

Transportation Information Update*

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Speaking Notes for the Honourable Lawrence Cannon, Minister of Transport, Infrastructure and Communities, to the House of Commons on the 2006 Budget

On May 9, 2006, the Minister of Transport, Infrastructure and Communities indicated to the House of Commons that the Budget highlights five priorities. For transport, over the next four years, the Government will provide unprecedented support for initiatives to improve our infrastructure and transportation system. Among the initiatives are: a new, permanent Highways and Border Infrastructure Fund providing \$2.4 billion over the next five years with an additional \$400 million; an additional \$2 billion to renew the Canada Strategic Infrastructure Fund; a sum of \$2.2 billion over the next five years to renew the Municipal Rural Infrastructure Fund; and a sum of \$591 million over the next eight years for investments in the Pacific Gateway initiative. The Budget also accelerates investments in public transit (i.e., \$400 million). The Government of Canada will also provide a one-time payment of \$900 million to provinces depending on availability of funds. The Budget maintains the gas tax funding commitment under the New Deal for Cities and Communities transferring up to five cents per litre of the gasoline excise tax, or \$2 billion. In total, federal support for provincial, territorial and municipal infrastructure will reach \$16.5 billion over the next four years. Transit tax credit will also apply to dependent children which could save the average transit user \$153 a year. This Budget will also invest some \$303 million towards measures that will increase the security of people and freight (\$133 million to support Canadian Air Transport Security Authority operations, \$95 million for new measures to enhance the security of passenger rail and urban transit; and \$26 million over two years to design and test security measures).

Canada Transportation Act Amendments Introduced in Parliament

The Minister of Transport, Infrastructure and Communities introduced amendments to the *Canada Transportation Act* in the House of Commons on May 4, 2006. The major amendments were on: a modernized and simplified National Transportation Policy Statement; a new provision for the Minister to authorize the development of regulations for greater transparency in the advertisement of air fares; improvements to the policy framework for publicly funded passenger rail services that will help address urban transportation challenges; a public interest review process for mergers and acquisitions of all federally regulated transportation services; and a provision allowing the Canadian Transportation Agency to address railway noise complaints.

AIR TRANSPORTATION

1. Economic Impact Study Reveals Airport is Major Economic Engine

The Regina Airport Authority on April 28, 2006 released the results of an independent economic impact study, which for the first time reveals the reach and breadth of the airport on the Regina and district economic map. The full report is available at the Regina Airport Authority office at 761-7555 or at their e-mail address info@yqr.ca.

2. Air Canada Jazz launches daily year-round service between Edmonton and Los Angeles

On May 1, 2006, year-round service from Edmonton to the City of Los Angeles began again. Air Canada Jazz operates the only daily, non-stop Los Angeles flights from Edmonton with next-generation, made-in-Canada Bombardier CRJ-705 jet aircraft, featuring 10 Executive Class and 65 Hospitality seats.

3. Air Canada upsets travel agents

Travel agents are upset with a recent Air Canada decision to make its lowest-priced Tango fares available only on its Web. Air Canada said the change was necessary because of "contractual obligations" and the inability of third-party distribution systems to accommodate the airline's new pay-as-you-go approach to selling air fares.

4. Air Canada reports 25 consecutive months of record system load factors

Air Canada reports its 25th consecutive month of record load factors (system) for April 2006 compared to April a year ago. The system passenger load factor in April 2006 was 82.2%, this represents a 1.7 increase in percentage points compared to a

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

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Current Developments in Brief

Speaking Notes for the Honourable Lawrence Cannon, Minister of Transport, Infrastructure and Communities, to the House of Commons on the 2006 Budget, May 9, 2006, www.tc.gc.ca

Canada Transportation Act Amendments Introduced in Parliament, May 4, 2006, www.tc.gc.ca

Air Transportation CANADA

1. Economic Impact Study Reveals Airport is Major Economic Engine, April 28, 2006, www.cacairports.ca

2. Air Canada Jazz launches daily year-round service between Edmonton and Los Angeles, May 1, 2006, www.aircanada.ca

3. Air Canada upsets travel agents, May 4, 2006, www.nationalpost.ca

4. Air Canada reports 25 consecutive months of record system load factors, May 4, 2006, www.aircanada.ca

year ago. Overall capacity increased by 1% for April 2006 compared to a year earlier. The domestic load factor was 79.4%, this represents a 2.6% decrease in percentage points compared to April 2005. For Jazz, capacity increased by 75.9% resulting in a load factor of 71.3% an increase of 0.8 percentage points compared to April of 2005.

