

Aéroports de Montréal – For an airport connected to the world... and to its city

Address by James C. Cherry

The Canadian Club of Montréal – September 29, 2014

Distinguished head table guests,

Ladies and gentlemen,

Good afternoon,

I would like to thank the Canadian Club for inviting me to this luncheon today. It's always a pleasure for me to talk about our airports because it's a subject that I'm passionate about.

Several of our many partners are represented at the head table who deserve special mention...in particular, I want to recognize the very constructive relationship that we have developed with the Board of Trade of Metropolitan Montreal, Tourisme Montréal and Montréal International. It's by working with our economic partners, diplomatic services and, of course, our airlines such as Air Canada and Air Transat, that we are able to put Montréal on the map.

As you know, an airport is a strategic infrastructure that connects a city to the world through air routes. A city's quality of air service is a key driver of economic development.

Similarly, an airport must be connected to its city by functional road links and efficient public transportation networks. It's unimaginable to have an airport without ground access.

So, I plan today to talk about the connectivity of Montréal-Trudeau airport, both by air and land. In particular, I have the pleasure of presenting to you—a bit of a 'scoop' – the main findings of a new study on the quality of Montréal's air service.

But first, let me address some topics regarding Aéroports de Montréal.

First, let me say that the expansion of Montréal-Trudeau's international jetty is progressing well, as shown by the photo on the screen. By the summer of 2016, we will be opening six new gates for widebody aircraft to meet the needs of airlines. So, yes, we expect more international flights to Montréal-Trudeau in the future.

In total, between 2013 and 2017, we expect to invest approximately \$1 billion in construction and improvements of all kinds. I should note that our investments are financed by ourselves without any government subsidies.

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Regarding Montréal-Mirabel, as you know, we recently announced our decision to go ahead with the dismantlement of the building of the former passenger terminal, a totally obsolete building that is costing a fortune to maintain. We cannot pump good money indefinitely into a building that is useless and unusable.

But, as promised in 2002, we have accelerated the development of the airport as an industrial and logistics platform. In fact, the airport in Mirabel is today generating more economic activity than ever.

According to a study recently conducted by E&B Data, these impacts can be summarized as follows:

- More than 30 companies and organizations located on the site
- 3,700 direct jobs in these companies and organizations
- Nearly 10,000 jobs in the Québec economy
- Wages totalling \$500 million
- A \$1.1 billion contribution to Québec's GDP
- \$20 million in tax revenues for governments
- \$5.8 million worth of municipal taxes paid to the City of Mirabel

Importantly, 86% of the 3,700 direct jobs at Montréal-Mirabel are related to the aerospace sector. This proportion rises to 96% if jobs related to air freight are included. Mirabel has been highly successful in converting to an industrial and all-cargo airport thanks to the collaboration of many partners, including the governments of Canada, Québec and the City of Mirabel. It's been a resounding success.

On the other hand, many people still seem to ignore that airport management is now a business. A growing number of airports in the world are run by private or partially private companies. In fact, it is estimated that there are more than 450 worldwide, including the 25 that you see on the screen ... Beijing, Heathrow, Paris, Frankfurt, Moscow, Johannesburg, among others, are all private airports.

The privatization of airports is a trend that is continuing unabated. In recent years, many countries have announced or introduced further privatizations of airports, including Portugal, Brazil, Spain, Greece, Myanmar and Japan.

So, with exceptions like Cuba, for example, governments around the world are increasingly putting their trust in the private sector for the management and operation of their airports.

Transport Canada, in particular, is very happy to be collecting a substantial annual rent without any risk. Since privatization in 1992, Aéroports de Montréal has paid a total of \$364 million in rent and \$548 million in property taxes, in addition to saving the Canadian government from having to make capital investments of \$2.7 billion.

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I now come to the main subject of my speech, namely the quality of Montréal's air service. This is another poorly understood area, which leads to all kinds of opinions that are sometimes without foundation.

To clarify all this, we commissioned SECOR-KPMG to conduct an independent assessment of air service in Montréal. The study also includes a

comparative analysis of the connectivity of Montréal and other cities in North America.

The SECOR study is also educational because it discusses in depth a number of key concepts such as the key determinants of a region's air service. As you can see on the screen, it's not simple. There are many factors that come into play.

