

# Transportation Information Update\*

Editor: Joseph Monteiro\*\*

January 2006, No. 17

Associate Editor: Gerald Robertson\*\*

## AIR TRANSPORTATION

### 1. Air Canada simplifies fares to / from the United Kingdom, launches transatlantic expansion of popular simplified fare products

Air Canada announced on January 4, 2006 that it has expanded its low, simplified fares offering consumers and travel professionals the best value in air fare to and from the United Kingdom. These fares are available for the first time for flights to and from Canada to Heathrow and Manchester, in UK. It plans do to more of this for other transatlantic fares.

### 2. Air Canada expands pick and pay

Air Canada's new chief commercial officer says Air Canada will continue with its strategy of allowing consumers to pick and choose services they wish to pay for when purchasing services on its global network. He indicated he sees a day when passengers will log onto their Web site and select from an 'à la carte' menu of products and services. At present, Air Canada has five different fare types for its North American travel. One analyst indicates that they have not used this model internationally as low-cost carriers have not forced the traditional carriers to change. Air Canada indicates that it will introduce similar fare structures in international markets in the coming months.

### 3. Air Canada reports twenty first consecutive month of record load factors for December on 4.5% capacity growth

Air Canada reports its twenty first consecutive month of record load factors (system and domestic) for December 2005 compared to a year ago. The system passenger load factor in December 2005 was 77.3, this represents a 2.1 increase in points compared to December 2004. Overall capacity increased by 4.5% for December 2005 compared to a year earlier. The domestic load factor was 77.2, this represents a 0.2 increase compared to December 2004. Traffic increased in December together with capacity, the former more than the latter.

### 4. WestJet Revenue Passenger Miles increase 15%

WestJet announced that its load factor for December 2005 was 78.2 compared to 74.7 for December 2004. For 2005, its load factor was 74.6 compared to 70 for 2004. Its capacity for December 2005 grew 9.8% over December 2004. For 2005, its capacity increased 19.1% over the period 2004. Its revenue passenger miles increased 15% in December 2005 over the same month a year earlier and its revenue passenger miles increased 26.8% for 2005 over 2004.

### 5. Air Canada, WestJet fill more seats

Air Canada and WestJet had fewer empty seats in their planes in 2004 i.e their load factor had increased. The former had fuller planes than the latter. The load factors of Air Canada was 77.3 of Jazz was 71.1 for December 2005. The load factor of WestJet for December 2005 was 78.2. Forty-eight regional jets were added to the combined fleet of Air Canada and Jazz in 2005. The initiatives of both carriers is expected to boost their traffic.

### 6. Air Canada loses bid to keep records secret

An Ontario Superior court Judge ruled that Air Canada will have to open its books if it wants to proceed with a \$220 million corporate espionage lawsuit against WestJet. WestJet argued that the documents are needed to demonstrate Air Canada's claim that WestJet was able to compete more effectively on routes it shared with Air Canada.

