

AMERICAN EXPERTS ON THE C.N.R.'S OUTLOOK

Special Report on System for N.Y. Bankers

SAY ROAD HAS A FUTURE

Presidents Loomis of the Lehigh Valley Railroad and Platten of the United States Mortgage and Trust Company Present Optimistic Statements.

An unexpected and valuable contribution to the discussion of the railway problems of this country is contained in a report upon the financial position and future earning power of the Canadian Northern Railway, which has just appeared under the sponsorship of two eminent authorities upon railroad operation and finance. The report is signed by Edward E. Loomis, President of the Lehigh Valley Railroad Company, and formerly senior Vice-President of the Delaware, Lackawanna and Western Railways, and by John W. Platten, the President of the United States Mortgage and Trust Company, of New York. While Mr. Loomis has been known as an administrator of large railroad enterprises, Mr. Platten, as the head of the oldest trust company of New York, has been identified with probably the most important railroad reorganization schemes which have been executed in the United States, among them the Chicago and Eastern Illinois Railway, the New Orleans, Mobile and Chicago Railway, and as Chairman of the Common Stockholders Committee of the International Marine Company.

A Lender's Inquiry.

The investigation into the affairs of the Canadian Northern Railway and the selection of these two practical railroad men to constitute a Commission for the purpose, was on the initiative of several of the largest financial corporations in the United States. The New York bankers desired for their own purposes an impartial and authoritative analysis of the affairs of the Canadian Northern, which shortly after the war began and when the London money market was closed to ordinary foreign borrowers, appeared in New York as a vendor of railroad securities.

The Commission, which, in addition to Mr. Loomis and Mr. Platten, included Messrs. Coverdale and Colpitts, a firm of railway consulting engineers of recognized standing, was appointed by the lending institutions for whose benefit the report has been made. This board devoted a year to an investigation of the outlook for the Canadian Northern as a transcontinental railway system, and while their finding is primarily intended for the American bankers, who are interested in the road only as an investment proposition, it has considerable significance, not alone for the light which it throws upon the railway situation, but also because of the fine optimism with which the investigators view the business outlook for the country as a whole.

Say Enterprise is Sound.

In general the finding of the Commission is that "the Canadian Northern Railway project as a whole is sound," and "the capital now invested in the property appears to have been secured economically, and expended wisely. In our judgment the railroad could not be duplicated for anything like its cost."

Low Construction Charges.

In respect to the cost of the road the Commission find that the interest rate on the fixed capital has averaged 3.93 per cent., and expresses its opinion that having regard not only to the exceptionally low interest charges in comparison with the capital and the economies of construction, both in labor and material, as compared with present-day standards, the road to-day represents, entirely outside of its future earning power, an amount far in excess of the capital invested.

Road can Compete.

Upon the subject of the prospects of the Canadian Northern as a competing road, Messrs. Loomis and Platten are equally convinced. They say:—

"Insofar as the physical property is concerned there can be no question as to the ability of the Canadian Northern Railway to meet competition, as the railway is well located and well built.

"Its transcontinental main line grades over practically its entire route are the most favorable in existence, and under a normally developed traffic density the railway should operate at a ratio previously unknown, and at enormous profit.

"The railway now has 9,513 miles of line practically completed and 948 miles under construction, which will make the total mileage of the system 10,461 miles.

"While, generally speaking, the Canadian Northern lies in a more northerly latitude than the Canadian Pacific Railway, Northern Pacific and Great Northern, its tributary territory west of Winnipeg is quite as susceptible of development and offers equal inducement to settlers.

More Terminals Needed.

"The various conditions under which the Canadian Northern Railway System is now operated, as to equipment, terminal and other facilities, financial requirements, organization, etc., render a normal traffic growth difficult of attainment," says the report, "but with a favorable modification of these conditions, it may be asserted that a large and profitable volume of originating traffic can be developed along the lines of the system. A large interline traffic can also be built up to United States gateways and lake ports and a fair share of through transcontinental business secured.

"The entire transcontinental main line is well located and well built. As to grades and alignment it is superior to its competitors, having been built to 0.5 per cent. westbound and to 0.4 per cent. eastbound grades, with the exception of 28 miles of 0.7 per cent. eastbound grade on the western slope of the Rocky Mountains; and with the further exception of about 101 miles of westbound and 226 miles of eastbound short momentum grades. Other construction features are favorable to economic operation, and it is indicated that the momentum grades can be taken out at small expense.

"Due to the modern character of the railway and to the fact that the property as it now exists has an operating capacity much beyond that indicated by its present revenue, the additional requirements, while essential to the completion of the system as a whole, involve comparatively unimportant expenditures when measured on the basis of present mileage or capitalization.

Niagara Line Urged.

"While these features will be considered in detail later as a part of the improvement and betterment programme, yet it is deemed important at this time to mention specifically the necessity for the Niagara frontier line and car ferries. The existing inadequate transportation service via the frontier line is detrimental to Canada."

Alternative Programmes.

The conclusions of the Commission regarding the amount of money required to complete the system and its prospective earning power are in part as follows:—

"As the maximum programme submitted covers the minimum programme as such further expenditures as in our judgment will be required over the two-year period supplemental thereto, we estimate the system's net cash requirements for improvements and betterments and working capital at \$54,000,000 over the three-year period; and at \$86,000,000 over the five-year period.

"We estimate the fixed capital liabilities of the property at \$462,000,000, exclusive of income charge convertible debenture stock at the end of the three-year period, which is at the rate of \$46,569 per mile; and at \$496,000,000 at the end of the five-year period, which is at the rate of \$47,715 per mile.

"We estimate that the capital invested in the property will amount to \$321,000,000 at the end of the three-year period; and that such capital will amount to \$555,000,000 at the end of the five-year period.

"We estimate the system's gross revenue at \$67,744,000 during the first year following the completion of the three-year programme, and at \$80,320,000 during the first year following the completion of the five-year programme.

"We estimate the system's profit and loss surplus at \$329,000 during the first year following the completion of the three-year programme; and at \$4,615,000 during the first year following the completion of the five-year programme."

The report of the New York Board has, of course, nothing to do with the official Canadian Railway Commission, which is expected to present its finding sometime during the coming month.—(Adv.)