CANADIAN PACIFIC RAILWAY COMPANY

REPORT OF PROCEEDINGS

AT THE

ANNUAL GENERAL MEETING OF SHAREHOLDERS

MAY 7, 1941

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REPORT

OF THE PROCEEDINGS AT THE SIXTIETH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS HELD AT MONTREAL ON WEDNESDAY, MAY 7, 1941

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

In the absence of the Chairman and President of the Company, Sir Edward Beatty, G.B.E., the Vice-President, Mr. D. C. Coleman, 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 Vice-President, in moving the adoption of the report on the affairs of the Company for the year ended December 31, 1940, which had been printed and distributed to the shareholders, said:—

In the regrettable absence of the Chairman and President I shall read the remarks to the shareholders prepared by his direction and approved by him. Sir Edward, who has been working under very high pressure for a considerable period of time, was advised several weeks ago to take a complete rest. It is now announced that he is recovering his strength rapidly, and it is assured that he will soon be fully restored to his usual good health.

The proceedings today constitute the sixtieth Annual General Meeting of the Shareholders. On February 16, 1881, the Marquis of Lorne, then Governor General of Canada, signed the charter of the Canadian Pacific Railway Company. This national undertaking, designed to fulfill the terms under which British Columbia joined Confederation and carried successfully to completion through the courage, energy and wisdom of those men who foresaw the future of Canada linked with the enterprise, has from its inception played a vital part in the growth of the Dominion and in the welfare of the British Empire. That this is realized generally was demonstrated by the flood of congratulatory messages and expressions of goodwill received on the occasion of the Diamond Jubilee of your Company. While the enterprise depends on capital supplied from private sources and the return to the shareholders has been disappointing during the last decade, your Directors have steadfastly sought to maintain the great national character of the undertaking and the standard of public service which has ever marked its operations.

At the time of our last annual meeting the nature and extent of the struggle involved in the war were still in many respects uncertain. Since that time the needs of the situation and the common duty of every Canadian have come into clearer perspective, and your Directors have regarded it as a privilege that all the resources of your Company should be devoted to the achievement of victory. In this task the officers and employees have joined with whole-hearted vigour. The special wartime activities in which your Company is taking part to an ever increasing degree are outlined in the Annual Report, which has been distributed to the shareholders. The heavy task of maintaining and expanding your Company's transportation and communication services under war conditions is being performed with conspicuous success. The unprecedented decline in business owing to the depression has given place to a rapid and sustained revival. That your Company's facilities and rolling stock were in condition for the prompt and efficient handling of the greatly increased output of the country's factories, mines and forests, as well as the movement of His Majesty's forces, was due in no small measure to the steadfast adherence of your management to a policy of adequately maintaining the property at all times.

Results of 1940

The financial statements and various supporting schedules are set out in their usual form in the Annual Report. The explanatory text also gives considerable detailed information of the year's operations and transactions. No useful purpose would be served in further elaborating on these matters, but attention may be directed to a few points by way of emphasis.

One must go back fully ten years to match the transportation requirements of the year 1940. Freight earnings were the best since 1929, while passenger earnings surpassed those of any year since 1931. In point of volume, the total traffic handled in the year 1940 was greater than that of 1930. The total car mileage in transportation service was one billion and thirty-seven million in the year just closed as compared with nine hundred and eighty-two million ten years ago. As a reflection of the growth of the Dominion and its increased productive capacity, it is of interest to record that, measured by ton mileage, the freight traffic movement for the year 1940 over your Company's railway was equal to the movement during the first year and a half of the last great war.

It will have been noted that the year's operations resulted in net income of $20,145,056 after payment of all rental and interest charges. This was the most favourable showing since 1930, in which year, however, with slightly less traffic, net income amounted to $38,381,717. These figures constitute a clear indication of the changed conditions confronting your Company. At no time in the past has the quality of service offered been higher, and the net income for an equal volume of business so low.

Mention has been made in the Annual Report of the low rates now prevailing with respect to both freight and passenger traffic. The freight revenue per ton mile of 0.84 cents was the lowest since 1918, and the passenger revenue per passenger mile of 1.97 cents was the lowest since 1916. The circumstances which have brought about these low averages are well known, but the effect may have escaped general recognition owing to the gradual development throughout the years. In this connection, it may be informative to state that had the earnings per freight and passenger unit for 1940 been the same as for 1926, additional revenue to an amount of approximately $35,000,000 would have been produced.

