

Transportation Information Update*

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AIR TRANSPORTATION

1. 1. China Airlines Agrees to Plead Guilty to Price Fixing

China Airlines agreed to plead guilty and to pay a \$40 million criminal fine for its role in a conspiracy to fix prices in the air transportation industry, the US Department of Justice announced on September 27, 2010

2. Major Forwarders Fined in Air Cargo Price Fixing

Six international forwarders agreed to a total of \$50.3 million in criminal fines after pleading guilty to air cargo price fixing, the U.S. Department of Justice said on September 30, 2010 in an expansion of an antitrust investigation that has enveloped many of the world's largest airlines and forwarders. The largest penalty hit BAX Global, which will pay \$19.7 million to settle charges the company conspired with other forwarders to set fees and surcharges on air cargo shipments. Others fined were Panalpina (\$11.9 million), Kuehne + Nagel (\$9.9 million), EGL (\$4.5 million), Schenker (\$3.5 million) and Geologistics (\$687,960).

3. UAL, Continental close mega-merger

UAL Corp. and Continental Corp. closed their merger deal on October 1, 2010 to form the world's largest carrier, called United Airlines. The new holding company formed from the \$3.17-billion all-stock merger is called United Continental Holdings Inc. and begins trading on the New York Stock Exchange on October 1, 2010 under the symbol "UAL."

4. Cathay Pacific and WestJet expand services through new code sharing agreement

Cathay Pacific and Westjet have expanded their service through a new code sharing agreement on October 3, 2010. It will provide passengers with greater choice and connectivity when travelling between Hong Kong and Canada. It will also give passengers seamless access to six more places in Canada.

5. North American and European Airports Call for More Efficient, Sustainable Aviation Security

The airport directors (North American and European Regions) urged the US Transportation Secretary Administration, the Canadian Airport Transport Security Authority and the EC to work towards a more efficient, sustainable aviation security system. As part of this plan, they also insisted on the need for the US, Canada and the EU to take the lead on truly international harmonization at ICAO.

6. Air Canada to Commence Toronto City Airport Flights in February 2011

On October 4, 2010, Air Canada announced that it has settled the terms of an Agreement with the operator of Billy Bishop Toronto City Airport. Air Canada has arranged with a regional carrier to operate flights from the Toronto Island airport beginning in February 2011. It will offer 15 daily non-stop flights from Billy Bishop Toronto City Airport, in downtown Toronto, to Montreal Trudeau International Airport.

7. WestJet, American may strike code deal

WestJet Airlines may strike a code sharing deal with American Airlines. It recently

Current Developments in Brief

Air Transportation

CANADA

1. China Airlines Agrees to Plead Guilty to Price Fixing, September 29, 2010, www.joc.com
2. Major Forwarders Fined in Air Cargo Price Fixing, September 30, 2010, www.joc.com
3. UAL, Continental close mega-merger, September 30, 2010, www.globeandmail.ca
4. Cathay Pacific and WestJet expand services through new code sharing agreement, October 3, 2010, www.westjet.ca
5. North American and European Airports Call for More Efficient, Sustainable Aviation Security, September 27, 2010, www.cacairports.ca
6. Air Canada to Commence Toronto City Airport Flights in February 2011, October 4, 2010, www.aircanada.ca
7. WestJet, American may strike code deal, October 4, 2010, www.nationalpost.ca
8. WestJet reports September load factor of 75.5 percent, October 5, 2010, www.westjet.ca
9. Air Canada Reports Record September Load Factor, October 6, 2010, www.aircanada.ca
10. WestJet under pressure, Air Canada gains altitude, October 6, 2010, www.nationalpost.ca
11. Can Air Canada maintain its altitude?, October 7, 2010, www.nationalpost.ca
12. Air Canada, UA strike transborder deal, October 7, 2010, www.globeandmail.ca
13. Air Canada Named Canada's Preferred Airline by Frequent Business Travellers, October 7, 2010, www.aircanada.ca
14. WestJet ranks number one in brand survey, October 7, 2010, www.westjet.ca
15. Jazz Air fund to be called Chorus Aviation, October 8, 2010, www.globeandmail.ca
16. Air Miles program soars among small businesses, October 12, 2010, www.globeandmail.ca
17. Airlines battle 'one-sided' agreement with Emirates, October 13, 2010, www.globeandmail.ca
18. Agency's jurisdiction to adjudicate the noise and vibration complaint filed pursuant to section 95.1 of the Canada Transportation Act, October 13, 2010, www.cta-otc.gc.ca

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signed one with Cathay Pacific. WestJet has also laid the groundwork for a similar deal with Air France and KLM, and signed another memorandum of understanding with British Airways PLC. But to date it does not have one in the US, a \$2 billion market which it hopes to enter. Earlier it attempted to make a deal with Southwest Airlines but failed due to the inadequacies of Southwest's reservation system. It then attempted to tie up a deal with Delta Air Lines but that failed due to inadequacies of slots. It has now begun talks with AMR Corp. parent of American Airlines and hopes to have three or four code sharing deals next year. In the last couple of years, it has spent a great deal of time on the leisure market but now hopes to concentrate more on year round destinations.

8. WestJet reports September load factor of 75.5 percent

On October 5, 2010, WestJet announced a load factor of 75.5 percent for September 2010, 2.2 points below the September 2009 load factor. Revenue passenger miles increased 8.8 percent and available seat miles or capacity increased 11.9 percent over the same period. CEO, Gregg Saretsky said "Overall we are pleased with both our September and third quarter traffic results. We continue to prudently expand our network, positioning us well for the future. We are also positive about the upward recovery we are experiencing." For the 2010 third quarter, the load factor was 79.6 percent, 0.1 points lower than the third quarter of 2009. Available seat miles and revenue passenger miles both increased by 11.7% each for the 2010 quarter compared to same quarter in 2009.

