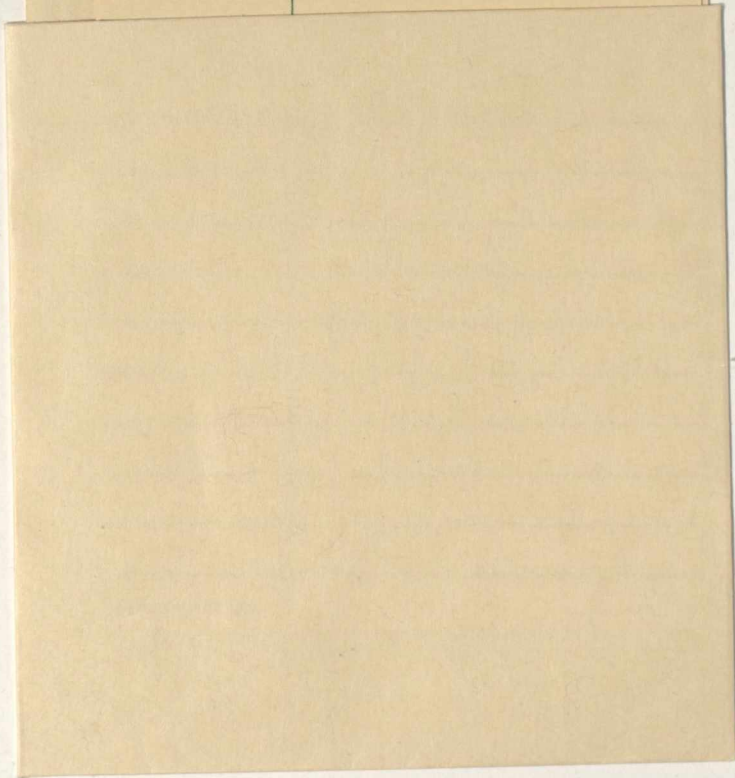


Canada. Parliament.
Senate. Standing Committee
on Transport and Communica-
tions, 1974.
Proceedings.

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SECOND SESSION—TWENTY-NINTH PARLIAMENT

1974

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

**TRANSPORT AND
COMMUNICATIONS**

The Honourable J. CAMPBELL HAIG, *Chairman*

Issue No. 1

THURSDAY, MARCH 28, 1974

**First Proceedings on Bill S-3,
intituled:**

“Motor Vehicle Tire Safety Act”

(Witnesses:—See Minutes of Proceedings)



STANDING SENATE COMMITTEE ON
TRANSPORT AND COMMUNICATIONS

The Hon. J. Campbell Haig, *Chairman.*

The Honourable Senators:

- | | |
|-----------------------------|------------|
| Blois | Langlois |
| Bourget | Lawson |
| Burchill | *Martin |
| Denis | McElman |
| Eudes | Molgat |
| *Flynn | Petten |
| Forsey | Prowse |
| Fournier | Riley |
| (Madawaska-
Restigouche) | Smith |
| Graham | Sparrow |
| Haig | van Roggen |
| | Welch |

20 MEMBERS

(Quorum 5)

**Ex officio member*

The Honourable J. CAMPBELL HAIG, Chairman

Issue No. 1

THURSDAY, MARCH 28, 1974

First Proceedings on Bill S-1

Included:

"Motor Vehicle Tire Safety Act"

(Witnesses—See Minutes of Proceedings)

Order of Reference

Evidence

Thursday, March 28, 1974

The Standing Senate Committee on Transport and Communications to which was referred the

Extract from the Minutes of the Proceedings of the Senate, March 26, 1974.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Neiman, seconded by the Honourable Senator Rowe, for the second reading of the Bill S-3, intituled: "An Act respecting the use of the national safety marks in relation to motor vehicle tires and to provide for safety standards for certain motor vehicle tires imported into or exported from Canada or sent or conveyed from one province to another".

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

The Bill was then read the second time.

The Honourable Senator Neiman moved, seconded by the Honourable Senator Hicks, that the Bill be referred to the Standing Senate Committee on Transport and Communications.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, March 28, 1974.

(2)

Pursuant to adjournment and notice, the Standing Senate Committee on Transport and Communications met this day at 10.00 a.m., to consider Bill S-3, intituled "Motor Vehicle Tire Safety Act".

Present: The Honourable Senators Haig (*Chairman*), Bourget, Denis, Forsey, McElman, Petten, Riley and van Roggen. (8)

Present, but not of the Committee: The Honourable Senators Benidickson, Neiman, McGrand and Smith. (4)

In attendance: Mr. E. R. Hopkins, Law Clerk and Parliamentary Counsel.

The Honourable Senator Bourget moved, that unless and until otherwise ordered by the Committee, 800 copies in English and 300 copies in French of its day-to-day proceedings be printed.

The following witness was heard on behalf of the Canada Safety Council:

Mr. P. J. Farmer,
Executive Director.

The Committee adjourned at 10.55 a.m. to the call of the Chairman.

ATTEST:

(Mrs.) Aline Pritchard,
Clerk of the Committee.

The Standing Senate Committee on Transport and Communications

Evidence

Ottawa, Thursday, March 28, 1974.

The Standing Senate Committee on Transport and Communications, to which was referred Bill S-3, respecting the use of national safety marks in relation to motor vehicle tires and to provide for safety standards for certain motor vehicle tires imported into or exported from Canada or sent or conveyed from one province to another, met this day at 10 a.m. to give consideration to the bill.

Senator J. Campbell Haig (*Chairman*) in the Chair.

The Chairman: Honourable senators, we are meeting this morning to discuss Bill S-3. We have as our witness Mr. P.J. Farmer, Executive Director, Canada Safety Council.

Mr. P.J. Farmer, Executive Director, Canada Safety Council: Thank you, Mr. Chairman.

Honourable senators, I am appearing before you this morning in a dual role, representing the Canada Safety Council and also the Canadian Standards Association Committee on Automobile Tire Standards.

The Canada Safety Council, as probably most of you know, is a non-governmental, non-profit, charitable organization, chartered under federal law. We have support from the federal and provincial governments, from business and industry and from many national associations in Canada. Our primary role is one in the field of accident prevention; we co-operate with all groups in Canada, and act as a co-ordinating body to reduce the number of accidents which take place, not only on our streets and highways but in our work places and homes and in public areas.

Mr. Chairman, if you agree, I shall make a brief statement on Bill S-3, and then if honourable senators have any questions they would like to throw my way I would be very pleased to try to answer them.

The Chairman: Very well.

Mr. Farmer: In Canada, prior to 1966 there were no standards or regulations governing the manufacture, sale or application of passenger car tires. This situation resulted in a great deal of confusion on the part of the public, government officials and even people selling tires. A serious side effect was the misapplication and misuse of many tires by motorists. Although accurate statistics were not available, these unsafe practices contributed to the rising toll of traffic accidents.

As a result of growing public concern, the Canada Safety Council officially requested the Canadian Standards Association to develop Canadian automobile tire standards.

In the fall of 1966, a C.S.A. Committee on Automobile Tire Standards was formed, and I was asked to act as the committee chairman. The committee membership represented the federal and provincial governments, manufacturers, users, the Canada Safety Council and other national organizations.

Over the two years following 1966 the committee developed three national standards:

Standard D238.1—Performance standards for the manufacture of passenger car tires and rims.

Standard D238.2—Application standards for the selection of tires and rims.

Standard D238.4—Inspection requirements for passenger car, station wagon and passenger car trailer tires used on highways.

A fourth standard, D238.3, for the recapping and repair of tires has not been completed as of this date. Standards D238.1, D238.2 and D238.4 were adopted by the provincial governments in Canada.

While the federal government, through the Ministry of Transport, was able to control the use of tires on original equipment, the provinces were left to police the after-market, which, incidentally, is the largest part of the tire market. Without inspection and testing capability this has proved to be a most difficult task.

Bill S-3, which is being considered by your committee, will control the manufacture, importation and sale of passenger car tires. This will assure that all tires sold in Canada will meet safety performance standards. To this end the Canada Safety Council supports Bill S-3.

I would like to point out, however, that unless passenger car tires are maintained to meet safety standards, and unless tires sold in the after-market are selected to meet the specific application for which the tires will be used, they will be unsafe and will represent a hazard to the motoring public. These requirements must be met by provincial regulation. This is not covered under the bill that you are considering.

Mr. Chairman, those are my formal remarks. I would be pleased to accept any questions the committee may have.

The Chairman: Are there any questions, honourable senators?

Senator van Roggen: First, is similar legislation common in other countries that manufacture tires—for example, Europe and the United States?

Mr. Farmer: It is in the United States, and there is an ISO standard in Europe which is being used, I believe, quite widely now.

Senator van Roggen: So this would not tend to be restrictive in so far as Canada's developing its tire manufacturing for export to the United States is concerned?

Mr. Farmer: That is right. I am not sure what standards the federal government would adopt, but I think they would be similar to the Canadian Standards Association standards and also the standards used in the United States. So I am sure this would not be restrictive on trade between the United States and Canada. Moreover, most of the European tires manufactured now, and the Japanese, do conform to both the American and the Canadian standards.

Senator van Roggen: Would you go so far as to say that this is just bringing us into line with the other countries?

Mr. Farmer: Well, no, we have these standards now in effect in Canada, but the problem is with respect to the enforcement of these standards. We have not had the teeth, let us say, in legislation which would force the manufacturers to conform to performance standards in the manufacture of tires.

Senator van Roggen: There has been no federal enforcement possible?

Mr. Farmer: Other than with respect to the equipment used on original vehicles when they are being manufactured.

Up to this time the problem has been that the after-market represents probably two-thirds of the total Canadian tire market in Canada. That is an approximate figure.

Senator van Roggen: What do you mean by the "after-market"?

Mr. Farmer: The after-market is the replacement of tires when the original tires wear out.

Senator van Roggen: In other words, just going into a tire shop and buying tires, and so on?

Mr. Farmer: Yes, that is right. These were controlled, really, by provincial legislation through the highway traffic acts, and such tires had to meet the CSA standards. But the problem, as we see it, is that the provincial governments do not have inspection capability or testing capability. The regulations are on the books, but we have had some doubt as to whether they are capable of enforcement.

Senator van Roggen: How will this act apply? Will you be endeavouring to enforce it down at the retail level, or will it be enforced at the manufacturing level and when tires are imported into Canada?

Mr. Farmer: I cannot speak for the federal government, but I presume they will be enforcing it at the resale level and at the importation level.

Senator van Roggen: I presume that if you catch the manufacturing and the importation you have all the tires.

Mr. Farmer: Well, I think you have.

Senator van Roggen: You can't make them at home very well!

Mr. Farmer: No, you are right, I think. I believe most of the tires manufactured in Canada, in fact all of them, conform to these standards now.

Senator van Roggen: What effect will this have on retreading?

Mr. Farmer: Unless they bring in a bill to cover retreads, there is nothing to handle that in Canada now; there is no standard.

Senator van Roggen: It is not covered in this bill?

Mr. Farmer: No, it is not. The effect of this bill is to assure the standards to which tires will be manufactured. This is really what you are doing through this bill: it will assure that any tires offered for sale in Canada will meet design performance standards. In other words, they will be manufactured to safety designs and should be adequate for the duties to which they will be applied.

There is a weakness in this picture, however. The provinces have adopted the CSA standard which calls for the proper application of tires. In other words, if you have a certain weight or size of vehicle you are required to put a certain size tire on that vehicle in order to meet load requirements and other requirements for safety reasons. But this bill does not touch that. You can go out in the after-market and buy any tire being offered for sale.

Senator van Roggen: In other words, you can buy the wrong tire for the particular vehicle?

Mr. Farmer: That is right. That is one of the problems we faced when the CSA committee came into being: there were no standards applicable in Canada, or anywhere else at that time, to require the proper tires to be put on on a certain application.

The third standard we produced was the standard for inspection and maintenance of tires because, again, at that time there was no requirement for motorists to keep their tires in safe operating condition.

There are few good statistics available, but from studies done the indication is that the number of traffic accidents caused by tire failure is quite low, being less than 1 per cent. But the startling fact is that most of the basic causes of failure are not related to flaws in the original manufacture but are related to misapplication of tires or lack of maintenance—for example, people running their vehicles with bald tires or tires which are under-inflated or overloaded, and so on. That is a feature which will not be covered by this bill, and I do not think it can be covered under federal regulation. It has to go back to the provinces where it can be covered under a highway traffic act.

But the important point here is that this bill will certainly give uniform coverage for the manufacture and sale of tires.

Senator Bourget: Mr. Farmer, have the provinces been consulted about this bill?

Mr. Farmer: I understand they have, yes.

Senator Bourget: All of them?

Mr. Farmer: I cannot answer that, sir, but I believe they have all been consulted. I think Dr. Campbell, of the Ministry of Transport, who will be appearing as a witness before your committee, will be able to give you that information.

Senator Bourget: I believe this is an important point, Mr. Chairman, because it may involve a question of jurisdiction. I am not a lawyer and I am not an expert in this kind of thing, like Senator Forsey, but in my opinion it is important to know whether the provinces have been advised, whether they approve the bill and whether it will be necessary, in respect to enabling legislation, for the provinces to cover this bill as well.

Mr. Farmer: I understand that the matter has been talked about with the provinces, senator.

Mr. E. Russell Hopkins, Law Clerk and Parliamentary Counsel: Senator Bourget, the witness who is appearing next week, Dr. Campbell, should be armed with the answers to your questions, but I agree with you that the matter is not free of jurisdictional problems.

Senator Bourget: So we will have our answers next week on that particular point.

Mr. Farmer: I believe Dr. Campbell can give you the assurances on that, yes.

Senator Denis: The provinces do have the right to pass legislation or make regulations in this regard?

Mr. Farmer: Yes, they can do so under their highway traffic acts, because the regulation of vehicles, provincially, comes under each province.

Senator Denis: There is no danger of duplication of bills?

Mr. Farmer: Well, I believe Bill S-3 has to be passed with the approval of the provinces. I would think part of it does overlap provincial jurisdiction, which is why I feel the point raised by Senator Bourget is most appropriate, that is, that the provinces be consulted. It is my understanding that they have been, but I think your next witness will be able to confirm that. In any event, it does cut across provincial jurisdiction.

Senator Bourget: That is what I thought. That was the reason for my question.

Senator Denis: Mr. Farmer, at the present time tires with studs are forbidden in some provinces but are allowed in others. I suppose this bill does not touch that aspect, does it?

Mr. Farmer: No, it does not.

Senator Denis: But this bill is made for safety purposes, and, I think, for two reasons. In some provinces they do not allow tires with studs, because sometimes they skid more than other kinds; and, secondly, they are causing deterioration in the roads. But, in any case, how can we go from one province to another, if in some provinces they are still allowed, but in others they are not, and if you cross the border and you are caught you pay a fine?

Mr. Farmer: Well, this is something that will be under provincial law, and I do not think it can be handled federally.

Mr. Hopkins: I think, in the light of the developments here, it might be desirable to have someone from the Department of Justice attend our meetings, in case there are legal and constitutional implications.

The Chairman: It shall be done.

Senator Forsey: I was going to say, Mr. Chairman, that with great respect to the lawyers here I rather doubt whether any jurisdiction can be conferred upon the Parliament of Canada by the consent of the provinces. I do not know if Mr. Hopkins would agree with me on that.

Mr. Hopkins: Of course, that is correct.

Senator Forsey: If there is jurisdiction, there is jurisdiction, if there is not, there is not, and the provinces can hurrah till their throats are hoarse, but it will not confer any jurisdiction.

Mr. Hopkins: And it will not take away any.

Senator Bourget: But at least there should be agreement between the provinces that . . .

Senator Forsey: I am not questioning that at all, that it would not take away any jurisdiction, but I am merely saying that as I understand the law the consent or dissent of the provinces cannot affect jurisdiction.

Senator Bourget: With that I agree.

Mr. Hopkins: It is a matter of co-operative federalism.

Senator Forsey: Yes.

Senator Bourget: Even not being a lawyer, I can see that that makes sense.

The Chairman: In the opinion of the majority, we have decided there is no conflict of jurisdiction between Forsey and Hopkins!

Mr. Hopkins: No, there is no conflict of opinion. There may be some jurisdictional problems.

Senator Forsey: Indeed, there may.

The Chairman: When Senator Neiman introduced this bill the other day she indicated that the provincial authorities had been consulted in relation that the motor Vehicle Safety Act.

Senator Neiman: Yes. There had been, as I indicated in my remarks, Mr. Chairman, meetings of all the provincial ministers of transports and the federal Minister of Transport. There had been a series of meetings at which it was agreed that the federal government should take over the regulation of motor vehicle safety, generally, of new cars and of the components of motor vehicles. This was confirmed, apparently, by a letter. The Chairman of the meetings wrote to the federal government confirming the wish of the provinces that had been indicated at the meeting that the federal government take over, and this was done prior to the passage of the original act. It was as a result of that that the original act was drawn.

Apparently, in the last couple of years they have had further meetings, and it was at that point that the provinces indicated that they would like them now to take over the regulation of all new tires, not just the ones that were on new vehicles, and that is what this bill deals with. It

does not get into the further problems of retreaded tires, or anything like that, because that is going to be another ball game entirely. They are still just dealing with new tires, whether they are made here in Canada or whether they are imported from some other country. I have copied of a couple of the pieces of enabling legislation which have been passed by the provinces after the original act was passed.

I agree, however, that at your subsequent meetings you are certainly going to have to have some of the Department of Justice Officials here to give their comments on this and on what has happened, because some of the provinces have not yet passed their enabling legislation. Quebec certainly has not, and there may be other provinces that have not, so it seems rather peculiar. It is rather an awkward position for the federal government to be in: they have got the legislation, but they really cannot act under it; they cannot prosecute under it, in any sense.

Senator van Roggen: I cannot agree with that, Mr. Chairman, I am sorry.

Senator Neiman: With what?

Senator van Roggen: That the federal government could not prosecute under it.

Senator Neiman: Well, if it has to do with something that is right within the jurisdiction of the provinces, I do not see how it can. I may be wrong about that, but it seems to me that this was the point.

Senator van Roggen: I have only looked at the bill very quickly and I may be wrong, but it seems to me that the only offences covered in the bill are mentioned in clause 6 on page 4; which reads:

Except as provided for by the regulations, no manufacturer or distributor shall

(a) export from Canada or deliver for export from Canada, or

(b) send or convey, or deliver for the purpose of sending or conveying, from one province to another, . . .

Senator Neiman: That is right.

Senator van Roggen: That is one thing within federal jurisdiction. Then, sub-clause (2) of clause 7 reads:

No person shall import into Canada a motor vehicle tire contrary to any regulation made under this section.

So it seems to me that the bill confines itself to saying that there shall be certain standards, and if you manufacture tires that are not up to these standards you cannot: one, import them into Canada; two, export them from Canada; and, three, move them from one province to another. But if you are not doing any of those things, you can do as you please. So it would seem to me to be constitutionally correct, and that is all this bill does, and it has no bearing on the retail aspect whatever, coming back to my question to the witness. Would that not appear to be what the bill does?

Senator Neiman: Yes. Well, this is a question I brought up with some of the members of the department, because I said, "There seems to be a hiatus in this. If you went to all this trouble to get the concurrence and the direction of the

provinces, and they indicated this was the reason, to some extent, why this was all put together, the act does not really deal with things within the provinces themselves"—

Senator van Roggen: Which it could not do.

Senator Neiman: No; but I said, "You are not really dealing with tires, or cars, that are made in Ontario and sold in Ontario,"—

Senator van Roggen: Quite right.

Senator Neiman:—"so there is a large part of the market that is not being covered, and should be covered somewhere, if we are going to do this, and I thought that was the whole purpose of getting the concurrence of the provinces and working together." I said, "You are in fact going to have half an act here."

The wording is identical in the original act as it applies to cars, and now they are carrying it forward into tires. So that was the point that I was trying to raise with them. I said, "You seem to be only covering half your market, in spite of your great intentions of protecting everybody—all buyers of new cars. In fact, you are not doing that."

Senator van Roggen: Senator Forsey can correct me, but I think they have gone as far as they can go. Would you not think so?

Senator Forsey: Yes, I would think so. I hesitate, being a non-lawyer, to give an opinion on this, but that is how it seems to me; and furthermore, as I said before, I am puzzled by this talk of concurrent legislation by the provinces. I do not see how the provinces can confer any jurisdiction on the Parliament of Canada, or take any away. The only thing is, they might pass legislation, it seems to me, providing for administrative delegation that a particular dominion authority should be deemed to be a provincial authority for the purposes of this legislation. That, I think, could be done, as has been done arising out of the potato marketing case in Prince Edward Island, or the National Transportation Act.

Mr. Hopkins: Correct.

Senator Neiman: May I give you an example? This is the Ontario section, under the Highway Traffic Act, and this is an amendment to their act. It says:

63.—(1) No person who deals in motor vehicles shall sell or offer to sell a motor vehicle manufactured after the date this section comes into force that does not conform to the standards required under the *Motor Vehicle Safety Act* (Canada), and bears the National Safety Mark referred to therein.

Then it is followed by a penalty section.

Mr. Hopkins: That would be corollary legislation, not enabling legislation.

Senator Neiman: Not enabling? Yes, it is.

Senator Forsey: It is not enabling.

Mr. Hopkins: It is supporting legislation.

Senator Neiman: "Enabling"—that is the word the Transport officials used when I talked to them.

I have a British Columbia section here, which is worded slightly differently but it is quite the same in effect, I

think. However, I also had, as I say, this letter from Mr. Vaillancourt, of the Ministry of Transport, which says that Quebec has not promulgated what they call "complementary" legislation. I was not able to confirm whether the provinces of Alberta, Newfoundland and Saskatchewan have done so. Those are the other provinces that we still do not know about, and he said he was going to find out about that before they appear before this committee. I said that that information should be available.

The Chairman: That will be done next week. There will be a meeting of the committee next Thursday morning at which there will be officials of the Ministry of Transport and representatives of the Department of Justice.

Mr. Farmer: Mr. Chairman, may I ask a question here? That enabling legislation which you read referred to motor vehicles generally and not to tires specifically?

Senator Neiman: No, because this goes back to the original act.

Mr. Farmer: So there should be something somewhere about this which would take into account the after-market which is the problem area, as I see it, because the provinces have jurisdiction over the after-market, the sale of tires and the replacing of old tires on vehicles.

Senator van Roggen: I am sorry, but I do not think that is quite accurate, because the after-market is just as concerned with tires that are imported into Canada or transported across a provincial boundary as the original market, so that is so far as this act covers tires that are moved from one province to another, then it covers the after-market as well as the original one.

The only thing it does not cover is the situation where tires are manufactured in a province and then sold within that province. Since tires are something that are not usually made by very small companies—somebody operating in a back garage—and are normally made by national manufacturers and sold across the country, I think the act would be very effective. I am sure that if the provinces wanted to adopt its standards, to apply them to the few tires sold and manufactured within the province, then they may do so. In Ontario it will be important, as it will be in Nova Scotia, where they have the new Michelin plant. Saskatchewan, for example, might not need to adopt enabling legislation if it did not have any tire manufacturing. That would seem to me to be the essence of the situation.

On the need for this legislation, if I may digress for a moment, you said that only about 1 per cent of the accidents occurring are related to tire failure and that the vast majority of accidents are not related to the tire as much as to the misapplication of the tire and the type of vehicle concerned. You cannot do anything about that. If people are going to be fools, they are going to be fools. Could you then argue, since it is only a fraction of 1 per cent that is going to be affected, that it is unnecessary to set up the bureaucracy that is going to be established under this act? What is the need for it?

Mr. Farmer: I think it is important.

Senator van Roggen: Why do you say that?

Mr. Farmer: Well, I do not know how you would get down to deciding the value of a life. Last year 12,000 people were

accidentally killed in Canada, 6,221 of these being on the highways. There were 230,000 injuries in traffic accidents.

Senator van Roggen: I understand that, but you are giving here total statistics. You said earlier that only 1 per cent of the accidents on the highways were caused by tire failure, and of that 1 per cent an even smaller percentage was caused by faulty tires. In other words, of that 1 per cent most were caused by faulty application of tires.

Mr. Farmer: Well, I do not know how it would work out. If it kills three people and injures 3,000 how are we to put a value on that? I think it is important that there should be standards. I do not know what type of bureaucracy we would be getting into through this.

Senator van Roggen: In fact, it may be very small.

Mr. Farmer: I would hope that that would be the case. The other side of the coin, the question of maintenance and proper application of these tires, must be dealt with provincially. Obviously, if the provinces get around to periodic motor vehicle inspection, then this could be done on the inspection line.

Senator van Roggen: We have in Vancouver compulsory inspection where these things are applied.

Senator Neiman: Mr. Chairman, one point that had occurred to me is the question as to why, instead of introducing a separate act, this was not simply introduced as an amendment to the original act because the original act says, "motor vehicle of a prescribed class and its components." It seems to me that if you compare this with the original act, the wording is identical, and I do not know if some day they will introduce legislation about mufflers or something and, in doing so, introduce a separate bill again. It seems to me it would be much better and more concise to bring in all these things as part of the original act. I did not see the necessity for this, and I asked about it again and Mr. Vaillancourt could not give me a direct answer. He said, "Well, we talked to our legal advisers." And I think he said something to the effect that, "It would be so similar that it would be difficult." That answer really did not make sense to me at all, and so I compared the wording of the act and of this bill, and it is the same.

There are a couple of areas where I think it does not make sense—for instance, as to what would be done if a tire was found to be defective and the importer or manufacturer was prosecuted successfully, but I cannot think of any circumstance where you might give the tire back to the offender.

The bill states that forfeiture may or may not be imposed, so, as I say, they have used certain wording here and in a couple of other areas which I thought was rather odd. That was another thing I thought should be questioned, in a sense.

As a matter of fact, I happened to notice that somebody in the other place brought in a private member's bill yesterday as an amendment to the Motor Vehicle Safety Act having to do with safety roll-bars or something like that. And there was even a private member's bill on tires introduced last week in the other place. I realize that those are bills that will probably die on the Order Paper, but I cannot see why all that cannot somehow be part of one

bill. It would seem to me to be a far simpler way of making any necessary changes.

Senator Forsey: Would it turn on the question as to whether or not a tire was a component of a motor vehicle?

Senator Neiman: No, because the new tires are regulated under the original act—by that, I mean the original tires.

Mr. Farmer: But isn't that only as an accessory to the new car or as part of the original car? I think this is the problem. It did not cover tires sold in the after-market.

Senator Neiman: I agree with that.

Mr. Farmer: And this is why the new bill is before you—to cover the after-market which, I think accounts for the biggest portion of tire sales in Canada. That could not be controlled through the original act which covered only the original manufacture of the vehicle with its tires, muffler and other components on it.

Senator Neiman: But your regulations are surely going to be the same. It would simply be concerned with a new tire put on the vehicle so, in fact, you end up with identical legislation.

Mr. Farmer: I think the problem was this, that there could be junk tires imported into Canada and it was indeed the problem. Tires that were rejected in Japan or in the United States because they did not meet the appropriate standards could be dumped in here and sold on the after-market as replacement tires. Then you had no control unless you brought in provincial legislation. But I think that this will now cover that situation because you are controlling the importation and the sale of tires in Canada.

Senator Benidickson: Mr. Chairman, the point I have in mind to raise may have been raised earlier. I was at a meeting of the Internal Economy Committee from 9.30. I come from the most north-westerly portion of Ontario, near the Manitoba border. A few years ago the Ontario Government introduced legislation prohibiting the use of studs in snow tires. This was violently opposed by people in northern and northwestern Ontario because of our snow problem there. The opposition was so great that, led by leading citizens including professional men in the community of Red Lake, more than 100 adamantly refused to comply with the law and invited prosecution in court. I cannot recollect the result, but that law is still in force.

I can imagine how inconvenient it is if studs on tires are desirable in a certain location in these northern climates and drivers normally travel into another province, such as to Winnipeg for their shopping or to the capital city or other large cities in the east of their own province, which are a thousand miles away. I would like to know whether the officials who have been dealing with this proposed legislation have had conversations regarding this with representatives of the provinces. It seems to involve inter-provincial traffic and, indeed, international traffic, and is, in my opinion, still a rather rankling situation in so far as those I know in the district of Red Lake, Kenora and centres of that nature are concerned.

My other point, Mr. Chairman. Is it proposed that we receive evidence from large, prominent retailers of tires as to the effects of this legislation? I appreciate that the aim is improved safety, but sometimes when unnecessary regulations are enacted it results in undue added expense

to consumers. I wonder if this committee proposes to adduce evidence from those who are experienced in selling tires as to the added costs, if any, which will result to the consumer.

The Chairman: The answer is yes.

Senator Benidickson: Can anyone answer my first point? Have there been discussions at the interprovincial meetings in connection with the existence of the other statute referred to by Senator Neiman in her speech with respect to other components of automobiles? Has there been any discussion of uniformity in Canada with respect to studs in snow tires, or the possibility of exempting certain areas where snow is exceptionally heavy and where, perhaps, scientifically there would be good evidence that studs would be helpful and, indeed, necessary?

The Chairman: I think, Senator Benidickson, that many of these questions can be answered next week when the Transport officials appear together with representatives of the Department of Justice. They will advise as to this question of interprovincial and international arrangements.

I hope also that the officials will give us evidence on retreads, studs—you name it. Is that right, Senator Neiman?

Senator Neiman: Yes.

Senator McElman: Mr. Chairman, my question has to do with the jurisdictional aspect. As I understand this bill, it establishes a national safety mark, which is within the competence of Parliament and which will be known as the national tire safety mark. The bill also provides for the standard and quality of tires which may bear that mark. Is it not, then, simply a matter for the provinces to legislate that within their jurisdiction no new tire shall be manufactured or sold unless it carries the national safety mark? Is this not the essence of what we are discussing?

The Chairman: We discussed this 15 minutes ago, Senator McElman, and finally discovered that none of us can answer the question. We are therefore asking representatives of the Department of Justice to come forward, together with Transport officials. All we know is that tires are going to be made under certain conditions, of which we know nothing, and will bear this mark. What happens after that, the officials or the representatives of the Department of Justice must tell us. The question of jurisdiction was raised before.

Senator McElman: Then can I ask: Does the Parliament of Canada have jurisdiction to establish a national safety mark? I think it does, does it not?

Senator Forsey: Oh, yes.

Senator McElman: That is clear, is it?

Mr. Hopkins: Yes, and it has a broad jurisdiction under the heading Criminal Law, which makes these offences criminal, as Senator van Roggen pointed out earlier.

Senator McElman: The Parliament of Canada also has jurisdiction to establish the quality and nature of a product that can carry such a national safety mark, does it not?

Mr. Farmer: That is right.

Mr. Hopkins: I would like to hear the opinion of the representatives of the Department of Justice when they appear.

Senator McElman: I am sorry; I thought that these were questions that could be answered.

The Chairman: They cannot be answered by us.

Mr. Farmer: This is now provided in the act which covers the manufacture of new vehicles.

Senator McElman: This is my point; I thought it was.

Senator van Roggen: Senator McElman, yes, the federal government has jurisdiction over such marks. It can stipulate that tires bearing this mark must meet certain standards. That does not mean, however, that tires cannot be manufactured and not carry the mark, without meeting those standards. This act does not hinge on the mark. It introduces the mark as a simple method of identification, but it could also have stipulated a serial number.

This legislation really has no bearing on the subject of studs, as raised by Senator Benidickson, but simply regulates tires that are imported, exported or moved from province to province at certain standards. It is nothing more than that and provides for anything that falls between those, which is what gives it further jurisdiction.

Senator McElman: These are points to which I did not believe we needed further answers. The ultimate question I have at this meeting, or will have at a future meeting, is: Can we simply determine if each of the provinces either has or is prepared to introduce legislation that will provide that no new tire will be manufactured or sold within that province unless it bears the symbol of the national tire safety mark as provided by this legislation? Could that advice be given at the next meeting?

The Chairman: Yes. We are simply floundering at the moment, waiting for the officials. Earlier we had a great discussion with respect to the constitutionality of this legislation. That was stopped fast because the two principals in the argument agreed, so it was a unanimous opinion between those two and there was no dissenting opinion.

Senator Neiman: If I was instructed correctly by the officials with whom I spoke prior to introducing this bill, in spite of their plain words or the provisions in the previous act, they still intended to regulate the safety of all new tires at the manufacturing or importing level.

I went back to the original act and the minutes of your meeting to see if this question had been raised at that level. A Mr. Jacques Fortier, counsel to the then Department of Transport opened the proceedings that day with a description of the original bill. He said:

The bill would provide for motor vehicles which comply with the safety standards applicable to such vehicles to have affixed on them the prescribed national safety mark before such vehicles may be sold in Canada—

I repeat "may be sold in Canada".

—or exported from Canada, or transported between provinces.

It seems to me that he rather misinformed the committee—would you not agree—because he said "may be sold in Canada". He said, in effect, "they may be sold." He did not say just between provinces; he said "or transported between provinces!"

Senator van Roggen: I do not think it covers the manufacture of a tire and the sale of that tire within a province.

Senator Forsey: With respect, it seems to me that under clause 5 you have what he was probably referring to, that:

No manufacturer or distributor shall (a) apply to a motor vehicle tire of a prescribed class the national tire safety mark, . . . unless the tire complies with all safety standards . . .

The only thing you have here, it seems to me, that does not deal specifically with international or interprovincial trade is clause 5. It says that if you are going to have a national safety mark on this tire you have to meet certain restrictions, certain regulations, certain requirements. Even if he is just going to sell the tire in his own province, if he is going to put this mark on it, it has to be up to standard. Otherwise, as I understand it—I speak subject to correction by the members of the legal profession—it is simply a matter of import and export and interprovincial trade. But within the province he must not put this mark on the tire unless it meets safety standards.

Senator van Roggen: But he can manufacture a tire.

Senator Forsey: Yes. In fact, he can manufacture one made of chewing gum, if he wishes, provided he does not put this mark on it; and the chewing gum one cannot enter into international or interprovincial trade.

The Chairman: Are there any further questions or discussion on this bill at this moment? If not, we shall meet next Thursday morning, when we shall have with us officials from the Ministry of Transport to answer questions regarding regulations, and also representatives from the Justice Department. Despite the opinions expressed by Senators Forsey and van Roggen, we should await their opinions before reaching any decision.

Senator Forsey: I was merely questioning Senator van Roggen.

The Chairman: The committee will adjourn until next Thursday morning. The announcement of the time of day will be made before next Thursday morning. Is it agreed?

Hon. Senators: Agreed.

The Chairman: We wish to thank you, Mr. Farmer, for coming forward.

The committee adjourned.



SECOND SESSION—TWENTY-NINTH PARLIAMENT

1974

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
**TRANSPORT AND
COMMUNICATIONS**

The Honourable J. CAMPBELL HAIG, *Chairman*

Issue No. 2

THURSDAY, APRIL 4, 1974

**Second and final Proceedings on Bill S-3,
intituled:**

“Motor Vehicle Tire Safety Act”

REPORT OF THE COMMITTEE

(Witnesses:—See Minutes of Proceedings)



STANDING SENATE COMMITTEE ON
TRANSPORT AND COMMUNICATIONS

The Hon. J. Campbell Haig, *Chairman.*

The Honourable Senators:

- | | |
|---|------------|
| Blois | Lawson |
| Bourget | *Martin |
| Burchill | McElman |
| Denis | Molgat |
| Eudes | Petten |
| *Flynn | Prowse |
| Forsey | Riley |
| Fournier (<i>Madwaska-
Restigouche</i>) | Smith |
| Graham | Sparrow |
| Haig | van Roggen |
| Langlois | Welch—(20) |

*Ex officio
(Quorum 5)

The Honourable J. CAMPBELL HAIG, *Chairman.*

Issue No. 3

THURSDAY, APRIL 4, 1974

Second and final Proceedings on Bill S-3,
intituled:

"Motor Vehicle Tire Safety Act"

REPORT OF THE COMMITTEE

(Witnesses—See Minutes of Proceedings)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, March 26, 1974.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Neiman, seconded by the Honourable Senator Rowe, for the second reading of the Bill S-3, intituled: "An Act respecting the use of the national safety marks in relation to motor vehicle tires and to provide for safety standards for certain motor vehicle tires imported into or exported from Canada or sent or conveyed from one province to another".

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

The Bill was then read the second time.

The Honourable Senator Neiman moved, seconded by the Honourable Senator Hicks, that the Bill be referred to the Standing Senate Committee on Transport and Communications.

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Order of Reference

Thursday, April 4, 1974.

Pursuant to adjournment and notice, the Standing Senate Committee on Transport and Communications met this day at 10.00 a.m. to further consider Bill S-3, intituled: "Motor Vehicle Tire Safety Act".

Present: The Honourable Senators Haig (*Chairman*), Blois, Flynn, Forsey, Langlois, Martin, McElman, Petten, Riley, Smith and van Roggen. (11)

Present, but not of the Committee: The Honourable Senators Neiman and McGrand. (2)

In attendance: Mr. E. R. Hopkins, Law Clerk and Parliamentary Counsel.

WITNESSES:

Ministry of Transport:

Dr. Gordon Campbell,
Director of Road and Motor
Vehicle Traffic Safety Branch.

Mr. J. T. Gray,
Senior Ministry Executive—Legal.

Rubber Association of Canada:

Mr. Kenneth Graydon,
President, and other Association Officers.

After discussion and upon Motion of the Honourable Senator Langlois, it was Resolved to report the said Bill without amendment.

At 12.30 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Mrs. Aline Pritchard,
Clerk of the Committee.

Reports of the Committee

Thursday, April 4, 1974.

The Standing Senate Committee on Transport and Communications to which was referred Bill S-3, intituled: "An Act respecting the use of national safety marks in relation to motor vehicle tires and to provide for safety standards for certain motor vehicle tires imported into or exported from Canada or sent or conveyed from one province to another", has, in obedience to the order of reference of Tuesday, March 26, 1974, examined the said Bill and now reports the same without amendment.

Respectfully submitted.

J. Campbell Haig,
Chairman

The Standing Senate Committee on Transport and Communications

Evidence

Ottawa, Thursday, April 4, 1974.

The Standing Senate Committee on Transport and Communications, to which was referred Bill S-3, respecting the use of national safety marks in relation to motor vehicle tires and to provide for safety standards for certain motor vehicle tires imported into or exported from Canada or sent or conveyed from one province to another, met this day at 10 a.m. to give further consideration to the bill.

Senator J. Campbell Haig (*Chairman*) in the Chair.

The Chairman: Honourable senators, we held a meeting last week and certain questions remained unanswered, to which we expect to have the answers today. The first person who will speak to us will be Dr. Gordon Campbell, Director of Roads Safety, Ministry of Transport. Dr. Campbell, I might remind you to speak a little louder than normal if you intend to project slides.

Dr. G. D. Campbell, Director, Road and Motor Vehicle Traffic Safety Branch, Ministry of Transport: Honourable senators, I am here representing the Ministry of Transport. I would like to introduce my colleagues who are with me this morning in the hope that we can answer all your questions with respect to Bill S-3. On my right is Mr. John Gray, the Senior Ministry Executive, Legal Branch, Ministry of Transport, representing the Department of Justice. On the left-hand wall is Mr. Jean-Paul Vaillancourt, Assistant Director, Motor Vehicle Programs; Mr. E. R. Welbourne, Chief, Vehicle Systems Division, Countermeasures Development, Road and Motor Vehicle Traffic Safety Branch; Mr. R. Solman, Standards Engineer, who will be responsible for drafting regulations; and Mr. Scharbach, our Tire Compliance Auditor.

With your permission, Mr. Chairman, I would like to make a presentation using slides.

The Chairman: Yes; thank you very much.

Dr. Campbell: The object of this presentation is to endeavour to give you some indication of the seriousness of the road safety problem in Canada and the responsibilities of the Ministry of Transport in connection with this problem. I will then explain how the proposed Motor Vehicle Tire Safety Act fits into the scheme of things. I shall, therefore, run very quickly through these slides and if my explanation is unclear, stop me and I will elaborate.

This initial slide shows the numbers of transportation fatalities in Canada during 1971, which was 6,139. Of those, 5,567, the vast majority, were killed in road accidents; air accidents accounts for approximately 170; rail somewhat less than 100; boating and shipping accidents, just over 300.

So the road accident problem dominates our transportation safety picture in Canada. As to the breakdown, this large segment represents pedestrians, cyclists and motor cyclists. The smallest piece of the pie represents railway grade crossing accidents, and this large portion represents occupants of motor vehicles—drivers and passengers in automobiles, trucks and buses.

In Canada over the past several years there have been between 5,000 and 5,500 people killed per year in motor vehicle accidents. Those figures are demonstrated in this chart.

In 1950 the figure was somewhat over 2,000. It rose rather abruptly in the early part of the 1950s, levelled off somewhat in the mid-fifties until 1961, and again rose very abruptly in the early sixties. It again levelled off, and now has started to climb once more. These are the number of persons killed in road accidents in Canada.

We attribute this levelling off in the late 1950s to the massive provincial highway construction program coupled with the Trans-Canada Highway construction program. During this period and immediately preceding it all of the highway system of Canada was reconstructed. As a result of the better roads there was a decrease in the growth rate of accidents.

As the emphasis on new road construction diminished somewhat, the number of fatalities again started to rise abruptly, until 1966. At that point Parliament held hearings on road safety because of the great public outcry and concern about the road accident situation. As a result of those hearings, motor vehicle design was modified under the Motor Vehicle Safety Act and because of other government action.

The change in motor vehicle design, coupled with other measures, resulted in a levelling off in the number of road accidents and fatalities for a period of about five years.

Events are now catching up with us. With the further increase in travel, accidents and fatalities are once again increasing, and it is apparent that additional measures are necessary.

Senator McElman: Mr. Chairman, has Dr. Campbell a similar graph comparing those figures with the increase in vehicles on our highways as a percentage?

Dr. Campbell: I am now showing the number of persons killed per 100 million vehicle miles of travel on our road system. The figure has been decreasing through time. If we look back to about 1930 we find that the rate was somewhere in the order of 25 to 30 persons. So it has been coming down. Travel is becoming relatively safer. There have been periods when the rate increased, and it could

increase again. As we approach zero, of course, the problem becomes much more difficult.

Driving down the rate is a major problem. Indications are that the rate has been increasing in the last two years.

To put the rate into perspective, our rate in Canada of persons killed per 100 million motor vehicle miles of travel is in the order of 6.5, whereas in the United States it is less than five—4.5.

Travel is relatively safer in the United States. In Europe the rate for France and Italy, for example, is in the order of 13 to 15 fatalities per 100 million vehicle miles.

Therefore we are not the worst and we are not the best. In comparison with the United States there are strong indications that there is scope for improving safety on our roads.

I have one other graph which indicates a trend in the problem. During the period 1967 to 1971 the number of pedestrians killed actually decreased somewhat, the number of vehicle occupants killed remained approximately the same, and the number of motorcycle and bicycle fatalities increased very substantially—which is a matter of considerable concern to safety officials in Canada.

In these few graphs and statistics I have tried to give you a picture of the seriousness of the road safety problem. It is very bad and is getting worse, and additional measures are necessary.

We estimate at the present time that approximately \$250 million per year is spent on road safety programs in Canada. With regard to vehicle engineering, the cost of providing additional safety features in motor vehicles is in the order of about \$100 million per year. Consumers pay for this when purchasing new cars.

In connection with road safety measures—guard rails, removal of roadside obstacles, correction of hazardous locations, and so forth—the provinces are spending in the order of from \$75 million to \$100 million per year.

For driver education, provincial expenditure is in the order of \$10 million; for enforcement of traffic laws, \$50 million; for research and development, \$2 million.

So we are spending in Canada approximately \$225 million per year on road safety programs at the present time.

To put this in perspective, we are spending close to \$5 billion per year on road construction and maintenance, and in the order of \$12 billion on road transport in Canada.

Therefore road safety expenditure is substantial for current road safety programs, but relatively small in relationship to total road investment.

The Ministry of Transport's objectives in road safety are to reduce the number of road casualties—or, expressed in another way, to reduce the number of collisions, injuries, deaths, health impairment resulting from motor vehicle use, and property damage occurring on the nation's road and street systems. Hopefully all our activities are related directly to that objective.

Our specific programs in the Ministry of Transport are indicated on this slide. First, we have an assigned responsibility for co-ordinating federal government activities related to road safety. There are perhaps 15 different

government departments and agencies with programs related to road safety.

Currently, we have a responsibility for issuing and enforcing safety standards for new motor vehicles under the federal Motor Vehicle Safety Act, and the provinces have responsibility for the safety of vehicles in use through their provincial highway traffic and motor vehicle acts. The provinces have also responsibility for the safety of replacement components for motor vehicles.

The third part of our program is international liaison, which is becoming increasingly important. The motor vehicle industry is an international industry and international standards are required in order that there are no artificial barriers to trade.

We are working very closely with the United Nations, the EEC and OECD to develop international motor vehicle safety standards which can be adopted in Canada. In addition, we are working with other agencies, such as NATO, in exchanging road safety program information.

We have also a road safety countermeasure development program in the Ministry of Transport which is a program of very applied research to develop practical measures which can be implemented by federal, provincial and municipal governments to bring about reductions in road casualties.

Our organization in the ministry, the branch I represent, is basically one of countermeasure development, which is very applied research by a small group of engineers, economists, mathematicians and psychologists to consider various measures which can be implemented to reduce road casualties.

Secondly, we have the motor vehicle program where we issue standards and enforce them, buy and test components, investigate accidents, and so forth. We have administrative support and a new section to introduce other road safety measures within the federal government.

The standards issued at the present time under the Motor Vehicle Safety Act apply to buses, motorcycles, passenger cars, trucks and trailers. There are three basic groups of standards which relate to the total new motor vehicle, those being: crash avoidance standards, such as brakes, lights and tires on new motor vehicles which may assist in avoiding crashes; crash worthiness standards, such as the glass, seat belts, interior padding, inflammability of materials, so that if a vehicle is involved in a collision the odds of survival are enhanced; and, finally, a group of standards relating to emissions, such as exhaust emissions, evaporative emissions and noise emission from new motor vehicles.

The act is applicable to vehicles manufactured in Canada or imported into Canada. This slide merely indicates that there are about one and a half million motor vehicles manufactured in Canada and approximately 600,000 motor vehicles imported into Canada each year. New registrations are in the order of 1 million a year. The motor vehicle manufacturing industry is quite large in Canada, numbering at least 1,200 companies. This would include the large automobile manufacturers such as General Motors, Chrysler, American Motors, the large truck manufacturers such as International Harvester, White, as well as the trailer manufacturers—and there are trailer manufacturing companies in virtually every city of Cana-

da—snowmobile manufacturers and truck body builders who take chassis and convert them into commercial vehicles. So we are dealing with a very large industry under the Motor Vehicle Safety Act.

Senator van Roggen: That figure of 1,200-and-some-odd does not include companies which manufacture components?

Dr. Campbell: No, it does not. The Motor Vehicle Safety Act also contains provision for administering and controlling defect notification, the so-called recall campaign, where the manufacturer is aware of safety-related defects in a vehicle. When that occurs the manufacturer must give notice to the Ministry of Transport and to the owners of the vehicles concerned. In 1972 there were 151 campaigns to correct safety defects involving some 850,000 vehicles.

The other side of our program in the ministry consists of applied research to develop cost-effective programs which can be implemented to reduce road accidents. In this respect we are working in the human area of impaired driving. Drinking-and-driving still has to be the number one problem. We are also working on new safety campaign techniques to provide the public with information on seat belt usage, and seat belt usage still has to be the most potentially effective device available for reducing casualties. If everyone in Canada wore seat belts when driving in a motor vehicle, we could immediately reduce the number of fatalities by at least one-third to one-half.

In the area of vehicles, we are working on defrosting and defogging mechanisms, headlight systems—and there will be improved headlights in the near future—and vehicle maintenance. In the area of roads, we are working on intersection behaviour. At least half of all urban accidents occur at intersections. We are also working on roadside obstacles and traffic sign design. We are doing what we can to introduce symbolization into all signs in Canada.

We have been working very closely with the provincial governments in all of these areas. In February of this year the Minister of Transport, the Honourable Jean Marchand, along with his ten provincial counterparts, adopted 1979 goals for road safety in Canada, with a commitment to a program to meet those goals. Those goals involve complete documentation of all existing road safety programs in this country. Because they are not exactly the same from province to province, each jurisdiction can learn from the others. That joint federal-provincial program is designed to progressively reduce the fatality rate 100 million vehicle-miles in Canada by 15 per cent over the next five years. As I said earlier, the number of fatalities is increasing. Unless something is done, we are predicting an increase in the number of road fatalities, as indicated by this top red bar. In other words, within the next five years in excess of 7,000 persons per year could be killed on Canadian roads. The goal is to prevent any increase. If we are able to achieve that goal, we will be saving in the order of 1,000 lives a year five years from now. That alone is a very big task, but the federal and provincial governments are committed to it, and I believe it can be accomplished.

It can be accomplished through a number of available programs, such as increased seat belt usage, either by persuasion or legislation; reducing alcohol induced impaired driving; correcting hazardous road locations; additional safety standards, particularly for trucks, buses, school buses; improved vehicle maintenance; extension

and improvement in driver education, and increased police presence.

We in the ministry are very concerned that the average automobile owner does not even read his owner's manual and follow the basic instructions on having his vehicle serviced.

These are the areas in which something can be done today to bring about the reduction in casualties. That is the background against which we consider this motor vehicle tire safety bill. There are several reasons why this bill is being advanced by the ministry. The first is Canada's serious road casualties problem, which I have tried to describe. Secondly, there is the improvement of tires for greater safe vehicle operation—there is an indication that replacement tires are inferior, or have been inferior, to original equipment tires provided on new motor vehicles. Thirdly, Bill S-3 would provide the authority to prevent the importation of tires which may be rejected in other countries. Fourthly, to overcome problems of trying to control the safety standards on tires at the point of retail sales.

Also, of course, the bill provides increased scope for action under the Motor Vehicle Safety Standards Program, one more weapon in the arsenal to combat our road safety problem.

The bill would provide minimum tire safety requirements by regulation: first, for all new tires manufactured in Canada; secondly, for all tires to be imported into Canada. In other words, the authority would be there to prevent the importation of recapped tires, used tires, regrooved tires, and so on, of questionable safety. The bill as drafted would apply to tires of all classes of road vehicles—automobiles, trucks, buses, motor cycles, trailers, and so on. The bill contains a provision for defect notification or recall of tires when safety defects are known.

Our colleagues from the industry will, no doubt, elaborate more on the industry itself, its size and scope. However, I should like to indicate that there are approximately 20 million new tires sold per year in Canada, comprised of about six million provided as original equipment on new motor vehicles and 14 million as new tires sold in the after-market to replace original equipment tires. We do not know how many recapped tires or used tires are sold in Canada, but the number is comparatively small. In Canada there are eight companies manufacturing and 13 plants.

I should like to indicate the fluidity of the situation with respect to standards. Under the Motor Vehicle Safety Act there are approximately 55 individual standards related to glass, steering column, padding, and so on. In the period 1971-73 these were amended 43 times. We are continually improving the standards as additional information becomes available, and as industry has the capability to adapt to the changes. At present there are two tire standards in the Motor Vehicle Safety Act, and they were amended three times in the period 1971-73. We estimate that the number of standards under the proposed bill would be three, and that they would probably be amended at least twice a year. This is one of the reasons why the bill is written so that the specific standards would be covered under regulation rather than in the legislation itself.

We have been testing tires. We have tested original equipment tires over the past two years; that is, tires fitted as original equipment on new motor vehicles. We have also tested new tires sold in the after-market through the retail level. All the original equipment tires tested passed the standards. Over the past year, 1,240 replacement tires were tested, and there were 22 out of 396 types of tires that failed. They could have failed for various reasons, such as improper marking and so on. By "failure" I mean they would not have met all the provisions of the new motor vehicle requirements.

Senator van Roggen: You refer to 22 types of tires. Is that 22 individual tires or 22 different kinds of tires?

Dr. Campbell: There were 1,240 individual tires, and they would be in groups. We tested groups of supposedly identical tires. There would be 418 sets of tires tested. In other words, there would be approximately three tires per set tested.

Senator van Roggen: But they would not all be different?

Dr. Campbell: This would be one make of tire. Of the 418 sets of tires, 22 failed to meet our new motor vehicle standards and 396 met them.

Senator van Roggen: I am sorry, but I am still not quite clear. I would like to know if there were 22 types of tires that failed or 22 tires that failed.

