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CTC Tourism Intelligence Bulletin – Issue 18: October 2003

The Tourism Intelligence Bulletin continues to monitor the tourism industry around the world. This issue reveals tourism intelligence gathered in September 2003.

After Two Years of Chaos, Notes of Optimism are Emerging

Executive Summary

- Two years after 9/11, the battered tourism industry is taking stock and cautiously hoping for better times. Even though the latest travel statistics may suggest that the global tourism industry is improving, the obstacles faced over the past few years are proving difficult to overcome. While terrorism-related travel concerns have abated, new concerns have further setback the industry. Few in the industry would challenge the notion that tourism has been permanently altered.
- In fact, over the past two years, the number of low-cost alternatives for air travel within Canada has increased 123 per cent. Facing this reality, Air Canada's President and CEO, Mr. Robert Milton, admitted that the airline industry has no choice but to adapt to the advent of discount air travel. He insists that lower prices and internal restructuring will help the industry recover from the downturn it has suffered in the last two years. Fortunately, Mr. Milton remains confident that airlines such as his will emerge stronger from the restructuring process.
- Unfortunately, despite improving global economic prospects and the highest levels of travel safety confidence in years, there is still little evidence that businesses intend to change their cost-cutting measures. While hotel operators have recently reported a recent increase in demand-coinciding with the critical meetings and conventions time of year-the industry remains cautious about this fall's corporate travel market.

Emerging Trends and Issues - Recovery of Business Travel Market Remains Elusive

- Since 2001, business travel has remained one of the most elusive markets to rebound. According to Rosenbluth International, business travel in the first half of this year fell 5 per cent in Canada and 15 per cent in the U.S. While a recent survey by American Express and CFO Research Services indicated that senior financial executives at mid-sized American companies are feeling more confident about the economic outlook, 76 per cent stated they will continue to look for more ways to cut indirect costs regardless of the economic climate. Productivity and return on investment are two other factors that are now at the forefront of business travel decisions.
- With corporate travel spending facing growing scrutiny, travel technology alternatives continue to rise in popularity. This has spawned a new meetings segment known as the "interactive" meetings market. According to Marriott International, this market is worth an estimated US \$400 million (CDN \$541.5 million) in annual spending worldwide.

Consumer (Traveller) Overview

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After Two Years of Chaos, Notes of Optimism are Emerging

- According to a new U.S. study released by Kensington Technology Group and Socratic Technologies, corporate travellers find business trips so taxing that the majority (53%) require at least two days to recover when they return home. A recent survey by Microsoft Corp. goes even further to report that almost three-quarters (72%) of U.S. corporate travellers find business travel as stressful or more stressful than visiting the dentist. The study goes on to suggest that regardless of the negative attitude towards business travel, 79 per cent agreed that there is no substitute for face-to-face meetings.
- Carlson Wagonlit Travel (CWT) reported that their clients showed little concern regarding travelling on the second anniversary of 9/11, according to a survey of their office locations across the U.S. CWT noted that traveller attitudes had changed significantly from last year, when the first anniversary had a "huge adverse impact" on travel bookings.
- The latest Omnibus Household Survey by the U.S. Bureau of Transportation Statistics suggested that most American air travellers are satisfied with current airport security processes and feel that the time it takes to clear airport security checkpoints is now reasonable. In fact, 89 per cent of the respondents thought that the time they spent was either on par with (51%) or less than they expected (38%). In addition, most respondents rated the thoroughness of the screening as adequate (82%). Those viewing it as either inadequate or excessive were split down the middle at 9 per cent each.

Travel Supplier Overview

- Air Canada reported that its August passenger traffic was down 13.8 per cent from the previous year-impacted in part by the August 14 power outage that affected eastern Canada and the northeastern U.S., including its main hub in Toronto. Despite the decline, Air Canada said that passenger traffic was continuing to recover from the blow delivered by the SARS outbreak, with yields beginning to strengthen in spite of the weak business market. In the U.S., average domestic airfares increased 5 per cent in August compared with last year-the highest increase since December 2000. Overall, leisure air travel demand for July and August proved to be higher than anticipated and resulted in a generally solid summer season performance for the U.S. airline industry.
- According to an ongoing study conducted by KPMG, tourism expenditure losses in Toronto reached \$468 million for the period of March 2 to September 13 of this year. KPMG also reported that, since March 2, the decline in tourism expenditures has exceeded \$900 million in the six Canadian cities it has been tracking (Toronto, Montreal, Niagara Falls, Ottawa, Calgary and Vancouver). For the month of July, Pannel Kerr Forster Consulting Inc. (PKF) reported that the national occupancy rate declined 9.7 percentage points to 66.3 per cent, compared with last year.
- Meanwhile, Smith Travel Research (STR) reports that average occupancy rates and room revenues in the U.S. have continued their steady climb-albeit at a slow pace-into the month of September. Specifically, STR reported that occupancy levels were up 1.9 percentage point in the first week of September, compared with 2002-boosted by strong travel demand during the Labour Day long weekend. These gains were seen as a positive sign for the fall travel season.

Economic Overview

- The war in Iraq and the SARS outbreak both took a toll on the North American economy in the first half of this year. In order to stimulate a recovery, the Bank of Canada has cut interest rates twice since July. These low interest rates are expected to sustain consumer spending through the year and encourage investment. Meanwhile, the U.S. economy is poised for strong economic performance in the fourth quarter this year and into 2004. The spur in economic activity will be sparked by 45-year low interest rates, a \$30 billion federal tax cut that is already working through the system and massive military spending increases.
- The consensus among economists is that the economic slide that has afflicted Euroland appears to have reached bottom. In fact, business sentiment in Germany improved for a fifth month in September, according to Germany's Ifo economic institute. As it looks to the future, the government of France expects that real economic growth will accelerate to 1.7 per cent in 2004-roughly in line with the consensus of private-sector economists. Meanwhile, the U.K.'s strong ties to the U.S. economy are expected to help spur its own economy in the latter half of this year.