5. WestJet Reports Record Traffic Statistics for April

WestJet reported that its load factor in April 2006 of 78.5% surpassed its previous high of 68.8% in March 2005. Available seat miles increased 14.4% to 973.4 million in April 2006, up from 850.8 million in April 2005. Revenue passenger miles increased 30.4% to 763.8 million for this period up from 585.7 million in April 2005.

6. Transat stock set to take off, analyst predicts

According to an analyst, Transat A.T. Inc. stock is 'poised to soar' as the loonie rises. The rising loonie has given Canadians more purchasing power which is beneficial to tour operators. The analyst estimates that every gain of a penny in the exchange rate compared to the US dollar translates into an extra \$5.9 million in pretax profit or ten cents a share for Transat. Transat is considered to be a leader among Canadian tour operators with a market share of 32.5 percent. Rivals such as Sunquest, Signature, Air Canada Vacations and Sunwing Travel Group have market shares estimated to be: 18%; 13.2%; 10.3% and 6.8%, respectively. Transat is more popular in the Quebec market while Sunquest is popular in Ontario.

7. Ottawa may allow airlines to use fewer flight attendants

The federal government is moving forward with a plan that will allow domestic airlines the flexibility to use fewer flight attendants on all Canadian departures. Critics warn that this could jeopardize safety. The airlines have been seeking this change for more than a decade as it would permit them to seek the number of flight attendants based on the number of seats sold. This approach is used successfully and safely in Europe and the United States and is important as competition with other countries increases. It is particularly important to Westjet which flies aircraft with a maximum of 125 passengers and would need four attendants if the ratio is kept at 1 for 40 and only three attendants if the ratio is kept at 1 to 50.

8. ACE [ACE Aviation Holdings Inc.] mulls Air Canada spinoff

ACE wants to unlock value in Air Canada by spinning off the country's largest airline. It wants to turn the wholly owned subsidiary into a separate, publicly traded company. Mr. Milton indicated that if you look at the ACE share price, you get the airline for free. He thinks ACE's share price is worth much higher than it is now. ACE sold off a minority stake in the loyalty program Aeroplan Income Fund in mid-2005, then a minority interest in regional airline Jazz Air Income Fund in January 2006. An initial public offering in Air Canada Technical Services is expected in 2007. Last year, ACE posted a \$258-million profit, marking its first profit since 1999 after a \$880-million loss in 2004.

9. ACE Aviation Holdings Inc. reports first quarter net income of \$118 million

ACE Aviation Holdings Inc. (ACE) reported on May 11, 2006 a net income of \$118 million (or \$ 1.12 a share) for the first quarter of 2006 compared to a net loss of \$77 million in the first quarter of 2005. ACE reported an operating loss of \$29 million for the quarter, as a result of increased fuel expenses and losses recorded at ACTS. This represented a decline of \$19 million, excluding special labour charges, from the first quarter 2005. Passenger revenues were up \$282 million or 16 per cent and fuel expense increased \$154 million or 37 per cent over the quarter of last year.

10. Air Canada named in price-fixing class action

An Ontario law firm commenced a \$100-million class-action lawsuit against several airlines. Airlines named in the suit include: Air Canada, Air France, Asian Airlines, British Airways, Cathay Pacific, Deutsche Lufthansa, Japan Airlines, SAS, United

