CANADIAN PACIFIC RAILWAY COMPANY

REPORT OF PROCEEDINGS

AT THE

ANNUAL GENERAL MEETING OF SHAREHOLDERS

MAY 1, 1940

CANADIAN PACIFIC RAILWAY COMPANY

REPORT

OF THE PROCEEDINGS AT THE FIFTY-NINTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS HELD AT MONTREAL ON WEDNESDAY, MAY 1, 1940

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, 1939, which had been printed and distributed to the shareholders, said:—

When we met a year ago, it was in keen anticipation of the epoch-making visit to Canada of Their Majesties, King George VI and Queen Elizabeth. It is unnecessary to recall to you the many happy details of their triumphal progress through the Dominion, the spontaneous expressions of loyalty and devotion which it called forth, and the goodwill and enthusiasm evoked in the great neighbouring Republic to the South. These are matters of history and have had an incalculable effect on our national and international relations.

Our country is now at war, and your Company has assumed its share of the heavy responsibility of maintaining vital links of transportation and communication both within and without the boundaries of the Dominion. I can assure you without qualification that the entire personnel of the Canadian Pacific is fully alive to the great importance of this task and will render without stint the highest quality of service at its command. Already 1,058 members of its staff have been granted leave of absence to enlist in the armed forces. An equal willingness to serve where they will be most useful will be shown by all members of the staff.

1939 Results

In the Annual Report of the Directors for the year 1939, which has been distributed to all shareholders, comment has been made in considerable detail on the results of the Company's operations, and it is, therefore, unnecessary to deal with this subject at any length. It indicated the extent to which the railway traffic benefited, particularly from the fair harvest of 1938 and from the unusually large crop of last year. The production records of the so-called "drought areas" during these past two years justify the unshaken confidence which your Directors and officers have always had in Western Canada. While much of the improvement in traffic in the latter part of 1939 was attributable to wartime activity, many classes of ordinary traffic had begun to show improvement before hostilities appeared imminent.

The almost complete disappearance of ordinary overseas travel, the increasing international tension prior to the outbreak of war, the initial dislocations caused by war, and the sharp rise in the cost of insurance adversely affected the results of your ocean steamships. Hotel earnings were also affected by the temporary disruption of tourist traffic.

The decision of your Directors not to declare any dividend on the Preference Stock in respect of the year 1939 was made only after very careful consideration and with great reluctance. It was fully recognized that dividend payments, particularly on the preference shares of a company such as the Canadian Pacific, which for many years had maintained an unbroken record of satisfactory earnings, naturally come to be regarded as assured income by many people of modest means. However, it was felt that until it is possible to forecast future developments more clearly it is essential to proceed with great caution.

As the Report has informed you, the relatively favourable earnings for the year 1939 are, in large part, the result of better crops and the impetus imparted by the war to certain classes of business. Canadian industry in mid-summer of last year was undoubtedly making good headway towards recovery from almost eight years of depressed conditions, but while this recovery might have ushered in a period of prosperity, the outbreak of war introduced an element of uncertainty which precluded a proper appraisal of the effect on your Company of developments in both national and international affairs.

The Directors felt that their decision must be governed solely by what is in the best interests of the Company and its shareholders, including in particular the holders of Preference shares, which, while having priority over Common shares are subject to large prior charges, the interest on which must be paid when due and the issues themselves must be paid or refunded on a satisfactory basis if the credit of the Company is to be maintained.

Your Company, to preserve its position in the field of transportation, has to contend with unusual problems. The competitive conditions encountered by its world-wide activities are many and varied. It must at all times rely on its own resources in the conduct of its operations. Financial obligations of corporations may become more difficult to market at reasonable cost as the financial requirements of the governments of the world continue to increase. Whether the war terminates in the near or distant future, it is bound to bring economic dislocation, and the difficulties which this may occasion cannot be minimized.

