railways, are far ahead of the average company in the manner in which they have established the capitalization of reserves thus far; if you will look at the balance sheet on page 12 you will see that they have established a pension fund and it is made up of dominion government and system securities of $40,915,000.

Mr. FULTON: What is the charge to operating expenses referred to?

Mr. MATTHEWS: The charge to operating expenses was something over $10,000,000, whereas the accruing pensions were $6,000,000.

Mr. FULTON: The point that puzzles me is, if there is a pension fund to meet pension claims what purpose is there to the charge made to operating expenses; what does the charge cover?

Mr. MATTHEWS: Under the present basis, as I have explained, the charges to operating expenses represent two things: first, the pension payments made in cash; secondly, under the 1935 plan when a man reaches retirement age he is given a contract which undertakes to pay him so long as he lives a definite amount per month. Now, the railways have established a policy that we think is very sound, and they have taken the capital value of the actual pension, taken the man's age into account, and have estimated the capital value of that contract. Under that plan the employees make contributions and at that time the employee's contribution is turned back into the railway and that together with the earning of the fund is applied in reduction of the increase of the capital value and the net amount only is charged to operating expenses. So you see the charge to operating expenses is a combination of the cash paid plus the capital value of the pension contracts issued to the retired employees.

Mr. FULTON: It is as though it were paid into a general fund, operating revenues, and from operating revenues paid back to the pension fund?

Mr. MATTHEWS: That is right. The capital value of the pension contracts under the 1935 plan has been completely set up in a reserve and funded and that is the $40,000,000 of which we speak.

Mr. LOCKHART: There was one point I did not ask Mr. Vaughan. Has there been any complaint from the lower bracket contributing employees that their basis of pension in this lower bracket is not sufficient—I refer to the labouring type of man?

Mr. VAUGHAN: Yes, there has. They feel that our minimum pension should be increased.

Mr. LOCKHART: Because of the present cost of living and so on?

Mr. VAUGHAN: Yes, our organizations have advocated on different occasions that the minimum pension should be increased.

Mr. LOCKHART: It is under consideration?

Mr. VAUGHAN: It is not under consideration because we have said we could not afford it.

Mr. LOCKHART: Oh, yes. It is unfortunate.

Mr. MATTHEWS: Mr. Chairman, did I understand at a certain point you were prepared to allow me to put my report in or am I to go on reading it?

The CHAIRMAN: I think there are some paragraphs which you might summarize. Has anyone any questions which he would like to ask as Mr. Matthews goes on?

Mr. MATTHEWS:

Taxes

Tax provisions made through the Income Account relate principally to Dominion Unemployment Insurance; Provincial Taxes in Ontario and Quebec; Municipal Taxes in Canada; United States Federal, State and Municipal Taxes, and Taxes assessed against Hotels in Canada and Separately Operated Properties in both countries. Dominion Sales Taxes are included in the cost of materials.

Consolidated balance sheet

Assets

Against the Corporate portion of the property investments brought into the National System accounts at the 1st. January, 1923, there have been properly applied the substantial reductions authorized by the Canadian National Railways Capital Revision Act, 1937, but no similar reductions were authorized at that time covering the Crown property investments in the Canadian Government Railways. Since the 1st January 1923, the Additions and Betterments less Retirements of the System have been shown on the general basis of cost.

The several special funds including Capital and Other Reserve Funds, Deferred Maintenance Fund, Insurance Fund and Pension Contract Fund, amounting in total to $85,704,000, are composed of investments in the securities of the Dominion Government and the National System, together with Cash and sundry current assets. The year-end market value of the securities held in these special funds in total exceeded the book figure, which for Government securities was based on cost and for System securities on par value. The portion of Insurance Fund holdings of $4,311,000 in System securities, the listings of which were withdrawn from the Exchanges as a result of the war-time United Kingdom Vesting Orders, have been taken at par for the purpose of the foregoing year-end market valuation.

The par value of National System securities held in the foregoing special funds aggregates $10,225,000 of which par value $5,690,000 is covered by the guarantee of the Dominion.

Capital and Other Reserve Funds are maintained for the purpose of recording the holding by Trustees of the unapplied proceeds from Funded Debt issues and the disposal of Mortgaged Properties.

Mr. NICHOLSON: On page 4 in connection with fixed charges it says: "Fixed charges through the income account, shown in the foregoing summary and in accordance with the principles defined by the Interstate Commerce Commission..." and then on the next page it says, "We would again call to the attention of parliament this disproportionate ratio of fixed charges as borne by the National System in comparison with other major railways in North America." I wonder if Mr. Matthews could tell us during how many years this recommendation has been made?

Mr. MATTHEWS: Well, I do not remember that, but the ratio is just about double. It has been just about that for several years and it still is. In 1947, if you will refer to the C.P.R. report, for instance, you will find that for every dollar of revenue their fixed charges are five cents and the proportion runs about the same on class 1 railroads in the United States. In other words, the equity capital in the Canadian National Railways has never been brought into balance and I think that on that score there has been some misunderstanding about what the Capital Revision Act was supposed to do. If you will refer to the statement made by the minister in 1937 when he brought down that Act he made it very clear that it was not in any sense an attempt to adjust the over-all fixed charges of the Canadian National Railways; it was only an adjustment of the affairs between the owner of the property and its operations; so that any thought that the Capital Revision Act was to adjust the capital structure fully is not correct. This situation prevailed then and still prevails.

Mr. NICHOLSON: I think you are wise in bringing this matter to the attention of parliament. I cannot recall our recommendation being quite as definite as that before.

Mr. MATTHEWS: Oh, yes.

Mr. NICHOLSON: Have you the wording of the previous declarations?

Mr. MATTHEWS: I have the one for 1946: "We would again call to the attention of parliament this disproportionate ratio of fixed charges as borne by the National System in comparison with other major railways in North America."

Mr. NICHOLSON: The words are the same. The recommendations are not being acted on and you are continuing to recommend until something is done?

Mr. MATTHEWS: As you know, the railway management have dealt with the matter also and we have just endeavoured to lend whatever aid we could to something that we believe advisable.

Now, turning to page 8, I have read taxes and two paragraphs of the consolidated balance sheet.

Mr. HAZEN: How do the dominion and provincial municipal taxes that you have to pay in Canada compare with the federal, state and municipal taxes you have to pay the United States in proportion to the capital invested in each country? Are the taxes higher in the United States than they are in Canada?

Mr. MATTHEWS: I think you should direct that question to the management.

Mr. HAZEN: You mentioned provincial taxes in Ontario and Quebec. Do you not pay any provincial tax in any other provinces?

Mr. MATTHEWS: No.

Mr. HAZEN: What is the nature of the provincial tax in Ontario and Quebec?

Mr. MATTHEWS: That was dealt with the other day.

Mr. HAZEN: If it was dealt with we will not go into it again.

Mr. JACKMAN: Do you have to pay an income tax on earnings, assuming that you have earnings; and did you have earnings last year on the American lines on which you paid a corporate income tax to the federal and state authorities?

Mr. COOPER: Yes, the International Bridge Company had a taxable income. The Grand Trunk Western is in one year and out another. The net income of that railway fluctuates, but over the years I think it would be true to say that we pay an income tax to the federal government with respect to the Grand Trunk Western Railway and the International Bridge Company.

Mr. JACKMAN: Inasmuch as your American lines are profitable you pay income tax federally and to the states too?

Mr. COOPER: I do not think we pay any income tax in the states, but definitely we pay federal income tax. In all the states, however, we pay state taxes and generally they are higher than the provincial taxes in Canada.

Mr. HAZEN: You speak of municipal taxes in Canada; does that mean in each of the provinces in Canada?

Mr. MATTHEWS: Oh, yes.

Mr. VAUGHAN: We filed a statement here showing the taxes that we pay in Canada, provincial and municipal; that is on the record.

Mr. MATTHEWS: It is in the consolidated balance sheet.

Mr. JACKMAN: Of Crown properties?

Mr. MATTHEWS: The Canadian government railways. There was no adjustment of the property account.

Mr. JACKMAN: The only thing in Crown properties is I.C.R.

Mr. MATTHEWS: Yes, known as the Canadian government railways.

Investments in Affiliated Companies, as detailed in the relative schedule, are represented by the Capital Stocks, Bonds and obligations for Advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, this type of "unlisted" investment is made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the Balance Sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. Apart from the Trans-Canada Air Lines, the 1947 Financial Statements issued by the companies representing the larger investments indicate that:—

(*a*) The affiliates have utilized the funds from the sale of their securities up to the 31st December, 1947, for investment in Fixed Properties and Equipment and for working capital purposes.

(*b*) Profits aggregated some \$1,652,000 and Losses some \$1,411,000 during the year 1947. Included in the latter total is the loss amounting to \$1,328,000 of the Northern Alberta Railways Company, 50% of which loss has been taken up as an Income charge by the National System, the other 50% being chargeable to the Canadian Pacific Railway. It should be noted that The Toronto Terminals Railway Co. has no Profit and Loss Account in the ordinary sense as the Terminals operations are pooled, under agreement, on a joint facility basis with the Canadian Pacific Railway.

In respect of both the Northern Alberta Railways Company and The Toronto Terminals Railway Company, provision was made for the payment of their 1947 Bond interest.

Dividends were paid during the year by the following companies:—

	Rate per share
Chicago & Western Indiana Railroad Company.......	6%
The Detroit & Toledo Shore Line Railroad Company...	8%
The Public Markets, Limited........................	4%
Vancouver Hotel Company Limited..................	100% of 1946
(as dividend equivalent)	Profit

(*c*) No major Corporate Deficits exist at the 31st December, 1947. This indicated position, however, should be considered in conjunction with the varying accounting policies relating to Accrued Depreciation of Fixed Properties. Generally speaking, the principal affiliates in Canada do not accrue such depreciation whereas those in the United States have done so since the 1st January, 1943, in accordance with the relative order of the Interstate Commerce Commission.

Other Investments are comprised partly of "unlisted" investments of a miscellaneous nature including those in hotel and grain elevator companies held primarily for purposes of traffic benefit, and are valued at or below cost. The balance is represented by securities of the Dominion Government and the National System (Dominion Guaranteed) the year-end market value of which in total exceeded the book figure based respectively on cost and par value.

Temporary Cash Investments are represented by Dominion of Canada securities, the year-end market value of which exceeded the book figure based on cost.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year-end, departmental files and general supporting information but such Accounts have not been additionally verified by direct communication with the individual Debtors and Creditors.

The unpaid balance of the Deficit for the year 1947 has been set up as a current account against the Dominion of Canada pending the appropriation by Parliament of the funds required to cover the 1947 Deficit as a whole.

A physical inventory of Material and Supplies was taken by the Railway as at the 30th September, 1947, and in connection therewith we have received certificates from the responsible officers to the effect:

(*a*) That the quantities were determined by actual count, weight or measurement or by conservative estimate where such actual basis was impracticable, and

(*b*) That the Inventory pricing was laid down cost based on weighted average costs for ties, rails and fuel and latest invoice prices for new materials in General Stores, and on estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable pricing allowances for condition thereof.

Ledger values as of the 30th September, 1947, were brought into agreement with the Physical Inventory through a credit to Operating Expenses. It is difficult to say to what extent this operating credit was due to rising prices but it is important to point out that the System's Inventory turnover for 1947 was approximately two and one-half times and that current stores issues are costed on the same basis as the physical inventory. The Balance Sheet figure for Material and Supplies as at the year-end is, *inter alia,* a reflection of the high level of unit material costs in Railway operation.

Current Assets show a ratio of 1·5 to 1 of Current Liabilities. This compares with a Working Capital ratio of 1·6 to 1 in 1946.

Other Deferred Assets are composed largely of Contracts Receivable in connection with the sale of land in Western Canada and Deferred Accounts Collectable in respect of various matters.

Discount on Funded Debt represents the unamortized portion of the discount and issue expenses incurred at the time the relative securities were sold, which will be written off, in accordance with recognized practice, against Income in pro-rata annual instalments during the remaining life of each issue.

Other Unadjusted Debits consist of the unamortized cost of opening ballast pits which is to be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted inter-line freight claims paid in advance of investigation with other carriers, and miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Decline in Market Values of Owned Securities since the 1947 year-end

Whilst the decline in the market values of Government and National System security issues since the year-end is a matter of common knowledge, we consider that we should mention to Parliament the fact that such market decline up to the 5th March, 1948, would have the effect of converting the year-end market excess over book values of the Railway's Owned Securities to one of a minor market deficiency. It should be explained, however, from the viewpoint solely of investment policy, that if the System Securities held in the Railway's Insurance Fund were carried on the books at the actual cost instead of par value there would still remain some over-all market excess in Owned securities of the Railway as of the 5th March, 1948.

Capital Stocks, Liabilities and Reserves

Capital Stocks and Long Term Debt, as detailed in the relative schedules, are shown on the Balance Sheet in respect of Public holdings. Consequently the Balance Sheet figures do not include securities held in the Treasury of the Railway nor those held as collateral mainly by The Canadian National Railways Securities Trust in accordance with the 1937 Capital Revision Act and by the Dominion Government largely as a result of the war-time United Kingdom Vesting Orders.

The Combined Capital Debt, i.e., Long Term Debt and Dominion of Canada Account, was increased by the net amount of $23,370,000 during the year. Of this Capital Debt increase, $18,000,000 was utilized in the acquisition of Trans-Canada Air Lines shares and the balance in partial liquidation of the financial requirements for Net Capital Expenditures.

The several corporate Reserves for Pension Contracts, Insurance, Accrued Depreciation and Defence Projects Amortization, Deferred Maintenance and miscellaneous purposes aggregate $207,827,000 of which $81,765,000 is represented by Special Funds and other specific investments. None of these Reserves, however, are presently in the nature of reversible Appropriations of Surplus nor is the accounting policy of the System such as would result in the creation of "hidden" Reserves.

The Insurance Reserve includes the amount set aside for major unadjusted loss claims at the date of the Balance Sheet.

Accrued Depreciation—United States Lines—applies to Equipment from a date prior to the 1st January, 1923, and to Fixed Properties (excluding track structure) mainly from the 1st January, 1943, in accordance with the regulations of the Interstate Commerce Commission.

Other Deferred Liabilities consist principally of the outstanding capital amounts of the workmen's compensation awards by the Provinces of Ontario and Quebec, and the balance of the obligation to the State of Michigan in respect of the wider Woodward Avenue extension in Detroit.

Other Unadjusted Credits include the estimated proportion of prepaid Revenues on freight in transit; excess of actual Revenues over year-end estimates carried in suspense; estimated liability for injuries to persons; estimated liability for overcharge claims, and miscellaneous credit items not otherwise provided for or which cannot be disposed of until additional information is received.

Dominion of Canada—Proprietor's Equity

Dominion of Canada—Proprietor's Equity—is set forth in the Balance Sheet and the relative schedule in accordance with section 2 (*f*) of The Canadian National Railways Capital Revision Act, 1937, which defines the composition of the account as follows:

"2 (*f*) "proprietor's equity" means

(i) the initial stated value of the capital stocks of the Canadian National Railway Company and the Securities Trust as determined pursuant to sections five and fifteen of this Act as of January first, nineteen hundred and thirty-seven, plus any subsequent surplus earnings of the National Railway System not paid over to His Majesty, less subsequent capital losses and other charges of the National Railway System in respect of which His Majesty has not made any contribution, and

(ii) the capital investment of His Majesty in the Government Railways."

The following explanatory comments are made with a view to clarifying the Proprietor's Equity Account as set out in the relative schedule:

(*a*) The Capital Stock of the Canadian National Railway Company is shown as at the 1st January, 1947, the initial stated value of which represents the 1918 arbitration value placed on the Canadian Northern Railway Company shares acquired in 1937 by the National Company. The Stock of the National Company is the medium through which the Dominion controls the corporations which formerly were privately owned but now form part of the National System as an operating entity.

(*b*) The Capital Stock of the Canadian National Railways Securities Trust is shown as at the 1st January, 1937, the initial stated value of which represents the total amount of the corporate loans by the Dominion utilized for capital purposes prior to that date as converted to Share Capital.

(*c*) The Surplus Earnings are for the years 1941 to 1945 only, as Section 12 of the Canadian National-Canadian Pacific Act stipulates that "Income deficits shall not be funded" but voted annually by Parliament. Generally speaking, the Capital Gains relate to repatriation of securities under the war-time United Kingdom Vesting Orders and the Capital Losses to major retirements of Road and Equipment not covered by depreciation accruals. For purposes of accounting simplicity these Surplus Earnings, Capital Gains and Capital Losses of the National System have been applied in their entirety to the Capital Stock of the Securities Trust as no essential purpose would be served by making any arbitrary division between the Canadian National Railway Company and the Canadian Government Railways.

(*d*) The Capital Expenditures by Dominion of Canada on Canadian Government Railways represent only the direct appropriations by Parliament and accordingly are exclusive of capital expenditures on the Crown property financed by the Canadian National Railway Company.

The Dominion's Equity decreased $1,823,000 during the year as a result of line abandonment, sale of dock property, retirement of Equipment on the Canadian Lines less Capital Expenditures by the Dominion on the Canadian Government Railways. In respect of the Retirement of Equipment it should be mentioned that as no depreciation accruals were made prior to 1940 for Canadian Lines Equipment, the loss of service value, i.e., ledger value less salvage, has been charged against the Reserve to the extent of depreciation accruals from 1940, the balance being charged against the Equity Account.

The total book value shown for Proprietor's Equity is subject to the qualifying factors previously referred to herein under the caption "Audit Certificate".

National Utility Value of the System to the Dominion

A realistic view of the overall value of the Dominion's Equity in the System calls for consideration of an important element of value not possible of reflection in any set of accounts, i.e. national utility value. The System demonstrated its utility value to the Dominion as an arm of military defence in the war years 1939 to 1945 and, in addition, during the last five years of that period was able to make loan repayments to the Dominion Treasury aggregating $112,502,000 as the result of Surplus Earnings after the payment of Fixed Charges. In the post-war period thus far, the System has demonstrated its utility value to the Dominion in the country's conversion from war-time economy and in addition, notwithstanding the Deficits shown for the years 1946 and 1947, has afforded some indication of a peace-time Earnings potential provided it is able to maintain a future traffic volume reasonably approaching the present level, and is given:

(*a*) Some long-term and reasonably compensatory return through increased transportation rates in relation to increased wage rates and unit costs of materials, and

(*b*) A ratio of Fixed Charges to Operating Revenues reasonably comparable with that of other major railways in North America.

Wholly on the premise that the System were given these working conditions on a long-term basis, it has indicated some peace-time Earnings potential despite certain handicaps, from a strictly competitive and economic standpoint, which were existent at the time of amalgama-and still are inherent in some of its operations.

Looking to the future, these inherent operating handicaps, in our opinion, might well be made the subject of a special study with a view to determining the effect on operating results of those services of a national character as distinguished from those of a normally competitive character. From such a study the Railway enterprise and its Management policies could be more equitably and effectively evaluated than is possible under the present basis of viewing the operating results

Major Contingent Liabilities—including Capitalization of Pensions

Apart from undertakings for Capital Expenditures which are subject to authorization by Parliament and those for materials required in the ordinary course of business, Major Contingent Liabilities are as outlined in the relative schedule.

In respect of Pension Plans referred to in the relative schedule, we make the following amplifying remarks:

(*a*) Under the 1935 Contractual Plan a Reserve is set up on the books of the Railway against the Capital value of contracts in force, based on an actuarial estimate made by the responsible Railway officials, but not against pensions conditionally accruing. The Reserve is represented by the Pension Contract Fund established by the Railway the assets of which, amounting to $40,915,000 are in the form of Dominion of Canada and National System (Dominion Guaranteed) securities together with Cash and sundry current assets.

(*b*) The contributions under the 1935 Plan by employees presently in service are invested through the two separately administered Pension Trust Funds, the accounts of which are not included with those of the Railway. The assets of the separate Pension Trust Funds amounting to $26,933,000 are in the form of Dominion of Canada and National System (Dominion Guaranteed) securities together with Cash and sundry current assets.

(*c*) The year-end market value of the securities held in the Pension Contract Fund and the separate Pension Trust Funds exceeded the book figure based on cost and par value for the former Fund and cost for the latter. In this connection, however, we would make reference to our previous comments on current market values as of the 5th March, 1948.

(*d*) The total book value of the three funds in operation under the 1935 Contractual Plan is $67,848,000.

(*e*) No Reserves are set up on the books of the Railway against the Capital value of:

(i) Pensions being paid to employees retired under the Canadian National General Pension Plan prior to 1935 when the Plan became contractual;

(ii) Payments being made towards pensions to employees retired under the provisions of the Grand Trunk Superannuation and Provident Fund and of the Intercolonial and Prince Edward Island Provident Fund, both of which Funds have been closed to new members for several years, or

(iii) Non-Contractual Pensions conditionally accruing.

With the passing of time these Non-Contractual Plans will progressively lessen in relative importance to C.N.R. Pension Plans as a whole and in due course will terminate their existence. When that point is reached it is anticipated that, apart from the Pension coverage under the Railroad Retirement Act on the United States Lines, the National System Pension provisions will be centralized under the 1935 Contractual Plan.

In considering the foregoing outline, it should be borne in mind that the 1947 Pension charges through Operating Expenses cover the Railway's portion of payments to retired employees under all C.N.R. Plans and the increase in Pension Contract Reserve for the Railway's portion of the estimated capital amount of all Pension Contracts in force at the year-end under the 1935 Plan.

Foreign Exchange Conversions

Where foreign currencies are involved, the Balance Sheet accounts of the System are converted generally as follows:

(*a*) United States Currency
—at the dollar par of exchange

(*b*) Sterling Currency
—at the former par of $4.86⅔ to the £ Sterling, and

(*c*) French Currency
—at approximately 15 francs to the dollar for the orginal investment in Hotel Scribe and 100 francs to the dollar for Working Capital accounts.

Basis of Accounting Consolidation

The Consolidated Accounts of the System embody those of the 84 constituent companies, as detailed in the relative schedule, and those of the Canadian Government Railways.

Apart from the Trans-Canada Air Lines, for which separate accounts are maintained, the basis of corporate consolidation is the holding by parent companies of more than 50 per cent of the Capital Stocks of the relative subsidiary companies. The amount of minority Capital Stocks of subsidiary companies held by the Public is set up separately on the Consolidated Balance Sheet whilst provision for the minority interests in the small amount of accumulated Surpluses of certain subsidiary companies is made in Other Unadjusted Credits.

In those cases where parent companies have acquired the securities of subsidiary companies at less than par value, the consolidation adjustments are effected mainly through the reduction of the issued securities and the related Discount on Capital Stock or Investments in Fixed Properties and Equipment, the two principal exceptions being:

(*a*) The excess of the par value over cost of the System securities acquired as a result of the war-time United Kingdom Vesting Orders which is carried as a Capital Gain in Proprietor's Equity Account, and

(*b*) The excess of the par value over cost of the System securities held in the Insurance Fund which is carried in the Insurance Reserve. In this case the issued securities are not eliminated from the Consolidated Balance Sheet but shown as being held in Special Funds.

We consider the Basis of Consolidation of the System's accounts to be sound in principle.

Previous Years' Recommendations to Parliament

From time to time in previous years there have been included in our Annual Reports, *inter alia*, certain recommendations to Parliament covering two major matters, i.e.

(*a*) The extension of existing depreciation accounting policies on the Canadian Lines, and

(*b*) The establishment of uniform accounting regulations for Canadian railways under the statutory authority of the Dominion.

In view of the aforementioned reportings to Parliament and the consideration given to these matters from time to time by the Standing Railway Committee of Parliament we have deemed it unnecessary to again include the details of the two recommendations in this Report. We wish to state, however, that our interpretation of the events of the past year and those in prospect only tend to strengthen our own conviction on the ultimate advantages inherent in the implementation of such recommendations.

General Scope of Audit

The general scope of the test audit of the System accounts for the year 1947 may be outlined briefly as follows:—

(*a*) Examination of major expenditure authorities in conjunction with the recorded Resolutions of the Directors, which in turn are related to Corporate By-Laws, Orders in Council and Acts of Parliament;

(*b*) Audit tests in the offices of Regions, Separately Operated Properties and System Headquarters, limited to a cross-section of the major expenditures so authorized.

(*c*) Examination into the adequacy of the internal audit control in general as exercised by the accounting department of the System. In this connection we work in collaboration with the executive accounting officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of Cash Receipts and Expenditures, Securities Held, Material Stores, Accounts Receivable, etc., and through the carrying of Fidelity Bond Insurance with outside Underwriters, and

(*d*) Audit and certification of the Consolidated Income Account and Consolidated Balance Sheet together with the preparation of the Report for presentation to Parliament, as required by The Canadian National-Canadian Pacific Act, 1936, which Body is thus placed in possession of facts presented from an independent viewpoint.

The test audit, involving the use of some 480 audit programmes, covers the various Balance Sheet accounting units in Canada, the United States, London (England) and Paris (France) with Income Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters which comprise the System as an operating entity.

Apart from those pertaining to the Canadian Government Merchant Marine, Limited and the Trans-Canada Air Lines, the holdings in the Capital Stocks of the Affiliated Companies, as set out in the relative schedule, are insufficient to give voting control and accordingly the Companies are not treated as units of the System nor are their accounts audited by us. In a few instances their accounts are certified by Public Accountants but for the most part they are audited by joint committees composed of System accountants and representatives of outside interests.

Canadian National Railways Securities Trust

The constitution of the Securities Trust is set out in Section 12 of The Canadian National Railways Capital Revision Act, 1937, as amended 1945.

The primary function of the Securities Trust, as provided in Section 13 of the Capital Revision Act, is the holding alive of the corporate Indebtedness (formerly to the Dominion but now to the Trust) and relative Collateral Securities, for the purpose of preserving any priority rights of the Dominion in respect of certain Unguaranteed Securities and subsidiary company Capital Stocks held by the Public. This function of the Trust, as a corporate holding agency, lessens in importance with the passing of time as Unguaranteed Securities are redeemed and the relative subsidiary companies are liquidated.

Supplementing our Audit Certificate appended to the accounts published by the Securities Trust, we comment as follows:

The Securities Trust, under authority of Section 22 of the Capital Revision Act, has been treated as a constituent unit of the National System. There is, however, a provision in Section 23 of the Act requiring presentation to Parliament annually of a Trustees' Report and a separate

Balance Sheet for the Trust. It is further provided that the Trustees' Report is to set forth the transactions of the Trust during each year, which are deemed to comprise the net change in the book value of its Capital Stock originating in the accounts of the Railway and, subject to the approval of the Governor in Council, any releases of Indebtedness or Collateral Securities belonging to the Trust.

Mr. FULTON: Could you tell us, with respect to the Vancouver Hotel Company Limited, shown on page 9, 100 per cent of 1946 profit, could you tell us what percentage of the capital investment in that hotel that profit represents?

Mr. MATTHEWS: The capital value in the Vancouver hotel, as I recall it, is something around $11,000,000.

Mr. FULTON: What percentage of that capital did the profit you received represent?

Mr. JACKMAN: How much profit?

