STUDY OF THE QUALITY OF THE AIR SERVICE IN MONTREAL

AÉROPORTS DE MONTRÉAL

September 2014

SECOR KPMG

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INTRODUCTION

With the globalization of trade, the quality of a region's air service is an increasingly important driver of economic development

- The quality of a service influences the attractiveness of a location for **head offices** and **companies with international operations**
- Regions that are well connected with the rest of the world are often more **dynamic** and **innovative**

Conversely, economic strength also influences the quality of the existing air service

- The demand for air services is closely linked to the **strength** and structure **of the local economy**
- This demand is also closely related to a region's level of **wealth**

Evaluating the quality of an air service is a complex exercise

- It requires an understanding of the **decision-making factors for air carriers** and the environment in which they work in order to judge the level of air services on offer
- Evaluation of the quality of service must also be put into the context of the **region's existing socioeconomic characteristics**

In this context, the present study includes two objectives

1. To evaluate the Montreal air service in comparison with other similar North American cities
2. To identify potential areas of development for the service to and from Montreal-Trudeau airport

DETERMINANTS OF A QUALITY AIR SERVICE

1. Determinants of an air service
2. Evaluation parameters of the quality of an air service

CARRIERS' PROVISION AND DEMAND FOR TRAVEL: KEY DETERMINANTS OF A REGION'S AIR SERVICE

The air service of a city or region is first and foremost a question of profitability for the carriers, which is itself dependent on demand

THE SUPPLY of air connections depends mainly on the financial and strategic interests of private carriers

- With the disappearance of public carriers and competition within the industry, the establishment of a new connection is a business decision based on a rigorous financial analysis
- As a general rule, the establishment or maintenance of an air link assumes the existence of a sufficient minimum demand to make this connection profitable

A city's basic air transport **DEMAND** is dependent on several socioeconomic and geographic factors

- The strength and structure of the local economy, wealth, socio-demographic profile and the region's attractiveness greatly influence the demand for a city as an origin-destination
- A favourable geographical position can encourage a carrier to choose a city as a hub, allowing the carrier to acquire additional (connecting) traffic

In addition to a balance between supply and demand, a large number of conditions must also be met to allow the establishment of a new link

CONSTRAINTS may hamper the establishment of direct connections

- These constraints may be related to the capacity of the origin and destination airports, to taxation or regulations

SOME LEVERS may have a positive influence on the development of a service

- These levers include, among other things, the financial incentives offered by airports and the mobilization of stakeholders

ANALYSIS OF AN AIR SERVICE: SUPPLY AND DEMAND, PLUS LEVERS AND CONSTRAINTS

CARRIER PROVISION

Decision criteria for airlines (routes, frequency)

- Level of traffic anticipated (local and connecting)
- Pricing
- Potential for profitability (load factor, yield)

§ Business model (e.g. regular, LCC, charter)
§ Network strategy (e.g. hub & spoke, point-to-point)
§ Fleet (number, type and capacity)
§ Cost structure
§ Revenue structure

LEVERS

§ Direct subsidies
§ Reduction of costs (e.g. landing fees)
§ Minimum guaranteed volume
§ Investment in promotion
§ Involvement of the business community and government

OPTIMAL SERVICE

CONSTRAINTS

§ Capacity of origin and destination airports (e.g. infrastructure, schedules)
§ Taxes, landing fees and other costs
§ Policies and regulations

DEMAND

Travel demand (destination and frequency)

- Leisure travellers
- Business travellers
- Family and friends travellers
- Connecting traffic

Origin – destination demand

§ Strength of economy (employment, growth)
§ Wealth (GDP, average income)
§ Industrial structure (main industries, large companies, head offices)
§ Socio-demographic profile (% immigrants)
§ Attractiveness of the city (tourism, business)

Connection demand

§ Geographical location
§ Quality of airport experience (e.g. waiting time, comfort)

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 Source: KPMG-SECOR

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THE CARRIER'S PERSPECTIVE: A MINIMUM DEMAND OF BETWEEN 10,000 AND 40,000 PASSENGERS FOR A DIRECT LINK FROM MONTREAL DEPENDING ON THE DESTINATION

The potential profitability for a carrier of a regular link is obviously related to the customer base in terms of passengers. However, in addition to this number, its distribution over the days and the year, as well as the distribution of rates paid, are also key variables.

When considering the establishment of a direct air link, carriers use two key parameters to analyze its potential profitability:

- The **passenger load factor**, i.e. the ratio of passenger numbers to capacity throughout the year
- The "**yield**," i.e. the earnings per passenger according to the rates for each class of air travel and the distribution of passengers according to these different rates (reduced economy fare, full economy fare, business class, first class, etc.)

According to the assumptions made by KPMG-SECOR, presented below, the minimum volume of passengers required to establish a direct link from Montreal varies from 10,000 to 40,000 per year, depending on the destination and the distance to it.