If the Directors of the Company did not give due consideration to such matters they would signally fail to perform the duties they owe to Preference shareholders. The decision as to a Preference Dividend was reached after taking into account all relevant circumstances and I have no doubt it was in the best interests of the holders of Preference shares. It is the hope of the Directors that the improved earnings of 1940 will continue and that conditions will soon warrant a distribution to the Preference shareholders.

Results of First Quarter of 1940

You will have observed in reports and comment in the press that the substantial improvement in earnings recorded in the latter part of 1939 has continued in the present year. In the first three months of 1940, gross earnings of the Company totalled \$35,637,519, an increase of \$6,291,728, or 21.4%, over the similar period a year ago. At the same time, working expenses have been held to the minimum consistent with the adequate maintenance of your property, and have increased only \$2,457,160, or 8.8%. The net earnings were \$5,302,489, an increase of \$3,834,568.

As anticipated in the Annual Report, the movement of grain and grain products has played an important part in this increase. Unusually large quantities of grain were moved in January and February from country elevators to the Lakehead, and this movement was reflected in an increase of 77% in the cars of grain handled by the Company during the first two months of the year. While there was a comparatively light movement in March, a large quantity of grain still awaits rail shipment and, with the reopening of navigation on the Great Lakes, the movement has been resumed.

Large increases have been recorded in numerous other classes of traffic, notably in lumber, pulp, paper and ore. The slight recession which affected industry in the United States during recent months, while severely affecting certain classes of international traffic, was more than offset by the movement of goods resulting from increased industrial activity in Canada.

Rolling Stock Retirement Programme

As I informed you two years ago, it was expected that the Committee appointed by the Minister of Transport to revise the classification of accounts for Canadian railways would recommend a uniform plan for depreciation of rolling stock. Although a great deal of work had been accomplished and progress made in regard to much of the Committee's assignment, a final report was not issued and the Committee has ceased to function for the duration of the war.

The programme of increased retirements of rolling stock, outlined to you at that time, has been continued, and, in 1939, the charges to working expenses for this purpose totalled $7,411,000, as compared with $6,016,000 in 1938 and $5,487,000 in 1937. These charges represent the cost (less salvage) of rolling stock demolished during the year. The units consisted principally of those which had become unfit, through obsolescence or physical deterioration, to meet our present requirements and which it would have been uneconomical to restore to serviceable condition.

It has now become apparent that the amount of the charges for the retirement of such rolling stock as will be available for dismantling in 1940 will be less than last year. It is proposed, therefore, to supplement the retirement charges with an appropriation to rolling stock reserve. It is anticipated that the total charges for the year will be about equal to full depreciation requirements.

Contribution to War Effort

It is both the duty and the privilege of your Company's Directors, officers and employees to assist in every way possible in the effective prosecution of the war in which we are now engaged. It is not only a fight for individual freedom waged against a hateful and ruthless despotism that seeks to dominate the world; it is also a fight for the maintenance of those life-lines of commerce on which our whole economic structure depends. At such a time, we must be firmly resolved to maintain the integrity of all our political and economic institutions, and, by preventing wasted effort and wasted resources, to conserve our strength for the struggle which is our primary concern.

Rapid and economical transportation, by land and sea, has always been of immense importance to the Canadian people, and, in time of war, it is absolutely essential. The maintenance of our export trade, which, as has been said, provides us with the very sinews of war, makes demands upon our transport facilities no less pressing than the actual movement of troops and war material.

It is no idle boast to assert that Canada is fortunate at this time to have your Company and all its facilities and resources at its service. Notwithstanding the adverse conditions which have prevailed for a number of years, your Company's transportation plant, both on land and sea, is excellently equipped to meet exacting wartime demands. You will recall that at the Annual Meeting in 1938 I reported that your well-located, well-constructed, and well-maintained properties were in condition to ensure efficient and modern transportation service for the nation. I repeat that assurance to-day.