Mr. MATTHEWS: I might say that the profit of the Vancouver hotel, after all charges including rental and depreciation, would total an amount of net income, let us say $288,000 in 1947, against a capital investment of something over $11,000,000. But the net income that we are talking about, that is declared, is $288,000, the net income of the Hotel company, the Vancouver Hotel Company. Now, as Mr. Cooper points out, in addition to that, the Canadian National Railways get 75 per cent of the rental that is charged against the company; but the hotel company, as such, declared and paid over to the two railway companies $288,000 net income in 1947, plus a division of the rental, 75 per cent and 25 per cent.

Mr. FULTON: Would you agree that that represents a return of approximately 2·6 per cent on the investment?

Mr. MATTHEWS: You would have to take into account with respect to the Canadian National, that it also got back 75 per cent of $280,000.

Mr. FULTON: That rental is the thing which has to be deducted for profits; but I am speaking of the profit shown in 1946; that represents, approximately, 2½ per cent on the investment.

Mr. MATTHEWS: We are talking, in our report, of the Vancouver Hotel Company; and I think if you are going to relate that to the capital investment, you must take into account the profit of the company plus Canadian National's percentage from the whole rental against our company. So, in fact, if you take in the rental which comes back to the owners, you will really take your $280,000 instead of your $288,000.

Mr. FULTON: And that would be your return after depreciation; making it about 5 per cent.

Mr. MATTHEWS: About 5½ per cent, roughly.

Mr. JACKMAN: Why should you not make more than that in a period of full occupancy and of high level of prosperity, because if you do not have anything like your maximum occupancy, you are going to show a loss. Supposing you have, let us say, 60 per cent occupancy, which is very good for hotels, then your Vancouver property would not show you any profit at all.

Mr. VAUGHAN: We think we are doing reasonably well with the Vancouver hotel, having regard to all the circumstances. We think the charges now are about as high as we can reasonably put them.

Mr. JACKMAN: Your depreciation on that hotel is at a rate of 2½ per cent?

Mr. COOPER: We are charging depreciation at the rate of 10 per cent on the value of the furniture and the furnishings. We are paying income taxes and we are making a generous allowance for upkeep, and having done all that, in the period since the hotel was opened for operation, we have had a surplus of $2,663,000, which has been divided between ourselves and the Canadian Pacific, and we think we have done pretty well.

Mr. JACKMAN: It being a seperate company, its income is all subject to corporate taxation in Canada.

Mr. COOPER: Yes, sir.

Mr. JACKMAN: Even though the Crown owns half of it?

Mr. COOPER: The hotel is owned by the Canadian National Railways but we rent it to an operating company which pays income tax on the result of its operation.

Mr. JACKMAN: Yes.

Mr. MATTHEWS: The unpaid balance of the deficit for the year 1947 has been set up as a current account against the Dominion of Canada pending the appropriation by parliament of the sums required to cover the 1947 deficit as a whole. Since writing this report I think that the deficit was voted by parliament.

A physical inventory of material and supplies was taken by the railway as at the 30th of September, 1947. A physical inventory was taken over the system and adjustments were made. And when you take the figures, there was created operating expenses of something over $500,000, but we think it was a very satisfactory inventory. The current assets show not very much difference than in previous years. Deferred assets are composed largely of contracts receivable in connection with the sale of land in western Canada and deferred accounts collectable in respect of various matters.

Discount on funded debt represents the unamortized portion of the discount and issue expenses incurred at the time the relative securities were sold.

Mr. JACKMAN: As to the physical inventory, you value everything at the time of the physical inventory and you make a profit or loss on that, depending on your book value or cost.

Mr. MATTHEWS: As we have said, it is difficult to say to what extent that credit of $500,000 was due to rising prices in the interim. But the items of ties, rails and fuel are all on a weighted average cost. General stores and materials are taken on the latest invoice cost.

We point out to you that the stock turns over 2½ times in a year. So, to the extent that there is a lapse of time between that average of 2½ times a year, and the year's end, there would be some element there.

Mr. JACKMAN: Is not that a little different from ordinary corporate accounting?

Mr. MATTHEWS: Yes, oh yes. As a matter of fact industrial accounting—this is not different from railway practice, generally, but you are thinking in terms of industrial practice except, Mr. Jackman, that you will find that if you make an analysis of the United States corporation, there is a very substantial amount of inventory profits included in 1947.

One of the things which is pointed out by the American Management Association is that many companies, most companies, do price their inventories in commercial undertakings at cost in that market, but not the railways.

Mr. JACKMAN: There is no criticism to be found in that method?

Mr. MATTHEWS: No, but I think we have to make a very definite line of demarcation between railways and commercial enterprises. In the case of a railway, its materials and supplies are not the basis of its operation, whereas in the case of industrial companies, they are buying and selling merchandise, so their inventories are of extreme importance.

Mr. JACKMAN: What is the value in railway accounting of taking up profit or loss on your inventory at the end of the year?

Mr. MATTHEWS: The inventory was priced on the basis that we set out, and it was adjusted to the older values, and it was adjusted to that inventory price as we have indicated, and it is a very proper thing to do.

Mr. JACKMAN: And there happened to be a credit to your operating account?

Mr. MATTHEWS: Yes. And it could have been the other way. But it does indicate the stocks are reasonably well controlled. They have a very good stores system in the Canadian National System.

Mr. FULTON: Under the heading of deferred assets on page 10 you refer to: "Contracts receivable in connection with the sale of land in western Canada . . ." In the consolidated balance sheet there is no breakdown which enables me to determine what amounts remain on hand for sale.

Mr. MATTHEWS: That was given in yesterday's evidence, I think.

Mr. FULTON: Thank you.

Mr. MATTHEWS: Decline in market values of owned securities since the 1947 year-end.

While the decline in the market values of government and national system security issues since the year-end is a matter of common knowledge, we consider that we should mention to parliament the fact that such market decline up to the 5th of March, 1948, would have the effect of converting the year-end market excess over book value of the railway's owned securities to one of a minor market deficiency. It should be explained, however, from the viewpoint solely of investment policy, that if the system securities held in the railway insurance fund were carried on the books at the actual cost instead of par value there would still remain some over-all market excess in owned securities of the railway as of the 5th of March, 1948.

Perhaps I should just enlarge on that a little. At the end of December, the owned securities of the railways showed a surplus of $3,405,000. That was at the end of December. Now, as you know, after the action which was taken by the United States treasury, and followed throughout Canada, there was a general decline in all government or government-guaranteed securities, and on the National Railway holdings for those securities there was a general reduction of about 4 per cent in the over-all market values.

And, at the 5th of March it had affected the operating surplus of $3,405,000 to the small degree of $32,000. But we point out that, from the point of view of investment policy, the company is still actually well ahead of any market decline.

Mr. JACKMAN: But you cannot help it very much anyway.

Mr. MATTHEWS: In any event their investment policy has been quite sound, and there is, in the insurance fund, in writing up the securities, to par, somewhere in the neighborhood of $1,000,000 over the years. That represents an excess over cost, so that, while the surplus at the end of December had disappeared by March, there was nothing anybody could do about it. They are government and government-guaranteed securities, and everybody's portfolio has suffered in the same way.

Capital stock, liabilities and reserves:

Capital stocks and long-term debts, as detailed in the relative schedules, are shown on the balance sheet in respect of public holdings. They are shown as amounts held by the public and they are only internal combined capital debt, and they were increased by the net amount of $23,370,000 during the year. All this capital debt increase of $18,000,000 was utilized for the acquisition of Trans-Canada Air Lines' share.

Now, in respect of the several corporate reserves, we point out that of the $207,000,000, $81,000,000 is represented by special funds and other specific investments. None of these reserves, however, are presently in the nature of reversible appropriations of surplus nor is the accounting policy of the system such as would result in the creation of "hidden" reserves.

From time to time one hears—well, for instance, during the Freight Rate Inquiry— some misconception of the idea that, because you had a large reserve position, that, in some magical way those reserves could be utilized to pay other expenses. That, of course, is not realistic thinking. The reserves of the National Railways are all noted and their accounting policy does not lend itself to any hidden reserve. I would like to make that point clear.

The insurance reserve includes the amount set aside for major unadjusted loss claims at the date of the balance sheet.

Accrued depreciation—United States Lines—applies to equipment from a date prior to the 1st of January, 1923, and to fixed properties (excluding track structure) mainly from the 1st of January, 1943, in accordance with the regulations of the Interstate Commerce Commission.

Other deferred liabilities consist principally of the outstanding capital amounts of the workmen's compensation awards by the provinces of Ontario and Quebec, and the balance of the obligation to the state of Michigan in respect of the wider Woodward Avenue extension in Detroit.

Other unadjusted credits include the estimated proportion of prepaid revenues on freight in transit, excess of actual revenues over year-end estimates carried in suspense, estimated liability for injuries to persons; estimated liability for over-charge claims, and miscellaneous credit items not otherwise provided for or which cannot be disposed of until additional information is received.

Dominion of Canada proprietor's equity:

Dominion of Canada—proprietor's equity—is set forth in the balance sheet and the relative schedule in accordance with Section 2, subsection (*f*) of the Canadian National Railways Capital Revision Act of 1937, which defines the compensation of the account. The Dominion of Canada proprietor's equity is just an explanatory outline again of these equity accounts and I hardly think I need to read them to you.

The CHAIRMAN: I do not think so.

Mr. MATTHEWS: There is nothing which is new.

National utility value of the system to the Dominion.

A realistic view of the over-all value of the Dominion's equity in the system calls for consideration of an important element of value not possible of reflection in any set of accounts, i.e., national utility value. The system demonstrated its utility value to the dominion as an arm of military defence in the war years 1939 to 1945 and, in addition, during the last five years of that period was able to make loan repayments to the dominion treasury aggregating $112,502,000 as the result of surplus earnings after the payment of fixed charges. In the post-war period thus far, the system has demonstrated its utility value to the dominion in the country's conversion from wartime economy and in addition, notwithstanding the deficits shown for the years 1946 and 1947, has afforded some indication of a peacetime earnings potential provided it is able to maintain a future traffic volume reasonably approaching the present level, and is given:

(*a*) some long term and reasonably compensatory returns to increased transportation rate in relation to increased wage rates and unit costs of materials, and

(*b*) a ratio of fixed charges to operating revenues reasonably comparable with that of other major railways in North America.

Wholly on the premise that the system were given these working conditions on a long term basis, it has indicated from peacetime earnings potential despite certain handicaps from a strictly competitive and economic standpoint, which were existent at the time of amalgamation and still are inherent in some if its operations.

Looking to the future, these inherent operating handicaps, in our opinion, might well be made the subject of a special study with a view to determining the effect on operating results of those services of a national character as distinguished from those of a normally competitive character. From such a study the railway enterprise and its management policies could be more equitably and effectively valuated than is possible under the present basis of viewing the operating results.

Mr. NICHOLSON: I wonder if Mr. Matthews would be good enough to enlarge on that last paragraph.

Mr. MATTHEWS: When these properties were formed into the National Railways System in 1922, they were unable to pay their full cost of wages and materials and there was a grouping together of these roads, all of which had been constructed under different conditions. The result was that it was different from the Canadian Pacific which was constructed as, more or less, of a composite unit, and always with the idea—and a very proper one—of drawing revenue producing traffic.

Now, there are many spots on the Canadian National Railways lines that one might say perform services that are partly for the national good of the country and not strictly competitive, from the point of view of costs. For instance, you cannot get away from the fact that moving traffic, let us say, from Montreal to Halifax, over the route of the intercolonial railway is considerably longer a haul than that of the Canadian Pacific with its short line down to Saint John. It is just one of those facts that we have had to put up with; but it was part of Confederation, and properly so.

The location of the companies, generally speaking, and the light traffic branch lines of the railways are factors which might be made, we respectfully suggest, the subject of study, because you frequently hear statements made, "Oh, you cannot take the Canadian National Railways as any base." But I do not agree with that because our view of the national management is that it is just as keen, in a competitive sense, as any other railroad management.

I wish it were possible to have the results of the national system so presented that there would be some separation of those operations which have to do with the national service from those which have to do with a purely competitive service, because I feel, that over a period of years, the management policies and the value of this railway enterprise, which is so frequently compared with the Canadian Pacific Railway, are matters that might be given some consideration.

Mr. HAZEN: I suppose you will admit that the Canadian Pacific Railway has a national utility value too.

Mr. MATTHEWS: Indeed we would; but it is a question of comparison, and we all know, only too well over the years, that in times of stress, this company is always compared with the Canadian Pacific without regard to its fundamental realities. That is all. No one would take anything away from the Canadian Pacific because they have done a great national service.

Mr. MOORE: In view of the national utility value of all railways, you might say, I would like to ask the management of the Canadian National if there has been any request recently to take over the operation of the Hudson's Bay Railroad which has a definite utility value, particularly with respect to military matters.

Mr. VAUGHAN: The Hudson's Bay Railroad is owned by the Dominion of Canada so I cannot see why there would be any advantage to the Canadian National Railways in changing its present method of operation.

Mr. MOORE: Would they not save in the way of administration cost?

Mr. VAUGHAN: No, sir. The Canadian National Railways at the present time operate the Hudson's Bay Railway as agents for the Dominion government, and their overhead charges are comparatively low.

Mr. FULTON: In view of the interest that has been expressed in the question of recapitalization of the Canadian National System I would like to relate that to what you have just been saying with respect to the separation of the national utility value of the railways and their aspects with respect to operations which might be said to be strictly competitive. In short, my idea is this. I take it from what you said as to what it costs to operate the intercolonial railways part of the system, from Montreal to Halifax, that it is, generally speaking, non-profitable; but I think you said it was justified on account of its national utility value.

Mr. MATTHEWS: We are speaking of excess mileage in comparison with the Canadian Pacific only.

Mr. FULTON: But were you not applying it expressly to that portion of the line?

Mr. MATTHEWS: I only gave it as an illustration, that as an element of Confederation the intercolonial railway was a component part. But the Canadian National Railways have to compete, in transportation, between Montreal and the Atlantic coast, and they have to haul a great deal further than the Canadian Pacific. We are just speaking here comparatively, nothing else, because over the years we have seen many periods when this institution was made the subject of comparison with the Canadian Pacific, under conditions which were just not comparable.

Mr. FULTON: I agree with you. But my point is that the mere setting aside of that part, or these specific parts of the railway on the basis which you set forth would not meet the problem which has been referred to, the necessity, if such there be, for recapitalization.

Mr. MATTHEWS: We point out that notwithstanding these apparent handicaps which have been with the system from the first day it came into being, and always remembering that the Canadian National Railway System was the result of bankrupt privately owned railways, together with the Canadian government railway, that is just a fact and I am not going to enter into any discussion as to the merits of private or public ownership. These are just historical facts.

Mr. FULTON: I thought it might have been implied that even if for revenue purposes—if I might put it that way, those portions of the railway which are less profitable but which are important nationally, if they could be set aside, and the government said, "We are willing to accept a deficit on those parts because they make a contribtuion to the national transportation system"—still the problem of meeting capital charges on the over-all railway would exist and would still have to be met.

Mr. MATTHEWS: Yes.

Mr. NICHOLSON: If, in 1922, it had been decided as government policy to place the Canadian National Railways in a similar position to the Canadian Pacific or the American lines, with a view to fixed charges to operating revenue, then what reductions would have been affected in the capital debt of the Canadian National?

Mr. MATTHEWS: During that period they did not have anything in the way of fixed charges. There was a deficit on the actual material and labour costs.

Mr. JACKMAN: On parts of the line but not on the over-all picture.

Mr. MATTHEWS: Yes, on the system.

Mr. JACKMAN: Has not the system always earned its operating charges?

Mr. VAUGHAN: What Mr. Matthews is saying is that when the various railways came into the Canadian National Railways the total operations of those railways produced a deficit before any fixed charges were taken into account.

Mr. JACKMAN: Prior to 1922.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: But since it has been under government ownership?

Mr. VAUGHAN: Since it has been under government ownership, every year we have had an operating profit before fixed charges were taken into account.

Mr. JACKMAN: Let us take the intercolonial railway as an example. When you say that that road does not meet its operating charges were you considering the money which the railway received under the Maritime Freight Rates Act.

Mr. MATTHEWS: You mean the Atlantic region, in 1947?

Mr. JACKMAN: Speaking generally over the years of operation.

Mr. VAUGHAN: There was a heavy operating loss on the Atlantic region for 1947 amounting to over $10,000,000.

Mr. JACKMAN: Even before the charges for funded indebtedness, there is a straight operating loss?

Mr. VAUGHAN: Yes. Even before charges for interest there is a direct operating loss.

Mr. JACKMAN: Are there any other branch lines or parts of the system which your accounting figures show do not meet their actual out-of-pocket expenses?

Mr. VAUGHAN: Yes, there are other lines. We are analysing every line at the present time. Take the line from Redpath Junction to Prince Rupert. There is quite a heavy deficit on the operation of that line.

Mr. JACKMAN: Are there any bonds out on that line?

Mr. VAUGHAN: Oh, yes, there is a substantial bond issue on that line.

Mr. MATTHEWS: Major contingent liabilities—including capitalization of pensions.

Apart from undertakings for capital expenditures which are subject to authorization by parliament and those for materials required in the ordinary course of business, major contingent liabilities are as outlined in the relative schedule.

Mr. JACKMAN: Have we handy a figure showing what the capitalized value of accruing pensions are, on the pension plans other than the 1935 one?

Mr. MATTHEWS: No, I have not, Mr. Jackman, but it is a substantial figure. It would be a substantial figure. Might I say again, that is something beyond the control of the railway management, because they would have to seek the authority of the proprietor in order to establish such a reserve, and we feel that it would have to be approved by parliament. There would have to be a large transfer from proprietor's equity.

Mr. JACKMAN: Did you not give us a figure some years ago, Mr. Cooper, of the actuarial computation of the capitalized value of the accruing pensions?

Mr. COOPER: I think I mentioned a figure of something like $60,000,000. But since then, wage scales have been stepped up to a level at which I do not think that figure would be of very much use. The fact is, of course, that we have a very substantial amount set aside for pensions. All in all, it amounts to $67,848,000 at the end of 1947, and that has all taken place since 1935. So I think we are doing very well.

Mr. MATTHEWS: In addition to what the company sets up, the employees make contributions under the 1935 plan, and there is accumulated the sum of $26,933,000, and those two, together, provide $67,848,000. Now, at the year's end these funds had a surplus, on the 5th of March. They were affected in the same way as the railways.

Now, in respect of the non-contractual plans we simply point out that there are no capital valuations of these plans. Pensions which are paid to employees, or those payments which are made towards Grand Trunk superannuations or intercolonial railways, are charged to railway pensions account, but no contractual pensions are capitalized, no non-contractual pensions are capitalized. These non-contractual plans, of course, in due time will cease to be, although there will be some considerable time before that arises.

Foreign exchange conversions. United States currency is on a par with sterling at $4.86 to the pound sterling and French currency at approximately 15 francs to the dollar.

As to the basis of accounting consolidation, I do not think you are interested in that, apart from the fact that we think it is sound.

Previous years' recommendations to parliament.

From time to time in previous years there have been included in our annual reports, inter alia, certain recommendations to parliament covering two major matters, i.e.:

(*a*) The extension of existing depreciation accounting policies on the Canadian lines, and

(*b*) The establishment of uniform accounting regulations for Canadian railways under the statutory authority of the dominion.

Mr. JACKMAN: Under that second paragraph (*b*) has the Canadian Pacific adopted Inter-State Commerce Commission accounting principles?

Mr. MATTHEWS: In respect of what?

Mr. JACKMAN: In respect of the establishment of uniform accounting regulations for Canadian railways, do they follow the Inter-State Commerce Commission now?

Mr. MATTHEWS: As far as our recommendations over these many years in this matter are concerned, it has never been done, as we have endeavoured to make clear. The Canadian National Railways is, apart from depreciation on fixed properties, operated on a basis very closely allied with the Inter-State Commerce Commission.

Now, so far as the Canadian Pacific is concerned I cannot say what their internal basis of accounting is. One can only judge from the reports that are published, but there are differences in accounting bases, undoubtedly. On the matter of uniform accounting regulations, we feel that, in view of the outlook for rate structures and wage negotiations and various other things, particularly the rate structures, that if the railways have to go to these bodies for approval of rates, there is something pretty definite to be said, we think, for those bodies having first prescribed the basis of accounting.

In the United States where the Inter-State Commerce Commission both prescribe the accounting regulations and the rate of increases or adjustments of any kind, they have a fairly accurate knowledge of what the facts and the costs are. For that reason, amongst others that we have given in the past, we have thought, and we repeat again, that we believe that uniform accounting regulations under statutory authority of the dominion, are something to which the government might still give some consideration.

Mr. NICHOLSON: Do the Board of Transport Commissioners have authority to take some action along that line, or would it require an act of parliament?

Mr. MATTHEWS: I could not say what the legislative procedure would have to be.

Mr. HAZEN: Do you follow the accounting system of the Interstate Commerce Commission?

Mr. MATTHEWS: Yes. The Canadian National Railways, apart from depreciation on fixed properties follow all of the main requirements of the Interstate Commerce Commission.

Mr. HAZEN: And are you obliged to do that because you have lines in the United States?

Mr. MATTHEWS: The national railways have never been obliged to do so in Canada, but in the United States, of course. And at the time the national system was formed in 1923, they adopted, basically the Interstate Commerce Commission accounting for their Canadian lines.

Mr. HAZEN: The Canadian Pacific has some lines in the United States?

Mr. MATTHEWS: That is right.

Mr. HAZEN: Do they have to have two systems?

Mr. MATTHEWS: In the case of the Canadian Pacific Railway, their lines in the United States are operated very largely through their holdings in subsidiary companies, whereas the Canadian National—

Mr. HAZEN: Is it because of the regulations of the Interstate Commerce Commission that they are obliged to—

Mr. MATTHEWS: Oh no, nobody in Canada is obliged.

Mr. HAZEN: Oh, I though that you were, maybe I have been mistaken.

Mr. MATTHEWS: The Canadian Pacific and the Canadian National operate lines in the United States. Those United States lines must follow the Interstate Commerce Commission regulations. But in the case of the Canadian National, the American lines form part of the national system whereas in the case of the Canadian Pacific, their American lines are operated largely through subsidiary companies.

Mr. HAZEN: If it is so difficult to get the Canadian Pacific to adopt your system in Canada, would it not be possible for you to adopt the Canadian Pacific's system then. Might it not be much easier for us to do that?

Mr. NICHOLSON: It seems to me that this recommendation has been before the committee for a great number of years.

Mr. MATTHEWS: I think we first brought it to the attention of parliament in 1933 or 1934.

Mr. NICHOLSON: And you think it is still desirable that it should be done?

Mr. MATTHEWS: In our opinion, even more so.

Mr. NICHOLSON: According to the evidence which was given before the Board of Transport Commissioners, it is very difficult to assess a case when the accounting systems of the two companies are so different.

Mr. MOORE: Was that one of the recommendations made by the Royal Commission in 1922?

Mr. MATTHEWS: No.

Mr. JACKMAN: Perhaps Mr. Cooper could tell us whether or not the Canadian Pacific accounting is on the Interstate Commerce Commission basis?

Mr. COOPER: No, I do not care to speak about the Canadian Pacific accounting.

Mr. JACKMAN: I think you once said that you belonged to an association of railway auditors or accountants or comptrollers, or something of that sort and that you went on the record some years ago. To your knowledge do you understand that they are on the Interstate Commerce Commission basis?

Mr. COOPER: On this matter of uniform accounting, to make our position clear, I would like to say that we took the initiative in endeavouring to secure uniform accounting, and we have never changed our view that there should be uniform accounting for the railways in Canada.

You said something, this morning, Mr. Jackman, which, if I understood it correctly, left the implication that the auditors were advocating uniformity of accounting and that we were opposing it.

Mr. JACKMAN: I did not know you were for it, and I am glad to know you are.

Mr. COOPER: Our contention is that the uniform rules shall be the Interstate Commerce Commission rules; and when the auditors made their recommendation in 1934, they recommended what they called a distinctly Canadian classification, which would be something different from the Interstate Commerce Commission rules. In fact, they suggested that we should get away from references in Canada to the Interstate Commerce Commission classifications. Now you will understand and appreciate, I am sure, that because our railway is an international railway, that such portion of the railway which is in the United States must, of necessity, carry out Interstate Commerce Commission accounting rules, and that it would be a matter of considerable difficulty if we had imposed upon us two different and conflicting rules of accounting.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

10th March, 1948.

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:—Acting under your authority we have audited the accounts of the CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED for the year ended the 31st December, 1947, and we now submit, through you, our report to Parliament.

The accounts of the Steamships and its subsidiary companies are not consolidated with those of the National System, the 100 per cent stock ownership of the parent steamship company being vested in the Dominion Government.

Supplementing our Audit Certificate appended to the accounts published by the Steamships, we comment on the Consolidated Income Account, Consolidated Profit and Loss Account and Consolidated Balance Sheet as follows:—

Consolidated income account

The Surplus amounting to $523,000 for the year 1947 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before Interest and Depreciation	$1,590,000
Less: Interest	573,000
Surplus before Depreciation	$1,017,000
Less: Depreciation	494,000
Surplus	$ 523,000

The general expenses of operation largely consisting of wages and materials, which continued to increase during 1947, include the following items:

(*a*) Provision covering the balance of the presently estimated excess expenditure over the cost assumed by the Dominion Government with respect to the reconversion and overhaul of the "Lady" ships *Nelson* and *Rodney*;

(*b*) Administrative Charges by Canadian National Railways;

(*c*) Insurance Premiums on risks carried both by the Insurance Fund and Outside Underwriters;

(*d*) Pension payments to the Canadian National Railway Company as Pension Contract Underwriter, and

(*e*) Tax provisions covering principally Dominion Unemployment Insurance, Province of Quebec Capital and Income Taxes, and Municipal Taxes.

Interest on Funded Debt was at the rate of 5 per cent and Interest on Government Advances for Deficits 2·5 per cent or a composite rate of 4:29 per cent at the year-end.

Depreciation covers all vessels at the uniform rate of 5% for the year.

We have received the customary certificates from the responsible officers of the Steamships relating to current maintenance and physical retirements of Capital Assets.

Consolidated Profit and Loss Account

The Deficit decreased $615,000 as a result of the Surplus in 1947 and Capital Profits realized from the sale of Vessels.

Consolidated balance sheet

Investment in Vessels is carried on the general basis of cost.

Accrued Depreciation covers the period from the inception of operations in 1929 to 1947.

Replacement and Insurance Funds aggregating $4,432,000 are composed of investments in the securities of the Dominion Government and the National System (Dominion Guaranteed) together with Cash and sundry current assets. The year-end market value of the securities held in these funds in total exceeded the book figure based on cost. The same current market situation as of the 5th March, 1948, however, applies to these securities as is outlined in our comments on National System valuations.

The Replacement Fund decreased $2,565,000 during the year as a result of the release of funds for the purchase and conversion of Vessels less Depreciation Accruals paid into the Fund, proceeds from Vessel Sales and Insurance Recoveries together with the 1947 Profit on the overall operations retained in the Fund and credited to "Vessel Replacement Fund Earnings" in the Income Account.

The Insurance Fund increased $222,000 during the year. The 1947 Profit on the overall operations was retained in the Fund and the corresponding Reserve. With particular reference to the "Lady" and "Diesel" ships, we would point out that the 100 per cent insurance risk is presently carried in the Fund.

Accounts Receivable and Payable of all classifications have been tested by us on the same basis as that outlined for the National System.

