

CANADIAN AIRWAYS LIMITED

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CANADIAN AIRWAYS LIMITED

by

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## ABSTRACT

Transportation has occupied a major role in the development of Canada. One facet of transportation that has not been adequately explored is that of aviation. This thesis examines the major problems of the air transport industry in the 1930s by focusing on Canadian Airways Limited, the largest aviation company of the period.

Before discussing Canadian Airways Limited, the thesis looks briefly at the civil and military aviation picture of the 1920s and the events leading to the formation of Canadian Airways in 1930. In particular, the role played by Western Canada Airways and its founder, James A. Richardson, in laying a solid basis for the new industry, is examined. This company, founded by Richardson in 1926 to provide transportation into the mining areas of northwestern Ontario, expanded quickly into northern and western Canada and proved that an aviation company could be a viable business.

In 1930, Richardson consolidated the main aviation companies in Canada and formed Canadian Airways Limited to provide a trans-continental air system. Two years later, its financial basis was wiped out by the federal government. This happened because of the lack of government policy on airway development. Why the government had no aviation policy and

how this affected Canadian Airways are critically examined. Finally, the reasons for the creation of the Trans-Canada Air Lines in 1937, its impact on Canadian Airways Limited and the events leading to the decision to sell Canadian Airways are reviewed with regard to the economic and political factors of the day.

The main sources of information were the papers of Major-General A.G.L. McNaughton, Chief of the General Staff; J. A. Wilson, Controller of Civil Aviation; and the Richardson papers pertaining to Western Canada Airways and Canadian Airways Limited. While the papers of Prime Minister Bennett, Prime Minister King, and C. D. Howe, the Minister of Transport, were also studied, they provided little insight into the 'aviation question.' The most valuable source of information was the Airways' papers. They furnished a detailed account of all phases of the companies' activities and their dealings with the government.

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## ABBREVIATIONS

CAL: Canadian Airways Limited  
CNR: Canadian National Railway  
CPR: Canadian Pacific Railway  
DND: Department of National Defence  
DOT: Department of Transport  
PAC: Public Archives of Canada  
PAM: Public Archives of Manitoba  
RCAF: Royal Canadian Air Force  
TCA: Trans-Canada Air Lines  
WCA: Western Canada Airways

## INTRODUCTION

The economic, political and social life of Canada has been closely interwoven with the technical advance of transportation. Indeed, it is doubtful if the growth of any modern nation has been so predicated on the progressive growth of transport technology. The development of eastern Canada and subsequent unification with western Canada have been largely the result of the continuous expansion of surface transportation in the form of river, road and rail units. The northern part of Canada, however, remained practically inaccessible until the advent of the airplane in the late 1920s. The bush plane, equally adaptable for use in summer or winter, was ideal for northern conditions and aircraft soon penetrated the interior of northern Canada.

This facet of transportation has not been closely studied. With the exception of popular works on the exploits of individual airmen, there are few secondary works on civil aviation in Canada. This lack of scholarly attention does not detract from the importance of the subject. The aviation companies did not operate in a vacuum and the 'aviation question' involved decisions that were pertinent to Canada's development at both the national and international levels. While their problems in the 1920s were

mainly technical in nature, by the early 1930s the expansion of the air operators had brought them into conflict not only with each other but also with the federal government. Throughout the 1930s, charges were levelled at the government by the air operators that the government had failed to provide adequate legislation for the support and regulation of the commercial aviation companies and had failed to safeguard Canada's position in international air matters.

The purpose of this thesis is to study the early development of the air transport industry in Canada and the events leading to the creation of Trans-Canada Air Lines and Canadian Pacific Air Lines. This will be handled by examining the technical, economic and political problems encountered by Canadian Airways Limited. Canadian Airways has been chosen because it was the major aviation company in Canada for the period concerned and its problems and its relationship with the federal government were typical of the other air operators. The time frame to be covered is from 1930 to 1942, the period in which Canadian Airways operated.

One point which quickly becomes apparent is that the Canadian government had no official policy regarding the development of the trans-Canada airway in particular or commercial aviation in general. Unlike Great Britain or the United States, which used commercial aviation to advance their national interests, the Canadian government did not integrate its handling of aviation with its wider national needs.

While the growth of commercial aviation in the North was continuous since 1926, it was complicated by many problems. Few people realize the struggle waged by the air operators to place commercial aviation on a sound footing or the role played by James A. Richardson and Canadian Airways Limited. Ideally, this thesis will provide a better understanding of the aviation picture in Canada in the thirties.

## CHAPTER 1

### CIVIL AND MILITARY AVIATION

#### IN CANADA, 1919-1930

Prior to World War 1, Canada had not reached the stage where control of aviation was necessary. Although the Canadian contribution to the "war-in-the-air" was a notable one, the Canadian government had taken no direct part until the summer of 1918.<sup>1</sup> All active service units overseas and training bases in Canada were under the jurisdiction of the United Kingdom authorities. At the end of the war, the Canadian organizations at home and overseas were disbanded. Canada entered the post-war period without any air organization or legislation on air matters. With many of Canada's returning airmen establishing flying operations, it soon became apparent that some form of legislation to control flying would be necessary. No action was taken until the Canadian Pacific Railway (CPR), in March 1919, asked Parliament for an extension of its charter to include the operation of aircraft. This brought the matter directly to the government's attention. To meet Canadian aviation needs and to fulfill her obligations as part of the British Empire under the Paris Peace Conference, the Air Board Bill was introduced.

The Air Board Act<sup>2</sup> of 1919 brought civil aviation and

air transport under the control of the federal government. The Act was based largely on the anticipated requirements and trend of aviation development. Understandably, there was little recognition on the part of the public or the government that flying would become as important in peace as it had been in war. As a result, the government enacted legislation which did little to aid civil aviation beyond the provision of licensing and safety regulations. Under the Act, an Air Board was created. Its duties were to control civil aviation, to conduct the flying operations for all government departments and to organize the Air Force. By the end of 1919, it had approved Air Regulations, which were concerned mainly with the safe conduct of flying and by 1920 it had created a Canadian Air Force. With its work completed, the Board resigned and a new Board was formed on 20 April 1920 with representatives from the Naval Services, Survey and Militia. The Minister of Militia and Defence was the Chairman.<sup>3</sup>

Civil government air operations were begun in this period. Their stated purpose was to demonstrate to the public the usefulness of aircraft in peacetime, but their ultimate aim was to provide an outlet for the Air Force. At that time, the maintenance of a large standing Air Force in Canada was inconsistent with historical precedents and it was therefore decided that "a widespread, self-sustaining and practical development of Civil Aviation in the Dominion

must be the basis of [Canada's] Air Power."<sup>4</sup> At an inter-departmental conference in January 1920, it was decided to use aircraft wherever practical to carry out government work in areas such as aerial photography and fishery patrol. The intention at the time was that the government would withdraw from each field when the experimental period had passed, leaving further development to commercial operators. Unfortunately, after the formation of the Department of National Defence (DND)<sup>5</sup> in January 1923, there was a change in the attitude towards civil government operations and their whole basis was altered. All air services were grouped into one directorate in the Chief of the General Staff Branch. Civil government pilots were all commissioned as part of the Air Force and the Air Force made civil government operations their principal objective. The greater part of the Air Force appropriation, the majority of officers and men and the best equipment were devoted to them. From 1925 to 1930, "the tail of Civil Operations wagged the Air Force dog."<sup>6</sup>

When DND was created in 1923 by consolidating the Militia, Naval, Royal Canadian Mounted Police and Air Services into a single department, the Air Board ceased to exist and its functions were assumed by the Minister of National Defence. This reorganization of air services under DND resulted in practically all civil positions being abolished and aviation being treated as if it were wholly military. Control of civil aviation was administered by John A. Wilson,

Secretary of the Canadian Air Force. The Director of the Air Force was responsible for the control of all civil and military activities and reported to the Chief of the General Staff, who was responsible to the Minister of National Defence. No recognition was given to the fact that a large part of the administration of air matters dealt with purely civil functions, which had little relation to the Air Force. The government's reason for combining the administration of both civil and military aviation in DND and for arranging for the performance of the civil government operations to be carried out by Air Force personnel was mainly one of convenience and economy.<sup>7</sup> But the growth of commercial aviation and the expansion of the civil government operations and their divergence from military duties soon necessitated another change in the control of aviation.

In July 1927, a compromise solution was sought by dividing the administration of all air activities into four directorates: the Royal Canadian Air Force (RCAF), the Civil Government Air Operations, the Civil Aviation Branch and the Aeronautical Engineering Services. The Civil Aviation Branch was concerned with non-government, civil operations, that is, with private and commercial aviation. It dealt with the licensing of pilots and aircraft and the establishment and enforcement of safety rules. The control of civil aviation was under a civil administrator, the Controller of Civil Aviation (John A. Wilson). The Civil Aviation Branch, the

Civil Government Air Operations and the Aeronautical Engineering Services now reported to the Deputy Minister of DND, while the RCAF continued under the control of the Chief of the General Staff who reported to the Minister of Defence. This arrangement was not satisfactory and caused confusion, as the RCAF continued to provide the personnel for the Civil Government Air Operations who were under civil administration. By 1930, this divided jurisdiction over the Air Force made another change necessary. Civil Government Air Operations and the Aeronautical Engineering Services were again united with the RCAF under the Chief of the General Staff, and the Civil Aviation Branch remained under the Deputy Minister. Although these changes had lessened the military influence in civil aviation (that is, commercial aviation) matters, the Civil Aviation Branch was not an autonomous unit. It stayed under military influence and had no minister who was immediately responsible for its welfare. This format was maintained until 1936 when the Department of Transport was created and civil aviation was at last separated from military control.

What opportunities were available for commercial flying after World War 1 and what was the government attitude towards the establishment of inter-city services? Prior to World War 1, air transport as a commercial enterprise in Canada was unknown. At the war's end, there was little

opportunity for the returning airman who wished to make a career out of flying. Nevertheless, war surplus planes were cheap and were eagerly bought up by those who hoped to make money out of exhibition flying or instructing. But when public interest and curiosity had fallen off, which it did by 1923, these pilots were forced out of business. Those who attempted to establish freight or passenger services also ran into financial difficulties. The war surplus planes were not made for commercial purposes and could not carry a sufficient payload to make a profit (if any business could be found), nor were the planes sturdy enough to withstand either the cold of winter operations or the ruggedness of Canada's terrain. As a result, few aviation concerns survived the twenties.

Unlike Great Britain, France, Germany and the United States, who were all actively opening up air routes and establishing commercial operations, generally with a government subsidy, the Canadian government was not willing to risk money on civil aviation development. In October 1920, under the direction of the Air Board, the Air Force had carried out a trans-continental flight to investigate the possibilities of developing a trans-Canada airway. Although the flight was successful in that it was completed, it demonstrated that the creation of a trans-continental service would not be an easy or a cheap undertaking. Government expenditures would be required for the purchase of aircraft and for the construction of landing fields, airplane bases and aircraft

manufacturing plants. Time would be required to build all these facilities, to learn about winter flying and to convince the public of the plane's safety and usefulness. Also the Canadian National Railway (CNR) was in financial trouble and the government had no wish to introduce a competitor for services for which it was already overequipped. Therefore, the government decided against establishing inter-city air mail and passenger services or contributing directly to aviation companies.

It was not only the general public that lacked air-mindedness. Since 1919, none of the three Prime Ministers had been particularly air-minded and had, for the most part, left the management of air matters first to the Air Board and then to DND. The military domination of air matters and the need to justify the existence of the Air Force had precluded the possibility of commercial endeavours being adequately promoted. Burdened with an uneconomical government air service and with the Air Force handling the work that might have gone to the commercial companies, the government saw little need for encouraging commercial aviation. Except for John A. Wilson, the Controller of Civil Aviation, few government officials realized that the real strength of Canada in the air would depend on her commercial development and that, without it, Canada would not have a solid foundation for future aviation enterprises.<sup>8</sup>

In the early twenties, the government was not prepared

to undertake the establishment of a trans-continental service or to encourage, by direct subsidy, a commercial company to develop inter-city services. By 1926, this attitude of leaving the commercial operators to fend for themselves had become firmly entrenched. Although Major-General A.G.L. McNaughton, Chief of the General Staff in 1927, advocated airway development and admitted that there was a great deal to be said in favour of direct subsidies, he was not prepared to recommend any change in the government's policy.<sup>9</sup> McNaughton was protecting the Air Force. To have cut back or cancelled the government air services would have wiped out the Air Force. Consequently, while McNaughton was Chief of the General Staff, commercial aviation took a backseat to the military. Wilson disagreed with this attitude. He wanted the respective fields of action of civil government air operations, the military and the commercial operators better defined. He firmly believed that, unless the government scaled down its air operations and made more use of the private operators, there would be little investment of private capital in aviation businesses.<sup>10</sup>

That the government made four changes in the administration of aviation within 10 years and allowed the Air Force to perform civil government duties and to usurp business from the commercial companies, demonstrates its ambivalence on aviation development. Lack of an aviation policy contributed to this state of affairs. The Canadian government was slow to realize the potential of commercial aviation for Canada's

economic well-being. Convenience and economy were the government's watchwords; officials were content to have civil aviation under the military umbrella, ignoring the fact that the interests of both were often diametrically opposed. Canada stood alone among the major western nations in its decision not to establish inter-city services or to support commercial aviation development. However, between 1926 and 1930 a number of events occurred which forced the government to take another look at its passive policy of nonparticipation.

During the mid-1920s, prospecting and mining created new opportunities for commercial air services. The Laurentide Air Service, established in Ontario in 1924, had successfully operated a service to the Noranda Mines in the Rouyn district. In 1925, the discovery of gold in northwestern Ontario set off another gold rush and provided the lure for the creation of a number of one-man aviation outfits. Most of them failed because of unsuitable aircraft and inadequate financial backing. One company that prospered was Western Canada Airways, established by James A. Richardson of Winnipeg in December 1926 to provide transportation into the mining area of Red Lake in Ontario. In 1927, Laurentide Air Service and Western Canada Airways were operating the only two self-sustaining air routes in the British Empire.<sup>11</sup> In addition to taking in men, freight and supplies, both companies carried mail. Western Canada Airways' general success and its regularity in transporting freight and

mail to the northern communities convinced the Postmaster General that year-round air mail services were possible.

In 1927, there was no direct east-west air mail link. The increased use of air mail throughout the world made Canada's lack of a trans-continental air mail system all the more noticeable. The well-publicized, American air mail service had received attention in Canada and many Canadian businessmen wanted similar services. The United States had three trans-continental airway systems and American companies were already tapping Canadian east-west traffic. Canada had to take steps to form her own airway if it did not want to become a mere extension of the American airline system.

There were other factors as well. By the late 1920s, aviation was passing out of its pioneer stage and entering its next phase, one where the control and handling of the international air routes of the world would be important. Canada held the geographical advantage of having the most direct routes from North America to Europe and Asia pass over its territory. At this time, there were three major airway systems which affected Canada still to be developed. They were the trans-Canada, the trans-Atlantic and the trans-Pacific airways. Although permission to fly into and to build bases had to be obtained from the country concerned, air route development was open to anyone who took the initiative. Because the Maritime provinces and Newfoundland were considered the most suitable take-off sites for trans-Atlantic

flights and the overland route to Asia passed over Canadian territory, the Canadian government should have been alive to the possibilities of Canada taking the lead in the establishment of these three airways. Instead, American companies were attempting to base themselves in Canada to operate the inter-city services and to be advantageously placed for the eventual trans-Atlantic air service. The looseness of the international agreement between Canada and the United States (American registered aircraft were permitted to land in Canada as long as it was not for commercial purposes) allowed the Americans to establish subsidiary companies in Canada.<sup>12</sup> Officials of Imperial Airways of Great Britain and Pan American Airways (Pan Am) of the United States had made a secret agreement to cooperate in the development of the trans-Atlantic airway and had carried out negotiations with Newfoundland.<sup>13</sup> These negotiations were usually transacted by airline officials as they had more flexibility than government officials. Canada was at a definite disadvantage in not having a "chosen instrument"<sup>14</sup> to work through and consequently found itself left out of these talks. In addition to being excluded from these informal discussions, by 1928 the Canadian government was also faced with the possibility of the major eastern Canadian aviation companies being sold to the Americans. Canadian officials could not afford to delay any longer in formulating an aviation policy covering domestic and international air development, if they did not want to find Canada excluded from participating in

the trans-Atlantic airway or find the operation of Canada's own air services under foreign control.

The obvious answer was for Canada to establish her own trans-Canada company which could then operate the trans-Canada airway and cooperate with other national airlines in the development of international air routes. To do this, an aviation policy outlining the government's role was needed. Regrettably, the government never officially framed a comprehensive policy. The importance of the trans-Canada airway was initially underestimated by some who saw it simply as a domestic line and not as an integral part of the trans-Atlantic and trans-Pacific systems. As stated, there was no one department which was solely responsible for the development of civil aviation and, as a result, the 'aviation question' was tackled in a piecemeal fashion.

DND took care of air agreements between Canada and the United States and the Civil Aviation Branch was nominally in charge of domestic air affairs. The introduction of air mail services in Canada brought in the Post Office but here, too, the responsibility was shared between DND and the Post Office. DND advised the Post Office on the routes and the commercial operators to be chosen, but the ultimate responsibility for the selection of routes, the contractor and the determination of air mail rates lay with the Post Office. Although not initially involved in airway matters, the Department of Railways and Canals stepped into the picture in the early thirties

to protect its interests. By the time the interdepartmental committee on the trans-Canada airway was formed in 1933, the Department of External Affairs was also involved. With no overall government policy for the development of Canada's air services and with the conflicting interests that were bound to develop among the various departments and no minister to promote its interests, the growth of commercial aviation in Canada was seriously hampered.

There was dissension from the start. The RCAF wanted to carry the mail and the Post Office preferred commercial companies because it hoped the air mail would pay for itself. The Postmaster General, P. J. Veniot, had issued a number of air mail contracts in 1927 and 1928 to companies in eastern Canada. Not only were these companies in financial difficulties in 1928, but also having five different companies run the air mail service was not conducive to building an efficient trans-continental air mail service. The Postmaster General was interested in supporting a strong Canadian company to bring the Canadian air mail service up to par with the American service.<sup>15</sup> This factor was one of the reasons for the formation of Canadian Airways Limited in 1930.

The man responsible for the creation of Canadian Airways Limited was James A. Richardson. In 1930, Richardson was not a newcomer to Canadian aviation. He was President of the financially successful Western Canada Airways and well aware of the importance of commercial aviation to

Canada's economic and national growth. To understand fully the reason for the establishment of Canadian Airways, it would be helpful at this point to review Richardson's involvement in aviation prior to 1930, the changing attitude of the government to commercial aviation and the status of the eastern aviation companies.

## NOTES

### CHAPTER 1

1. Public Archives of Canada (PAC), Major-General A.G.L. McNaughton Papers (McNaughton Papers), MG 30 E 133, Series 11, Volume (Vol.) 103, File: Civil Aviation, Department of Communications, Report to Prime Minister (PM), Confidential Memorandum (Memo), no signature (probably John A. Wilson), "The Administration of Civil Aviation in Canada," Appendix E, 21 January 1935. The extension of enemy submarine attacks to the Atlantic coast of Canada and the torpedoing of an oil tanker within 10 miles of Halifax led to the establishment of coastal air patrols and to the authorization of a Royal Canadian Naval Air Service. This service was in the early stages of organization at the close of the war and was disbanded with the Armistice.
2. Air Board Act, 1919, Chapter (Ch.) 11, Section (Sec.) 1.
3. PAC, W.L.M. King Papers (King Papers), MG 26 J4, Vol. 149, File: 1242 Civil Aviation, John A. Wilson (Wilson) Memo, "Aviation in Canada," 21 March 1937.
4. PAC, R. B. Bennett Papers (Bennett Papers), Box 42, A-148, Wilson Memo to Deputy Minister (DM), "Civil Government Air Operations," 19 January 1932.
5. The Department of National Defence Act, 1922, Statutes of Canada, Ch. 34, Sec. 7. The Air Board Act became the Aeronautics Act, 1922, R.S. C.2, S.1.
6. PAC, Bennett Papers, Box 42, Wilson Memo, "Civil Government Air Operations," 19 January 1932.
7. PAC, McNaughton Papers, Vol. 103, File: Civil Aviation, Report to PM, Confidential Memo, "Civil Aviation in Canada," 21 January 1935.
8. PAC, Wilson Papers, Vol. 1, General Correspondence 1915-1931, Wilson to Ellwood Wilson (President, Fairchild Aerial Survey Co.), 12 December 1922. As early as 1922, Wilson saw the need for the promotion of commercial operations.

9. PAC, Transport Records, RG 12, Vol. 2373, File: 5-25-6, v. 1, McNaughton Memo to Director, Canadian Air Force, 2 November 1926.

10. PAC, Bennett Papers, Box 42, A-142, Wilson Memo to DM, "Civil Government Air Operations," 19 January 1932.

11. PAC, T-5,1, J. A. Wilson, Annual Report, Part 111, "Progress at Home," Report on Civil Aviation 1926. The two routes were Laurentide Air Service's Haileybury-Rouyn and Western Canada Airways' Sioux Lookout-Red Lake. Laurentide's success was short-lived. The creation of the Ontario Provincial Air Service in 1924 soon put Laurentide out of business.

12. PAC, Transport Records, Vol. 1378, File: 5258-118 Canadian Colonial Airways, Wilson to Canadian Colonial Airways, 1 August 1928. Wilson outlined the terms of the Canadian-American agreement to Canadian Colonial Airways, which was a subsidiary of the American Colonial Air Transport Ltd.

13. PAC, McNaughton Papers, Vol. 102, File: 4 Interdepartmental Committee, McNaughton to G. E. Woods-Humphrey (Imperial Airways, Great Britain), 28 December 1932.

14. The expression "chosen instrument" was used to identify the airline company which had been "chosen" by the government to operate its national or international air routes. The "chosen instrument" held a preferred position in the airline business and received government assistance either in the form of lucrative air mail contracts or direct cash contributions. Imperial Airways was Great Britain's "chosen instrument" and Pan Am was the United States' "chosen instrument" for international airway development.

15. Margaret Mattson, "The Growth and Protection of Canadian Civil and Commercial Aviation 1918-1930," Ph.D. Dissertation, University of Western Ontario, 1978.

## CHAPTER 2

### WESTERN CANADA AIRWAYS, 1926-1930

Western Canada Airways Limited (WCA) was formed in December 1926 to provide transportation into the mining areas of northwestern Ontario. The company was the creation of James A. Richardson and Harold A. Oaks. Richardson furnished the capital and Oaks the technical expertise.

James A. Richardson (1885-1939) was President of James A. Richardson and Sons, Limited of Winnipeg, the largest privately owned grain and investment business in Canada. He was a man of great foresight, energy and organizing ability. During the summer of 1926, he met Jack Modder Clarke, a pilot, who was interested in forming an aviation company to serve the mining areas of northwestern Ontario and northern Manitoba. Richardson investigated the situation and, being concerned with the development of Canada's natural resources, he agreed to go into business with Clarke. However, by October 1926, Richardson became so dissatisfied with Clarke's preliminary arrangements to buy aircraft that he cancelled their agreement.<sup>1</sup> It was then that Oaks approached Richardson with the suggestion that Richardson finance an aviation company that he, Oaks, would run.

Harold A. "Doc" Oaks (1896-1968) was a World War 1 pilot and a recipient of the Distinguished Flying Cross. He was

also a Queens University graduate in Mining Engineering and had worked as a geologist, prospector and pilot. His last job had been with Patricia Airways Limited, which had been formed in March 1926 to provide transportation into the recently discovered gold fields at Red Lake, Ontario. Although his efforts to supply safe and regular transportation had been applauded by the miners and mine owners, Oaks believed the company to be poorly organized and left it in October 1926. Nonetheless, his experience had made him aware of the potential benefit of air transport to the mining industry and he felt that an air service with suitable equipment, efficient management and sound financial backing was required. Oaks was prepared to provide the operating management and to act as chief pilot; what he needed was someone with money. He was told to try Richardson.<sup>2</sup> Richardson was impressed with Oaks' academic background, his business sense and well-rounded practical experience and was agreeable to forming a company with him. Oaks moved quickly; by 2 November, he had drafted a plan of operations for one aircraft in the Hudson-Red Lake area. The plan was approved by John Hunter, Richardson's key executive at James Richardson and Sons, and Oaks set about purchasing the necessary equipment.

On 10 December 1926, Western Canada Airways Limited was incorporated. Its federal charter allowed it to pursue air services, aircraft manufacturing, research, speed and trial tests, clubs, photography, mapping and radio stations. From

the charter, it is evident that Richardson envisioned more than just a company oriented to the mining industry in Ontario. The head office and repair shops were in Winnipeg; the President was James A. Richardson; Vice-President was Mrs. James A. Richardson; Secretary was John Hunter; Treasurer was J. A. MacDougall; and Managing Director and Chief Pilot was H. A. Oaks. The original capital stock of \$200,000.00 was held by Richardson.<sup>3</sup>

WCA was in business with the arrival of its first plane, an open-cockpit, 200-horsepower Fokker Universal Standard, bearing the Canadian registration G-CAFU and named the "City of Winnipeg." It was capable of operating on wheels, skis or floats to utilize the hundreds of lakes and rivers in northern Ontario and Manitoba. By the end of December 1926, the new company had transported three paying passengers and 850 pounds of freight to the Red Lake area, for a total revenue of \$180.00.<sup>4</sup>

WCA's breakthrough came early in 1927 when it received a contract from the federal government to ferry men and supplies from the last northern railhead in Manitoba to the port of Churchill.<sup>5</sup>

To carry out the job, Oaks purchased two more Fokker Universal aircraft from New York and hired two more pilots, J. R. Ross and Fred Stevenson.<sup>6</sup> Twenty-seven round trips of 400 air miles each were made from Cache Lake, the base of operations, to Fort Churchill. Despite the primitive conditions and hazards of winter flying, all supplies were delivered

within the contractual period. WCA successfully completed the first large airlift in Canada. The Churchill operation opened the eyes of government and mining officials to the potential of aircraft in the North.

On 1 May 1928, WCA took over Pacific Airways, a five-plane company run by Donald R. MacLaren of Vancouver.<sup>7</sup> With this company, WCA acquired MacLaren, another World War 1 pilot and Distinguished Flying Cross recipient, and Pacific Airways' contracts from the federal government for fishery patrol and photographic work.

In early 1929, WCA's operations expanded further when C. H. "Punch" Dickins, another Distinguished Flying Cross winner, began a series of trips down the almost 2000-mile length of the Mackenzie River to check on the possibility of starting an air service. Each trip out, Dickins pushed a little further along the Mackenzie. He made stops at every trading post to see the people, to show them the airplane and to advertise the flying service. On 6 March 1929, he crossed the Arctic Circle about 10 miles north of Good Hope. This was the first commercial flight in Canada to cross the Circle. On 1 July 1929, Dickins flew the complete length of the Mackenzie to Aklavik on the Arctic Ocean in an attempt to get the business from the northern part of the river. His flights laid the basis for the most publicized air mail service in the world, from Fort McMurray, Alberta to Aklavik, nearly 300 miles beyond the Arctic Circle at the

mouth of the Mackenzie River. The service held the distinction of being the world's "farthest north" air mail service. Trips formerly made by dog-team, taking some 70 days of travel, were now made by aircraft in approximately 11 hours flying time over an elapsed period of 48 hours.<sup>8</sup>

Since its first flights, WCA had carried mail into the Red Lake area but had been unable to charge for the service. Wishing to put the mail on a business basis, Oaks asked Richardson to contact postal authorities in Ottawa about the possibility of WCA charging for its mail delivery. On 4 March 1927, WCA was given permission to issue its own air mail stamps at 10 cents each and to carry mail into central Manitoba and northwestern Ontario. On 1 June 1927, Fred Stevenson flew the first air mail in Manitoba from Lac Du Bonnet to Long Lac, completing in less than 2 hours a round trip which usually took 4 days.<sup>9</sup>

WCA's financially successful operations in the mid-west encouraged Richardson to think of extending WCA's services across the prairies. To underwrite this new route, Richardson wanted the security of a post office contract because passenger and express air services in their initial stages were usually run at a loss. R. H. Mulock, of Canadian Vickers Aircraft Limited, had told Richardson that "his friends" in the Post Office would "look favourably on a sound air mail system between Winnipeg, Calgary, and Edmonton."<sup>10</sup> With this encouragement, on 28 March 1928 WCA applied for a contract to carry the mail between Winnipeg

and Calgary, with the option of extending the service to other prairie cities. It also requested that the government provide weather advisory services and lighted beacons along the route and that it be given a monopoly of the air mail in the area and a 4-year contract.

Well aware that Canada lagged behind other countries in inter-city air mail services, the Post Office was receptive to WCA's overtures. But it was not prepared to do anything until 1929, as it first wanted DND to conduct an experimental mail service on the prairies. Although Richardson told the Post Office that WCA would run any necessary experimental flights, the Postmaster General did not think that the Post Office could "go by an experiment made by a private company." Knowing that the eastern Canada air mail contracts had been given without any test flights, Richardson refused to accept the Post Office's decision. In May, he wrote to various cabinet ministers and other influential individuals in the West to have them exert pressure on the government for the immediate establishment of a prairie air mail service. "If the West does not speak for itself it can count on getting no consideration whatever," he wrote to the President of the "Calgary Albertan" on 19 May. On 13 September, WCA pressed its case further. It informed the Post Office that it was establishing regular passenger and express services between Winnipeg, Regina and Calgary and would carry the mail at a "nominal cost in order to demonstrate the feasibility of air

mail services in Western Canada to your Department and the public." WCA's pressure tactics worked. On 5 November 1928, P. T. Coolican, Assistant Deputy Postmaster General, authorized WCA to carry out an experimental air mail service between Winnipeg and Regina, Regina and Calgary, and Regina and Edmonton from 10 December to 29 December 1928. With Premier Bracken of Manitoba as its first passenger, and newspaper reporters along the route alerted, WCA began its test flights in the uncertain weather conditions of December. The experimental service was a success and Coolican was prepared to discuss a regular air mail service with WCA.<sup>11</sup>

Although the Post Office had verbally approved WCA's operations and schedules for the service in December 1928, it delayed telling WCA that it had the contract until 25 June 1929 and further postponed the signing of the contract until 18 October 1929. At that time, the starting date had been set by the Post Office for 2 December 1929. WCA was prepared to begin flying the prairie air mail on the first of December, but DND was not. Because WCA had already hired extra pilots and bought special mail planes, it asked the Post Office for permission to start the service at once, flying daylight hours only. The request was denied because the beacons were not all installed. The prairie air mail was not begun until March 1930. For WCA this delay meant that all overhead costs, depreciation, insurance and salaries accumulated until the air mail was begun.<sup>12</sup> Why was

there such a delay?

According to Richardson, after it became known that WCA was to receive the prairie air mail contract, "people without experience or equipment endeavoured through political pressure to try and get in some place on the contract." Mulock stated that Sir Henry Thornton, President of the CNR, may have been partially responsible for the delay.<sup>13</sup> There is no explanation in the Post Office's memoranda and none was given to WCA. Likely it was fear of being charged with giving WCA a monopoly of the air mail, for the Post Office tried to get out of its verbal agreement with WCA by offering them only a portion of the route, with the other section to be awarded to another company. WCA refused to accept this and informed the Post Office that either it would operate the complete route or none of it, because operating a partial route would be unprofitable. The Post Office finally acceded to WCA's demands, but its vacillation had delayed Wilson's authorization for the construction of the beacons.

WCA also had problems with the Post Office in negotiating what it considered an equitable air mail rate. The Post Office would not pay WCA the rate it paid the eastern companies nor would it allow WCA's full operating expenses, landing fees or airport costs to be included in the rate. WCA finally accepted the Post Office's price in return for a 4-year contract.<sup>14</sup> These incidents marked the beginning of a very unsatisfactory relationship between WCA and the

Post Office.

WCA had been established to provide transportation into the mining areas of northwestern Ontario. However, its success virtually dictated that it follow a policy of extension and development of territory and services. The growth of WCA was phenomenal. From a one-machine operation at Sioux Lookout, Ontario in December 1926, the operation had spread by 1930 to include northwestern Canada to the Pacific and Arctic coasts and an inventory of 51, single-engine aircraft, 1 trimotor, 87 engines, hangars, docks and quantities of skis, floats and other material. In 1929, WCA was the second largest air transport company in the British Empire, exceeded only by Imperial Airways.<sup>15</sup> This growth, although it coincided with an era of great prosperity, was remarkable in that it was unassisted by direct subsidy from the federal government.

The creation of WCA in 1926 represented the beginning of the air transport industry in Canada on a sound financial basis and adequate organization. From the start, Richardson applied to the Airways the successful techniques of administration and organization that he used in his grain business. He meticulously chose an initial core of experts, delegated authority and relied upon their advice before making any major decisions. Certainly Richardson's choice of Oaks as WCA's first General Manager and Chief Pilot was a fortuitous one. Undoubtedly, his combination of skills contributed to

WCA's initial success. It is more than mere coincidence that WCA's first pilots all had distinguished flying careers in World War 1 and that WCA, and later Canadian Airways Limited, provided most of the winners of the McKee Trophy, which was given annually for the advancement of aviation.<sup>16</sup>

The principles that were to guide Richardson in his operation of Canadian Airways Limited were laid down in the early years of WCA. He surrounded himself with the top men in the field, encouraged them to develop the lines of operation and listened to their advice. He bought the best equipment available and, above all, emphasized safety. "You know my view," he wrote to Oaks in March 1927, "I want to see every possible precaution taken to provide every safeguard for our work and no flying done except when our equipment is in absolutely perfect condition and no one put in charge of a plane who is not thoroughly competent and experienced."<sup>17</sup>

WCA's services to the mining areas were of incalculable benefit to the mine owners and indirectly to the economy of Canada. With its establishment of regular air mail services, WCA laid another milestone in the development of commercial aviation in Canada. WCA operated in a blaze of publicity because in those days there was no such thing as a routine flight. Its pilots, most with distinguished war records, went on to even more spectacular achievements in northern flying. WCA's success showed that commercial aviation, when run on sound business principles and competent technical know-how, had a place in the Canadian economy.

