Transportation Digest

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Air Transportation

The State of Industry - *The Airlines*

The structure of the airline industry continued to evolve in the first six months of 2005. Jetsgo dominated the news. The carrier's losses in 2004, the handling of its problems caused by the cancellation of flights due to the winter storm, and the number of safety violations led to questions by leading analysts as to whether Jetsgo would remain in business for long. Demands from its creditors, finally caught up as it was unable to pay its bills. On March 11, 2005, Jetsgo grounded its operation seeking Court protection and on May 14, 2005, Transport Canada announced the cancellation of Jetsgo's operating certificate. In contrast to the misfortune of Jetsgo, Air Canada's fortune continued to improve after it emerged from bankruptcy protection. This appears to be corroborated with the fact that its system wide load factor (i.e., proportion of seats filed) continued to increase from 75.2% in December 2004 to 81.3% in June 2005, the highest ever for June. In addition, its domestic load factor (81.2%) represented an increase (3.2 points) over June 2004. Air Canada's fortune did not spill over to WestJet, its key rival, as WestJet witnessed its first two quarters of losses in its entire operating history ($46.3 million in the last quarter of 2004 and $9.6 million in the first quarter of 2005). This situation began it change for WestJet in the second quarter of 2005 with the departure of Jetsgo, the rise in air fares and the increase in its load factor to 71% compared with 67.5% for the second quarter of 2004. As a result, it reported a small profit for the second quarter of 2005.

Issues - *Airport Rents*

The rise and fall of airport rents has been on the radar screen since December 2004 when Transport Minister Jean-C. Lapierre indicated that he wanted airport rents frozen for 2005 as an interim step and then permanently lowered but could not get the support of Finance Minister Ralph Goodale. On January 1, 2005, Crown rents went up by 6.5% much to the disappointment of the industry. Industry representatives made representation to the government to reduce airport rents indicating that "Competitive airports are vital to attracting investment, promoting tourism and stimulating growth ..." The February 2005 Budget brought no relief. However, some relief arrived on May 9, 2005, when Transport Minister announced that the Government of Canada will adopt a new rent policy for federally-owned airports. He said "By lowering airport rents by 60 per cent, the Government of Canada is radically changing the financial outlook of the air transport sector in Canada. Through this policy, our major airports will see a substantial reduction in long-term costs, which should greatly benefit airlines and the traveling public." This will result in rent relief of $8 billion over the course of the existing airport rent leases. Later in the month, the House of Commons Standing Committee on Transport released an Interim Report on Air Liberalization and the Canadian Airport System. This report indicated that the recent changes to airport rents are "unacceptable" and won't provide the immediate relief the industry needs. "We believe that this falls far short of what is required to bring airport and airline costs down." The report made six recommendations on the Canadian Airports System.[1] The Air Transport Association of Canada (ATAC) welcomed the interim report.[2]

Air Liberalization

The initiative to pursue liberalization in air transportation began with the speech of Transport Minister to the Canadian Airline Investment Forum on October 29, 2004. A week later he appeared before the Standing

Committee on Transport and presented a paper to the Committee seeking advise. He indicated that it is an excellent time to re-examine the issue of air liberalization and raised a number of questions.[3] Subsequently, the Minister met with US Secretary of Transportation, Norman Mineta at the Canadian Open Skies Forum and they expressed interest in expanding the Open Skies Agreement. Mr. Mineta cited two major shortcomings with the existing one: a. it denies fifth freedom rights; and b. it limits multi-city cargo deliveries. He indicated that this situation needs to change if Canada is to catch up to the open skies agreement the US has with 67 other countries around the world. A few months thereafter, in May 2005, the Standing Committee released an Interim Report on Air Liberalization and the Canadian Airport System but made no recommendations on liberalization as it was reviewing the matter in greater depth. Almost simultaneously, on May 26, Transport Canada issued a Consultation Document seeking views on the Canada-United States Air Transport Agreement. Observers believe that a certain degree of liberalization will occur with regard to the Canada-United States Air Transport Agreement in the 'immediate' future but a number of factors (i.e. the state of the US airline industry, the opposition of US labour and the concerns of security) were cited against a complete NAFTA approach to pursuing total market integration.

Water Transportation

The State of Industry - *The Ports*

Movement of containers through the ports confirmed various newspaper reports of the increased volume of trade. For the Port of Montreal, the number of containers moved increased by 10.6% to 1,108,837 in 2004 over2003; for the Port of Vancouver it increased by 8% to 1,664,906; and for the Port of Halifax it decreased by 3% to 541, 650. Statistics for the first quarter of 2005 confirm similar growth patterns.