Notwithstanding the increased volume of traffic and the intensity of the use of rolling stock and steamships during 1940, the maintenance of your property was in no respect neglected. In accordance with established practice, maintenance was charged with the cost of renewal in kind of all units of fixed property replaced during the year. Adequate provision was made in the accounts for depreciation of rolling stock, hotels and steamships.

During the year, retirement without refunding of $29,929,680 of capital obligations was effected. In view of the state of the financial markets, it was considered undesirable to attempt to make any new issue of securities to meet maturing obligations or to finance capital expenditures. The latter were kept at the lowest possible level consistent with the protection of the widespread activities of your Company, but it is obvious that some capital expenditures must be made each year, if the property is to be safeguarded. Moreover, bonds, notes and other obligations of your Company to the amount of $114,000,000 will mature before the end of 1946. It will, therefore, be prudent to continue to retain for the purposes mentioned a substantial part of all cash income, as a safeguard against possible eventualities, especially as it seems probable that the financial markets will be largely occupied by Government financing.

The full preference dividend in respect of the year 1940 was paid, but your Directors considered that they would not be warranted in declaring any dividend on the ordinary stock. The ordinary shareholders have now been without any return since 1931 on their substantial investment in the Company, and this is one of the important factors which your Directors have and will continue to keep in mind in determining the best dividend policy to be followed in the interest of the shareholders under the exceptional conditions confronting your Company.

Results of First Quarter of 1941

For the first quarter of the present year, gross earnings increased $9,775,000, or 27%. The rate of increase was higher on Eastern than on Western Lines. The increase in working expenses (including taxes) amounted to $6,557,000, or 22%, and is in keeping with the increased volume of traffic and higher level of earnings. Net earnings were $8,520,000, an increase of $3,218,000.

Freight earnings reflect the increasing productivity of wartime industries and the large volume of export to Great Britain and of traffic interchanged with United States railways. Lumber has moved in substantially greater quantities, mainly on account of diversion from the Panama Canal route to the overland route of shipments from British Columbia for overseas destinations. Livestock, coal and coke, pulpwood and miscellaneous commodities also showed notable increases. The movement of grain and grain products, however, remains at about the level of last year.

Passenger earnings continue to show substantial increases. On account of the foreign exchange situation, many winter tourists, who normally travelled to the Southern and Western States, have this year chosen Vancouver and Victoria for their vacations, with the result that travel to British Columbia was the best in years. The movement of members of the armed forces and the improvement in domestic travel continued at an accelerated rate.

Outlook for Balance of Year

It appears probable that the factors which have accounted for the increases in freight and passenger earnings that have already taken place this year will continue to prevail in the months immediately before us. All indices of employment and production continue to rise, and while Canada's war effort will replace certain peacetime activities to an increasing extent, there is every indication that the transportation requirements of the nation have not yet reached the maximum. However, owing to the fact that the storage space throughout Canada will in all probability be fully occupied much earlier than last year, the movement of grain this autumn will no doubt be considerably restricted. For this reason, the gross earnings in the latter part of the year are likely to compare less favourably with those of 1940 than during the earlier part of the year.

Working expenses will increase with the greater volume of business. In addition to current repairs of roadbed, structures and rolling stock, it is necessary with the growing traffic to rehabilitate many facilities which in periods of low traffic do not require much attention. Provision for depreciation of rolling stock, inaugurated last year on the basis of use, will increase in direct relation to the increases in locomotive and car mileage. Slightly higher prices for certain materials and supplies are already in evidence and heavier accruals will be required for Dominion income and excess profits taxes. However, it may be anticipated that in the immediate future at least a moderate proportion of the increase in gross earnings will be converted into net earnings.

Other income for the year 1941 cannot yet be predicted with any measure of certainty. The unfavourable factors may possibly outweigh the favourable factors. The loss by enemy action of four of your Company's steamships last year has removed substantial tonnage from your fleet and diminished its net earning power. The Empress of Britain will be particularly missed. The Beaver boats were also outstanding in their class, and it is with regret that I have to inform you that two more of these vessels have been sunk since the close of the year.

Board of Conciliation

In December, 1940, His Excellency the Governor General in Council approved certain principles of wartime wage policy for the guidance of Boards of Conciliation set up under the Industrial Disputes Investigation Act. Insofar as they may be applicable to the Company's operations the effect of the Orders-in-Council is to provide that wage levels established in the years 1926-29 are to be regarded as generally fair and reasonable, and that, in order to insure workers that, while they are called upon to share in such sacrifices as the war may make necessary for the whole nation, their basic standard of living will not be impaired, a wartime cost-of-living bonus may be paid in certain prescribed circumstances. The various classes of employees of the Canadian railway companies, whose wage levels were so established, have invoked the provisions of this Order-in-Council in support of their application for a cost-of-living bonus. The position of the railway companies is that the employees' basic standard of living has not been impaired and that there is no warrant under existing conditions for the payment of a cost-of-living bonus. Proceedings are now pending before a Board of Conciliation and Investigation established under the Act.