By 1929, Richardson was eyeing the eastern Canadian aviation companies and considering the possibilities of a trans-Canada operation. By then, other factors were impinging on the Canadian aviation picture and these were to bring Richardson and the Liberal government together with the common purpose of establishing a Canadian trans-continental company to block the Americans.

## NOTES

### CHAPTER 2

The James A. Richardson Papers on his two aviation companies, Western Canada Airways (WCA) and Canadian Airways Limited (CAL), are called the Canadian Airway Limited Papers (CALP) and are housed at the Public Archives of Manitoba (PAM). CALP are sorted into numbered boxes and within each box the files have been indexed and arranged either by date or subject matter. Boxes 1 to 10 contain correspondence covering the years 1918-1970. Because each file is labelled with the month and year of the correspondence in it (for example, Box 7, File: April-June 1936) and the files are arranged chronologically within the box, to simplify the footnotes correspondence from Boxes 1 to 10 will be identified by box number only. Unless otherwise specified, correspondence between CAL's personnel is by memorandum. The exception to this was Richardson, who wrote to his airway employees, friends and business associates in letter form.

1. PAM, CALP, Box 1, File: WCA August-October 1926, correspondence between Richardson and Clarke.
2. PAC, H. A. Oaks Papers, H. A. Oaks to Frank Ellis (aviation author), 2 September 1957. Oaks told Ellis that it was Wilson who advised him to approach Richardson. According to Oaks, it was he who provided the impetus for WCA. He wrote to Ellis, "The ideas and direction behind WCA were mine, but Richardson's interest was quickly brought to a high pitch."
3. Ken Molson, Pioneering in Canadian Air Transport (Altona, Manitoba: D.W. Friesen & Sons, Ltd., 1974), p. 22; and Gordon Lawson (former Vice-President of James Richardson & Sons Ltd.) interview, Winnipeg, 8 December 1982. The firm of James Richardson & Sons Ltd. was not financially involved in the airways. According to Lawson, Richardson used his personal funds for all airways business because he did not want to risk the firm's money.
4. Molson, Pioneering, p. 22.
5. Ibid., p. 23. According to Molson, WCA received the contract because it was the only company capable of carrying out the job. It may be that WCA was the only company that bid the job, for the freight included dynamite which had never been transported by air.

6. This was the Stevenson of Stevenson's Field, the name by which Winnipeg's Municipal Airport was known until it was changed to Winnipeg International Airport in 1958.
7. PAM, CALP, Box 1, Files: January-March, March-May 1928, in particular John Hunter (Hunter) Telegram to Stephen (unidentified), 13 March 1928. This telegram stated that MacLaren had submitted a proposal to Richardson for WCA to take over Pacific Airways.
8. PAM, CALP, Box 1, Files: July 1929-February 1931; and Western Canada Aviation Museum, Winnipeg, Manitoba, Punch Dickins Tape Recording, Canadian Air Traffic Controllers Meeting, Winnipeg, 1973.
9. PAM, CALP, Box 26, File: Canada Goose, Arthur Webster (Secretary, PO) to WCA, 4 March 1927; and George Herring (Chief Superintendent of Air Mail Services, PO), Canadian Aviation (December 1930): 12. This was a semi-official air mail service. PO authorized private aviation companies to carry mail semi-officially at the risk of the sender, upon prepayment of a fee (usually 25¢), in addition to regular postage. The fee, which went entirely to the company, helped to reimburse them for their trouble and was covered by an adhesive label (known as a "sticker") to differentiate it from the official postage stamp. No expense was borne by PO.
10. PAM, CALP, Box 26, File: CAL Formation, R. H. Mulock (Mulock) Memo to Richardson, 7 January 1928. Col. Redford "Red" Mulock was a decorated World War (WW) 1 pilot, a Director of Canadian Vickers Aircraft Ltd. of Montreal and one of the top authorities on aviation matters in Canada. He wished to become directly involved in the operating end of an aviation company and had approached Richardson. There was no place for him with WCA, but because of his knowledge of aviation affairs and his political contacts in the East, Richardson had been using Mulock in a semi-official capacity to keep him advised of airway happenings.
11. PAM, CALP, Box 14, File: Experimental Prairie Air Mail; and Box 1, Files: January-March, April-July, August-October, November-December 1928 correspondence. Note Postmaster General to J. T. Thorson (MP), 2 June, for reference to experimental flights by a private company being unacceptable, and Richardson and cabinet ministers correspondence, 12-19 May.

12. PAM, CALP, Box 1, Files: January-March, April-June 1929; Box 2, Files: July-September 1929, January-March 1930; and Box 14, File: Prairie Air Mail, "Contract for the Conveyance by Air of His Majesty's Mails," 18 October 1929. Signing for the government were G. J. Desbarats, DM, Department of National Defence (DND), and P. T. Coolican, Deputy Postmaster General.
13. PAM, CALP, Box 2, Richardson to J. E. Hammell (Northern Aerial Minerals Exploration), 1 July 1929; and Box 1, Mulock Telegram to Hunter, 23 June 1929.
14. Ibid., see April 1929 correspondence among WCA officials and between WCA and PO.
15. PAM, CALP, Box 65, File: Brief on Northern Air Transportation (Brief on Transportation).
16. Alice Gibson Sutherland, Canada's Aviation Pioneers (Toronto: McGraw-Hill Ryerson Ltd., 1978), p. 7.
17. PAM, CALP, Box 1, Richardson Telegram to Oaks, 11 March 1927.

## CHAPTER 3

### CANADIAN AIRWAYS LIMITED, 1930-1932

Although Richardson's main concern, as far as the airways went, had been in western Canada, he was not ignorant of the eastern picture. In 1927, he had become a Director of the CPR and Sir Edward Beatty, President of the CPR and a personal friend of Richardson, had kept Richardson informed of events in the East. In addition, "Red" Mulock of Canadian Vickers Aircraft kept him advised of airway affairs.

By the late 1920s, there were five principal aviation companies in eastern Canada: International Airways Limited, Canadian Airways Limited (old), Canadian Transcontinental Airways Limited, Fairchild Aviation and General Airways. Most of these companies were run at a loss and their only valuable assets were their air mail contracts. International Airways, in particular, was in financial difficulties and its shareholders, a group of Hamilton businessmen, had just sold 51% of the stock to Victor Drury of Drury and Company.<sup>1</sup> Drury intended to sell his shares to Major-General John F. O'Ryan, President of Colonial Air Transport Limited, an American airline.

O'Ryan was also President of Canadian Colonial Airways, a subsidiary of Colonial Air Transport. In a joint agreement

between American and Canadian postal authorities in October 1928, Canadian Colonial had been awarded the air mail contract between Montreal and Albany. O'Ryan wanted more air mail contracts and to gain more footholds in Canada, so that his company would be in a position to link up with whatever company established a trans-Atlantic air service. There were no long-range aircraft in those days and the key to trans-Atlantic thinking was to use the two closest points of land in Europe and North America for the takeoff and landing. Newfoundland and various points on the Canadian eastern seaboard, such as Halifax, were geographically closer to Europe than any point on the American coast; this was why the Americans were interested in establishing air routes in Canada. O'Ryan had already begun negotiations with Drury when Richardson was told of the possible sale of International Airways to O'Ryan.

With the exception of Fairchild Aviation, Richardson had no financial interests in any of the eastern companies. Indeed, he had no wish to become involved with them, as he believed that they "lack management and direction [and] employ methods of securing business with which I do not wish to be associated." However, Richardson was interested in seeing the "Eastern companies properly set-up and coordinated, and put under good management." Nonetheless, on John Hunter's advice, he did nothing. Hunter had made a number of trips to the East during the latter part of 1928

to look over the finances, management and operating practices of the companies and had told Richardson that he thought it best to "let matters simmer along . . . probably getting worse, and take over the present amalgamated companies but of course eliminate a lot of deadwood." But when Mulock told him of the imminent takeover of International Airways by O'Ryan, Richardson moved quickly to block this. His concern was to prevent the Americans from gaining control of the Canadian airways system.<sup>2</sup>

After first obtaining government approval for his proposed intervention (on the grounds of keeping Canadian aviation in Canadian hands), Richardson then contacted the shareholders of International Airways and asked them to hold off selling to O'Ryan as he would raise the necessary Canadian money.<sup>3</sup> On 19 January 1929, the Vickers Syndicate was formed to raise the required money. The six shareholders were Richardson, Victor M. Drury, Senator Donat Raymond, Frank Ross, Noah A. Timmins and the CPR. Richardson acted for the CPR who preferred to remain anonymous in this venture. There was no explanation given for this and certainly the CPR's participation in the Syndicate was not a secret for long, as Sir Henry Thornton, President of the CNR, was aware of it in early 1929.

The Syndicate then began to negotiate with Canadian Transcontinental Airways. This company operated out of Quebec and if the Syndicate expected to acquire control of

the area east of Montreal it needed control of Canadian Transcontinental. O'Ryan obviously had the same idea for he too was negotiating with Canadian Transcontinental, this time on behalf of American Airways. The Syndicate was successful and closed the deal with Canadian Transcontinental on 19 June 1929. Mulock was made Managing Director of Interprovincial Airways, Canadian Airways Limited (old) and Canadian Transcontinental. The companies continued to operate under their own names.

The next move was Drury's. On 19 July, he formed The Aviation Corporation of Canada to act as a holding company for these recently acquired companies.<sup>4</sup> Stock was issued to the Hamilton businessmen who still held shares in International Airways and to the Syndicate members. Drury offered Richardson two fully paid shares in The Aviation Corporation for each share that he held in International Airways. Not one to pass up a good deal, Richardson accepted. John Hunter, representing Richardson's interests, was one of the Corporation's four Directors. The Aviation Corporation of Canada now had control of all the companies which held air mail contracts in eastern Canada, the training schools of International Airways at Hamilton, Toronto, Montreal and Sherbrooke and the main aerial survey company in Canada. General Airways was the only major company in the East not controlled by the Corporation.

Sometime in this period, Sir Henry Thornton of the CNR approached Richardson about the possibility of the CNR investing in Richardson's airways company. Evidently, Thornton was

afraid of being left out of the airways picture and allowing the CPR to get ahead. Both Richardson and Beatty wanted Thornton to join forces with them to prevent any "wasteful competition." Apparently, they had difficulty in restraining him from setting up his own company. Richardson was adamant in his belief that Canada could not support two trans-continental aviation companies and told Thornton that he "thought it possible to maintain one good show from coast to coast . . . and while we would not be able to make any money in the strict sense of the word, we should be able to earn enough . . . to replace old equipment with new . . . [and] we would make a direct and valuable contribution to the railways and this appeared to be a matter in which the two railways might co-operate instead of compete." There was no problem with Beatty. While he realized that the CPR could not afford to overlook the potential that air transportation offered, he was not prepared to have the CPR form an airways company. What he wanted was "an alliance with a strong, exclusively air service company." The situation was resolved when both railway presidents agreed to work with Richardson and come in with equal investments and equal representation of the Board of Directors.<sup>5</sup>

Although discussion regarding the formation of the new company was begun late in 1929, a number of factors had contributed to delaying the finalization of plans. Beatty was in Europe until the fall of 1930 and Thornton could not commit

the CNR to participation until he had received approval from the Governor General in Council. There were also problems settling on a Board of Directors that both Thornton and Beatty would approve.<sup>6</sup> As a result, most of 1930 was spent in untangling the confused bookwork and finances of the eastern companies, strengthening them and on creating an effective Board of Directors. When the CNR finally received permission in November 1930 to invest in Richardson's company, the stage was set for the incorporation of the new Canadian Airways Limited.<sup>7</sup>

Canadian Airways Limited (CAL) was incorporated on 25 November 1930. It took over the assets of WCA in the West and The Aviation Corporation in the East. Richardson held 72,672 shares of the initial total issue of 127,088 shares. CAL was originally capitalized at \$3,177,200.00; this financial burden was mainly Richardson's. He had thought that his Board of Directors "would have become interested in the company in a very substantial way, but by the time the new Canadian Airways were all set up very few, who were not shareholders before, were disposed to make any substantial commitments." Richardson was appointed President and Beatty and Thornton of the CPR and the CNR respectively were appointed Vice-Presidents. Each railway invested \$250,000.00. In actual fact, the railways had only a moderate and very minor interest in CAL and the Board of Directors represented little or no financial interest. It was chosen for

the primary purpose of establishing an even balance of power between the CNR, the CPR and the private subscribers and of giving the whole country representation on a geographical basis, although the majority of Directors came from Ontario and Quebec. The men were chosen not for their knowledge or interest in aviation, but simply for their financial position, so as to "impress American interests with the fact that the Company was financially in an impregnable position." A number of the Directors went on the Board because they were already involved in the companies purchased by The Aviation Corporation. Others were the nominees of either Beatty or Thornton, as men who would be interested in helping Canadian aviation and "would give the national company at this time the kind of front it was desirable for it to have."<sup>8</sup>

Sir Eric Geddes, Chairman of Imperial Airways was interested in the organization of CAL, although from the correspondence in the Canadian Airways Papers between Beatty and him during September and October 1930, it is difficult to discern just what Geddes wanted. Two years later it became clearer, when he wrote Beatty in November 1932 asking whether there was any opportunity for cooperation between CAL and Imperial Airways "through the medium of the Canadian Pacific Railway or otherwise?" Beatty wrote Richardson, enclosing Geddes' letters, and said that it was his opinion that "the Canadian Airways [was] quite

capable of giving service without outside association." Richardson concurred.<sup>9</sup>

CAL's head office was located in Montreal, even though Richardson continued to live in Winnipeg and control affairs from there. Why the head office was located in Montreal is unclear. Likely it was Mulock's idea because he lived there and could therefore keep in close touch with the operation of the company in eastern Canada and his political contacts in Ottawa. Working out of the Montreal office were Mulock, who was appointed Assistant to the President; Wilfred C. Sigerson, who was Comptroller; and C. G. Drury (brother of Victor Drury), who was Secretary-Treasurer. Richardson assumed the position of Acting General Manager. The repair shops remained in Winnipeg, as Winnipeg was seen as "the hub of all activity."

CAL was separated into two divisions, Canadian Airways Limited, Eastern Lines (the companies formerly owned by The Aviation Corporation) and Canadian Airways Limited, Western Lines (formerly WCA).<sup>10</sup> Each division had its own assistant general manager, comptroller, secretary-treasurer, operating manager, maintenance manager, pilots and clerical staff. Functionally, the company was divided into three sections: operations, finances, accounts and control. The line of communications was upwards through each one of these groups and through the head of each to Richardson.

The formation of CAL marked the close of a distinct phase in the history of civil aviation in Canada. Until 1929, airway development had been confined almost entirely to the northern areas and had been carried out by a number of small companies. Now one large company controlled almost all of the air transport business in Canada. Interestingly, there is no indication that the government was concerned about the monopoly in air mail services which CAL would enjoy. Evidently both Prime Ministers, W.L.M. King and R. B. Bennett, considered the presence of "high powered people" on CAL's Board of Directors and the inclusion of the presidents of both railways to be sufficient to quell any accusations of monopoly. However, there were at least three small aviation companies who were not happy with the fact that "practically the entire air mail and air transport industry of Canada will be concentrated in the hands of monopolists with powers and resources sufficient to dominate the Nation's development of aviation transportation." Bennett's reply to this was that, since the presidents of both railways held executive positions with CAL, that was ample proof the government was "endeavouring to create a real service with great benefit to the country as a whole."<sup>11</sup> Bennett's answer not only suggests that monopoly was not considered a problem but also that the government had given its support to CAL.

This was indeed the case. Previously, airway transportation had been viewed by the government as supplementary to

other methods of transportation; now it was seen as a legitimate mode of transportation. Aviation had moved into the realm of big business and Richardson represented the new type of leadership that the industry needed so badly to give it an air of respectability. The \$250,000.00 investment of the CNR symbolized a change in the government's attitude towards commercial aviation. It was now prepared to support the development of commercial aviation in Canada. The CNR participation, airfield construction and the air mail contracts represented the start of what was to have been a continuing program of government assistance to CAL. Richardson had asked for and received government approval and encouragement before he had begun his program of amalgamation. According to him the plan then envisioned by the government and himself was that he would form a strong national company that would operate the trans-Canada service and be Canada's "chosen instrument" in international airway development. There are no letters in Canadian Airways Papers confirming this; it was simply a verbal understanding, a "gentlemen's agreement." However, Richardson was too cautious to have proceeded without government assurance and later DND memoranda support Richardson's claim that CAL was created to provide the trans-continental service.<sup>12</sup>

Unfortunately, CAL was born in troubled times. The market crash of 1929 resulted, in 1930, in a 50% reduction

for all classes of air traffic (freight, express and mail). However, WCA's excellent financial position carried the newly organized CAL into 1931 with a healthy working capital of \$881,112.88 and \$426,790.01 cash in hand.<sup>13</sup> The main factor in offsetting the reduced traffic was the revenue from the air mail contracts. But in February 1931, in an effort to lower government expenditures, the government began to cut CAL's air mail contracts.

In response, CAL pursued an aggressive policy of extending the company's lines and expanding its survey and photographic work; and despite the reduced air mail revenues and the purchase of a \$78,000.00 aircraft, it had a working capital of \$1,026,707.10 at the end of 1931.<sup>14</sup> However, by March 1932, the government had cancelled four-fifths of CAL's inter-city air mail contracts, some 3,123,524 revenue miles, which if flown would have grossed CAL \$2,529,846.60. Total air mail revenues declined 74% from 1931 to 1932, making any net profit from air mail impossible. CAL's air mail contracts were now limited to casual runs and a few daily short scheduled runs. The immediate outlook for the company was uncertain. This cancellation disastrously affected CAL's financial basis and its monopoly of air mail contracts and, ultimately, its chances of becoming Canada's trans-Canada company. What were the circumstances behind the government's cancellation of the contracts and why did CAL allow it to happen?

It was R. B. Bennett, the Conservative Prime Minister,

who made the decision to cancel the air mail contracts. Economy was his given reason; panic would be a more accurate explanation. At first glance, Bennett's actions are understandable. He was not familiar with DND's or the Post Office's program for air mail development and undoubtedly saw the air mail program as an expensive novelty rather than as part of an overall plan to develop a trans-Canada service. In addition, the infant air mail service was not a paying proposition and to Bennett, a businessman above all, a balanced cashbook was vital. Bennett was not wholly to blame.

DND and the Post Office officials were also responsible. It is highly probable that if they had argued the case for air mail more cogently, Bennett may have rescinded the order to cancel. Since it was McNaughton, Wilson and Coolican of DND and the Post Office respectively who had supported the creation of CAL, they should have made it clear to Bennett that, by cancelling the air mail contracts, he was wiping out the nucleus of a potential trans-Canada airways system. The Post Office should have pointed out that the trend in air mail revenues showed that within a reasonably short time the air mail would not only be paying for itself but also making a profit. The Post Office's figures for the last six months of service showed air mail revenues were already 58% of the expenditures and rising.<sup>15</sup>

DND and the Post Office jointly decided to leave the international and bush services in place and reduce or cancel

the interurban services. Their rationale for cancelling the prairie air mail and the eastern inter-city services was because they "served only local needs." The two international services were left intact because DND was afraid that the Americans would move in if Canada withdrew.<sup>16</sup> In view of this statement and all the memoranda Wilson had written in the previous 4 years about the dangers of American penetration, it is difficult to understand how McNaughton and Wilson could have overlooked the consequences of cancelling the Montreal-to-Moncton and inter-city services in the Maritimes. For no sooner had the Maritimes service been cancelled than Pan Am stepped in with a request to extend its New York-to-Boston service to St. John and Halifax, with the option of extending to Sydney and St. John's, Newfoundland. Pan Am was given a contract allowing it to operate a 2-month summer service beginning in 1931, with the proviso that the contract be extended for 10 years upon approval by the Canadian government. Had any Canadian service been in operation, it is likely that this proposal would have been met by counterproposals from Canadian interests. It was difficult for the Canadian government to deny air services to St. John and Halifax, as both these cities had spent considerable sums of money (\$190,000.00 and \$225,000.00 respectively) on their airports. However, by allowing Pan Am to participate in Canadian domestic traffic, the Canadian government was violating the principle that only Canadian registered aircraft could

carry on a commercial business in Canada and setting a precedent for the operation of similar services elsewhere. And Pan Am, having been granted one concession, now asked for more.<sup>17</sup>

Wilson admitted later that had "more mature consideration" been given to the effects of cancelling the Montreal-to-the-Maritimes contract, it probably would not have been cancelled. Publicly the government never admitted that it might have acted prematurely and incorrectly. Thus while the King government had begun a program of development which would have led to the establishment of a trans-continental system, the Bennett government, in its attempts to cut government costs, killed the embryonic airway system.

With 2 years still remaining on its contract with CAL, how had the government escaped its legal obligations? The contract between WCA and the Post Office contained a clause which allowed the Postmaster General to annul the agreement on 30 days' written notice if, in his opinion, the public interest required it. Richardson was aware of this for he had taken the precaution of having a law firm examine the contract. The firm had commented on "the very exceptional powers that the government reserved for itself" of imposing fines or of terminating the contract before the contractual period was up.<sup>18</sup> There is nothing on file recording Richardson's thoughts about the clause but evidently he either believed that the government would never resort to

such a measure or that the risk was worth taking, for he had signed the contract.

The first indication that he was wrong came with P. T. Coolican's (Assistant Deputy Postmaster General) letter of 12 June 1931 advising WCA that the Post Office intended to cancel the prairie air mail within 30 days of 15 June.<sup>19</sup> As it turned out, services were informally continued on a reduced basis until 31 March 1932 when 80% of the inter-city air mail contracts were cancelled. Although he firmly believed that the government had a moral and legal responsibility to honour the contract, Richardson felt that CAL's position would be better served by not making a public issue of the cancellation or forcing his views with the Prime Minister. Richardson was wrong in meekly accepting the Prime Minister's decision and unwisely waited 2 years before reconsidering the matter. Like DND and the Post Office, CAL did not present its case in strong enough terms. Richardson should have made clear to Bennett that CAL's financial security rested on the air mail contracts. This was his strongest argument, for Bennett was to say later that he did not realize this and thought that with CAL's Board of Directors Richardson had unlimited funds behind him.<sup>20</sup>

It is difficult to see how the Prime Minister could have ignored all the reports and memoranda advising him of the importance of an air service to Canada's national and international growth. Two reports in particular in 1932 recommended that the Canadian government develop its airways

services. The 1932 Royal Commission on Transportation recommended that the government support the development of a national company and that the company be formed in cooperation with the railways and government assistance be in the form of 5-year air mail contracts. The commission also suggested that Canada take immediate steps to safeguard her position in trans-oceanic flying.<sup>21</sup>

The Trans-Atlantic Committee, appointed at the Imperial Economic Conference held in Ottawa in July 1932, recommended that Canada, the United Kingdom, the Irish Free State and Newfoundland "actively encourage" the development of the Canadian or direct route. During the conference, the RCAF ran an experimental service to and from the Straits of Belle Isle and Rimouski, meeting the ships from London. Because the service was fairly successful, it was decided to appoint a committee of the four powers to investigate the feasibility of operating a permanent service over the route. That DND still looked upon CAL as its unofficial "chosen instrument" is apparent by its request for a CAL's representative to sit in on some of the Trans-Atlantic Committee's discussions.<sup>22</sup>

Despite the government's enthusiasm during the conference and CAL's willingness to provide a service, the Prime Minister initiated no action for either the trans-Canada airway or the trans-Atlantic airway, except to cut Canadian air mail services further. A few months later, Wilson again recommended that the government inaugurate air services in

the Maritimes and a ship-to-shore service.<sup>23</sup> There is no adequate explanation for Bennett's refusal to institute the Maritimes service, for Wilson clearly pointed out that the Post Office stood to make a profit on the overseas mail alone and that domestic air mail services would add considerably to these earnings. The financial mess that the CNR was in may have been a factor in Bennett's decision not to promote airway development. Although the CNR had \$250,000.00 invested in CAL, S. J. Hungerford, the new President of the CNR, was not prepared to do anything about CAL's problems until his own problems had been resolved. As far as its position on the Trans-Atlantic Committee went, the Bennett government had undermined its own bargaining powers when it had withdrawn its support from CAL. CAL, with no assurance of steady support from the government, had withdrawn from the Maritimes and was in no position to discuss future developments with Imperial Airways. The Bennett government's actions of 1932 were a complete reversal of what the King government had initiated in 1928.

The years 1930 to 1940 were critical for CAL and the air transport industry. The reduction of government expenditures for civil aviation placed CAL in a precarious financial position and it struggled throughout the thirties to maintain itself. It was then that the individual companies came to the realization that they must operate with a modicum of cooperation and the government came to the reluctant conclusion that

it must provide controls for the industry. This period is an important one for it was the cumulative events of the time which resulted in a government-owned airline company, the first positive legislation dealing with some of the industry's problems and the formation of a second airline company allied with a railway.

The events of the thirties will be explained, firstly, by outlining the major problems encountered by CAL and its response; and, secondly, by examining the government's performance. It will be seen that although the problems and actions of both the government and CAL were often intertwined, they did not always result in a simple "cause and effect" situation. While responding to each other, they were also interacting with other agencies and, as such, the events of one often overlapped and influenced the action in another.

## NOTES

### CHAPTER 3

1. PAM, CALP, Box 26, File: 1, CAL Formation. International Airways had purchased Canadian Airways Limited (old) in the fall of 1928 and with it the Toronto-Montreal air mail contract. Canadian Airways continued to operate under its own name.
2. Ibid., Richardson to Sir Edward Beatty (Beatty), 1 December 1928; and Hunter to Mulock, 17 October 1928.
3. Ibid., Hunter told Mulock to obtain the support of P0, CPR and "other useful interests." That more than just P0 support was obtained is evidenced in Hunter Letter to Richardson, 8 February 1929 (from Hunter's private files, enclosed Hunter to S. Render, 22 February 1982). In this letter Hunter stated that "the Premier" (referring to King) would be glad to cooperate with a private company by giving out government contract work. Hunter wrote also that "the policy of the Government is only known to a few of us through actual contact and experience." There are numerous references in CALP to Richardson's wish to keep the control and operation of Canada's aviation companies out of American hands. Who was "speaking for the government" is unknown. In Meehan (unidentified, this may be a code name; this name appears in many of the coded telegrams in the October-December 1928 correspondence) Telegram to Hunter, 12 December 1928 (Box 26). This telegram stated that Mulock saw the Prime Minister, the Postmaster General, Veniot, and the Minister of Defence, Ralston, and "certain numbers of other departmental officials" (possibly McNaughton and Wilson of DND and Coolican and Herring of P0) and that they were pleased with the way the situation was being handled.
4. The Aviation Corporation of Canada: President was H. B. Greening, a Hamilton businessman and shareholder of International Airways; Vice-President was Frank M. Ross, a shareholder of Vickers Syndicate; Chairman was A. V. Young, a Hamilton businessman and shareholder of International Airways; Directors: John Hunter of WCA; Noah A. Timmins, a shareholder in the Vickers Syndicate; F. I. Ker of the Hamilton Spectator and shareholder in International Airways; and Ellwood Wilson, President of Fairchild Aviation Company.

5. PAM, CALP, Box 6, I. Ker (Hamilton Spectator) to Richardson, 23 March 1934. Ker refers to Thornton's wish to set up his own aviation company; Box 26, File 1, incomplete letter, Richardson to Beatty, no date. Richardson wrote Beatty what he had told Thornton.
6. PAM, CALP, Box 24, File: Sir Edward Beatty, see correspondence between Richardson and Beatty 26 May to 16 July 1930 regarding CAL's Board of Directors. There was disagreement between Beatty and Thornton on V. M. Drury. Thornton wanted Drury in an executive position and Beatty refused to accept Drury in any administrative position.
7. The name "Canadian Airways Limited" initially caused some confusion as the eastern company with that name was still operating. However, Richardson believed the name best represented the idea of the trans-continental system that he hoped to establish.
8. Molson, Pioneering, pp. 95-96. See above for information regarding shares and original capitalization of CAL. Richardson bought additional shares from James Playfair and Frank Ross in 1935 and 1936, and by 1938 he owned 75,934 shares out of 129,753 shares. The only shares he ever disposed of were those (4,197) given as part payment for his purchase of Dominion Skyways in 1938. PAM, CALP, Box 6, Richardson's Report for CAL's Annual Meeting, 26 April 1934, gives Richardson's comments on Board members; and Appendix 1 for list of CAL's Board of Directors.
9. PAM, CALP, Box 24, File: Beatty, Sir Eric Geddes (Chairman of Imperial Airways) to Beatty, 3 September 1930; Beatty to Geddes, 13 October; Geddes to Beatty, 10 November 1932; and Beatty to Richardson, 25 November 1932.
10. WCA retained its name until November 1931. In August 1931, the Pacific Lines Division was created.
11. Gordon Lawson, telephone interview, 31 May 1983. According to Lawson, monopoly was not considered a problem because of "the high powered people on the Board of Directors" and the involvement of Beatty and Thornton; and PAM, CALP, Box 2, File: October-December 1929, copy Wilson Memo to DM, "Airway Development," 25 November 1929. Wilson cites the advantages of consolidation among the aviation companies. Charges of unfair treatment were levelled at Bennett by three aviation companies, see PAC, Bennett Papers, Box 42, Earl Hand (President, National Air Transport Ltd., Toronto) to Senator J. A. McDonald, 20 February 1930, Hand to Bennett, 28 July 1931; Cy Becker (General Manager, Commercial Airways Ltd., Edmonton) to Senator W. A. Griesback, 16 January 1931, Griesback to Bennett, 23 January, Bennett to Griesback, 24 February; and

Fred McColl (Managing Director, Great Western Airways Ltd., Calgary) to Bennett, 13 May 1931, Bennett to McColl, 18 May. Quotation from Becker to Griesback, 16 January 1931.

12. PAC, McNaughton Papers, Series 11, Vol. 103, File: Civil Aviation, Imperial Conference, "Civil Aviation Committee Report to the Imperial Conference 1930," Part XI, "Conclusion." The report stated that "the formation of a sound and economical development [was] laid recently" with the creation of CAL; and McNaughton Papers, (M) 62, Vol. 11, File: Canadian Airways, Wilson Memo, "Air Transport Policy," 17 March 1933. Wilson wrote that CAL had been formed and supported "by the Government through the Post Office and this Department . . . to operate the main trunk airways of the Dominion from coast to coast."

13. PAM, CALP, Box 23, File: Annual Reports. All figures in this chapter are from the Annual Reports.

14. PAM, CALP, Box 37, File: Junkers Aircraft. The purchase of the Junkers 52 (CF-ARM) gave CAL the distinction of owning the largest single-engine freighter in the world.

15. PAC, Bennett Papers, Box 43, A-100, PO Memo, "The Conveyance of Mail by Air Between Urban Centres in Canada," Appendix "C," March 1935, appended to "Minutes of Meeting," 14 March 1935.

16. PAC, Bennett Papers, Box 42, Wilson Memo, "Airway Development Maritime Provinces-Montreal," 27 November 1931; and King Papers, MG 26 J1, Vol. 230, Wilson Memo, "Air Developments and Their Effect on Canada," 16 February 1934. This memo gives explanation of route cancellation.

17. PAC, Transport Records, RG 12, Vol. 2253, File: 5258-329, v. 1, Wilson Memo to DM, "Pan Am Airways," 30 July 1931. This memo was written in response to a letter from Mulock to PM warning the government of Pan Am's intention to begin a service 1 August 1931. See Mulock to PM, 20 July 1931; and Bennett Papers, Box 42, Wilson Memo, "Airway Development," 27 November 1931. Reference to sums expended by the two Maritime cities and the extra concession requested by Pan Am (to build a radio station) are in this memo. It should be noted that Canadian Colonial Airways, then operating the New York-to-Quebec route, requested an extension from Quebec to Ottawa and North West Airways wanted to move into Winnipeg and Vancouver.

18. PAM, CALP, Box 2, W. H. Howard (law firm of Brown, Montgomery & McMichael) to G. C. Drury, 3 July 1929.

19. PAM, CALP, Box 6, Coolican (PO) to WCA, 12 June 1931, enclosed with Sigerson (CAL Comptroller) to G. A. Thompson (Thompson), 2 March 1934.
20. Lawson interview, 8 December 1982. Lawson stated that Richardson decided against embarrassing the PM by publicizing the legal aspects of the cancelled contract; and PAM, CALP, Box 6, rough draft, "Memo and Report from Richardson to Executive Committee of CAL," no date, back of file. Richardson referred to Bennett's comment in this memo.
21. Royal Commission To Inquire Into Railways and Transportation in Canada, 1931-2, (Ottawa, 1932), p. 57; and PAC, McNaughton Papers, (M) 58, Vol. 11, HQ C 5936, File: Civil Aviation Policy, G. J. Desbarats, DM (DND) to The Secretary, Royal Commission on Transportation, 24 August 1932.
22. PAC, McNaughton Papers, Vol. 101, File: Committee on Trans-Atlantic Services, August 1932, "Committee on Trans-Atlantic Air Service," 9 August 1932; and McNaughton Telegram to Mulock, 8 August 1932. McNaughton told Mulock that it was "highly advisable" that he come to Ottawa to meet with the Committee.
23. PAC, McNaughton Papers, Vol. 102, File: 4 Interdepartmental Committee, Wilson Memo, "Trans-Atlantic Mail Service," 29 December 1932.