Issues - *Infrastructure*

The increased volume of trade, which is expected to continue over the next five years, highlighted problems of congestion, inadequacy of infrastructure and lack of investment. The severe winter weather added to the problems. There were delays by railways and problems at the terminals. Vancouver's Deltaport declared *force majeure* (i.e., we are operating but because of conditions beyond our control we don't take liability for any delays) and told ocean carriers it is not liable for delays in moving containers. As a solution to the immediate short run problems, there was diversion of traffic to other ports, attempts by the railway to increase the supply of railcars, and agreement by some ocean carriers to cut import cargoes by 25% to clear the backlog. The long run solution focussed on how to increase investment to deal with the infrastructure adequacy. The borrowing limit of the Vancouver Port Authority was increased to $510 million from $225 million. Transport Minister indicated proposing investment legislation this coming spring. The Minister said "We want to help the Port of Vancouver and that area to compete for that trade [China and Asia],and very much to support the potential for containers at Prince Rupert." The Minister also indicated that the federal government is ready to respond to requests for C$ 40 million to complete financing for new container handling capacity at the Port of Prince Rupert. In addition, the Vancouver Port Authority and Canadian Pacific Railway announced on April 21, 2005 that they signed a cooperation agreement to work together on joint capacity development to enhance Asia-Pacific trade. On June 22, 2005, the Minister of Transport introduced Bill C-61 An Act to Amend the Canada Marine Act in Parliament.[4]

Transport Minister introduces amendments to the *Canada Marine Act*

Transport Minister announced that amendments to the *Canada Marine Act* have been introduced in Parliament. The amendments provide Canada Port Authorities [CPA] with access to federal contribution programs for key infrastructure improvements. They will allow the Minister, in certain cases, to increase a port authority's borrowing limits and to reduce the minimum number of directors on the boards of most CPAs. They would also enhance the safety and efficiency of Canadian waterways. In order to improve the competitiveness of the Canadian marine industry, Transport Canada will not limit its activities to legislative amendments. This could alleviate some of the above problems facing the country's 19 largest ports enabling infrastructure improvements to expand capacity. The Association of Canadian Port Authorities was pleased that the Minister had introduced the Bill.

Rail Transportation

The State of Industry - *The Railways*

The results of the Canadian railways were exceptional in the first and second quarter of 2005. For Canadian Pacific Railway (CPR), net income tripled in the first quarter of 2005 and increased 47% in the second quarter compared to the first and second quarters of 2004. For Canadian National Railway (CN), net income increased by 42% and 28% in the first and second quarters of 2005 compared to same quarters in 2004. Operating ratio of CPR for the second quarter of 2005 was 75.5% an improvement of 2.5 points over the same period in 2004 and operating ratio of CN for the second quarter was 61.2% an improvement of 4.3 points over the same period in 2004. These results were supported by the fact that the railways carried more freight in March 2005 than in any March for the previous five years.

Issues - *Labour*

CN ratified a number of contracts with their labour unions (Union Transport Union; Canadian Auto Workers, the Teamsters Canada Rail Conference/Rail Traffic Controllers; the Canadian National Railways Police Association; International Brotherhood of Electrical Workers; United Steelworkers of America; Brotherhood of Locomotive Engineers and Trainmen; and International Brotherhood of Electrical Workers) and so did CPR (Teamsters Canada Rail Conference; and Canadian Auto Workers-TCA). CN also announced routing protocol agreements (Burlington Northern Santa Fe, Norfolk Southern and Ontario Northland) to expedite traffic movement and to provide for better asset utilization; and CPR reached a five year agreement with Elk Valley Coal Mines.

Highway Transportation

The State of Industry - *The For-hire Trucking Carriers*

For the 1st 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 $2.22 billion and operating expenses of $2.08 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 2.5% to $22.8 million. The operating ratio (operating expenses/operating revenue) improved slightly to .94 in the 1st quarter of 2005 compared to .95 for the 1st quarter of 2005.