Dr. Campbell: Twenty-two types.

Senator van Roggen: So all of the tires of that type would not come up to standard?

Dr. Campbell: As a type, as a group, they would not.

Senator van Roggen: That type of tire?

Dr. Campbell: It did not meet our standards.

Tires are related to accidents, but I do not want to leave the impression that this is one of the major causes. I have said that our number one problem is drinking-and-driving, and our number one countermeasure is seat belts. However, tires are related to road accidents. We estimate that between 5 and 20 per cent of accidents involve mechanical defects in vehicles, such as something wrong with the steering, the brakes or the tires. The most frequent mechanical defect in the vehicle relates to the brakes. The second most frequent defect in vehicles relates to the tires. Between 10 and 20 per cent of causative or contributory defects are tire failures. Between 0.5 and 2.5 per cent of accidents are associated with tire failures. In other words, a tire failure may have been a contributing, or probably was a contributing, factor to the accident.

There are various tire types—bias ply, bias belted and radial. One of our requirements in the regulations is the labelling of tires. We stress this. There would be labelling of consumer safety information—tread, life, traction, speed, construction, size; these are various things that could be included in the labelling, because there are different types of tires. One of the reasons for that labelling is the hazard of mixing tires. I am sure our colleagues from the industry will stress this point in their presentation this morning. The mixing of these various types of tires can contribute to accidents. The main contributors related to accidents would be overloading of the tires, mixing of the tires, under-inflation and excessive wear.

The existing tire regulations under the Motor Vehicle Safety Act, related to equipment on new motor vehicles, include performance requirements, the strength of the tire, the resistance to bead unseating from the rim, the high speed performance of the tire, and endurance. These tests are performed on a tire testing machine where the tires are rotated against the wheel, the steel drum, and it results in a heat build-up which will simulate road operating conditions, but it will be quite severe. These are the main performance requirements in existing tire standards, plus labelling.

The future performance standards relate to traction or tread, which I believe are safety related, and further labelling requirements to assist the consumer to select the proper tires for his need.

Mr. Chairman, I believe that is the end of my formal presentation and I will be prepared to answer questions.

The Chairman: Honourable senators, the meeting is now open to questions to Dr. Gordon Campbell, the Director of Roads Safety. Are there any questions? Is there anything further you wish to say, Dr. Campbell?

Dr. Campbell: No, Mr. Chairman. I understand the industry is prepared to speak and I am most anxious to hear their presentation.

The Chairman: That is the understatement of the day.

Senator van Roggen: I have one or two questions, before the other witnesses come up. This bill will give you the power to pass on all tires imported into Canada, of whatever nature, and on all tires going from one province to another; it will give you the power to pass on tires manufactured anywhere in Canada, if they are to carry your seal or trade mark as proposed in the bill. It will not give you power, constitutionally, I would think, to deal with tires manufactured in a province and sold within that province. Are the provinces contemplating parallel regulations?

Dr. Campbell: Your statement is quite correct, sir. We do not believe that complementary provincial legislation would be required in this case because of the nature of the industry. I indicated that there is a limited number of manufacturers and tire plants in Canada. Perhaps the gentlemen from the industry could elaborate on this. I do not believe they could segregate production as between interprovincial and extraprovincial.

I am sure they would probably mark every tire, and once the tire is marked with the trade mark then we would have control.

The Chairman: Thank you, Dr. Campbell.

Honourable senators, we will hear now from the Rubber Association of Canada, the President, Mr. Kenneth R. Graydon.

Before you make your presentation, Mr. Graydon, and in deference to Senator McElman will you kindly explain this little dingus we have?

Mr. Kenneth R. Graydon, President, The Rubber Association of Canada: Mr. Chairman and honourable senators, this is a tread depth gauge which the Rubber Association has made available to consumers. It merely enables you to measure the amount of tread on your tire at any one time.

As you probably know, tires now have tread wear bar indicators on them at a depth of 2/32 of an inch. That is the depth at which the industry says you should change your tire because it is becoming unsafe. This little gauge is just a helpful reminder to automobile owners that they should be conscious of the amount of tread they have on the tires.

The Chairman: Thank you very much.

Mr. Graydon: Mr. Chairman and honourable senators, I would like to thank you for the opportunity you have afforded us of coming here and speaking to the bill. We have a large delegation. I will lead off by making some general comments. Then I will call on two other delegates to comment more specifically on certain aspects of the bill. Then we shall be happy to answer your questions and any member of our group may wish to comment and help you to understand the bill and the industry itself.

First of all, I should say that we are here to support the bill and to support the intent of the bill and the main thrust of it, completely. We do have a number of small points, not necessarily unimportant, dealing with clarification of the wording. These are points we feel should be examined so that we can be assured that the intent is revealed and carried out when the bill becomes law.

However, in saying that we support the bill, we do have one major area of concern. We feel that in one aspect the bill may be going too far. The recall system proposed in the bill raises a question in our minds as to whether or not the situation really requires that kind of approach, to control and cure a problem that, to the best of our information and supported somewhat by Dr. Campbell's statistics, is relatively small.

Tires are accountable for—if even in a related fashion—about one per cent of accidents—one-half to 2.5 per cent. Most of those accidents, we believe from experience, are caused not by defective new tires but by worn tires, tires with excess wear or improper inflation.

The potential risk involved, and the incidence of the problem, raises a question in our minds as to whether it is really necessary to thrust upon the industry the obligation to establish a recall system. If it is so necessary, then there are some practical problems in making the system effective. We are aware that such a system exists in the United States. There is a real problem in being able to be assured that the dealer and the customers will carry out their required part of the record keeping system. It is an administrative problem, and the real question in our minds is whether or not a situation related to tire accidents justifies this kind of system. We will speak to that further and answer some of your questions and elaborate on them.

The Chairman: Excuse me, Mr. Graydon. You have mentioned that you disagree with the recall system. Where do you find that in the bill? Would that not be in the regulations?

Mr. Graydon: Provision is made in the bill, under clauses 4 and 8, for the establishment and notification of defects. I am referring to it in general language as "a recall system."

The Chairman: Honourable senators, it is on page 3.

Mr. Graydon: That is right. It is in Part I, clause 4(1)(e).

There are two other points relevant to this comment. If such a system is necessary, whatever cost is involved in establishing it and maintaining it will inevitably be passed on to the consumer and become part of the tire price, and it just seems to us to be an unnecessary extra cost at a time when costs of all materials, and everything else, are going up at an astronomical rate.

There is a difference in value between tires and, for example, a motor vehicle, and if such a recall system were to be established, the difficulty we foresee in having it become effective is, in part, the consumer question I referred to earlier, namely, that the consumer in tires will simply not have the same interest in ensuring that he registers—or whatever is required of him and the dealer—as the consumer in motor vehicles, where his interest is naturally much larger because much more is at stake in total dollars.

Mr. Chairman, those are the main points we want to leave with you at this stage.

Now I would like to call on Mr. Jack Goudie to run briefly over some of the technical points and to bring to your attention our views with respect to some of the wording in the bill.

Thank you, Mr. Chairman.

The Chairman: Thank you very much, Mr. Graydon.

We will now hear from Mr. Jack J. Goudie, Technical Manager of Firestone Tire & Rubber Co. of Canada Ltd.

Mr. Jack J. Goudie, Technical Manager, Firestone Tire & Rubber Company of Canada Ltd.: Thank you, Mr. Chairman and honourable senators. I will try to be as brief as possible in order to leave time for additional presentations.

I wish to cover just two or three brief points relating to the definitions contained in the first part of the bill. It could be that some of these points will be ironed out in the regulations, and if that is the case we can pass over them fairly quickly. But just to give you an example of the type of thing we would like to have the opportunity to address ourselves to, we felt, for example, that in the definition of "motor vehicle" the term "roads" should be expanded to include public streets, roads and highways so that it would be all encompassing. Perhaps that is a minor point.

Again the definition of "safety standards" contains the phrase "design, construction or functioning of motor vehicle tires". We feel that the standard should be a performance standard and not a standard related to design or construction, as we would define those words. Perhaps there is some need in the motor vehicle industry to require certain design features because of safety objectives, but we feel that the design and construction of a tire, as we would define those words, are such that they should be left to the manufacturer, and that the performance of the tire should be judged rather than that certain components or certain arrangements of materials and that sort of thing should be specified and complied with.

We also felt, Mr. Chairman, that the definition of the word "tire" should be expanded to refer to a "new, pneumatic tire," as being the general category which we are interested in here.

The Chairman: You mean just add those words?

Mr. Goudie: Right. Basically, that is the extent of my remarks at the moment. Perhaps there are other points that could be raised during the question session.

Senator van Roggen: If you add "new, pneumatic tire", will that not leave a gaping hole in so far as imported retreads and regrooved tires and so on are concerned?

Mr. Goudie: Yes. Perhaps the question is whether it is the intent to cover these categories of tires.

Senator van Roggen: Surely one of the most important aspects is to prevent other countries' rejects from coming into Canada as retreaded tires, which would not pass our standards for new tires.

Mr. Goudie: As I understand the concept of the federal regulation, senator, the standard is established on the new tire. Now, whether the retreaded tire at its point of sale would come within the definition of "new tire" is a point which could be debated, but again, just to make the comment, is it a new tire if it is reconditioned and offered for sale with a full tread?

Senator van Roggen: What you are suggesting would create a loophole, and I do not see the need for it. With respect to your suggestion to add the words "new, pneumatic" before the word "tire", is there a significant number of non-pneumatic tires?

Mr. Goudie: I would say no.

Senator van Roggen: Then if you just use the word "tire" without the adjective, how does that bother you?

Mr. Goudie: There are solid tires being used other than on highways, but, if the presumption is that the standard will confine itself to "highways" and to the area of highway useage, then perhaps it is an academic point.

Senator van Roggen: Mr. Goudie, I was impressed with your point about the definition of "safety standards" including the words "design, construction or functioning", et cetera. It seems to me that the person in the trade should be able to design anything he likes so long as it lives up to the standards. Is any further evidence going to be given on that point?

Mr. Goudie: I am not so sure that it is. Again, we are talking about a definition of terms, and we interpret the words "design" and "construction" as the choice we make with respect to, for example, the appearance of a tread pattern or the ply configuration—whether it be radial, bias or bias-belted, or whether it contains rayon, nylon, polyester, glass or steel—and the various other associated choices that the tire company would have as to how it specifies that that tire will be designed and constructed. That is really what I was getting at. I was trying to make the point that the latitude for these choices should still be available and that the regulations should not specify a design or construction, but should merely specify the performance standard.

Senator van Roggen: Yes, that point impresses me. I do not think, for example, that the government should by regulation dictate the colour of tire. I know tires come only in black, like the old Fords, but, if you could produce a pink tire, that would be your business so long as the tire was up to standard.

You say, however, that the tread design should be your choice. I suppose you might want to put a different tread design on for purposes of new advertising. Perhaps the answer of the department would be that that particular tread design is an unsafe design, but then, of course, that would get caught by the performance standard. That is your point?

Mr. Goudie: Yes. That is correct.

Senator van Roggen: I think that of these two or three points that you have raised, that is the one that impresses me the most. We have to see what the departmental people have to say about that. I think we can come back to it. Thank you.

Senator Riley: I would like Mr. Goudie, if he would, to explain again what his suggestions might be in respect to the extension of the interpretation of the word "motor vehicle."

Mr. Goudie: Again, perhaps this is the least significant of the points I brought up, but the extension of the word "road" to include public streets, roads and highways, in a sense, to my way of thinking, would broaden the interpretation. It adds a little specificity, or is a little more specific, in that we are talking about any kind of highway use, and perhaps the word "road" would be sufficient.

Senator Riley: I believe it would be all-inclusive; "highway" includes "a public street."

Mr. Goudie: This is not a major point.

The Chairman: Are there any further questions of Mr. Goudie?

Senator Riley: I would like to ask another question. In respect to the suggestion that the words "new pneumatic" be added to the interpretation of the word "tire", there are, I believe, some interprovincial operations in respect to retreaded tires, are there not?

Mr. Goudie: I would certainly think so, yes. That is, moving of tires from one province to another?

Senator Riley: Yes, for retreading purposes. Well now, are you suggesting that it would eliminate the regulation of these retreads that move from province to province to have the retreading done?

Mr. Goudie: Well, here again I do not believe that the intent of our comment is to prohibit the federal government from involving itself in the retread legislation. Really, I think what we are getting at is the new versus the used tire—that is, a tire which has been in service and is, for example, half worn. We would not necessarily have to meet the same standards as a new tire—that is, a new tire standard; but, here again, this is the type of wording that we were looking at: "new" versus "used," rather than "new" versus "retread," and the possibility that a retreaded tire, after it had been retreaded, would come under this act, certainly, I think, should be left open. There is some question as to whether it would be used or not, at the federal level, I understand, but I believe the intent is to have that door open, if I am not mistaken.

The Chairman: Any further questions?

Senator Riley: No, thank you.

The Chairman: Thank you very much, Mr. Goudie.

Mr. Graydon, who is your next witness?

Mr. Graydon: Mr. Charles E. Clarke.

The Chairman: Mr. Clarke is vice-president and general counsel, Goodyear Tire and Rubber Company of Canada Ltd.

Please proceed, Mr. Clarke.

Mr. Charles E. Clarke, Vice-President and General Counsel, Goodyear Tire & Rubber Company of Canada Ltd.: Thank you, Mr. Chairman.

Honourable senators, I have just a few items and these are with respect to various wordings in the act, and the first is in clause 3.

The indication of the symbol which is to be the national trade mark is so portrayed in the bill that the quotation marks would appear to be part of the symbol. We question whether that is the intention, and perhaps the quotation marks, really, should be of the same type as the text. We feel, unless the director indicates otherwise, that the intention is merely to have the letter C with the T inside it.

My second comment, Mr. Chairman, is in relation to clause 4(1)(d). The section provides that it may be required as a condition of the use of the trade mark that certain items of information be indicated, one of which is the date of manufacture of the tire. I question the use of the word "date" in the sense that that, I believe, could be interpreted as requiring the specific day, as for example, April 4, 1974. In fact, the Motor Vehicle Safety Act refers to the motor vehicle showing the month and year of manufacture. The practice in the rubber industry, and it exists under regulation 109 under the Motor Vehicle Safety Act for tires, is to indicate by a code the week and year of manufacture. My suggestion here would be that if this is a valid concern, perhaps, instead of specifying the date of manufacture, it should call for an indication of the period of manufacture, as may be prescribed.

Senator van Roggen: Well, what if we put "week and year" right into the act?

Mr. Clarke: That would solve my problem immediately. The only question that I see open is whether other methods of defining the time of manufacture may be based on a period of time which could be modified in the regulations with a more general statement.

Senator Neiman: "Time of manufacture"?

Senator Flynn: "Time."

Senator van Roggen: "Time." Maybe you should then go further and say "the time of manufacture of the tire as specified in the regulations."

Senator Flynn: The regulations would specify it.

Senator van Roggen: Yes.

Senator Neiman: All right.

The Chairman: You see, a lot of this, Mr. Clarke, is on the basis that there are going to be regulations made. Now, it could be that your question on clause 3 could be changed, under regulations, to put the big C and the T without those

two little marks, and the same on the question of the date. We could put "period". A monthly period, or—

Senator Flynn: "The Time."

The Chairman: If that is what you really want. Is that right?

Senator Neiman: I think, Mr. Chairman, perhaps Dr. Campbell would like us to use something akin to the similar regulations in the parent act. Would that meet it? We could check that to see what the wording is. I believe the wording is the same in the parent act. I do not have it with me. I believe it says in the act itself, the date of manufacture—

Mr. Clarke: The parent act, meaning the Motor Vehicle Safety Act? It calls for the manufacturer of the motor vehicle to identify the month and year of manufacture, in the Motor Vehicle Safety Act. That is provided in the act itself, and this clause 4(1)(d) is a somewhat different structure from section 4(1)(d) in the Motor Vehicle Safety Act. I think necessarily so, because of the nature of the information that Dr. Campbell feels needs to be prescribed, following the type of information set out in regulation 109 under the Motor Vehicle Safety Act.

The Chairman: Thank you very much.

Mr. Clarke: I will pass on now to the next point, if I may, Mr. Chairman.

Clause 4(1)(e) requires the establishment and maintenance of a record system, and if that is deemed to be necessary under the act, it appears to me, as I read it, that it could be interpreted to require that we record individual tires as they move through the distribution system, because it speaks of us having a system to record any person who has purchased a tire manufactured by him from him. The chain of distribution is often to a large dealer or distributor, and then to a smaller dealer or service station, and ultimately to the consumer. My concern here is that I presume the intention is to provide a record system for the ultimate user, or the consumer of the tire, so that he is the one who can be notified. I think there is no concern of notifying dealers in the distribution system on an individual tire record basis. If there is a problem with a tire we can get at it on a general basis of all tires of a particular time of manufacture. So I suggest that perhaps this is not reflecting what is practical, if my interpretation is correct, and perhaps it should be referring to recording any person who has purchased a tire for use, rather than resale.

A similar situation applies in clause 7(1)(b)(ii), which deals with the record keeping system for the importer.

Clause 8(1)(a) and (b), on page 6, calls for notification to the person who purchased the tire from him, and again I suggest that perhaps this is not in keeping with the concept of the consumer being recorded. Although (b) deals with any subsequent purchaser of that tire from the manufacturer, I presume the intent is to have the facility of the record for the ultimate consumer to be identified and notified, but not that each person down the chain of distribution must be notified, that is, everyone who has ever owned the tire.

Clause 8(2)(b) refers to the notice containing a description of the defect, and an evaluation of the safety risk, and

that there must be a statement of the action taken to eliminate it. I am not sure whether that means to eliminate the defect or the safety risk. The choice of the word "eliminate" causes a question mark in my mind. This is a change from the parent act, the Motor Vehicle Safety Act, where the word used was "correct" and required a notice of the action taken "to correct" the defect. I suggest "eliminate" is perhaps stronger than necessary and may leave no room for correcting. Other possible words might be "remedy" or "rectify."

I have no further comments at this time.

The Chairman: Who is next, Mr. Graydon?

Mr. Graydon: We have no further spokesman at this time, Mr. Chairman.

I would like to add one further comment before offering ourselves for discussion. It is our estimate that the industry could comply with the act within a period of six months after final regulations have been issued. That is to say that we could comply with the manufacturing regulation. If we are required to establish the recall system, that would take longer, but how much longer we cannot say until we see the regulations to determine just how expensive the system might become. I do want to stress again that we feel strongly that the recall system is unnecessary.

That concludes our remarks at this time, and I would like to have the opportunity, if I am permitted to do so, to direct your questions to the various people in our delegations.

Senator van Roggen: I would like to get from both the manufacturers and the departmental officials a great deal more information than we have on the subject of recall, which seems to be the most important of the various points that have been raised. This is fairly fundamental because to maintain the necessary record system for these millions of tires being put through the system, that is the wholesale and retail system, every year is obviously going to be somewhat cumbersome and is going to add to the cost of the tire. I would like more evidence on how cumbersome and how costly it might be. I think I understand your point that it is not too practicable because unlike a motor vehicle recall system, which I think we can all understand, only a small percentage of accidents caused by tire defects are caused by those that are inherent in the manufacture as opposed to those caused by the tire's being worn out.

Furthermore, how can you cure a defective tire which has been designed properly and manufactured properly and passed by the inspectors and has met the regulations of the department and has the symbol on it? That tire goes out into the system and is then found to be defective, and I suppose it could be from a design point of view, or, to get away from the term "design", from the nature of the structure of the tire, and I suppose you would really recall them for the purposes of throwing them away.

Could you let us have some evidence as to whether the defects that would be found in tires could be corrected or whether that particular type of tire, if it was found to be unsafe, would need to be withdrawn—that is all, those tires that went out into the system—to be thrown away? I must say that I would like a great deal more evidence before I would be willing to follow your suggestion that we delete the recall system rather than leave it in.

Mr. Goudie: If I may direct myself to the latter part of your question first, it is true that in most cases if it was decided that a tire should be recalled it would probably be eliminated. The only type of non-compliance that I could envision would be the labelling—that is, if the tire were not properly marked—and this could be corrected. This is one possible situation in which the tire would not necessarily have to be thrown away.

Senator van Roggen: But perhaps that would not be a defect.

Mr. Goudie: No, but it would be a non-compliance.

Senator van Roggen: But it would not be a question of the safety of the tire.

Mr. Graydon: Mr. Clarke has a comment.

Mr. Clarke: Mr. Chairman, there is one example which occurs to me of what might be thought to be a defect involving a safety risk and that is the possibility of creating or putting on the market a tire that does not have the tread wear indicator bars. This really does not affect the safe functioning of the tires, but it may have a certain element of safety risk in that it does not draw to the attention of the consumer the fact that he has worn it down to the low tread level, and the possibility is that one may say that you can correct this defect, through lack of tread wear indicators, by being aware that they are not there. This can be checked so that one does not go down below the 2/32 of an inch and run to a bald tire. That is one illustration of something that could be considered to be a safety risk defect or failure in the production of this tire and putting it on the market.

Senator van Roggen: What I am trying to get at, Mr. Chairman, is a value judgment as to where the cut-off point is in setting up the system of record-keeping that would be necessary to keep track of the tires and who buys them for recall purposes, a value judgment as to whether or not the setting up of that system is a practical thing in the light of what it is likely to accomplish. We do not have very much evidence as to the scale.

Mr. Goudie: Mr. Chairman, it is my understanding that the experience in the United States in their record system of tires sold in the market, and the opinions I have had from people there indicate that they are only accomplishing input from the retailer and dealers at the consumer level of something in the area of 25 to 35 per cent. This is where the human element comes in.

So far as the effectiveness of the system is concerned, one can create and establish and maintain the system, but unless you have the data input, then it will only be fruitful to the extent that you have it. As I say, their indications to me are that 25 to 35 per cent is the most that is coming back from independent dealers. Where tire companies control their own retail store outlets, they are, of course, able to control a greater percentage. I believe that that is somewhere in the area of 75 to 80 per cent and, of course, there is still the human element.

Senator Neiman: Mr. Chairman, I should like to find out if in the United States system the onus is on the vendor to keep a record of who the purchaser is?

Mr. Graydon: Perhaps Dr. Campbell could answer this precisely. I believe the legislation in the United States

requires the manufacturer to provide the means of input in the hands of the dealer so that a card can be filled out and sent in to be recorded. I believe there is no positive requirement in the legislation that the dealer in fact shall perform that function.

Senator van Roggen: So that in the United States when you get the tire you also get a card.

Mr. Goudie: If the dealer gives you one.

Senator van Roggen: Yes, you are entitled to a card with your tires, and you send that in just as you send in a guarantee certificate when you buy a new refrigerator. Then the manufacturer would indeed have a record so that with today's computer system you would just push a button and out would pop a card showing all the people who would have defective tires. Those who do not wish to avail themselves of that system of sending the card in would fail to do so at their own risk. Is that what is contemplated as the practice in this connection? What do you plan to do under this proposed section? What sort of records will be set up? You mentioned the cost being passed to the consumer. What will that cost be?

Mr. H. Gordon MacNeill, President, Goodyear Tire & Rubber Company of Canada Ltd.: I do not think we are objecting to a system of recall. We really think it is unnecessary, but if the government believe it is necessary, we are not objecting to a system. The system projected in this legislation, however, is, I would say, almost impossible to operate and it is impractical to operate. It would end up, if we believe what we read in this bill and we have to keep track of tire sales to all the chains of distribution, all the service stations and department stores and everyone who sells tires in Canada, with the cost that we pass on to the consumer being considerable. Is it really necessary to do this? We do not believe it is. The system as we interpret it is very cumbersome, judging from the experience in the United States, where such a system has been in force for several years and is really not working out because only 25 to 30 per cent of the cards are returned by the dealers. So the system is not working 100 per cent, or anywhere near it.

When we consider the tire business, at the point of sale a man is selling a tire. His hands are dirty as he has just installed the tires on the car. He comes in and has a white card to complete. He is busy and just does not do it. I do not believe there is any means by which the tire manufacturers could force all the service stations, dealers and department stores throughout Canada to do this. Were the onus put upon the consumer, that might be a different situation. The cards could be given to him for completion and return.

Senator van Roggen: Then the returns would be even less.

Mr. MacNeill: Yes, I think the number would be even less.

Senator van Roggen: Perhaps I could switch my questions to the departmental side and see what comments Dr. Campbell has in that respect?

Dr. Campbell: Specifically? We believe that a recall system is necessary. The wording in the bill was left as flexible as possible. I do not believe that we had the intention of requiring the manufacturer to keep this complete trace of where the tire moves through the distribution system, but we did believe that such a recall system

was necessary, for two reasons. It has been introduced in the United States and I believe all the Canadian companies are involved in it. Therefore, the marginal cost of extending the system to serve Canada should be relatively small. If defective tires are produced I know of no other way of alerting the owners of those tires to the fact that they may be exposing themselves to an unnecessary hazard. Ideally, I would say that the consumer would have a responsibility to return this card to the manufacturer so that he had a record, and perhaps this could be done by persuasion, by provincial and local government action. I do not think that we would have the power to force the retailer or the consumer to return the card. In my opinion the service, however, should be made available to the consumer, particularly if he is interested enough in his own safety to complete the card and return it.

Senator van Roggen: It seems to me that you are not too far apart, then. Maybe it is just the wording of the section that causes the problem. If you are content with the consumer having a card that he can return I wonder, Mr. Chairman, if it would be practical, rather than to take more time of the committee at this moment, to ask the industry and the department if they could not discuss this point? They could, perhaps, agree on wording that would be satisfactory to both in respect to this particular clause, as a starting point, rather than our producing a third suggestion, which may not be satisfactory to either one of them.

Dr. Campbell: It is always rather difficult to anticipate the problems we might encounter in the future. We therefore left this section reasonably flexible, in the hope that regulations can be worked out.

Senator van Roggen: I am not sure I can agree with you that it is that flexible. You could make it more flexible and make reference to regulations, but let us bear in mind that regulations cannot change the act once it is passed and where it uses hard, precise language, that hard, precise language becomes law.

Senator Neiman: Mr. Chairman, I would have to agree with Senator van Roggen in connection with the comments Mr. Clarke made. When the act states "any subsequent purchaser" it makes it very extensive.

Senator van Roggen: Yes, and regulations cannot cure that. There is nothing worse than for a committee to attempt to write a letter. For us to attempt to re-word that clause right here with a dozen of us talking at once would be impossible. Maybe during the lunch break two or three could meet and do something about it.

Senator Riley: Mr. Chairman, I would like to ask if the industry has made any estimate, percentagewise, of the increased cost of the tire to the consumer as a result of this act and the proposed regulations?

Mr. MacNeill: Yes, I can answer that. I think, because of the broad outline of that clause of the act, it could vary from, say, 15 cents a tire. I am quoting this figure out of my head. If we had to go through all the chain of supply it would probably be up around 30 cents a tire.

Senator Riley: Percentagewise, what has been the increase in the cost of tires to the consumer over the last year?

Mr. MacNeill: As you can appreciate, there are tires and tires, so I cannot give you the complete list. I would say 12 per cent, and that is all part of the problems we have had recently with the petrochemical crisis. However, for the period 1961-71 our price index only increased by a little over 11 per cent. In the last year, however, we were hit very hard by the petrochemical crisis and the prices of the raw materials are increasing astronomically.

Maybe Mr. Moore of Firestone would take an educated guess?

Senator McElman: The increase during the last year has been equal to the total increase of the previous 10 years, has it not?

Mr. MacNeill: Yes, sir; the cost of natural rubber had increased from 17 cents per pound two years ago to 52 cents per pound today. Synthetic rubber was 13 cents per pound a year ago and it is now 22 to 25 cents per pound.

Senator Riley: Mr. Chairman, I have been told by members of the trucking industry that during the past year the cost of tires has increased by 32 per cent. Would that be accurate?

Mr. MacNeill: Yes, because the tread is mostly natural rubber, which has increased from 17 cents a pound to 52 cents a pound.

Senator Riley: Does the industry estimate that the cost for the next year will be much higher than it has been over the past?

Mr. MacNeill: Yes, sir. Again I would invite Mr. Moore to comment, because I do not think we have really seen the effect of the new crude oil prices yet. We have not seen it coming down the end of the pipeline. It takes six gallons of crude oil to make a passenger tire, so you can see the effect the higher crude oil prices will have and have had. I do not think we have yet seen the effect down through the polyesters, nylons and the other oil derivatives.

Mr. J. Doran Moore, President, Firestone Tire & Rubber Company of Canada Ltd.: I would just like to corroborate what has been said by Mr. MacNeill. Further on the subject of recall notification, I would like also to say that it is not difficult for us to set up a system in as much as, as has already been indicated, such a system does already exist in the United States.

I should like to point out that we are talking about 20 million tires a year going through perhaps three sets of hands in the process of getting to consumers.

If we have the responsibility for tracing or are held legally responsible to trace all those transactions, we are talking about 60 million transactions a year, and that has to be very costly.

The only objection we have to the program is the fact that, firstly, we do not feel that it will be more than perhaps 20 or 30 per cent effective. For that reason we would prefer to see it written out of the act.

Senator Riley: Most new cars are accompanied by a guarantee, is that right? How many of those slips would you say come back to the manufacturer?

Mr. Moore: Excuse me, but they are not accompanied by a piece of paper or a card in each case. They are covered broadly by published warranty policies.

Senator Riley: But in some instances you do get a slip of paper to be returned to the manufacturer.

Mr. Moore: Not to be returned to the manufacturer, no.

Senator Riley: To whom?

Mr. Moore: To no one. In the event of a tire failure or defect, a person may come back to the source from which he purchased the tire and be taken care of. But he does not have to have any written card, piece of paper or document. If the tire is defective, the warranty applies to any place in the world on presentation of the warranty.

Mr. MacNeill: We also have what is called a road hazard warranty. If you run over a piece of broken glass in your driveway in a fairly new car and cut a tire, you can go back to your dealer and he will give you a pro-rate equivalent new tire. It is equivalent to buying a new car, running into a post and wrecking the car, and going back to the car company and saying, "I need a new car; the post was in my way." This is a very liberal guarantee or warranty that the rubber industry has had for a number of years.

Mr. Moore: I think that our hangup, if we can call it that, is in being legally responsible for accounting for the final sale of every tire to consumers. On a voluntary basis we are quite prepared to install the system, but the onus of responsibility for the input into the system should not be the responsibility of the tire manufacturing company. It should be on either the dealer, whoever he might be, or the consumer. But we will provide the system.

Senator van Roggen: Mr. Chairman, I should like to have more evidence from the department on this. Even if it costs only 30 or 50 cents per tire, it would involve a huge amount of paper work—and we have so much of it in the world that any that could be eliminated would be worthwhile.

It seems to me unreasonable to expect that we might be able to police a system whereby the dealer at the gas station level shall be required to keep proper records and file them with the department. The public will not return many of those things.

I should like to have some evidence from departmental representatives on what we are talking about. We have evidence that about one per cent of accidents with motor cars are related to tires. I would suspect that a high percentage of that one per cent is related to tires that are worn out, worn down, under-inflated, or something else—that are not brand new tires.

With the manufacturing criteria to be established by regulations, which manufacturers—and there are only 13 of them—will be required to police, they will have to manufacture their tires, in the first instance, in compliance with the regulations and the possibility of a faulty batch of tires getting out will be very limited.

We get down to an infinitesimal fraction of one per cent, a thousandth of one per cent of motor vehicle accidents that are likely to be affected one way or another by whether or not the recall system is in effect.

From the view point of weighing things in the scales, I should like some evidence on the advantage of putting this system into being at a cost of several million dollars a year to the economy, relative to the number of accidents that are likely to be avoided by the recall system.

Dr. Campbell: Perhaps I could ask Mr. Gray, our legal counsel, to speak to that point.

Mr. J. T. Gray, Senior Ministry Executive, Legal Branch, Ministry of Transport: Mr. Chairman, I cannot speak about the number of accidents or how many accidents will be avoided by the recall system; but I should like to speak briefly about the legal machinery with respect to recall, and the matter of having manufacturers keep a record system of purchasers of tires.

In the first place, the provision requiring the keeping of a record system comes under clause 4 (1)(e) on page 3 of the bill.

Paragraph (e) is a regulation-making power. Firstly, there is a power there which the Governor in Council may or may not use at his discretion, depending on whether the public interest requires it. If they do decide to make a regulation requiring the institution of a record-keeping system, they have the discretion of making that system as difficult or as lenient as they wish.

If tire manufacturers can convince the department that there is no way—and I suspect they could do this—that they can trace every tire from the time it is manufactured to the ultimate purchaser in every case, then I think the end result would be that the department would not propose a record-keeping system that was all that difficult.

In other words, they may perhaps end up with a system under which the ultimate purchaser would be given, with the tire, a card to fill out, if he was sufficiently safety conscious to go to that trouble. It would be more or less voluntary when it got that far down the line.

My other point is that clause 8 is being somewhat confused with clause 4. Clause 4 is a regulation-making one under which the record-keeping system would be instituted if the Governor in Council or the department felt that it was essential in the public interest.

In the case of a notice of defect, the only persons that the manufacturers would have to notify are those of whom they have a record. They do not in every case have to chase down the ultimate purchaser. If they have a record of the ultimate purchaser they would have to notify him but if there is no record he would not be notified.

On the average, there is more apprehension than wording of the legislation would justify.

I have spoken about the legal aspect. I cannot speak about the number of accidents that might be avoided by recall.

Senator Flynn: The question then arises: What is the intention of the ministry at this time with regard to this power concerning regulations?

Dr. Campbell: The ministry would like to have this power.

Senator Flynn: Why?

Dr. Campbell: Because there are recall campaigns involving tires. There should be a system to ensure that the

purchasers of these tires have some protection, and whereby they can be notified.

We also believe that this system would be to the advantage to the manufacturer. If a manufacturer inadvertently produces an unsafe tire, he has an obligation at this moment to do everything possible to notify the people who are in possession of such defective tires. This legislation provides a formal procedure by which the manufacturer can discharge his obligation to the public, and in that way it is to his advantage. If he follows this procedure, then he has discharged his obligation to the public. If this procedure is not provided, then his task of trying to trace those products and to warn the people who have purchased them becomes a much more difficult one. If the manufacturer produces an unsafe tire and someone is involved in a motor vehicle accident as a result, then I would suggest that the manufacturer would have a legal responsibility, subject to litigation. He is sitting back with the knowledge that that unsafe tire is out on the market and being used.

Senator Flynn: He would have a responsibility one way or the other.

Dr. Campbell: Under the common law.

Senator McElman: In today's circumstances, assuming a batch of unsafe tires reaches the market, what is the procedure by which the manufacturer recalls those tires, or advises the public?

Dr. Campbell: Perhaps the manufacturers could tell us what procedures they have used in the past. The only experience I have had involving the recall of tires was in respect of tires provided on new motor vehicles. Where that is the case, of course, the motor vehicle manufacturers have records of where the vehicles were sold and who would be in possession of those tires. But there were other times when tires which were not sold on new vehicles but rather on the public market were recalled, and perhaps the manufacturers can tell us what steps they took to notify the owners of those tires.

Mr. Clarke: Perhaps I can comment on that to some extent, Mr. Chairman. The manufacture of a batch of tires with a defect problem such as the one I mentioned earlier, where they did not have the tread wear indicators, does not occur very often. If the defect is discovered reasonably early in the life of the tires, there is a good likelihood that a large quantity of them are still within the distribution system; that is, they may be in the tire manufacturers' warehouses, in the dealers' warehouses, or the subdealers' warehouses. We have on occasion sent notification to our dealers and our subdealers saying that there was a certain tire with a certain problem and requesting that they check their stocks and return any such tires that they may have. To that extent, we can prevent such tires from going further into the stream. It is very difficult for us to go beyond that to the consumer, because we do not know who the consumer is. I believe where that has occurred the problem was discovered early enough that within a matter of two or three months the bulk of those tires were reclaimed within the distribution system.

Does that answer your question?

Senator McElman: Not entirely. I presume that at some point in time there have been tires with a structural defect put on the market. What would happen if the defect was

discovered within a relatively short period of time after the batch of tires had gone through the distribution system? How would you go about advising the public of the danger involved? How have you done it in the past? Presumably there have been such experiences.

Mr. Moore: I would like to try to answer that question, if I may, Mr. Chairman. We have been talking about a batch of tires going through the system and on to the consumer market. In point of fact, in most instances of defective tires it would only involve one tire out of a whole batch of tires. In other words, because one tire has a defect it does not mean that the whole batch is defective. The defects which in fact occur, for the most part are caused by human error. The tire builder, for example, may leave out a ply, or something of that sort. He is human; he might have had a bad night the night before.

That type of defect is much more common than instances where a whole batch of tires is defective. With our quality control system, it is very rare that a whole batch or run of tires will be defective.

To answer your question specifically, senator, if it is in connection with original equipment tires—and we did have one such recall recently—we handle it through the automobile company, as Dr. Campbell has indicated. We have not had occasion to attempt to recall, or had reason to want to recall, any other tires. As Mr. Clarke has indicated, there are some things noticed such as the absence of a tread bar. That simply means that a mold was put into use that was not adapted. That is all. But that is not really considered to be a safety related item, so consequently we would not do anything.

We have only ever recalled tires from the field by sending out notification to our sales organization, our dealers' organization, and so forth. We do not pretend that we have ever managed to reach the consumer in that regard. It is a very infinitesimal thing. It has only happened once in the history of our company, that I can recall.

One final point. I should like it to be known that as far as my company is concerned—and I think this applies to the other companies as well—we are already manufacturing to these standards all lines of tires, not just original equipment tires. We are testing all lines of tires as well, not just original equipment tires.

Mr. MacNeill: The same applies to Goodyear. I think what you have to realize is that there is quite a lag, as far as the replacement market is concerned, between the time the tire is manufactured, the pipeline is filled, and the tire is put on the market. For instance, we start manufacturing winter tires in June, filling the pipeline throughout, and we will not sell those tires until November; they will not reach the consumer until November. So if a defect is discovered we know exactly where those tires are. We have had one very minor case of this happening in the five years I have been President of Goodyear, and it was a simple task to pick up the tires because they were in the pipeline. If there is a defect, our quality-control system will pick it up very, very quickly.

As far as original equipment is concerned, those tires might go on the car within a week, days, or even hours after being manufactured, so I think the recall system is necessary in that respect. We do not have those tires in the pipeline. We are quite convinced that we will pick up any defects through our quality-control system.

Senator van Roggen: Mr. Chairman, clause 4(1) leads into subparagraph (e), and it reads as follows:

4. (1) The Governor in Council may make regulations respecting the use of the national tire safety mark in relation to motor vehicle tires and, without restricting the generality of the foregoing, may by such regulations—

So even if you deleted subparagraph (e), Parliament could still impose a recall system under the regulations. Perhaps it is a rather academic point. Perhaps the representations should be made to the department.

Senator Flynn: The other problem is whether Parliament is prepared to give the ministry such wide power of regulation. This is always a problem. If Parliament says the ministry can do whatever it wants, then why are we here?

Senator Riley: Mr. Chairman, while Dr. Campbell is here, and irrespective of the intent of the act in respect of retreads and the jurisdictional problem, what would happen if I, as an unsophisticated consumer, bought a retread which still displayed this safety symbol? Am I not being deceived?

Dr. Campbell: The symbol would have no significance so far as the used tire is concerned, and it is not the intention to make this a conspicuous symbol that would be—

Senator Riley: It is visible.

Dr. Campbell:—necessarily something the public will be aware of or be looking for, because it is really a legal device for bringing the tires under the authority of the government to regulate.

Senator Riley: Suppose I see this symbol when I buy a retread, am I not being deceived if this symbol indicates that this is a safe tire and has met all the standards of the regulations under the act? I am talking from the standpoint of the consumer.

Dr. Campbell: Only in so far as it is a new tire would it have any significance. I seriously doubt that the consumer would recognize that symbol on the tire or know its significance. If he did, he should know that it related only to a new tire. With any tire that is in use, after it has been used, an perhaps abused, the mark would not necessarily have any significance.

Senator Flynn: Could you provide for the deletion of the mark when the tire is being retreaded?

Dr. Campbell: I seriously doubt that we could do that, or that we could enforce it.

Senator Flynn: You could probably enforce it, because generally the retreading is done locally.

Dr. Campbell: There are various other marks on these tires that are provided to assure the original purchaser that the tire meets the specifications. There is a DOT mark on tires sold in Canada, which is a mark provided by the United States Department of Transportation to indicate that the tire complies with their regulations. There is a VI mark on the side of the tire, which indicates that it complies with the minimum tire safety standards of the VESC Code in the United States, which is a code developed by the 50-state governments. There are various other marks already on the tire, but they relate only to the design of the

new tire, not to the safety of the tire after it has gone into use, because no one can possibly give that assurance.

Mr. Moore: However, those marks do indicate to the consumer that the original carcass was manufactured to conform with all new tire standards, so all that remains to be guaranteed is the actual retreading process.

The Chairman: That does not apply in this bill. This applies only to new tires.

Senator Flynn: But why not regulate retread tires?

The Chairman: Let us get the new tires out of the way first.

Senator Flynn: But to understand the use of the bill, we have to understand why it deals only with new tires. On a question of safety it seems that retread tires should enter the picture.

Dr. Campbell: The manufacturers in their presentation raised a point about performance standards. They took some exception to the use of the words "design construction," referring to safety standards. It is the intention of the minister, and it has been the practice of the minister in the Motor Vehicle Safety Act, to write performance standards so far as it is possible to do so. However, at certain times it is necessary to introduce design requirements into these standards. For example, there must be two headlights, one on either side of the car. That is not a performance standard; that is a design standard, because it is impossible in this case to write a performance standard. Some of the labelling requirements are not performance standards but are really to do with construction. The regulations, as we have them, are primarily performance standards, so as not to restrict the scope of the manufacturers to innovate and design good products, for which they are most competent.

With regard to recapped tires, it has been impossible to the present time to write a true performance standard. The only thing that can be prepared at the present time, to the best of my knowledge, is a code of good practice in retreading, and we are in the process of working with the provinces, through the Canadian Standards Association, to develop this so that the provinces could use it to exercise some control over local businesses engaged in retreading tires.

Senator Flynn: The main problem there would be to have a sign on the recapped tires to warn the consumer that it is not a new tire but has been recapped.

Dr. Campbell: This would be included in the code of practice. Usually these are easily identified at the present time. It is really a local business and should be regulated locally.

Senator Riley: You have been discussing this with the provinces?

Dr. Campbell: Yes.

Senator Riley: Have you discussed the practicability of certification of the people who are actually involved in the retread process, the operators of the machines?

Dr. Campbell: That again would have to be provincial jurisdiction.

Senator Riley: I understand that.

Dr. Campbell: This is not being done at the present time, but it may come to that if it is impossible to control the industry by persuasion or to have it police itself. For example, at least one province is at the present time contemplating issuing special licences to mechanics who have a responsibility to certify vehicles as safe, for the purpose of being able to withdraw that licence in the event of malpractice or incompetence. It might ultimately reach that stage in the retreading industry.

Senator Riley: This would be about the best system you could use for the protection of the public in retreads.

Dr. Campbell: In retreads, yes.

Senator Riley: That is, licensing the individual operating the machines in the process of retreading. What are the present standards set for two-ply tires? Are two-ply tires allowed on the market now?

Dr. Campbell: Yes.

Senator Riley: Are they considered safe?

Dr. Campbell: Yes. We set performance standards, but the manufacturers could perhaps comment more competently than I could on why in some cases they use two-ply, four-ply and six-ply to achieve a given performance level.

Senator Riley: Are there not American regulations or standards now requiring that new cars have a heavier than two-ply tire on them?

Dr. Campbell: No. Perhaps one of the industry engineers could speak to this problem, because there is a great deal of public confusion about this matter.

Mr. Goudie: Mr. Chairman, I would like to give a brief analogy, if I may, of the two-ply tire versus the four-ply tire. You can imagine that the fabric carcass of this tire is composed of a series of strands of fibre material twisted and wound together. You can imagine four pieces of rope supporting a body or member of some sort, and taking two of those strands and winding them together and taking the other two and winding them together, you end up with two strands instead of four. But you have the same material there supporting them. This is essentially what is done when the tire is, shall we say changed in design from a four-ply tire to a two-ply tire. You can go one step further and take those two and twist them into one and end up with a one-ply tire, which we have and which we make. One of the most durable tires that we can make is the one-ply tire. It has one steel bar and that is an extension of the strong material, but the concept is that the number is really insignificant. It is the strength factor and the supporting ability that is appropriate. I will say the two-ply tire probably had diminished in usage considerably in the last few years. Your belted tire, is a 2 plus 2, really a two ply tire, with two additional tread bodies which only are involved in a portion of the tire, that is in the tread area. So that you might consider that as a two-ply tire as well.

Mr. Moore: Mr. Chairman, if I could relate back to the retread system, I am not certain that Dr. Campbell should not be concerned with retread standards, because retreading is not just a small provincial matter. I am not sure whether you are aware of it or not, but the two biggest

retreaders in Canada are right here in this room, that is, Firestone and Goodyear. Retreaded products are sometimes transported from province to province, so in that respect there is not much difference between them and new tires.

I know that some of the provinces are considering retread legislation or retread standards. I know that we have had conversations with some of the provinces. I would not be adverse to seeing the retreads handled in the same way as new tires, that is, by the federal government.

Senator Flynn: And identified as such?

Mr. Moore: Yes.

Senator Flynn: Mr. Chairman, I have a question which was suggested by Senator van Roggen, who had to leave. Dr. Campbell dealt with it in part. He was worried about the significance of the word "design" in the definition of safety standards. He said something about the motor vehicles, but design as applicable to a tire, here seemed a rather nebulous concept.

Dr. Campbell: I am not sure that I can at the moment give you an example of a standard which we might use which would relate to the design. As I have indicated, these are primarily performance standards. Perhaps the labelling requirements on the side walls of the tires are design standards, because we specify where they should be. They really do not relate to the performance of the tire.

Senator Flynn: They might be related to the safety or some standard like that. You say you do not have in mind the colour of a tire.

Senator Neiman: I would like to discuss with Dr. Campbell one matter I happened to hear on the radio. I think it related to design, but whether that would come within standards or not I do not know. One of the aldermen in Toronto was objecting to a certain design of truck tire tread, which I think was a square design, which I think he said seemed to cause a great deal of noise. He said it was the design of the tire, but I understand that although it can apply to new tires, that it is mostly applicable to retreads. Would this be an example of "design" that might come within that set of standards?

Mr. Goudie: May I comment on that? The tread pattern is the basic factor which determines the noise level of the tire. Here again the question that I think is pertinent is this: Do you want to legislate the design or do you want to legislate the acceptable noise level?

Senator Neiman: How do you separate these two things?

Mr. Goudie: That can be done by saying that you can make any design you want as long as it does not make more noise than a given level—that is, rather than someone saying that you may not make one with a little square configuration. That is correct, that is the sole factor that determines noise.

Senator McElman: As I understand it, Dr. Campbell, the CT, the symbol, has no relation to assuring the individual buyer that the tire is safe. Its purpose is that before the manufacturer can put it on it has to meet all standards. In other words, you do not anticipate that buyers will go around looking for that trade mark; it has no relationship to public acceptance of that tire.

Dr. Campbell: That is right. Because all tires will meet the performance standards, there is no need for the average consumer to examine the tire to find out what marks it has on it of this type. So I do not anticipate any public education campaign to acquaint the public with the presence of this mark. I think it can be relatively inconspicuous. It would be confusing to the public as well, because tires imported into Canada will not necessarily be required to carry this mark. I think this would be an unnecessary restriction on international trade, to require this mark as a condition of importation. Imported tires would not have the mark, whereas those manufactured in Canada would have the mark, and the public would be confused, seeing some tires with the mark and some tires without the mark.

Senator Riley: Why not have the imported tires carry the mark? Why should not those tire manufacturers be required to put the Canadian symbol on if they are exporting these tires to Canada?

Dr. Campbell: If there is a tire manufacturer in the business of making a line of tires for Canada and the United States and Europe, then he would have to put on our CT, the United States DOT, the European D mark and probably the British Standards Association mark, BSA.

The Chairman: Where would he put the name of his company?

Dr. Campbell: There would be no room left on the tire! I think it would be unreasonable to require every manufacturer to provide all of the necessary marks on every tire, because he does not necessarily know exactly where that tire is going to be sold.

Mr. Clarke: The essence of it is to regard the application of the mark to the tire by the Canadian manufacturers as in itself a declaration that this tire comes up to the required standards. I believe the ministry would have the power, at the point of import, to require, not on the tire but on paper, a declaration that the tires being imported are up to the standard. That is the objective.

The Chairman: We are not getting into that problem at the moment; we are just dealing with new tires. Are there any other further questions of any other officials of the Rubber Association, or of the minister?

Mr. Graydon: Getting back to the concern we have expressed as to whether the legislation permits design or performance standards, I think the industry has no quarrel with the intent as expressed to develop standards for performance. Our concern is that the legislation is so broadly worded that, should the intent change at a later date—and legislation has a habit of staying on the books for quite a while—perhaps we would find ourselves with the government designing and doing much more than intended at the present time.

The Chairman: As there are no further questions and no further comments, honourable senators, is it your wish to report the bill?

Senator Langlois: Mr. Chairman, I move that we report the bill without amendment.

The Chairman: It has been moved by Senator Langlois, seconded by Senator McElman, that this bill be reported

to the house without amendment. Is it your pleasure to adopt the motion, honourable senators?

Hon. Senators: Agreed.

The Chairman: Carried.

Before leaving, I wish to thank the officials and members of the Rubber Association for appearing before us this morning. We will take note of their methods, and I know that the ministry will, in the regulations, make them satisfactory to the Rubber Association and the tire manufacturers.

The committee adjourned.

Published under authority of the Senate by the Queen's Printer for Canada

Available from Information Canada, Ottawa, Canada.



SECOND SESSION—TWENTY-NINTH PARLIAMENT
1974

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

TRANSPORT AND COMMUNICATIONS

The Honourable MAURICE BOURGET, *Deputy Chairman*

Issue No. 3

WEDNESDAY, APRIL 10, 1974

First Proceedings on Bill C-5 intituled:

An Act to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System and Air Canada for the period from the 1st day of January, 1973, to the 30th day of June, 1974, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company and certain debentures to be issued by Air Canada

(Witnesses:—See Minutes of Proceedings)



STANDING SENATE COMMITTEE ON
TRANSPORT AND COMMUNICATIONS

The Hon. J. Campbell Haig, *Chairman*.

The Honourable Senators:

- | | |
|-----------------------------|------------|
| Blois | Langlois |
| Bourget | Lawson |
| Burchill | *Martin |
| Denis | McElman |
| Eudes | Molgat |
| *Flynn | Petten |
| Forsey | Prowse |
| Fournier | Riley |
| (Madawaska-
Restigouche) | Smith |
| Graham | Sparrow |
| Haig | van Roggen |
| | Welch |

20 MEMBERS

(Quorum 5)

**Ex officio member*

June No. 3

WEDNESDAY, APRIL 16, 1974

First Proceedings on Bill C-5 entitled:

An Act to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railway System and Air Canada for the period from the 1st day of January, 1972 to the 30th day of June, 1974, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company and certain debentures to be issued by Air Canada.

(Witnesses:—See Minutes of Proceedings)

The Standing Senate Committee on Order of Reference

Minutes of Proceedings

Evidence

Ottawa, Wednesday, April 10, 1974

The Standing Senate Committee on Transport and Communications

Extract from the Minutes of the Proceedings of the Senate, April 9, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Langlois, seconded by the Honourable Senator Denis, P.C., for the second reading of the Bill C-5, intituled: "An Act to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System and Air Canada for the period from the 1st day of January, 1973, to the 30th day of June, 1974, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company and certain debentures to be issued by Air Canada".

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Bill was then read the second time.

The Honourable Senator Langlois moved, seconded

by the Honourable Senator Martin, P.C., that the Bill be referred to the Standing Committee on Transport and Communications.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Appearing on the Bill were: Mr. Claude I. Taylor, Vice-President, Public Affairs, and Mr. John P. Sheehan, Controller.

To all of you gentlemen, I extend a hearty welcome to our committee and our thanks for having accepted our invitation to such short notice.

Senator Flynn: Mr. Chairman, I have a preliminary objection to make. This committee meeting was called for this morning with the intention of having a public hearing with the honourable members of the committee, at which time the Senate was to be called out of session. The debate in the Senate was interrupted by the fact that there was a rush to get the legis-

lative process started as early as possible.

