

Transportation Information Update

July 2004

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CABINET names Jean-C. Lapierre: MINISTER OF TRANSPORT

1. CN set to close BC Rail takeover

CN is reviewing the plans for its \$1billion takeover of BC Rail Ltd's freight operations. First, it is considering expanding its service to shippers in the Province. Second, it is introducing a new express service to Chicago from the heart of B.C.'s lumber industry in Prince George. Third, it is investing about \$15 million in line improvements near the Port of Prince Rupert and adding 600 new flat cars to the BC Rail fleet. Fourth, it is planning to integrate its 1,500 mile BC Rail into CN's North American network.

Under the takeover agreement CN will pay the Province of British Columbia \$1 billion for the shares of BC Rail and will operate the tracks under a 90-year lease agreement. The immediate benefits for the Province include the elimination of \$500 million in BC Rail debt and \$30 million in annual interest payments. Another benefit is the \$32 million investment in a new container terminal at the Port of Prince Rupert. A reduction in costs from reducing the number of BC Rail employees is also expected.

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

The US Department of Transportation's Bureau of Transportation Statistics indicated that the TSI reached the highest level in the 14-years covered by the index. In April, the TSI rose by with a 0.8 percent and the Freight TSI increased by 0.5 percent reaching an all-time high. The TSI is a measure of the month-to-month changes in the output of services provided by the for-hire transportation industries. The statistics published were annual indices from 1996 to 2004 and monthly indices from October 2003 to April 2004.

3. Seaway opened strongly

The US Department of Transportation's Saint Lawrence Seaway Development Corp. reported that early season cargo traffic on the St. Lawrence Seaway was up 12 percent compared to a year ago as a result of stronger US Midwest economic activity. Canadian freight accounts for about half of the system's traffic.

Current Developments in Brief

1. CN set to close BC Rail takeover (*Globe and Mail*, July 3, 2005, p. B5.)
2. BTS Releases April Transportation Services Index (TSI) Combined Index and Freight Index Reach New Record Highs (July 6, 2004, www.dot.gov)
3. Seaway opened strongly (*Journal of Commerce*, July 6, 2004, www.joc.com)
4. Norfolk Southern, CP Rail in northeast service pact (*Journal of Commerce*, July 7, 2004, www.joc.com)
5. Air Canada and Unions (*Globe and Mail*, July 6, 2004, p. B3)
6. Air Canada-West Jet Espionage lawsuit (*Globe and Mail*, July 5, 2004, p. B3). Air Canada boosts damages claim against WestJet to \$220-million (*Globe and Mail*, July 23, 2004, p. B3)
7. End near for conferences? (*Journal of Commerce*, June 28-July 4, 2004, www.joc.com)
8. Canadian Transportation Agency to Hold a Public Hearing to Determine Whether Jetsgo's Liability Limit or Baggage is Reasonable (July 7, 2004, www.cta-otc.gc.ca)
9. Competition Bureau Charges St. John's Taxi Companies with Conspiracy (July 9, 2004, www.ic.gc.ca)
10. Couriers and local messengers industry (*The Daily*, July 14, 2004, www.statcan.ca)
11. Port activity (*The Daily*, July 14, 2004, www.statcan.ca)
12. Canadian National profits rise (*Journal of Commerce*, July 21, 2004, www.joc.com)
14. Port of Montreal says it's another record year for containers (July 28, 2004, www.ctl.ca)

4. Norfolk Southern, CP Rail in northeast service pact

Norfolk Southern (NS) and Canadian Pacific Rail (CPR) serving the northeastern United States announced a comprehensive agreement on trackage rights, and freight and yard services to increase service efficiency and reduce costs. The main elements of the agreement are: 1) CPR will move NS freight between Rouses Point and Saratoga Springs, NY, while NS will operate its trains over CPR lines between Saratoga Springs and Binghamton, shortening NS's route to Quebec and the Maritime provinces; 2) CPR freight will move in NS trains (replacing CPR trains) between Binghamton and Buffalo; and 3) CPR will operate over a new NS route on existing rail lines between Detroit and Chicago, providing CPR with a faster, lower-cost lane.

