

CN IN CANADA TODAY

An address by

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to

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I am delighted to have the opportunity to talk about Canadian National to the Canadian Club of Toronto. I believe one of the objectives of the Canadian Club is to provoke thought and discussion among Canadians about Canadian affairs; and I feel that it is very important for Canadians to be thinking and talking these days about what Canadian National can and should be doing for them. In other words, about the role of this great public enterprise in Canada today.

Let me begin by saying that when I speak of Canadian National in terms of greatness I am not exaggerating or being boastful. Canadian National is indeed one of the great transportation and communications companies of the world. It is great in physical size and, more importantly, great in its contribution to the social and economic progress of the rather large part of the world which it serves. It is the largest industrial enterprise in Canada in terms of total assets and in the number of its employees, and it is one of the top five in terms of gross annual revenues. It is also one of the few very large companies in Canada that is totally Canadian in ownership and dedicated wholly to the interests of Canadians. Additionally, its operations are international in scope with a world-wide and well-deserved reputation for efficiency, innovation and progressiveness.

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I emphasize the international reputation because we at Canadian National sometimes feel that, to paraphrase the biblical saying, we are more honoured abroad than at home.

Earlier this year the Canadian Broadcasting Corporation was subject to yet another public examination with attendant vigorous attack. In connection with this a former president of the CBC was quoted as having described that corporation as: "The most damned, slurred, supported, inquired into, ignored, blamed, upheld, detested, praised organization I know."

Well, there are many differences between the CBC and Canadian National. But I think we are right up there with them in regard to the mixed feelings with which we have traditionally been regarded by Canadians. And, without directly challenging the CBC's position, I suspect that we might be a little ahead of them as far as being damned, slurred, blamed and detested is concerned.

The reasons for this doubtful distinction are many and various. But criticism of CN is often based on misunderstanding of what we are and what we should be doing; and this, in turn, stems from the fact that we have historically suffered from lack of comprehension by the public of our role, our purpose, our goals - if you wish the social and economic function of CN.

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As you are all probably aware the corporation was brought into being rather reluctantly and at a time when many people regarded public ownership of any part of the economy as highly undesirable, if not positively immoral. Perhaps in deference to this feeling the infant organization was given the financial structure of a business corporation and a general mandate to operate as a politically independent commercial enterprise. Such details as how the new corporation was to meet the heavy financial obligations of its predecessor companies and still generate its own normal capital requirements were rather left up in the air. Nor did anybody try to spell out in any clear fashion how the corporation was to reconcile the public service responsibilities which were laid on it with its instructions to operate in commercial competition with the Canadian Pacific and other forms of transportation.

One of the effects of this is that people tend to criticize us for business inefficiency because we do not show a profit every year; and then they charge us with neglecting our social responsibilities if we try to make a dollar by such reprehensible methods as charging the going market price for our services. Or by building a commercially viable telecommunications tower that will be both an aesthetic and a financial asset to this great city.

In this situation it is some, but not much, comfort to know that CN is not the only Canadian institution which has identity problems.

As part of its inquiry into the organization of government in Canada, the Glassco Commission of 1963 took a side look at Canadian Crown Corporations and reported that, and I quote: "Whatever meaning the term Crown Corporation may have had originally it has none today...no common and distinctive characteristic can be discerned in their form, functions, powers or relationship with ministers and with the control agencies of government." And, at another point, the commissioners said "existing legislation too often lacks clarity and precision in defining the duties and powers on the one hand of ministers...and on the other of the corporations, boards, commissions, bureaux and other organizations for which, in varying degrees, ministers are accountable to Parliament."

This situation reflects, I believe, a certain pragmatic, ad hoc approach which Canadians have often taken towards their transportation problems, and towards other economic and social problems as well. Traditionally we have tended to seek the most practical and immediate solution to a particular problem and have not worried too much about relating one solution to another or to any over-all national purpose or plan.

Over the years this pragmatic approach has not been wholly bad. It has enabled Canadians to find workable solutions to a number of national problems, particularly in circumstances where some urgency was involved and flexibility was desirable.

So I would be the last to advocate that Canadians now abandon the pragmatic approach altogether and attempt to plan for every possible contingency and to spell out every relationship between each one of our national institutions. This might be to go to the other extreme; to sacrifice a great deal of the flexibility necessary to adapt to change in a changing world. Nevertheless, it must be acknowledged that this is an age of systems concepts and over-all, long-range planning. The times may call for more public understanding of the arrangement of our national affairs than has been our habit.

