# CANADIAN PACIFIC RAILWAY COMPANY



## REPORT OF PROCEEDINGS

AT THE

## ANNUAL GENERAL MEETING OF SHAREHOLDERS

MAY 6, 1942

# CANADIAN PACIFIC RAILWAY COMPANY

## REPORT

OF THE PROCEEDINGS AT THE SIXTY-FIRST ANNUAL GENERAL MEETING OF THE SHAREHOLDERS HELD AT MONTREAL ON WEDNESDAY, MAY 6, 1942

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, Mr. D. C. Coleman, in moving the adoption of the report on the affairs of the Company for the year ended December 31, 1941, which had been printed and distributed to the shareholders, said:

Your Directors must first refer to the fact that since the Annual Report was distributed to the shareholders, Sir Edward Beatty has found it necessary, for reasons of health, to relinquish the Presidency of the Company. Fortunately, he has been persuaded to retain the office of Chairman, and it is expected that with relief from some of his exacting responsibilities his recovery will be early and complete. The Directors expressed by resolution some measure of their appreciation of his incomparable services as President, and the substance of the resolution was conveyed to the public press, but some further reference to the event should be made on this occasion. Sir Edward assumed the Presidency in 1918, and was immediately called on to face problems of post-war adjustment, one of which brought in its wake the consolidation of all other important Canadian railways into one Government-owned system. That development introduced serious complications into his task of maintaining the Canadian Pacific on a proper competitive basis, and of protecting the permanent interests of its shareholders. New forms of competition also appeared to invade the traffic field hitherto reserved for railways, and as all these agencies were in one degree or another subsidized out of public funds, railways were compelled to make drastic readjustment of methods, services and charges. Later on came a long period of world-wide depression which strained our economic system to the limit, and impaired the resources of all business institutions. Our country was just beginning to recover from the effects of the depression, when came the War.

Through all these years of stress and difficulty, Sir Edward, in his conduct of your affairs, displayed high courage, great resourcefulness, sound judgment and profound sagacity. He established for himself an international reputation as a business leader, who approached all problems with clear vision and a liberal, tolerant, mind. If your Company has maintained its high position in the confidence and regard of this country, and of the world—and we think it has—we owe it in no small measure to the administrative genius and personal qualities of Sir Edward Beatty.

Our meeting today takes place under conditions which demand the utmost from us all to achieve the objective to which freedom-loving people throughout the world have dedicated themselves. Your Directors, in submitting their Sixty-first Annual Report, feel confident that your Company has creditably performed its part in meeting the transportation needs of the Dominion during the past year. The report presents a comprehensive record, but there are certain matters of special significance to which I wish to direct your attention.

## Results of 1941

The scale of railway operations for the year 1941 marked a new height for your Company. This may perhaps best be indicated by stating that, had the same average rates prevailed per ton mile and per passenger mile as in 1928, the year of previous peak traffic, the gross earnings for the year 1941 would have been higher than in 1928 by 23 per cent or $50,000,000. While the traffic conditions were not identical in the two years, it is safe to say that a large part of this sum accrued directly to the patrons of the railway through reductions which have taken place in the charges paid for transportation services.

It is necessary to go back in the records twenty-five years to find average ton mile and passenger mile revenue lower than for the year 1941. Wartime conditions also existed in the earlier period, and for that reason some comparisons of operating costs may be of special interest. In 1916 the average annual wage of employees was about \$700 with a nine or ten-hour day generally in effect. In 1941 the average annual wage had increased to over \$1,700 with an eight-hour day for all employees. In 1916 the cost of coal used in engines averaged \$3.05 per ton as compared with \$4.41 per ton in 1941. The cost of a standard box car per pound weight was about 5.5 cents then, as against 9 cents now. Ties, rails and, in fact, the majority of articles used by railways are also materially higher in cost now than a quarter of a century ago.

To meet these adverse trends in both revenues and expenses, the management of the Canadian Pacific has ever been alert in adopting technical improvements, in effecting economies, and in the strict control of expenditures consistent with traffic requirements. But for the progress made in these matters, it would not have been possible in 1941 to have had a ratio of working expenses (exclusive of taxes) to gross earnings of 71.65%, a performance equalled only in your Company's early history when the difference between rates and costs of services to the railway was much greater.