5. WestJet Reports Record Traffic Statistics for April, May 4, 2006, www.westjet.ca

6. Transat stock set to take off, analyst predicts, *Globe and Mail*, May 5, 2006, p. B13.

7. Ottawa may allow airlines to use fewer flight attendants, May 6, 2006, www.globeandmail.ca

8. ACE [ACE Aviation Holdings Inc.] mulls Air Canada spinoff, May 10, 2006, www.globeandmail.ca

9. ACE Aviation Holdings Inc. reports first quarter net income of \$118 million, May 11, 2006, www.aircanada.ca

10. Air Canada named in price-fixing class action, May 16, 2006, www.nationalpost.ca / National Post, p. F8.

11. Air Canada the great unknown in determining ACE's true value, *Globe and Mail*, May 16, 2006, p.

12. Air Canada to cut costs, change travel, May 17, 2006, www.globeandmail.ca

13. Air Canada, unions to settle pay grievances in arbitration, *Globe and Mail*, May 17, 2006, p. B4.

14. WestJet's Beddoe hits out at rival over lawsuit, *Globe and Mail*, May 17, 2006, p. B4.

15. Improved Wildlife Management at Airports, May 17, 2006, www.tc.gc.ca

16. New Aircraft Emergency Response Requirements, May 17, 2006, www.tc.gc.ca

17. Airports Start to Feel the Sting of Airline Cost-Cutting Efforts, *The Wall Street Journal*, May 17, 2006, pp. A1

18. Air Canada pulls cheapest fares from agents' system, *Globe and Mail*, May 18, 2006, p. B2.

19. Continue CATSA's Current Service Provider Role, Canada's Airports Urge, May 17, 2006, www.cacairports.ca

20. Aeroplan to end limits on use of points, May 19, 2006, www.nationalpost.ca

21. Air Canada warns pilots to heed contracts, May 19, '06, www.nationalpost.ca

22. Aircraft movement statistics, May 19, 2006, www.statcan.ca

US/EU

1. U.S. Department of Transportation Strengthens Its Proposal for International Investment in U.S. Airlines, May 3, 2006, www.dot.gov

2. US International air cargo up 9.7% in March, May 3, 2006, www.americanshipper.com

3. Airlines On-Time Performance in March Better Than February But Slips From Previous Year, May 4, 2006, www.dot.gov

4. BTS Releases Fourth Quarter 2005 Airline Financial Data; Regional Passenger Airlines and Low-Cost Airlines Report Domestic Profit; Network Carriers Report Smaller Loss, May 15, 2006, www.dot.gov

Airlines and Korean Air. The suits also names the International Air Transportation Association which represents the world air carriers. The class action was launched on behalf of Nutech Brands Inc. This is the second class action to be commenced in Canada. The other was launched in Quebec. It was alleged that several of the world's biggest airlines conspired to set cargo prices through agreements over surcharges relating to rising fuel costs and extra security needed after the events of 9/11.

11. Air Canada the great unknown in determining ACE's true value

ACE Aviation Holding's Annual Report indicates it is divided into seven divisions: Aeroplan Income Fund, Jazz Air Income Fund, Air Canada, Air Canada Technical Services, Air Canada Vacations, Air Canada Ground Handling and Air Canada Cargo. Of these seven, Aeroplan Income Fund and Jazz Air Income Fund appear to have fared the best with first quarter profit increases of 51% and 29%, respectively. When the value of the divisions (excluding Air Canada) are added it equals \$3.9 billion, the valuation for ACE on the Toronto Stock Exchange. This has resulted in recent claims that the sum of the parts is greater than the whole or that Air Canada is valued at zero or investors in ACE get Air Canada for free. Investors so far have not agreed on the value of Air Canada which could be offered to investors.

12. Air Canada to cut costs, change travel

The CEO of Air Canada said that the airline is looking to regain stability by cutting costs and changing the way its customers travel. If this is achieved, he indicated that the results in 2006 could be very good. Last month, the airline raised ticket prices by \$10 per flight to counter record prices for fuel, its second-largest operating expense after labour. He also said that Air Canada has been making changes to what it sells and how it sells it, as it aims to differentiate itself from low-cost carriers such as competitor WestJet Airlines Ltd.

13. Air Canada, unions to settle pay grievances in arbitration

The Canadian Auto Workers Union and the International Association of Machinists and Aerospace Workers, claim that they have not shared in the rewards of Air Canada's comeback since it emerged from bankruptcy and are seeking to capture their fair share in the airline's new founded wealth. Unions officials point out that their members took wage cuts in 2004 and now want to participate in the carriers new ability to make profit.

14. WestJet's Beddoe hits out at rival over lawsuit

WestJet's chairman criticized Air Canada for its stalling tactics in providing documents in the latter's \$220 million lawsuit launched in April 2004. Air Canada claims that the delays have been caused by the vast demands for disclosure of documents. WestJet also criticized Porter Airlines Inc., the upstart commuter carrier, who is providing turboprop service from Toronto City Centre Airport.

15. Improved Wildlife Management at Airports

The Minister of Transport, Infrastructure and Communities, announced amendments to the Canadian Aviation Regulations to enhance safety at Canadian airports. The amendments will help reduce the risk of a bird or other wildlife colliding with an aircraft near an airport and adopts a more consistent approach to wildlife management at Canadian airports.

