



CN Photo

Building on Strong Foundations as a Backbone of the Economy

Claude Mongeau

From a drain on federal coffers for decades as a crown corporation, CN has become the most profitable railway in North America as a private company. On the 20th anniversary of its initial public offering (IPO) under Paul Tellier, CN CEO Claude Mongeau reflects on a historic journey, and on challenges that lie ahead for a regulated industry.

Prior to Confederation, railways were built as public works projects pushed by leaders of vision looking to open up a new economy in a vast unreached landscape. While building railways over such large, often unforgiving terrain, was difficult, running them efficiently and profitably would prove even more challenging.

CN can trace its pedigree back to Canada's first public railway, the Champlain

and St. Lawrence Railroad, which ran its first steam locomotive-pulled train between Saint-Jean-sur-Richelieu and La Prairie near Montreal in 1836. More than 80 years later, the government of Canada amalgamated, under its control, several financially-strapped, privately-owned railroads to create Canadian National Railways. On June 6, 1919, CN initially formed what Montreal historian Donald MacKay coined “a mosaic of mismatched parts.”

For much of its history as a Crown Corporation, constrained by government ownership, CN was often a drain on federal coffers. By the 1970s, the federal government and CN’s management began taking steps to put CN on a path, albeit a slow one, to commercial viability. The change started to accelerate in the 1980s as the government grew increasingly eager to reduce the chronic and massive deficits that were choking the country. During this period, CN divested non-core assets such as CN’s hotel and telecommunications businesses, following the separation of passenger services in 1979 that created Via Rail Canada. This allowed management to focus exclusively on freight transportation and to prepare for privatization which would come later.

On the eve of privatization, CN had a lot going for it: quality assets, strong railroading practices, a diverse business mix, the capacity to grow, and a solid plan to cut costs and turn the railway around. But to unleash CN’s full potential, more change was required, and that change came with its initial public offering (IPO) in November 1995, a short 20 years ago.

Privatization enabled CN to demonstrate that good assets are often more valuable in the hands of the private sector. The company focused on the creation of value and on optimizing the use of the company’s resources to serve customers across a wide range of different markets. Employees began to think like owners as they became owners of the stock. And share-

“By the 1970s, the federal government and CN’s management began taking steps to put CN on a path, albeit a slow one, to commercial viability. The change started to accelerate in the 1980s as the government grew increasingly eager to reduce the chronic and massive deficits that were choking the country.”

holders began to value the company during what would become a long period of support, helping CN in the process to finance its capital requirements and the deployment of its strategic agenda.

CN’s successful transformation and progress over the last 20 years needed more than the momentum provided by privatization. To begin with, it required a regulatory environment that encourages investment and innovation, and market-based decisions overall. That environment really started to emerge in Canada in 1987, when the National Transportation Act recognized the right of railways to enter into confidential contracts with customers, eliminating any minimum or maximum rates set by regulation, while instituting final offer arbitration to protect shippers. This progressive mindset of deregulation continued in 1993, when the National Transportation Act Review Commission recognized that the withdrawal of government from direct management of transportation was good policy, and in 1996, when the Canadian Transportation Act introduced greater latitude for railways to rationalize their infrastructure.

CN’s journey was enriched with a compelling vision of what the railway had to become. Soon after he joined as CEO in 1992, former Clerk of the Privy Council Paul Tellier saw privatization as a step towards making CN the best railway in North America. Shortly after the 1995 IPO, the railway began a string of strategic acquisitions aimed at increasing our penetration of the North American market and our ability to offer seamless service to our customers. The first,

in 1998, was the purchase of the Illinois Central Railroad, a move that expanded CN’s US network beyond the Midwest and to the Gulf of Mexico. Subsequent acquisitions of the Wisconsin Central and regional railroads in Minnesota directly linked Western Canada to US markets in the American Midwest and South. Acquiring the Elgin, Joliet and Eastern allowed CN—for the first time—to link its five rail lines entering Chicago into one seamless system, enabling us to by-pass the infamously congested rail corridors of the Windy City. CN also made significant investments in its Canadian franchise, when it acquired BC Rail in 2004 and some short lines in Alberta in 2006 and 2007.