## CHAPTER 4

### PROBLEMS OF THE DEVELOPING AIR TRANSPORT INDUSTRY, 1932-1937

With the financial basis of his organization gone, Richardson had to decide whether to carry on or close up. He decided to continue flying. In his Annual Report to the shareholders in April 1932, Richardson stated that he felt an obligation to carry on the bush services and, while he undoubtedly felt a moral responsibility to the northern communities, it is more probable that it was his desire to protect his investments and maintain his leading position in the picture that also influenced his decision. Furthermore, Richardson believed that the government would soon recognize its moral responsibility to CAL, either by reinstating the contracts or by compensating CAL for its loss of revenue. When the government reinstated the air mail, Richardson wished to be first in line with an organization administratively and technically capable of giving the service. However, the cancellation of the contracts had left CAL with equipment and other liabilities that it could not legally get rid of.

CAL had been formed to provide a trans-continental operation; to carry out its obligations and on the strength of its 4-year air mail contracts, it had incurred heavy capital expenditures. CAL had bought radio-equipped mail planes, ground

radio equipment and flying fields, built hangars and rented office space with the leases running concurrently with the air mail contracts. Not only did CAL need the full 4 years to write off its equipment but also a large part of this capital outlay was unproductive and entailed expenditures for mortgage reductions, taxes, maintenance, repairs and general carrying charges. Burdened with excessive overhead charges, surplus operating personnel and the maintenance of inactive aircraft, CAL had to find ways of cutting costs.

The company's first step was to reduce personnel; positions were combined and all expenditures not considered essential were deferred. At the end of 1932, total wage and salary payments were 26% less than in 1931 and total operating expenses were down 22.8%. Despite these economies, the operating expense per productive mile increased by 13.1%.<sup>1</sup> It would be beneficial to look briefly at the business of running a commercial aviation company, for it was knowledge of costs and Richardson's directive that they be incorporated into the costs quoted to the customer that separated CAL from most of the other companies.

Air transportation costs can be divided into three categories: overhead, depreciation and obsolescence, and direct operating expenses. Direct operating expenses included gas, oil, aircraft, engines, accessory maintenance, public liability, property damage and passenger insurance. Overhead and depreciation were dependent on the volume of flying.

Depreciation was also a book charge which had to be covered to take care of replacing equipment. Part of the overhead charges were book charges, while other charges represented actual cash outlay. Because the air transport industry was so new, insurance and obsolescence of equipment alone assumed much larger proportions of the total operating expenses than in the more established land transport companies. The manufacture of aircraft, engines and navigational aids was still in an experimental stage and sound business economics dictated that adequate provision be made for depreciation and obsolescence. Development was so rapid that any large aircraft was almost out of date at delivery time. Obsolescence costs ran as high as 33 1/3% per year compared to 15-20% for depreciation, making it difficult to justify the purchase of new aircraft when the old was not fully depreciated. These charges were not costs that could be passed on as higher rates to the customer and, as a result, obsolescence costs continually ate into CAL's reserves and were one of the reasons why it did not show a profit.<sup>2</sup>

The volume of traffic during 1927 to 1930 had been sufficient to allow the company to base its rates on its overhead and depreciation costs. However, in 1930, traffic had shrunk nearly 50% because of the business recession. The obvious answer was to raise the rates, but this was not feasible in depressed times. The solution seemed to be a lowering of rates to try and increase the volume of traffic.

But on the scheduled services between the railhead and the northern communities there was little express, mail or passenger travel and therefore lowered rates were not the answer. Unfortunately, CAL was forced either to drop its rates to get any business or let its aircraft sit idle. Nevertheless, the rates were not lowered indiscriminately. George Thompson, General Manager, analyzed the costs for operating each type of aircraft in use and drew up cost sheets showing "Alpha, Beta and Gamma costs," which he distributed to each district superintendent.<sup>3</sup>

Compounding the loss of revenue from the air mail contracts and the lower rates for other traffic was the increased competition which appeared in this period. The depression had wiped out most of the aviation companies, leaving CAL with a relatively free field for expansion. However, during 1932 to 1933, prospecting and mining activities had picked up and this had drawn attention to northern air transport. To many, flying freight and passengers seemed to be an easy way to make a fast dollar. At this time, there were no government regulations controlling the number of operators in a district or the rates to be charged. Anyone with a license and an aircraft could set himself up in business and fly where he wished and charge what he wanted.

Most of the newcomers were pilots not businessmen and neither knew their true operating and maintenance costs nor understood the principles of sound business management.

They were satisfied if they obtained money from a flight to pay out-of-pocket expenses for gas and oil. To draw traffic from CAL they quoted lower rates. But these prices did not cover overhaul, insurance, depreciation or obsolescence costs. CAL's prices were higher because they reflected these costs. Although many of these "fly by night" operators went out of business within a year or two because their low rates could not sustain a business, the constant influx of newcomers dragged the whole rate structure down to an uneconomic level. By 1933, passenger rates in the Red Lake mining district were down 50% and express rates were down 53% from 1932 prices. Thus despite economies all along the line, CAL was unable to maintain its previous rate structure and, by the end of 1933, Richardson had to borrow \$400,000.00 from the bank to keep CAL flying.

The situation worsened in 1934. Increased competition in northwestern Ontario, Manitoba and the Northwest Territories, in particular, resulted in increased flying hours far out of proportion to the volume of business. Many operators flew with reduced loads and lost money for every hour flown. Attempts were made by CAL in 1933 and 1934 to put rate agreements into force among the operators.

CAL's major effort to put the air transport industry on a firm footing occurred in the fall of 1934, when Thompson organized a conference in Ottawa for aircraft operators and manufacturers from all across Canada. His idea was to have a

round-table talk to impress upon both the operators and the government the need for some kind of rate enforcement to stabilize the industry. He requested DND to chair the meeting. Wilson was agreeable to DND participation but only as a mediator, saying that the private operators "for 15 years have solved their own problems without government assistance and are prepared to continue to do so." Wilson was incorrect; DND had been asked to attend because the operators and manufacturers wanted the government to play a more active role in solving some of the problems that the industry was experiencing. The conference accomplished little. The Association of Aircraft Operators and Manufacturers, which was formed as a result of the conference, continued loosely for a number of years but proved ineffective because neither it nor the government had any regulatory powers.<sup>4</sup>

Thompson continued to try and make rate agreements with individual companies, but in 1935, after a bitter campaign against CAL by the smaller companies, he told Richardson that he had had enough of the "gentlemen's agreements" and that to be of any use politically there must be documentary evidence that CAL had tried to cooperate with the smaller companies. Thompson summed up his feelings when he wrote Richardson that he no longer had any faith in any of the voluntary agreements, but "as a matter of policy to counteract propaganda in Ottawa and to prevent further jeopardizing our position with the Post Office regarding 'bush' contracts," and until such time

as a definite government policy is formed, "we should endeavor to cooperate with the smaller operators in stabilizing casual rates."<sup>5</sup> Unfortunately, most of the agreements were short-lived; discounts were hidden, overloading was flagrant and other manipulations made a mockery of them.

In December 1934, Richardson implemented a new policy with the creation of Quebec Airways Limited. Since his acquisition of the eastern companies, which along with WCA had formed the basis of CAL, Richardson had bought two more companies, Commercial Airways in May 1931 and Spence McDonough Air Transport Limited in December 1933. All these companies had lost their identities and had been absorbed into CAL's structure, for Richardson's plan had been to centralize management to effect stabilization of the new industry. Now with charges of monopoly being levelled at it, Thompson suggested that any new additions to CAL be allowed to retain their identity.

Quebec Airways Limited was established to prevent competition from the Clarke Steamship Company Limited. In September 1934, D. A. Clarke had decided to supplement his shipping service in the St. Lawrence area by using aircraft. He approached McNaughton and Wilson about the possibility of obtaining an air mail contract for the North Shore service. They told him to see Richardson, who was operating the service. From CAL's point of view, Clarke's entry into the

picture was unfortunate. CAL had pioneered the St. Lawrence service, carried it through the depression years and counted on retaining it, as company officials could see the service operating at a profit once regular trans-Atlantic flights or the ship-to-shore mail service began. However, Thompson felt that CAL had no choice but to cooperate with Clarke, as his company was "a powerful organization of old standing having a virtual monopoly of transportation along the North Shore," was well thought of by the Post Office and already held mail contracts. Thompson also recommended that the new company be called "Quebec Airways Limited" to deter further charges of monopoly and to "give Quebec a feeling that it is their company, thereby obtaining their goodwill." In December 1934, Quebec Airways Limited was incorporated. CAL owned all the Preferred Shares and 7,500 of the 10,000 Common Shares. The remainder was held by the Clarke Steamship Company Limited. Quebec Airways was separate from CAL and operated under a Quebec charter.<sup>6</sup>

The cutthroat and unrestricted competition which was characteristic of the thirties affected all phases of CAL's business. Whether competing for casual passenger traffic or mail and freight contracts, CAL often found itself in competition with other companies who obeyed no rules and took advantage of the laxity of government inspection. As a businessman, Richardson expected competition. But he also expected everyone to play by the same rules and for the

government to enforce what regulations there were. Richardson wanted the air transport industry established on a sound basis and was concerned that the present practices would destroy its viability. Richardson had every reason to be worried. Not only was the competition destroying the financial basis of the reputable companies but also it was causing many of the more unscrupulous air operators to fly in ways that were hazardous to the public. A good example of this was the practice of overloading.

While safety was a watchword of CAL, many of the companies were more concerned with breaking even than with flying within the rules. Overloading was one method of picking up traffic and was relatively difficult to control. It occurred because the maximum load an aircraft was licensed for was usually lower than what the aircraft was capable of carrying under normal conditions and could be increased by as much as 25-50%. Unscrupulous operators took advantage of this to quote below the established rates. Overloading could have been checked if the Civil Aviation Branch of DND had actively enforced the Air Regulations. Wilson's retort to CAL's accusations of slack enforcement was that he did not have enough inspectors to check on a regular basis and, in any case, the inspectors were so well known that when they appeared in the district all the pilots made sure their planes were not overloaded. Wilson was correct. But there is also some truth in CAL's complaints that Wilson could

have used the RCMP more and that he was more concerned with being friendly with all the operators than with stringently enforcing the regulations. What particularly irked CAL was the fact that DND appeared to be unnecessarily harassing its pilots with checks, while ignoring the competition a few yards down the shoreline.

Flagrant overloading and other incidents of unsafe practices continued throughout the thirties. Correspondence from the Civil Aviation Branch shows that it was not overly concerned with enforcing the safety regulations. For example, in 1936, a General Airways plane crashed because of overloading, killing pilot and passengers. The Civil Aviation Branch took no disciplinary action. When CAL questioned this, it was told by A. T. Cowley, Superintendent of Air Regulations, that the department had decided not to worry about overloading anymore, but to let the operators find out for themselves that it did not pay. As Thompson remarked, it was "a most astonishing statement for any director of air regulations to have made." DND's inadequate enforcement of the Air Regulations encouraged unsafe and unsound air operations and discriminated against those operators, such as CAL, who were concerned with safety. This directly affected CAL's financial livelihood, for it often lost business by not engaging in some of these questionable practices.<sup>7</sup>

As stated, one of the major problems CAL encountered in this decade was the unethical and unrestricted competition

from other Canadian air operators. But competition also came from the government. Richardson believed that many of CAL's problems stemmed from DND's attitude towards the commercial companies and the government's overuse of the Civil Government Air Operations. He felt that McNaughton was opposed to the development of a large company like CAL, for it would detract from the government air operations and take away jobs from the civil servants. Richardson stated that the Civil Government Air Operations were "wasteful and extravagant" and had absorbed civil aviation money that might have been better spent supporting commercial aviation concerns. Richardson had assessed the situation correctly. It will be remembered that the government air operations had been expanded unnecessarily in the 1920s and early 1930s and they not only provided unfair competition, for it was difficult for a commercial company to compete against a government service which did not have to bring in a dollar for every dollar spent, but also absorbed money which could have aided the private companies. In a succinctly worded letter to R. J. Manion, Minister of Railways and Canals, Richardson warned him that commercial companies must be encouraged or there would be no private investment in aviation and that a permanent curb must be placed on the government air operations or "we will surely be landed with another CNR."<sup>8</sup>

Problems with the RCAF resulted because the small budget allotted for its operations made it necessary for it to

carry out civil duties for training purposes. In April 1932, the RCAF had taken over CAL's Quebec-Seven Islands-Anticosti and Moncton-to-Magdalen Islands air mail contracts. This happened because the Prime Minister was trying to reduce government expenditures and on a short-term basis the RCAF could carry the mail more cheaply than a private company. Although he reversed this decision 8 months later, McNaughton had set a dangerous precedent. Examination of government records indicates that there were other instances where McNaughton suggested that the RCAF carry out work which belonged to the private companies and Canadian Airways Papers give a number of examples of the RCAF taking over contracts which CAL had previously held.<sup>9</sup> This uncertainty about what constituted government work and what was the preserve of the private companies made it risky for CAL to expend large sums of money on special aircraft or undertake long-range planning because it could not be sure that the government would not step in and take away its business.

CAL was also concerned with DND's discriminatory attitudes towards the company. While the examples were often of a petty nature, they did reinforce CAL's belief that DND wished to promote the achievements of the military at the expense of the commercial operators. For instance, DND ignored the spectacular flying achievements of Hollick-Kenyon, one of CAL's pilots, in the Antarctic. While newspapers around the world and across Canada commented on the

antarctic expedition and the part played by Hollick-Kenyon (who had been loaned to the expedition), DND remained silent, offering no congratulations to Hollick-Kenyon or publicly acknowledging his accomplishments. DND's excuse was that it could not congratulate him because he had no military record. Not only was this a poor excuse but also it was an incorrect one.<sup>10</sup> Until McNaughton left DND for the National Research Council in the summer of 1935, CAL fought an uneven battle with the department, for McNaughton was more concerned with building a powerful military machine than with promoting commercial aviation interests.

Competition for air mail contracts, charter services and express and passenger traffic also came from American companies. Again, it was the absence of a clearly defined aviation policy which was responsible. The looseness of the international agreement between Canada and the United States allowed American companies to operate in Canada. What usually happened was that the American company formed a subsidiary or "dummy" Canadian company with a "Canadian sounding" name. One example was Canadian Colonial Airways, which was a subsidiary of Colonial Air Transport. Canadian Colonial had been formed in 1928 in Maryland and had held the Montreal-to-Albany air mail contract since 1929. Once the Canadian subsidiary established itself between an American and Canadian city it requested a further extension into Canadian territory. If a Canadian company was not operating in that area, DND

usually granted the extension. CAL wanted the government to secure a more comprehensive ruling on the awarding of Canadian air mail contracts, so that Canadian companies were not competing with American companies. Not until 1939, when Canadian Colonial threatened Trans-Canada Air Lines air mail services, did the government respond.<sup>11</sup>

The discriminatory practices of the Post Office were another major problem for CAL. In most instances, these postal difficulties stemmed from the inter-company rivalry which allowed the Post Office to play one company against another. Like most of the industry's troubles in the thirties, the Post Office's actions resulted because there was no overall policy regarding air mail or airway development. In the absence of such a policy, postal officials considered it their departmental duty to get the mail carried as cheaply as possible without concerning themselves about the effect on the aviation companies. This attitude became prevalent under the Bennett government.<sup>12</sup>

Between 1927 and 1930, the Post Office, under Postmaster General P. J. Venoit, helped the budding air transport industry by awarding air mail contracts on an equitable basis and at reasonably fair rates. Venoit considered air mail development from both the Post Office's and the aviation company's point of view. He realized that the lowest bidder was not necessarily the most responsible bidder and was concerned with helping the industry develop along sound lines.<sup>13</sup>

When the Bennett government came into power, there appears to have been a change of attitude or perhaps it was because the Postmaster General, A. Sauve, left the air mail services to his departmental officers. Men like P. T. Coolican, Assistant Deputy Postmaster General, and George Herring, Chief Superintendent of Land and Air Mail Services, saw the air mail services from a postal viewpoint only and thus were more interested in seeing how low they could force the rates than with developing a sound air mail system. The Post Office Act<sup>14</sup> had been revised in 1927 before air mail was a common occurrence and Coolican and Herring took many liberties in their interpretation of the Act. After 1932, when the Post Office began to re-tender casual inter-city and bush air mail contracts, it followed a variety of practices, moved more by political whim or patronage than by any definite policy.

The Post Office Act stated that contracts were to be awarded after calling for tenders. When it suited them, the Post Office ignored this ruling. For example, on 22 February 1935, without calling for tenders, without the contractual period having expired and without warning, the Post Office took away CAL's Sioux Lookout-to-Pickle Crow air mail contract and gave it to Starratt Airways.<sup>15</sup> In the mid-thirties, the Post Office began the practice of awarding contracts on either a short-term basis or with only a verbal agreement. Neither arrangement gave CAL the necessary security to permit long-term planning. Canadian Airways Papers also show a number of

examples where the Post Office refused to pay the total costs for an air mail service. In some cases, it paid for only a one-way service when CAL's contract called for a two-way service, claiming, as its excuse, that CAL was overpaid in other areas.<sup>16</sup>

CAL also had to contend with the Post Office's lack of knowledge about safe and efficient airline practices and its refusal to listen to CAL's explanations. On numerous occasions, the Post Office criticized CAL's air mail services but the criticisms were vague and ill-defined allowing CAL no opportunity to correct its service. At other times, the criticism was valid but based on circumstances beyond CAL's control, as, for example, when disrupted service was due to poor weather and flying conditions. When CAL received the Vancouver-to-Seattle air mail contract in 1935 it requested that the government provide navigational aids and weather services before it undertook the contract. CAL was well aware that the often foggy conditions, the two daily scheduled services operated by United Airlines and the many unscheduled services presented a potentially hazardous situation. The Post Office turned a deaf ear to CAL's requests; if it wanted the contract it would have to operate the service without any additional aids.<sup>17</sup> These types of problems surfaced many times throughout the thirties and forties.

By 1935, CAL had no air mail service which was run at a profit, and most barely covered operating expenses. By the

late thirties, the intense competition for all traffic had forced air mail rates so low that many companies accepted contracts at below operating costs. CAL was no exception. Services like the Vancouver-to-Victoria one, which was operated at a loss, were kept intact mainly for prestige reasons or to keep CAL's name before the public or to prevent another company from moving into the area. A major concern of CAL was how long it could afford to run unprofitable air mail routes.

CAL worked tirelessly but unsuccessfully to have the awarding of the air mail contracts and the fixing of the air mail rates taken out of the Post Office's hands and placed under the jurisdiction of an independent body, such as a Board of Transport Commissioners. Wilson was sympathetic to CAL's plight but was unable to effect any change. The most likely explanation for the government's delay in correcting the situation was that with the appointment of the interdepartmental committee on the trans-Canada airway in May 1933, it was assumed that an early decision on all airway matters would be made. As will be seen in the following chapters, this was not the case. Neither the creation of the Department of Transport in 1936 nor the Board of Transport Commissioners in 1938 solved CAL's problems with the Post Office. Not until 1939 did the government formally hear CAL's case on the air mail situation and, even then, nothing was done.<sup>20</sup>

In the meantime, the Post Office continued to force the companies to quote rates that were either below operating

costs or just covered costs. Coolican and Herring showed little insight into the problems of the industry. They did not understand the economics of an airline company and refused to listen to explanations of costs or to examine CAL's books. They acted irresponsibly by awarding contracts to companies that openly disregarded the Air Regulations or were obviously in financial difficulties. By awarding contracts to the lowest bidder and accepting bids that were patently below the costs of the service, the Post Office contributed to the destructive competition among the aviation companies and to the almost bankrupt conditions of the industry by 1940. Its vision was very short sighted. It saw only an opportunity to make enormous profits at the expense of a new industry, seemingly forgetting or ignoring the fact that if the aviation companies went bankrupt the current air mail structure would collapse. The absence of a government policy for the Canadian air mail system was at the root of the problem.

Other problems related to the development of a new industry pertained to the technical and operating side of an aviation company. From the start, Canadian operators were handicapped by having to purchase aircraft from other countries and adapting them at considerable expense to Canadian conditions. Aviation companies and aircraft manufacturing companies had to pay heavy duty on the raw materials or special accessories that were not manufactured in Canada. Aircraft operators were further penalized by having to pay higher prices for aircraft,

gas and oil than their American counterparts.<sup>21</sup>

In addition to these hardships were the problems which resulted from the inadequate auxiliary services which were provided by the government. The weather services and communication aids furnished by DND for CAL's prairie air mail service were inadequate.<sup>22</sup> By 1936, CAL had twelve ground stations of its own and had established other methods or relied on American agencies to provide weather reports.<sup>23</sup>

Formal instruction for air engineers and advanced pilot training were difficult to obtain. On-the-job training was the usual method of learning for aircraft mechanics. CAL tried numerous times to have the government initiate courses.<sup>24</sup> The RCAF at Camp Borden offered the only refresher courses or advanced instrument training programs. Unfortunately, there were only a limited number of places available to commercial pilots each year. CAL was unsuccessful in having the RCAF increase the number of openings for commercial pilots and in the fall of 1935 was told that there were no spots for CAL for the 1936 session.<sup>25</sup>

Thus the problems encountered by CAL were numerous. Despite these difficulties an examination of CAL's traffic figures (Appendix 2) shows a general upward trend in the number of passengers and number of pounds of freight and mail carried. While these figures show a fairly healthy growth in poundage of freight carried, it must not be forgotten it was accomplished with little government assistance,

either in the form of a direct subsidy or by the provision of controls or the regulation of rates. The Post Office in particular took advantage of the intense competition to play one company against the other and to tender air mail contracts unfairly and at inequitable rates. By 1940, the destructive competition and the low air mail rates had brought not only CAL, but also the ten other major aviation companies in Canada to the brink of bankruptcy. During its lifetime, CAL never paid a dividend to its shareholders or made sufficient profits to build up a reserve to cover depreciation; it lived off its working capital. By 1940, the company which had been instrumental in opening up the northern mining areas and providing other public services was virtually insolvent because of the government's neglect of the private operators. While earlier methods of transportation were helped by the government, the northern air transport operators, the backbone of commercial aviation in Canada, were never materially assisted. To be fair, the government was not totally unresponsive to the problems of CAL, but as will be seen in the next chapter, it never settled on a course of action for Canada's airway development.

## NOTES

### CHAPTER 4

1. PAM, CALP, Box 23, File: Annual Reports.
2. PAM, CALP, Box 65, File: Brief on Transportation, all figures are from G. A. Thompson's Brief.
3. PAM, CALP, Box 43, File: Operations, Thompson Memo, 27 October 1932; and Sigerson to Thompson, 1 November 1932. In his letter to Sigerson, Thompson explains Alpha, Beta and Gamma costs. Alpha costs included fuel, oil, maintenance of the aircraft, engines and floats, insurance, flying bonuses, salary of pilots and mechanics, meals for crews when away. Beta costs included Alpha plus depreciation of aircraft, engines and floats. Gamma costs included Alpha and Beta plus overhead and all costs not included in Alpha or Beta.
4. PAC, Transport Records, RG 12, Vol. 2117, "Conference of Aircraft Operators and Manufacturers," Lecture Room, RCAF Photographic Section, Monday, 19 November 1934. Present were the Minister of Defence (Grote Stirling), DM of Defence (L. R. LaFleche), the Controller of Civil Aviation (Wilson), plus nine other DND representatives, four National Research Council representatives and forty-one representatives from the aircraft operators and manufacturers except Leigh Brintnell of Mackenzie Air Services (one of CAL's most bitter competitors); Thompson to LaFleche (DM, DND), 21 September 1934. Thompson requested DND participation; and Wilson Memo to DM, "Conference of Air Operators November 1934," 10 October 1934.
5. PAM, CALP, Box 7, Thompson to Richardson, "Rate Stabilization," 24 November 1935.
6. PAC, McNaughton Papers, Vol. 101, File: Interdepartmental, McNaughton Memo, 18 September 1934; PAM, CALP, Box 7, Thompson to Richardson (London), 11 October 1934 and "Agreement Entered Into Between CAL and Quebec Airways Limited," 11 January 1935. Page 7 of the agreement stated that CAL and Quebec Airways "shall not compete with Clarke Steamship Company or The Lower St. Lawrence Navigation Company for the securing of government mail contracts in the Lower St. Lawrence;" and Box 23, Annual Report for Year End, 31 December 1935.

7. PAM, CALP, Box 6, Richardson to James L. Bowman (MP, Ottawa and Board of Directors, CAL), 10 April 1934. Richardson wrote, "I can say . . . emphatically, that Mr. Wilson, Controller of Civil Aviation, made no really worthwhile effort to compel our competition to live up to the Regulations" and CAL's adherence to the Regulations was "one of the chief reasons" for CAL's poor revenues; Box 7, Thompson to Richardson, 20 June 1936; and Controller of Civil Aviation to CAL, 10 January 1935; Thompson to Richardson, 11 January 1935; Controller to District Inspector of Civil Aviation (copy), 21 January 1935.

8. PAM, CALP, Box 6, Richardson to H. P. Robinson (N.B. Telegraph Co. Ltd.), 7 April 1934. Richardson wrote that many of CAL's problems were "due to the fact that the Military and Civil Government Air Operations are opposed to the development of a company of the kind we have. They feel it shrinks their importance and what they want is another CNR;" Richardson to R. J. Manion, 16 April 1934; and Richardson Memo, 20 March 1934. Richardson wrote, "Between 1928 and 1931 Civil Government Air Operations were a direct cost to Canada of \$10,000.00. The only thing of value that they did was photographic work and this could have been more cheaply carried out by commercial companies."

9. PAC, Bennett Papers, Box 42, Wilson Memo, "Air Mail Service," 31 March 1932 (for comments on RCAF and air mail); McNaughton Papers, (M) 58, Vol. 11, Memo to Minister of National Defence, 16 November 1932. In November 1932, in an attempt to regain the North Shore service, CAL told DND that it was beginning a passenger and freight service. McNaughton and Collican therefore recommended that the RCAF withdraw and the air mail contract be returned to CAL at a "substantial reduction of the previous rates;" and PAM, CALP, Box 5, F. T. Jenkins (Superintendent, Eastern Lines, CAL) to W. Sigerson, 25 July 1934, copy to Richardson, "Interview with McNaughton, 23-24 July 1934." McNaughton told Jenkins that the RCAF would be taking over CAL's photographic aerial survey work in a particular area.

10. Winnipeg Free Press, 18 May 1936.

11. PAC, Transport Records, RG 12, Vol. 1378, File: 5258-118, Canadian Colonial Airways to C. D. Howe, 30 September 1939; Howe to Canadian Colonial, 6 October; Smart, DM, Department of Transport (DOT) to President of Canadian Colonial, 19 October. Canadian Colonial requested a license to operate the Toronto-to-Buffalo return route. Howe replied that only "bona fide owned and controlled nationals" were permitted to operate in Canada. In his letter, Smart said that since the formation of Trans-Canada Air Lines, the policy of DOT was to avoid duplication of services. Smart also questioned Canadian Colonial's

financial setup, alluding to the fact that the investors were probably not Canadian.

12. PAC, McNaughton Papers, (M) 62, Vol. 101, File: Civil Aviation Policy Report, Wilson Memo, "Government Policy on Aviation," 20 April 1933. DND was aware that the PO was unfairly pushing the air mail rates down. Wilson wrote, "The Post Office Department reaps the advantage in lower prices. . . . As long as there is no Government policy the Post Office Department will take advantage of the situation to reduce costs."
13. Mattson, "Civil Aviation," Ph.D. Dissertation.
14. The Post Office Act, R.S., 1927, C.66, S.1.
15. PAM, CALP, Box 65, File: Brief on Transportation.
16. PAM, CALP, Box 8, hand-written note, no date, no signature, on Château Laurier paper, possibly Thompson who was in Ottawa at the time; and Box 65, Thompson's Brief on Transportation. See both for references to PO practices. Note that PO tried to get the mail carried free on the almost 2000-mile, south-bound route along the Mackenzie River, saying that it could not pay poundage rates as there were no scales in the district.
17. PAM, CALP, Box 7, J. O. Apps (Executive Assistant to President of CPR) to Thompson, 20 March 1935; Coolican to CAL, 14 September; Thompson to Apps, 15 October; Thompson to Andrew Thomson (Dominion Meteorology Service), 15 October.
18. PAM, CALP, Box 65, File: Brief on Transportation. In June 1938, PO awarded the Vancouver-to-Ft. St. John air mail contract to Ginger Coote Airways despite the fact that the company had just lost an aircraft with all on board and was currently under investigation for negligence. The subsequent Departmental Court of Enquiry found Ginger Coote Airways "guilty of contributory negligence." PO knew that this company had been under investigation for unsafe flying and that Grant McConachie of United Air Transport was currently negotiating to take it over because of the debts Ginger Coote had accumulated.
19. PAC, King Papers, Vol. 149, File: 1242, Wilson, "Aviation In Canada," 21 March 1937; and PAM, CALP, Box 65, Thompson's Brief on Transportation. Wilson wrote that in 1936 PO made "a handsome profit" on its air mail service; Thompson was more specific--he stated that the PO's profit was 125% on the air mail.
20. PAM, CALP, Box 9, Euler (Acting Postmaster General) to Richardson, 25 January 1939. As late as 1939, PO had to admit that "there is no hard and fast rule governing the procedure of awarding contracts for the conveyance of mails by air;" and

CAL's Brief to the Board of Transport Commissioners in June 1939. This brief was an important one, for it was the first one to receive the joint consideration of a number of departmental officials: namely, the Postmaster General, the Minister of Transport and the Board of Transport Commissioners. It was CAL's hope that it would set a precedent and herald the start of a new policy in the awarding of air mail contracts and the fixing of rates.

21. PAM, CALP, Box 7, Thompson to Richardson, 12 August 1935; PAC, Transport Records, RG 12, Vol. 944, File: 5304, R. J. Moffatt (President of Commercial Operators & Manufacturers Association of Canada) to Howe (Minister of Transport), 2 January 1936; and R. B. Noorduyne (Vice-President & General Manager of Noorduyne Aircraft Ltd.) to The Hon. C. A. Dunning (Minister of Finance), 16 April 1936.

22. PAM, CALP, Box 2, A. D. McLean (Civil Aviation Inspector, Saskatoon) to Leigh Brintnell (General Manager, WCA), 12 July 1930; and Box 14, File: Prairie Air Mail, R. W. Hale (Edmonton PO District Superintendent) to G. W. Herring (Chief Superintendent of Land and Air Mail), 9 December 1931. Both letters commented on the unsatisfactory navigational aids.

23. PAM, CALP, Box 7, Thompson to D. R. MacLaren (Superintendent, Pacific Lines, CAL), 24 February 1936 (re: Royal Signal Corps); and Box 6, MacLaren to Sigerson, 12 October 1933. One example of CAL's innovative methods of obtaining weather reports was MacLaren's "question chart" which he made up and distributed to CN and CP telegraph operators. This allowed CAL's pilots to call for weather reports from any location on the railway lines and to expect a reply that could be understood and transmitted according to instructions on the chart. For its Vancouver-to-Seattle service CAL's pilots relied upon the United States Weather Bureau in Seattle.

24. PAM, CALP, Box 6, Sigerson to Mulock, 17 October 1933; and A. T. Cowley (Superintendent of Air Regulations) to Mulock, 6 November. Sigerson requested Mulock to ask the government to institute training courses. Cowley replied that it was "not considered that Departmental Officers were the proper people to give such a course."

25. PAM, CALP, Box 7, Wilson to Thompson, 19 September 1935. In answer to Thompson's question as to how many spots were available for CAL's pilots to receive instrument training, Wilson replied that there were no openings, that the RCAF had to "put their own house in order . . . have little time to spare for other work . . . however important." Wilson suggested that CAL send its pilots to the United States for training. This is exactly what CAL did, after which it established its own instrument training program. CAL spent almost \$20,000.00 training twelve pilots for the trans-Canada operation.

## CHAPTER 5

### THE TRANS-CANADA COMMITTEE, 1933-1934

CAL was not alone in its attempts to find solutions for its problems. In the early thirties, men like Major-General A.G.L. McNaughton (Chief of the General Staff) and John A. Wilson (Controller of Aviation) tried to establish an air policy. They were well aware that Canada's airway development had not kept pace with that of the other advanced countries. By 1930, civil aviation, as an industry, had developed in nearly every industrialized country except Canada. Progress had been made by means of private companies selected and subsidized by government, with the result that Great Britain, France, Germany and the United States all had fairly well-developed domestic routes. In Canada, however, inter-city airway development during 1932 and 1933 was in limbo. After cancelling 80% of CAL's air mail contracts, Prime Minister Bennett did nothing to alleviate CAL's financial position. Like Prime Minister King before him, Bennett waited until circumstances forced him to act.