9. Air Canada Reports Record September Load Factor

For the month of September 2010, Air Canada reported a record system load factor of 82.2 per cent on a consolidated basis with Jazz, versus 79.7 per cent in September 2009, an increase of 2.5 percentage points. System traffic (i.e., revenue passenger miles) increased 11.7 per cent on a system wide capacity (i.e., available seat miles) increase of 8.4 per cent. "I am very pleased to report a record load factor of 82.2 per cent for the month of September, on a consolidated basis with Jazz," said Calin Rovinescu, President and Chief Executive Officer.

10. WestJet under pressure, Air Canada gains altitude

The fates of Canada's two largest airlines appear to be moving in different directions, according to a UBS analyst. Air Canada's exposure to the upswing in international and premium travel is expected to accelerate its earnings this year. On the other hand, WestJet's earnings are expected to be dragged down through 2012 as a result of its rapid expansion plans. This accordingly has had an effect on their stock prices. Westjet remains the analyst's top pick in the Canadian airline industry because of its inexpensive valuation, cost advantage and cash flows.

11. Can Air Canada maintain its altitude?

Shares in Air Canada soared in the first week of October 2010 to close at \$3.11. These gains have come as demand increases, as the company refinanced its debt in August 2010 together with efforts to remain on track to improve its revenue and cut costs by \$530-million by the end of 2011. Despite this positive momentum there remains risk. On the up side, the airline has seen considerable growth in its international markets. It has been able to fill in the empty seats and reduce its excess capacity. There has also been an upswing in the demand for premium cabins. This has led some analyst to predict that it shares will likely rise to \$4.94. But there is also considerable risk. On the downside, the airline shares can be affected by changes in demand which can arise from a number of factors: the economy, terrorist attacks, weather, etc. In addition, the company carries a great deal of debt. Its value is \$6.2 billion of which \$5.4 billion is

debt. Given these factors there could be great volatility in its stocks ranging from 10% to 20% a day.

12. Air Canada, UA strike transborder deal

19. Aircraft movement statistics: Small airports [July 2010], October 15, 2010, www.statcan.gc.ca

20. Calin Rovinescu's second shot at 'unfinished business', October 15, 2010, www.globeandmail.ca

21. Civil aviation operating statistics [August 2010], October 19, 2010, www.statcan.ca

22. Direction provided to Air Canada on accommodating travellers with peanut or nut allergies, October 19, 2010, www.cta-otc.gc.ca

23. Air Canada nut-free buffer zone gets OK, October 19, 2010, www.nationalpost.ca

24. American Airlines and WestJet Announce Commercial Agreement, October 19, 2010, www.westjet.ca

25. Air Canada Vacations brings more flights and holiday sun to Quebecers this winter, October 19, 2010, www.aircanada.ca

26. WestJet likely to grow American deal, October 20, 2010, www.nationalpost.ca

27. WestJet receives international Make a Wish Award, October 21, 2010, www.westjet.ca

28. September Traffic: Stronger Passenger, Weaker Freight, October 26, 2010, www.iata.org

29. Air rage nets U.K. man a \$28,000 fine, October 26, 2010, www.globemidmail.ca

30. ATAC Testifies before the Senate Committee on Transport and Communications, October 28, 2010, www.atac.ca

US

1. DOT Proposes to Approve Antitrust Immunity for U.S.-Japan Aviation Alliances, October 6, 2010, www.dot.gov

2. London Heathrow Cargo Growth Slows [12.2% for September 2010], www.joc.com

3. July 2010 U.S. Airline Traffic Data: System Traffic Up 0.4 Percent from July 2009, October 15, 2010, www.dot.gov

4. August 2010 US Passenger Airline Employment Down 1.7 Percent from August 2009, October 19, 2010, www.dot.gov

5. US, Japan sign open skies pact, October 25, 2010, www.joc.com

6. Infringement Proceedings in the field of air, maritime and land transport, October 28, 2010, www.europa.eu

Air Canada said on October 7, 2010 that it has agreed to a revenue-sharing joint venture with United Airlines for flights between Canada and the United States. The airlines said the arrangement will help them compete more effectively, while supporting substantial service and pricing benefits for passengers. Air Canada which provides 59 transborder services will gain from UA's presence in 211 US airports and UA which serves 16 Canadian cities will gain from Air Canada which serves several Canadian cities.

13. Air Canada Named Canada's Preferred Airline by Frequent Business Travellers

Air Canada has been named Canada's favourite airline for business travel in the Ipsos Reid Business Traveller Survey. Air Canada was preferred by 71 per cent of Canadian business travellers surveyed for 2010, the third consecutive year of improvement in Air Canada's ratings in the national survey.

14. WestJet ranks number one in brand survey

In a study conducted by Harris-Decima, WestJet was ranked number one in brand equity. The airlines in the survey were Air Canada, American Airlines, British Airways, Porter Airlines, Southwest Airlines, United Airlines and Virgin Airlines.

15. Jazz Air fund to be called Chorus Aviation

Jazz Air Income Fund will convert into a dividend-paying corporation named Chorus Aviation Inc. by the end of the year, when federal tax changes are set to come into effect.

16. Air Miles program soars among small businesses

The chief marketing officer of the Air Miles Reward Program, the country's largest rewards program with 10 million active collector accounts, said that in 2010 the company will give away about \$500-million in rewards.

17. Airlines battle 'one-sided' agreement with Emirates

Ottawa has recently refused to grant new landing rights (in Calgary and Vancouver) to United Arab Emirates (UAE). The UAE then served notice that it will evict the Canadian Forces from Camp Mirage, a Persian Gulf base that serves as a crucial jump-off point to Afghanistan. Thereafter, Air France led a group of European and U.S. carriers to voice concerns about expansion-minded Emirates receiving low-interest aircraft financing and other subsidies. This led to reaction by chief executive officer at Dubai Airports Co., against critics in Canada and Europe. He said that "The only thing Dubai is guilty of is providing an environment that actually supports aviation." Last year, Air Canada argued that Emirates doesn't really want to fly customers between Canada and Dubai, but instead sees the foreign carrier as aggressively seeking to skim off lucrative international traffic via the UAE. The determination of traffic rights to Canadian airports under bilateral agreements and the international air policy rests with the Government of Canada.