5. Air Canada and Unions

The Deutsche Bank, a key Air Canada financier, demanded that the unions find another \$200 million in savings to come closer to the \$1.1 billion in concessions a year that Air Canada unions agreed to in May 2003 to salvage its restructuring. The demand was imposed as a condition to nearly doubling (to \$850 million) an equity rights offering to the airline's creditor. Five of the nine Air Canada's bargaining units have so far ratified the cost-cutting measure. The latest two bargaining units were: the Air Canada Pilots Association which agreed to cut labour costs by \$38.5 million; and the Canadian Auto Workers which agreed to cut costs by \$2.5 million. The others were the Canadian Airline Dispatchers Association; the International Association of Machinists and Aerospace Workers (\$36.5 million); and the Canadian Union of Public Employees (\$51.6 million).

6. Air Canada-West Jet Espionage lawsuit

Air Canada filed a factum in Ontario Superior Court on July 2, 2004 alleging that "there is substantial evidence that Westjet's access to the plaintiffs' confidential information has contributed to its recent success." Air Canada is suing Westjet for tapping into its seat-booking database through an internal website open to its employees and retirees. The factum states that "... In essence, the improper use of the plaintiffs' confidential load factor and flight booking information has given Westjet a significant and unfair competitive advantage in the very competitive Canadian airline industry."

Westjet did not deny looking at the data but denied that the data was confidential. It alleged that any losses suffered by Air Canada were the result of mismanagement, under-pricing, a high cost structure and poor treatment of customers. Westjet filed a countersuit largely based on Air Canada's 'unlawful seizure' of garbage bins containing confidential financial and operations documents from one of its executive's home in Victoria, BC. Air Canada has admitted to taking the shredded paper and sending it to Houston for reconstruction. It also accuses Air Canada of using the legal system to smear the company's reputation instead of resolving the legal disputes.

On July 23, 2004, it was reported that Air Canada had escalated its legal battle with WestJet by seeking \$220 million in compensation and damages. This amount is broken down into \$50 million for damages and \$170 million for loss in revenue, profit and benefit due to siphoning of confidential information about passenger bookings on future flights. The lawsuit also named Mark Hill, a Westjet co-founder and Jeffrey Lafond, a former Air Canada employee who now works for Westjet. Air Canada has accused Mr. Hill of using Lafond's access to the Air Canada special reservation website which contains confidential information. Westjet indicated that it file a counter suit by August 6, 2004.

7. End near for conferences?

Other Developments of Interest

1. U.S. Secretary of Transportation releases a study on *Capacity needs in the National Airspace System: An Analysis of Airport and Metropolitan Area Demand and Operational Capacity in the Future*. - it calls for the need for airports to act now to meet the growing demand for Air Travel. June 24, 2004 (www.dot.gov)
2. Cruise Passenger Travel Grows 13.6 percent - statistics 2001-2003 also released. July 12, 2004 (www.dot.gov) (www.marad.dot.gov)
3. MARAD Releases its updated *Report on Survey of US Shipbuilding and Repair Facilities - 2003*, - it contains information on over 250 U.S. shipyards, including many small and medium sized yards. (www.marad.dot.gov)
4. Air Canada strategy aimed at long haul, *The Globe and Mail*, Wednesday, July 14, 2004, p. B3.
5. Jetsgo turns up heat with more flights (i.e., Jetsgo is going to offer competitive flights with WestJet and Air Canada on Vancouver-Edmonton and Pearson-Laguardia routes starting September 2004) *The Globe and Mail*, Thursday, July 15, 2004, pp. B1/B6.
6. BTS Releases April Airline Traffic Data, (Domestic traffic up 13.1 percent in April 2004 over April 2003) July 15, 2004 (www.dot.gov)
7. Better first half for U.S., Canadian rail traffic (i.e., US and Canadian carloads increased 4.5% and containers and trailers increased 7.5% in the first six months of 2004 compared to a year earlier) July 21, 2004 (www.joc.com)
8. Record growth for South Korea ship builders (i.e., South Korean shipbuilding orders increased 16 percent for the first six months of 2004 compared to a year earlier) July 21, 2004 (www.joc.com)
9. New rail security legislation. (A new bill known as the *Protects Act* in short was introduced by the Democrats on the House Transportation and Infrastructure Committee. The bill would authorize \$1.3 billion for railroad security and disaster) July 23, 2004 (www.joc.com)
10. United States, Indonesia Sign Open-Skies Aviation Agreement, July 26, 2004 (www.dot.gov)
11. Transport Canada announces Small Tour Boat Safety Program July 28, 2004 (www.tc.gc.ca)