The decisive factor in prodding the Prime Minister to action was intervention by Richardson. At the end of March 1933, Richardson wrote personally to Bennett, made a number of phone calls to McNaughton and sent a memorandum from CAL's

Board of Directors to the Prime Minister.<sup>1</sup> Richardson emphasized CAL's serious financial situation and stated that unless the government developed a definite policy regarding air mail contracts, something better than "the bare cost of oil and gas," he would be forced to close CAL. He stressed the detrimental effect this would have on Canada's economic and national growth, pointing out that the world was on "the verge of large developments in air transportation" and that Canada needed a strong Canadian company.

McNaughton, realizing the gravity of the situation, wrote immediately to R. K. Finlayson, the Prime Minister's Private Secretary.<sup>2</sup> He repeated Richardson's arguments, adding that if CAL was out of the picture then the field was open to the Americans and "the control of Canadian aviation passes to New York." He also pointed out that CAL was the only company in Canada that the government could count on for future air developments and that it would be "a very serious and unfortunate condition" if CAL were forced to close. These comments by McNaughton are worth noting, for they show that he still looked favourably on CAL. Alerted by both Richardson and Finlayson, the Prime Minister called McNaughton and asked for a report on CAL and the airways situation in general by the end of May. McNaughton asked Wilson to prepare a memorandum.

Wilson's memorandum is significant.<sup>3</sup> First of all, it confirms Richardson's later declarations that CAL had been formed, with the government's encouragement, to operate the

trans-Canada airway. Secondly, it shows the shift in attitude that would occur in DND towards CAL. In 1930, and again, now, in March 1933, Wilson strongly recommended that the government recognize CAL as its "chosen instrument" and protect it from "cutthroat competition" or "the result would be deplorable." Wilson, recognizing the harmful tactics the Post Office used in tendering air mail contracts, further recommended that CAL be given more air mail contracts and that the contracts presently held by CAL be renegotiated "at equitable rates." The memorandum was distributed to DND and Post Office officials.

In response to Wilson's memorandum, Coolican denied that CAL had been formed with DND's or the Post Office's encouragement, rejected Wilson's allusion that the postal rates and short-term contracts were inequitable or injurious to CAL's financial stability and stated that CAL should not be the trans-Canada operator because he was not satisfied with CAL's past performance.<sup>4</sup> Coolican concluded by saying that if CAL were chosen it must be completely reorganized "to ensure a better appreciation of their obligations as Government contractors" and that the railways must be in control. He did not say why the railways should be in a dominate position.

The antagonism that marked the relationship between the Post Office and CAL was clearly evident. What Coolican's motives were can only be speculated. In all likelihood, Coolican feared the growth of a large company, which had the

blessing of the government, knowing that this would put an end to the Post Office's opportunity to make large profits on air mail contracts. If he could divide DND and Post Office officials in their choice of the trans-Canada operator, this would delay the selection and allow the Post Office to retain its supremacy in airway matters. There is another possible explanation. Apparently, Coolican and Herring were open to bribes whereas Thompson, CAL's General Manager who handled all air mail contracts, refused to offer or accept any bribes. This may have been one of the reasons for the intense antipathy that existed between CAL and the Post Office.<sup>5</sup> Regardless of the reason, this hostility was a factor in delaying the selection of a trans-Canada operator and, ultimately, in denying this role to CAL. At this point, both McNaughton and Wilson, two very powerful figures in DND, were in favour of CAL as Canada's "chosen instrument" and these men held the key to Canada's air policy. Within a very short time, however, McNaughton began to modify his views of CAL.

Early in May, McNaughton, Wilson and Coolican informally formed a committee to review the whole airways subject. The result of their deliberations was another memorandum by Wilson.<sup>6</sup> The memorandum is an interesting one, for it defines the committee's concept of the trans-Canada company and its recognition of the different requirements for the "bush operations" and the "scheduled inter-city operations."

In its review of the bush companies, the committee

showed its ignorance of bush operations. The memorandum stated, incorrectly, that the bush companies were self-supporting and needed no subsidy and required little navigational aids or weather services. The committee absolved the government from not having helped the bush companies in the past and recommended that this policy be continued so that the companies would be "left free to develop on a natural self-sustaining basis." Ignoring Wilson's previous warnings that the government should cut down on state air services, the committee recommended that the government encourage northern development by the use of state and commercial operators. It did not suggest direct financial assistance to the commercial companies.<sup>7</sup>

In its review of Canada's inter-city air services, the committee's tone about the role played by the government to date was remarkably complacent. In spite of the number of memoranda written by Wilson since 1928 about Canada's poor airway development, the committee smugly wrote that "no premature action has been taken to encourage uneconomical and unnecessary airways" and glossed over the government's performance since 1928, by exaggerating the state of readiness of the trans-Canada airway. Completely disregarding the fact that only the prairie section of the airway could be considered ready for operation and that the funds for the construction of the rest of the airway were not available, the committee stated that the only major problem was to

decide whether the trans-Canada company should be a private or a government-owned company. This statement is significant, for not only did the committee reverse itself later on this point, but also its reference to a government-owned company is the first time that this possibility is voiced.<sup>8</sup> At this stage, the committee sees the RCAF as the only force available for a state-operated company. Fortunately, the committee recognized that the RCAF did not have the elasticity to meet the conditions of a competitive service and McNaughton did not want it "deformed" to carry out a trans-continental operation.

If the trans-Canada airway was to be run by a private company, the committee saw two options; one was to create a new company, and the other was to use an existing company, such as CAL. In 1933, CAL stood an excellent chance of being selected as the trans-continental operator, since it was the largest company operating in Canada and, more importantly, it had the financial involvement of both railways. In the thirties, railway participation was considered essential. Presumably, this would guard against the railways setting up competitive air services and allay their fears about air domination of transportation. Railway cooperation was one point the committee could agree upon and, since both railways had invested in CAL, it decided that CAL should be entrusted with building Canada's airway system. For some reason, the committee felt it necessary to express a concern that CAL might

pursue "a policy independent of the railways, competitive rather than co-operative and supplementary." The committee had no basis for alarm. Richardson also wanted railway involvement. Possibly this was another Post Office attempt to undermine CAL.

The committee's recommendations in May 1933 are significant because, if the Prime Minister had implemented them, it is unlikely that the Trans-Canada Air Lines would have been created in 1937. The most important one affecting CAL's future was the committee's choice of CAL as the government's "chosen instrument" to operate the trans-Canada airway. The second most important recommendation was the committee's view that CAL should relinquish its bush operations and confine itself to the scheduled trans-continental service. This would prove to be one of the most contentious issues between CAL and the committee. The committee's argument was that CAL would have its hands full with the trans-continental operation. The unspoken explanation was that the committee was afraid that the government would be accused of creating a monopoly of air services for CAL.<sup>9</sup>

The committee was evidently prepared to activate its recommendations immediately, for appended to the memorandum was a draft "Heads of Agreement" drawn up for CAL, the CPR, the CNR and the government to sign. The memorandum and draft agreement were submitted to the Prime Minister with the request that the committee be given authority to negotiate an agreement with the four parties concerned.

There is nothing on file recording the Prime Minister's reaction to the memorandum. Likely he had no firm idea himself as to what should be done about the airways question and that the upcoming Economic Conference probably occupied his thoughts more than the airways. Richardson saw Bennett in May but was unable to get anything definite from him except that he was firmly opposed to giving a cash payment of 25¢ on all productive miles flown.<sup>10</sup> At the beginning of June, the Prime Minister gave McNaughton approval to initiate discussions with the railways and CAL but stressed that they were to be purely exploratory and were not to commit the government to anything. By the end of June, the informal committee of McNaughton, Wilson and Coolican had grown to include more DND representatives and either R. J. Manion, Minister of Railways and Canals, or his Deputy Minister, V. I. Smart, and L. B. Pearson from External Affairs, and had become known as the Interdepartmental Committee on the Trans-Canada Airway (TCA Committee). The TCA Committee was chaired by McNaughton.

By this time, a shift in McNaughton's attitude had become apparent. In a letter to the Minister of Railways and Canals, he wrote that he now thought it best not to use CAL but to "set up an entirely new organization wholly owned by the Canadian National and Canadian Pacific Railways."<sup>11</sup> McNaughton's change of attitude is important to note for, as the powerful Chief of the General Staff and Chairman of the TCA Committee, he could control the airways discussion.

Because there was no member of the committee with any practical knowledge of commercial aviation, the odds were that the committee would be moulded to McNaughton's point of view.

On 11 July 1933, the TCA Committee had its first official meeting; CAL was asked to attend.<sup>12</sup> The meeting had been called ostensibly to discuss CAL's March Memorandum to the Prime Minister. But this was not to be the case. McNaughton told Richardson that the TCA Committee could not consider the memorandum until it knew who the Trans-Canada contractor would be. Discussion bogged down on the committee's proviso that one company could not handle both the bush and trans-continental operations. Sigerson, CAL's Comptroller, suggested that CAL could reorganize itself into two departmental lines, separate and distinct, for the two jobs but, for the sake of economy and efficiency, use the same workshops, maintenance and overhaul shops and administrative offices. Coolican refused to accept CAL's arguments, stating that "we have already suffered from exclusion and monopoly" and that "dissipation of energy, ideas in the past has helped to get us into the state we are." As usual, Coolican's remarks were more inflammatory and baseless than helpful or concrete. The only point agreed to was that the company must be Canadian owned and operated. There were no further meetings between the committee and CAL or the committee itself until the middle of October. Contributing to this delay and complicating the situation was the fact that some of the TCA Committee members were also members of the

Trans-Atlantic Committee and busy with these talks during the summer of 1933.<sup>13</sup> As the problems of the trans-Canada airway and the trans-Atlantic airway were interrelated, these discussions will be briefly reviewed.

At the Newfoundland Conference in July 1933, the Ottawa Agreement, made the preceding summer, was reconfirmed, and preliminary plans for a trans-Atlantic service were made. Although the Canadian interests were protected and Canada had the right to carry out operations to the extreme limit of the Atlantic seaboard, Imperial Airways of Great Britain was in control of the situation.<sup>14</sup> The Newfoundland Conference forced the Canadian government to state what its contribution to the trans-Atlantic service would be. In reality, Canada had few options. It had neither the aircraft nor a developed aircraft industry nor an operating company that could provide the service between Canada and Newfoundland, much less the Atlantic itself. McNaughton told Imperial Airways that Canada could not commit itself to anything until it chose its trans-continental operator.<sup>15</sup> Wilson, on the other hand, recommended that Canada provide all the ground facilities necessary in Newfoundland, for this would keep the door open for Canada to participate more actively at a later date.

CAL was aware of the trans-Atlantic talks and, as far as Sigerson was concerned, they were as inconclusive as the trans-Canada airway discussions. Fearing that Bennett would "continue to stall indefinitely," he urged Richardson to have

an immediate "showdown discussion" with the Prime Minister.<sup>16</sup> Unfortunately, Richardson did nothing and the TCA Committee did not meet until mid-October.

On 18 October, CAL and the TCA Committee met again.<sup>17</sup> McNaughton first outlined the results of the Newfoundland Conference and then reaffirmed that CAL and the railways would organize the trans-Canada service, adding that Imperial Airways should also be involved "in a minor way."<sup>18</sup> He then asked CAL to submit plans and estimates for a trans-Canada company. With McNaughton's confirmation that CAL and the railways would form the trans-Canada company and with his request for a detailed plan of operations, Richardson left the meeting feeling confident that CAL would be chosen.

A month later, on 30 November, the TCA Committee met with CAL and the railways to examine CAL's proposal and estimates.<sup>19</sup> CAL's very detailed operating plan and financial breakdown of costs covered operations for both a trans-continental and a ship-to-shore service. The schedules were all supported by CAL's worksheets and called for a progressive commencement of each section of the airway. The estimates for the trans-continental service included no profit or interest and Richardson was prepared to operate the service on a cost basis or on any other basis which was "mutually satisfactory." Richardson stated that CAL was prepared to cooperate fully with the government, even to the extent of operating the trans-Canada company as a separate entity, and

that he was agreeable to government representation on the Board of Directors.

McNaughton appointed a subcommittee, composed of Smart (Chairman), Herring, Wilson, and Wing Commander Johnson (DND), to examine the plan and report back to the main committee. The subcommittee met on 4 December.<sup>20</sup> Post Office antagonism towards CAL was again evident. Herring quarreled with all of CAL's cost figures relating to aircraft expenditures and maintenance and CAL's proposal of a second pilot on board. Smart and Johnson, on the other hand, agreed with the proposal. Smart also believed that the government could not ignore the money already invested in CAL and now stated that he agreed with CAL's recommendation that one organization should control both the bush and trans-continental operations. Like the main committee, the subcommittee was divided in its approach.

The subcommittee met with CAL on 7 December.<sup>21</sup> Herring seemed determined to find fault with CAL and refused to listen to CAL's explanations.<sup>22</sup> The bickering with the Post Office continued until Sigerson and Mulock from CAL left. The meeting resumed but, as in past meetings, nothing was settled. Smart reiterated that he now firmly believed that railway control of the airways would "strangle the system." This was an interesting comment, coming as it did from the Deputy Minister of Railways.

CAL and the subcommittee met on 11 December to discuss

the differences in estimates prepared by CAL and Herring.<sup>23</sup> CAL was told that its figures were unacceptable. Sigerson replied that CAL had made enough concessions and that it was not prepared to make any further revisions. As the discussion was stalemated, Sigerson and Mulock left. This turned out to be the last meeting that CAL had with the committee before it presented its official report to the Prime Minister.

The TCA Committee itself met on 13 December.<sup>24</sup> Smart repeated his previous arguments against railway control and also recommended that all forms of transportation be brought together into one department--it would take a change of government and 3 more years before his latter recommendation was carried out.

Coolican made one last effort to blackball CAL. In a letter to McNaughton on 27 December, he outlined his reasons for rejecting CAL.<sup>25</sup> Coolican's objections were based on Herring's letter to him on 26 December.<sup>26</sup> This letter was full of vague criticisms of CAL's air mail services, reasons why CAL should not be compensated for its loss of air mail revenue, farfetched examples of the Post Office's generosity towards CAL and derogatory comments on CAL in general. There is no reply by McNaughton on file.

On 4 January 1934, the TCA Committee met to study its draft report, paragraph by paragraph.<sup>27</sup> The six-page, confidential report summarized domestic airway development, the effect of the proposed trans-Atlantic and trans-Pacific

airways on Canada and outlined the organization, schedules and costs of the trans-Canada airway. Appendices A to G covered the trans-Atlantic and the trans-Pacific airways, the reports of the subcommittee and the Post Office and all details and costs for the proposed trans-continental operation. The report acknowledged CAL's assistance and CAL's influence can be seen in the majority of the report's recommendations.

Discussion of the report showed that the committee was still divided on the question as to whether the same company should run both the bush and the scheduled inter-city services. Although the committee now agreed with Richardson's and Smart's argument, that it was more practicable for one company to handle both services, it did not recommend this. Further undermining CAL's position and again showing the indecisiveness of the committee members was the paragraph dealing with who should operate the system. Instead of strongly advocating either a private or a government-owned airline, the committee hedged its recommendations by writing that it "inclined towards operation by an independent company" but recognized "that questions of high Government policy may make the retention of complete control in the Government's hands desirable." The possibility of a government-controlled air service had been raised officially. Also significant was the fact that the committee had now almost completely reversed itself on its stand on railway control

and merely suggested that "it might be well to have the Railways represented on the Board." The committee was now firmly in favour of Imperial Airways as an active participant, as well as being represented on the Board of Directors.

The committee optimistically and inaccurately estimated that the whole airway would be in service by 1 April 1936. The report noted that municipal and commercial interests had spent over \$4,000,000.00 to date on airfields and airports on the trans-Canada airway, while the government's contribution, since 1928, was \$674,000.00 plus the cost of airway construction under the Unemployment Relief Plan during the summer of 1933.<sup>28</sup> The \$4,000,000.00 figure should be kept in mind. McNaughton would say later, incorrectly, that because the federal government had expended more money than the private sector on the construction of the airway, it should be in control of the trans-Canada company.

The committee made eight recommendations. They were that the construction of airfields under the Unemployment Relief Plan be continued; that provision under the Civil Aviation Appropriations be made for the acquisition and development of the remaining airfields, maintenance costs and air mail services; that the air mail contracts be given for a 5-to-10-year period; that all principal officers of the trans-Canada company were to be British subjects resident in Canada (except if Imperial Airways was involved); and that, where practicable, all equipment used should be manufactured in

Canada.

The draft report was revised slightly and submitted to the Prime Minister on 30 January 1934 by McNaughton. It is evident that McNaughton was not entirely happy with the committee's recommendations, for his covering letter to the Prime Minister included two additional recommendations.<sup>29</sup> Whereas the committee "inclined" towards a private company and suggested that the government appoint one Director, McNaughton wished the government to retain complete control of the trans-Canada company. He also stated that separate aircraft would be required to carry the mail and the passengers, because, in his opinion, it was not practicable to use the same plane for both if postal schedules were to be kept.

The first recommendation is not unexpected. Although McNaughton had told Richardson that CAL would be the basis of the trans-Canada company, he had made numerous comments privately that the company should be government owned. His second recommendation is more difficult to explain, unless he, like Post Office officials, did not understand sound business airline economics.<sup>30</sup> Certainly it showed his complete disregard not only for CAL's advice, but also for all the evidence from European and American airline officials, that it was financially unsound to separate the mails from other traffic. McNaughton's only useful piece of advice to the Prime Minister was that he should make an early decision on the report so that action could be taken "to safeguard

the proper interests of the government and the people of Canada."

The TCA Committee Report of January 1934 accomplished nothing. Bennett neither commented nor did anything about it. It is impossible to say with any certainty why he took no action. The most likely explanation is that the report was a weak document. It skirted the main issues: who was to be the trans-Canada operator and what was to be the government's involvement in the trans-Canada company. These two questions were not answered in the eight recommendations. Indeed, they covered only noncontroversial, side issues of the airways question. Although the report included the committee's discussion of the trans-Canada contractor, the committee's collective view was worded weakly and was undermined by McNaughton's letter strongly advising a government-owned company. No comments are available from the Prime Minister. It may have been that the lack of a strong recommendation for either a government- or a privately-owned airline company and the necessary follow-up to this, how the company was to be formed and operated, which accounts for Bennett's procrastination on airway affairs.

## NOTES

### CHAPTER 5

1. PAC, McNaughton Papers, Vol. 101, File: Civil Aviation Policy, Richardson to Bennett, 22 March 1933; Bennett Papers, Box 43, A-150, Confidential Memo, McNaughton to R. K. Finlayson (Private Secretary to PM), 22 March 1933 (reference to Richardson's phone call here); and PAM, CALP, Box 6, Board of Directors, CAL, Memo to PM, March 1933.
2. PAC, McNaughton Papers, Vol. 101, File: Interdepartmental, Confidential Memo by McNaughton, 15 November 1933 (reference to Finlayson, meetings with PM and other government officials here).
3. PAC, McNaughton Papers, (M) 62, Vol. 101, File: Canadian Airways, Wilson Memo, "Air Transportation in Canada," 17 March 1933. Note that this date does not coincide with McNaughton's letter to Finlayson on 22 March stating that he asked Wilson to prepare a memo.
4. Ibid., Coolican to Wilson, 15 May 1933.
5. Lawson interview, 8 December 1982; and Stan R. McMillan (former CAL pilot and Chief Pilot with Mackenzie Air Services) interview, Edmonton, 17 May 1983. Both men attested to Thompson's unbending honesty. It was Lawson who suggested that Thompson's high moral standard made him extremely unpopular with PO.
6. PAC, McNaughton Papers, Vol. 101, File: Canadian Airways, Wilson Memo, "Civil Aviation Policy," 24 May 1933. Appended to Memo was draft "Heads of Agreement," May 1933.
7. Ibid. The committee recommended that government assistance be given indirectly by the provision of air mail contracts at "equitable rates" and government weather reports. Even this was qualified with the statement that the bush companies "should be encouraged to install their own communication services in the interests of safe flying."
8. At this point, McNaughton sees choosing the trans-Canada operator as the main problem facing the TCA Committee. Later, he pushes this problem aside, stating that the status of the airway is more important. See below, Chapter 7, footnote 17.

9. The memorandum makes no reference to monopoly with regard to the trans-continental service but does refer to this possibility in regard to the northern bush services. The committee recommended that the bush operators be left "open to the free play of competition. In this way the worse features of a monopoly will be avoided."

10. PAM, CALP, Box 6, Rough draft Richardson Memo to Executive Committee of CAL. This figure refers to the amount requested in CAL's Memo to PM.

11. PAC, McNaughton Papers, Vol. 101, File: Interdepartmental TCA Committee to July 1933, McNaughton to R. J. Manion, 26 June 1933.

12. Copies of the Confidential Minutes of Meeting, Interdepartmental Committee, Trans-Canada Airway (Minutes of TCA Committee Meeting) are in both McNaughton's and Wilson's Papers. Copies of the Minutes of the meetings attended by CAL are also in Canadian Airways Papers. For footnote purposes, all Minutes of TCA Committee Meetings will be listed simply as McNaughton Papers (Vol. 101, File: Interdepartmental Committee). Present at all meetings (unless otherwise stated) were McNaughton and Wilson from DND, Coolican and/or Herring from PO and V. I. Smart from Railways and Canals. In addition to these regulars, there were often two to five other representatives from DND and L. B. Pearson from External Affairs. In September 1934, W. C. Clark, DM of Finance, was asked to join the TCA Committee. When invited to attend, the representatives from CAL were usually Mulock and Sigerson, although Richardson attended two of the meetings and Thompson sometimes filled in for either Mulock or Sigerson. Beatty and Apps (Assistant to Beatty) represented the CPR and Hungerford, the CNR.

PAC, McNaughton Papers, Minutes of TCA Committee Meeting, 11 July 1933.

13. PAC, McNaughton Papers, (M) 59, Vol. 11, File: Air Mail Routes, Wilson Memo, 20 July 1933; Wilson Memo, "Trans-Atlantic Service," 25 July 1933; Wilson Memo, "Trans-Atlantic Flying," 1 November 1933. See above for trans-Atlantic talks.

14. The four powers (Canada, Great Britain, Newfoundland and the Irish Free State) agreed that Newfoundland did not have the right to grant concessions to Pan Am and that Imperial Airways would be given the right to construct and operate an airway and/or assign or sublet its rights, subject to the approval of Great Britain and Canada, to other interests.

15. PAC, McNaughton Papers, Vol. 11, Wilson Memo, "Trans-Atlantic Service," 25 July 1933. McNaughton stated that the RCAF would run the experimental ship-to-shore service. See above, Chapter 5, footnote 10. CAL was afraid that this might happen.

16. PAM, CALP, Box 6, Sigerson coded Telegram to Richardson, 9 September 1933.

17. PAC, McNaughton Papers, Minutes of TCA Committee Meeting, 18 October 1933.

18. Ibid., Confidential Minutes of a Meeting, 30 September 1933. McNaughton's suggestion of Imperial Airways' involvement may have been the result of the 30 September meeting at which Sir George Beharrell, Director of Imperial Airways, was present. Beharrell had told the TCA Committee that Imperial Airways was not really interested in the trans-Canada airway except as it affected Imperial Airways and the trans-Atlantic service, but that it was prepared to help Canada in any way. Imperial Airways' main concern was to obtain Canadian cooperation to initiate a ship-to-shore service. Beharrell suggested that an Anglo-Canadian company be formed (one-third Imperial Airways, one-third CAL and one-third CP Steamships) for the Canadian end. Mulock of CAL was present at this meeting.

19. Ibid., Minutes of TCA Committee Meeting, 30 November 1933; and PAM, CALP, Box 6, Thompson to Sigerson, "Memo on Trans-Canada Air Mail Estimates," 13 November 1933.

20. PAC, McNaughton Papers, Minutes of Subcommittee of TCA Committee, 4 December 1933. In addition to the regular subcommittee members, A. T. Cowley of DND was present.

21. Ibid., Minutes of Subcommittee of TCA Committee, 7 December 1933. Also present was Cowley of DND.

22. In this instance, Herring said that the aircraft CAL proposed to use for the trans-Canada service was larger than was necessary for the air mail and if CAL used the extra space for other reasons then it should give back to the government any profit. As both CAL and Wilson pointed out, it was to the government's advantage for the trans-Canada company to build up an express and passenger service, for this would help to defray overall costs.

23. Ibid., Minutes of Subcommittee of TCA Committee, 11 December 1933. Also present were A. D. McLean of DND and Sigerson and Mulock of CAL.

24. Ibid., Minutes of TCA Committee Meeting, 13 December 1933.
25. Ibid., Coolican to McNaughton, 27 December 1933.
26. Ibid., Herring to Coolican, 26 December 1933.
27. Ibid., Minutes of TCA Committee Meeting, 4 January 1934. Attached to Minutes was the Confidential "Report of Interdepartmental Committee on the Trans-Canada Airway," prepared for the information of the Government of Canada only, 18 January 1934. This copy was the final report, not the draft report discussed at the 4 January 1934 meeting. Eleven copies were distributed: McNaughton, Wilson, Coolican, Smart and Pearson; a copy to each of their departments; one copy to the PM and one copy to Col. Georges P. Vanier in London, England. All quotations from TCA Committee Report and Minutes of TCA Committee Meeting, 4 January 1934.
28. Actual work accomplished on the trans-Canada airway under the Unemployment Relief Plan could not have been much, since the report stated that none of the fields had been completed. Forty-eight fields had been located; twenty-nine sites were still to be purchased. All projects under the Unemployment Relief Plan were closed 30 June 1936. Funds spent on the trans-Canada airway to that date (under the Unemployment Relief Plan) were \$311,079.00.
- PAC, Wilson Papers, Wilson Memo, 21 May 1936.
29. PAC, McNaughton Papers, McNaughton Confidential Letter to Prime Minister, 30 January 1934.
30. At the 7 December 1933 TCA Committee meeting, CAL had tried to point out why there was a discrepancy in the cost figures of CAL and the subcommittee. Most of the difference was due to the different approach used by CAL, a private business, and the TCA Committee, a government entity. For example, at the meeting, Herring quibbled over the fact that CAL's cost sheet showed a breakdown into "productive miles flown" and "unproductive air miles." Herring refused to accept the costs which resulted from "unproductive miles flown." It was to overcome such problems that CAL insisted on using the same aircraft for mail, passengers and freight.

## CHAPTER 6

### MARKING TIME, 1934-1935

Although CAL was aware of the TCA Committee's Report, it did not receive a copy nor was it advised of its contents.<sup>1</sup> In an attempt to get an answer on the airways situation, Richardson saw the Prime Minister on 15 February.<sup>2</sup> Bennett told him that the country could not afford air mail services and furthermore it would be unwise for him to suggest it, since Sir Henry Drayton had just completed a trip throughout western Canada preaching 'economy.' When Richardson told Bennett that CAL could not afford to go deeper into debt, the Prime Minister suggested that it might be best for CAL to close down. Richardson was not prepared to accept this as the Prime Minister's final answer. In an effort to arouse public opinion and government officials on CAL's behalf, Richardson planned an all-out campaign.

In mid-March he called upon C. P. Fullerton, Chairman of the Board of Trustees, CNR, and reminded him that if CAL folded the CNR would lose its \$250,000.00. Fullerton promised to write to the Prime Minister on CAL's behalf.<sup>3</sup> Unfortunately, Richardson's talk with Wilson on 16 March was not promising. Wilson admitted that after viewing CAL's operations in Manitoba, Ontario and Quebec, he had no criticism

to make, but that it was "politically unwise" for the government to recommend that one company operate both the trans-Canada airway and the bush services.<sup>4</sup> More encouraging was Frank Ross's (CAL Director) report on a meeting that he had with Bennett, William Herridge and R. J. Manion in March. He said that Manion (who was to be on the Cabinet Committee appointed to look into airway affairs) was definitely opposed to McNaughton's recommendations and favoured CAL. He also stated that the Prime Minister had said that, when the air mail was resumed, CAL would receive first consideration. At that point, McNaughton was asked to join the discussion. Ross reported that McNaughton's attitude was definitely antagonistic towards CAL. According to Ross, McNaughton took the stand that he (McNaughton) had done more for aviation in Canada than everybody else and that "McNaughton indicated that the Transcontinental should be kind of a memorial to him."<sup>5</sup>

Richardson also approached the Boards of Trade and mining interests in western Canada and asked them to write Bennett requesting a reinstatement of the air mail. Unfortunately, Bennett's reply to all of them was negative.<sup>6</sup>

Richardson then made another personal plea to Bennett. On 21 March, he told him that, unless the government made an early decision on the trans-Canada company or gave CAL \$200,000.00 to tide it over, he would have to close the company. There is no reference to Bennett's answer.<sup>7</sup> Richardson's

next move was to write a memorandum outlining CAL's history, its present situation and his intention to write the Prime Minister for "fair dealing." The memorandum was originally intended to provide information for CAL's Board of Directors to use in exerting pressure on the government. However, Richardson soon began to send copies of it to newspapers and individuals whom he thought could help CAL's case.<sup>8</sup>

Richardson's campaign to get the Prime Minister to re-consider CAL's situation was successful in that Bennett named a Committee of the Cabinet to meet with a committee of CAL in Ottawa at the end of April.<sup>9</sup> Although Manion and Hugh Guthrie (Minister of Justice) were sympathetic to CAL, nothing was done to help CAL.

There are two other occurrences in connection with the trans-Canada air mail contract which should be mentioned. One was Richardson's decision not to re-open the question of the cancelled contracts. From the correspondence, it appears that Sigerson and Thompson wanted Richardson to question the legality of the government's action. However, the law firm of Brown, Montgomery and McMichael stated that Richardson's 2-year delay in taking action was detrimental to his case. It was their opinion that CAL had "acquiesced" in the government's actions and had lost "whatever residuum of legal right it might have had to impugn the validity of the annulment." Richardson also asked J. B. Coyne, both friend and lawyer, for his advice. Coyne took a different stand. He believed that

the government did not have the right to cancel the contracts on the grounds that it did and by doing so it destroyed "the confidence contractors should have in government contracts." It was Coyne's opinion that Richardson did not "acquiesce" in the cancellation and, while he did not press his legal rights in 1932, neither did he abandon them nor agree to accept the cancellation "without compensation or deferred performance."<sup>10</sup> Richardson did not follow Coyne's advice, and his decision not to take legal action against the government was an incorrect one. He had nothing to lose and everything to gain. If Richardson had properly harnessed his Board of Directors to exert pressure on the government at the same time that the Boards of Trade and the western newspapers were clamoring for the reinstatement of the prairie air mail, this action in conjunction with a Cabinet Committee, supposedly favourable to CAL, and the threat of legal action and embarrassment to the government may have forced Bennett to re-issue the air mail contracts. Richardson should have taken steps to strengthen CAL's position against other contenders for the air mail contracts.

It was in this period that the "Toronto group" resurfaced. This group of influential men, known in Canadian Airways Papers as the "Toronto group," had been loosely organized by Percy Parker in the late twenties to form The British North American Airways Company. The company had never operated an air service. On 11 March, Billy Bishop,

a well-known World War I pilot and acquaintance of Richardson, warned Richardson that the Toronto group was once again organizing an aviation company to bid for the trans-Canada contract. Bishop told Richardson that the group had no intention of operating permanently but only wished to get control of the contract so that it might later sell it at a profit to the railways.<sup>11</sup> Although the company was not active, it was a potential threat to CAL; CAL was no longer the sole contender for the trans-Canada contract.