After Two Years of Chaos, Notes of Optimism are Emerging

- According to a recent article in the Wall Street Journal, Tokyo sold up to \$90 billion worth of yen so far this year to prevent generic dollar weakness from lifting the Japanese currency too far. While the dollar has dropped almost 10 per cent so far this year against European currencies, it is down just 2 per cent against the yen. Despite the fact that GDP growth grew at a blistering annualized rate of 3.9 per cent in the second quarter, Japanese officials say that the economy is still not out of the woods. Meanwhile, the Chinese economy is expected to grow by nearly 8 per cent this year and next. As a result, the country will import more exports from countries such as Taiwan, Hong Kong and South Korea. A stronger U.S. economy is also expected to benefit export-oriented Asian countries in the latter half of this year and into 2004.

Opportunities

- American Express recently surveyed "affluent" consumers in five countries, including Canada and the results suggest that attitudes regarding near-term financial conditions and spending plans were very positive despite rocky economic conditions around the globe. The consensus among the Canadians polled was that spending outside of the home would increase over the next year.
- A new study by Edmonton-based Web Mystery Shoppers reveals that although there is still room for improvement, consumers find it easier to book hotels than flights on-line. The main complaint about the hotel web sites was the lack of clarity regarding pricing—only 59 per cent of hotel bookers were confident about the cost of their booking before placing their order, compared with 75 per cent of air travel bookers. Other frustrations for hotel bookers included the lack of ability to sort search results by price, and a lack of information regarding nearby tourist/business attractions.
- Meanwhile, the Travel Industry Association of America (TIA) recently reported that Americans have steadily increased their visits to theme and amusement parks since 1996. This has created a very lucrative market within the travel industry. According to the TIA's Domestic Travel Market Report, 2003 Edition, visitors to theme and amusement attractions tend to average more overnight stays and spend more money per household on their trip, compared with overall travellers.

In Brief

Two years after 9/11, the battered tourism industry is taking stock and cautiously hoping for better times. Although the latest travel statistics may suggest that the global tourism industry is improving, the obstacles faced over the past few years are proving difficult to overcome. On one hand, the industry has made tremendous inroads in its battle against terrorism-related travel concerns, particularly through increased safety procedures. On the other hand, the industry has unfortunately had to deal with new concerns, particularly those related to the SARS epidemic. While the industry is heartened, the realization remains that tourism has been altered permanently.

According to the Official Airline Guide's (OAG) latest Quarterly Report, the number of low-cost alternatives for air travel during September increased 123 per cent for travel within Canada, compared to September 2001. Even more impressive (than the increase in flights) is the 138 per cent growth in available seats over the same period. Air Canada's President and CEO, Robert Milton, recently admitted that the airline industry has no choice but to adapt to the advent of discount air travel, insisting that lower prices and internal restructuring will help the industry recover from the downturn it has suffered in the last two years. Mr. Milton remains confident that airlines such as his will emerge stronger from the restructuring process.

Despite improving global economic prospects and travel safety confidence being at its highest levels in years, there is still little evidence that businesses are changing their cost-cutting measures. While hotel operators will generally admit to a recent increase in demand—coinciding with the critical meetings and conventions time of year—the industry remains cautious about the prospects of this fall's corporate travel market. Since 2001, the corporate market has consistently proven to be the most rebound-resistant segment of the travel industry.

Emerging Trends and Issues

Rebound of Business Travel Market Remains Elusive

Since 2001, business travel has remained one of the most elusive markets to rebound. According to Rosenbluth International, business travel in the first half of this year fell 5 per cent in Canada and 15 per cent in the U.S. Concerns about the economy and corporate belt-tightening have been the main deterrents to business travel. Despite improving global economic prospects and the highest travel safety confidence in years, there are still no indications that businesses will alter their cost-cutting measures with the advent of a healthier economy. A recent survey by American Express and CFO Research Services indicated that senior financial executives at mid-sized American companies are feeling more confident about the economic outlook in the U.S. However, 76 per cent of respondents said they will continue to look for more ways to cut indirect costs regardless of the economic climate.

New Priorities in the Meetings and Convention Market

In the last two years, The Conference Board of Canada has seen specific trends emerge in its meetings and conference business. "People are still willing to travel, but we are seeing much more of an impact on our programs aimed at middle management, rather than senior executives," noted Associate Director Brenda LeFort MacLean. She attributes the decrease in attendance of mid-level executives to corporate budget restraints and increased time pressures affecting middle management, suggesting that conference and meeting attendance is considered more essential for those at a senior level.

Productivity and return on investment are two other factors at the forefront of business travel decisions. The Conference Board keeps its meeting events to one or two days because delegates do not want to be out of the office for a longer period. Clients are also much more vigilant about choosing quality programs that they know will be worth the time away from the office.

As corporate travel spending shrinks, technological alternatives to travel continue to rise in popularity, becoming more and more accepted as standard business tools. Runzheimer International recently reported that 56 per cent of companies polled cited the increased use of travel alternatives, such as tele-, web-, or video-conferencing, as one of the main reasons behind decreasing travel budgets. The number of products and services available have skyrocketed, and technology continues to become faster and cheaper. AT&T and MCI, two of the top providers of teleconferencing technology each do an estimated US \$500 million (CDN \$667.8 million) in teleconferencing business annually—an area that has seen a growth of 40 per cent since the terrorist attacks of September 11, 2001.

Travel-alternative technology is becoming so common that it has spawned a new meetings segment categorized as the "interactive" meetings market. According to Marriott International, this market is worth an estimated US \$400 million (CDN \$541.5 million) in annual spending worldwide. In response, Marriott launched a new division, EventCom Technologies, which offers the latest in satellite, audio and Internet conferencing products and services, as well as event management assistance. This service, the first of its kind to be offered in-house by a lodging company, allows corporate groups to connect with employees or clients virtually anywhere in the world.

Fortunately, despite the challenges that exist in today's business travel market, Meeting Professionals International (MPI) projected that meeting budgets and revenues will increase in the short term. According to MPI's latest poll of meeting planners and suppliers, 50 per cent of respondents anticipated that their budgets or revenues would increase in the next six months, while 35 per cent believe they will remain the same—good news for an industry that generates US\$102.3 billion (CDN\$138.5 billion) worldwide.

Consumer Overview - Canada and the United States

Business Travellers

A survey by Travel Weekly and NTM Research suggests that corporations are significantly decreasing their use of travel agencies, opting instead to book their travel on-line. Of the travel agents polled, 41 per cent reported a decrease in corporate bookings. The most common reason cited for the downturn was the sluggish economy (37%) but over one-third of the respondents (34%) also reported that on-line travel agencies have depleted their corporate customer base. A further 25 per cent of respondents expect their corporate customer base to diminish at some point in the future.