In spite of the outstanding operating performance of last year, the return on the investment of your Company in railway property was only 3.75%. This result, in relation to the volume of traffic handled, was disproportionate to that of former years, for two main reasons. The first, as with most other privately operated enterprises, was the incidence of the Dominion income and excess profits taxes, which increased more than \$9,000,000 over the previous year. The second was the low transportation charges now in effect. In order to meet additional expense resulting from the rising cost of wages and materials, some increase in charges might properly have been expected, especially in respect of those commodities on which rates had been forced down to an abnormal level by the existence of unregulated competition. Now, however, in keeping with the national effort to prevent uncontrolled inflation, railway rates, in common with other prices, are subject to the regulations of the Wartime Prices and Trade Board.

The record volume of traffic in 1941 was handled with restricted maintenance expenditures. Work on roadbed, track and structures was limited to necessities. It was recognized that competition for labour and materials might interfere with the industrial war programme of the Dominion. Accordingly, work which normally would have been undertaken has been postponed until after the war and a special reserve to meet the future requirements thus entailed has been provided for in the accounts. Maintenance expenditures on rolling stock cannot be similarly postponed for the obvious reason that under present exceptional traffic conditions all available equipment must be kept in good repair to give a maximum of service. At no time has greater utilization of rolling stock been obtained than at present. During 1941 the average daily movement of locomotives, freight cars and passenger cars all constituted new records. These results were obtained only through the determined efforts of both officers and employees, assisted by whole-hearted co-operation on the part of the shipping public.

All expenditures on Capital Account were met, and in addition, bonds, notes and other obligations to the amount of $29,484,493 were retired without resort to any new financing. As at December 31, 1941, the net liability of your Company in respect of Funded Debt stood at $177,581,522 as compared with $183,963,089 at the end of 1931, notwithstanding the considerable additions and betterments to property made during the interval, and a substantial improvement in the cash position.

The income for the year, after providing for the full dividend of 4% on the Preference Stock, amounted to $29,318,650, or $2.18 per share of Ordinary Stock. This result was encouraging after the long period during which your Company's business was so depressed. However, in approaching the matter of dividend distributions your Directors must take into consideration the large indebtedness that will mature during the next few years and the impossibility of predicting with any certainty what will be the future results of operations and the market conditions under which any refunding would have to take place. In the circumstances, while your Directors have constantly in mind the fact that the Ordinary Shareholders have been without any return on their stock since 1932, they are of the view that it is essential to continue a very conservative policy and that the time has not yet arrived when a disbursement on the Ordinary Shares would be in the best interests of the holders.

## Results of First Quarter of 1942

In the first quarter of 1942 the increase in gross earnings amounted to $12,232,184, or 26.9%. As has been the case since the outbreak of war, the percentage gain was slightly higher on Eastern Lines than on Western. Working expenses increased by $10,768,579, or 29.2%. Of this increase, tax accruals accounted for $2,350,000, and cost-of-living bonus payments for $2,600,000. Net earnings increased $1,463,605, or 17.2%.

Grain and grain products showed a considerable increase, chiefly owing to the fact that it was not found necessary to embargo deliveries of grain to the Head of the Lakes as was done in the first two months of last year. There was also a heavy all-rail movement of Western wheat to the Eastern seaboard during the period of closed navigation. The quarter was marked by large increases in earnings from munitions and other products of war industry, bituminous coal, primary products of mines and smelters, petroleum and its products and paper and wood pulp.

Passenger earnings showed approximately the same relative gain as freight earnings. Transcontinental traffic and inter-city travel in Eastern Canada continued in heavy volume. The reduction in the use of private automobiles tended to increase travel by rail.

