



CANADA

CANADIAN WEEKLY BULLETIN

INFORMATION DIVISION • DEPARTMENT OF EXTERNAL AFFAIRS • OTTAWA, CANADA

October 20, 1965

Vol. 20 No. 42

CONTENTS

CN: A Business Enterprise	1
Estimates of Families	3
Newfoundland Forest Study	3
Painting Donated	3
Canadian Loan to Taiwan	3
PM Gets U.S. Award	4
NWT Hydro Project on Target	4
Record St. Lawrence Traffic	4

Foreign Students in Alberta	4
Road Safety Week	5
Higher Employment Index	5
New NWT Highway in 1966	5
Construction Trade Mission	5
Canadian Hussars to UNEF	6
Lessons in Leadership	6

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

temporary borrowings from the Government – the shareholder – and then by sale of Canadian National bonds to the public. This, of course, increased the debt and interest charges and compounded the financial difficulties and, to put it as shortly and simply as possible, CN has never been able to obtain effective relief from the handicaps imposed upon it at its inception and during its early years.

It is worth emphasizing, however, that, except for three occasions since 1923, CN has been able to report an operating surplus, before debt charges, in every year of its existence. This is, I submit, a good record.

On two occasions – in 1937 and 1952 – legislation affecting the capital structure of Canadian National alleviated some of the effects of the handicaps initially built into the financial structure of the company. And, as is generally known, we are currently having discussions with the Federal Government aimed at completing the process of modernizing our capital structure. When this is done, present-day and future operating efficiency will be reflected clearly in the annual profit and loss account.

MAJOR EFFORTS TO ADAPT

Meantime, of course, Canadian National has not been sitting back and waiting for the legislators to solve all its problems. Over the past 15 years and more, we have been engaged in a major effort to adapt our technology, our organization, and our thinking to the kind of transportation environment which has been developing in North America. The problems posed by that environment are the same for Canadian National as for most other North American railways – changing market conditions, rising costs, and fierce competition from alternative modes of transportation....

The new Canadian National symbol and the visual re-design programme, which is giving a bright, modern appearance to our physical properties, are part of this effort. So also is the "Red, White and Blue" passenger-sales programme, which has received world-wide attention as an imaginative and constructive plan to adapt railway passenger service to the needs and desires of the traveller in the 1960s and beyond.

POSITIVE PASSENGER POLICY

For many years it has seemed to me that most railroads on this continent have tended to take a defeatist attitude about the possibility of providing comprehensive passenger service on a self-supporting basis. This has led to neglect of the application of modern market research and sales promotion techniques in this field – also, to a lack of interest in developing the kind of equipment and services required to satisfy today's traveller. CN, however, has been taking a positive rather than a negative attitude towards its passenger services. We have given this part of our business careful analysis and we believe it can be made self-supporting by means of a strong imaginative sales effort and the kind of service that belongs to present-day living. Perhaps because this is in contrast to the general attitude, our activities in this area have received a marked degree of publicity....

IMPROVEMENTS IN FREIGHT HANDLING

Canadian National has...made major advances in the field of freight transportation in recent years. To give you a complete listing of post-war technological improvements would exhaust my time and your patience. I could perhaps summarize by saying that we were the first major Canadian railway to completely "dieselize" our motive power, that we have recently completed a chain of four automatic hump yards that are second to none on this continent from a technical standpoint, and that all the other significant advances in railway technology – centralized traffic control, specially designed rolling stock, automatic data processing, and so on – are part of our modern operations.

Advanced technology has been balanced with a streamlined management organization. In 1961, we began a management reorganization plan which reduced the number of levels of administration and decentralized the system on a geographical basis. This aim was to give CN a managerial framework capable of quick response to the changing demands of the transportation market and to give expression to the "marketing concept" which today dominates our thinking....

In applying the marketing concept, CN has developed a "customer research" department which plays an increasingly important role. This group of transportation experts adapts equipment to meet the requirements of shippers, designs new equipment, and advises customers on packaging, loading and rates. In other words, they provide the customer with a complete service designed to help him get his product safely, quickly and economically to its destination.

FROM RAILWAY TO TRANSPORT COMPANY

As a result of looking closely at customer's needs in this way, CN has, in common with most other North American railways, changed the image of itself – from railway to transportation company. While rail service remains basic to our operations, we are willing and able to combine rail with alternative modes of transportation when this best suits the customer's requirements. We own a number of trucking companies, we are deeply involved in "piggyback" service, we have made significant progress in containerization and our research work keeps us abreast of any new or developing techniques affecting the movement of goods, materials and people.

