CANADIAN PACIFIC RAILWAY COMPANY

REPORT OF PROCEEDINGS

AT THE

ANNUAL MEETING OF SHAREHOLDERS

MAY 2, 1934

CANADIAN PACIFIC RAILWAY COMPANY

REPORT

OF THE PROCEEDINGS AT THE FIFTY-THIRD ANNUAL MEETING OF THE SHAREHOLDERS HELD AT MONTREAL ON WEDNESDAY, MAY 2, 1934

The meeting assembled, in conformity with the notice convening the same, at noon, at the General Offices of the Company at Montreal.

The Chairman of the Company, Mr. E. W. Beatty, presided and the Secretary of the Company acted as Secretary of the meeting.

The notice calling the meeting having been read by the Secretary, the President, Mr. E. W. Beatty, in moving the adoption of the report on the affairs of the Company for the year ended December 31, 1933, which had been printed and distributed to the shareholders, said:—

The Annual Report outlines in detail the principal factors which influenced the operations of the Company during the past year, but some further reference to the accounts which are before you may be of interest.

In 1928 the gross earnings of your Company and of subsidiary steam railways which are now being included in railway accounts amounted to $241,978,461, a new peak; in 1929 they declined $18,700,000 from 1928; in 1930 they declined $33,200,000 from 1929; in 1931 they declined $42,200,000 from 1930; in 1932 they declined $23,900,000 from 1931; and in the year just ended (at $114,269,688) they were $9,700,000 lower than in 1932, a total recession from 1928 of $127,708,773, or 53%. It is hoped that gross earnings of 1933 will prove to be the low point from which there will be a progressive increase to normal levels, so that the Company will again enjoy remunerative operations.

The Company's plant and organization had been expanded to handle the peak traffic of 1928, and the successful record of progressive readjustment of the Company's operations to meet such an unprecedented decline in gross earnings of a property not usually subject to such variations reflects credit upon the manner in which the Company's officers and employees have conducted operations under very difficult circumstances. In 1928 the working expenses of the Company amounted to $189,028,332; in 1929 they were $10,600,000 below 1928; in 1930 they were $27,300,000 below 1929; in 1931 they were $28,700,000 below 1930; in 1932 they were $18,600,000 below 1931; and in the year just ended (at $93,407,582) they were $10,400,000 below 1932, a total reduction of $95,620,750, or 51% below 1928.

There were 9.38% fewer rail passengers carried in 1933 than in 1932, but, as the average journey was longer, the passengers carried one mile decreased 4.81% only. Undoubtedly the volume of travel would have been still less had it not been for a continuation of the policy of operating special coach excursions and the stimulation given to travel by low week-end and holiday fares. As a result of the extended application of excursion and special rates, the average amount received per passenger mile decreased a little more than 10%. The reduction in volume of traffic and in average amount received per passenger mile was partially offset by a reduction in passenger train miles operated, so that the total passenger train earnings per train mile only decreased from $1.43 to $1.39.

The number of tons of revenue freight carried in 1933 decreased 2.62% from 1932, and the average haul of a ton of freight was shorter, so that the rail revenue freight tons carried one mile decreased slightly over seven per cent. Reductions were made in rates to meet water and truck competition, but, owing to the falling off in the volume of grain and grain products, which moves at very low rates the average amount received per ton mile increased from .905c to .910c. Notwithstanding the reduction in volume of traffic, heavier loading of trains was secured, and total freight train earnings per train mile increased from $4.80 to $5.00.

Maintenance expenses during the year were in keeping with the reduced volume of traffic. During the last few years the Company has benefited materially in lowered maintenance of way costs due to the improvements made during more prosperous years in the form of heavier rail, creosoted ties, rock ballast, permanent structures and other betterments. Lowered costs have also developed as a result of the pressure for economies in the form of new practices; for instance, extensive use is being made today of electric welding machines for building up battered ends of rails, frogs and diamonds by means of which, for a relatively small expenditure, the life of the rail itself is prolonged, and, in addition, the labour cost of replacement is saved.

