ANNUAL GENERAL MEETING OF SHAREHOLDERS

Report of Proceedings

May 1, 1946

Canadian Pacific Railway Company

CANADIAN PACIFIC RAILWAY COMPANY

REPORT

OF THE PROCEEDINGS AT THE SIXTY-FIFTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS HELD AT MONTREAL ON WEDNESDAY, MAY 1, 1946

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

The Chairman of the Company, Mr. D'Alton 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 President, Mr. D'Alton C. Coleman, in moving the adoption of the report on the affairs of the Company for the year ended December 31, 1945, which had been printed and distributed to the shareholders, said:

Our first peacetime meeting following six years of war provides a fitting occasion for expressing our thanksgiving that final and complete victory was won over those powers bent on world domination and enslavement. The debt owed to gallant fighters of many nations who made victory possible is beyond appraisal or calculation. Among those who fought for freedom Canadians earned an honoured place and the mobilization of Canadian productive resources to sustain the forces engaging the enemy won the admiration and gratitude of our allies. Back of all the accomplishments in production was the co-ordinating factor—rail transportation. Effectively serving and continuously on the job, the railways played a vital role in the great task of weaving together the diversified strands of activity which made up the fabric of our national war effort.

CANADA'S OPPORTUNITY

As a result of the wartime development of its industry and the security of distance from the scene of actual hostilities, Canada is one of the few countries now enjoying a favourable economic position.

Opportunities abound for utilizing this position to help in rebuilding a ravaged world. It is my belief that whatever contribution Canadians can make to the reconstruction of less favoured nations will perform double duty in that we will also be laying the foundation for our future commerce. For a country such as Canada, whose prosperity is dependent to such a large extent on exports, enlightened self-interest alone would appear to dictate a policy of giving every aid within our means to the economic rehabilitation of those nations who will trade with us. In addition to lasting good will, there are certain to be fruitful economic benefits from such assistance.

The Canadian Pacific transportation system, built up over sixty years of prudent management, represents no small part of this Dominion's capacity to engage profitably in world trade. Your Company stands ready in peace, as it did in war, to perform its share of the tasks ahead.

Annual Report

There is little need to add to the comprehensive survey of the year's operations and transactions contained in the Annual Report, which was distributed to the Shareholders last month. For the fifth consecutive year there has been a decrease in the ratio of net earnings to gross earnings. It is clear that only the abnormal volume of traffic made it possible for your Company to meet the rising costs of operation and to show fairly satisfactory results. It is also clear that the existing narrow margin between earnings and expenses leaves us extremely vulnerable to a downward trend in traffic volume. At the conclusion of the first World War, working expenses were taking 78 cents of every railway dollar earned, leaving 22 cents for fixed charges, dividends, and improvements to plant. Now despite the maintenance of a high standard of operating efficiency and equipment utilization, costs have so increased that out of each dollar only 11 cents are left after meeting working expenses. As everyone must realize by now we are paying out from 25% to 35% more for wages and materials while on the other hand our rates for services have been on the decline for the last 25 years. Little imagination is required to appreciate the difficulties and uncertainties which arise from such an unfavourable situation.

Record Performance

1945 was a peak year for your Company in service rendered—train miles, car miles and gross ton miles being the highest ever. The war years have seen records in this respect broken repeatedly—almost to the point where pronouncements as to new heights of achievement became commonplace. No excuse need be offered for drawing attention to the fact that these records in service rendered were established in a period which presented your management with most perplexing problems. Foremost among these were high labour turnover, and shortages of manpower, equipment and materials. The ratio of separations to the average number of employees was greater in 1945 than at any time since the beginning of the War and was more than three times that which normally prevailed in peacetime. The ever pressing demand for rolling stock presented great problems of equipment distribution and utilization.

Benefits Far-Reaching

Dividends on ordinary stock amounting to $1.25 per share were declared, the same as for 1944. After a lapse of 12 years, dividend payments on the ordinary stock were resumed in 1943, and since that time $40,200,000 has been paid to some 60,000 holders of ordinary shares. Profits of the Company paid to the Dominion Government as taxes throughout the war years have been two and a half times this amount and, in addition, the dividends paid were subject to tax as income of individuals who received them.

Traffic Declining

The first quarter of 1946 has been marked by a falling off in traffic volume and we may expect this trend to continue. However, in view of the eager market in this country for practically all types of consumer goods, the spur to agricultural production in the demands for export as well as domestic consumption, the urgent need for housing accommodation and the pent up demand for new construction of many kinds, I do not anticipate the calls upon Canadian railway services in the immediate future will be drastically reduced.