The Canadian Pacific has kept abreast of the times in modern methods of construction and operation, with the result that the capacity of your railway has been greatly augmented during the past quarter century. Improved roadbed with heavier rails and automatic signalling and other mechanical devices contribute to the increase in the operating capacity of the main lines. Improvements in construction have increased both the serviceability and the carrying capacity of freight cars. In 1939 the average freight car loading was almost 29½ tons, as against 23 tons in 1914, an increase of 28%, so that fewer units are now required to handle a given volume of traffic. The greater tractive capacity of your locomotives is reflected in the fact that the average number of tons of freight carried per train mile has increased from 464 tons in 1914 to 727 tons in 1939, or 57%. The extended operation of scheduled long distance freight trains, with reduction in delays at terminals and increased train speed, has materially reduced the time of shipments en route.

During the last twenty-five years, there has also been a progressive reduction in the amount of fuel consumed for every unit of work performed. In 1939, the fuel performance of freight trains established a new record, 99 pounds being required for every 1,000 tons of freight and equipment hauled one mile, compared with 160 pounds in 1914, a reduction of 38%. This improvement, when applied to the volume of traffic in 1939, represents an annual saving of nearly one million tons of fuel.

Ocean Steamships

Since the last war, the carrying capacity of your Company's ocean steamship fleet has been greatly augmented through the replacement of the older units with faster and more modern vessels, and a very high level of operating efficiency has been attained. At the commencement of the present war, it comprised 324,738 gross tons of merchant shipping, and it has been a factor of great importance to the Allies in the conflict. During the first four months of the war, a number of the vessels were operated under charter to the British Government, while others maintained vital transportation services on regular routes.

Commencing with their first voyage from the United Kingdom after February 1st, most of the vessels of your Atlantic fleet were requisitioned by the Minister of Shipping to be operated for the account of the British Government. Your ships have been in active employment, and while we have not as yet received official notification of the terms of the "United Kingdom Liner Requisitioning Scheme," it is hoped that the provisions will ensure a reasonable return on your Company's investment therein.

For some years the entire expense incurred for soliciting rail and steamship traffic has been charged to rail expenses. The steamships have been charged a commission on traffic secured approximating the expense incurred in soliciting that traffic, which has been credited to rail revenues. To facilitate the accounting under the Requisitioning Scheme, the expense of soliciting steamship business has, since February 1st, last, been charged directly against steamship operations and the payment of commission on steamship traffic has been discontinued. This will not affect the net results of either railway or steamship operations.

On February 5th, 1940, your Company's freight steamship "Beaverburn" was sunk by enemy action off the South coast of Ireland. All but one of the 77 members of the crew were rescued. This vessel, of 9,874 gross tons, was built in 1927 and inaugurated your Company's Atlantic express cargo service in December of that year. From that date until this disaster occurred, she had made an excellent performance and had maintained continuous service on this run in conjunction with her four sister ships. Since hostilities commenced, adequate war risk insurance has been carried on all your Company's vessels and the loss of the "Beaverburn" was properly covered in this respect.

Co-operative Projects

The pressing need for achieving the utmost economy and avoiding every unnecessary duplication of effort is intensified in time of war, and it is a matter of great regret that very little progress can be reported in bringing about measures of co-operation between your Company and the Canadian National Railways, as prescribed by the Canadian National-Canadian Pacific Act of 1933. As you are aware, notwithstanding that this legislation, designed to eliminate duplication, is not only difficult to comply with but, in my view, entirely inadequate in its results, your Company has made every effort to give effect to its provisions.

At the hearings before a Committee of the Senate in 1938 and 1939, vigorous expression was given to a contrary view and it was argued that millions of dollars of annual savings were possible through voluntary or enforced co-operation. During the progress of the proceedings, and subsequently, your officers indicated and displayed willingness to discuss and consider any project which had been suggested including a major one for the pooling of all competitive passenger services in Canada. After a tentative understanding on this last proposal had been reached, those responsible for the administration of the other company involved reached the conclusion that any definite commitment of such magnitude should not be made until after the conclusion of the war.