Conferences

1. International Air Cargo Association "Air Cargo Forum" September 14-17, Bilbao.
2. Transportation Association of Canada (TAC) Annual Conference and Exhibition, September 19-22, Québec City, Québec City Convention Centre, Hilton Hotel.
3. Supply Chain and Logistics Canada, September 28-29, Toronto, Symposium, Toronto International Centre.
4. The future of Canada's Infrastructure, September 30, October 1, Toronto, The Old Mill.
5. CITT 46th Annual Conference & AGM, Nov. 10-13, Banff, Banff Park Lodge.

The European Competition Directorate indicates it will urge abolition of carriers' exemption from competition laws. The newly issued report states that the Competition Directorate will probably recommend abolishing the block exemption granted to liner conferences from EC antitrust law when it submits its final report to the EC this fall. The discussion paper states "DGComp considers at this stage that it would be justified to propose legislation leading to the withdrawal of the current BE (block exemption) for price fixing and all restrictive practices of liner conferences." The DG paper found that "the conditions for an exemption would appear to be no longer fulfilled." The present review was a result of a staff report from the OECD in April 2002. DGComp said it would prepare a public paper for the EC with concrete proposals by fall 2004.

8. Canadian Transportation Agency (CTA) to Hold a Public Hearing to Determine Whether Jetsgo's Liability Limit or Baggage is Reasonable

The CTA will hold a public hearing in Toronto on September 27, 2004 to evaluate the merits of three complaints filed against Jetsgo Corporation alleging that the air carrier's \$250 liability limit for baggage lost, damaged or delayed on its domestic flights is unreasonable.

9. Competition Bureau Charges St. John's Taxi Companies with Conspiracy

The Competition Bureau has charged six taxi companies, and seven people with conspiracy following an investigation into an alleged agreement to lessen competition in bidding for taxi-service contracts in St. John's, Newfoundland and Labrador. The Bureau alleges that, between 1992 and 2004, the taxi companies agreed not to compete with each other for contracts to supply taxi services to institutional and commercial facilities in St. John's. The taxi companies charged were: Bugden's Taxi (1970) Limited, Dave Gulliver's Cabs Limited, Lockey Haven Ltd., North West Taxi (1985) Limited, St. John's Taxi Co-operative Society Limited, and Mall Cabs Limited.

10. Couriers and local messengers industry

Statistics Canada reported that the couriers and messengers industry increased 4% in 2002 from a year earlier. The industry generated operating revenues of about \$5.4 billion in 2002, up 5% from the previous year. The industry's operating margin (revenues - expenses) was \$326 million, down 18% compared with 2001. Couriers accounted for 78% of operating revenues and local messengers accounted for 22%.

11. Port activity

Canada's ports handled 198.1 million metric tonnes of cargo between January and June 2003, up 7.7% compared to the same period in 2002. Total container tonnage rose to 13.8 million metric tonnes an increase of 13.4% from 2002. Vancouver continued to be the country's busiest port handling 32.1 million metric tonnes accounting for 16% of all shipping in Canada. Vancouver accounted for 42% of all container tonnage handled at Canadian ports.

12. Canadian National profits rise

Canadian National Railway Co. indicated that their second quarter earnings rose 34 percent compared to a year earlier. A major factor for the increase was a 45 percent increase in grain revenue. Shipments of grain rose 18 percent, shipments of automobiles rose 5 percent and shipments of metals and minerals rose 98 percent. Overall, shipments increased by 12 percent.

13. United States, China Agreement on Expanded Air Services

US Transportation Secretary Norman Mineta and Civil Aviation Administration of China Minister Yang Yuanyuan signed a landmark air services agreement that will more than double the number of airlines that can fly between the US and China and will permit a nearly five-fold increase in US-China air services over the next six years.

14. Port of Montreal says it's another record year for containers

The Port of Montreal posted a 15.6% increase in traffic for the first six months of 2004. Containers (20-foot TEUs) moving through the Port increased by 10.6%.

* Please forward any news of interest to the Editor for inclusion in the next Update.