From this date, retrenchment and consolidation became key objectives of CAL. Its first step was to transfer the Executive Offices from Montreal to Winnipeg in June 1934. Since 1930, the operation and administration of CAL had been conducted through four main offices: the Executive Offices in Montreal, the Eastern Lines General Office in Montreal, the Western Lines General Office in Winnipeg and the Pacific Lines General Office in Vancouver. This setup had been retained in anticipation of the renewal of large-scale air mail operations. In May 1934, the lease for the Montreal office would expire and Richardson decided the time had come to tighten up the organization of the company to reduce expenses. Because Winnipeg was a central point for the company's business, and Richardson's home, and also presented the best opportunities for a more economic administration, the Executive Offices were moved to Winnipeg. The reorganization resulted in the release of more than twenty employees, three

of them from top administrative positions: Mulock (Special Assistant to the President), Sigerson (Comptroller) and G. C. Drury (Secretary-Treasurer, Executive Offices). The transfer signified two things. First of all, Richardson had abandoned his trans-continental administrative setup, although flying activities were still conducted from coast to coast. But it also showed that Richardson was prepared to keep CAL flying, despite the lack of government aid or encouragement. The decision to remain in business had been made after months of vacillation.<sup>12</sup>

McNaughton was also upset with the Prime Minister's inaction. Bennett's delay in responding to the TCA Committee's recommendations meant that the dates for the opening of the various sections of the trans-Canada airway had to be changed. On 29 March, McNaughton submitted a revised schedule for the inauguration of the airway to Bennett and tactfully reminded him that it was conditional on an immediate decision.<sup>13</sup>

The Prime Minister's procrastination was also causing McNaughton problems with the proposed trans-Atlantic service. In July 1933, Imperial Airways had offered Canada some of its flying boats for the Canadian ship-to-shore service; an offer that was repeated in March 1934. McNaughton could neither accept nor reject Imperial Airways' offer until he knew the policy of the government. The Prime Minister's indecisiveness

was threatening to undermine the Canadian gains made at Newfoundland for, if Imperial Airways did not receive a definite answer soon, it would again turn to Pan Am for a cooperative trans-Atlantic service.<sup>14</sup>

Bennett remained silent. McNaughton was forced to write again on 19 May stating that the March schedules were no longer practicable and he was once again submitting a revised schedule of costs and airway openings. McNaughton requested an immediate answer in regard to both the trans-Canada airway and the ship-to-shore services.<sup>15</sup> Finally, the Prime Minister authorized McNaughton to have the TCA Committee formulate a definite policy to govern the action of the government on air matters. Surprisingly, considering the urgency of the situation and his previous requests for immediate action, McNaughton did nothing for 4 months, when he finally formed a subcommittee. Even then he continued to drag his heels and did not call a meeting until 23 October.<sup>16</sup>

Nothing was accomplished at this meeting. Issues which had been discussed innumerable times in the past and supposedly settled with the committee's report in January 1934 were rehashed. For example, the question as to who should operate the trans-continental service was raised. There is no indication in government papers that the Prime Minister was dissatisfied with the committee's recommendation (weak though it was) that a private company operate the trans-continental service. Thus there was no reason for the committee to debate

the issue again. The probable explanation is that it was McNaughton who wanted to discuss it in hopes that he could persuade the committee to recommend a government-owned company. In fact, McNaughton seemed to be doing his best to shelve the topic, for he said that it (the trans-Canada operator) was "a long debatable subject and there is no special hurry about it." This was an astonishing remark for McNaughton to make unless it was a delaying tactic to force CAL out of business. McNaughton appeared oblivious to CAL's financial problems and showed no concern for Richardson's position, telling him that there was no need to pick the trans-Canada operator yet.<sup>17</sup> It is difficult to understand why McNaughton no longer felt the urgency of choosing the trans-Canada contractor when he was aware of CAL's situation, the requests from American airlines to run services into Canada and Imperial Airways' annoyance with not receiving an answer from Canada about its participation in the Empire Air Mail Scheme and the trans-Atlantic airway.<sup>18</sup>

Canada's place in the Empire Air Mail Scheme was significant by its absence. The United Kingdom had not included Canada in its plans for the very good reason that there was still no "Canadian connection." In spite of Canada's promises in July 1933, the Canadian government had done nothing about the ship-to-shore service or chosen its trans-Canada operator, which would also provide the link with the trans-Atlantic carrier. From London, England, Georges Vanier had

written Dr. O. D. Skelton, Under-Secretary of State, that the British were "very keen . . . to include Canada in the scheme . . . at the Canadian end."<sup>19</sup>

Complicating the situation was the fact that aeronautical development in the United States and Great Britain had progressed so rapidly that commercial long-range aircraft would be produced sooner than had been anticipated. However, the Americans were well ahead of the British and Pan Am planned to test-fly a trans-Atlantic aircraft in February 1935. If the tests were successful, Pan Am would begin a trans-Atlantic service in the summer of 1935. The realization that they could not offer an all-air, trans-Atlantic service accounts for the anxiety of the British to see Canada establish the ship-to-shore service. Unfortunately, Canada's proposed ship-to-shore service was likely to be obsolete before it even became functional and the question whether to promote the trans-Atlantic service before the trans-Canada service was to be another stumbling block for the TCA Committee. Should it recommend financing a ship-to-shore service and thus ensure Canada a place in the Empire Air Mail Scheme, or should it recommend that Canada provide the ground services in Newfoundland for the eventual all-air, trans-Atlantic service? There was also the question of the trans-Canada airway. It was unlikely that the Prime Minister would authorize expenditures for developing both the trans-Canada and trans-Atlantic services concurrently. Compounding the problem was a request

from Pan Am, on 2 November, to operate a service through the Maritimes.<sup>20</sup> This was obviously an attempt by Pan Am to be favourably situated for trans-Atlantic flights. It was therefore vital that the TCA Committee decide which service to develop first and who the trans-Canada operator was to be. All these factors make McNaughton's remark, that there was "no special hurry," inexplicable.

Indecision and squabbling marked the next TCA Committee's meeting on 11 December.<sup>21</sup> Again, issues that had been previously decided were raised for discussion. There was debate as to which was more important, the trans-Canada airway or the ship-to-shore service. Wilson, who had earlier recommended that Canada institute the ship-to-shore service first, now felt that Canada should concentrate its efforts on completing the airway. The rest of the committee, for a variety of reasons, wanted to inaugurate the air-ship service. McNaughton offered no guidance and, indeed, tried to explain away the committee's indecisiveness by saying that the government had given it no help, that there were only a few individuals in DND who could devote any attention to airway problems and that there was a limit to what DND could do. Herring, as usual, approached the problem from a narrow and shortsighted viewpoint,<sup>22</sup> while Clarke straddled the fence and recommended completing both airways. McNaughton finally said that he thought the trans-Canada airway should be completed first. The meeting adjourned with the request that

Herring outline the Empire Air Mail Scheme and Canada's position in it.

It was Wilson who reviewed the subject, although his memorandum covered much the same ground as his previous ones. He recommended that if trans-Atlantic flight were feasible within 2 years, then Canada should concentrate on providing the ground services for an all-air operation rather than the air-ship service.<sup>23</sup> Herring was unhappy with the memorandum and accused Wilson of viewing the trans-Atlantic airway as contributing to the development of commercial aviation rather than from a "purely . . . postal significance."<sup>24</sup> Herring was correct. Wilson looked upon the Empire Air Mail service as simply another part of Canada's air policy that had to be defined.

Indeed, Wilson seemed to be the only TCA Committee member who was capable of regarding Canada's 'aviation question' from a variety of viewpoints. Unlike McNaughton or Herring, he did not try to promote his departmental concerns at the expense of sound airway development. It is interesting to note that in any of his public addresses or writings Wilson always rationalized the government's actions. But, his private correspondence showed that he wore no blinkers regarding the government's activities. For example, on 25 January 1935, in a remarkably forthright but confidential memorandum to the Deputy Minister, Wilson condemned the Canadian government for its "laissez faire programme in aviation" and for being "the

only country which has reduced expenditures on civil aviation materially." He described the progress in airway development in other countries, commented on Canada's poor development and recommended immediate action.<sup>25</sup>

Although the Prime Minister had ignored the committee's report, he did realize the necessity for a reorganization of government services including civil aviation. On 10 December 1934, he appointed a secret committee composed of McNaughton, Finlayson, C. H. Bland (Commissioner, Civil Service) and W. Arthur Steel (Commissioner, Canadian Radio Broadcasting), and chaired by McNaughton.<sup>26</sup> On 24 January 1935, in a Confidential Report to the Prime Minister, the committee recommended that Telegraph and Telephone, Radio Broadcasting, Meteorology, Surveys, and Civil Aviation be combined into one department to be called the Department of Communications. The committee also submitted a draft for a revised Aeronautics Act and suggested that it be introduced at the same time as the new Defence Act.<sup>27</sup> Thus it appears that Bennett was finally prepared to do something about the status of civil aviation. But the legislation for these changes was never introduced. McNaughton later wrote that one of the reasons he had not presented this legislation was that, under the proposed plan, aviation would have been handed over to the railways and, therefore, been in danger of being "suppressed and made subservient to the interests of the railways."<sup>28</sup> As McNaughton had always been one of the main advocates of railway control over the airways and had been

chairman of the committee which had produced this recommendation, this was either a very weak excuse or another indication of his indecisiveness in airway matters.

The TCA Committee met twice more in 1935, on 14 March and 5 July; but McNaughton seemed to have lost all interest in airway matters. He was not particularly concerned about Canada's exclusion from the Empire Air Mail Scheme or the collaboration between Imperial Airways and Pan Am, nor did he try to prevent Pan Am from establishing a service from New York through the Maritimes to Newfoundland.<sup>29</sup> At the end of June, McNaughton left DND for the National Research Council, although he retained his chairmanship of the TCA Committee. In actual fact, he chaired only one more meeting and, like many of the preceding ones, no decisions were reached. Indeed, it is probably safe to say that under McNaughton's leadership the TCA Committee produced little that was concrete except a mass of memoranda. McNaughton would have disagreed with this assessment. He believed that the TCA Committee had successfully accomplished its task and pointed to the money that DND had received in its supplementary vote for the trans-Canada airway as proof that Canada now had "an approved policy" for airway development.<sup>30</sup> To be fair, McNaughton was responsible to a Prime Minister who saw commercial aviation as a nonessential item. The result was that, under Bennett, commercial aviation in Canada stagnated and from McNaughton, as Chairman of the TCA Committee, it received no positive guidance.

McNaughton permitted interdepartmental rivalry to delay committee decisions. He himself vacillated on critical issues and consequently offered little direction to the committee. He relied excessively on Wilson and on the impact of memoranda instead of forcefully and personally presenting a developed air policy to the Prime Minister. McNaughton saw himself as the savior of civil aviation and, in later years, pointed to the trans-Canada airway as proof of his achievements. However, there is evidence that the idea of building the secondary airfields under the Unemployment Relief Plan came from Mulock of CAL and not McNaughton.<sup>31</sup> But of more significance is the fact that their importance to civil aviation has been exaggerated. In reality, McNaughton's trans-Canada airway was not trans-continental. The airfields built under the plan were mainly in Ontario and Manitoba and, by the time Trans-Canada Air Lines was flying the trans-Canada route, most of the fields were obsolete because of the use of long-range aircraft. McNaughton was ineffectual as Chairman of the TCA Committee, for the committee failed either to implement a policy for the development of civil aviation or to establish a trans-Canada company.

There was a minimum of contact between CAL and the government in 1935. CAL was not asked to attend any TCA Committee meetings nor was its advice sought on any airway matters. As McNaughton had shown himself to be hostile to

CAL and its relationship with the Post Office had deteriorated further, CAL saw little point in pushing its case in Ottawa. By mid-1935, CAL officials had given up hope that Bennett would do anything for the company and were now pinning their hopes on Mackenzie King and the Liberals.

## NOTES

### CHAPTER 6

1. PAC, Bennett Papers, Box 43, Bennett to Richardson, 26 February 1934. The PM would not send a copy of the TCA Committee's Report to Richardson for "reasons that are obvious." CAL did not receive a copy of the report until a year and a half later, in July 1935. It was sent confidentially to CAL by J. O. Apps of CPR.
2. PAM, CALP, Box 6, Unsigned Memo (presumably Richardson), 15 March 1934. Commenting on Sir Henry Drayton (Minister of Finance 1919, Chairman of Board of Railway Commissioners). Richardson wrote that he wished Drayton had talked about "efficiency in government" instead of "economy in government." "You cannot have efficiency without economy, but you can have economy without efficiency . . . in fact you can have economy that ruins efficiency." Richardson wanted the government to spend some money for "the production of new wealth." Ibid., Richardson to R. J. Manion, 16 April 1934.
3. PAC, RG 30, Vol. 10766, File: 1091-1, C. P. Fullerton to Bennett, 23 March 1934; and Bennett's Papers, Bennett to Fullerton, 24 March 1934. The date of Richardson's meeting was not given. The PM's answer to Fullerton was negative, "I see no likelihood of our being able to do more for CAL than we have already done . . . we have reached our limit."
4. PAM, CALP, Box 6, Unsigned Memo (presumably Richardson), 16 March 1934, Montreal.
5. Ibid., Unsigned Memo, 15 March 1934.
6. PAC, Bennett Papers, Box 43, A-100, Winnipeg Board of Trade Telegram to Prime Minister, 17 April 1934; PM to Winnipeg Board, 18 April, "The Dominion of Canada is not in a financial position to help;" and Manitoba Chamber of Mines Telegram to Prime Minister, 17 April 1934; PM Telegram to Chamber, 18 April, "Impossible."
7. PAC, McNaughton Papers, (M) 59, Vol. 11, File: "Air Mail Routes," McNaughton Memo, 21 March 1934; and Confidential McNaughton Memo, 21 March 1934. Reference to Richardson's

visit in Confidential Memo. CAL's working capital was down to \$286,000.00 represented by \$78,000.00 cash in hand and \$116,000.00 in debts.

8. PAM, CALP, Box 54, File: Easter Memo, Richardson Memo, "Canadian Airways Limited," (known as the Easter Memo), 7 April 1934; and Winnipeg Free Press, 24 April 1934.

9. PAM, CALP, Box 6, Richardson to F. S. Chalmers (unidentified), 20 April 1934. Reference to meeting here. Manion (Railways and Canals) and Guthrie (Justice) made up the Cabinet Committee and Richardson, Beatty (CPR) and Hungerford (CNR) made up CAL's committee.

10. Ibid., See correspondence between Sigerson and Thompson, 26 February to 2 March 1934; Brown, Montgomery & McMichael (Montreal) to Sigerson, 1 March 1934; and J. B. Coyne Memo to Richardson, "Mail Contracts," 10 April 1934.

11. Ibid., Unsigned Memo, 15 March 1934 (this was a different memo from that in footnote 5). The British North America Airways Company, formed by the "Toronto group," had been established sometime in the late 1920s by Percy Parker. The members of the group varied from year to year. Bishop did not divulge any names and references to the members are ambiguous in CALP. The list below may not be entirely accurate or complete and some of the men listed may not have become members until 1936. In 1936, Richardson was told that E. P. Taylor (President of the Brewing Corporation of Canada Ltd.) and the Hon. J. L. Ralston were members.

The "Toronto group:" Frank Common, lawyer (Brown, Montgomery & McMichael, Montreal), President of Hydro-Electric Securities Corporation, International Holding & Investing; Director of Canadian Colonial Airways. Charles Burns. John C. Elliott (Liberal), lawyer, Postmaster General under PM King (1935). Scott Gordon. James Henry Gundy (Liberal), financier, Chairman & President of the Board of Wood, Gundy & Co. Ltd.; President of Consolidated Investment Corporation of Canada. Ross Gray, chief Liberal Whip. Ray Lawson (Liberal), President of Lawson & Jones Ltd., Lawson Litho & Folding Box Co. Ltd.; Director of The Royal Bank of Canada, North Life Assurance Co. Ltd. Roy Maxwell, chief pilot with Ontario Provincial Air Services. C. G. McCullagh (Liberal), Assistant Financial Editor of the Globe & Mail. John McCurdy, publisher, President of banking firm of F. B. McCurdy & Co.; Director of The Bank of Nova Scotia. Neil McLean. Brig.-Gen. Victor W. Odlum (Liberal), bond and insurance broker, Board of Governors of the Canadian Radio Broadcasting Commission. Percy Parker (Liberal). W. D. Ross, financier, Assistant General Manager of the Metropolitan Bank of Toronto; Director of The Bank of Nova Scotia. William Zimmerman (Conservative), lawyer, Zimmerman, Blackwell & Haywood.

12. PAM, CALP, Box 43, File: Operations, 29 May 1934; and Box 7, CAL Memo, "Reorganization and Compensation Adjustment," 1 June 1934. A large volume of freight, express and passenger business had been built up in western Ontario, central Manitoba and the Mackenzie River district and this traffic represented approximately 75% of the company's total revenue. This made Winnipeg a good choice. The six operating bases were: Maritimes, Moncton; Quebec and eastern Ontario, Montreal; western Ontario, Sioux Lookout; central Manitoba, Norway House and Ilford; Mackenzie River, Edmonton; Pacific coast, Vancouver.
13. PAC, Bennett Papers, Box 43, A-100, Vol. 3, McNaughton Confidential Letter to PM, 29 March 1934.
14. Ibid., Vol. 2, McNaughton Memo, "Ship to Shore Air Mail Service," 25 April 1934.
15. Ibid., McNaughton Confidential Letter to PM, 19 May 1934.
16. PAC, McNaughton Papers, Vol. 11, File: Civil Aviation Policy, McNaughton to W. C. Clark (DM of Finance), 18 September 1934; Minutes of TCA Meeting, 23 October 1934.
17. PAC, McNaughton Papers, Vol. 101, File: Interdepartmental Committee, McNaughton Memo, 31 October 1934. Reference to McNaughton-Richardson meeting and McNaughton's remarks here.
18. Ibid., Richardson was in London during the fall of 1934 and had seen Sir Eric Geddes of Imperial Airways. Geddes had complained to Richardson about the lack of cooperation from the Canadian government in airway planning. When Richardson saw McNaughton, 31 October, he advised him of Geddes' comments.
19. Ibid., A. T. Cowley (Superintendent of Air Regulations) to Chief of the General Staff, 12 November 1934, enclosing "copy of document covering the Empire Air Mail Scheme" and also copies of the covering despatch from the Dominions Office and letter from Col. Vanier to Dr. Skelton, Under-Secretary of State for External Affairs. Enclosed, J. H. Thomas (Downing Street) to the Secretary of State for External Affairs, Secret, 26 October 1934; Copy, Secret, J. H. Thomas (Downing Street) to Commonwealth of Australia, New Zealand, Union of South Africa, "Air Mail Scheme," 19 October 1934; and Col. Vanier to Dr. Skelton, 26 October 1934. McNaughton had seen this memorandum and therefore had no excuse for saying Canada still had a year in which to choose its operator.
20. Ibid., Wilson Memo, "Trans-Atlantic Service Present Position," 11 December 1934. When Wilson wrote the memorandum the Canadian government had not given Pan Am an answer.

21. Ibid., Minutes of TCA Committee Meeting, 11 December 1934.
22. Herring stated that the committee was forgetting the fact that the main function (his opinion) of the air service was to carry the mail and therefore PO argument must prevail. He wanted the ship-to-shore service completed first. In his anxiety to have Canada included in the Empire Air Mail Scheme, Herring overlooked the fact that the equipment used for the air-ship service would not be suitable for the eventual all-air service.
23. Ibid., Wilson Memo, "Empire Air Mail Scheme, Canada's Position," 22 December 1934.
24. PAC, McNaughton Papers, (M) 59, Vol. 11, File: Air Mail Routes, Herring to Wilson, 28 December 1934; Wilson to Herring, 3 January 1935. Tactful as always, Wilson acknowledged Herring's accusations but reiterated that he was not prepared to change his recommendation unless additional information warranted it.
25. PAC, McNaughton Papers, Vol. 102, File: Interdepartmental Committee, Wilson Confidential Memo to DM, "Civil Aviation Appropriations 1935-1936," 23 January 1935.
26. Ibid., Confidential Memo, 4 December 1934; and Strictly Confidential Memo, 10 December 1934.
27. Ibid., Confidential Report of Committee on Organizing Department of Communications, Civil Aviation, 24 January 1935.
28. Ibid., McNaughton to Finlayson, 27 August 1935, enclosed copy No. 9 of 24 January 1935 report.
29. Ibid., Minutes of TCA Committee Meeting, 14 March and 5 July 1935; Wilson Memo, 5 March 1935; McNaughton Memo, 20 March; and RG 12, Vol. 2253, File: 5258-329 (Vol. 3), Wilson Memo, 10 May 1935.
30. PAC, McNaughton Papers, Vol. 102, File: Interdepartmental Committee, McNaughton Letter, Private and Confidential, to Woods-Humphrey (Imperial Airways), 18 July 1935.
31. Molson, Pioneering, p. 136; and PAM, CALP, Box 5, Mulock to Richardson, 11 October 1932; Richardson to Bennett, 16 January 1933.

## CHAPTER 7

### THE LIBERALS AND THE AVIATION QUESTION, 1935-1937

The Liberals, under Mackenzie King, were swept back into power in the summer election of 1935. The King government, committed to the completion of the trans-Canada airway, moved quickly to establish a framework for the development of civil aviation. Within a year and a half, it had enacted legislation which had an immediate impact on CAL and far-ranging results for commercial aviation in general.

The similarity to conditions in 1928 is noticeable; again it was external pressure that forced the government to implement a program for the inauguration of the trans-Canada airway. The necessity for carrying out its trans-Atlantic agreement made it vital that the government begin immediately to establish a national airline.<sup>1</sup> King appointed a subcommittee of Council to study the trans-Canada airway situation and requested a memorandum from the Trans-Atlantic Committee to bring him up to date.<sup>2</sup> In late November 1935, representatives from Canada, the United Kingdom, the Irish Free State and Newfoundland met in Ottawa to discuss the trans-Atlantic service. The talks were inconclusive and were merely a forerunner to the Washington talks held in early December among

the United States, Great Britain and Canada.<sup>3</sup> The main concern of the Canadians and the British was to formalize an agreement with the Americans before the French officially sealed their verbal arrangements with the Americans on the development of the southern route.

Richardson, meanwhile, lost no time in meeting with the new Prime Minister, Mackenzie King; the Postmaster General, J. C. Elliott; and the Minister of Railways and Canals, C. D. Howe. According to Richardson, Howe told him he could do nothing about the trans-Canada company until the airways came under his jurisdiction but assured him that CAL would be Canada's "chosen instrument."<sup>4</sup> Richardson also took the precaution of writing directly to King. He summarized CAL's activities, assured King of his cooperation with the government in airway planning and requested the government's guarantee that CAL and the two railways would be entrusted with the trans-Canada operation. Both King and Howe responded to Richardson's letter, but neither promised Richardson anything except that "every consideration will be given to the past experiences of Canadian Airways."<sup>5</sup>

While Richardson was optimistic about CAL's chances, Thompson was not. He was fully cognizant of the pressure that would be exerted on Howe and knew that it was unlikely that CAL would receive the trans-Canada air mail contract without stiff competition. Thompson had assessed the situation correctly. Whoever received the contract would have a

virtual monopoly of Canada's main airway. It was highly probable, therefore, that the trans-Canada company would not be chosen on its own merits and that the whole question would turn into a straight political issue. In this respect, the "Toronto group" constituted CAL's most serious competition. It had resurrected the British North America Company and its proposed Board of Directors was composed of politically powerful men.<sup>6</sup> So confident, or so full of bluff, was the group, that E. P. Taylor, President, had written to Woods-Humphrey of Imperial Airways that it had the trans-Canada contract "in the bag."<sup>7</sup>

American aviation interests were active too. It was rumoured that Manning, the Chicago representative of American Airways, was working with the Toronto group to finance a trans-Canada company. J. L. Ralston (former Minister of National Defence and shortly to enter the Cabinet) was said to be the attorney for American Airways, in addition to working in alliance with the Toronto group. Ralston also submitted an application for the trans-Canada contract on behalf of Canadian Colonial Airways. This company was now a subsidiary of American Airways and held the Montreal-to-New York air mail contract. Cord of Pan Am was also involved with Canadian Colonial and was trying to extend that company's operations in Canada. Thus the connections between the various groups were many and confusing, and the degree of politicization was high.<sup>8</sup>

To protect CAL's interests Thompson wanted Richardson to begin lobbying in Ottawa. He urged Richardson to prepare a

memorandum in which he presented CAL's case "as forcibly as possible" for the "influential members of the House of Commons and the Senate."<sup>9</sup> From Canadian Airways Papers it appears that Richardson did little along these lines except to send the personable Don MacLaren, Superintendent of the Pacific Lines, to Ottawa in the spring. Although Thompson had difficulty in convincing Richardson to play the political game in Ottawa, he had no problem in persuading him to approve other suggestions, such as training pilots for the trans-Canada airway, to prepare CAL for the trans-Canada service.

By early 1936, Richardson was anxious to begin discussion with Howe on the organization of the trans-Canada company. However, as Howe still insisted that he would do nothing until the Department of Transport was created and he was Minister of Transport, CAL could do little in regard to the trans-Canada company except wait.<sup>10</sup> For Richardson, the delay seemed interminable. At the end of June, he again approached Howe on the question of the airway. He told him that he was planning a trip overseas during July and August but would cancel it if Howe wished to talk with him. As Howe informed him he would do nothing until the end of the summer, Richardson left Canada for Europe the first week of July.

Richardson had no sooner arrived in London than Howe and Wilson unexpectedly showed up in Winnipeg and requested that CAL turn over its soon-to-arrive Lockheed Electra to

the Department of Transport (DOT).<sup>11</sup> Howe desired CAL's Electra because he wanted DOT to begin testing the radio stations between Winnipeg and Lethbridge. The government did not have a modern, instrument-equipped aircraft to do this and Howe did not wish to wait until one could be delivered. He was aware that CAL had ordered the Electra for its Vancouver-to-Seattle air mail service to comply with Post Office requirements. As Howe saw it, the Electra was the obvious choice as it would be suitable for the experimental radio work and for the actual operation of the trans-Canada airway. He therefore asked Thompson if CAL would charter its Electra and a pilot to the government for 3 months and implied that CAL's cooperation would benefit its chances for the trans-Canada contract.<sup>12</sup>

However, he demanded an answer within 24 hours; this was to prove typical of Howe's handling of the trans-Canada question. More than once he rashly decided upon a course of action and then tried to ram it through without having carefully considered the consequences. In this instance, his ultimatum of an answer within 24 hours placed unfair pressure on Thompson. Richardson was in London. Beatty and the rest of the Directors were elsewhere, and Thompson needed more than 24 hours to weigh adequately the implications of the request. Because Howe had personally requested CAL's cooperation, Thompson felt he had no choice but to cable Richardson, recommending CAL's compliance. As Richardson explained later, because he had earlier assured both King and Howe of CAL's

willingness to cooperate with the government, he too felt compelled to agree with Howe's request. This transaction gained no public accolades for CAL. Howe refused to allow CAL to publicize the fact that DOT was using its aircraft and pilot. Indeed, as it turned out, CAL gained nothing and, financially, lost greatly.<sup>13</sup>

The sequence of events from this time on is conflicting and vague. Advised by Thompson that the Civil Aviation Branch would be transferred soon to the promised DOT and that a definite policy regarding the trans-Canada airway would be determined, Richardson returned to Canada in mid-August. Although Howe had asked Richardson to see him when he returned, he now sent word to Richardson that it was still not necessary to meet, that he was "not yet clothed with the proper authority" and that "everything was working out along the lines of our previous discussions." Shortly after this, Howe asked CAL to submit a written proposal on the trans-Canada service.<sup>14</sup>

CAL's plan was delivered to Howe by Sir Edward Beatty the last week of September 1936. Why Beatty was chosen to handle the negotiations is unclear. According to a variety of sources, it was because Beatty was often in Ottawa and therefore more available for an impromptu discussion and also because he was more used to dealing with the government than Richardson. Howe's letter to Richardson on 25 September does not suggest that he was displeased with having to deal with Beatty. CAL's officials evidently did not

think that having the President of the CPR conduct the negotiations would jeopardize CAL's chances to obtain the trans-Canada contract.<sup>15</sup>

The fifty-page proposal, complete with charts and photographs of aircraft, was a detailed plan covering all administrative, financial and technical aspects of operating a trans-continental service. Included were complete schedules of the services to be operated and the men and equipment required; the four progressive stages in which the airway would be inaugurated; and a complete breakdown of the financial costs for each segment of the airway. Capital cost was \$5,000,000.00 which was to be provided by CAL and the CPR, with the CNR's financial input left to its discretion. The Board of Directors was to represent the shareholders in the proportion of 37 1/2% from each railway and 25% from CAL. To comply with the TCA Committee's recommendation of 1934 of a separate bush and trans-Canada operation, CAL's proposal called for two companies; "Airways Limited," which would operate the bush services and would take over CAL's assets and liabilities, and a "new" Canadian Airways Limited, which would operate the trans-Canada service. The proposal recommended that the government provide the intermediate airfields, lighting, snow removal, navigational aids and meteorology services.<sup>16</sup>

The plan was a good one, good for both CAL and the government. It provided security for CAL because it called for an air mail contract of a fixed term (10-15 years) at a fixed

rate per mile and a definite period of depreciation for the aircraft. The proposal was an economical one for the government and the country because the government was not required to put up any of the necessary capital. In addition, the plan set a limit on the profit the company could make, recommending that the company hand back to the government any profit in excess of 5% on the capital. If operating losses occurred, the company would meet them.<sup>17</sup> The suggested cost of flying the mail was 70¢ per mile and the proposal allowed for a periodic revision of the air mail rates. This was done because it was not known how long it would take to build up passenger and freight traffic. Once this traffic was worked up, the air mail rates would be revised downward thus effecting a reduction of the cost to the government.

There is no response from Howe on the proposal in Canadian Airways Papers. One month later, Howe wrote to Richardson that he had had a long talk about aviation with Beatty and there was "little difference of opinion between us regarding the development of the national service." Howe did not refer to CAL's proposal.<sup>18</sup>

Also busy on airway matters was the TCA Committee. Early in July, Howe had reconvened the committee and asked for its report and recommendations by the end of August. The committee submitted its draft report on 10 August and its final report on 4 September.<sup>19</sup> The three-page draft report recommended the method of organization and control of the trans-Canada company.

The attached eight-page Explanatory-Statement briefly reviewed airway development and also suggested the method of organization and control of the proposed company. The final report (eleven pages) was an expansion of the suggestions presented in the draft report, with some variations as to control and operation and with an appendix giving the financial breakdown. Interestingly, both reports showed that the TCA Committee had still not reached a consensus on how the trans-Canada company should be operated. As in 1933-1934, it was Coolican who showed himself to be shortsighted and unreasonable in his approach to the operation. He disagreed that there should be a fixed air mail rate, that the trans-Canada company should develop a freight and passenger service in conjunction with the air mail service or that the airway should be opened progressively in four sections. The TCA Committee overruled all Post Office criticisms except for the last one on which it made no definite decision.<sup>20</sup>

The recommendations which most affected CAL were those regarding the control and operation of the trans-Canada company and the operation of the feeder services. The committee had recommended that the company be jointly owned by private enterprise and the government.<sup>21</sup> The government was to hold 25% of the stock, the CNR 15%, the CPR 15%, and private aviation interests 45%. The proposed setup denied control to any single group, but the government, with 25% of the stock, and the CNR, with 15%, would form the strongest unit. The proposed

Board of Directors also gave CAL cause for worry. There were to be seven Directors; two appointed by the government, one each from the CNR and the CPR and three from the remaining shareholders. The chairman was to be elected by the Directors, subject to the approval of the Governor in Council. In effect, the TCA Committee had laid the foundation for a government-controlled company. It may well have been McNaughton, who still kept a proprietary eye on the trans-Canada airway, who was instrumental in arguing for a government operation.<sup>22</sup>

In regard to the feeder services, CAL had argued for years that these were an integral part of the trans-Canada airway and from a financial, management and operating angle would be best served by one company. However, the committee was vague on the question of the feeders and recommended only two feeder services which should be operated by the trans-Canada company. This was upsetting to CAL and contrary to what Howe had told Thompson in July.

By October, Richardson and Thompson were concerned about CAL's chances of obtaining the contract. As Richardson wrote to Beatty, "Mr. Howe appeared decidedly unfriendly . . . I cannot figure out why he has had such a sharp change of front."<sup>23</sup> On 10 October, a review of the government's plan of a semi-public corporation in the Financial Post confirmed CAL's fears about its declining popularity. Although the editorial said that CAL was "regarded as having the greatest claim for preferment" (for the 45% of the stock to be issued to private aviation interests),

both Richardson and Thompson realized there was no guarantee of this. However, Howe evidently still considered CAL as the main contender.

On 29 October, he wrote Richardson and told him that he had discussed the airways situation with Beatty and that he was "now ready to move in this matter." When Richardson saw Howe in Ottawa he asked him what had happened to CAL's plan. Howe replied that there had been "an awful lot of lobbying done." To Richardson this was an unsatisfactory explanation, because Howe had previously told him that he would refuse to talk to other interests, such as the Toronto group.<sup>24</sup>

On 26 November, King met with the senior members of his Cabinet. According to King they were agreed on "the inadvisability of it [the trans-Canada company] being publicly owned" but did not wish to "give it to a private corporation, particularly one in which Members of Parliament would be directly or indirectly connected" and because of the duplication of facilities in regard to the railways that would result. As a compromise, they recommended "having it placed under a Company representative of the two Railways."<sup>25</sup>

Howe, who had earlier told Richardson that he had to protect railway interests, clearly preferred the Cabinet's recommendation to that of the TCA Committee. In a Secret Memorandum to the Prime Minister on 9 December, Howe outlined

his proposal for the trans-Canada company.<sup>26</sup> He recommended that the trans-Canada service "be entrusted to the CP and the CN Railways jointly, with the provision that the Railways may obtain from existing aviation companies in Canada useful assets in the way of aviation equipment and personnel at fair market valuations in exchange for the stock of the aviation company." The rest of the memorandum was in line with the TCA Committee's recommendations. At the end of December, Beatty received a copy of the government's proposal. He wrote immediately to Richardson, voicing his suspicion that the committee leaned towards a government-controlled company and outlining his criticisms.<sup>27</sup>

The government's plan differed substantially from CAL's proposal. Under CAL's plan, allocation of the stock was 37 1/2% to each railway and 25% to CAL. Under the government's plan, 50% of the stock went to the CNR and such interests as it might name and 50% to the CPR and whomever it named. Beatty believed that this provision was the result of pressure from the Toronto group because it gave them the opportunity to control, through the CNR, up to 50% of the stock.<sup>28</sup> He felt that these changes were made to prevent CAL from holding the balance of power, "the government apparently being persuaded that this was tantamount to CP control." Given the close relationship between Richardson and Beatty, this was a correct assessment. Another difference was in the composition of the Board of Directors and in the amount of power the government plan (although it would

probably be more accurate to call it the "Howe plan") invested in the Minister of Transport. The Minister of Transport was to have control over any stock changes and could appoint one Director out of nine. With the CNR having the right to appoint four Directors (the CPR could also appoint four Directors), the Minister's nominee tipped the balance of the Board in favour of the government.

More changes in the government's plan occurred in January 1937; changes which again were disturbing to Richardson and Beatty and undermined their power in the projected company. At the beginning of January, Howe informed Beatty that another clause had been added to the plan which allowed the stock of the company to be purchased "by the Dominion Government at any time after notice and upon payment of its book value."<sup>29</sup> This meant that the Minister of Transport would have the right, by legislation, to take over the company and to fix the basis of compensation for the portion of the stock held by the CPR and its interests. The draft copy of Bill 74, "to establish a corporation to be known as the Trans-Canada Air Lines," which was sent to Beatty in early February, incorporated these alterations.<sup>30</sup> Howe told Beatty that he would not submit the Bill to Council until he had received his comments.

