CANADIAN PACIFIC RAILWAY COMPANY

REPORT OF PROCEEDINGS

AT THE

ANNUAL GENERAL MEETING OF SHAREHOLDERS

MAY 3, 1939

CANADIAN PACIFIC RAILWAY COMPANY

REPORT

OF THE PROCEEDINGS AT THE FIFTY-EIGHTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS HELD AT MONTREAL ON WEDNESDAY, MAY 3, 1939

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, Sir Edward Beatty, G.B.E., 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, Sir Edward Beatty, G.B.E., in moving the adoption of the report on the affairs of the Company for the year ended December 31, 1938, which had been printed and distributed to the shareholders, said:—

The Visit of the King and Queen

Our meeting to-day takes place in an atmosphere brightened by the prospect of an event of profound significance in the history of our Empire. For the first time the reigning Sovereign and his gracious Consort are to visit this Dominion. I feel that I am speaking for the shareholders, the officers and employees of the Canadian Pacific when I express the pleasure with which we look forward to this historic event. Their Majesties will cross to Canada on the S.S. Empress of Australia and your Company is also privileged to share in the provision of facilities for the care and comfort of Their Majesties while in Canada. In co-operation with the Canadian National Railways, we are providing a suitable Royal Train, and a large portion of Their Majesties' journey through the Dominion will be over our lines.

Results of 1938

The Annual Report for 1938, which has been distributed, shows the first major interruption of the slow but steady progress of recovery since 1933. The Report deals with the general economic factors in this situation and their effect on the Company's earnings.

Operations were curtailed in keeping with the decreased volume of business, but increased costs of labour and material, and increased disbursements for pensions and taxes actually led to an increase in expenses. However, the various operating indices show that your Company's record of efficient transportation services was maintained and, in certain instances, improved.

First Quarter of 1939

Gross earnings for the first three months of the current year declined \$820,000, or 2.7%, as compared with those of 1938. The greater part of this decline occurred in January. Since then, notwithstanding the disturbance to business caused by the uncertain international situation, earnings have been running at approximately the same level as a year ago. Several of our weekly earnings statements have shown a moderate increase over those of the corresponding period of last year.

Working expenses for the first quarter declined \$1,040,000, or 3.6%, as compared with those of 1938, in spite of an increase of \$431,000 owing to the fact that in 1939 there were no deductions from basic rates of pay corresponding to those in effect in 1938. As the basic rates were fully restored by April, 1938, the comparative results for the remainder of this year will not be adversely affected by this factor.

Net earnings for the first quarter show an increase of \$220,000. Every effort consistent with efficient operation and proper maintenance of your property will be made to keep expenses down so that a large portion of any increase in gross earnings during the remainder of the year should be reflected in the net result.

Co-operative Economies

Comparatively small but welcome economies are hoped for from co-operative projects arranged with the Canadian National Railways. As stated in the Annual Report, annual savings from projects on which agreement has been reached but which are not in effect amount to \$854,000. Some portion of these savings will be realized during 1939. These co-operative measures will include certain line abandonments, and, of necessity, there will be certain resulting charges to Profit and Loss for properties retired and not replaced. I should like to repeat what I said at the annual meeting last year, namely, that charges of this nature do not represent actual disbursements. Abandonments of property, to the extent that they reduce operating losses and provide for more economical operation, will have a favourable effect on earnings and on dividend prospects.

General Outlook

In my remarks to you last year the physical condition of your properties was reviewed, and it was pointed out that there is no reason for pessimism in regard to the long-term outlook of the Company. I wish again to emphasize this view. Your properties are in such physical condition that a much larger volume of traffic than is now available can be handled with no more than a normal increase in expenses. The corporate condition of your Company is sound and the capitalization well balanced. The results of the past eight years may appear depressing but these must be considered in the light of the general business conditions on this continent which have forced many railroads into bankruptcy. In the case of your own Company, earnings also have been adversely affected by repeated droughts in the grain-growing territories which it serves and by unusually low prices for the staple products of that area. The relative importance of this factor in the Company's affairs is apparent when it is noted that almost sixty per cent. of our gross freight earnings are normally attributed to Western Lines.