CN’s momentum has ultimately been maintained with the evolution of its strategic agenda: from an operational focus to one based on Operational and Service Excellence in day-to-day execution, and from a railway to a supply chain mindset in the way we interact with customers and partners. The shift is part of CN’s thrust to become more customer-centric. It involves a strong dose of innovation, such as the implementation of first mile/last mile initiatives that have allowed the company to go beyond hub-to-hub speed and reliability and address the need for more consistent car order fulfillment. It also involves substantial investments, starting with an unwavering commitment to safety. Totalling close to \$19 billion or 20 per cent of revenues during the last 10 years alone, CN’s capital investments support the pursuit of efficient, safe and quality service, on the railroad and in our interaction with other supply chain partners.

“ Totaling close to \$19 billion or 20 per cent of revenues during the last 10 years alone, CN’s capital investments support the pursuit of efficient, safe and quality service, on the railroad and in our interaction with other supply chain partners. ”



Halifax harbour. CN photo

The shift to becoming a supply chain enabler is a key to CN’s continuing success. While playing a central role across multiple supply chains, the railway is only one player amongst many, and this calls for an end-to-end perspective which CN has been actively pursuing. CN has taken the lead in developing innovative supply chain agreements with key players in intermodal and other businesses, including Canada’s major gateways. CN has promoted the use of service and operating metrics that can be shared with others, on a commercial basis, to drive action on the ground and continuous improvement in terms of efficiency and reliability end-to-end.

Today, CN is a true backbone of the economy, fostering economic prosperity in the North American markets it serves. CN’s network of 20,000 route-miles of track spanning Canada and Mid-America uniquely links the Atlantic, the Pacific and the Gulf of Mexico coasts. CN’s extensive network and efficient connections to the continent’s other major railroads provide customers access to all three NAFTA nations. CN trains and 25,000 people move more than \$250 billion worth of goods annually, carrying over 300 million tons of cargo. The railway serves exporters, importers, retailers, farmers and manufacturers alike.

CN has achieved and maintained this successful transformation with the conviction that excellent service and operational efficiency can

improve simultaneously, and that supply chains have to be nurtured. I have often said becoming the best in class doesn’t mean the job is done. Staying on top can often be a bigger challenge. To stay there and play our role fully requires a commitment to flawless execution and continued innovation. But it also requires sound government policy.

One of the many things I have learned from my two decades of railroading is that a commercial framework and a stable regulatory environment are an essential foundation for an effective, well-functioning transportation marketplace. Sound regulation is a force for good in our society; it makes our communities stronger and safer. It supports the growth of trade and the economy. Burdensome regulation threatens to increase costs, stifle innovation and discourage investments that are critical to building the efficient, safe and resilient supply chains of the future. Yet this seems to be the direction that was taken in 2013 and 2014 with the introduction of Bills C-52 and C-30, which have reversed the trend of deregulation of the prior 30 years.

As policymakers review the *Canada Transportation Act*, I respectfully submit they should be guided by the following principles:

1. for Canada to achieve economic

growth and prosperity over the next 20 years, it needs a globally competitive transportation system;

2. competition and market forces should be the prime agents in providing viable and effective transportation services;
3. regulation and government intervention must only be used as a last recourse if and only if markets do not work; and
4. sound regulation and policy can only be based on well-documented facts and an end-to-end understanding of the supply chain.

CN will continue to work with government and other stakeholders to encourage the existence of a sound regulatory environment that encourages investment and drives innovation. As CN embarks on its next 20 years, it is not resting on its laurels. The railway will continue to innovate, improve safety, and drive better customer service, working tirelessly to build a new economy just as those visionary leaders did when that first steam locomotive rumbled across Quebec 150 years ago. As CN marks the 20-year milestone of its IPO, and as it prepares to celebrate its centenary in 2019, the journey continues as it builds for the future. **P**

Claude Mongeau is President and CEO of CN.