Current Assets show a ratio of 1·6 to 1 of Current Liabilities. In this connection it should be mentioned that a cash payment of $256,000 was made to the Dominion Government in reduction of Advances in the early part of 1948. In 1946 Current Assets showed a ratio of 2 to 1, out of which a cash payment of $1,105,000 was made to the Government in reduction of Advances in the early part of 1947.

Discount on Capital Stock represents an intangible book value set up at the time of incorporation to offset the par value of the shares issued in consideration only of the guarantee by the Dominion of the Steamships Bonds.

Capital Stock and Funded Debt were unchanged during the year as Capital Expenditures were financed through the Replacement Fund.

Dominion of Canada account represents only the balance of Advances for Deficits, all Advances on Capital account having been previously repaid to the Government.

Accrued Reconversion and Overhaul Expense represents the estimated balance payable to contractors in respect of the "Lady" ships *Nelson* and *Rodney*.

Unadjusted Credits are comprised of uncompleted voyage suspense items.

The Insurance Reserve includes the amount set aside for major unadjusted loss claims at the date of the Balance Sheet.

Profit and Loss covers the period from the inception of operations in 1929 to 1947. In considering the Deficits we would again point out to Parliament that Interest on Advances for Deficits has been charged for the entire period.

Major Contingent Liabilities of the Steamships relate to Pension Plans, with reference to which we would point out:

(*a*) That a Funded Reserve is provided through the C.N.R. as Pension Contract Underwriter against the estimated capital value of contracts in force under the 1935 Plan but not against pensions conditionally accruing. In this connection it should be borne in mind that Operating Expenses of the Steamships are charged with Pension payments to the C.N.R. Pension Contract Fund, and

(*b*) That the contributions by the Steamships employees presently in service are invested through the separately administered Pension Trust Funds under the C.N.R. 1935 Plan.

Where foreign currencies are involved, the Balance Sheet Accounts of the Steamships are converted generally as follows:

(*a*) United States Currency
—at the dollar par of exchange, and

(*b*) Sterling Currency
—at the rate of $4.02 to the £ Sterling covering only Working Capital accounts.

It should be mentioned that the Funded Debt is payable, at the option of the holders, on the "three-way" basis, i.e. in Canadian, United States or Sterling currencies.

The test audit of the Steamships for the year 1947 was similar in scope to that of the National System previously outlined in this Report.

I say that we are ready to adopt the Interstate Commerce Commission rules in toto. We would recommend that they be adopted in Canada. We are objecting to anything different. If the Interstate Commerce Commission rules were adopted in Canada we would go along, with all the implications involved, including depreciation on the fixed properties. But when you talk about uniformity, let us have full uniformity; let us have uniformity in the favourable factors as well as in those factors which force additional charges on the Canadian National Railways. Let us have uniformity in everything. If we can have full uniformity, even though that involves the adoption of depreciation accounting for fixed property, we still will go along. But as I say, don't give us a set of rules which add to our charges and leave us on some different basis with respect to the other factors.

I do not know whether I make myself clear or not. I would like to make it very clear if I have not done so. We do not oppose uniform accounting, but we do oppose a different set of accounting rules in view of the fact that we are an international line, and because we want to be able to make comparisons with other railroads in the United States. Let the uniform rules which are to be adopted be rules which we call the standard railway accounting regulations.

We have a problem at the present time in connection with Trans-Canada Airlines. We devised a set of accounting rules and regulations for Trans-Canada Airlines and we were immediately confronted with the fact that when our people want to make a comparison with the other major lines in the United States there were differences in the accounting rules. And not only is that so, but there are differences between the International Airlines, such as the French, the Dutch, the British and others. What is going on at the present time is this. There is a group of experts at work at the present time trying to work out uniform accounting rules which will apply universally to all international air carriers. Now, that is the sort of progress we want to make. We do not want a distinctly Canadian type of accounts, a type which is nationalistic or isolationistic. We prefer to be a member on equal footing with other railroads and other international airlines, with our accounts being constituted on a basis in strict conformity with theirs, and so that you can take them and draw correct conclusions from them.

Mr. JACKMAN: I think we are in agreement with you, Mr. Cooper. You mentioned something about interest charges. You were only speaking of accounting policy?

Mr. COOPER: What I was speaking of was uniform rules.

Mr. JACKMAN: It is only in connection with the treatment of the interest charges, not in connection with the other accounts to which you were referring?

Mr. COOPER: The question came up once, you will recall, of income tax. What we are urging is that we be put on a uniform basis with respect to all other items. What we are objecting to is that we should have enforced on us those factors which add to our costs and we get no relief with respect to factors which would reduce our costs. I think we have a very reasonable case.

Mr. JACKMAN: That brings in the national utility value of the system, does it not?

Mr. COOPER: Pardon me, I didn't hear what you said.

Mr. JACKMAN: I said, that brings in the national utility value of the system, does it not?

Mr. COOPER: Now may I also speak about depreciation accounting because it has been mentioned here. I do not want to take up the time of this committee unduly; you have heard about this subject for a number of years. Even though I am reluctant to take up the time of the committee, it does not seem to me to be quite fair to the Canadian National Railways to leave the situation just where it is at the moment. With respect to depreciation accounting on equipment there should not be any question but that we are on all fours with the other railroads in the United States or say the North American continent. We are accruing depreciation on a 3½ per cent basis, giving our equipment a life of 27 years, and I believe the life of our equipment is in excess of that. In other words, I believe that we are making a generous provision for depreciation on equipment. We started depreciation accounting on equipment in 1940, and in the intervening years—1940-47—we have charged our operating expenses with $131,737,000. In that period of time we have retired equipment amounting to $23,334,000 which means that in the eight year period we have accumulated a reserve of over $100,000,000. Our Canadian reserve at the end of 1947 represents over 20 per cent of the value of our equipment, and that sum has been accumulated in eight years. On our American lines they have accumulated 42 per cent of the ledger value of their equipment in a period of 41 years. You can therefore see in so far as depreciation on equipment is concerned that there is not a shadow of a doubt but that the provision we are making is adequate. It conforms to general practice and is at least on a scale as generous as under the policy followed with respect to lines in the United States. Now we do differ from standard railroading accounting practice with respect to depreciation on fixed property. There is no misunderstanding about that. In our 1942 report we stated very clearly what our depreciation policy was. We said "It is considered desirable that the depreciation policy of the railroad shall be indicated so that the record may be clear as to the basis upon which the accounts herein presented have been stated", and we went on to explain what we were doing. Any thought that something is now being uncovered or brought to the surface is, I think, completely wrong. The reasons we differ with respect to other railroads on this matter of depreciation accounting for fixed property are these: United States railroads and the Canadian Pacific adopted depreciation accounting in 1943. For over 40 years they had contended that depreciation accounting for fixed properties was wrong and was not necessary. They changed their position in 1943 because they became subject to excess profits tax. That is not logic; it is a policy of expediency.

Mr. JACKMAN: That is understandable.

Mr. COOPER: Do you agree with that? Then when they adopted depreciation accounting they said they would not bother about rails and ties and ballast but on those items they continued on a retirement accounting basis. What logic is there in that? If there is anything subject to depreciation it is rails, ties, and ballast, but they said "Oh, no, we will not adopt depreciation accounting on those things, we will confine it to bridges, stations, shops, telegraph posts, and right of way fences." What kind of logic is there in that? We said we would not go along, and when this contention for depreciation accounting for fixed property for railroads is brought up it does not convince me at all. Moreover, in addition to the things I have mentioned I think that in connection with the Canadian National Railways there are other factors. We should remember first of all that the Canadian National Railroad is a government enterprise. There are no outside shareholders; there are no market quotations for the shares no one is going to take our balance sheet and be misled into buying or selling securities of the C.N.R. Moreover, if in 1947 we were to have charged up some $8,000,000—and I think that was the figure you were looking for this morning, Mr. Jackman—

Mr. JACKMAN: Yes.

Mr. COOPER: —If we had charged that amount and said we had had a deficit of $23,000,000 instead of a deficit of $15,000,000, we would have had to go to the Department of Finance and ask that department to give us $8,000,000 over and above the amount for which we did ask. Now we could not adopt depreciation accounting involving a charge on the dominion exchequer without the approval of the Finance Department, and rightly so. It might be all right in 1947 when the national revenues are buoyant that they would say "Yes, we will give you $23,000,000 instead of $15,000,000". However, when hard times comes back, if they do, as they did in 1932, 1933, and 1934, the government I fear would do exactly as it did in the case of the Canadian National Steamships. The government would say "It is not necessary for us to provide, out of public funds by taxation, sums of money which you can set aside as a depreciation reserve." If the government said that we go back to the stage where we have two sets of accounts. We have a cash income and we have certain non-cash charges, and we have to begin deducting from our published figures items which are not represented in cash. There you get confusion.

You only need to go back to the accounts prior to 1937 and try to reconcile the published figures of the railway with the amount of money which the government said the railway lost. Now I do not want to take up your time but another difficulty we would have would be that we have no inventory. You cannot pull figures out of the air upon which to set up depreciation accounting. The rates vary. The rate is different for a bridge, or a station, and all the other elements of fixed property. It cost the Interstate Commerce Commission $50,000,000 and it cost the class 1 railroads of the United States $153,000,000 to make an inventory of their property and it took them, I think, some fifteen years to make that inventory. We are not going into depreciation accounting, as I said before, by taking the figures out of the air, and I do not think we are justified at this time in setting aside engineers and other technical employees to compile an inventory of the Canadian National Railways in order that we can follow an accounting theory, which as I say, has no logic in it at all.

Mr. HATFIELD: Who directs the policy of the Canadian National Railways?

Mr. COOPER: So far as accounting policy is concerned, I do.

Mr. HATFIELD: Are you a director?

Mr. COOPER: No, sir.

Mr. HATFIELD: How many directors have you?

Mr. COOPER: We have seven.

Mr. HATFIELD: What do they do?

Mr. VAUGHAN: They perform the duties which any director does in a corporation. They meet regularly and deal with important questions of policy and approve transactions which require to be approved under the by-laws of the railway.

Mr. HATFIELD: They are just a shadow board.

Mr. VAUGHAN: No, sir, decidedly not, unless you call the board of directors of every company in existence a shadow board.

Mr. COOPER: I should like to add one or two sentences to my last statement because I think, Mr. Jackman, you will agree with this. Either system will produce the same results. Under either system, this is what you would do: you buy a piece of property and you wear it out. You must charge the loss to operating expenses. You can do it by spreading the loss over the years, and that is called depreciation accounting. You can charge it to your expenses at the time the loss is incurred and that is retirement accounting.

Mr. JACKMAN: The loss is being incurred each year of operation. It is for that reason I favour the establishment of the system advocated by your auditors and by myself. You say you provide for the loss at the time it is incurred, namely, the time of renewal or replacement. I prefer to do it currently, each year. I am in entire agreement in regard to the rolling stock. There is no difference of opinion there.

What does cause me concern is a situation such as I endeavoured to outline this morning, when we had depreciation of properties in the United States of $67,000,000 against which was set up a reserve for depreciation of $952,000. We had an estimated $700,000,000 of depreciable property in Canada, certainly ten times as much physical property as we have in the United States, yet renewals and replacements, which is the only item deducted from operations as a charge during the year, was only $881,000. In other words, we have a lesser amount to take care of depreciation on ten times the property.

Mr. COOPER: May I explain that? In 1947, we handled more business than we ever had in our history, including the busy war years. Every unit of rolling stock which had any service in it and every unit of fixed property which had any service usefulness, was retained in service. I believe we would be criticized if we were to take out of service property which had a useful value, merely to get into our accounts a figure which would compare with what the figures should be under depreciation accounting.

Mr. JACKMAN: Under the system I am proposing, you would not have to take it out of service.

Mr. COOPER: I have given you my reasons. I did not want the record to stand as it was. I did not think it was fair to the railway. I apologize for taking up the time of the committee.

Mr. FULTON: May I ask you one question before you close that part of the discussion. Apart from the question of depreciation accounting, would you care to indicate or are you prepared to indicate, how substantial a change would be involved if the Canadian Pacific were to adopt your recommendations with respect to reclassification of the accounting system? Is it a substantial change or is it a relatively minor one?

Mr. COOPER: I have always been regretful of getting into a discussion of the Canadian Pacific accounts, but it is my belief—after all, Mr. Leslie, the vice-president of the Canadian Pacific and I discuss many things together and our discussions are on a very friendly, frank basis—

Mr. FULTON: I would not ask you to do more than express an opinion.

Mr. COOPER: It is my conviction that, in a very large measure, the Canadian Pacific follows the Interstate Commerce Commission accounting. The only difference of which I can think is this; if you look at their income statement, they show gross earnings of $318,000,000 and working expenses, including taxes, of $295,000,000. I should like Mr. Jackman to see this.

Mr. JACKMAN: What page is that?

Mr. COOPER: Page 7 of the Canadian Pacific annual report, 1947. They show their gross earnings as $318,000,000, working expenses, including taxes, $295,000,000; net earnings, $22,000,000.

Do you mind turning to page 41 of the report? In the second bracket on that page, under the heading, "Total traffic", they show operating revenues, $321,000,000, which you will notice is different from what they show on page 7. They show their operating expenses, $279,000,000, which is different from what they show on page 7. Their net operating revenue is shown as $41,000,000 as compared with net earnings of $22,000,000 on page 7. The $41,000,000 is comparable with ours. It is my belief that the $41,000,000 on page 41 is stated according to the Interstate Commerce Commission rules and regulations.

Mr. JACKMAN: You believe they carried it down in an income account on page 7, but it may be after taxes?

Mr. COOPER: It says so; that is where we differ. They charge income taxes as working expenses.

Mr. JACKMAN: They are, so far as the shareholder is concerned.

Mr. COOPER: If you can convince me that the income tax they pay out on their steamship operations, their hotel operations and their other income, is an operating or working expense of the railway, I throw up my hands.

Mr. FULTON: In other words, one of the differences would be the C.P.R. would have to set up separate accounts for each of their classes of operation; that would be one of the results?

Mr. COOPER: No, sir, the difference would be they would take out of their revenues and expenses, as shown on page 7, taxes, joint facility rents and equipment rents.

If you look at our report on page 4, you will see we show operating revenues and operating expenses. Then, we show below the taxes, equipment rents, joint facility rents, so we are excluding them from operating expenses. They include them in their working expenses.

In 1932, Mr. C. D. Howe, who was then Minister of Transport, appointed a committee to study uniform classifications for Canadian railways. It was generally agreed we would follow the broad basis of the Interstate Commerce Commission. The Canadian Pacific felt that taxes, joint facility rents and equipment rents should be included in working expenses and I objected. No other railroad on the North American continent does it. That is the main difference between us.

The CHAIRMAN: Is that O.K., gentlemen? Now, there are two more paragraphs regarding the Canadian National Railways. Are there any questions with regard to Canadian National West Indies Steamships company? That is on page 15, Mr. Hazen. Mr. Jackman, have you any questions?

Mr. JACKMAN: I have not questions. I would like to say to Mr. Cooper, that I do not see anything very difficult about the C.P.R. dual presentation of accounts. One is something for the shareholders who are interested in the net available company dividend and the other is an account which will interest the railway people; and that is the one which is uniform, as you suggested, or thought, with the I.C.C.

Mr. COOPER: I did not initiate this discussion on uniformity.

Mr. JACKMAN: However, I merely make that observation.

The CHAIRMAN: Is the report adopted? It is moved by Mr. Lafontaine and seconded by Mr. McCulloch that we adopt the report.

Carried.

Gentlemen, that takes us up to the T.C.A. and we expect to go on with the T.C.A. tomorrow.

Now, Mr. Fulton has just asked me if he might ask a question of the company. He has not been here all the time and I want to be fair to him. He would like to ask a question about some safety devices and I would like to have him get his questions on the record and perhaps the company can furnish him with the answers or give him the information right now.

Mr. FULTON: My question is directed to Mr. Vaughan or to Mr. Walton. There have been investigations going on under the direction of the Board of Transport Commissioners and the Canadian National Railways as to accidents in British Columbia caused by landslides, one of which caused the loss of five lives and the other two. They are investigations concerning the feasibility of installing slide fences and devices which would warn trains that something was on the track in the winter time.

Mr. VAUGHAN: That matter has been given very serious consideration by us. I think Mr. Walton can report more in detail on that matter.

Mr. WALTON: We have been much concerned about the slide conditions in the mountains. They have been particularly bad over the last few months. One accident to which Mr. Fulton referred caused the loss of five lives. I would like to mention in passing that three of the fatalities were trespassers on the train. We have been conducting investigations, and Mr. Vaughan has approved the expenditure, for equipping the line between Red Pass junction and Jackman, a distance of about twenty-three miles, with automatic block signals; also between Spence's Bridge and Hope, roughly ninety-one miles, with automatic block signals. Along with that will go a trial installation of slide protection fences about which some development work is necessary. There will also be considerable investigation required as to obtaining power to operate the signals and other details, and those matters are being worked on. The expenditure has been authorized and as quickly as we can go forward with the matter these protection devices will be set up and we feel they will go a long way toward greater protection on that part of the railroad where these slide conditions have been present and no doubt will to some measure continue for a long time to come.

Mr. FULTON: Are you in a position to say what expenditure has been authorized?

Mr. WALTON: It will run very close to a million dollars when it is completed. That will not be spent this year. The delivery of the material and the actual erection of the signals will run into next year. The contemplated expenditure for these mileages which I have mentioned will, in round figures, be about $1,000,000.

Mr. FULTON: Will a substantial part of the work be completed before next winter?

Mr. WALTON: I doubt it will be possible to secure the material with the lag in the supply of material of that kind; but we will push the matter all we can.

Mr. JACKMAN: I would like to suggest in connection with the Hudson Bay Railway—I am not asking that the manager should be brought before us—but I think it would be advisable if we did, as we did last year, table the accounts. It amounts to about two sheets of paper.

Mr. COOPER: If we give them to the clerk and have them included in the proceedings, will that be satisfactory?

Mr. JACKMAN: Yes.

(Agree—See appendix A.)

The CHAIRMAN: Gentlemen, on behalf of the committee I want to thank President Vaughan and his officials for their kind courtesy and the way in which they have answered all our questions and I hope that we will see them again next year and that they will be in good health—

Mr. JACKMAN: And in good wealth.

The CHAIRMAN: —and as generous as they have been this year. I think our committee, which is composed of a very fine group of men, have tried to be fair and courteous to the witnesses.

Mr. JACKMAN: I have pleasure in seconding your remarks, Mr. Chairman, and I would add, "in health and in wealth".

Mr. VAUGHAN: Thank you, Mr. Chairman and gentlemen. We appreciate your patience.

The committee adjourned.

APPENDIX A

DEPARTMENT OF TRANSPORT

Hudson Bay Railway

Consolidated Income Account Fiscal Year 1947-1948 and Fiscal Year 1946-1947—Not Final

	Fiscal Year 1947-1948 (11 mos. actual 1 mo. estimated)	Fiscal Year 1946-1947
Railway Operating Revenues		
Freight	$ 836,293.00	$ 351,726.50
Passenger	103,066.00	77,934.38
Mail	2,848,00	2,585.53
Express	31,361.00	13,287.25
Telegraphs	9,029.00	8,340.82
All Other	68,903.00	33,970.97
Total Operating Revenues	$1,051,500.00	$ 487,845.45
Railway Operating Expenses		
Maintenance of Way and Structures	$ 465,842.00	$ 402,072.39
Maintenance of Equipment	69,347.00	67,492.60
Transportation	453,278.00	289,342.97
Miscellaneous Operations	27,569.00	19,264.66
General	33,907.00	30,024.19
Total Operating Expenses	$1,049,943.00	$ 808,196.81
Net Operating Revenue	$ 1,557.00	$ 320,351.36
Ratio	99·85%	165·67%
Railway Tax Accruals	$ 3,995.00	$ 3,582.79
Railway Operating Income	$ 2,438.00	$ 323,934.15
Equipment Rentals—Payable		
Hire of Freight Cars—Debit	$ 135,500.00	$ 54,527.46
Rent for Locomotives	92,919.00	58,052.10
Rent for Passenger Train Cars	16,670.00	15,711.20
Rent for Work Equipment	33,308.00	27,410.82
Total Equipment Rentals	$ 278,397.00	$ 155,701.58
Rent Income		
Joint Facility Rents—Credit	$ 12,785.00	$ 12,610.00
Miscellaneous Rent Income—Credit	146.00	129.74
	$ 12,931.00	$ 12,739.74
Net Deficit	$ 267,904.00	$ 466,895.99

Railway Operating Revenues and Expenses

	Fiscal Year 1947-1948 (11 mos. actual 1 mo. estimated)	Fiscal Year 1946-1947
Railway Operating Revenues		
Freight	$ 836,293.00	$ 351,726.50
Passenger	103,066.00	77,934.38
Baggage	530.00	644.77
Sleeping Car	9,645.00	4,675.06
Mail	2,848.00	2,585.53
Express	31,361.00	13,287.25
Other Passenger-train	325.00	716.22
Milk	373.00	818.52
Switching	835.00	542.00
Dining and buffet	....	2,391.10
Restaurants and Boarding Cars	22,022.00	13,141.44
Station, train and boat privileges	828.00	662.07
Storage-Freight	43.00	32.61
Storage-Baggage	4.00	....
Telegraphs	9,029.00	8,340.82
Power	447.00	491.09
Rents of buildings and other property	7,973.00	3,677.69
Miscellaneous	25,878.00	6,178.40
Total Operating Revenues	$1,051,500.00	$ 487,845.45
Railway Operating Expenses		
Maintenance of Way and Structures	$ 465,842.00	$ 402,072.39
Maintenance of Equipment	69,347.00	67,492.60
Transportation	453,278.00	289,342.97
Miscellaneous Operations	27,569.00	19,264.66
General	33,907.00	30,024.19
Total Operating Expenses	$1,049,943.00	$ 808,196.81
Net Revenue	$ 1,557.00	*$ 320,351.36*

Railway Operating Expenses

Maintenance of Way and Structures		
Superintendence	$ 38,409.00	$ 34,866.57
Roadway maintenance	57,756.00	66,584.02
Bridges, trestles and culverts	10,707.00	5,851.13
Ties	43,866.00	38,209.61
Rails	827.00	*397.31*
Other Track material	3,935.00	2,518.08
Ballast	35,762.00	27,001.15
Track laying and surfacing	187,244.00	153,236.50
Fences, snowsheds and signs	769.00	182.57
Station and office buildings	9,320.00	5,941.18
Roadway buildings	3,460.00	3,810.60
Water stations	5,338.00	3,016.62
Fuel stations	71.00	211.32
Shops and enginehouses	4,167.00	3,580.88
Telegraph and telephone lines	8,203.00	7,821.27
Signals and Interlockers	....	....
Roadway machines	3,505.00	6,894.70
Small tools and supplies	23,009.00	19,420.33
Removing snow, ice, and sand	33,922.00	27,295.82
Maintenance Jt. tracks, yards, etc., Dr.	2,219.00	2,163.06
Maintenance Jt. tracks, yards, etc., Cr.	*6,805.00*	*6,610.00*
Stationery and Printing	154.00	....
Injuries to persons	4.00	474.29
Total Maintenance of Way and Structures	$ 465,842.00	$ 402,072.39

RAILWAY OPERATING EXPENSES—*Concluded*

	Fiscal Year 1947-1948 (11 mos. actual 1 mo. estimated)	Fiscal Year 1946-1947
Maintenance of Equipment		
Superintendence	$ 4,507.00	$ 4,356.68
Shop machinery—Repairs	951.00	2,999.31
Power Plant machinery—Repairs	....	....
Steam locomotives—Repairs	48,858.00	31,468.52
Freight-trains cars—Repairs	3,594.00	1,824.60
Passenger-Train cars—Repairs	1,742.00	15,992.90
Work equipment—Repairs	6,378.00	7,302.01
Other Expenses	3,317.00	3,548.58
Total Maintenance of Equipment	$ 69,347.00	67,492.60
Transportation Rail Line		
Superintendence	$ 23,444.00	$ 22,463.28
Dispatching trains	5,442.00	4,759.55
Station employees	33,286.00	24,544.77
Station supplies and expenses	9,706.00	7,618.82
Yardmasters and yard clerks	....	....
Yard conductors and brakemen	....	....
Yard switch and signal tenders	....	....
Yard enginemen	....	....
Yard switching fuel	....	....
Water for yard locomotives	....	....
Other supplies for yard locomotives	....	....
Enginehouse expenses—Yard	....	....
Yard supplies and expenses	....	....
Operating joint yards and terminals—Dr.	19,537.00	13,750.24
Train enginemen	48,172.00	27,381.73
Train fuel	156,661.00	83,982.96
Water for train locomotives	31,307.00	28,918.85
Lubricants for train locomotives	259.00	149.73
Other supplies for train locomotives	19.00	18.53
Enginehouse expenses—Train	8,376.00	6,735.13
Trainmen	60,658.00	35,596.65
Train supplies and expenses	29,146.00	29,048.88
Operating sleeping cars	773.00	924.57
Drawbridge operation	27.00	8.05
Stationery and printing	687.00	912.82
Clearing wrecks	18,764.00	2,038.10
Loss and damage—Freight	1,460.00	389.14
Injuries to Persons	5,535.00	101.17
Damage to livestock on right of way	19.00	....
Total transportation Rail Line	$ 453,278.00	$ 289,342.97
Miscellaneous Operations		
Dining and Buffet Service	$	$ 1,674.56
Restaurants and Boarding Cars	26,446.00	16,878.93
Producing power sold	1,123.00	711.17
Total Miscellaneous Operations	$ 27,569.00	$ 19,264.66
General		
Salaries and expenses of general officers	$ 12,000.00	$ 12,000.00
Law expenses	....	....
Pensions	21,907.00	18,024.19
Total General	$ 33,907.00	$ 30,024.19

APPENDIX B

Answers to questions by Mr. A. M. Nicholson.

(*a*) Collection of Province of Quebec meal tax and commission paid to the Railway;

(*b*) Tax on meals, sale of tobacco and soft drinks in restaurants and on trains—total collection, $21,313;

(*c*) Comparison of mail revenues for last 10 years.

	Average miles of road operated	Ratio of miles operated	Mail Revenue	Ratio of Mail Revenue
C.N.R.				
1938	21,950	56·0%	$2,975,367	45·4%
1939	21,936	56·1	3,008,573	45·3
1940	21,878	56·0	3,023,945	45·6
1941	21,793	56·0	3,242,581	46·8
1942	21,769	55·9	3,402,128	47·1
1943	21,769	56·1	3,459,543	46·6
1944	21,770	56·1	3,605,105	47·1
1945	21,769	56·1	3,633,123	47·4
1946	21,741	56·1	3,710,774	47·1
1947	21,735	56·1	3,830,045	47·8
C.P.R.				
1938	17,186	44·0%	$3,582,316	54·6%
1939	17,176	43·9	3,631,275	54·7
1940	17,159	44·0	3,602,544	54·4
1941	17,151	44·0	3,680,071	53·2
1942	17,077	44·1	3,826,555	52·9
1943	17,035	43·9	3,957,531	53·4
1944	17,030	43·9	4,041,284	52·9
1945	17,029	43·9	4,037,474	52·6
1946	17,037	43·9	4,170,574	52·9
1947	17,034	43·9	4,172,010	52·2

APPENDIX C

Answer to question by Mr. H. R. Jackman as to number of passengers killed per 100,000,000 passenger miles on U.S. Class I Roads.

