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THE CANADIAN TRANSPORTATION SYSTEM

An address by Mr. Lionel Chevrier,
Minister of Transport,
before the Montreal Rotary Club,
on September 12, 1950.

With the permission of your Chairman I have chosen to make some observations on the transportation situation.

Canada is a country of vast distances, comparatively small population, and diverse physical and geographical characteristics. I do not believe it to be an exaggeration to say that no other single factor is of greater importance to our national economy and well-being than transportation, and indeed I do not think it is too much to say that the history of transportation is the history of Canada.

The subject covers such a wide scope that I propose to review it under three separate heads - aviation, water transportation and railways.

Aviation is young in terms of our civilization but it has had and continues to experience, a rapid growth which has raised it to the position of a well-established transportation industry in Canada. Over the course of the coming generation I believe we will see added to its present qualitative importance, a quantitative growth which will make it an even more integral part of our economy. This development is taking place with relatively little assistance from the government, thanks to the initiative and efficiency of Trans-Canada Airlines and our private operators of air services.

The role played by aviation during the recent railway strike substantiates the claims which I have made. Without the existence of commercial air services, long-haul passenger and mail movement, and high priority cargo movement, would have broken down with disastrous results for the economy. The major air companies, however, met the challenge with great success. Further, on both coasts where water shipping was also affected, smaller private operators rose to the occasion in magnificent fashion and their resourcefulness and ingenuity enabled them to take care of not only passengers and mail, but all sorts of cargo over the emergency period.

The growth of commercial aviation in Canada can best be described by comparing the revenues of less than \$17 millions received from all domestic air services in 1945, with the revenues of almost \$40 millions in 1949, an increase of roughly 125 per cent in five years.

Trans-Canada Air Lines and Canadian Pacific Airlines are of course the two largest companies in the industry, Trans-Canada Air Lines accounting for just under 60 per cent of all domestic air revenues and Canadian Pacific Airlines about 15 per cent. This proportion, however, over the recent years has been shifting in favour of the private operators, particularly the smaller private operators whose rate of expansion has been great.

Trans-Canada Air Lines with its fine wartime record of service, was compelled to deal with difficult problems of financing, expansion, development of new routes, training, and introduction of new equipment, on a scale much greater than any other Canadian carrier. As a consequence of these growing pains it has encountered a series of deficits over the last four years. The extensive efforts which the company has been making to meet this situation are proving successful this year and unless there is some serious change for the worse, I am reasonably confident that in 1950, after a four year interval, T.C.A. will again find itself showing a profit on its domestic operations.

Canadian Pacific Airlines has an excellent post-war record of reorganization and development. Possessing in the first instance a mixed bag of air services, it has after two years of declining revenues, started to increase its income again, to a point where a deficit position in 1948 was changed to a substantial profit position on domestic operations in 1949. 1950 looks even better.

There are as well a great many other private air carriers in Canada of varying sizes. Some of the larger of these are providing regular scheduled services on a smaller scale than Trans-Canada Air Lines and Canadian Pacific Airlines, but which in their own way are just as important, if not more important, to the communities they serve. All of these, without subsidy from the government, have been able to achieve a reasonable economic position; a record which I challenge any other country of which I know to surpass. The same is true of the non-scheduled operators in Canada where the normal process of growth is eliminating the poorer and weaker, but at the same time producing a group of well-established and self-sufficient carriers, whose only weakness may be that the newness of their life has made it impossible for them to build up the capital reserves which we would like to see available for the future.

In the international field our growth has perhaps been ever more impressive than in the domestic field. At the end of the war T.C.A. was operating only one international route. To-day it operates several routes to the United States; a major trans-Atlantic service to Ireland and the United Kingdom (as a result of a bilateral agreement with France which I signed recently this is to be extended to France next year); and another major service to Bermuda, Florida and the Caribbean. Canadian Pacific Airlines also operates one trans-border route and two major international routes, one to Australasia and the other to the Orient. The former will I believe shortly add New Zealand as a point of call. The latter service since the outbreak of the Korean war has been made available by the Canadian government to the United Nations and is the first instance of a government taking over the resources of a civil air operation and making it available to the United Nations in support of U.N. forces.

I turn now to water transportation but shall deal only with Canadian ocean shipping.

It is known to all of you that at the outset of World War I we had practically no merchant marine. The end of the war saw Canada owning and operating a substantial deep-sea fleet. Having in mind the difficulties and the result of attempting to operate a

Government-owned merchant marine after the first World War, a large proportion of these vessels numbering 215 of over 2,000,000 dead-weight tons were sold to Canadian companies for operation under Canadian flag.

