

Transportation Information Update

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Editor: Joseph Monteiro*

AIR CANADA EMERGES FROM BANKRUPTCY AND ITS RESTRUCTURING PLAN RECEIVES APPROVAL

1. Air Canada Restructuring Plan

Air Canada's creditors gave their overwhelming support to the carrier's restructuring plan. Erasing billions of dollars in debts will smooth the way for the insolvent company to emerge from bankruptcy protection filed on April 1, 2003 under the Companies' Creditors Arrangement Act. Its new parent holding company is named ACE Aviation Holdings Inc. Air Canada received court clearance on August 23, 2004 to emerge from bankruptcy protection next month. The business plan the court approved will see Air Canada's debt reduced substantially from the nearly \$13 billion when it filed for bankruptcy. The new business strategy calls on Air Canada to focus on international markets.

The new Air Canada according to Robert Milton will rely much less on revenue from the domestic market and far more on routes to Europe, Asia and Latin America. He envisages revenue from the domestic market could be less than 20%. In 2003, the three domestic discount carriers accounted for 33% of the domestic capacity as measured by capacity. Besides focussing on international routes, it plans to compete with low cost carriers by establishing a stand alone carrier that flies discounted or no frills flight to leisure destinations, and new regional jets that have enabled low cost carriers to capture market share from it.

Some of the statistics Before/After bankruptcy are: Debt - \$13b/\$5b; Full-Time Equivalent Employees - 39,996/32,986; Number of Planes in Operation (ex Jazz) - 232/193; Operating Revenue - \$9.8b/\$9.1b; Market Share - 82%/59%; and Annual Labour Bill - \$3b/\$2b.

Espionage lawsuit - Westjet Apologizes for Spying

The chief executive of Westjet Airlines Ltd. apologized on August 3, 2004 for the inappropriate behaviour (i.e., corporate espionage conspiracy against Air Canada) of former Westjet executive and co-founder. As a result of the espionage allegations, Westjet plans to implement a whistleblower policy at the airline that will allow employees to anonymously report 'inappropriate or illegal' behaviour.

Air Canada-West Jet

Westjet reported second-quarter profit in 2004 down by half compared to a year earlier. The decline can be attributed to higher unit cost of flying a seat due to: record high fuel prices; advertising campaign to highlight its

advertising campaign in Eastern Canada; and, increased airport fees. Air Canada reported that its July load factor (the proportion of available seats filled) hit a new record of 80.4% for this month, marking its fourth consecutive monthly record and the highest compared to earlier years. Air Canada's revenue passenger miles (the number of paid seats

Current Developments in Brief

1. Westjet Apologizes for Spying (*Globe and Mail*, August 4, 2004, p. FP1).
2. WTO accord imperils Wheat Board (*Globe and Mail*, August 2, 2004, p. B1).
3. IATA reports increase in world cargo throughput (August 4, 2004, www.joc.com).
4. New plan ease congestion at Windsor-Detroit crossing unveiled. (August 5, 2004, www.ctl.ca).
5. What percentage of logistics expenditures are directed to outsourcing? (August 5, 2004, www.ctl.ca).
6. Air Canada load factor sets July record (*Globe and Mail*, August 6, 2004, p. B4).
7. Monti ousting won't end EU antitrust review (August 2-8, 2004, www.joc.com).
8. BTS Releases May Transportation Services Index (TSI) Combined Index and Freight Index Reach New Record Highs (August 6, 2004, www.dot.gov).
9. Shipment volumes post strong gains in first half of 2004 (August 18, 2004, www.ctl.ca).
10. St. Lawrence Seaway announces traffic at five year high (August 18, 2004, www.ctl.ca).
11. Air Canada flies past 'milestone' to recovery (*Globe and Mail*, August 18, 2004, p. 1/6).
12. Travel between Canada and other countries (The Daily, August 19, 2004, www.statcan.ca).
13. Canadian exports post fifth consecutive monthly increase (August 19, 2004, www.ctl.ca).
14. Import volumes unable to maintain record pace (August 19, 2004, www.ctl.ca).
15. Airport Movement Statistics - May 2004 (August 19, 2004, www.statcan.ca).
16. Judge clears Air Canada to exit bankruptcy protection, approves recovery plan (*Globe and Mail*, August 24, 2004, p. B1/B8).
17. Delays at Port of Montreal (August 25, 2004, www.joc.com).
18. CP Rail blames Montreal Port for backup (August 25, 2004, www.ctl.ca).
19. Robust container growth for Q2 at Fraser River Port (August 26, 2004, www.ctl.ca).
20. Robert Milton's new Air Canada (*Financial Post*, August 26, 2004, pp. FP1/FP5).
21. Domestic Travel (*The Daily*, August 27, 2004, www.statcan.ca).
22. INDUSTRY IMPULSE: Railway shipments boom in the second quarter (August 27, 2004, www.ctl.ca).
23. Transforce announces plan to acquire Highland Transport (August 27, 2004, www.ctl.ca).
24. For-hire motor carriers of freight, a carriers first quarter 2004 August 31, 2004 (Statistics Canada, www.statcan.ca).