1940	·337
1941	·133
1942	·205
1943	·298
1944	·260
1945	·155
1946	·159
1947	·1415

APPENDIX D

Answer to question by Mr. Hatfield.

Why has the rate on potatoes, Charlottetown to Detroit, been so much higher than to Windsor, Ont.

A rate of 46 cents per 100 lbs. of potatoes from Charlottetown to Windsor has been in effect since 1920 and has always been on a low basis in order to encourage movement within Canada. The only increase in the domestic rate since 1920, has been the recent increase of 21 per cent which raises the rate to 56 cents.

The basic rate of 62 cents per 100 lbs. of potatoes from Charlottetown to Detroit, U.S.A., has been subjected to the four U.S. increases and will now be 92 cents, this rate being on the same basis as rates within the U.S.A. The Interstate Commerce Commission will not permit any railway to publish a lower rate from a point in Canada to a point in the U.S. than American carriers are permitted to publish within the U.S. itself.

SESSION 1948

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

THURSDAY, APRIL 22, 1948

TRANS-CANADA AIR LINES—ANNUAL REPORT (1947) AND AUDITORS' REPORT

Second Report—(Estimates Referred)

WITNESSES:

Mr. G. R. McGregor, President, Trans-Canada Air Lines;
Mr. W. F. English, Vice-President, Trans-Canada Air Lines;
Mr. O. A. Matthews, of George A. Touche & Co., Auditors.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948

REPORT TO HOUSE

THURSDAY, April 22, 1948.

The Sessional 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 the following items of the Estimates for the year ending March 31, 1949, as referred on April 15, 1948, and approves of same, viz:

Vote 502—Maritime Freight Rates Act,
Canadian National Railways;

Vote 503—Maritime Freight Rates Act,
Railways other than Canadian National;

Vote 557—Prince Edward Island Car Ferry and Terminals,
Deficit 1948.

All of which is respectfully submitted.

H. B. McCULLOCH,
Vice-Chairman.

11235—1½

MINUTES OF PROCEEDINGS

THURSDAY, April 22, 1948.

The Sessional Committee on Railways and Shipping met at eleven o'clock. Mr. S. M. Clark, Chairman, presided.

Members present: Messrs. Clark, Emmerson, Fulton, Hatfield, Hazen, Hlynka, Jackman, LaCroix, Lafontaine, Lockhart, McCulloch (*Pictou*), McLure, Moore, Nicholson, Pouliot, Warren.

In attendance:

From *Trans-Canada Air Lines:* Messrs. G. R. McGregor, President, W. F. English, Vice-President—Operations.

From *Canadian National Railways:* Messrs. Cooper, Thompson, May.

From *Department of Transport:* Air Vice-Marshal A. T. Cowley, Messrs. K. Main and Thornton.

From *Department of Reconstruction and Supply:* Mr. C. P. Edwards, Deputy Minister, and O. A. Matthews of George A. Touche and Company, Auditors.

Right Honourable C. D. Howe, Minister of Reconstruction and Supply was present, as was his Parliamentary Assistant, Mr. George J. McIlraith, M.P.

The Chairman introduced Mr. McGregor to the members of the Committee.

Right Honourable C. D. Howe made a statement respecting Mr. McGregor, who was elected President on February 1, 1948, succeeding Mr. H. J. Symington, C.M.G., K.C.

The Committee began and concluded its examination of the Annual Report (1947) of the Trans-Canada Air Lines.

Mr. G. R. McGregor was called. He read the report and was examined thereon.

The Minister read into the record an article published in *Time* magazine relating to U.S. air lines operations for 1947.

On motion of Mr. Lafontaine, the Trans-Canada Air Lines Annual Report (1947) was adopted.

Mr. S. M. May tabled information requested by Mr. Jackman. It was agreed to incorporate same in the minutes of evidence.

Mr. Nicholson congratulated Mr. Thompson for his preparation of the Trans-Canada Air Lines Report.

At 1 o'clock the Committee adjourned until 4 o'clock this day.

AFTERNOON SESSION

The Committee resumed at 4 o'clock. The Vice-Chairman, Mr. McCulloch, presided.

Members present: Messrs. Bourget, Emmerson, Fulton, Hatfield, Hazen, Hlynka, Jackman, Lockhart, McCulloch (*Pictou*), McLure, Mutch, Nicholson, Reid and Warren.

In attendance: Messrs. O. A. Matthews, G. R. McGregor, W. F. English, T. H. Cooper, W. S. Thompson, C. P. Edwards, A. T. Cowley, T. K. Main and W. A. Thornton.

Right Honourable C. D. Howe, Minister of Reconstruction and Supply, was present and participated in the discussion.

The Committee began and concluded its examination of the Auditors' Report of the Trans-Canada Air Lines (1947).

Mr. O. A. Matthews was recalled and examined.

Messrs. McGregor and English supplied answers.

On motion of Mr. Nicholson, the Auditors' Report of the Trans-Canada Air Lines (1947) was adopted.

The witnesses were retired.

Mr. Howe thanked the members of the Committee.

At 4.50, the Committee adjourned at the call of the Chair.

ANTONIO PLOUFFE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 22, 1948.

The Sessional Committee on Railways and Shipping met this day at 11 a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Gentlemen, we have a quorum. We are to take up today Trans-Canada Air Lines. First, I should like to introduce to the members of the committee the President, Mr. G. R. McGregor. I think I shall introduce each member personally to Mr. McGregor.

Now, Gentlemen, I believe it is customary to have the president read the report. If that is O.K. we will have the report read and take the questions afterwards.

Mr. McGregor, will you read the report?

Mr. G. R. MCGREGOR (President, Trans-Canada Air Lines):

TRANS-CANADA AIR LINES

MONTREAL, March 10, 1948.

To the Right Honourable, the Minister
of Reconstruction and Supply, Ottawa.

SIR:—The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1947.

This was a period of growth in Canadian air transport. Within North America, T.C.A.'s route miles increased by 1,248 to a total of 7,759, and six more cities were included as points of call. Over 1,380,000 more revenue miles were flown in 1947 than in 1946. Canada's transcontinental air route was shortened. A more extensive use of larger aircraft increased the Air Line's capacity for public service. In an expanding Atlantic schedule, T.C.A. crossed the ocean more than 900 times, carrying heavy loads of passengers, mail and cargo. Service to Ireland was commenced with the inclusion of Shannon as a point of call.

The service extensions resulted in a 34% increase in carrying capacity on North American routes and a 9·6% reduction in cost per available ton mile of transport. The wider North American work was done with over two hundred less staff than in 1946, while the total labour force required for both domestic and greatly expanded Atlantic operations was almost unchanged.

Although traffic in 1947 was heavier than in any previous year and operational efficiency increased, revenues were not sufficient to offset the mounting expenses. This was due not only to the growth of Canada's air services, but also to the much higher cost of labour and materials, factors over which the Air Line had no control and which are common to air transport generally.

The number of passengers carried on North American services grew by 40% while passenger revenue increased by 30% during the year. But this type of traffic was unable to support, by itself, the greater economic requirements of main line operations. The Line flew with empty space in 1947, indicating the opportunity for a wider employment of air transport in the carriage of mail and cargo. While 33,483,544 ton miles of transport were available on the North American routes in 1947, a total of only 19,588,661 revenue ton miles or 58·5% were used as compared with 67·5% in 1946. In an effort to develop non-passenger load, T.C.A. is now organizing an air cargo service for business and industry.

T.C.A. opened the Great Lakes airway on July 1. This chain of new and improved airports supplanted the route north of the Lakes. All transcontinental flights were then scheduled through the Lakehead and Sault Ste. Marie, providing those cities with their first main line air service. The new airway reduces Toronto-Winnipeg flight time, is a better weather route, and possesses scenic beauty.

The service to Northern Ontario was maintained by a local operation between Toronto, North Bay, Porquis and Kapuskasing.

Winnipeg and Edmonton were brought within five hours of each other on July 1 and Saskatoon added to the Air Line network when a daily schedule commenced between those three cities. Direct connections with Great Lakes flights offered greater transport facility between Eastern and Western Canada.

July 1 also saw the inclusion of Medicine Hat and Swift Current in a daily transcontinental schedule. The Air Line is now providing a well-rounded prairie service.

A new international operation was inaugurated on April 1, with a service between Halifax, Yarmouth, Saint John and Boston. At the year end, T.C.A. was connecting Canada with United States cities by means of six well separated trans-border routes.

Daily flight frequency on the Pacific Coast was increased during the summer months to six between Victoria and Seattle and to twelve between Vancouver and Victoria.

During 1947, the Air Line assisted world authorities in the standardization of international practices, planned with the Department of Transport for improved airport and airway facilities at home, and instructed many young Canadians in the techniques of flight and its administration.

The Company maintained the operational standards that have earned the public's confidence.

TRANS-CANADA AIR LINES

	1947	1946
Results		
Operating Revenues	$15,297,346	$12,810,805
Operating Expenses	16,796,491	13,926,061
Operating *Deficit*	*$ 1,499,145*	*$ 1,115,256*
Interest on Capital Invested	261,897	154,368
Deficit	*$ 1,761,042*	*$ 1,269,644*

Operating revenues totalled $15,297,346, an increase of $2,486,541 or 19 per cent over the preceding year. Passenger revenues increased $2,403,400 or 30 per cent; cargo revenues increased $144,208 or 47 per cent; mail revenues increased $27,688 or 1 per cent; revenue from sales and services decreased $164,273 or 28 per cent; other revenues increased $75,518. Passenger revenue contributed 68 per cent of total revenue, mail revenue 25 per cent and cargo revenue 3 per cent.

Operating expenses totalled $16,796,491, an increase of $2,870,430 or 21 per cent over the previous year. Of this amount, an increase of $1,347,908 may be attributed to higher payroll charges. The general rise in price structure, during 1947, affected the purchase of all T.C.A. materials, and this resulted in an increase of $1,128,541. In spite of these circumstances, the Company is able to report lower production costs per available ton mile of air service. Expenditures were carefully controlled and an efficient operation maintained. The charge to operating for accrued depreciation on aircraft and other property during the year amounted to $1,950,820.

The operating deficit for the year was $1,499,145.

Resulting from the 1945 amendments to the Trans-Canada Air Lines Act, 1937, the practice of charging operating expenses with 5 per cent interest per annum on invested capital, paid to the Canadian National Railways, was changed in 1946 so that interest payments were at the same rates as the Railway Company was called upon to pay on the advances to it by the Government for T.C.A. capital purposes. On this basis the 1947 charges amounted to $261,897.

After the payment of interest on capital there was a deficit of $1,761,042.

Statistical

Additional schedules, the greater carrying capacity of the fleet and intensified solicitation activities enabled the Air Line to serve passengers and shippers in larger numbers. Air mail volume alone remained unchanged.

Passengers

Revenue passengers carried on North American routes numbered 427,967 in 1947 as compared with 305,442 in 1946, an increase of 122,525 or 40 per cent. The average passenger journey, excluding charter service, was 420 miles, as compared with 510 miles in 1946, the decrease being due to a higher frequency of service on short Pacific Coast routes. Revenue passenger miles increased by 15 per cent. Revenue per passenger on scheduled services was $24.50 and per passenger mile 5·84 cents, as compared with $26.41 and 5·18 cents respectively in 1946.

In an effort to offset mounting material and labour costs, the Air Line was obliged to increase its passenger fares by 10 per cent in April. This followed similar action by the United States operators. It is not possible to calculate the influence of the increase upon traffic volume. A majority of the large United States carriers increased fares again in November, but T.C.A. did not.

T.C.A. assisted in the simplification of air travel regulations between Canada and the United States. By international agreement it was possible to eliminate many travel forms and to raise the standard of Customs and Immigration services.

Air Mail

Air mail volume was almost unchanged in 1947, with the Company flying 1,232,237 ton miles, as compared with 1,210,716 in 1946. There was some growth of this traffic toward the end of the year, but not enough to approach the Air Line's capacity for mail transport.

Air Cargo

Air express traffic grew steadily in 1947. Poundage totalled 1,439,814 as compared with 1,043,713 in 1946, an increase of 38 per cent. Ton miles rose from 380,557 to 543,307.

In August, the Company filed its first charter tariff and, with the availability of the larger fleet, several specialized cargo flights were operated before year end. Ton miles totalled 90,712.

A new type of cargo service was organized which will go into effect in 1948. In addition to carrying express shipments, the Air Line will handle commodities in volume at new low cargo rates.

Property and Equipment

Flight equipment as of December 31, 1947, consisted of:

Thirty Douglas DC-3 aircraft, 27 of which are equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1,200 horsepower, and three equipped with two Wright Cyclone engines, each of 1,200 horsepower.

Eleven Lockheed Lodestar aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1,200 horsepower.

The introduction of pressurized North Stars was delayed by production problems. However, at the end of the year three newly delivered aircraft were being prepared for domestic operations and used for pilot training. Planning for the first Canadian use of four-engined commercial equipment involved many changes in air line practices and in ground facilities.

All of the 10 and most of the 14-passenger Lockheed aircraft have been retired from service in favour of the 21-passenger DC-3's and the 40-passenger North Stars now in production. Some sales had been made of this older equipment.

The changing nature of the fleet required major adjustments in the maintenance and overhaul organization. All North Star servicing was assigned to Montreal, where domestic and overseas operations meet. Winnipeg remained the overhaul centre for the System.

Airport accommodation for the growing needs of air traffic continued to be a problem in 1947. At Victoria, Lethbridge and Saint John, N.B., use was made of renovated Air Force buildings. The Department of Transport began construction of a large terminal building at Toronto. The Company proceeded with a shop and office extension at Winnipeg.

New ticket offices were opened in Boston, Detroit, Hamilton and Sault Ste. Marie (Ontario). The Toronto office was moved to an improved location.

Routes

At December 31, 1947, Trans-Canada Air Lines was providing service—passenger, air mail and cargo—over nation-wide routes totalling 7,759 miles. This was an increase of 1,248 or 19 per cent over 1946. The routes operated are as follows:—

	Miles
Halifax—Victoria (via Moncton and Lethbridge)	3,220
(via Moncton and Calgary)	3,333
(via Saint John and Calgary)	3,287
Sydney—St. John's, Newfoundland	523
Halifax—Sydney	201
Halifax—Boston (via Yarmouth and Saint John)	563
Halifax—Saint John	172
Toronto—New York	363
Toronto—Chicago (via London and Windsor)	468
Toronto—Kapuskasing (via North Bay and Porquis Jct.)	476
London—Cleveland	124
Lakehead—Duluth	178
Winnipeg—Edmonton (via Saskatoon)	735
Lethbridge—Edmonton (via Calgary)	301
Seattle—Victoria	103

Airway Facilities

The Department of Transport and the Company worked in close accord for the improvement of Canada's airport and airway facilities.

The Great Lakes airway was completed, providing a series of good airports, intermediate landing fields and radio ranges between Toronto, Sault Ste. Marie, the Lakehead and Winnipeg.

Extensive runway development took place at Toronto, Winnipeg, Calgary and Lethbridge to fit those airports for the handling of four-engined aircraft.

The Saskatoon airport was enlarged so that T.C.A. service could be provided to that city.

Installation of instrument landing equipment proceeded at a number of major airports, including Montreal, Toronto, Winnipeg, Saskatoon, Calgary, Lethbridge and Vancouver. The Company has collaborated with the Department of Transport in this program, which promises a marked reduction in flight delays due to weather.

The Air Line extended its system of very high frequency ground radio stations. These are static-free, insuring complete clarity of communication with aircraft. By year-end, the Line was operating twenty such stations from Newfoundland to Western Canada.

A new schedule of airport landing fee charges was issued by the Department of Transport in 1947. It called for large increases, particularly for four-engined aircraft, and has been a subject of discussion between T.C.A. and the Department.

Mr. Chairman, do you wish me to go through the Atlantic company now?

The CHAIRMAN: I think you might as well complete your whole statement, and then we will take it up paragraph at a time.

Mr. McGREGOR:

TRANS-CANADA AIR LINES (ATLANTIC) LIMITED

On May 1, 1947, Trans-Canada Air Lines (Atlantic) Limited assumed responsibility for the operation previously provided by the Canadian Government Trans-Atlantic Air Service.

	May 1 to Dec. 31, 1947
RESULTS—	
Operating Revenues	$5,483,298
Operating Expenses	5,341,898
Operating Surplus	$ 141,400
Interest on Capital Invested	5,097
Surplus	$ 136,303

Operating revenues totalled $5,483,298, of which $3,912,070 represented passenger traffic, $735,013 air mail and $331,557 air cargo. Operating expenses totalled $5,341,898, leaving an operating surplus of $141,400. After the payment of interest on capital there was a surplus of $136,303.

The popularity of this overseas operation, equipped with North Star aircraft, ran high in 1947, and it is gratifying that even under the difficult circumstances represented by the transition to a larger scale service and the use of a new fleet it was possible to show an operating profit.

STATISTICAL

A basic schedule of one daily trip in each direction was maintained throughout the year. During the summer, as many as eleven round trips were operated each week. In all, T.C.A. made over 900 crossings. During the autumn there was a period of delayed operations resulting from severe weather and from certain equipment problems attending the introduction of the new type of aircraft.

Passengers

A total of 15,815 passengers crossed the Atlantic with T.C.A. during the last eight months of 1947, when the operation had full commercial status. 14,393 of these travelled on scheduled flights. The remaining 1,422 were largely immigrants from the United Kingdom, carried under a charter arrangement with the Province of Ontario. In addition, the Company sub-contracted with Transocean Air Lines for the carriage of 4,450 more immigrants to Ontario.

Throughout the year, westbound passenger traffic was of such large volume as to approach fleet capacity. Eastbound loads were much lighter.

A trans-Atlantic ticket office was opened at Prestwick for the convenience of Scottish passengers and a Visitors' Service Bureau was established in London for the assistance of T.C.A. passengers.

Air Mail

Trans-Atlantic air mail totalled 152,179 pounds between May 1 and December 31, 1947. In this case the flow was predominantly eastbound, T.C.A. receiving little mail load from the British Post Office.

Air Cargo

271,077 pounds of air express and 111,688 pounds of air freight were carried on the Atlantic service between May 1 and December 31.

In October, charges were substantially reduced and a special commodity rate offered for gift food parcels, resulting in a pronounced increase in cargo volume.

Property and Equipment

Six unpressurized North Star aircraft replaced the modified Lancasters previously in use. With almost four times the passenger capacity of their predecessors, these aircraft carried a very volume of overseas traffic.

At year end, three pressurized North Stars were being used for flight training.

Routes

The trans-Atlantic air route extends 3,313 miles between Montreal, Shannon, Prestwick (Glasgow) and London.

In 1947 service to the British Isles was rounded out with the scheduling of one stop weekly at Shannon, Ireland.

By including Sydney, Nova Scotia, in some flights, service to the Maritime Provinces was improved at reduced cost to travellers.

General

The self insurance fund increased by $610,457 during the year and now amounts to $2,124,730. The coverage includes aircraft and other equipment, also passenger, public, and employer liability on both domestic and overseas services. The premiums are treated as operating costs and the growth of the fund has been made possible by the substantial expenditures made by the Company in the interests of safety.

Personnel

Staff assigned to both companies totalled 4,393 at December 31, 1947. Although the T.C.A. widened its services during the past year it was able, through increased efficiency, to consolidate its working force.

During 1947, the Air Line continued the heavy training programme required to equip staff for the responsibilities of larger aircraft and the developing scale of Canadian air transport. T.C.A.'s employees today constitute one of the most efficient groups in the aviation industry.

Inter-airline Agreements

Mutually advantageous arrangements were made with other air lines. The Company organized and managed an international hotel at Goose Bay, in Labrador, for the passenger convenience of several trans-Atlantic operators. Agreements were made with Scottish Aviation, British Overseas Airways Corporation, and United Air Lines for the ground handling of T.C.A.s flights at Prestwick, London and Boston respectively. The subcontract under which Canadian Pacific Air Lines operates between Whitehorse and Fairbanks was extended for another year.

Four-engined Aircraft

It was a disappointment that unforeseen delays in production postponed the opening of North Star service across the continent. This four-motored, 40-passenger aircraft has characteristics of size, speed and comfort that will increase the popularity of air transportation. Travel time between Montreal and Vancouver will be reduced to fourteen hours westbound and thirteen hours eastbound including station stops—five hours less than at present.

An early version of the North Star was employed on the Atlantic during most of 1947. The more advanced model will be superior in many respects. Cabin pressurization, for example, will insure travel comfort at all altitudes. Twenty of these aircraft are in process of delivery by Canadair Limited, at Montreal.

Pressurized North Star aircraft will be placed in service on both the overseas and domestic routes as rapidly as they become available.

Future Service

Progress in 1948 will be measured not so much by route extension as by improvements in speed, comfort and capacity. Canada's second overseas air operation, however, is expected to begin in 1948 with a North Star service to Bermuda.

With greater capacity and service, the main problem facing the Company is the utilization of the aircraft space not required by passenger traffic. T.C.A. will continue the development of Canada's first nation-wide air cargo service at rates which will, it is believed, make possible volume shipments by air. Efforts will be continued to develop with the Post Office Department a satisfactory basis under which first class mail can be carried by air where he public would gain by the quicker delivery thus afforded. The facilities of the Air Line will also be offered to the Defence Services and other branches of government for the essential transport of persons and equipment. Special efforts will be made to ease the problem of seasonal traffic fluctuations which, in Canada, permit the full utilization of equipment and staff during only four months of the year.

Mr. H. J. Symington, C.M.G., K.C.

The retirement of Mr. H. J. Symington, C.M.G. K.C.. from the Presidency of Trans-Canada Air Lines was a source of general regret. No man has contributed more to Canadian air transport. Mr. Symington led T.C.A. from small beginnings to a position of prominence in the air transport industry. At the same time, he gave his energies to the rationalization of world avation.

Trans-Canada is fortunate in retaining Mr. Symington as a member of its Board of Directors.

The Staff

Employee relationships are of sound character. To all members of the staff, the Directors extend their sincere appreciation. Trans-Canada Air Lines owes its reputation to their loyalty and effort.

CONSOLIDATED BALANCE SHEET AT 31st. DECEMBER, 1947.

ASSETS

Current Assets:			
Cash		$ 578,211.41	
Working Fund Advances		61,506.91	
Special Deposits		5,106.39	
Accounts Receivable		2,517,254.16	
Traffic Balances Receivable		740,777.29	
Balances Receivable from Agents		120,330.14	
Material and Supplies		2,834,793.84	
Other Current Assets		96,758.35	$ 6,954,738.49
Deferred Charges:			
Prepaid Insurance and Rents		$ 43,534.31	
Research and Development Expense		31,465.06	
Other Deferred Charges		53,205.83	128,205.20
Insurance Fund			2,124,730.69
Investments in Affiliated Companies			11,961.72
Capital Assets:			
Property and Equipment	$14,700,574.15		
Less Accrued Depreciation	*5,992,874.67*	$ 8,707,699.48	
North Star M2 Equipment		12,858,963.62	21,566,663.10
			$30,786,299.20

LIABILITIES

Current Liabilities:			
Audited Accounts Payable		$ 1,599,899.95	
Accrued Accounts Payable		2,006,512.51	
Traffic Balances Payable		296,226.12	
Air Travel Plan Deposits		598,400.00	
Salaries and Wages		378,511.31	
Other Current Liabilities		852,082.56	
Canadian National Railways Advance for Deficit		1,000,000.00	
Canadian National Railways Current Accounts		303,114.36	$ 7,034,746.81
Reserves:			
Insurance		$ 2,124,730.69	
Inventory		100,000.00	
Overhaul—North Star M1		296,500.00	2,521,230.69
Capital Stock:			
Common Stock Authorized and Subscribed–Par value $25,000,000			
Common Stock Issued—Par Value.		$23,000,000.00	
Less Amount not paid in		*400,000.00*	22,600,000.00
Profit and Loss:			
Surplus 1st. January, 1947		$ 255,061.23	
Deficit Year 1947, Trans - Canada Air Lines	*$ 1,761,042.84*		
Surplus from 1st. May, 1947, Trans-Canada Atlantic Service	136,303.31	*1,624,739.53*	*1,369,678.30*
			$30,786,299.20

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st. December, 1947, and subject to our report to Parliament, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Air Lines as at the 31st. December, 1947, and that the relative Income Accounts for the year ended the 31st. December, 1947 are correctly stated.

GEORGE A. TOUCHE & Co.,
Chartered Accountants.

10th. March, 1948.

INCOME ACCOUNTS

Trans-Canada Air Lines Year 1947	Trans-Canada Air Lines Year 1946		Trans-Canada Atlantic Service 1st. May, 1947 to 31st. Dec., 1947
		Operating Revenues:	
$10,450,523.53	$ 8,047,123.58	Passenger	$ 3,912,069.71
3,808,197.01	3,780,508.72	Mail	735,013.40
449,447.29	305,238.69	Express and Cargo	331,556.59
84,912.12	72,946.77	Excess Baggage	19,849.62
81,905.29	18,353.46	Charter	417,763.00
422,361.17	586,633.88	Incidental Services—Net	67,045.90
$15,297,346.41	$12,810,805.10	Total	$ 5,483,298.22
		Operating Expenses:	
$ 3,955,603.04	$ 3,345,973.59	Flight Operations	$ 1,246,662.09
1,344,600.53	1,328,949.04	Flight Equipment Maintenance	612,521.57
1,785,166.57	1,388,635.49	Flight Equipment Depreciation	328,361.97
3,499,835.02	2,797,122.41	Ground Operations	991,997.91
1,933,883.61	1,516,021.82	Ground and Indirect Maintenance	691,009.76
165,652.97	125,776.33	Ground Facilities Depreciation	13,375.22
1,141,972.85	1,050,165.30	Passenger Service	367,766.02
1,779,923.21	1,404,828.43	Traffic and Sales	618,911.53
382,817.06	220,758.29	Advertising and Publicity	167,075.70
869,225.94	765,718.39	General and Administrative	307,078.13
62,188.85	17,878.08	Miscellaneous Income—Net Credit	2,861.71
$16,796,491.95	$13,926,061.01	Total	$ 5,341,898.19
$ 1,499,145.54	$ 1,115,255.91	Operating Deficit or Surplus	$ 141,400.03
261,897.30	154,368.48*	Interest on Capital Invested	5,096.72
$ 1,761,042.84	$ 1,269,624.39	Deficit or Surplus	$ 136,303.31

* Charged to Surplus—shown here for comparative purposes.