16. New Aircraft Emergency Response Requirements

The Minister of Transport, Infrastructure and Communities announced on May 17, 2006 new aircraft emergency response requirements for Canadian airports. The new requirements will require on-site aircraft rescue and firefighting at a greater number of airports with a high level of activity. The requirements will be based on passenger traffic and apply to airports with a passenger count of more than 180,000 per year. All airports, regardless of size, are still required to prepare and submit for approval an emergency response plan.

17. Airports Start to Feel the Sting of Airline Cost-Cutting Efforts

Airlines which have won major concessions from employees, travel agents and suppliers, are now putting pressure on airports to reduce costs and fees. This has had some effect. Some airports have reduced charges to airlines, the IATA has called for regulation of airport monopolies, the Australian government has called for an inquiry into pricing at privatized airports, and one alliance has called for a boycott of airports with high charges. Some airports have resisted airline pressure and gone and spent millions of dollars on Terminals like Toronto and San Francisco, others are responding to airline concerns by scaling back big projects like San Jose International and Los Angeles and still others are catering to low cost carriers like Cologne Bonn and Schiphol.

18. Air Canada pulls cheapest fares from agents' system

Several Canadian travel associations say that Air Canada is hurting its best customers by removing the cheapest fares (Tango) from the distribution systems used by travel agents. The Association of Canadian Travel Agencies and other travel groups indicated that they would like to see Air Canada's unilateral decision reversed. Air Canada indicated that the fares

are still available on its website and that the technology does not support some of the new features of its fare products.

19. Continue CATSA's Current Service Provider Role, Canada's Airports Urge

In a position paper filed with the National Air Travel Security Panel, the Canadian Airports Council (CAC) urged the government to stay the course for the Canadian Air Transportation Security Authority (CATSA). The CAC is calling for national performance standards for CATSA and does not advocate expansion of CATSA's mandate. CATSA currently gets its funding from charges collected from passengers through the Air Traveller's Security Charge. CAC indicated that air security is a national defence issue and that it should get its funding from general tax revenue and not from air passenger travel. It also indicated that the government should provide it with funds in a timely manner.

20. Aeroplan to end limits on use of points

Aeroplan members will soon get access to all seats on all Air Canada flights, alleviating the frustration of travellers trying to book on points with the airline. Currently, only 15% of seats on an Air Canada's air planes are allotted for Aeroplan rewards bookings. By the end of 2006, the entire plane will be available for unrestricted rewards bookings.

21. Air Canada warns pilots to heed contracts

Air Canada warns pilot to heed contracts and condemns concerted activities. It has sent a warning to disgruntled pilots who may be considering labour action this weekend in connection with a controversial labour board ruling on pilot seniority at the airline.

22. Aircraft movement statistics

The 42 Canadian airports with NAV CANADA air traffic control towers reported 379,573 aircraft take-offs and landings in April, up 0.9% compared with April 2005. Year-over-year increases in aircraft movements were reported by 24 of the airports in April 2006.

WATER TRANSPORTATION

1. Marine Security Funding Program Open for Third Round of Applications

Transport Canada is accepting applications for the third round of funding under the Marine Security Contribution Program, announced in May 2004. The three-year, \$115-million program helps Canada's ports and marine facilities with the cost of modernizing and strengthening their security systems and programs. The deadline for applications is June 2, 2006. Projects eligible include: improvements to dockside; surveillance equipment; and command, control and communications equipment. More information is available at:

www.tc.gc.ca/MarineSecurity/ContributionSpecialPrograms/contribution/menu.htm.

2. The cost of consolidation

The biggest carrier-rationalization developments have resulted in capacity reductions that appear, to have affected the US eastern seaboard more than service levels to the Canadian ports of Montreal and Halifax. The implications of the Hapag-Lloyd takeover of CP Ships and of Maersk's further dominance of global container shipping by absorbing P&O Nedlloyd are positive. However, the latest attempts to raise freight rates by the members of the Canadian-North Atlantic shipping conferences have not been welcomed by Canadian shippers. Both the Port of Montreal and the Port of Halifax posted new records in 2005 and the former expects it to be surpassed in 2006.

3. Canadian Transportation Agency to Hold Public Hearing on Certain Fees Levied by Nanaimo Port Authority

The Canadian Transportation Agency will hold a public hearing in Nanaimo, British Columbia beginning on May 9, 2006, on complaints by Neil Surry et al., Kenmore Air Harbor Inc., Amigo Airways Corp., and Seair Seaplanes Ltd. regarding certain passenger fees levied by the Nanaimo Port Authority.