multiplied by the distance flown) reached 4.26 billion in July up 12.8% compared to a year earlier. In general yields on domestic and international services continued to rebound strongly from the depressed 2003 levels according to Rob Peterson, Air Canada's chief financial officer.

2. WTO accord imperils Wheat Board

The 147-nation World Trade Organization revived global trade talks with a framework agreement on August 1, aimed at cutting agricultural tariffs and subsidies. The agreement will be beneficial to Canada because it will: 1) limit and get rid of the huge agricultural subsidies in the EU and US thereby leveling the playing field for our farmers; 2) improve global access for Canadian goods and services; and, 3) assist with our trading rules. The framework agreement is not a trade deal but an outline for more detailed negotiations scheduled next year. The increase in agricultural exports or imports that could result from the agreement would likely lead to an increase in demand for transportation.

3. IATA reports increase in world cargo throughput

The International Air Transport Association (IATA) has reported a 13% increase in air cargo throughput worldwide over the first half of 2003 compared to a year earlier. The growth has been attributed to three factors: an improvement in underlying traffic trends; a strong recovery from the Sars crisis; and, the impact of cyclical economic growth factors.

4. New plan ease congestion at Windsor-Detroit crossing unveiled

The Detroit International Bridge Co. Owners of the Ambassador Bridge have asked U.S. and Canadian authorities for permission to build a second \$300m bridge to ease congestion. One quarter of the Cd. \$526 billion in goods that are carried on 3.25 million trucks each year use the Ambassador Bridge. Other proposals to deal with congestion are: 1) the widening of the existing train tunnel under the river to accommodate trucks by the Detroit River Tunnel Partnership; and, 2) a proposal to build a bridge near Zug Island on Detroit's south side by Mich-Can.

5. What percentage of logistics expenditures are directed to outsourcing?

Outsourcing has been gaining ground in supply chain management for over a decade. According to the 2003 survey, the results were as follows:

between 1% to 20% of their budgets were directed to outsourcing by 41% of managers; between 21% to 40% of their budgets were directed to outsourcing by 17% of managers; between 41% to 60% of their budgets were directed to outsourcing by 16% of managers; between 61% to 80% of their budgets were directed to outsourcing by 11% of managers; and between 81% to 100% of their budgets were directed to outsourcing by 10% of managers. Of the last group, 3% directed their entire logistics budget to outsourcing.

7. Monti ousting won't end EU antitrust review

The Italian Prime Minister has decided to replace Mario Monti as Italy's member of the European Commission Competition Directorate. Despite this replacement, it is unlikely to slow the Commission's move to do away with the blanket exemption it grants liner shipping companies from its antitrust and price-fixing laws. It is believed that DG Comp is far into its review of Regulation 4056/86 which grants antitrust immunity for shipping conference exemption and that the exemption will last only for a short period.