For the first three years their commercial operation was a very successful venture. Freight rates were high and cargoes plentiful. Then in 1949 the position rapidly changed. Freight rates, particularly those in the bulk commodities, declined drastically. The ever growing restriction in the use of dollars by our principal customers in Europe, and the resulting drop in the volume of cargoes, forced rates to uneconomic levels, in so far as high-cost operated Canadian ships were concerned. I might say here that the cost of operating Canadian flag ships is the second highest in the world. Another heavy blow during that critical period was the costly and entirely unwarranted strike by the Communist-led Canadian Seamen's Union. In addition to these handicaps, it should be mentioned that fifty per cent of the Marshall plan shipments are reserved for American flag ships and the balance must be carried in ships of the recipient nations, so it will be seen that Canadian ships were not allowed to carry E.C.A. cargoes.

Then came devaluation of sterling. This was the coup de grace to Canadian flag deep-sea operations as a profitable commercial enterprise. Canada is in the dollar area and her shipping must earn dollars. As most of the world's actively employed shipping is in the sterling area, freight rates took another sudden and drastic drop in terms of Canadian dollars.

The effect of these various occurrences made the operation of Canadian flag ships in the international trades utterly impossible except at very heavy financial loss, and owners were forced to lay their ships up.

It was quite apparent that the contract between the Government and the operators to continue the operation of ships under Canadian flag was impossible of fulfilment, without a large measure of financial assistance from the Government. To keep the full fleet in operation would have meant subsidies running to over \$25,000,000 annually. The Government did not think it would be justified in asking the tax-payers of Canada for such an amount when even this would not have guaranteed full employment. On the other hand we did not wish to see the Canadian flag fleet laid up or transferred to the flags of low-cost nations.

Negotiations were, therefore, opened with the Government of the United Kingdom in an endeavour to reach a working arrangement, whereby some Canadian-owned vessels might be operated under United Kingdom flag. As a result of such negotiations a statement was made in the House of Commons on December 9, 1949, by the Prime Minister, on Canadian deep-sea shipping policy.

In a word, the Government is prepared to assist the Canadian deep-sea shipping industry by a grant of \$3,000,000 for one year only. This will enable approximately 40 ships to be kept in operation under Canadian flag. The plan also envisaged the transfer of about 65 vessels to United Kingdom registry and the retention on United Kingdom registry of an additional 58 Canadian-owned ships which were scheduled for return by the British Ministry of War Transport to Canada in 1950.

Today, as a result of this policy, 86 ocean-going dry cargo ships are still sailing under Canadian registry. Subsidy arrangements have been completed for a total of 35 ships. Consents to transfer of 65 vessels had been given as of July 1950, though it is contemplated that at least 123 may eventually find their way to United Kingdom registry. Moreover, as a further result of this policy, as at July

1950, there are only 6 ships laid up for want of employment as compared with 35 ships in January 1950.

The operation of the subsidy and transfer policy will do three things:

- First - ensure that Canada has a nucleus of Canadian registered ships engaged in international sea transport ready and available in time of war;
- Secondly - maintain a reserve fleet of Canadian-owned ships permitted to operate under United Kingdom registry. Such ships may not be transferred off British registry without consent of the Canadian Government. For all practical purposes, therefore, these ships are under the effective control of the Canadian Government;
- Thirdly - give employment to about 1,750 Canadian seamen at Canadian rates of pay by reason of assistance given by the government to the industry.

Here then, we have a nucleus of ships and men - a foundation on which to build in time of emergency.

At the outset of this talk I mentioned three fields of transportation, and I now reach the third, namely, the railways.

Rail transportation is, I think, the backbone of Canada's economy. The railways have been serving us so long -- for more than a century with but one interruption -- and are so much a part of our daily lives, that we are prone to treat them almost as we do the weather. If the weather is good we are pleased; if it is bad, we complain. I suggest to you that you should not treat the railways as a simple force of nature. They are a human institution. They have a job to do, and I think we owe them some commendation for the way they are doing it, some appreciation of their place in our economy and some understanding of their problems. Let us take a few moments to size them up.

Canada has more railway mileage per capita than any other nation, and makes more use of railways, per capita, than any other country. We operate over 40,000 miles of main track, and I need not tell you how complete the coverage of the ten provinces is. The use of the railways has risen steadily through each decade, from 1,200 ton miles per capita in 1900 to 4,600 today. We still have plenty of work for our railways to do, and it would be a poor Canadian who would look forward to a drying up of our resources and a drastic diminishment of our industrial production, instead of to a continued expansion.

It must not be lost sight of, that in Canada the railways are more than simply carriers. In addition to trains, steamships, car ferries and airlines, they operate widespread telegraph systems, great chains of hotels and many other services. There are over 180,000 employees, and in 1949 total wages paid by the railways of Canada amounted to over half a billion dollars.

Think of what over half a billion dollars of purchasing power, in the hands of one of the most stable, one of the most responsible groups of citizens in the country, means to our national economy. And still, this enormous railway transportation industry is today facing tremendous financial problems.

The first and most important problem is one of costs. The railways have not been immune to higher costs of operation during the last ten years. They have had to meet the claims for higher wages and they have had to pay more money for materials used. They could not possibly avoid meeting these higher expenses, but, on the other hand, they have not been entirely free to charge more for services.

