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Acquisition of Canadian Northern by Government

MAXIMUM *Cash Investment Made in the Property is \$383,000,000—Position of the Common Stock—Minority Commissioner A. H. Smith said in his Report that with the Return to Normal Conditions and with Necessary Capital the Road Could Work its Way Out in a Reasonable Time.*

AS noted in *The Monetary Times* last week, the government proposes to acquire the Canadian Northern Railway system including its subsidiary companies. Briefly the proposal is as follows: Purchase of the outstanding \$60,000,000 stock of the Canadian Northern Railway, giving the government complete ownership of the Canadian Northern Railway system and all subsidiary enterprises.

Appointment of three arbitrators to determine the value of the stock acquired, subject to an appeal to the Supreme Court by either the government or the owners or pledgees of stock in the event of failure by the arbitrators to reach an unanimous determination.

Canadian Northern to retain its corporate identity with operation and administration under a board of directors named by the government.

At least five-sixths of the outstanding shares to be transferred by agreement. Government to take the right to compel the transfer of the remaining shares.

Demand loan of \$7,500,000 at 6 per cent., secured by mortgage, to be made to the Grand Trunk Pacific Railway. Government to take power to constitute a board of directors.

In view of this announcement, the majority report of the Railway Inquiry Commission (commonly known as the Drayton-Acworth report) is of especial interest. *The Monetary Times* therefore prints this report below in detail, so far as it refers to the Canadian Northern system and to that company's shareholders:—

The system now known as the Canadian Northern began with the acquisition by Messrs. Mackenzie and Mann, in the year 1896, of a charter which had been granted in 1889 by the province of Manitoba to the Lake Manitoba Railway and Canal Company. The charter was for a line, 123 miles in length, from Gladstone on the Canadian Pacific to Winnipegosis. Construction was promptly begun, and the line was opened in January, 1897. In the same year, 1897, Messrs. Mackenzie and Mann began to construct a line from Winnipeg to Port Arthur, known as the Manitoba and South-Eastern. Shortly after they constructed also the Winnipeg and Great Northern.

These three companies among them received land grants of 4,000,000 acres, and their bonds were largely guaranteed by the province of Manitoba.

In 1899, the Lake Manitoba Railway and Canal Company and the Winnipeg and Great Northern Company

were amalgamated as the Canadian Northern Railway Company.

Thereafter, by leases, by absorptions, and by new construction, the Canadian Northern system grew fast in both directions, eastward and westward. As a system it never has had, nor has it to-day, any corporate existence. It was held together by stock ownership. The whole of the common stock of the Canadian Northern Railway Company itself was held by Messrs. Mackenzie and Mann. In the case of the affiliated companies the stock was held sometimes by the parent company; sometimes by Messrs. Mackenzie and Mann in their own names.

Throughout the history of the Canadian Northern construction, the company has depended on public aid, direct or indirect. The development in the twenty years since 1896 has gone through four distinct stages, though chronologically the stages overlap to a considerable extent. In the first stage, the company relied on provincial guarantees. As it grew larger and more ambitious, it invoked and obtained aid from the Dominion. This was the second stage. In the third stage, the company, having become better known, raised large amounts by the issue of perpetual debenture stock, and later of convertible income debenture stock, on its own credit. At no period, as far as we have been able to ascertain, has any actual cash been obtained from the sale of the common stock, either of the parent company or of the constituent or subsidiary companies. With the exception of a French issue of \$4,000,000 in December, 1911, practically all the Canadian Northern money obtained by public subscription has been raised in London.

In the fourth and last stage, in 1914, with heavy interest payments to be made and large construction contracts still open; the company found its own resources insufficient. It reported that it required \$100,000,000 to complete and equip its system; that it could raise on its own account \$58,000,000; and it appealed to the government to find the balance.

The government thereupon guaranteed an issue of \$45,000,000 of 4 per cent. first mortgage debenture stock. Of this issue, \$14,600,000 was sold in London at 91½ in July, 1914; and \$2,433,333 at 91 in February, 1915. There have been handed back to the Dominion government \$12,500,000 as security for a cash loan of \$10,000,000. The remainder (except \$133,333 unissued) has been pledged as security for loans in New York. The