Studying customers' needs and tailoring services to meet them are two key features of the marketing approach. A third key feature is the setting of realistic rates. Modern rate-setting cannot be permitted simply to reflect custom or guesswork. Rates must be based firmly on operating costs, service standards, the physical characteristics of the shipment and other economic factors. There has been no greater advance in the business of railroading in recent years than the breakthrough in specific rail costing made possible by the use of data processing equipment. In this field the Canadian National is abreast of, if not ahead of, the industry at large. Because of these developments, we can offer such things as attractive incentive loading rates and agreed charges and thus bid knowledgeably for a very wide variety of business....

ESTIMATES OF FAMILIES

According to a recent report from the Dominion Bureau of Statistics, the number of families in Canada, excluding the Yukon and Northwest Territories, was estimated at 4,400,000 at June 1, 1964, an increase of 86,000, or 2.0 per cent, since June 1, 1963 and of 260,000, or 6.3 per cent, since the 1961 census. The average number of persons per family in Canada on June 1, 1964, was 4.0, the same as the previous year and a slight increase from the 1961 census figure. The average family size was greatest in Quebec and the Atlantic Provinces, at 4.3 persons per family, followed by the Prairie Provinces, at 3.9 persons, while Ontario and British Columbia had the smallest average size, at 3.7 persons per family.

CHILDREN

The average number of children per family (unmarried, under 25, and living at home) in Canada on June 1, 1964, was 2.0, unchanged since June 1, 1963, but up from the 1.9 recorded in 1962 and at the 1961 census. The 1964 estimates show marked differences between regions in the number of children per family. Families with no children, for example, were only 23.5 per cent of all families in Quebec and 24.0 per cent in the Atlantic Provinces, but constituted 30.6 per cent of the total in British Columbia, 29.0 per cent in the Prairie Provinces and 28.3 per cent in Ontario. On the other hand, families comprising five or more children accounted for 14.9 per cent of all families in the Atlantic Provinces and Quebec, 8.4 per cent in the Prairie Provinces and 6.7 per cent and 5.5 per cent, respectively, in Ontario and British Columbia.

NEWFOUNDLAND FOREST STUDY

The Prime Minister announced recently that a special programme of forest inventory and land-capability studies has been instituted in Newfoundland as a joint federal-provincial undertaking. The project will require eight years to complete at an estimated cost of \$5,750,000.

The entire province, consisting of about 152,000 square miles, is involved in this programme, though the northern portion of Labrador, consisting of about 40,000 square miles, will be studied in less detail on a reconnaissance basis. The inventory will be carried out by means of aerial photography, mapping and intensive ground sampling to determine timber volumes, stand composition and other relevant facts.

STUDY OF FLORA AND FAUNA

There will be detailed studies on the island of Newfoundland itself and in southern Labrador, aimed at determining forest-growth capability to indicate the feasibility of reforestation and afforestation projects. Detailed studies of wildlife potential and opportunities for recreational amenities will be made, with a view to stimulating out-of-province tourist and resident recreation as an important source of income to the province.

The survey of the northern part of Labrador will consist of small-scale aerial photography to locate productive forest areas and preliminary evaluations of the wildlife and recreational potentials of the area. This forest inventory, the first in Newfoundland's history, will provide a basis for the expansion of forest-based industries; the land-capability study is expected to facilitate the development and use of the forest, wildlife and recreational resources of the province.

The programme will be carried out under terms and conditions to be approved jointly by the federal-provincial ministers involved. A joint federal-provincial review board is to be established for consultative and review purposes.

PAINTING DONATED

The Secretary of State for External Affairs, Mr. Paul Martin, has announced the donation by Canada of a painting by the Montreal artist Jean McEwen to the Pan-American Health Organization. The picture, which has been hung in the Organization's new headquarters building in Washington, D.C., was handed over by the Minister of National Health and Welfare, Miss Judy LaMarsh, who attended the inauguration ceremonies.

Canada maintains its association with the PAHO as a member of the World Health Organization.

CANADIAN LOAN TO TAIWAN

Mr. Mitchell Sharp, the Minister of Trade and Commerce, recently announced a \$5-million loan to cover the sale of Canadian equipment and services for the construction of a lumber, plywood and furniture-component manufacturing complex in Taiwan. The Export Credits Insurance Corporation signed an agreement, under Section 21A of the Export Credits Insurance Act, to provide the financing for the sale to the Vocational Assistance Commission for Retired Servicemen in Taipei.

This is the first sale to a buyer in Taiwan under the Canadian Government's long-term export-financing programme. The terms of the loan call for repayment in eight years, including a 30-month grace period. The interest rate is 6 per cent *per annum*.

