

Transportation Information Update*

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AIR TRANSPORTATION

1. Passenger traffic growth slows, freight remains flat

The International Air Transport Association released traffic results for the first ten months of 2005 indicating a weakening trend for both cargo and passenger traffic. October 2005 traffic grew by 6% which is considerably below the average of 7.9% for the period from January to October 2005. It appears that this may be due to North American carriers which posted growth of 5.5% for October down from 9.1% recorded for year-on-year comparisons.

2. Jazz to launch daily non-stop service between Edmonton and Los Angeles

Air Canada announced on December 5, 2005 that it will launch daily non-stop flights between Edmonton and Los Angeles effective May 1, 2006. The flights are launched to provide same-day connections for travellers from Grande Prairie and Fort McMurray.

3. Air Canada reports twentieth consecutive month of record load factors for November on 3.1% capacity growth

Air Canada reports the twentieth consecutive month of record load factors (system and domestic) for November 2005 compared to a year ago. The system passenger load factor in November 2005 was 76.4%, this represents a 1.8 increase in percentage points compared to November 2004. Overall capacity increased by 3.1% for November 2005 compared to a year earlier. The domestic load factor was 77.6%, this represents a .9% increase compared to November 2004. However, traffic decreased in November together with capacity, the latter more than the former.

4. Airlines get more passengers

Canada's two major air carriers, Air Canada and Westjet Airlines Ltd., both reported improved passenger levels for November 2005. While Air Canada's domestic business declined, its transborder traffic as well as its transatlantic traffic rose sharply in November. There were smaller increases on its transpacific and on its Latin American routes. WestJet's revenue passenger miles based primarily on its domestic flight and some flights elsewhere in North America was up 29.3%.

5. Travellers flock to Air Canada, WestJet

Both carriers recorded increased load factors for November 2005 compared to November 2004. WestJet's load factor increased to 71.9% in November compared to 58.5% in November 2004. The sharp rise has partly been attributed to the airline fixing its problems with its computer network reservation system. The CEO of WestJet cautioned against too much optimism as expensive oil prices are affecting profits despite implementing a fuel risk management strategy.

6. Air Canada kills 125 Air Deals

Air Canada is cutting nearly half of the 250 commercial relationship it holds with airlines around the world to cut costs and simplify its route network. It informed 115 airlines that it will no longer take part in previously negotiated interline agreements. Of the 115, at least six offer service directly to Canada. Air Canada also indicated that it will be looking to restructure its international network in the near future together with expanding its North American airline fare structure to international routes. Its plans are viewed as an attempt to simplify things and concentrate business within the Star Alliance.

* 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.

Current Developments in Brief

Air Transportation

CANADA

1. Passenger traffic growth slows, freight remains flat, Nov. 30, 2005, www.iata.org
2. Air Canada Jazz to launch daily non-stop service between Edmonton and Los Angeles, Dec. 5, 2005, www.aircanada.ca
3. Air Canada reports twentieth consecutive month of record load factors for November on 3.1% capacity growth, December 7, 2005, www.aircanada.ca
4. Airlines get more passengers, December 6, 2005, www.globeandmail.ca
5. Travellers flock to Air Canada, WestJet, *Globe and Mail*, December 7, 2005, p. B7.
6. Air Canada kills 125 Air Deals, *National Post*, December 7, 2005, p. FP4.
7. WestJet's November load factor increase to 71.9%; Year-to-date load factor increases to 74.2%, December 6, 2005, www.westjet.ca
8. WestJet faces new spying allegations, December 9, 2005, www.globeandmail.ca
9. WestJet converts rights and purchase options for seven Boeing next generation 737 aircraft, December 7, 2005, www.westjet.ca
10. WestJet commences service to Honolulu, December 9, 2005, www.westjet.ca
11. UPS to make case vs. Canada Post, *National Post*, December 13, 2005, p. FP3.
12. CTA rules that persons who require medical oxygen available to them when they travel by air encounter obstacles, December 14, 2005, www.cta-otc.gc.ca
13. Air Canada launches new routes from Calgary, inaugurates non-stop service to Orlando and Abbotsford, December 17, 2005, www.aircanada.ca
14. Air Canada inaugurates daily non-stop service to San Diego, offers up to 20 daily flights to California, December 17, 2005, www.aircanada.ca
15. Air Canada inaugurates non-stop service to Santo Domingo, offers up to 20 weekly flights to Dominican Republic, December 17, 2005, www.aircanada.ca
16. Air Canada lawsuit 'malicious': WestJet, *National Post*, December 17, 2005, p. FP6.
17. Vancouver businessman's Harmony Airways takes aim at lucrative Chinese market, *National Post*, December 17, 2005, p. FP6.
18. Aircraft Movement Statistic, *The Daily*, October 2005, www.statcan.ca
19. Air Canada to launch daily non-stop service between Montreal and Denver, December 21, 2005, www.aircanada.ca
20. Air Canada welcomes its first EMBRAER 190 aircraft spacious next-generation jet with leading edge, amenities sets new standards for air travel in North America, December 23,