Issues - *Border Crossings Delays*

Estimates of chronic delays at the Canada-U.S. border crossings indicate that it is costing the economy more than US$4.1 billion a year – an economic drain that comes in addition to an estimated $8 billion annual loss to Canadian companies. Improving efficiency at these points was not surprisingly a priority. Ottawa committed $443 million over five years to better deliver and secure efficient border service. The Governments of Canada and Ontario: launched the Canadian Environmental Assessment (EA) phase of the Detroit River international Crossing project at the Windsor-Detroit border; proceeded with consultations for increasing capacity at the Windsor-Detroit gateway; launched the Phase 2 of the *Let's Get Windsor-Essex Moving Strategy;* and started construction on a fifth lane on the Queenston-Lewiston Bridge at the Niagara border. Further, the Government of Canada and the Public Bridge Authority for Buffalo and For Erie announced the start of construction at the Peace Bridge, phase two of the Border Infrastructure Improvement. Furthermore, the Governments of Canada and British Columbia announced a new extension of the Highway 15 NEXUS/FAST truck lane in Surrey, B.C. at the Pacific Highway Border Crossing. The federal and various provincial governments also reached agreements for deployment of Intelligent Transportation Systems and confirmed several investments in road transportation infrastructure.

Other Transportation Matters

Environmental Issues - *Kyoto*

Concerns that the Government would be off its Kyoto target gathered momentum in January and February 2005. To address these concerns, a major theme in the Government's 2005 Budget was a move towards a green economy. It committed $5 billion for a package of measures over the next five years to support a sustainable environment.[5] In the allocation of these funds for various environmental and climate change, the guiding principles are: balance of short and long term measures; competitiveness; partnership; innovation; and cost-effectiveness. To further indicate that the Government was serious about achieving its commitments it indicated that it will impose federal regulations under the *Canadian Environmental Protection Act* (CEPA). This, however, did not end the criticism as the costs of meeting the commitments under the Kyoto Accord were expected to exceed $10 billion - twice the amount what the government had provided for in its budget - together with the fact that the government lacked a specific plan. Further, the Conservative Opposition leader indicated that any attempt to bring the controversial environmental provision under CEPA must be dropped from the budget implementation bill if it was to be approved. On April 13, 2005, the Government released the Kyoto plan indicating that it plans to spend $10 billion over the next seven years instead of the $5 billion indicated in the Budget. The goal is to cut average annual greenhouse emissions by 270 megatonnes for the period 2008-2012. The plan is intended to 'mobilize Canadians in a national effort' to create a low-carbon economy.

* ***The digest provided by the Authors is a summary of key developments over the last six months from the 'Transportation Information Update' and neither the Competition Bureau or Industry Canada is responsible for it.***

Endnotes

1. The six recommendations were: 1) a reduction in airport rents by 75% (with no payment for airports with less than 2 million passengers) and a reinvestment of rents received in the airports system; 2) the airport rental revenues received be used to increase funding for the Airport Capital Assistance Program with a simplification and cost reduction of the process for applying for this program; 3) the Air Transport Security Passenger fee be eliminated; 4) the government pay for Canada Border Services Agency services at airports that provide regular non-domestic flights; 5) the downloading of regulations (eg. firefighting) be paid by the government if it increases costs of airports significantly; and 6) the free services to government departments and agencies be ended in five years.
2. Mr. Mackay of ATAC stated "These recommendations build upon Minister Lapierre's own airport rent reform announcement of last week by adding significant and immediate value. By calling for immediate and meaningful cost savings and dealing with all the various government cost pressures imposed on the industry, this report charts a course for re-balancing the relationship with the federal government as a true partnership aimed at delivering opportunities for carriers and consumers alike."
3. On domestic air services: can we relax ownership restrictions?; what about control?; can we allow foreign carriers greater options when providing services between points in Canada?; and what would be the effects? On trans-border air services: should we consider trans-border courier services to two or more points?; should we allow trans-border services to third countries with price competition?; should we allow U.S. carriers to fly between points in Canada?; and should we integrate air markets under a single set of rules together with our approaches to passenger and all cargo services? On international air services: should we further relax or remove restrictions on services between our countries?; should we extend that relaxation to third countries?; and how do we balance all the Canadian interests affected by such changes?
4. Under the present *Canada Marine Act,* port investment in infrastructure is constrained because it forbids public financial grants, subsidies and limits borrowing powers of ports.
5. It did this by: 1) addressing climate change by promoting reductions in greenhouse gas (GHG) emissions and encouraging the development of environmental technologies; 2) building on existing tax measures to encourage Canadian business to invest more in efficient and renewable energy generation; 3) investing in public infrastructure to encourage more efficient use of energy as well as the remediation of brownfield sites; and 4) protecting our natural environment, including the Great Lakes, oceans and national parks.