It is my hope that this will be a fruitful session.

As I have said, the committee will be called out of session at 11:00 a.m. on April 10, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 11, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 12, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 13, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 14, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 15, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 16, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 17, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 18, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 19, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 20, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 21, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 22, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 23, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 24, 1974, and will resume its work at 1:00 p.m. on the same day.

The committee will be called out of session at 11:00 a.m. on April 25, 1974, and will resume its work at 1:00 p.m. on the same day.

Minutes of Proceedings

April 10, 1974.

Pursuant to adjournment and notice the Standing Senate Committee on Transport and Communications met this day at 10:10 a.m.

Present: The Honourable Senators Bourget (*Deputy Chairman*), Denis, Flynn, Forsey, Langlois, Martin, McEIman, Riley and Sparrow. (9)

Present, but not of the Committee: The Honourable Senators Aird, Benidickson and Desruisseaux. (3)

The Committee proceeded to the examination of Bill C-5 intituled: "An Act to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System and Air Canada for the period from the 1st day of January, 1973, to the 30th day of June, 1974, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company and certain debentures to be issued by Air Canada".

On Motion of the Honourable Senator Flynn it was *Resolved* to discuss the above Bill until noon this day, that the meeting be resumed at a later date, and that no Report of Committee be submitted this day.

The following witnesses were heard in explanation of the Bill:

Mr. G. M. Cooper, General Counsel, Canadian National Railways; Mr. W. R. Corner, Vice-President, Accounting, Canadian National Railways; Mr. John P. Sheehan, Controller, Air Canada; Mr. Claude I. Taylor, Vice-President, Public Affairs, Air Canada; Mr. Myles Foster, Director, Government Finance, Department of Finance.

At 12:05 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Denis Bouffard,
Clerk of the Committee.

The Standing Senate Committee on Transport and Communications

Evidence

Ottawa, Wednesday, April 10, 1974

The Standing Senate Committee on Transport and Communications, to which was referred Bill C-5, to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System and Air Canada for the period from the 1st day of January, 1973, to the 30th day of June, 1974, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company and certain debentures to be issued by Air Canada, met this day at 10 a.m. to give consideration to the bill.

The Deputy Chairman: Honourable senators, I see we have a quorum.

Senator Flynn: Are you sure?

The Deputy Chairman: Yes. The quorum is five, and we are eight.

Senator Flynn: But those who are not members of the committee cannot be counted.

The Deputy Chairman: Only Senator Desruisseaux is not a member of the committee.

Senator Benidickson: I am not a member of the committee.

The Deputy Chairman: Well, I see we have Senators, Denis, Langlois, Riley, Flynn and Sparrow. Including myself, that is six.

Honourable senators, we have before us today for study Bill C-5, the Canadian National Railways Financing and Guarantee Act, 1973. Appearing as representatives of the CNR are: Mr. W. R. Corner, Vice-President, Accounting; and Mr. G. M. Cooper, General Counsel.

Appearing on behalf of Air Canada are: Mr. Claude I. Taylor, Vice-President, Public Affairs; and Mr. John P. Sheehan, Controller.

To all of you gentlemen, I extend a hearty welcome to our committee and our thanks for having accepted our invitation at such short notice.

Senator Flynn: Mr. Chairman, I have a preliminary objection to make. This committee meeting was called for this morning with the notices being delivered to honourable senators' offices after 8 o'clock last evening, at which time the Senate was not sitting. During the course of the debate in the Senate it was indicated that there was no rush in having this piece of legisla-

tion passed. It is not going to make any real difference if it is passed after the Easter recess.

It is going to be very difficult to deal with this matter in a short time this morning with so few members of the Senate present. I do not think it is fair to proceed with this bill to its conclusion this morning. I would have no objection to hearing from the witnesses who are here this morning, provided I get some reasonable assurance from the committee that we will not conclude our examination of this bill until after the Easter recess, at which time we can proceed with further and deeper examination of it.

If it is the intention of the committee to complete its examination of this bill today, I will protest and I will not give leave for third reading this afternoon, so nothing will be gained.

As I have said, since these witnesses are here this morning I have no objection to hearing from them, but I do object to the committee completing its examination of this bill today.

The Deputy Chairman: Does any other honourable senator wish to express his views on the matter raised by Senator Flynn?

Senator Riley: Mr. Chairman, there was ample warning given before the Senate adjourned yesterday—

Senator Flynn: Not ample.

Senator Riley: —of the fact that both yourself and Senator Langlois were endeavouring to arrange this committee meeting this morning.

Senator Benidickson: Was that said in the chamber yesterday? I did not hear that.

Senator Riley: It was said in the chamber before adjournment.

Senator Benidickson: I was there and I did not hear it.

Senator Flynn: In any event, we did not know whether the committee meeting could be arranged for this morning. We did not receive notice of the meeting until 8.15 p.m.

Senator Riley: Well, if any honourable senators left, they left with the warning that arrangements were being made for this meeting this morning.

Senator Flynn: If you are satisfied, Senator Riley, that you can do the whole job all by yourself—

Senator Riley: I am not suggesting that.

Senator Flynn: You are, in effect.

Senator Riley: There were other meetings which I wanted to attend this morning.

The Deputy Chairman: As your chairman, I am in the hands of the committee. I understand the points brought forward by Senator Flynn. Nevertheless, I think we can come to some compromise. We should at least hear from the witnesses who are here this morning, as these gentlemen were kind enough to make arrangements to be here at such short notice. I think we should proceed this morning and see what kind of progress we can make.

Senator Benidickson: I made some remarks in the chamber yesterday in this connection. *Hansard* of yesterday is not yet in our hands, but my recollection is that the major point I made was that while there are many things this committee should probably discuss, and particularly it would be difficult for the committee to conclude examination of this bill and report it until we have before us at least the preliminary operations figures for the year 1973.

If honourable senators read the first page of the bill they will see that, in essence, what we are being asked to do is to authorize the provision of moneys for certain capital expenditures for the period January 1, 1973 to June 30, 1974. The CNR, if I recollect correctly, submits its annual report on a calendar year basis.

As I said in the chamber yesterday, I read in a financial journal last week a summary of the operations of the competitor to the CNR for the calendar year 1973, in which it presented to the public, in advertisement form, a summarized statement of 1973 income which was compared with the income for the previous calendar year, with indications whether there had been an increase or a decrease, comparing the one year to the other. I said that I had not personally received a bound detailed copy of the C.P. Railway report, which is usually provided to members of Parliament, as are the annual reports of the CNR.

Even when the CNR 1972 report was tabled in the House of Commons, I think on June 5, 1972, the Minister of Transport, who had tabled the report, indicated that there seemed to be something irregular about the tabling—something was lacking and missing. I would certainly like to examine the minister on what non-compliance with statutory requirements was involved when he made that qualified statement in presenting the reports of both Canadian National Railways and Air Canada at that time.

Yesterday I was criticized for saying I had concluded from the debates that there was no apparent great urgency, because we never passed bills for either the 1972 financing or the 1971 financing. I thought that if the railroads were still operating and the planes were still flying there was not just now greater urgency. However, Senator Langlois replied to that by saying simply that with respect to one item, a pounds sterling item in Air Canada financial requirements for Rolls Royce engines, there was an urgent element connected with it. Again, on that item I would like to hear more from Air Canada, who are not here this morning.

The Deputy Chairman: Yes, they are here.

Senator Benidickson: Anyway, my recollection is that to deal with this bill we have to look at four bills, some of which never got finalization, royal assent or became law. I am thinking of Bill C-186, First Reading February 21, 1972, Bill C-4, for 1971 financing, Bill C-164, First Session, 29th Parliament, and Bill C-5, for this session. In one or maybe more of them there was indeed a previous reference to £13 million for Air Canada's Rolls Royce engine requirements. This item then is of long standing. Of course, it was not all Parliament's fault. I think it was due to bankruptcy and the financial difficulties that the Rolls Royce company itself had got into, with which most of us are familiar.

There is so much, irrespective of the problems related to transportation—which were so thoroughly dealt with in the committee of the other place recently, such as questions relating to the financial structure, that I do not think we could possibly and in all conscience complete our deliberations this morning; and if we are not able to report the bill this morning, I do not know how much progress can be made. However, if it is the will of the committee that we proceed, having before us some financial witnesses—not the presidents but some senior financial officers of the companies—perhaps they could be given some notice of the type of information that might be wanted by members of the committee for some future sittings, before the bill is reported back by this committee to the Senate.

I repeat that even if a printed report is not available, I am sure that by now the continuous audit that Senator Langlois referred to yesterday, which has been going on all through 1973, would provide us with at least some preliminary figures for revenues and expenditures in 1973. Then we could be told how certain capital and other expenditures were paid in 1973. This was provided yesterday by Senator Langlois for the years 1971 and 1972. I repeat, the thrust and burden of responsibility upon this committee at this time, forgetting about water under the bridge, if we do, is what happened in 1973. But we have not a report or any expenditure figures whatever for 1973. The figures that we got last night, and which the House of Commons committee got last November, on how the transportation systems kept running, referred only to the calendar years 1971 and 1972. That is one point.

Next I would indicate to the officers of the companies that, I do not propose to inquire personally into such things as the provision of boxcars, hotel investments, investments by both the CNR and the CPR in the expensive communications tower in Toronto, branch lines nationalization, and all those other things that are of more local interest to elected members of Parliament, which were dealt with very thoroughly this year in the other place in the months of 1973 prior to Christmas, but I do think the time has come when we should get advice on why an annual statute in this form is presented. I think we should find out whether it is, as many say, unduly cumbersome. I would like to know from legal officers in the Ministry of Transport, in Finance and in Justice what they propose in order to avoid placing before us legislation which many people call monstrous, and which I call nonsense, dealing retroactively and retrospectively with matters of this magnitude. I think

it is ridiculing Parliament's function to ask it to perform in this way. How can we improve our procedures?

In the Senate we have not even had a committee meeting on railway transportation and the financing of these very important crown rail and air companies since 1971. I believe there is in the Senate great competence that should be utilized to advise on how the crown corporations can continue to operate with reasonable independence, but at the same time give heed to the fact Parliament represents the only shareholders—the taxpayers. I think we should find out how we could improve this legislative procedure. We only talked about it in 1971. Let us not postpone recommendations any longer.

I noticed in a press report that the Minister of Transport, Mr. Marchand, said within the last couple of weeks that there was a committee of public servants considering means of dealing with transportation problems in general, and with the financial structure and so on. While public servants are doing that, I think there is some competence in the Senate itself to assist in that exercise.

Reference was made in our debates, and also when we had a chance to debate the subject in 1971, to such things as the method of supplying funds to CNR by way of purchase of preferred stock at a fixed rate of interest, which I think was fixed at 4 per cent, and what is done by way of this to provide a very substantial subsidy if we regard current high rates of interest for loaned money. Those advances for preferred stock purchase are mandatory by statute and do not demand any dividend payments at all when the revenues do not provide an adequate surplus for the purpose.

I would like to know what the deficits have been each year since the last massive revision of the capital structure in 1952. We should also be provided with a list of the amounts of money advanced each year to purchase the preferred shares since the act of 1952. Another, perhaps third area, for investigation, which in my opinion is long overdue, is the presentation of a precis indicating the results of management by CNR of government separately owned facilities and entities.

The Deputy Chairman: Senator Benidickson, will you excuse me, please? The members of the committee should make up their minds as to how we should proceed.

Senator Benidickson: Quite. I am satisfied to indicate that these matters are quite important and cannot be dealt with in a very short period of time. Mr. Chairman, I will be quite happy for you to canvass the members of the committee as to their wishes.

The Deputy Chairman: That is the reason for my interruption.

Senator Langlois: Mr. Chairman, I would like to add a few comments to what has been said by Senator Flynn and Senator Benidickson. As I said in the house, both yesterday and the day before, we are putting no pressure on anyone to pass this bill before the Easter recess. I did not indicate, however, that we would not do our best to see that proper consideration of this bill would be given before the recess. Yesterday when I replied to the remarks made by Senator Benidickson I clearly indicated that even though there was not such lack of urgency as he had suggested, there is urgency in dealing with this

bill as soon as the Senate could give it proper consideration. I indicated also that we would endeavour to arrange this sitting for this morning in an attempt to dispose of this bill, if possible. If we do not dispose of it today it will be postponed until after Easter, but each honourable senator present must take his own responsibility in this regard. I do not wish to impose my views upon anyone, but all honourable senators present must realize that they have a responsibility. Should they feel they cannot give proper consideration to this bill this very day, it is up to them to ask for an adjournment of our deliberations and postpone the study until after Easter.

In my opinion, however, we have an obligation whilst we are sitting here, rather than doing nothing, to at least consider the bill to the best of our ability in the present circumstances.

Having said that, I wish to return to a request made to me yesterday, and repeated this morning, by Senator Benidickson. Yesterday when I tabled in the house the statement of sources and applications of funds for the years 1971 and 1972, for both the Canadian National Railways and Air Canada, Senator Benidickson asked me if we could obtain similar figures for the year 1973. I undertook to endeavour to provide these figures, if they are available. I have just been informed that the witnesses present this morning are prepared to speak to these figures and provide any information in their possession. In my opinion, these witnesses, as they are present this morning, should be heard. If they cannot provide all the information, it would again be up to honourable senators to decide, in their own judgment, without any pressure whatsoever from anyone, whether they should obtain this information before passing the bill and therefore ask for an adjournment of our meeting until after Easter. That is the only type of pressure I am putting on. I do not think it could even be characterized as pressure.

This is the situation as it developed in the house. The commitment that I gave there, which had already been given by the leader—our position, I think, being approved by the Leader of the Opposition on the preceding day—was that we would proceed with this bill before the Easter recess. The situation has not changed, and I leave it to each individual senator to take his own responsibility. I do not wish to stand in judgment on whatever they intend to do this morning. It is entirely their responsibility, not mine.

Senator Desruisseaux: Mr. Chairman, I am not a member of the committee, but I fail to see how we can really proceed and examine this matter when we have not received the financial statements for 1973. Over 40 subsidiary companies are connected with the CNR and Air Canada, and I believe certain of them warrant questions. We have nothing at all before us to go on. We must rely on the questioning in the debate and that to be carried on here, but it is not sufficient to enable us to ask intelligent questions and expect proper answers.

The Deputy Chairman: What reports are missing?

Senator Desruisseaux: The 1973 annual report and financial statement.

Mr. W. R. Corner, Vice-President, Accounting, Canadian National Railways: I am sorry, we do not have that. We could give a general indication for 1973, but the expectation is that our annual report will be released at the end of this month or early in May.

Senator Desruisseaux: I do not think we should consider the bill before receiving the statements.

Senator Langlois: In this respect I realize that yesterday Senator Desruisseaux was not in the house when I explained this continuous auditing that is to be carried on. My information is that, even though auditors were not appointed for the years 1972, 1973 and up to date, there was a continuous audit carried on. In connection with this bill we are simply to appoint auditors who would then report to Parliament. The auditors in question, who are not yet appointed, cannot report to Parliament. The financial statements of both corporations, however, have been audited, as a matter of fact, by the auditors named in the bill. They were retained as consultants by the boards of directors of each corporation and have done their work. They cannot, however, report, as such, to Parliament today, because they have not been appointed. This bill will do that. If we were to carry out such a study as suggested by Senator Desruisseaux we would never be in a position to consider the bill unless auditors were appointed; and the only way of doing that, as I explained to the house yesterday—

Some Hon. Senators: Oh, no, no.

Senator Langlois: Would you please allow me to finish and reply then? The only way we can do this is by appointing auditors by a special act of Parliament, as was done in the past. This will take a long time. We have been living with this unusual situation, which we all admit, for so long that I do not believe we should prolong it. There is some retroactivity involved in what we are doing, but for goodness sake, let us deal with the situation and see that it does not happen again in the future.

The blame can be placed on the shoulders of anyone but, as I said yesterday, it is due to the slow process of Parliament. The bill in 1972 died on the Order Paper at the time of dissolution, but the general election which followed did not cure the situation, because we had to live in a minority government situation which again caused a bogdown of the procedure in the other place. That is the reason for not having the auditors appointed as they should have been. Let us cure the situation, however. We have to live with it and we must deal with an unusual situation, but let us get it out of the way and see that it does not happen again in the future.

Senator Benidickson: Directly on that point, Mr. Chairman, we received a 1971 report without Parliament appointing auditors, and we received a 1972 report without Parliament appointing auditors. I do not see how we can properly examine this bill, which, I repeat, says it is to consider expenditures from January 1, 1973. The only reason they include the period from January 1, 1974 to January 30, 1974 is because certain commitments have to be met in that period.

Basically it is for the calendar year 1973. Until we get a report—even if it is unaudited or without an auditor's certificate for parliamentary purposes, as it was in 1971 and 1972—how can we proceed intelligently?

Senator Desruisseaux: Mr. Chairman, I should like to say a word on this subject, although I am not a member of the committee. Auditors' statements have in the past been provided for publication in the Public Accounts. This was on a regular basis, when they were not audited. They formed a basis for discussion and for making decisions. I still claim they are necessary.

Senator Flynn: Mr. Chairman, may I move—I think it is the feeling of several members here—that we proceed—

The Deputy Chairman: Are there other honourable senators who would like to express their views on the point raised by Senator Flynn? If not, you may proceed, Senator Flynn.

Senator Flynn: I move that we proceed with the examination of the witnesses who are here until, say, 12.30 p.m. At that time we could adjourn on the understanding that the bill will not be reported today, so that if there are witnesses we want to examine on the points mentioned by Senator Benidickson, Senator Desruisseaux and others, they may be heard.

As far as I am concerned, I have not had the time to prepare. Initially I was not going to attend the committee meeting; another member of the Opposition was going to be here. There is no member of the Opposition present other than myself, and I am not prepared to go on this morning. I thought that another member of the Opposition would be here.

On that understanding, we could report progress at 12.30 p.m. and adjourn until after the Easter recess, when we could have the additional information asked for by Senator Benidickson, Senator Desruisseaux and others. We would then know where we are going.

The Deputy Chairman: As your chairman, I am in the hands of the committee. Personally, I do not want to rush anything, but I think we should start this morning and examine the witnesses.

Senator Flynn: On that undertaking, we may start.

The Deputy Chairman: The committee could sit until 12 o'clock.

Senator Flynn: The bill would not be reported today. That is my motion. I do not want any short-cut. I have seen that happen before—the chairman takes advantage of the fact that no-one is present to oppose the measure, and he gets everyone to agree and rushes the bill through.

The Deputy Chairman: That is not my intention.

Senator Flynn: That is not your intention, but, as you say, you are in the hands of the committee, and if the committee is in the hands of Senator Langlois, we know very well what will happen.

Senator Langlois: That is not so.

The Deputy Chairman: Honourable senators have heard the motion of Senator Flynn. Are you in favour of the motion?

Senator Desruisseaux: Could we have the motion again?

The Deputy Chairman: That today's meeting proceed until 12 o'clock, at which time the committee will adjourn without reporting the bill today. Is that agreed?

Hon. Senators: Agreed.

Senator Langlois: I abstain.

Senator Denis: I abstain.

The Deputy Chairman: Motion carried.
We shall now hear from Mr. Corner.

Mr. Corner: I would suggest that Mr. Cooper start by highlighting the more important parts of this bill.

Mr. G. M. Cooper, General Counsel, (Canadian National Railways): Mr. Chairman, I thank you for your words of welcome to Mr. Corner and me, as well as to the officers from Air Canada. Having listened to the discussion, I should like to say that we are at the disposal of the committee. It is probable that we shall be able to explain many of those matters which concern honourable senators. We are prepared to make an honest try, to the best of our ability.

In the case of past bills, it has been customary to go through a synopsis of the structure of the bill and indicate why the various provisions are included. If the committee so desires, I will do that; otherwise, we remain at the disposal of the committee.

The Deputy Chairman: Is that agreeable?

Mr. Cooper: My remarks can be interrupted at any time.

Senator Sparrow: I think that procedure would be wise.

Hon. Senators: Agreed.

Mr. Cooper: Stating the obvious, the bill deals with a number of financial matters concerning Canadian National Railways and Air Canada related to the calendar year 1973 and the first half of 1974. It very closely resembles similar bills of other years.

Its main aspects, as I see them, concern a number of clauses respecting capital expenditures and commitments of Canadian National and others related to the sources of money required for those expenditures.

It is essentially a financing bill, dealing, as the title suggests, with the provision of moneys to meet capital expenditures, largely moneys which CN itself generates.

Neither Mr. Corner nor I have seen yesterday's Senate *Hansard*, but it would appear that certain statements outlining the sources and application of CN funds for the years 1971 and 1972 were mentioned.

The bill really relates to those sources of funds, being largely internally generated.

There are also authorities in the bill for both government loans to Air Canada and/or government guarantees of obligations that might be issued by Air Canada.

There are authorities to advance moneys to either company on operating account if needed to meet seasonal or annual income deficiencies of revenues, and there is a provision related to the Canadian National Railways Refunding Act of 1955.

Now, looking at those items in order, clause 1 is merely the short title of the bill, for ease of reference; and clause 2 provides the usual and convenient definitions.

The Deputy Chairman: I am sorry to interrupt you, Mr. Cooper, but when you speak about refunding, are you referring to preferred shares?

Mr. Cooper: No, sir, this is to provide for the situation where obligations of the company mature. Because Canadian National is not permitted to have a surplus account, it does not have the funds to pay debt securities as they mature. In very large part they are refunded by the issuance of substituted securities of either equal or lesser amount.

In some cases a portion of the loan may be retired by application of available funds. Then we would issue substituted securities or obtain temporary loans from the Minister of Finance to pay the remainder of the maturing issue.

Subclause (1) of clause 3 summarizes Canadian National's estimated requirements for capital commitments and expenditures for 1973 and the first half of 1974. Paragraph (a) of clause 3(1) relates to 1973; paragraph (b) relates to expenditures in the first half of 1974; and paragraph (c) relates to commitments in the first half of 1974, which would become payable only after 1973.

Clause 3(2) authorizes Canadian National, with the approval of the Governor in Council, to borrow moneys in respect of branch lines construction only, save that if money had previously been borrowed from the minister for this purpose, the company might then borrow money from the public to repay the minister. However, the ultimate purpose of the borrowing power here is restricted to branch line construction by Canadian National.

The remainder of clause 3 governs the inclusion and reporting of various amounts in annual reports of Canadian National; that is, it controls the content of our annual reports for ongoing years.

Clause 4 of the bill gives Canadian National, again subject to the approval of the Governor in Council, the authority to issue certain securities to provide moneys relating to the borrowing power to which I previously referred. Clause 4 limits that authority to \$21 million, which is the total of the two amounts found in clause 3(1)(a) and (b), \$13 million and \$8 million, respectively. So the authority to issue securities under clause 4 is limited to the borrowing related to branch lines.

Clause 4(2) makes mandatory the application of certain internal accruals—depreciation and debt discount amortization—to capital expenditures.

Clause 5 empowers the Governor in Council to guarantee the securities to which I previously referred. And

clause 6 governs the receipt and handling of the proceeds of sales of any such securities.

Clauses 1 to 6 relate to the Canadian National Railways System only.

Clause 7 relates to Air Canada only. Clause 7 provides, alternatively, for the Minister of Finance to make loans to Air Canada—as covered in subclauses (1) and (2)—or for the government to guarantee Air Canada securities, or a combination of both, related always to the time periods specified in the clause.

Clause 7(3)(a) 7 covers the familiar period of 1973 and the first half of 1974; and clause 7(3)(b), having a more unusual specific period, relates to the financing of the Rolls Royce transaction, to which Senator Benidickson referred.

Clause 7(4) limits the maximum amount of government loans and guarantees with respect to the transactions just described.

Subclause (5) of clause 7, in effect, says that the limitations in clause 7(4) do not preclude borrowings to the extent that the public borrowings are required to repay government loans; that is, there might be a temporary overlapping while the money was flowing from the public issue back to the Minister of Finance. But the ultimate limitation is not disturbed by that.

Subclauses (6) and (7) of clause 7 relate to the handling of the funds obtained by Air Canada in the case of a public issue guaranteed by the government.

Clause 8 of the bill covers the technical aspects relating to the signing and effect of government guarantees in respect of either Air Canada or Canadian National borrowings.

Senator Desruijsseaux: Mr. Chairman, I wonder if I might be permitted a question at this time?

The Deputy Chairman: Yes, Senator Desruijsseaux.

Senator Desruijsseaux: Are the Air Canada guaranteeing arrangements set out in Bill C-5 something new for Air Canada, or was this done in the past?

Mr. Cooper: The government guaranteeing of Air Canada borrowing?

Senator Desruijsseaux: Yes.

Mr. Cooper: This has been in identical form in the previous two or three acts, senator. Prior to that time, the practice was that Canadian National would borrow moneys to meet Air Canada requirements and then funnel it to Air Canada. So that even in that case the government guarantee was contemplated, although it would attach to Canadian National's borrowing rather than Air Canada's borrowing. This is a longstanding practice, and it has been in this exact form, I would say, in the last two or three acts.

Clause 9 is the alternative to clause 4. I am not sure why they are so widely separated, but they are. Just as under clause 4 Canadian National might make public borrowings for the purpose of financing branch lines, so under clause 9 the Minister of Finance might lend them moneys with the same limitations and with, as in

clause 4(3), the same sort of provision allowing a temporary overlap without violation of the \$21 million ceiling.

Clause 10, which relates only to Canadian National, recognizes the family structure of our system. The Canadian National Railway Company, which is described here as the National Company, is the focal point of the borrowings provided for in this bill, but to the extent that the moneys are required for purposes of affiliated companies, such moneys may be applied to those purposes.

Clauses 11 and 12 of the bill are similar, except that clause 11 refers to Canadian National and clause 12 to Air Canada. These two sections provide authority for the Minister of Finance to make accountable advances to the respective companies in the event at any time during the year their revenues are insufficient to pay their operating and income charges. These advances must be repaid if the funds are sufficient; otherwise there would have to be a deficit appropriation to clear the balance.

Senator Desruijsseaux: When you refer to affiliated companies, do you include all subsidiary companies in that definition?

Mr. Cooper: I was really being a little inexact in my language there. The reference is really to other companies and railways comprised in the National System, as defined. These are all controlled companies, and affiliated in the sense of actual presence of control, not of minor investment.

The Deputy Chairman: You will find those companies in the annual report.

Mr. Corner: Yes, on page 28.

Senator Desruijsseaux: Page 41 of the 1972 report.

Mr. Cooper: That really is the group.

Clause 13 literally extends, through 1972 and 1973, the application of a portion of the Canadian National Railways Capital Revision Act. That is the section providing for the issuance and purchase by the Minister of Finance of preference shares of Canadian National Railways company.

Senator Riley: Those preference shares being purchased by the minister.

Mr. Cooper: By the Minister of Finance. All of the issued preference shares are held by the Minister of Finance.

Senator Riley: Perhaps I might interject here. What is the procedure for getting permission for the issue of debentures sold to the public?

Mr. Cooper: There would be a number of procedures. In the Canadian National Railways Act there is authority to borrow. There is in this bill authority to borrow with or without government guarantee, and in certain branch line acts there is the same sort of provision, also in the Canadian National Railways Refunding Act. I think common to all of the guaranteed issues the procedure is the requirement of an order in council, and that the terms and conditions, the rates of interest and so on, be approved by the Governor in Council.

Senator Riley: When the investor is offered a bond is he given any kind of prospectus?

Mr. Corner: We have not had an issue in which we have borrowed from the public since 1960.

Senator Riley: I am asking what the procedure is. If I, as an investor, am interested in purchasing a CN bond—

Mr. Cooper: A new issue?

Senator Riley: A new issue—am I entitled to a prospectus? If so, what does that prospectus contain, and what protection do I, as an investor, have with respect to the full, true and plain disclosure in respect of distribution? Is there a consolidated balance sheet contained in that prospectus, and does that consolidated balance sheet contain an up-to-date financial picture of the railways at the time it is issuing these bonds, at least prior to the expiration of three months beforehand? Is there not a comfort letter, and is that not signed by the auditors? Is there not a comfort letter from the auditors accompanying such a prospectus, or whatever you may call it under these circumstances?

Mr. Cooper: When we say there is a prospectus, we are now talking back at least 15 years to the time of the last public issue, when the requirements of those days would have been met.

Senator Riley: You are anticipating today that you may have to issue debentures.

Mr. Cooper: The possibility, yes.

Senator Riley: If you do, are your procedures set down? What information will the investor get? Surely, you have gone into that.

Mr. Cooper: In terms of a comfort letter, one of the nicest would be the guarantee of the Government of Canada that is endorsed on the bond.

The Deputy Chairman: But what about when they are not guaranteed by the government?

Senator Riley: That is just it.

The Deputy Chairman: That is what we are asking about.

Senator Riley: Yes.

Mr. Cooper: I do not think we would follow that route. I think we would want to participate in a Government of Canada issue, and in so doing minimize the interest cost to the company.

Senator Riley: You mean you would prefer to go to the minister and obtain the loan?

Mr. Corner: No, not necessarily that way, but to participate in a Government of Canada issue.

Mr. E. Russell Hopkins, Law Clerk and Parliamentary Counsel: In other words, guaranteed.

Mr. Cooper: Direct Government of Canada issue.

Senator Riley: You have the authority to go directly to the public in some instances under this bill.

Mr. Corner: We do.

Senator Riley: I would like to know what protection the investor has in respect to full, plain and true disclosure, and a consolidated balance sheet, say a letter from your solicitor.

Mr. Corner: We have to do all that.

Senator Riley: You do do all that?

Mr. Corner: We have to.

Mr. Cooper: I am now casting my mind back about 20 to 25 years. In any public issue that I can remember Canadian National having been involved in, counsel for the investors had to be satisfied before any money was forthcoming, so that as far as having an opinion of counsel was concerned there would be an opinion of the company's counsel and an opinion of counsel for the investors.

Senator Riley: An independent counsel?

Mr. Cooper: Yes.

Senator Riley: If you issue non-guaranteed debentures and what may be required under the Securities Act as a prospectus, what approval do you get of that prospectus, brochure, or whatever it is that you might issue? Do you have to go to the C.T.C. for approval? Do you have to go to the minister to get an order in council?

Mr. Cooper: I do not believe we have to go to the minister to get an order in council if he is not going to guarantee our issue.

Senator Riley: Then must you go to the CTC?

Mr. Cooper: I think not, no.

Mr. Corner: No.

Senator Riley: Then you can issue a prospectus and there is no guarantee to the public that there is full, plain and true disclosure.

Senator Benidickson: You must provide whatever the securities authorities of the provinces or in the United States decree.

Senator Sparrow: Are you subject to provincial securities acts?

Mr. Cooper: I would say, yes.

Senator Sparrow: Are you considered to be a public corporation, in that sense?

Mr. Cooper: You might say we live in the province. The province has not jurisdiction over the manner in which we build or operate the railway, but we are taxpayers, we drive on the proper side of the road and we must comply with the general laws of the province.

Senator Sparrow: Are you subject to the securities commission of any province in Canada?

Mr. Cooper: I would say, yes. Now, I have to say I personally have not researched that, because we have not come up against the problem for such a long time and the laws have all changed since we did, when I was quite junior.

The Deputy Chairman: When was the last public issue? You have said it was 20 years ago?

Mr. Cooper: I think it was, and I also believe that at that time our borrowing agency was the Bank of Canada. So that the last issue arranged by the company must have been in the early 1950s. Now, I am reaching far back in my memory.

Mr. Corner: Yes, it was 1954.

Mr. Cooper: Even though the 1954 issue might well have been a Canadian National issue, it was handled by the Bank of Canada as our fiscal agency.

Senator Riley: Surely, in drafting this act you must have anticipated procedures which would have to be followed in order to protect the purchaser, the investor in purchasing your bonds if they were not guaranteed by the government. You even must have anticipated that you must pick out the home jurisdiction in one of the provinces in which the prospectus, or whatever you use for that issue, would be approved. I do not know, but I presume it would be a form of prospectus, and you would have to adopt certain procedures which would at least be akin to, for instance, the provisions of the Ontario Securities Act for protection of the investor.

The Deputy Chairman: In a case such as this, Senator Riley, I am no expert—

Senator Riley: Neither am I. I am just asking questions.

The Deputy Chairman: —but it is a crown corporation, and even if the loan is not guaranteed by the government, is the government not indirectly responsible for it? I do not know.

Senator Riley: The government would be responsible for it if it went sour, or they could not float or redeem the loans. In that event they would return to the government.

Mr. Corner: The government is our shareholder, yes.

Senator Langlois: Have you ever heard of a crown corporation being bankrupt?

The Deputy Chairman: I think the government does indirectly guarantee it sufficiently.

Senator Riley: From what I heard of the speeches in the house in criticism, there has perhaps not been full, plain and true disclosure of the finances of the CNR in the past. A question was raised yesterday with respect to these auditors not having signed the report, and I am simply speaking from the standpoint of the private investor. What protection will he have in purchasing bonds, and can he be deceived? I do not accuse the CNR of contemplating deceiving the public. Nevertheless, I would say those safeguards should be incorporated in the information that is provided to the investor before he purchases.

Mr. Corner: I wonder if I could say that it has been our practice and policy, of course, to make full disclosure of financial transactions. We have seen in the past published statements accompanied by the certification of independent government auditors. You also know that in 1972 we had to table our annual report without that accompanying government auditors' certificate. That is not to say, however, that we in CN did not have certification from a firm of auditors. For that year we had the firm of Peat, Marwick, Mitchell as consulting accountants certify our statements, and certainly we satisfied them, as independent auditors, as to full disclosure of what took place financially in that year. Also, for 1973 we have the same certification, except it is on a joint consulting accountants' and auditing basis. We have two firms involved in 1973, Peat, Marwick, Mitchell and Coopers & Lybrand.

Senator Riley: I am referring to practical instances, and perhaps I am being picayune in this. What about CNTL, Canadian National Transportation Limited? I was told by members of the board of CNR that this was an arm, a separate entity. I found out, however, through subsequent questioning, that CNTL actually is a separate company which operates for Canadian Express.

Canadian National Express, a division of CNR, solicits the business and bills the shippers. The waybills and probills are all CN Express, yet at the end of the year CNTL submits the list of its expenditures, I suppose less depreciation on their equipment, to CNE or, perhaps, they bill them for their share of the depreciation on their equipment, and that is all there is to it. It does not operate as an independent company or an independent corporation at all. In my opinion, it is a device which is used by CNR, through CN Express, to carry on its highway transportation operation. I was very confused about it all.

Then I discovered later that CNTL has quite considerable assets in other parts of Canada, yet when operating at least in the Atlantic provinces they profess to having no assets. This is something that, when you return before this committee in the future, I would like to be informed of. What is it all about?

Another thing: Is CNTL, as an operating arm for CN Express, collecting subsidies under the Atlantic provinces Freight Assistance Act? If it is, and if CN can show losses there at the end of the year, can they return to the government and request a subsidy to cover those losses? Can they cut rates to the detriment of independent highway transport operators, collect the subsidy and then go back to the government and recover their losses?

This is what I mean when I ask: Do we receive full, plain and true disclosure in respect to the borrowings of Canadian National?

Mr. Corner: We do, senator. Let me say that CNTL is a wholly-owned subsidiary of Canadian National Railway Company.

Senator Riley: With the employees of CN Express operating it.

Mr. Corner: And, further, that CNTL is the holding company for various trucking companies.

Senator Riley: Eastern and others?

Mr. Corner: Yes, and the statements of all those companies, including the results of CNTL, are consolidated in our system financial statements. So, when we speak of a deficit for the system, it would reflect any deficit of CNTL or any profit or loss of a trucking company. All that is part of our system.

Senator Riley: You have not answered my question. Does CNTL, which operates supposedly as an independent company and turns in its cost accounts to CNR at the end of each year, now receive at 17½ per cent subsidy on highway transportation within the Atlantic region, so-called, extending throughout the Atlantic provinces? Does it receive any subsidy, would it be able to lower the rates in competition with other transport carriers, and if it suffers a loss, could not CNR go to the government to recover that loss? I know that you may not be able to answer that question now, but I would like to have an answer some time in the future.

You may not be getting the subsidy, but I know it was the intention of CNR to get the subsidy under the Atlantic provinces Freight Assistance Act. The same could apply to the freight moving west of the St. Lawrence.

Mr. Corner: I have just been speaking to Mr. Cooper. We only obtain a subsidy in connection with the movement of express, to the extent that it is given to trucking companies and moves on the highways.

Senator Riley: You say "express." Does that encompass truckload lots or only LTL freight?

Mr. Corner: I would say less than—

Senator Riley: It would include truckload lots as well?

Mr. Corner: We are not too clear on that.

Senator Riley: CNTL has a general freight licence applicable to most of the highways in Nova Scotia and Prince Edward Island—not in Newfoundland, but in Prince Edward Island. The big danger, as I see it, is that through this device independent truckers may be made to suffer as a result of the possibility, if there is a loophole, whereby CNTL can collect a subsidy even though it is nothing more than an arm of CN Express.

The operators of CNTL are employees of Canadian National Express. Canadian National Express solicits bills and uses the probills of CN Express to operate as a carrier of general freight under the name of CNTL. I will not ask you to go into detail here, but I would like to have that information in the future.

The Deputy Chairman: Mr. Cooper, you may take that as notice and provide the information later.

Senator Langlois: I assume the honourable senator is not insisting on having this information immediately.

Senator Riley: No, but I would like to have it at some time in the future.

Mr. Cooper: I am afraid we do not have all the details, but I am certain there is no unfair competition—

Senator Riley: But there could be.

Mr. Cooper: —by CNTL based on its relation with the railway company.

Senator Riley: With the express division of the railway company.

Mr. Cooper: The term "express" has rather faded in the railways. We deal in small package trade.

Senator Riley: But CNTL will take a truckload lot of general freight. Canadian National Express bills for that. It reimburses CNTL for the wages of the drivers, management, right through the piece.

Again, I do not want to hold you up, as there may be things that you wish to say now. It is something that I would like to know in the future, when the committee meets again.

The Deputy Chairman: Mr. Cooper, you may take that as notice and provide the information. Is that agreed?

Hon. Senators: Agreed.

The Deputy Chairman: Please continue, Mr. Cooper.

Mr. Cooper: I have said all that I intended to say on clause 13, unless there are any questions.

Clause 14 relates to the appointment of auditors. In this instance it covers the years 1972 through 1978.

Canadian National's auditors are appointed by Parliament, as required by the CNR Act, and Air Canada is required, by its statute, to employ the same auditors.

I referred to clause 15 previously as being a house-keeping one. The refunding aspect of maturing securities is provided for in the Canadian National Railways Refunding Act. The same act has been employed since 1955.

Some 10 years ago the maximum amount of substituted securities that might be issued was increased. As that authority is used, it becomes exhausted, and therefore, either by passage of a new act or an increase in the authority embodied in the old act, it has to be increased. The Department of Finance has clearly decided that now is the time for another such increase.

Clause 16 merely removes from the 1970 Financing and Guarantee Act two provisions related to the Air Canada sterling notes which have been replaced in this act.

Due to the Rolls Royce bankruptcy, the provisions that were enacted in 1970 were no longer useful because of a problem with dates; and therefore they are to be re-enacted in this act. Clause 16 merely repeals from the prior act the corresponding provisions to ensure that there is no duplication of authority. The authority in this act replaces, and does not increase, the authority of the 1970 act.

Senator Benidickson: Is this connected with the Rolls Royce business?

Mr. Cooper: Those sterling notes relate to a Rolls Royce purchase by Air Canada.

Senator Langlois: That is the \$13 million?

Mr. Cooper: Yes.

Senator Langlois: Financed through Lazard & Frère Ltd. of London?

Mr. Cooper: Correct.

The Deputy Chairman: Thank you, Mr. Cooper.

Would honourable senators like to ask questions of the CNR representatives? Or, perhaps, the representatives of Air Canada have an opening statement which they wish to make in order that we might have the whole picture.

Senator Desruisseaux: Mr. Chairman, before we proceed with that, I would like to ask Mr. Cooper a few more questions. The first concerns the procedure being followed in connection with accounting. There is a list here of some 40 companies which are either subsidiaries or affiliated companies. Are these companies also audited through the process of the general audit?

Mr. Cooper: Perhaps I might redirect your question to the Vice-President, Finance, senator.

Mr. Corner: Yes, they are, senator.

Senator Desruisseaux: Each one of those companies for each year?

Mr. Corner: They are audited within the context of the auditors satisfying themselves as auditors that what is set out in the financial statements as being the operating results for the year is fairly stated, and that the financial position shown at the end of the year is fairly stated.

Senator Desruisseaux: So that if a taxpayer, for whatever reason, wished to see the financial statement of any one of those companies for any particular year, he could obtain it?

Mr. Corner: Some of our companies have what we refer to as a certified audit. In other words, there is a particular company. That holds true for just a certain number of our companies, however. Most would not have a certified audit.

Senator Riley: If I may be permitted to make a comment on this, Mr. Chairman, when the CNTL appeared on an application for a general freight licence in Newfoundland, there was considerable reluctance on the part of the CNR to produce a full financial statement of CNTL. They also appeared before the Motor Carrier Board in New Brunswick, on which occasion there was also reluctance to produce a full financial statement of CNTL. What the reason for that reluctance was, I do not know. We finally got a financial statement, but there was some reluctance. That indicates to me that the CNR is reluctant to provide financial statements even before administrative tribunals.

Mr. Corner: But they did produce it?

Senator Riley: They did, but with some reluctance. The board in Newfoundland insisted on it, and notwithstanding the fact that the board in Newfoundland insisted on it, they did not have it available when they appeared before the Motor Carrier Board in New Brunswick. We had to ask them to produce it. Normally,

a company appearing before a board will produce and file its financial statement. If my memory serves me correctly, it is a requirement to do so.

The Deputy Chairman: Perhaps we now could hear from the representatives of Air Canada.

Mr. Claude I. Taylor, Vice-President, Public Affairs, Air Canada: Honourable senators, we are very grateful for the opportunity of appearing before you this morning. Accompanying me is Mr. John P. Sheehan, our Controller.

I believe Mr. Cooper has already covered the intent of the purposes of the bill quite adequately in terms of Air Canada's position within the total bill and its requirements from the bill. I do not believe it would serve any useful purpose for me to repeat what Mr. Cooper has said, so we stand ready to answer, to the best of our ability, any questions that honourable senators may have.

Senator Desruisseaux: I have not seen one, but I am wondering whether you have issued an unaudited statement for the year 1973.

Mr. Taylor: No, we have not, senator. As is the case with CNR, we have consultative accountants. We are now in the process of finalizing our 1973 accounts so that they can be tabled in Parliament as in past years. We have not as yet issued our formal 1973 accounts.

Senator Desruisseaux: You mean the tabling of the public accounts?

Mr. Taylor: That is right.

Senator Desruisseaux: That will take place when, approximately?

Mr. Taylor: Well, it should take place almost any time now. We should like to be able to include in our 1973 accounts a copy of the auditors' certificate, which we will be unable to include unless this bill is passed. Otherwise, we will have to do as we did last year and eventually issue an unaudited financial statement.

Senator Desruisseaux: As you have heard, there is a difference of opinion among committee members as to whether we should first see the financial statement before coming to any conclusion with respect to this bill.

Mr. Taylor: Yes, I have taken note of the comments in that regard.

Senator Desruisseaux: What is your point of view in that regard?

Senator Benidickson: Well, I do not think Mr. Taylor should be asked to answer that question.

The Deputy Chairman: I agree.

Senator Benidickson: It is now April 10, Mr. Taylor. Is there an uncertified audited financial statement for Air Canada's operations available for 1973?

Mr. Taylor: It has not been made available publicly, senator.

Senator Benidickson: I realize that. I know you do not want fancy bound copies of your financial statement distributed widely until it has the auditors' certificate. How-

ever, you have more or less completed your books and your balance sheet, and I am wondering if we might be presented with a preliminary statement with respect to operations in 1973.

Mr. Taylor: I would have to be guided by the chair and the committee, as well as the representatives of the CNR, senator, as to whether or not we should table a statement at this time. It is true that internally we do have statements. We have monthly statements.

Senator Benidickson: As Senator Langlois has already said, there is a continuing audit in such large corporations. It cannot all be done after the end of the fiscal year.

Senator Flynn: The auditors have been working all year. The only thing they lack now is the authority to sign the certificate.

Mr. Taylor: That is correct, senator.

Senator Sparrow: I understand that the auditors' certificate is not available, but can you make the financial statement available to this committee?

The Deputy Chairman: I am not sure whether the financial statements of the two corporations could be presented to the committee.

Mr. Cooper: I am not certain whether Mr. Corner has any figures that he could produce, but there is a reluctance on the part of both companies, I think, to do so. There is some indiscretion in releasing the figures in a public forum when our obligation is to present the report to the Minister of Transport to table in the house.

Senator Sparrow: Mr. Chairman, perhaps the committee is not prepared to pass a bill authorizing auditors unless we are satisfied with the auditors, and the only way we can satisfy ourselves as to the auditors is by seeing the statement.

Mr. Cooper: We are in the hands of the committee.

The Deputy Chairman: Perhaps the representative of the Department of Finance can tell us whether or not we can get copies of the unaudited statements.

Mr. M. B. Foster, Director of Government Finance, Department of Finance: I think Mr. Cooper has stated the situation correctly, in that the obligation on the part of the companies is to table their reports with the Minister of Transport. I hardly see how they can present the reports before the committee when they are required by act of Parliament to first present them to the Minister of Transport.

Senator Benidickson: Before we can report on the bill, Mr. Chairman, we should hear from the Minister of Transport in connection with that and other things.

Clause 14 of the bill deals with the audit, and it is one of the clauses that certainly is not identical in form to past years', even with respect to one date.

Mr. Cooper: Substantially it serves the same purpose.

Senator Benidickson: It may be substantially the same, but unlike other years it refers not only to auditors for a single year or to a five-year period in future. We are giving some authority for 1972 and 1973. Is it being said that until we provide this appointment of auditors for 1973 you cannot produce a statement? We received a statement for 1972.

Mr. Cooper: You are correct, you did.

Senator Benidickson: Notwithstanding the fact that we did not have any legislation passed that particularly authorized an auditor for 1972.

Mr. Cooper: That is correct. There could not be an auditors' report as required, because the auditors had not been appointed by Parliament.

Senator Benidickson: But there was a CNR report unaudited.

Mr. Corner: That is correct, and an Air Canada report.

Senator Benidickson: My feeling is that before we complete our studies at the moment we should even have an unaudited statement for 1973.

The Deputy Chairman: Was this made available to the members of the committee of the House of Commons? I do not know.

Senator Flynn: It was probably given to the minister.

The Deputy Chairman: That I do not know. I think we should inquire and find out exactly.

Senator Flynn: Or wait.

The Deputy Chairman: Or wait.

Mr. Foster: This is a chicken-and-egg situation. There cannot be an audited statement until the bill has been passed.

Senator Benidickson: Why not?

Mr. Foster: Because Parliament requires to appoint the auditors.

Senator Benidickson: But we did not pass anything with regard to 1972.

Mr. Foster: No, sir.

Senator Benidickson: But we got a statement for 1972 for both Air Canada and CNR.

Mr. Foster: An unaudited statement.

Senator Benidickson: Yes.

Mr. Foster: Had this bill been presented, shall we say, last fall, there could not have been an audited statement, or even an unaudited statement, for 1973, because the year would not have been over.

Senator Benidickson: I agree, but the year is now well over, and there must be figures available that would give us a picture of operations for 1973.

Senator Flynn: Uncertified.

The Deputy Chairman: Uncertified, yes. I think we should inquire about that.

Senator Benidickson: Perhaps uncertified by the auditors.

Senator Flynn: Not signed, not certified.

The Deputy Chairman: Not certified. I think we will inquire about it and let you know later. Are there any other questions?

Senator McElman: Before we leave this point, there is one rather important question. Has an unaudited statement or an uncertified statement been passed to the minister at this point in time for tabling?

Mr. Corner: No, it has not.

Senator Flynn: For his own information.

The Deputy Chairman: What about the Minister of Finance?

Mr. Foster: No, sir.

Senator McElman: In that case, what you are dealing with here is a question of policy, is it not?

The Deputy Chairman: Yes.

Senator McElman: If the minister chooses to get an uncertified statement and table it, it will then be available to Parliament, including this committee. If he does not choose to get an uncertified statement and table it, it will not be available to Parliament or to this committee. Is that not the situation?

The Deputy Chairman: I would think so.

Senator Flynn: It depends upon whether he gets it without tabling it.

Senator Benidickson: I am pointing out that we got a useful statement for 1972.

Senator McElman: Of course you did.

Senator Benidickson: I am hoping that before we report this bill, which deals basically with operations in 1973, we shall get some kind of statement of operations for 1973, even though it is not certified by an auditor.

Senator McElman: I understand that.

The Deputy Chairman: We will try to find out exactly what we can get.

Senator McElman: Those statements for earlier years were only obtained if the government decided that there would be tabled an uncertified statement. Apparently that has not been done.

Senator Benidickson: Maybe they have not received an uncertified statement for 1973.

Senator McElman: I asked, and we were told they had not.

Mr. Corner: I said we have not sent an unaudited statement to the Minister of Transport.

Senator Benidickson: Oh!

Senator Riley: I cannot understand the reason for the delay. CP Investments goes before the public from time to time with completely audited statements when they issue a prospectus. CP Investments, which includes the subsidiary CPR, do not seem to have any difficulties or delays in issuing completely audited financial statements.

The Deputy Chairman: Section 40 of the 1955 act says:

The annual reports of the Board of Directors and auditors, respectively, shall be submitted to Parliament through the Minister of Transport.

Senator Flynn: Does it say "the audited statement" or "the report"?

The Deputy Chairman: It refers to "the annual reports of the board of directors and auditors, respectively," which "shall be submitted to Parliament through the Minister of Transport."

Senator Desruisseaux: Is that yearly?

The Deputy Chairman: I suppose it is yearly, because it says that

The annual reports of the Board of Directors and auditors, respectively, shall be submitted to Parliament through the Minister of Transport.

Senator Flynn: It should be noted that even if there is no audited report, that should not deprive Parliament of getting this information. There is no obstacle to Parliament getting an unaudited statement under that section.

The Deputy Chairman: That may be, but I am not too sure. I think we should inquire about it and find out exactly.

Senator Sparrow: Is what Senator Benidickson said about the 1972 statement being presented to Parliament and this committee true?

Senator Benidickson: We all got the formal 1972 printed statement.

Senator Sparrow: Not accompanied by an auditors' certification, is that correct?

Mr. Corner: That is correct. On the other hand, once the government auditors are appointed for 1972 they are required to report to Parliament.

Senator Flynn: Of course.

Senator Sparrow: Let me make it clear in my mind. The question is: Why is this 1973 statement not being made available on the same basis? Is that the question?

Mr. Corner: No, we are anticipating it will be more on the 1971 basis.

Senator Flynn: You would prefer to have your report printed with the auditors' certificate; there is no doubt about that.

Mr. Corner: That is right.

Senator Flynn: But it could be available at this time.

Mr. Corner: That is correct.

The Deputy Chairman: Through the minister.

Senator Flynn: That does not mean Parliament would not get it, because the minister does not get it. "Through the minister" means only that that is the channel to reach Parliament; that is all. There is no obligation to go through the minister. If the minister did not want to table it, I am quite sure Parliament could obtain it.

The Deputy Chairman: We will see.

Senator Riley: I asked a question a while ago and did not get any response. What is the reason for the delay? Why is it that CP Investments, which is a much wider complex of companies, and includes CPR, are able to provide to the public up-to-date financial statements every time they are looking for \$100 million or \$50 million? They do not seem to have any difficulty in providing the securities people across the country with all this information. Why cannot Parliament get it from the CNR?

Senator Langlois: CP appoints its own auditors; they do not have to come to Parliament for that. That is the reason for the delay.

Senator Riley: Does CN have to come to Parliament every year for their auditors?

Senator Flynn: No.

Senator Benidickson: It is a continuous audit; they have not held up the audit.

The Deputy Chairman: We will inquire into it and find out.

Are there further questions? We will start with CNR.

Senator Benidickson: Mr. Chairman, I would like to get as an appendix, when submitted, a statement of the assets and liabilities before the Capital Revision Act of 1952 and a copy of the statement for 1973. Can you provide that without an auditors' certificate for 1973?

Mr. Cooper: This is the question, really, that has just been discussed.