18. Agency's jurisdiction to adjudicate the noise and vibration complaint filed pursuant to section 95.1 of the Canada Transportation Act

This case arose from a complaint by Quayside Community Board, pursuant to section 95.1 of the *Canada Transportation Act* (CTA), against certain railways, concerning noise and vibrations from operations at the New Westminster Yard. Mediation took place and the parties entered into a settlement agreement. Later, a second complaint was made indicating that mediation had failed together with request for relief. The railways responded indicating that a valid agreement was made when the first complaint was filed and the Agency cannot adjudicate this matter. The issue is now whether the Agency has the jurisdiction to make a determination on whether the alleged noise and vibration related to the operation of the New Westminster Yards falls within the ambit of section 95.1 of the CTA?

19. Aircraft movement statistics: Small airports [July 2010]

In July 2010, the number of take-offs and landings at the 132 airports in Canada without air traffic control towers reached 75,534 movements. Year-over-year increases were reported by 85 of these airports.

20. Calin Rovinescu's second shot at 'unfinished business'

At Air Canada, air traffic is growing, the balance sheet is repaired, the airline has won a global service award and Mr. Rovinescu is pursuing a bold plan in a fragile economy to expand its lucrative international business-class service. By luring US air travellers, Air Canada has about 34% of the transborder market. However, there are obstacles to his global dream. The Toronto hub can't work, unless the airport catches up with other global gateways by building an efficient transit line into the city. It also needs to relax visa rules for visitors who touch down briefly for international connections. Then there is the matter of Pearson Airport's heavy fees. Mr. Rovinescu admits that success will depend on the airlines 23,000 employees being "empowered," "inspired" and "motivated."

21. Civil aviation operating statistics [August 2010]

Operational data on civil aviation are now available for August 2010 from Statistics Canada.

22. Direction provided to Air Canada on accommodating travellers with peanut or nut allergies

The Canadian Transportation Agency issued a decision providing direction to Air Canada on how to accommodate travellers disabled by peanut or nut allergies on October 19, 2010.

23. Air Canada nut-free buffer zone gets OK

The Agency directive would require the airline to create a nut-free "buffer zone" around passengers who request special accommodation within 48 hours of their flight. The Agency made the decision after a complaint was filed by two passengers about allergies as a result of peanuts being served by Air Canada on its flights.

24. American Airlines and WestJet Announce Commercial Agreement

On October 19, 2010, American Airlines and WestJet announced that they have entered into an interline agreement. It means passengers can purchase a single ticket to points in Canada not served by American Airlines and can get their baggage checked on a single ticket when transferring to a WestJet flight. This gives passengers access to 25 destinations in Canada not served by American Airlines.

25. Air Canada Vacations brings more flights and holiday sun to Quebecers this winter

Air Canada will add two new non-stop routes out of Quebec this winter: a first-ever flight out from Quebec City to Cuba; and a new non-stop service between Montreal and Antigua.

26. WestJet likely to grow American deal

Shares in WestJet Airlines Ltd. jumped on October 20, 2010 after the Calgary-based carrier announced a new commercial partnership with American Airlines. WestJet will be looking to expand its network by selling flights to the U.S. on its partners planes as though they were its own. Management has indicated that they are looking to add three to four new code share arrangements by the end of 2011.

27. WestJet receives international Make-A-Wish Award

On October 21, 2010, WestJet was presented with a Make-A-Wish International Corporate Partner Award for 2009.

28. September Traffic: Stronger Passenger, Weaker Freight

On October 26, 2010, the International Air Transport Association (IATA) announced the international traffic results for September 2010. International passenger traffic increased 10.5% year-on-year which is significantly stronger than the 6.5% rise recorded for August 2010. International freight traffic recorded a 14.8% year-on-year increase in September 2010, which is significantly weaker than the 19.0% rise recorded in August 2010. IATA's Director General said "It is good news that the recovery in passenger markets continued in September. But the freight numbers are worrying..."

29. Air rage nets U.K. man a \$28,000 fine

A Newfoundland court has assessed \$28,000 in penalties against a British citizen who pleaded guilty to charges following an air rage incident last week. The man was removed from a Virgin Atlantic flight in Gander, N.L., on October 22, 2010 after the plane was forced to divert while enroute to England.

30. ATAC Testifies before the Senate Committee on Transport and Communications

The President and CEO of Air Transport Association of Canada appeared before the Senate Committee on Transport and Communications on October 27, 2010. He indicated that the air industry has gone through a lot of turbulence over the last few years and outlined the problems that the air industry continues to face. He drew attention to the following problems: 1. Airport rents; 2. Taxes - HST, Security Fees (the highest in the world), and Fuel excise taxes. These problems increase the costs to the airlines and as a result, this industry is not being nurtured on behalf of the airlines. He called on the government to see and treat the industry as playing a vital economic role rather than a source of revenue.

WATER TRANSPORTATION

1. Government of Canada and Marine Atlantic Inc. name new vessels

On May 29, 2010, government officials announced the names of Marine Atlantic Inc.'s (MAI's) two new vessels. The MV Blue Puttees and the MV Highlanders, which are expected to join MAI's fleet in early 2011, will significantly improve MAI's ability to provide on-time, reliable service and meet increasing traffic demand between North Sydney, and Newfoundland and Labrador.