### Outlook for Remainder of Year

While, owing to the exceptional conditions which prevail, it is impossible to make any definite forecast as to railway traffic in Canada during the remainder of the year, it appears certain that the increases resulting from the development of the war industries will continue, though probably at a lower rate as the plants and resources immediately available approach their maximum capacity. With the restrictions on the use of highway carriers, an increasing volume of traffic, both freight and passenger, formerly handled by that agency of transportation will return to the railways. The recent development of co-ordinated farm policies by Canada and the United States, under which, in order to increase the production of cattle, poultry and dairy products, farmers will be encouraged to sow feed grains on acreage previously planted to wheat, will tend to curtail the earnings from export grain, but this will be offset to some extent by increases in other commodities. Passenger travel between cities and nearby resorts will doubtless expand as a result of the restrictions on the use of private automobiles, but a decline in long distance holiday traffic is anticipated.

Working expenses will for a time continue to be influenced materially by cost-of-living bonus payments and tax accruals. With the exhaustion of inventories purchased some time ago at lower prices, charges for fuel and materials will also increase.

Taking all these factors into consideration, it appears probable that during the remainder of the current year only a moderate increase in net earnings from railway operations may be anticipated. Other Income is still more difficult to estimate but it is improbable that it will be much, if any, higher than in 1941. This will depend in large measure upon the results of the operations of your ocean steamships, which are constantly exposed to hazards and interruptions arising out of the war. Moreover, in view of the probable reduction in long distance holiday travel, it has been decided that your hotels at Yarmouth, Lake Louise and Emerald Lake, and four of the lodges in the Rocky Mountains will not be opened during the coming summer. Fixed charges will be somewhat lower owing to the retirement of obligations which has taken place. In the circumstances, it would be unwise to attempt any definite forecast of the amount of Net Income during the year.

### Consolidation of Air Line Services

The reorganization of the ten air line companies in which your Company holds a controlling interest is proceeding, and under the title of Canadian Pacific Air Lines, Limited, the constituent lines are being integrated into a co-ordinated system.

The extent and importance of these air line operations may be indicated by the fact that approximately 100 commercial planes are now being flown by the companies comprised in the system, with a total of 5,000,000 plane miles annually. Certain of the routes now being operated, particularly those to points in the Yukon adjacent to Alaska, are of great importance to national defence, and it is anticipated that their inclusion in a large, well-knit organization will strengthen them for the services they may be called upon to perform. In addition, the training schools and overhaul plants maintained in co-operation with the British Commonwealth Air Training Plan have been and are being greatly expanded. Transport of military equipment and personnel is also being carried out under contract, and mapping and other defence work is being performed.

While in the present emergency military requirements must take precedence, essential commercial transportation services are being maintained. A glance at the map in the Annual Report will indicate what was pointed out at our meeting a year ago,—that these services are inherently complementary to, and not competitive with, the established transcontinental lines in Canada and the United States. Operating both in the vast areas of the Canadian hinterland and in certain of the older and more populous districts, the extension and development of your Company's air services in meeting changed transportation needs will follow the traditions of the parent Company, which has played so vital a part in the development of the Dominion.

### Recent Developments Soo Line & South Shore Railways

On March 18 the Interstate Commerce Commission issued its decision in which certain modifications have been made in the plan of reorganization of the Soo Line as filed by the Trustees. The parties have until May 14 to file exceptions to this decision, and the matter is now under discussion with representatives of the Bondholders Groups. The litigation in Ohio in connection with your Company's guarantee on the Soo Line First Mortgage Bonds has terminated in favour of your Company.

The negotiations with representatives of the holders of the South Shore First Mortgage Bonds with respect to a plan of re-organization and proper allocation of securities between your Company and the other bondholders, which were recently reopened, have not reached a final conclusion.

### The Transportation Problem in Wartime

The effect of war conditions on the whole transportation system of Canada has been to provide a temporary solution of certain of the peacetime problems and to substitute others for them.

During the decade of economic instability which preceded the present conflict, the transportation problem which faced Canada was one of finding profitable employment for a surplus of facilities. The special difficulties imposed on your Company by the operation of a publicly-owned railway system enjoying the financial support of the Dominion Government and generally paralleling the lines and operations of your Company throughout the country, have been the subject of comment in previous addresses. Both the Canadian National Railways and your Company have suffered from the acute competition of highway and waterway transport operated on roads and water routes constructed and maintained at a heavy expense to the public and used by competitive agencies without payment of any tolls.