Senator Benidickson: In essence it is, yes. I really wish to know what has been the growth in the holdings of the 4 per cent preferred stock since the Capital Revision Act of 1952. In the report of 1952, which I believe I have before me, you show that the 4 per cent preferred shares, at \$1 each presumably, totalled \$754,871,945. In this 1972 statement of assets and liabilities...

Mr. Corner: It is on page 39.

Senator Benidickson: Page 39, thank you. That has increased to what?

Mr. Corner: \$1.235 billion.

Senator Benidickson: Yes. Without an auditors' statement can you inform us as to the increase in the 4 per cent preferred stock as a liability at the end of 1973?

Mr. Corner: We have not been able to issue any preferred stock.

Senator Benidickson: Until this bill is passed?

Mr. Corner: And we never issued any preferred stock in the year 1972. In other words, the figure you see here really was the same as at the end of 1971.

Senator Benidickson: It is a repeat of the 1971 figure?

Mr. Corner: It is.

Senator Benidickson: I did not look at the end of 1971, but did look at 1952 and compared it with 1972.

You made reference when you pointed out the purposes of clause 13, Mr. Cooper, to the revised statutes of 1952. Do you have the actual wording of the section when it says "notwithstanding"?

Mr. Cooper: Yes, I do, senator.

Senator Benidickson: Could you put that on the record, please?

Mr. Cooper: In the 1952 statute it occupies the major part of a page.

Senator Benidickson: It is very long, is it?

Mr. Cooper: Senator Benidickson, it really extends over half a page in the statutes.

Senator Benidickson: It is, indeed, quite lengthy, yes.

Mr. Cooper: And the follow-up section, 7.

Senator Benidickson: Could you summarize its purport?

Mr. Cooper: I will try. As a lawyer, I would hate to suggest that any one of its words is unnecessary.

Section 6 of the Capital Revision Act provides that the minister shall in respect of each year purchase at par from the company shares of its 4 per cent preferred stock to the extent of 3 per cent of the gross revenues of the National System in that year.

Section 6(2) provides for interim purchases through the year to be adjusted at the year end. The section further provides that the amounts so received by the company shall be used to meet expenditures of the National System for additions and betterments that have been included in an annual budget of the system.

I think essentially that is what it is all about.

Senator Benidickson: The difficulty here is that in 1972 we did not pass legislation.

Mr. Cooper: Correct; there was no authority to extend this provision in respect of 1972, yes.

Senator Benidickson: In consequence of the failure to include a similar figure in the legislation in 1972, does your report for 1972 still reflect any necessary purchase of preferred shares for that year?

Mr. Cooper: No, because none took place.

Senator Benidickson: Did none take place because we did not have legislation?

Mr. Cooper: Yes.

Senator Benidickson: So you are asking now for the normal procedures to take place, for the government to

purchase these preferred shares, not only for one year, but for an additional year, 1972?

Mr. Corner: Correct.

Mr. Cooper: That is right.

The Deputy Chairman: What is the reason that approval must be granted each year for the purchase of the preferred shares?

Mr. Cooper: Because the duration of the Minister's duty to buy the shares was limited as to time, and unless it is extended the minister has neither the duty nor authority to buy these shares.

Senator Benidickson: And that is why the figure for outstanding 4 per cent preferred shares on December 31, 1971 is the same as it was on December 31, 1972.

Mr. Cooper: Yes, 1971 and 1972.

Senator Benidickson: Did the figures for 1971 and 1972 remain unchanged simply because we have yet to pass this authorization?

Mr. Corner: That is correct.

Senator Benidickson: If Parliament passes clause 13, what increase in the numbers of preferred shares would have been shown for December 31, 1972?

Mr. Corner: If Parliament had extended the authority, the 1972 amount here would have increased by approximately \$40 million.

Senator Benidickson: And have you a calculation as to what the increase would be for 1973?

Mr. Corner: Yes, it is approximately \$43 million.

Senator Benidickson: I do not know the number of this clause, but you referred to it earlier, with respect to the financing of branch lines. Some are provided for financially in this annual bill, if we have it annually, as has been the practice more often than not?

Mr. Cooper: Yes.

Senator Benidickson: How is that different from the special bills providing financing for CNR branch lines in Parliament itself?

Mr. Cooper: Perhaps I can reply to your question as follows: There is a special bill only if the branch line in question is over 20 miles in length.

Senator Benidickson: It was six miles, and I believe Senator Langlois explained that.

Senator Langlois: I explained that yesterday, yes.

Mr. Cooper: Therefore, for the branch lines of less than that length there would be no statute.

Senator Langlois: When was this change made from six miles to 20?

Mr. Cooper: In 1967, at the time of the passage of the National Transportation Act.

Senator Flynn: It was part of the great new policy.

Mr. Cooper: It was a much needed change, so far as the act is concerned.

The Deputy Chairman: It was mentioned in your speech, Senator Langlois.

Senator Langlois: Yes, I gave that explanation yesterday.

Mr. Cooper: We would not borrow twice in respect of the same branch line, if that is your concern.

Senator Benidickson: I had experience with the financing of branch lines and legislation in Parliament itself, and here in this bill is another type of authorization for financing branch lines.

Mr. Cooper: The budget as presented here is really all-embracing.

Senator Benidickson: It embraces both forms of authorization.

Mr. Corner: Except that all the lines here would be less than 20 miles.

The Deputy Chairman: Honourable senators, at this point we might adjourn, as agreed. The committee will adjourn until the call of the Chair, which may be in the week commencing April 22.

Gentlemen, on behalf of the committee, I thank you for helping us today. I extend to you and to all honourable senators best wishes for a happy Easter.

The committee adjourned.

Published under authority of the Senate by the Queen's Printer for Canada

Available from Information Canada, Ottawa, Canada.



SECOND SESSION—TWENTY-NINTH PARLIAMENT

1974

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
**TRANSPORT AND
COMMUNICATIONS**

The Honourable MAURICE BOURGET, *Deputy Chairman*

Issue No. 4

TUESDAY, APRIL 23, 1974

Second and Final Proceedings on Bill C-5, intituled:

An Act to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System and Air Canada for the period from the 1st day of January, 1973, to the 30th day of June, 1974, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company and certain debentures to be issued by Air Canada

REPORT OF THE COMMITTEE

(Witnesses and Appendices: — See Minutes of Proceedings)



SECOND SESSION—TWENTY-NINTH PARLIAMENT

STANDING SENATE COMMITTEE ON TRANSPORT AND COMMUNICATIONS

The hon. J. Campbell Haig, *Chairman*.

The Honourable Senators:

- | | |
|-----------------------------|------------|
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| Bourget | Lawson |
| Burchill | *Martin |
| Denis | McElman |
| Eudes | Molgat |
| *Flynn | Petten |
| Forsey | Prowse |
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| | Welch—(22) |

20 MEMBERS

(Quorum 5)

**Ex officio member*

Issue No. 4

TUESDAY, APRIL 23, 1974

Second and Final Proceedings on Bill C-5, *Interlink*

An Act to subsidize the provision of money to meet certain capital expenditures of the Canadian National Railways System and Air Canada for the period from the 1st day of January, 1973, to the 30th day of June, 1974, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company and certain debentures to be issued by Air Canada.

REPORT OF THE COMMITTEE

(Witnesses and Appendices: — See Minutes of Proceedings)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, April 9, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Langlois, seconded by the Honourable Senator Denis, P.C., for the second reading of the Bill C-5, intituled: "An Act to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System and Air Canada for the period from the 1st day of January, 1973, to the 30th day of June, 1974, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company and certain debentures to be issued by Air Canada".

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

The Bill was then read the second time.

The Honourable Senator Langlois moved, seconded by the Honourable Senator Martin, P.C., that the Bill be referred to the Standing Committee on Transport and Communications.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Order of Reference

April 23, 1974.
(6)

Pursuant to adjournment and notice the Standing Senate Committee on Transport and Communications met this day at 10:10 a.m.

Present: The Honourable Senators Bourget (*Deputy Chairman*), Denis, Flynn, Forsey, Fournier (*Madawaska-Restigouche*), Graham, Langlois, Martin, McElman, Molgat, Riley and Smith. (12)

Present, but not of the Committee: The Honourable Senators Asselin, Benidickson, Cameron, Gélinas, Grosart, McGrand and McIlraith. (7)

In attendance: Mr. E. Russell Hopkins, Law Clerk and Parliamentary Counsel.

The Committee continued its examination of Bill C-5 intituled:

"An Act to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System and Air Canada for the period from the 1st day of January, 1973, to the 30th day of June, 1974, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company and certain debentures to be issued by Air Canada".

The following witnesses, representing Canadian National Railways, were heard in explanation of the Bill:

- Mr. M. J. MacMillan, President,
- Mr. W. R. Corner, Vice-President, Accounting.

On Motion duly put it was Resolved to print in this day's proceedings the "Balance Sheet of Canadian National Transportation Limited as at 31 December 1973" and the "Canadian National Transportation Limited, Income Statement" and "Statement of Retained Earnings for the Period Ending 31 December 1973". They are printed as Appendix "A".

It was suggested by the Honourable Senator Grosart that the Committee consider, at some future time, obtaining the services of Mr. M. J. MacMillan with the view of recommending to the Government and improved method of financing for Canadian National Railways.

On Motion of the Honourable Senator Benidickson it was Resolved to print in this day's proceedings the documents entitled "Consolidated Balance Sheet", "Consolidated Income Statement" and "Source and Application of Funds" all of which are for the year ended

December 31, 1973 and are from the Interim Financial Statements for 1973 of Canadian National Railways. They are printed as Appendix "B".

On Motion of the Honourable Senator Benidickson it was Resolved to print in this day's proceedings statements comparable to those appearing in Appendix "B" for the first full year after the coming into effect of the Capital Revision Act of 1952. These statements, which relate to the fiscal year 1952 are printed as Appendix "C".

Mr. MacMillan, at the request of the Honourable Senator Benidickson, agreed to provide a statement enumerating the number and value of 4% Preferred Stock issued by Canadian National Railways each year from 1952 to 1973 inclusive. The statement, entitled "Canadian National Railways-Issues of 4% Preferred Stock 1952-1973" is printed as Appendix "D".

The Honourable Senator Benidickson also requested from Mr. MacMillan a list of Deficit and Surplus figures of Canadian National Railways for the years 1952 to 1973. This information is printed as Appendix "E".

At the request of the Honourable Senator Langlois, the witness provided a "Summary of the Refundings under the Canadian National Railways Refunding Act 1955", together with a list of the securities substituted under the said Act. This document provided by the Department of Finance, is printed as Appendix "F".

A statement of "Shareholders' Equity of Canadian National Railways has been submitted and is printed as Appendix "G".

A further financial statement enumerating the capital investment of the Government of Canada in the Canadian Government Railways is printed as Appendix "H".

A tabulation of new moneys authorized by the various Financing and Guarantee Acts between 1952 and 1973 are printed as Appendix "I".

At 12:40 p.m. the Committee adjourned until 3:30 p.m. this day.

At 3:30 p.m. the Committee resumed.

Present: The Honourable Senators Bourget (*Deputy Chairman*), Eudes, Forsey, Fournier (*Madawaska-Restigouche*), Graham, Langlois, Martin, McElman, Riley, Smith and Sparrow. (11)

The Standing Senate Committee on Transport and Communications

Report of the Committee

Evidence

Ottawa, Tuesday, April 21, 1974

Present but not of the Committee: The Honourable Senators Argue, Asselin, Benidickson, Cameron, Desruisseaux, Duggan, Gélinas, Grosart, Lapointe, McIlraith and Molson. (11)

In attendance: Mr. E. Russell Hopkins, Law Clerk and Parliamentary Counsel.

The following witnesses, representing Air Canada, were heard in explanation of the Bill:

Mr. Claude I. Taylor, Vice-President, Public Affairs;
Mr. Michael Cockrane, Vice-President, Finance.

On Motion of the Honourable Senator McElman it was Resolved to Report the said Bill without amendment.

On Motion of the Honourable Senator McElman it was Resolved to include in the Committee's Report a Recommendation

relating to possible improvements in the method of financing for Canadian National Railways. The next of the Recommendation is included in the Report of the Committee.

On direction of the Chairman of the Committee the unaudited Financial Statements of Air Canada for 1973 are printed as *Appendix "J"* to this day's proceedings.

At 6:00 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Denis Bouffard,

Clerk of the Committee.

Mr. Chairman, Mr. Taylor of Air Canada, and Mr. Cockrane, I thank.

Also this morning we have the pleasure of having with us the President of Canadian National Railways, Mr. MacMillan, to whom I would like to extend a most hearty welcome.

Mr. MacMillan, thank you.

The Deputy Chairman, Mr. MacMillan, do you have any comments to make before senators put questions?

Mr. E. J. MacMillan, President, Canadian National Railways: Mr. Chairman and honourable senators, I do not have an introductory statement in the normal form, properly because from my reading of the evidence I see that an introductory statement was made at your meeting last week.

If I may—and I recognize I am impinging upon your government's time—I would like to make a very personal statement.

As some of you may know, I am about to resign—as a matter of fact I will be retiring in about a week—and when I look back upon my appearances in Ottawa, I realize that I began my parliamentary committee appearances in the Senate for a very long period of time, beginning about 20 years ago. I was a frequent visitor to the Senate and I piloted bills of the nature through the Senate committee for about 15 years. For personal and nostalgic reasons, I thought I would like to return here in my last week, so here I am.

It is always difficult to know what to say in terms of an introductory statement, but what I would like to say is that I am interested in two of those matters which are the Senate

concerns. One is the matter of the financing of the Canadian National Railways, and the other is the matter of the financing of the Canadian National Railways.

Let me first refer to the matter of the financing of the Canadian National Railways. I believe that the financing of the Canadian National Railways is a matter of great importance to the country, and it is a matter which I believe should be given the highest priority.

One of the main reasons for this is that the Canadian National Railways is a major industry in the country, and it is an industry which is essential to the country's economic well-being.

Had it not been for the losses incurred in the strike that I have just mentioned, I believe that by 1973 we would have been in a profit position. It might not have been great, but probably of the order of \$10 million, however, as a consequence of the loss of traffic and other factors, we had a loss of about \$100 million. This loss was due to the fact that our related expenditures exceeded by about \$10 million through this period, leaving us with a net loss flowing from the strike of something of the order of \$10 million. This changed the balance of the budget of \$10 million to a deficit of \$10 million.

I should have added that the railway operating losses in 1973 were about \$100 million, which was the same as in 1972. The total operating loss for the year was \$100 million, which was an increase over the \$80 million loss in 1972.

It is important to note that the railway operating losses in 1973 were about \$100 million, which was the same as in 1972. The total operating loss for the year was \$100 million, which was an increase over the \$80 million loss in 1972.

Report of the Committee

Wednesday, April 24, 1974.

The Standing Senate Committee on Transport and Communications to which was referred Bill C-5, intituled: "An Act to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System and Air Canada for the period from the 1st day of January, 1973, to the 30th day of June, 1974, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company and certain debentures to be issued by Air Canada", has, in obedience to the order of reference of April 9, 1974, examined the said Bill and now reports the same without amendment.

The Committee is convinced that the Canadian National Railways Financing and Guarantee Acts should be revised as indicated by the evidence before the Committee in order to correct certain inherent anomalies and particularly to present the authorizations required in a form that will be more realistic and that it should be up-dated to facilitate its consideration by Parliament early in the year for which the authorizations are sought; and

That it should be authorized by the Senate to undertake a study for the purpose of devising ways and means whereby such legislation may be introduced in a more expeditious and satisfactory manner in the future.

Respectfully submitted,

Maurice Bourget,
Deputy Chairman.

On Motion duly put it was resolved to print in this day's proceedings the "Balance Sheet of Canadian National Transportation Limited as at 31 December 1972" and the "Canadian National Transportation Limited, Income Statement" and "Statement of Retained Earnings for the Period Ending 31 December 1972". They are printed as Appendix "A".

It was suggested by the Honourable Senator Giosart that the Committee consider, at some future time, obtaining the services of Mr. M. J. MacMillan, with the view of recommending to the Government and improved method of financing the Canadian National Railways.

On Motion of the Honourable Senator Benidickson it was resolved to print in this day's proceedings the documents intitled "Consolidated Balance Sheet", "Consolidated Income Statement" and "Balance and Application of Funds" all of which are for the year ended

The Standing Senate Committee on Transport and Communications

Evidence

Ottawa, Tuesday, April 23, 1974.

The Standing Senate Committee on Transport and Communications, to which was referred Bill C-5, to authorize the provision of moneys to meet certain capital expenditures of the Canadian National Railways System and Air Canada for the period from the 1st day of January, 1973, to the 30th day of June, 1974, and to authorize the guarantee by Her Majesty of certain securities to be issued by the Canadian National Railway Company and certain debentures to be issued by Air Canada, met this day at 10 a.m. to give further consideration to the bill.

Senator Maurice Bourget (*Deputy Chairman*) in the Chair.

The Deputy Chairman: Honourable senators, I think we have a quorum now and, unless there is objection taken by Senator Flynn, I do not have to count all the senators.

Honourable senators, as you know, we have before us for further consideration Bill C-5. We have with us today all the witnesses who appeared on the last occasion—Mr. Cooper, Mr. Corner, Mr. Taylor of Air Canada, and Mr. Sheehan, I think.

Also this morning we have the pleasure of having with us the President of Canadian National Railways, Mr. MacMillan, to whom I would like to extend a most hearty welcome.

Hon. Senators: Hear, hear.

The Deputy Chairman: Mr. MacMillan, do you have any comments to make before senators put questions?

Mr. M. J. MacMillan, President, Canadian National Railways: Mr. Chairman and honourable senators, I do not have an introductory statement in the normal form, primarily because from my reading of the evidence I see that an introductory statement was made at your meeting last week.

If I may—and I recognize I am impinging upon your generosity—I would like to make a short personal statement.

As some of you may know, I am about to retire—as a matter of fact, I will be retiring in about a week—and when I look back upon my appearances in Ottawa, I realize that I began my parliamentary committee appearances in the Senate. For a very long period of time, beginning about 35 years ago, I was a frequent visitor to the Senate and I piloted bills of this nature through the Senate committee for about 15 years. For personal and nostalgic reasons, I thought I would like to return here in my last week, so here I am.

It is always difficult to know what to say in terms of an introductory statement. I know that you have shown an interest in two or three matters. Historically, the Senate

has always had an interest in the very broad gauge aspects of the operations of our companies.

Lacking a better vehicle, I thought I might say a few words about 1973. I should preface that by saying that in the normal historical pattern it would be 1973 that we would be talking about before you, because this bill is really a year old. What we used to do was to try to deal with the annual reports prior to the Easter recess—and they were the annual reports for the preceding year, not two years ago. As a consequence, the timing of the legislation was much more appropriate, in that we were dealing with current years when it was current before the House of Commons and the Senate.

In any event, last year was one of progress for the Canadian National, in spite of some, what I might call, grave difficulties. Our traffic volume was extremely high and we were moving very large amounts of traffic. We got ahead extremely well with all of this until we encountered the labour problem which developed in July and which continued through into September. Upon its resolution, we were then faced not only with the problem of dealing with enormous amounts of current traffic but also with the problem of trying to catch up with accumulations of traffic which had built up during the strike period. So we were very much behind the eight ball during the remainder of the year because of these two forces.

As if that was not bad enough, it was compounded by strikes in the plants of two car builders which had orders for us. We had anticipated delivery of this equipment but we did not receive it. So this combination of circumstances was very unfavourable.

Telecommunications and our non-rail activities continued to grow during the year, and the overall outlook at that time was still pretty good.

Had it not been for the labour unrest and the strike that flowed from it, I believe that in 1973 we would have finished in a profit position—it would not have been great, but probably of the order of \$10 million; however, as a consequence of the loss of traffic we had anticipated, we lost gross revenue traffic of the order of \$60 million, and our related expenditures decreased by about \$30 million through this period, leaving us with a net loss flowing from the strike of something of the order of \$30 million. That changed the budgeted profit of \$10 million into an actual deficit of the order of \$21 million.

I should have added that the net railway operating income in 1973 amounted to \$25.7 million, which was the best since 1956, and that our gross operating profit was quite respectable—\$48½ million, which was an improvement over 1972.

Prospects for 1974 look very good. As you know from what you have seen and heard, the traffic demand is still extremely high. There are enormous amounts of freight

traffic moving. We have a car shortage and everything that goes with it. The economy is buoyant, and this is really the yardstick upon which we measure our business. We think that, given a break, we may get into a black position in 1974.

Honourable senators, that is a superficial statement that I have made, and I recognize it as such, but I have made it really so that I may have an opportunity of saying something to you this morning.

The Deputy Chairman: Thank you very much, Mr. MacMillan. I would like to take this opportunity to say how much we regret seeing you go, but I hope that even if you do not come and visit the Senate as President of the CNR you will come here as a Canadian. We wish you good health and many, many happy years of retirement.

Senator Riley: I appreciate seeing this consolidated balance sheet as of December 31, 1973. There are one or two questions I would like to ask in respect to it, originating from the questions I was asking at the last meeting. I am interested in knowing about a balance sheet or a financial statement for some of the subsidiaries, particularly Canadian National Transportation, Limited and its association with Canadian National Express division of Canadian National Railways. Do you have available a balance sheet or a financial statement for Canadian National Transportation, Limited?

Mr. MacMillan: We have it for both 1972 and 1973. Which year were you particularly interested in, or were you interested in both?

Senator Riley: I am interested in both of them, actually. Probably the last one I saw was 1971.

Mr. MacMillan: I am told that the 1972 statement was filed in New Brunswick and Newfoundland.

Senator Riley: Then it is 1973 that I am interested in.

Mr. MacMillan: Yes. I am going to pass to you, senator, the Canadian National Transportation Limited balance sheet as of December 31, 1973, and attached to it is a supplementary document, the income statement for the period ending December 31, 1973.

The Deputy Chairman: Shall we have those tabled in these proceedings, honourable senators?

Hon. Senators: Agreed.

See Appendix "A"

Senator Benidickson: Mr. Chairman, I should point out that we felt at a disadvantage at the last meeting because we did not have anything of that nature for 1973. Has this been tabled in any form by the Minister of Transport in the House of Commons?

Mr. MacMillan: No, it has not, senator.

Senator Benidickson: Last year he tabled a statement with a proviso that, as auditors had not been appointed in accordance with certain statutes, it was limited in that way.

Mr. MacMillan: And this one would have to be so regarded.

Senator Benidickson: Yes, quite.

Mr. MacMillan: It is audited, but it is not certified—put it that way.

The Deputy Chairman: Honourable senators, we have no other copies of this document which Mr. MacMillan has given us, but it will appear in today's proceedings.

Senator Benidickson: This did appear in the press, did it not? At least, a summary of it did since this committee met last week.

Mr. MacMillan: No, this statement is confined to Canadian National Transportation, Limited.

The Deputy Chairman: I believe what was tabled, Senator Benidickson, was the consolidated balance sheet of Canadian National Railways as at December 31, 1973, and the Air Canada 1973 financial statement. Those, I understand, were tabled in the other place last week.

Senator Benidickson: Oh, that is what I was referring to.

Senator Smith: Mr. Chairman, if the document which is being tabled now is not extensive, perhaps photocopies could be made for all of us.

Senator Langlois: At least enough to go around.

The Deputy Chairman: Yes, I will have that done.

Do you need a copy in order to ask your questions, Senator Riley?

Senator Riley: No, I can pursue this line of questioning without the financial statement, Mr. Chairman.

I think I asked last week about the operating policy of CNTL and how it is tied in with the Canadian National Express division of Canadian National Railways. As I understand it, Canadian National Express operates Canadian National Transportation, Limited, at least in some parts of the country. The sales end of it is Canadian National Express. The billing—waybills or probills—is all under Canadian National Express. Canadian National Express employees operate Canadian National Transportation Limited, and this particular company is operated at cost, I understand, and bills Canadian National Railways at the end of each year. Is this so?

Mr. MacMillan: Perhaps if I were to explain the policy, the answers to your questions would emerge.

Senator Riley: Very well.

Mr. MacMillan: Several years ago—and I am sorry I cannot put a date on it, but I do not suppose it really matters—we recognized that there had to be a change in rural railway service. You will recall that originally we had running on almost every piece of rail track in this country, as the Canadian Pacific, some form of passenger train, then mixed trains and then way-freights and these other means of moving both people and goods. Less than carload movements were broken into express traffic and LCL traffic, and we carried the express traffic in an express car on a passenger train and the LCL traffic was sometimes carried in half that car and sometimes it was carried in an open car on the wayfreight.

As time went on this service became inadequate and we decided at that time that it was best done by putting it on the highway.

There immediately arose a jurisdictional problem as to whether or not these highway vehicles ought to operate on

the highways in the name of the railway *per se*, the parent company, or in another name which rendered them automatically subject to provincial jurisdiction.

The vehicle chosen was Canadian National Transportation Limited, which is a federal incorporation by Letters Patent that had been brought into being many years before and was lying dormant. So we activated that company and used it as the vehicle to make applications to the provincial highway traffic control boards, because I decided then that we were not going to provoke a constitutional harangue and that we would atorn automatically and fully to provincial authority on the highway. This we did, and we applied to the various boards from coast to coast for such highway rights as were required to operate these vehicles.

In some cases there were enough operations to justify the establishment of separate crews to man those trucks, crews who were employed directly by CNTL. In others there were not. Also we had on our roll then, and we still have, a number of Express employees working under seniority agreements which gave them the right to man certain of these vehicles. So what has been done in some instances, and the Maritimes is a good example, is that CNTL bought the trucks and made the application for authority to operate them, and the service provided fundamentally in these vehicles is express traffic. It is traffic which years ago would have been moved by rail, but it is now moved by highway. They are very largely point-to-point movements, and the relationship between the railway operating arm and the express department, in so far as determining the amount of money which is to be paid for the operation, is on an arm's length basis. If the CNTL is prepared to do it for a figure that is equal to what express can obtain in bids from other operators, then CNTL will get the business.

In the actual accounting, as you say, the waybills and the probills are CN Express documents, because it is CN Express traffic. The drivers are CN Express in the Maritimes, for convenience, and the wages paid to them are charged back to CNTL, and the Express department pays CNTL for each movement between these various points.

That is the relationship which governs the vast majority of the volume of the movements.

Since I saw your *Proceedings* and identified your interest in this subject, I asked what common carrier volume there was involved in it, and I was told that, expressed in dollars, perhaps about 1 per cent of the gross earnings of the CNTL in the Maritimes would be in respect of common carrier movements. These are basically truckloads, as I understand it, and they are moved by CNTL with their own waybills and their own probills, and pursuant to public tariffs issued in respect of them.

Does that answer your question, sir?

Senator Riley: Mr. Chairman, I would like to ask a supplementary question. When you say, Mr. MacMillan, that the CNTL is operating, does it have its own sales force, or does it rely on the sales force of Canadian National Express? Does CNTL seek business by itself?

Mr. MacMillan: Not basically, not extensively; otherwise the volume would be more than the one per cent.

Senator Riley: Right.

Mr. MacMillan: It is possible that they have a few salesmen, but I would not think there would be many, if there

were any. There are some officers in the Atlantic provinces who are joint officers. They have an official position in the Express department, and at the same time an official position in CNTL.

Senator Riley: I understand that in the Maritime CNTL operates, or has as a subsidiary, Eastern Transport. Does Eastern Transport operate under CN Express?

Mr. MacMillan: No, not at all. CNTL is the parent company, its headquarters are in Toronto, and it operates all of what we call the separately operated truck companies. Eastern is managed from Truro, and the reporting relationship is to the general manager of CNTL, who is based in Toronto.

Senator Riley: Then you mentioned earlier that it was set up in order to provide some of this non-urban point-to-point in rural areas where there had been abandonment of rail lines.

Mr. MacMillan: That was the original concept.

Senator Riley: And it has grown from that, I take it.

Mr. MacMillan: Yes, it has.

Senator Riley: You have truckload shipments, say between Saint John and Halifax. You advertise that as a night rider operation. That would be mostly truckload lots emanating from points in New Brunswick, say the main points of Saint John and Moncton, and then going right on to Halifax, without any intermediate drops or pick-ups?

Mr. MacMillan: That is right, sir. I would expect that is what it is.

Senator Riley: So, actually, what CN Express is doing is competing with the other licensed common carriers and using as a device CNTL. And then, if I recall the answers I got, CNTL, at the end of the year, bills Canadian National Railways through the Express company for its operating costs only, and I suppose there is provision for depreciation of its equipment; but on examining the balance sheet, as I recall, I wondered, if this were so, why does CNTL have considerable assets apart from their rolling stock?

Mr. MacMillan: Well, I think the statement that you say you were given, that they bill only for operating costs, is erroneous, because I know . . .

Senator Riley: That is what I want to know.

Mr. W. R. Corner, Vice-President, Accounting, Canadian National Railways: I wonder if I could clarify the position relative to that. When CNTL carries express parcels for CN, CN has made out all the waybills for the individual express parcels. They are loaded in the trucks, and they are carried away by CNTL. There is a bill of lading prepared between CNTL and CN, and also that consolidated truck load moves on a CNTL waybill.

Reference was made earlier to the fact that in New Brunswick and Prince Edward Island there is this common carrier status for CNTL. There is a very modest share of business that comes from that source, the one per cent that Mr. MacMillan mentioned; but if we are soliciting traffic as a common carrier in those two provinces under the name of CNTL, we would have to use a CNTL waybill.

Senator Riley: Well, to get back to the assets of CNTL, apart from the rolling stock, do they have investments in

other areas besides Eastern? Do they have investments in other companies, transportation companies?

Mr. Corner: Yes. This balance sheet, senator, that you have before you—or it might be in the process of being reproduced—is the balance sheet of the CNTL holding company, and what we have there, on the assets side, is our investment in the separately operated trucking companies. You know, what we invest at the beginning plus certain advances to date, and also we have the investment in the vehicles that constitute CNTL. There are very few assets other than the motor vehicles, the trailers, the tractors, and that type of thing.

Senator Riley: That is the tractors and the trailers of CNTL?

Mr. Corner: CNTL.

Senator Riley: Plus the investment in these other companies.

Mr. Corner: In the separately operated trucking companies, yes.

Senator Riley: And this makes up for all the assets on the balance sheet?

Mr. Corner: It does, yes.

Mr. MacMillan: There are no fixed assets of CNTL shown at all in the balance sheet. I would be surprised if it had any. The assets which we have been discussing are equipment. The separately operated trucking companies such as Eastern, do have fixed assets, which are standing on their own balance sheets, which are consolidated in this one.

Senator Riley: They are consolidated in the CNTL balance sheet?

Mr. MacMillan: Yes. And when you get it back you will notice there is one item reading, "Investment in subsidiary companies." Those are the separately operated trucking companies. The only one left in the east, I think, is Eastern.

Senator Riley: CNTL, as I understand it, is not licensed in the province of Quebec.

Mr. MacMillan: No.

Senator Riley: Is it licensed in the province of Newfoundland?

Mr. MacMillan: I do not think so.

Senator Riley: Is it licensed in any province beyond Quebec?

Mr. MacMillan: CNTL?

Senator Riley: Yes, as a common carrier. Is it licensed as a common carrier under provincial jurisdiction in any provinces west of Quebec?

Mr. MacMillan: I am not trying to evade your question, senator, but I do not think it is, and the reason I say that is because, in Ontario, for example, we have a number of separately operated trucking companies serving a very good segment of the province operating completely independently, the same way as Eastern operates in New Brunswick. We do have a unique situation in greater

Toronto, in that our great bulk terminal is north of the municipal boundary of Toronto. It is what was called Concord, and we have a highway haul there of perhaps 20 miles to get into the heart of the city of Toronto, and so we had to go to the provincial government for, really, bridge rights on that highway, to get into the distribution. Then, out of this terminal, we had to peddle directly to break bulk points in western Ontario—Brantford, Guelph and places like that. So the situation here is somewhat different.

In Manitoba we have some CNTL operations—or we did have, where they were in direct substitution for rail service. There was one up between the lakes, and so it goes on. But in no instance that I know of does CNTL, as such, have any fixed capital assets, but they do have investments in equipment to perform these chores. However, they are, in turn, on a contractual basis with the parent company and, as I said a while ago, I have known of instances in which CNTL has bid for the movement of traffic by highway but has bid higher than an independent, and the independent has been given the business.

Another feature you were interested in at the last meeting was the question of subsidy, and I can assure you that CNTL has not received any subsidy at all.

Senator Riley: Under the Atlantic Region Freight Assistance Act.

Mr. MacMillan: No.

Senator Riley: Has CNTL made any application for such subsidies, or endeavoured to obtain them?

Mr. MacMillan: To my knowledge, the Railways do not get any subsidies on Express. I know we did not for many, many years. Of course, on the rail we get express subsidies.

Senator Riley: I understand that, but, as far as I know, there is no provision in the Atlantic Region Freight Assistance Act which precludes CNTL from applying for this subsidy.

Mr. MacMillan: We have never got it. I know that, because I asked about it.

Senator Riley: If I may repeat here, CNTL, I take it, has no investments in any other company than highway transportation companies which, I presume, are all devoted to the movement of CN express shipments.

Mr. MacMillan: I am not sure.

Senator Riley: I guess Eastern is in direct competition with other carriers?

Mr. MacMillan: Oh, yes, Eastern lives in its own competitive environment.

Senator Langlois: In this statement I see under the heading of "other income" income from separately operated trucking companies. Would Mr. MacMillan tell us more about these separately operated trucking companies, what they are and how they operate?

Mr. MacMillan: The first one, starting in the east, is Eastern Transport, about which I have been speaking to Senator Riley. Let me explain, first of all, what we mean by "separately operated trucking companies". These are companies which in every instance existed in other ownership originally and which we acquired through the years

and which had at that time provincial franchises to carry on a pre-determined type of highway business. In some instances they were general franchises and could engage in any type of trucking business, while in other instances the franchises were limited. I can think offhand of one that was a bulk contractor—that is, he carried bulk cement and things of that nature. That was the limit on their licence. They were scattered from coast to coast. We have preserved their operations in their original names. In some instances we have put two or three companies together under one of the original names, and that is the situation with Eastern.

At one time we owned another company which had a little empire based on Sydney, and it was called the Sydney Transfer and Storage, or something like that, and it was merged into Eastern and became part of Eastern as we now know it.

These companies have their own management. They are all truckers; that is their way of life. They operate in the competitive environment which exists in that community. They have no direct connection with the railways in the locality. The railway officers have no supervision over them whatever.

Moving then to the west, we have none of these companies in Quebec but we have a number of them—four or five—in Ontario, and then we have some more in Manitoba, Saskatchewan, Alberta and British Columbia. So the separately operated trucking companies embrace perhaps a dozen across the country, and they provide the capability for interconnecting in some instances, and in some instances the original charter had interprovincial rights. Thus we can carry on the highway business except through the province of Quebec, where we have no separately operated trucking company.

Senator Langlois: Is there any reason for this?

Mr. MacMillan: Yes. The provincial government, through its Highway Traffic Control Board, has never been in favour of granting either of the railways intra-provincial rights. Canadian Pacific have limited rights while we have extremely limited rights. We can move into Montreal from Ontario on interprovincial licences, but that is the extent of it.

Senator Cameron: Dealing further with that point, what percentage of the trucking in the Prairie provinces would be operated by CNR? For example, who owns Allied Van Lines?

Mr. MacMillan: We don't.

Senator Cameron: I thought you did.

Mr. MacMillan: No.

Senator Cameron: Well then, what is the percentage?

Mr. MacMillan: It would be very small. It would be very difficult for me to guess; nevertheless I would guess about 5 per cent. I could be out a bit on that, but not very much.

Senator Flynn: Mr. MacMillan, coming to your comment on the deficit of \$21 million for 1973, you said that if it had not been for the strike the result would possibly have been instead a surplus of about \$10 million. Apparently, there was a loss of \$60 million in operating revenues. I was wondering about this. Was this a complete loss, or was the company able to recover part of it during 1974?

Mr. MacMillan: No. Let me say, as a preamble to answering your question, that during the strike there had been a great accumulation of traffic, consisting of traffic flowing out of manufacturing plants, mines and other operations where they put the goods on the ground to wait for us. That traffic, insofar as it remained on the ground, was not lost to us but helped to create the problems of volume which were so severe for so many months afterwards. On the other hand there were cases where traffic moved by alternative modes during this period, shipping patterns were varied; also cases where no shipments were made at all, and sales were lost. We estimate that the permanent loss of CN rail traffic so caused was of the order of \$60 million. That is subject to all the vagaries of estimating. We may be out a bit, but we think that is approximately what it was.

On the expense side, our gross expenses did decline appreciably during the strike period, because the people who were on strike were not being paid and in other instances there were others who were displaced because there was no work, but that was not very extensive, because, as you recall, we went through a lengthy period of rotating strikes when, for example, we were working today and then struck at 8 o'clock tomorrow morning. In many such instances we did not know about the strike and the employees would appear for the morning shift. What do you do with them then? You cannot turn them away, because in that case they get five hours as a minimum call in any event. So we had a wage bill which was intermittent, broken, fragmented, but nevertheless it cost us, we think, a considerable amount for unproductive expense during that strike period. The net result was the loss of about \$60 million in revenue—decreased expense of about \$30 million giving a net loss of about \$30 million.

Senator Flynn: How is the increase in wages from arbitration reflected in those figures?

Mr. MacMillan: Well, of course, we had to pick up the retroactivity of the original wage settlement by Parliament, and then we had to put into the 1973 accounts the retroactivity which flowed from the arbitration.

At one point in time I knew this all to a decimal point, because I spent many nights trying to play with these figures. I have lost them momentarily. Those are all in the 1973 accounts. If you wish, they could be said to have put us into the red. I prefer it the other way, because I think it is more realistic to say that it was the traffic loss and the unproductive wages during the strike which brought it about. But one could rationalize it equally well on the basis that we could have survived a traffic loss if we had not had to pay such substantial wages, and particularly the retroactivity which flowed from the final arbitration, which I think cost us \$23 million.

Mr. Corner: It was \$21.6 million on January 16, as a total.

Mr. MacMillan: If we had not had to pay that, we would break even.

Senator Flynn: You mentioned that in 1974, if things go well, you expect a surplus.

Mr. MacMillan: We would hope for a surplus.

Senator Flynn: This increase in wages, is it compensated for to some extent by grants from the government?

Mr. MacMillan: No.

Senator Flynn: Or the increase in the freight rates?

Mr. MacMillan: No. The increase in wages which we encounter in 1974 at this point in time will not be compensated for by the government. As you know, the fact is that the groups of rates which we normally increase on a horizontal basis are frozen. I would anticipate that the government will come to our aid in respect of those; but the order of magnitude will not be as great as the ongoing additional wage costs.

At the same time, we are continuing to experience an increase in the volume of our business and, of course, every year we try to build into the methods of operation productivity increases. We think we can get three or four per cent on an annual basis flowing from productivity and putting it all together and bearing in mind the reservation I expressed a moment ago about receiving assistance in lieu of the freight rate increases, we think we have a fighting chance of getting it back into the black in 1974.

Senator Langlois: In answer to Senator Flynn's question, you referred to this traffic you have lost through changes in the modes of transportation. Did I understand you to say that you do not expect ever to get this traffic back?

Mr. MacMillan: No, no; I think the bulk of it we have back again.

Senator Langlois: You have it back now?

Mr. MacMillan: What I meant was that if we had traffic from, say, a plant manufacturing automobiles, the automobiles which were manufactured during the initial period of the strike, which could not be carried by rail, were driven away. The manufacturers took them on the highway in carry-alls and by individuals. Those automobiles are gone and we will never get them back. But, by virtue of the rail shutdown the automobile plants had to shut down also. So, when they came back to work the flow was picked up again. The extent to which we moved by rail pre-strike, we moved the same after the strike; but the traffic that had to be moved during the strike period and was moved is gone to us. Hopefully, we shall not have lost the continuing flow of that kind of traffic for the future, although we might in a couple of instances, but it would be very small.

Senator McElman: Mr. MacMillan, when you reach a collective bargaining agreement for the CN operations, the wage structure is identical across the country, is that correct?

Mr. MacMillan: That is correct, national agreements.

Senator McElman: For all employees?

Mr. MacMillan: Everyone in that category in the agreement, that is right.

Senator McElman: Presumably, you have separate collective agreements with your employees, for CN Hotels, CN Express—

Mr. MacMillan: Yes.

Senator McElman:—and subsidiary companies. Does the same thing apply there?

Mr. MacMillan: I hesitate because, by and large, that is true, but in some instances there may be an agreement which covers a category of employees who would show up in two different functions. I do not think so, but that is

conceivable. Basically, the agreements are related to the particular labour organization, on the one hand, and the consolidated work force, on the other.

Senator McElman: Let us take the CN Express. You have a collective agreement for your employees there. Are the wages for your truck drivers in the CN Express the same in Moncton, New Brunswick, and Toronto as they are in Hamilton and in Winnipeg?

Mr. MacMillan: They are, with one exception—I think it is the city of Vancouver, where we are living in a very expensive labour area. I rather think that the delivery men in Vancouver are paid a slight differential over the agreement rate. It is a premium, an additive on top of the national rate.

Senator McElman: Then in all the collective agreements of your principal company and subsidiaries you do not accept a differential; it is the same all across the country?

Mr. MacMillan: Well, yes. I really do not know what you imply by we "do not accept". I should tell you that the labour organizations for a very long time have been adamant that rates must be on a national basis. If they were prepared to deal with a given category and prescribe local rates, we could live with that. But the insistence upon national rates flows from organized labour.

Senator Forsey: It is the result of a long struggle.

Mr. MacMillan: Indeed, it is.

Senator Grosart: Mr. Chairman, may I, through you, say to Mr. MacMillan that some of us here had hoped that one of the last of his many great achievements might have been to rationalize the manner of presentation of these "annual" bills of capital expenditures and guarantees.

I presume that in a week from now, if I understood him correctly, Mr. MacMillan is retiring. Then he might come back and we might ask him what the CN system has done to try to improve this situation—or she might be brave enough to answer that question now!

Mr. MacMillan: I do not know how I can answer that question specifically, but I can say to you, as I said a while ago, that the system has worked reasonably well. Some gentlemen in this room are familiar with it.

That was during the period when the annual budget was dealt with in the very early part of the year, and the legislation was formulated and introduced shortly afterwards. Until three or four years ago, and it may be a wee bit longer, the appearance of the Canadian National and Air Canada before the parliamentary committee was related to their annual reports, and we spent days and days talking about the contents of the reports prior to the introduction of the Financing and Guarantee Act. The annual report provided a breadth of inquiry that embraced everything one could anticipate being dealt with in that act. We tried at that time to have the reports considered by the parliamentary committees prior to the Easter recess; it was all buttoned up.

Then, when the F. and G. Act was introduced in subsequent weeks it normally received prompt attention in Parliament, and the cycle was completed.

The concept of the act is all right because it deals with the current year and into the first six-month period of the next ensuing year. As long as we are talking about 1974 in 1974, and the future involved with the first half of 1975, it

is in phase and there are not any problems. But it is because the legislation has not had an easy passage through the House in recent years that the whole thing has fallen out of phase.

This legislation, for example, you recall is dealing with the calendar year 1973 with the first half of 1974, and it is a year out of date. At this point in time it should be talking about 1974 and the first half of 1975.

Senator Grosart: It has two months to run; that is all.

Mr. MacMillan: Yes, that is correct, but if it had been in its proper sequence and proper phasing it would have had 14 months to run, because we would then be dealing with events up to July 1, 1975.

Running alongside of it is the fact that our annual report, by statute, must be signed by the auditors, and the only way in which the auditors for this company can be appointed is by Parliament. At one point in time we had a separate bill, a short bill which dealt with auditors and auditors alone, but then years ago, just in aid of reducing the work before Parliament it was consolidated as a section into this statute. But we immediately get into "the chicken or the egg" conundrum, because it has not been possible to file a proper annual report certified by the auditors until the Financing and Guarantee Act has been enacted to appoint such auditors, and, as a consequence, the annual report has not been used as the basis for the appearance of the two companies before the parliamentary committee for a couple of years. We have been appearing pursuant to other legislation.

Now, so far as the railway is concerned, this bill in the first couple of clauses—and I am not going to refer to it because I do not want to put it on a technical basis—denotes authority for the making of capital expenditures which were made well over a year ago; that legislation in my opinion, is not even required because the Canadian National Railways Act, upon the approval of the capital budget by Order in Council, empowers the directors of the company to make capital expenditures. So that part of the statute is not necessary for the railway at all.

It also provides elaborate financing opportunities, which again are traditional; they have been there for 30 years in one form or another, basically in this form, but the method of financing Canadian National by virtue of the pressure on interest rates has radically changed in recent years. In the first place, insofar as capital debt is concerned, we have borrowed no money from anybody on bonds for close to 15 years. In fact, we have paid back \$100 million against the bonded indebtedness of Canadian National. With respect to new equipment that we are buying, we have the authority by an Order in Council, and have been so doing, to use equipment financing, because the interest rates on these are radically more attractive than on bonded debt.

Senator Benidickson: That could otherwise be called a leasing of equipment arrangement.

Mr. MacMillan: Yes, that is correct; and these are very favourable. Periodically the rates have been extraordinarily low. As a consequence, we have not used borrowing authority contained in the statute, I think, for a bare minimum of ten years.

Senator Grosart: That is public financing?

Mr. MacMillan: Yes, we have not done any at all.

Senator Benidickson: When you say you have not done any borrowing in that period of 15 years, you have nonetheless, because of a statute of a little more than 20 years' duration, been able to get from the government a purchase of your preferred shares which so far have not paid interest?

Mr. MacMillan: That is correct, yes.

Senator Benidickson: Later I might ask as to what those have been over the years.

Senator Grosart: Mr. MacMillan, given these circumstances—whether we wish to call them legislative or political does not matter—do you believe there can be improvement in the presentation of this kind of bill so that what we are faced with now can be avoided in the future? Do you think there is a way out?

Mr. MacMillan: Yes, I think there can be. I do not know whether I would ask you to date that as of today or a week from today! I am quite sure there can be.

Senator Grosart: Three years ago, the last time we were discussing the predecessor of this bill, we were told that an effort was being made to rationalize this situation. Is that a continuing effort? Is there a dialogue going on between the System and the government?

Mr. MacMillan: I would say, yes. I have not participated in the detailed dialogue myself, but the government, particularly the Department of Finance, has had a very considerable interest in improving this technique, and I am certain they continue to have.

Senator Grosart: Would you care to suggest what kind of improvements might be made?

Mr. MacMillan: I think one of them is that the authority for certain of the functions provided for in this legislation should be on a continuing basis. That is one thing. For example, in the definitive statute governing the affairs of the Canadian National Railway Company there is power to borrow money. The only difference between that power and the power included in this legislation is that the borrowing power in the legislation contemplates, in the proper instances, the addition of a government guarantee. And I do not see why that cannot be on a permanent basis, because the facts are that the people of Canada own this company. Normally, in a company one deals with its shareholders by calling them into an annual meeting, and so on, but the statute in our case provides that expressions of opinion by the shareholders of Canadian National shall be granted by Order in Council. So we come right back to the Governor in Council in respect of many things, and I would like an opportunity at some point in time to try to convince parliamentary committees that they should put it into the definitive act that we can borrow money with the consent of the Governor in Council.

Senator Grosart: Would your suggestion then be that there would be an act? Although, apparently there is an act already.

Mr. MacMillan: Well, you would have to amend the Canadian National Railways Act to do that, if that were regarded upon examination as the proper vehicle.

Senator Grosart: So there would be permanent authorization to the System—I will call it the System—to incur capital expenditures.

Mr. MacMillan: I do not think we need it. That could provoke a legal discussion, and I do have a legal degree in my background, but it is 25 years since I have seen it or done anything about it. But I still do not think there is any legal requirement for Canadian National to obtain further authority to make its capital expenditures, provided the capital budget has been approved by the Governor in Council pursuant to the CNR Act.

Senator Grosart: Without any further Order in Council authorizing it?

Mr. MacMillan: Yes, once they issue the Order in Council approving the budget, I think that empowers the directors of the company to spend the money.

Senator Grosart: Then what authorizations, either guaranteed authorizations or otherwise, would be required on the permanent basis you suggest?

Mr. MacMillan: Only a very small amendment to the act, and that could be to the effect that in the financing of approved capital expenditures the company could borrow money from the government or from the public, and, in the latter eventuality, that the bonds could carry a Government of Canada guarantee. This would go a very long way towards satisfying the essential continuing requirements of this legislation.

Senator Grosart: Would you see this government guarantee as permanently embedded in the legislation?

Mr. MacMillan: Surely. I would put it right in, because it can only be invoked with the consent and, really, at the initiative of the Governor in Council.

Senator Grosart: Where, then, would parliamentary control of the expenditures lie? In other words, if you had an enabling act, which is what it would be, subject to implementation by Order in Council, at what stage would you have an opportunity for parliamentary control, other than, of course, the reference of the annual report?

Mr. MacMillan: Well, I was really considering your question, and particularly the word "control." I would have to think about that, from that point of view. I do not know at this moment, but I was going to suggest to you that there would be ample opportunity for inquiry into all of these matters through the vehicle of the annual study of the annual report, which I find highly desirable. It gives an opportunity for people to find out what has gone on and what is likely to go on, and I think that in the broad gauge it is beneficial. Now, that is not necessarily of the same significance as "control". I do not know where you get "control" but I am not at all sure—and I say this with a smile on my face, because the record does not show smiles—that there is control in the vehicle of the Financing and Guarantee Act, in any event.

Senator Langlois: Mr. Chairman, on this very subject I would like to put a question to our Law Clerk, through you. Could not this control, referred to by Senator Grosart, be provided by an item in the supplementary or main estimates on loans and advances?

Mr. E. Russel Hopkins, Law Clerk and Parliamentary Counsel: Well, I think so. As a matter of pure law, yes.

Senator Benidickson: Well, yes, but the Finance Committee of the Senate has been protesting for some years that there are too many briefly stated phrases in the estimates, which are legislative, which perhaps can be overlooked,

and which are inadequately examined and debated by a committee either in the other place or in the Senate. Senator Grosart and myself, perhaps, have been in the forefront relating to complaints of that type concerning what is always called "the equivalent of legislation."

Senator Langlois: You are referring to \$1 items.

Senator Benidickson: No, no. Well, yes; in a way it could be a \$1 item. They go through under the pretence that the item is nominal, and is only \$1, but the language is so permissive and so wide that it has tremendous implications; whereas when we are presented with individual bills outlining the methods under which certain officials would carry out their duties, and certain things would be done, we react differently in our examination of them.

Senator Grosart: I do not want to get into a discussion of this kind, but let me say that when I used the word "control" I was speaking only of the obligation of Parliament in respect to the expenditure of public funds. I am aware that perhaps the purpose of setting up proprietary corporations under the Financial Administration Act is to give them a degree of independence in operating control. I am only speaking of the monetary control, which surely is a responsibility that Parliament must take. It must take the responsibility for the expenditure of its funds, even if they are in the form of loans, and this is what we are talking about here.

In this kind of improvement, or rationalization, Mr. MacMillan, would you see some degree of consolidation of some of the acts which govern your activities—such as the CNR Capital Revision Act, the CNR Act, the CNR Refunding Act, and so on—into a single statute?

Mr. MacMillan: Yes, I would. Just on, really, a philosophical base, my acquaintance with the history of this is that statutes of this kind have to be studied and consolidated periodically, and it is a long time since there has been a consolidation of the legislation affecting this company. We have, historically, consolidated it two or three times, and maybe it is down to the point where it should be done again. I rather think there is merit in that. I think that there are provisions in the various statutes which must prove very difficult for someone not familiar with them. In many instances they would not even know of the existence of these other statutes, because the provisions show up and we operate, in part, under one act, and, in part, under another, and through the whole gamut of six or seven different statutes. Sometimes, on their face the provisions appear to be contradictory. They are not so, really, but the background knowledge is essential. I think consolidation of all our statutes is something that should be done in the near future.

Senator Grosart: A final question, Mr. Chairman.

The fact that you have been able to get along for two years without the predecessors of these bills, since 1970, 1971, raises the suspicion that we do not need the bill at all.

Mr. MacMillan: No, no. I thought I was quite frank about that. I thought I left you with the impression that insofar as the railway was concerned many of the provisions of the statute are not necessary for us, and the reason is that we, as a matter of fact, can explain that we have not borrowed any money—any new money—from the Crown for a very long period of time, and we live entirely, for our operating expenses, on our operating income plus our deficit. Now, the deficit is approved by appropriation in

Parliament, and so that looks after that phase of our business. Our capital expenditures are defrayed very largely by our self-provoked depreciation, and by an item called "salvage", which in fact is salvage, and amortization of debt, which provokes some millions on top of that, and then the sale of the preferred stock, the proceeds of which must be expended on capital account.