Total transportation expenses decreased 13.8%. This improvement was made possible by the reduced scale of wages, lower material costs, and a better operating performance; fuel consumption improved from 114 lbs. per thousand gross ton miles in 1932 to 112 lbs. in 1933; average number of tons of revenue freight per train mile increased from 530 tons in 1932 to 549 tons in 1933. These were some of the contributing factors in the reduction of expenditures.

Further substantial savings were made in Traffic, Miscellaneous Operations and General Expenses.

Turning to the balance sheet, it will be found that the changes during the year are mainly self-explanatory and call for little comment.

Capital expenditures were again restricted, totalling less than the amount of the credits to property account arising from the retirement of units of equipment and other property. As a result, the Company's investment in railway, rolling stock equipment, lake and river steamers and hotels at the end of the year was $862,102 less than at the beginning of the year.

Investment in Ocean and Coastal Steamships increased $28,640 due to minor improvements to various units of your fleet. During the year the "Bolingbroke" and the "Bothwell" were sold. The net proceeds from these sales were credited to Steamship Replacement, the original cost of these vessels having previously been written off against that account.

Acquired Securities increased $2,878,597, principally due to the acquisition of $2,500,000 of First Mortgage Bonds of the Northern Alberta Railways during the year. From the proceeds of the sale of these bonds and the sale of an equal amount of bonds to the Canadian National Railways, the Northern Alberta Railways discharged on June 1st, the instalment of $5,000,000 on the purchase price of its properties, payable to the Province of Alberta. The next instalment is due June 1, 1939.

The increase in Advances to Controlled Properties is mainly due to the net advance of $4,577,285 to the Minneapolis, St. Paul and Sault Ste. Marie Railway referred to in the Annual Report.

The principal change in the capital obligations of the Company was the addition of $60,000,000 Five Year Notes sold to a syndicate of Canadian Banks. From the proceeds of these Notes, the short term notes and other obligations maturing during the year were discharged, and on April 15th of this year $12,000,000 Ten Year Collateral Trust Gold Bonds were retired. Funds are in hand to meet the other obligations maturing in 1934. After 1934, apart from annual instalments on equipment obligations, totalling $3,950,000 per annum, no funded obligations mature until 1937.

Notwithstanding the fact that very little capital expenditure has been made in the last two years, interest bearing obligations of the Company have increased due to the necessity for recouping the treasury for such expenditures made in prior years. However, the capitalization of the Company is still conservative and well balanced, for, while the total assets at the end of the year amounted to $1,399,924,926, the capital obligations totalled $985,707,349 only, of which $513,450,428 is interest bearing and the remainder of $472,256,921 is the capital stock of the Company. The conservative policy followed in financing the Company since its inception has been an important factor in enabling it to meet the abnormal conditions experienced in recent years.

After several years of practically continuous decline, traffic returns towards the end of 1933 commenced to show improvement over the corresponding periods of the previous year, and this improvement has continued during the first quarter of 1934. The gross earnings for this quarter increased $3,914,000, or 16.6% over the same period in 1933. Notwithstanding the inclusion of $449,898 pensions in 1934, working expenses increased $1,985,506 only, and net earnings from railway operations for the period were $1,928,960 more than in the same period a year ago. These results are encouraging, as they have been achieved in the face of continued unfavourable earnings from grain traffic which declined approximately 22%.

The latest figures available show that from January 1st to April 21st of this year the gross revenue increased $5,007,000 or 17.3% over the corresponding period in 1933, the increase in freight revenue being $4,287,000 or 19.7%. The improvement in net results of Hotels and Communications has continued into the current year. The improvement for the first quarter of 1934 over the same period last year amounts to $64,920 for Hotels and $64,090 for Communications.

The economic crisis in world trade has continued to affect adversely the revenue from your fleet of ocean-going steamships. Shipping business continued in a chaotic condition, due to the decrease in quantity of world traffic to be moved and to the large increase in shipping tonnage available for its movement.

On account of the extraordinary fluctuations in exchange conditions and prices it is difficult to determine from trade statistics to what extent the volume of the trade of the world has varied since the War, but it has been estimated that the volume of world trade available for cargoes is ten per cent. less than in 1913, and yet, allowing for increase in carrying power due to the size and greater speed of vessels now in existence, the ocean carrying power of the world is approximately 75% more than pre-war figures.