2. Minister Day reports progress on the Asia-Pacific Gateway

The Honourable Stockwell Day, President of the Treasury Board and Minister for the Asia-Pacific Gateway (APG), hosted a roundtable on October 1, 2010 to discuss ways to build on the APG initiative's success. A few highlights of the report are: over \$3.5255 billion worth of projects have been announced, including federal contributions of over \$1.4 billion; and several key infrastructure projects that have already been completed, such as the Simon Fraser Bridge in Prince George, the twinning of the Trans-Canada Highway through Banff and the opening of the Pitt River Bridge to traffic in the Lower Mainland of British Columbia.

3. Shippers Group Supports New Shipping Act

The National Industrial Transportation League on September 30, 2010 threw its support behind the Shipping Act of 2010, a bill that would curtail ocean carriers' ability to discuss rates and service fees. The NIT League called the bill, "an appropriate first step toward achieving a more robust, competitive and efficient maritime industry ... The time has arrived to reexamine the U.S. Shipping Laws governing the international liner trades, and ... the proposed legislation provides an appropriate starting point to achieve regulatory reform." Rep. Oberstar's bill would abolish nearly all protection ocean carriers have from antitrust laws, except agreements to enhance service, such as vessel sharing agreements.

4. Mixed Carrier Response to Antitrust Bill

Executive of the Transpacific Carriers Conference and Westbound Transpacific Carriers Conference said that they do not believe that a sweeping overhaul to the shipping laws is necessary at this time.

5. Port Metro Vancouver - Accumulated Container Traffic Report YTD August 2010

Container traffic till the end of August 2010 was 1,624,713[TEUs] an increase of 14 percent over the same period in 2009. Imports increased by 16% and exports increased by 14% for this period.

6. Port Metro Vancouver - Accumulated Cruise Passenger Report YTD August 2010

Cruise passengers till the end of August 2010 were 454,861 a decrease of 37.9 percent over the same period in 2009. The change in revenue passengers were the same as that of passenger.

7. Prince Rupert - Accumulated cargo TEU summary [September 2010]

Accumulated cargo [TEUs] for the Port of Prince Rupert from January to September 2010 increased by 41.8% compared to the same period in 2009. Exports increased by 51.2% and imports by 40.0%, in terms of TEUs. For the month of September 2010, cargo in terms of TEUs increased by 11.8%. Imports increased by 13% and exports by 10.3%.

8. WSC [World Shipping Council] Says Antitrust Bill Would Harm Economy

The World Shipping Council on October 14, 2010 said a bill that would eliminate antitrust immunity from ocean carriers is not a "sound proposal" and would cause more volatility in rates and make trading with the U.S. more costly and less efficient. It would also have the Federal Maritime Commission play a more intrusive regulatory role in existing market-based relationships between carriers and shippers.

9. Imports Down Through Port of LA-Long Beach

Containerized imports through the ports of Los Angeles and Long Beach in September 2010 showed a strong double-digit increase [20.8%]over the same month last year, but the numbers were down compared to the August 2010 volumes. Long Beach's imports increased 28.4 percent from last September 2009. Exports in Long Beach were up 13.4 percent in

Water Transportation

Canada

1. Government of Canada and Marine Atlantic Inc. name new vessels, September 29, 2010, www.tc.gc.ca

2. Minister Day reports progress on the Asia-Pacific Gateway, October 1, 2010, www.tc.gc.ca

3. Shippers Group Supports New Shipping Act, October 1, 2010, www.joc.com

4. Mixed Carrier Response to Antitrust Bill, October 3, 2010, www.americanshipper.com

5. Port Metro Vancouver - Accumulated Container Traffic Report YTD August 2010, October 5, 2010, www.portvancouver.com

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8. WSC Says Antitrust Bill Would Harm Economy, October 15, 2010, www.joc.com

9. Imports Down Through Port of LA-Long Beach, October 15, 2010, www.joc.com

10. MSC, OOCL Cancel Montreal Low-Water Surcharges, October 18, 2010, www.joc.com

11. Port Metro Vancouver-Accumulated Container Traffic Report [September 2010], October 18, 2010, www.portvancouver.com

12. Port of Montreal - Accumulated Container Traffic -Y-T-D [August 2010], October 18, 2010, www.portofmontreal.ca

13. Port Metro Vancouver - Portview Cruise Revenue Passenger Performance Y-T-D [September 2010], October 19, 2010, www.portvancouver.com

14. Port of Halifax - Third Quarter (2010) Summary of Cargo and Cruise Activity, October 19, 2010, www.portofhalifax.ca

15. A Quarter Million Passengers -2010 milestone at the Port of Halifax, October 21, 2010, www.portofhalifax.ca

16. Q3 2010 Summary of Cargo & Cruise Activity, October 19, 2010, www.portofhalifax.ca

17. Deltaport welcomes largest CMA CGM vessel, October 21, 2010, www.portvancouver.com

18. Port Metro Vancouver Accumulated Year to Date Traffic (September 2010), October 27, 2010, www.portvancouver.com

September 2010 over the same month last year. Exports in Los Angeles were down less than 1 percent.

10. MSC, OOCL Cancel Montreal Low-Water Surcharges

The level of water in the St. Lawrence River has risen from last summer's lows, enabling container ships to carry more cargo into the Port of Montreal. Mediterranean Shipping Co. and OOCL announced separately they will cancel the low-water surcharges (\$75 per TEU container and \$150 per FEU container) they imposed last summer.

11. Port Metro Vancouver - Accumulated Container Traffic Report Y-T-D [September 2010]

Accumulated container traffic (TEUs) increased to 1,854,223 from January to September 2010 at the Port of Metro Vancouver, a 16% increase over the same period in 2009. Exports increased by 15% and imports by 16% for the above period.

12. Port of Montreal - Accumulated Container Traffic -Y-T-D [August 2010]

Accumulated container traffic (TEUs) increased to 878,347 from January to August 2010 at the Port of Montreal, a 5.1% increase over the same period in 2009. In terms of metric tonnes, the increase for the period was much larger - 8%. Exports and imports in terms of TEUs increased by 4.9% and 5.2%, respectively.