Study and experience of public enterprise in Canada and abroad are producing some criteria for the success of such enterprises. One criterion is that the objectives and responsibilities of the enterprise must be fully understood by all the ~~stake~~holders. In the case of CN the ~~stake~~holders are the owners - who are the general public - the employees, the suppliers, the customers and all levels of government.

My personal concept of the purpose and philosophy through which Canadian National can best serve this country today is that we can and should operate as an efficient, competitive business enterprise carrying out national policies, and even recommending them in some cases, but not making them. All under the healthy discipline of a profit and loss account.

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This, indeed, is how we try to operate; and that brings me to another generally recognized criterion for the success of a public enterprise -- that it should be put as far as possible in a commercially competitive situation and charged with showing a reasonable profit on those of its activities which are clearly of a commercial nature.

Now, I am well aware that there are people who profess to see a contradiction between the concept of Canadian National as a competitive business organization and its obligation to provide quite a lot of transportation for the people of Canada on a public service basis. But in the kind of mixed economy which prevails in Canada today, these things need not be mutually exclusive if one important principle is kept in mind and consistently applied.

The principle is that when any part of the transportation system of Canada is required to provide a service which is considered to be in the national interest, but which is not able to pay for itself in commercial terms, then full and direct compensation for any losses on that public service should be paid from public funds.

This principle was very clearly enunciated by the Royal Commission on Transportation which in 1962 produced what is generally known as the MacPherson Report. The principle is embodied also in the National Transportation Act of 1967, which is based on the MacPherson Report. Thus it is actually part of the national transportation policy of Canada.

The principle was also recognized and stated by Mr. Justice Emmett Hall in his arbitration of the railway labour dispute of last January. Justice Hall noted that, as a matter of national policy, the railways were prevented from raising freight rates to meet the increased wage and benefit costs. He pointed out that this constituted the use of railways as an instrument of national policy. So, he said, it should be the nation as a whole which should absorb any deficit that might occur in carrying out the policy.

I believe that this principle suits very well the economic and social needs of Canada today. Certainly, if CN were to receive full compensation on some consistent basis for all the public services it performs, this would help us serve Canada better in a number of important ways.

It would, for instance, enable us to plan for and implement such things as better passenger services and a better grain-gathering system in an efficient and business-like fashion - that is in accordance with real national needs.

I am sure that it is no secret that more and more these days it is Government which must decide in what way and to what extent the national transportation system will be improved and expanded. The reason for this is simply that the sums of money needed to maintain uneconomic but essential services and to finance the necessary expansion of the system, are so great that increasing amounts must come, directly or indirectly, from government sources.

This increasing involvement of Government in planning and financing improvement of the transportation system is perhaps inevitable and right. The universe unfolding as it should.

But here also there is need for public understanding, for clear, definitive policy and for assured methods of payment.

I noted a few moments ago that the sound principle of full compensation for public services is embodied in the National Transportation Act of 1967. A number of other good principles are also embodied in that rather maligned document. And in this connection I am made a little uneasy these days by suggestions that the Act needs to be completely revamped and, in particular, that the element of commercial competition among alternative modes of competition should be scrapped.

Now, as managers of a very important part of the transportation system of Canada, we at CN are glad to hear the Government or anyone else talking in terms of overall planning and coordination of the system. As I have been saying, we believe that we can perform most efficiently for Canada within a framework of broad national policies that give direction and guidance to our efforts. But we believe also that we have a right and responsibility to make some contribution to the process of planning and policy-making. That is why we set up some time ago a "Strategic Rail Group" comprised of senior officers of the Company charged specifically with providing this contribution.

That is also why we have worked hard in recent months to set down and make known to government our ideas on the future of rail passenger services in Canada; and that is also why we are preparing a major study of the grain transportation system for presentation in the near future.

It is in the context of our responsibility to be part of any over-all planning process that I stress the importance of retaining an important element of commercial competition in the transportation system.

We don't claim that effective competition between alternative modes of transportation exists at all times and under all circumstances in Canada. Nor do we question that, as it was put in the recent Speech from the Throne, "the principle of effective competition may be subject to exceptions to permit the achievement of national policies." But we do believe that there is, and should remain, a broad area in which commercial competition and freedom to price transportation services according to market demands, bring about the most rational use of the capital resources which are available; and bring about also the best transportation for all Canadians.

A third criterion for the success of a public enterprise is that such an enterprise must be allowed to manage its own affairs within the framework of the broad national policies that may be laid down.