The quality of air service is defined, in turn, by the number of destinations served by direct flights, the importance of these destinations, and the weekly frequency of flights. It is important to note that traffic is not synonymous with service: traffic is the number of passengers passing through the airport.

Traffic at Montréal-Trudeau, which totalled 14 million passengers in 2013, has been growing almost continuously since 2004. Growth has averaged 4.6% per year over this period, which is much higher than GDP growth.

But the media has not hesitated to point out that Montréal was surpassed in 2013 by Calgary, in fact by some tens of thousands. Calgary has indeed enjoyed exceptional growth due, among other things, to the oil sands. But with 70% of domestic passengers and only 9% international passengers, Calgary is essentially a regional airport. In contrast, Montréal is a truly international airport, with the highest proportion of international travelers in the country, some 38% (62% if we include passengers heading to the United States).

That being said, it is clear that Montrealers travel relatively little in Canada, by plane, at least, with the exception of Toronto. I'll leave it up to our academics to explain this phenomenon.

Now, with regards to air service, and especially the number of direct destinations, Montréal has done very well. It is in 2nd place with 129 destinations (131 today), including 75 international ones compared with 21 for Calgary.

Montréal's air service is also one that has experienced the greatest improvement. Over the past decade, the number of international destinations served by direct flights increased from 30 to 75, to which we must add 4 new ones in 2014, namely Istanbul, Panama, Tunis and Prague.

Those who argue that Montréal-Trudeau is in decline are simply living on another planet!

In order to evaluate and compare in a rigorous way Montréal's connectivity, SECOR looked only at major destinations served on a regular basis, with a minimum of three flights per week. This means a major destination city ranking among the 123 most influential world cities cited by the Globalization and World Cities Study Group and Network. Generally speaking, these are the most important cities in the world for doing business and trade. FYI, Montréal is ranked 58th in this category.

It is important to note that a large number of direct destinations currently served from Montréal-Trudeau are not included in the SECOR study. For example, destinations like Cancun and Varadero are excluded, even though they are important for vacationers. With the approach of winter, you'll be pleased to know that you can choose from a vast array of sun destinations this year from Montréal ... book now because we're expecting a very cold winter! And thank you to our airlines, beginning with Air Canada and Air Transat, for this outstanding offering!

So if one considers only the major cities, Montréal was connected in 2013 in a significant way with 37 of them through 50 or more flights per year. This includes 28 regular connections with a minimum of 3 flights per week, to which have been added 4 new cities in 2014: San Francisco, Tunis, Panama City and Istanbul. Three of these cities were already served in 2013, but only on a seasonal basis.

So, today, Montréal has 32 direct and frequent connections with the world's most influential cities, compared with 23 in 2003. Here again, Montréal's connectivity has shown a notable improvement over the last decade.

Also very important: Montréal is connected by a minimum of 3 weekly direct flights to 17 major international hubs in 2014, including San Francisco and Istanbul. This is critical for the quality of service since these hubs provide connections to almost all the cities of the world with only one connection. In fact, only one of the 123 cities requires two connections: Shenzhen, China, but this city is also very close to Hong Kong.

Let's see how Montréal compares in North America in terms of international connectivity. For the purposes of the study, SECOR identified a sample of 14 cities in North America. The cities that appear on the screen are similar in size and importance to Montréal, with the exception of Toronto which is a major international hub.

The first graphic shows the number of regular direct links to the world's most influential cities. With a total of 28 (32 in 2014), Montréal ranks 5th in the sample, beating out Calgary, Vancouver, and even Boston.

It is surprising that cities such as Cleveland and Pittsburgh have zero international destinations. Conversely, Houston and Philadelphia are doing well because of their role as a hub.

The next chart shows the number of regular connections to major international hubs. With 15 of these kinds of destinations in 2013 (17 today), Montréal is still in an excellent position, also in 5th place, the same as Seattle.

Montréal ranks slightly lower regarding the total number of flights to the world's major cities and hubs, ranking in 9th and 8th place, respectively.

On the other hand, seeing that demand is largely determined by economic factors, the study also compares air service in terms of GDP of the metropolitan areas. As shown by the graphic on the screen, Montréal outperforms when it comes to connections and is average with regards to frequencies.