National Transportation Policy

In Canada, while the immediate concern is essentially the provision of transportation which will most effectively aid in the prosecution of the war, there should be kept clearly in view the long-term requirements which have for some time been evident. It has long been clear that unnecessary competition exists between the various classes of transportation agencies. We have, at great public expense, provided means of transportation far in excess of the economic demands of the country, and we have unwittingly permitted traffic to be diverted to media of greater costs. It is hardly necessary for me to point out that a substantial volume of traffic has in recent years been diverted from the railways to highway, water and air carriers. Ostensibly, much of this traffic has been lost to the railways because of the ability of other agencies to render cheaper services. Actually, the diversion has occurred, in many instances, not because railway transport has been supplanted by more economical agencies but by reason of the fact that these agencies have been permitted to operate without being charged adequately for the public facilities which they use. Whenever departure is made from the strict principle that each agency must pay fairly and adequately for the facilities provided for its use, there is placed upon the general taxpayer the burden of bearing a portion of the transportation cost. The result of these policies has been that subsidized transport has been favoured to the disadvantage of self-supporting and more efficient competitors. Every passenger and every pound of freight diverted from rails to highway, water or air and moved at a charge less than the total cost of performing the service means national economic loss and at the same time tends to increase the unit cost of hauling the traffic which remains to be carried by rail.

In the United Kingdom, war conditions have emphasized the fact that the nation must ultimately depend on the railways for effective internal transport. The recent arrangements made by the British Government assure to the railway companies reasonable earnings for the duration of the war, provide an incentive for efficient management, and give both railways and government an interest in maintaining a fair relationship between operating costs and rates. In the words of the British Minister of Transport, the railways are now being run by the Railway Executive Committee "as a unified concern in the interests of the national war effort."

In the United States, the centralization of authority over all forms of transportation is being steadily extended, and legislation now under consideration provides for impartial regulation in the public interest of all transportation agencies. This is designed to preserve the inherent advantages of each so as to provide the most economical and efficient service and avoid discrimination and destructive competition.

Just as the citizens of other countries are recognizing the importance of this problem, I feel confident that Canadians will not long remain indifferent to their own best interests. Already there are signs of awakening in Canada. Studies and investigations of highway operations point clearly to the need for adequate regulation and for the imposition of proper charges on commercial highway users. Throughout the country the general public is beginning to be incensed at the use of highways for purposes for which they were never intended and for which there is no public necessity. Recent public discussions in connection with the St. Lawrence deep waterways project have indicated that in this country, which has already a transportation system greatly in excess of its requirements, there is developing a tendency to regard unfavourably any further large expenditures on transportation facilities without the most careful appraisal of their economic value.

That there is need for a definite transportation policy in Canada should be self-evident. The rationalization of all forms of transport with the object of the greatest possible national economy should be the goal.

The Canadian people have been informed frankly and, I trust, clearly of what your Company considers the most practicable method of achieving further rail economies. In my view the placing of our two largest railway systems under common management would not result in a reduction of railway transportation capacity, as many have been led to believe, but would tend, through the use of the most efficient and highly developed channels, to increase it. Since the achievements made possible by this means could be accomplished without hardship to labour simply through the normal process of employment attrition, they are worth while, whether we are at war or at peace.

It is inevitable that public advocacy of unified railway management in Canada will be resumed. It is my hope that, when that time comes, your Company may be enjoying substantial earnings and paying dividends, as was the case when the first Lord Shaughnessy originally suggested a rational plan for dealing with the railway situation in this country. Should this be so, opponents of transportation economies will find it more difficult to misrepresent, as they have done in recent years, the motives which have prompted your Company to urge unified management. Continuing as in the past, the Canadian Pacific aims to provide Canada with the highest order of economical service and asks only that fair and sound business principles be applied in the competitive field of transportation.