These latest changes contributed to the CPR's and CAL's withdrawal from the proposed company. Howe was to say later that CAL and the CPR had unexpectedly withdrawn their support at the last moment, forcing him to revise his plan, and that

he had offered a share of the company to CAL and the CPR and that they had refused to participate.<sup>31</sup> Both statements are half-truths and are examples of Howe's version of the creation of the Trans-Canada Air Lines (soon to be known as TCA). Correspondence between Beatty and Howe show that dissension between them had appeared at least 3 months before The Trans-Canada Air Lines Act was passed and that Beatty had strived to reach an agreement with the Minister of Transport. In fact, it was Howe who shut the door on any further discussion. It is important, therefore, to examine the correspondence between the Minister of Transport and the President of the CPR to understand why the CPR and CAL did not participate in TCA.

In his letter to Richardson on 4 February, Beatty succinctly outlined his reasons for not agreeing with Howe's plan. Firstly, he could not consent to the provision that four Directors were to be nominated by the CNR with the fifth (out of nine) by the Minister of Transport, "unless we were assured of the provision requiring a majority of the Directors appointed by CN and ourselves to agree as to any matter coming before the Board." According to Beatty, he had spoken privately to Howe about this and Howe had assured him that this provision would be provided by a by-law. Understandably, Beatty was skeptical of Howe's promise and concerned that the by-laws might not be ready before the company was formed. This was why Beatty insisted that a clause be inserted in the Bill

to ensure an equal distribution of power on the Board.

Secondly, Beatty disagreed with Howe's suggestion that the general manager be the chief executive, stating that "the Bill attempts by legislation to invade the functions of the Board." Beatty felt that a general manager should report to a vice-president or president and that the Board of Directors should have the final responsibility for the organization of the company.

Beatty questioned the right of the Minister of Transport to acquire all the private shares of the capital stock for their book value. He wanted the word "fair" substituted for the word "book" because the book value might not represent the real or fair value of the stock, for the company may have built up goodwill and an earnings position which might not be reflected by the book value.

Beatty's final objection concerned the section which allowed the Minister of Transport the right to determine what property (that is, aircraft, engines, etc.) could be acquired for stock and on what terms. Firstly, this allowed the Minister of Transport to usurp the Board's authority. Secondly, this could adversely affect CAL. The understanding among Beatty, Howe and Richardson was that CAL would participate in the trans-Canada company either for cash, property, or "in consideration of the transfer of a portion of [its] organization." Beatty wanted the wording changed to ensure that CAL would have this privilege.

Beatty's concern for CAL's interests probably stemmed from the fact that not only was Richardson a personal friend but also because it was to the CPR's advantage to protect CAL and have CAL participate in TCA. It was understood between Richardson and Beatty that "whenever the Canadian Pacific Railway decided to enter extensively into the field of air transportation, the Canadian Airways would be available as one medium whereby this entry might be made."<sup>32</sup>

Beatty wrote Howe on 9 February giving his objections. He concluded his letter by reminding Howe that he should ask for Richardson's comments on the Bill, because, while CAL is not specifically mentioned, "it is understood by all of us that it will be a participant." Howe immediately wrote Beatty disagreeing with most of Beatty's criticisms.<sup>33</sup>

From this point on, it becomes evident that Howe and Beatty were moving further apart. Howe did not agree with Beatty's comments on the general manager, claiming that since the government was undertaking to pay a return of 5% per year on the capital of the company it was entitled to protect itself. He refused to change "book" value to "fair" value, stating that any goodwill the company built up would be entirely "due to the action of the government in assigning exclusive routes and in guaranteeing the Company against operating deficits." As far as listening to Richardson's comments, Howe refused, saying that since Richardson had seen an earlier draft of the Bill he could see no purpose in delaying the submission to Parliament.

"If he is dissatisfied with the bill he will probably be in the same position as all other companies now engaged in aviation," wrote Howe.

Upon receipt of Howe's letter of the 9th, Beatty replied immediately to clarify the question of the control of the Board of Directors. Beatty stated that, if Howe and the CNR agreed to provide in the by-laws the provision regarding the majority vote outlined in his letter of the 9th, he would be agreeable to having this clause omitted from the Bill. However, he told Howe bluntly that he was not agreeable to the control of the company's directorate being in the hands of the government when "that would put the CP, with a 50% interest in the stock in a minority on the Board, which of course, is unthinkable." Beatty also argued very strongly against the control that Howe was investing in the Minister of Transport and against Howe's interpretation of "goodwill."<sup>34</sup>

In March, after much discussion, a revised Bill on air services received Cabinet approval. Again there were a number of changes. The most important, as far as the CPR was concerned, was the one which stated that the CPR would receive only three Directors instead of four out of nine, with the balance to be picked by the CNR and the government. As Beatty remarked to Richardson, it was impossible to distinguish between the CNR and the government in matters of that kind, and if the Bill went through the CPR would have little voice even though it was providing 50% of the money. Though he had

always felt that the CPR should be in the air transport business, he could not countenance the CPR "being linked up with a corporation politically directed." Consequently, on 12 March, he wrote Howe "that it would be hard to justify to our stock holders the provision of \$2 1/2 million (or half the capital) in the Airlines when we would only have a minority vote in its administration."<sup>35</sup>

In his reply on 15 March, Howe denied that the government controlled the CNR, "on the contrary," he wrote, "the government maintains only a very slight contact with the railways." He also stated that since the government was accepting responsibility for all deficits in operations for a certain period, as well as providing airports, radio services and weather reports, it should have more control than the "owner Companies" who would be furnishing only the capital.<sup>36</sup> He stated that the Council felt that a by-law requiring a majority vote of railway Directors in all matters of policy was not acceptable; that the chairman should have the final say because it was the government that was guaranteeing a return on the interest.

Howe effectively cut off any further communication from Beatty by concluding his letter with the remark that, while he would be glad to discuss the matter with Beatty, the government had now examined all phases of the Bill thoroughly and it would be useless to attempt any further changes before the Bill was introduced. As Howe appeared to be shutting the

door (Howe would deny this later), Beatty felt that he had no alternative but to tell Howe that the CPR could not consider being a part of TCA on the terms proposed by the government.<sup>37</sup>

On 22 March, during the House of Commons Debates, Howe moved that the House go into committee to consider the proposed Bill for Trans-Canada Air Lines.<sup>38</sup> Howe's introductory speech on the company should be carefully examined, for it provides the proof that Howe lost control of the Bill, allowing a company to be formed that was different from his original intent.

Howe stated that the company was to be established as a private corporation, for it was not the government's intention to own directly any stock in the company. The CNR was to organize the company and to underwrite the stock and distribute it to "present aviation interests who wish to participate." The rest of Howe's speech was in line with the TCA Committee's recommendations regarding the airline operations, the terms of the air mail contract, profit, guarantee against loss and an estimate of costs.<sup>39</sup> There was little discussion at this time except for R. B. Bennett, Leader of the Opposition. He was concerned that, while the CNR would be responsible for underwriting 50% of the stock, the government would not own any of the capital stock and that control of the company could pass out of the government's hands.

On 25 March, Howe moved the second reading of Bill 74.<sup>40</sup> The debate was heated and covered a variety of contentious issues. Bennett again provided the most penetrating comments on the Bill and accurately pinpointed all the weak points. Most of the discussion centered on the fact that Howe had proposed a company which was a mixture of private and government ownership and that this plan called for the government to guarantee any operating deficits for 2 years, but would not own or control the company. J. S. Woodsworth, CCF Leader from Winnipeg North Centre, and Bennett both felt that the company should be under government control from the beginning. Bennett reminded the House that the CNR could not raise the needed capital and, since the government would have to provide the CNR with the necessary capital, it should own it from the start. This was an interesting comment by Bennett who, as he himself admitted, did not believe in public ownership and control but made it "in consequence of the blunder we made" with regard to the railways. Other members questioned the wisdom of making the CNR responsible for the organization of an air service when it had so many problems of its own. The rest of the criticisms were much the same as Beatty's.

When asked why he was not turning over the operation to one of the private companies, Howe said there was no way he could "make a deal" with any or all of the companies which had bid for the contract.<sup>41</sup> He qualified this somewhat by

saying that "perhaps there is one company that by its experience and standing in the industry would have a right to be chosen over any other companies." But Howe did not identify CAL as the company and further undermined its standing by stating that the company was "engaged in extensive services quite foreign to the service we are going to develop here." It is clear that Howe had not advised the House of CAL's proposal.

Howe justified his plan as the only possible method, saying that his sole option had been to decide on the structure, choose the people responsible for financing, see what the private companies had to offer and "determine the final set-up accordingly." Asked why the government could not own and operate the company itself, Howe answered, "I shudder over the possibility of being responsible for the crash of a planeload of passengers traveling on a wholly-owned government air line." Not only was this an absurd answer but also it was in contradiction to his next remark. The CNR, he stated, would retain "at least 51% of the stock of the company." Howe concluded by saying that the Bill allowed for "the best features of government ownership without the obligation of direct government operation which in the past has been troublesome."

On 31 March, the House resumed discussion of Bill 74.<sup>42</sup> Bennett dominated the debate and focused again on the question of outright government ownership of the airline. With

Howe's announcement that the CNR would retain 51% of the stock (a point that had not been clear in the wording of the Bill and picked up by Bennett), Bennett correctly indicated that it was unlikely that private aviation interests would be interested in subscribing to the remaining 49%. He forcibly argued that no purpose was being served by handling the company the way Howe suggested. "We divest ourselves of the direction," he said, "while at the same time we are responsible financially, both by the guarantee of the capital and of the deficits for two years." Bennett wanted the whole matter brought before a committee of the House and he wanted evidence from the executives of present aviation companies. Howe refused.

He insisted that private aviation interests would not be discouraged by the government owning 51% of the shares. He was not interested in hearing from any aviation officials because he had already spent months listening to them and had found most of them "most unreasonable in maintaining a position against other companies." Howe constantly used the pressure of time for not allowing further discussion. He stated (incorrectly) that it was likely the whole trans-Canada airway would be ready by the end of the summer and therefore a decision on the airline must be made immediately. Because he felt his plan was the most suitable, it would only be a waste of valuable time if the proposal went to a House Committee.

Only Bennett and one other member saw "politics as being rampant in the system just as it has been in the CNR." When

asked how fair it was to the bush companies to be faced with a government-subsidized company, Howe said that TCA would not interfere with the bush companies and that the bush companies would probably handle the feeder services. Discussion then turned to a section-by-section review of the Bill to make the necessary amendments.

On 6 April, Bill 74 was passed to establish the government-owned Trans-Canada Air Lines. The purpose of TCA was to "provide modern, fast transport between the main centres of commerce and industry in Canada and to safeguard Canada's favourable position on the world's airway system."<sup>43</sup> The Act called for an authorized capital of \$5,000,000.00. The CNR was to underwrite the stock and could sell 49% to Canadian interests, upon approval of the Minister of Transport. The Minister could, at any time with the approval of the Governor in Council, acquire all the shares at book value. There were to be seven Directors (who need not be shareholders), four elected by the shareholders and three appointed by the Governor in Council. The terms of the Act embodied many of the principles that CAL had recommended: in particular, security of a long-term air mail contract, equitable Post Office rates and government provision of emergency landing fields, navigation aids and weather services. In addition, during the "initial period" (until 31 December 1939) TCA was guaranteed a subsidy equal to any deficit and air mail rates were to be fixed by a contract with the Post Office. After this initial period, air mail rates

were to be set in conjunction with the Postmaster General, the Minister of Transport and the Governor in Council.

The fact that the CNR could dispose of 49% of its shares indicated that Howe still expected to secure private involvement. And indeed, on 3 April, he wrote Richardson and asked him to meet with Hungerford (CNR) and himself. At their meeting on 16 April, Howe asked Richardson if he wished to subscribe to the 49% and be on the Board of Directors. "Apparently Howe put on quite a show of pursuing Mr. Richardson to bring CAL into the picture," wrote G. W. Hutchins (Executive Secretary of CAL) some years later. Richardson declined. He told Howe that "as an individual Director I would not have an opportunity to effectively employ the experience which Canadian Airways have gained over long years of commercial flying in Canada. I could not consent to sit on a Board where all the Directors were, in effect, government nominees." Richardson, like Beatty, refused to be a part of a company which he was sure would be subject to political influence.<sup>44</sup>

Richardson then played his last card. He asked Howe if CAL could organize and operate the Winnipeg-to-Vancouver service for a management fee. Howe told Richardson that he did not see how he could allow that, although he told Richardson that he could expect "benefits" in regard to the feeder services. There appeared to be no further room for negotiation. It was clear to Richardson that CAL was out of the trans-Canada picture. Understandably, he was bitter over the outcome. He

wrote to Howe expressing his feelings, telling the Minister he could not understand why he had produced such a Bill when he had said so often that CAL was to be "the keystone of the trans-Canada service."<sup>45</sup> Richardson and Beatty were not the only ones unhappy with the TCA setup. Coolican of the Post Office told Richardson that he had wanted an independent operating company "where there would be some possibility of holding costs down."<sup>46</sup> As Coolican saw it, the Post Office would be at the mercy of DOT and would have no choice but to pay the costs.

What had happened to make Howe shift so radically from his original plan? Unfortunately, Howe's files are incomplete on the events leading up to TCA's formation and the reasons behind the government-owned airline can only be speculated.

It may well have been Howe's tendency to be swayed by political pressure that accounts for his abandonment of CAL's plan. Howe's practical political experience was less than a year old when he began planning the trans-Canada company and he still believed that ordinary business procedures could govern his dealings. Richardson and Beatty were not the only ones who commented on Howe's political naivety and his propensity for "loose talk." Ian Mackenzie, Minister of Defence, had told Richardson that Howe had made "embarrassing promises" to the Toronto group (see footnote 28).<sup>47</sup> CAL's proposal would keep the Toronto group out of the trans-Canada company. The "railway plan," on the other hand, would allow the Toronto group to

invest through the CNR and would therefore permit Howe to "save face" with the politically and financially influential Toronto group.<sup>48</sup>

Fear of CPR domination of the proposed company may have been the chief reason for Howe's rejection of CAL's plan. Interestingly, although there was concern during the thirties that the CPR would take over the CNR, this possibility in regard to airway matters was never voiced in the TCA Committee discussion, the senior Cabinet meeting on 26 November 1936 or in Howe's private correspondence. In fact, Howe's correspondence with Richardson and Beatty indicates that he welcomed CP participation in the trans-Canada company; like Beatty and Richardson, he wanted both railways allied in the company to prevent destructive competition. However, while CAL's plan appealed economically to Howe, the risk of eventual CP control was too great. As Howe was not interested in a government-owned and operated airline, he saw the "railway plan" as an admirable compromise. According to Gordon Lawson (James A. Richardson and Sons, Limited), by this time, Howe had become "enamoured" with the idea of a trans-Canada company. Although Richardson had been fighting for years for such a company, Howe spoke of it as if it were wholly his idea. For Howe, the trans-Canada company was to be his creation and he, as Minister of Transport, would retain control. Understandably, Beatty and Richardson refused to consider contributing half the capital costs without gaining a

representative share of the control. That the Minister of Transport would have the final say in any Board decision was unreasonable and unbusinesslike as far as Beatty and Richardson were concerned. And neither would countenance being a part of an organization that was liable to political pressure. Howe was probably sincere in his original intention to make CAL the nucleus of TCA. But his tendency to make rash promises and quick decisions, his disinclination to accept advice and his political inexperience all contributed to his shift in attitude and his introduction of the "Howe plan."

The fact that Howe introduced the Bill late in the session did not help CAL. Howe continually reminded the members that a policy regarding a trans-Canada company had to be passed at that session and used this excuse to bar further examination of the whole subject by a Cabinet Committee or to allow aviation officials, such as Richardson, to present evidence. It appears from the Debates of the House of Commons that Howe had not advised the House of CAL's plan and this factor, in combination with Howe's denigrating remarks about CAL's capabilities, further undermined CAL's position.

Undoubtedly, the pivotal factor responsible for Howe's shift to a completely controlled government company was the fact that his plan called for the government to assume financial responsibilities without having directional control. This point was forcibly argued by Bennett. When it looked as if the government would be responsible for the total \$5,000,000.00, a

government-owned TCA was a natural result. What the consequence would have been if the House had known about CAL's plan can only be surmised. Certainly Richardson felt the outcome would have been different if he had been allowed to present the plan.<sup>49</sup> Keeping in mind that the country had not yet recovered from the effects of the depression and \$5,000,000.00 was an enormous sum, it cannot be categorically concluded that the House would have rejected a plan that was economical for the government and was offered by a company that was capable of performing a trans-continental service.

In fact, the original setup of TCA was in line with CAL's proposal, but on a more lavish scale. Indeed, CAL was convinced that TCA had used its plan as the blueprint for establishing TCA.<sup>50</sup> TCA began its operations by taking over CAL's Vancouver-to-Seattle route, its Electra and its pilots.

What effect did the formation of TCA have on CAL? The immediate result was a loss of personnel to TCA. Lured by the security and higher wages offered by TCA and concerned that TCA would acquire all the profitable routes, CAL's pilots, mechanics, technical, clerical and administrative staff began to leave within weeks of TCA's creation.<sup>51</sup> TCA first went after those pilots who had just been specially trained in instrument flying. As Thompson was to remark bitterly, CAL spent almost \$20,000.00 training pilots for TCA. This exodus of personnel caused serious problems for CAL.

First, TCA gave virtually no warning; it took a pilot with

less than a week's notice. This did not allow CAL adequate time to replace staff. By July 1937, the situation was so critical that Thompson was afraid that CAL would have insufficient men left to carry out its summer's work and wrote Richardson requesting him to ask TCA to give CAL one month's notice. TCA agreed, but initially did not keep its end of the bargain and Thompson had to write TCA more than once requesting that TCA show some consideration for CAL's position.<sup>52</sup> The formation of TCA forced CAL to revise its salaries upwards in order to compete with TCA. CAL was still on depression wages and, because of the insecure and unremunerative air mail contracts and low passenger and freight rates, CAL had not increased wages in 3 years.

The second immediate impact of TCA on CAL's livelihood was its loss of the Vancouver-to-Seattle air mail contract. Despite McNaughton's boastful assertions that he had done more than anyone else in Canada to put the trans-Canada airway into operation, the airfields were far from ready. Howe realized that no section of the main line would be ready in the near future.<sup>53</sup> However, as he was anxious to show his skill in quickly creating a national airline, Howe decided to take over CAL's Vancouver-to-Seattle service as the first TCA operation.<sup>54</sup> CAL lost everything connected with the route; its aircraft, its pilots, its ticket forms, pilot uniforms and even the vacuum cleaner from the Vancouver office. The loss of the route meant the loss of CAL's last international service.

The Trans-Canada Air Lines Act laid down an aviation policy for Canada that would have long-term repercussions. It established a policy that was vastly different from that previously followed and indeed was the antithesis of Howe's original intention. The Act not only put the government into the actual business of operating an airline but also introduced monopoly on the trans-continental line. CAL was now faced with a government rival that promised to be much more extensive than it was. TCA would unquestionably dominate the national scene. Prospects for expansion for the private companies were now limited to the North.

While creating the philosophy of monopoly for TCA, the Act made no provision for the private aviation companies. The plan at the time was for TCA to operate only those feeder services that the government considered essential to the trans-Canada operation. Unfortunately, TCA was uncertain which feeders it wanted and this placed CAL and the other operators in an insecure position.

## NOTES

### CHAPTER 7

1. In June 1935, the French government proposed that the United Kingdom, the United States and France collaborate in developing the trans-Atlantic service by the southern route. To prevent this and to encourage development of the direct route, the Canadian government had to take action. For more information see PAC, McNaughton Papers, Vol. 102, File: Interdepartmental Committee, Wilson Memo, "Trans-Atlantic Air Services," 29 June 1935.
2. The committee reviewed airway developments since 1931 and made a number of recommendations. The two most important being that Canada should participate in an experimental trans-Atlantic service by the direct route and maintain all navigational aids in Canadian territory. PAC, King Papers, J4, Vol. 149, File: 1242, Civil Aviation, "Confidential Report of Inter-Departmental Committee on Trans-Atlantic Air Services," 18 November 1935.
3. Ibid., "Trans-Atlantic Air Service," 2 December 1935.
4. PAM, CALP, Box 24, File: Beatty, Richardson to Beatty, 11 December 1935. There is no documentary evidence from Howe or King to corroborate Richardson's claim (re: "chosen instrument"). In later statements, Richardson again refers to conversations that he had with Howe in late 1935 and the spring of 1936 where Howe reassured Richardson of his intention to have CAL as the "backbone" of the trans-Canada company. Lawson stated that there is no reason not to believe Richardson's claims as he and Howe were "very friendly" at the time. Howe had built a number of grain elevators for James Richardson & Sons and the firm was pleased with Howe's work. Lawson interview, 8 December 1982.
5. PAM, CALP, Box 66, File: 4, Richardson to King, 6 February 1936; King to Richardson, 11 February; and Howe to Richardson, 12 February.
6. Ibid., File: 5, no date, no signature, yellow paper of pencilled notes stated that E. P. Taylor was President; William Zimmerman was Secretary-Treasurer; W. Roy Maxwell was

Technical Advisor; Directors were J. H. Gundy, George C. McCullagh, Charles Burns, Ray Lawson, Frank Common, W. D. Ross, V. W. Odlum, N. McLean, John McCurdy, Gordon Scott. It was rumoured that J. C. Elliott (Postmaster General) and Ross Gray (chief Liberal Whip) were also on the Board of Directors of the British North America Company.

7. PAM, CALP, Box 7, rough draft of letter (attached to Woods-Humphrey to Richardson, 4 May 1936), Richardson to Woods-Humphrey (Imperial Airways), 20 April 1936. This letter was in reply to Woods-Humphrey, no date, giving comment on E. P. Taylor and the Toronto group.

8. Ibid., Laughton of CPR (possibly Secretary to J. O. Apps, who was Executive Assistant to Beatty) to Richardson, 21 May 1936. Howe told Apps that Manning was working with the Toronto group; Richardson to Norman Lambert, 21 August 1936 for information on Cord; Thompson to Richardson, 24 August 1936 for information on Ralston which he received from Coolican; and PAC, King Papers, J4, Vol. 149, File: 1242, Secret Memo from Minister of Transport to Mackenzie King, "Trans-Canada Air Services," 7 December 1936 for information on Ralston and Canadian Colonial.

9. PAM, CALP, Box 66, File: 4, See Thompson to Richardson correspondence, 10 January, 24 February, 2 April 1936.

10. PAM, CALP, Box 7, Thompson to Richardson, 12 November 1935. Knowing that the trans-Canada airway would be flown with the most modern aircraft available, Thompson recommended that CAL train at least twelve pilots in advanced instrument flying. Because the RCAF informed Thompson that there were no spaces available at Camp Borden for a CAL pilot for the 1935-1936 training session, Thompson suggested that a CAL pilot be sent to the Boeing School in California for training and that CAL inaugurate its own instrument training program.

11. The Department of Transport Act, 23 June 1936, Chapter 34. The formation of the Department of Transport brought together all forms of transportation under one Minister. Civil aviation, for the first time, was accorded equal status with rail and marine services and was now completely separated from military control. Although DOT received government assent in June 1936, it did not begin functioning as a department until November 1936.

12. PAM, CALP, Box 8, Richardson Statement, 25 April 1937. In reference to the Electra, Richardson wrote that "Mr. Howe stated that this would be our first step into the big picture;" Box 66, File: 5, Thompson Telegrams to Richardson

(London), 13 and 15 July 1936 for reference to Howe, Wilson and request for Electra; and PAC, RG 12, Vol. 2154, File: 5262-18, Pt. 2, Smart's Working Papers, Wilson Memo, "Trans-Canada Airway Construction, Flying Tests for Radio Installations Vancouver to Lethbridge," 16 July 1936.

13. In April 1937, when TCA was formed, CAL was stuck with two expensive aircraft (Lockheed Electras at \$78,000.00 each) that were not suitable for bush services. The first Electra had been purchased at PO's insistence. This was an unfair order as it had already accepted CAL's price which had been calculated on the less expensive De Havilland Dragon. After CAL started the Vancouver-to-Seattle service, PO informed CAL that it must modernize its equipment to match that of United Airlines (an American company) which was running a passenger and freight service over the same route. However, PO refused to accept a new schedule of costs based on the more expensive aircraft. Not only did CAL go into debt to purchase the aircraft but also it ran the service at a loss. When DOT chartered the first Electra, CAL went further in debt when it bought a replacement for the Vancouver-to-Seattle service.

14. There is no written request on file from Howe to CAL asking for a proposal, although in 17 March 1944 House of Commons Debates, Howe stated that he asked CAL to submit a plan.

15. Lawson interview, 8 December 1982; J. W. Tackaberry telephone interview, 2 June 1983; and Mary Fletcher (personal secretary to Mrs. James A. Richardson) telephone interview, 3 June 1983. All three gave identical answers as to why Beatty handled the negotiations and none of them expressed the opinion that Beatty may have been detrimental to CAL. Note also that Howe described Beatty as being "in an excellent position to work out a plan for the trans-continental service," in PAM, CALP, Box 66, File: 5, Howe to Richardson, 25 September 1936.

16. Ibid., Canadian Airways Limited "Proposal, Re: Trans-Canada Air Mail," 16 September 1936; and Box 10, G. W. Hutchins, Confidential Memo to Charlotte Whitton, 30 October 1944. Hutchins stated that CAL and CPR would raise the bulk of the capital with CNR participation optional with CNR.

17. Ibid.

18. Ibid., Howe to Richardson, 29 October 1936.

19. PAC, RG 12, Vol. 2154, File: 5262-18, Pt. 2, Smart's Working Papers, Wilson Memo, "Construction of Trans-Canada Airway Division," 9 July 1936 to V. W. Smart, DM, for

reference to TCA Committee; "Draft Report for Consideration by the Interdepartmental Committee on the Trans-Canada Airway," 10 August 1936; attached was "Committee on Trans-Canada Airway Explanatory Statement," 10 August 1936; and "Report of the Interdepartmental Committee on the Trans-Canada Airway and Mail Service," 4 September 1936.

20. The report did not state definitely that the airway would be opened in two stages only, but it was worded in such a way that it was likely that the committee would bow to PO demands. The majority of the committee followed CAL's suggestion and recommended that the Winnipeg-to-Vancouver section be opened first, as it presented the fewest problems. The Montreal-to-Winnipeg section would not be ready for at least a year. Appended to the report was a letter from Wilson expressing his disapproval of inaugurating the airway in two stages only.

21. The \$5,000,000.00 recommended capitalization was broken down as follows: \$1,250,000.00 to provide for the trans-Canada air mail service; \$1,250,000.00 to provide for 24 1/2% of the stock in the trans-Atlantic company; \$2,500,000.00 to provide for future expansion. The appendix to the report shows that the committee estimated that \$7,210,000.00 was needed to complete the airway and \$1,000,000.00 was needed to purchase twelve aircraft. The air mail rate was 6¢ per ounce, which was a surcharge of 3¢ per ounce above regular rates.

22. PAC, McNaughton Papers, Vol. 102, File: 4, McNaughton Private Memo, 21 July 1936; McNaughton Memo, 23 July 1936. McNaughton saw Howe on 21 July 1936. Howe told McNaughton that he intended to establish a trans-Canada company similar to Imperial Airways. McNaughton said that it would not be "proper to hand over the operation to a commercial company" with the government supplying so much of the capital costs. McNaughton asked Howe to talk with him before finalizing any scheme. According to McNaughton, Howe agreed. McNaughton then contacted Coolican and told him that the TCA Committee should recommend "a wholly owned Government Corporation" and that the mail should not be combined with passenger services. McNaughton's reason for using Coolican as his contact with the TCA Committee, rather than Smart, was that he was upset with Smart's behavior towards him. From McNaughton's memo, it is evident that he felt slighted by Smart, for he told Coolican that he would not discuss matters with Smart since he "had pointedly left me out of the Conference with the British authorities."

23. PAM, CALP, Box 24, File: Beatty, Richardson to Beatty, 26 October 1936.

24. PAM, CALP, Box 66, File: 5, Howe to Richardson, 29 October 1936; and Richardson Statement to the Board of Directors, 25 April 1937.
25. PAC, King Diary, 26 November 1936.
26. PAC, King Papers, Vol. 149, File: 1242, Secret Memo from Minister of Transport to W.L.M. King, "Trans-Canada Air Services," 7 December 1936.
27. PAM, CALP, Box 24, File: Beatty, Beatty to Richardson, 30 December 1936. All quotations from Beatty's letter; copy of Howe's plan enclosed.
28. Ian Mackenzie, Minister of Defence, told Richardson that it was his opinion that Howe had made promises to the "Toronto people which were embarrassing" and that he was having a difficult time endeavoring to extricate himself from these commitments. According to Mackenzie, he and Howe had lunch with Gundy and Zimmerman in December and that Howe had given them "more encouragement" than Mackenzie thought he had the right. Ibid., Richardson to Beatty, 2 January 1937.
29. Ibid., Beatty Telegram to Richardson, 6 January 1937.
30. Ibid., Copy of draft Bill and Beatty's criticisms in Beatty to Richardson, 4 February 1937.
31. House of Commons Debates, 31 March 1937 for reference to unexpected withdrawal; and House of Commons Debates, 17 March 1944 for reference to refusal to participate.
32. PAM, CALP, Box 10, Mrs. Richardson to Thompson, 17 December 1941. Mrs. Richardson refers to the understanding between her husband and Beatty. Unfortunately she does not clearly specify when this agreement was made.
33. PAM, CALP, Box 24, File: Beatty, copy Beatty to Howe, 9 February 1937, enclosed in CPR (secretary to Beatty) to Richardson, 9 February 1937; copy Howe to Beatty, 9 February.
34. Ibid., Copy Beatty to Howe, 10 February 1937, enclosed in Beatty to Richardson, 10 February 1937.
35. Ibid., Beatty to Richardson, 10 March 1937; Beatty to Howe, 12 March.
36. This was not an accurate assessment of the government's contribution regarding costs. The main contribution from the government was the cost of constructing and maintaining navigational aids, meteorology and radio services and the airfields.

However, even these construction costs were not wholly the government's responsibility as many of the main airfields were built by the municipalities. In addition, user fees were regularly collected from the operating companies. For more information, see PAC, Howe Papers, Vol. 102, File: 28, Wilson (Director of Air Services), ICAT (initials given on report), "Interim Report on Domestic Air Services," 18 September 1943.

37. PAM, CALP, Box 24, File: Beatty, copy Howe to Beatty, 15 March 1937; copy Beatty to Howe, 17 March.
38. House of Commons Debates, 22 March 1937.
39. The annual cost of operating was estimated at \$1,000,000.00.
40. House of Commons Debates, 25 March 1937.
41. Howe's Secret Memorandum to the PM (7 December 1936) states that he did not ask any company to submit a plan of operation to him. Howe received applications from CPR and CNR jointly; CAL; the Toronto group; Canadian Colonial Airways, represented by J. L. Ralston and Frank Common; a combination of three air companies, represented by Ross Gray, M.P.; a newly incorporated company in the Maritimes; and informal applications from "practically every small company."
42. House of Commons Debates, 31 March 1937.
43. PAC, Wilson Papers, Vol. 9, Wilson Memo, "Progress Report, Quarter Ending 30 June 1937." See Appendix 3 for list of Board of Directors and Officers of TCA.
44. Reference to Richardson-Howe meeting in PAM, CALP, Box 8, Richardson Statement to Shareholders, 25 April 1937; and Box 10, Hutchins Memo to Charlotte Whitton, 30 October 1944.
45. PAM, CALP, Box 8, Richardson to Howe, 26 April 1937.
46. Ibid., Richardson to Thompson, 20 October 1937.
47. See above, footnote 28, for Ian Mackenzie's remarks about Howe. Coolican also wrote that he did not think that Howe would be able to handle the trans-Canada company as he would wish; Box 66, File: 5, Thompson to Richardson, 24 August 1936.
48. PAM, CALP, Box 24, File: Beatty, Beatty to Richardson, 30 December 1936. Beatty wrote that "the government wants Gundy, Lawson, McCullagh, Common, Odlum, Burns, Ralston to have an opportunity to subscribe for stock. . . . Their pressure has been exerted through the Minister of Defence and the Postmaster General."

49. PAM, CALP, Box 8, Richardson to Howe, 26 April 1937. In his letter to Howe, Richardson wrote that if he had been allowed to present evidence "the Trans-Canada Airway problem would now be dealt with in a very different way, and in a way which I believe would service Canada very much better."

50. In the fall of 1936, CAL had submitted ten copies of its proposal to the government. When it became apparent that Howe was adamant that the company be controlled by the government and that CAL and CPR would not be participating, CAL asked for the return of its copies. All but one were returned immediately. This copy was Don MacLaren's. When it was finally returned four days later it "was marked up in such a way that it was fairly obvious that it had been copied." (Box 10, Hutchins Memo to Charlotte Whitton, 30 October 1944). Although there was no definite proof, CAL believed that MacLaren had sold his copy to the government in return for a position with TCA, for MacLaren was one of the first men to go over to TCA and held the position of Assistant to the Vice-President. (Ibid., Hutchins Memo, "Correspondence with Cabinet Ministers," 19 April 1944).

51. Ibid., Hutchins Memo to Charlotte Whitton, 30 October 1944. Within 2 years almost 50% of CAL's personnel had left for TCA.