In Great Britain this principle is well accepted and has been stated by both government officials and officers of the various public corporations in quite strong terms.

Perhaps it would be relevant to quote from the late Herbert Morrison, a stalwart of the British Labour Party and the man responsible for creating and reorganizing many British public corporations. Mr. Morrison said in regard to the operations of the London Transport Board that "the Board must have autonomy and freedom in business management. It must not only be allowed to enjoy autonomy. It must have autonomy thrust down its throat."

Canadians don't usually use this kind of language in discussing their social and economic problems. Perhaps they should from time to time. Certainly the MacPherson Commission, to which I referred earlier, did use some fairly plain language in making much the same point as Mr. Morrison. Its report said at one point: "Management of rail facilities is the responsibility of the rail company, be it privately or publicly owned. Within the framework of government regulations, management must be free to manage. The responsibility must be theirs to initiate the removal of unprofitable segments of their business, to streamline their operations, to reduce costs and to initiate new facilities to meet the needs of the shipping public. No one else can do this for them and no one else should try to do so".

The statement that a public enterprise such as Canadian National should have a great deal of freedom to manage its own day-by-day affairs raises, of course, the question of how the enterprise should account to its owners, that is the citizens of the nation, for its stewardship of their assets.

In Canada, as the Glassco Commission noted, there are almost as many ways in which corporate agencies of government are held to account as there are such corporate agencies. CN, however, traditionally reports to the Parliament of Canada through the Minister of Transport and over the years a number of procedures have been developed for enabling the members of Parliament and senators to see what we are up to. One of the procedures is the regular appearance of the senior officials of the Company before the Standing Committee on Transport and Communications of the House of Commons. This appearance has traditionally taken place in the spring of each year and coincides with the publication of CN's annual report. In recent years, however, we have been called at other times and in some years we have not been called at all. Our last appearance was in November of 1973 and there had been a two-and-a-half-year gap between that and our previous appearance.

CN and Air Canada are the only Canadian Crown Corporations which are subject to this particular procedure on a regular basis; although the CBC has been asked to make similar appearances from time to time.

Although, CN's experiences have been both good and bad over the years, we would not question in any way the right of parliamentarians to call on us to step forward and account for our stewardship at regular intervals. In a parliamentary democracy that right is unquestioned and should be defended at all times.

On the other hand, the parliamentarians, as the representatives of the owners of the corporation - that is the taxpayers of Canada - surely have some obligation to exercise this right with restraint and responsibility and without undue interference with the day-by-day operations of the corporation.

This problem of combining accountability to a legislative body such as Parliament with maximum efficiency on the part of a public enterprise, is a deep-seated one. It has certainly not been perfectly resolved in any country that I know of.

John Kenneth Galbraith, however, has suggested that a possible solution may be found in distinguishing between short-term and long term accountability - that is between accountability for methods and accountability for success or failure in reaching overall objectives.

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In a paper on methods of assuring the efficiency of public corporations in developing countries Mr. Galbraith said that it is the success of a public enterprise in achieving agreed upon objectives which is important; rather than mistakes or misjudgments in day-by-day operations. He put it like this:

"Although the society should be wholly tolerant of the errors that are within the frame of success, it should be wholly intolerant of failure to achieve the specified goals. Indeed the non-achievement of goals, not the individual mistake, is the meaning of failure."

It is not for me on this occasion to suggest detailed procedures through which Canadian National or other Crown Corporations should report to Parliament. But this is a time when Canadians are once again examining many aspects of their transportation system and asking themselves where improvements can be made. And it seems to me that, as part of this process, it is reasonable to ask ourselves if greater stress on accountability for results - that is for achieving objectives - rather than on accountability for methods, would not provide greater assurance of initiative and efficiency on the part of the public enterprises such as Canadian National.

Certainly CN would have no objection to being judged according to the success we have achieved in reaching over-all goals in the past and in recent years.

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The Canadian economist A.W. Currie has pointed out in his book "Canadian Transportation Economics" that from its earliest days CN was a "conspicuous innovator" which operated the first diesel-powered railway train in North America, experimented with vehicles which could run on both rails and highway surfaces, pioneered use of radio-telephone communications, organized the first radio broadcasting network in Canada and so on.

Since those early days CN has continued to be an innovator and a pace-setter in the development of new transportation and communications facilities and other services required by a growing and changing Canada.

A list of our achievements and developments over the past 20 years or so would be too long to inflict on you. I can sum it up by saying that during that time most of the technical and managerial innovations that have revolutionized the transportation and communications industries have been incorporated into our operations.