13. Port Metro Vancouver - Portview Cruise Revenue Passenger Performance Y-T-D [September 2010]

Cruise passengers from the Port of Metro Vancouver declined 36.3% for the period January to September 2010 compared to the same period in 2009. Total passengers fell to 114, 576 from 161,956 for the above period.

14. Port of Halifax - Third Quarter (2010) Summary of Cargo and Cruise Activity

For the third quarter of 2010, the Port of Halifax reports that containerized cargo volumes (TEUs) continued to grow with a 33.5% gain compared to the same quarter in 2009. The growth rate in imports (46.5%) outpaced the growth rate of containerized exports (22.9%). Cruise passengers for the third quarter of 2009 increased to 155,935 from 126,184, a 23.6% increase over the same quarter in 2009. Year-to-date statistics for cruise passengers indicate a 22.6% increase.

15. A Quarter Million Passengers –2010 milestone at the Port of Halifax

The Port of Halifax reached a cruise milestone on October 21, 2010 with over a quarter million passengers visiting the port this season. This means a significant economic benefit with an estimated expenditure of \$50 million from passenger, crew, and cruise lines to our local area.

16. Q3 2010 Summary of Cargo & Cruise Activity

The port of Halifax reported its key statistics for the third quarter of 2010. A snapshot of the statistics indicate a steady growth in cargo volumes for this quarter. A few key statistics are as follows: containerized cargo grew 34% over the first nine months of the year; containerized import growth outpaced exports; containerized growth attributed to new shipping lines, more frequent port calls and more cargo with existing lines, plus expanded trade routes; breakbulk cargo (e.g.: machinery and forest products) was up 13.5%, year-to-date (y-t-d); bulk cargo (e.g.: oil import and gypsum exports) was down 14.5% y-t-d; Ro/Ro cargo (e.g.: automobiles) was up 19.9% y-t-d; and cruise passenger count was up over 22% y-t-d.

17. Deltaport welcomes largest CMA CGM vessel

On October 19, 2010, the 8,500-TEU CMA CGM *Figaro*, called in Vancouver. It was the largest CMA CGM vessel ever to call at a Canadian port.

18. Port Metro Vancouver Accumulated Year to Date Cargo Traffic (September 2010)

The Port of Metro Vancouver reported year to date cargo traffic for September 2010. Container traffic (TEUs) increased 15.6% from January 2010 to September 2010 compared to the same period in 2009. Inbound traffic increased 16.3% and outbound traffic increased 14.8%. For the same two periods, ship cruise passengers decreased 36.3% and all cargo tonnage increased 16.9% (inbound increased 17.9% and outbound increased 16.7%). All commodities in the cargo tonnage (bulk, breakbulk, container and auto) showed positive increases (mostly double digit) except animal products, dairy and produce which showed a decrease.

RAIL TRANSPORTATION

1. Invitation to Comment on Railway Fuel Surcharges and the Application of Certain Sections of the Act

The Canadian Transportation Agency is requesting comments, before November 1, 2010, from any interested party who wishes to make a submission on the following issue: whether a fuel surcharge constitutes "a charge" as contemplated under subsection 120.1(1) of the CTA, or whether a fuel surcharge forms part of the "rate for the movement of traffic" and as such is excluded from subsection 120.1(1) by virtue of subsection 121(7) of the CTA. Copies of the submissions should be served on CN at the same time as they are filed with the Agency.

2. CN Reaches Deal, Averts Work Stoppage

Canadian National Railway on October 1, 2010 reached a tentative three-year agreement with the Teamsters Canada Rail Conference union representing 2,700 operating employees. This agreement averts a potential strike or lockout, just as the peak season for intermodal shipments is beginning.

3. Teck and Canadian Pacific Announce 10-Year Agreement for Westbound Coal Exports

Canadian Pacific Railway Limited and Teck Resources Limited announced on October 6, 2010 a 10-year agreement to transport Teck's steelmaking coal from its five mines in southeast BC to Vancouver area ports. Don Lindsay, Teck President and CEO said "This agreement gives Teck the certainty we need to realize our growth strategy in coal and to deliver our increased production on a timely basis to our key markets." The collaboration shows the intention of the two companies to work and grow together.

4. CP Rail 'enthusiastic' about new Teck deal

The 10-year deal signed between Canadian Pacific Railway Ltd. (CP) and Teck Resources bodes well for the country's second largest railway, according to Walter Spracklin, RBC Capital markets analyst. First, it is for ten years rather than five. Second, it will enable CP to recover some of its lost volume. Third, the cost of moving coal will not be tied to coal but to other cost factors. Fourth, the market may react positively to the agreement. Finally, investors may react positively to the view that CP may be able to execute its strategy and the stock price does not reflect an upside.

5. Railways have until 2013 to shape up

A federal panel is recommending that Ottawa give the country's largest railways two years to improve their customer service — or enact legislation that would force them to do so. In its interim report "The panel has concluded that there have been significant service problems within the system." "Although the railways have taken steps to address service issues, problems still remain." The three-person panel recommends the railways implement a series of measures by 2013, including giving at least 10 days' notice to shippers for any change in service; establishing service-level agreements with customers; improving the data they share with customers; and implementing a low-cost dispute-resolution mechanism that would include a federally appointed mediator. The Canadian Industrial Transportation Association welcomed the report. The railways rejected the need for re-regulation and objected to the need for a federally appointed mediator as it would be tantamount to final offer arbitration. They indicated they have been doing a great deal recently to deal with shipper related problems. The interim report will be sent out for consultation before a final report is released at the end of this year.