52. Ibid., Box 8, Thompson to Richardson, 19 June 1937. Thompson wrote that TCA was taking CAL's pilots "without warning" and that the Quebec area was left with no experienced pilots. Thompson to P. G. Johnson (Vice-President, TCA), 30 July 1937; Thompson to MacLaren (Assistant to Vice-President, TCA), 18 August 1937; MacLaren to Thompson, 1 September 1937.

53. PAC, Wilson Papers, Vol. 16, Wilson Memo, "Trans-Canada Air Lines: Plan of Organization," no date (circa 1937). Wilson wrote that no part of the airway was developed to a point where it could be considered entirely suitable for regular transport operations. There were no radio facilities east of Winnipeg and the radio services between Winnipeg and Lethbridge and Edmonton were obsolete. There were no weather reporting stations "worthy of the name" on any portion of the airway. See also, PAC, RG 12, Vol. 2154, File: 5262-18, Pt. 2, Wilson Memo, "Airfields," 8 July 1936. He stated that there were five aerodromes completed under the Unemployment Relief Plan; seven aerodromes completed by municipalities; and eight under construction. Wilson listed no secondary airfields or aerodromes at major cities in western Canada completed or under construction under the Unemployment Relief Plan. These figures indicate that McNaughton exaggerated the extent of work accomplished on the intermediate fields under the Unemployment Relief Plan. The construction of airfields under the program was stopped 30 June 1936 (PC 1607).

54. The reasons surrounding this decision are vague. In Richardson to Howe, 26 April 1937 (CALP, Box 8), Richardson refers to Howe's wish "to take over the Vancouver to Seattle run" and use it to train TCA pilots. Whether this was originally Richardson's idea or Howe's is unclear. Richardson also wrote that he would like TCA to buy the two Electras at cost. Richardson realized that it was to CAL's advantage to be rid of the Vancouver-to-Seattle air mail contract and the two Electras, as the contract was not profitable and the Electras could not be used for bush services. It was to Howe's benefit to have the Vancouver-to-Seattle route and aircraft, because it meant that TCA was taking over a route that had already been successfully established. In addition, CAL's pilots would provide the necessary pilot training for the new airline. Note MacLaren to Thompson, 24 August 1937; and MacLaren Telegram to Thompson, 3 September. TCA not only wanted CAL's pilots, mechanics and aircraft which were with the Vancouver-to-Seattle service, but it also wanted samples of CAL's tickets and order forms until it got its own printed. MacLaren's telegram requested Thompson to "dispose" of CAL's uniforms to TCA.

## CHAPTER 8

### THE DEMISE OF CANADIAN AIRWAYS LIMITED, 1937-1942

Even with the loss of the trans-Canada contract, Richardson had no qualms about continuing in business. Unlike 1932, when the air mail contracts had been cancelled, the outlook in April 1937 was good. Unfortunately for CAL this promising future did not continue. By November 1937, CAL's fortunes had begun their downward trend.<sup>1</sup> This happened for a variety of reasons.

The formation of DOT in November 1936 had provided an administrative framework for the coordination of meteorology, radio, and civil aviation services, but it had not supplied a remedy for the problems of the bush companies. DOT did not have the authority to provide economic controls for the air transport industry. In addition, the licensing system of 1937 covered only the interurban and international operations. Licenses were not necessary for the bush routes and the bush companies could still fly where they wished and charge what they wanted. Complicating the situation was the inability of DOT to name which feeder services would be operated by TCA and which would be available for the private operators. This resulted in sometimes vague and conflicting directives from

DOT and made it difficult for the private companies to proceed with confidence with developmental plans for the feeder services.

For example, in May 1937, DOT requested the air operators to apply for route licenses. Consequently, CAL sent in a list of the routes it wished to operate. DOT, however, replied that no licenses would be issued for the time being because the whole subject of scheduled air transport licensing was "under consideration."<sup>2</sup> What happened was that when DOT received an application it turned it over to TCA. If TCA wished to operate the service, then a license was not granted to the private company. If TCA did not know if it wished the route, then the application was simply held in abeyance until TCA made up its mind.<sup>3</sup>

This kind of cooperation between TCA and DOT, which CAL regarded as unfair, may have been partially due to the fact that two, key DOT officials were also Directors of TCA and another TCA Director was a Post Office official.<sup>4</sup> This resulted in a conflict of interest which worked against the private companies. The overlap between DOT and TCA made it difficult for CAL to complain to DOT about unfair TCA practices, and CAL believed that DOT tended to promote TCA's growth at the expense of commercial aviation in general.

At the time, TCA had no interest in developing any of the feeder services, but it also had no intention of letting a potentially important feeder slip through its hands. DOT's action regarding licensing on the Edmonton-Whitehorse route provides a good example of TCA-DOT tactics. TCA's Board of

Directors recognized that the Edmonton-Whitehorse line might become important. But because the route was not fully developed, the Board decided to leave it to the bush companies until it warranted main line status. To solve the problem of licensing a company and awarding an air mail contract, DOT and the Post Office gave United Air Transport a temporary license and made a "temporary arrangement" to carry the mail.<sup>5</sup> This would allow TCA to take over the route and carry the mail when it wished. This kind of treatment was not conducive to the sound development of commercial aviation and further aggravated the problems of the northern companies.

Despite this uncertainty, CAL was hopeful that Howe would keep his promise and award it most of the feeders as compensation for losing the trans-Canada contract.<sup>6</sup> Thompson's (General Manager) plan was to have CAL "recognized as the National Company to handle all the northern routes connecting with the International lines" and to develop the route to the Orient through northern Canada. In his letter to Richardson outlining his ideas for CAL's future, he stressed the need to safeguard CAL "to prevent any pioneering efforts from being exploited by others, as in the case of the Trans-Canada mail contract."<sup>7</sup>

On 1 July 1938, the Transport Act was passed.<sup>8</sup> The Act placed the control of licensing in the hands of a Board of Transport Commissioners. This legislation brought a measure of stability to the industry but did not go far enough.

First of all, the Board of Transport Commissioners could not eliminate the duplication of services among the northern operators. The inclusion of the "grandfather clause" in the Transport Act meant that the Board had to grant a license to a carrier which had provided services in that area before the passage of the Act. These "grandfather rights" benefitted CAL who had pioneered most of the routes and could therefore claim the right to a license in most areas. The Board had no control over the number of aircraft operating in a district outside the licensed routes. Because the aircraft were equipped with skis and floats, and could land practically anywhere, it was relatively simple for the "casual raider" or unlicensed operator to circumvent the effect of any license granted by taking off and landing just outside the licensed air route.<sup>9</sup> The unlicensed operator usually granted concessions to secure traffic from the legal operator.

Secondly, the Board of Transport Commissioners had no control over air mail rates. While the Trans-Canada Air Lines Act had provided for equitable air mail rates for TCA, the Transport Act made no such provision for the private companies. They remained at the mercy of the Post Office.

The Transport Act also introduced the problem of conflict between the executive powers of the Minister of Transport, under the Trans-Canada Air Lines Act, and the judicial functions of the Board of Transport Commissioners, under the Transport Act. This happened because, when the Transport Act was passed, the

Trans-Canada Air Lines Act was amended to provide for the division of control of TCA between DOT and the Board of Transport Commissioners. This resulted in TCA being able to put on whatever service it liked without reference to the Minister of Transport, as long as the service was not subsidized.<sup>10</sup> In practice, the Board was limited to a passive role. It waited until it received an application before it acted. It did not concern itself with the development of policies designed to support commercial aviation.

CAL was unhappy with the Transport Act. While welcoming the legislation as an attempt to control unregulated competition, Thompson foresaw a number of problems. He believed the application of the Railway Act was not practicable to air transportation and would result in at least a 25% increase in CAL's overhead, "entirely in the form of non productive personnel looking after their records." He also felt that some of the operators would continue to file tariffs that were too low and was concerned that, if CAL protested, it would be accused by its customers of trying to raise the rates. He therefore recommended that CAL open its books to the scrutiny of the Board of Transport Commissioners to provide it with actual costs, so that it could accurately judge whether the rates submitted to it were at a level which allowed a reasonable profit. He also strongly recommended that the Board's authority be enlarged and the Post Office Act be changed so the Board could participate in the setting of air mail rates.<sup>11</sup>

While the government would eventually incorporate most of CAL's suggestions, it did not do so then.

While the Transport Act helped in preventing the formation of new companies, it did little to alleviate the duplication of services and low rates of the existing companies. Compounding these problems was a curtailment in mining activity because of the threat of war. This had an immediate effect upon the volume of work available and on the rate structure. By December 1938, CAL's liquid position was so bad that Hutchins (Executive Secretary) advised Richardson to discuss CAL's future with Beatty and Hungerford.<sup>12</sup> There is no record that a meeting took place.

There was little that CAL could do to improve the situation except persevere in its efforts to secure rate agreements with the other operators and to try and force the government to establish adequate controls for the bush companies.<sup>13</sup> During 1939, CAL concentrated its energies on publicizing the plight of the northern operators. Its most significant effort was a memorandum in regard to the air mail contract in Prince Albert for the Board of Transport Commissioners. In an endeavor to cut the destructive competition, CAL made the revolutionary recommendation that all licensed carriers participate in any air mail contract in the district in which they were licensed. This was done to "take existing and future air mail contracts out of the hands of political patronage." CAL also recommended that the Board institute a standard form of

accounting and it, like the air mail rates, be submitted for approval to a committee composed of representatives from DOT, the Post Office and the Board of Transport Commissioners.<sup>14</sup> The government ignored CAL's recommendations and did nothing to solve the problems of the bush companies.

As commercial traffic into the North continued to decline, the main sources of revenue were the unprofitable air mail contracts. By mid-1939, the years of unethical competition and low air mail rates had brought the air transport industry to the brink of bankruptcy. CAL was no exception. It needed \$1,000,000.00 to clear up its debts and to purchase new equipment.<sup>15</sup> However, before 1939 ended, two important events occurred which, in combination with other factors, spelled the demise of CAL. On 26 June, Richardson died and on 3 September, Canada declared war.

Hutchins, Executive Secretary of CAL and co-executor with Mrs. Richardson of her husband's estate, assumed the administrative responsibility for CAL. He was assisted by Thompson (General Manager), Tackaberry (Comptroller) and Lawson (James Richardson & Sons Ltd.). Beatty, while remaining for the present as Vice-President of CAL's Board of Directors, was soon to move into the presidency.

Because CAL's financial situation was so precarious, Hutchins lost no time in contacting Beatty. In August, he wrote Beatty and told him that if the CPR were interested in

working with CAL to restore stability to the airways picture, he was to work up a plan of action by September.<sup>16</sup> This decision to approach Beatty for financing marked the beginning of a closer alliance with the CPR and the last chapter of CAL's history.

Hutchins' recommendation was for CAL and the CPR to acquire ownership or control of the principal companies in Canada as a first step. He wanted this done as soon as possible to take advantage of the poor financial shape most of the companies were in. Hutchins also suggested obtaining "the blessing of the government" to offset any question of monopoly and assuring the mining companies that any cooperative arrangements among the companies would not mean higher rates. Hutchins' proposal to acquire control now meant that instead of \$1,000,000.00 CAL would require \$2,000,000.00.

Beatty replied that the CPR was definitely interested in becoming more involved in the aviation field and that CAL could count on the CPR for the needed capital.<sup>17</sup> Like Hutchins, Beatty thought it wise to play it safe and he obtained Howe's approval for the CPR to take a more active interest in the airline business and to work more closely with CAL. From correspondence on file, it is evident that Hutchins was not yet contemplating selling the Richardson interests in aviation to the CPR. Both Hutchins and Beatty spoke along the lines of the CPR providing the cash and CAL the operating manpower and technical expertise. There was

no reference as to whom would have control.

Before Hutchins and Beatty progressed any further with their planning, CAL received a notification from the government which threatened to cripple its operations. The Chief of Air Services of DOT telegraphed CAL at the beginning of September requesting information as to the number of pilots that would be available immediately for Air Force service. Hutchins was worried, for a general response by pilots and mechanics from all companies not only would disrupt commercial air services overnight by grounding 80-90% of the aircraft, but also would destroy CAL in its present precarious financial position. Having the greatest numbers of personnel among the private carriers, CAL stood to lose the most, which of course would seriously affect CAL's plans to acquire control of the private companies. Hutchins therefore requested Beatty to offer CAL's services to the government but also to ask the government to show it some consideration by allowing CAL sufficient time to replace pilots and by withdrawing personnel from all companies on a "pro rata" basis.<sup>18</sup> What was particularly galling to CAL was the fact that TCA was exempt.<sup>19</sup> While recognizing the necessity of this as a war measure, it was, nevertheless, another irritant in CAL's relationship with the government.

In the meantime, Hutchins and Beatty continued their discussions. By December, they had agreed that CAL and the CPR would work towards establishing a central traffic organization and forming separate companies to act as provincial

subsidiaries of CAL. With the Board's approval, Hutchins and Beatty reorganized CAL so that new capital (\$600,000.00) could be brought in by the CPR. The refinanced CAL now was controlled with the Richardson Estate holding 50.9% of the shares, the CPR 27.3%, the CNR 4.5% and "other" 17.3%.<sup>20</sup> It was vital that CAL move quickly to regain control over the airways picture before its finances and manpower were further depleted. By the end of 1939, CAL had lost a total of forty-three men to TCA and an additional twenty-five to the RCAF.<sup>21</sup>

In 1940, war made further readjustments necessary. The two most important occurrences for CAL that year were the establishment of the training schools under the British Commonwealth Air Training Plan and the government investigation into the problems of the northern air carriers.

In November 1939, Thompson met with representatives from the British Air Ministry to discuss the possibility of CAL providing primary flying training.<sup>22</sup> Peter Troup and "Babe" Woolett of Dominion Skyways Ltd. and later Thompson, Tackaberry and Hutchins of CAL did the preliminary work in establishing the format for the commercial companies to manage the civilian end of the Air Force training schools. Dominion Skyways obtained the first contract under the British Commonwealth Air Training Plan and its subsidiary, Dominion Skyways (Training) Ltd., incorporated for the purpose with a capital of \$50,000.00, opened No. 1 Air Observers School at Malton, Ontario on 27 May 1940. The school was so

successfully managed by Troup and Woolett that it became the pattern for all other schools which were to follow. In all, CAL operated five schools under the plan.

In response to a request from the northern operators, Howe, in June 1940, asked the Board of Transport Commissioners to investigate the duplication of services among the bush companies. Sixteen air operators and eleven other "interested parties" presented written or oral briefs.<sup>23</sup> CAL's brief was the most comprehensive. It described the evolution of the problems of the bush companies and made three main recommendations. Firstly, all companies should cooperate in the formation of a central traffic organization so as to make joint use of buildings, docks and fueling services and to stabilize the rates. Secondly, all licensed carriers should participate in any air mail service in the district in which they were licensed. Thirdly, the Post Office should not be allowed to annul an air mail contract with only 30 days' notice; that all aviation companies were entitled to some security of tenure. The recommendations were sound, although the second had some disadvantages, the most obvious being that this would entail some sort of staggered service. However, it did have the advantage that all the operators would have an equal share in the traffic and could use their combined force to obtain equitable rates from the Post Office. But CAL stood alone in supporting this action. The rest of the companies favoured some form of zoning as a method of controlling the number of

companies in each district. This solution had first been suggested by Brintnell of Mackenzie Air Services a year earlier and his criterion was to license the company which held the air mail contracts for that district. As Mackenzie Air Services held most of the air mail contracts, zoning was most advantageous to it.

The Board submitted its report to Howe on 2 August 1940. The fifty-page report summarized the hearing and concluded with the Board's recommendations. In short, the Board advised against nationalizing the northern air carriers and favoured zoning as the solution to the problems of the bush companies. This was its most extreme recommendation. The Board suggested that the territory from Quebec to the Pacific, including the Yukon, be divided into zones; that as a general policy only one carrier be permitted to operate in each zone or over each licensed route; and that the "grandfather rights," secured in the Transport Act of 1938, be abolished. Like the private companies, the Board did not know who to license in each zone. This uncertainty was reflected in the report, for the Board did not specify which operator should be licensed for each zone nor did it clearly define the basis on which such a decision should be made.<sup>24</sup>

Any policy of zoning would have been a drastic move on the part of the government and would have had serious effects on CAL.<sup>25</sup> CAL was in a different position from the other companies because it operated in practically all areas of Canada

and its investment in each district was equal to or greater than that of any of the other companies. If zoning were implemented on the basis suggested by Brintnell, CAL stood to lose the most, for it had lost most of its air mail contracts and zoning would have given no consideration to its investment or pioneering efforts. It was Hutchins' opinion that the small companies would gain under a system of zoning, while CAL could lose almost 70% of its licensed routes.<sup>26</sup>

The Board's proposed action would have involved considerable amendment to the Transport Act. Because the Board did not have the authority to carry out the amendments, it also recommended that the necessary additional powers to do so be given to it. Howe approved the Board's recommendations and the Board's request that they be implemented under the War Measures Act.

Although the Board's report was not a public document, Howe privately sent a copy to Beatty who in turn sent it to Hutchins.<sup>27</sup> Hutchins noted the importance Howe and the Board attached to zoning as a way of providing pilots and aircraft for the war effort. In his assessment of the report, Hutchins told Beatty that he had tried to tell the government that the elimination of the duplicated services, while needed, would not provide the required number of pilots or aircraft for the war effort.<sup>28</sup> He asked Beatty to make this clear to Howe so that Howe would not use this as his excuse for introducing zoning.

Beatty wrote confidentially to Howe and asked for an opportunity to speak with him before any action was taken by the government. Howe agreed and saw Beatty on 5 November, at which time Beatty explained the CPR's and CAL's plan to amalgamate the bush companies. Howe approved and told Beatty that he was prepared to give him time to accomplish this.<sup>29</sup>

The plan at that time was for the CPR to control Airways Limited and for the Richardson Estate to control CAL.<sup>30</sup> Thus as late as November 1940, Hutchins had no intention of pulling the Richardson interests out of aviation. In January 1941, he prepared a memorandum which was intended to lead to a discussion of the possibility of amalgamating all Canadian air transport companies either into one company or two companies, which would be controlled by "friendly interests."<sup>31</sup> The companies which were to be considered were CAL and its subsidiaries, Dominion Skyways Ltd., Arrow Airways Ltd., Prairie Airways, Yukon Southern Air Transport (formerly United Air Transport), Starratt Airways & Transportation Ltd., Wings Ltd., Mackenzie Air Services and Ginger Coote Airways.

Also in January 1941, pooling arrangements were begun and, by the end of the summer, CAL had successfully arranged pooling with all the companies except Starratt and Wings. The pooling arrangements were made to forestall government action on zoning and to trim costs and cut down on the duplication of services between the companies. They were financially beneficial to CAL, for they produced a substantial

increase in revenue per mile flown. The companies continued to operate under their own names.<sup>32</sup>

Government correspondence in this period indicates that in some circles there was concern about the CPR and its purchases of the bush companies. E. E. Fairweather, Chief Counsel for TCA, wrote C. P. Edwards, Director of Air Services, DOT, on 17 January 1941 that he was worried about the CPR's expansion in air services. Edwards replied on the 20th saying that the situation was "well under control" and "there [was] no occasion for alarm but rather gratification that at last a strong stabilizing influence has been brought into the Northern operations." Edwards reminded Fairweather that control of all licenses and routes remained with the Board of Transport Commissioners and DOT and that questions of policy remained with the government and "as no company can operate without a license, no competitor with Trans-Canada Air Lines need be feared without government sanction."<sup>33</sup>

Fairweather had cause for worry. If the CPR gained control of most of the private lines in Canada, with a few extensions and connections it would have a trans-continental route in competition with TCA. The CPR route would be located further north of TCA's line and would be in a better position to take advantage of future developments in international air routes.

Another factor which had to be considered by the government was that the implementation of zoning would have the effect

of creating monopolies in each district. This would facilitate any plans the CPR had for uniting the private companies into one large CPR aviation concern. Likely Howe and the Board of Transport Commissioners were aware of this possibility and this may have been another reason why zoning was never implemented.

In April, Hutchins recommended to the CPR that they make a public announcement regarding the purchase of the companies and "make our ambitions, so far as they affect the Trans-Canada Air Lines, clear."<sup>34</sup> From correspondence in the Canadian Airways Papers, it is difficult to judge when and why there was a change of attitude on the part of the Richardson executives regarding their continued participation in airway affairs. The "Maritime incident" may have been one of the factors which influenced Mrs. Richardson in her decision to sell. It is therefore worthwhile examining the Maritimes situation, for it also shows how closely CAL's future was tied to that of TCA's. It will be seen that despite the creation of TCA, DOT and the Board of Transport Commissioners, the government still had no definite policy regarding domestic air services; and political expediency, rather than a set of guidelines, was allowed to define its actions.

In May 1938, Thompson had recommended to Richardson that CAL form a subsidiary company for the services in the Maritimes and use this company to inaugurate a Moncton-Halifax-St. John service.<sup>35</sup> At this time, local interests in the Maritimes

were exerting pressure on both CAL and TCA to begin feeder services. Because TCA had not clearly declared its policy on feeder services and believing that the feeders would become a live issue within the year, Thompson wanted to secure CAL's claim to them by establishing passenger and express services as soon as possible over these routes. Two facts pointed to the likelihood of a private company rather than TCA obtaining the Maritimes' air mail contracts. Firstly, TCA did not wish the Maritime feeders because the airports at Halifax and St. John were too small for its aircraft. If TCA undertook the services, it would have to purchase suitable aircraft for them. In April 1939, D. B. Coyler of TCA had unofficially told Thompson that TCA wanted to stop its service at Montreal but would probably be forced to go as far as Moncton. Secondly, Howe had told Richardson that the Post Office wished to award the air mail contracts beyond Moncton to a private company.<sup>36</sup> CAL assumed from its discussions with the Post Office and Howe that it would be the company.

Therefore, on the understanding that the Post Office would issue an air mail contract to it when TCA began its Montreal-to-Moncton service, CAL inaugurated a Moncton-Halifax-St. John passenger and express service in May 1939.<sup>37</sup> But TCA did not begin its Montreal-to-Moncton service until November and then only on an experimental basis. Although the Post Office allowed CAL to charge 10¢ per pound for carrying the mail, this did not begin to cover costs. Not until 15 January 1940 did the

Post Office award CAL a 4-year air mail contract. In that 9-month interval, CAL sustained a \$9,000.00 loss. CAL absorbed the loss because it did not wish to jeopardize its chances of obtaining the Maritimes' contracts.<sup>38</sup> Even with the contract CAL continued to operate at a loss.<sup>39</sup>

However, Halifax was not happy with CAL. Its pride was hurt by the fact that TCA operated into Moncton and not Halifax and, in April 1940, Halifax began exerting pressure on the government to have TCA extend its services to Halifax. Worried, Thompson contacted C. P. Edwards of DOT who told him not to be concerned as DOT considered the Maritimes as CAL's territory, to be developed as required by CAL.<sup>40</sup> But the writing was on the wall.

A year later, on 14 March 1941 with 3 years still remaining on the air mail contract, the Post Office cancelled 35% of CAL's contracts in the Maritimes, some \$60,000.00 worth of revenue. With 35% of its entire Maritimes' revenue gone and with it the potential to build up additional traffic, Thompson recommended that CAL withdraw entirely from the Maritimes. The clause which allowed the Post Office to cancel was the usual 30 days' notice if the Post Office thought it was in the public's interest to do so. Hutchins did not see how it was in the "public's interest" to cancel and was worried about CAL's reputation. In answer to his letter of 28 March, Coolican explained that it was not a question of "efficient operation of service" but of "government policy." CAL's

assessment of Coolican's explanation was that the government found it politically expedient to bow to Halifax and run a service which it could neither afford in terms of cost nor availability of aircraft and personnel. The result was that CAL, who had prior rights and a 4-year contract, was forced out of the Maritimes by TCA.

Hutchins wrote the Post Office on 15 March asking that it compensate CAL for its loss of revenue by increasing the air mail rates on what was left of the contract, stating that, otherwise, CAL wished to be relieved of the entire contract plus the Charlottetown-to-Magdalen Islands one. The Post Office would not agree to any compensation and, on 22 March, Coolican wrote CAL agreeing to relieve CAL of its Maritimes' contracts. CAL viewed the whole affair as further proof of the "arbitrary and unfair" actions of the Post Office.<sup>41</sup>

CAL was justified in feeling this way. The Post Office had shown again that no contract with it was safe. The parallel between this situation and the cancelled prairie air mail contracts was striking. Not only had the Post Office broken its contract with a private company, using its 30 days' notice as a legal out, but also CAL was again caught with expensive aircraft purchased for the air mail service. Further proof that the government could run roughshod over the private operators and do what it wished came when TCA began operating between Moncton and Halifax without a license.

The CPR considered this a dangerous precedent which could set the stage for TCA to do likewise in other parts of the country "without regards to the rights of the licensed operator if sufficient political pressure were brought to bear on the government."<sup>42</sup>

CAL's future in the Maritimes came to an abrupt end because its plans conflicted with TCA's interests and because the government still lacked a comprehensive aviation policy. CAL had taken the precaution of checking with Howe, DOT, TCA and the Post Office before committing itself to the expense of establishing bases and purchasing equipment for the Maritimes services. That political expediency, rather than policy, ruled the government was shown when the Post Office told CAL that it was prepared to take the contract away from TCA and give it back to a private company.<sup>43</sup> The Post Office said that the public was disappointed with TCA's service and wanted CAL back. Coyler told Hutchins that TCA would not stand in CAL's way if it wished to obtain the Maritimes' contract. However, Hutchins was unwilling to risk CAL's re-entry into the Maritimes until the government provided better security for the private companies. Indeed, it appeared that all of CAL's future operations would be in jeopardy until the government settled on a policy of development for TCA. It may have been such incidents that decided Mrs. Richardson to sell the Richardson interests in aviation before CAL lost any more ground.

In the fall of 1941, Mrs. Richardson decided to sell CAL to the CPR. The decision was the outcome of an agreement made sometime in the thirties between Richardson and Beatty. As Mrs. Richardson explained to Thompson, "whenever the Canadian Pacific Railway decided to enter extensively into the field of air transportation, the Canadian Airways would be available as the medium whereby this entry might be made."<sup>44</sup>

In October, Hutchins began negotiations with L. B. Unwin of the CPR.<sup>45</sup> Discussions continued until April 1942. A thorough account of them may be found in the more than twenty memoranda prepared by Hutchins.<sup>46</sup> Hutchins' original asking price of \$1,250,000.00 was rejected by Unwin who flatly refused to discuss it. Unwin's counteroffer of \$500,000.00 was considered equally ridiculous by Hutchins and Mrs. Richardson. Why was there such a discrepancy in figures?

Hutchins had originally valued the shares of CAL, Dominion Skyways and Arrow Airways on the same basis as Starratt's shares when the CPR was negotiating with Starratt. Computed in this manner, the book value plus 30% of the three companies was only \$619,000.00. Hutchins did not consider this a fair estimate of the assets because it did not reflect the amount of money invested in the airways by Richardson or the goodwill which the three companies had built up. Hutchins, Tackaberry and Lawson then arrived at a figure of \$813,000.00. The CPR had paid a premium of 20% to Starratt and Hutchins felt justified in adding the same rate to the Richardson shares. This

made the Richardson shares worth almost \$1,000,000.00. Mrs. Richardson also expected more favourable treatment by the CPR because of the long and friendly association between Beatty and Richardson, and because Richardson had built up the company and had protected it during his lifetime. Unfortunately, CAL did not have the earnings record that Starratt had nor was Beatty handling the negotiations; and Unwin refused to consider paying more than the book value when CAL had been refinanced in December 1939.<sup>47</sup>

Unwin would go no higher than \$600,000.00. Mrs. Richardson refused to lower her price and told Hutchins that she would tell Coleman, Vice-President of the CPR, that she was prepared to make "a deal in some other quarter."<sup>48</sup> In reality, Mrs. Richardson was caught. Unless Mrs. Richardson was prepared to sell to the Americans, which she was not, there was no one in Canada who could afford to pick up the Richardson interests. Unwin was well aware that the CPR held the upper hand.

By the end of October, negotiations were stalemated. Rate agreement discussions between CAL, Wings, and Starratt were also at a standstill. However, this worked to CAL's advantage, for it allowed Hutchins to reinforce his argument with the CPR that it could stabilize the industry by owning all the companies rather than trying to make rate agreements with them. This point and the entrance of Beatty into the negotiations at the end of October broke the impasse.

Earlier in October, Hutchins had suggested \$900,000.00 as the selling price; Unwin had refused. Now Neal, Vice-President of the CPR, and more friendly to CAL than Unwin, offered \$750,000.00. This figure was confirmed by Beatty who wrote personally to Mrs. Richardson on 15 November, stating that he was prepared to recommend the price of \$750,000.00 to his Board of Directors.<sup>49</sup> Hutchins advised Mrs. Richardson to accept this figure but also to ask for the ground and water assets of Starratt, which were valued by CAL and the CPR at \$188,000.00.<sup>50</sup> The Richardson proposal was given to Beatty on 27 November; he accepted it subject to his Board's ratification. On 9 December, Beatty wrote to Mrs. Richardson to say that the CPR had accepted the Richardson offer of \$750,000.00 cash plus the ground and water assets of Starratt. On 18 December, the CPR paid \$750,000.00 and received all the shares in the three airway companies. The actual physical assets covered in the agreement were turned over by both parties in December 1941. However, the Bill of Sale for the Starratt's assets proved to be a contentious matter and sale transactions with the CPR were not concluded satisfactorily until October 1942.<sup>51</sup>

All of the CPR's newly acquired companies continued to operate under their own name and were controlled by a department of the CPR, called Canadian Pacific Air Services. At the CPR's request, Hutchins retained executive control of the Richardson interests until the CPR had its management in place.<sup>52</sup>

In May 1942, the CPR received its charter allowing it to conduct air services under the name of Canadian Pacific Air Lines. The pattern of amalgamation begun in 1939 was complete. The sale brought to a close more than a decade of pioneering by CAL. An era had ended.

When CAL had begun flying, the historic means of transportation in the North had been dog-team and snowshoe in winter and canoe in summer and results had been largely dependent upon the personality, skill and resourcefulness of pilot and mechanic. Air transport had been a relatively simple matter of flying men and supplies from one point to another and there had been an unlimited field for expansion. By 1942, there was a vast network of routes across Canada and the days when a pilot soared off from his base to be lost to sight until his return days later was a thing of the past. But for the private operators the field for expansion had shrunk and their problems included more than the logistics of flying. Richardson's hope that it would "always be possible for Canadian Airways to be kept free of politics and carried on on a business basis" had vanished with the formation of TCA.<sup>53</sup>

The sale of the Richardson interests in aviation marked the end of one man's dream. However, it also marked the birth of another airline, one which would become a major Canadian and international carrier. The Canada Goose, the familiar symbol of WCA and CAL, would fly again as the emblem of Canadian Pacific Air Lines.

## NOTES

### CHAPTER 8

1. PAM, CALP, Box 8, Thompson to Richardson, 17 September 1937; Hutchins to Manager, Bank of Commerce, Winnipeg, 29 December 1937; and Box 23, File: Annual Reports, Annual Report Year End, 31 December 1937. The January to April 1937 statistics indicated that 1937 would be a good year financially. But by December 1937, CAL's stock had dropped from \$7.50 to \$3.50 a share and CAL had loans amounting to \$250,000.00 due the Bank of Commerce. These loans were secured by the personal guarantee of Richardson. Ironically, CAL's books, for the first time in its history, showed a small profit at the year end, 31 December 1937.
2. Ibid., J.R.K. Main (for A. D. McLean, Superintendent of Airways, DOT) to Quebec Airways Ltd. (under Richardson's control), 30 July 1937.
3. PAC, RG 70, Symington's Files, TCA Minute Book, Vol. 1, "Minutes of Meeting," 2 September 1937. At this meeting, C. P. Edwards (DOT official and on Board of Directors, TCA) stated, in a general discussion of the allocation of routes between TCA and the other operators, that he did not want to make any commitments until TCA decided on its routes.
4. C. P. Edwards and John A. Wilson of DOT and George Herring of PO were TCA Directors appointed by the Governor in Council.
5. Ibid., "Minutes of Meeting," 10 November 1937. During this Directors' meeting the question of territory to be served by TCA was again discussed. It was agreed that as a general principle the TCA "operations would be confined to those of a main line character" and that TCA would not operate on routes on which "traffic density does not warrant the use of Corporate standard equipment." It was felt that the feeder lines should go to the private operators who could then make inter-line arrangements with TCA. However, TCA protected itself by saying that it could also operate any lines which the government designated to TCA.