Competitive Factors

It is clear that railways on this continent, as well as elsewhere, will continue to face serious problems in readjusting their operations to changed economic conditions. It has been evident for some time that they have been gradually losing the preponderance of traffic they once enjoyed. The effect of subsidized competition of other transportation agencies is very marked. The decline in the volume of business resulting from the diversion of traffic to the highways and to the inland waterways, both built at government expense and used without adequate charge by competitive agencies of transportation, continues to affect the earnings of the railways. Petroleum products, formerly carried in railway tank cars, now move to an increasing extent by pipe line or tank steamer. The steady development of air transportation makes further inroads on the earnings of passenger, mail, telegraph, and express traffic. In addition, the re-location of industry to reduce transportation costs and the substitution of electricity for coal as a prime source of power have seriously affected valuable sources of revenue. Competitive forms of transport are enabled to select the higher paying grades of traffic and to obtain these at reductions of rates. This produces a very unfair situation for the railways, which must accept all traffic offered, and look to the higher rates on certain classes to compensate for the low charges necessary to permit the movement of grain, coal, ore, lumber and other basic raw materials.

This competitive situation, though less marked in Canada than in many other countries, exists and continues to grow. The exigencies of the depression have increased the effects. As a result of these factors, the recovery of the railways from the depression has not been as great as that enjoyed by industry generally.

Increasing Expenses

It has been unfortunate that this period of acute competition and depressed volume of traffic is accompanied by one of disproportionate increase in expense. It is now clear, as was feared, that the restoration of basic rates of pay to the levels prevailing during the active business conditions of a decade ago was premature. At the present time, in spite of the depressed conditions in the industry, the rates of pay of railway employees, on a "real wage" basis, are higher than in any previous year. Taxation, both direct and indirect has increased substantially. These factors have added to the inevitable tendency of unit costs to increase as the total volume of business falls. Moreover, in efforts to maintain their competitive position and meet the demands of the public, new standards of service have had to be accepted by the railways. Air-conditioned passenger equipment, pick-up-and-delivery service for freight, and faster freight and passenger schedules have added to the unit cost of handling a lessened volume of business carried at decreasing rates and fares.

Effect on Canadian Pacific Earnings

The effect of these general trends on the earnings of your Company is illustrated by the following summary of certain factors in its operation:

Average for Years	Freight Revenue Per Ton Mile (cents)	Passenger Revenue Per Passenger Mile (cents)	Gross Earnings per Mile of Road $	Ratio Working Expenses (including taxes) to Gross Earnings (%)
1919-23	1.025	2.78	14,864	82.04
1924-28	0.974	2.70	14,352	78.52
1929-33	0.981	2.70	9,761	80.80
1934-38	0.930	2.09	7,931	83.18
Year 1938	0.902	2.10	8,278	85.41

Comparison With United States Railways

As a result of these factors, the return on the actual cost of the railway property from which the net earnings of your Company are derived, declined from an average of 4.10% per annum for the years 1919 to 1928, inclusive, to 2.27% per annum for the years

1929 to 1938. Corresponding averages for United States Class I roads were 3.69% and 2.31%. The following table gives a record of the return on investment by five-year periods commencing 1919-23:

Average for Years	Canadian Pacific (%)	U.S. Class I Railroads (%)
1919-23	3.89	2.68*
1924-28	4.29	4.57
1929-33	2.58	2.62
1934-38	1.97	1.99
Year 1938	1.74	1.43

*Government control ended March 1, 1920.