6. CN tries to stave off potential regulation

Ottawa is considering whether further regulations are needed to ensure that the country's largest railways are meeting the

Rail Transportation

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1. Invitation to Comment on Railway Fuel Surcharges and the Application of Certain Sections of the Act, September 30, 2010, www.cta-otc.gc.ca
2. CN Reaches Deal, Averts Work Stoppage, October 2, 2010, www.joc.com
3. Teck and Canadian Pacific Announce 10-Year Agreement for Westbound Coal Exports, October 6, 2010, www.cpr.ca
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5. Railways have until 2013 to shape up, October 13, 2010, www.nationalpost.ca
6. CN tries to stave off potential regulation, October 13, 2010, www.joc.com
7. Railways customers slam freight service, October 13, 2010, www.nationalpost.ca
8. CN signs voluntary mitigation agreement (VMA) with Village of Sauk Village, Ill, October 13, 2010, www.cn.ca
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10. Governments unveil the new Toronto Rocket, October 14, 2010, www.tc.gc.ca
11. CN ramps up efficiencies, car capacity for steel industry, October 15, 2010, www.ctl.ca
12. CN, Western Stevedoring and forest-products companies sign MOU for seven-day-a-week unloading at Lynnterm Terminal at Port Metro Vancouver, October 19, 2010, www.cn.ca
13. STB Sets Hearing On Expanding Cargo Regulation, October 21, 2010, www.joc.com
14. Rail Traffic Rebounded in Mid-October, October 21, 2010, www.joc.com
15. CN Net Rises 21 Percent to \$543 Million, October 26, 2010, www.joc.com
16. CN reports Q3-2010 net income of C\$556 million, or C\$1.19 per diluted share, October 26, 2010, www.cn.ca
17. CN declares fourth-quarter 2010 dividend, October 26, 2010, www.cn.ca
18. CN sees clear way ahead in 2010, October 27, 2010, www.globeandmail.ca
19. Canadian Pacific announces third-quarter results, October 27, 2010, www.cpr.ca
20. Rail shippers coalition demands action now on rail service concerns, October 26, 2010, www.ctl.ca
21. Railway carloadings, October 27, 2010, www.statcan.gc.ca
22. CN reaches tentative agreement with union representing engineers on Northern Quebec Internal Short Line, October 27, 2010, www.cn.ca
23. CN locomotive engineers and conductors in eastern Quebec, northeastern New Brunswick ratify new collective agreement, October 27, 2010, www.cn.ca

US

1. Surface Transportation Board sees new direction for Agency, October 7, 2010, www.americanshipper.com
2. UP: third quarter profit 51 percent higher, www.americanshipper.com

demands of those who rely on them to ship their goods. At the same time, Canadian National Railway Co. is taking great pains to improve its customer service. They have made service agreements with a number of shippers and are setting up and tracking new measurements for customer service, and making goals for improvements, etc. It has also set keeping records of how it is meeting shippers request for rail cars. The president of CITA commended CN on its voluntary efforts to improve its service. However, the group said the railway's service falls far short of what is needed. CITA has been urging Ottawa to implement a new government body to oversee the quality of service the railways provide and to allow for financial penalties when they fall short of their commitments. They agreed that a commercial solution would be desirable if it was a normal competitive market but this is not so as the railways are a duopoly in Canada.

7. Railways customers slam freight service

Customers of Canada largest railways have issued a damning review of the quality of service they have received in recent years with nearly two-thirds claiming to have suffered a “significant financial loss” as a result of poor rail service. Only about 17% of those surveyed said they have a high level of satisfaction in the service they have received from either CN or CP. Moreover, 62% of those surveyed said they had suffered significant financial losses, sometimes in the millions. Shippers do not want to see the government take over the railways again. Shippers would like to see some sort of financial penalties made available if rail cars show up late, like the demurrage fees the railways charge shippers. It has been observed that where there is some competition the service is better and captive shippers are the most vulnerable.

8. CN signs voluntary mitigation agreement (VMA) with Village of Sauk Village, Ill

CN announced on October 13, 2010 that it has reached a voluntary mitigation agreement (VMA) with the Village of Sauk Village, Ill., located approximately 30 miles south of Chicago, addressing the municipality's environmental and safety concerns with CN's acquisition of the Elgin, Joliet and Eastern Railway Company (EJ&E). With this agreement, CN has VMAs with 24 of the 33 communities situated on the EJ&E track in Illinois and Indiana.

9. B.C. must innovate to pay the freight

Vancouver Mayor Gregor Robertson called on the federal government to rescue the American rail service from Seattle to Vancouver. On this service, passengers have to clear customs, which costs \$1500 a day. Ottawa agreed to initially cover that amount, during the Olympics but that is now over. Amtrak will now have to pay for the cost of this service but it says it will not. Amtrak and B.C. tourism officials say the new service has generated more than \$11-million in economic activity in Canada since it's been in operation. They are of the opinion that if Ottawa footed the bill it would see a significant return on investment to be realized for a mere half a million a year. It appears the timing may be wrong for asking the Federal government for subsidies and alternatives may be available to maintain the service.

10. Governments unveil the new Toronto Rocket

Government and Toronto Transit Commissions officials unveiled the new Toronto subway rocket trains. Labour Minister Raitt said “The Government of Canada is very pleased to contribute to these next-generation trains for use in Toronto’s subway system. These new trains will offer great benefit for transit riders in Toronto and the Greater Toronto Area. Through this investment, we are providing families and businesses with greater transit options, reducing traffic congestion and supporting better air quality across the region.” The Government of Canada is contributing \$92.3 million over five years through the Canada Strategic Infrastructure Fund to support the construction and delivery of 78 Toronto Rocket subway cars, or the equivalent of 13 complete six-car train sets.

11. CN ramps up efficiencies, car capacity for steel industry

CN has developed new supply chain efficiencies. As part of this initiative, CN has established strategic car staging locations near producer facilities: one in Sorel-Tracy, Que., northeast of Montreal, the other in Paris, Ont., located west of Hamilton. It has also acquired gondolas and ore cars. It appears that CN wants to expand its share of steel movement by focusing on end to end supply-chain.