Purchase of Interest in Air Lines

In 1919 your Company was authorized to engage in the business of transport by air, subject to the provisions of the appropriate legislation and the regulations of the authority provided by law. In 1930 your Company and the Canadian National Railways each acquired $250,000 of the capital stock of the Canadian Airways, and the President of each railway company joined the Board of Directors of that company. The company was then controlled by the late James Richardson and is still controlled by the Richardson Estate. In 1940 your Company acquired some additional treasury stock of the Canadian Airways, but none of the Richardson stock has been acquired by your Company. Mention was made at the Annual Meeting on May 5, 1937, of the failure of negotiations looking towards the participation of your Company in Trans-Canada Air Lines. Recently, in order to provide air traffic connections with your railway and to remedy so far as possible a somewhat chaotic competitive situation in the field of air transportation, particularly in Western Canada, your Company has acquired a majority interest in Mackenzie Air Service, Limited, Yukon Southern Air Transport, Limited, Starratt Airways and Transportation, Limited, and Ginger Coote Airways, Limited, and is now engaged in re-organizing their operations under their former executives and managers. These steps have been taken with the concurrence of competent authority. None of these companies are engaged in services which are competitive with those of Trans-Canada Air Lines, but they perform valuable functions complementary both to the services of that Company and those of your railway. Many details remain to be settled, and it is deemed inexpedient in the interest of the shareholders to make any more explicit statement of the position at the present time.

In 1940 your Company's Air Services Department was created under agreement with the British Ministry of Aircraft Production to assist in the movement of bombers to England and the delivery of them there to the Royal Air Force. Your Company is acting under the instructions of the British Ministry, whose Agent it is, and must for obvious reasons observe the strictest secrecy as to its operations.

Long Term Wheat Situation

The wheat crop of the Prairie Provinces amounted to 525,000,000 bushels in 1940, the second largest in history. The restrictions on the movement of wheat owing to the closing of all important markets for Canadian grain, except the United Kingdom, imposed a great strain on the country's storage facilities. Terminal elevators were soon filled to capacity, and much of the crop had to be stored in country elevators or on farms. This would probably have been the case, to some extent, even if there had been no disturbances due to the war. The carry-over of wheat at the end of this crop year, it is estimated, will be in the neighbourhood of 550,000,000 bushels which will far exceed that of any previous year.

Faced with this situation the Government has been forced to put into effect drastic measures to restrict the production of wheat. It has been announced that the present policy of paying a fixed price to growers for deliveries of wheat to the Wheat Board is to be continued, and that a bonus is to be paid for land placed under summer fallow or converted to other purposes, such as the growing of coarse grains, grass or clover. In this way the farmer will receive a net cash return approximately equal to what he would have had under normal conditions of production and distribution.

As long as the war continues to follow its present course, it is unlikely that normal quantities of wheat will be exported, and a temporary reduction in your Company's earnings from grain and grain products is to be expected. Fortunately wheat, particularly our hard Canadian variety, can be stored for long periods without serious deterioration. After the cessation of hostilities, Canada's large stocks should prove highly valuable to those countries in which importation or cultivation has been curtailed during the war. Moreover, there is good reason to believe that the economic factors which established Canadian wheat as one of Europe's premier staple foods, will again come into play, even though this may be a slow process at first. Accordingly, the long term prospect for your Company's earnings from agricultural products remains favourable.

The Rowell-Sirois Report

The Royal Commission on Dominion-Provincial Relations, which was appointed in 1937, made its report during the past year. Although the Dominion-Provincial conference, which was called to consider the recommendations of the Commission, failed to reach an agreement to implement these recommendations, nevertheless it is generally recognized that never before has so comprehensive and detailed a study of the economic and financial affairs of Canada been made and that from the standpoint of public enlightenment alone the work of the Commission deserves the highest commendation. The analysis and recommendations of the Commission have assisted in moulding public demand for a solution of pressing national problems.