7. WestJet's November load factor increase to 71.9%; Year-to-date load factor increases to 74.2%

WestJet's load factor for November 2005 was 71.9%, a 13.4% increase over the 58.5% of November 2004. For the first 11 months of this year, the load factor was 74.2% a 4.9% increase over the same period for 2004. Year to date revenue passenger miles increased 28.1% compared to the same period in 2004.

8. WestJet faces new spying allegations

The *Globe and Mail* reported that "Air Canada that WestJet Airlines Ltd. ran an espionage campaign code-named the '007 Project' to steal confidential data from the larger carrier's 'evil empire,' allowing WestJet to strategically launch flights to the United States. In new court filings, Air Canada alleges that WestJet's snooping was designed in part to thwart the Montreal-based carrier's emergence from bankruptcy protection. Not only did WestJet spy on Air Canada and defunct Jetsgo Corp., but it also gained access to secret statistics at CanJet Airlines of Halifax..."

9. WestJet converts rights and purchase options for seven Boeing next generation 737 aircraft

WestJet announced on December 7, 2005 that its Board of Directors has approved the purchase of four additional Boeing next-generation 737 aircraft by converting purchase options with Boeing into a firm delivery. The aircraft are scheduled to be delivered in 2007.

10. WestJet commences service to Honolulu

WestJet commenced non-stop service between Vancouver and Honolulu, Hawaii on December 9, 2005. It has begun offering one non-stop return flight per day for five days in the week.

11. UPS to make case vs. Canada Post

This week UPS will make its case before the NAFTA Panel that Canada Post and Ottawa's Canada Border Services Agency have discriminated against its Canadian subsidiary to give Canada Post an edge in the courier business. UPS launched the complaint under Chapter 11 of NAFTA, a part of the pact that protects countries from Mexico and United States operating in Canada. It basically claims that its investment in Canada is being limited by Canada Post's network resulting in an unfair advantage in delivering parcel, express and courier services that are in competition with private courier services. Canadian postal and trade officials believe that there is little chance that UPS will win.

12. The Canadian Transportation Agency [CTA] rules that persons who require medical oxygen available to them when they travel by air encounter obstacles

Following 25 complaints about Air Canada and one complaint about Westgate regarding availability of medical oxygen to persons who fly, the CTA ruled that those who require medical oxygen available to them when they travel by air encounter obstacles. It found that non-provision of medical oxygen by Air Canada prior to boarding, certain Air Canada's policies and procedure, and the level of service constitute 'obstacles'. There are no current regulations that require Canadian carriers to provide oxygen service, this however, does not preclude the Agency from ruling on such matters. To determine if those obstacles are 'undue' the CTA plans to hold hearings in the spring of 2006.