A recent survey by American Express and CFO Research Services indicated that senior financial executives at mid-sized American companies are feeling more confident about the economic outlook in the U.S. However, most respondents said they will continue to look for more ways to cut indirect costs regardless of the economic climate. This poll of mid-sized companies showed that 48 per cent of respondents believe that the U.S. economy will grow in the next 18 months, up from 31 per cent last year, while 31 per cent believe the economy will remain flat. The largest group of respondents (76%) indicated that cutting indirect expenses and generating new revenue sources were equally important strategies in improving the financial health of their company.

In response to the general trend of cutting corporate travel costs, many U.S. business travellers are increasing their use of car travel over air travel for short-haul business trips. According to a new survey by Greenfield On-line and Enterprise Rent-a-Car, 65 per cent of business travellers polled have taken a short-haul driving trip (under 300 miles) in the last year. Forty four per cent of this group are taking business trips more often by car than in the past. The main reasons for taking more car trips are cost savings (78%), higher airfares on short-haul destinations (57%), airport security hassles (46%), reduced flight choices (39%) and changes in corporate travel policies (38%).

In its latest Travel Management newsletter, Runzheimer International reported that car rentals are the fourth largest travel expenditure category in the average North American corporate travel budget. Air travel takes up the largest portion, at 44 per cent, while lodging and meals account for 25 per cent and 10 per cent, respectively.

A recent survey by Microsoft Corp. reveals that almost three-quarters (72%) of U.S. corporate travellers find business travel as stressful or more stressful than visiting the dentist. In fact, the majority of respondents believed that business travel was as stressful or more stressful than giving a presentation in front of a large group (66%), sitting in rush-hour traffic (64%), and doing their taxes (56%). But, regardless of the negative attitude towards business travel, 79 per cent agreed that there is no substitute for face-to-face meetings.

According to a new U.S. study released by Kensington Technology Group and Socratic Technologies, corporate travellers find business trips so taxing that the majority (53%) require at least two days to recover when they return home. Many (40%) suffer from headaches, back pain, neck pain or sleeplessness when they travel and 60 per cent experience significant fatigue. Half of the survey respondents (50%) indicated that it takes them two full days to catch up on work responsibilities, while 12 per cent need three days.

The survey also showed that many business travellers find the unproductive nature of travel time very stressful, despite the increased use of technology such as laptop computers and PDAs (personal digital assistants). Of those polled, 55 per cent found that they wasted too much time travelling to and from the airport, and 41 per cent were stressed by the amount of time spent in security lines. Although 99 per cent of respondents bring laptops with them when they travel, only 39 per cent said that they use their computer during the flight.

*After Two Years of Chaos, Notes of Optimism are Emerging***Leisure Travellers**

American Express recently surveyed "affluent" consumers in five countries, including Canada and the results suggest that attitudes regarding near-term financial conditions and spending plans were very positive despite rocky economic conditions around the globe. The consensus among Canadians polled was that spending outside of the home would increase over the next year, with outside entertainment increasing by 47 per cent, and dining out by 46 per cent. However, the largest group of Canadians (34%) indicated that their highest financial priority was to pay off their mortgage or other debts.

According to the Cruise Lines International Association (CLIA), more than 4.5 million passengers took a cruise vacation in the first half of 2003. A nearly equal number of passengers travelled during the first and second quarters of 2003. Of the 4.5 million total cruise passengers, four million were North Americans. Since 1980, cruise demand has increased at an average rate of 8.4 per cent annually. During the first half of 2003, cruise travel increased 13.6 per cent, compared to the previous year.

According to a survey of their office locations across the U.S, Carlson Wagonlit Travel (CWT) reported that their clients showed little concern regarding travelling on the second anniversary of 9/11. Survey results showed that 82 per cent saw no change in booking patterns, while only 6 per cent reported having customers who were avoiding travel on that day. CWT noted that traveller attitudes had changed significantly from last year, when the first anniversary had a "huge adverse impact" on travel bookings.

The latest Omnibus Household Survey by the U.S. Bureau of Transportation Statistics suggested that most American air travellers are satisfied with current airport security processes and feel that the time it takes to clear airport security checkpoints is now reasonable. The average security screening waiting time was 14 minutes, and 89 per cent of the respondents thought that the time they spent was either on par with (51%) or less than they expected (38%). Most respondents rated the thoroughness of the screening as adequate (82%). Meanwhile, those viewing it as either inadequate or excessive were split down the middle at 9 per cent each.

Travel Supplier Overview - Canada and the United States**Airlines - Canada**

Air Canada reported that its August passenger traffic was down 13.8 per cent from the previous year-impacted in part by the August 14 power outage which affected eastern Canada and the northeastern U.S., including its main hub in Toronto. While Air Canada reported that its transatlantic traffic was up for the third consecutive month (1.2 per cent over August 2002), Pacific routes were still down by almost half (-45.0%). The airline also reported that domestic traffic was down 7 per cent compared with last year. In a press statement, Air Canada said that passenger traffic was continuing to recover from the blow delivered by the SARS outbreak, with yields beginning to strengthen in spite of the weak business market.

Air Canada also announced that it was stepping up its air service to South America, in response to the recent changes by the U.S. government regarding visa requirements for travellers flying through American airports. Since the U.S. announced its suspension of the programs allowing Latin American and Asian passengers to stop over in U.S. airports without visas, the carrier has experienced an increase in travel demand to and from South America.

According to the September OAG Quarterly Report on global airline schedules, low-cost carriers increased their September 2003 flight schedules in Canada by 59 per cent, compared against last September while seat capacity increased 60 per cent. In fact, since September 2001, flight schedules for this segment have increased by 123 per cent, while capacity has grown 138 per cent. OAG noted in its press release that the low-cost carrier segment has been the only segment of the global airline industry to show any significant growth since 9/11.

Table 1. Airline Revenue Passenger Miles (RPM) and Capacity - August 2003

Airline	RPM (in millions) August 2003	RPM 2003 vs. 2002	Capacity 2003 vs. 2002
Air Canada (includes Tango, Zip and Jetz)	4,028	-13.8%	-11.9%
Air Canada Jazz	152	+7.8%	-1.6%
Westjet	535	+40.1%	+45%
Jetsgo	189	+266%	+263%

Jetsgo launched its new frequent-flyer program (Jetsmiles) in September that is structured to eliminate the restrictions found on most traditional flyer benefit programs. A key feature of the program is that any unsold seat will be available for free flight rewards, with no blackout periods, although travel during high season, or with less than fourteen days notice will require more points. Up to 2,000 Jetsmiles can be earned on a long-haul return flight, with redemption for free flights starting at 7,000 Jetsmiles for a one-way short-haul flight.