The efforts of many countries to develop home industries to meet needs formerly supplied by imported goods have had a considerable effect on requirements for shipping. In the endeavour to foster shipping many nations have adopted such measures as special regulations as to building, manning, victualling and inspection of ships; State aid in the form of construction loans at low rates of interest; State subsidies calculated on the basis of tonnage; State subsidies in the form of contracts for the carriage of mails; State aid by way of financing exports when conveyed on ships belonging to Nationals; preferred customs duties on traffic carried under similar conditions and the exclusion of foreign ships from coastwise traffic.

British shipping has been exceptionally hard hit by such measures, and the seriousness of the situation has compelled consideration of measures which will enable it to hold its supremacy in the shipping world. As an example of the present situation I need only instance the case of the Canadian-Australasian Line, Limited, which is jointly owned by your Company and the Union Steamship Company of New Zealand. Its ships plying between Canada, Australia and New Zealand have to meet the competition of ships of United States registry, built and operated with the financial assistance of the United States Government, not only in international traffic but in Australasian coastwise traffic, although ships of British or Canadian registry are not admitted to the coastwise traffic of the United States.

Your ships were specially designed for the particular requirements of the Canadian trade, and, while they have suffered in common with other lines from loss of revenue due to the competitive conditions referred to, they have also had to contend with an almost complete cessation of emigration to Canada. In consequence of a further decline of regular traffic on the Atlantic, we continued in 1933 the policy adopted in recent years of diverting a number of ships in that service to short cruise employment. There is some measure of satisfaction, perhaps, in the fact that the percentage decrease in North Atlantic Passenger traffic between Canadian ports and Europe is less than that between American ports and Europe. Of the Atlantic passenger traffic to and from Canadian ports your ships again carried the largest volume, conveying 59.7% of the total traffic with only 33.6% of the aggregate departures and arrivals of all Steamship Lines.

During the years 1931, 1932, and 1933 the eastbound North Atlantic passenger movement exceeded the westbound, a situation which has not existed since 1919. There are, however, indications of an increasing westbound movement harmonizing with the upward business trend in the United States and Canada.

The Atlantic passenger carryings of the "Empress of Britain" have increased each year since she was commissioned in 1931. That every available opportunity has been taken to use the Empress most advantageously on the Atlantic will be realized by the fact that during the St. Lawrence season of 1933 she completed from Quebec to Europe and return, 13 voyages in 14 days or less for the round trip.

In December last the "Empress of Britain" undertook an 11 days Christmas and New Year Cruise from New York to the West Indies. This additional employment was possible on account of our changing the month of her departure on the world Cruise from December to January. The alteration in the cruise sailing date, coupled with the ever increasing popularity of the new Empress, led to an extremely satisfactory increase in World Cruise bookings this year compared with last.

In 1933, 29,821 tourists were carried on the ships set apart for cruise employment, and the Canadian Pacific has established for itself a strong cruise position, not only in the United States and Canada, but in Europe. The popularity of short cruises has spread throughout the seven seas, and we have organized a number of short sea trips for tourists between Shanghai, Hong Kong and Manila, and between Vancouver and Honolulu. Another successful cruise effort was the introduction of a round the Pacific tour commencing at Vancouver by our regular Empresses of the Pacific and returning to the mainland by the "Empress of Britain" World Cruise. While there are some signs of an increasing passenger movement on the Pacific, the aggregate carryings of all Trans-Pacific Lines showed a decrease in 1933. It is, however, satisfactory to record that our First Class passenger carryings by the Empresses on the Pacific increased in 1933 over 1932, and, in general, we maintained our relative position for competitive Trans-Pacific traffic.

There is a continued increase in Independent Round the World Tour traffic. We carry such passengers by our Empresses across the Pacific to Hong Kong, and in conjunction with the great British Steamship organization, the P. & O., convey them to Europe, whence they are transported back to their homes in Canada and the United States by our Atlantic Service and our rail lines.