12. CN, Western Stevedoring and forest-products companies sign MOU for seven-day-a-week unloading at Lynnterm Terminal at Port Metro Vancouver

On October 19, 2010, CN, Western Stevedoring Company Ltd. and several forest-products companies reached a memorandum of understanding for seven-day-a-week unloading services at Western Stevedoring's Lynnterm Terminal at Port Metro Vancouver (PMV). The tri-partite agreement among the railway, terminal and forest-products customers will produce a more consistent flow of forest-products traffic through Lynnterm Terminal and will help improve supply chain efficiencies at PMV.

13. STB [Surface Transportation Board] Sets Hearing On Expanding Cargo Regulation

US Federal rail regulators set in motion a process that could end certain exemptions by reclaiming oversight of railroads' freight service and rate levels on cargoes that are now exempt. The Chairman of the STB (Daniel Elliott) indicated that this might occur as a two-year effort to legislate new competition rules and other shipper-friendly regulatory policies might fail to pass Congress in 2010. Earlier, the STB at the request of lawmakers held off launching a review of past policies, but Elliott said the agency would now move forward.

14. Rail Traffic Rebounded in Mid-October

North American rail freight traffic rebounded in the week ending Oct. 16, 2010 a period that included the Oct. 11 holiday in the U.S. and Canada. The Class I carriers and some large regional lines that report volume to the Association of American Railroads - saw their carloadings on non-intermodal traffic rise to 395,724 units from 385,686 a week earlier. Intermodal traffic witnessed a small increase.

15. CN Net Rises 21 Percent to \$543 Million

Canadian National Railway's net income rose 20.6 percent in the July-September 2010 quarter from a year earlier to \$543 million, as revenue increased 15 percent to \$2.072 billion. The results raised CN's profit margin to 26.2 percent of revenue from 25 percent in the same period of 2009.

16. CN reports Q3-2010 net income of C\$556 million, or C\$1.19 per diluted share

Canadian National Railway announced its third quarter results on October 26, 2010. The results indicate that: net income increased by 21 per cent to C\$556 million; diluted earnings per share (EPS) of C\$1.19 increased by 23 per cent over reported diluted third-quarter 2009 EPS, and by 27 per cent over adjusted diluted EPS for the same period of last year; revenues grew by 15 per cent to C\$2,122 million, while carloadings increased 18 per cent, and revenue ton-miles rose nine per cent; operating income increased by 21 per cent to C\$834 million; operating ratio improved by two points to 60.7 per cent; nine-month free cash flow totalled C\$938 million, up from C\$657 million generated during the comparable period of 2009. Claude Mongeau, president and chief executive officer, said: "CN had very strong results, posting increased third-quarter net income driven by solid revenue growth, effective cost control and improved productivity. Greater freight volumes in almost all markets reflected the continued recovery in North American and global economies."

17. CN declares fourth-quarter 2010 dividend

CN announced on October 26, 2010 that its Board of Directors has approved a fourth-quarter 2010 dividend on the Company's common shares outstanding. A quarterly dividend of 27 cents (C\$0.27) per common share will be paid on Dec. 31, 2010, to shareholders of record at the close of business on Dec. 10, 2010.

18. CN sees clear way ahead in 2010

Canadian National Railway doesn't expect its 2010 earnings growth will be slowed down by a softening of the North American economy in the final months of the year.

19. Canadian Pacific announces third-quarter results

Canadian Pacific Railway announced its third quarter results on October 27, 2010. The results indicate that: total revenues increased 15 per cent from \$1.1 billion to \$1.3 billion; adjusted operating income increased 28 per cent from \$263.8 million to \$337.7 million; adjusted operating ratio improved 270 basis points to 73.7 per cent; adjusted earnings increased 27 per cent from \$160.9 million to \$204.7 million; and adjusted diluted earnings per share increased 27 per cent from \$0.95 per share to \$1.21 per share. Fred Green, President and Chief Executive Officer said "CP delivered another strong quarter of financial performance on double digit revenue growth and an improved operating ratio."

20. Rail shippers coalition demands action now on rail service concerns

The chairman of the Coalition of Rail Shippers and president of the Canadian Industrial Transportation wrote to MPs stating that the Coalition of Rail Shippers (CRS) is deeply disappointed with the "wait and see" recommendation of the Rail Freight Service Review Panel and is instead urging the federal government to act decisively now to address shortcomings in rail service. They are of the opinion that it is recognized that the railways have market power so it makes no sense to recognize the problem as the superior market clout of the railways and then propose giving the railways three more years to find commercial solutions. The Panel has recognized the inadequate service provided by the railways and the Coalition claims that service has not increased in a significant way. The Coalition said we remain steadfast in our belief that without a *regulatory impetus* to do so, the railways will continue to be able to overcharge and under deliver to shippers.

22. Railway carloadings [August 2010]

The Canadian railway industry saw an increase in cargo loadings in August 2010. Total rail freight traffic increased to 25.1 million metric tonnes in August 2010, up 19.6% from the same month last year. Intermodal freight loadings, increased 18.6% from August 2009 to 2.4 million metric tonnes.

23. CN reaches tentative agreement with union representing engineers on Northern Quebec Internal Short Line

CN announced on October 27, 2010 that it has reached a tentative labour agreement with the Teamsters Canada Rail Conference (TCRC) union representing locomotive engineers who work on the Company's Northern Quebec Internal Short Line (NQISL).

24. CN locomotive engineers and conductors in eastern Quebec, northeastern New Brunswick ratify new collective agreement

CN announced on November 27, 2010 that locomotive engineers and conductors who work on its rail lines in eastern Quebec and northeastern New Brunswick have ratified a new collective labour agreement.

HIGHWAY

1. For-hire Motor Carrier Freight Services Price Index [Second Quarter 2010]

The For-Hire Motor Carrier Freight Services Price Index increased 0.3% in the second quarter of 2010 to 100.4 compared to 100.1 of the first quarter of 2010. The index is made of two components: general freight index and specialized freight index. Their weights are 57.9 and 42.1 in the index, respectively. The specialized freight trucking component increased 0.8%, while the general freight trucking component stayed the same. On a year-over-year basis, the index advanced 1.6% in the second quarter compared with the second quarter of 2009.