Outlook for Remainder of Year

In view of the substantially increased earnings recorded since the first of the year, together with the probability of intensified wartime activity throughout the summer and autumn, the prospect for continued improvement in the results of railway operations is encouraging. Gross earnings will, of course, reflect in large measure increases in national production, which will depend largely upon the ability of the Canadian people to produce war materials and export commodities in competition with other nations.

The principal adverse feature has been the deficiency in rain and snowfall in some sections of the Prairie Provinces since last year's harvest. The lack of moisture, though serious, is not irreparable, as heavy rains during the growing season would make possible the production of a satisfactory crop.

Certain special movements which have developed as a result of wartime activity will undoubtedly continue throughout the duration of hostilities. Most noteworthy of these is the traffic in lumber and timber from British Columbia to Atlantic seaboard ports for export overseas.

Passenger traffic on the railway and inland and coastal steamships will probably increase as a result of restrictions on overseas travel, and favourable exchange rates should also be an important factor in attracting tourists from the United States.

Other income for the year 1940 should show an improvement over 1939. In view of the constant employment of your ocean steamships, earnings should be better than under the unstable conditions of the previous year. Enquiries concerning your hotels and resorts would indicate the probability of increased patronage. Thus, while the uncertainties surrounding wartime conditions are ever present, the results to date of the current year and the favourable prospects for the immediate future must be regarded as encouraging.

The immediate and long-term future of your Company must be affected by the great struggle in which civilization is now fighting against the re-establishment of barbarism. The Dominion of Canada, which entered this war of free choice, has already made it clear, in no uncertain fashion, that this decision has the support of almost every Canadian. We are allied, in this war, with two great nations whose history is an epic of glorious deeds, and from whose stock are drawn the great majority of the inhabitants of Canada.

With due regard to the scanty numbers of our population and the problems which are imposed upon us by the task of developing the resources of half a continent, we in Canada shall endeavour to play our full part in the struggle.

In the early stages of the conflict it has been unnecessary for our people to shoulder burdens or make sacrifices comparable to those of the people of our great Allies. We have been warned, however, in very plain language, by Ministers of the Crown, and the Governor of the Bank of Canada, that we must be prepared to face much heavier burdens and greater sacrifices.

Those of our citizens—especially of our youth—who have cheerfully undertaken to risk their lives in the service of liberty and justice, carry with them our prayers for their strength and safety, and our certainty that their deeds will reflect imperishable glory.

To the rest of us, engaged in the less glorious but equally important task of the provision of material support for the forces of our King and his Allies, it is important that there should be given a full appreciation of how best we can do our duty.

We have been told that it is impossible to contribute to the economic effort of the nation except by the willingness of each citizen to sacrifice leisure or enjoyment. No ingenious device of public finance can enable us to evade the plain truth that there is nothing which we can do to aid our country and its Allies in battle except to increase our production of those goods and services which are directly required for the conduct of the war and to reduce our consumption of those goods and services which are not so required.

The labour and materials used for this dreadfully necessary purpose cannot be applied to the production of wealth. They must be diverted from that purpose. The individual must be prepared to work hard, to produce more, to consume less, and, through the media of cheerful acceptance of taxation, and the loaning of savings to the state, to permit a large portion of his annual income to be used for war purposes.

The clear appreciation of these truths shown in the public statements of those charged with the direction of our economic effort gives us every reason to believe that it is their intention to mobilize the resources and activities of the nation to the utmost—to the end that each of us may be given his opportunity to work and to save.

It is our duty to give His Majesty's Government the most complete support in all policies intended to accomplish these ends, and to allow no consideration of personal interest to interfere with our willingness to do our duty.