Water Transportation

Canada

1. Marine Security Funding Program Open for Third Round of Applications, April 28, 2006, www.tc.gc.ca
2. The cost of consolidation, April 3, 2006, www.ctl.ca
3. Canadian Transportation Agency to Hold Public Hearing on Certain Fees Levied by Nanaimo Port Authority, May 8, 2006, www.cta-otc.gc.ca
4. Transport Canada Responds to Transportation Safety Board Recommendations on Queen of Surrey, May 9, 2006, www.tc.gc.ca
5. CP Ships integration drags Hapag-Lloyd into red, May 11, 2006, www.americanshipper.ca
6. Port of Tacoma releases 2005 annual report, May 12, 2006, www.ctl.ca
7. Port of Vancouver Traffic Report, May 9, 2006, www.portvancouver.ca
8. New regulations will put a floor under drivers' pay rates and working conditions, *The Journal of Commerce*, May 1, 2006, p. 42.
9. How will European deregulation affect others? *The Journal of Commerce*, May 8, 2006, p. 10.
10. Blust Says Conflicts Likely, *The Journal of Commerce*, May 8, 2006, p. 8.

4. Transport Canada Responds to Transportation Safety Board Recommendations on *Queen of Surrey*

To ensure future *Fire Safety Regulations* meet or exceed international standards, on May 9, 2006, Transport Canada committed to reviewing international marine regulations and standards for fixed fire-extinguishing systems, in response to the Transportation Safety Board's report on the *Queen of Surrey*.

5. CP Ships integration drags Hapag-Lloyd into red

On May 9, 2006, TUI AG reported that integration costs relating to its \$2.3 billion purchase of CP Ships last October saw its container and cruise shipping subsidiary Hapag-Lloyd post a first quarter net loss of 25 million euros (\$31.8 million).

6. Port of Tacoma releases 2005 annual report

The Port of Tacoma released its 2005 Annual Report, *The Top 10 Stories of the Year*. It focuses on efforts that the Port and its business partners are making to increase cargo capacity and to ensure the viability of capacity for customer success in the future. For the Port of Tacoma, those stories are: 1. Setting New Cargo Records; 2. Increasing Rail Capacity - 3. Developing Terminal Capacity; 4. Strengthening Labor Capacity;

5. Expanding Economic Impact ; 6. Growing with Alaska; 7. Driving Non-Containerized Cargo; 8. Caring for the Environment; 9. Promoting Industrial Development; and 10. Building Financial Capacity.

7. Port of Vancouver Traffic Report

The Port of Vancouver released the accumulated container traffic report for April 2006. Total year-to-date traffic was 651, 073 TEUs for April an increase of 19 percent over April 2005. Year-to-date imports increased by 26% and exports increased by 12%.

8. New regulations will put a floor under drivers' pay rates and working conditions

Minimum pay rates set last fall to stop a destructive five-week strike at Vancouver ports will stand and will be enforced for the next 14 months. With this, the drivers are promised protection and the ports of Vancouver and Fraser River have some trucking stability. Regulations were published by the Federal government on April 20, 2006. This should provide the parties with everything to finish the process. A lawsuit was filed in Federal Court of Canada on behalf of two trucking companies, claiming that the original MOA's rate-setting was illegal.

9. How will European deregulation affect others?

The European Liner Affairs Association (ELAA) indicated that it is worried that the system being considered by the European Commission to replace liner conferences will conflict with other trading nations that allow discussion agreements such as the US or countries that encourage conferences. Director of the European Competition Directorate indicated that she has held talks with some countries and plans to hold talks with other countries but so far has seen no potential conflict unless another jurisdiction requires conferences, and none do. ELAA executive director agreed, however, he indicated that it was wrong for Europe to impose its will by making it illegal conferences on trades from anywhere to Europe.

10. Blust Says Conflicts Likely

Chairman of the Federal Maritime Commission said that the European Commission's proposal to revise its liner shipping regulation may conflict with other nations' regulations. This is because many Asian nations appear to have decided that continued antitrust immunity for liner shipping is indeed warranted.

11. Information Exchange - European Commission discusses replacement for conference system

Carriers and European regulatory authorities are reported to be reaching a compromise that would allow liner companies to create an information sharing arrangement to replace the conference system. The EC's Competition Directorate is talking with companies about the carriers' proposal that they be allowed to share a limited amount of information so that they can adjust cargo capacity to meet the demand they forecast. However, shippers claim that information sharing and discussions will enable carriers to influence pricing.

