



CANADA

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## CN: A BUSINESS ENTERPRISE

The following is a partial text of an address by Mr. Donald Gordon, President and Chairman of the Board, Canadian National Railways, to the fifty-third annual meeting, Treasury Division, Association of American Railroads, in Montreal on October 3, 1965:

...I wish to stress, to this audience particularly, that Canadian National is a business corporation, operated on business principles similar to those of any other business corporation in North America. Misunderstanding on this point is expressed occasionally not only in the United States and elsewhere outside Canada but even among Canadians. It is desirable that such misunderstanding be cleared up and this occasion seems as good an opportunity as any for me to get in a little missionary work.

Canadian National is not an experiment in socialism. It is not a department of government. It is a business corporation, and in its operations and management it acts as an independent, competitive business enterprise, facing basically the same problems, challenges and opportunities as any other major railway on this continent. Belief in the positive value of competition and in a minimum of bureaucratic regulation of our day-to-day activities are cornerstones of our management philosophy. As I shall touch on a little later, one of the things that give us most encouragement in looking to the future is the prospect of less, rather than more, regulation and greater freedom to compete actively in the transportation market.

### FINANCIAL COMPARISON WITH CPR

Now since this is a meeting of railway treasury officers and bankers, some of you may be thinking

about CN's financial position, and wondering how it is possible to reconcile a recurring annual deficit in our overall profit and loss account with what I have just said about there being no basic managerial difference between us and other railways in North America. Some of you may be tempted to contrast the deficit results of CN with the profits of the other great Canadian railway - the Canadian Pacific - and to come to the conclusion that the privately-owned Canadian Pacific must be more efficient than the publicly-owned Canadian National.

This conclusion is not a valid one. For full explanation of why one railway is in a deficit, and the other in a profit position, it would be necessary to go at some length into the very complicated history of Canadian railways. We should have to go back to, and beyond, the period between 1918 and 1922 when Canadian National was brought into existence. The new company was formed by merging a number of government-owned and privately-owned railways, most of them in serious financial difficulties. The new entity was a big infant and showed much promise. But it was born with some serious handicaps. Among the most serious was the fact that the debts of predecessor bankrupt railways had to be assumed by the new company and the servicing of these debts was made a direct charge on the revenues of the company. In these circumstances, the company was unable to establish a retained earnings account. In addition, the methods used for depreciating the assets did not provide adequate depreciation reserves.

### EFFECTS OF ORIGINAL HANDICAPS

As a consequence, an unduly large portion of the capital needs of CN have had to be met first by