And I can say that Canadian National today compares favourably in efficiency, progressiveness and good management with any privately or publicly-owned organization to which it can reasonably be compared. By that I mean such organizations as the Canadian Pacific here in Canada or privately-owned transportation systems in the United States and elsewhere, or publicly-owned transportation systems in Great Britain, Europe and elsewhere in the world.

It is true that in our Annual Report we have usually shown an over-all deficit after payment of interest on our long-term debt. But the explanation for this starts with the serious imbalance between debt and equity capital which was initially created in the financial structure of the Company by loading all the debts of the financially burdened railways involved in the merger onto the new entity; and the problem has been compounded by the fact that for many years of its early existence there was inadequate depreciation of the physical assets of the Company

It should be noted, however, that CN has shown an operating profit, that is an excess of income over operating expenses, in every year of its history except three.

It should be noted also that, over the past 15 years or so, Canadian National has reduced the amount of its debt by more than \$100 million and has seen the annual deficit go down progressively from \$67.5 million in 1960 to about \$17 million in 1972. In 1973 the deficit again went up slightly; to about \$21 million. But 1973 was a rather unusual year.

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We lost a lot of revenue because of the strike action which took place in August and September; and then there was the retroactive effect of the substantial wage and benefit improvements awarded by Mr. Justice Hall. So we had to take a slight detour in our planned progress towards the black side of the ledger.

This year, 1974, has been a period of organizational change and consolidation; and of a freight rate freeze. However we may well move into the black in 1975 and this means that CN will have come, in a period of 15 years, from a deficit of \$67.5 million to a profit position. Our plans now are to increase this surplus year by year; and our hope is that we will be able to use these funds to help expand and improve our transportation services in pace with the growing demand for them which we see ahead.

To some extent the steadily improving financial results of the past 15 years or so are due to the general economic growth of Canada. When Canadians are producing and selling and earning a lot, then freight and people get moved around a lot; and the railways get a fair piece of the action just by being there. Of course they have to be there with a good organization and the right equipment; and they should get some credit for having done this pretty well in recent years.

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Also responsible for some of the improvement in the financial results has been the effect of some sections of the National Transportation Act of 1967. This legislation freed Canadian railways to some extent from the rigid freight rate structure of previous years and enabled them to adjust some freight rates to meet competition and the demands of the market. This in turn enabled the railways to improve and diversify some of their services and to develop new business.

That is another reason why the railways, while not regarding the National Transportation Act as perfect legislation that should stand for all time, do not now advocate hasty or wholesale revisions in it.

Improvement in the financial situation of Canadian National in recent years has been due, then, partly to the general economic strength of the country and partly to the effects of the National Transportation Act.

But an important part of the improvement has also been due to the improving productivity of Canadian National itself. This higher productivity is associated with the efficient use of modern technology and with the effective merchandising of all the services of the corporation.

So far in this talk I have listed and discussed three general criteria for the success of a public enterprise such as Canadian National. They are:

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- 1) The objectives and responsibilities of the public enterprise must be fully understood by all concerned.
- 2) The public enterprise should operate as far as possible in a commercially competitive situation, under the discipline of a profit and loss account.
- 3) The public corporation must have freedom to manage its own day-by-day affairs.

I do not suggest that these are the sole criteria, or that they apply with equal force to all Canadian Crown Corporations. The one about commercial competition, for instance, is relevant mainly to CN and to other corporations carrying out tasks that are clearly of industrial or commercial nature.

There is, however, one other criterion which I think applies to all public corporations. They must be able to attract the services of skilled, intelligent and well-motivated men and women.

It goes without saying that the corporation must be able to pay such people adequately. It seems to me equally important that the corporation be able to give them the satisfaction of working for a going concern.

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By a going concern I mean one which is making measurable progress towards objectives which are socially desirable. I believe that most Canadian Crown Corporations are making good progress towards socially desirable objectives. In many cases, however, the progress is difficult to measure and is slower than need be and this creates a tendency to under-value the Crown Corporation; to play down its achievements and play up its difficulties.

So it is important for Canadians today to do some constructive thinking about the role of Crown Corporations, decide what they want them to do and give them a fighting chance to do it. Under these conditions Canada will have no difficulty in finding people of experience, courage and integrity, to run its public enterprises. They will be run, moreover, for the general advantage of Canada - that is to say, without detriment to the private sector of the economy and as part of the general thrust of this nation towards a good life for all its people.