12. Transport Canada and Canadian Safe Boating Council Launch Safe Boating Awareness Week with a Splash!

11. Information Exchange - European Commission discusses replacement for conference system, *The Journal of Commerce*, May 8, 2006, p. 32.

12. Transport Canada and Canadian Safe Boating Council Launch Safe Boating Awareness Week with a Splash!, May 19, 2006, www.tc.gc.ca

13. European shippers await lifting of liner block exemption, May 24, 2006, www.joc.com

14. Asian shipper groups opposed to Singapore's block exemption order, May 24, 2006, www.americanshipper.com

US

1. Port of LA-Long Beach hit by trucker strike, May 1, 2006, www.joc.com

On May 19, 2006, an official of Transport Canada together with The Canadian Safe Boating Council launched the 2006 boating season with the national launch of Safe Boating Awareness Week.

13. European shippers await lifting of liner block exemption

According to the Secretary General of the European Shippers' Council (ESC), European shippers are looking forward to a new competitive environment that will be created when the liner shipping block exemption is repealed. They indicated that the benefits are recognized by their Atlantic partners and most maritime nations will adapt their competition regulations in the near future.

14. Asian shipper groups opposed to Singapore's block exemption order

The Singapore National Shippers Council and the Asian Shippers' Council have written a joint letter to the Competition Commission of Singapore (CCS) outlining their opposition to the proposed block exemption order for liner shipping agreements.

RAIL TRANSPORTATION

1. New Reflectors on Trains to Improve Safety

On May 1, 2006, new rail rules requiring reflective material on Canadian locomotives and freight cars will come into force. Rail cars which have reflective material will be significantly more visible at night reducing the possibility of accidents. The new rules are available at http://www.tc.gc.ca/railway/Rules/TC_O_0_56.htm

2. Funding to Continue Northern Ontario Passenger Rail Service

The Government of Canada has extended its funding agreement with the Ontario Northland Transportation Commission for an additional year in order to continue passenger rail service between Toronto and North Bay. The funding totals \$2.5 million and covers the period from April 1, 2006 to March 31, 2007. The Commission is an operational enterprise of the Government of Ontario and for the past 10 years, Transport Canada has provided funding for Ontario Northland to ensure the continued operation of passenger rail services.

3. Western Grain Revenue Cap Price Index Increased for Crop Year 2006-2007

The Canadian Transportation Agency, announced on April 28, 2006 a 6.6 per cent increase in the Volume-Related Composite Price Index to be used to establish

railway-specific revenue caps for the movement of western grain for crop year 2006-2007. This index is essentially an inflation factor to cover Canadian National (CN) and Canadian Pacific Railway (CP)'s price changes for railway labour, fuel, material and capital inputs. The revenue cap applies to the movement of grain by prescribed railway companies from Prairie elevators to terminals at Vancouver, Prince Rupert, Thunder Bay and Churchill. The cap came into effect on August 1, 2000.

4. CPR on right track

Canadian Pacific Railway Ltd. (CPR) began 2006 with a strong start. The company is enjoying strong demand for its services. Fred Green, CPR's incoming chief executive officer indicates that it has traditionally fared well in the final 6 months of the year with grain and fertilizer deliveries. CPR has attempted to increase its efficiency by its company strategy dubbed "Execution Excellence," an increase in average train speeds, its \$160-million expansion in Western Canada and its reduction of 400 office jobs or 15 per cent of white-collar positions. CPR's goals this year include boosting revenue by between 5 and 8 per cent.

5. CN files shelf prospectus for US\$1.5 billion of debt securities

On May 1, 2006, CN filed a preliminary shelf prospectus with Canadian securities regulators and a registration statement with the United States Securities and Exchange Commission (SEC), providing for the issuance by CN of up to US\$1.5 billion of debt securities in Canadian and U.S. markets over the next two years. CN expects to use net proceeds from the sale of debt securities under the shelf prospectus for general corporate purposes, including the redemption and refinancing of outstanding debt, share repurchases, acquisitions, and other business opportunities.