13. Air Canada launches new routes from Calgary, inaugurates non-stop service to Orlando and Abbotsford

Air Canada launched two routes serving Calgary with the inaugural of non-stop services to Orlando and Abbotsford. Orlando is one of the popular destinations in Florida and Abbotsford is the fastest growing area in B.C.

14. Air Canada inaugurates daily non-stop service to San Diego, offers up to 20 daily flights to California

Air Canada inaugurated daily non-stop flights to San Diego from Vancouver. It now offers up to 20 daily flights to San Diego from various cities across Canada. San Diego is one of the key destinations for leisure and business.

15. Air Canada inaugurates non-stop service to Santo Domingo, offers up to 20 weekly flights to Dominican Republic

Air Canada inaugurated non-stop flights to Santo Domingo from Toronto. It now offers as many as 17 flights to the Caribbean from cities across Canada. The non-stop flights will operate 3 times weekly in the winter and spring and 2 times weekly for the rest of the year. Air Canada is the only carrier to operate scheduled service between the two cities.

16. Air Canada lawsuit 'malicious': WestJet

WestJet called Air Canada's espionage lawsuit (see 8) malicious while indicating that some actions by WestJet employees were inappropriate. He called on people to judge WestJet by the integrity of the organization and not the malicious ways they have been depicted by their competitors. He did also indicated that some employees betrayed the trust of the company by taking it 'too far'. WestJet argued that it did not break the laws by gathering data on its rivals.

17. Vancouver businessman's Harmony Airways takes aim at lucrative Chinese market

2005, www. aircanada.ca
21. Jazz underwriters won't pay, can't play, *National Post*, December 23, 2005, pp. FP1-2.
22. WestJet plans include customer perks, alliances with other airlines, *Globe and Mail*, December 26, 2005, p. B4.

US/EU
1. BA slices into executive ranks, *National Post*, Dec. 1, 2005, p. FP24.
2. U.S. airline sector poised for takeoff: analyst, *National Post*, Dec. 1, 2005, p. FP9.
3. Crowded skies, Nov. 28, 2005, www.joc.com
4. BTS Releases September 2005 Airline traffic data; nine-month domestic traffic up 5.3 percent from 2004, December 15, 2005, www.dot.gov
5. BTS Releases October Passenger Airline Employment Data; October 2005 Employment Down 5.5 Percent from October 2004, December 20, 2005, www.dot.gov
6. DOT Proposes broad codesharing Authority to Skyteam Alliance Members, Tentatively Denies Antitrust Immunity, December 22, 2005, www.dot.gov
7. Freight remains weak as passenger traffic stabilizes US\$6 billion loss projected for 2005, December 29, 2005, www.iata.org

Harmony Airways flies to nine cities in Canada, the US and Mexico and employs 280 people. It has carved out niche routes such as direct flights to Hawaii from Western Canadian cities. It plans to add other North American cities to its routes such as Montreal, New York and San Francisco, however, the destination that is being pursued is China. It has taken several steps to serving the Chinese market and wants to fly the route itself, however, Harmony Airways has not been allocated any frequency rights to China because they do not own planes to fly that route. In addition, buying planes is no longer the same as it was a few years ago as demand for them has risen from other countries.

18. Aircraft movement statistics

The 42 Canadian airports with NAV CANADA air traffic control towers reported 317,348 aircraft take-off and landings in November 2005, down 9.8% from November 2004. Year-over-year decrease in aircraft movements were reported by 31 of the airports in November 2005.

19. Air Canada to launch daily non-stop service between Montreal and Denver

Air Canada announced on December 21, 2005 the introduction of non-stop flights between Montreal and Denver beginning June 16, 2006. It will operate year-round daily non-stop service creating an important and strategic link between two Star Alliance carrier hubs and their extensive networks.