STATISTICAL DATA

Trans-Canada Air Lines Year 1947	Trans-Canada Air Lines Year 1946		Trans-Canada Atlantic Service 1st. May, 1947 to 31st. Dec., 1947
7,759	6,511	Route Miles Operated	3,313
15,543,485	14,162,377	Plane Miles Flown—Revenue	2,386,709
472,649	1,101,908	Plane Miles Flown—Training	51,978
671,514	600,385	Plane Miles Flown—Other Non-Revenue	117,725
427,967	305,442	Revenue Passengers Carried	15,815
420	510	Average Passenger Journey—Miles	3,134
62	76	Percentage of Passenger Occupancy	73
1,232,237	1,210,716	Mail Ton Miles	251,562
634,019	380,557	Express and Cargo Ton Miles	508,598
130,086	132,935	Excess Baggage Ton Miles	22,410

Trans-Canada Air Lines Year 1947	Trans-Canada Air Lines Year 1946			Trans-Canada Atlantic Service 1st. May, 1947 to 31st. Dec., 1947
		5100	FLIGHT OPERATIONS	
$ 1,383,474.50	$ 1,071,407.39	23	Captains and First Officers ..	$ 214,553.56
—	—	24	Other Flight Personnel	125,396.93
187,380.11	141,806.96	28	Training—Salaries and Expenses	20,904.04
158,311.75	182,959.04	36	Travel and Incidental	33,807.63
1,940,561.35	1,732,313.93	45	Aircraft Engine Fuel and Oil	702,526.77
40,008.30	36,263.81	53	Other Supplies	10,077.66
240,006.85	176,007.07	55	Flight Equipment Insurance	138,618.66
5,368.01	5,215.39	67	Clearance Fees	389.07
492.17	—	74	Other Expenses	387.77
$ 3,955,603.04	$ 3,345,973.59			$ 1,246,662.09
		5200	FLIGHT EQUIPMENT MAINTENANCE	
$ 278,015.03	$ 327,591.62	25	Aircraft—Labour	$ 97,781.10
228,755.51	172,386.17	26	Aircraft Engine—Labour ...	135,959.80
95,933.00	93,004.35	27	Aircraft Other Equipment—Labour	31,209.39
316,616.04	373,006.80	46	Aircraft—Material, etc.	97,039.37
359,579.73	315,995.01	47	Aircraft Engine — Material, etc.	186,166.05
65,701.22	46,965.09	48	Aircraft Other Equipment—material, etc.	64,365.86
$ 1,344,600.53	$ 1,328,949.04			$ 612,521.57
		5900	FLIGHT EQUIPMENT DEPRECIATION	
$ 1,186,435.43	$ 856,986.76	75	Aircraft	$ 205,483.38
188,843.82	326,014.30	76	Aircraft Engines	51,670.84
263,003.74	75,607.14	77	Aircraft Spare Parts	36,607.73
146,883.58	130,027.29	77	Aircraft Other Equipment ..	34,600.02
$ 1,785,166.57	$ 1,388,635.49			$ 328,361.97
		6100	GROUND OPERATIONS	
$ 253,379.95	$ 234,179.95	21	General Officers and Superintendents	$ 81,191.10
129,577.11	102,071.47	22	Station Managers and Assistants	18,613.85
33,306.51	40,887.16	28	Training—Salaries	14,023.75
556,710.89	424,317.16	29	Ground Service Employees—Mechanical	199,383.37
324,179.76	233,309.12	29	Ground Service Employees—Cargo	44,320.88
135,049.51	113,258.50	30	Flight Control Officers......	38,285.87
249,125.68	191,953.68	30	Radio Operators	—
117,563.11	94,279.83	30	Teletype Operators	6,252.49
251,919.11	235,997.42	35	Other Employees	54,933.54
154,149.24	162,172.29	36	Travel and Incidental	54,600.51
189,511.51	233,160.10	37	Telephone, Telegraph and Teletype	21,631.25
99,809.92	77,707.92	38	Light, Heat Power and Water	7,584.42
143,437.54	113,218.33	39	Express Expenses	94,208.16
70,725.01	53,364.84	40	Agency Services and Joint Facilities	8,536.10
215,433.14	54,512.26	43	Other Services	68,816.63
313,153.77	179,488.04	44	Airport, Building and Office Rentals	124,852.99
83,528.42	50,788.83	49	Servicing Supplies	74,292.17
76,994.83	103,985.36	50	Stationery, Printing and Office Supplies	22,107.46
42,770.65	41,046.38	53	Other Supplies	5,078.75
102.00	523.97	64	Memberships	—
59,407.36	56,889.80	74	Other Expenses	47,284.62
$ 3,499,835.02	$ 2,797,112.41			$ 991,997.91

Trans-Canada Air Lines Year 1947	Trans-Canada Air Lines Year 1946			Trans-Canada Atlantic Service 1st. May, 1947 to 31st. Dec., 1947
		6200	GROUND AND INDIRECT MAINTENANCE	
$ 107,735.14	$ 83,379.82	21	General Officers and Superintendents	$ 32,400.34
283,357.14	254,678.82	22	Maintenance and Stores Supervision	122,696.41
139,559.68	85,257.68	27	Equipment and Facilities—Labour	38,194.14
60,734.45	53,526.92	28	Training—Salaries	9,327.53
192,449.66	121,495.34	28	Unallocated Shop Labour...	35,612.20
149,401.48	138,567.00	29	Building Attendants	38,702.13
128,017.42	98,335.86	31	Stores Employees	50,117.55
207,442.67	122,477.39	35	Engineering Employees	88,502.21
202,473.07	142,957.40	35	Other Employees	122,293.16
90,657.87	50,187.98	36	Travel and Incidental.......	25,723.85
10,156.65	15,959.94	37	Telephone and Telegraph....	12,099.43
45,330.41	36,134.38	38	Light, Heat, Power and Water	8,298.27
6,847.68	2,563.52	44	Building and Office Rentals..	10,209.70
184,267.96	137,190.42	48	Equipment and Facilities—Material, etc.	46,200.40
104,052.93	95,802.99	49	Shop Supplies	29,338 85
29,296.43	27,936.70	50	Stationery, Printing and Office Supplies	12,568.97
10,963.24	11,512.73	53	Other Supplies	4,553.86
6,553.34	39,501.99	54	Stores Inventory Adjustment	—
82.16	129.50	64	Memberships	2.84
2,472.58	3,141.19	74	Other Expenses	11,475.06
14,861.67	*4,715.75*	80	Unallocated Shop Overhead..	*7,307.14*
$ 1,933,883.61	$ 1,516,021.82			$ 691,009.76
		6900	GROUND FACILITIES DEPRECIATION	
$ 165,652.97	$ 125,776.33	78	Ground Property and Equipment	$ 13,375.22
		6300	PASSENGER SERVICE	
$ 35,435.03	$ 28,873.39	21	General Officers and Superintendents	$ 6,715.59
245,673.30	188,816.73	24	Stewards and Stewardesses..	68,048.73
10,054.31	9,895.50	28	Training—Salaries	1,958.16
81,675.27	70,036.20	35	Other Employees	19,456.35
84,950.20	80,943.00	36	Travel and Incidental.......	18,379.04
20,148.00	16,133.57	43	Other Services	5,502.98
842.10	501.85	50	Stationery, Printing and Office Supplies	575.99
332,146.92	286,991.76	51	Passenger Food Expense....	54,749.84
115,114.76	113,077.64	52	Passenger Supplies	30,374.12
96,530.10	163,995.74	56	Passenger Liability Insurance	76,512.62
66,771.26	52,933.50	63	Interrupted Flight Expense.	82,223.63
30.00	—	64	Memberships	—
50,305.28	37,925.10	67	Customs Expense	2,661.26
2,296.32	41.32	74	Other Expenses	607.71
$ 1,141,972.85	$ 1,050,165.30			$ 367,766.02

Trans-Canada Air Lines Year 1947	Trans-Canada Air Lines Year 1946			Trans-Canada Atlantic Service 1st. May, 1947 to 31st. Dec., 1947
		6400	TRAFFIC AND SALES	
$ 62,985.67	$ 73,156.34	21	General Officers and Superintendents	$ 21,300.66
85,983.46	63,915.95	22	Traffic Supervision	31,808.54
20,116.92	38,735.47	28	Training—Salaries	5,897.38
1,267.76	1,568.64	29	Building Attendants	385.98
34,334.50	38,477.38	30	Teletype Operators	10,391.37
378,739.59	314,477.92	32	Ticketing Employees	118,100.89
372,416.96	319,744.23	32	Reservations Employees	115,698.80
42,027.13	31,217.23	33	Traffic Solicitors	17,357.08
127,930.26	122,317.29	35	Other Employees	42,188.17
85,319.46	99,665.83	36	Travel and Incidental	32,490.53
163,731.97	113,888.98	37	Telephone, Telegraph and Teletype	56,866.11
7,141.05	4,805.51	38	Light,Heat, Power and Water	2,376.56
189,169.20	51,053.48	40	Agency Services and Joint Facilities	92,097.72
16,862.29	3,009.74	43	Other Services	7,206.01
116,540.86	70,444.61	44	Office Rentals	38,870.54
63,301.92	39,700.02	50	Stationery, Printing and Office Supplies	21,179.99
2,297.40	19.13	53	Other Supplies	1,209.66
1,377.96	998.95	64	Memberships	247.77
8,378.85	17,631.73	74	Other Expenses	3,237.77
$ 1,779,923.21	$ 1,404,828.43			$ 618,911.53
		6500	ADVERTISING AND PUBLICITY	
$ 24,935.83	$ 16,973.92	59	Timetables and Distribution	$ 8,788.84
275,314.19	137,280.69	60	Advertising—Space	123,964.61
40,226.42	43,690.72	61	Advertising—Other	18,128.44
42,340.62	22,812.96	62	Promotional and Publicity Expense	16,193.81
$ 382,817.06	$ 220,758.29			$ 167,075.70
		6600	GENERAL AND ADMINISTRATIVE	
$ 87,424.63	$ 94,264.94	21	General Officers and Supervision	$ 29,089.17
225,556.17	194,863.44	35	Other Employees	74,500.52
24,192.20	26,619.43	36	Travel and Incidental	8,985.78
11,790.51	5,865.44	37	Telephone and Telegraph	4,572.15
37,999.99	50,000.00	39	Affiliated Company Charge	12,000.01
10,311.18	2,795.44	41	Professional Fees and Expenses	3,604.69
4,792.02	45.17	44	Office Rentals	2,361.56
25,581.87	18,138.80	50	Stationery, Printing and Office Supplies	7,014.41
25,380.81	30,216.84	55	Insurance—Public Liability and General	7,570.58
58,388.35	49,631.63	57	Insurance—Employees' Welfare	60,924.58
242,768.93	199,920.00	57	Pensions	72,405.87
4,938.14	10,835.00	64	Memberships	274.86
41,210.27	30,805.16	68	Taxes—Payroll	5,216.25
38,164.33	27,517.89	69	Taxes—General	7,760.64
30,726.54	24,199.21	74	Other Expenses	10,797.06
$ 869,225.94	$ 765,718.39			$ 307,078.13

CANADA'S TRANS-ATLANTIC AIR SERVICE

Canada's air service operating between Montreal and the United Kingdom became, by 1947, one of the principal international air operations.

Flying a basic schedule of one round flight daily, which will be increased to two in June, 1948, it has made Canada and the British Isles almost next-door neighbours. The 3,000 miles of ocean are bridged in fifteen hours.

Scheduled stops are made in England, Scotland and Ireland, at the airports of London, Prestwick (near Glasgow) and Shannon. At Montreal, the overseas flights are interlocked with the domestic air service. Some of the trans-Atlantic flights stop at Sydney, N.S.

Forty-passenger North Star airliners of Canadian manufacture cut days from the traditional Atlantic crossing. When post-war aircraft became available in 1947 and the air line took full commercial control of the service, T.C.A. was already a proven trans-Atlantic operator. In the years 1943-1947, T.C.A.'s log books recorded more than 1,900 crossings made for the Canadian Government Trans-Atlantic Air Service.

The CHAIRMAN: Thank you, Mr. McGregor. Would it now be in order, gentlemen, to start, let us say, at page 5 of the report and as we come to the various paragraphs, for you to ask any questions about them that you wish.

Mr. NICHOLSON: Before we commence the discussion, the members of the committee are all in agreement with the statement regarding Mr. Symington, and his contribution to aviation. Most people are pleased with the selection of the new president; and I wonder if the minister would care to make a statement as to that, for the purpose of the record.

Right Hon. Mr. HOWE: We feel very happy that we have a man in the organization who could assume the presidency of the Company. Mr. McGregor, before the war, was a senior official of The Bell Telephone Company. He had a splendid record in the war and flew fighters for most of the war period; and he joined the staff of the T.C.A. at the end of the war and became general traffic manager. He seemed to have exactly the experience that we required for the presidency. He has had a good business training and he knows the system thoroughly. We believe that the appointment of a young man from organization itself will be beneficial to the operation.

Mr. JACKMAN: Your headquarters are both at Montreal and Winnipeg, Mr. McGregor?

Mr. MCGREGOR: That is correct.

The CHAIRMAN: Perhaps I should say, Mr. McGregor, that there are some other members who have arrived since you began. I do not know if you know them or not, but we have now with us Mr. Warren, Mr. Moore, Mr. Hlynka and Mr. Fulton.

Mr. MCGREGOR: How do you do, gentlemen.

The CHAIRMAN: Now, gentlemen, is there anything with respect to page 5, or any general questions you would like to ask Mr. McGregor.

Mr. JACKMAN: Perhaps I might ask a general question. The business of the line has grown and yet our operating results, the net results, are not as satisfactory as in the previous years. Is it natural to this industry that the larger we grow the more deficits we are going to incur.

Mr. MCGREGOR: I do not think that should be taken as a trend. The growth in business was associated with the growth in the air lines; and, as you see, the unit costs went down. And it is true of any new service, that it seldom operates at a satisfactory capacity during its first twelve months of operation; and that condition extends quite frequently as long as two years.

The Air Line increased its service between Vancouver and Victoria greatly over 1946, during which it only operated that service for about six months; and as to the other new services which are mentioned, such as to Boston, it will take some time to develop traffic over air services which come as a complete stranger to the traffic potential at both ends.

Mr. JACKMAN: Then you feel that the loss is due to the new lines which were taken on during the year?

Mr. McGREGOR: No, but to the increases in expenditures related to the opening of new routes. Those lines will undoubtedly come up to the break-even traffic point in due course.

Right Hon. Mr. HOWE: It might be interesting to put on the record an article from *Time* giving the over-all result of air line operations for 1947, which was a disastrous year for all, partly due to bad weather in the spring, in fact, terriffic weather, and to some bad experience with new equipment. If you do not mind, because it would only take a minute, it might be interesting for me to read this article into the records.

> For U.S. airlines, the question in 1947 was not how good but how bad, was business. Last week, as its annual reports came in, the industry added up the answer: the 16 scheduled domestic airlines had lost more than $20,000,000.
>
> Hardest hit was United Air Lines, Inc., which had a $1,086,961 profit in 1946. The rise in costs, poor weather early in the year, and the grounding of all the new DC-6's swelled United's loss to $3,747,000. American Airlines, Inc., biggest domestic carrier was also nipped by the grounding. Though its traffic (some 1·4 billion passenger miles) and gross revenues (nearly $82 million) were the highest in company history, its losses soared to $2,962,776 (from $375,943 in 1946).
>
> Only one major domestic line, Eastern Air Lines Inc., showed a profit; but its net of $1,259,196 was only one-quarter of the year before. Pan American Airways Corp., partly because of currency restrictions (for which it had to put aside a "very substantial reserve", turned in a profit of $2,960,000, slightly below 1946, despite a big expansion in operations.

That is the trend, and there is some more of it; but I think we must recognize that the United States, in 1947 operated under the same conditions which faced Trans-Canada Air Lines.

Mr. HAZEN: It was not very satisfactory was it.

Mr. McGREGOR: No.

Mr. HAZEN: You have spoken of bad weather, but there is no mention made as to bad weather in the president's report here, and there is no mention made of crashes as well.

Right Hon. Mr. HOWE: There were no crashes in Canada, but crashes anywhere in the world react on the business.

Mr. HAZEN: The more business you do, the more money you lose.

Mr. McGREGOR: That is quite erroneous.

Mr. HAZEN: That may be, but I think it should be explained. You did more business last year than you did the year before and had more operating revenue and so on, but on account of your expenditures, you had a greater deficit. I wonder if it is possible for you to increase the rates so that you would get bigger revenues to meet your expenses. Can that not be done? You mentioned 10 per cent, but that did not seem to get you very far.

Mr. McGREGOR: There is, obviously, a limit to what increased rates will produce because, as rates increase, there is naturally a depressive effect on utilization of the air lines resulting in low load factors. That is the sole secret as to whether one operates in the red or in the black. If you are running filled, let us call it, above the critical percentage, the air line is operating profitably; but if you are below that figure, then you are in the red; and in the case of a growing service, for the reasons I mentioned before, the tendency is to operate at percentages of fill which are below that breakeven point.

Mr. HAZEN: As to these percentages of fill, the volumes shipments by air, you want to get additional business in addition to passengers.

Mr. McGREGOR: Exactly.

Mr. HAZEN: What kind of business have you in mind?

Mr. McGREGOR: Both airmail and cargo; I mean, mail transported by aircraft.

Mr. HAZEN: Cargoes of what kind?

Mr. McGREGOR: Every possible type of commodity short of coal and grain; for example flowers and lobsters, which are two items we are operating with now.

Mr. NICHOLSON: At what percentage of capacity did you operate last year.

Mr. McGREGOR: 58·5 per cent weight load factor, which compares with 67·5 per cent in the previous year. This should not be confused with the passenger load factor. The figure is about 62 per cent passenger load factor as compared to 76, for the year before. The rates are about 10 per cent higher than the American rates, on the average.

Mr. HAZEN: How do the loads on our lines compare with those on the American lines?

Mr. McGREGOR: In 1947?

Mr. HAZEN: I mean the amounts, I mean the quantities; are the American lines doing a bigger business in the way of cargoes than we do.

Mr. McGREGOR: Very much so.

Mr. HAZEN: Well, they have big deficits too.

Mr. McGREGOR: Yes, but they were up against the special problem of having large fleets of aircraft which they could not use due to DC-6 grounding.

Mr. NICHOLSON: And how is their passenger ratio compared to the T.C.A.'s.

Mr. McGREGOR: Slightly higher.

Mr. NICHOLSON: I suppose their population density is quite a factor.

Mr. McGREGOR: Yes.

Mr. NICHOLSON: At the bottom of page 5 you say:

> Winnipeg and Edmonton were brought within five hours of each other on July 1, and Saskatoon added to the air line net work when a daily schedule commenced between those three cities.

What progress have you made to extend the service to Vancouver?

Mr. McGREGOR: That is not planned at the moment, due to the airways situation. It is possible to arrange facilities to fly direct to Calgary and Vancouver but not direct from Edmonton to Vancouver.

Mr. NICHOLSON: How many more airports would have to be established?

Mr. McGREGOR: I would say two, but the range facilities require more than two, and it would do very little to shorten the route.

Mr. JACKMAN: If we have excess carrying capacity at the moment, how many craft have you got on order.

Mr. McGREGOR: There are 20 North Stars in the total order, and, as of a few days ago, eight have been delivered in shape to use.

Mr. JACKMAN: They were not in use last year?

Mr. McGREGOR: No. They were not in use last year.

Mr. JACKMAN: How are you going to use all this additional equipment profitably? Are you going to retire a lot of the present planes?

Mr. MCGREGOR: Yes. All the Lockheeds will be retired and at least three DC-3's, the old DC-3's.

Mr. JACKMAN: Have you a net figure which indicates the capacity or whatever you call it?

Mr. MCGREGOR: Yes; the capacity in seat miles.

Mr. JACKMAN: Well, the total capacity for passengers or mail and freight.

Mr. MCGREGOR: The whole system capacity; do you wish me to compare 1948 with 1947?

Mr. JACKMAN: What I should like to know is: that if you had an excess capacity, if you had an excess last year, and if you get 20 North Stars on order to be delivered, then what is your net increase going to be in capacity, less retirement.

Mr. MCGREGOR: I think we are talking a wee bit at cross purposes. What the report sets out is that we are not embarrassed with excess passenger capacity. But each time you fly a passenger aircraft, an aircraft flying reasonably filled with passengers, you still have available lift in the form of cargo and it is this which we are most anxious to correct in 1948.

Mr. JACKMAN: You were three per cent down on your passenger fill last year, and you are going to have more capacity for the use of passengers or excess; so I would like to get some kind of figure which would measure your capacity for 1947, which was not utilized, and what you will have when you have delivered all the 20 North Stars.

Mr. MCGREGOR: I see. The use exceeded in 1947 was 41½ per cent by weight, not by passenger.

Mr. JACKMAN: What do you mean by weight; you can carry that much more poundage?

Mr. MCGREGOR: Yes, that's right. The total available lift of the aircraft compared with what was actually handled for each mile flown.

Mr. JACKMAN: You had 41½ per cent in the way of poundage capacity last year. Now, assuming there is no increase in poundage using the lines, how would you relate your poundage capacity when you have these 20 North Stars, less retirements.

Mr. MCGREGOR: We are certain to have a greatly increased poundage; we are reasonably sure to be flying by mid-summer some portion of the first class mail of this country. We are quite certain, and we have already experienced it with cargo, which is going up rapidly, and will be doing so even more.

Mr. JACKMAN: You have had a slight take up already of 41½ per cent.

Mr. MCGREGOR: That is right; but weight load factors, which those figures represent, are never as high as passengers, and obviously, can never be, and 75 per cent weight load capacity would be excellent.

Mr. JACKMAN: But last year you had 41½ per cent excess, which would give 58½ use.

Mr. MCGREGOR: Yes.

Mr. JACKMAN: And if you had 75 per cent, you are doing very well. Can you tell us what your break even point is.

Mr. MCGREGOR: About 70 per cent.

Mr. JACKMAN: The reason why I am pursuing this inquiry is because most companies, in the ordinary course of business, could expend out of earnings; and there also comes out of the earnings what the shareholders get in the way of dividends; whereas with a company of this nature, all you have to do is to indent to parliament, and with the force of the minister behind you, you will get your demands.

Mr. McGregor: The minister is a very difficult man to sell on such a point. It is only fair to say that.

Right Hon. Mr. Howe: This is the first time we have ever come to parliament to ask for a vote for a deficit since we started.

Mr. Jackman: Perhaps it is getting harder to sell now; is that the idea?

Right Hon. Mr. Howe: You cannot double your equipment and expect to fill it in the first few months. An air line, like a hydro, must have a little reserve capacity for growth.

Mr. Jackman: But you never had a 41½ per cent reserve in a hydro system—not in Ontario anyway.

Mr. Nicholson: And what about first-class mail?

Mr. McGregor: The Post Office Department and ourselves have agreed on a submission to the government as a basis on which mail will be carried; and I hope that not later than July 1, and possibly by June 1st of this year, that it might be in effect.

Mr. Nicholson: Do you feel free to give us any details?

Right Hon. Mr. Howe: I think it is a matter of government policy which has not yet been decided.

Mr. Fulton: Could we be told the basis of the submission.

Right Hon. Mr. Howe: I do not think that would be wise because the government has not yet considered it.

Mr. Nicholson: I noticed there is not a very large increase in the volume of air-mail carried in 1947 over 1946.

Mr. McGregor: The question of air-mail rates is important today, and there is a natural trend for the volume of mail to taper off from the war conditions which were certainly artificially stimulated.

Mr. Lockhart: What is the explanation for the British postal department not giving us mail?

Mr. McGregor: The explanation is entirely tied up with the dollar situation. If they buy air-mail transportation from us, it means an outside dollar expenditure; whereas, since they have their own air lines, the B.O.A.C. flying from the United Kingdom into Montreal and New York, it is much more in line with their difficult economic situation to patronize the home industry and pay it in pounds.

Mr. Hazen: Your equipment and staff have been used fully only for four months of the year; during the other eight months of the year, what proportion of your staff and equipment were used?

Mr. McGregor: All the equipment was used, but not as heavily as it could be. You have a severe hump in the total traffic requirements of the air lines during the summer months. But we hope that foreign services to the south will tend to level that off in the future. But it is quite true of general east and west air lines; they all suffer from it; and the one exception which the minister mentioned is the line operating in the States, which operates almost entirely on north and south routes.

Mr. Hazen: Did you say that all equipment was used, but not fully used?

Mr. McGregor: Exactly.

Mr. Hazen: But all the staff was not fully used; do you keep records to show what proportion of your equipment and staff are fully used?

Mr. McGregor: Yes, we keep such records.

Mr. HAZEN: I do not suppose it would be the same for the remaining eight months; I suppose it would vary.

Mr. McGREGOR: Depending on which month, very considerably; and we keep records of the main groups affected, and the flight crews and their hours flown each month. Obviously it is not good economy to let out flight crews in whom we have a tremendous equity in training.

Mr. HAZEN: Which months drop off? They are the summer months, the four summer months.

Mr. McGREGOR: The late summer months; September is one of our heaviest months. The drop off starts in October then it picks up again in December, which is a heavily travelled month; and January and February are at a low ebb; but in March it starts to rise again.

Mr. NICHOLSON: At the top of page 6 you say:

> July 1 also saw the inclusion of Medicine Hat and Swift Current in a daily trans-continental schedule.

Has that been a profitable experiment; and how many more points are you likely to establish on the main line?

Mr. McGREGOR: It is very difficult to segregate the cost of that type of operations; but they were a little bit unique in the history of the T.C.A., because we regarded them as short on-the-ground-time points where we could operate as cheaply as that type of operation indicated and the result was that we put in a minimum of staff, and we put stewards rather than stewardesses on the aircraft so that the men could assist in the baggage handling while the aircraft was on the ground. We expect to go into Brandon and Yorkton on an experimental basis this summer.

Mr. NICHOLSON: How about Moose Jaw?

Mr. McGREGOR: Moose Jaw is not contemplated.

Mr. NICHOLSON: How soon do you expect to get into Yorkton?

Mr. McGREGOR: Yorkton and Brandon are, I think, dependent on the airport situation; but I would say probably about June 1st.

Mr. JACKMAN: I suppose this figure of 58½ per cent of use, of poundage capacity for last year, refers to flights which had actually taken place?

Mr. McGREGOR: Oh, yes.

Mr. JACKMAN: Is there a comparable figure for the use of all your equipment?

Mr. McGREGOR: No; we do not fly a flight on the basis of the available load. A scheduled flight must be flown.

Mr. JACKMAN: But you said that it was at certain periods of the year that there was an excess of capacity due to weather and various causes. Is there a figure available as to the extent of the use of your flying equipment?

Mr. McGREGOR: No, there is no such figure.

Mr. HAZEN: Did you carry flowers on many flights last year as cargo?

Mr. McGREGOR: No.

Mr. HAZEN: Well how are you doing with them this year?

Mr. McGREGOR: Very well.

Mr. HAZEN: Are they mostly from the west coast?

Mr. McGREGOR: Yes.

Mr. HAZEN: And you have been carrying them quite frequently?

Mr. McGREGOR: Yes.

Mr. HAZEN: Is that business just seasonal, or would it go on in the summer as well as in the spring?

Mr. McGregor: I would not think so; I would say that it was seasonal; and the same would be true of the other specialized air cargoes such as lobsters on the east coast.

Mr. Hazen: Did you carry many lobsters last year as cargo?

Mr. McGregor: No, we did not because some of that type of cargo is difficult to associate with passengers.

Mr. Hazen: Have you started in with it this year?

Mr. McGregor: Yes.

Mr. Hazen: Have you some cargoes this year?

Mr. McGregor: Yes.

Mr. Hazen: Where do you pick up these cargoes?

Mr. McGregor: Halifax is one point; and we have also flown some from Newfoundland.