6. Government of Canada to Retain Ownership of Grain Hopper Car Fleet

The Minister of Transport, Infrastructure and Communities, announced on May 4, 2006 that the Government of Canada will retain ownership of its grain hopper car fleet. It decided not to proceed with the transfer of the cars to the FRCC but instead retain ownership of the fleet in order to maximize benefits for farmers and taxpayers. "By retaining the hopper cars, the Government of Canada will ensure clear accountability and transparency for an efficient and effective grain handling

Rail Transportation

Canada

1. New Reflectors on Trains to Improve Safety, April 28, 2006, www.tc.gc.ca
2. Funding to Continue Northern Ontario Passenger Rail Service, April 28, 2006, www.tc.gc.ca
3. Western Grain Revenue Cap Price Index Increased for Crop Year 2006-2007, April 28, 2006, www.cta-otc.gc.ca
4. CPR on right track, May 1, 2006, www.globeandmail.ca
5. CN files shelf prospectus for US\$1.5 billion of debt securities, May 1, 2006, www.cn.ca
6. Government of Canada to Retain Ownership of Grain Hopper Car Fleet, May 4, 2006, www.tc.gc.ca
7. Canadian Pacific Railway Limited declares dividend, May 5, 2006, www.cpr.ca
8. Railways defend use of fuel surcharges as criticism mounts, May 17, 2006, www.nationalpost.ca
9. Railway carloadings, May 23, 2006, www.statcan.ca
10. CN announces US\$700 million debt offering, May 23, 2006, www.cn.ca

transportation system," according to the Minister.

7. Canadian Pacific Railway Limited declares dividend

The Board of Directors of Canadian Pacific Railway Limited declared a quarterly dividend of \$0.1875 Canadian per share on the outstanding Common Shares on May 5, 2006. The dividend is payable on July 31, 2006, to holders of record at the close of business on June 30, 2006.

8. Railways defend use of fuel surcharges as criticism mounts

A hearing that was held last week by the U.S. Surface Transportation Board in response to complaints by shippers that they were being gouged by fuel surcharges implemented by North American railways. Senior executives at Canada's two largest railways defended the use of fuel surcharges. CEO of CP Rail, said the hearings were the result of "unsubstantiated" complaints from a handful of industries and that they have not even recovered all the costs incurred.

9. Railway carloadings

Railways loaded 25.2 million metric tonnes of freight in March 2006, up 4.0 million metric tonnes or 18.9% from February 2006. Business usually increases with improved weather in March, which is also a longer month. But the gain this year was stunning, recording the biggest ever monthly increase. Railways carried an average of 812,000 metric tonnes each day in March, compared with 756,000 tonnes per day in February.

10. CN announces US\$700 million debt offering

On May 23, 2006, CN announced the terms of a US\$700 million debt offering of US\$250 million 5.80% on Notes due 2016, and US\$450 million 6.20% on Debentures due 2036. CN expects to close the financing on May 31, 2006. The debt offering is being made in the United States under the shelf registration statement CN filed on May 9, 2006 for up to US\$1.5 billion of debt securities.

HIGHWAY TRANSPORTATION

1. Couriers and local messengers industry

The number of establishments (20,623) in the couriers and local messengers industry increased 1% in 2004 from 2003. Couriers accounted for only about 14% of the establishments. The industry generated operating revenue of about \$6.2 billion in 2004, up 7% from the previous year. Operating expenses totalled nearly \$5.7 billion in 2004, up 6% from 2003. The industry's operating margin was \$463 million, up 27% compared with 2003. Couriers generated roughly 79% of the total operating revenues, with an average operating margin of about \$130,000, up 25% from 2003. The largest expense item for couriers was wages, salaries and benefits (39%), followed by other purchased services (36%).

2. Freight Sustainability Projects to Test Ways to Reduce Greenhouse Gas Emissions

On May 5, 2006, the Minister of Transport, Infrastructure and Communities, announced funding totalling approximately \$582,000 for five projects designed to reduce greenhouse gas emissions in the freight transportation sector under Transport Canada's Freight Sustainability Demonstration Program. The Government of Canada will contribute up to 50 per cent of eligible project expenses, to a maximum of \$250,000. This

represents the 8th round of funding under the program, and brings the total funding allocated under the program to approximately \$4.7 million for 34 projects. More information on this Program is available at www.tc.gc.ca/FSDP.

3. Federal and provincial investments of over \$18 million will make Route 2 safer for travellers

Travellers on Route 2, known as the Veterans Memorial Highway, between Summerside and Charlottetown, will be safer thanks to investments of \$18.4 million from the Government of Canada and the Province of Prince Edward Island. The investments were made under the Canada Strategic Infrastructure Fund (CSIF).