## Current Developments in Brief

### Air Transportation

#### CANADA

1. Air Canada simplifies fares to / from the United Kingdom, launches transatlantic expansion of popular simplified fare products, January 4, 2006, [www.dot.gov](http://www.dot.gov)
2. Air Canada expands pick and pay, *Financial Post*, January 5, 2005, p. FP5.
3. Air Canada reports twenty first consecutive month of record load factors for December on 4.5% capacity growth, January 6, 2006, [www.aircanada.ca](http://www.aircanada.ca)
4. WestJet Revenue Passenger Miles increase 15%, January 5, 2006, [www.westjet.ca](http://www.westjet.ca)
5. Air Canada, WestJet fill more seats, *Globe and Mail*, January 6, 2006, p. B3.
6. Air Canada loses bid to keep records secret, *Financial Post*, January 7, 2006, p. FP5.
7. Can Brewer make cheap seats pay?, *Globe and Mail*, January 7, 2006, p. B1.
8. WestJet Operates Newest Fleet in North America, January 9, 2006, [www.westjet.ca](http://www.westjet.ca)
9. Air Canada's Jazz IPO road show takes flight, *Globe and Mail*, January 10, 2006
10. Air Canada to introduce Toronto-Shanghai non-stop flights; continues expansion of service to China, January 9, 2006, [www.aircanada.ca](http://www.aircanada.ca)
11. IATA condemns absurd European court ruling, January 10, 2006, [www.iata.org](http://www.iata.org)
12. \$20 flights remake Europe's economy, *Globe and Mail*, January 13, 2006, pp. B1/B6.
13. WestJet approves lease of two additional aircraft in 2007, January 24, 2006, [www.westjet.ca](http://www.westjet.ca)
14. ACE Aviation announces pricing of Jazz Air Income fund initial public offering and filing of final prospectus for the fund, January 24, 2006, [www.aircanada.ca](http://www.aircanada.ca)
15. Air Canada files to fly Los Angeles-Sydney non-stop, January 25, 2006, [www.aircanada.ca](http://www.aircanada.ca)
16. Aircraft movement statistics, *The Daily*, January 25, 2006, [www.statcan.ca](http://www.statcan.ca)

#### US/EU

1. Airline on-time performance in November shows improvement over last year, January 4, 2006, [www.dot.gov](http://www.dot.gov)

\* The CTRF is not responsible for the information provided in this Update.

\*\* The information provided is from the Authors and neither the Competition Bureau or Industry Canada is responsible for it.

The Judge did place some limitations on the quantity and type of documentation Air Canada is required to produce.

#### **7. Can Brewer make cheap seats pay?**

Montie Brewer, who now heads Air Canada, is focusing on a three prong strategy for Air Canada in 2006: 1. Comfortable planes with video screens for aircraft with more than 50 seats; 2. Competitive fares using a simplified fare structure to include international flights; and 3. Bulk sales through subscription passes. The objectives of the three are: staying competitive with rivals; enticing passengers; and developing customer loyalty and reducing costs, respectively.

#### **8. WestJet Operates Newest Fleet in North America**

WestJet announced on January 9, 2006 that it now operates North America's newest fleet of any large commercial airline comprised of 51 state-of-the-art Boeing Next-Generation aircraft. The age of its aircraft fleet as of December 31, 2005 was 2 years old. WestJet claimed it was a historic day for it as they retired their last 737-200 in operation. The new planes will be able to better serve their customers. These aircraft are also more fuel efficient.

#### **9. Air Canada's Jazz IPO road show takes flight**

Jazz Air Income Fund has set a yield of between 9.5 and 10.5 percent to attract investors as it begins a road show today to promote the regional airline. ACE Aviation Holdings Inc., the parent company of Air Canada, will retain a majority stake of between 80 and 85 per cent. This is ACE's second spinoff of its companies after the Aeroplan Income fund.

#### **10. Air Canada to introduce Toronto-Shanghai non-stop flights; continues expansion of service to China**

Air Canada announced on January 9, 2006 that effective June 16, 2006 it will introduce three non-stop flights between Toronto, Canada's largest city, and Shanghai. This will complement its Toronto-Beijing non-stop service and its service to Beijing and Shanghai from Vancouver. It also operates two daily flights from Toronto to Hong Kong. The service is designed to meet the needs of travellers and improve access to China.

#### **11. IATA condemns absurd European court ruling**

IATA expressed disappointment that the European Court of justice did not strike down a EC regulation on passenger compensation for denied boarding, delays and cancellations. IATA claimed that this rule does not make sense when it is beyond the control of the airlines such as adverse weather. Further, it contravenes the 1999 Montreal Convention which provides for such exception. In addition, it raises costs of air carriers, it limits Europe's competitiveness, it is a disincentive to provide commuter connection services, etc. This could ultimately lead to higher fares.