Costs Increasing

I cannot be too emphatic in stressing the serious concern which is felt with regard to the outlook for working expenses and consequently for net earnings. Railway costs have been on the rise since the beginning of the war and the pressure on wage and price levels continues without abatement. Current requests for wage and rule revisions involving substantial additional expenses have been presented to Canadian railways by certain groups of employees. The railways have declined the requests in these cases and the employees concerned have referred the matter to the National War Labour Board. One case has been heard by the Board but no decision has yet been made. The situation with regard to material costs is ominous. We are large users of many types of materials, particularly steel, coal and lumber. Ceiling prices for steel and lumber were recently again increased, while a higher coal price is also in sight. Further increases in our operating costs therefore appear inevitable. Moreover, economies attendant on maximum car and train loads, to which we have been accustomed in recent years, will disappear as traffic volume declines. Taking everything into consideration it must be conceded that the relationship between railway earnings and expenses is now at a critical stage.

Other Income Uncertain

In 1945 the net income available to your Company was favourably affected by an improvement in its Other Income, representing the net earnings from operations of Ocean and Coastal steamships, hotel, communication and other services. The prospects for Other Income in 1946 are obscured by many of the same problems which complicate your Company's rail operations although dividend income, so largely affected by the results of The Consolidated Mining and Smelting Company, is not likely to be greatly changed from last year. Plants of The Consolidated Mining and Smelting Company are now operating at full capacity and in so far as present unsettled conditions permit of forecasting, the outlook for the future is promising.

Aggressive Planning

It may be said unequivocally that the year will be characterized by a vigorous effort on the part of your management to sustain and to restore the world-wide services of the Canadian Pacific to the greatest extent possible.

On August 27th last I witnessed the launching on the Clyde of our new 10,000 ton, radar-equipped freighter, the Beaverdell. She is the forerunner of a quartette of modern ships designed to replace the original fleet of "Beavers" which acquired such a high reputation for reliability in the Atlantic service before the war. Each of these new "Beavers" will have refrigerated space twice as large as that of the original "Beaver" liners, and will likewise have much improved facilities in many other respects—particularly in speed and safety.

The Beaverdell made her maiden voyage from Liverpool in March, the Beaverglen is expected to sail from Liverpool later this month and under present construction schedules we are hopeful that these will be joined on the Atlantic run by at least one of the other two ships before the close of 1946.

Canadian Pacific passenger liners still under requisition to the United Kingdom may not be released in time for resumption of their former services during this year but agreements have been signed for the purchase of two cargo-passenger ships with a view to resumption of our trans-Pacific service just as soon as conditions warrant.

Contracts have been signed, also, for two new vessels to be employed in the Vancouver-Victoria-Seattle service—part of our plan for maintaining the efficiency and popularity of the famous "Triangle Run".

The prospects for tourist travel in Canada in 1946 are favourable and your hotel department is prepared to operate its world-renowned facilities to full capacity once again, with favourite resorts such as Banff Springs, Chateau Lake Louise, Emerald Lake and The Digby Pines emerging from their wartime seclusion.

Your communications services, progressing with each scientific advance in this field, will continue to be expanded as conditions require and permit.

Railways Vital to Nation

Under the stern tutelage of war every nation learned of the indispensability of railways and discovered anew that they are one of the bulwarks of economic existence. It is not yet clear that the peacetime application of this important lesson is fully comprehended and I should like, therefore, to emphasize the fact that means of efficient and economical rail transportation is a necessity of the first order.

The railways have demonstrated that they are the basic and the most important single agency for economically moving traffic in a modern nation; their ability to continue to serve in their natural role hinges on the justice extended to them under public policy.

If Canadian railways are to make their maximum contribution to prosperity a policy must be adopted which will enable them to earn sufficient to cover their costs plus a moderate return on the capital invested in them. In order to permit sound maintenance and development of rail transport, untinged by political considerations, railway rates must be flexible enough to meet changing conditions and sufficiently compensatory to provide a fair and reasonable margin between earnings and expenses.

Anomalies in Public Expenditures

With the resumption of peacetime pursuits there is evidence of a return to large-scale subsidizing, from public funds, of transportation agencies which proved in the testing of war inadequate for the job of providing the kind of mass transportation required in a national emergency. In the light of this experience it is difficult to see how the best interests of the country would be served by making untoward provision for the subordinate while neglecting the primary elements of the nation's transportation.

You will readily recall the constantly expanding programme which was undertaken in the 1920s and '30s for the reconstruction of existing highways and the construction of new ones on a scale commensurate with the needs of heavy commercial vehicles but without reference to the likelihood of such vehicles paying their full share of the costs. Added to this was the provision by the taxpayers of free facilities on our inland waterways, and on a less extensive scale, the spending of public money on landing fields, air terminals and many types of safety devices for use in commercial aviation. On the other hand the railways must own, operate and pay taxes on corresponding facilities and services.