The persistent and violent fluctuations in rates of exchange throughout the world continue to be a source of embarrassment to those engaged in an industry so international in character as that of shipping, and to the lack of rate stability thus created and the manifestations of economic nationalism to which I have referred, may be attributed the continued unsettled conditions in the various steamship conferences which have for their object the stabilization of the industry. The policy of your Company in the various steamship conferences of which it is a member, has been to co-operate in every way possible to insure the maintenance of rates and conditions on a basis of fair competition, and in the interest of the public as well as of the shipowners.

As to steamship freight traffic some improvement was shown, especially toward the latter part of the year, both in the quantity of cargo and in the proportion of package freight carried, with a resulting increase in revenue. Part of this improvement may be attributed to the results of the Imperial Conference concluded at Ottawa in August, 1932, and partly to the effect of the sterling exchange situation on Canadian exports.

During the year further operating economies were put into effect, and the resultant savings assisted by a reduction in cost of supplies purchased, especially fuel oil, enabled us to complete the year with an improvement in our steamship net earnings over 1932.

In the course of their year's work the vessels in our ocean-going fleets steamed in all a distance of 1,420,433 miles, and called at 101 different ports in various parts of the world, and I am glad to say that due to the careful navigation of our ships by their commanders and officers, and the good work of the engineering staffs, I can again report complete freedom from accidents of any consequence during the year.

The Statute known as the Canadian National-Canadian Pacific Act of 1933 has been in operation since the first day of July, 1933. By it, the Companies are directed to agree upon co-operative measures for the purpose of effecting economies and providing for more remunerative operation. Predicated as the Act is, on the maintenance of competition between them, it will be seen that the field of co-operation has limits, but your Directors and officers have devoted constant effort to apply the principle of co-operation in every branch of your undertaking to which it is capable of application with advantage. Up to this time eight such measures have been adopted and put into effect, involving an estimated annual joint saving of a million dollars, and many others are under consideration, the saving from which cannot yet be estimated.

The railway structure of Canada is unsound and in good times as well as in bad involves economic waste of many millions of dollars per annum. It is idle to lay the blame to Governments or to Parliaments. We must view the situation in the light of our experience of present-day conditions and our conception of the future trend of transportation in Canada. It must not be overlooked that the situation has changed materially since the views of your Directors were first placed before the Government of Canada. New forms of competition have arisen. The private motor, the bus and the truck are here to stay. That they occupy a useful place in the transportation system of the country cannot be disputed, but the public interest requires that the limits of their place in that system should be ascertained and their operations and tariffs, as well as those of water carriers, controlled in the same manner as the railways. Water competition threatens to increase, and the aeroplane has possibilities for the future which cannot be treated lightly. With these considerations in mind, I feel we should without delay fortify our railway situation to meet the new conditions and ensure the solvency of the private company and the nation. After many years of study I am of opinion that unification for the purpose of administration offers the only adequate solution of Canada's railway problem, and I have constantly advocated that view both publicly and privately. The proponents of the present competitive system assert that an equal, or at least a sufficient, economy may be effected by co-operation between the two Companies, but it must be patent that this cannot be so. They assert also that politics do not enter into the administration of the Government System, or political considerations into a solution of the problem. While I would like to believe that to be true, I have heard emphatic assurances of the same character made during the past years, and, unfortunately, they have been proved to be without foundation.

The submissions which this Company has made, coupled with a recommendation of joint administration by a private company, have caused some people to deduce that the effect of the proposal would be to turn the assets of the National System over to the Canadian Pacific, the Government retaining the liabilities. The Government's guarantee of the National System's securities means that there is no escape from their liability to the holders of these securities save by the unthinkable course of repudiation. The purpose of unification is to provide the owners of the National System with more money to satisfy their obligations than it is possible to secure if dual and competitive systems are maintained; likewise the same economies will increase the revenues of your Company. It has never been suggested that the Canadian Pacific should assume ownership of the National System—that will remain with the Government of Canada as will the ownership of the Canadian Pacific remain with its present proprietors. In effect, the suggestion is a partnership with a division on an agreed basis of the net earnings of the properties jointly operated. Private administration is recommended as that most likely to lessen or eliminate political influence and secure maximum efficiency. I am satisfied that in good times as well as in times of adversity unified administration gives the greatest assurance of economy and efficiency. The objection usually offered is said to be founded on fear of the consequences of monopoly, but I think the fear groundless. Railways do not and cannot enjoy a transportation monopoly, and the public interest may be fully protected by public control exercised through the Board of Railway Commissioners and the Government. I can see no reason why that control should not, under the system I have suggested, be as effectual as it has been in the past.