Comparison With United Kingdom Railways

I have not precisely comparable figures for the United Kingdom, but I note that the Net Return on Capital Receipts of the British Railways has varied as follows:—

Average for Years	United Kingdom Railways
1919-23	4.40
1924-28	4.03
1929-33	3.28
1934-38	3.08
Year 1938	2.68

Desirable Corrections

In the case of Canada this situation, depressing as it may appear, can be improved. As you are aware, in many countries—notably in the United Kingdom and in the United States—public authorities are giving serious consideration to the competition with road transport to which the railways are exposed. This is also true in Canada—although the activities in that direction are not as yet very marked. Recently, a Royal Commission appointed by the Government of the Province of Ontario studied the question of highway transportation and published a report which recommends increased regulation of transport operators on the highways and taxation more in balance with the true annual cost of the highway system. Were such a policy adopted by all the Provinces—under whose jurisdiction highway transport comes—we might look forward to a lessening, if not an end, of the unfair competition suffered by the railways from this source. No consideration appears as yet to have been given to the repeated suggestion that fair tolls should be charged on inland shipping using the very costly waterways provided and maintained at public expense, but it is hoped that this question will soon be considered. Legislation has been passed bringing inland water transport under regulation by the Board of Transport Commissioners and this may produce a tendency to end the cutting of rates.

Canadian Railway Competition

In the Canadian situation, there is the special abnormality produced by the operation by the Government of a state railway system which competes with your Company throughout the Dominion. This does not result from any accepted policy of the Government, but is the consequence of a chain of events with which you are familiar and which I do not need to review at present. In addition to the unfavourable effect on the earnings of your property produced directly by this competition, the operations of the Canadian National Railways have involved the Dominion Government in heavy annual expenditures to meet deficits, and the resulting taxation has tended to delay the recovery of business in Canada. The Management of your Company has long urged on the Dominion Government the propriety of taking steps to remove this unfair competition, and, to the extent that it is possible, to relieve the National Treasury from an unnecessary burden. With the consent of your Board of Directors, I have undertaken to place these suggestions before the Government and people of Canada. For some time the effort to attract public attention to this problem and obtain consideration of at least a partial correction of an intolerable situation was not markedly successful. It has been misrepresented as an attempt of your Company to obtain monopolistic control of the railway situation. By degrees, however, there has been a visible change in public opinion, and it is now widely recognized that the system of co-operation recommended by "The Royal Commission to inquire into Railways and Transportation in Canada" in 1932 and made statutory in 1933 cannot accomplish the results which the Commission was led to believe were practicable.

Senate Enquiry

The pressure of railway deficits on the public revenues is generally understood, and a Special Committee of the Senate was appointed in March, 1938, to "Enquire into and report upon the best means of relieving the country from its extremely serious railway condition and financial burden consequent thereto." The proceedings before this Committee have attracted wide public attention.

Benefits of Unification

You are aware that one of the criticisms offered of the unification proposals is that they are made in the interest of the Canadian Pacific. There is neither need nor desire to assert that your Company would not benefit from such a policy. The gain to your Company will come in two ways. It will receive a share of the direct savings which will be obtained, and it will share indirectly in the important benefits which will follow the stimulus given to the business of Canada through the elimination of a troublesome national problem. However, the greatest benefit will be the relief to the public from the burden of wasteful duplicate expenditure. It is for this reason that I have regarded the railway problem as primarily presenting an opportunity for your Company to co-operate with the Government of Canada in the national interest.

Practical Difficulties of Co-operation

Seven years ago a Royal Commission pointed out the danger to the nation of a failure to solve the railway problem. It recommended, and Parliament enjoined, co-operation between the two great railway systems. At the time I ventured to suggest that it would prove impossible to reconcile co-operation and competition so as to permit of savings commensurate with the needs of the situation. Your Company has loyally endeavoured to carry out its statutory obligations in this matter, and has not at any time omitted any act which would permit economies to be made on a fair basis. Yet, the total annual savings at the end of 1938 from co-operative measures, including both those actually in effect and those authorized by the Joint Executive Committee, were only $1,989,000.

I regret to record that even this inadequate programme of joint economy has recently suffered a serious set-back. The Canadian National Railways have announced an intention to proceed with the construction of a new terminal in Montreal. Your Company has offered to endeavour to arrive at a plan for the joint use of your properties in Montreal as union terminals. The refusal to investigate this proposal and the decision to spend a large sum to provide an independent terminal for the Canadian National cannot be regarded as in accordance with the policy of co-operation imposed upon the railways by statute.

