

The Year in Review



The 2003 travel market

Industry analysts have used the phrase “a perfect storm” to describe the unusual, and unpredictable, combination of events that struck Canadian travel and tourism markets in 2003. The market was already struggling throughout 2002 with the lingering aftermath of security concerns, following the terrorist attacks the previous fall in the United States. In 2003, renewed security concerns, outbreaks of contagious disease, and natural disasters combined to create an unprecedented decline in travel and related spending.

VIA, in fact, managed to resist the downward trend that started in 2001 better than most carriers. For example, in terms of passenger-miles, traffic in the Quebec City–Windsor Corridor grew four per cent overall in 2002, with even stronger growth in business travel. Some of our tourism products set new records that year, with ridership on VIA’s *Bras d’Or* excursion train to Cape Breton Island increasing by 20 per cent and cost recovery reaching 122 per cent — a remarkable 39 per cent increase for the year.

VIA had good reason to expect this positive trend for passenger rail to continue in 2003. During the first two months of the year, total revenues kept growing.

The war and renewed security concerns

In February, however, news of the impending US war with Iraq raised new security concerns and uncertainty in the travel industry. This, along with a slow world economy and repeated terror alerts from the US in the following months, slowed travel from foreign markets. Travel to Canada from the US was especially affected by these factors, as well as by a weakening US dollar.

Health concerns

Then in March, the first cases of Severe Acute Respiratory Syndrome (SARS) were confirmed in Toronto. Concerns about travel risks related to contagious diseases had already flared up after a brief outbreak of the Norwalk virus in Vancouver. The SARS outbreak brought these concerns to a peak, as the World Health Organization issued a warning about travel to the Toronto area in April. This travel advisory had an immediate impact; following the advisory, visitor spending in Toronto fell more than 70 per cent compared to the same period in 2002.

Soon after the onset of SARS, concerns about health risks were heightened even more when an isolated case of Creutzfeldt-Jacob (“Mad Cow”) bovine disease was confirmed. As fear mounted, the entire Canadian travel market suffered a devastating downturn. Across the country, business travel dropped, tour operators cancelled bookings, and individuals, especially international travellers, were reluctant to travel to or within Canada.

Forest fires in Western Canada

In August and September, VIA was on alert to help evacuate residents threatened by massive forest fires in Alberta and British Columbia. Although evacuation assistance was not required, the intense fires significantly disrupted VIA operations. While no train services had to be cancelled, fires burning close to rail lines frequently forced trains to be short-turned and delayed.

The fires had a devastating effect on the region, one of the world’s top adventure and eco-tourism destinations for American and Asian travellers. Much of the tourism industry was virtually shut down, as large areas of the region were closed to hiking, camping and other tourism activities.



Blackout in Ontario

In August, a surge in the power grid in Ohio caused a long electric blackout covering most of southern Ontario, bringing much of the transportation system to a halt. The airline industry, in particular, was paralyzed.

VIA's trains continued to operate, but services were severely disrupted as some of Canada's busiest stations were plunged into darkness. Train delays up to seven hours inconvenienced passengers; mounting frustration added a further dampening effect on an already depressed travel market.

Hurricane in the Maritimes

In October, Hurricane Juan became the most damaging storm in modern history for the Maritimes, according to the Canadian Hurricane Centre. The storm put much of VIA's service centre and station facilities in Halifax under water, tore the roof off of VIA's former maintenance centre adjacent to the station, and shut down power for almost two weeks in some areas.

For VIA's customers, the storm meant further disruption of services and more frustration, leaving a lingering effect on market conditions in the region.

Impact on VIA

According to research by the consulting firm KPMG, the cumulative impact of natural disasters against a background of health and security concerns helped to create one of the steepest declines in the Canadian travel market on record. Domestic travel by Canadians dropped by about eight per cent compared to 2002. Travel to Canada from the US dropped almost 14 per cent, while travel from other countries dropped 16 per cent.

The negative impact on passenger rail was significant. However, VIA was more successful in limiting this impact than many in the industry, with passenger trips falling just 4.8 per cent over the year. By year end, VIA had successfully recovered volumes in the Quebec City-Windsor Corridor, with the highest fourth-quarter volumes since 1990. In the eastern part of that corridor, VIA succeeded in expanding its market share of public mode travel. This bodes well for continued recovery in 2004.

VIA's year-end results and recovery plan are examined more closely in the *Management Discussion and Analysis* section of this report.

VIA's people respond to disaster

As disasters struck — repeatedly — in 2003, the priority for every VIA employee was the safety and comfort of passengers.

- At the height of the SARS crisis, staff at stations and on board trains worked hard to reassure concerned customers, and implement alternate boarding and arrival procedures for those worried about travelling into Toronto. VIA also developed a new health protocol — praised highly by Health Canada — to assist passengers who had potentially contracted a contagious disease.
- Confronted with intense and potentially dangerous fires burning near rail lines in the West, train crews worked around the clock to prevent train cancellations and ensure passenger needs were met.
- During the Ontario power blackout, employees used bicycles or car-pooled to get to work, and worked long hours to ensure passenger safety in darkened stations.

Employees' efforts on behalf of passengers did not go unnoticed. In one case, during the power blackout, a 4 1/2-hour train trip turned into a harrowing 11 1/2-hour journey. Even though the train arrived seven hours late, passengers gave the locomotive engineers a standing ovation for getting them home safely.