PROCURING OF EQUIPMENT

The sale was made by the Canadian Transoceanic Technical Services Limited, Vancouver, whose responsibilities will include procurement of equipment in Canada, engineering, erection and installation, as well as the training of personnel to operate the project. The purchase of equipment, including a saw mill, a planer mill, a dry kiln, a plywood plant, and furniture-manufacturing machinery, will benefit Canadian primary and secondary industries alike.

The Vocational Assistance Commission is a self-supporting agency established by the Republic of China to train retired servicemen for civilian employment and to create jobs for them. There are similarly financed and supported operations in fishing, mining, canning, and marble production.

PM GETS U.S. AWARD

On November 17, Prime Minister L.B. Pearson will receive the 1965 "Family-of-Man" Award at a dinner in his honour in New York City.

The Society for the Family of Man was organized in 1963 under the sponsorship of the Protestant Council for the City of New York. It initiated the first "Family-of-Man" Award that year. "In honouring Mr. Pearson," said Mr. David Rockefeller, president of the Chase Manhattan Bank and chairman of the Award dinner committee, "we honour a man, an internationalist, whose perseverance and innate diplomacy have helped prevent world-wide conflagration and who is convinced that if we do not retain our moral fibre our democracies will weaken to the point of ultimate destruction...."

"We honour the man," Mr. Rockefeller added. "We also honour the nation — our neighbour Canada, with whom we have lived in complete harmony for a century and a half which, in itself, re-emphasizes our 'Family-of-Man' principles."

* * * *

NWT HYDRO PROJECT ON TARGET

Mr. Arthur Laing, the Minister of Northern Affairs and National Resources, announced recently that construction of the Taltson River hydro-electric power plant in the Northwest Territories, the largest ever built north of Canada's 60th Parallel, will be completed on schedule.

The 18,000-kilowatt hydro project at the Twin Gorges, 35 miles northeast of Fort Smith, NWT, is being built by the Northern Canada Power Commission at a cost of \$9,120,000.

The target date of late October 1965 will coincide with the start of production of lead-zinc concentrate (nearly clean ore) at Pine Point Mines, the establishment of which was the deciding factor in building the hydro installation.

"Increasing availability of lower-cost hydro power in the North will further encourage exploration for new mineral wealth," Mr. Laing said. "It should also result in a substantial increase in employment in the Northwest Territories."

HUGE DISTRIBUTION

The complete project includes a 170-mile transmission line to carry power to the Pine Point base-metal operations on Great Slave Lake, via Fort Smith on the NWT-Alberta border, and the town of Pine Point. Sub-stations at Fort Smith and the town of Pine Point will distribute power to the two communities. The 25,000-h.p. Taltson River generating station will be operated from a remote control centre that is being built at Fort Smith. The Commission's existing diesel electric-generating station at Fort Smith will be closed down and retained in a standby role when the Taltson Hydro plant is commissioned, thus reducing power rates at Fort Smith.

Construction of the project began in the autumn of 1963 and, in spite of unexpected difficulties, which made it necessary to pour concrete at temperatures in the 50°-below-zero range, completion on the target date will be achieved.

RECORD ST. LAWRENCE TRAFFIC

September traffic through the St. Lawrence Seaway continued at the record level that has so far characterized the 1965 operating season. New monthly records were registered in both the eastern and the western sections of the Seaway.

The Montreal-Lake Ontario section, with a 5.2 million-ton total for the month, realized a 6.7 percent increase in traffic over the figure for the same period a year ago. The April-September total of 29.9 million tons in this section is 3.0 percent higher than that attained in the same months in 1964.

WELLAND TRAFFIC

Traffic through the Welland Canal reflected a similar pattern, registering a 4.6 percent increase over that for September 1964 on a total of 6.8 million tons and a 2.0 percent increase over the April-September record of last year.

General cargo continued the increase that has highlighted the 1965 season. This higher-revenue cargo has now surpassed the full operating year totals for 1964 in both sections of the Seaway, topping the level of 4 million tons in the Montreal-Lake Ontario section and exceeding 3.4 million tons through the Welland Canal.

Iron-ore shipments continued to dominate bulk-cargo movements, having exceeded 11.5 million tons for the season to date, slightly ahead of last year's levels. Wheat traffic, not yet materially affected by the Russian sale, is down 31 per cent from 1964: this decrease is offset, to some degree by a 25 percent increase in shipments of other grains.

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FOREIGN STUDENTS IN ALBERTA

As the result of a pilot project in language studies held last year for overseas students attending the Southern Alberta Institute of Technology, a summer school has been established recently for 13 students from six countries who will afterwards attend various universities and institutes in Canada. The students, four girls and nine boys, are in Canada under the auspices of the federal External Aid Office and are all recipients of Colombo Plan scholarships. They come from South Vietnam, South Korea, Jamaica, Nigeria, Thailand and Cameroun.