Mr. Hazen: How far across the continent do you fly them?

Mr. McGregor: Montreal is as far west as any of that cargo has come; and Montreal is as far east as the flower cargoes come from the west coast.

Mr. Jackman: In connection with the overseas mail, I suppose we route most of our Canadian mail over our own lines.

Mr. McGregor: Yes.

Mr. Jackman: Where do the British planes pick up the eastbound air-mail or cargo?

Mr. McGregor: At Heath Row in London.

Mr. Jackman: No, the British planes, do they go back home empty?

Mr. McGregor: Quite. There is no Canadian mail.

Right Hon. Mr. Howe: They only have two flights a week.

Mr. Jackman: But that is sufficient to carry the westbound mail.

Right Hon. Mr. Howe: Oh, yes.

Mr. Jackman: Do their planes go back empty?

Mr. McGregor: In so far as mail is concerned.

Mr. Jackman: Cannot anything be worked out as to that?

Right Hon. Mr. Howe: It works fairly well for us because our heavy runs are the western loads and I do not think we lose too much at any time on the eastbound.

Mr. Jackman: You mean that you carry more people.

Right Hon. Mr. Howe: Yes.

Mr. McGregor: There is only a certain amount of mail, and it is not important whether we have half of each others or all of our own. It is an ideal thing not to be cluttered up with mail and cargo on the westbound flights.

Mr. Nicholson: If you could fill your planes with passengers then it is more profitable than for you to have mail or cargo?

Mr. McGregor: It is about the same.

Mr. Jackman: Would you explain what you mean by the expression: "production costs per available ton mile".

Mr. McGregor: Available ton mile: that is what we regard as the yardstick of the amount of transport work provided; and it means exactly what it says. It is the transportation of a ton, or rather the ability to transport a ton for one mile; and it has nothing whatever to do with the use that is made of that ton-mile capacity. It is there to be sold, and if it is sold and filled it is a good thing. But that does not affect the costs of producing that ton mile.

Mr. JACKMAN: If you had not been able to produce, all your production costs would vary on the ton basis.

Mr. McGREGOR: That is right. The cost does not vary whether you fill it or not.

Mr. JACKMAN: I had difficulty in reconciling the figures given for the T.C.A. and published in the Dominion Bureau of Statistics pamphlet "civil aviation", month by month. I have it for eleven months and it says that the operating loss was $2,209,000, but the December figures are not available in the report. Whereas your deficit here says: $1,761,000. Could that be explained to the committee?

Mr. McGREGOR: I think it could. I do not know just what month it occurred, but during the latter part of 1947, it was realized that we were not going to have any other aircraft and also that the useful life of the DC-3 was obviously going to be longer than had been previously contemplated, through the development of air cargo; and for that reason the depreciation period on the DC-3's was changed from three years to four years. I do not know whether that first appeared in December or in a previous month.

Mr. JACKMAN: The depreciation of the DC-3's rate was changed from a three-year to a four-year basis.

Mr. McGREGOR: Yes.

Mr. JACKMAN: It must have have been made retroactive for the year.

Mr. McGREGOR: It would apply for the year.

Mr. JACKMAN: Then does that account for the $1,000,000 difference.

Mr. McGREGOR: I would think, in part only.

Mr. COOPER: The adjustment was only about $400,000.

Mr. JACKMAN: Well, I still come to this figure, which is number 18 on the Dominion Bureau of Statistics pamphlet, under operating revenue, under Trans-Canada Air Lines; and if you had about a month to go, and you had $2,209,000 loss, with December still to come, and you only report a deficit of $1,761,000.

Mr. McGREGOR: That comes pretty close to Mr. Cooper's figure, I think.

Mr. JACKMAN: But how would December show? What was your operating figure?

Mr. McGREGOR: I think I have it here. December showed a net operating profit of $628,180.02.

Mr. JACKMAN: A profit?

Mr. McGREGOR: Yes.

Mr. JACKMAN: A profit of how much?

Mr. McGREGOR: $628,180.02.

Mr. JACKMAN: That must include a write-back for the year.

Mr. COOPER: There were two adjustments. One had to do with depreciation and the other with adjustments on the mail rates.

Mr. JACKMAN: November shows a loss of $327,000, yet for December you show a profit ?

Right Hon. Mr. HOWE: I think there was an adjustment of the mail rates. We had an annual contract and so much was credited each month; but at the end of the year we had more coming to us than we had been credited with month by month.

Mr. McGREGOR: And there was an experiment with the first-class mail car-

Mr. McGREGOR: And there was an experiment with the first-class mail car-

Mr. JACKMAN: There certainly was a very large adjustment for any one month. Are you going to have these figures adjusted in the Dominion Bureau of Statistics records; if they are to be worth anything at all, then they should be kept accurately.

Right Hon. Mr. HOWE: It will be all right when they get the December figures.

Mr. JACKMAN: What is the justification for changing the DC-3's depreciation rate from three years to four years, using them for cargo; surely, there is nothing new about that.

Mr. McGREGOR: In 1947 it was definitely a new idea.

Mr. MOORE: In the past few years the price of gasoline has increased appreciably. Has the price of aviation gasoline also increased?

Mr. McGREGOR: Yes. Very definitely. And, incidentally, on that point we are paying twice as much per gallon as the United States operators.

Mr. JACKMAN: May I just ask what the adjustment on the mail contract was that took place with respect to the December figure?

Mr. McGREGOR: Well, as I have mentioned, there was the idea of developing possibilities of what we call all up first class mail on certain mail routes between Ottawa and Montreal and between Ottawa and Toronto; and they were flown without public announcement, in December, in order to find out what the problems were and what the possibilities were. And if I remember correctly, the payment for that kind of adjustment which was made in the rate per pound of air-mail totalled, something in the order, I think, of about $400,000.

Mr. COOPER: $487,000.

Mr. JACKMAN: For the month of December, $487,000 of first class mail was flown from Montreal to Toronto.

Mr. McGREGOR: No. The total effects of these two things which I mentioned totalled $487,000.

Mr. COOPER: $487,000 was for the period April 1 to December 31.

Mr. NICHOLSON: What do the American, the United States Air Lines get on the basis of the five cents air-mail rate.

Mr. McGREGOR: Their remuneration varies widely between companies. In the case of the larger companies, it is lower than our remuneration; and in the case of the smaller companies, it is considerably higher than ours. It is based entirely on their financial needs. If an air line can show or specify to the United States government authority that it is operating reasonably efficiently and still operating at a deficit, they say: your air-mail rates shall now be thus and so in order to correct that situation.

Mr. FULTON: They make use of a subsidy, then.

Mr. McGREGOR: Exactly.

Mr. NICHOLSON: It is conceivable that certain western airlines would get a different rate from operating to San Francisco and Los Angeles.

Mr. McGREGOR: Well, I do know of air lines of smaller types such as the Colonial who get vastly different air-mail rates.

Mr. FULTON: Are there any further extensions or additions in western Canada contemplated?

Mr. McGREGOR: The two I have mentioned, Brandon and Yorkton.

Mr. FULTON: What about west of Calgary?

Mr. McGREGOR: No. That area is being served by C.P.A. at the present time.

Mr. FULTON: You do not contemplate any stops between Vancouver and Edmonton, when you get that service in operation?

Mr. McGREGOR: No, we do not; but the service will be inaugurated from Vancouver to Calgary non-stop.

Mr. FULTON: That is in operation now.

Mr. McGregor: Yes; I am speaking of the North Star service.

Mr. Fulton: I see that you have a planned service from Vancouver to Edmonton. Is it planned to have any intermediate stops?

Mr. McGregor: No, it is not planned at the moment.

Mr. Fulton: Do you feel there will be an increase in the volume of air mail if you did? There is quite a distance between the two points by train.

Mr. McGregor: I think it would possibly increase air mail but very definitely detract from passenger patronage. Passengers who go into an aircraft want to get to their final destination in the quickest possible time and they resent intermediate stops.

Mr. Fulton: You do not run anything like the through trains and the local trains?

Mr. McGregor: That would become the case with the introduction of the North Star aircraft which would run from Toronto to Winnipeg with the DC's stopping at the Soo and the Lake Head.

Mr. Fulton: I think you said you had shorter flights. Are you going to have any more local flights, local stops?

Mr. McGregor: There are the two we mentioned which are both east of the Calgary-Edmonton line.

Mr. Fulton: If you had the North Stars and the short flights and had a sufficiency of equipment do you not consider that the time has come when you could inaugurate more local flights?

Mr. McGregor: No, because as you introduce the other flights you decrease the patronage of the local flights; they remove all the through load from them.

Right Hon. Mr. Howe: I think what Mr. Fulton is asking is, are you considering any more flights of a local nature?

Mr. Fulton: Yes.

Right Hon. Mr. Howe: I think the air line is always studying that because we mentioned Brandon and Yorkton this year; if it can be shown that there is a potential traffic for the local flight with no other stop we would consider it. This is a matter of estimating whether the traffic is there to a certain stop.

Mr. Fulton: You can see if you look at the map in the report that there is no service into the interior of British Columbia at all between Vancouver and Lethbridge and Calgary and Edmonton respectively.

Right Hon. Mr. Howe: You have the C.P. Air Lines which are practically the same as a local service.

Mr. Fulton: They have only one stop-over between Vancouver and Calgary.

Right Hon. Mr. Howe: No, no; there are several stops.

Mr. McGregor: I think there are three stops between Calgary and Vancouver.

Mr. Fulton: On the southern route?

Right Hon. Mr. Howe: That service goes up to Fort St. John from Vancouver. There are several stops.

Mr. Fulton: That is purely local.

Right Hon. Mr. Howe: Yes, it is local.

Mr. Fulton: I was thinking of connecting up with other T.C.A. routes. At times it is difficult to connect up with the mail from Vancouver to Calgary.

Mr. McGregor: The C.P.R. service stops at three intermediate airports if I remember correctly—Penticton is one and there is Trail, and there is a third one. I am not very familiar with their service.

Mr. FULTON: Those are landing places, are they? I was wondering whether you contemplate anything between Vancouver and Calgary and Vancouver and Edmonton; but you say you do not.

Mr. McGREGOR: Not at the moment, there is not an airport available to us.

Mr. FULTON: I can tell you there is one at Kamloops.

Mr. McGREGOR: I do not think Kamloops would be suitable for North Star landings.

Mr. FULTON: You did not tell us that. You said the North Stars were not going to do any stopping and I wondered if you could increase the number of stops of smaller planes.

Right Hon. Mr. HOWE: We do not attempt to use smaller planes over the mountains. We have never dared to put Douglases through, as far as the T.C.A. is concerned. We have operated Lockheeds. You get icing conditions that demand a high-powered plane. We intend to do that with the North Stars.

Mr. NICHOLSON: What plane are you using to Medecine Hat and Regina?

Mr. McGREGOR: DC-3's. We will not operate DC-3's across the mountains. The one-engine performance of other machines is not sufficient.

Mr. NICHOLSON: What do you use from Lethbridge to Vancouver?

Mr. McGREGOR: Lockheed Lodestars.

Mr. NICHOLSON: There was some talk about Penticton; I think you said that the C.N. is not serving Penticton but that the C.P. is.

Mr. McGREGOR: I hardly think that is T.C.A. country. They had, as a matter of fact, a service which was established by the C.P.A. and we were quite happy that it should be so.

Mr. NICHOLSON: Was it understood that the T.C.A. handled all services? There was quite a time when Penticton did not have any services.

Right Hon. Mr. HOWE: That route is being handled by smaller planes. The Lodestars are heavy.

Mr. NICHOLSON: Are not the C.P.A. using the same kind of plane over that route?

Hon. Mr. HOWE: Frankly, I do not know what they are using.

Mr. McGREGOR: They were required to fly by a combination of planes, which was a rather costly arrangement. I believe that has been changed now.

Right Hon. Mr. HOWE: There is a very difficult operation there.

Mr. McGREGOR: Going down into the airports in the middle of the Rockies is not a happy situation. Flying with aircraft on which you cannot get an altitude of upwards of 12,000 feet on one engine we do not regard as good practice.

Mr. FULTON: What are the runway requirements of the North Star?

Mr. McGREGOR: 5,200 feet. It can be operated with considerably less if you are prepared to sacrifice load.

Mr. FULTON: Can you tell me offhand how that would compare with the Lancasters you used to fly?

Mr. McGREGOR: About the same.

Mr. FULTON: I think our airport could accommodate both because we accommodated Lancasters during the war.

Mr. McGREGOR: There is a vast difference between a Lancaster bomber without load and a commercial aircraft loaded to plane capacity.

Mr. FULTON: You mean one light and the other heavy?

Mr. McGREGOR: Quite so.

Mr. FULTON: I understood it was designed for both types.

Mr. JACKMAN: With regard to mail contracts and the carrying of mail from Montreal to Toronto, I have always found in Ottawa that I could get better service without using air mail; in fact it is slower service by air mail than first-class mail, and as a consequence I never use air mail for speedy delivery.

Right Hon. Mr. HOWE: Maybe you are using air mail and do not know it. The planes have been carrying a lot of first-class mail.

Mr. JACKMAN: It is a long time since I have put an air mail stamp on my mail. Can you assure the committee that mail carried between Toronto and Montreal is getting a fast delivery with the T.C.A. carrying it as when the railways carry it? I am speaking of between the mail box and the house or the office.

Mr. MCGREGOR: I can assure the committee that on mail picked up and delivered as between station and station and airport and airport the air letter is the faster.

Mr. JACKMAN: There is the time taken from the airport to the city which often results in delays.

Mr. MCGREGOR: That was true some time ago. The regulatory of service is very definitely improved. There are a greater number of flights operating. Then we are beginning to feel the effect of the improved landing aid equipment, which is having the effect of increasing the regulatory. I think most airfields—

Mr. LOCKHART: The sorting of the mail is done at the end of the trip, is it not?

Mr. MCGREGOR: It depends; it varies.

Mr. LOCKHART: It is not done en route?

Mr. MCGREGOR: No.

Mr. LOCKHART: That appears to be where the railways have the edge; they have the mail already sorted.

Mr. MCGREGOR: We like to think that we can do that in the future by the use of purely mail planes, when the mail crew would have access to the mail carried. That is not the case at the present time.

The CHAIRMAN: Are you through, gentlemen, with questions with regard to the mail?

Mr. JACKMAN: There is not very much net advantage to the country; the planes and the trains are doing the same thing. With the T.C.A. carrying this mail it takes the revenue from the railways which need it as much as you do.

Mr. MCGREGOR: I think there would be a great advantage in sending the mail by air; something of the order of twenty-four hours between Toronto and Winnipeg.

Mr. JACKMAN: I am speaking of Toronto and Montreal.

Mr. MCGREGOR: I said that was used purely as an experiment to find out what the handling problems were.

Mr. JACKMAN: It is in your operating account for 1947?

Right Hon. Mr. HOWE: Not all of it; there were some adjustments to make in the previous months, I think. I do not think all the December adjustments resulted from that service. I think in the month of December, at the end of the year, there were credits over the full year to make adjustments. For example, depreciation was adjusted for the full year. I dare say the mail account was adjusted for the full year. I do not think you can say that all the revenue in December came from operations in December; the Air Lines received that money in that month.

Mr. JACKMAN: I realize you changed your depreciation rate and made it retroactive on the DC-3's.

Mr. McGREGOR: Yes.

Mr. JACKMAN: What is the depreciation rate over there?

Mr. McGREGOR: I cannot answer that.

Right Hon. Mr. HOWE: I think it is four years. I think we always depreciate our Lockheeds over four years.

Mr. McGREGOR: Five.

Right Hon. Mr. HOWE: The theory with regard to these DC-3's is that they were war planes reconverted in Canada and we planned that a new type of plane would come in so that the life of these planes would be shorter than other planes, and we planned a three-year depreciation. There was no medium range plane coming along that was any better than the DC-3. It is pretty certain we will use up the four-year period instead of the three-year period. They changed the depreciation rate for that reason.

Mr. McGREGOR: There was another feature. The American authorities increased the life of the DC-3 during 1947—toward the end of 1947—to extend its certificate of airworthiness to 1954, which was something we had been in doubt about prior to that.

Right Hon. Mr. HOWE: There was a dead-line—twin-engine planes to 1951; and they advanced them to 1954.

Mr. JACKMAN: We had some evidence yesterday to the effect that depreciation based on the cost throughout not only of the railway system but throughout industry generally was quite inadequate to meet replacement at the end of the period because of the tremendously increased cost of the new equipment. Does not that apply to the DC-3 class? Does a plane cost more now than it did five years ago?

Mr. McGREGOR: Yes.

Right Hon. Mr. HOWE: More than twice as much.

Mr. JACKMAN: Would it not have been much more sensible to retain the three-year rate? It seems odd with planes costing twice as much to replace as the book cost of the equipment that you should extend the depreciation period a further year. Even when you depreciated the whole thing you would have only your replacement cost back.

Mr. McGREGOR: I am not an accountant, sir, but I do know that with depreciation you are not setting up a sinking fund to purchase replacement equipment; you are endeavouring to have your aircraft written off at the time you are through using them.

Mr. JACKMAN: I think the committee should know this: if you have a fleet of taxicabs which cost you a thousand dollars each and you write off $333 a year, at the end of the period while you might have thought you were enjoying great prosperity you would find you have half the size fleet because of the cost of the new equipment.

Right Hon. Mr. HOWE: That is inherent in all business, is it not? The income tax people will only let you write off the construction costs.

Mr. JACKMAN: In this case you are not bothered with income tax at all. I said we should apply common sense rules. You have extended that period four years instead of three. Instead of meeting the situation you have put yourself in a worse condition.

Mr. McGREGOR: I do not think we have put ourselves in any worse condition. The expected use of the aircraft increased and the logical thing to do was to increase the depreciation rate to correspond to the expected useful life.

Mr. JACKMAN: That is what I gathered.

Right Hon. Mr. HOWE: If parliament wants to vote the line more money they can do it next year.

Mr. JACKMAN: It is not up to the standard of the minister's usual business judgment. All I can do is make the point that it is not a sound thing to do.

Mr. COOPER: I do not think there is any authority anywhere which will permit you to accrue depreciation on a replacement basis; it is always on the cost basis. I think you are writing off the cost of the property which is being used up in service.

Mr. JACKMAN: At the end of the time you would have only half your fleet of taxicabs, and I think you know that as well as I do. You are not going to be able to replace the equipment worn out, partly charged to operations, during the period of use.

Mr. COOPER: You will not be able to replace it out of operating revenue, and you are not entitled to replace it out of operating revenue.

Mr. JACKMAN: Of course, that is an accounting point of view. I agree with the theory that it does not work out in practice owing to the faster period of rising costs we are still in.

Mr. HAZEN: I see that Trans-Canada Air Lines had a deficit of $1,761,042 and that Trans-Canada Air Lines (Atlantic) Limited has a surplus of $136,303. I suppose the expenses increased on the Atlantic line as they did on the Trans-Canada line. How is it you are showing a surplus on the Atlantic line while you are so unfortunate as to have a deficit on the Trans-Canada line? Were your rates higher in comparison on the Atlantic line or were costs less for carrying more cargo; or is this a matter of bookkeeping?

Mr. McGREGOR: It is not a matter of bookkeeping. It is a little of all the things you have mentioned. The rate per mile on the Atlantic service is approximately three cents per passenger mile higher than it is domestically. The loads were excellent, as you know. The problem was to accommodate the passengers rather than to look for them. The same was quite true of the cargo due to the gift food parcel volume.

Mr. NICHOLSON: What information have you on the operation of your competitors on your trans-Atlantic business?

Mr. McGREGOR: I think it is true to say we are the only trans-Atlantic operator showing an operating profit for 1947.

Right Hon. Mr. HOWE: They were not operating in the months of January, February, March and April; the operations started in May. It is hardly a fair comparison.

Mr. NICHOLSON: How many flights were cancelled?

Mr. McGREGOR: There were no trans-Atlantic flights cancelled in 1947. That does not mean that every flight flew on the day set, but if a flight was held up due to weather it flew as a second flight the next day. There was no flight cancelled.

Mr. JACKMAN: Mr. Chairman, just for the record, I wonder if it would be too much trouble to ask the T.C.A. to put on the record the adjustments which were made in December particularly on depreciation and then any adjustment in the mail contract, plus the revenue received from the carrying of mail between Montreal and Toronto and Montreal and some other point and Winnipeg?

Mr. McGREGOR: Yes. Mr. Cooper has the breakdown of those figures.

Mr. JACKMAN: I wonder if you would put them on the record for us so that we can see why it is the figures reported to the D.B.S. do not jibe with the figures in the T.C.A. report. (See opening of afternoon session.)

Mr. McLURE: The Maritimes Central Airway is a feeder line to the T.C.A. You do not operate in the province of Prince Edward Island?

Mr. McGregor: That is right.

Mr. McLure: I said one time before that we had one little inconvenience with regard to passengers; that there were no rights for the passengers for the Maritime Central Airway to connect at Moncton. The passenger always had to take his chance on having a seat on the T.C.A., and Mr. Symington stated that he would look into the matter and see if it could be adjusted so that there would not be that inconvenience. At the same time he made the statement that the Maritime Central Airway was an excellent feeder line to the T.C.A.; but I have myself on two occasions in getting tickets for passengers experienced a delay of a day in Moncton, due to the fact that they were leaving Charlottetown at a certain time and they could not get a reservation from there to Winnipeg. The T.C.A. said they would do their best to adjust the matter.

Mr. McGregor: That has definitely been gone into. It is partially a matter of communications, and it would apply to a passenger originating and boarding the plane at Moncton as well as to one boarding on the island. In order to confirm a seat through to Winnipeg from Charlottetown it is necessary to make the request through Moncton and then from Moncton to Toronto and have a seat confirmed over each of the three regional legs of that journey, and it does involve a little time. However, it is not peculiar to Prince Edward Island passengers.

Mr. Nicholson: There is no reason why that cannot be confirmed before the passenger leaves Charlottetown, is there?

Mr. McGregor: None whatever if he is prepared to wait; if he goes to Moncton on spec, it is different.

Mr. McLure: With the exception that the people in Moncton would have the preference of a few hours' time over the passengers from the Maritime Central Airway from Prince Edward Island.

Mr. McGregor: The communication time.

Mr. McLure: You are endeavouring to adjust that, are you?

Mr. McGregor: Certainly. There is complete agreement in the making of reservation and there is no preference between Moncton and Maritime Central Airway in the case of people asking for space.

Mr. McLure: I am not bringing the matter up as a complaint, but just asking for consideration. We think our Maritime Central is giving us a wonderful service, and if anything could be done we would like to see it done.

Mr. McGregor: We have interchange arrangements with them and we enjoy good relations with them.

Mr. Hazen: What is the difference between pressurized and unpressurized North Star aircraft?

Mr. McGregor: A good deal. There are many differences, besides that of the cabin pressure.

Mr. Hazen: I notice you use those terms in the report.

Mr. McGregor: Those words are used to designate the difference between two types of aircraft; the first called the M-1, the unpressurized, and the M-2, the pressurized. The technical difference is that in the case of the M-2 the cabin is equipped with compressors which have the effect of producing artificial pressure in the cabin which reduces the effect of altitude to the point at which it is pressurized. If an aircraft flies at 20,000 feet the equivalent would be 7,000 in the cabin.

Mr. Hazen: How many of these pressurized aircraft have been delivered?

Mr. McGregor: Fourteen have been delivered but to date only nine of them had been put in a modified form ready to use. There is work being done to the remainder to suit them to the Atlantic operation. There are six of them on the Atlantic route now.

Mr. Hazen: They are all in service on the Atlantic?

Mr. McGregor: Yes.

Mr. Hazen: Who built them?

Mr. McGregor: Canadair of Montreal.

Mr. Hazen: What did they cost?

Mr. McGregor: $660,000—that is the pressurized version.

Mr. Hazen: Is that shown in this statement?

Mr. McGregor: The purchase price?

Mr. Hazen: Where do you show the amount spent? For instance, is it the same as since the report was prepared?

Mr. McGregor: No, a part of the purchase price was not spent, as of December 31, 1947.

Mr. Hazen: Where is that in this report?

Mr. McGregor: It appears under capital investment on the balance sheet, on page 12, the last item on the left-hand side.

Right Hon. Mr. Howe: $12,858,000.

Mr. Jackman: How many planes does that cover?

Right Hon. Mr. Howe: That is the progress payment on twenty planes, some of which are finished and some are under construction.

Mr. Jackman: On a cost plus basis?

Right Hon. Mr. Howe: Oh, no; $660,000 each.

Mr. Nicholson: I was going to inquire whether you have the ratio of fatal accidents to the total miles flown since the T.C.A. commenced operations and a comparison between them and some lines in the United States.

Mr. McGregor: That could be provided. We do not like to boast about it and do not use it as a matter of publicity, but we can certainly provide it and have it put into the record, if you wish.

Mr. Nicholson: Is there any reason why you should not give publicity to it? It is really safer to travel by air than motor car, is it not?

Mr. McGregor: We feel a little bit like the navy, which is sometimes called the "silent service": if it is a good record it speaks for itself and tub thumping does not accomplish very much.

Mr. Jackman: The progress payments on the 20 North Stars total $12,858,000, leaving a balance of $1,000,000 more to pay.

Right Hon. Mr. Howe: That is right. They were practically finished in 1947 when they had trouble with the DC6's and there were some adjustments to make on them; and while they were quite extensive as far as work goes, it did not amount to much in dollars.

Mr. Jackman: Are there any extras coming into this contract.

Right Hon. Mr. Howe: As to the extras, we will give them to you next year. Any extras would be those extras specifically ordered by the air lines.

Mr. Lockhart: You made a statement as to pressure of applications for seating capacity on the Trans-Atlantic run. In other words, you are fighting off applications. That is true both ways?

Mr. McGregor: Only for certain months in the year.

Mr. Lockhart: In your opinion, is there any justification for people who use the Trans-Atlantic service to say—and I have had two instances which I can recall—for them to say that they have tried Trans-Canada Air Lines flights and that they have travelled over the American Air Line flights coming into New York, and that, by all means, the American flights are the better and the more satisfactory. I have had that occur twice within three or four months. Do you repudiate that statement?

Mr. McGregor: I would, personally, and I have tried them both. We have voluminous evidence to support that repudiation and we have very many letters of commendation.

Mr. Lockhart: That was what I was anxious about because, of course, I could not repudiate it personally.

Mr. McGregor: People do not fly the Atlantic every day and it depends on their individual experience; and there are flights which are fairly unpleasant for the passengers due to weather and other difficulties. They are routed through the Azores and they may be put up in accommodation which is not always of the very best, depending on how many flights are in; and there are flights which get into Goose Bay which is not too attractive as far as accommodations are concerned. It does sometimes happen, and it is a basis of unfavourable comparison when it does.

Mr. Lockhart: I have had two such statements made to me within three months.

Right Hon. Mr. Howe: We carry ten Americans across the Atlantic via T.C.A. to one Canadian who goes via New York.

Mr. Lockhart: I will get some of the evidence from them if I ever hear that statement repeated.

Mr. McGregor: Well, hardly a day goes by when we do not get evidence which is very favourable to us.

Mr. Jackman: Did the change in the charge to the capital advance to the T.C.A. come about directly through the 1945 amendment which we put through the house.