With a volume of traffic insufficient to support all the available facilities the struggle was intensified during the depression as a result of continued construction of highways and the eagerness of the competing transportation agencies to share in what traffic was available.

The great increase in the volume of Canadian production and commerce brought about by the war has caused a marked change in this condition. A large proportion of the new traffic has been of a type for which the railways were the only economical means of transport; the increased demand for manpower has added to the operating costs of highway carriers; and in recent months it has been necessary for the Government to impose drastic limitations on the manufacture of commercial vehicles, on the use of their fuel and on the purchase of tires.

In the case of the waterways, not only has the volume of bulk traffic for the movement of which they were primarily designed increased, but the tonnage of shipping has decreased, as a result of the transfer of many bottoms from inland to ocean service.

It is very clear, therefore, that the problem facing Canadian railways at the moment is to meet the abnormal demands upon them for service. It is to be expected that these will multiply, as the facilities for highway and waterway transport further diminish. It may well become necessary to explain to patrons—particularly in the case of passengers—that the urgent necessities of the war require acceptance of somewhat lower standards of comfort and convenience than those to which they have become accustomed.

On the whole, the officers of your Company have no fears as to the ability of the transportation agencies in Canada to meet the requirements of the nation. However, it will require the fullest co-operation on the part of the shipping public, and also among all agencies of internal transport and between these and the ocean shipping services which link Canada to the Motherland and her Allies. This co-ordination will have to be carried out in circumstances in which it daily becomes more necessary to avoid any but the most urgent uses of manpower and materials. A higher degree of imagination, resourcefulness and enterprise will constantly have to be sought.

You may depend upon it that the policy of your Directors will continue to have as its chief aim the performance of the transportation service to which your Company is best suited in as efficient and economical a manner as possible. In this endeavour I am confident the officers and employees will strive to meet every demand made upon them to the limit of their powers, and in such fashion as to make increasingly valuable your Company's contribution to the great cause for which we fight.

The Report was unanimously adopted upon the following resolution, which was moved by Mr. D. C. Coleman, and seconded by Maj.-Gen. F. S. Meighen, viz.:

*Resolved*—That the Report on the affairs of the Company for the year ended December 31, 1941, 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.

The following resolution referring to an agreement with the Canadian National Railway Company respecting the joint use for switching purposes of certain lines of railway on the north bank of Lachine Canal at or near Montreal, was submitted and, on motion of Mr. Malcolm Oswald, seconded by Mr. Arthur Terroux, was unanimously adopted, viz.:

*Resolved*—That the agreement dated August 1, 1940, between the Canadian National Railway Company and this Company respecting the joint use for switching purposes of certain lines of railway of both companies on the north bank of the Lachine Canal at or near Montreal during the period from January 1, 1930, to December 31, 1949, inclusive, which provides among other things that the switching service be performed by the Canadian National, that this Company pay its wheelage proportion of the switching expense and that each Company pay one-half of the interest charge on capital account and its wheelage proportion of the expense of maintenance and operation (other than switching) of that portion of the joint section owned by the other, and which replaces an agreement with the Grand Trunk Railway Company of Canada dated December 1, 1903, be approved, and that the execution thereof by this Company be and is hereby ratified.

The following resolution referring to an agreement with the Canadian National Railway Company respecting the joint use for switching purposes of this Company's branch on the south bank of Lachine Canal at or near Montreal, was submitted and, on motion of Mr. W. G. M. Shepherd, seconded by Mr. A. E. Francis, was unanimously adopted, viz.:

*Resolved*—That the agreement dated August 1, 1940, between the Canadian National Railway Company and this Company respecting the joint use for switching purposes of this Company's branch on the south bank of the Lachine Canal at or near Montreal during the period from January 9, 1929, to December 31, 1949, inclusive, which provides among other things that the switching service be performed by this Company and that the Canadian National pay one-half of the interest charge on capital account and its wheelage proportion of the expense of maintenance and operation including switching, be approved, and that 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. Alister F. Mitchell, seconded by Mr. W. B. Blackader, the following resolution was unanimously adopted:

*Whereas*—In pursuance of By-law No. 6, Mr. L. J. Belnap, Hon. Eric W. Hamber, Rt. Hon. Reginald McKenna, P.C., Mr. Ross H. McMaster and Mr. Morris W. 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 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 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 Mr. L. J. Belnap, Hon. Eric W. Hamber, Rt. Hon. Reginald McKenna, P.C., Mr. Ross H. McMaster and Mr. Morris W. Wilson, were elected Directors for the term of four years, and the report was adopted.