#### **12. \$20 flights remake Europe's economy**

Budget airlines in Europe last year became the most popular and the most profitable, surpassing the most successful commercial airlines. Ryanair's ticket sales on its short European network overtook sales on the entire global network of British Airways to become Europe's largest carrier moving 35 million people. By making flights affordable, by creating new destinations and by creating obscure ports, the discount carriers have changed the face of holiday travel. It has also enabled workers to keep their homes in Eastern Europe and commute on cut-rate flights rather than immigrate.

#### **13. WestJet approves lease of two additional aircraft in 2007**

WestJet announced on January 24, 2006, the approval of the lease of two Boeing Next-Generation aircraft from International Lease Finance Corporation by its Board of Directors.

#### **14. ACE Aviation announces pricing of Jazz Air Income fund initial public offering and filing of final prospectus for the fund**

ACE Aviation Holding Inc. and Jazz Air announced on January 24, 2006 that Jazz Air Income Fund (Fund) entered into an agreement with a group of underwriters to sell 23.5 million units of the Fund at a price of \$10 as part of its initial public offering of units. The Fund will acquire and own a 19.1% (or 22.0%) ownership in Jazz. ACE retains the controlling interest in Jazz.

#### **15. Air Canada files to fly Los Angeles-Sydney non-stop**

Air Canada has indicated that as a result of the expanded Open Skies Agreement for Canada and the US, new market opportunities have presented itself and it has applied to the Australian authorities to commence daily Toronto-Los Angeles-Sydney service. Flights will commence during the first half of 2007 with the delivery of Air Canada's new Boeing 777.

#### **16. Aircraft movement statistics**

The 42 Canadian airports with NAV CANADA air traffic control towers reported 281,382 aircraft take-off and landings in December 2005, up 5.4% from December 2004. Year-over-year increases in aircraft movements were reported by 27 of the airports in December 2005.

## WATER TRANSPORTATION

### WATER TRANSPORTATION

#### **1. Port of Montreal Posts Excellent Results in 2005**

On January 20, 2006, the Port of Montreal indicated that it had excellent results in 2005 after an exceptional year in 2004. The port handled 24.3 million tonnes in 2005 an increase of 707,250 tonnes or 3% over 2004. The port handled 1,254,560 TEUs in 2005 an increase of 28,264 TEUs or 2.3% over 2004. The preliminary financial results for 2005 fiscal year indicate that the port should declare for the 26th consecutive year a net profit of \$10.2 million. The port expects to invest about \$40 million this year in the improvement and modernization of its infrastructures.

## RAIL TRANSPORTATION

### **1. Rail transportation**

In 2004, railway operating revenues increased at their fastest pace in five years. In total, freight and passenger carriers recorded operating revenues of nearly \$8.9 billion, up 6.9% from 2003. This is more than five times the rate of growth in revenues in 2003. The market share of operating revenues of the railways in 2004 remained the same as the previous year: CN- 48%; CP-37%; and VIA Rail 5%. The top ten commodities accounted for 58% of the freight carried in 2004. The major commodities carried were: coal, wheat, potash and lumber. Passengers travelling by rail (more than 4 million) increased by 2.3% and passenger revenues (\$265.2 million) were up 3.7% over 2003.

### **2. Canadian Transportation Agency rules on CN and CP Western Grain Revenue Caps for crop year 2004-2005**

The Canadian Transportation Agency announced that CN revenues for the movement of Western grain exceeded its revenue cap for the year 2004-2005, whereas for CP it was below its cap. CN's grain revenue (\$305, 788, 835) was above the cap by \$118,714 and CP's revenue (\$323, 068, 715) was below the cap by \$531,061. CN has to pay the above noted excess plus five per cent to the Western Grains Research Foundation.

### **3. CP Rail cuts jobs to keep pace with CN**

Canadian Pacific Railway Ltd. [CPR] plans to cut nearly 400 management and office support jobs or 15 percent of its white collar positions. The company is seeking to improve its productivity gains and narrow the gap between it and Canadian National Railway Co. Many of the non-unionised CPR employees include those transferred to Calgary from Montreal in 1996.