In the last two years we have not been able to sell this preference stock and, as a consequence, that money which we normally would receive from government has not been forthcoming; and, in the first instance, what we did was to live on our working capital. Then, as it became exhausted, we had to borrow from the chartered banks; and so it goes on.

If we had machinery whereby this preference stock was put on a permanent or a semi-permanent basis, which it was for ten years, and was not dependent upon the annual re-enactment of that section in the act, then we could get along, in these circumstances, quite well.

Senator Grosart: With 4 per cent money.

Mr. MacMillan: No. It is free money; that is what it amounts to. It carries a 4 per cent dividend rate if earned, and again that is all spelled out in the—

Senator Grosart: It is still 4 per cent money. I have got some of that out myself, in one or two instances.

Could I then ask you what was the necessity of using the refunding act? And how would that operate? Was this not one of the ways you got funds for two years?

Mr. MacMillan: Well, yes and no. It works this way. We have in our capital debt a large amount of money in the form of outstanding bonds which are shown in the annual report in one of the back pages. These mature at certain predetermined dates in the future. As these dates of maturity are reached, the particular issue has had to be refunded in some form. Many, many years ago we refunded that debt by the issue of new securities, but eight or nine years ago the Department of Finance, the Bank of Canada and the railway decided that rather than having us go into the market with refunding issues, it was better for global government financing that it should all be done by other means. The reason for that was that our securities carry a government guarantee, and we occupy that part of the market which is also occupied by the government. Therefore, we could upset the market at any given point in time, or affect it in some way or other. So it was decided that as the bonds matured they would be picked up and be refunded under the refunding acts.

There has been in existence from the very beginning—for about 50 years—a refunding act in one form or another which has provided the Governor in Council with the authority to redeem bonds outstanding by the Canadian National, and earlier by our predecessor companies, and permitted these to be dealt with on a current basis. When I say that if we had not had it it would not have had any real effect on us, that is correct, provided the government could have found a means for doing it without this legislation.

As far as the railway was concerned, we could have refunded the debt without the authority to do so. But the refunding acts have stood off by themselves; and, again, through the last 50 years periodically it has been necessary either to increase the global amount to be dealt with under a specific piece of legislation or to have enacted a

refunding act. These have placed a ceiling on it, and they are confined to refunding maturing securities. In other words, it does not increase the debt, but it changes it.

Senator Grosart: Mr. Chairman, I am not a member of this committee, and I cannot make a motion, but I would like to suggest for the consideration of the chairman and the steering committee that in due course they might seek the co-operation of Mr. MacMillan in coming up with a rationalization along the lines he suggested, which the committee could discuss with him. I say that because I can think of no greater contribution that this committee could make in this context than to come up with an answer for the government with, perhaps, some steam behind it, to insist that we do not continue in this situation where we are three years away from the point and where the Minister of Transport said he would not take responsibility for the act because it was *ex post facto* and it was, to use his own words, "a mess". I think this committee could make a tremendous contribution by talking with Mr. MacMillan, when he is free, and coming up with something which can be presented to the government as a recommendation of this committee and of the Senate.

The Deputy Chairman: Can you suggest something we could put in our report?

Senator Grosart: Well, I am not a member of the committee.

The Deputy Chairman: I do not know exactly what procedure we could adopt in the circumstances. I think it is a good suggestion.

Senator Langlois: When we get to the reporting stage we could probably refer to this.

Senator Graham: Mr. Chairman, I apologize to my colleagues and to yourself, but I am about to ask a question which has been asked on many other occasions. In view of the fact that I am a junior member of this committee, I do not think it is inappropriate to ask it at this time, in view of the fact that Mr. MacMillan will be retiring in one week. I understand that Air Canada is a subsidiary of CN. Is that correct?

Mr. MacMillan: That is correct—by stock ownership.

Senator Graham: Apart from the obvious advantages by virtue of the fact that they are both involved in transportation, do you see any advantages to continuing that kind of ownership?

Mr. MacMillan: Yes, I do. I think that the two together are stronger than they would be separately.

Senator Graham: Do you see any significance in the fact you are now to have two successors?

Mr. MacMillan: Yes, I do.

Senator Graham: As I understand it, sir, you were chairman, president and chief executive officer.

Mr. MacMillan: Yes, I was the whole shebang, as we say in the vernacular.

Senator Graham: And now as your successors you have a chairman, and a president who is also chief executive officer?

Mr. MacMillan: Yes.

Senator Graham: Two or three years ago the same kind of change was made in Air Canada. Previously they had had a president, chairman and chief executive officer and now they have a chairman who is chief executive officer, and a president as well. Do you see any significance in this?

Mr. MacMillan: I think I should state here that in connection with Canadian National I am very happy that the government accepted my recommendation, which was to divide these two jobs. I recommended that primarily because the character of the functions to be discharged at the very pinnacle has changed somewhat in the last five or six years. The job, in the hands of one person, has become, in my opinion, too intensive to be properly discharged. This comes about because of a great variety of circumstances. For example, we have had much more intensive periods of labour negotiations. These used to occupy a relatively short period of time. My opinion is that that has changed on a permanent basis. I am not blaming anyone. I am simply stating the fact that the consumption of time required to bring about a successful labour contract is vastly greater than it used to be.

Also there are so many other areas where we have activity which we did not have until quite recently. For example, there is the very intensive activity from coast to coast on a provincial basis appertaining to the railways. They are not the most popular corporations in Canada at the moment, and this adds very greatly to the burden of the chief executive officer.

I could mention many other things, such as parliamentary committees. It used to be that we had one parliamentary committee a year which lasted for about a week, and now parliamentary committees, particularly in the House of Commons, arise quite regularly. In the month of December I think I was on call before the House of Commons for about three weeks, and maybe longer, and during that period of time, of course, my constructive time, if I may put it that way, was very much reduced. By that I mean the time that I could spend on immediate railway problems. So my suggestion was that we should divide the functions, and I think it was an intelligent thing to do.

Senator Graham: One final question. As a matter of principle and practice, do you anticipate, Mr. MacMillan, that CN is going to expand its role in the hotel business in Canada?

Mr. MacMillan: Well, this, as you know, has in some instances been controversial. It is most interesting for me to know that there are some representatives of the public who are very strongly in favour of our expanding in the hotel business; and, likewise, there are many who are very much opposed to our doing so. I do not know how much greater the expansion will be, but if we have the opportunity—or if the company, and I have to remember that I shall not be there in the future—thereby has an opportunity to make a contribution to the welfare of the community, the building of the hotel may be the proper thing to do. We have had many instances of that in the past. I do not think the door should be shut on us at all.

Senator Benidickson: Mr. Chairman, perhaps there is no one here who is more desirous of endorsing your remarks, both complimenting Mr. MacMillan on his services as the chief executive officer of one of our major industries, if not the major industry in Canada, and extending to him

best wishes for a very happy and also a very fruitful, as I know it will be, new career as a retiree from the CNR.

We are longtime friends. We went to the same law school. We exchange birthday greetings because our birthday falls on the same day. It has been most interesting, for the great number of years that I have been in this arena, to have had the experience that the president of the Canadian National Railways was from my law school, and that his counterpart in the Canadian Pacific Railway, the former president of the CPR, was from the same law school. Also their new president is from the same law school.

Mr. MacMillan and I maintained our friendship despite differences of opinion, particularly with respect to the financial structure of the CNR and its operating policies. In northwestern Ontario I think I personally represented, in pre-diesel days, more railway divisional points than any other member of Parliament.

It is obvious, because we are so behind in our examination of the financial status of the railway, that we should not delay the passage of this bill. Our concern should be with what Senator Grosart referred to as possible improvements in existing legislation. That, in part, may be responsible for some of our parliamentary difficulties in properly inquiring into the operations of our government owned railway.

I should also be interested, before we pass the bill, in informing ourselves in a better way, if we can, on the results of the very major overhaul that took place in the capital structure of the Canadian National Railways. That, again, was something in which I participated as assistant to the Minister of Transport in 1952.

Perhaps you would put on the record—because I came to this meeting in haste and have not the documents in front of me—the name of the initial act regarding certain paper dragon debts, certain capital liabilities that had been a burden on the CNR, that in large part were for assets that were valueless, and so on. There was a major overhaul under the statute, the Capital Revision Act.

Mr. MacMillan: It was the Canadian National Railways Capital Revision Act.

Senator Benidickson: To make it simple, and I think it could be made available to the clerk after this meeting, I wonder if in addition to the appendices that I believe have been made part of our proceedings today, we could have also three sheets. One is called, "Consolidated Balance Sheet as at December 31"—1973. Another is entitled, "Consolidated Income Statement for the Year Ended December 31." The third, that is in the form of a financial tabulation, is entitled, "Source and Application of Funds for the Year Ended December 31."

I wonder if the committee would approve of having supplied to it, and appended to the *Minutes* of this meeting, comparable statements for the first full year after the coming into effect of the Capital Revision Act of 1952. That would not amount to very much printing.

The Deputy Chairman: Honourable senators, would you like to have those appear as appendices to our *Minutes of Proceedings*? Is it agreed?

Senator Langlois: Do we have this last document?

The Deputy Chairman: I do not know.

Senator Langlois: Who is going to supply it?

The Deputy Chairman: Can we get it?

Mr. MacMillan: We can provide it, but it will take us a little time.

Senator Benidickson: Our report would not be available for a week, anyway. I had this in my hand because I made reference to it at our meeting last Thursday.

In addition, Mr. MacMillan, in the three financial papers presented to us at the opening of this meeting, the first one refers to 1,235,180,591 shares of 4 per cent preferred stock of the CNR. Could you tell me now what a comparable figure for that holding by the Government of Canada was at the end of the first full operating year of the Canadian National Railways after the Capital Revision Act?

Mr. MacMillan: Yes, we can get it. As to the Capital Revision Act, there was issued a preference stock in the sum of \$736,385,405. And in 1952 there was issued \$18,486,540. If we add the two together we get the figure that you are seeking.

Senator Benidickson: I would not want you to read the figures for all the ensuing years, but could you provide that as an appendix to our minutes?

Mr. MacMillan: Yes, indeed. I can give you in the appendix what was issued in each year since 1952.

Senator Benidickson: For each subsequent year?

Mr. MacMillan: Yes, indeed.

Senator Benidickson: Thank you.

Has any interest been paid in any of those years on this 4 per cent preferred stock?

Mr. MacMillan: Yes, there has.

Senator Benidickson: Could that be indicated as a plus and a minus in the overall picture?

Mr. MacMillan: I can give you the actual amount, too. Yes, in four years, 1952, 1953, 1955, 1956.

Senator Benidickson: Yes. With respect to the first of the three financial sheets presented to us this morning, there is, in addition to the reference to 4 per cent preferred stock, other items under the overall heading of "Shareholders' Equity". One is \$359,963,017 of shares of no par value. Has that remained constant over this period since the enactment of the capital revision bill?

Mr. MacMillan: I am informed, senator, that there has been some variation in that figure, but for all practical purposes it has remained constant.

Senator Benidickson: Then, the third item under this heading of "Shareholders' Equity" is, "Capital investment of Government of Canada in the Canadian Government Railways, \$428,396,779." Inasmuch as that is the same amount as shown for 1972, does that for all general purposes remain a fairly constant item?

Mr. MacMillan: Well, I think that does fluctuate a little. That has reference to the railways in the east, and we carry it basically to permit a corresponding item being carried in the books of Canada.

Senator Benidickson: Mr. Chairman and members of the committee, you will recall that at the last meeting on April 10 I made reference to having observed, in newspapers only, certain information concerning the operations of the

Canadian Pacific Railway for the year 1973. Since that time I have received—as I think all members of Parliament will have received—a copy of the annual report of the Canadian Pacific Railway. At the top of page 19 of that report, under "Rail Revenues" they show an item for government payments in the calendar year 1973, \$49,732,000, as compared with \$30,367,000 in the calendar year 1972.

The Deputy Chairman: Senator Benidickson, were those subsidies paid by the government?

Senator Benidickson: I am going to come to that, Mr. Chairman. I do not know what it means. Could Mr. MacMillan tell us what he thinks it means, and could he supply similar figures for the rail revenues of the Canadian National Railways for 1973 and 1972 which might be described as "government payments"?

Mr. MacMillan: I shall be delighted. If you will forgive me, I would not like to have to explain the CPR figures, but I can give you our corresponding figures.

Senator Benidickson: Fine. These come under legislation that is not of too long standing, under which, after application to the Canadian Transport Commission, in order to maintain certain services to the public, the Government of Canada and the taxpayers as a whole pay either railway, on the same formula, certain payments.

Mr. MacMillan: That is correct, Senator Benidickson. The global figures of revenue for Canadian National in 1972 were \$1,187,730,000. The corresponding figure for 1973 was \$1,325,466,000.

I was going on to give you the government payment components of that.

Senator Benidickson: Good.

Mr. MacMillan: In 1972 we received under the item "Government Payments" \$40,742,000. In 1973 we received \$120,566,000. Now, one reason for the substantial increase in both instances, the Canadian Pacific's and ours, '73 over '72—and I might say I do not think we have actually got this money at this moment—is that included in both of these accounts is a sum of money which is to be paid to us by the government in lieu of freight rate increases in 1973 which were not invoked. In their case I think the appropriate figure is \$13 million. In our case the appropriate figure is \$27 million. So that included in the \$120 million-odd is \$27 million which is a special subsidy being provided because we did not increase the horizontal freight rates, and the remaining payments are those payments payable to us for the perpetuation of services and so on pursuant to the National Transportation Act. It is exactly the same principle as applied to the Canadian Pacific.

Senator Grosart: Does that include branch lines?

Mr. MacMillan: Yes, branch lines are included. Passenger losses are by far the largest component.

Senator Forsey: Mr. Chairman, just on that figure, I presume that the approximate figure of \$27 million which Mr. MacMillan has referred to explains the \$120 million and the \$93 million that we have in this statement in front of us.

Mr. MacMillan: Yes, that would be correct.

Senator Benidickson: I would like to refer to what I call the second of the three financial documents, the interim

financial statement for 1973 presented to this committee this morning and to be made an appendix to the committee proceedings this morning, which is entitled "Consolidated Income Statement for the Year Ended December 31". There is shown at the bottom of this statement, for 1973, a deficit of \$21,324,000-odd, compared with 1972, which was a deficit of \$17,822,000-odd.

Could you put also append as a table to the minutes of this committee today a list of comparable deficit figures for the years subsequent to the Capital Revision Act of 1952?

Mr. MacMillan: Yes, we would be delighted to do that.

Senator Benidickson: Am I right in thinking that this is the kind of item that in discussion a few moments ago, when you were examined by Senator Grosart, was referred to as an item that does get into the estimates annually, in a special way, and is voted upon as the cost of the deficit of the Canadian National Railways?

Mr. MacMillan: That is correct.

Senator Benidickson: Mr. Chairman, that is all that I wanted from Mr. MacMillan, although, as Canadian National Railways is the only shareholder of Air Canada, I wondered what your intentions were with respect to any further inquiries concerning the operations of Air Canada, which also today, for the first time, has submitted some statements that are qualified as being without the certificate of an auditor appointed by Parliament.

The Deputy Chairman: I thought we could finish with Mr. MacMillan, if honourable senators have no more questions, and then ask Air Canada to come before us, and then we will be free to ask them questions. That was the idea I had in mind. I am in your hands. If you want to do something else, it is up to you.

Senator Benidickson: I thank Mr. MacMillan, even at the risk of being repetitious, because I can assure members of the committee that I have probably seen him in these buildings more often than anybody else. I thank him for his ever courteous and informative presentations to this parliamentary committee.

Mr. MacMillan: I wonder, Mr. Chairman, if I could be presumptuous enough to reply to the honourable senator, and to express to him my gratitude and thanks for his kindly comments, and also his kindly references to our very long friendship. Thank you.

Senator Riley: Just referring back to CNTL, Mr. Chairman, I would like to ask just one more question of Mr. MacMillan—or he may hand it to his staff. I would like to refer to the item "Retained Earnings," at the end of the balance sheet. The figure is \$3,904,937.81. What is the composition of this amount, what does it represent, and why is it there? I am not an accountant. I would just like to have that clarified.

Mr. MacMillan: I will ask Mr. Corner.

Mr. Corner: That is the accumulated operating position to the end of 1973, less any charges that are properly to go against earned surplus or accumulated earnings.

Senator Riley: Thank you. Thank you, Mr. MacMillan.

Senator Langlois: At this time I suggest that Mr. MacMillan be requested to table, to be printed as an additional

appendix to our minutes of today, the summary of the refunding made under the CNR Refunding Act, 1955, together with a list of the securities substituted under this act. I have this information that is provided to me by the Department of Finance. I could show it to Mr. MacMillan. I do not know if he has it with him. I suggest this should be in addition to the information sought by Senator Benidickson. We would then have all this information together, and it would be very useful to the committee.

The Deputy Chairman: Yes, it would be very useful.

Senator Benidickson: I think all of us have had the experience of being obliged to sit down, and never having the opportunity to get up again. I thought I had concluded, but as this is a less formal occasion, I would like to suggest further that it would be useful to have another tabulation in these rather comprehensive minutes of a Senate committee examining this matter. I intended to compliment the sponsors of this legislation this year—both in the House of Commons, as I have read the presentation there, and Senator Langlois, who made the presentation in the Senate—for what I thought was a somewhat altered emphasis and more comprehensible explanation of this exceedingly formidable financial bill. I refer in particular to the emphasis placed by these two sponsors upon the sum, when all is said and done, that is being asked for in the way of requested funds beyond what has been generated by depreciation and by other means within the system itself in the basic year for which the bill has been prepared. I wonder if, similarly, that capsule tabulation could be provided for the same period of years.

Mr. MacMillan: Mr. Corner tells me that it is quite possible, but it will take us a little while. We would be delighted to do it.

The Deputy Chairman: That is fine.

Senator McElman: Mr. Chairman, I would like to say to Mr. MacMillan that I come from Fredericton, which is the only provincial capital in the nation which does not have rail passenger service directly from either the CNR or the CPR. It is quite a distinction.

Senator Grosart: They come as close as they dare!

Senator McElman: I would like to draw the attention of the witness and officials of CN to this small mural over the west door, which many CN employees in the Maritimes would suggest is indicative of, or perhaps symbolic of, some of the rolling stock we still have in use in the Atlantic division. I was going to go, in some detail with him, into the failure of both railways to provide, for example, to the potato industry a proper type of rolling stock for the getting of their produce to its markets in fair condition. Perhaps I should, because of the lateness of the hour, wait for another opportunity and another forum for this. I did have one specific question that I wished to put, Mr. Chairman, but it has to do with Air Canada, so perhaps I should wait.

The Deputy Chairman: Perhaps you should wait, and if we could get through with CNR soon, then we could have Air Canada start right away. Then perhaps we could sit again this afternoon after the Senate rises, if we are not through; but we will talk about it later.

Senator Langlois: In this respect, Mr. Chairman, although I have had no opportunity of discussing it with the Leader of the Opposition, is it possible that we could arrange to

adjourn the Senate at about 3 o'clock in order to enable this committee to sit again?

The Deputy Chairman: I was going to ask you and Senator Grosart to confer with me after the meeting, and then try to find out if we could sit, let us say, at 3.30 or 4 o'clock.

Senator Langlois: Perhaps the Senate could adjourn at about 3 o'clock for that purpose.

Senator Grosart: I have no authority to speak for the Leader of the Opposition, but I will use my services as an intermediary.

The Deputy Chairman: So the three of us could get together afterwards, and Air Canada could remain with us, and we will tell them what kind of arrangements we can make for this afternoon.

Senator Molgat: Mr. Chairman and Mr. MacMillan, I regret not having been here for the earlier part of the meeting, and it may be that the question I have in mind has already been asked. I was at a meeting of the Agriculture Committee. You mentioned, Mr. MacMillan, that you realized that the railways were not always popular, and I had some inkling of that situation. However, after listening to the National Farmers Union representatives I find that the situation is really very much worse than you might imagine.

Mr. MacMillan: You were left with that impression, if you will pardon my interjection.

Senator Molgat: What concerns me is the policy of the CN regarding the provision of rolling stock for the grain trade. This morning, for example, we were told that last year there were some 25,000 cars in the grain service and that this year it is down to 22,000. There were many instances given of extremely poor service during the course of this winter and a quotation from the chairman and chief commissioner of the Canadian Wheat Board regarding the failure to deliver on time. Then, on the other hand, we see that the Canadian Government some two years ago had to purchase 2,000 hopper cars for the grain trade specifically, and again this year they have announced that they are going to purchase 4,000. What is the railway policy? Is it to get out of the provision of rolling stock and let the government handle it?

Senator Benidickson: You are including locomotives in this?

Senator Molgat: No, at the moment I am dealing strictly with hopper cars because obviously the government is not involved in locomotives. We are now committed to 6,000 hopper cars. So what is the policy of the railroad?

Mr. MacMillan: Well, obviously I can only speak on the policy so far as it concerns Canadian National. But there I can say quite categorically that any allegations made about Canadian National's sabotaging the wheat movement are totally incorrect. The facts are that we have kept in the grain trade as many cars as we normally do. We have about 12,000 cars in the business today, and have had them there. It is impossible for us to be specific on a daily basis as to how many cars there are at anyone point, but the system target has been to have 12,000 cars in the business. We had the same number during the winter of 1972-73, but the fundamental difference between what happened this last winter and the winter before—and you

know this much better than I do on a personal basis—is that we have just experienced the worst winter on record, and we have many, many instances of branch lines, particularly in Saskatchewan, where throughout the whole winter season of 1972-73 we had to plow a very few hundred miles and spend a relatively small sum of money in doing so, but this year we have had to plow literally thousands of miles. There are subdivisions in Saskatchewan— unless they have cleared in the last three or four days, and I do not think they have—where the snowdrifts were 16 and 18 feet high and where cars were totally covered. We had one small train completely covered, and there was just no way we could get it out. The snow was not only heavy but it was accompanied by strong winds. As you well know, Prairie snow is very dry and when it is packed by the wind you can walk right up or even drive a bulldozer right up the drifts, and in consequence a railway plow going in has to be handled with extreme care because otherwise it will be derailed and ride right up on the snow itself; it will go right off the tracks. That is what happened. So the horror stories we hear about how the railways had, of their own volition, abandoned things are completely untrue. There were instances on the Prairies, as there still are, where we could not get in, but it was not because of managerial philosophy that these things came about. It was simply a question of contending with the weather. The Wheat Board was realistic and recognized that in some instances that was a wrongful use of our capability and they gave us orders to move grain from places where we could get at it—in other words, on the main line.

The real point I wish to emphasize is that we did not at any time sabotage the grain industry. I am from the Prairies myself, and if there is anybody in the business who can understand the impact of all this, I think I am that person. I have kept cars in the grain trade by hook or by crook.

In addition to the forces I have mentioned, there were other abnormalities which we experienced this last winter. For example, in recent years we have used covered hopper cars of our own ownership for this grain trade that in the normal semi-annual peaks are in the potash trade. But this year there was no slackening of that trade, it continued to move, so the cars were not released to us, and we could not get them into the grain trade. So we have pretty well discharged our obligation to the Wheat Board. Perhaps we were a little shy, but not to any shocking extent.

I do not know of any instance myself where any ships have been held in Vancouver waiting for loads during this winter because of any failure on our part. As a matter of fact, most of the time there has been a goodly amount of grain there, under load, in boxcars and available to be offloaded.

I can philosophize on this for a great length of time because I have thought a great deal about it. The movement of grain is a fragmented business and that is one of the reasons for the difficulty which arises initially with the farmer who sows his farm and does not know whether he is going to get a crop or not until he actually has it. Then, whether he markets it or not is a very personal choice, and the control of the Wheat Board does not come into the picture until he has marketed it.

A year ago now we had all kinds of capability to move grain; we had leased a couple of thousand boxcars in the United States and we had leased locomotives to move

them, but the segment of the Prairies that we serve had a very small amount of grain offered for sale or that needed to be moved. That is how it was, and there was no way that that could be accelerated. It just was not there. In any event, it goes into the country houses.

Then, at one end of the province there is the question of grading because the grain is damp and has to be dried and where it is mixed with cereals and grades which are not at that point in time sought after by the Wheat Board for movement. Then we get the same cycle again at the terminal elevators at the Lakehead and Vancouver, and to a lesser extent at Churchill and Prince Rupert. But we very often have cars there containing two or three million bushels of grain but they are the wrong grade and the wrong kind of cereal. I am not blaming anybody for that, but I am simply stating that it is a fragmented business and it is very difficult to put your thumb on the true explanation for the problems as they arise at any given point in time.

Mr. Hopkins: Do you have serious difficulties now with flooding?

Mr. MacMillan: Yes, we do. The main line was out for a couple of days and we have had to make use of trestles. The CPR line is out west of Moose Jaw and the branch lines are going to be difficult in some places. Anyway, the main point of what I have been saying is to stress that we did not sabotage the grain effort.

Senator Molgat: I recognize the problems that have been encountered this winter, but those on the other side of the argument will say that the roads in the west were kept open and the school buses travelled every day. Now I know there is a difference because the roads are used daily while branch lines are not, but insofar as the movement of grain is concerned—and here I am quoting from what the Farmers Union have said in their brief—they claim that . . .

Senator Grosart: Mr. Chairman, I am not a member of the committee and I do not know if I am entitled to raise a point of order, but I would have very great doubts as to the propriety under our rules of introducing a document that was presented to another committee only this morning. It is normal practice not to quote a document that is not available. I just raise the point because it seems to me to be rather out of order to be discussing a brief presented by the National Farmers Union or anybody else to another committee this morning.

Senator Molgat: If you would allow me to finish, you will know that I am not quoting from the brief. I am quoting a statement made before another committee on April 10.

Senator Grosart: It makes no difference.

Senator Molgat: This was certainly available on April 10.

Senator Langlois: You could ask a question without referring to it.

The Deputy Chairman: Yes, you could ask a question without referring entirely to that brief.

Senator Molgat: It is claimed that there were 15 ships waiting in Vancouver, with another 11 due that week. The real purpose of my question is with regard to the policy of the railway in the purchase of rolling stock for grain. I refer to the 6,000 hopper cars for the railways, which I consider to be a railway responsibility.

Mr. MacMillan: You are really asking me to explain government policy, and I am not at all sure I am the proper person to do that. I anticipate that the first 2,000 cars were ordered as a means of alleviating the burdens of the railways in equipping for the movement of grain. That is not the right way to put it, because you will be very familiar with the implications of the Crows Nest Pass rate and everything that goes with it. The railways have traditionally said that they make no money on the movement of grain; as a matter of fact, they lose money on the movement of grain.

The facts are that we, the Canadian National—and I speak only of the Canadian National—have been able to move our share of the grain. It will be recalled that since the beginning of grain growing in Canada the lands contiguous to the lines of Canadian Pacific have normally provoked the larger share of the national crop. The percentage runs somewhere between a 45-55 split. In recent years the actual movements have not been consistent with that split. At this point in time we have moved more grain since the beginning of the crop year, last August 1, than Canadian Pacific. Of the 2,000 units that were put into service, we received slightly over 900; Canadian Pacific got the remainder, because they followed the old split. Again utilizing the potash hoppers, to which I referred a while ago, and other equipment, we have always been able to maintain movements. Right now we have something of the order of 12,000 cars or car equivalents in the business.

Senator Molgat: Is the railway maintaining the same number of cars in the grain trade owned by the railways? Is it reducing its number of cars or increasing them?

Mr. MacMillan: For all practical purposes we are maintaining the same carrying capability. I use that phrase because traditionally grain was moved in Canada in small boxcars, 40-ton cars. Now a covered hopper car will handle 1½ cars, so we translate that into car equivalents. Our grain fleet basically was comprised of old boxes, which have been taken out of service because of antiquity, obsolescence and wear and tear. Very late in the summer last year we again started to repair for the grain trade. I think we started with 1,200 cars and we were up to 1,400. Normally we would have scrapped them and burned them. Because of the pressures on grain movement, we have inaugurated a rehabilitation program and put them back into service. I think Canadian National has done its share of providing for the movement of grain.

Senator Langlois: On what basis are these covered hopper cars supplied to your company and CP?

Mr. MacMillan: The supply to us—I do not know on what basis you would call it. I have inquired as to whether it was a lease or not. I do not think it was. I think they were just allocated to us, and we maintain and operate them.

Senator Langlois: There is no rental charge?

Mr. MacMillan: No.

Senator Cameron: My first question arises out of Senator Molgat's question on the shortage of boxcars, and that has been answered. But I had a note here about anticipating needs, and the matter of additional boxcars was one of them. I wonder if the need was anticipated sufficiently far in advance. I must say that in connection with this provision of cars by the government, with no rental or anything like that, I think we are embarking on a very risky prece-

dent. Are we going to go on doing this? What do you see as the future?

The second thing is—and this again comes under the heading of anticipating needs—I understand that with the larger boxcars that we have been talking about, we are finding now that the road beds are not standing up to them. Again, it would seem to me that this use of heavier boxcars should have been anticipated and that should have meant the road beds being upgraded.

Mr. MacMillan: This opens up a brand new subject and a most interesting one. The railways in North America ten or fifteen years ago decided upon what really is an equipment philosophy which was different to the rest of the world. We went into rolling stock capable of hauling very, very large loads, a load limitation of I think 263,000 pounds. This is to be compared with the old 80,000 pound boxcar that we were talking about a minute ago.

It came into being as a direct consequence of the evolution of engineering techniques that made it possible to do that kind of thing, associated with the advent of the diesel electric locomotive. The diesel electric locomotive has very great tractive effort and lends itself admirably to massive movements in a single train. These are accomplished, in most instances, by the power being put in the front of the train but the technology permits of its being divided, some in the front and some in the rear, and drones can be scattered through the train every 30 or 40 cars. This was mainly a development which took place in search of economies of operation—and so it was.

Associated with that, and arising at the same time, was the beginning of unit trains, where the train was totally comprised of cars identically the same, loaded exactly in the same manner and running on a regular basis between Point A and Point B, and then returning empty. Everyone thought that this was the dawn of a new era; but we discovered with the passage of time that very great damage was being done to our track, because of the combination of forces, which have now been pretty well isolated. The Canadian National was the chosen instrument of the American Association of Railroads to research this.

We discovered that weight was a contributing factor and that speed was a contributing factor, but the most difficult additional factor was the repetition of forces that flowed from the utilization of the same cars the same way over the same piece of track. It has been necessary for us to try to build variations into this, variations in speed and preferably variations in the load, to change the pounding that takes place at exactly the same moment as each car passes over it.

We may have made a mistake in going to the very large cars, and this is very much in the "think tank" at the present time as to whether we should go back to the lighter car.

Senator Riley: Could it not be overcome by distribution of the load in each car?

Mr. MacMillan: These cars are virtually all loaded mechanically. If the train is loaded with grain, then the loading machinery would do it. But the train may be loaded with coal, iron ore, potash or phosphoric rock, sand, gravel, petroleum products, oil, crude, gasoline. So, as I say, we may have made a mistake. We are having a good look at it.

Senator Cameron: I understand that practically all the line elevators which exist on the Prairies today are obsolete also.

Mr. MacMillan: That is right, many of them are.

Senator Cameron: This is a very important factor in the supply of grain.

Mr. MacMillan: That is correct.

Senator Cameron: That, however, is a subject for further discussion.

I would like to discuss a matter, Mr. Chairman, which I feel very definitely relates to another discussion. I should like to suggest that we set aside some of the time of this committee to discuss the role of new technology in transportation. For example, part of this question will relate to Air Canada, but I believe we are committed to spending billions of dollars on new airports, one at Ste. Scholastique near Montreal and another at Pickering in Ontario. In my opinion, we should question the validity of such a decision for the reason that in many countries the answer to moving people is not the aircraft: it is the light, fast train. In that respect, I have the impression, perhaps incorrectly, that Canada is not doing as much as it could in moving into the future with light, fast trains for transporting people. The Rapido is certainly no answer. We talk of a speed of 90 miles an hour for this train which, in my opinion, is not good enough, although I understand the reason for the slowness. If we are to attain the speed necessary, we should have the type of train coming down from the British Rail Research Centre in the north of England, at Derby. They come on a regular run of 115 miles an hour. Some of the European and Japanese trains make 130 and 150 miles an hour. The Rapido therefore is not in that category. It may not be as much the fault of the train itself as the facilities for passing on a single track.

The Deputy Chairman: Senator Cameron, I suppose you know that we will have an opportunity to study that question when we have that "Conference on the Future" in the next few months.

Senator Cameron: That is right, but I think we should raise the question with Mr. MacMillan so that we can return to this in some detail, because it is very important to the economy.

The Deputy Chairman: We might as well, then, keep Mr. MacMillan with us.

Mr. MacMillan: If you ask me to return at that time, I will be delighted.

Senator Cameron: I think this is very important, both to the railways and Air Canada, because I certainly think that for a distance of 300 or 400 miles the answer is the light, fast train rather than the aircraft.

The Deputy Chairman: Has your research department not investigated that question, Mr. MacMillan?

Mr. MacMillan: I could speak to you, literally, for two days. We can tell you about every train in the world. While the Rapido is a conventional train, it has no counterpart in the world. We must bear in mind that it runs under very severe limitations, one of which is the restricted speed at level crossings, of which there are over 400 between Toronto and Montreal, at which we must reduce speed. The Hokaido train you refer to in Japan runs on a special

track which in effect has no curves; they go into the curves so gradually that there are, in effect, no curves. Again, the engineering is such that it has engineered the hills out. The Japanese train is a one-of-a-kind operation with a fast train from Tokyo to Osaka running at an overall speed of 125 miles an hour. It does a fine job. It cost them \$1,100,000,000 to build a track. There is nothing technologically unusual about the railway equipment.

The Deputy Chairman: What is the cost per mile?

Mr. MacMillan: I think it is 330 miles. Divide that into \$1,100,000,000, and you get about \$3,750,000 a mile.

I think the most advanced train running on conventional trackage in the world is the turbo train from Montreal to Toronto. So far as its speed capabilities are concerned, it does not begin to approach its top speed; because of the level crossings, we have to slow down all the time.

The Deputy Chairman: Mr. MacMillan, you will have to appear again before the committee.

Senator Langlois: I would like to ask one short question, and I would preface it by giving some background. Two years ago I went with a group of parliamentarians from Ottawa to Washington to study the transportation problems there. We met many of your counterparts there. They were mostly personnel of Amtrak. We were told, in the course of our discussions, that they had experience with what they term standing derailments—meaning equipment that was lost sight of in the marshalling yards for so long that the roadbeds had eroded. This was in relation to the problems of Penn Central. Have we experienced that kind of casualty in Canada?

Mr. MacMillan: Not that I know of. The president of Amtrak is an old friend of mine. I know him very well.

The Deputy Chairman: It is now past 12.30. If there are no further questions, we will adjourn, and this afternoon we shall hear from the representatives of Air Canada. Should we ask that some of the representatives from CNR be present?

Senator Cameron: If Mr. MacMillan could stop over, it would be useful to have him here.

The Deputy Chairman: We all know that Mr. MacMillan has a good deal of work to do. I would like to have him remain, but if we do not need his presence—

Senator Grosart: Could we ask whether Mr. MacMillan could stay?

Mr. MacMillan: I have a commitment in Montreal at 5.30 p.m. If you are not going to sit again until after 3 o'clock, I would have to be excused very soon after the committee sat. If the committee is going to embark upon a study in the nature of what we have been talking about, I would like to come back.

The Deputy Chairman: Thank you.

Senator Grosart: It would be for the chairman to refer this matter, by resolution of the Senate, to the committee, and the committee could sit on this matter. Perhaps there could be more general reference to the whole question of CNR. The committee is not limited to studying this particular bill, as long as it has a reference from the Senate.

Senator Cameron: I was going to suggest that. We could ask this as notice, that we would like to obtain a reference

to defer this matter to the Senate and direct the committee to go into the whole matter.

The Deputy Chairman: Thank you, Mr. MacMillan. We again extend to you our best wishes.

At what time should the committee sit this afternoon?

Senator Langlois: I move that we adjourn until approximately 3.30 p.m.

The committee adjourned.

Upon resuming at 3.30 p.m.

Senator Maurice Bourget (*Deputy Chairman*) in the Chair.

The Deputy Chairman: Honourable senators, we continue our consideration of Bill C-5. This afternoon we have with us as witnesses Mr. Claude Taylor, Vice-President, Public Affairs, Air Canada, and Mr. Michael Cochrane, Vice-President, Finance. Without saying anything further, I would ask honourable senators to ask questions of our witnesses. Who would like to fly first with Air Canada?

Senator McElman: As one New Brunswicker to another, Mr. Taylor, looking back over several years I note that the Viscount aircraft used to have first-class and economy sections. In more recent times there has been one cabin. I am sure you must have checked out the economics of operating similarly with the DC-9, particularly on the shorter hauls. What are the economics of maintaining a first class section as against using the space that is available for full economy flights with the DC-9?

Mr. Claude I. Taylor, Vice-President, Public Affairs, Air Canada: Senator, as one New Brunswicker to another, may I say that the Viscount is being phased out of service this spring. We do have some DC-9s, what we call the short DC-9, in a one-class configuration. If my memory serves me right, there are six of them. They basically operate on the sort of hubs of Toronto and B.C., and you occasionally see them here in Ottawa on the Ottawa-Toronto and Ottawa-Montreal services. These are economy DC-9s.

With regard to the economics of operating the so-called bigger DC-9s with first class and economy sections, the number of seats in the first class section in those aircraft has been reduced over time as the volume of traffic for the so-called economy sections has shown an increase. We have attempted to maintain a semblance of first class service, even though only as a fairly small percentage, on the majority of routes we operate in response to public demand. I recall that, when we changed the Viscount on routes on which there was no other service operating, we faced some fairly severe criticism because there was no first class service available on certain routes. Certainly I think your assumption is quite right, that the demand on most routes is increasing for economy class service. In that sense it is more to our advantage to provide that in a one class aeroplane if we can and still meet the demands of the public. However, there is a demand, even though small, for first class service on the majority of routes.

Senator McElman: If on the DC-9 the available space were used totally for economy service, would it bring more or less revenue than using similar space with fewer seats at the first class rate?

Mr. Taylor: Once you get an aeroplane with the number of first class seats that we have now and you remove one

row of first class seats, basically all you can get in is one more row of economy class. Essentially you are replacing four first class seats with five in the DC-9, where it is two and three seats, so you will get five seats instead of four. The relationship of our first class and economy fares in North America is, I think, 145 per cent, so the economics are not that different.

Senator McElman: That is one row of seats you are speaking of?

Mr. Taylor: That is right.

Senator McElman: I am speaking of the whole thing.

Mr. Taylor: We have only three rows, I think it is, in the stretched DC-9s. It is my understanding that if we replaced them we could not get four rows of economy in; in other words, there is not enough space to get four rows, otherwise we should be down to shorter than the 32-inch pitch on the present economy. In the DC-9, I think in the first class it is a 36-inch pitch and in the economy it is 32; there is only four inches difference in the distance, so you would not pick up enough by removing those three rows; you would pick up only roughly 12 inches and lose 32 inches to get in an additional row. Once you get down to so few first class seats you do not pick an additional row; you pick up five seats for four, really, at that point.

Senator Langlois: What is the difference of the cost of operating the regular DC-9 compared with the extended DC-9?

Mr. Taylor: The cost per hour would be somewhat different. As to seating, we are talking about 94 versus 72; I think that is the seating configuration difference between the two aeroplanes. The cost per hour for the aeroplanes is slightly different, but the cost per seat-mile between the two aeroplanes is fairly close.

Senator McElman: The reason I asked my question was that I have been led to believe that in the space you would pick up where the partition itself is, plus the additional space, it would be possible to get one additional line of seats totally.

Mr. Taylor: My understanding is—and I stand to be corrected—that it would require an adjustment in the galley space in the front of the first class section as well; there would be an adjustment to that whole cabin in order to pick up one more row of seats.

Senator McElman: I have noticed on the Maritime runs, which I see a great deal of, that there is a strong tendency away from first class to economy flights, particularly the last flights out of Montreal heading east; the economy section is generally full, and on many occasions the first class section is at least partially empty, sometimes with only two or three passengers.

There is one other factor that I will mention, although perhaps it does not have too much to do with your financing. This first class service and the "free booze" involves two drinks per passenger. I do not travel first class myself, except when I am forced to by reason of no availability in the economy class.

Senator Riley: You take some drinks, though, if you do.

Senator McElman: I was about to say that, Senator Riley. I appreciate your assistance. Whenever the free drinks are

available, I naturally do so. I say "naturally", because I do drink.

Senator Langlois: I do not think you could call that free drinks when you pay 45 per cent more to get them.

Senator McElman: A thing that I find obnoxious and that I have seen—and I am not speaking particularly of the Maritime runs now, as I have seen it on many runs—is that many of the first class passengers are determined to get the difference in the fare in drinks. I have seen instances of a man and a lady, presumably his wife, aboard, where the two drinks are taken for each, and one person consumes all four and is sloshed. I have seen cases where there was no effort made to prevent this sort of thing happening. In more cases than I think it should happen, such passengers become highly obnoxious to others within the cabin.

Senator Riley: How do you know, when you do not travel first class?

Senator McElman: I have travelled in the first seats in economy with Senator Donald Smith on a number of occasions, and we have both witnessed this. I wonder if it is something that should not be re-thought by Air Canada.

Mr. Taylor: It is one area that is of some concern to our in-flight people, not only in the first class part where they get it for free but also in the other cabins where, provided they pay for it, they can still have the four that you are referring to.

Senator McElman: There is some incentive in the first class.

Mr. Taylor: There is an incentive in the first class; that is true. It is one of the things that does concern us, and in our training of our in-flight people. We try to do all we can, without having the crew glued to the passengers. With the DC-9's the stage length of the flight usually is about two drinks' worth if you drink at a normal rate and four if you drink fast. What does concern us is the longer flights in some of the bigger aircraft. The in-flight crews do attempt to apply some moderation on a customer, where they can, but of course in most cases the customer has the final say.

Mr. E. Russell Hopkins, Law Clerk and Parliamentary Counsel: The customer is always right!

Senator McElman: Not really.

Mr. Taylor: Any incidents that we have had, I must admit, have been very few.

Senator Langlois: It happens only on flights east of Quebec!

Senator Molson: I should like to follow through on Senator McElman's question. The first class treatment in Air Canada does seem to be largely that they give drinks. There are the Maple Leaf lounges in some places and they are very comfortable. However, the first class baggage, for example, comes off last. You have a sign up in places which says "Holders of first class tickets," and you are at the end of the line in the same place. There is nothing done really to justify the extra fare, that I know of, except the free drinks and, perhaps, the meal service. It would seem to me that there is ample room for improvement in regard to the baggage, to see that it does not get lost; and, if it does not get lost, to see that it does not come off necessarily last. A lot of real comfort could be provided. If you are

going to charge a substantially extra fare for the same flight, you could do a lot for the passengers, apart from the free drinks.

Mr. Taylor: The principal added benefit that accrues to the first class passenger for the additional fare is the seating comfort. I admit that in the DC-9 the first class versus economy is not that much different in seating comfort, but in other aircraft the additional leg room is an added benefit to the first class passenger. On top of that there is the meal, although that is not so much different.

Senator Molson: On short flights this does not apply.

Mr. Taylor: The seating comfort is the principal added benefit in the first class.

Senator Molson: The first class passenger pays for the baggage. Why, then, has it to come off last? Why is there a sign up saying "First class ticket holders" and then you have a flight without first class people? Quite frankly, I do not think that for the free drinks it is worth it.

Mr. Taylor: I would tend to agree that the two drinks are not worth it. One of the problems at the airports is to try to apply first class checking of passengers because what you end up doing is isolating personnel and specializing. If there are no first class passengers to check in and there are economy passengers to check in and the economy people see other personnel under-utilized, we get complaints from the economy class. Once we start specializing I agree that, other than the in-flight part of the added benefit, it is very difficult, if you are going to give all the people on the ground a reasonably good service, to isolate the service that is provided to first class passengers. I think we ought not to hold out to them that we can do this if we cannot, and we are not doing a very good job if we cannot. In most airports we do not try to isolate the first class service on the ground.

Senator Molson: I think baggage is one area. I do not think the method of handling baggage makes anyone very happy. One has to pay a fancy price, and then there is more irritation generated by that than by anything else.

Mr. Taylor: I hope that we can improve the baggage handling for both types of passengers.

Senator Molson: So do I.

Senator Cameron: First of all, I would like to follow up on the question of seating. It seems to me that in Air Canada in the economy space, particularly the DC-8s going across Canada, the seats have been pushed so closely together that they are absolutely uncomfortable and one's knees are knocking against the seat in front.

Senator Martin: You are too fat!

Senator Cameron: No. Some people should try for a Procrustean bed, but this is the worst I have ever seen in the last year. I do not know how many DC-8s go out of Toronto in the evening to Calgary and Vancouver, but some of these flights are just uncomfortable because the seats are so close that your knees are banging against the seat in front all the time.

Mr. Taylor: Senator Cameron, there have been no changes. I would accept that the seating dimension, as we refer to it in the economy cabin, is 32 inches, but this has not been changed in the last number of years. In fact, over the years the design of seats and what they call the cantil-

evered seating, which is where there is more space at the back of the seat than in front of you, has made it appear there is a greater distance, when in fact there is not. The difference is in the design of the seat.

I am a little baffled to understand why it would appear that the distance has been reduced because, in actual fact, the seat dimension in the economy cabin in the DC-8s has not changed in the past 7 to 10 years; it has been 32 inches.

Senator Cameron: Are you sure this is the case in all lines, with no exceptions?

Mr. Taylor: I would be glad to pursue it. My understanding is that there has been no basic change. We have re-designed some seats and there are different types of seats put in, but in all of these cases they should have made an improvement rather than a deterioration.

Senator Cameron: I am not the only one saying this. Others have complained that this has happened fairly frequently, that they are banging their knees against the seats in front all the time. I presume that happens on all flights.

Mr. Taylor: I would be glad to pursue that, Senator Cameron but, as a general rule, unless it was a particular aeroplane which was under a special configuration for a special movement, they should have all been at roughly 32 inches.

Senator Cameron: It must have been my misfortune to be on one that had a special configuration. However, you say you will look into that.

Now, relating to a question Senator McElman asked, with reference to the flights going west leaving Toronto at six or seven o'clock in the evening and going through Calgary to Vancouver, I find that the flights tend to push booze for about two hours, which means that it is nine or nine-thirty before you get anything to eat. Time and again I have watched this happen. You end up getting your dinner at about nine or nine-thirty, when you are over Winnipeg or sometimes beyond Winnipeg.

I have nothing against having a drink, but it seems to me that excessive attention is being given to pushing liquor for too long a time at the expense of people who may not want any liquor at all or who certainly do not want to drink for two or two and a half hours. This is not something which has happened only once or twice. It happens all the time.

Mr. Taylor: These are flights going from Toronto to Calgary and Edmonton, are they?

Senator Cameron: And Vancouver.

Mr. Taylor: I just do not have at my fingertips the sort of serving time on that particular flight, but I take your point as being a valid concern of yours and I will be glad to follow it up.

Senator Cameron: It is particularly bad on the stretched DC-8s. It is not so bad on the DC-9s because there are not so many passengers on them.

Mr. Taylor: I will be glad to pursue that for you, Senator.

Senator Cameron: The next thing is the question of operations. First, there is the generally poor service at the ticket counters. I refer to the time it takes to get a ticket processed; and, particularly in this town, if you use the telephone to try to make reservations you are diverted to

Montreal. You may get a reply in a few minutes or it may take you half an hour to an hour, instead of being able to get some action right here in Ottawa. This was a move made last year, to centralize everything in Montreal.

Mr. Taylor: Well, if I can take a moment, senator, just to talk about the telephone answering service, this is something that certainly has concerned us for the past couple of years, particularly last summer when the volume of traffic was considerably above that which had been forecast and on which the general facility and manpower requirements had been estimated. This was brought about, of course, by a number of things. First of all, we had our own rotating strikes, and then we had the rail strikes and the CP strike on top of that.

We recognize the valid concern of people not being able to get through on the telephone. There is nothing more frustrating, and I would admit this. The only thing I can assure you of, senator, is that we have established quality control programs for this function. We have established standards such that 80 per cent of our calls should be answered within 20 seconds. We have monitoring programs to follow up on this. The fact that the Ottawa reservations calls are answered in Montreal should not be an excuse for providing poor service, because in a large operation like that, where there is a volume of calls throughout the 24 hours a day, we ought to be able to provide you with as equally good a service as if the calls were being answered in Ottawa. So this is not an excuse for poor service. It is a problem that we have. It is one which we recognize and it is one which we are working very hard to try to get to a level of acceptability which you and our other customers feel justified in demanding. So, if you have specific complaints, I would be glad to follow up on them.

With respect to the general complaint, I can identify with it, and I can assure you that we are working extremely hard to try to overcome it.

Senator Cameron: Well, I wish you could sit in my office some time and try to make a reservation. You would soon see how good your service is. However, we will leave that.

The next point is in the area of what I call poor maintenance. These are small things, but they are irritations.

First, frequently I find that the reading lights are not working. For example, I have made the trip to the West three times in the last three months and the reading lights were not working at all. On an evening flight which lasts three and a half hours, going from Ottawa to Calgary, it is a nuisance if you cannot read. This is just a question of somebody falling down on his job.

Second, very often the seats stick in the back position and will not stay upright. This is true, even when the flight attendant tells you to put your seat in the upright position; you cannot do it. Again, that is sloppy maintenance.

Third, there is the question of baggage. Baggage handling has already been referred to. The last time I went to Calgary I waited 45 minutes to get my bag off the plane. I understand that the baggage door became stuck or something of that sort, so that probably was an unusual situation. In any event, I try to avoid having my bag handled at all; I try to take one which will fit under the seat.

Again, from what I have seen, I am sure that the handling of baggage is not only slow but is atrocious in terms of wear and tear on the baggage itself, owing to the way the bags are thrown around. I have had two bags damaged

when I have used the baggage-handling facilities. But these are small things which I just wanted to record for you.

Now I would like to come to another point. In using the larger aeroplanes, particularly out of Ottawa to Toronto, you cut down the frequency of flights. No doubt that was an economy move to try to get more efficient operation out of the larger flights, but it is an inconvenience on what I would call the shuttle runs—from here to Toronto, from here to Windsor or to Montreal.

Mr. Taylor: On the question of frequency, senator, certainly in these high-density markets it is not our intention to put larger equipment on in order to reduce frequency. Our intent and our objective in terms of frequency is to have frequency spread throughout the day. As we all know, the majority of people, no matter where they are travelling to or from, want to leave in the morning and late in the afternoon, but we attempt to provide balanced frequency throughout the day. The objective of providing the larger aircraft, particularly in those periods of the day when the volume of traffic is high, is that with the frequency of services being operated today and the limitations on terminals, where you can put up a 1011, let's say, with 265 seats, it would, you know, take about three and a half or four DC-9s to place around the terminal to carry that many passengers. So the large equipment is put on at the peak periods of the day in order to move the largest volume of people in the most acceptable manner. Certainly, we attempt, if at all possible, not to see frequencies drop below that which is acceptable to the travellers between any two points.

Senator Cameron: Have you given any thought to using a shuttle service similar to the one operating between Calgary and Edmonton? Air Canada did operate the service. They claimed they were losing money on it, but since Pacific Western Airways took it over they have doubled the number of flights and it is loaded all the time. Why couldn't Air Canada do that? We are perfectly happy with the schedule now between Edmonton and Calgary. Why couldn't Air Canada do the same thing between Ottawa and Toronto or Ottawa and Montreal? I believe you do have what amounts to almost a shuttle service between Ottawa and Montreal.

Mr. Taylor: I have two comments. First, on the Calgary-Edmonton service, I have flown on that and it is a very acceptable and good service. The reason we did not operate that service, the basic reason, was that at the time we were negotiating about the airports in Edmonton the municipal airport was supposedly going to close when we moved to the international airport. The success of that service by PWA is that it operates at the municipal airport.

Senator Cameron: That is a big factor.