8. BTS Releases April Transportation Services Index (TSI) Combined Index and Freight Index Reach New Record Highs

The US Department of Transportation's Bureau of Transportation Statistics indicated that the TSI reached the highest level in the 14-years covered by the index with a 0.1 percent rise in May. The Freight TSI reached an all-time high with a 0.2 percent increase. The TSI is a measure of the month-to-month changes in the output of services provided by the

Other Current Developments in Brief

1. NVOs demand confidential contracts (i.e., NVOs have petitioned the FMV to allow them to sign confidential contracts between them and their customer and exemption from tariff publications) August 4, 2004 (www.joc.com)
2. FedEx ground operations gaining market share (i.e., FedEx's ground package unit, captured 14.8% of the \$22.4 billion parcel market in 2003, up from 14% in 2002) August 11, 2004, (www.ctf.ca)
3. DOT Announces Historic Low Highway Fatality Rate in 2003 (i.e., The fatality rate was the lowest since record keeping began 29 years ago-1.48 in 2003) August 10, 2004 (www.dot.gov)
4. Intermodal extends hot streak (i.e., Intermodal traffic increased 8.1% during the past three quarters, the three strongest growth quarters since Intermodal Association of North America began collecting intermodal data in 1996. International containers still represent the majority of North American intermodal moves) August 12, 2004 (www.joc.com)
5. Boeing projects strong 20-year freighter demand (i.e., demand over the next 20 years will increase from 1,766 to 3,456 airplanes) August 18, 2004, (www.ctf.ca)
6. U.S. Department of Transportation and Airlines Agree on Plan to Cut O'Hare Delays by 20 Percent before Thanksgiving, August 19, 2004, (www.dot.gov)
7. Restructuring for FMC (i.e., the Director's office will be divided into administrative and operations offices) August 19, 2004, (www.joc.com)
8. U.S. shipping gains on higher Lakes water (i.e., for the year ending July 31, U.S. flag carriage was 54.6 m net tons up 24.2% from a year ago and 8% ahead of the five year average) August 19, 2004, (www.joc.com)
9. Transportation Department to Review New Ways to Improve Motor Carrier Safety; Agency Asking for Public Comment. August 23, 2004, (www.dot.gov)
10. New York still largest air-cargo gateway. August 24, 2004 (www.joc.com)
11. Record July for West Coast Ports. (Long Beach recorded double digit increases in imports from Asia over last July, Seattle, Tacoma and Oakland also recorded increases) August 24, 2004 (www.joc.com)
12. U.S. airlines face looming financial turbulence. (Mass layoffs, looming cash crunch and bankruptcy protection face several U.S. major airlines) (The Globe and Mail, August 30, 2004, p. B5)
13. IATA reports strong traffic growth but profits undercut by high fuel prices. (International passenger and cargo traffic growth continued to exceed expectations through July. Freight volumes grew 14.1% in the first seven months of 2004 over the same period for 2003) (August 27, 2004, www.ctf.ca)

for-hire transportation industries. The annual indices from 1996 to 2004 for both freight services and passenger services were published.

9. Shipment volumes post strong gains in first half of 2004

Statistics Canada reported that manufacturers posted record-high shipments of \$49.9 billion in June, up 1.5% from May. The increase was spread across 15 of the 21 industries. Manufacturing shipments have rebounded 6.1% in the first six months of 2004, compared with the same period for 2003.

10. St. Lawrence Seaway announces traffic at five year high

Seaway traffic results released by the St. Lawrence Seaway Management Corporation show that traffic has risen to levels witnessed in the late 1990s. Total cargo moving through the Seaway is up by 11.5% over figures for July 2003. Most of the increase came from bulk cargo.