The revival of the St. Lawrence Seaway project is a striking example of the reversion to thinking in terms of large scale subsidies for non-essential transportation facilities which I have mentioned. This project has been under discussion for fifty years and both proponents and opponents of the scheme have vigorously presented their respective positions throughout this period. It is clearly not in my province to attempt any evaluation of the power development aspects of the Seaway Plan, nor do I wish to enter into the debate on the waterway itself in any partisan fashion. I should like simply to point out that the huge capital cost of this venture would have to be financed by general taxation imposed on people already burdened by the costs of war, of rehabilitation measures and of programmes for social security. That is an inescapable fact. I would add that in return for the expenditure involved, we would have an additional transportation facility, the superfluous character of which must be acknowledged in view of the satisfactory handling by existing transportation agencies of the tremendous flow of goods and passengers during the recent war.

Fair Treatment for Railways

Let there be no misunderstanding regarding the railway attitude to fair competition. The railways do not covet a monopoly; they recognize that buses and trucks and steamships and airplanes have a right to the traffic which they can handle economically and efficiently. Economy and efficiency cannot fairly be compared, however, if only one among the competitive forms of transport is highly regulated with regard to both rates and services while the others enjoy the utmost freedom in these matters and, in addition, the benefits of public expenditures in their behalf. The need is therefore evident for equitable regulation and for the re-establishment of genuinely competitive conditions so that each factor in the transportation picture may operate on the basis of sound economic principles. In no other way can the nation be supplied with adequate transportation at minimum cost to the public.

It is my conviction that, given the facts in the case, the public cannot but accord recognition to the importance of the country's railways. In the interests of all those who depend directly upon the industry as well as in the general interest, it is essential that the railways be maintained in a healthy and flourishing state and I am firmly of the opinion that the support of the people of Canada can be counted on to sanction the removal of whatever obstacles stand in the way of this achievement.

Faith in Future

It is the firm purpose of your Directors to implement forthwith the rehabilitation and improvement of your Company's properties and thus ensure the continuance of the efficient transportation service with which your Company's name has become synonymous. Believing that the future must be approached aggressively as well as hopefully, your Directors are today asking your approval of capital expenditures totalling $42 million, of which the details are set out in the Annual Report. May I say that these expenditures have all been carefully planned with a view to betterment of your properties and their rehabilitation after the wear and the losses borne under wartime operations. The railway appropriations cover practically every type of work and will be spread over the whole system, with every section of the country benefiting not only from the ultimate improvement in service, but directly and immediately through sustained employment of railway workers and of those engaged in supplying the necessary materials.

The tradition of accepting a challenge is an old and honoured one in your Company, first observed when its builders took up the task of pushing through a transcontinental line where others had failed, and succeeded in completing that line 5 years ahead of schedule. Let me assure you that your Company is fully prepared to accept the challenges of the future. But it does not depend on your Company alone whether it will be permitted to fulfill its tasks; it depends also on realistic public appreciation of the railways' present need to have charges for their services increased commensurately with their operating costs and on the adoption of an enlightened, long term transportation policy in which first things are placed first.

The Report was unanimously adopted upon the following resolution, which was moved by Mr. D'Alton C. Coleman, and seconded by Mr. Ross H. McMaster:

Resolved—That the Report on the affairs of the Company for the year ended December 31, 1945, 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 authorizing certain transactions incidental to the carrying out of this Company's Agreement with the Boston and Maine Railroad for the purchase of the properties and assets of The Connecticut and Passumpsic Rivers Railroad Company was submitted and, on motion of Mr. Arthur Terroux, seconded by Mr. F. D. Chapman, was unanimously adopted:

Whereas by resolution passed at the last Annual Meeting, approval was given to an Agreement dated April 6, 1945, between this Company and Boston and Maine Railroad, providing for the making of a joint offer to purchase the properties and assets of The Connecticut and Passumpsic Rivers Railroad Company, which joint offer was duly made to, and has been accepted by, the Connecticut and Passumpsic;

And Whereas the said Agreement provides, among other things, for the acquisition by the Newport & Richford Railroad Company of the line of railway extending from Wells River, Vermont, to the international boundary;

And Whereas it is intended that this Company will advance to the Newport & Richford Railroad Company the monies payable by it for the purchase of the said line of railway, which advance will, it is expected, be secured by an issue of bonds of the Newport & Richford Railroad Company upon such terms as may be approved by the Interstate Commerce Commission and by this Company; and that when so purchased, the said line of railway shall be leased to this Company;