Meanwhile, Transat A.T. Inc. reported a third quarter loss of \$5.8 million for the period ending July 31, 2003, compared with a \$5.7 million net profit in the same period of 2002. The travel company stated that the effects of the SARS outbreak, the current economy and an over-capacity in the French market led to a 19 per cent drop in travellers during that quarter. Transat anticipates the effects of SARS to further impact its fourth quarter earnings (ending October 31, 2003) but is more optimistic about its next fiscal year when its cost-cutting strategies will be fully implemented.

Airlines - U.S.

During August, many major U.S. airlines again experienced soaring load factors, but passenger traffic for the month was less than that witnessed last year. The Air Transport Association (ATA) reported that overall revenue passenger miles (RPMs) were down 1.9 per cent, compared to last year. The ATA further reported that domestic traffic was down 1.2 per cent while international routes saw a decline of 3.5 per cent. It was also reported that while overall capacity was down 5.7 per cent, load factors climbed 3.1 points to 80.8 per cent.

On a positive note, average domestic airfares increased 5 per cent compared with last year—the highest increase since December 2000. Overall, leisure air travel demand for July and August proved to be higher than anticipated and resulted in a generally solid summer season performance for the U.S. airline industry.

According to the September OAG Quarterly Report on global airline schedules, the frequency of domestic flights in the U.S. is showing signs of a recovery. The report credits most of the improvement to the growing low-cost carrier segment. After a dramatic drop earlier this year, flights have returned to 2002 levels, although they are still 12 per cent below 2001.

In mid-September, the U.S. airline industry suffered a bit of a setback when Hurricane Isabel caused chaos for air travel across the entire East Coast of the U.S. According to the Federal Aviation Administration, 6,800 commercial flights were cancelled, as twenty different airports contended with high winds, flooding and power outages. US Airways felt the greatest impact of the storm, which closed down its main hubs in Charlotte and Reagan Washington National Airport.

UAL Corp., the parent company of United Airlines, reported a net profit of US\$68 million (CDN\$92.1 million) for the month of August, excluding reorganization expenses. This met the requirements of its debtor-in-possession financing for the seventh consecutive month. System-wide passenger unit revenues were up 15 per cent and yields increased 10 per cent, compared with the same month last year. The airline said it was encouraged by its summer season performance, despite the impact of the August 14th power outage and reported that fall and winter bookings are looking better than expected. The airline received approval from the bankruptcy court overseeing its case, to extend the deadline for filing its reorganization plan until March 6, 2004. In the meantime, United Airlines announced that it would launch its new low-cost operation, tentatively called "Starfish," in February 2004.

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A new U.S. airline, Primaris, is preparing to offer exclusively first-class service at lower rates. Planes will be equipped with first-class seats, with no middle seats, and fare levels will be on par with low-fare carriers such as Southwest. Based in Las Vegas, Primaris anticipates receiving final approval from the Transportation Department and the Federal Aviation Administration by the end of this year and hopes to commence operations in early 2004.

Continental Airlines unveiled a new set of services and benefits aimed at boosting their business and premium clientele, and differentiating their service from the discount carrier segment. Passengers flying in the airline's EliteAccess category will be provided with expedited check-in and security screening, preferential baggage service, and will be guaranteed an aisle or window seat if first-class upgrades are not available. Continental noted that its percentage of revenues attributed to business travellers has fallen from 45 per cent to 36 per cent in the last two years.

Table 2. Airline Revenue per Available Passenger Mile (RPM) and Capacity

Airline	RPM; August 2003 vs. August 2002	Capacity; August 2003 vs. August 2002
American Airlines	-1.7%	-6.5%
America West Airlines	+2.6%	-1.5%
Continental Airlines	+1.7%	-2.3%
Delta Air Lines	-3.7%	-7.2%
JetBlue Airways	+69.9%	+67.6%
Northwest Airlines	-5.2%	-7.4%
Southwest Airlines	+3.4%	+2.6%
United Airlines	-8.1%	-12.2%
US Airways	-5.7%	-10.0%

The U.S. Department of State announced in late September that it was postponing the deadline regarding machine-readable passports for twenty-one of the twenty-six countries currently under the Visa Waiver Program for travellers. Originally, the U.S. government ruled that, as of October 1, 2003, Visa Waiver travellers would need to present a machine-readable passport upon entering the U.S. or would be forced to obtain a visa. Now, twenty-one of the countries have been granted deadline extensions in order to give them more time to convert their citizens' passports. In some Western European countries, such as France and Spain, it is estimated that more than one-third of passports are currently not machine-readable.

As of October 1, 2003, the U.S. government will reinstate a US\$2.50 connection tax on all airfares, created to cover the government's post-9/11 air security costs. The tax was temporarily lifted on June 1 of this year as part of an airline industry relief package given out at the time. While the airlines immediately offset the June 1 tax break with increased airfares, they are not expected to reduce airfare once the tax is reinstated.

The U.S. Transportation Security Administration recently announced a US\$100 million (CDN\$135.5 million) grant to be distributed to 58 U.S. carriers to reimburse them for the cost of reinforcing cockpit doors. After 9/11, Congress passed a law requiring any passenger aircraft flying in the U.S., whether domestic or foreign, to have reinforced cockpit doors for security purposes. The mandate went into effect April 9, 2003 and involved 5,800 domestic and 4,200 foreign aircraft.

Hotels - Canada

According to an ongoing study conducted by KPMG, tourism expenditure losses in Toronto reached \$468 million for the period of March 2 to September 13 of this year—down 29.6 per cent compared with 2002. The largest category of revenue loss continued to be the accommodation sector, which has seen expenditures fall by \$168.6 million during this period. KPMG also reported that, since March 2, the decline in tourism expenditures has exceeded \$900 million in the six Canadian cities it has been tracking (Toronto, Montreal, Niagara Falls, Ottawa, Calgary and Vancouver). Of the six monitored cities, Ottawa has witnessed the smallest decline (-3.2%) in tourism expenditures, compared with 2002.