The Institute had discovered that its own overseas students were experiencing difficulty with their studies, not through lack of intelligence or educational level but through lack of understanding of the language in which they were being taught. The obvious need to overcome this difficulty as quickly as possible prompted the Institute to initiate a pilot remedial English course to discover the problems involved and the best methods of overcoming them. The English Department of the Institute undertook considerable research into the teaching methods in use, the results of which were successful enough for the Institute to approach the EAO with the suggestion that it establish a permanent summer school to meet this need.

This year sees what is, in effect, a second pilot project for 13 students sponsored by the EAO.

Ten of these will proceed with their subsequent education in Canada outside Alberta.

PHONETICS PROBLEM

The basic problem in language facing a Colombo Plan student is usually one of phonetics. In most cases the basic sounds of his native tongue are quite unlike those of English. The English sounds must be acquired before studies in grammar and vocabulary can be properly undertaken. The Institute has made great use of a modified speech laboratory where each student, in an individual cubicle, can hear and repeat basic sound sentences previously tape recorded by the instructors. Also, by the use of programmed language books, combined with tape recordings, the student is able to read and hear sentences simultaneously.

ROAD SAFETY WEEK

Canada's tenth annual "Safe-Driving Week" will be sponsored from coast to coast by the Canadian Highway Safety Council from December 1 to 7. Provincial and community safety organizations will participate as well as government and industry. This campaign is scheduled for the same dates each year to facilitate promotion and participation.

"Safe-Driving Week 1965" will emphasize the responsibility of the individual driver and pedestrian in avoiding situations that may lead to accidents. The misfortune of the victim who survives a road crash but is severely injured or crippled will also be stressed.

As in the previous years, "Sage-Driving Week" will introduce the annual police campaign held during December against the hazards of driving in the holiday season.

HIGHER EMPLOYMENT INDEX

According to a recent report by the Dominion Bureau of Statistics, Canada's industrial composite index of employment (1949=100) rose 0.6 per cent in July to 141.8. Typically for July, employment advanced in all industrial divisions except manufacturing and trade. In the former case, the decrease reflected "shutdowns" in the automobile industries for model changeover. Seasonally adjusted, the industrial composite increased by 0.5 per cent to 137.9.

All industrial divisions shared in the advance except construction, which declined by 0.8 per cent. The most significant gains were recorded in manufacturing, where the adjusted index rose by 0.8 per cent. Both components contributed to this advance, with durables up by 0.7 per cent and non-durables by 0.9 per cent. In the former, the gains reflected smaller-than-usual layoffs for model changeover in the automobile industries. In the latter, there were above-average increases in rubber and paper products as many workers returned to their jobs following settlement of industrial disputes in the two industries.

The seasonally-adjusted industrial composite indexes that employment for all regions was higher in July. The largest increases were recorded in the Atlantic region (1.0 per cent), followed by Ontario (0.4 per cent). The adjusted indexes for Quebec, the Prairie region and British Columbia rose by 0.2 per cent.

The industrial composite of average weekly wages and salaries rose by 2¢ in July from the preceding month to \$91.09. The latest figure was \$4.33 above that for the same month last year. The payroll index at 303.2 was 0.6 per cent above the figure for June and 11.1 per cent above that for July 1964.

NEW NWT HIGHWAY IN 1966

Mr. Arthur Laing, the Minister of Northern Affairs and National Resources, recently announced that the highway from Fort Smith to Hay River in the Northwest Territories would be open for traffic in the autumn of 1966. Advance tenders will be called on a one-year contract to build a 60-mile stretch of road starting 67 miles west of Fort Smith and joining an existing road from Pine Point to the Hay River Highway. This will advance the original completion date by one year.

For residents and business interests in the Fort Smith area, completion of the road will mean an all-weather transportation link with Hay River and other points in the north, as well as with the provincial highway networks to the south.

The 60 miles of road still to be built will be the mid-section of a 165-mile communication road running from east to west between Fort Smith and the junction several miles south of Hay River.

CONSTRUCTION TRADE MISSION

Construction booms in Britain and Germany, particularly in housing, have prompted the Department of Trade and Commerce to organize a trade mission to publicize Canadian construction materials in these two countries. This is part of a long-range programme to stimulate the sale of Canadian building materials and the adoption of Canadian construction methods in Britain and Western Europe.

Eight senior executives of Canadian firms that manufacture construction material and an officer of the Department of Trade and Commerce form the mission. They are spending ten days in each country.