DISTANCE TO DESTINATION	LESS THAN 1,000 MILES	1,000 TO 3,000 MILES		3,000 TO 5,000 MILES	5,000 MILES AND MORE	
Destinations	Canada and United States			International destinations		
Min. frequency/week	5			3		
Examples of cities already or potentially served from Montreal	Toronto, Boston, New York	Vancouver, Los Angeles, Miami	Panama City, Mexico City, Bogota	London, Paris, Amsterdam	Beijing, Sao Paulo, Doha	
Example of suitable aircraft	Dash 8 - Q400	Airbus 319	Airbus 319	Airbus 330	B777-300ER	Dreamliner
Capacity of aircraft	70 pax	120 pax	120 pax	265 pax	335 pax	251 pax
Target minimum passenger load factor	55%	70%	70%	80%	80%	75%
Minimum volume of passengers required per year	**10,000**	**21,800**	**13,100**	**33,100**	**41,800**	**29,400**

Source: KPMG-SECOR

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THE PASSENGER'S PERSPECTIVE: A QUALITY SERVICE DEPENDS FIRSTLY ON DESTINATIONS AND ALSO ON THE FREQUENCY OF FLIGHTS

KEY PARAMETERS FOR EVALUATING THE QUALITY OF AN AIR SERVICE

1 NUMBER OF DESTINATIONS SERVED BY DIRECT FLIGHTS	2 IMPORTANCE OF DESTINATIONS	3 FREQUENCY OF FLIGHTS
0 – 10	Holiday destinations	Seasonal link
10 – 20	Secondary cities	Year-round link with 1 to 3 flights per week
...	Major cities (including large international hubs)	Regular link with 3 to 7 flights per week
		Regular link with more than 7 flights per week
A greater number of destinations served by direct flights allows improved **accessibility** for travellers and reduced **travelling time**, a particularly important factor for business travellers.	The cities served are not all of equal importance in terms of **business** and **connectivity**. The "major" cities, that is the 123 most economically influential cities, have been identified using the GaWC network classification.	A quality service usually includes a minimum of three flights per week throughout the year to major international cities served and five flights per week to major Canadian and American cities. Access to more flights and to a variety of carriers provides greater **choice** and **flexibility** for travellers.

Source: KPMG-SECOR

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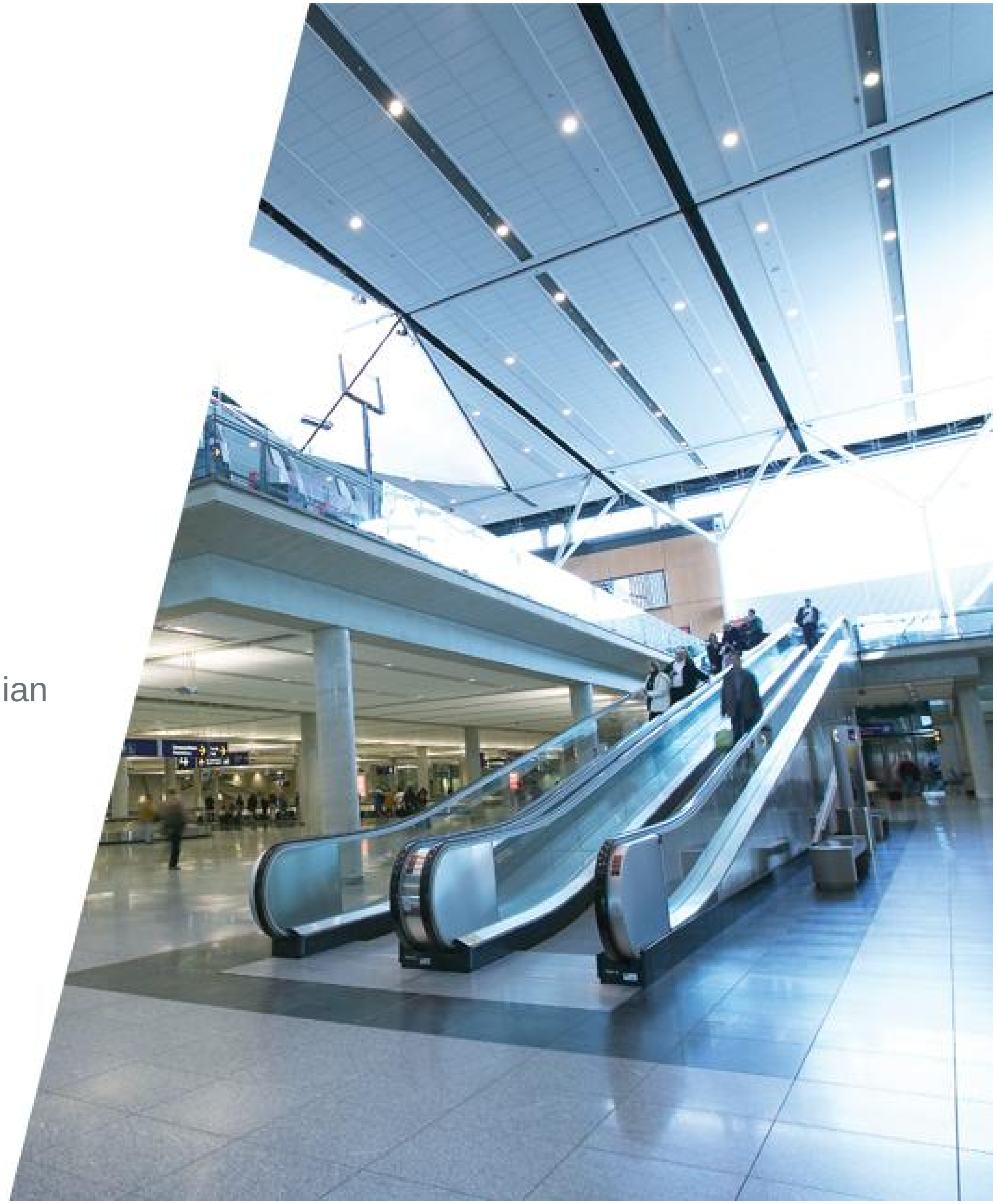
EVALUATION OF THE AIR SERVICE IN MONTREAL