In a free competitive market, where no Government legislation exists to the contrary, the ordinary businessman charges more for his services or his product as his costs increase, but in dealing with public utilities and common carriers it is the general practice to regulate the industry.

Our Canadian railways have been under the jurisdiction of the Board of Transport Commissioners for Canada since 1904. During the war, rates and services on the railways were frozen, and when these regulations were abandoned the railways applied for an increase of 30 per cent in their freight rates. This was the first application in over 25 years for a general freight rate increase. Seven of our ten provinces objected to the request of the railways with the result that the application was nearly two years being considered by the Board. Finally, the railways were granted a 21 per cent increase effective April 8, 1948, on general commodities, excluding, however, the movement of grain in Western Canada.

Early in the summer of 1948, consequent upon an increase in rates of pay to their employees, the railways filed a second application with the Board for a general increase of 20 per cent in freight rates. In May of this year after many months of hearings, an appeal to the Supreme Court, and an appeal to the Governor-in-Council, the railways were granted a further 20 per cent increase in freight rates. The composite increase in freight rates now stands at 45 per cent. As compared to pre-war years, therefore, freight rates in Canada have been increased by 45 per cent whereas in the United States, the increase has reached 67 per cent and in the United Kingdom 81 per cent. I should add that the provinces have appealed to the Governor-in-Council on the last judgments of the Board and that the appeal is still under consideration.

All of us can see the difficulty which has been facing our rail transportation system in the last few years. It can be summarized in a nutshell by stating that the railways had to meet higher operating costs with relatively limited increase in the unit price charged for the services rendered.

Recently the railways were brought to a stop by a strike of their non-operating personnel. The machinery provided by our labour laws failed to settle the dispute. The Government appointed a mediator in the person of Dr. Mackintosh and unfortunately he was unable to bring together the parties in dispute. An effort was made by the Prime Minister to settle the differences by having the railways and the men resume their negotiations in Ottawa. All this was to no avail. The strike took place and lasted nine days, or until legislation was passed directing the railways to resume operations, and the men to go back to work.

In one sense it is unfortunate that the strike took place. I am almost tempted to say that in another sense it was perhaps a good thing that it did happen. In these trying times it brought to light the value of our parliamentary institutions. It indicated clearly to our people that these institutions really meant something. To all it showed the fundamental respect which our people have for the Parliament of Canada.

It has been stated that the legislation passed by parliament created a precedent. While the legislation is only of a temporary nature enacted to deal with this particular dispute, I believe this precedent to be a healthy one particularly when the result of it so well illustrates the regard our people have for the law. Within thirty-six hours of the opening of Parliament the Railways had resumed operations, the men were back at work, and the freight trains were rolling on their way. It is hoped by every one that the provisions of the Bill whereby an arbitrator is to be appointed will not be invoked and that the points of difference will be settled by the negotiations which are to take place between the railway representatives and the labour leaders.

What will be the effect of the recent dispute upon the economy of our mainline railways. This question cannot be accurately answered until the negotiations have been completed or the arbitrator has handed down his decision. Undoubtedly it will have some bearing on the question of costs and I would not like to express any opinion thereon until the matter has been finalized.

Here let me take this opportunity of paying tribute to the trucking industry for its marvelous job during the nine-day railway strike. There was never any doubt in my mind that the trucking industry was well organized and was capable of assisting Canada not only in an emergency such as the railway strike, but of fulfilling in an efficient manner its every day responsibility to the shipping public of Canada. The Federal Government was criticized for not appointing a co-ordinator of highway operations to centralize the movement of freight and conserve transportation to essential products. This, of course, the Federal Government could not do as it has no jurisdiction over highway transport and furthermore the industry showed that it was capable of fulfilling its responsibility without any federal assistance.

The railways are great employers of labour. They are also great purchasers, the biggest buyers we have. Their needs are tremendous. When you consider that the Canadian National Railways spent around \$200 million last year for new equipment, ties, fuel and general materials, you will have some idea of the contribution the railways make to industry and to the economy as a whole, apart altogether from the work they do. And don't forget that they are substantial taxpayers.

Notwithstanding all their difficulties, the railways are continuing to give this country yeoman service. Now and again travellers and shippers may have cause for complaint. In such a vast and complex system, mistakes will happen: a train may be late, a package may go astray, an employee may give a gruff answer; no organization, no individual, is perfect. But on the whole I think you will agree with me that we have every reason to be proud of our Canadian railways. They are run efficiently, economically and courteously. Every officer and employee has a sense of public responsibility. In so far as lies within their power, they not only maintain but continuously strive to improve the high standards of service we have learned to expect of them.

May I close on this note. As we go into the last half of the present momentous century we can humbly yet very proudly declare that Canada is on the march. A great destiny is before us. We have the people, we have the natural resources, and we have the productive capacity to reach to leadership. Transportation is the giant by whose strides we can measure our progress as a nation.