Mr. Taylor: My second comment is on the question of Ottawa to Toronto. As you know, we are operating what we call a rapid air service between Montreal and Toronto, and that is building up to the point where it is becoming very close to a shuttle service. It is not a guaranteed seat in the sense that some of the shuttle services are operating, but it is a service almost every hour on the hour. With the expansion of that in the fall of 1974, it is our plan to add Ottawa to that service in 1975 on a so-called rapid air service, which would be almost, as we would term it, a commuter service between Ottawa and Toronto as well.

Senator Cameron: That is good news.

My final question has to do with that universal source of complaint, that monstrosity, Terminal 2 in Toronto. If you go from here to Toronto on your way west you come in at one end of the terminal. If you happen to have heavy baggage—I do not, but lots of people do, particularly elderly people—there was a time when there was not even a dolly that you could put your bags on. Fortunately, this has been corrected; I see lots of them there now. But often there would be no porters, and it meant you walked practically half a mile to go out the other end. Coming back from the West it is the same thing. This is a very great inconvenience, particularly to elderly people or those who may be handicapped. Surely, there must be a better way of handling the egress, the departures and arrivals and connections in that airport that you have at the present time.

Mr. Taylor: Senator, I think the best thing that we could do for people who do not have to stay in Toronto is to try to make sure the flight does not go through Terminal 2.

Senator Cameron: That is right.

Mr. Taylor: And this is our objective, to get as many services as possible, overflying, as we call it, both Montreal and Toronto, so that people can go from Halifax to Winnipeg, or Ottawa to Winnipeg, or Ottawa to Calgary or Edmonton on a direct service basis. I think that you will see this in the summer schedule, which is improved and is continuing to improve, by which we will be by-passing these large, complex terminals, which there does not seem to be any answer to, once you have very large volumes of traffic points such as Toronto and Montreal. It is, however, a great hardship on people who connect there, and it is our firm objective to overfly these as much as possible for people who are not destined to that particular city.

Senator Cameron: Well, I hope it will improve. However, related to that is the fact that very often you want to stop in Toronto on the way west, or coming back, so that you have to use Terminal 2. Related to this fact is something that really burns me up, and that is the \$25 landing charge. If I go from here to Toronto and land there, and stay over four hours, that's \$25 on my ticket. If I have to stop in Winnipeg, as I sometimes do, there's another \$25, and if I wish to stop in Regina and Saskatoon, it is the same thing.

Mr. Taylor: Senator, I am aware that we have what we call a stop-over charge. I am surprised to hear you say it is \$25, and I would like to check that and discuss it; but there is a stop-over charge within the tariff structure for people who do stop over rather than go through.

Senator Asselin: It is ten dollars if you stop over at Montreal for the night; it costs you ten dollars more.

Senator Cameron: It is a sector-on-sector fare; that is what you call it, but the net effect is the same.

Mr. Taylor: That is right. It depends on how you define it. But this is a very common practice, senator, in all North American tariff making. The amount of the charge I would like to verify, however.

Senator Cameron: Well, I can show you the tickets. Twenty-five dollars for each stop at Toronto, Winnipeg and Regina—seventy-five dollars on a one-way ticket.

Mr. Taylor: I would like to discuss that with you, senator.

Senator Cameron: This is indefensible. Well, all right.

The Deputy Chairman: Senator Grosart.

Senator Grosart: First of all, to follow up Senator Cameron's comment about Terminal 2, I know Air Canada did not build it and so cannot be expected to take the blame for its tragedies. Commonly, now, the taxi drivers call it "Cardiac Alley", and a doctor who is a member of Parliament has told me—and I walked it with him—that it is a definite hazard, to anyone who has any kind of heart problem, to walk its entire length.

Is it the intention to do anything about it? Is it the intention to put in enough of these passenger tractors, or whatever they are called, or to put in a moving sidewalk or a lateral elevator? Is anything going to be done about it?

Mr. Taylor: Senator, I wish we could cut Terminal 2 in half and make two small terminals out of it, but we cannot. We have to make the present building work somehow, because it is there. We have ever-increasing volumes of traffic coming out of Toronto and through Toronto, and so we have to use the facility. There are three alternative plans to try to improve the walking distance or to try to reduce the walking distance of Terminal 2. The finger that is commonly referred to as the east finger, I believe it is, which is in the direction of gate 80, is the longest walk from the check-in point, and the object there was to consider both moving sidewalks and the addition of the so-called golf carts or battery operated mobile carts. Both of these have real logistic problems in them, and I know that the MOT design people, along with our own design people, have considered and are still considering both of them, to see whether or not there is any way to overcome the difficulties that both of them encounter. If the moving sidewalk, for example, is put down the centre there is the problem of crossing. There are many problems that we could get into, but certainly we recognize the problem of Terminal 2. The major thing that was done at Terminal 2, which did reduce to a very great extent the amount of walking, was to try to use it as it was designed, which was to have the passengers arrive and walk through the building and on to the aeroplane. This can be done with the majority of the gates which are international and long haul; but with the gates in the east finger it is difficult to do that because you cannot arrive opposite, and there are gates on both sides. The distance in that finger alone is not that great, but if you have to go from one end of the building to the other it is fairly critical. So there are these carts which are available for use for people who have cardiac problems, or any other problem that causes them to be unable to make the distance; but it is not possible to put enough of these carts in that finger to accommodate all passengers. However, they are there and available for people who do need them.

Mr. Hopkins: You do have wheel chairs.

Mr. Taylor: There are wheelchairs available throughout the terminal.

Mr. Hopkins: If you reserve them in advance.

Mr. Taylor: You can reserve them in advance, or you can take your chance on their being available on arrival. However, there are these golf carts available for people who do need them in that finger.

Senator Langlois: Are the major companies consulted by MOT when an airport is in the design stage? Since you are the prospective users of these facilities, do they consult you?

Mr. Taylor: Yes. As a matter of principle the airport design people do consult the air lines design people, though the people who own the terminal have the final say in it, of course. The problem of Terminal 2 was that it was an added terminal, designed to accommodate the overflow of the first terminal, and I think therein lie some of the problems of Terminal 2.

Senator Grosart: Well, I am glad to know that at least the matter is under consideration. I think it would be good public relations to put up a sign saying, "Will you please be patient? We are going to do something about it." It is certainly very annoying for people. I have seen many people in real distress, and I have looked around to try to find a cart, and it is almost impossible. I do not know how long you would have to wait. I do not know whom you would ask. The last time I asked I got a very insulting reply, and that was, "Take a wheel chair!"

Mr. Taylor: Your point is well taken, senator, and we will certainly pursue it because the carts should be available on a regular basis.

Senator Grosart: The public is very concerned, because all you hear are serious complaints from people about the inconvenience involved.

Now, if I could ask you a few questions about the financial statement. In the statement of income and retained earnings there is an item of \$200,000 for dividends. How do you declare a dividend when you are losing money?

Mr. Taylor: Just to share the stage, I shall ask Mr. Cochrane to answer that question.

Mr. Michael Cochrane, Vice-President, Finance, Air Canada: The dividend is paid to the CNR who owns all of our capital stock. As far as losing money is concerned, we were not losing money in those years, and when we paid those \$200,000 as a dividend we were making money. We have had a profit of \$6 million and \$8 million in two years.

Senator Grosart: Well, I will take your word for this.

Mr. Cochrane: It is on the statement.

Senator Grosart: I know it is on the statement, but I shall take your word for it that your accounts agree that it is properly called a profit.

Mr. Cochrane: I would not say it is an adequate profit, but it is a profit.

Senator Grosart: Then coming to deferred income tax which is in the balance sheet under assets, the fifth line, I take it this is on one year's operations. Would you care to explain this?

Mr. Cochrane: Well, it is not just on one year's operations; it is an accumulated amount. As you can see, it gets a little larger each year and from 1972 to 1973 it got still larger. So it goes up each year. For income tax purposes you are not allowed to declare obsolescence on inventory, but we know our inventory is becoming obsolete to some degree, as is the case in every business, and therefore we write it off each year and that, in turn, becomes an asset until such time as the inventory is sold.

Senator Grosart: Is your rate of corporate income tax the same as for any other corporation?

Mr. Cochrane: Yes, sir, our tax is calculated in line with all other corporations.

Senator Grosart: Except that you don't pay it.

Mr. Cochrane: No, sir, we don't because of the speed with which we are acquiring new assets which are depreciated relatively quickly.

Senator Grosart: Then in the statement where it deals with the source and application of funds, there is a very substantial decrease in working capital, something like \$88 million. How do you live with that?

Mr. Cochrane: Our working capital deteriorated very substantially because we were forced to go to the bank for money in order to keep our operations going. Normally this kind of financing would have been long-term financing which would not have hindered our working capital; and had we had this bill passed we would have had the money so that we would not have had to go to the bank, and this working capital deterioration would not have taken place.

Senator Grosart: What is your indebtedness to the banks now?

Mr. Cochrane: I believe in the area of about \$125 million, and this will be up to \$140 million by the end of this month.

Senator Grosart: What are your limits?

Mr. Cochrane: Our current limits are in the area of \$140 million.

Senator Grosart: So you are right down to the deadline.

Mr. Cochrane: Yes, sir. If this bill is not passed we will have to extend our line of credit with the banks, and it is to be hoped that they will agree.

Senator Langlois: I understand you have already extended it starting with \$50 million, then going to \$100 million and, finally, to \$140 million.

Mr. Cochrane: That is correct.

Senator Grosart: Is that all with one bank?

Mr. Cochrane: That is with two banks.

Senator Grosart: Or with a consortium of chartered banks?

Mr. Cochrane: No, with two banks—the Bank of Nova Scotia and the Royal Bank of Canada.

Senator Grosart: Then, continuing with the application of funds, I see here "progress payments". What are they?

Mr. Cochrane: Payments on aircraft to be delivered in the future. We make progress payments as aircraft are in the process of being built.

Senator Grosart: Is this part of your contract with the manufacturer of the aircraft?

Mr. Cochrane: Yes, sir, it is a normal practice in the industry.

Senator Grosart: This would seem to be something that industry has learned from the relations between business and government during the war and after—simply getting

the government to pay for the goods before they were delivered.

Mr. Cochrane: That is right.

Senator Grosart: Nice work if you can get it!

Senator Riley: I have a supplementary question arising from this. Isn't this practice of progress payments the standard method of payment for all construction? It is not related only to government projects. If you are building a \$25,000 house today, normally you have to make progress payments as the work proceeds.

Mr. Cochrane: Yes, sir, and in the aircraft industry it is normal, as I believe it is also normal in the shipbuilding industry.

Senator Grosart: All I can say is that it was not always so.

Then under the same heading my next question deals with "reduction of long-term debt." Do I take it that you borrowed money from the chartered banks to make payments on your long-term debt to the government?

Mr. Cochrane: No. That refers principally to payments to the Lazard Frères on the Rolls-Royce engines which we purchased and financed through them, and also to the EXIM Bank in the United States which is helping us finance our aeroplanes which we are buying in the United States.

Senator Grosart: So you are really borrowing from Peter to pay Paul, borrowing from the bank to pay off other debts, which is another good reason, in my view, why something should be done to clean up the mess that this kind of act is.

Mr. Cochrane: Your statement is correct, senator, in that we are borrowing from banks to pay contractual obligations with other lenders.

Senator Grosart: Well, most of us who are parents, if we saw our youngsters doing that, we would raise a little bit of hell. I know the reason is that this bill was not passed in Parliament for two or three years.

Mr. Cochrane: We certainly wish we did not have to do it.

Senator Grosart: I am quite sure of that, and I am sure that before we are through there will be a recommendation coming from this committee that we attempt to do something to clear up this mess of retroactive legislation. In this case you have two months to go, and then you will need another bill. When do you expect another such bill?

Mr. Cochrane: Well, we wish the other bill was underway now because, as you have quite rightly said, this expires at the end of June, and then in July we will be faced with another problem.

Senator Grosart: You will be faced with exactly the same problem as of July 1.

Mr. Cochrane: That is right, sir.

Senator Asselin: I have one simple question that I would like to ask the witness. When you have a waiting list for passengers, do you give any priority to senators?

I ask the question because I had a bad experience before Easter. I called your office in the city and was told that I was first on the waiting list. I went to the airport and there I was told by the clerk that I was tenth on the waiting list. I

asked him whether I had any priority and was told there was no priority for senators or members of the House of Commons.

I waited three hours to try to get a flight. After three hours I was told there was no place available for me, and I had to come back to my hotel, stay over, and get a flight the following day.

My question is simple: Do we have any priority on the waiting list? And, if not, why not?

Mr. Taylor: I hope that we do not discriminate either in favour of or against senators. The priority system is essentially on a first-come, first-served basis under the waiting list procedure.

There are emergency procedures which are sometimes applied in what we call extenuating circumstances to accommodate particular cases, such as death cases, serious illness cases, and various things like that, in which there are procedures to apply. But generally we try not to discriminate either against or in favour of any group.

Senator Asselin: You will understand that I may be in Quebec City and have to be in the Senate in order to take part in an important vote. I am in public life. I have to do my duty. Why do you not give to a senator or to a member of the House of Commons priority in order that he might get to Ottawa?

Mr. Taylor: I am waited upon on many occasions by many people who would lead me to believe that their business is extremely important and vital to the welfare of their company or industry.

Senator Asselin: Our business is the most important.

Mr. Taylor: While I am sitting here with you I could agree that your business is more important than anyone else's.

Senator Langlois: Is your VIP service still in operation?

Mr. Taylor: I am not sure what you are referring to as "VIP service." I do not think we have anything that we could specifically identify as a VIP service.

Senator Langlois: You have a special number for senators to use.

Mr. Taylor: Yes, we have special accounts positions. We give numbers out so that you and other people can get through to the reservations office, and hopefully you can be dealt with without waiting in line on the telephone, as Senator Cameron said earlier. There are special accounts numbers, but the general procedures are, we hope, fairly universally applied.

Senator Langlois: All we get is a fast "No."

Senator Smith: Those numbers to which you refer are assigned to us in Ottawa. We get a number of a girl. The name of my contact is Mrs. Stewart. She is just the greatest girl in the world; I get exceptionally good service. But what do I do when I am in a small town in Nova Scotia? I cannot even get the Halifax office because it is foggy and everybody is on the phone; I get a busy signal, and then comes one of those tape recordings.

I am paying a toll on this. I am 110 miles from the source of my information. I wait until my ear gets tired and I am talking back to this recording machine. I hang up in order to keep my sanity. I wait another five minutes or so and call again. This goes on for three successive times. Cannot

you give me a number that I can call outside of Paul Anderson's? I do not want to call a fellow like that who is busy all the time. I think we should have some kind of zenith number. If I have to make four calls to get my reservation changed, I should not have to pay \$6 or \$8. That is something definite that happened to me. The most annoying thing is these tape recordings that insult me; I cannot ask them questions.

Mr. Taylor: You cannot talk back to them.

Senator Smith: Where is zenith now?

Mr. Taylor: The zenith system is being expanded continually throughout the smaller communities into the reservation offices. The thing I wish would not happen would be the fog that rolls into Halifax Harbour and causes the reservation lines to be plugged. I do not know how we will overcome that. I guess we will not, really.

We cannot staff sufficiently to handle every emergency. We try to staff with lines and people to accommodate the demand we can normally expect to handle. If you would like to speak to me afterwards, senator, I can let you know where the zenith planning is in relation to your community.

Senator Smith: There is none in my area. There are travel agents in my area who have a zenith number, but I do not want to use travel agents. I want to do my own reservation and changes, because I have questions to ask. I think that a zenith number, if available to someone in North Bay and other Northern Ontario cities, should be available in rural areas. It seems to me that there should be the same availability of a toll-free service.

Mr. Taylor: I know that it is expanding, and I will try to follow up on that.

Senator Smith: Some of my friends mentioned this matter to me, and we get annoyed at the tape recordings. I know that it is due to the fog. I hope you will not think that we are attacking the company.

I had only one disappointing experience in my life regarding Air Canada. Outside of that I have no complaints whatsoever. I lost my temper with a young girl, to the extent that I rushed in to see the top man at the airport and said, "I don't know her name and I don't want her fired, but give her hell and get me on that plane out there." I had a sick person I was supposed to meet on the plane; I thought it was all arranged.

I have not seen her at the gate since and perhaps I was responsible for firing her. I would like her to know that I did not really want her fired and that I forgive her. But it was an awful thing to happen to me. It was a personal matter. I was terribly upset and I thought I would have a heart attack. I have no complaint about your ground crews in Halifax, Ottawa or Montreal, and I travel almost every week.

Senator Gélinas: Under the heading "Operating Revenues," there is an item "Incidental Services, \$16,300,000." What would that item be for?

Mr. Cochrane: That primarily consists of services that we do for other airlines. We do work for Air Jamaica in the maintenance area, for CP Air, and other companies.

Senator Gélinas: Were there any losses with options that were not exercised for the purchase of new aircraft?

Mr. Cochrane: The answer to the question is: No, as far as I know. I will check and verify it to make sure, but I am almost positive there were no options that we did not take up and did not get back our commitment.

Senator Gélinas: There was no option on the Concorde?

Mr. Cochrane: Yes, there was. In the specific instance of the Concorde our money was returned to us.

Senator Gélinas: Are there any plans under consideration by airlines—not only by Air Canada, but airlines—to penalize passengers who book and do not show up or cancel their tickets? Is there a system such as they have on the railroads?

I had an experience recently. I do not wish to give examples, but I was on a flight the other day and had difficulty getting on it. There were three passengers in first class and twelve vacant seats. There was no stand-by, but I took a chance and went out. I know it is a problem. How can you penalize those people who book and do not show up, and the next day cash in their tickets with no penalty?

Mr. Cochrane: The answer to your question is definitely, yes. We are looking at this situation. We have been looking at it for some time. The matter is under very active consideration in the United States as well. There is one problem. It is very difficult to administer. We have not yet found a solution to the administration of the problem, because a man can phone up and make a reservation under his own or someone else's name and then not show up.

Senator McElman: I have a supplementary, Mr. Chairman. Conversely, is there any way a passenger who has a confirmed reservation can exercise a penalty against the airline for not giving him a seat as a result of it having oversold that flight?

Mr. Taylor: His only recourse, senator, would be through the courts. There was a recent case in the United States where Mr. Nader sued Allegheny Airlines on that very point and won a substantial award.

Senator McElman: That is a precedent.

Senator Graham: I should like to start off on a positive note and show some regional bias by saying that I think both the flight and ground attendants in Sydney and Halifax are as efficient and courteous as you will find anywhere in North America—and I say that most sincerely.

I share the concern of those honourable senators who spoke about the slow telephone service, particularly here in Ottawa and in Montreal. This is particularly true after hours when calls are deferred to Montreal. I do not think the system is working efficiently at all.

I also share the concern of those who spoke about damage to baggage. I can understand how baggage, over a period of time, can become damaged, but I think it is gross negligence to leave baggage out on the ramp when a flight happens to be delayed for a couple of hours when it is pouring cats and dogs with nothing done to shelter it. I have seen that happen within the past couple of weeks.

I should like to turn now to the subject of lay-over charges. I think this is a matter of concern to most honourable senators. I travel to Ottawa every week and on a good many occasions I have to stop in Halifax on government business, and the lay-over charge is \$17.

This either happens early in the morning or late in the day. Before the rates changed, I was on a flight from Vancouver to Sydney. I got off the plane in Toronto to make a phone call and found that I had to go to a meeting. The result was that between 8 o'clock the previous evening and approximately 9 o'clock the next morning, the lay-over charge was \$41.

I should like to concentrate on a discussion of the scheduling of flights in the Atlantic region, Mr. Chairman. I do not want to go into great detail.

I believe you suggested, Mr. Taylor, that last year you underestimated the volume of traffic during the peak periods. Is that correct?

Mr. Taylor: Yes, you could put it that way. Certainly, we had a greater volume of traffic than we had estimated last year, generally speaking.

Senator Graham: Can you tell us what the percentage was? Was it 4 or 5 per cent?

Mr. Taylor: It varied, senator. In the peak summer months when we had the various strikes, we had a much greater volume than we had anticipated. In terms of the full year, we were running at 5 to 7 per cent over what we had estimated for the full year. Certainly, in the months of July and August, when the various strikes were going on, we had a much greater volume than we had estimated.

Senator Graham: Do you have enough equipment on hand now to handle what you anticipate will be the demands during the peak periods this summer?

Mr. Taylor: Yes, providing there are no crises in terms of other modes of transport not functioning, as was the case last year. We feel confident that our equipment planning for this year will accommodate comfortably the traffic estimated and generally agreed upon.

Senator Graham: In respect of scheduling, what kind of consultation do you have with other airlines? To be specific, what kind of consultation do you have in respect of scheduling in terms of EPA and yourselves in and out of the Atlantic region? In other words, what kind of consultation do you have with EPA when you are drawing up your schedules as compared to their schedules?

Mr. Taylor: You have probably used the best example that we have in Canada, senator, because there is a closer working relationship between EPA and Air Canada in that region than there is between Air Canada and any other regional carriers. There is a very close working relationship in scheduling between EPA and Air Canada. The two carriers consult in the processing and planning; they consult prior to the publication of schedules, as well as in respect of the volume of traffic over the routes which they both serve.

Senator Graham: Is the scheduling of flights ultimately done by computer?

Mr. Taylor: The computer gets involved in processing a good deal of the data, but in terms of the forecasting of traffic over the routes and the scheduling of departure and arrival times, what we call the aircraft routing, is not done by computer. The long-term forecasting of traffic and what we call frequency without a schedule is largely computerized. However, when we get down to the actual scheduling in any given year or period, it is worked out very much on what we call a manual basis. In other words,

we put into the schedules the actual judgments of the managers in the field, in the regions, along with the people who have to sit down and schedule the aircraft, the crews, and the other functions that surround the flight and the ability of the physical facilities on the ground to accommodate the schedule.

Senator Graham: We have had situations over the last two or three years whereby a difference of ten minutes in arrival or take-off time could have saved people up to three hours a flight time. It sounds incredible, but it is a fact. For example, going back to Sydney from Ottawa, or from Sydney to Ottawa, we often have a stop-over in Halifax of up to two hours, or a stop-over in Montreal of up to two hours, depending on which route the flight takes. I am wondering whether you anticipate any greater use of equipment in the Atlantic region in the upcoming year.

Mr. Taylor: Yes, senator. As you know, there was a fairly lengthy hearing, of some depth, into the adequacy of service in the Atlantic region recently conducted by the Canadian Transport Commission at which the various communities filed briefs as well as both Air Canada and Eastern Provincial. I think both airlines are thoroughly satisfied—that the schedules to be provided for this year and in the coming winter and summer of 1975 will meet all necessary needs. Hopefully, senator, you will be able to tell us that it meets your needs to a much greater extent than has been the case in the past.

Senator Molson: I have three questions, Mr. Chairman. I will take the simplest one first.

On page 2 of the notes to the financial statements there is note 3 which covers the depreciation and amortization of equipment. Under "Flight Equipment and Components" we find the Boeing 747, 16 years; the Lockheed 1011, 16 years if owned, and 15 years if leased; the DC-8, 14 years; and the DC-9, 12 years. I am wondering how this period for depreciation was arrived at.

Mr. Cochrane: What we want to do, senator, is line up depreciation with what we think will be the useful life of the aircraft in service, and at the same time work with the other carriers to make sure that we are depreciating our equipment at approximately the same rate, so that the resulting profits will be reasonably comparable. So it is a combination of those two factors which primarily set our depreciation policy which, of course, is concurred in by our consulting accountants or auditors.

Senator Molson: Does that mean that you believe a DC-8 will last two years less than a 747?

Mr. Cochrane: That is correct. That is what the industry has put as the useful life of these aeroplanes. Remember, this is after considering all factors, including, for instance, the noise factor, our ability to be able to change the engine on certain DC-8s to meet the noise regulations in different parts of the world. In other words, it is not just a mechanical thing. In addition, there is a marketability factor. As newer aircraft come in, some of the planes are changed or retired because they are not as marketable, particularly on competitive routes, which applies particularly in the United States.

Senator Molson: What is the oldest DC-8 you have?

Mr. Cochrane: Just about 14 years old. I think this is the year that our first DC-8 becomes fully written off.

Senator Molson: Is it going to be retired?

Mr. Cochrane: No, sir. We are going to try to keep our DC-8s in service. I think at this point in time it could be retired; in other words, it is fully depreciated. Secondly, it will be kept in service because of traffic requirements as opposed to any other reasons. To put it a different way, on a purely economic basis I think we could probably replace the DC-8s with new aircraft, and, even though the DC-8 is fully depreciated, in some cases, we would still be further ahead by putting a new aircraft in its place.

Senator Molson: I am interested in this, because I have so often seen aircraft written off, then kept in service and re-written off. In fact, historically I have known them go three lifetimes, if I am not mistaken. I am not speaking about DC-8s or any of those listed. I am just curious to know the basis.

Senator Langlois: I should like to ask a supplementary question on Note 3, on page 2. I would like to know the justification for treating leased aircraft as though they were owned by your company for depreciation and amortization purposes. I am not an accountant, and the reasoning behind this is beyond me.

Mr. Cochrane: For some time now the accounting profession has been discussing which way these aircraft should be treated. Where airlines have a substantial portion of leased planes it is becoming a generally accepted accounting principle to capitalize them in order not to distort the profit picture. If you have a large number of leased aircraft on which you are paying a firm price each and every year, the end result is that if you leave them as leased you will show a bigger profit in the earlier years than if another company doing exactly the same thing owned the aircraft. In order not to distort the profit and not to over-state it in the earlier years, compared with other airlines, we follow the generally accepted accounting principle of capitalizing the leases.

Senator Langlois: You do that whilst you are charging your leasing price in operating expenses.

Mr. Cochrane: You cannot do both, so for purposes of capitalizing the lease we show depreciation against those planes. In reality, you are quite right. We are actually paying out money for leasing, but we are not double charging it against our profits; we are only charging it once, and charging depreciation as opposed to the lease fee.

Senator Langlois: Your note is incomplete as it is.

Mr. Cochrane: Perhaps you would like some more elaboration on that.

Senator Molson: In Note 5 you say:

There is a commitment to a supplier to use 100,000 hours of its services in each of the next two years; the cost of comparable services in 1973 was \$1,700,000.

What is that?

Mr. Cochrane: That is a commitment to the CAE Company, which is located in Winnipeg, to supply them with 100,000 hours' worth of work a year which they are carrying out for us.

Senator Molson: That is 100,000 hours of work; it was \$17 an hour before. You do not know what it is? The rate is

not fixed. It is 100,000 hours. Is the rate to be fixed by some formula?

Mr. Cochrane: The rates are as fixed by negotiation with that corporation.

The Deputy Chairman: Is that the only place where you have that kind of commitment?

Mr. Cochrane: Yes, sir, it is.

Senator Molson: If the rate is not agreed, the contract does not stand.

Mr. Cochrane: I would assume that if we could not agree on a rate, either the contract could not stand or we would have to get a third party in to help us agree on a rate.

Senator Molson: I would like to go back to a reference to Air Jamaica, and there may be other airlines which I do not know about, in which Air Canada has some of the equity, does some operations and so on. This has been going on for three or four years. Would you tell us whether that has been profitable or unprofitable—without getting into great detail? Is Air Canada losing on this deal, or on that sort of deal?

Mr. Cochrane: I believe Air Jamaica is the only one where we have an investment in the airline and at the same time do work for them. That work has been profitable for Air Canada, and I assume also for any other airlines, and in some cases we have lost the contract to other airlines who said they would do it cheaper. In other words, it is an arm's length agreement.

Senator Molson: It does not cost Air Canada?

Mr. Cochrane: No, sir, that has been profitable business and we are very happy to have it.

Senator Molson: I come to the charter question. Air Canada has been expanding the charter business and has taken a position in Wardair. Would you mind explaining what the relationship is between the charter business and the scheduled business on a major airline like Air Canada? In serving the public, is the charter function normally an important function of a major airline, or is that in many cases a function of secondary airlines, or does it compete with the scheduled services that the airlines provide?

Mr. Taylor: Senator Molson, I will try to answer that to the best of my ability. The whole question of charter versus schedule is very much a marketing question. Air Canada is in the charter market. Mr. Cochrane will give me the percentage that the charter revenue is of the total. It is a fairly small total, in our case: it is 5 per cent of our business.

Essentially, we are in the charter business to protect our overall position in the scheduled market. That is the only reason. Essentially, we are in the charter business on two basic routes, the North Atlantic, largely to the United Kingdom, and one to the south, to the Caribbean islands. Basically, we are in there to protect our scheduled interests in those two markets. We are the scheduled carrier between Canada and the United Kingdom, along with BOAC, or British Airways, as it now is, and if we do not participate in the charter market and there is a charter market there, other carriers will come in and gradually absorb an increasing position in the market. Essentially, we are in the charter market to protect our total position

in any given market and it is a very small percentage of our total business, roughly 5 per cent.

Senator Molson: That is a very good answer.

There is one question I would like to have answered also. Do all the other major airlines, or most of them, have charter business that is comparable?

Mr. Taylor: Yes, nearly all the major international airlines, senator, do participate in the charter market in some form, and I think that it is basically for the same reasons that we do.

Senator Grosart: Can you say how much in dollars it has cost Air Canada to do short-term financing as against long-term financing, government financing, since the last time the Financing and Guarantee Act was passed? In other words, you pay a higher rate to the bank than you would otherwise. How much has it cost you?

Mr. Cochrane: I do not have that figure right here.

Senator Grosart: Can you make a guess?

Mr. Cochrane: I can tell you what it cost us last year alone. It cost approximately \$600,000. This year it will cost us very substantially more than that: first, because the interest rates are higher; and, second, because we have a lot more outstanding, even though it will be for a shorter period, hopefully, if the act is passed now.

Senator Grosart: This is a charge against your operations entirely due to the fact that the Financing and Guarantee Bill has not passed through Parliament?

Mr. Cochrane: That is correct, sir.

Senator Grosart: I know you make comparisons with other airlines. How do your tariffs compare on a mileage basis with those of comparable airlines? I know it is difficult to make these kinds of comparisons, but I am sure you base your tariffs on comparative studies.

Mr. Cochrane: Of course, in Canada it is the same, obviously; but in the United States, which is probably the place where you can make the easiest comparison, our fares at this point in time are substantially below theirs. Historically, we have been above their fares, but over the last three years we got closer and closer to their fares on a per-passenger-mile basis, which is the only way to measure, of course, and we are now quite a bit below theirs.

It is amazing. It is the one product, I guess, or one of the few, that you can get cheaper in Canada than in the United States.

I believe that at this point in time our fares, flying within Canada, are cheaper than those of any other country in the world. I do not know of another country where you can fly for the same price as you can in Canada on a per-mile basis.

Senator Grosart: That is good news. You also make other comparisons, I understand. On a general efficiency basis, how do you compare on such things as lost baggage and so on—the complaints division? Do you lose more? It is sometimes said that air transportation is a marvellous thing: you can have breakfast in New York; you can have lunch in London; and you can have dinner in Cairo—and your baggage is in Vancouver!

Mr. Cochrane: Well, we have had some unusual problems over the last year, as you all well know. But to answer

your first question, "Do we make these comparisons?"—yes, and we make these comparisons continually. At this point in time we are comparing reasonably well with the United States airlines, which is where we make our major comparisons. We have one difference, compared with the U.S. airlines, which is quite important, and that is that our load factors are substantially higher than theirs. For every plane we fly we have 10 per cent more people on it than they have on theirs. So this, of course, increases the chances for mishandling of baggage on a per-passenger basis, because your planes are more crowded and so on.

But, as I say, our performance, say, last year was not that good compared with the U.S. airlines. It is now improving substantially. We have standards set for baggage handling and other things which are based on the standards in the U.S. airlines and based on the performance in the U.S. airlines, and in some cases we are achieving those, but in all cases we are getting closer and closer to achieving them. In other words, we have not been good, but there is progress.

Senator Grosart: Is your problem in the area of the telephone answering service any greater than that indicated in other airlines?

Mr. Taylor: I think our standards are better than most of the major U.S. carriers, in terms of what we hope to attain, certainly in 1973, and we are closer to attaining them as we move into 1974 than the U.S. carriers are.

Senator Grosart: Is there any truth in the oft repeated canard that Air Canada is the greatest airline in the world in the air and the worst on the ground? You must have heard that many times. I am not saying it is so.

Mr. Taylor: I would like to say no, senator, but I think it is a valid criticism of all airlines, because once a passenger gets in an aeroplane and is on his way to a destination he is much less critical of what is happening to him than he is when he is on the ground waiting to get on to the aeroplane. So I think it is a valid criticism of all airlines.

Senator Langlois: My first question deals with security checks done at the airport prior to boarding. Are all these checks imposed on Air Canada by the airport authority, or at some other level in the Ministry of Transport? My question is: Are they imposed? Do you have to be subjected to these checks?

Mr. Taylor: Let me try to answer it this way, senator: The general question of security of passengers within airport terminals is one in which the Ministry of Transport is very much involved in terms of setting the standards or the level of security. In terms of the cost of that security within the airport, this is borne by the airlines, and is usually provided, I think, in most terminals now, by service agencies in which all carriers participate. At one time it was carried out individually by airlines. In fact, the airlines very much encourage the need for security, and it is not something that we resist. We wish we did not have to do it. We wish the whole question of security environment were such that we did not have to do security checks; but we feel it is in the interests of the passenger and the air carrier to carry out security checks.

Senator Langlois: Your answer prompts another question in my mind on the same subject. If these checks are done for the security of the passenger, and the cost is charged to your company, how is it—and I do not want you to

explain MOT policy—that some of your competitors at Dorval, for example, do not carry out any security checks?

Mr. Taylor: Well, I assume, senator, that you are referring to a recent case involving one of the international airlines operating at Dorval.

Senator Langlois: Iberia, two weeks ago, on the flight from Montreal to Madrid. No security checks were carried out.

Mr. Taylor: There are some individual situations like this that I am not able to explain, not because I do not want to explain them, but I know that there are one or two instances like this that have not been properly explained to the public.

Senator Langlois: Coming back to this question of stop-over or lay-over charges, I would like you to tell me what is the justification for these charges, and particularly the justification for the large variations between the stop-over charges at different airports. For example, this afternoon one of my colleagues here mentioned that there was a lay-over charge at Halifax of \$17, and another one mentioned a charge at Winnipeg of \$25. Why this variation?

Mr. Taylor: I am glad you asked the question, because it gives me a chance to correct something that I may have misled Senator Cameron on, which I am now able to clarify and which I had planned to clarify before we closed. That is that the stop-over charge, as I referred to it and which we commonly refer to as a stop-over charge, is the increase in fare that results when a journey is broken. The basis for the tariff in that case, under the current tariff, not only in Canada but throughout North America, as I understand it, is the combination of the sector fares, so that the \$25 figure that Senator Cameron used may very well have been the right figure, depending on the route that he was travelling at that particular time.

You ask for the basis of this. Well, the basis of it is the fact that it is the same to the airline as two separate journeys, because if you come as a passenger from Vancouver to Toronto one day you are a Vancouver-Toronto passenger that day, and if you come from Toronto to Halifax, or Fredericton, or Saint John the next day you are in fact a second journey passenger. The basis of tariff pricing in Canada, as it is pretty well generally throughout North America, is that you attempt to recover your ground cost as well as your air cost, and when you break a journey you in fact become two passengers.

The Deputy Chairman: Would the CNR do the same thing? Supposing you are in Montreal, you go to Vancouver and—

Senator Langlois: We still have some CNR witnesses here.

The Deputy Chairman: Well, I am just asking it in that way. Did you hear my question, Mr. Cooper?

Mr. G. M. Cooper, General Counsel, Canadian National Railways: I heard your question, Mr. Chairman, but I am afraid I do not know the answer.

The Deputy Chairman: Well, could you let us know later?

Mr. Cooper: Yes, I will, senator.

The Deputy Chairman: I am sorry, Senator Langlois.

Mr. Taylor: Could I just continue to deal with the principle of tariff making, if you want to call it that? The

through fare applies from Vancouver to Halifax when the passenger does not break his journey and goes straight through. When the journey is broken, he becomes, in fact, two passengers, or three or four, as the case may be, depending on the number of times he breaks his journey, and then, the sum of the sectors applies and this is the basis of the tariff.

Senator Langlois: If I understand your answer correctly, this lay-over charge is meant to cover the additional ground cost to your company if one passenger breaks his journey at one particular airport instead of going right through. But then the variation in the charge indicates to me that these charges are not based at all on your own ground cost, because your ground costs vary. I assume that the difference between the ground cost at Halifax and the ground cost at Winnipeg is not that big that the lay-over charge at Winnipeg would be about double that at Halifax.

Mr. Taylor: Well, senator, there is one constant and one variable. The constant is the ground cost and the variable is the flying cost; that is to say that the flying cost to fly over a short distance is higher per mile than the cost to fly over a long distance because you get the economies of the aircraft once you put it in the air at Toronto at 20,000 feet and fly it 2,000 miles as opposed to flying over a short distance. The other variable is the length of the leg, as we call it, because the length of the leg that the passenger is travelling creates the variation in the so-called stop-over charge which is in fact the sum of the sectors.

Senator McElman: I have a supplementary question before that point is finished with, Mr. Chairman.

For a number of years on overseas flights a passenger—and I do not know if this still applies or not—who proceeded in a forward direction towards his final destination could take side trips to various points without any increase in fare and without any stop-over charges. Does this still apply?

Mr. Taylor: I know that that has been withdrawn in the majority of cases. I stand to be corrected on that, and I shall verify it for you to determine if it has been withdrawn in all cases. I can recall advertisements at one time which said something to the effect of, "six cities in Europe for the price of one", but I know that the general increase in the cost of operating an airline has caused the industry generally to withdraw from that practice, and I think in most cases they have done so.

Senator McElman: Was it ever the case in Canada with your carriers that you could follow such a procedure on fares?

Mr. Taylor: It was the case some years ago, senator, when there was no stop-over charge at all, and then it went to where there was a fixed amount, either \$5 or \$10, or, in fact, it may have gone from \$5 to \$10. Then, eventually, it became the sum of the sectors. The airlines did this as they faced higher costs for fuel, labour and supplies. They had alternatives. One was to increase the whole general level of fares, or to apply some of these other techniques of the sum of the sectors; and, in fact, some of both was done, to the point where it is now totally the sum of the sectors as opposed to a flat charge.

Senator McElman: So there is no difference today within Canada with your carrier if a person schedules in advance for stop-overs or if he arrives at point X and suddenly

decides he will not proceed to his destination and just discontinues his flight?

Mr. Taylor: No, if you schedule a stop-over, that is, if you schedule to fly from Fredericton to Toronto one day, and two days later you decide to fly from Toronto to Winnipeg, and two days later to fly from Winnipeg to Vancouver, your tariff is for the sum of the sectors.

Senator McElman: So there is no penalty to a person who leaves you with an empty seat?

Mr. Taylor: No. This gets back to the other question, where airlines find it very difficult to find a way of imposing a penalty for empty seats.

Senator Langlois: Are the stop-over charges the same in Canada as they are in Europe? Do they make a stop-over charge in France and Germany on the same basis as you do here?

Mr. Taylor: My understanding from recollection is that in the United States and Europe they were using both stages that we ran through earlier—the flat stop-over charge before we were, and the sum of the sectors before we were.

In Europe the per-mile cost of flying is considerably higher than ours, 25 or 40 per cent higher. It is a general tariff rule adopted by most airlines.

Senator Langlois: Is it not a fact that some of your competitors in Europe do not have stop-over charges?

Mr. Taylor: I would need to check that, senator.

Senator Langlois: I was informed by my colleague on my right that he recently saw an advertisement by Lufthansa to the effect that you could go all over Germany and stop over at any place you wish without a stop-over charge.

Mr. Taylor: I think it is without question that the cost of air travel in Europe is considerably higher than it is in North America. What this particular reference to Lufthansa is, I do not know. I would like to check that.

Senator Smith: There was a full-page ad in the *Montreal Star* not so very long ago, and I reminded the senator about that. They may charge you a total sum of money to be able to do this. They do not break it down, so I would not know what the charges are, or if they are included.

Mr. Taylor: That is possible. They may be selling you a package in which all of these things are included. That is quite legitimate.

Senator Langlois: My next question has to do with that which was put to you earlier by Senator Grosart, in regard to short-term financing. He related that to the fact that the bill before us was delayed for so long. He asked you if there was a difference in cost for having been obliged to obtain financing under short-term, as compared to the expense if you could have had the benefit of long-term financing.

Is it not a fact that the financing that you did in England through Lazard Frères to cover the purchase of the Rolls Royce engines and components was done at very favourable interest rates, even though it was shorter term financing?

Mr. Taylor: That is correct. It was done at extremely favourable interest rates. But, of course, that was a special arrangement which is encouraged by the British govern-

ment, because it involves the export of their engines. We are also doing financing at very good with the EXIM Bank in the United States, which involves the export of their aeroplanes.

Senator Langlois: If this act had been passed, and you would have been able to purchase on a long-term basis, it would have cost you more money?

Mr. Taylor: No. If the act had been passed we would not have used the money to finance the engines. We would have financed the engines with Lazard Frères anyway, because it is cheaper.

Senator Langlois: Over the same period of time?

Mr. Taylor: Yes, because it was a better economic arrangement from an interest rate standpoint than we would have got had we borrowed the money from the government.

Our general policy is that wherever we can we will try to get money from non-government sources provided it is more economic. In those two instances it was more economic.

Senator Langlois: I was under the impression that Lazard Frères was coming to the rescue of Rolls Royce rather than to the rescue of Air Canada.

Mr. Taylor: But in the end they helped us.

Senator Langlois: But my assumption was right.

Mr. Taylor: Yes.

Senator Langlois: Going back to the first page of the balance sheet, you show an item "Investment in Other Companies at Cost". I think you have already mentioned one of those companies. Could you give us the names of the other companies and what the investments are?

Mr. Cochrane: The investment in other companies at cost solely reflects our investment in Air Jamaica. There are no other investments reflected there, senator.

Senator Langlois: I have one final question, Mr. Chairman.

Coming back to page 2 of the "Notes to Financial Statements," the last line of note 3 reads as follows:

Lease obligations, excluding the portion related to interest, have been included with long-term debt.

Am I to understand that this interest is charged to your operating expenses in this instance?

Mr. Cochrane: That is right, senator.

Senator Desruisseaux: One or two of the questions I had in mind have already been answered. There are two or three points I should like to cover. I should like to start by saying that Air Canada, in spite of the faults that we might find now and then, is, in my view, as a layman, one of the best airline companies operating in the world today. As far as I am concerned, the same applies to the management. I say that because of the interpretation given to some of my remarks in the Senate when I spoke on Bill C-5.

I should like to know, Mr. Taylor, whether Air Canada has any subsidiary companies.

Mr. Taylor: The only wholly-owned subsidiary that could be classified as a subsidiary in the legal sense is a com-

pany called Air Transit Limited, which is a company being set up under section 18 of the Air Canada Act to operate under contract. It has no assets; it will operate, under contract, the STOL service between Ottawa and Montreal. It is now in the process of being set up. It is strictly a company set up to operate under contract.

The Air Canada Act provides that Air Canada can own subsidiaries in the airline business, so there is a limit in the Air Canada Act to that extent. There are other companies that have been set up and are being used by Air Canada through the vehicle of the CNR to wholesale charters. There are one or two small companies for that purpose, but, essentially, that is the only subsidiary. We do have this investment referred to earlier in Air Jamaica, but it is a minority investment. The Jamaican government, over a 10-year period, is acquiring that investment.

Senator Desruisseaux: Are the revenue, if there is any, or deficits from these companies taken into account in this statement before us, or do they go through the CNR?

Mr. Taylor: In the case of Air Jamaica, it is not included because it is a minority investment. Only the investment is shown. In the case of Air Transit, that company is only coming into being in 1974. I do not believe there is anything in the consolidated statement for 1973.

I will ask Mr. Cochrane to comment on the others.

Mr. Cochrane: Revenues from the charter business which we operate with the CNR are not included in any way in our statement.

Senator Desruisseaux: Some years ago there was some talk of the possibility of transferring the maintenance from Montreal to Winnipeg. I believe there was a report published to that effect. Is that report available presently?

Mr. Taylor: I would presume, senator, you are referring to the so-called Thompson Commission inquiry.

Senator Desruisseaux: Yes.

Mr. Taylor: I guess that was three or four years ago, perhaps even longer ago than that. If my memory serves me aright, it is slightly longer ago. It is in that time frame anyway. This was a public inquiry. I believe certain findings of that inquiry were made public, but I do not think the report of the commission was ever made public - although I stand to be corrected on that.

Senator Desruisseaux: Do you recall whether in that report the recommendation was to move to Winnipeg?

Mr. Taylor: The report validated, if you will, management's decision that the most efficient and economical way to maintain Air Canada's fleet was to do so on the basis of the maintenance bases, of which there are more than one, which currently exist, which are the main overhaul base in Montreal, with line maintenance being done in Halifax, Toronto, Winnipeg and Vancouver. The report validated those conclusions.

Senator Langlois: It recommended the status quo, in effect.

Senator Desruisseaux: In the published news there was a rumour that it was being moved, and would be moved back to Winnipeg under pressure.

Mr. Taylor: There have been published reports that have to do with the fact that Air Canada is acquiring Boeing

727 aircraft this fall. There have been reports that the maintenance of these aircraft might take place in Winnipeg. All I can say at the moment is that as of today the corporation is planning to maintain these aeroplanes at the maintenance bases it currently has.

Sénateur Asselin: J'aurais une question à poser, à savoir si on déménage de Montréal à Winnipeg, est-ce que vous anticipez des mises à pied à Montréal?

Le président intérimaire: Je regrette, sénateur Asselin, mais nous n'avons pas installé le service d'interprétation simultanée.

Sénateur Asselin: Eh bien, je pense qu'on devrait l'avoir dans tous les comités, car cela s'applique à tous les comités de la Chambre des communes et du Sénat.

Le président intérimaire: Vous avez raison de vous objecter qu'on ait pas ce service ici, mais je ne sais pas pourquoi. Je ne crois pas que ce soit au président du comité à voir à ce que ces facilités soient installées.

Sénateur Asselin: Non, mais je constate un fait tout simplement.

Le président intérimaire: J'espère que cela ne se reproduira pas et qu'à l'avenir nous aurons le service d'interprétation simultanée, et que nous devons l'avoir.

Senator Langlois: Mr. Chairman, Room 356-S has the equipment. Why was it not used this afternoon?

The Deputy Chairman: I do not know. This is the room that was given to us. I thought we would have all the facilities here. Unfortunately, as Senator Asselin has just mentioned, and as we all realize, we have not the translation system. I regret that, as your chairman.

Senator Asselin: I will put my question in English; I do not mind. In moving maintenance from Montreal to Winnipeg, do you anticipate any layoffs of your employees in Montreal?

Mr. Taylor: You are making an assumption that we are going to transfer some maintenance.

Senator Asselin: If it happens.

Mr. Taylor: I think the only position I can take at this point in time is that the corporation has no plans at the moment to carry out its maintenance other than where it is currently carrying it out. It would be difficult for me to answer your question as to whether there would be layoffs in Montreal, because we are not anticipating that the maintenance program will be any different than that which currently exists.

Senator Desruisseaux: The company has a total responsibility to choose in the cases where they are offering?

Mr. Taylor: the corporation management believes it has the responsibility to make the decision.

Senator Desruisseaux: Unless there are other supplementary questions, I will pass on to another one which is very short.

Senator Benidickson: My supplementary would be on that point. Some years ago Winnipeg was an important location for Air Canada maintenance. Some of that was moved to Montreal. Am I right in thinking that, after protests, certain commitments were made that a certain

amount of Air Canada maintenance would continue in Winnipeg? In particular, that would apply to the maintenance of Viscount aircraft. I think I have read that they are being phased out. Was there an agreement entered into at any time, or a commitment made at any time, that a certain volume of repairs for Air Canada would continue in Winnipeg? And, if there was such a commitment, was that commitment fully discharged?

Senator Langlois: You are referring to a commitment by Air Canada?

Mr. Taylor: I will answer part of the question, and I will ask Mr. Cochrane to deal with the remainder.

Senator Benidickson: I do not know whether it is Air Canada or the owners of Air Canada, the Government of Canada.

Mr. Taylor: There is an item on the balance sheet which indicates there is a commitment. Going back in the history of that commitment, Air Canada did move its major air overhaul base to Montreal, and this was over a period of time. In the process of doing that, and related somewhat to the inquiry that was referring to earlier, there was a commitment.

Senator Benidickson: I am hazy about this, but I wish you would tell me about it.

Mr. Taylor: There was a commitment when that major overhaul was in the process of being changed. It was a three-way commitment, between Air Canada, CAE and the federal government. Air Canada's portion of that commitment was that for a period of five years it would provide 100,000 hours a year of work for CAE in Winnipeg to help CAE get on its feet in the aircraft maintenance and component business. That commitment has two years to run, and Air Canada has met its commitment up to this point and intends to meet it. That will be done through a number of ways. The Viscount was one them. Then there is galley equipment and other work that can be part of it.

Senator Forsey: May I ask a supplementary? That is the item we had an inquiry about a little while ago, and which they negotiated about?

Mr. Taylor: That is exactly the item.

Senator Desruisseaux: The total investment now to the taxpayers of Canada, let us say, would be what? If you have it in that form, I want to follow that one.

Mr. Cochrane: That is a hard question to answer, in that the investment itself in the company is made by CNR and they own all the shares of the corporation. The amount they have invested is \$5 million, as shown on the balance sheet. That is the equity investment.

In addition to that, Air Canada has borrowed money from the government in order to operate, and has borrowed money from the CNR in order to operate. Air Canada has borrowed from the government approximately \$230 million. So we owe that money to the government and we pay interest on that money.

Senator Desruisseaux: But that is included in the long-term debt?

Mr. Cochrane: Yes, sir, that is part of the long-term debt.

Senator Desruisseaux: So you have it down here as \$690 million—

Mr. Cochrane: Just a moment, sir. Let me check. I may have given you the wrong figure. Part of the money is owed to the CNR, part of it to the government, and part to other sources. If you will just give me a moment, I think we can come up with it.

Senator Desruisseaux: All right.

Mr. Cochrane: You were quite right, sir. The number is closer to \$600 million than it is to the \$230 million I gave you. I apologize. What I am looking for now, Mr. Chairman, is the breakdown between the CNR and what we owe to the government. I will explain that later, if I may. I suppose it is not really that important on the basis that the CNR is associated with the government anyway.

Senator Desruisseaux: I would like to know what is really our total investment for the taxpayers, directly or indirectly.

Mr. Cochrane: Sir, I will give you that number.

The Deputy Chairman: Are you through with your questions, Senator Desruisseaux?

Senator Desruisseaux: Yes.

Senator Riley: Mr. Chairman, I have a number of questions to ask. I realize the hour is getting late and that the witnesses must be pretty tired by now, but I would like to revert to the line of questioning started by Senator Grosart in respect to the mishandling of baggage by Air Canada. I would like to know when and why the system of baggage checks was changed from the corded check attached to the handle by a piece of string, to this piece of paper which is looped around the handle and fastened at the end by adhesive. Is there any reason at all why this was done?

Mr. Taylor: Yes, senator, there was a reason for this being done. It is still being evaluated. I believe the experts feel that it was a good change, and I will try to explain the reason for it.

As terminals got larger and as it was necessary to provide belts and channels for bags to go on, where they did not just go through a chute and on to a cart, the tags with the strings on them had a tendency to get caught up in the belting system and to get torn off, because they hung much looser from the bag and as the bag flopped over on the belt and went through the tag would get caught on the belt. The carriers found that a lot of these tags were getting torn off in the belting system. That is why the design of the adhesive tag, as they refer to it, was conceived. It was so that the tag would stay much closer to the handle of the bag and would not be so subject to being torn off in the channels of belting and sorting machinery.

That was the reason for it. I suspect that one could say the "jury" is still out on whether it is an improvement. The indications are that it is an improvement.

Senator Riley: One senator—I believe it was Senator Graham—raised the question about baggage being left out in the wet. What happens to these tags when baggage is left out in the wet because of the delay in aircraft being loaded? Moreover, what happens when somebody puts a little nick in this tag? And what happens when the adhesive gets softened as a result of warmth? I have tested these tags myself. I have seen these loops half torn off when the baggage comes off the aircraft.

Recently, not by request, I had a corded tag put on my bag, and I asked why the tag was being put on in this instance. It was the string tag. I was told that the tag is put on if there is going to be a change of aircraft during the trip. Why is it that both systems are being used?