These comparisons are interesting but what is important for us, as the manager of the airport, is to ensure that the supply of air transport adequately meets demand. The study concluded that the current offering is very comprehensive. Almost all of the destinations that represent the required level of minimum demand to be considered profitable are already served.

Among the major cities, 32 are already well served. Some 13 do not even have the minimum required demand, such as Amsterdam, Istanbul and Doha, but are nevertheless served because of their status as a hub.

On the other hand, 8 cities have the potential but are not currently being served at least 3 times per week. Rome, Barcelona, Lyon and Athens are served on a seasonal basis only because they are mostly tourist destinations. That leaves Beijing, San Diego, San Jose and Beirut that do not yet have any connections. In the case of Beirut, this is for national security reasons – and this is very unfortunate for the large Lebanese community living in Montréal!

All the other cities do not have the minimum required demand. For example, Helsinki, which some people cite as a technology city, reaches only 10% of the required threshold.

The case of Beijing deserves special attention. Personally, I cannot count the number of times I have gone to China for lobbying purposes. I will be returning again next month with a delegation headed by Premier Couillard. Recently, in collaboration with the Government of Québec, Tourisme Québec, Tourisme Montréal and others, we made a highly attractive proposal to an airline interested in serving this market, but it was unable to follow up. The reason? Quite annoyingly because there are no attractive landing slots available at Beijing airport, at least not yet. But we are not defeatists. On the contrary, we are convinced that it is only a matter of time until all conditions are met. Meanwhile, travelers have a variety of convenient options for travel to China.

Look at the map of Asia on the screen. We see the world's great cities and, for each one, the annual potential demand. As we know, only Beijing currently has the desired level, or 40,000 passengers for service 3 times per week with a 777. This threshold drops to 30,000 with the Dreamliner, which has a smaller capacity and is much more economical. Gradually, as the use of this aircraft increases, Shanghai and even Hong Kong could also become attractive for a slightly aggressive carrier.

We see the same kind of situation in South America. The market is currently too fragmented and no city stands out. But maybe one day, with the Dreamliner, Lima could become attractive, especially if combined with another city. That said, I note that the arrival of COPA Airlines in 2014 has greatly improved Montréal's connectivity with South America. Its Panama City hub is one of the best around.

In short, there are opportunities for Montréal-Trudeau in the short, medium and long term, and believe me, we are doing everything necessary to encourage carriers to launch new services in a timely manner. Our incentive program is one of the most competitive.

However, it is important to note that the launch of a new service is a business decision which often involves major investments and one that is entirely up to the airline concerned. While we can have an influence, and here I include all interested parties, we cannot force carriers to serve a said destination. No city council motion or press release is going to change things. This is Canada in 2014.

In summary, the SECOR study confirms what we have always said, that Montréal has an enviable air service given its size and economy. Despite economic growth below the average of the 15 cities surveyed, Montréal is one of the cities with the most-improved quality of service, both in terms of number of connections and number of flights to the major cities.

Moreover, the stakeholders interviewed by SECOR feel that the current air service is generally satisfactory. Regarding traveler experience, the biggest

drawback is the lack of an effective link between the airport and the city centre...

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This brings me to the second part of my presentation, namely public transportation service to the airport and, by extension, the entire West Island.

As you know, the Montréal metro is conspicuously absent in western Montréal... However, as shown in the plan of 1967, the metro was supposed to go to the airport... back then, we had the vision!

Of course, no one today expects the metro to come to the airport. Too expensive. We therefore need a less expensive system in Montréal that can run both above and below ground. There are many technologies that allow this: SLR, tram-train, tramway, etc.

A while ago we designed and proposed, together with the STM, a modern, all-electric light-rail system with its own right of way that would serve both the airport and the heart of the West Island up to Fairview. We are talking here about a system that would move at least 60,000 people per day.

Our light-rail project is in the preliminary stages and therefore, yes, it is possible to improve it. But from our point of view, we are convinced that this is the kind of system we need collectively. An urban transit system that provides fast, frequent and reliable service, one that people will want to take. A modern solution that will still be relevant in 50 or 100 years.

For proof, just look at what is being done elsewhere in Canada and around the world. Here are some examples.

In Vancouver, there are already three light-rail lines, including the Canada Line which serves the airport. A fourth line is under construction (the Evergreen Line).