Right Hon. Mr. Howe: It was 1946, was it not?

Mr. Jackman: It says 1945 here. How much government money has T.C.A. got now?

Right Hon. Mr. Howe: We increased the capitalization to $25,000,000 and I think we have the whole $25,000,000 now.

Mr. Jackman: You call it the balance of the subscriptions.

Mr. McGregor: Since the end of the year.

Mr. Jackman: That formerly would have borne 5 per cent; and it says it was changed in 1946 so that the interest payments were at the same rates that the railway companies are called upon to pay on the advance to them by the government, for advance for capital purposes.

Right Hon. Mr. Howe: Three per cent.

Mr. Jackman: Three per cent?

Mr. McGregor: It was changed during the year.

The Chairman: Are there any other questions as to the balance sheets, pages 12 and 13?

Mr. Emmerson: On page 6 it says:

> A new international operation was inaugurated on April 1st, with the service between Halifax, Yarmouth, Saint John and Boston.

Is that a daily service?

Mr. McGregor: Twice daily.

Mr. Emmerson: Is that service continuing, and do they still use Yarmouth?

Mr. McGregor: Yes.

Mr. Emmerson: My other point is on page 8, where it says:

> Extensive runways development took place at Toronto, Winnipeg, Calgary and Lethbridge to fit those airports for the handling of four-engined aircraft.

Because of something which I said in the newspaper, is there any proposed extension of the runways at Moncton to take care of four-engined aircraft?

Mr. McGregor: I think that is in progress, as a matter of fact.

Right Hon. Mr. Howe: It is under construction now.

Mr. Emmerson: You have no information as to what the extension was?

Right Hon. Mr. Howe: Oh, the main runway is being extended to 6,000 feet.

Mr. McGregor: Yes.

Mr. Emmerson: And it will be of concrete.

Right Hon. Mr. Howe: Yes, I think so.

Mr. Hazen: Who paid for the development to these runways?

Right Hon. Mr. Howe: The Department of Transport. We own the airport.

Mr. Warren: My question has to do with the foot-note at the bottom oi page 9, and I will just read a couple of lines as follows:—

> A total 15,815 passengers crossed the Atlantic with T.C.A. during the last eight months of 1947, when the operation had sole commercial status. 14,393 of these travelled on scheduled flights. The remaining 1,422 were largely immigrants from the United Kingdom, carried under a charter arrangement with the province of Ontario.

I wonder if we could have some information regarding that set-up.

Mr. McGregor: Do you wish me to describe the agreement?

Mr. Warren: It does not do so here.

Mr. McGregor: There was a charter agreement entered into between the province of Ontario and Trans-Canada Air Lines for the transport of passengers on a chartered basis, which the province of Ontario's representatives in the United Kingdom would develop.

Mr. Warren: Did the province of Ontario undertake any responsibility regarding the fares of those passengers or anything of that nature?

Mr. McGregor: That was entirely a matter for the province. They agreed to pay the Trans-Canada Air Lines so much per flight flown; and as to what they did with the space thus made available to them was entirely the business of the charterers. It is exactly like the case of chartering a ship.

Mr. Warren: Is that charter still in effect?

Mr. McGregor: No, it terminated as of the 15th of April with an extension to accommodate Ontario.

Mr. Warren: Why was it terminated?

Mr. McGregor: It was terminated because Trans-Canada said the rate would go up from $9,000 to $11,500 per flight.

The Chairman: Are there any other questions, gentlemen?

Mr. Jackman: May I ask in regard to the carrying of cargo; you have just all express or freight or what other classification.

Mr. McGregor: Cargo and air express.

Mr. Jackman: Is your express on a poundage basis as renumerative as passengers?

Mr. McGregor: In actual receipts, it is as renumerative; but whether it pays the air lines as well, is a moot question, because, in order to make prompt delivery of air express, it is necessary to reserve space in the aircraft on the assumption that you are going to have so much express load; if that load does not materialize there will be space left vacant which is the reason for the considerable differential between the rates on express and cargo.

Mr. Jackman: Well, is it better for the line to carry 180 pounds of human freight or to carry that much pounds of cargo?

Mr. McGregor: It is better to carry a pound of passenger than a pound of air cargo. But we can only carry due to the construction of the aircraft, just so many passengers; and you will automatically have the cargo space.

Mr. Jackman: Is the cargo very much less per cost per pound?

Mr. McGregor: About half, or very nearly half.

Mr. Jackman: Then it is better to carry mail than to carry people.

Mr. McGregor: Correct.

The Chairman: Can we start with the consolidated balance sheet and then take page 14 and if there are any questions, take them as we go along? Is there anything more on pages 12 and 13 of the consolidated balance sheet? O.K.

Mr. Jackman: On page 8 it says:—

> Victoria, Lethbridge and Saint John, N.B. use was made of renovated air force buildings. The Department of Transport began construction of a large terminal building at Toronto.

So far as the buildings are concerned, have you the cost of those buildings to the T.C.A.?

Mr. McGregor: Not in the report; Mr. Jackman; we rent them. What you mean is the cost of renovating them? We bear the cost of renovating them; but I have not got the figures here.

Mr. Jackman: Were you given them?

Mr. McGregor: Definitely not! We do not own them; we rent them and bear the cost of renovating them.

Mr. Hazen: Whereabouts in Saint John was the building renovated?

Mr. McGregor: At Penfield Bridge.

Mr. Hazen: How many miles is it from Saint John, about forty miles away from Saint John?

Mr. McGregor: That is true, but not much worse than Malton with respect to Toronto.

Mr. Hazen: At Saint John, N.B., use was made of a renovated air force building.

Right Hon. Mr. Howe: We started to call it Penfield Bridge, then we found that nobody knew where it was.

Mr. McGregor: We are just as unhappy about it as anybody.

Mr. Jackman: I now raise a diplomatic question. I see that you refer to Shannon as being in Ireland. Is it in North or South Ireland?

Mr. McGregor: That is also a question. We formerly referred to it as Eire and did so for a long time but we were informed that we were completely wrong.

Mr. Jackman: You were informed by the High Commissioner?

Mr. McGregor: I do not remember who it was who so informed us.

Mr. Jackman: Shannon is in the south.

Mr. McGregor: Yes.

Mr. JACKMAN: And with Mr. De Valera's picture in the background I think we should be scrupulously exact.

Mr. NICHOLSON: I see on page 13: "Air travel plan deposits . . . $598,400." Is that an amount which goes up year by year?

Mr. MCGREGOR: It went down in 1947 due to the fact that the discount feature of the air travel plan was discontinued and there were about two per cent cancellations of plans at that time. But since that time it has gone up slightly.

Mr. NICHOLSON: Is there any prospect of discounts being given?

Mr. MCGREGOR: No. None of the American lines do it; and they were most unhappy about the fact that we did, and it was definitely a bone of contention.

The CHAIRMAN: Page 14; income accounts. Are there any questions as to that? The statistical data.

Mr. JACKMAN: Is the mail contract a definite contract now, or is it flexible? Do you know exactly what the results will be depending on the volume; or how is it at the present time?

Right Hon. Mr. HOWE: So much a ton per mile. It depends on the volume entirely.

Mr. MCGREGOR: 1·1 mills per pound.

Mr. NICHOLSON: Does the mail have to get priority?

Mr. MCGREGOR: Up to a guaranteed volume on each flight. The post office say: We wish to have so much reserved space for mail. If we exceed that, then the excess does not get priority, but the amount which they have spoken for does.

Mr. JACKMAN: 1·1 mills.

Mr. MCGREGOR: Yes, per pound.

The CHAIRMAN: Is there anything on page 15, gentlemen; flight operation; flight equipment maintenance; flight equipment depreciation; ground operations; are there any questions as to that?

Mr. JACKMAN: In regard to your pilots now and your ground staff, generally speaking, you very nearly had a strike a year ago?

Mr. MCGREGOR: We nearly had a strike a year ago? No, I don't think so.

Mr. JACKMAN: You would say that you had very satisfactory labour relations all the way through?

Mr. MCGREGOR: I think so.

Mr. JACKMAN: What do you pay your class 1 pilots now?

Mr. MCGREGOR: It varies according to their activities; Atlantic pilots; mountain pilots; ordinary continental pilots, are all paid at a different rate. A senior captain on the Atlantic run gets $1,000 a month.

Mr. JACKMAN: And your lowest rate for pilot?

Mr. MCGREGOR: $800 being for a captain; the lowest rate for a pilot is $450.

Mr. JACKMAN: Is that what you call a second officer?

Mr. MCGREGOR: What we call a first officer.

Mr. JACKMAN: At what age do you have to retire these men now?

Mr. MCGREGOR: There is no set retirement age. They have to undergo a severe medical test at very frequent intervals, and so long as they pass that test, I see no reason to set an age at which pilots would be forced out purely on the basis of age, should they have a perfectly sound physical condition.

Mr. JACKMAN: Is it usual to retire pilots at the age of forty?

Mr. MCGREGOR: I would not say so. There are many pilots in the United States who are well over fifty; and their experience with the heavier aircraft and over the longer routes is greatly to be valued; so we would see no reason to retire a pilot simply because he has attained so many birthdays.

Mr. JACKMAN: Is there a pension right?

Mr. MCGREGOR: Yes.

Mr. JACKMAN: How many years does he have to be with you in order to get full pension?

Mr. MCGREGOR: The basis is a rather complicated one. It is a sliding scale and is based on his election at the moment as to what he contributes, with the company contributing up to 5 per cent of his salary, matching his contribution. He can go on beyond that 5 per cent, but the company will only match him 5 per cent. And when he does become eligible and elects to take his pension, then an annuity is purchased for the accumulated credit of his contributions and the company's.

Mr. JACKMAN: It is expected that they will get 50 per cent or more with a reasonable period of service?

Mr. MCGREGOR: Yes.

Mr. JACKMAN: If you have to retire a pilot at let us say forty-five or fifty, what kind of employment can you offer to him?

Mr. MCGREGOR: I do not think we have retired a pilot, so far, without being able to offer him supervisory work on the ground; but that condition will undoubtedly alter in years to come.

Mr. JACKMAN: Do you think the system will be able to absorb the men?

Mr. MCGREGOR: No. I say that conditions will certainly alter things because the number of pilots is going up while the number of supervisory positions is not.

Mr. JACKMAN: Is the scale of wages in the air force commensurate with the pilot scale? Is it all high-paid help.

Mr. MCGREGOR: No.

Mr. NICHOLSON: You are using a number of stewards on the Canadian service?

Mr. MCGREGOR: Only in the service which I mentioned, that on short stop intermediate points, where the stewards' extra brawn is required, during the period on the ground. It is not intended to use stewards domestically at all on other twin engine flights; but they will be used on the North Star aircraft where there will be a steward and stewardess on each aircraft being operated domestically. I think there are only nine stewards being used in the domestic system at the present time.

Mr. JACKMAN: Some of the American lines are not using fully trained nurses as stewardesses.

Mr. MCGREGOR: We have considerd that, but we still think we are justified in using fully trained nurses.

Mr. JACKMAN: Is there no way of giving these young people a shorter training course than the longer hospital course, specializing in various phases of medicine; or could you not utilize a less thoroughly qualified person for that position?

Mr. MCGREGOR: Their qualifications have proved, time and time again, where sickness—I know of one case of pregnancy, where it would have been exceedingly difficult if we had not had a trained nurse on the job. So I think that any sort of foreshortening of training would be a very unsatisfactory thing at any time.

Mr. NICHOLSON: When you begin to use your North Stars in Canada, what stops will there be between Montreal and Vancouver?

Mr. MCGREGOR: Toronto and Winnipeg, and Calgary.

Mr. NICHOLSON: Ottawa is to be passed over?

Mr. MCGREGOR: Yes.

Mr. JACKMAN: How much do you have to pay to the stewardesses?

Mr. MCGREGOR: That again varies, depending on the length of their service. I would say $155 a month would be a reasonable average.

Mr. ENGLISH: No. It is $145. They start at $125 and we pay up to $165.

The CHAIRMAN: Are there any other questions on personnel?

Mr. LOCKHART: On page 16 I notice an item of $82,223.63 for interrupted flight expense. Is that where you have to take care of the passengers who are held over, or something of that nature?

Mr. MCGREGOR: Yes.

Mr. LOCKHART: It is quite an item, and I wondered just what it was.

Mr. MCGREGOR: Yes.

The CHAIRMAN: Are there any other ground questions, ground and indirect maintenance; ground facilities depreciation; on page 16; are there any more questions on that?

Mr. NICHOLSON: The report mentions the change in service to Toronto. You moved your main office out of the Royal York hotel.

Mr. MCGREGOR: Yes.

Mr. NICHOLSON: Have you found that passengers complain about the service over the week-ends, that it is not as good there now as it was some time ago; have you received any complaints as to that?

Mr. MCGREGOR: We quite often get complaints about lack of information as to when a flight is going to fly. There is a fairly fixed opinion that we like to be coy about giving out that information, but that is not really the case. Quite often we are unable to pass out definite information because we have not got it, depending on conditions of the weather at distant points; and we may be informed that an airport is unusable at a certain point and that the weather is not expected to clear until a certain time. Those prove to be the most prevalent sources of complaint.

Mr. NICHOLSON: Are you giving a better service or a poorer service in Toronto now as compared to when you had your office in the Royal York?

Mr. MCGREGOR: The situation has very nearly reversed itself in the last twelve months. We have had three complaints for every commendation; but it is just about reversed now. Money has been spent on that business with respect to reservation staff and equipment. In fact, one of the chief complaints was about the shortage of telephone equipment; but that has now been cured.

The CHAIRMAN: Are there any more questions on page 17? Perhaps we could adjourn and then we will just have the auditors' report for this afternoon.

Mr. JACKMAN: You do not have a budget for the T.C.A., do you?

Right Hon. Mr. HOWE: No, I do not think we have a budget.

The CHAIRMAN: No, there is no budget.

Right Hon. Mr. HOWE: All the money they have to work on is their capital; they cannot spend very much because they have not much capital left.

Mr. NICHOLSON: We should say thank you to Mr. Thompson again for the splendid job he has done with this report and the pictures.

The CHAIRMAN: That is right. That is fine, gentlemen. Then at 4 o'clock we will take up the auditors' report.

Mr. McCULLOCH: Is there any auditors' report?

The CHAIRMAN: Yes, that is what is left; the auditors' report and then the discussion. That will be at 4 o'clock.

Gentlemen, I want to thank you for your courtesy. I am going to leave this afternoon, so I may not be here to thank you at that time.

Now, we ought to adopt this report.

It is moved by Mr. Lafontaine and seconded by Mr. McCulloch that the report be adopted.

Carried.

The committee adjourned at 1 p.m.

AFTERNOON SESSION

The committee resumed at 4.00 p.m. The Vice-Chairman, Mr. H. B. McCulloch, in the chair.

The VICE-CHAIRMAN: Gentlemen, I believe we have a quorum. We have reached the T.C.A. auditors' report and it will be up to the committee whether Mr. Matthews reads this report or whether you will merely question on it. What do you wish?

Mr. NICHOLSON: If Mr. Matthews could draw our attention to some of the highlights, I think that would be satisfactory.

TRANS-CANADA AIR LINES

10th March, 1948.

THE RIGHT HONOURABLE THE MINISTER OF RECONSTRUCTION AND SUPPLY
OTTAWA, CANADA.

Sir:—Acting under your authority as provided in The Trans-Canada Air Lines Act, 1937 as amended 1945, we have audited the accounts of the TRANS-CANADA AIR LINES for the year ended the 31st December, 1947, and we now submit, through you, our report to Parliament.

The Air Lines has not been included as a constituent unit of the National System although 100% stock ownership of the Air Lines is vested in the Canadian National Railway Company.

Supplementing our Audit Certificate appended to the accounts published by the Air Lines, we make the following comments on the Income Accounts and Consolidated Balance Sheet:

Income Accounts

The Income Accounts reflect the operations of the Air Lines for the year 1947 and the Atlantic Service for the eight months only from the 1st May, 1947. In respect of the latter service is should be noted that the corporate status of "Trans-Canada Air Lines (Atlantic) Limited" had not been advanced beyond the provisional stage at the year-end.

The Income results are summarized hereunder:—

The general expenses of operation largely consisting of wages and materials, which continued to increase during 1947, include the following items:

(*a*) Operating portion of Personnel Training Costs;

(*b*) Administrative Charges by Canadian National Railways;

(*c*) Rentals of Landing Fields, Hangars and other Buildings, Airport Offices, etc.;

(*d*) Insurance Premiums on risks carried both by the Insurance Fund and Outside Underwriters;

(*e*) Pensions covering the Company portion of accruals under the Air Lines 1943 Plan and the Company portion of accruals for transferred employees remaining under the C.N.R. 1935 Plan, and

(*f*) Tax provisions covering principally Unemployment Insurance and Municipal Taxes in Canada and Federal and Municipal Taxes in the United States.

Costs related to the development of new international services not yet in operation and Research and Development of new aircraft not yet in revenue service are not apportioned against the Operating results of either the Air Lines or Atlantic Services. These costs have been taken up through the Balance Sheet account "Research and Development Expense" to which we make reference later in this Report.

Administrative charges made by Canadian National Railways do not include any amount for the services of the President and Directors of the Air Lines who continued to act in such capacities without remuneration during the year 1947. As of the 1st February, 1948, however, a salaried President was appointed to office.

Rentals of Landing Fields, based broadly on the number of operating schedules, are paid to the owners and operators of the various airports used by T.C.A. in Canada and abroad. Rentals of Hangars and other Buildings, Airport Offices, etc., are paid to the same agencies in those cases where the Air Lines has not constructed such facilities.

Interest charges against the Air Lines in respect of Capital Invested represent a composite rate of 1·53% at the year-end on the capital furnished by the National System and reflected on the Balance Sheet of the Air Lines as Paid-In Common Stock in the amount of $22,600,000. In 1946 the procedure was by way of a 3% Dividend appropriation of Surplus in pursuance of the 1945 amendment to the Air Lines Act of 1937 but because of the present Deficit position of the Air Lines this procedure could not be followed in 1947. Prior to 1946 a 5% Interest allowance was made in accordance with the 1937 Act. The Interest allowance in 1947, therefore, assumes the continuance of Parliamentary approval to the principle of a compensatory return to the National System for capital furnished by it in any form to the Air Lines.

In addition to the foregoing, Interest charges have been made against the Air Lines by the National System at the rate of 3% in respect of an Advance on account of the 1947 Deficit.

Interest charges against the Atlantic Service relate only to Air Lines assets used exclusively by the Atlantic Service. No interest charges, however, were assessed against the service in respect of the DC4-M1 planes.

Depreciation charges on Capital Assets owned and in regular service are made on the following bases:

(*a*) Lockheed Flying Equipment on estimated "service year" life for airframes and "flying hour" life for engines, propellers and hubs, and

(*b*) DC3 Flying Equipment and all Ground Facilities on estimated "service year" life.

In connection with 27 of the 30 DC3 aircraft owned, we would mention that the estimated "service year" life was extended in 1947 from a 3 to a 4 year basis. In the establishment of depreciation rates for air operations the factor of obsolescence is taken into account and such rates are amended from time to time to conform, as far as practicable, to actual experience.

In connection with the DC4's Depreciation bases are as follows:

(a) DC4-M1—On tentative monthly estimates pending determination of ultimate ownership and capital valuation of the planes;

(b) DC4-M2—No provision made for the 6 unfinished planes delivered up to the year-end pending their placement in regular service, and

(c) DC4—Capitalized Spare Parts
—On tentatively estimated "service-year" life.

We have received the customary certificates from the responsible officers of the Air Lines relating to current maintenance and physical retirements of Capital Assets.

Consolidated Balance Sheet

Accounts Receivable and Payable of all classifications have been tested by us on the same basis as that set out for the National System.

A physical inventory covering the major portion of Material and Supplies was taken under the direction of the Management late in 1947. The general procedure followed in the taking of this inventory was similar to that outlined in respect of the National System. It should be noted, however, that Material and Supplies refer to General Stores stock as distinguished from Capitalized Spare Parts.

Current Assets show a ratio of approximately 1 to 1 of Current Liabilities. This compares with a Working Capital ratio of 0·8 to 1 in 1946.

The gross amount of the Deferred Charge for Research and Development Expense includes development expenses in connection with aircraft not yet in revenue service and new international services not yet in operation, as well as Personnel Training Costs on DC-4 aircraft incurred in anticipation of these new services. The Balance Sheet figure represents only the residual amount as at the 31st December, 1947, after giving effect to the settlement with the Dominion Government on the winding up of the Canadian Government Trans-Atlantic Air Service as at the 30th April, 1947. This winding up included the taking over by the Air Lines of the Working Capital accounts of the Government service as authorized by the Governor in Council. The consummation of the aforementioned settlement, however, is subject to the final settlement of certain Estimated Accrued Liabilities and the disposal by the Air Lines of the residual Equipment not evaluated or taken into the accounts of the Air Lines as at the year-end. As a net result, further credits to this account are presently anticipated.

The Insurance Fund is composed of investments in Dominion of Canada and National System (Dominion Guaranteed) securities together with Cash and sundry current assets. The year-end market value of the securities exceeded the book figure based on cost. The same current market situation as of the 5th March, 1948, however, applies to these securities as is outlined in our comments on National System valuations.

The Insurance Fund increased $610,000 during the year. The 1947 Profit on the overall operations was retained in the Fund and corresponding Reserve. We would make mention of the fact that the Insurance risk covering Passenger Liability and Damage to the Property of Others in respect of twin-engine Equipment is presently carried 100% in the Fund.

Investments in Property and Equipment are carried on the general basis of cost. The capitalization of the North Star M2-Equipment covers 6 delivered planes and progress payments to the manufacturer in respect of an additional 14 planes as at the year-end.

Accrued Depreciation covers the period from the inception of operations in 1937 to 1947.

The Insurance Reserve includes a tentative amount set aside for major unadjusted loss claims at the date of the Balance Sheet.

The Inventory Reserve relates generally to any potential loss on surplus stores of Material and Supplies. The Capitalized Spare Parts are reserved for through the Accrued Depreciation account.

The Reserve for Overhaul—North Star M1 is the contra to the tentative monthly Depreciation charges, through Operating Expenses, pending determination of ultimate ownership and capital valuation of these planes.

Paid-in Capital Stock was increased $16,000,000 in order to finance the Capital Expenditure programme in 1947.

The net Deficit applicable to the Air Lines as at the 1947 year-end covers the Surplus years from 1940 to 1945 less the Deficit years 1946 and 1947. Prior to 1940 the annual Deficits were voted by Parliament in accordance with the Air Lines Act of 1937 which, however, made provision for any possible Deficits up to 31st March, 1942. No provision has been made on the Balance Sheet by way of an Account Receivable from the Dominion Government anticipating a Parliamentary Vote to cover the aforementioned net Deficit of the Air Lines as at the 31st December, 1947.

The Major Contingent Liabilities of the Air Lines relate to undertakings for Capital Expenditures and those for materials required in the ordinary course of business.

In respect of the Pension Plans of the Air Lines we make the following explanatory comments:

(*a*) Under the Air Lines 1943 Plan, which is maintained on an accrual basis, the joint cash contributions by the Company and employees presently in service are invested through the separately administered Pension Trust Fund, the accounts of which are not included with those of the Air Lines.

The assets of the separate Pension Trust Fund amounting to $2,306,000 are in the form of Dominion of Canada and National System (Dominion Guaranteed) securities together with Cash and sundry current assets.

The year-end market value of the securities exceeded the book figure based on cost. The same current market situation as of the 5th March, 1948, applies also to these securities as is outlined in our comments on National System valuations.

(*b*) The contributions by transferred employees presently in service, who have elected to remain under the C.N.R. 1935 Plan, are invested through the separately administered Pension Trust Funds under that Plan, the accruals for which the Company is liable in respect of transferred employees being paid to the Canadian National Railways.

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Where foreign currencies are involved, the Balance Sheet accounts of the Air Lines are converted generally as follows:

(*a*) United States Currency
—at the dollar par of exchange, and

(*b*) Sterling Currency
—at the rate of $4.04 to the £ Sterling.

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The test audit of the Air Lines for the year 1947 was similar in scope to that of the National System previously outlined in this Report.

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Amounts to the Nearest Thousand Dollars

For purposes of simplified reference by Parliament, the amounts shown throughout this Report in respect of the National System, West Indies Steamships and Air Lines are generally to the nearest Thousand Dollars.

Yours faithfully,

GEORGE A. TOUCHE & CO.

Answers to question by Mr. Jackman.

(*a*) Adjustment of mail pay as agreed with the Post Office Dept. for the period April 1 to December 31, 1947 .... $487,500

(*b*) Adjustment from January 1, 1947 of depreciation charges on DC-3 aircraft from a 3-year life to a 4-year life $435,117

Mr. MATTHEWS: There were one or two matters raised this morning—

Mr. JACKMAN: You drew attention to the fact the T.C.A. changed the basis from three years to four years, I had not noticed that.

Mr. MATTHEWS: On that particular point, Mr. Jackman, as we say in our report, the matter of obsolescence is taken into account by T.C.A., as with other airlines, as from time to time they may determine any service value in the life of any type of plane.

In the case of the DC-3's, the original basis was three years. The reason for that was explained to the committee this morning. Towards the end of 1947, it was seen the DC-3's would not be retired as had originally been planned. Therefore, the proper procedure was to determine the estimated remaining life in the DC-3's and it was based upon four years.

Supporting that view is the American authority referred to this morning that extended the serviceable certification period of the DC-3 from 1951 to 1954. We feel that, having mentioned it to parliament, nothing further need be said about it, other than this; there seems to be a little confliction of thought on the matter of increased replacement cost.

Let me be clear on that. Depreciation must, of necessity, be based upon cost, but you will find there is a commonly accepted basis of reporting by management today, dividing this question up under two headings. In the majority of cases managements are reporting to their stockholders the fact that they should bear in mind that the depreciation charges are based on original cost which may be said to be perhaps half, on an average, of what the replacement cost will be. Some other companies have aproached the situation a little more boldly and, in addition to their depreciation charges, they have made specific appropriations out of their income account, not for depreciation, but as a replacement reserve on the ground that they have been able to increase their sales price for their materials or their services, reflecting the general, over-all, inflationary trend of the dollar.

There is no need to confuse the issue of higher replacement costs with depreciation. It is only that one should bear in mind the fact that depreciation charges are based upon cost and that will not necessarily represent the future cost of the use of that particular facility.

Mr. JACKMAN: May I ask one question? Perhaps this question is more properly addressed to the management. The second paragraph of your report says,

> The air lines has not been included as a constituent unit of the National System although 100 per cent stock ownership of the air lines is vested in the Canadian National Railway Company.

In as much as there are quite a variety of companies affiliated with the railway, such as grain elevators and other ancillary companies, which are consolidated are they not, in the Canadian National Railways account, why should this form of transportation in the air, which is to be permanently handled by the railway company, not be consolidated in the account?

Mr. MATTHEWS: In the matter of grain elevators, there are some grain elevators owned by the railway but then, in 707 other investments, there are also some investments in grain elevator companies which are not consolidated. Coming down to the T.C.A. which is 100 per cent owned, on the basis of the policy of the Canadian National Railways, in the ordinary course of events, it would be a part of the system, but one might argue the same thing in connection with the Canadian Government Merchant Marine. In that case, it is all held, for all it is worth, by the Canadian National Railways.