There will be laid before you for your approval certain by-laws which have been enacted by your Directors relating to the registration and transfer of Ordinary Capital Stock and the issue of Consolidated Debenture Stock in Canadian currency.

For some time past requests have been made to the Company to establish an office for the registration and transfer of Ordinary Capital Stock at Toronto, and the new by-laws authorize the Directors to establish such an office there, should they so decide, in addition to Montreal, New York and London where offices are now maintained. Heretofore also the by-laws prescribed different forms of share certificates for use at the different transfer offices. In order to secure uniformity among these forms as far as may be possible and advisable, the new by-laws provide that share certificates shall be in such form as the Directors shall from time to time by resolution prescribe.

Up to this time Consolidated Debenture Stock has been issued either in Sterling or in United States currency, but your Directors consider it advisable that provision should be made for its issue in Canadian currency also, and the new by-laws so provide.

It was with the greatest regret that your Directors announced in the Report that no dividend could be paid either on Preference or Ordinary Stock in respect of 1933. They felt that it is in your interest, notwithstanding the natural disappointment with which you would receive such an announcement, that the financial resources of the Company should be strictly conserved until earnings should show a return to more normal figures, and a definite trend toward stability.

I have mentioned the improvement in rail earnings since the beginning of the present year. The increase has been mainly in the earnings of your railway in Eastern Canada. In a very peculiar sense the prosperity of this Company depends upon the prosperity of agriculture, and, therefore, of Western Canada, from which territory about 60% of its freight earnings are normally derived. Obviously, therefore, improvement in conditions in the West is essential in order to justify the claim of general prosperity. I can only express the hope that the progress already made indicates the beginning of the general revival in industry and agriculture which we are all anxiously awaiting.

The Report was adopted upon the following resolution which was moved by Mr. E. W. Beatty and seconded by Sir Herbert S. Holt, viz.:—

Resolved—That the report on the affairs of the Company for the year ended December 31, 1933, now submitted, be and the same is hereby adopted and that the expenditures on capital account reported and recommended therein be and the same are hereby approved and authorized.

The following resolution relating to an agreement between this Company and the Dominion Government and The Commissioners of The Transcontinental Railway, was submitted, and, on motion of Mr. W. B. Blackader, seconded by Mr. M. C. Oswald, was unanimously adopted, viz:—

Resolved—That the agreement dated as of January 1, 1930, between the Company of the One Part and His Majesty the King, in the right of the Dominion of Canada, and The Commissioners of The Transcontinental Railway of the Other Part, whereby the agreement between the parties dated January 1, 1915, in reference to the joint use by the Transcontinental of the Company's passenger and freight facilities at the City of Quebec, is amended and supplemented to provide for the acquisition of additional property and the extension of the coach yard facilities, the withdrawal of the Transcontinental from the joint use of the freight shed facilities, the inclusion of certain additional freight tracks in the joint facilities, and the revision of certain details of the agreement to accord with modern practice in joint terminals, be approved and that the execution thereof be and is hereby ratified.

By-laws enacted by the Directors were submitted for approval, as follows:—

By-law No. 62

By-law No. 44 is hereby repealed and the following enacted in lieu thereof:

44. Register books and transfer books for shares of Ordinary Capital Stock shall be kept at the Head Office or at such other place in Montreal as the Directors may from time to time direct, and the Directors may order similar books to be kept at London in England, at the City of New York in the United States of America, at the City of Toronto in the Province of Ontario, or at any or all of such places.

Books for the registration and transfer of Bonds shall be kept at such places as the Directors may from time to time direct.

The Directors may appoint persons to take charge of such registers and transfer books as may be established, and to perform such duties in respect of them as the Board may from time to time order and direct.

By-law No. 63

By-law No. 45 is hereby amended by inserting after the word "Montreal" the word "Toronto."