2. Couriers and Messengers Services Price Index [August 2010]

The Couriers and Messengers Services Price Index decreased 0.1% in August 2010 compared with July 2010. The courier portion fell 0.1% while the local messenger component rose 0.1%.

3. July 2010 Surface Trade with Canada and Mexico Rose 18.8 Percent from July 2009

Trade using surface transportation between the United States and its North American Free Trade Agreement (NAFTA) partners Canada and Mexico was 18.8 percent higher in July 2010 than in July 2009. It reached \$61.3 billion, according to the Bureau of Transportation Statistics (BTS) of the U.S. Department of Transportation. This compares to the 37.6% increase for June 2010. U.S.–Canada surface transportation trade totalled \$36.3 billion in July 2010, up 17.1 percent compared to July 2009.

4. Canadian Shipping Costs Climb 3 Percent

According to Canadian General Freight Index published by Nulogx, overall ground transportation costs rose 3 percent month-to-month in July 2010, in Canada. Base rates, excluding fuel surcharges, increased 3.2 percent from June. The average Canadian fuel surcharge dropped slightly to 13.13 percent of base rates.

5. Governments of Canada and Alberta break ground on Cameron Heights interchange in Edmonton

Construction on the final interchange on Anthony Henday Drive in Edmonton is officially underway. The governments of Canada and Alberta will each contribute \$12.5 million toward the \$25-million project that will be completed in the fall of 2011. The other four interchanges, at Stony Plain Road, Lessard Road, Callingwood Road and Rabbit Hill Road, will also open next fall.

6. Large urban transit [August 2010]

Total operating revenue (excluding subsidies) for 10 of Canada's largest urban transit properties [80% of all] rose 9.3% from August 2009 to \$209.8 million in August 2010. Ridership levels rose to 107.9 million passenger trips in August 2010, up 3.7% from the same month a year earlier.

7. Canada's transportation terminals making travel information more accessible to persons with disabilities

The Canadian Transportation Agency on October 21, 2010 released a report [Terminal Code Compliance Report 2010] finding that Canada's transportation terminals are becoming more accessible to persons with disabilities. Most federally regulated transportation terminals are now compliant with provisions of the *Code of Practice: Passenger Terminal Accessibility*.

8. Government of Canada and Mitsubishi Motor Sales of Canada partner to conduct all-electric vehicle trials

The Government of Canada and Mitsubishi Motor Sales of Canada Inc. (MMSCAN) announced on October 21, 2010 a partnership to test the Mitsubishi I-MiEV (Innovative Electric Vehicle) in Canada. Test results will also help to assess the

Highway Transportation

Canada

1. For-hire Motor Carrier Freight Services Price Index [Second Quarter 2010], September 30, 2010, www.statcan.gc.ca
2. Couriers and Messengers Services Price Index [August 2010], September 30, 2010, www.statcan.gc.ca
3. July 2010 Surface Trade with Canada and Mexico Rose 18.8 Percent from July 2009, September 30, 2010, www.dot.gov
4. Canadian Shipping Costs Climb 3 Percent, October 7, 2010, www.joc.com
5. Governments of Canada and Alberta break ground on Cameron Heights interchange in Edmonton, October 9, 2010, www.tc.gc.ca
6. Large urban transit, October 21, 2010, www.statcan.gc.ca
7. Canada's transportation terminals making travel information more accessible to persons with disabilities, October 21, 2010, www.cta-otc.gc.ca
8. Government of Canada and Mitsubishi Motor Sales of Canada partner to conduct all-electric vehicle trials, October 21, 2010, www.tc.gc.ca

US

1. Factors involved in fatal vehicle crashes, October 8, 2010, www.bts.gov
2. US Freight Transportation Services Index (TSI) Fell 0.6% in August 2010 from July 2010, October 14, 2010, www.bts.gov
3. UPS net profit soars 80 percent, www.americanshipper.com

potential environmental benefits of electric vehicle technologies in Canada. The I-MiEV is an all-electric vehicle that seats four adults and features unique architecture, including a 330-volt lithium ion battery that powers a 63-hp electric motor.

GENERAL

1. National tourism indicators

Tourism spending in Canada was up 1.5% in real terms in the second quarter of 2010, as increased spending by Canadians more than offset a decline in spending by international visitors to Canada. This was the fourth consecutive advance in tourism spending in Canada. Spending on air transportation by tourists was the largest component of expenditure in the transportation category.

2. Domestic travel

Statistics Canada indicates that preliminary data for the second quarter of 2010 and final data for the year 2009 on domestic travel from the Travel Survey of Residents of Canada are now available from them.

3. National Travel and Tourism Coalition Calls on Government to Enhance Competitiveness

A new study by the National Travel and Tourism Coalition (NTTC) reveals that Canada will continue to lose its attractiveness as a world tourist destination unless governments take immediate action to ease tax, regulatory and other burdens on the \$71.5 billion industry. Since 2002, Canada has slipped from 8th most popular destination for tourists to 15th. To regain our competitive position action is needed.

General

Canada

1. National tourism indicators, September 30, 2010, www.statcan.gc.ca
2. Domestic travel, October 5, 2010, www.statcan.gc.ca
3. National Travel and Tourism Coalition Calls on Government to Enhance Competitiveness, October 28, 2010, www.cacairports.ca

Publications

1. Breininger & Associates releases latest Canadian Courier & Logistics Industry Trends Report, September 30, 2010, www.ctl.ca
2. Port Vancouver Metro, Newsletter September, 2010, www.portvancouver.com
3. The Strategic Impact of the Canadian Aviation Based Travel and Tourism Industry on Canada's Economy, September 2010, www.cacairports.ca