Right Hon. Mr. HOWE: Is not the complete answer that T.C.A. is governed by a special Act of parliament and you cannot consolidate it?

Mr. MATTHEWS: Right.

Right Hon. Mr. HOWE: For instance, the government appoints three directors to the board and the government would have to change the Act.

Mr. JACKMAN: I was wondering whether there was any particular reason why we should not do it. Why do you wish to have it separate?

Mr. MATTHEWS: I think it is due to what the minister says, the T.C.A. operates under a specific Act of parliament.

Mr. JACKMAN: I just wanted to find out what the reasons of the railways were for not having it incorporated. We can do anything in parliament if we have the backing of the government. I want to know why. You have a lot of companies which are not particularly in the railway business but which are merged in the accounts.

Mr. MATTHEWS: You will find, in some commercial enterprises that for particular reasons, all controlled companies are not always consolidated; but in those cases where they are not, it is very clearly set out in the accounts that such controlled companies are not consolidated. This was done in the case of Trans-Canada Air Lines.

Mr. JACKMAN: I realize what the facts are, but I am trying to find out what the reasons are. Why do you want to have it outside rather than inside? Does the Canadian Pacific consolidate its air line account?

Mr. MATTHEWS: Oh, no.

Right Hon. Mr. HOWE: It is a competing form of transport.

Mr. JACKMAN: Do the Canadian National Railways own any bus lines?

Right Hon. Mr. HOWE: Not competing with the railway; they use bus lines to supplement the railway.

Mr. MATTHEWS: I do not think there is any rule, Mr. Jackman.

Mr. JACKMAN: No, I just wanted to know if you had any particular rule for keeping it in or keeping it out?

Mr. MATTHEWS: I think the fact T.C.A. is covered by a separate act is a very good reason for it.

Mr. JACKMAN: Yes, but acts of parliament—we change them here, you know.

Mr. MATTHEWS: Quite right. When I say the Canadian Pacific Air Lines are not taken into the accounts of the railway, I mean as a component part of the railway. The results are brought in, but it is not considered a component part. It is different from T.C.A. in that respect.

The CHAIRMAN: Are there any other questions on page 18?

Mr. HAZEN: Mr. Chairman, when we went over the Canadian National Railways System, Mr. Matthews started by reading his report. Then, I believe he went over it section by section and explained it to us. Now, we seem to be adopting a different procedure.

The CHAIRMAN: It was agreed by the committee Mr. Matthews would not read the report.

Mr. MATTHEWS: I shall be glad to answer any questions, gentlemen, which you have.

Mr. JACKMAN: I suppose there is nothing to which to draw attention in regard to the capitalized spare parts? You are quite satisfied with the treatment of that account?

Mr. MATTHEWS: Yes.

Mr. HAZEN: In your report on the Canadian National Railways you stated that the annual report shall call attention to any matters which, in the opinion of the auditors, require consideration or remedial action; that is provided by the Canadian National-Canadian Pacific Act, 1936, section 13. Now, are there any particular matters in your report of the Trans-Canada Air Lines to which you wish to call the attention of the committee or are there any recommendations which you think should be made and which the government should consider?

Mr. MATTHEWS: I think this question of the change in the depreciation of the DC3 was one of the things we felt should be understood.

Now, in connection with the interest charged against the air lines; in 1947, that averaged 1·53. It has already been pointed out to the committee that the interest rate as from the 1st of May will be, I think it is 3 per cent, Mr. Howe?

Right Hon. Mr. HOWE: Three per cent, I think, yes.

Mr. MATTHEWS: But this 1·53 was the situation during 1947. However, looking forward to 1948 it should be borne in mind there will be a higher interest charged.

Mr. HAZEN: Is that referred to in your report?

Mr. MATTHEWS: Yes, on page 19, the fourth paragraph.

Mr. JACKMAN: Mr. Matthews, while some justification can be put forward for this change in depreciation and the change in interest rate, they would be a bit unusual, would they not, in a private company? In a poor year, would a private company change accounts as has been done here?

Right Hon. Mr. HOWE: It is a construction period, you see. The plane we were building was non-productive. The railway agreed to lend money to the Trans-Canada Air Lines at the rate they were receiving it from the government for similar purposes; that is a temporary affair. It is not customary to fund a thing until it is productive.

Mr. MATTHEWS: It is short-term money, Mr. Jackman, and that has to be borne in mind. As you well know, short-term rates have averaged anywhere from $\frac{3}{4}$ of 1 per cent up to 1 per cent.

Mr. JACKMAN: You need good credit to get that.

Mr. MATTHEWS: That is true but, factually, 1 per cent on short-term money in 1947 was not out of line, provided it was short-term.

Mr. JACKMAN: But the whole capital investment, most of it, was long-term money and it only averaged a composite rate of 1·53 per cent.

Mr. MATTHEWS: For the year, Mr. Jackman, that is quite true. It was for that reason we mentioned it to you, so you would understand that in 1948 the interest charges definitely will be higher.

Mr. JACKMAN: The only point I am making is, it does not make very much difference to the people of Canada or to the treasury, in the long run, whether we charge the company that higher rate or a lesser rate; but in an endeavour to approximate how the company has fared during any particular period, you are faced with these changes being made which you do not find in commercial companies because it does make a difference to them. They have not got the government behind them. I think it is much better, the freer we can be. It does not make any difference whether it comes out of this pocket or that pocket, but the whole thing should be treated as if the government were at arm's length.

Right Hon. Mr. HOWE: It does not come out of anybody's pocket. The government has loaned money to the railway at exactly what the government pays the banks for that kind of money, plus ⅛th, I think. Then, the Canadian National Railways loaned money to the air lines for this particular purpose of financing a construction contract at the same rate the railways received it from the government. Nobody is out of pocket at all.

Mr. JACKMAN: 1·53 per cent on the total investment, which includes long-term capital invested, is a low rate. It is well known that the Minister of Reconstruction is a good bargainer for the government and I am quite amazed he consented to the 3 per cent rate for 1948.

Mr. MATTHEWS: The fact is, so far as the balance carried forward from 1946 is concerned, that was maintained at the rate then established, 3 per cent. The 1·53 per cent results from the borrowing of certain short-term money during 1947 at 1 per cent.

Again I say that 1 per cent for short-term money during 1947 was not unusual if you had the credit. Now, I grant you the T.C.A. has the government behind it.

Right Hon. Mr. HOWE: Obviously, the Trans-Canada Air Lines has a capital of $25,000,000 against which to draw when it is needed. They could finance short-term money. Every builder finances short-term money in this manner. You are talking about things that do not happen when you say you always take long-term money and treat it the same as short-term money. Did you ever see a bond issue which did not have short-term bonds to start with at a low rate of interest?

Mr. JACKMAN: I think most of the bonds I have seen have had the pre-construction costs capitalized on that basis, so there is nothing there except interest accruing during the period. If I understand this correctly, only 1·53 was charged on the whole capital investment?

Mr. MATTHEWS: For the year 1947.

Mr. JACKMAN: Then, for the year 1948, the minister is quite agreeable to having the company pay 3 per cent to the government on the very same money?

Right Hon. Mr. HOWE: For the year 1947, the fixed capital will pay 3 per cent interest. On the construction, the company paid the rate that the government pays the bank for that kind of money.

Mr. JACKMAN: There, you have an average rate of 1·53 per cent.

Right Hon. Mr. HOWE: I know you have, but the government borrowed money at ·53 per cent.

Mr. JACKMAN: The difference is, in attempting to compare it with an ordinary company, you have the government dealing not at arm's length with it. How much was the permanent capital of the company in 1947?

Mr. MATTHEWS: Pretty close to $6,000,000.

Mr. JACKMAN: So that the rest of the capital was paid up and that is how you got a composite rate of 1·53?

Mr. MATTHEWS: That is right.

Mr. JACKMAN: It does not make any difference to the treasury in Ottawa, but it makes it difficult for us to analyse the statement.

Mr. MATTHEWS: Of course, having sat in conferences with the deputy minister of finance, I find it difficult to remember when he has made any particular concessions on interest when he looked at the cost of the money he had to find. He is rather adamant on that, as one may see, from the rates of interest which have been charged on government loans from time to time, for instance, to the Canadian National (West Indies) Steamships.

Right Hon. Mr. HOWE: All the produce money in the concern pays the 3 per cent. These things, the building and the factory, are not produce equipment. What we would ordinarly do is: we would go out and buy them off the shelf and pay the full amount and have them in service the day you got delivery.

Mr. JACKMAN: But the minister cannot have it both ways, have them when they are finished and at the same time have no cost to his money.

Right Hon. Mr. HOWE: The way the banks give it is fair enough.

Mr. JACKMAN: But I would like to see the thing treated not so close to the treasury.

Right Hon. Mr. HOWE: What objection do you have to the T.C.A. getting a good deal? Is there any objection to that?

Mr. JACKMAN: It is not on the same basis as other companies. If you had a loss last year, it should be a typical commercial loss or a commercial profit.

Mr. MATTHEWS: You can find plenty of instances of that in the New York money market in 1947 where companies have gone out and, for a short period of time, have borrowed short-term money at short-term rates. And then you will see them coming up, a bit later, and floating long-term issues which show their interest rates running from 3 per cent plus 2¾ per cent and 3 per cent. You will find any number of instances of that kind in the New York money market in 1947 where companies have borrowed money on the short-term market at anywhere from 1¾ per cent to 1¼ per cent.

Now, in respect to the interest on the $1,000.000 advanced by the Canadian National to the air lines, that was charged at 3 per cent because that money was not furnished by the government but came out of the fund of the Canadian National against which they would have an interest rate equivalent to 3 per cent.

Mr. JACKMAN: How much is that advance?

Mr. MATTHEWS: $1,000,000.

Mr. JACKMAN: Doesn't the minister want to see the air lines get the best it can? So why not give it money out of the treasury?

Right Hon. Mr. HOWE: That is active money, not money which you pay during the construction period. Is it not always the custom of the prudent builder to go and get some short-term cheap money during the building period?

Mr. MATTHEWS: In respect to the Atlantic service, the situation is somewhat different there. Interest charges there are made against the Atlantic service only for assets used exclusively by the Atlantic service, that is, assets of the air lines. And as we point out, no interest charges were assessed against the service in respect to the DC-4-M1 planes that were operated on a temporary basis pending final determination of their ownership and valuation.

And in respect to the depreciation on the DC-4-M1 planes, as we point out, they were based on monthly estimates and the amounts were $8,000 a month for the latter part of 1947, again pending the determination of the ultimate ownership and capital valuation of the planes. As I recall it, Mr. Howe, there is still some question as to where the ultimate ownership of these planes will rest.

Right Hon. Mr. HOWE: No, there is no question about the planes. They are owned by the Royal Canadian Air Force; they were surplus to their requirements, and we borrowed them for a period and fitted them out for transport work as interim planes; and we are under an agreement with the Royal Canadian Air Force to return them and put them in the condition that they would have been in delivered new. And a fund has been built up on the basis of $8,000 a month of use to recondition the planes and turn them back to the air force specifications. There is no doubt about the ownership; they are owned by the Royal Canadian Air Force and there is no doubt about their destination. The planes will go to the Royal Canadian Air Force.

Mr. JACKMAN: Which paragraph is this?

Right Hon. Mr. HOWE: The bottom of page 19, depreciation basis.

Mr. MATTHEWS: Yes. The amount set up for the overhaul is $296,500.

Right Hon. Mr. HOWE: Which we think is a very liberal estimate of the cost.

Mr. LOCKHART: On page 19, with respect to the reference to fields, without going into specific instances, how are the rental arrangements arrived at; and have there been any complaints or cases where they felt that the arrangements were not satisfactory? Perhaps Mr. Howe could answer that.

Right Hon. Mr. HOWE: There is always argument between the Department of Transport and the T.C.A. regarding landing fees, hangars, and rental for buildings. The department is the boss and it charges what the service is worth and the air lines have to pay it.

Mr. LOCKHART: Were there any upward assessments made recently?

Right Hon. Mr. HOWE: Yes.

Mr. LOCKHART: That is going on continually, because there are those pending.

Right Hon. Mr. HOWE: No. Our basis has been fixed. The landing charges were increased because it was felt that they were not getting a proper return from the air lines for the use of the fields; but it has been fixed now as to rentals.

Mr. LOCKHART: In order to eliminate dissension in the future?

Right Hon. Mr. HOWE: I think so; it is pretty well settled.

Mr. NICHOLSON: On page 20, in reference to the insurance fund increase, it is $10,000 during the year; and I wonder if Mr. Matthews would comment on the type of risk carried by the fund and also the type of risk carried by the outside underwiters?

Mr. MATTHEWS: I have not got the division between the two handy. Oh, yes, I have. With the outside underwriters, building and contents, including aircraft, against the risks of fire, lightning, explosion, cyclone, tornado and wind storm.

Aircraft, while on the ground with engines not running, on premises owned, leased or used by the assured, against the risks of fire, lightning and explosion only.

Aircraft, four-engined only, against all risks of physical loss or damage to aircraft, (excluding any amount recoverable under any other policy or policies of insurance) and liabilities with respect to passenger and third parties for personal injury and property damage resulting from their operation to a limit of $5,000,000 in excess of $750,000 each and every accident.

There is also included motor vehicles, owned by employees and leased or hired; fidelity bonds, burglary, and the rest is carried.

Mr. JACKMAN: The excess over $750,000 is carried outside?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: And you carry the risk of damage to your own property?

Mr. MATTHEWS: Everything other than that is carried.

Mr. NICHOLSON: The rates which the passengers pay for insurance have come down in recent years. Is payment made to Lloyds for that type of insurance?

Mr. MATTHEWS: I cannot just answer you that question.

Mr. McGREGOR: That is a policy between the traveller and the insurance company; the air line simply acts as an agent in order to facilitate the sale of that particular policy, and it has nothing to do with the insurance fund.

Mr. NICHOLSON: The insurance company is able to write that sort of insurance for $1 without any bonus from the air line company?

Mr. McGREGOR: Yes.

Mr. JACKMAN: You pay the bonus.

Right Hon. Mr. HOWE: The plane and the passengers in the plane are insured by the air line company quite independently to them and anything you buy that way is in addition to what you would recover from the air line.

Mr. NICHOLSON: What sort of compensation would the air line company make?

Mr. McGREGOR: That is a matter of negotiation in the case of domestic service; and with respect to international service, it comes under what is known as the Warsaw Convention, and it amounts to about $9,000 per passenger.

Mr. NICHOLSON: What is the limit to the domestic?

Mr. McGREGOR: There is no limit.

Mr. HAZEN: Does the passenger have to establish negligence on the part of the T.C.A. in order to obtain any indemnity?

Mr. JACKMAN: Have you any way of measuring the adequacy of this fund or determining how you would like to see it eventually? Is there some relationship between it and the number of passengers you carry?

Mr. McGREGOR: I think it would be a matter of experience. If the earnings of the fund proved to be adequate as against the number of claims over a number of years, then I would think the fund had reached a point at which it could be kept level.

Mr. NICHOLSON: Have you the figures available for the previous year?

Mr. MATTHEWS: Yes, I think I have. In the previous year it was approximately $400,000.

Mr. NICHOLSON: And what about the year before that?

Mr. MATTHEWS: I have not got it for the year before that.

Right Hon. Mr. HOWE: What is the total fund now?

Mr. MATTHEWS: $2,124,730, and that would include reserve for unadjusted losses, estimated.

Mr. NICHOLSON: I take it that it is the opinion of the auditors that this fund is adequate as it is?

Mr. MATTHEWS: Yes, when we look back over the fact that this fund has been developed from scratch and the fact that in no year has it failed to grow substantially, and that it is now at a level of over $2,000,000, I think that pretty well speaks for itself.

Mr. JACKMAN: Do any of the privately owned lines in the United States carry their own insurance?

Mr. MATTHEWS: Some of them do, I think.

Right Hon. Mr. HOWE: I am not sure; some of them may. You see, it is much like your automobile insurance where everything over $25 loss is covered. We are insured for everything over $750,000 loss; and some day we may be strong enough to insure the whole thing, but we do not think it wise at the moment.

Mr. NICHOLSON: How long have you had this $750,000?

Right Hon. Mr. HOWE: When we built our fund, we thought that was a safe figure. The cost of the other insurance we buy is much lower if you take the first loss of $750,000. But if the fund gets stronger, we might raise that to a million and thereby get approximately lower rates. In the meantime, we have a fund big enough to stand any action out of the fund and we think it is better business to insure with outside companies.

Mr. NICHOLSON: If the North Star is in service, you might have a pretty large loss.

Right Hon. Mr. HOWE: Yes.

Mr. JACKMAN: The North Star carries how many passengers?

Right Hon. Mr. HOWE: Forty.

Mr. JACKMAN: And the $750,000 is against one accident, not against losses for the year?

Right Hon. Mr. HOWE: Yes, one accident.

Mr. LOCKHART: Are we dealing with any matter or just on a certain page?

The ACTING CHAIRMAN: Any matter.

Mr. LOCKHART: Perhaps Mr. Howe would answer this question which is in connection with pensions of certain employees who were transferred from their former service into the T.C.A. Those employees are reluctant to remain under the old 1935 plan. I believe I am correct in saying that. Has there been any means of adjustment of pension matters with respect to such men?

Right Hon. Mr. HOWE: I do not understand what plan there would be because the T.C.A. did not start until 1938.

Mr. LOCKHART: I know, but there were men transferred to T.C.A. and their pensions would have remained under the old plan.

Right Hon. Mr. HOWE: Oh, yes.

Mr. LOCKHART: I see that a reference is made to it in the last paragraph. Has there been any difficulty with respect to their pension?

Right Hon. Mr. HOWE: I have never heard of any. Perhaps Mr. English would know more about that.

Mr. ENGLISH: No; no cases as yet of anybody being pensioned.

Mr. LOCKHART: I have heard at least one criticism.

Mr. ENGLISH: I think there are one or two cases, one or two men who would have liked to change their election but that is too late.

Mr. LOCKHART: There is no provision made for them to re-elect?

Mr. ENGLISH: No, no.

The ACTING CHAIRMAN: Have you some questions, Mr. Hazen?

Mr. HAZEN: No.

Mr. JACKMAN: Is there anything to be drawn, Mr. Matthews, from the paragraph on page 21 at the top, which reads:

> No provision has been made on the balance sheet by way of an account receivable from the dominion government anticipating a parliamentary vote to cover the aforementioned net deficit of the air lines as at the 31st December, 1947.

You merely call it to our attention?

Mr. MATTHEWS: Yes. We did not know what the intention was. It would make a difference, obviously, to the current asset position of the air lines if they were to draw that down. As in the railways, the deficits are wiped out; and any balance due goes back into current assets. In the case of the T.C.A. we simply wanted to make it clear that it was not done.

Mr. NICHOLSON: I move the adoption of the report.

Mr. WARREN: I second the motion.

The ACTING CHAIRMAN: It has been moved and seconded that this report be adopted. All those in favour?

Carried.

Mr. JACKMAN: What do the air lines expect by way of a budget for next year, particularly on P. and L. account?

Mr. MCGREGOR: The position of the air line has been, so far as P. and L. account is concerned, that there were so many features that could not be definitely determined, particularly in connection with the delivery of new types of aircraft, we felt that budgeting, with that extreme unknown in the picture, including maintenance cost involved with the new type, which could only be determined by experience, that we would simply be drawing a picture which might or might not bear any relation to what would take place.

But now that budget arrangements are being undertaken this year, we can say that after 1948 the air line will have a budget.

Mr. JACKMAN: I take it that you think you will have all these North Stars in operation at the end of the year?

Mr. MCGREGOR: I think we will have them by the end of next month.

Right Hon. Mr. HOWE: Thank you very much, Mr. Chairman; and I also thank the members of the committee. I trust we will have quite a different story for you next year.

The committee adjourned.

SESSION 1947-48

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS

and

THIRD REPORT TO THE HOUSE

No. 5

TUESDAY, JUNE 22, 1948

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948

MINUTES OF PROCEEDINGS

TUESDAY, June 22, 1948.

The Sessional Committee on Railways and Shipping, owned, operated and controlled by the Government, held an executive session at 10 o'clock this day. Mr. S. M. Clark, chairman, presided.

Members present: Messrs. Clark, Emmerson, Hazen, Hlynka, Jackman, Lockhart, McCulloch (*Pictou*), McLure, Moore, Mutch, Warren.

The chairman read correspondence exchanged between Mr. A. C. Vaughan, chairman of the Board of Directors, C.N.R., and Mr. Hatfield, M.P., the clerk and Mr. D. M. McCallum of Montreal.

Ordered,—That these letters be printed as an appendix to this day's minutes of proceedings.

The Committee proceeded with and concluded its consideration of the Committee's Report to the House.

With respect to the reference in the report to the T.C.A. Atlantic Services' surplus of $136,303.00, Mr. Hazen suggested that a word of explanation be added thereto.

After discussion, Mr. Hazen quoted, from the C.N and C.P. Railways Act as amended, 1936, the duties of the Directors relating to the loading of export freight through Canadian seaports.

On motion of Mr. McLure, seconded by Mr. Warren, the report was adopted.

Ordered,—That the chairman present the report to the House.

At 10.30, the Committee adjourned *sine die*.

ANTONIO PLOUFFE,
Clerk of the Committee.

APPENDIX

CANADIAN NATIONAL RAILWAYS

DEPARTMENT OF RESEARCH AND DEVELOPMENT

MONTREAL, Que. May 11, 1948.

A. PLOUFFE, Esq.,
Committee Clerk,
Room 431—House of Commons,
Ottawa, Ont.

Dear Mr. PLOUFFE:

I am enclosing herewith for your file on the Sessional Committee on Railways and Shipping 1948, copy of a letter which Mr. Vaughan has written to Mr. Hatfield under date of May 6 in reference to the Saint John call of the vessels of the Canadian National (West Indies) Steamships.

With kindest personal regards, I remain,
Yours truly,

M. D. McCALLUM.

CANADIAN NATIONAL RAILWAYS

(*Copy*)

MONTREAL, 6th May, 1948.

Dear Mr. HATFIELD:

In the course of the meetings of the Sessional Committee on Railways and Shipping last month, you made references to the Saint John call of the vessels of the Canadian National (West Indies) Steamships and, in a general way, I endeavoured to explain our position.

I think you were under the impression that our vessels, during the course of their call at Saint John, do not load outward cargo at that port. This condition did exist during the latter part of the war, but for the past twelve months or so every ship that called at Saint John, northbound, loaded outward cargo before proceeding to Halifax except two vessels in 1947, and one of these, after discharging at Saint John, was sailed to Montreal to load. Since the "Lady Rodney" and the "Lady Nelson" have been restored to service, loading dates at Saint John have been advertised well in advance so that shippers local to that port have every opportunity to avail themselves of this service.

I think too that you had in mind potatoes and perishable shipments particularly. There is a difficulty in the handling of these commodities on vessels which in the wintertime have to proceed to Halifax, as our Steamship people tell me such commodities would most likely suffer damage in freezing weather. Assuming that loading could be effected at Saint John without damage, the re-opening of the hatches at Halifax for the heavy and continuous loading at that point would, in every probability, result in damage at the latter port, and altogether our Steamship people do not feel that the use of Saint John for perishable commodities consigned to the West Indies is practical under present conditions when there has to be a stop-over at Halifax.

You mention that it cost shippers 8 cents a 100 more to ship goods to Halifax than to Saint John, and I presume you were referring to potatoes. The information which I have received from our Traffic Department indicates that from representative points in the Saint John Valley the spread does not reach these proportions. Including the 21 per cent increase recently authorized the comparison is as follows:

From	To Saint John	To Halifax	Difference in favour of Saint John
Edmundston	22c.	24c.	2c.
Grand Falls	19c.	22c.	3c.
Woodstock	16c.	21c.	5c.

These are export rates and include top wharfage charges as well as the cost of unloading from cars if the potatoes are in packages.

If I can give you any further information I shall be only too happy to do so.

Yours very truly,

(Sgd.) R. C. VAUGHAN.

H. H. HATFIELD, Esq., M.P.,
House of Commons,
Ottawa, Ontario.

OTTAWA, May 15, 1948.

Dear Mr. McCALLUM,

I acknowledge with thanks your letter of May 11 enclosing a copy of a letter from Mr. R. C. Vaughan to Mr. Hatfield under date of May 6 supplying information requested by the Committee.

Yours truly,

(Antonio Plouffe)
Clerk of the Committee on Railways, Canals and Telegraph Lines.

M. D. McCALLUM, Esq.,
Canadian National Railways,
McGill Street,
Montreal, Quebec.

REPORT TO HOUSE

Friday, June 25, 1948,

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

THIRD REPORT

Your Committee had referred to it the following matters, namely:

(*a*) Annual Report of the Canadian National Railways for the year ended December 31, 1947.
(*b*) Annual Report of the Cannadian National (West Indies) Steamships, Limited, for the year ended December 31, 1947.
(*c*) Annual Report of the Canadian National Railways Securities Trust for the year ended December 31, 1947.
(*d*) Annual Report of Trans-Canada Air Lines for the year ended December 31, 1947.
(*e*) Report to Parliament of the firm of George A. Touche and Company, auditors, for the year ended December 31, 1947.
(*f*) Financial Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited, for the year 1948.

Your Committee held nine meetings in the course of which the said Reports were severally examined and unanimously adopted.

The report of the Railway System disclosed a net income deficit of $15,885,194.28. Although gross revenues were only a fraction below their wartime peak the continually increasing costs of labour and material prevented the Railway from earning its full interest charges. Net income available for the payment of interest was $27·9 millions. The interest on bonds held by the public amounted to $23·8 millions leaving $4·1 millions available for payment of Government interest which amounted to $20·0 millions. The financial budget of the Railway System for the calendar year 1948 as submitted to the Committee forecast an income deficit of $23·4 millions but as was brought out in the evidence, changes in freight rates authorized since the budget was prepared, less additional labour and material costs, made a revision of the budget desirable, the net income forecast as revised being $6,287,000. This revised figure however, does not make any allowance for any wage increases in Canada which may be granted as a result of applications which are now before boards of conciliation. The budget forecasts net requirements on capital account of $65,882,200 including $59 millions for new equipment. The budget also includes $20 millions for additional working capital. The budget was approved.

The Report of the West Indies Steamships disclosed a net income surplus of $522,677. For the year 1948 the budget forecasts a net income surplus of $590,000, also that the net requirements on capital account are $30,000. The capital budget will be financed from the Vessel Replacement Fund of the Company. The budget was approved.

The report of Trans-Canada Air Lines disclosed a deficit of $1,761,042 for the Domestic Services and a surplus of $136,303 for the Atlantic Services.

In the case of the latter, it should be pointed out that these operations only covered a period of 8 months, that is, from May 1, 1947, to December 31, 1947.

The work of your Committee was facilitated by the information and explanations furnished by Mr. R. C. Vaughan, C.M.G., Chairman of the Board of Directors and President of the Canadian National Railways; and Mr. G. R. McGregor, the new President of Trans-Canada Air Lines; and of their officers who gave evidence, and your Committee desires to express its appreciation therefor.

A copy of the minutes of proceedings and evidence taken before your Committee is appended.

All of which is respectfully submitted.

S. M. CLARK,
Chairman.