Outlook for Correction

The Special Committee of the Senate, to which I have already referred, faces a difficult and highly technical task. Its very existence indicates that the Senate has recognized the pressing nature of the problem. I have urged on this Committee that it should recommend the appointment of an independent group of experts to examine the possible economies under unification and to submit a report. As in the past, your management will continue to cooperate actively in the development of any policy which promises a just and effective solution of the railway problem.

I have mentioned that one criticism of the unification proposals has been that they are in the interest of the Canadian Pacific, and in some circles that, in itself, would seem to be considered a valid reason why the plan should not be accepted as a solution of what is admittedly a serious national problem. Those who have any knowledge of the railway history of Canada and the great contribution made by your Company to Canadian development must find it very difficult to understand why there should be any hesitancy in adopting measures which would greatly reduce the burdens of the Canadian taxpayers, merely for the reason that investors in this Company's securities and stocks would thereby be benefited.

A grave responsibility would rest upon any public man who should deliberately turn away from the solution of a problem which, as long as it remains unsolved, involves so many serious possibilities to the country and its people, to say nothing of those who have invested in good faith—and so heavily—in your Company, whose undertaking came into existence by virtue of a contract with the State. I need not remind you that your Company has carried out the onerous obligations which devolved upon it under that contract, with scrupulous regard for its letter and its spirit. I am satisfied that both the Government and informed public opinion in Canada are fully alive to the gravity of the situation.

There are those who assume that a solution will eventually be found through the possible financial embarrassment of your Company. It is my conviction that, in spite of the difficulties which it faces, the Canadian Pacific is in a position to maintain its independent existence for years to come. Strictest economy and the highest efficiency will be required in its operations, but, in view of the nature of its capital structure, I cannot conceive of any conditions—short of some unforeseen national disaster—which would endanger its ability to carry on as at present constituted.

As I have repeatedly pointed out, while unquestionably unification, if accomplished, would be of definite benefit to your Company, we know that for every dollar of improvement in its revenues that would come from rationalization of the Canadian railway situation at least an equal amount would accrue to the public treasury.

The Outlook for 1939

You have already been informed of the results of operations for the first quarter of the year. It is not easy, in the disturbed conditions of the time, to offer dependable forecasts of the future. It is impossible to hope for a major restoration of normal business activity in any country until general peace between nations is established. The effect of the uncertain international position has been especially marked on this continent.

In our passenger business in particular, international travel overseas cannot but reflect present disturbances. Great expositions are being held in New York and San Francisco this year and these events may bring about an increase in domestic travel in the United States. Every effort will be made to attract some of this business to Canada and your Company is participating with the transcontinental railway systems of the United States in special rates for this purpose. It is expected that the Royal Visit will also stimulate travel.

The internal business conditions of Canada remain disturbed and, in some respects, depressed. Manufacturing activities maintain a fairly satisfactory volume in most lines. The mining industry continues to show steady expansion, and, while many of the recent developments in this field have not been on your lines, the stimulus given to the general business activities of the country affects our traffic favourably. The important paper industry suffers to some extent from the failure of business in the United States to show the recovery which was anticipated. The great agricultural industry of Eastern Canada—which actually employs more workers and more capital and has a greater value of production than the agriculture of Western Canada—is not markedly prosperous but is in a sound economic position.

The outstanding difficulties in Canada are concerned with two industries. The construction industry fails to show reasonable expansion. Even the present comparatively small volume results chiefly from the expenditures of Government money—largely for purposes which are necessarily non-productive. There is need throughout the country for a large amount of low rental housing, and, while the housing loan provisions made by the Dominion Parliament have been of considerable assistance towards meeting this need, it is desirable that the volume of residential construction should still be considerably increased. The other industry which does not show a marked recovery is that of grain growing in Western Canada. The harvest of 1938, while larger than those of some previous years, was still below normal. There is reason to hope for a definite improvement in this respect in 1939, which would favourably affect the earnings of the second half of the year. Unfortunately, the small crops of recent years have been sold at very low prices. Your Company's earnings depend not only on the movement at very low rates of the agricultural products of Western Canada but on the ability of the producer to exchange these for an adequate volume of merchandise—which pays higher rates. It is on a satisfactory combination of these two factors that the earnings of Western Lines largely depend. There is reason to hope for some recovery of grain prices above their present low levels.