The Commission fully recognized that not the least of Canadian ills was that of transportation, and it dealt at some length with the problem of railway and highway competition. In its eyes the latter embraced "the most serious case of overlapping, and one which constitutes a menace to the financial solvency and economic well-being of Canada." It recognized that a solution of the transportation problem must be sought in a system "in which all the parts will function smoothly in their proper sphere so as to furnish the best service at the lowest over-all cost." It emphasized the "necessity of continuous and comprehensive planning of the whole field of transportation" and "intimate and cordial co-operation between the governments—federal and provincial—which divide the jurisdiction over transportation problems." It is encouraging that these opinions should find a place in the report of this Commission.

St. Lawrence Waterway

On March 19, 1941, the Governments of the United States and Canada reached an agreement, subject to ratification by Congress and Parliament, for the construction of hydro-electric plants on the international rapids of the St. Lawrence and the enlarging of the canals between Lake Ontario and Montreal, together with certain improvements to the Welland Canal and other portions of the Great Lakes—St. Lawrence system of waterways. The history of this project extends over many years and the present step is one of many in a long series of negotiations between the two nations.

New reasons for rushing the project have been advanced, namely, the need of wartime industries for additional electric power and the possibility of constructing deep draft vessels in shipyards on the Great Lakes. Judgment of the validity, urgency and practicability of these reasons can best be left to those who are qualified to deal with the various phases involved. Decisive or otherwise as such judgment may be deemed to be, long experience in transportation leads the management of your Company to believe that no important advantages, in connection with the movement of traffic, can result from this great project.

The existing waterway has proved to be entirely adequate for the business which is now offering, and with minor improvements could be made entirely adequate for any that can presently be foreseen. The great volume of traffic on the Great Lakes is North American in both origin and destination, and it is but wishful thinking to assume that any important new traffic of this class can be created by merely enlarging the St. Lawrence canals. Should the canals be enlarged to the extent contemplated in the plan, it is probable that traffic would be diverted from existing railway systems. The net effect of this diversion would be to impose an additional burden on this country which is already beset with serious problems arising from duplication and excess transportation facilities.

The investments of the United States and Dominion of Canada in the existing St. Lawrence waterways are already substantial. Notwithstanding this fact, toll-free navigation, a condition almost unique on similar waterways throughout the world, continues to be permitted over this route, to the detriment of competing agencies of transportation. The revival of the plan, therefore, leads me to urge strongly that the fundamental need, in connection with our waterways, is not large expenditures for their improvement, in excess of the needs of the traffic offering, but the adoption, in negotiation with the Government of the United States, of a plan by which the traffic now using the canals will be taxed sufficiently to free the Dominion Treasury from at least a part of the heavy burden which has resulted from our great expenditures on waterways in the past.

General Situation

The economic life of the nation has been stimulated by the great expenditures of the Government for war purposes, to such a degree that unemployment has practically vanished and the volume of railway transportation has reached the highest level in more than a decade. The latter is reflected in the improved earnings of your Company and of the Government railway.

The incidence of wartime economics must soon be felt in full measure by the Canadian public. It has been estimated that in the current fiscal year governmental expenditures will be equivalent to more than one-half of the total national income. To meet expenditures on such a scale without resorting to fiscal measures of an inflationary character, the Government must rely upon a policy of severe taxation and heavy borrowings from the savings of the Canadian people. The public has accepted and will continue to accept these great burdens with equanimity.

However, the real problem at present is not a monetary one. The war demands the diversion of our productive efforts and the curtailment of the output of non-military goods and services on a scale never before attempted in this country. In the undertaking of this task there must be some loss of economic liberty, for only through controls over production and distribution, both by means of our financial mechanism and by direct measures, can a steadily growing proportion of our output be diverted to the service of the State. Nevertheless, it is still imperative that all classes of citizens should exercise strict self-denial in foregoing expenditures on non-essential items, if our full energy is to be directed towards the winning of the war. This is no less necessary for governmental and private enterprises than for individuals.

It will be the continued policy of your Company so to conduct its operations as to meet the needs of the nation to the fullest degree possible. The task of those charged with the direction of the economic activities of the Dominion has been extremely complex and burdensome. It may be taken for granted that, as the demand for labour and material for war purposes increases, it will become necessary for the Government to call upon all citizens for an even greater measure of loyalty and self-discipline than in the past.

The increased transportation requirements of the past year have added greatly to the work of many of the officers and employees. There is every indication that even more urgent calls upon the staff of your Company will be necessary in the months that are ahead. I can give you every assurance that, whatever may be the increased demands, they will be met in the same spirit of endeavour and loyalty as in the past. The world over, many of the staff have joined the armed forces and are serving their country under conditions far less pleasant than we enjoy at home. Especially may I mention those gallant officers and seamen of your ocean fleets who are daily exposed to the greatest hazards. To all these and also to those employees of your Company whose work requires them to remain in the various combat zones, may I on behalf of the shareholders and Directors convey our sincere appreciation for the sacrifices they are making. May they be fortified in the carrying out of their arduous duties by the knowledge that those who remain at their regular posts are applying themselves faithfully and industriously to the tasks allotted to them.