4. Infobase Marketing releases latest Canadian courier industry trends report

Infobase Marketing has released the latest iteration of its annual Canadian Courier Industry Market Trends Report. Using a combination of text and graphs, this comprehensive and detailed document covers the top 44 trends currently affecting the Canadian Courier Industry in the context of 15 major subject groupings. Examples of the groupings include Market Size/Structure, Labor Relations, Service Offerings, Market Pricing, Technology and Competitive Framework. For more information call 416-724-8789 or visit www.infobasemarketing.com

Canada

1. Couriers and local messengers industry, May 4, 2006, www.statcan.ca
2. Freight Sustainability Projects to Test Ways to Reduce Greenhouse Gas Emissions, May 5, 2006, www.tc.gc.ca
3. Federal and provincial investments of over \$18 million will make Route 2 safer for travellers, May 5, 2006, www.tc.gc.ca
4. Infobase Marketing releases latest Canadian courier industry trends report, May 18, 2006, www.cil.ca
5. Travel between Canada and other countries, May 18, 2006, www.statcan.ca
6. Study: Economic importance of transportation, May 19, 2006, www.statcan.ca
7. Domestic travel, May 23, 2006, www.statcan.ca

US

1. BTS Releases Transportation Services Index (TSI); Index Rose 0.8 Percent in March from February, May 9, 2006, www.dot.gov
2. Statement by Secretary of Transportation Norman Y. Mineta, Regarding Passenger Car CAFÉ [Corporate Average Fuel Economy] Legislation, May 10, 2006, www.dot.gov
3. U.S. Transportation Secretary Mineta Launches New National Initiative to Tackle Highway, Freight and Aviation Congestion, May 15, 2006, www.dot.gov

5. Travel between Canada and other countries

Overall, 2.5 million Americans visited Canada in March 2006, a 0.9% increase from February 2006. Canadian travel to the United States reached 3.3 million trips in March, up 5.3% from the previous month, the second highest level since August 2001. In terms of overseas travel, an estimated 395,000 foreign visitors came to Canada in March, up 6.9% from the previous month. This was the highest level since October 2004.

6. Study: Economic importance of transportation

Transportation services make a far bigger contribution to Canada's economy a new study found. This is because the impact of the sector goes well beyond "for-hire" transportation services. It ranks behind four other sectors: manufacturing; finance, insurance and real estate; and commercial, professional, personal and other services; and public administration. The transportation sector accounts for 6.3% of the total gross domestic product. Of this total, the for-hire transportation sector accounts for 3.7% and the private transportation sector accounts for 2.6%. It is also worthwhile noting that in the trucking sector (4% of GDP), for-hire transportation accounted for 1.7% and private transportation accounted for 2.3%. In relative terms, demand for transportation services was highest in wholesale trade accounting for 13 cents for every dollar. However, to deliver a dollar's worth of goods and services to final demand requires 6.4 cents of transportation services.

7. Domestic travel

During the second quarter of 2005, Canadian residents made 50 million visits within the country. Of this, 42.2 million of them were to visit friends or relatives and for pleasure. Together, these two categories accounted for 84.4% of all visits in Canada by Canadian residents. Of the remaining visits, 2.7 million were for business reasons and 5.1 million for other reasons such as bringing someone to the hospital. The majority of visits made by Canadians in Canada were same-day, accounting for 60.4% of the total.

GENERAL

1. Tax Relief, Highway and Border Infrastructure prominent in first federal budget

For the transportation sector, the first budget of the new government, features tax relief, and priority on highway and border infrastructure.

The general corporate income tax rate for business will be reduced to 20.5%

effective January 1, 2008; falling to 19% by 2010. The corporate surtax will be eliminated effective January 1, 2008. And, effective January 1st of this year, the federal capital tax is eliminated. The federal excise tax on diesel fuel has not been eliminated. However, some of the money collected via excise taxes will find its way into the \$2.4 billion, 5-year highways and border infrastructure fund announced in the budget. According to the Finance Minister, "a great trading country like Canada must have the best in highway and border infrastructure." A key objective, said the minister, "will be to cost share with provinces and territories improvements to the core national system including the Trans Canada Highway." The government will allocate \$100 million to "begin arming border officers and eliminating 'work-alone' posts" and \$303 million is earmarked to "implement a border strategy to promote the movement of low-risk trade and traffic within North America while protecting Canadians from security threats."

Current Developments in Brief

General CANADA

1. Tax Relief, Highway and Border Infrastructure prominent in first federal budget, May 4, 2006, www.ctl.ca

Publications

1. "Preparing for Success: Forecasting Surface Freight Demand", May 4, 2006, www.westac.com
2. CAC Releases, May Newsletter, www.cacairports.ca