Mr. Huntly R. Drummond, speaking on behalf of the Shareholders of the Company, after expressing regret that for reasons of health Sir Edward Beatty had considered it wise to relinquish the position of Chief Executive Officer, paid tribute to the services rendered by Sir Edward during his term of office as President and proposed the following resolution which, seconded by Hon. J. Edouard Perrault, K.C., was unanimously carried,—

*Resolved*—That there be inscribed in the record of this meeting an expression of appreciation of the outstanding service rendered to the Canadian Pacific Railway Company, and to the Dominion of Canada, by Sir Edward Beatty, G.B.E., in his forty-one years of association with the Company and, in particular, during the past twenty-four years when he served with great distinction, first as President and, for the greater portion of that period, as Chairman and President.

It is universally recognized that he brought to the affairs of the Company and its Shareholders a rare combination of gifts and qualities which enabled him to inspire the whole organization with his own zeal and his own devotion to the interests of the property. He was responsible for many improvements in facilities and services including the re-building of the Company's Mercantile Fleet on a scale which made it a justifiable source of pride to all Canadians and he enhanced and enlarged the position of the Company in the confidence and regard of the people it serves throughout the world. His administration will be memorable in the history of the Company.

The Shareholders appreciate that during the recent prolonged world-wide business depression of exceptional severity the Company's financial and material resources under the direction of Sir Edward Beatty as Chairman and President, were conserved and administered in its best interests.

The Shareholders have observed also with special satisfaction that with the outbreak of the present war, the outcome of which is clearly fraught with such vital significance to all Democratic peoples, the Canadian Pacific Railway Company, under Sir Edward Beatty's guidance and wise foresight, has found itself in an exceptionally strong position to provide a major service of incalculable importance and benefit to the United Nations by the immediate provision of a large fleet of ocean steamships of a very high operating efficiency and, notwithstanding pre-war adverse conditions, the railroad, with its well-maintained properties, has been found fully capable of meeting all exacting war demands for a modern transportation service. At the same time, the manufacturing facilities of the Company's shops had been so maintained that they were at once available, on a rapidly expanding scale, for the production of essential war supplies, including tanks and guns, in addition to being able to take adequate care of the greatly enlarged requirements necessitated by keeping up the working standard of the Company's rolling stock and other equipment.

Sir Edward Beatty personally assumed for a period the arduous post of Representative in Canada of the British Ministry of War Transport and under his direction the original organization was established responsible for ferrying bomber planes across the Atlantic.

During many years Sir Edward Beatty's devoted support of advanced education and his deep and practical interest in philanthropic institutions and in many varied forms of public welfare services have been his outstanding characteristics.

The Shareholders have noted with much gratification that, at the request of his colleagues on the Board, Sir Edward Beatty has expressed his willingness to continue as Chairman of the Company so that the benefit of his counsel will not be lost to the Company, or to the country which the organization serves, and they trust that this relief from executive pressure will result in the complete and lasting recovery of his health.

*It is further resolved*—That a copy of the foregoing resolution, suitably inscribed and signed by the Secretary under the Corporate seal of the Company, be forwarded to Sir Edward Beatty.

Sir Edward Beatty expressed in appropriate terms his appreciation of the resolution and of the remarks of the mover and seconder thereof.

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 of the Company, Mr. D. C. Coleman, President, and Mr. W. M. Neal was elected Vice-President; the following were appointed the Executive Committee:—

Sir Edward Beatty, G.B.E.
Mr. D. C. Coleman
Mr. W. N. Tilley, K.C.
Mr. Ross H. McMaster
Mr. Morris W. Wilson
Mr. L. J. Belnap

PRINTED IN CANADA