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Pannel Kerr Forster Consulting Inc. (PKF) reported that the average daily room rate for Canadian hotels in July decreased 4.9 per cent to \$121.37, compared to July 2002. During this same month, the national occupancy rate declined 9.7 percentage points, compared with last year, to 66.3 per cent. PKF noted that since March, when lodging demand first began slipping in response to the SARS outbreak, the Canadian hotel industry suffered a loss of 2.7 million room nights up to the end of July, compared to the same time period in 2002.

Meanwhile, Intrawest Corporation reported a net income of US\$34.2 million (CDN\$46.4 million) for its fiscal year ended June 30, 2003. While revenues from its ski and resort operations were up 15 per cent from last year, the war in Iraq and the SARS outbreak had a negative impact on resort visits. The Vancouver-based company owns or controls ten mountain resorts in Canada and the U.S., including Whistler Blackcomb. Last fiscal year, Intrawest Corporation reported a net profit of US\$58.5 million (CDN\$79.4 million).

Hotels - U.S.

According to preliminary results from Smith Travel Research (STR), average occupancy rates and room revenues in the U.S. have continued their steady climb-albeit at a slow pace-into the month of September. Specifically, STR reported that RevPAR was up 3.9 per cent in the first week of September, compared with 2002-boosted by strong travel demand during the Labour Day long weekend. Overall, occupancy for the same week was up 1.9 points, to 53.7 per cent. These gains were a positive sign for the fall travel season, building momentum for the rebound expected in 2004.

Hilton Hotels announced plans to test self-serve check-in kiosks at two of its largest convention hotels, in New York and Chicago. Like those found in airline check-in areas, the electronic kiosks will be positioned in the hotels' front lobbies and allows travellers to access their reservations and obtain room keys without having to talk to the front desk staff. Hilton hopes that travellers will appreciate the convenience, while leaving front desk staff available to provide extra service to those guests requiring it. If the test is successful, Hilton plans to introduce the computerized kiosks to its various locations.

Travel Agents

IATA's Bank Settlement Plan (BSP), the system of tracking airline tickets sold through Canadian travel agencies, reported that the average cost of domestic air travel for Canadians decreased 10 per cent in August compared with a year earlier. IATA also reported that the average airfare to the U.S. was down 5 per cent compared with the previous year, while airfares to international (non-U.S.) destinations were 4 per cent lower.

Meanwhile, in the U.S., the Air Transport Association (ATA) reported that the average domestic August airfare increased 5 per cent compared with last year-the highest year-over-year increase since December 2000. For international travel, the average U.S. ticket price on Atlantic and Pacific routes was up 7.2 per cent and 0.6 per cent, respectively, while fares on Latin routes were down 1.6 per cent.

The Airline Reporting Corporation (ARC) reported that travel agency sales in August were virtually on par with the same period last year. ARC also noted that electronic ticketing reached a new record again in August, accounting for 84.2 per cent of all transactions, surpassing the previous record of 83.3 per cent reached last month. In comparison, e-tickets accounted for 67.7 per cent of airline tickets sold in August 2002.

According to the AAA's August National Travel Barometer, overall travel bookings were up 3 per cent, compared with August 2002. Part of the increase was attributed to the 13 per cent growth in cruise bookings. In addition, tour package sales increased 6 per cent but hotel bookings remained down 1 per cent. AAA reported that average gas prices in the U.S. are beginning to come down, after reaching a record high of US\$1.737 per gallon on August 30, 2003.

International Overview - Overseas

United Kingdom and Ireland

British Airways (BA) reported a 4.8 per cent rise in revenue passenger kilometres (RPKs) for August over the previous year. RPK's for economy seats grew by 5.3 per cent, although premium traffic increased by a more modest 1.1 per cent. Overall capacity was up 3.6 per cent and the airline's load factor increased 0.9 points to 77.4 per cent compared with August 2002. Overall passenger numbers increased by 1.5 per cent, while North and South American routes saw passenger numbers climb by 5.8 per cent during the month.

A statement released by BA declared that overall market conditions have not changed since the previous monthly report, and that traffic demand was still very price-sensitive-falling quickly if prices were raised. The Guardian reported that BA's CEO, Rod Eddington, remained pessimistic about any real recovery in the airline industry, stating that a turnaround would require a "sustained period of uneventful air travel and economic recovery."

At the end of August, BA announced that it planned to replace its "Fresh Approach" agent payment scheme with a flat-rate commission of 1 per cent for U.K. travel agents who make BA bookings. The airline stated that the change, effective December 1, 2003, represented another step towards improving profitability by reducing distribution costs. Several other major airlines in Europe, such as Iberia and Lufthansa, have since implemented similar 1 per cent flat-rate commission structures.

Meanwhile, low-cost carrier Ryanair, announced that it was giving away two million free flights for travel anywhere within its European network between September 23 and December 17, 2003. The carrier is offering the free tickets to celebrate a new monthly record of 2.14 million passengers in August.

BAA, the international airports group, also experienced a record month in August. The group reported that passenger traffic in its seven U.K. airports rose 3.6 per cent to 13.7 million, compared with last year. Meanwhile, North Atlantic travel was down 1.1 per cent, although overall long-haul traffic increased by 3.6 per cent. BAA noted that all markets were gradually improving.

Table 3. Percentage change in passengers carried

Carrier	August 2003 vs. August 2002
British Airways	+1.5%
EasyJet	+17%
Ryanair	+44%

According to a recent American Express survey, most "affluent" British consumers (in the top quarter of the income range) enjoy spending money on holidays and intend to maintain or increase their travel budget in the next year. Of those polled, 76 per cent said they enjoy indulging in holiday/pleasure travel and 88 per cent of travellers indicated that their travel spending will remain the same or increase in the next twelve months. More than half of the respondents appear to be optimistic about their personal finances as well, as 52 per cent believe their household income will improve or significantly improve.

According to the Australian Tourist Commission's (ATC) latest Market Report for the U.K., 39 per cent of the U.K.'s workforce went on holiday this summer between July 27 and August 30. This was attributed to pent-up travel demand following the war in Iraq and the SARS outbreak. Travel Weekly's U.K. web site stated that tour operators are reporting a surge in U.S. bookings for 2004, with demand finally returning to pre-9/11 levels. Families appear to be viewing the U.S. as a safe destination again and are taking advantage of notable price discounts and the favourable exchange rate.