12. Travel between Canada and other countries

Travel to Canada rebounded in June 2004. An estimated 3.3 million visitors came to Canada in June. The increase in trips to Canada was primarily the result of a 1.2% rise in travellers from the United States. Visitors to Canada from the United States were 2.9m and from other countries were 351,000.

13. Canadian exports post fifth consecutive monthly increase

Canadian exports increased 4.4% in June the fifth consecutive monthly increase according to Statistics Canada. Exports to the United States rose by 2.9% and exports to other countries rose by 11.3%. Cumulative exports from January to June 2004 were \$10 billion higher than compared with the same period last year.

14. Import volumes unable to maintain record pace

Canadian imports decreased 3.7% in June compared to May 2004. The decline resulted from lower imports of machinery and equipment according to Statistics Canada.

15. Airport Movement Statistics - May 2004

In May 2004, the number of landings and take-offs at the 42 Canadian airports with control towers totalled 382, 597. This represents a decrease of 1.5% over a year ago. The Toronto L.B. Pearson International airport was the most active airport. Total air traffic activity at 56 airports with NAV CANADA Flight Service Stations decreased 1.5%.

17. Delays at Port of Montreal

The port has handled 5.2 million metric tons of container cargo for the first six months of 2004, a 7.9% increase over the record in 2003. A record number of import container traffic has filled the Port of Montreal beyond capacity, delaying shipments to some US customers. The port claims that it is not congestion other than containers not moving as fast as they normally do.

18. CP Rail blames Montreal Port for backup

CP Rail claims that the recent congestion at their terminal near Montreal is the port's fault. CIFFA indicates that the extremely rapid increase in volume experienced this year has simply outgrown the capacity of our existing transport infrastructure.

19. Robust container growth for Q2 at Fraser River Port

Container traffic at Fraser River Port has increased by 24% for the first two quarters compared to the same period for 2003 soaring to 148,666 TEUs. Import and export growth rates were about the same.

Conferences

1. Canadian Intermodal 2004, September 22 & 23, 2004, Toronto.
2. MARAD Third Annual Short Sea Shipping Conference at the Hilton New York, in New York City, Oct. 13-15, 2004.

21. Domestic Travel

Travel in Canada by Canadian residents increased 1.7% to 35.2 million trips in the first quarter of 2004 compared with the first quarter of 2003. This, however, is below the 2002 high of 37.2 million trips. Trips to Canada by foreigners for the same period fell 8.1% to 6.6 million trips. Overall, domestic travel (residents and foreigners) accounted for 41.8 million trips. Pleasure trips and VFR (visiting friends or relatives) accounted for the largest increases by Canadian residents.

22. INDUSTRY IMPULSE: Railway shipments boom in the second quarter

Canadian railways reported their strongest quarter for shipments in five years between April and June this year. Statistics released by Statistics Canada for the second quarter indicates that freight increased 10% over the first quarter of 2004

and was 12% higher over the second quarter of 2003. Intermodal freight (containers and trailers) rose 11.9%. Trailers appear to be on a downward trend compared with containers.

23. Transforce announces plan to acquire Highland Transport

Transforce Income Fund one of the largest Canadian transportation and logistics operatives has announced the signing of an agreement to acquire Highland Transport, one of Canada's largest truckload carriers. The revenues of Highland Transport for its latest fiscal year totalled over \$125m. Transforce besides operating in the truckload segment also operates in the less-than-truck load and parcel delivery segment, specialized truckload segment and specialized services segment (i.e., logistics and fleet management, customs brokerage and bonded warehousing).

25. For-hire motor carriers of freight, a carriers first quarter 2004

Statistics Canada reported that the number of for-hire companies in Canada (3,260) with annual revenues of \$1million or more was up 10% for the first quarter of 2004 compared with the same period in 2003. Operating revenues and expenses were both up by 14% from the first quarter of 2003.

*** Please forward any news of interest to the Editor for inclusion in the Update. Gaps shown in the numbers are because certain items are included under broader headings.**