Mr. Taylor: Well, both systems are in use at the moment because what we call interlocking tags, or tags which have connecting flights on them, have to be a larger tag with a separate voucher, if you will, and this is a problem, I guess, of the design of the baggage tags. Probably the people who specialize in this have not been able to come up with a gum tag that would provide the additional voucher, as it were, for the connecting portion of the flight, so both systems are still in use. As I say, there is somewhat of a controversy because you gain some and you lose some. With the adhesive tags you gain the advantage that the tag does not hang loose and therefore is not subject to getting caught in the mechanism. On the other hand, you have certain risks with the adhesive one in that the adhesive, under wet weather conditions or certain other conditions, comes loose, and it is a question then of which system has the least risk built into it.

Senator Riley: On the inter-line baggage, that is, baggage being transferred from one aircraft to another, is this tag system with the string always used?

Mr. Taylor: If there are two flight numbers involved, I believe I am right in saying that the larger tag is used. Again, I stand to be corrected but I believe I am right, in that when there are two flight numbers involved, and two flight numbers have to go on the tag, then the larger tag is used.

Senator Riley: I am referring to my own experience, checking a bag in Ottawa and having the paper looped over the handle. There was a change of aircraft in Montreal, and the paper tag was used and yet there was the inter-lining, and I have never seen the bag since.

Mr. Taylor: I was trying to ask: Is this the bag that was lost? That is probably the reason. I do not want to be facetious, but it may very well be the reason the bag was lost.

Senator Riley: Yes. And I have asked, if somebody, in transferring the baggage, gets his finder caught in it, or the loop gets caught in something else—it is a very soft paper, and easily torn, despite the assurances you get from the ground personnel—

Mr. Taylor: As I say, there are risks in both of them, and I suspect the "jury" may still be out on which is the better system, in the long run; but I know the reason for going to the other one was as I have stated.

Senator Riley: Well, why do you not have the same technical difficulties in respect to the tags with the strings on getting caught up in—what do they call it?—the machinery of passing the bags from the counter out to the aircraft? Why does that same problem not exist now? And, if it does not exist now, why not revert to these tags?

Mr. Taylor: Well it is a very good question, senator, and it is one that I will pursue. I know that both systems are in force. The whole question of baggage is one that concerns all of us—not just Air Canada, but the whole industry—because as passenger volumes have increased out, with these long lines of belting, and containers have been used, the problem becomes more complex. If a container gets

left behind, we do not lose just one bag now, but thirty. We have become very efficient at losing bags now, on occasion. It is a problem we are devoting a great deal of energy to. I do a lot of travelling personally, and I have a lot of very real personal experiences that I can feed in to our people.

Senator McElman: I suggest that we should put Senator Riley in the baggage container, and his bag in the seat.

Senator Riley: That would be particularly appreciated by me, if you were flying in the same plane.

If I may continue. If this is the case, and you have very kindly supplied me with some honest figures, I am sure, in respect to mishandled baggage, has any analysis been made as to how many of those mishandled bags have been mishandled as a result of a loss of that looped paper tag?

Mr. Taylor: Yes, senator, I can confirm to you that I do not know of any subject outside of certain safety issues on our aircraft that has been more subject to thorough analysis and research in the last couple of years or so than baggage mishandling. As to why baggage gets mishandled, it gets tagged incorrectly, it is taken on the wrong cart, tags get torn off. We have even put trays under various belts to determine what kind of rollers tear off the most tags. There has been a tremendous amount of research and analysis into this question. Not only have we considered the kind of tag and the size of tag but also all the things that can happen to a piece of baggage. It is left on the ramp or it is put on the wrong cart or the agent tags it incorrectly—there are many, many reasons. If you would like to take the time with me, I would be glad to go through one of these analysis reports with you.

Senator Riley: Then just one other question. You mentioned the powers conferred on the company under the Air Canada Act by which you are restricted to the operations of airlines, I believe.

Mr. Taylor: That is right.

Senator Riley: Bearing in mind the fact that legislation can be amended and powers can be extended, has Air Canada ever contemplated going into the aircraft construction industry?

Mr. Taylor: There was a proposition that was discussed in the committee of the other house, senator, last fall concerning a working paper which Air Canada had jointly prepared with some other interests relative to the aircraft industry in Canada.

Senator Benidickson: Can you name those other interests?

Mr. Taylor: The principal one was Comstock.

Senator Benidickson: Had it anything to do with de Havilland?

Mr. Taylor: It involved both de Havilland and Canadair, but that was not a proposition discussed other than in this particular working paper, and that is the only instance.

Senator Riley: I apologize to you because I was not fortunate enough to be summoned to the Senate before this was discussed in the other place.

Senator Langlois: Before we leave this point, and I do not expect the witness to have this figure at his fingertips, but could he give us a rough estimate of the annual loss sustained from damage to or loss of baggage?

Mr. Taylor: In fact, we can give you the figure.

Mr. Cochrane: It was approximately \$3 million.

The Deputy Chairman: Per year?

Mr. Cochrane: That was in 1973.

Senator McElman: 1973 was an extraordinary year.

Mr. Cochrane: Very extraordinary.

Senator Benidickson: I think Senator Riley was just about to lead up to something that has aroused my interest—and that is a mild term—and has quite alarmed me. In the *Financial Post* of the current week there is a front-page article by Mr. Clive Baxter, who is the senior reporter from Ottawa, and I should like to quote a few words from the article. It says:

The government seems on the verge of nationalizing de Havilland Aircraft of Canada Ltd.

Here I want to be fair by eliminating a few words because this goes on to refer to last year—and this is perhaps what Senator Riley was referring to and perhaps what you were referring to in your reply to his question. It goes on to say:

Last year Ottawa had a firm offer to buy from Air Canada and Canadian International Comstock Co., which jointly prepared to buy and merge together de Havilland in Toronto and Canadair Ltd. in Montreal.

I am concerned about whether or not an operating company is carrying on any activity, or anybody in its employ, or that we are voting money for salaries for the purpose of getting into manufacturing, and placing the company in a position that it was not able to buy in the most competitive markets but would have an arrangement at the manufacturing end of the business and might be biased in favour of a particular type of aircraft in its operations.

Mr. Taylor: The only thing I can say in answer to your question, senator, is that, other than the reference which I gave Senator Riley, there is no active involvement by this corporation in a similar proposal at this time.

Mr. Cochrane: I can assure you, from a financial standpoint, that no money is being spent at all in this direction.

Senator Benidickson: Perhaps it is not being spent, is the time of some salaried people being devoted to the exploration of the kind of thing that Mr. Baxter was writing about last week?

Mr. Cochrane: No, not at this point in time; with the exception of the one reference which Mr. Taylor made—

Senator Benidickson: Of about a year ago.

Mr. Cochrane: —of about a year ago. To the best of my knowledge—which is pretty good—we have no people looking at that deal with an aircraft company or at a similar deal with an aircraft company such as you mention.

The Deputy Chairman: Are there any further questions?

Senator Cameron: On the matter of baggage, the new stickers are a great improvement. I want to say that I have found Air Canada very good at replacing damaged baggage.

I should like to compliment Mr. Taylor and Mr. Cochrane on the way they have handled the questions this

afternoon. It has been a long session, and they have discharged their responsibility with credit both to themselves and the organization they represent.

Hon. Senators: Hear, hear.

Senator Desruisseaux: Mr. Chairman, I hesitated to put the question, but I shall do so. When aircraft are sold after having rendered service to Air Canada, how is the disposal arranged? Is it done by tender?

Mr. Cochrane: It is done by tender, when we can get tenders. Many of the aircraft we have finished with are very difficult to sell, and we have at least one man who spends part of his time actively going to people, trying to convince them that our aircraft, as run down as it might be, is better than the aircraft being disposed of by other airlines. We are in the position of selling the aircraft and we are actively trying to sell.

Senator Riley: But you do not advertise the tenders?

Mr. Cochrane: No. Perhaps I could make two corrections.

The government has invested directly or indirectly \$636,603,000 in Air Canada. We pay interest on all of that, with the exception of \$5 million which is the equity, on which we pay the CNR a dividend.

Unfortunately, I gave you, with regard to lost baggage, a figure, that included also inconvenience to passengers, of approximately \$3 million. That concerned the people who were inconvenienced, and we put them in hotels, bought them meals, and so forth. As I say, that was approximately \$3 million for last year. The figure in respect of lost baggage, misplaced baggage and repaired baggage is \$1,300,000.

Senator Desruisseaux: There is no insurance on that?

Mr. Cochrane: It is self-insured. We have looked into the possibility of getting insurance to cover it, but the insurance costs would be more than we paid.

The Deputy Chairman: On behalf of all honourable senators, I should like to thank you for your assistance and the manner in which you have answered our questions this afternoon. You have provided us with a great deal of useful information.

I would ask members of the committee to remain after the witnesses leave as there is a recommendation which we want to discuss.

The witnesses withdrew.

The Deputy Chairman: Honourable senators will recall that there was a suggestion put forward by Senator Grosart this morning regarding this type of legislation. I understand Senator McElman has prepared something in connection with that suggestion, and I would now ask him to read it.

Senator McElman: Mr. Chairman, before doing so, there is one brief comment I should like to make on this matter of Air Canada being in the manufacturing end of the business. I think this committee should stay on top of that matter. We saw an instance recently where a manufacturer in the United States was not only reluctant but almost, according to the United States record, refused to make repairs to an aircraft, and the dreadful disaster in Paris was the result. That surely points up the conflict which comes to bear when you have a situation where the carrier

is involved in the manufacture as well. I thought I should make that comment.

The Deputy Chairman: Thank you, senator. Before you go on to the recommendation, we should have a motion as to whether or not the bill should be reported without amendment.

Senator McElman: I so move.

The Deputy Chairman: Is it agreed, honourable senators?

Hon. Senators: Agreed.

Senator McElman: Mr. Chairman, in view of the discussion that was held this morning with the various witnesses, it was felt that there should be an addition to our report. I have drafted that recommendation, and it is as follows:

The Committee is convinced that the C.N.R. Financing and Guarantee Act should be re-structured as indicated by the evidence before the Committee in order to correct certain inherent anomalies and particularly to present the authorization required in a form that will be more realistic and up-dated in order to facilitate its consideration by Parliament early in the current year for which the authorizations are sought;

Therefore, the Committee recommends that the Senate authorize this Committee to undertake to devise ways and means whereby the purposes of the legislation now before the Committee may be achieved in a more expeditious and satisfactory manner in future.

The Deputy Chairman: Are there any comments on the recommendation?

Senator Riley: If you repeat the first part in English it will be all right.

The Deputy Chairman: I think it is quite in order that I add that to our report.

Senator Langlois: If I might speak to the Law Clerk through you, Mr. Chairman. Does this committee need such an authorization to go into this?

Mr. Hopkins: No, it does not need it.

Senator Langlois: I do not think so.

The Deputy Chairman: An authorization to do what?

Senator Langlois: To make this study. I do not think we need to be authorized by the Senate to do that.

The Deputy Chairman: That I do not know.

Mr. Hopkins: I beg your pardon, I did not properly understand your question. There are only two committees of the Senate that have any inherent power to undertake investigations. One of them is the Standing Senate Committee on Internal Economy, Budgets and Administration, which is granted that sessionally; the other is the Standing Senate Committee on Standing Rules and Orders, which has inherent power by reason of the rules. Other committees cannot do anything other than what is specifically referred to them.

Senator McElman: That is my understanding.

Senator Langlois: I just wanted to check on it.

The Deputy Chairman: It is a good question.

Senator Fournier (Madawaska-Restigouche): Is that a recommendation?

Mr. Hopkins: It is just a recommendation.

Senator Langlois: If this report is adopted, we are bound to make the study then?

Mr. Hopkins: No. There would have to be a new motion in the Senate.

Senator Forsey: You would have to have a fresh motion in the Senate. This is merely a recommendation.

Mr. Hopkins: This is merely a recommendation to the Senate. The Senate will act or not act, as the Senate sees fit.

The Deputy Chairman: Even if the Senate accepts that recommendation?

Mr. Hopkins: It just accepts the entertainment of the recommendation.

The Deputy Chairman: Then another motion is necessary.

Mr. Hopkins: It is necessary.

Senator Riley: This is just a recommendation.

Mr. Hopkins: Yes.

The Deputy Chairman: We have to make it so that later on—exactly when I do not know—we could have a discussion with the members of the Opposition.

Mr. Hopkins: It is entirely up to the committee, what they wish to do.

The Deputy Chairman: We could introduce a motion at any time and say we are now ready to study the particular question or follow through with the recommendation. Would that be our right? Is that legal?

Senator Langlois: This is tantamount to a pious wish on our part.

The Deputy Chairman: Exactly.

Mr. Hopkins: Perhaps I could make this observation. The only thing is that there was a certain amount of discussion this morning indicating a consensus that there should be a recommendation. The question is whether, now that the primary actors may not all be here, we should depart from that. That is up to the committee now.

The Deputy Chairman: Maybe we should take some further steps to find out.

Senator Langlois: When we make a formal motion in the future we would like to consider the suggestion made by the president this morning, when he suggested that the CNR Act should be amended. He made that suggestion again this morning.

Mr. Hopkins: I do not want to suggest the policy of the committee. I am trying to be careful not to. It is up to the committee. There was a certain understanding this morning in the presence, particularly, of some members of the Opposition. It is now entirely up to the committee.

The Deputy Chairman: Let us settle this point for tonight. We can legally add this to our report?

Mr. Hopkins: Yes, without committing the Senate.

The Deputy Chairman: Without committing the Senate. If we want to do something more, we will have to have another motion.

Mr. Hopkins: Right.

The Deputy Chairman: So, before putting another motion I think some members of the committee, if not all the committee, should look into it and find out exactly what kind of motion we will have.

Senator Riley: It is a reflection of the thinking of the committee in respect of this sort of procedure.

The Deputy Chairman: Yes.

Senator Riley: It indicates to the Senate that this was discussed by the committee, that these are our views, and that this is the recommendation of the committee.

Mr. Hopkins: That is right.

Senator Langlois: We are not amending the bill.

The Deputy Chairman: The bill is passed. We report the bill without amendment. Our report is not debatable but when the Speaker asks, "When shall this bill be read the third time?" anyone may speak.

Mr. Hopkins: That has happened several times.

The committee adjourned.

APPENDIX "A"

CANADIAN NATIONAL TRANSPORTATION, LIMITED
BALANCE SHEET AS AT 31 DECEMBER 1973

ASSETS		LIABILITIES	
Current		Current	
Cash.....	\$ 7,061.78	Accounts Payable.....	\$ 1,120,250.96
Accounts Receivable.....	1,113,025.00	Due to C.N.R.....	6,750,213.42
Prepayments.....	115,629.53		<u>\$ 7,870,464.38</u>
	<u>\$ 1,235,716.31</u>	Advance from C.N.R.....	13,549,609.12
Fixed		Shareholders Equity	
Equipment.....	\$ 13,269,830.78	Capital Stock	
Less: Recorded Depreciation..	4,866,200.98	Authorized:	
	<u>8,403,629.80</u>	1,500,000 Shares of no Par	
Investment in Subsidiary Com-		Value	
panies.....	15,686,165.10	Issued:	
	<u>\$ 25,325,511.31</u>	50 Shares of no Par Value.....	500.00
		Retained Earnings.....	3,904,937.81
			<u>3,905,437.81</u>
			<u>\$ 25,325,511.31</u>

CANADIAN NATIONAL TRANSPORTATION, LIMITED

INCOME STATEMENT

Period Ending 31 December 1973

Income.....	\$ 10,723,428.93
Expenses	
Equipment Maintenance.....	\$ 2,220,031.35
Depreciation.....	937,540.00
Transportation.....	5,736,135.91
Taxes.....	508,797.09
Interest Expense.....	359,224.60
Administration.....	300,889.24
	<u>\$ 10,062,618.19</u>
	660,810.74
Provision for Income Tax.....	4,377.80
Net Earnings for the Year.....	<u>\$ 656,432.94</u>

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 1973

Balance at 31 December 1962.....	\$ 3,248,504.87
NET Earnings for the year 1973.....	656,432.94
BALANCE at 31 DECEMBER 1973.....	<u>\$ 3,904,937.81</u>

APPENDIX "B"

CANADIAN NATIONAL RAILWAYS
INTERIM FINANCIAL STATEMENTS—1973

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

ASSETS		LIABILITIES			
	1973	1972			
Current Assets			Current Liabilities		
Cash.....	\$ 6,444,078	\$ 10,708,410	Bank loans.....	\$ 106,000,000	\$ 49,000,000
Accounts receivable.....	205,694,025	162,397,820	Accounts payable.....	185,933,358	139,975,031
Material and supplies.....	93,328,399	82,545,126	Accrued charges.....	84,266,184	69,888,135
Other current assets.....	84,076,877	48,007,777	Other current liabilities.....	32,017,726	22,610,005
	<u>389,543,379</u>	<u>303,659,133</u>		<u>408,217,268</u>	<u>281,473,171</u>
Insurance Fund.....	11,077,967	9,801,692	Provision for Insurance.....	11,077,967	9,801,692
Investments in Affiliated Companies not Consolidated			Other Liabilities and Deferred Credits.....	67,611,003	57,399,730
Air Canada.....	382,819,500	382,819,500	Long Term Debt		
Jointly operated companies.....	56,270,275	51,867,272	Bonds.....	805,498,264	811,555,764
	<u>439,089,775</u>	<u>434,686,772</u>	Government of Canada loans.....	1,088,897,514	1,082,452,857
Property Investment				<u>1,894,395,778</u>	<u>1,894,008,621</u>
Road.....	3,223,278,458	3,121,201,057	SHAREHOLDERS' EQUITY		
Equipment.....	1,563,177,818	1,574,127,256	Government of Canada		
Other physical properties.....	189,064,954	174,075,997	6,000,000 shares of no par value capital stock of Canadian National Railway Company.....	359,963,017	359,963,017
	<u>4,975,521,239</u>	<u>4,869,404,310</u>	1,235,180,591 shares of 4% preferred stock of Canadian National Railway Company.....	1,235,180,591	1,235,180,591
Less recorded depreciation.....	1,452,921,933	1,392,612,350	Capital investment of Government of Canada in the Canadian Government Railways.....	428,396,779	428,396,779
	<u>3,522,599,297</u>	<u>3,476,791,960</u>		<u>2,023,540,387</u>	<u>2,023,540,387</u>
Other Assets and Deferred Charges			Capital Stock of Subsidiary		
Other investments.....	5,836,559	5,807,283	Companies owned by Public.....	4,345,185	4,345,185
Prepayments.....	2,332,011	3,950,762		<u>2,027,885,572</u>	<u>2,027,885,572</u>
Unamortized discount on long term debt.....	6,801,314	7,812,540		<u>\$ 4,409,187,588</u>	<u>\$ 4,270,568,786</u>
Other assets.....	2,341,852	2,509,139			
Deferred charges.....	29,565,434	25,549,505			
	<u>46,877,170</u>	<u>45,629,229</u>			
	<u>\$ 4,409,187,588</u>	<u>\$ 4,270,568,786</u>			

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Material and Supplies

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

NOTE 2: Investments in Affiliated Companies not Consolidated

Air Canada—

Canadian National owns all of the issued capital stock of Air Canada. Air Canada reports directly to the Government of Canada through the Minister of Transport. Its accounts are published separately and are not consolidated with those of Canadian National, and equity accounting has not been applied. The composition of Canadian National's investment in Air Canada, which is carried at cost, is:

Capital Stock.....	\$	5,000,000
Debentures.....		95,086,000
Advances.....		282,733,500
	\$	<u>382,819,500</u>

Jointly Operated Companies—

Effective January 1, 1973, Canadian National adopted equity accounting for its investments in jointly-operated companies, where appropriate. Investments in the remaining companies are carried at an aggregate amount of \$3,540,500. Canadian National's equity in the net income of companies accounted for on the equity basis included in other income in 1973 was \$5,402,851 of which \$4,820,161 represents Canadian National's equity in retained earnings of these companies

NOTE 4: Long-term Debt

BONDS

Rate %	Maturity		Currency in which Payable	Outstanding as at December 31	
				1973	1972
	(See Notes)				
3½	Feb. 1, 1974 (a)	Canadian National—20 Year Bonds.....	Canadian	\$ 200,000,000	\$ 200,000,000
2½	June 15, 1975 (b)	Canadian National—25 Year Bonds.....	U.S.	6,000,000	6,000,000
5	May 15, 1977 (c)	Canadian National—18 Year Bonds.....	Canadian	74,438,500	75,706,000
4	Feb. 1, 1981	Canadian National—23 Year Bonds.....	Canadian	300,000,000	300,000,000
5½	Jan. 1, 1985 (c)	Canadian National—25 Year Bonds.....	Canadian	86,032,000	87,977,000
5	Oct. 1, 1987 (c)	Canadian National—27 Year Bonds.....	Canadian	137,004,000	139,849,000
5½	Perpetual	Buffalo and Lake Huron—1st Mortgage Bonds.....	Sterling	795,366	795,366
5½	Perpetual	Buffalo and Lake Huron—2nd Mortgage Bonds.....	Sterling	1,228,398	1,228,398
		Total Bonds.....		<u>805,498,264</u>	<u>811,555,764</u>
<i>Government of Canada Loans</i>					
		Canadian Government Railways:			
		Advances for Working Capital.....	Canadian	16,983,762	16,983,762
		Financing and Guarantee Acts:			
		Loans.....	Canadian	252,370,252	245,925,595
		Refunding Act, 1955:			
		Loans for Debt Redemption.....	Canadian	819,543,500	819,543,500
		Total Government of Canada Loans.....		<u>1,088,897,514</u>	<u>1,082,452,857</u>
		TOTAL LONG TERM DEBT.....		<u>\$ 1,894,395,778</u>	<u>\$ 1,894,008,621</u>

NOTES:

- (a) Refinanced February 1, 1974 under the Refunding Act, 1955 by a Government of Canada Loan having a five-year term with interest at 7-3/8% per annum.
- (b) Callable at par.
- (c) Amounts of ½% may be purchased quarterly through Purchase Funds operated under the conditions of each issue.

accumulated to December 31, 1972. The investments in jointly-operated companies as at December 31, 1973 are:

Chicago & Western Indiana Railroad Company... \$	8,552,775
The Detroit & Toledo Shore Line Railroad Company.....	6,397,161
Northern Alberta Railways Company.....	25,340,000
The Toronto Terminals Railway Company.....	9,449,750
Other.....	6,530,589
	<u>\$ 56,270,275</u>

NOTE 3: Property Investment

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

Depreciation on Canadian Lines: Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956 has been continued in 1973. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force.

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

NOTE 5: Capital Stock

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

NOTE 6: Pension Funds

The Company is liquidating the unfunded liabilities under its Pension Plans by making annual payments of both principal and interest as required by the Pension Benefits Standards Act. These payments have been charged to System expenses. As at December 31, 1973, based on the latest actuarial reviews, the unfunded liabilities, aggregating \$702,255,137, are being liquidated by annual payments through September 30, 2027.

NOTE 7: Subsidies

- (a) Carload freight services revenues include \$27,000,000 receivable from the Government of Canada in respect of partial compensation for revenues foregone due to not implementing general rate increases in 1973.
- (b) Payments under the Railway Act include amounts paid by the Government of Canada under authority of that Act in respect of certain uneconomic operations, services, and prescribed rates (At & East) which railways are thereby required to maintain. Claims cannot, in all cases, be filed before the end of the year in which the related losses occurred. The amounts are recognized in the accounts when they are approved for payment.

NOTE 8: Major Commitments

- (a) Rental commitments under railway rolling stock lease arrangements for varying periods through to 1993 amount to approximately \$495 million.
- (b) Canadian National Railway Company has undertaken to guarantee the payment of principal and interest on a series of promissory notes which may be issued by Air Canada up to an aggregate principal amount of £13,000,000 sterling. The principal amount of the guaranteed notes outstanding as at December 31, 1973 was £12,142,062.

CONSOLIDATED INCOME STATEMENT FOR
THE YEAR ENDED DECEMBER 31

	1973	1972
Railway Operating Revenues		
Carload freight services.....	\$ 1,021,334,774	\$ 939,567,704
Express and intermodal services..	152,442,913	143,557,548
Passenger services.....	55,630,169	66,755,084
All other services.....	77,865,929	66,495,998
Payments under the Railway Act	93,566,155	40,742,079
Total Railway Operating Revenues.....	1,400,839,940	1,257,118,413
Railway Operating Expenses		
Road maintenance.....	212,818,240	195,256,833
Equipment maintenance.....	246,579,040	234,582,933
Transportation.....	548,431,667	507,368,025
Sales.....	32,717,600	30,642,222
Miscellaneous operations.....	85,558,053	66,492,352
General.....	155,820,313	116,408,760
Taxes.....	55,832,158	52,152,396
Equipment and joint facility rents	37,368,486	30,347,151
Total Railway Operating Expenses.....	1,375,125,557	1,233,250,672
Net Railway Operating Income	25,714,383	23,867,741

Other Income		
Net income (expense) from:		
Telecommunications department.....	16,998,510	17,012,227
Hotels.....	4,403,949	3,162,433
Separately operated trucking companies.....	3,354,274	2,464,306
Other sources.....	(1,965,567)	1,750,488
Total Other Income.....	22,791,166	24,389,454
Net Income before Interest on Debt.....	48,505,549	48,257,195
Interest Charges		
Total interest on debt.....	91,707,388	86,955,574
Less interest received on loans to Air Canada.....	21,877,784	20,875,908
Net Interest on Debt.....	69,829,604	66,079,666
Deficit.....	\$ 21,324,055	\$ 17,822,471

SOURCE AND APPLICATION OF FUNDS FOR
THE YEAR ENDED DECEMBER 31

	1973	1972
Working Capital as at beginning of year.....	\$ 22,185,962	\$ 50,634,022
Source of Funds		
Provision for depreciation.....	130,217,075	126,399,029
Government of Canada in respect of deficit for the year.....	21,324,055	17,822,471
Retained proceeds from properties retired.....	17,660,561	14,815,553
Temporary government loans, as authorized by CNR Refunding Act, 1955, for payment of outstanding securities of Canadian National at maturity.....	—	100,000,000
Temporary government loans, as authorized by CNR Financing and Guarantee Acts of 1941 and 1942, for purchase of unmatured securities of Canadian National, as required by conditions of their issue.....	6,444,657	4,257,968
Other (net).....	- 5,352,231	7,295,128
	180,998,579	270,590,149
Application of Funds		
Additions to property investment	193,684,973	173,149,242
Investments in affiliated companies.....	791,902	1,322,996
Deficit for the year.....	21,324,055	17,822,471
Retirement of matured securities of Canadian National.....	—	100,000,000
Purchase of unmatured securities of Canadian National, as required by conditions of their issue.....	6,057,500	6,743,500
	221,858,430	299,038,209
Decrease in Working Capital.....	40,859,851	28,448,060
Working Capital (Deficiency) as at end of year.....	\$ (18,673,889)	\$ 22,185,962

NOTE: Certain figures for 1972 have been reclassified for comparative purposes.

APPENDIX "C"

CANADIAN NATIONAL RAILWAYS—ANNUAL REPORT—1952
CONSOLIDATED BALANCE SHEET AT 31st. DECEMBER, 1952

ASSETS			LIABILITIES		
Investments			Stocks		
Road and equipment property.....	\$2,367,435,701		Capital stocks of subsidiary companies owned by public.....	\$	4,516,490
Improvements on leased property....	1,170,841		Funded Debt		
Miscellaneous physical property..	68,231,230	\$2,436,837,772	Owned by public.....	\$	589,738,535
Capital and other reserve funds:			Held in special funds.....		15,756,294
System securities at par.....	\$ 748,500				605,494,829
Other assets at cost	3,834,160	4,582,660	Government of Canada Loans and Debentures.....		228,055,165
Investments in affiliated companies....		51,256,597	Current Liabilities		
Other investments:			Traffic and car-service balances.....	\$	8,325,518
System securities at par.....	\$ 205,000		Audited accounts and wages payable..		34,229,213
Other assets at cost	591,428	796,428	Miscellaneous accounts payable.....		6,828,764
		\$2,493,473,45	Government of Canada.....		13,956,542
			Interest matured unpaid—Public.....		4,273,390
			Unmatured interest accrued.....		4,784,010
			Accrued accounts payable.....		18,342,167
			Taxes accrued.....		2,388,041
			Other current liabilities.....		2,019,428
					95,147,073
Current Assets			Deferred Liabilities		
Cash.....	\$ 15,361,916		Pension liability.....	\$	72,950,000
Special deposits.....	4,627,313		Other deferred liabilities.....		6,890,349
Net balance receivable from agents and conductors.....	27,324,194				79,840,349
Miscellaneous accounts receivable..	20,854,458		Reserves and Unadjusted Credits		
Material and supplies.....	102,509,769		Insurance reserve.....	\$	12,843,050
Interest and dividends receivable..	54,562		Accrued depreciation—Canadian Lines—Equipment only.....		171,768,146
Accrued accounts receivable.....	5,810,854		Accrued depreciation—U.S.Lines—Road and equipment.....		29,474,861
Other current assets.....	781,688	177,324,754	Unadjusted credits.....		9,802,273
					223,888,330
Deferred Assets			Government of Canada—Shareholder's Account—(See note)		
Working fund advances.....	\$ 509,855		6,000,000 shares of no par value capital stock of Canadian National Railway Company.....	\$	396,518,135
Insurance fund:			754,871,945 shares of 4% preferred stock of Canadian National Railway Company.....		754,871,945
System securities at par.....	\$ 5,792,294		Capital investment of Government of Canada in the Canadian Government Railways.....		379,682,244
Other assets at cost	7,050,756	12,843,050			1,531,072,324
Pension fund:			Contingent Liabilities		
System securities at par.....	\$ 9,010,500		Major contingent liabilities, as shown on page 32		\$2,768,014,560
Other assets at cost	63,939,500	72,950,000			
Other deferred assets.....	2,216,508	88,519,413			
Unadjusted Debits					
Prepayments.....	\$ 928,168				
Discount on funded debt.....	3,045,818				
Other unadjusted debits.....	4,722,950	8,696,936			
		\$2,768,014,560			

Sterling and United States currencies converted at par of exchange.

T. J. GRACEY,
Comptroller.

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

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st. December, 1952.

In our opinion, proper books of account have been kept by the System, and the consolidated balance sheet at the 31st. December, 1952, and the relative consolidated income account for the year ended that date have been prepared on a basis consistent with that of the preceding year and are in agreement with the books of the System. The capital structure of the Canadian National Railways has been revised in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

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 from the 1st. January, 1940, retirement accounting continuing in effect for fixed properties.

Subsequent to the year end, settlement has been reached with the Brotherhood of Railroad Firemen and agreement in principle has been reached with the Brotherhood of Railroad Trainmen, resulting in wage increases retroactive to the 1st. April, 1952, which have not been given effect to in the accounts under review.

In our opinion, subject to the foregoing, the above consolidated balance sheet and the relative consolidated income account are properly drawn up so as to give a true and fair view of the state of the System's affairs at the 31st. December, 1952, and of the consolidated income and expense for the year.

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

GEORGE A. TOUCHE & CO.
Chartered Accountants.

2nd. March, 1953.

CANADIAN NATIONAL RAILWAYS

CONSOLIDATED INCOME ACCOUNT

SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED
DECEMBER 31, 1952

	1952	1951
Railway Operating Revenues		
Freight.....	\$ 536,723,241	\$ 498,800,344
Passenger.....	48,466,128	47,475,661
Mail.....	7,907,232	7,311,445
Express department.....	35,820,500	30,670,031
Communications department.....	13,870,000	12,032,631
All other.....	32,432,314	28,544,008
Total operating revenues.....	\$ 675,219,415	\$ 624,834,120
Railway Operating Expenses		
Maintenance of way and structures....	\$ 121,363,896	\$ 111,560,852
Maintenance of equipment.....	145,533,632	135,319,782
Traffic.....	11,192,183	10,429,825
Transportation.....	316,482,722	291,366,944
Miscellaneous operations.....	6,422,539	6,262,293
General.....	33,857,943	25,210,525
Total operating expenses.....	\$ 634,852,915	\$ 580,150,221
NET OPERATING REVENUE.....	\$ 40,366,500	\$ 44,683,899
Taxes and Rents		
Railway tax accruals.....	\$ 13,921,243	\$ 11,573,914
Equipment rents—Net debit.....	6,529,937	7,172,396
Joint facility rents—Net debit.....	420,996	340,140
Total taxes and rents.....	\$ 20,872,176	\$ 19,086,450
NET RAILWAY OPERATING INCOME.....	\$ 19,494,324	\$ 25,597,449
Other Income		
Income from lease of road.....	\$ 46,808	\$ 51,499
Miscellaneous rent income.....	1,220,473	1,109,768
Income from non-transportation property.....	727,591	476,693
Results of separately operated properties.....	721,748	1,079,385
Hotel operating income.....	535,509	588,485
Dividend income.....	401,611	414,411
Interest income.....	1,785,817	2,242,019
Miscellaneous income.....	1,829,618	1,324,414
Total other income.....	\$ 7,269,175	\$ 7,286,674
Deductions from Income		
Rent for leased roads.....	\$ 478,483	\$ 551,554
Miscellaneous rents.....	676,200	672,809
Interest on unfunded debt.....	269,805	236,287
Amortization of discount on funded debt.....	503,780	573,602
Miscellaneous income charges.....	384,639	488,825
Profit and loss—Net debit or credit....	145,144	1,422,073
Total deductions from income.....	\$ 2,458,051	\$ 1,101,004
NET INCOME AVAILABLE FOR INTEREST.....	\$ 24,305,448	\$ 31,783,119
Interest Charges		
Interest on funded debt—Public.....	21,848,906	23,467,703
Interest on Government loans.....	2,314,215	23,347,412
<i>Income deficit</i>	—	\$ 15,031,996
SURPLUS—PAYABLE AS A DIVIDEND ON 4% PREFERRED STOCK.....	\$ 142,327	—

NOTE:—No income tax payable on 1952 surplus

Working Capital as at beginning of year.....	\$ 73,789,743
Source of Funds	
Provision for depreciation.....	29,910,391
Surplus for the year.....	142,327
Retained proceeds from properties retired.....	2,148,684
Temporary government loans as authorized by Financing and Guarantee Act 1952.....	106,866,796
Loan from Air Canada.....	2,500,000
Sale of 4% Preferred Stock.....	18,486,540
Other (Net).....	2,485,512
	<u>162,540,250</u>
Application of Funds	
Additions to property investment.....	144,307,779
Surplus payable as dividend on 4% Preferred Stock....	142,327
Retirement of Instalment Notes and Serial Equipment obligations.....	9,702,206
	<u>154,152,312</u>
Increase in Working Capital.....	8,387,938
Working Capital as at end of year.....	\$ 82,177,681

NOTE: In 1952 a Source and Application of Funds Statement was not produced in this format and the above statement has been prepared for comparison with the 1973 Statement.

APPENDIX "D"

**CANADIAN NATIONAL RAILWAYS
ISSUES OF 4% PREFERRED STOCK**

1952-1973

1952.....	\$ 18,486,540
1953.....	21,022,272
1954.....	19,206,314
1955.....	20,369,678
1956.....	23,132,994
1957.....	22,750,879
1958.....	20,966,489
1959.....	22,168,692
1960.....	21,096,001
1961.....	21,221,943
1962.....	21,939,665
1963.....	22,757,684
1964.....	24,601,897
1965.....	25,858,536
1966.....	28,043,377
1967.....	30,361,558
1968.....	30,376,193
1969.....	31,885,224
1970.....	33,432,529
1971.....	39,116,721
1972.....	— 1
1973.....	— 1
	<u>\$ 498,795,186</u>

SUMMARY OF 4% PREFERRED STOCK

Issued under Section 3 of the Capital Revision Act (1952) in consideration of release of indebtedness to the Government for an equivalent amount.....	\$ 736,385,405
Preferred stock issued 1952 to 1971 inclusive as above..	498,795,186
Total Preferred Stock outstanding as per Balance Sheet 31 December 1973.....	<u>\$ 1,235,180,591</u>

¹Purchases by the Government of Canada of 4% preferred stock for the years 1972 and 1973 were authorized by Canadian National Railways Financing and Guarantee Act 1973 as follows:

1972.....	\$ 40,021,399
1973.....	44,475,222
	<u>\$ 84,496,621</u>

APPENDIX "E"

**CANADIAN NATIONAL RAILWAYS
LIST OF SURPLUSES AND DEFICITS**

	Surplus	Deficits
1952*.....	\$ 142,327	
1953*.....	244,017	
1954.....		\$ 28,758,098
1955*.....	10,717,689	
1956*.....	26,076,951	
1957.....		29,572,541
1958.....		51,591,424
1959.....		43,588,290
1960.....		67,496,777
1961.....		67,307,772
1962.....		48,919,454
1963.....		43,013,517
1964.....		38,725,904
1965.....		33,414,884
1966.....		24,593,217
1967.....		35,869,197
1968.....		29,176,530
1969.....		24,646,454
1970.....		29,709,064
1971.....		24,267,741
1972.....		17,822,471
1973.....		21,324,055

*Payable as dividend on 4% preferred stock.

APPENDIX "F"

SUMMARY OF REFUNDINGS UNDER
CNR REFUNDING ACT, 1955

(Data Supplied by the Department of Finance)

Original securities refunded to January 18, 1971 (as attached).....	\$ 717,216,815
Less—temporary loans repaid by CNR from internal funds.....	49,177,592
Original securities refunded through 1955 Refunding Act, to January 18, 1971.....	668,039,223
New refundings—	
December 5, 1971.....	\$ 178,443,500
January 1, 1972.....	100,000,000
	278,443,500
Total.....	946,482,723
Source of refundings:	
Substituted securities.....	188,166,574
Less:—replaced by temporary loans (below).....	
1967.....	6,307,351
1968.....	54,920,000
	61,227,351
	126,939,223
Temporary Government loans—	
Total December 31, 1970.....	501,100,000
Made January 18, 1971.....	40,000,000
Made in 1971 and 1972 (as above).....	278,443,500
	819,543,500
	946,482,725
Total authority required under 1955 Refunding Act—	
Substituted securities issued.....	188,166,574
Temporary loans for which substituted securities may be issued.....	819,543,500
	\$ 1,007,710,074
	say \$ 1,000,000,000

Securities in the hands of the public maturing after January 1, 1972:

Date	Description	Amount Outstanding at Dec. 31/70
Feb. 1/74	3¾% CN 20 year bonds.....	\$ 200,000,000
June 15/75	2¾% CN 25 year bonds.....	6,000,000 (U.S.)
May 15/77	5% CN 18 year bonds.....	78,840,000
Feb. 1/81	4% CN 23 year bonds.....	300,000,000
Jan. 1/85	5¾% CN 25 year bonds.....	91,980,000
Oct. 1/87	5% CN 27 year bonds.....	146,756,000
		\$ 823,576,000

CNR's total long term debt as of Dec. 31, 1970 is comprised as follows:

Securities in the hands of the public maturing after Jan. 1/72.....	\$ 823,576,000
Securities maturing during 1971 and on Jan. 1/72.....	318,443,500
Refunding Act, 1955—Loans.....	501,100,000
Financing and Guarantee Act Loans.....	235,305,815
Perpetual Debt.....	2,023,764
Canadian Government Railways advances for working capital.....	16,983,762
CNR long term debt at Dec. 31, 1970.....	\$ 1,897,432,841

CANADIAN NATIONAL RAILWAYS

ORIGINAL SECURITIES SUBSTITUTED FOR UNDER
THE CANADIAN NATIONAL RAILWAYS REFUNDING ACT, 1955

Summary of refunding (for details, see attached)—	
1956.....	\$ 59,205,754
1957.....	73,267,583
1958.....	14,385,886
1959.....	38,550,000
1960.....	2,757,351
1961.....	2,713,388
1962.....	34,464,204
1963.....	250,000,000
1966.....	35,000,000
1967.....	115,992,649
1968.....	880,000
1969.....	50,000,000
1971.....	40,000,000
Total.....	\$717,216,815

ORIGINAL SECURITIES REFUNDED IN 1956

Date of Origin	Date of Maturity	Description	Amount
1951	Jan. 15/56	CNR 2¾% Equipment Trust Series V	\$ 675,000
1931	Feb. 1	CNR 4¾% 25 year Bonds.....	67,368,000
1941	Mar. 1	Nfd. Railway 2½% Instalment Notes	71,103
1948	Mar. 15	CNR 2¼% Equipment Trust Series S	2,800,000
1950	Mar. 15	CNR 2¼% Equipment Trust Series U	1,100,000
1948	May 1	CNR 2¼% Equipment Trust Series T	1,075,000
1951	July 15	CNR 2¾% Equipment Trust Series V	675,000
1906	Sept. 1	Pembroke Southern Ry. Co. 1st Mortgage Bonds.....	150,000
1941	Sept. 1	Nfd. Railway 2½% Instalment Notes	71,103
1950	Sept. 15	CNR 2¼% Equipment Trust Series U	1,100,000
1948	Nov. 1	CNR 2¼% Equipment Trust Series T	1,075,000
1947	Dec. 1	CNR 2% Equipment Trust Series R	560,000
			\$ 76,720,206
		Less amount refunded under the 1951 Refunding Act....	17,514,452
		Total amount of original securities refunded in 1956 under 1955 Refunding Act.....	\$ 59,205,754

ORIGINAL SECURITIES REFUNDED IN 1957

1951	Jan. 15/57	CNR 2¾% Equipment Trust Series V	675,000
1941	Mar. 1	Nfd. Railway 2½% Instalment Notes	71,583
1948	Mar. 15	CNR 2¼% Equipment Trust Series S	2,800,000
1950	Mar. 15	CNR 2¼% Equipment Trust Series U	1,100,000
1948	May 1	CNR 2¼% Equipment Trust Series T	**1,075,000
1927	July 1	CNR 4¾% 30 year Bonds.....	**64,136,000
1951	July 15	CNR 2¾% Equipment Trust Series V	675,000
1950	Sept. 15	CNR 2¼% Equipment Trust Series U	1,100,000
1948	Nov. 1	CNR 2¼% Equipment Trust Series T	1,075,000
1947	Dec. 1	CNR 2% Equipment Trust Series R	560,000
		Total amount of original securities refunded in 1957 under the 1955 Refunding Act.....	\$ 73,267,583

ORIGINAL SECURITIES REFUNDED IN 1958

Date of Origin	Date of Maturity	Description	Amount
1951	Jan. 15/58	CNR 2 $\frac{1}{2}$ % Equipment Trust Series V	\$ 675,000
1948	Mar. 15	CNR 2 $\frac{1}{2}$ % Equipment Trust Series S	2,800,000
1950	Mar. 15	CNR 2 $\frac{1}{2}$ % Equipment Trust Series U	1,100,000
1948	May 1	CNR 2 $\frac{1}{2}$ % Equipment Trust Series T	1,075,000
1951	July 15	CNR 2 $\frac{1}{2}$ % Equipment Trust Series V	675,000
1910	July 20	Canadian Northern Ry. Co. 1st Mortgage Debenture Stock	5,505,863
1950	Sept. 15	CNR 2 $\frac{1}{2}$ % Equipment Trust Series U	1,100,000
1948	Nov. 1	CNR 2 $\frac{1}{2}$ % Equipment Trust Series T	1,075,000
1929	Nov. 15	Province of New Brunswick Bonds	380,023

Total amount of original securities refunded in 1958 under the 1955 Refunding Act. \$ 14,385,886

ORIGINAL SECURITIES REFUNDED IN 1959

1939	Jan. 15/59	CNR 20 year 3% Bond	35,000,000
1951	Jan. 15	CNR 2 $\frac{1}{2}$ % Equipment Trust Series V	*675,000
1950	Mar. 15	CNR 2 $\frac{1}{2}$ % Equipment Trust Series U	*1,100,000
1951	July 15	CNR 2 $\frac{1}{2}$ % Equipment Trust Series V	*675,000
1950	Sept. 15	CNR 2 $\frac{1}{2}$ % Equipment Trust Series U	*1,100,000

Total amount of original securities refunded in 1959 under the 1955 Refunding Act. \$ 38,550,000

ORIGINAL SECURITIES REFUNDED IN 1960

1951	Jan. 15/60	CNR 2 $\frac{1}{2}$ % Equipment Trust Series V	\$ *675,000
1950	Mar. 15	CNR 2 $\frac{1}{2}$ % Equipment Trust Series U	*1,100,000
1911	May 4	Canadian Northern Alberta Ry. Co. 3 $\frac{1}{2}$ % 1st Mortgage Debenture Stock	*307,351
1951	July 15	CNR 2 $\frac{1}{2}$ % Equipment Trust Series V	*675,000

Total amount of original securities refunded in 1960 under the 1955 Refunding Act. \$ 2,757,351

ORIGINAL SECURITIES REFUNDED IN 1961

Date of Origin	Date of Maturity	Description	Amount
1951	Jan. 15/61	CNR 2 $\frac{1}{2}$ % Equipment Trust Series V	\$ 675,000
1911	May 19	Canadian Northern Ontario Co. 3 $\frac{1}{2}$ % 1st Mortgage Debenture Stock	2,038,388

Total amount of original securities refunded in 1961 under the 1955 Refunding Act. \$ 2,713,388

ORIGINAL SECURITIES REFUNDED IN 1962

1905	Jan. 1/62	Grand Trunk Pacific 3% 1st Mortgage Bonds	26,465,130
1914	Jan. 1	Grand Trunk Pacific 4% Bonds	7,999,074

Total amount of original securities refunded in 1962 under the 1955 Refunding Act. \$ 34,464,204

ORIGINAL SECURITIES REFUNDED IN 1963

1954	Feb. 1/63	CNR 2 $\frac{1}{2}$ % 8 year 1 $\frac{1}{2}$ month bonds	250,000,000
------	-----------	--	-------------

Total amount of original securities refunded in 1963 under the 1955 Refunding Act. \$ 250,000,000

ORIGINAL SECURITIES REFUNDED IN 1966

1949	Jan. 3/66	CNR 3% 17 year bonds	35,000,000
Total amount of original securities refunded in 1966 under the 1955 Refunding Act.			\$ 35,000,000

ORIGINAL SECURITIES REFUNDED IN 1967

1947	Jan. 2/67	CNR 2 $\frac{3}{4}$ % 20 year bonds	50,000,000
1960	Apr. 1	CNR 4 $\frac{1}{2}$ % 6 $\frac{1}{2}$ year bonds	72,300,000
			\$ 122,300,000

Less portion of \$72,300,000 which acts as substituted security* 6,307,351

Total amount of original securities refunded in 1967 under the 1955 Refunding Act. \$ 115,992,649

*\$6,307,351 of the proceeds of the \$73,500,000 1960 6 $\frac{1}{2}$ year 4 $\frac{1}{2}$ % bonds were used to repay temporary loans from the Minister of Finance, which in turn were used to purchase securities maturing in 1959 and 1960 marked with * above. Thus, \$6,307,351 of the \$72,300,000 refunded in 1967 does not represent original securities but substituted securities.

ORIGINAL SECURITIES REFUNDED IN 1968

Date of Origin	Date of Maturity	Description	Amount
1959	May 15/68	CNR 5% 9 year bonds	55,800,000
Less portion of \$55,800,000 which qualifies as substituted security.			**54,920,000

Total amount of original securities refunded in 1968 under the 1955 Refunding Act. \$ 880,000

**On May 15, 1959 CN issued securities totalling \$145.8 million, \$65.2 million of the proceeds of which were used to repay temporary loans from the Minister of Finance which, in turn, had been used to purchase securities maturing in 1957 marked ** above. The securities issued on May 15, 1959 were \$57,600,000 in 9 year 5% bonds and \$88,200,000 in 18 year 5% bonds. The \$88,200,000 issue matures in 1977 while the \$57,600,000 issue, of which \$55,800,000 was still outstanding, matured in 1968. It has been assumed that the proceeds of the \$57,600,000 were used to make an advance of \$2,680,000 to Air Canada in 1959 and that the \$54,920,000 balance of the proceeds of this issue went towards repayment of temporary loans to the Minister of Finance. It is also assumed that the \$10,080,000 balance of the \$65,000,000 marked ** above was repaid to the Minister of Finance out of the proceeds of the \$88,200,000 of 18 year 5% bonds.

ORIGINAL SECURITIES REFUNDED IN 1969

1949	Sept. 15/69	CNR 2 $\frac{1}{2}$ % 20 year Bond	70,000,000
Less Portion repaid by CN from internal funds.			20,000,000

Total amount of original securities refunded in 1969 under the 1955 Refunding Act. \$ 50,000,000

ORIGINAL SECURITIES REFUNDED IN 1971

1950	Jan. 16/71	CNR 2 $\frac{1}{2}$ % 21 year Bond	\$ 40,000,000
------	------------	------------------------------------	---------------

Total amount of original securities refunded in 1971 under the 1955 Refunding Act. \$ 40,000,000

APPENDIX "G"

CANADIAN NATIONAL RAILWAYS

SHAREHOLDERS' EQUITY

6,000,000 shares of no par value capital stock of Canadian National Railway Company

31 December	Changes during year	
1952	\$ 396,518,135	
1958	389,518,135	(\$7,000,000) (1)
1959	386,614,985	(2,903,150) (2)
1960	359,963,017	(26,651,968) (3)
1973	359,963,017	

NOTES:

- (1) To charge capital losses for years 1956/7/8 relating to steam locomotive retirements, in accordance with provisions of Section 10(2) of the Capital Revision Act 1952.
- (2) To charge all accumulated capital losses to the end of 1959, not previously written off, related to steam locomotive retirements, Capital Revision Act 1952.
- (3) To charge the capital losses for the year 1960 from the retirement of steam locomotives Capital Revision Act 1952.

APPENDIX "H"

CANADIAN NATIONAL RAILWAYS

SHAREHOLDERS' EQUITY

Capital investment of Government of Canada in the Canadian Government Railways

Balance at 31 December	Changes during year	
1951	\$379,877,514	1952 (\$195,270)
1952	379,682,244	1953 (44,529)
1953	379,637,715	1954 136,800
1954	379,774,515	1955 139,765
1955	379,914,280	1956 1,235,348
1956	381,149,628	1957 429,461
1957	381,579,089	1958 50,970,050 (1)
1958	432,549,139	1959 256,335
1959	432,805,474	1960 2,789,407
1960	435,594,881	1961 2,308,161
1961	437,903,042	1962 1,363,994
1962	439,267,036	1963 1,645,579
1963	440,912,615	1964 261,821
1964	441,174,436	1965 106,856
1965	441,281,292	1966 174,000
1966	441,455,292	1967 (13,060,865) (2)
1967	428,394,427	1968 (5,070)
1968	428,389,357	1969 7,422
1969	428,396,779	1970 —
1970	428,396,779	1971 —
1971	428,396,779	1972 —
1972	428,396,779	1973 —
1973	428,396,779	

NOTES:

- (1) Entrustment of Hudson Bay Railway and Northwest Communications System.
- (2) Return of C.G.R. Entrusted property—Newfoundland Vessels and Docks.

APPENDIX "I"

CANADIAN NATIONAL RAILWAYS

TABULATION OF NEW MONIES AUTHORIZED UNDER FINANCING AND GUARANTEE ACTS FOR CN'S CAPITAL REQUIREMENTS

(\$ Millions)

Year	Debt (less Air Canada reqmts)			
	Total	Less First Half Succeeding Year	Current Year	Preferred Stock
1952.....	182.1	50.0	132.1	(1)
1953.....	200.3	80.0	120.3	(1)
1954.....	204.0	45.0	159.0	(1)
1955.....	92.0	40.0	52.0	(1)
1956.....	159.4	35.0	124.4	(1)
1957.....	199.1	38.0	161.1	(1)
1958.....	230.5	79.0	151.5	(1)
1959.....	155.7	25.5	130.2	(1)
1960.....	67.8	5.0	62.8	(1)
1961.....	Nil	Nil	Nil	21.2
1962.....	Nil	Nil	Nil	21.9
1963.....	Nil	Nil	Nil	22.8 (2)
1964.....	Nil	Nil	Nil	24.6 (2)
1965.....	Nil	Nil	Nil	25.9
1966.....	Nil	Nil	Nil	28.0 (3)
1967.....	Nil	Nil	Nil	30.4 (3)
1968.....	16.0	6.0	10.0(5)	30.4
1969.....	19.0	2.0	17.0(5)	31.9
1970.....	12.0	2.0	10.0(5)	33.4
1971.....	Nil	Nil	Nil	39.1
1972.....	Nil	Nil	Nil	40.0 (4)
1973.....	21.0	8.0	13.0(5)	44.5 (4)

- (1) Provided for by Canadian National Rlys' Capital Rev. Act. 1952
- (2) Provided for by Canadian National F & G Act 1962-3
- (3) Provided for by Canadian National F & G Act 1965-6
- (4) Provided for by Canadian National F & G Act 1973
- (5) Loans authorized for Branch Line construction but not actually made.