*After Two Years of Chaos, Notes of Optimism are Emerging***France**

Air France reported that August passenger traffic improved 4.2 per cent, compared to last year, and described overall results as "buoyant." While seat capacity increased 2.5 per cent over last year, average load factor improved 1.4 percentage points, to 79.7 per cent. The airline attributed its positive performance to a continued recovery in long-haul traffic (+3.7%) and a substantial improvement in international medium-haul traffic (+9.6%). Air France also noted that North American traffic looked particularly positive, up 10.2 per cent, compared to last year.

France's transport ministry announced that Air France would be privatized by the end of this year, either by merging with KLM, or through privatization with a European company without a partnership. Air France subsequently reported that it was in the advanced stages of negotiations with KLM, although critical points were still under discussion. If the two airlines merge, a holding company would be created allowing each airline to maintain separate brand identities and management. Currently, the French government has a 54.4 per cent stake in Air France.

Accor reported a net income of EUR106 million (CDN \$164.8 million) for the first half of 2003—a 52 per cent decrease from the EUR221 million (CDN \$343.6 million) profit posted in the same period last year. In a presentation to analysts, the global hotel and services group reported an 11.2 per cent decline in leisure bookings during the second quarter (ending June 30, 2003), while business bookings dropped off by 4.3 per cent. However, the hotel group described its Economy hotel segment in Europe as "resilient."

Accor also reported that its hotel Internet bookings have skyrocketed—increasing 60 per cent in the first eight months of 2003 compared with last year. Almost 85 per cent of on-line bookings came through one of Accor's brand web sites, while 15 per cent were booked through online distributors. The Economy segment of Accor hotels accounted for 63 per cent of all online bookings.

The French government announced that it was increasing its tourism promotional budget by 40 per cent (EUR 4 million) for 2003 and 2004 in order to boost its lagging tourism industry. With foreign visits down significantly this year, the additional funding will be used to create a France Quality Plan to promote France globally as a vacation destination.

Germany

Lufthansa German Airlines reported that both the number of passengers and revenue passenger kilometres (RPK's) for August were down 0.4 per cent, compared to last year. Meanwhile, seat capacity had increased 1.3 per cent that resulted in the average load factor dropping 1.3 percentage points to 75.4 per cent. Still, the airline noted that there was a "gratifying increase" in traffic to the American continent, but traffic on its lucrative Asia/Pacific routes had not yet fully recovered from the SARS outbreak. Overall, the airline stated that its revenues remained "highly unsatisfactory."

Frankfurt Airport—continental Europe's largest passenger and cargo hub—reported that August 30, 2003 was its busiest day ever on record. That day, the number of passengers reached 170,000. In fact, monthly passenger numbers recorded a record high in August as well, reaching 4.8 million—a 2.7 per cent increase over last year.

German-based TUI Group, one of the largest tour operators in Europe, reported that their tour bookings were clearly recovering. The decline in their summer 2003 sales narrowed to 5 to 6 per cent below 2002 levels, down from the 15 per cent shortfall reported in May. Winter bookings were already looking positive and are expected to reach last year's levels by the end of September 2003.

Italy

Alitalia posted a net loss of EUR315 million (CDN\$489.7 million) for the first half of the year, ending June 30, 2003. This figure represents a significantly larger drop in earnings from the EUR49 million (CDN\$76.2 million) loss reported last year. Italian Prime Minister Silvio Berlusconi, whose government owns 62 per cent of the loss-making airline, announced that he was in discussion with France to create a three-way merger between Alitalia, Air France and KLM. The merger would result in the creation of Europe's largest airline, which Berlusconi stated "could take on big international companies—above all, the American ones."

After Two Years of Chaos, Notes of Optimism are Emerging

According to a recent survey by American Express of affluent consumers in Italy, Australia, Canada, Mexico and the U.K., Italians were the group of respondents least likely to count holiday/pleasure travel as one of their favourite indulgences. Of the Italians polled, less than half (43%) indicated that they like to indulge in leisure travel, although 42 per cent said they planned to increase their spending on vacations in the next year. Italians were also the least optimistic when it came to personal finances; only 21 per cent expect their household income to increase or significantly increase in the short term, while 61 per cent expect it will remain the same.

The Australian Tourist Commission reported in its latest Market Report that the travel market in Italy appears to have recovered quickly from the war in Iraq and the SARS outbreak. I Viaggi del Ventaglio, Italy's second largest tour operator, reported a 22 per cent increase in revenue for its 2002-2003 period. According to a FIAVET report, however, only 25 per cent of Italian travellers book their holiday plans through a travel agent.

The Netherlands

KLM Royal Dutch Airlines reported that its passenger traffic (RPKs) decreased 1 per cent in August compared to last year. Capacity was down 2 per cent, and as a result, the average load factor increased 0.8 points to 85 per cent. The airline noted that its business-class traffic was up 11 per cent, while business-class seat capacity increased 5 per cent.

Meanwhile, traffic on North Atlantic routes declined 7 per cent and seat capacity on these routes was off 10 per cent—mainly as a result of capacity cuts on Canadian routes. However, KLM noted that business-class traffic on North Atlantic routes is showing signs of a strong recovery. The airline also experienced an upswing in traffic on Asia-Pacific routes during August, up 2 per cent over last year.

KLM confirmed, in a mid-September press release, that it was in the advanced stages of negotiations with Air France regarding an "intensive co-operation" between the two airlines. The press statement noted that critical points were still under discussion and no timeline was provided with respect to a final agreement.

Japan

According to the September OAG Quarterly Report on Global Airline Schedules, both flight frequencies and capacity in and out of Tokyo's Narita Airport remain down 6 per cent, compared to September 2002. However, compared with 2001, flight frequencies are up 29 per cent and capacity by 14 per cent.

OAG also reported that the scheduled frequency of transpacific flights between Tokyo and the U.S./Canada this September is down 4 per cent, compared to September 2002 and seat capacity remains off by 7 per cent. Since 2001, the number of flights on these routes has declined 10 per cent and capacity is down 13 per cent.

Japan's second largest airport, Kansai International Airport in Osaka, reported that its passenger numbers have steadily declined since 2000. The number of passengers peaked at 20.58 million for the fiscal year 2000, but dropped to 16.92 million for 2002. The airport also noted that its year-to-date passenger numbers for 2003 have declined even further.