It may be permissible to point out that this sound doctrine, that the provision of labour and material to be used for effort which does not increase material wealth can only be contributed by the producers of the nation reducing their consumption of goods and services, has not always seemed to dominate our policies in times of peace. There have been times when the people of this country have been incorrectly told that expenditures of public funds for unnecessary and unproductive purposes are justified. There have been times when we have seen the argument offered that to keep unnecessary workers employed is a contribution to the national wealth; when we have known useless public works to be advocated, as contributing to the prosperity of the nation.

Fortunately, when we are faced with the realities of a great war, these erroneous doctrines are laid aside. Our ability to play our part in the war would be to-day the greater if they had never been allowed to affect our public policies—but it is useless, on this point, to regret the past.

We may take it for granted, however, that the fixed and announced policy of our public authorities to-day is to eliminate all possible economic waste, to the end that the ability of the nation to contribute to the success of this climactic struggle for the preservation of civilization may be the greatest possible.

With wisdom on the part of our Government, and loyalty in our support of their efforts, there is reason to hope that the nation will not betray its fighting men, or the cause in which they fight, by waste or incompetence on the home front.

On each of us rests the obligation to offer his contribution of enhanced effort and increased thrift. This will be the policy of your Company throughout the war.

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, 1939, 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 Napierville Junction Railway Company respecting the use by that Company of the Canadian Pacific Railway Company's tracks between Delson Junction and Windsor Station, was submitted, and, on motion of Mr. A. E. Francis, seconded by Mr. F. H. Hopkins, was unanimously adopted, viz.:

Resolved—That the agreement dated October 1, 1937, between this Company and Napierville Junction Railway Company, amending and renewing for a period of 20 years from October 1, 1937, an agreement dated February 26, 1917, by which Napierville Junction Railway Company is permitted to use the tracks of this Company between Delson Junction and Windsor Station, Montreal, be approved and the execution thereof by this Company be and is hereby ratified.

By-law No. 95, enacted by the Directors on January 8, 1940, was read as follows:—

By-Law No. 95

The Board of Directors of Canadian Pacific Railway Company doth hereby enact as follows:—

That By-law No. 95, as amended by resolution of the Board of Directors of March 11, 1918, and approved by resolution of the Shareholders of May 1, 1918, be and the same is hereby repealed and re-enacted as follows:—

The General Manager of Communications of the Company is hereby authorized to prepare and issue tariffs of the telegraph and telephone tolls to be charged by the Company as provided for by the Railway Act for all public telegraph and telephone traffic of the Company, and all such tariffs heretofore issued by W. D. Neil as General Manager of Communications are hereby ratified and confirmed.

And, on motion of Mr. Malcolm Oswald, seconded by Mr. Arthur Terroux, it was unanimously

Resolved—That By-law No. 95, now submitted, be and the same is hereby approved and confirmed.

The meeting then proceeded to the election of Directors, and on motion of Mr. W. B. Blackader, seconded by Mr. Alister F. Mitchell, the following resolution was unanimously adopted:—

Whereas, in pursuance of By-law No. 6, Mr. D. C. Coleman, Mr. John W. Hobbs, Mr. R. S. McLaughlin, Sir Edward Peacock, G.C.V.O., and Mr. W. N. Tilley, K.C., 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 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, Mr. William C. Finley read the report of the Scrutineers, which declared that Mr. D. C. Coleman, Mr. John W. Hobbs, Mr. R. S. McLaughlin, Sir Edward Peacock, G.C.V.O., and Mr. W. N. Tilley, K.C., were elected Directors for the term of four years and the report was adopted.

Mr. William C. Finley, seconded by Colonel E. M. Renouf, moved a vote of thanks to the Chairman and President and the officers and employees of the Company for their efficient administration of its affairs and devotion to its interests, and, in this connection, emphasized the satisfaction of the shareholders at the recovery of the Chairman and President from his recent illness.

The proceedings then terminated.

E. W. Beatty

Chairman.

F. Bramley

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.
Mr. Ross H. McMaster,
Mr. Arthur B. Purvis.