### **4. Country's railways on different tracks**

The recent decline in CPR's stock has made it an attractive buy in the short run according to analysts but they continue to favour CN as an investment in the long run. They point to the differences in operating ratio. CN's operating ratio is 63.3 and CPR's is 77.4. To help narrow the productivity gap, recently, CPR plans to cut

400 office jobs. But last months announcement that one of CPR's largest customers was reducing its output of coal production did not help its stock price. In addition, CPR's strategy has been to expand its lines marginally while CN has made key acquisitions and integrated new operations into its own system. These factors may be behind the view of analysts why Canada's two railways may be on different tracks.

### **5. City of Richmond acquires Canadian Pacific Railway (CPR) spur**

The City of Richmond has completed an agreement with CPR to purchase the west leg of its Van Horne Spur line. The Major for the City indicated that the purchase will enable them to improve the flow of traffic throughout central Richmond and to build the next link in the critically-needed new road works.

### **6. CN purchases RailAmerica's Alberta short lines for C\$26 million**

On January 19, 2006, CN announced the purchase of the Alberta short-line railways owned by RailAmerica Inc. of Florida for C\$26 million. Following RailAmerica's decision to divest its Alberta short lines, CN is buying Mackenzie Northern Railway (MKNR) running from Hay River (Great Slave Lake) to Smith (600 miles) and Lakeland & Waterways Railway (LWR) from O'Morrow to Edmonton (118 miles). Also included in the transaction is the Central

## Water Transportation

### CANADA

1. Port of Montreal Posts Excellent Results in 2005, January 23, 2005, [www.portofmontreal.ca](http://www.portofmontreal.ca)

### US/EU

1. Cruise passenger traffic shows continued growth, January 5, 2006, [www.dot.gov](http://www.dot.gov)

## Rail Transportation

### CANADA

1. Rail transportation, *The Daily*, January 5, 2006, [www.statcan.ca](http://www.statcan.ca)

2. Canadian Transportation Agency rules on CN and CP Western Grain Revenue Caps for crop year 2004-2005, January 4, 2006, [www.cta-otc.gc.ca](http://www.cta-otc.gc.ca)

3. CP Rail cuts jobs to keep pace with CN, January 15, 2006, [www.globeandmail.com](http://www.globeandmail.com)

4. Country's railways on different tracks, *Globe and Mail*, January 17, 2006, p. B16.

5. City of Richmond acquires CPR spur, January 16, 2006, [www.cpr.ca](http://www.cpr.ca)

6. CN purchases RailAmerica's Alberta short lines for C\$26 million, January 19, 2006, [www.cn.ca](http://www.cn.ca)

7. CN and BNSF Railway announce agreement to increase network fluidity and infrastructure capacity, January 19, 2006, [www.cn.ca](http://www.cn.ca)

8. CPR signals a switch in strategy, January 20, 2006, [www.globeandmail.ca](http://www.globeandmail.ca)

9. Railways on track to steam past rivals in transportation sector, *Globe and Mail*, January 24, 2006, p. B13.

10. CN reports fourth-quarter 2005 earnings per share of C\$1.56 and record full-year 2005 free cash flow of C\$1.3 billion, January 24, 2006, [www.cn.ca](http://www.cn.ca)

11. CN announces two-for-one stock split, 30 per cent increase in cash dividend, January 24, 2006, [www.cn.ca](http://www.cn.ca)

12. The old railway is on a roll, January 25, 2006, [www.globeandmail.ca](http://www.globeandmail.ca)

13. Rail carloadings, *The Daily*, January, 25, 2006, [www.statcan.ca](http://www.statcan.ca)

14. Canadian Pacific Railway and CN to implement further service improvements at the Port of Vancouver, January 26, 2006, [www.cpr.ca](http://www.cpr.ca)

15. CPR-CN deal to ease Vancouver logjam, *Globe and Mail*, January 27, 2006, p. B4.

Western Railway (CWR). These short lines carried about 50,000 carloads of freight last year and employed 130 people.