In Toronto, in addition to the subway, tramways and GO trains, they are proposing a vast program of \$50 billion over 25 years to improve public

transport in the Greater Toronto-Hamilton region. Called BIG MOVE, this program includes three new light-rail lines totaling 43 km. In addition, in 2015, an express train service will connect Pearson Airport with Union Station downtown.

Even in Ottawa, they are just starting construction of a new modern light-rail network with an underground portion in the downtown area. Built as a PPP, the Confederation Line will be completed in 2017-2018.

Finally, the cities of Calgary and Edmonton have long had light-rail systems that have been improved and expanded many times over the years.

Of course, European and Asian countries are much more advanced than Canada when it comes to light-rail systems. In the European community alone there are some 170 light-rail systems. Germany is by far the leader with 56 systems totaling 231 lines and 2,768 km of track.

As shown in the chart on the screen, almost all the major European airports benefit from a rail service. There are more than 200 airport links in operation worldwide.

London Heathrow stands out with 3 different types of rail links, namely “The Tube” subway, the Heathrow Express and regional trains.

Several other airports have express or dedicated shuttle trains, including Rome, Gatwick, Barcelona, both Moscow airports, Oslo, Vienna, Stockholm, Brussels, Milan and Stanstead.

Paris Charles de Gaulle is served by the TGV and RER. In addition, a dedicated rail linking the airport and Paris in 20 minutes is planned for 2023. Aéroports de Paris has been calling for such a service for many years. But this time it appears that the project is on track. A PPP has been formed and studies are underway.

The Charles de Gaulle Express even has a Wikipedia page, and I quote:

“This project is justified, according to the Government, by the limitations of the RER B offering and the existence of rapid transportation services in competing airports (London has a dedicated rail service for its three airports)... The goal is to provide an alternative for passengers who shun the RER and find themselves in taxis or buses stuck in traffic on the A1 motorway or the A3 motorway.”

Thus, Parisians who come to Montréal probably feel right at home!

Joking aside, Montréal is perhaps not Paris but our airport surely deserves better than a bus service that takes 45 to 60 minutes (and often more) to get to town!

The issue of an express rail shuttle between the airport and downtown has been dragging on for at least 10 years now. This project is part of the City of Montréal’s 2008 transportation plan. Even though there is a new mayor in City Hall, the City of Montréal’s vision should not be changed on such a fundamental issue... if the City wants to help improve Montréal’s air service, it could start by improving access to the airport.

In our case, and at the risk of repeating myself, we are convinced after 10 years of reflection and study that Montréal needs a modern light-rail system to serve the airport and the West Island as a whole, both for today and for the long term. The site of the future Montréal-Trudeau station is ready and waiting!

I also note that significant synergies could be realized by integrating the West Island SLR with the South Shore SLR.

One thing is certain: We need to stop procrastinating and think that we will perhaps find a miraculous solution that will cost less with the same result. You always get what you pay for and shortcuts always end up costing more. Consider the existing Champlain Bridge ... a bad project, even a less expensive one, will always be a bad project.

If we want a world-class international airport, if we want our city to shine on the world stage, we need to give the airport and the West Island a world-class public transit service. It's essential! Imagine, by 2033 Montréal-Trudeau will have some 25 million passengers...

But quite frankly, I'm pretty optimistic. The Technical Committee of the West Island Mobility Plan has indicated its strong preference for a light rail. We also had a meeting with Robert Poëti, the new Minister of Transport and Minister responsible for the city, and we clearly felt that he is very much aware of the needs of the airport and the West Island...

Mr. Poëti is also very interested in our non-traditional approach for financing and completing the project. I'm talking about funding that is largely private, based among other things on real-estate value capture, all in a PPP approach.

So with the support of everyone, we must hope that our international airport, which we have every reason to be proud of, will one day be connected to its city by a modern and efficient train system!

There you go!

In closing, a final word to express our fullest support for the initiative by Jacques Ménard of BMO Group to revive Montréal. Rest assured that we will be present at the November 17 Summit... Je vois Montréal (I see Montréal)! I think we've already come a long way towards reviving Montréal's airports with the consolidation of passenger flights in Dorval, reconstruction of the Montréal-Trudeau terminal, improved air access and the customer experience, and the proposed SLR train system for the west Island. We are determined to continue in the same direction moving forward to help ensure Montréal shines on the world stage.

Thank you for listening.