In general, while any prophecy in regard to the future must be made with great caution, it is my hope and belief that earnings during the remainder of 1939 will show a favourable comparison with those of the previous year.

Conclusion

To sum up, it may fairly be said that the unfavourable returns of the past year do not reflect any lack of efficiency or enthusiasm on the part of the officers and employees of your Company. They are due to a combination of circumstances which is peculiar to the Canadian situation. In common with other countries, Canada suffers from the disturbed conditions due to international, political and economic stresses. One of its major industries—that of grain growing—has suffered from drought and from abnormally low prices for its product. In addition, your Company conducts its business in competition with another railway generally paralleling it throughout the country and subsidized by the State. While the effect of the competition of highway transport is not as marked as in some other countries, it is accompanied by severe competition from inland waterways.

Yet, the advantages in the situation are that Canada still offers one of the greatest remaining fields in the world for expansion of population and development of natural resources.

Taking all these factors into consideration, it seems reasonable to forecast that, with a sound policy of elimination of unnecessary railway duplication and of reasonable control and taxation of competing forms of transport, the Canadian Pacific may look forward with greater confidence to the immediate and distant future than railways in most other countries.

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

Resolved—That the Report on the affairs of the Company for the year ended December 31, 1938, 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 with the Canadian National Railway Company for the abandonment of operations by that Company between Louise and Deloraine in the Province of Manitoba, was submitted, and, on motion of Mr. Malcolm Oswald, seconded by Mr. Arthur Terroux, was unanimously adopted, viz.:—

Resolved—That the agreement dated October 22, 1938, between the Canadian National Railway Company and this Company whereby the Canadian National Railway Company is to abandon the operation of its line of railway between Louise and Deloraine in the Province of Manitoba, a distance of approximately 57 miles, and to discontinue its communications and express businesses at Deloraine and in the territory between Louise and Deloraine, the said agreement embodying terms and conditions whereby the burden and advantage will be equitably distributed as between the parties thereto by a monthly payment by this Company to the Canadian National Railway Company of $367.96, which may be commuted by a capital payment of $88,310.20, be approved, and the execution thereof by this Company be and is hereby ratified.

The meeting then proceeded to the election of Directors, and on motion of Mr. W. D. Blackader, seconded by Mr. F. H. Hopkins, the following resolution was unanimously adopted:

Whereas—in pursuance of By-law No. 6, Colonel Henry Cockshutt, Sir Herbert S. Holt, Brigadier-General F. S. Meighen, C.M.G., and Mr. Robert C. Stanley, Directors of the Company, retire from office at this meeting.

And Whereas—four 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 said By-law;

It is Resolved—That a ballot be now taken for the election of four Directors for the term of four years to fill the vacancies created as above stated; that Lt.-Col. William A. Grant and Mr. Wm. 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 Colonel Henry Cockshutt, Sir Herbert S. Holt, Brigadier-General F. S. Meighen, C.M.G., and Mr. Robert C. Stanley were elected Directors for the term of four years, and the report was adopted.

The proceedings then terminated.

Chairman.

Secretary.

At a meeting of the Board held immediately after the Shareholders' meeting Sir Edward Beatty, G.B.E., was re-elected Chairman and President of the Company, and Mr. D. C. Coleman, Vice-President; the following were appointed the Executive Committee:—

Sir Edward Beatty, G.B.E.,
Mr. D. C. Coleman,
Sir Herbert S. Holt,
Mr. W. N. Tilley, K.C.,
Sir Charles Gordon, G.B.E.,
Mr. Ross H. McMaster.