#### **7. CN and BNSF Railway announce agreement to increase network fluidity and infrastructure capacity**

CN and BNSF Railway Company announced on January 19, 2006, an agreement on improving rail network fluidity and infrastructure capacity in Vancouver, Chicago and between Memphis and Southern Illinois. The agreement includes track and rail infrastructure exchanges between the railroads (in Vancouver and Chicago), and CN's grant of trackage, haulage and other access rights to BNSF Railway (between Memphis and Southern Illinois).

#### **8. CPR signals a switch in strategy**

To improve employee productivity and streamline its network, Canadian Pacific Railway Ltd. is giving greater power to its managers in a decentralization strategy. CPR has a larger operating ratio than its rival and wants to remain competitive. As part of its productivity drive it also plans to cut nearly 400 staff or 15 percent of its non-unionized work force.

#### **9. Railways on track to steam past rivals in transportation sector**

The price of oil has a greater impact on the airlines than on the railways. The railways have also been able to hedge against rises in oil prices with diesel contracts to a greater extent than the airlines with jet fuel contracts. The railways have also played a much greater role in trade with Asia. As a result, some investment companies have recommended increasing the weight of railways in their investment portfolios. Of the six north American railways, Canadian National Railways, Norfolk Southern Corp. and Canadian Pacific Railways Ltd. are ranked as the best choice.

#### **10. CN reports fourth-quarter 2005 earnings per share of C\$1.56 and record full-year 2005 free cash flow of C\$1.3 billion**

CN announced its fourth quarter results on January 24, 2006. The highlights for the fourth quarter compared to the same period in 2004 were: net income of C\$430 million, up 14%; Operating income of C\$720 million, up 19%; operating ratio of 61.8 an increase of 3.2 points. The highlights for 2005 compared to a year earlier were: net income of C\$1,556 million, up 24%; Operating income of C\$2, 624 million, up 21%; operating ratio of 63.8 an increase of 3.1 points. The President and CEO of CN indicated that he was pleased with the strong financial results of CN.

#### **11. CN announces two-for-one stock split, 30 per cent increase in cash dividend**

CN announced on January 24, 2006 that its Board of Directors has approved a two-for-one stock split of the outstanding company's common shares. The split will take the form of a stock dividend. The Board also approved a 30 percent increase in CN's quarterly cash dividend

#### **12. The old railway is on a roll**

CN's stock has gained more than a 1000 percent since it was privatized in 1995. The large North American railways are poised for the third consecutive year of profits as a result of the trade with Asia. CN is budgeting \$1.5 billion in capital spending across its rail network in 2006. CN has tried to win customers by its delivery on time. It has expanded by a number of acquisitions in the US midwest to New Orleans in the Gulf of Mexico. It has also succeeded in lowering its operating ratio to 63.8.

#### **13. Rail carloadings**

Canadian railways loaded less goods in November 2005 than they did in the previous month. The loadings were 24.9 million metric tonnes. Intermodal loadings fell 1.4% from October 2005 to 2.4 million metric tonnes. Non-intermodal freight fell 0.6% to 22.5 million tonnes in November 2005 from the previous month.

#### **14. Canadian Pacific Railway and CN to implement further service improvements at the Port of Vancouver**

CN and Canadian Pacific Railway (CPR) announced on January 26, 2006 that they have reached an agreement that will make rail operations more fluid in the Lower Mainland, British Columbia enhancing service for rail customers and supporting the growth of Pacific Gateway ports and terminals. CPR will handle all trains of both railways from Boston Bar, to Vancouver's South Shore using CPR train crews. CN will handle all trains of both railways from Boston Bar to Burrard Inlet North Shore in Vancouver using CN crews. CPR will also handle coal trains of both railways from Boston Bar to the Roberts Bank coal port. The agreement is expected to improve co-ordination and efficiency.