The Japan National Tourism Organization (JNTO) estimates that overseas trips by Japanese travellers was down 32 per cent in July, compared with last year. While significant, this figure has improved dramatically from the previous two months, when the drop in visits reached 56 per cent. According to the Land, Infrastructure and Transport Ministry, revenues from overseas trips in July dropped 39 per cent from July 2002, due to the prolonged adverse effects of the SARS outbreak.

A survey by the Japan Association of Travel Agents, reported in the Australian Tourist Commission's (ATC) Japan Market Report for August, that reservation trends for overseas package tours have improved since July. Unfortunately, overseas bookings for the peak period of June through August remain at half the levels seen a year ago. Meanwhile, domestic package tours have grown substantially, peaking in August at 22 per cent over last year's figures. The ATC also noted that Japan's overseas market was down 22.9 per cent in the first half of 2003, with full-year forecasts predicting an overall drop of 20 per cent compared with 2002.

After Two Years of Chaos, Notes of Optimism are Emerging

To make matters worse, the country's average monthly household spending decreased in July by 3.9 per cent. This downward trend continues despite a brief reversal in June. In August, the key index of consumer confidence rose 1.8 points to 43.7, but still retained a degree of pessimism (an index below fifty means that more consumers are pessimistic than optimistic).

Korea

The Korea National Tourism Organization (KNTO) reported that outbound Korean departures were up 2.5 per cent in August compared with a year earlier. This is on top of a 19.5 per cent increase in departures between August 2002 and 2001. However, year-to-date (up to August), departures remain down 5.4 per cent compared with the same period last year, due to the significant decline witnessed during the April to June period.

The KNTO also reported that 18,516 Koreans visited Canada in August. Of those visitors, 44 per cent indicated they were travelling for pleasure, 3 per cent for business, and 16 per cent were visiting family and friends.

According to the Australian Tourist Commission's (ATC) August Market Report, the number of Koreans declaring golf clubs when departing the country in July almost doubled (up 99%), compared with the same month in 2002. The ATC also reported that the number of Internet users in Korea reached 28.6 million in August—a 9 per cent increase over December 2002. In addition, both major airlines in Korea have recently introduced e-ticketing for their domestic routes with very successful results. They plan to introduce e-ticketing on their international services sometime in 2004.

Hong Kong

Cathay Pacific Airways reported that its passenger traffic continued to recover in August, although it was still 5.3 per cent down from August 2002. The airline's load factor increased 3.2 points to 85.3 per cent, although it was still operating at only 90 per cent capacity compared with last year. The carrier indicated that while passenger figures were improving, yields remained low as a result heavily discounted airfares.

According to the September OAG Quarterly Report on Global Airline Schedules, flight frequencies and air capacity in and out of Hong Kong remain down 4 per cent, compared with September 2002. Compared with 2001, the number of flights is still down 1 per cent while seat capacity is off 3 per cent.

The Australian Tourist Commission's (ATC) August Market Report for Hong Kong indicated that international departures from Hong Kong were still down for most destinations in July, particularly for the U.S. (-14.9%), Europe (-23.7%) and New Zealand (-38.8%). Sales for tour packages and air travel showed significant declines, although airlines began scaling back their discount promotions in mid-July as passenger numbers continued to grow. Air Canada had reported that it was reinstating daily flights to Hong Kong and increasing capacity to accommodate pent-up demand.

Taiwan

Following the significant loss (CDN\$36.6 million) reported during the first half of the year, China Airlines (one of Taiwan's major carriers) announced that its passenger operations quickly recovered in July and August. According to the airline, August revenues were up 5 per cent, compared to 2002, and represented the highest monthly performance in the carrier's history. In fact, the carrier's August load factor increased 5 percentage points to 86 per cent, after dropping down below 40 per cent during Taiwan's SARS outbreak. China Airlines expects its passenger operations to improve steadily through the remainder of 2003, resulting in a net profit for the full year.

The Taiwanese government announced it would move the declaration of the Year of Taiwan Tourism ahead one year to 2004, instead of 2005. The Taiwan Journal reported that the change in schedule was prompted by a recent drive to recognize Taiwan's tourism industry as integral to the nation's economy. Promotional events are being developed and the Ministry of Foreign Affairs has further relaxed visa restrictions for visitors entering the country. Taiwan hopes to double the number of foreign visitors to the country over the next five years.

After Two Years of Chaos, Notes of Optimism are Emerging

The Australian Tourist Commission's latest Market Report for Taiwan reported that total outbound travel in July was down 40 per cent compared with July 2002. However, fall bookings seemed to be picking up, albeit at a slow pace. While leisure travel is expected to be quiet through the month of September, the demand for incentive travel was expected to take off.

Australia

Qantas Airways appears to have scored a major victory when the Australian government agreed to delay signing an "Open Skies" agreement with Singapore for at least two years. This will protect Qantas' highly profitable Sydney-Los Angeles route from competition from Singapore Airlines. Transport ministers from the two countries signed a memo of understanding in September, removing restrictions on services and capacity between Australia and Singapore. However, they stopped short of full liberalization, which would have allowed Singapore Airlines to launch domestic services within Australia, as well as non-stop service from Australia to the U.S.A. A joint statement released by both governments indicated that the countries would discuss further liberalization when there is "greater stability in the global aviation environment."

Meanwhile, Qantas released its July passenger figures that showed a 12 per cent decline in passenger traffic on its international routes. Qantas also pointed out that, unlike many other international carriers, it has received no government subsidies or assistance since 9/11.

Melbourne Airport reported that its international departure figures have dropped 4.6 per cent over the past fiscal year (ended June 30, 2003), while overseas arrivals were only down 1.4 per cent. The airport authority indicated that the Bali bombings, the war in Iraq and the SARS outbreak had caused the first decline in international traffic since a pilots' strike in 1989. Meanwhile, domestic traffic registered a 5 per cent increase.

According to a recent survey by American Express of affluent consumers in Italy, Australia, Canada, Mexico and the U.K., the Australian respondents were fairly optimistic about their future finances and rated holiday/pleasure travel as one of their most popular forms of indulgence. Of the Australians polled, 68 per cent chose travel as their favourite spending indulgence, which was tied in first place with spending money on clothing. While almost half (49%) of all Australian respondents believed that their financial condition would improve or significantly improve over the next year, 92 per cent of the highest-earning households believe this to be true.