By-law No. 64

By-laws Nos. 39, 40 and 41 are hereby repealed and the following enacted in lieu thereof;

39. Certificates of shares of Ordinary Capital Stock and the transfer thereof, shall be in such form as the Board of Directors shall by resolution prescribe. The certificates shall be signed by the President and the Secretary of the Company or on their behalf as provided in the By-laws, and countersigned by the Transfer Agent and the Registrar.

By-law No. 47—Subsection "E"

Respecting Consolidated Debenture Stock

1. In this subsection the word "Stock" means Consolidated Debenture Stock authorized to be issued by the Company and which may be issued in denominations of Canadian currency, and any word in the singular number means also the plural, unless that be inconsistent with the context.

2. By-laws "A" and "B" and subsections "C" and "D" of this By-law 47 respecting Consolidated Debenture Stock, save as specifically altered by this subsection or to the extent to which they may be inconsistent therewith, shall apply to all stock issued in denominations of Canadian currency.

3. The stock shall be issued in amounts of $100 each or in multiples of that sum, and shall bear interest at the rate of 4% per annum payable half-yearly on the first days of the months of January and July in each year at some place in the City of Montreal, Canada.

4. The Company shall keep at Montreal, in Canada, a written register of the stock issued in Canadian currency and shall cause to be entered in such register the name and address of every holder of such stock, as well as the amount of stock from time to time belonging to him, and the date at which he became the holder.

5. The Company shall also keep at Montreal a transfer book, in which every transfer or transmission of stock shall be recorded; and shall provide a competent Transfer Agent who shall take charge of such work and perform such other duties, and be subject to such orders, rules and regulations as shall be from time to time prescribed by the Board of Directors.

6. Every transfer shall be made by an instrument in writing as required by the said By-law "B," save that their acceptance thereof shall not be required to be signed by the transferee.

7. Each certificate of stock and the transfer to be endorsed on the back thereof shall be in such form as the Board shall from time to time determine, and shall be valid without being under the corporate seal of the Company. The certificate shall be signed by the President or Vice-President, or by such other official as the Board may from time to time appoint for that purpose, and by the Secretary or Assistant Secretary of the Company, and shall be countersigned by the Transfer Agent and the Registrar of Transfers.

And it was, on motion of Sir Charles Gordon, G.B.E., seconded by Mr. William Leggat, unanimously:

Resolved—That By-laws Nos. 62, 63, 64 and 47—Subsection "E," now submitted, be and they are hereby approved and confirmed.

The meeting then proceeded to the election of Directors, and, on motion of Mr. E. W. Beatty, seconded by Rt. Hon. Lord Shaughnessy, the following resolution was unanimously adopted:

Whereas, in pursuance of By-law No. 6, Sir Charles Gordon, G.B.E., Mr. Ross H. McMaster, Rt. Hon. Reginald McKenna, Mr. James A. Richardson and Mr. W. J. Blake Wilson, Directors of the Company, retire from office at this meeting;

And Whereas five Directors to replace the said retiring Directors, who are, however, eligible for re-election, must be elected at this meeting for the term of four years as provided for in the said By-law;

It is Resolved—That a ballot be now taken for the election of five Directors for the term of four years to fill the vacancies created as above stated; that Lt.-Col. William A. Grant and Mr. William C. Finley be appointed Scrutineers to take such ballot, and that the poll be closed when five minutes shall have elapsed without a vote being cast at such election.

The ballot having been taken and no further votes having been cast within the specified time, Lt.-Col. William A. Grant read the report of the Scrutineers, which declared that Sir Charles Gordon, G.B.E., Mr. Ross H. McMaster, Rt. Hon. Reginald McKenna, Mr. James A. Richardson and Mr. W. J. Blake Wilson were elected Directors for the term of four years, and the report was adopted.

The proceedings then terminated.

Chairman.

E. Alexander

Secretary.

At a meeting of the Board held immediately after the Shareholders' meeting Mr. E. W. Beatty was re-elected Chairman and President of the Company, and Mr. Grant Hall, Vice-President, and the following were appointed the Executive Committee:—

MR. E. W. BEATTY,
MR. GRANT HALL,
SIR HERBERT S. HOLT,
MR. W. N. TILLEY, K.C.
SIR CHARLES GORDON, G.B.E.
MR. W. A. BLACK.