The products to be promoted include roofing, insulation, wall-boards, floor and ceiling tiles and various types of metal and mineral siding. The mission is considering how to arrange to have these materials approved by construction authorities in both countries. To this end, meetings are being held with government and industry officials directly involved in construction and with authorities responsible for product specifications and building codes.

CN: A BUSINESS ENTERPRISE (Continued from P. 2)

CN REAL ESTATE VENTURES

We are not, of course, *solely* responsible for all the developments here. However, it is accurate to say that we set the pace and pointed the way. We began this some years ago when we came to consider what to do with large property areas that were available for development here and in other Canadian cities — or would become available as we followed a planned programme of relocating and improving various downtown facilities. We proceeded from a very early stage in our planning on the principle that what is good for the general community is good for our business. There were times when we might have realized some immediate and limited advantage by proceeding hastily and on a unilateral basis. But we felt that our overall advantage as a business corporation would best be served by working in co-operation with municipalities and governments at various levels, and with private interests experienced in real estate development and, indeed, with all parties interested in, or affected by, our actions.

Out of this broad policy came this outstanding hotel and Place Ville Marie. These, in turn, attracted other developments. Some of these newer developments, such as the Place Bonaventure now rising to the south of our Central Station here, involve CN property and interests directly....

There are other recent, current or proposed developments on and about CN property in other centres. In Toronto, Moncton, Campbellton, London, Edmonton, Saskatoon, Calgary and Vancouver. Not all of these are of the kind and magnitude of Place Ville Marie but they do have in common the fact of being carried out on a co-operative basis, and with an eye to the general advantage of the community and the surrounding area....

It must be recognized...that neither this company, nor any of the other elements that make up the transportation system of Canada, has full control of its own destiny. The speed and direction of Canadian National's progress in the years immediately ahead will be determined to an important degree by the economic and social climate in which we must operate.

ECONOMIC AND SOCIAL CLIMATE FAVOURABLE

Fortunately, the climate at the moment can be described as promising. Economically, all indications are that demand for railway and related transportation will continue high in the areas served by our system. Last year, the gross ton miles produced by the Canadian National approached 98 billions — an all-time high. The company looks forward over the next years to an increasing demand for its services, with a continuing determination to maintain a high degree of technical and managerial efficiency.

It is encouraging also that some solid, realistic thinking about the national transportation system has been taking place in Canada. The 1961 findings of the Royal Commission on Transportation — popularly known as the "MacPherson Report" — are an excellent example. The report's emphasis is on control of the transportation system through the

forces of competition. Proposed federal legislation, based largely on the MacPherson Report, is also constructive in principle. It is not "help the railways" legislation; rather, it represents a commonsense move to rationalize the transportation system of Canada for the benefit of all who use it; which means, in effect, for all the people of Canada. It is regrettable that, for one reason or another, the actual implementation of this legislation has been long delayed. We can only hope that circumstances will before long lend themselves to positive action. For no one can deny the need to rationalize Canada's transportation system to bring about better co-ordination of effort and increased efficiency....

CANADIAN HUSSARS TO UNEF

It has been announced that "B" Squadron, 8th Canadian Hussars (Princess Louise's), will take over peace-keeping duties along the Egyptian-Israeli border in February 1966. The 112-man reconnaissance unit, stationed at Camp Petawawa, Ontario, will relieve "A" Squadron of the same regiment, which will return to Camp Petawawa after a one-year tour along the northern stretch of the 200-mile international frontier.

MOVE BY STAGES

A four-man advance party is scheduled to fly to the unit's Rafah base camp near Gaza in November to begin the take-over of equipment and stores. Early in January, a 15-man "command" party will move to Camp Rafah to become familiar with peace-keeping duties on the frontier. The main body is scheduled to fly from Trenton, Ontario, early in February.

Canada's contribution to the 5,000-man United Nations Emergency Force in the Middle East consists of about 1,000 men, most of whom have administrative and logistic duties.

LESSONS IN LEADERSHIP

Mr. John R. Nicholson, the Minister of Citizenship and Immigration, announced recently that a pilot project, sponsored by the National Council of Women, to develop leadership competence among Canadian women would be supported by a grant from the Citizenship Branch of his Department.

Government support of this project, launched at the annual meeting of the National Council last June, will take the form of a subsidy toward the cost of a three-day working seminar during which planning will be done for experimental programmes to be introduced at the local level in the spring of 1966.

Mr. Nicholson said that the National Council and its affiliated local councils had done much to impress on Canadian women the responsibilities of citizenship, and had encouraged them to accept positions of community leadership, both through elected bodies and various community agencies, boards and committees.