6. Reference to Howe's promise in PAM, CALP, Box 8, Richardson's Statement, 25 April 1937.
7. Ibid., Thompson to Richardson, 19 August 1937. As a final step to protect CAL, Thompson suggested that Richardson speak personally with both King and Bennett and "get their approvals and promise of support and protection, whichever party is in power." It was at this time that CAL began to buy up smaller companies in an effort to consolidate its position. In 1938, Richardson personally bought Dominion Skyways in Quebec and Arrow Airways in Manitoba. Both companies retained their identities and operated under their own names.
8. The Transport Act, 1 July 1938, Statutes of Canada, Chapter 53. A Transport Act had been first introduced in 1937. Bill 74, in addition to creating TCA, also recommended the establishment of a Board of Transport Commissioners. In early January 1937, Howe had sent Richardson a draft copy of the Bill. The purpose of the Bill was to extend the duties of the Board of Railway Commissioners to other competitive forms of transportation, for the Railway Board had no value as a regulatory body for aviation and highways. Richardson was concerned about the application of the Railway Act to transportation by air. See PAM, CALP, Box 8, Richardson to Howe, 7 January 1937.
9. The term "casual raider" comes from Arrow Airways' Brief to the Board of Transport Commissioners. See PAC, RG 12, Vol. 1407, File: 5216-3 (Vol. 2), Inquiry by the Board of Transport Commissioners for Canada into Duplication of Air Services in Northern Canada, "Report to the Honourable The Minister of Munitions and Supply," 2 August 1940.
10. In 1944, it was recommended that the Transport Act be amended to provide a clearer definition of the jurisdiction of the Board of Transport Commissioners over TCA operations. See PAC, Howe Papers, Wilson, ICAT, "Report on Domestic Air Services," 18 September 1943.
11. For inadequacy of Transport Act see PAM, CALP, Box 8, Thompson to W. B. Burchall (Secretary, Air Transport Association), 14 June 1938; Box 9, Thompson to F. W. Barker (Secretary, Air Transport Association of America), 7 December 1938; Thompson to Richardson, 23 November 1938; and Thompson to Hutchins, 13 June 1940. Richardson wrote to Howe and offered to open CAL's records to the Board of Transport Commissioners. There is no reply from Howe on file. Ibid., Richardson to Howe, 26 November 1938.

12. PAM, CALP, Box 23, File: Annual Reports, Annual Report of Directors, Fiscal Year Ended 31 December 1938 and 1939. The year end 1938 showed a loss of \$95,978.20 before depreciation compared to a profit of \$107,925.57 in 1937. Working capital was decreased \$156,547.31 and showed a deficit of \$145,608.95. CAL was financed by a loan of \$300,000.00 from the Bank of Commerce, which was personally guaranteed by Richardson. Because CNR was unable to sell its stock after the formation of TCA, it still held shares in CAL. At this time, there were 129,753 shares outstanding of which Richardson controlled 54.5%; CPR and CNR controlled 15.4% (between them); and 410 shareholders held 30.1%. See Box 9, Hutchins to Richardson, 23 November 1938.

13. In 1938, CAL agreed to discard its identity and join the Passenger and Express Air Services Limited (PEAS). This plan, proposed by J. L. Deering of Regina (Ford Motor Branch Manager and interested bystander of aviation), called for the formation of a central traffic organization to eliminate the duplication of traffic offices, sales and commercial services among the companies. Deering held two conferences in 1938 in an attempt to establish this organization. Twelve companies attended and initially accepted the principles of PEAS. However, Brintnell of Mackenzie Air Services refused to attend either conference and his nonparticipation made it unlikely that the plan would work. By the end of 1938, most of the companies, except CAL and Arrow Airways, had dropped out. Ibid., Memo to Richardson, 23 November 1938. In February 1939, Thompson prepared a brief on northern air transportation to be presented to "friends in Ottawa to assist us in obtaining justice from the Post Office." See Thompson's Brief on northern air transportation enclosed in Thompson to Richardson, 3 February 1939. In April 1939, Richardson arranged for a number of newspapers across the country to write about CAL and the financial problems of the air transport industry. See, for example, Toronto Daily Star, 19 April 1939 and Toronto Globe & Mail, 19 April 1939.

14. Ibid., Brief enclosed in Thompson to Hutchins, 23 June 1939.

15. PAM, CALP, Box 54, File: No. 1, CPR Negotiations, Hutchins Memo, 25 August 1939.

16. PAM, CALP, Box 54, File: 1, Hutchins Memo, 22 August 1939.

17. Ibid., Beatty to Hutchins, 6 September 1939.

18. Ibid., Hutchins to L. B. Unwin, Treasurer of CPR, 7 September 1939. Reference to DOT telegram and request to Beatty here.

19. Order in Council, P.C. 2525, 5 September 1939. The Order in Council exempted TCA employees from war service.
20. PAM, CALP, Box 54, File: 1, Hutchins to Mrs. Richardson, 11 December 1939; Hutchins to J. S. Deering, 29 December 1939; and Box 23, 31 December 1939 Annual Report. See above for reorganization and refinancing of CAL.
21. PAM, CALP, Box 23, 1939 Annual Report.
22. PAM, CALP, Box 54, File: 1, Thompson to Tackaberry, 10 November 1939; see also, Box 10, Hutchins Confidential Memo to Charlotte Whitton, 30 October 1944; and Hutchins to Unwin, 13 May 1940. The plan that was worked out was that the government would let a contract to a commercial company to operate a school. The company would supply all the pilots, mechanics and helpers in connection with the actual maintenance and operation of the aircraft, the buildings, grounds and housekeeping services, which included all RCAF personnel and students. When CAL undertook to provide training schools under the British Commonwealth Air Training Plan, it established subsidiary companies (for example, Canadian Airways (Training) Ltd.). The parent company, CAL, would then borrow from the bank and buy up all the shares. CAL operated five schools under the plan: Dominion Skyways (Training) Ltd., No. 1 Air Observers School at Malton, Ontario; Canadian Airways (Training) Ltd., No. 2 Air Observers School at Edmonton, Alberta; Quebec Airways (Training) Ltd., No. 11 Elementary Flying Training School at Cap de la Madelaine, Quebec; Quebec Airways (Observers) Ltd., No. 8 Air Observers School at Ancienne Lorette, Quebec; and Dominion Skyways (Observers) Ltd., No. 9 Air Observers School at St. John, Quebec.
23. PAC, RG 12, Vol. 1407, File: 5216-3 (Vol. 1), Report to the Honourable Minister of Munitions and Supply, "Inquiry by the Board of Transport Commissioners for Canada Into the Duplication of Air Services in Northern Canada," 2 August 1940.
24. Canadian Airways Papers do not indicate that the Board of Transport Commissioners ever implemented any zoning action. The vagueness of the Board as to how the licensing was to be carried out was probably one of the reasons. CPR's proposal to buy up the smaller companies and thus eliminate much of the duplication of services and competition also mitigated against any zoning action.
25. PAM, CALP, Box 10, Tackaberry Memo to Beatty, "Hearings of the Board of Transport Commissioners for Canada," 25 October 1940.

26. Ibid., Hutchins Memo to Beatty, 9 August 1940.
27. Ibid., Hutchins Memo to Beatty, 25 October 1940. Reference to receiving the report here.
28. Ibid., Extract of letter, Hutchins to Howe, 23 May 1940, attached to Hutchins' Memo to Beatty, 25 October 1940. Hutchins estimated that no more than twenty pilots would be available if zoning were implemented and that they would not necessarily be suitable for the British Commonwealth Air Training Plan. Hutchins told Howe that it would be more feasible to establish training schools to obtain pilots.
29. PAC, RG 12, Vol. 1407, File: 5216-3 (Vol. 2), Howe to J. A. Cross (Chief Commissioner of the Board of Transport Commissioners), 29 October 1940. Reference to Beatty's letter to Howe here. Howe told Cross that Beatty was now handling the Richardson interests in CAL. He suggested to Cross that he check with Beatty before taking any action on zoning as the position of the bush companies was likely to change. PAM, CALP, Box 10, Howe to Beatty, Personal and Confidential, copy, 2 December 1940, attached to Beatty to Hutchins, 4 December 1940. The Board of Transport Commissioners could not act until it obtained the authority from DOT and an Order in Council. Howe told Beatty that he would "suggest to the Deputy Minister of DOT that the Order in Council be held."
30. Ibid., Hutchins Memo to Mrs. Richardson, "Airway Matters," 13 November 1940. Airways Limited (established by Richardson in 1936 as a holding company for the acquisition of additional aviation companies) was the vehicle through which control or ownership of the other companies was to be obtained. "The plan . . . [was for] the Canadian Pacific to take shares for the cash they used to buy such companies, thus they would own control of Airways Ltd., with Interprovincial a minority shareholder. In the plan, there would then be Canadian Airways, with the balance of control in Richardson hands, and Airways Ltd. (owning a number of competitors of Canadian Airways) with control in Canadian Pacific hands." The Interprovincial Trading Corporation was Richardson's personal holding company.
31. Ibid., Hutchins Memo, 3 January 1941. See Appendix 4 for list of aviation companies operating in Canada.
32. Ibid., Hutchins to Mrs. Richardson, 13 November 1940; Hutchins to Deering, 10 June 1941; Hutchins to Tackaberry, 27 June 1941; and copy of Agreement among CAL, Mackenzie Air Services, United Air Services Ltd., and CPR, 16 May 1941 enclosed in Unwin to Hutchins, 24 June 1941. CPR bought a controlling interest in Mackenzie Air Services in November 1940. The

Mackenzie River district operations were pooled under the name "United Air Services Ltd." with Brintnell as Manager. He was responsible to a committee composed of representatives from CAL, Mackenzie Air Services and CPR, with Neal of CPR as Chairman. In February 1941, Hutchins concluded negotiations with Ginger Coote for the purchase of his company by CPR and, in May 1941, CPR bought out Yukon Southern Air Transport. An agreement covering operations was made in May 1941 among CAL, Mackenzie Air Services, United Air Services Ltd. and CPR.

33. PAC, RG 12, Vol. 1407, File: 5216-3 (Vol. 1), C. P. Edwards to E. E. Fairweather (Chief Counsel for TCA), 20 January 1941. Reference to Fairweather's letter of 17 January in 20 January letter.

34. PAM, CALP, Box 54, Hutchins to Unwin, 7 April 1941. In his letter to Unwin, Hutchins mentioned that CAL and CPR were being accused of laying the foundation for "an all red route across the Atlantic and the Pacific."

35. PAM, CALP, Box 9, Thompson to Richardson, 18 May 1938. Canadian Airways (Maritimes) Ltd. was not formed until early 1940. Hutchins asked CAL Director, H. P. Robinson of New Brunswick, if he would be a Director of this subsidiary. Ibid., Hutchins to H. P. Robinson, 19 March 1940.

36. PAM, CALP, Box 10, Thompson to Hutchins, 21 March 1941; and Howe to Richardson, 31 May 1939. Reference to size of airports and Coyler and Howe in above.

37. Ibid., Thompson Memo, 30 November 1939, enclosed in Thompson to Hutchins, 30 November 1939; Thompson to Hutchins, 10 April 1940; and Box 10, Thompson to Hutchins, 21 March 1941. See above for information on the Maritime feeder services.

38. Earlier in the year, PO had denied CAL the opportunity to bid on a contract because CAL was not currently operating over the route it wished to bid. Although this new PO "rule" had not been advertised nor was it in writing, CAL did not wish to risk losing the Maritimes' contract by not having an air service in place.

39. Ibid., Thompson to Hutchins, 21 March 1941. The air mail contract of January 1940 did not cover CAL's full operating expenses. PO paid CAL 60¢ per mile for the Moncton-to-St. John, Moncton-to-Halifax service. On the same contract, CAL was also awarded a 4-year air mail contract for a Moncton-Summerside-Charlottetown service of two schedules per day, but paying for only one schedule per day. In effect, therefore,

this air mail contract was worth only 30¢ per mile for the total mileage flown.

40. Ibid., Thompson to Hutchins, 8 October 1940. It may have been that PO was aware of Halifax's discontent, for it did not sign the air mail contract with CAL until August 1940.

41. For CAL and PO correspondence regarding the cancellation of the Maritimes' air mail contract see Box 10, 14 March 1941 to 1 April 1941 correspondence. Note that a copy of Hutchins to Coolican 20 March letter referring to the fact that CAL had to spend \$200,000.00 on aircraft for the Maritime feeder services (to comply with PO specifications) was sent to Beatty, Unwin, H. A. Aylen (CAL Ottawa representative) and four Directors: F. M. Ross, Senator W. H. Dennis, Hon. C. A. Dunning and Thompson.

42. Ibid., H. A. Aylen (lawyer and CAL representative in Ottawa) to Hutchins, Personal and Confidential, 26 March 1941. It was the CPR Legal Department that told Aylen that TCA had begun its service in the Maritimes without a license. See also, Hutchins to Aylen, 27 March. Hutchins said that he did not think it would help CAL to publicize TCA's "transgression;" and Aylen to Hutchins, 31 March. Aylen wrote that Kirk of the Board of Transport Commissioners told him "the Department of Transport seems to consider that TCA can be permitted to do anything" but that the attitude of the Board will probably be that TCA was to be treated in the same manner as any other company.

43. Ibid., Hutchins to Unwin, 21 August 1941. Hutchins told Unwin that CAL had received a request from "representatives from the Maritimes" to re-enter the area. Coolican told Hutchins that PO was unhappy with TCA's service and would be happy to see CAL regain the contract. Coyer, Vice-President in Charge of Operations, TCA, told Hutchins that while TCA would not block CAL's re-entry into the Maritimes it would block CPR.

44. Ibid., Mrs. Richardson to Thompson, 17 December 1941.

45. Hutchins was chosen because he was co-executor of Richardson's estate. Working closely with Hutchins were Tackaberry and Lawson. CAL would have preferred dealing with Beatty who was more likely to be generous to the Richardson interests than Unwin, who at that time was Treasurer of CPR. Unfortunately, Beatty was ill.

46. PAM, CALP, Box 54, File: 2, CPR Negotiations, Memoranda, 14 October 1941 to April 1942.

47. Ibid., Hutchins Memo, 14 October 1941. According to Hutchins' Memo on CAL, Arrow Airways and Dominion Skyways, the Richardson shares were worth \$975,000.00. "The asking price of \$1 1/4 million was only 62% of the original cash invested," wrote Hutchins. However, when CAL had been partially reorganized in December 1939, CPR took shares at \$4.00 a share and this was the price that Unwin was using to value CAL's worth.

48. Mrs. Richardson's remark in Hutchins to Lawson, 25 October 1941.

49. Ibid., Beatty to Mrs. Richardson, 15 November 1941.

50. Ibid., Hutchins Memo, 24 August 1942. Hutchins advised Mrs. Richardson to ask for Starratt's ground and water assets, for if they were taken over at their real value as part of the proposed deal "there would be certain relief in taxation that would assist in compensating her for accepting a lower price for her airway shares than originally asked." The acquisition of Starratt's ground and water equipment would be beneficial to the Richardsons, for it would give them a monopoly of the ground and water transport facilities in northwestern Ontario. The Richardson Estate already owned Patricia Transportation Company Limited, which operated in the Patricia Lake district.

51. The Patricia Transportation Company Limited, part of the Richardson Estate since 1936, received all the ground and water assets of Starratt on the understanding that a Bill of Sale for \$188,000.00 would be forthcoming. Not until June 1942 did CPR send a Bill of Sale to Hutchins for his approval, but no value was mentioned for the Starratt's assets. By August, Hutchins had still not received a Bill of Sale that satisfactorily covered the transactions by naming the agreed upon value (\$188,000.00) of these assets. Finally on 24 October 1942, Hutchins received a Bill of Sale from CPR "in proper form." Ibid., Hutchins to Mrs. Richardson, 24 October 1942. See Hutchins Memos, 24 August 1942 to 24 October 1942 for a review of the correspondence between Hutchins and CPR.

52. Ibid., Hutchins to C. R. Troup (Manager of Dominion Skyways (Training) Ltd., No. 1 Air Observers School), 18 December 1941.

53. PAC, Bennett Papers, Box 43, Vol. 2, Richardson to Bennett, 5 April 1933.

## CHAPTER 9

### CONCLUSION

The early air transport industry in Canada had a difficult time. The pre-Second World War companies consistently lost money and their growth was haphazard and plagued with problems. Their major hurdle was an often unsympathetic and unrealistic government which, for a variety of reasons, provided little practicable support. This resulted in the air transport industry being pioneered, financed and developed largely by private enterprise.

The Canadian government was blind to the lead that Canada held in aviation after World War 1 and to the opportunities this lead presented. The government was inexplicably slow in formulating an aviation policy for both national and international airway development. It overlooked the fact that the economics of both were related and demanded integrated government control. In the mid-thirties, Canada was the only major country that had not established an integrated system serving its main cities. The lack of government guidance and assistance made Canada unique. That Canada ranked first in the world in 1935 in the carriage of freight and express was due entirely to private initiative and enterprise rather than government leadership.<sup>1</sup> The government's lethargy

in defining an overall aviation policy seriously retarded the establishment of inter-city air mail and passenger services and contributed to the near bankruptcy of the air transport industry by 1940.

Lack of vision, economy and convenience characterized much of the government's attitude towards commercial aviation in the twenties and much of the thirties. In 1919, when the Air Board Act was passed, understandably the government did not realize the potential of civil aviation in promoting Canada's national and economic growth. The disposition of civil aviation under military control was a mistake which the government took 17 years to correct. As one observer remarked, "Civil oil and military water don't mix."<sup>2</sup>

CAL's problems with the military were compounded by having to work with a government committee which was dominated by representatives from DND and which lacked anyone with any useful knowledge of commercial aviation. The TCA Committee proved to be ineffectual; it failed to create a trans-Canada company or to define an aviation policy. For CAL, the committee's failure to propel the government to action on airway affairs meant a further erosion of its financial resources.

Canada's airway development had not always been so gloomy. In 1927, the King government had belatedly realized that Canada lagged far behind in its inter-city airway development and proposed a plan of indirectly assisting the commercial firms. In 1928, the threat of an American takeover

of the eastern Canadian aviation companies and patriotic sentiments moved the King government to approve and encourage Richardson's establishment of one large company, which was to become Canada's "chosen instrument." Unfortunately, the fall of the King government and the continuing effects of the depression put a halt to this late but promising beginning.

Prime Minister Bennett's concern to reduce government expenditures, laudable in many cases but unwise in this instance, and his lack of vision regarding airway development resulted in the cancellation of 80% of CAL's mail contracts. This wiped out CAL's financial basis and its reason for being. The cancellation of air mail contracts effectively repudiated the program of development begun by King, erased the incipient trans-Canada service and ultimately destroyed CAL's supremacy in the industry and its opportunity to become the trans-Canada operator.

In the period following the cancellation there was a dramatic increase in the number of aviation companies. Many were just one-man outfits and more interested in making an easy dollar than with maintaining the rate structure on an economical level. The influx of newcomers meant that the volume of flying increased out of all proportion to the business that was available and the rates began to fall. The mining companies, and the Post Office in particular, took advantage of the situation to play one company against the other to force the rates even lower. With no government

controls regulating entry into the field or the prices quoted, unrestricted and destructive competition became the order of the day. With no government policy, the Post Office felt at liberty to push air mail rates down at the expense of the new industry. This resulted in unprofitable air mail contracts for CAL and no dividends paid to its shareholders.

CAL was maintained mainly for political reasons; to be ready to operate the trans-Canada service. Richardson naively believed that the government had a moral and legal obligation to honour the cancelled contracts and foolishly adopted a 'wait and see' attitude, living in anticipation that CAL would become the "chosen instrument." And, indeed, he was encouraged by McNaughton to believe this. What Richardson did not know, although he suspected, was that McNaughton was undermining CAL's position by privately recommending to the Prime Minister and government officials a government-owned airline.

History has many "what ifs" and it is interesting to speculate the different outcome if the Prime Minister had implemented the May 1933 recommendations of the ad hoc committee on airway affairs or the January 1934 recommendations of the TCA Committee. Both committees advised a privately-owned airline, although it was the ad hoc committee which strongly suggested CAL as Canada's "chosen instrument." The TCA Committee's January 1934 Report was less emphatic and showed the division within the committee which marred its performance and impact. For some reason the Prime Minister

postponed acting on the May 1933 recommendations and ignored the January 1934 ones. From that time on the Prime Minister refused to make any decision on airway development and the TCA Committee accomplished little, if anything, during its remaining 18 months under McNaughton's leadership.

The fall of the Bennett government in 1935 brought back King and the Liberals and with them renewed hope for Richardson that the airways question would be resolved quickly and in CAL's favour. Although a year was to pass before Howe was prepared to act, he had assured Richardson that CAL would become the "Imperial Airways of Canada."

By now, however, the trans-Canada question had become more complex. In 1930, CAL was the only company in Canada which was capable of building a trans-continental system. In 1936, there were many small companies and powerful Canadian and American pressure groups who were anxious to be chosen as the trans-Canada company. The trans-Canada air mail contract would not be easily won.

Economically, CAL's trans-Canada company proposal was attractive; politically, it was dynamite. Fear of CPR domination of the air transport industry made the plan unpalatable to the government. The government's counterproposal (the Howe plan) gave the responsibility for forming the company to the two railways in conjunction with private aviation interests. It was tacitly understood between Howe and Beatty that CAL would be substantially involved. But Howe was prepared to

give private interests only one-third representation on the Board of Directors, while asking them to put up one-half of the capital costs. And his insistence that control of the Board be in the hands of the Minister of Transport (himself) was the main reason for the CPR's and CAL's withdrawal from the proposed company. Neither Beatty nor Richardson would tolerate being part of a company which was liable to political pressure. With the CPR and CAL out of the picture, TCA was created as a government-owned corporation.

Thus CAL, which had done most of the pioneering work in civil aviation and which had been maintained at a loss throughout the depression in anticipation of being the trans-Canada contractor, found itself back in the bush. "How unfairly we were both treated," wrote Beatty to Richardson in July 1937.<sup>3</sup> What was particularly galling to CAL was the fact that TCA was established on all the principles and with all the safeguards that CAL had been requesting for years, while the private companies were left in their chaotic state.

The Trans-Canada Air Lines Act marked an abrupt change in government attitude. It created a monopoly of air services on the main trans-continental line and replaced private effort with public funds. The complete burden of developing all aspects of the trans-Canada service was now the government's; the terms of the Act (only 49% of the shares was available to private interests) discouraged further investment of private capital. Political considerations

were responsible for its creation. Unlike the CNR, the government-owned TCA was deliberate.

While TCA held a protected position, the private operators were forced to scramble for business in the North. Not until the Transport Act in late 1938 did the government attempt to rectify some of the problems of the industry. Although it was a welcomed intervention, the Act was not inclusive enough and unregulated competition and Post Office manipulations of air mail contracts continued. The privileged position held by TCA gave no security to CAL in its attempts to expand feeder services. The TCA takeover of two-thirds of its Maritimes' air mail contracts convinced CAL that its future was precarious.

Richardson's death, the demands of war for pilots and aircraft, and the wholehearted entrance of the CPR into the aviation field brought about another major change in the transportation picture of Canada. In effect, the roots for this change had been laid in 1937. The creation of TCA had forced CAL into a closer alliance with the CPR and thus paved the way for a second airline allied with a railway.

It is a moot point if the CPR would have moved into a dominant position if Richardson had remained alive. Likely they would have formed a partnership to buy out or amalgamate the private companies, with the CPR providing the capital and CAL the operating and administrative personnel. However, Richardson's death left CAL without its "guiding spirit."

Mrs. Richardson did not have the same commitment to aviation as her husband and with CAL becoming more of an albatross around her neck she made the decision to sell the Richardson interests in aviation to the CPR. In reality, Mrs. Richardson had little choice of a buyer. Unless she was prepared to sell to the Americans, which she was not, only the CPR had the cash to buy. Although Richardson had sunk more than \$3,000,000.00 into CAL, the Richardson Estate was to realize only \$750,000.00 in cash plus the ground and water assets of Starratt Airways and Transportation Company Limited. A humble ending from such a promising beginning.

The CPR acquired more than the physical assets of CAL, Quebec Airways, Dominion Skyways and Arrow Airways. It acquired control of the northern operations in Canada and the possibility of tying the separate routes of all its component companies into an integrated whole. If this were accomplished, the CPR would have a monopoly of the privately owned air services and a trans-continental line in competition with TCA. In many respects, it would be a more profitable line as it would be fed with the feeders from the North and the all-important route to the Orient. The CPR's hopes of trans-continental and international expansion were dashed, however, in 1943 when the Prime Minister reiterated that TCA would continue to be Canada's only trans-continental and international operator.<sup>4</sup> The CPR refused to consider this as the last word and agitated throughout the forties and fifties for

a change in policy. In 1958, the CPR was given permission to fly to Europe and, a few years later, permission to fly a trans-continental route. Canada now had two competing airlines. Only time will tell whether Richardson's statement in 1928, that Canada could support only one trans-continental airline, was correct or not.

There are two main conclusions that can be drawn from this study. The first being that the government, for a variety of reasons, offered little concrete assistance to the commercial operators. In Canada, commercial aviation flew alone. In 1938, the government made its first tentative steps to provide controls for the air transport industry. But not until 1944 when the Aeronautics Act was amended did the government abandon its laissez-faire attitude towards the private operators. The government's delay in formulating an air policy which would define the role of the commercial operators in national and international airway development seriously impeded Canada's trans-continental airway growth and financially endangered the air transport industry itself.

It was private initiative and enterprise that pioneered civil aviation. And the company which bore the brunt of this pioneering and which laid the basis for the vast network of airways across Canada and the Northwest Territories and provided the blueprint and personnel for TCA was CAL. It was CAL that developed the pattern for the training schools under the

British Commonwealth Air Training Plan and that provided the initial management for the CP-RAF Atlantic Ferry Service. The key figure during the formative years of the industry was James A. Richardson.

It was his vision and faith in aviation as a tool for developing the natural resources of the North and for tying the country together economically, and his belief that its control must remain in Canadian hands, that prompted his formation of WCA and CAL. It is possible that Richardson would have placed CAL and Canada in the lead in airway development if Prime Minister Bennett had not clipped CAL's wings. As early as 1930, Richardson had his eye on the route to the Orient.<sup>5</sup> But the cancellation of CAL's air mail contracts destroyed the assured income he needed to attempt an expensive and risky route development. Thus while Juan Trippe of Pan Am went on to carve out the world, Richardson and Canada were relegated to the hinterlands. Through government procrastination Canada lost her chance to become a leader in aviation.

## NOTES

### CHAPTER 9

1. PAM, CALP, Box 8, Thompson to G. P. Graham (Senate Transport Committee), 16 February 1937. Thompson wrote Graham that in 1935 Canada carried more freight and express than the United States and Europe.
2. PAM, CALP, Box 6, J. B. Coyne Memo to Richardson, 10 April 1934.
3. PAM, CALP, Box 24, Beatty to Richardson, 28 July 1937.
4. House of Commons Debates, 2 April 1943.
5. PAM, CALP, Box 10, Vilhjalmur Stefansson (Pan Am) to Mrs. Alice MacKay (The Beaver, Hudson Bay Co.), 24 November 1943; MacKay to Stefansson, 2 December 1943; and Thompson to Stefansson, 18 January 1944. See above for information on the discussions between CAL and Pan Am for developing the route to the Orient. Thompson told Stefansson that Richardson had been planning for the overland route to Asia as early as 1930. This was the object back of the operations in northern British Columbia, the Yukon and the Mackenzie River Basin.

APPENDIX 1

Board of Directors: Canadian Airways Limited

President: James A. Richardson  
Vice-Presidents: Sir Edward Beatty, President of the CPR  
Sir Henry Thornton, President of the CNR

Directors:

Selwyn G. Blaylock (Conservative), mining engineer, Vice-President and Director of Consolidated Mining & Smelting Co. of Canada Ltd., British Columbia.

Victor M. Drury (Conservative), financier, industrialist, President and Director of E. B. Eddy Co. Ltd.; President of Drury & Co. (investment), Montreal; Vice-President and Director of Canadian Vickers Ltd.; Chairman and Director of Canadian Car & Foundry Co. Ltd.

Gordon C. Edwards, industrialist, President of W. C. Edwards & Co. Ltd., Ottawa; Director of the Canadian Bank of Commerce, Canadian International Paper Co., Canada Cement Co. Ltd.

Sir Herbert S. Holt (Conservative), Past President and currently Chairman of the Board of The Royal Bank of Canada; President of the Montreal Trust Co.; Vice-President of Dominion Textile Co.; Director of the Canadian Pacific Railway, Canadian General Electric and Sun Life Assurance Co.

F. I. Ker, journalist and professional engineer, Editor and Managing Director of the Hamilton Spectator; Director of Southam Publications.

Beaudry Leman, banker, President and Managing Director of La Banque Canadienne Nationale; Vice-President of General Trust; Director of Consolidated Paper Co.; former member of the Royal Commission on Railways and Transportation.

C. E. Neill, Vice-President and Managing Director of The Royal Bank of Canada.

J. H. Price, President of Price Bros. & Co., Quebec.

Howard P. Robinson, President of the New Brunswick Telephone Co. Ltd.

T. A. Russell, President of Willy Overland Ltd., Toronto;  
Director of International Power Co.

Victor N. Spencer, Director of David Spencer Ltd., British  
Columbia.

W. J. Blake Wilson, Vice-President and Director of Burns &  
Co. Ltd., British Columbia.

APPENDIX 2

Traffic Figures: Western Canada Airways Limited and  
Canadian Airways Limited, 1927-1937\*

<u>Year</u>	<u>Passengers</u>	<u>Express (lbs.)</u>	<u>Mail (lbs.)</u>
1927	1,760	350,616	934
1928	6,273	1,266,186	136,019
1929	8,607	1,314,847	264,764
1930	4,659	601,661	111,155
1931	5,676	763,023	78,537
1932	8,583	1,869,336	162,977
1933	16,105	2,521,357	183,018
1934	15,889	5,763,600	329,336
1935	10,609	5,286,794	455,347
1936	16,122	7,675,950	556,426
1937	15,363	7,227,409	614,397

\*PAM, CALP, Box 9, File: Brief on Northern Air Transport.  
These figures apply only to northern air transport from  
northwestern Ontario to the Pacific coast.

### APPENDIX 3

#### General Officers of Trans-Canada Air Lines in 1937\*

President	S. J. Hungerford
Secretary	W. H. Hobbs
Counsel	E. E. Fairweather, K.C.
Treasurer	C. D. Cowie
Comptroller	T. H. Cooper
Director of Publicity	W. S. Thompson

All were Canadian citizens holding corresponding positions with the CNR.

#### Directors Elected by Shareholders

S. J. Hungerford, Montreal  
J. Y. Murdock, K.C., Montreal  
W. Gagnon, Montreal  
H. J. Symington, K.C., Montreal

#### Directors Appointed by Governor in Council

C. P. Edwards, Ottawa, DOT  
J. A. Wilson, Ottawa, DOT  
George Herring, Ottawa, PO

The Directors elected by the shareholders were Directors of the CNR. The Directors appointed by the Governor in Council were government officers engaged in the regulation of civil aviation and air mail service.

#### Operation Officers

Vice-President in Charge of Operations  
P. G. Johnson, U.S. citizen, formerly President of Boeing Aircraft and United Air Lines

Assistant to Vice-President  
D. R. MacLaren, Canadian citizen, formerly with CAL

Chief Technical Advisor  
D. B. Coyler, U.S. citizen

Technical Advisor  
H. O. West, U.S. citizen

Technical Advisor, Meteorology  
G. T. Larsen, U.S. citizen

Technical Advisor, Communications  
S. S. Stevens, U.S. citizen

Superintendent, Maintenance and Repairs  
Martin Graham, Canadian citizen

\*Sessional Paper No. 143, Tuesday, 22 February 1937.

#### APPENDIX 4

#### Commercial Air Operators in Canada, 1939

In 1939, there were 127 commercial air operators\* in Canada, although transportation was chiefly in the hands of only 9 companies. CAL's main competitor in volume of business was Leigh Brintnell's Mackenzie Air Services. Both CAL and Mackenzie Air operated in the Mackenzie River district, which comprised northern Alberta, the Northwest Territories and Goldfields in Saskatchewan. Mackenzie Air held the air mail contract for this area, but the gross revenue for this district was about evenly divided between the two companies and represented approximately one-quarter of the total revenue for northern air transport. Brintnell was also associated with Yukon Southern Air Transport and had a financial interest in Prairie Airways and Mason and Campbell Aviation Ltd. in Prince Albert. Grant McConachie's Yukon Southern Air Transport offered competition only in northern British Columbia. Its main value lay with the potential of its Edmonton-to-Whitehorse air mail contract as a possible extension of the route to the Orient.

Competition was most severe in the mid-west where CAL's principal competition came from Wings Ltd. and Starratt Airways & Transportation Ltd. Wings held the air mail contract from Winnipeg to central Manitoba and Red Lake but it was in poor financial shape. Starratt held air mail contracts in Red Lake and the Sioux Lookout districts, which would be valuable if the rates were adjusted. As it was, Starratt's ground and water division supported the airways division. See PAM, CALP, Box 54, File: 1, CPR Negotiations, Hutchins Memo, 25 August 1939 for more information.

\*There are conflicting figures for the number of air carriers in Canada. Hutchins of CAL and Wilson of DOT give the figure "127." PAM, CALP, Box 7, Hutchins to Richardson, 11 April 1935; PAC, Wilson Papers, Vol. 9, Wilson, "Annual Report," 23 July 1937. The Air Transport Board gives the figure of 58 operators in 1938. PAC, Howe Papers, Vol. 103, File: 34, Air Transport Board, "Report to the Honourable The Minister of Reconstruction & Supply," for the period 11 September 1944 to 31 December 1946.

The nine main companies were:

- Canadian Airways Limited, operating nation wide
- Quebec Airways Limited, operating mainly in Quebec (a subsidiary of CAL)
- Mackenzie Air Services, operating in the Mackenzie River district
- Yukon Southern Air Transport, operating in British Columbia and the Yukon
- Prairie Airways, operating a feeder line from Regina to Prince Albert
- Wings Ltd., operating in the mid-west region
- Starratt Airways & Transportation Ltd., operating in the mid-west region
- Arrow Airways Ltd., operating out of The Pas, mainly in northern Manitoba (owned by the Richardson Estate)
- Dominion Skyways Ltd., operating in northern Quebec (owned by the Richardson Estate).

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