CNR ANNUAL REPORT

Canadian National Railways, according to its annual report tabled in the House of Commons recently, was able to combine increased revenues and a tight control of operating expenses to close the year 1959 with a "modest improvement in its net financial result."

Railway operating revenues of $740.2 million, improved by $35.3 million over those of 1958, exceeded operating expenses by $19.4 million for a betterment of $14.5 million in net revenue from railway operations. However, a further increase of $6.4 million in fixed charges left the railway with a deficit of $43.6 million -- $8.0 million less than 1958's deficit.

Owing mainly to higher wages and extended fringe benefits, which cost the company an additional $21.4 million, the report states, operating expenses increased by $20.8 million to $720.8 million. However, 1958 expenses included a non-recurring item of $7.5 million in depreciation. Without this item, a comparison would show 1959 expenses increased by $13.3 million.

Carrying the expense comparison further, the report points out that, if it were not for the higher wage rates and extended fringe benefits, "1959 expenses would have been $8.1 million below those recorded in 1958." "This constructive decrease in cost, which was achieved in the face of an increased work load", it goes on, "is illustrative of the real improvements....made in the company's operations."

WAGES, PRICES, INVESTMENT

Substantial capital investment continued in order to modernize plant and achieve economies to help keep expenses consistent with the revenue level, the report notes, but the higher wages and material prices not only ate up the gains in productivity but cut deeply into the yield from freight-rate increases.

Employee compensation, representing wages, pensions and health and welfare benefits, amounted to $464.9 million, 64.5 per cent of the total operating expenses. Compared with 1958, average hourly earnings an employee rose from $1.798 to $1.905.

Management is now faced with additional demands, which would amount to $57 million if fully implemented. "The financial results were most disappointing," the report says, "particularly when considered in relation to the record level reached by the Gross National Product. The fact that the revenues of the Canadian National and indeed of the railway industry in general, did not reflect more closely this buoyancy in the economy brings into sharp focus the serious challenge facing management."

Despite an increase in the volume of traffic handled, the report states that Canadian railways' share of the transportation market continued to decline.

An increase in CNR's fixed charges reflected the extent of necessary capital expenditures in recent years and also the sharp increase in the cost of money.

These and other factors were "indicative of the complex and imposing task ahead" for the CNR. "Some of the problems are beyond the control of management, particularly those related to freight rates and a Royal Commission....is now inquiring into this and other aspects of railway transportation."

During the year, the report observes, the railway studied its whole organizational structure and plans were begun for decentralization. Special attention was given to personnel problems resulting from technological advancement.

The railway is striving to adjust its facilities, services and pricing methods to present-day market requirements and calls for the support of "all elements of the community" in this effort.

Highway and rail integration advanced; "piggyback" facilities were extended throughout Canada and the number of "piggyback" trains between Montreal and Toronto doubled; special trailer equipment was introduced to transport perishable traffic.

BUYERS' MARKET

Extensive market research studies resulted in passenger services tailored to consumer demand. During the year, the Group-Economy Plan, the All-Inclusive Plan, the Pay Later Plan and joint TCA-CNR credit cards were introduced by the CNR; more railiners were put into service, the roomette accommodation was made available to tourist-class passengers on the Super Continental.

A slightly heavier traffic volume and an interim freight-rate increase authorized by the Board of Transport Commissioners on December 1, 1958, resulted in a $28.0 million rise in freight revenues which totalled $573.2 million. A decline in the average length of haul from 441 to 432 miles was more than offset by a rise of 1.3 per cent in revenue ton-miles and an increase in tonnage from 79.5 million to 82.0 million tons. Tonnage increases were recorded primarily in ores and concentrates, crude gypsum and other mine products, while main decreases were registered in grain and grain products, pulpwood, coal, cement, and manufactured iron and steel products.

Passenger revenues decreased from $41.5 million in 1958 to $40.2 million, a drop of 3.2 per cent compared with a decline of 11.4

(Over)