20. Air Canada welcomes its first EMBRAER 190 aircraft spacious next-generation jet with leading edge, amenities sets new standards for air travel in North America

Air Canada announced the inaugural flight of the EMBRAER 190 aircraft on its Orlando flight on December 22, 2005. The use of this aircraft brings modern, spacious, and efficient jet comfort to passengers. It also brings new entertainment system, etc. for the benefit of passengers.

21. Jazz underwriters won't pay, can't play

ACE, the parent of Air Canada and Jazz, is going to sell a minority interest in Jazz by creating an income trust. The minority interest which was being handled by a syndicate is expected to raise \$200 million. Following a dispute over providing credit, a number of members of the syndicate are out. Those who decline to provide credit will no longer be part of the syndicate.

22. WestJet plans include customer perks, alliances with other airlines

WestJet will introduce a reservation system that will offer new perks by bundling services for customers in the summer of 2006. It will also start forming alliances with other carriers in the fall of 2006. It hopes that this will enable it to compete with Air Canada for the corporate passengers. This will make it look more like a full-service carrier and some individuals are concerned that WestJet will make the same mistakes that Canadian Airlines made. However, its CEO assures its customers that they will not make the same mistakes as they have a much lower cost structure. It is expected that WestJet will attempt to become a member of the Oneworld Alliance as Air Canada belongs to the Star Alliance, a move that is expected to raise its load factor.

WATER TRANSPORTATION

1. Room for compromise?

A report to the European Commission coordinated by *Global Insight* found that ending carriers' antitrust immunity would have a largely positive impact of the European shipping market. It said repeal would result in lower transport prices, better service reliability and quality, and would have a neutral or positive impact on the competitiveness of European liner companies. It also found that the repeal would have a neutral or positive effect on European ports, employment and trade.

2. EU set to abolish liner conferences

When the EU Commission's executive body meets on December 14 for the last time this year, it is expected that it will abolish liner conferences exemption from antitrust. If the matter is pulled from the Wednesday agenda, the EU regulators believe anyway that it has no future and that ending carrier's exemption is only a formality. The Commission is expected to propose post-conference guidelines for container lines sailing to and from Europe.

3. EU calls for end to liner conferences

In a historic move, the European Union called for an abolition of the liner conference system that covered shipping services since 1870's. The European Commission called on member governments to repeal the block exemption. The Commission indicated that the end of the exemption should take effect in two years after the ministers have approved the measure. This will provide time for carriers to adapt to a competitive market and governments to review their relations with third countries where shipping conferences are still legal.

4. EC calls for an end to liner conferences

Water Transportation

Canada

1. Room for compromise?, *The Journal of Commerce*, November 21, 2005, p. 36.
2. EU set to abolish liner conferences, December 13, 2005, www.joc.com
3. EU calls for end to liner conferences, December 14, 2004, www.joc.com
4. EC calls for an end to liner conferences, December 14, 2004, www.americanshipper.com
5. Proposal to repeal block exemption for liner shipping conference - Frequently Asked Questions, December 14, 2005, www.europa.int/comm/index_en.htm
6. CP Ships shareholders accept TUI offer, *Globe and Mail*, December 15, 2005, p. B6.
7. Terminal Velocity, *National Post*, December 17, 2005, p. FP3.

The Commission repealed EC Regulation 4056/86 providing liner conferences with exemption to set common freight rates and cooperate on capacity. The EC said "Repealing the exemption will benefit EU exporters by lowering transport prices whilst maintaining reliable services. This will enhance the competitiveness of EU industry. ... Liner conferences do not deliver the benefits for which block exemption was established and the commission's impact assessment shows that lower transport prices are likely to result from the block exemption's repeal."