Montreal, Que. April 1974

APPENDIX "J"

AIR CANADA

1973 FINANCIAL STATEMENTS

STATEMENT OF INCOME AND RETAINED EARNINGS

(Dollars Shown in Thousands)

	Year Ended December 31	
	1973	1972
Operating Revenues		
Passenger.....	\$ 568,939	\$ 473,400
Freight and express.....	69,137	59,599
Mail.....	17,839	16,159
Charter.....	25,742	22,185
Incidental services—net.....	16,393	11,919
Total Operating Revenues.....	698,050	583,262
Operating Expenses		
Flying operations.....	151,673	121,648
Maintenance.....	103,485	86,848
Passenger service.....	82,875	65,980
Aircraft and traffic servicing.....	109,875	89,824
Sales and promotion.....	94,199	84,209
General and administrative.....	33,368	25,251
Depreciation and obsolescence.....	76,182	64,010
Total Operating Expenses.....	651,657	537,770
Operating Income.....	46,393	45,492
Non-Operating Expenses (Income)		
Interest on long term debt.....	38,912	32,477
Interest capitalized.....	(3,602)	(2,712)
Loss on disposal of assets.....	494	967
Non-operating income—net.....	(1,429)	(2,456)
Total Non-Operating Expense.....	34,375	28,276
Income before Income Taxes.....	12,018	17,216
Income Taxes—Deferred.....	5,895	8,568
Net Income.....	6,123	8,648
Retained Earnings		
Balance at beginning of year.....	42,599	34,151
Dividend.....	(200)	(200)
Balance at End of Year.....	\$ 48,522	\$ 42,599

AIR CANADA

NOTES TO FINANCIAL STATEMENTS

1. Cash and Short Term Investments

The Corporation entered into an agreement during 1972 to acquire an interest in Wardair Canada Ltd. The completion of the transaction is subject to certain conditions including final approval by the Government of Canada. Cash and short term investments include \$2,700,000 plus accrued interest held in escrow in connection with the agreement.

2.* Spare Parts, Materials and Supplies

	1973	1972
	(\$000)	(\$000)
Spare Parts—cost.....	49,718	39,597
Accumulated Obsolescence.....	18,120	18,002
	<u>31,598</u>	<u>21,595</u>
Materials and Supplies—cost.....	4,761	4,088
	<u>38,359</u>	<u>25,683</u>

The Corporation provides for the obsolescence of aircraft spare parts, less their estimated residual value, by charges to operating expenses over the service life of the related aircraft fleet.

3. Property and Equipment

	1973	1972
	(\$000)	(\$000)
Cost		
Flight equipment and components.....	908,718	706,563
Ground equipment and facilities.....	253,896	238,966
	<u>1,162,614</u>	<u>945,529</u>
Accumulated depreciation and amortization.....	401,632	335,154
	<u>760,982</u>	<u>610,375</u>
Progress payments.....	65,755	65,330
	<u>826,737</u>	<u>675,705</u>

Depreciation and amortization is provided on a straight line basis and is based on the following estimated useful lives:

Flight Equipment and Components	
Boeing 747.....	16 years
Lockheed 1011—owned.....	16 years
—leased.....	15 years
DC-8.....	14 years
DC-9.....	12 years
Viscount (Fully Depreciated).....	—
Ground Equipment and Facilities.....	5 to 30 years.

*During 1973 the Corporation commenced leasing two L-1011 aircraft, jointly with another airline, for a period of 15 years. For accounting purposes these aircraft are treated as though they are owned. Lease obligations, excluding the portion related to interest, have been included with long term debt.

4. Long Term Debt

	Principal Amount	
	1973	1972
	(\$000)	(\$000)
Canadian National Railway Co. and Government of Canada		
—Notes and debentures customarily renewed as they mature		
Demand notes—3.5%.....	27,000	27,000
6 months revolving notes—3.9%—7.1%.....	227,371	227,371
Notes and debentures:		
	Maturity Date	Interest Rate
		%
	1973	3.9—7.4
	1976	5.2
	1977	5.2—6.6
	1978	6.5—7.0
	1979	5.6—6.4
	1980	6.7—7.2
	1980	6.8
	1981	4.2—7.6
	1981	7.6
	1985	5.9
	1987	5.2
	*Payable in U.S. Funds.	
	Principal Amount	
	1973	1972
	(\$000)	(\$000)
5½% Notes Payable in Pounds Sterling in semi-annual payments of principal plus interest over 10 years to 1984.....	29,703	9,040
6% Notes Payable in U.S. Funds in semi-annual payments of principal plus interest over 10 years to 1984.....	14,362	—
Aircraft lease obligation payable in U.S. Funds in equal semi-annual amounts over 15 years to 1987 (Note 3).....	17,234	—
*Other long term debt.....	2,769	—
	<u>695,670</u>	<u>640,642</u>
Less current portion of Long Term Debt	4,675	528
	<u>690,995</u>	<u>640,114</u>

Long Term Debt payable in foreign currencies has been converted at the exchange rates prevailing at the dates of issue. Based on exchange rates at December 31, 1973, the principal amounts would be lower by approximately \$5,420,000.

5. Commitments

Commitments for the acquisition of 12 aircraft and related spare engines at December 31, 1973, after deducting progress payments, amounted to approximately \$120,000,000. Subsequent to December 31, 1973, the Corporation committed to purchase an additional Boeing 747 and 6 Boeing 727's at an approximate cost of \$90,000,000.

Anticipated delivery of aircraft is as follows:

	1974	1975
Douglas DC-9.....	2	
Lockheed L-1011.....	4	
Boeing 747.....	2	
Boeing 727.....	5	6

Commitments for ground facilities and equipment amount to \$13,000,000.

There is a commitment to a supplier to use 100,000 hours of its services in each of the next two years; the cost of comparable services in 1973 was \$1,700,000.

Annual rental payments under long term facilities leases in effect at December 31, 1973 amount to \$8,569,000.

6. Pensions

The Corporation is retiring the unfunded liability of its pension plans by annual payments of \$2,097,000 as required by the Pension Benefits Standards Act by charges to operations. The actuarially determined present value of these amounts is approximately \$22,000,000.

7. Comparative Figures

Certain figures for the previous year have been reclassified to conform with the current year's presentation.

Published under authority of the Senate by the Queen's Printer for Canada

Available from Information Canada, Ottawa, Canada.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

AIR CANADA (1974)

	1973	1972
Operating revenues and other income	1,122,514	1,122,514
Operating expenses and other charges	(401,432)	(401,432)
Net operating income	721,082	721,082
Other income	10,000	10,000
Other charges	(10,000)	(10,000)
Net income	721,082	721,082
Retained earnings at beginning of year	1,122,514	1,122,514
Net income	721,082	721,082
Retained earnings at end of year	1,843,596	1,122,514

Depreciation and amortization is provided on a straight line basis and is based on the following estimated useful lives:

Asset Class	Estimated Useful Life
Right of Way and Concessions	10 years
Boeing 747	15 years
Lockheed 1011-1/2	15 years
DC-8	15 years
DC-9	15 years
Ground Equipment and Facilities	5 to 20 years



SECOND SESSION—TWENTY-NINTH PARLIAMENT

1974

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON

TRANSPORT AND COMMUNICATIONS

The Honourable MAURICE BOURGET, *Deputy Chairman*

Issue No. 5

FRIDAY, MAY 3, 1974

Complete Proceedings on Bill C-27, intituled:

An Act to facilitate the relocation of railway lines or rerouting
of railway traffic in urban areas and to provide financial
assistance for work done for the protection, safety and
convenience of the public at railway crossings

REPORT OF THE COMMITTEE

(Witnesses: See Minutes of Proceedings)



STANDING SENATE COMMITTEE ON
TRANSPORT AND COMMUNICATIONS

The Honourable J. Campbell Haig, *Chairman*.

The Honourable Maurice Bourget, *Deputy Chairman*.

The Honourable Senators:

Argue, H.	Langlois, L.
Blois, F. M.	Lawson, E. M.
Bourget, M.	*Martin, P.
Buckwold, S. L.	McElman, C.
Denis, A.	McNamara, W. C.
Eudes, R.	Molgat, G.
*Flynn, J.	Petten, W. J.
Forsey, E.	Prowse, J. H.
Fournier, E.	Riley, D.
(Madawaska- Restigouche)	Smith, D.
Graham, B. A.	Welch, F. C.—(22)
Haig, J. C.	

20 Members

(Quorum 5)

*Ex officio members

Issue No. 5

FRIDAY, MAY 3, 1974

Complete Proceedings on Bill C-27, entitled:

An Act to facilitate the relocation of railway lines or reopening of railway traffic in urban areas and to provide financial assistance for work done for the protection, safety and convenience of the public at railway crossings

REPORT OF THE COMMITTEE

(Witnesses: See Minutes of Proceedings)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, May 2, 1974:

Pursuant to the Order of the Day, the Honourable Senator Cameron moved, seconded by the Honourable Senator Perrault, that the Bill C-27, intituled: "An Act to facilitate the relocation of railway lines or rerouting of railway traffic in urban areas and to provide financial assistance for work done for the protection, safety and convenience of the public at railway crossings", be read the second time.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

The Bill was then read the second time.

The Honourable Senator Cameron moved, seconded by the Honourable Senator Laing, P.C., that the Bill be referred to the Standing Senate Committee on Transport and Communications.

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate

Minutes of Proceedings

May 3, 1974.

Pursuant to adjournment and notice the Standing Senate Committee on Transport and Communications met this day at 10:30 a.m.

Present: The Honourable Senators Bourget (*Deputy Chairman*), Argue, Blois, Buckwold, Forsey, Fournier (*Madawaska-Restigouche*), Graham, McElman, McNamara and Riley. (10)

In attendance: Mr. E. Russell Hopkins, Law Clerk and Parliamentary Counsel.

The Committee proceeded to the examination of Bill C-27 intituled "An Act to facilitate the relocation of railway lines or rerouting of railway traffic in urban areas and to provide financial assistance for work done for the protection, safety and convenience of the public at railway crossings".

The following witnesses were heard in explanation of the Bill:

Mr. Homer B. Neilly, Policy Adviser,
Surface Transportation, Ministry of Transport;

Mr. D. F. Ryan, Director General of Development,
Ministry of State for Urban Affairs;

Mr. A. G. Hibbard, Acting Director of Engineering,
Canadian Transport Commission.

On Motion duly put it was Resolved to Report the said Bill without amendment.

At 11:50 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Denis Bouffard,
Clerk of the Committee.

Report of the Committee

Friday, May 3, 1974.

The Standing Senate Committee on Transport and Communications to which was referred Bill C-27, intituled: "An Act to facilitate the relocation of railway lines or rerouting of railway traffic in urban areas and to provide financial assistance for work done for the protection, safety and convenience of the public at railway crossings", has, in obedience to the order of reference of Thursday, May 2, 1974, examined the said Bill and now reports the same without amendment.

Respectfully submitted.

Maurice Bourget,
Deputy Chairman.

The Standing Senate Committee on Transport and Communications

Evidence

Ottawa, Friday, May 3, 1974

The Standing Senate Committee on Transport and Communications, to which was referred Bill C-27, to facilitate the relocation of railway lines or rerouting of railway traffic in urban areas and to provide financial assistance for work done for the protection, safety and convenience of the public at railway crossings, met this day at 10.30 a.m. to give consideration to the bill.

Senator Maurice Bourget (*Deputy Chairman*) in the Chair.

The Deputy Chairman: Honourable senators, this morning we have before us Bill C-27, which concerns the relocation of railway lines and providing financial assistance for such work. We have as witnesses this morning Mr. D. F. Ryan of the Ministry of State for Urban Affairs; Mr. H. B. Neilly, of Policy Planning and Major Projects, Ministry of Transport; and Mr. A. G. Hibbard of the Canadian Transport Commission. I asked these gentlemen whether they wished to make some remarks or comments before honourable senators ask any questions. They told me they have no comments to make, but they would be glad to answer questions.

Senator Buckwold: I have a general comment I should like to make. Yesterday in the Senate I made a short speech in which I indicated that before my appointment to the Senate I was Mayor of Saskatoon. That city, in about the year 1961, completed a deal with the Canadian National Railways by which we moved the railway right out of the centre of downtown Saskatoon. The city negotiated with them, paid them their millions of dollars, they moved out and built new yards. I pass on this information to indicate that I have gone through the mechanics of such a deal, which was a difficult one. The results have been so spectacularly successful that I would give every encouragement to senators to support this bill to the very best of their ability. I pass this on, in a sense, in appreciation of the departments for this move—which we would have liked to have seen long before.

The first question I would have is this. Is there any retroactivity in this bill? I do not have to have an answer to that. I presume there is no claim our city could have for, say, 50 per cent of the cost of that 1961 project. However, I would guess that we probably did better, because the cost then would be much less than even 50 per cent of the comparable cost today, so we have no regrets.

I should like to refer to the importance of connecting transportation to downtown and the implications in this bill financially to provide for rapid transit from passenger facilities—and we talk basically of passenger facilities—to downtown. For example, Ottawa has moved its station out, but now has the problem that the people are not using the railroad because it is not convenient. Could you outline whether in the planning process, in the capital pro-

gram and in the continuing operation, that will normally be a subsidized operation? In providing good transportation downtown, will there be any assistance through this bill to the municipality?

Mr. Homer B. Neilly, Policy Adviser, Surface Transportation, Ministry of Transport: There is no provision for special assistance for rapid transit or local transportation. However, there is provision in the bill that the transportation plan to be prepared as part of a relocation project can include such things as use of railway rights of way for rapid transit and their reservation for rapid transit. That is one of the possibilities under the plan.

Senator Buckwold: Would this just be in the planning concept?

Mr. Neilly: Yes.

Senator Buckwold: Who pays the capital cost? If a city wanted to use this legislation and wanted to use a right of way, say to have a bus going down the former right of way, would the capital cost involved be part of the project cost?

Mr. Neilly: For the most part I would say no, but there is planning going on within the Ministry of Transport which might result in grants for rapid transit, or for projects of the type that you mention. There is nothing available at this moment specifically for that purpose.

Mr. D. F. Ryan, Director General of Development, Ministry of State for Urban Affairs: If I might comment on that, I could say that, in point of fact, if it meant transferring ownership of the land from the railway to some other owner like the city, that would figure in the balance sheet in arriving at net railway cost and would be subject to a 50 per cent federal contribution.

Senator Buckwold: If the municipality bought the right-of-way.

Mr. Ryan: Yes, or if the province bought it.

Senator Buckwold: In the Saskatoon experience around 30 acres of land were involved in downtown Saskatoon. The city as part of its deal took over from the railroad the complete right-of-way of the former CNR main line and turned it into a freeway at relatively low cost, in the sense that the land then became a freeway and is now the major traffic artery into downtown Saskatoon.

In addition, the city negotiated the through streets, some minor open spaces and this type of thing. That was the only land the city got out of the deal. The railroad retained ownership of the rest.

What you are suggesting, then, is that in that type of circumstance what the city paid for the land to which they acquired title would be part of the capital cost?

Mr. Ryan: The way the calculation reads is that taking the net cost of rail relocation, which would be the cost of the new facilities less what they received for their old facilities, that net cost would be shared 50 per cent. If in point of fact their old facilities involved disposing of their existing rights-of-way for some consideration and acquiring new rights-of-way for another consideration, then that difference is what would be shared. One can say that to the extent that this land was made available to the city to acquire it, then they were assisted, in that the railway's costs of relocation were subject, as to 50 per cent, to a federal grant. So I would have to say it is an indirect benefit rather than a direct contribution to the acquisition of the land itself.

Senator Buckwold: I can see that it is not going to be quite as simple as it might appear.

Do you envisage, then, the basic concept of this being that railroads will in fact maintain ownership of the land, except for whatever is turned over to the municipality for street purposes or open space purposes and so on, and that the major cost will be what the municipality will pay to the railroad for building new facilities in order to provide their railroad services?

Mr. Ryan: Fortunately, the act is extremely flexible on this issue. What it says, in point of fact, is that there is no imposed solution; that in each case the ownership of the abandoned railway lands will be decided in terms of what is best for that particular locality. That can range all the way from the railways' retaining ownership to their passing it to another public agency, whether municipal or provincial, or, in the last resort, getting the federal government to take it over in a trusteeship role until it is put into its new use.

So there is a complete range of possibilities as to the ownership of the vacated property.

Senator Buckwold: Has this bill been reviewed by the Canadian Federation of Mayors and Municipalities? If so, has it met with their approval?

Mr. Ryan: If I had to look for the staunchest support for this bill, that is the first place I would look.

Senator Buckwold: Right. In other words, to the mayors of the cities which will be involved, this bill in its present form is acceptable?

Mr. Ryan: The CFMM were given copies of this bill on the day it was tabled in the House of Commons, and I have heard nothing but enthusiastic support for it from them.

Senator Buckwold: I suggest that that is the greatest endorsement which one could get for the provisions of the bill. Thank you, Mr. Chairman.

The Deputy Chairman: Was this discussed with the provinces also?

Mr. Ryan: The bill itself could not be discussed with the provinces because it had not been introduced in the House of Commons, but one can say that on at least two occasions the principles of the bill were discussed with the provinces. The most notable occasion was the tri-level conference on urban affairs in Edmonton last October. That is when the intentions of the government were made known vis-à-vis this bill. I would say they were well received by the provinces.

The Deputy Chairman: There is no doubt about that, but I wanted to know if it had been discussed. Mr. Neilly, have you something to add to that?

Mr. Neilly: Yes, Mr. Chairman. In addition to that, there have been many representations over the years, for the last 20 years at least, with respect to the need for larger grants under the Railway Grade Crossing Fund, which is covered by Part III of the bill, and, generally, also the need for what we are calling "special assistance" for very expensive grade separations, where the costs are abnormal. I am sure that many municipalities will be pleased with the increased grants available under the bill.

The Deputy Chairman: I know that Quebec City will be pleased.

Senator Fournier (Madawaska-Restigouche): Mr. Chairman, with respect to the Ottawa station, do the witnesses know whether the taxis operating from the station to the centre of the city are operating under a franchise?

Mr. Neilly: I am sorry, I cannot answer that question. I don't know.

Senator Fournier (Madawaska-Restigouche): Who would have the answer to that?

Mr. A. G. Hibbard, Acting Director of Engineering, Canadian Transport Commission: The railway company, I believe.

The Deputy Chairman: Both the CN and CP?

Mr. Hibbard: The CN and CP, yes.

Senator Forsey: CP hardly exists any more for purposes of passenger transportation in Ottawa.

Mr. Hibbard: That is right. Only "The Canadian" goes through Ottawa.

Senator Forsey: And the train which goes to Montebello.

Senator Fournier (Madawaska-Restigouche): In my opinion, so far as this whole taxi situation is concerned, the public is being taken for a ride. I have been given to understand that the franchise for taxi service is held by the Canadian National. It would be most interesting at some later date to examine a copy of that franchise agreement to see just what the obligations of the taxis are. Anyone who has had to use the taxi service from that railway station knows that it has simply gone from bad to worse. The typical situation is to have a maximum of five taxis to carry about 75 people, and I am thinking especially of the trains coming from Montreal.

Lately there has been a bus service, but it has no luggage facilities and people are crowded in like sardines. On top of that, if you are able to get a taxi or the bus, you have to wait at least 15 or 20 minutes, anyway. What can be done about it?

Mr. Neilly: I can only say that I would be very pleased to pass those comments on to the railways.

The Deputy Chairman: As a matter of fact, I have been through the same experience as Senator Fournier. Very often when I come up from Montreal I have to wait 15 or 20 minutes for a taxi. I believe that is the general experience. Senator Fournier and others have raised this question in the Senate, but nothing has ever been done about it. Before we pass any comments on to the railways, the

Senate should ask specific questions in order to find out what is wrong and who is to blame. In other words, the Senate itself should do this.

Senator Fournier (Madawaska-Restigouche): I agree.

Senator Buckwold: As I said yesterday, one of the most important factors in this whole question is the convenience of the public, but the truth is that the railroads don't give a damn. They really don't. At least up until the time of the energy crisis, the attitude of the railroads, with the possible partial exception of the CNR, has been to discourage passenger traffic. The railroads are just not interested in passenger traffic. For them passenger traffic is a loss-operation and a headache. They certainly have not gone out of their way to create facilities which would be convenient for the public.

Referring again to the Saskatoon situation, the station now is about five miles from downtown Saskatoon, and in that case the railroads really could not have cared less about the convenience of their passengers in getting downtown. To them, it was strictly a city operation to provide the public transit.

I must admit that I am not that concerned about the taxis. That is a problem which involves relatively few people. I am interested in public transportation for the mass of the people who come on a train and expect at low cost to be able in a public way to get at least downtown where they can connect with the overall system. Again, I have to emphasize that this is a most important aspect of making the whole thing work.

Senator Forsey: Hear, hear.

Mr. Neilly: If I may say something, one of the concepts of the bill is that there must be a transportation plan for the urban area, and there must be an urban development plan prepared for the urban area. Now, these plans will be prepared very much under the scrutiny of local authorities. Local authorities, both municipalities and the province, will have to agree on these plans. That is, all the municipalities and the province will have to agree on them before the commission can look at a project.

Senator Buckwold: Mr. Neilly, having all the nicest plans in the world does not necessarily mean that another department of the city authority will suddenly put buses on at a very significant loss. Planning in itself is not the answer. Obviously, the planning comes first, but the actual operation of the transportation facility itself is something that goes far beyond the planning stage. It is expensive, and it is a very heavy loss to the municipality to keep these services there. The municipalities may feel that as part of this plan they should be getting some financial compensation from other levels of government.

Senator McNamara: This is a supplementary question. Do I understand that the railways have some definite responsibility for providing transportation from the station to the downtown regions? Is there anything about that in the Railway Act? Or is it the point, that we would just like to see them provide this service?

Mr. Neilly: So far as I am aware, in the Railway Act there is nothing on transportation to or from a station. That is outside the Railway Act.

The Deputy Chairman: And there is nothing in the bill that would help?

Mr. Neilly: Only in so far as the plans might include rapid transit, say to the downtown core, if in fact the station were taken out. There is nothing in this that would permit the station to be removed without the consent of the local municipalities, and the province.

Senator Forsey: In fact, it would not necessarily be removed. It might be left in the centre and redeveloped, as it were.

Mr. Neilly: That is right.

Mr. Hibbard: The only portion of the Railway Act that I know of that covers that situation is that the location of the station must be approved by the CTC, and these locations have been approved. Now, if there were going to be a relocation of a station, I would imagine that that would carry on, that the relocation itself would include the location of the station, and it would require CTC approval.

Senator Forsey: I think, if I may intervene at this point, that the whole line of questioning that Senator Buckwold has been engaged in is likely to be of increasing importance, because it seems to me quite clear now that we are headed, because of pollution, because of the energy crisis, and so forth, back toward railway passenger transportation in certain fields, for the relatively short haul, and what is now an inconvenience to a relatively small number of people, shall we say—the kind of thing we have here in Ottawa—may become an inconvenience to a much larger number of people if the kind of development takes place that even transportation experts are now talking about.

Senator McElman: I realize this is not perhaps a principal area of discussion for this bill, but it is surely an interesting one. From my standpoint it is highly interesting.

The fears being expressed by some members of the committee are very real. As you have heard me say on previous occasions in the committee and in the house, I come from Fredericton, the only provincial capital in Canada which has no rail passenger service. It is an example of what the railways will do if they are permitted to get off with things. At a period in time when the municipality of Fredericton and the province had little whack with the railways, they had their own way, and the rail passenger service was totally discontinued to the city of Fredericton.

Senator Riley: With the approval of the CTC.

Senator McElman: That is right. There are buses available—

Senator Forsey: But not on Sundays.

Senator McElman: That is true.

The Deputy Chairman: Not on Sundays?

Senator McElman: That is right. If you wish to travel CP, which is the short route through Maine to Montreal, you board a bus, which is not a railway bus, and you travel some 27 miles to Fredericton Junction to get to the main line of the CP. If you wish to travel CN, through Canada, you travel some 25 to 30 miles in the other direction, to the main line of CN, at McGivney Junction, again by bus, or take your own car if you like. It is a disgraceful situation. There is absolutely no regard for people—none whatsoever.

Senator Forsey: If I may intervene, senator, on Sundays you have to take a taxi, and it costs you fifteen solid dollars to get from Fredericton to Fredericton Junction, if

you happen to want to take a train on Sunday night from Fredericton Junction to Montreal.

Senator Buckwold: What is a solid dollar these days?

Senator McElman: This is what the railways have been prepared to do, as Senator Riley said, with the approval of the CTC. A provincial capital is totally cut off.

Now, this bill is very welcome in Fredericton, as well as in New Brunswick. We have two cities in particular working for a long period of years for this very thing. Fredericton is one and Moncton is the other. Moncton has the main lines running through it. Fredericton does not have main lines. Saint John has had some negotiations, but not to the same degree as the other two cities. I have told you of the passenger service in Fredericton, but in the main part of town, which is the flat of Fredericton—the alluvial flat—where the main city is, we have as many as five lines, with main streets crossing those lines. To the ordinary resident of Fredericton, the CN and CP are nothing but a damned nuisance to traffic. The mayor of Fredericton, Mr. J. W. Bird, is the president, since the meeting a fortnight ago, of the Canadian Federation of Mayors and Municipalities, and has welcomed this bill in strong terms, as the city of Moncton has welcomed it. There will be dancing in the streets if they can get rid of the nuisance the railways are to the city of Fredericton, because that is about all they have been in recent years.

Senator Fournier (Madawaska-Restigouche): It is a shunting yard.

Senator McElman: It is a shunting yard, as Senator Fournier says. It is not only a nuisance, but we have not been able to get co-operation even in regard to separated level crossings. As one example of the many dangerous crossings within the municipality of Fredericton, we have a rather noted and notable university on "the hill", as it is called. The main shunting line of the joint railways runs within 50 yards of the main entrance to that university, thousands of students pass back and forth daily, but we have not got a rail separation even there. The railways have been noxious and obnoxious in the city of Fredericton. I have vented my wrath on that subject.

The sponsor of the bill, Senator Donald Cameron, expressed some concern that the railways under this bill might fall heir to a packet of money they would not be entitled to. Since the railway beds were initially Crown property, and conveyed to the railways, it was his thought, and I believe he had some support for it, that the rights of way should revert to the Crown, in these instances; but he did not have a legal opinion as to whether this could be accomplished or not. I understand there is a divergence of opinion as to whether it should revert. In most cases, I guess it would not. In any event, we have witnesses here who can give us examples of what will happen when action is taken in various parts of the country under this bill. Can they tell us whether the land will revert to the Crown, or whether it will remain the property of the railways in some very highly desirable locations in the municipalities involved? If there are cases where it would revert, would they tell us about those?

Mr. Neilly: The general position, as we understand it from the Department of Justice, is that, generally speaking, the railway land is the property of the railways, and this includes railway land granted by the federal government. This is not an invariable rule, but generally speaking it is the case. In order to determine precisely what the

situation is with respect to any particular piece of right of way, there would have to be an examination of the railway charters and of the actual instruments of conveyance of the land. So it is not an easy job to answer your question with respect to any particular piece of property.

There is one qualification to this. Before 1903 the grants of land, that is to say, federal crown land, to railways, ordinarily carried with them rights over mines and minerals. After 1903 this was no longer true, unless the instrument of conveyance expressly said that rights over mines and minerals were included. There certainly are examples known of land that does revert to the Crown. For instance, in Winnipeg part of the main CPR yard, if not used for railway purposes, reverts to the Crown, but whether that is to the federal Crown or to the provincial Crown I do not know. There are reversionary rights with respect to part of that land.

This bill does not alter in any way the rights or the interests of the railways in any property. If there are reversionary rights, the bill does not touch them. If the railways own the property outright, it does not touch that. What the bill says is that the railways shall neither gain nor lose from one of these relocation projects.

Senator McElman: Then each of these cases will be considered on its own, depending upon the reversionary or other rights involved?

Mr. Neilly: That is right.

Senator McElman: And you have had legal opinion on this?

Mr. Neilly: Yes, both from the Department of Justice and from the legal department of the CTC.

Senator Forsey: Where does the title rest for the lines of the old Intercolonial? That presumably rests with the Crown in the Right of Canada, does it not?

Mr. Neilly: I believe that is true, but here I am speaking off the cuff.

Mr. E. Russell Hopkins, Law Clerk and Parliamentary Counsel: That would be an interesting research project.

Senator McElman: Your reference to mining rights is very interesting, but I hope they don't have mining rights on their rail bed in the city of Fredericton.

Senator Blois: Mr. Chairman, I have a few questions to ask. I am not at all sure that the gentlemen present would be in a position to answer them. Perhaps they should be taken up directly with the Canadian National Railways. I shall give a brief history of the situation about which I want to ask some questions. I am speaking of the CN Railway station in the town of Truro in Nova Scotia. Some 60 years ago a very beautiful red stone building was erected there, because at that time it was quite a large railway centre. Then someone decided that the station was too large and certain repairs would be necessary. So it was decided to tear the old building down and put up a new railway station, somewhat similar to that in the city of Moncton. However, what has happened, and here I would like to find out why, is that some arrangements were made with the railway company whereby a provincial company of realtors, mostly from Halifax, made a deal and bought the property and built there a large shopping centre. Many of the shops have been rented, but many have not, and in my opinion they never will be. There are no parking

facilities and it is at one end of the town. I am glad I have not invested any money in the deal.

The complaint is that the old station has been torn down, and now there is a small railroad station. When you get off the train, there is absolutely nothing to show you where to go. I went there by train myself a few weeks ago, and although Truro is my hometown, I found no signs to indicate whether to turn to the right or to the left. You find yourself walking up by solid walls and eventually you come to an open space. No one can tell whether the building is the railway station, a liquor commission store or something else. There is no sign to show where the station is, where to buy a ticket or how to get out on to the main street. There is no sign of any description. Everybody there is annoyed about it. I had a meeting with an official or somebody a few weeks ago. I would like to know who sold this property, how much they paid for it, and whether something can be done to make it decent for the travelling public.

Furthermore, there are many complaints that the trains stop as far away as they can so as to make it difficult for the passengers. When I got out of the train I did not know where to go, and I had to walk quite a long distance, and then I had to ask somebody, "How in the world do you get to the railway station?" This is a very serious situation and it is putting the Canadian National Railways in a very bad light with the public generally. So I would like to find out who gave consent for that old station to be torn down and the land to be sold or leased to a realty company to build a shopping centre, and can there be any improvement?

The Deputy Chairman: Is there anyone here who can answer that?

Mr. Neilly: I cannot throw any light on the details of that arrangement. To some extent, the use of railway property is under the direction of railway management, and there is no need for the railway to ask anyone's permission, but I am not saying that that is the situation here.

Senator Blois: Well, I think it is, and at any rate it is a mess and I would like to know why.

The Deputy Chairman: You have not taken up the matter with the vice-president? You may have a vice-president in Moncton, for that region. Did you discuss this with him?

Senator Blois: No, I did not.

The Deputy Chairman: Perhaps he could tell you about it, or the chairman of the committee could write to the CN and get the answer.

Senator Blois: I would like it very much if that could be done, because so many people have been asking me about it.

Senator McElman: The CTC would have had to approve of the location of the station, wouldn't they?

Mr. Neilly: But they didn't change the location, did they?

Senator Blois: No, it is practically in the same spot.

Mr. Neilly: So that did not involve a change of location.

Senator Blois: I might add that many of the tracks were torn up and some more are to be torn up. There is another serious situation, but it is one about which you probably would not know. Quite a large section of the town lies at the other side of the railway tracks and the understanding

was that there would be a walkway crossing seven or nine tracks. That walkway is about 40 inches wide. Many school children have to cross by it, and when they get across they have to find their way out onto the main street. They showed me the situation. There is just a small passageway without any sign on it and without any windows of any kind, although I believe it is lighted at night. It is really a disgraceful situation.

The Deputy Chairman: The only way to settle this matter would be to write to the president of the CNR or to the vice-president of operations. We could get together and write such a letter.

Mr. Neilly: Mr. Chairman, may I say a word on that? This bill does change the definition of a railway crossing so that a pedestrian walkway is recognized as being eligible for assistance. That is in the same way as if it were a vehicle overpass or underpass, a grade separation, in other words.

Senator Blois: For years there was an overhead bridge, and for 35 years people had to cross these tracks as best they could. There was nothing to protect them.

Senator Buckwold: The only comment I have is I do not know how anyone could get lost in Truro.

Senator Blois: Well, you are used to big towns, so you just do not appreciate it. I will tell you that it is one of the very best towns in Canada. It is one of the few places that did not take any assistance in 1929 and the 1930s. The townspeople did not receive any government help, but financed themselves, and they still do. They should not get such a dirty deal as they get today.

Senator Buckwold: I wish to make it very clear that my remarks was facetious; I knew I would get a very warm response.

Senator Forsey: The substitution of this plastic affair for that fine old red stone is itself a disgrace; it is a blot on the landscape.

Senator Riley: Mr. Chairman, I am curious about Part III, clause 18(1), which reads as follows:

There shall be continued in the accounts of Canada an account, which shall continue to be known as the "Railway Grade Crossing Fund".

I am not familiar with the present Railway Grade Crossing Fund. Where does that fund find its supply of funding?

Mr. Neilly: Appropriations are made in the regular manner through the estimates and appropriation acts.

Senator Riley: Were many of the grade separations constructed in the past assisted by the fund?

Mr. Neilly: Yes; the Railway Grade Crossing Fund has existed since 1909 and millions of dollars have been contributed over the years to assist in the construction and reconstruction of grade separations.

Senator Riley: That is to assist the railways?

Mr. Neilly: It is actually to assist the construction. The railways have also contributed to the cost of these. They have been relatively small amounts. There are three parties to all projects under Part III—the highway authority, the railway and the Railway Grade Crossing Fund. The Railway Grade Crossing Fund may pay up to 80 per cent, under certain limits, for a new separation.

Senator Riley: Presently, or under the new section?

Mr. Neilly: The old provisions were for 80 per cent, to a maximum of \$500,000, for construction. The new provision is for 80 per cent, or \$1 million, for construction. For reconstruction, the old provision was 50 per cent, or \$250,000 and the new provision is for 50 per cent, up to a maximum of \$625,000. The dollar limits have been more than doubled for projects under the Railway Grade Crossing Fund. In addition to that, in Part II we have provided special grants for very expensive grade separations, which would be much in excess of the amounts presently authorized.

Senator Riley: I would now like to refer to clause 20(1) (a), (b), (c) and (d). My first question is in relation to paragraph (a) which reads:

(a) work actually done for the protection, safety and convenience of the public in respect of existing railway crossings at rail level;

Does this provide for moneys additional to the present allocations?

Mr. Neilly: This is just the general formula under which the Commission has control of certain funds to assist in the construction or re-construction of grade separations. It simply repeats the language now contained in the Railway Act.

Senator Riley: Does this also apply to paragraphs (b), (c) and (d)?

Mr. Neilly: One minor addition is that paragraph (d) provides for placing revolving lights on locomotives.

Senator Riley: Why would that be added? Is that not the responsibility of the railway company? Why should moneys be extracted from the Consolidated Revenue Fund, or whatever the source is, in order to place revolving lights on locomotives? They are necessary to keep game off the tracks and to give a better signal to the public that the train is approaching at night, but I fail to understand why the government should contribute to or pay most of the costs of installing them.

Mr. Hibbard: At the present time the fund contributes to automatic crossing protection, that is, the flashing lights and the gates.

Senator Riley: I understand that.

Mr. Hibbard: It also contributes to the placing of reflective markings on the sides of cars. It was felt that the revolving lights, which would be actuated only as the locomotive approaches a crossing, would be an added warning to highway traffic.

Senator Riley: Many trains going through wooded areas now use the revolving light so that game will not be attracted to the big, fixed light on the locomotive, do they not?

Mr. Hibbard: Yes. This would be a different type of light. It would be a flashing type, similar to those used on police cars and ambulances.

Mr. Hopkins: It would be to warn people?

Mr. Hibbard: Yes, it would be to warn people.

Mr. Hopkins: Not animals?

Mr. Hibbard: Yes.

Senator Fournier (Madawaska-Restigouche): Those revolving lights are very effective in the wooded areas and no one who takes a ride in a locomotive at night can argue that they are not effective, as one can see what takes place sometimes without them. That is why I would say they are very effective.

Mr. Hibbard: It was felt that this would be an added safety element at crossings and would attract the attention of motorists.

Senator Fournier (Madawaska-Restigouche): I agree with that.

Senator Riley: I believe Senator Fournier refers to the type of light I spoke of, not the flashing light?

Senator Fournier (Madawaska-Restigouche): Yes.

Senator Riley: I spoke of a light that revolves, so that animals are not transfixed by a steady beam. It has been of great benefit to the railway operating into Edmundston in particular. I do not know if a day-liner still runs from Woodstock?

Senator Fournier (Madawaska-Restigouche): No.

Senator Buckwold: Mr. Chairman, perhaps we could return to the actual legislation in a direct manner, without in any way minimizing any of these other important issues? I am very much concerned about the fund. Although the amounts seem to be very generous, they bring us back to the costs prevailing 10 or 12 years ago, when the limits did not allow sufficient funding. The proposal is very generous in raising the amount to \$1 million, I gather, from \$500,000, but if \$500,000 was not sufficient 10 years ago, the \$1 million does not put the municipality in any better position now that it was under the previous provisions. I know you move into special allocations, but under them, in my understanding, you only pay the maximum of 50 per cent, whereas in the other part you pay 80 per cent.

Mr. Neilly: The formula under Part II with respect to very expensive grade separations is that 80 per cent of the first \$1.25 million is paid, which is the same as under the Railway Grade Crossing Fund. For the next \$3.75 million, that is to a total cost of \$5 million, 60 per cent is paid; and over \$5 million the federal government will pay 40 per cent. So there is a sliding scale, an escalation scale.

Senator Buckwold: I am aware of this. All I am suggesting is that your department very quickly should consider raising the level of the 80 per cent amount to enable municipalities to do the work required with the minimum of financial burden. In view of the tremendous escalation in costs since the bill was written and these figures determined, there should be early consideration of increased amounts in order to help municipalities and encourage development of these funds. The grade fund pays 80 per cent, and the railroads pay probably 7 per cent.

Mr. Neilly: Five per cent.

Senator Buckwold: Five per cent or 7 per cent, and the municipality picks up the rest. That is not too difficult. But when you get into the more expensive ones—and they are all expensive today, other than the little crossings—the difference in the percentage puts a very heavy load on the municipality. The railroads' share, I presume, does not go

up; it is the municipality that picks up the higher percentage.

Mr. Neilly: There is provision in Part II for the Canadian Transport Commission to decide what portions shall be paid by the other parties. No rules are laid down for this. It is left to the commission. It is unavoidable that the municipality would have to pay a higher percentage, once you move beyond the \$1.25 million where the 80 per cent applies.

Senator Buckwold: The upper limits, in my opinion, are not high enough in the light of the very inflationary costs which are now being experienced, compared with the former levels.

Mr. Neilly: We have had many discussions with the Department of Finance and with the Treasury Board, and all I can say is that this is as much as we could obtain.

Senator Buckwold: I am sure the municipalities will be knocking on your door, saying, "Look, for \$1 million today we cannot do as much as we could 10 years ago."

Senator Forsey: It is just catching up.

Mr. Hibbard: During the past year and a half, I have had a number of discussions with provincial highway departments and municipalities regarding grade separations, and I feel sure they will certainly welcome this increase from \$500,000 to \$1 million. In the majority of cases, the cost of grade separations does not exceed the figure of \$1,250,000; so really they would be getting 80 per cent. In cases where it does exceed that amount, they receive additional assistance, under part II, in the form of a special grant. I feel sure they will be very happy with this increase.

Senator Buckwold: Temporarily.

Mr. Hibbard: It is hard to say where inflation will go.

Senator Forsey: So far so good.

Mr. Ryan: I do not think anyone has yet thought of indexing it.

Senator Riley: What are the latest available statistics with respect to accidents generally, or accidents resulting in death, which have occurred at level crossings?

Mr. Hibbard: I do not have the figures here.

Senator Riley: Give us a windshield estimate.

Mr. Hibbard: I cannot give the number, but from a graph, I can illustrate it this way: In 1957 the number of casualties at railway crossings and the number of vehicular accidents on the highway were approximately the same. Since that time, the number of railway crossing accidents has been fairly constant—in fact, it has decreased slightly—whereas the number of highway accidents has increased tremendously.

From that graph, it is our view that the assistance provided from the Railway Grade Crossing Fund toward protection at crossings has been well worthwhile.

Mr. Ryan: I do not mind giving you the graph, if it would help.

Senator Riley: What is the role of the CTC with respect to improvement of safety devices at level crossings? Does the

CTC wait until a municipality, province or individual complains, or do they keep a watchful eye on the situation? Have the authority to issue directives to the railways to improve safety signalling devices, and so on?

Mr. Hibbard: Yes. They handle it in both ways. Generally, the CTC acts upon complaints. We do not have the staff to police crossings. When we receive an application or a complaint, we take immediate action. We have a site investigation, the matter is discussed by all parties, and improvements which can be made are ordered.

Senator Riley: I presume that the CTC keeps a statistical record of level crossing accidents each year?

Mr. Hibbard: We do.

Senator Riley: If they find there is an increasing number of level crossing accidents, do they step in and say to the railroad concerned, "It looks as though there is some deficiency in the warning signal system at crossing A or crossing B. We want you to present a plan for the improvement of this."

Mr. Hibbard: Yes, it does that. When there are serious accidents at level crossings, action is usually taken immediately by the CTC on its own initiative. There have been recent hearings on level crossing accidents.

Senator Fournier (Madawaska-Restigouche): Is it not the policy of the department to wait until there is an accident before taking action?

Mr. Hibbard: No. There are, of course, hazards at all level crossings, even those that are protected. We endeavour to take action where we know that serious hazards exist. As I said, we do not have the staff to examine in detail every level crossing every year.

Senator Fournier (Madawaska-Restigouche): When I was a member of the House of Commons, I made application with regard to two dangerous crossings. Both letters in reply indicated that there was no evidence of accidents. When someone was killed, we got action, but it took an accident to get some action.

The Deputy Chairman: Unfortunately, that is often the case. People wait until an accident occurs before taking action. The commission should take the initiative.

Mr. Hibbard: We have evidence of numerous accidents occurring at level crossings which are protected with automatic crossing lights and even gates.

Senator Fournier (Madawaska-Restigouche): But that does not justify a request being made by someone who lives in the area and knows what is taking place every day? There is not much that you can do until someone pays the ultimate high price?

Mr. Hibbard: All I can say in reply is that we generally take action to investigate complaints at the site.

Senator Fournier (Madawaska-Restigouche): I have no argument with you in that respect.

Mr. Neilly: If I may add a word, Mr. Chairman, there are 35,000 highway railway crossings in Canada, of which only about 6,000 are protected either by grade separation, gates or lights. When I say "protected," I mean something beyond the familiar crossbuck sign which is at all railway

level crossings. It is quite a problem to spread the money that is available over all crossings and to select those which are going to have the added protection. The cost of having grade separation or gates at all railway crossings would, of course, be extremely high. Even for minimum protection such as lights, the cost would be extremely high.

Senator Riley: I have a question for Mr. Hibbard, Mr. Chairman. I want to preface it by saying that I understand a directive was issued by the CTC to the CNR earlier this year, in respect of the increased number of derailments in the province of New Brunswick. What action has been taken in respect of that directive?

Mr. Hibbard: There was a public hearing two years ago with regard to the safety of operations on the railways. A report was issued as a result of that hearing, in which the railways were requested to take certain action and to submit a report on the action they proposed to take. That report has just come in, I understand, and the CTC has formed a Railway Safety Advisory Committee which consists of representatives of the CTC, the two major railways, The Railway Association and labour. That committee is presently looking into the matter of derailments.

Senator Riley: At the risk of being insular, I should like to direct your attention back to the derailments which occurred in New Brunswick. I believe I read somewhere that the CTC issued a directive to the CNR in respect of those derailments. What the wording of that directive was, I do not know, but I presume it was that the CNR should keep a closer watch on the roadbed and the rails. I understand that it is not only the roadbed and the rails that are at fault in these derailments, but also that close inspection is not kept on these flaggings, or whatever they are called, that go out on the hotboxes, and so forth.

Mr. Hibbard: The inspection of trains and cars.

Senator Riley: Yes, inspection of the wheels on the cars, or wherever this device is which can become overheated.

Mr. Hibbard: I am not aware of any specific directive in that regard, senator. I do know that this whole matter is going to be under study by the advisory committee. That study will not only take into account Maintenance of Way defects, but also operational and equipment defects.

Senator Riley: While this study is under way, we will continue to have derailments.

Mr. Hibbard: In individual case these matters have been investigated and the railways ordered to correct the situation. I am familiar with some accidents that occurred down East where we found defective construction of culverts. As a result of our investigations, the railways were requested to correct those situations. They did not have to be ordered, because when these defects were pointed out to them, they agreed to carry out the necessary alterations.

Senator Fournier (Madawaska-Restigouche): Without going into a long history, in my days a section of some six to eight miles was looked after by a four-man gang working every day, shimming the roadbed, and things like that. Today the sections have been increased from six to eight miles in length to some 35 to 40 miles in length. At the same time, the work gang has been reduced to three men, and that gang drives along the road in a car. How can we expect these men to keep close inspection on the roadbeds and rails when they are driving in a car from one crossing

to the other? All they do is clean the crossings. True enough, there is a patrol motorcar operated by a man they call the road master who travels along three or four sections a day and reports his findings.

I know of one derailment in New Brunswick not too long ago which resulted in damage in the vicinity of \$1 million. That derailment could have been avoided if the patrolman had been on the rails and had inspected the track on time. How can you justify having three men driving in a car on the highway supposedly keeping a close watch on the roadbed for defects?

Senator Riley: The number of inspections has also been reduced.

Senator Fournier (Madawaska-Restigouche): Well, the work gangs have gone from four men inspecting a section of between six to eight miles to three men responsible for inspecting a section of 35 to 40 miles, and the crews today, travel in a car along the highway.

Senator Riley: These men are equipped to repair defects on the spot, are they not?

Senator Fournier (Madawaska-Restigouche): There is another gang which travels by truck, and if a hotbox is burnt out, the boxcar is put on a siding and that truck finds its way to the siding and changes the box.

That is very poor service, as far as I am concerned. One does not have to look very far to find the cause of all these wrecks.

Mr. Hibbard: I think those remarks quite true. The railways, are managing the railways system, not the CTC. The manner of maintenance on the railway systems has changed considerably over the last 25 years. I am not putting this forward as an excuse on behalf of the railways, but rather just to outline what has taken place. Previously, the railways had short sections with a number of men to carry out inspections on those sections. The labour at that time was, for the most part, hand labour. Today we use machines. We have changed from short sections inspected by large numbers of men to longer sections, with the bulk of the maintenance carried out by large mechanized gangs. In this way, the railways feel they can justify the changes.

It is quite true that more accidents are happening today due to track defects than was the case even three years ago. For that reason, the CTC is looking into this matter very carefully. They are looking into this matter of the sections being maintained in the manner they are, and the fact that the number of men for inspection has been reduced. They are certainly studying the manner of these inspections.

Senator Fournier (Madawaska-Restigouche): I do not want to get into an argument with Mr. Hibbard. I agree with what he have said. I would just like to say that at one time in the spring when the ground was frozen you could walk along a railroad track and see little stretches where shim was used to maintain an even roadbed. Today you do not see shims anymore. All you see is a big hole, and a train travelling at 50 to 70 miles an hour just leaves the track and disappears into a mudhole.

Mr. Hibbard: I certainly agree that that does happen.

Senator Fournier (Madawaska-Restigouche): There is no more shimming now on the railroad.

Mr. Hibbard: What we have found the railways generally doing, where these conditions occur, is reducing speed instead of shimming.

Senator Fournier (Madawaska-Restigouche): That makes me laugh.

Senator Buckwold: Mr. Chairman, we have probably reached a stage where you might be prepared to accept a motion to report the bill, otherwise I presume we would have all kinds of comments to make. Does anybody ever have a good word to say for the railroads? I think there is the odd thing that they do very well.

Senator Fournier (Madawaska-Restigouche): I agree with that.

Senator Riley: Has the CPR acquired, either by lease or by transfer of title, the roadbed extending from the New Brunswick border to the Quebec border through Maine?

Mr. Hibbard: I believe they are negotiating. I cannot tell you whether the negotiations have been completed, but they are negotiating for part of it.

Senator Riley: I understood there was some move being made in that direction, because up until now they have been contributing to the upkeep of the roadbed, although they did not have the responsibility of control of upgrading, maintenance or proper repairs to the roadbed.

Mr. Hibbard: That is right. I believe they are charged on what they call a wheelage basis. As they have most of the trains, they are assessed most of the cost. Not too long ago, so I understood, negotiations were under way for purchasing a part of that mileage. I am afraid I cannot say what mileage is involved, but there is a portion there for which they are negotiating. I cannot say whether the negotiations have been completed or not.

Senator McElman: There was a press account on this within the past three weeks, which reported that CP already had a part of the mileage through Maine, either by long term lease or by purchase arrangement of the past, that it had just concluded its negotiations and that they were ready to complete the whole transaction. It was reported that the negotiation for the rest of the mileage in Maine had been completed. As I say, it was a press account, but none the less that was the report.

Perhaps I could add this, to support Senator Riley's reference to accidents. I think he was speaking principally of the CN main line from Halifax through Moncton and on through New Brunswick to Quebec. There has been a very restive feeling among railway workers who are running the trains on that line; they have been very concerned. There have been some letters written to newspaper editors by employees running these trains—letters to which they did not sign their names, for very obvious reasons—referring to the poor condition of the roadbed. There was, perhaps not a directive from the CTC, but at least a statement, that the roadbed in that area had been permitted to deteriorate, or that it was not up to the quality it should be. The principal officer of the CNR in the Moncton area made an angry statement that this just was not so, that it was a misrepresentation, or words to that effect. A very short time after he made his statement, there were two extremely bad accidents in the same area of line, which proved very costly to the CN railway. There were no further statements from the CN official in Moncton, but there are still statements in private letters from railway employees saying that they are still extremely unhappy. I understand that in recent weeks there has been considerably more maintenance activity on that section of line about which Senator Riley was expressing concern.

Senator Riley: It was fortuitous that they were freight trains that were derailed, otherwise there might have been some fatalities.

Senator Fournier (Madawaska-Restigouche): The "Ocean Limited" was derailed at Rivière du Loup.

Senator Riley: Yes. I was thinking of the accident in New Brunswick, on the main line there.

The Deputy Chairman: Are there any more questions? If not, I would like to thank these gentlemen for helping us. I thank you, honourable senators.

Senator Buckwold: I, too, would like to thank these distinguished gentlemen for answering all these questions.

Senator McElman: And for their patience.

The Deputy Chairman: Honourable senators, is it agreed that we report the bill, without amendment.

Hon. Senators: Agreed.

The Committee adjourned.

Published under authority of the Senate by the Queen's Printer for Canada

Available from Information Canada, Ottawa, Canada.



Second Session—Twenty-Ninth Parliament

1974

THE SENATE OF CANADA

STANDING SENATE COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

The Honourable J. CAMPBELL HAIG, *Chairman*

I N D E X

OF PROCEEDINGS

(Issues Nos. 1 to 5 inclusive)



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THE SENATE OF CANADA

Prepared

by the

Reference Branch,

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 —Cochrane, Michael, Vice-President, Finance, Air Canada
 —Cooper, G. M., General Counsel, Canadian National Railways
 —Corner, W. R., Vice-President, Accounting, Canadian National Railways
 —Farmer, P. J., Executive Director, Canada Safety Council
 —Foster, M. B., Director, Government Finance, Finance Dept.
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 —Hibbard, A. G., Acting Director, Engineering, Canadian Transport Commission
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- Cochran, Michael. Vice-President, Transport, Canada
- Cowan, G. M. General Counsel, Canadian National Railways
- Cowan, W. R. Vice-President, Accounting, Canadian National Railways
- Farmer, P. J. Executive Director, Canada Shipping Council
- Foster, M. R. Director, Government Finance, Finance Dept.

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