#### **15. CPR-CN deal to ease Vancouver logjam**

CPR and CN plan to ease West Coast port grid-lock by sharing tracks in a new co-operative train pact in Vancouver. The important change includes: eliminating interchanging traffic at the other railways lines in the Port of Vancouver. This should ease the flow of traffic from Asia which has been overwhelming the Port of Vancouver. An executive from CN described the CN-CR arrangement as a smart approach to cope with surging exports and imports. With co-operation agreements they would deliver better service to our port and terminal partners while ensuring healthy competition.

## HIGHWAY TRANSPORTATION

### 1. The Results are in Road Collisions Down Again in 2004

The latest statistics published by Statistics Canada reveal that motor vehicle collisions and casualties have decreased by 4.5 percent in 2004 compared to 2003. Canada's road safety record has steadily improved over the years though it accounts for 90 percent of all transportation related fatalities. This is so notwithstanding the fact that there are more vehicles and drivers on the road than in the past.

### 2. Couriers and Messenger Services Price Index

The Couriers and Messenger Services Price Index reached 114.2 in November, up 0.8% overall. The courier portion rose 1.1% while the local messengers component fell 0.5%.

### 3. Large urban transit

Approximately 118 million passenger trips were taken on the 10 large urban transit systems in Canada in November 2005. This was 2.7% higher than the same month last year. The trips generated \$176.9 million in revenue an increase of 5.1% above the same period last year.

### 4. Study: On the road again, a profile of truckers

According to a new study, *Perspectives on Labour and Income*, trucking plays a major role in Canada's economy. More than 53% of exports to the United States and 78% of all imports were shipped by truck in 2004. Nearly 271,000 people, mostly men worked as truckers in 2004. Just over 60% of all truckers worked directly for a transportation company. Given the structure of the trucking workforce, the industry may soon face a shortage of qualified truckers.

## GENERAL

### 1. Travel between Canada and other countries

Travel by Canadians abroad recorded the highest monthly level in over four years in November 2005. An estimated 3.7 million Canadians travelled abroad, up 1.3% from October 2004. The increase was largely a result of increased trips by Canadians to the US (3.2 million). Canadian travel to overseas countries (508,000) fell 3.0%. Travel to Canada increased 1%, consisting of a 0.7% increase by people from the US and a 3% increase by people from overseas countries.

### 2. Outsourcing is a way of life

A newspaper article reports that outsourcing is a way of life for a number of companies and that it could lead to an increase in profits. It saves the company time and energy and could help them from making costly mistakes, especially with regard to ongoing changes in laws and regulation. Outsourcing has also been expanding for a growing number of small businesses. What to out source is an individual decision to each company. It depends not just on where a firm's strengths lie but also the philosophy of its owners. Where a company can add more value and make them unique is generally kept in house.

### Highway Transportation

#### CANADA

1. The Results are in Road Collisions Down Again in 2004, December 30, 2004, [www.tc.gc.ca](http://www.tc.gc.ca)
2. Couriers and Messenger Services Price Index, *The Daily*, January 9, 2005, [www.statcan.ca](http://www.statcan.ca)
3. Large urban transit, *The Daily*, January 17, 2005, [www.statcan.ca](http://www.statcan.ca)
4. Study: On the road again, a profile of truckers, *The Daily*, January 27, 2006, [www.statcan.ca](http://www.statcan.ca)

#### US/EU

1. BTS Releases North American Surface Trade Number for October: Surface Trade with Canada and Mexico Reached a Monthly Record High in October 2005, December 30, 2005, [www.dot.gov](http://www.dot.gov)

### Current Developments in Brief

#### General

##### CANADA

1. Travel between Canada and other countries, *The Daily*, January 19, 2006, [www.statcan.ca](http://www.statcan.ca)
2. Outsourcing is a way of life, January 26, 2006, [www.globeandmail.ca](http://www.globeandmail.ca)

##### US/EU

1. BTS Releases Transportation Services Index (TSI): Index Fell 0.6 percent in October from September, January 6, 2006, [www.dot.gov](http://www.dot.gov)