5. Proposal to repeal block exemption for liner shipping conference - Frequently Asked Questions

The Commission indicated that the process of reviewing the block exemption from EC Treaty competition rules for liner shipping was launched in March 2003. It has proposed a repeal of regulation 4056/86 that applied to liner conferences. In this paper it describes: What happens next; What is block exemption regulation?; What are liner conferences; Liner conferences are tolerated in other jurisdictions. What if the EU changes its regime and others do not?; The liner shipping industry is asking for a new regime to replace the conference block exemption. What will the Commission do about that?; What is the impact of the proposal on small liner shipping carriers and on small short sea trades?; What are the economic effects of the repeal of the block exemption; Does the proposal have an impact on the maritime consortia block exemption Regulation?; Will the Commission be issuing guidance to the tramp sector; and What is the impact of the proposal on international tramp vessel services?

6. CP Ships shareholders accept TUI offer

CP Ships Ltd. shareholders have approved (99.8%) a friendly \$2 billion (US) takeover bid from TUI Ag. It is merging its Hapag-Lloyd AG, a subsidiary of TUI Ag shipping unit with CP Ships. CP Ships began transatlantic service in 1903 with cargo vessels.

7. Terminal Velocity

Vancouver's ports have reached capacity with the boom in trade from China. There is growing competition from other ports and Vancouver is already losing market share to ports in Seattle and Los Angeles. Vancouver's Port Authority would like to expand Deltaport by adding a third berth and to build a second larger terminal nearby. However, it's plans may encounter obstacles from local residents who plan to write letters to Ottawa and to protest locally. In addition, it has to satisfy the province's environmental office and then federal environmental requirements.

RAIL TRANSPORTATION

1. CN wraps up Canadian labour negotiations with employees' ratification of Algoma Central collective agreement

CN announced that 115 employees represented by the Algoma Central Association of Railway Unions ratified a five-year labour contract with the company. The agreement provides for improved wages and benefits to the end of 2010.

2. CN to increase 2006 capital spending to more than C\$1.5 billion

CN announced that it plans to spend more than \$1.5 billion on capital spending programs in 2006, a nine percent increase over 2005. The President of CN said "We will make significant investments in our business next year. More than C\$1 billion is targeted on maintaining the integrity and safety of our rail infrastructure, as well as on strategic initiatives to increase the fluidity and efficiency of our network."

3. CN freight train derails north of Vancouver in same area as previous crashes

A CN train has derailed in the Cheakamus Canyon north of Vancouver. Seven empty cars went off the track. No one was hurt and no dangerous goods were involved. The incident happened in the same region where two previous derailments occurred earlier this year.

4. B.C. probe urged after two CN trains derail in one day

A critic for the New Democratic Party said that CN should be restricted to running no more than 80 cars per train through out British Columbia and the provincial government should launch a rail safety investigation. So far this year, CN has experienced 11 main track derailments on the former BC Rail lines, which is nearly double the five-year average of six derailments a year that BC Rail had prior to 2004. No one was injured in the two derailments and damage was minor.

5. Transport Canada orders CN to limit all Northbound trains in the Squamish area to a maximum of 80 cars

Transport Canada issued a further order to CN to limit the length of their trains to 80 cars. The previous order issued on November 5, 2005, applied to CN's 'conventional cars' (i.e., a train with locomotives in the front). The present order

Rail Transportation

Canada

1. CN wraps up Canadian labour negotiations with employees' ratification of Algoma Central collective agreement, Nov. 30, 2005, www.cn.ca
2. CN to increase 2006 capital spending to more than C\$1.5 billion, December 2, 2005, www.cn.ca
3. CN freight train derails north of Vancouver in same area as previous crashes, December 7, 2005, www.cn.ca
4. B.C. probe urged after two CN trains derail in one day, *Globe and Mail*, December 7, 2005.
5. Transport Canada orders CN to limit all Northbound trains in the Squamish area to a maximum of 80 cars, December 7, 2005, www.tc.gc.ca
6. CPR responds to Fording Coal Trust announcement on production levels, December 12, 2005, www.cpr.ca
7. Transport Canada strengthens safety requirements imposed on CN, December 14, 2005, www.tc.gc.ca
8. Railway carloadings, *The Daily*, December 22, 2005, www.statcan.ca

US/EU

1. Shortline railroads record traffic increases [7.1% for the first three quarters in North America] in 2005, December 16, 2005, www.ctl.ca

applies to CN's 'distributed power operated trains' (i.e., a train with locomotives in the front as well as in between cars). The Minister indicated that they were further restricting CN's operation as he was very concerned.