And Whereas the said Agreement further provides for the assignment to this Company by the Connecticut and Passumpsic of the leasehold interest of that Company in the railway of the Massawippi Valley Railway Company;

And Whereas in order to preserve to Quebec Central Railway Company its rights as Lessee of the railway of the Massawippi Valley under an existing 30-year Lease dated May 5, 1926, the said

Agreement further provides for the assignment to this Company by the Connecticut and Passumpsic of the rights of the latter Company as Lessor under a Lease between it and the Boston and Lowell Railroad Corporation (predecessor of the Boston and Maine) dated June 1, 1887, so far as the same relates to the railway of the Massawippi Valley, and by the Boston and Maine of its rights as Lessee under said last-mentioned Lease, and of its rights as Lessor under said Lease of May 5, 1926;

It is Resolved:—

1. *That* the Indenture of Lease from Newport & Richford Railroad Company, as Lessor, to this Company, as Lessee, of which a draft was submitted to this meeting, initialled by the Secretary and marked "A" for identification, which Indenture, among other things, demises to this Company for a term of 999 years, the line of railway which that Company is about to acquire from The Connecticut and Passumpsic Rivers Railroad Company, being the line of railway between Wells River, Vermont, and the international boundary between the State of Vermont and the Province of Quebec, together with all assets, property, rights, powers, privileges and franchises, included in or incident or appurtenant thereto, at an annual rent of a sum equal to the interest payable on the bonds or other financial obligations, outstanding from time to time which that Company may have issued at the request of, or with the consent of, this Company, and secured by mortgage or other encumbrance on the said line of railway, be and the same is hereby sanctioned and approved, with such changes therein as may be required or approved by the Interstate Commerce Commission and with such verbal changes therein, if any, not altering the substance thereof, as the officers of the Company executing the same may deem proper.

2. *That* the assignment to this Company from The Connecticut and Passumpsic Rivers Railroad Company of its leasehold interest in and to the railway of the Massawippi Valley Railway Company from the international boundary to Lennoxville, Quebec, under a 999-year Lease dated December 27, 1871, and of its rights as Lessor, so far as the same relates to the railway of the Massawippi Valley Railway Company, under a 99-year Lease dated June 1, 1887,

between the Connecticut and Passumpsic as Lessor, and the Boston and Lowell Railroad Corporation as Lessee, a draft of which assignment was submitted to this meeting, marked "B" and initialled by the Secretary for identification, which assignment provides that this Company will assume and pay the rentals reserved in the said first-mentioned Lease now amounting to $24,000 per annum and that this Company will assume, observe and perform all the covenants, conditions and agreements therein contained to be performed by The Connecticut and Passumpsic Rivers Railroad Company, be and the same is hereby sanctioned and approved, with such verbal changes therein, if any, not altering the substance thereof, as the officers of the Company executing the same may deem proper.

3. *That* the assignment to this Company from Boston and Maine Railroad of its rights as Lessee under said Lease dated June 1, 1887, so far as the same relates to the railway of the Massawippi Valley Railway Company, and its rights as Lessor under said Lease dated May 5, 1926, between Boston and Maine Railroad as Lessor and Quebec Central Railway Company as Lessee, a draft of which assignment was submitted to this meeting, marked "C" and initialled by the Secretary for identification, be and the same is hereby sanctioned and approved with such verbal changes therein, if any, not altering the substance thereof, as the officers of the Company executing the same may deem proper.

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

Whereas, in pursuance of By-law No. 6, The Rt. Hon. Sir John Anderson, G.C.B., M.P., Mr. L. J. Belnap, Hon. Eric W. Hamber, Mr. Ross H. McMaster and Mr. Morris W. Wilson, C.M.G., 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. F. H. Hopkins and Mr. A. E. Francis 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. F. H. Hopkins read the report of the Scrutineers, which declared that The Rt. Hon. Sir John Anderson, G.C.B., M.P., Mr. L. J. Belnap, Hon. Eric W. Hamber, Mr. Ross H. McMaster and Mr. Morris W. Wilson, C.M.G., were elected Directors for the term of four years, and the report was adopted.

The proceedings then terminated.

Chairman.

Secretary.

At a meeting of the Board held immediately after the Shareholders' meeting Mr. D'Alton C. Coleman was re-elected Chairman and President of the Company, and Mr. W. M. Neal, C.B.E., Vice-President; the following were appointed the Executive Committee:

Mr. D'Alton C. Coleman
Mr. W. M. Neal, C.B.E.
Mr. Ross H. McMaster
Mr. Morris W. Wilson, C.M.G.
Mr. L. J. Belnap
Mr. Aimé Geoffrion, K.C.

Canadian Pacific

SPANS THE WORLD