The Report was unanimously adopted upon the following resolution, which was moved by Mr. D. C. Coleman, and seconded by Sir Herbert S. Holt, viz:—

Resolved—That the Report on the affairs of the Company for the year ended December 31, 1940, 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 referring to an agreement with the Canadian National Railway Company for the abandonment of operations by that Company between Cushing Junction and a point approximately two miles easterly of St. Canut in the Province of Quebec, was submitted, and, on motion of Mr. W. B. Blackader, seconded by Mr. Alister F. Mitchell was unanimously adopted, viz:—

Resolved—That the agreement, dated June 15, 1940, between the Canadian National Railway Company and this Company made pursuant to the Canadian National-Canadian Pacific Act of 1933, whereby the Canadian National Railway Company is to abandon the operation of its line of railway between Cushing Junction and a point approximately two miles easterly of St. Canut in the Province of Quebec, a distance of 24.6 miles, and to discontinue its communications and express businesses in the territory between Cushing Junction and the said point, the said agreement embodying terms and conditions whereby the burden and advantage resulting from the abandonment will be equitably distributed as between the parties thereto by a monthly payment by this Company to the Canadian National Railway Company of $502 which may be commuted by a capital sum payment of $120,674, be approved, and the execution thereof by this Company be and is hereby ratified.

The following resolution relating to an agreement with His Majesty the King, represented by the Minister of Transport, providing for connections to be made and the use thereafter by this

Company of certain tracks, including bridge and wye facilities of His Majesty, at points in and between the City of Fredericton and Town of South Devon in the Province of New Brunswick, was submitted, and, on motion of Mr. Arthur Terroux seconded by Mr. A. E. Francis, was unanimously adopted, viz:—

Resolved—That the agreement, dated as of January 1, 1938, between His Majesty the King, represented by the Minister of Transport, and this Company whereby this Company is granted the right to have its tracks connected with the tracks of His Majesty at points in the City of Fredericton and the Town of South Devon in the Province of New Brunswick and to operate its trains, engines and cars with its own crews over the tracks of His Majesty between Fredericton and South Devon for the purpose of passing over the bridge of His Majesty across the St. John River and of turning trains, engines and cars on the wye tracks of His Majesty in Fredericton, all for a period of 21 years renewable as therein provided and on the terms and conditions whereby your Company is to pay to His Majesty 40% of the interest at 4½% per annum upon the joint section capital account as agreed to from time to time, 40% of rentals paid on such leased property as may be added to the joint section, a wheelage proportion of the maintenance and operation expenses of the joint section, and a charge of $1.00 for each turning movement on the wye tracks, 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. G. M. Shepherd, seconded by Mr. J. W. Tatley, the following resolution was unanimously adopted:—

Whereas—In pursuance of By-law No. 6, Sir Edward Beatty, G.B.E., Mr. Aimé Geoffrion, K.C., Mr. G. Blair Gordon and Rt. Hon. Arthur B. Purvis, P.C., 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 Mr. Wm. C. Finley and Mr. F. H. Hopkins 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. Wm. C. Finley read the report of the Scrutineers, which declared that Sir Edward Beatty, G.B.E., Mr. Aimé Geoffrion, K.C., Mr. G. Blair Gordon and Rt. Hon. Arthur B. Purvis, P.C., were elected Directors for the terms of four years, and the report was adopted.

Mr. W. G. M. Shepherd made the following appreciative references to the absence of the Chairman and President:—

I am sure, Mr. Coleman, that we are all deeply gratified to learn from your remarks of the greatly improved condition of Sir Edward Beatty. I wish to say that not only will the shareholders present be delighted to hear of his recovery but that this will apply to all throughout the Dominion and the world. He has been greatly missed, and I know we all earnestly hope he will very soon be restored to his former state of health.

Mr. Shepherd's remarks, which were supported by Mr. Malcolm C. Oswald, were warmly applauded, and Mr. D. C. Coleman replied in the following words:—

I shall be glad, Sir, to see that the expression of your feelings and of the other Shareholders is conveyed to Sir Edward, and I know it will give him the greatest pleasure and satisfaction.

The proceedings then terminated.

D. C. Coleman

Vice-President.

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,
Rt. Hon. Arthur B. Purvis, P.C.