New Zealand

In September, Air New Zealand received a blow when the Australian Competition and Consumer Commission (ACCC) ruled against its proposed merger with Qantas. The ACCC condemned the move as anti-competitive and stated it would lead to higher prices and reduced service between Australia and New Zealand. The New Zealand Commerce Commission has yet to offer its own verdict on the merger, but both countries would have to ratify the move for it to proceed. Qantas and Air New Zealand announced that they intend to appeal the ACCC's decision.

Meanwhile, Australian low-cost carrier Virgin Blue announced it would launch its new international division in February, based in Christchurch, New Zealand. Pacific Blue will initially offer service between Christchurch and Brisbane, Australia, but will expand its routes to include other cities in the two countries as well as domestic services within New Zealand. Eventually the carrier hopes to expand its routes throughout the entire Pacific region.

According to the Australian Tourist Commission (ATC), overseas departures from New Zealand for the month of July were up 18 per cent compared with last year. However, much of this increase is due to the change in commencement of school holidays in New Zealand from the end of June to early July. The ATC also noted that demand for travel to South America is rising, with Kiwis viewing it as a safe option that still offers travellers a "hard-core adventure." The ATC reports that Kiwis are becoming more resilient to world events and will continue to travel to their preferred destinations regardless of world events, particularly if price incentives are offered.

Economic Overview

North America

The war in Iraq and the SARS outbreak both took a toll on the North American economy in the first half of this year. In order to stimulate a recovery, the Bank of Canada has cut interest rates twice since July. These low interest rates are expected to sustain consumer spending through the year and encourage investment. With geopolitical uncertainties easing, investor confidence is improving dramatically. The TSE index is presently up 17 per cent higher from its low point in March. Confidence in the Canadian economy and a 175 basis-point spread in interest rates have sustained a 72 cent dollar. Recent comments from U.S. officials suggesting the adoption of a weak U.S. dollar policy shot currencies around the world even higher against the greenback.

Meanwhile, the U.S. economy is poised for strong economic performance in the fourth quarter this year and into 2004. The spur in economic activity will be sparked by forty five-year low interest rates, a \$30 billion federal tax cut that is already working through the system and massive military spending increases. California and Florida are expected to benefit most from the increased military spending over the next year.

Europe

Fortunately, most economists agree that the economic slide in Europe may have reached bottom. Business sentiment in Germany improved for a fifth month in September, according to the widely followed survey of confidence by Germany's Ifo economic institute. "Expectations improved markedly and are now for the first time since spring 2002 predominantly positive again," said Hans-Werner Sinn, president of the Ifo Institute. In France, the government expects GDP growth of 1.7 per cent in 2004, which is roughly in line with the consensus of private-sector economists. The U.K.'s ties to the U.S. economy are expected to help spur its own economy in the latter half of this year.

Asia-Pacific

One of the leading recent developments in Asia is the suggestion by U.S. officials that Asian countries allow their currencies to float more freely - in other words, appreciate. According to a recent article in the Wall Street Journal, Tokyo sold up to \$90 billion worth of yen so far this year to prevent generic dollar weakness from lifting the Japanese currency too far. While the dollar has dropped almost 10 per cent so far this year against European units, it is down just 2 per cent against the yen. The yen is also being driven higher partly because of improving economic conditions. Despite the fact the GDP grew at a blistering annualized rate of 3.9 per cent in the second quarter, Japanese officials say that the economy is still not out of the woods. Meanwhile, the Chinese economy is expected to grow by nearly 8 per cent this year and next, and the country will be importing more exports from countries such as Taiwan, Hong Kong and South Korea. A stronger U.S. economy will also benefit these relatively smaller export-oriented countries in the latter half of this year and into 2004.

Opportunities

According to their latest poll of meeting planners and suppliers, Meeting Professionals International (MPI) projects meeting budgets and revenues will increase in the short term. Half of the survey respondents (50%) anticipated that their budgets or revenues would increase in the next six months, while 35 per cent believed that they will remain the same. Of the suppliers polled, 65 per cent agreed that networking events and tradeshows are the best way to develop new business opportunities. According to MPI, the meeting and events industry generates US\$102.3 billion (CDN\$138.5 billion) in revenues world-wide.

A new study by Edmonton-based Web Mystery Shoppers reveals that although there is still room for improvement, consumers find it easier to book hotels than flights on-line. On the airline booking sites reviewed, 37 per cent of participating shoppers received error messages when trying to fill in forms, compared with 15 per cent at hotel sites. However, the main complaint about the hotel web sites was the lack of clarity regarding pricing—only 59 per cent of hotel bookers were confident about the cost of their booking before placing their order, compared with 75 per cent of air travel bookers. Other frustrations for hotel bookers included the lack of ability to sort search results by price, the lack of information regarding nearby tourist or business attractions and a lack of photographs of the lodging property.

The Travel Industry Association of America (TIA) recently reported that Americans have steadily increased their visits to theme and amusement parks since 1996. This has created a lucrative market within the travel industry. According to the TIA's Domestic Travel Market Report, 2003 Edition, visits to theme and amusement attractions increased 17 per cent in the last 7 years. These travellers tend to average more overnight stays and spend more money per household on their trip, compared with overall travellers.

Summary

Two years after 9/11, the battered tourism industry is taking stock and cautiously hoping for better times. Even though the latest travel statistics may suggest that the global tourism industry is improving, the obstacles faced over the past few years are proving difficult to overcome. While terrorism-related travel concerns have abated, new concerns have further setback the industry. Few in the industry would challenge the notion that tourism has been permanently altered.

In Canada, the number of low-cost alternatives for air travel increased 123 per cent over the past two years. Not surprisingly, Air Canada's President and CEO, Mr. Robert Milton, recently admitted that the airline industry has no choice but to adapt to the advent of discount air travel. He insists that lower prices and internal restructuring will help the industry recover from the downturn it has suffered in the last two years. Fortunately, Mr. Milton remains confident that airlines such as his will emerge stronger from the restructuring process.

Unfortunately, despite improving global economic prospects and travel safety confidence being at its highest levels in years, businesses are still sticking to their cost-cutting measures. While corporate bookings appear to be improving recently, since 2001 the corporate market has consistently proven to be the segment of the travel industry most impervious to recovery.

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