6. CPR responds to Fording Coal Trust announcement on production levels

CPR indicated that lower than anticipated production of coal by Fording Coal Trust could lead to a revision of its earning guidance in 2006. It would be in the range of \$3.60 to \$3.85 compared to its previous forecast of \$3.70 to \$ 3.85. In addition, if Elk Valley Coal's production declines by 24% its earnings per share would be to the lower range provided. Fording attributed the decline in production to a significant global shortage of tires for trucks used to haul coal at mines.

7. Transport Canada strengthens safety requirements imposed on CN

The Minister of Transport has imposed more specific safety requirements on CN for its northbound trains in the Squamish area for a 60-day trial period. Transport Canada has ordered "restrictions on how empty cars are handled, tests throughout the route to verify distributed power is working properly, a CN supervisor on all trains to augment crews, additional training for crews on distributed power operations, directions to help reduce the number of stops on route and special stall and emergency stop instructions. The length of CB's conventional trains and distributed power operated trains operating northbound in the Squamish area will be restricted to 80 cars and 99 cars, respectively."

8. Railway carloadings

Canadian railways loaded 5.7% more goods in October than they did in September, the best October in six years. The loadings were in excess of 25.3 million metric tonnes. Intermodal loadings rose 5.1% from September to a record high of 2.5 million metric tonnes. Non-intermodal freight was up 5.8% from the previous month.

HIGHWAY TRANSPORTATION

1. For-hire motor carriers of freight, top carriers

For the 3rd quarter of 2005, the top 91 (i.e., with \$25 million revenue or more) for-hire Canadian motor carriers of freight generated operating revenue of \$2.28 billion and operating expenses of \$2.13 billion. Average

per-carrier revenue increased 3.8% to \$24.4 million in the 1st quarter of 2005 from a year earlier. Average per-carrier expenses increased 7.2% to \$25.1 million. The operating ratio (operating expenses/operating revenue) improved slightly to .93 in the 3rd quarter of 2005 compared to .94 for the 3rd quarter of 2004.

2. Large urban transit

Large urban transit systems (10) carried 116.2 million passenger trips in October 2005, an increase of 2.9% over the same month in 2004. These systems account for 80% of total urban transit in Canada. The trips generated 176.9 million in revenue, a 7% increase over October 2004.

GENERAL

1. Transat head says tourism facing 'national emergency'

Canada is losing out to other countries as a global tourist destination and a fresh strategy is urgently needed according to the head of tour operator Transat A.T. Inc. He described it as a national emergency pointing out that Canada's share of the global tourism market has fallen to 2.9 percent from 3.5 percent twenty

years ago. This decline will continue if something is not done. He indicated that the Canadian Tourism Commission needs to double its marketing budget of \$100 million to a comparable amount spent in Australia.

2. Canadian Travel Survey: Domestic travel

Statistics Canada released its publication on Canadian Travel Survey for 2004. It is based on an interview of 170, 000 Canadians and provides valuable information for tourism industry decision-makers.

Highway Transportation

Canada

1. For-hire motor carriers of freight, top carriers, *The Daily*, December 6, 2005, www.statcan.ca
2. Large urban transit, *The Daily*, December 15, 2005, www.statcan.ca

Current Developments in Brief

General

CANADA

1. Transat head says tourism facing 'national emergency', *Globe and Mail*, December 7, 2005, p. B5.
2. Canadian Travel Survey: Domestic travel, *The Daily*, December 22, 2005, www.statcan.ca

Publications

1. **Railway Reform & Charges for the Use of Infrastructure**, ECMT, Paris, OECD, November 2005.