1. Context: customer base and carriers
2. Quality of the air service in Montreal
3. The Montreal air service within the Canadian context
4. North American comparison of air service quality



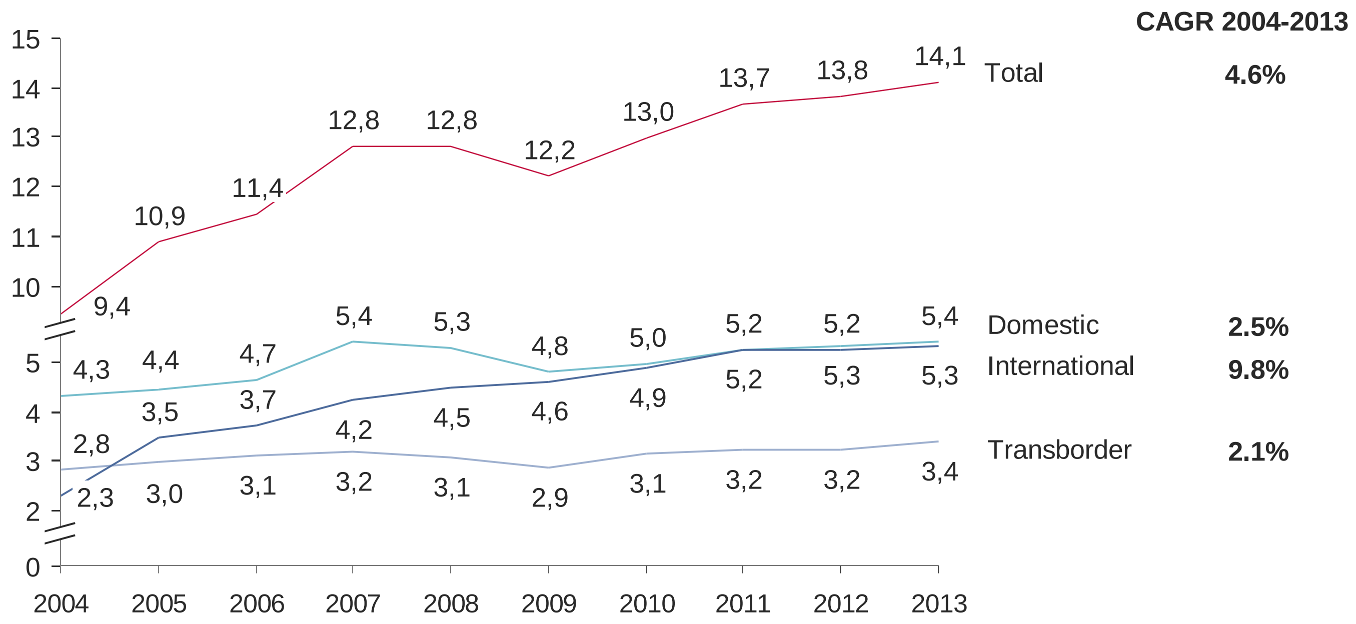
CUSTOMER BASE OF MONTREAL AIRPORT: SIGNIFICANT GROWTH, PARTICULARLY IN TERMS OF INTERNATIONAL PASSENGERS

The total number of passengers at Montreal-Trudeau increased from 9.4 million in 2004 to over 14 million in 2013

- An average annual increase of 4.6%, greater than the increase in Quebec's GDP and population

The number of international passengers has shown the greatest increase during this period, with an average annual growth rate of 9.8%.

NUMBER OF PASSENGERS AT MONTREAL-TRUDEAU
IN MILLIONS OF PASSENGERS, 2004-2013



Sources: ADM, KPMG-SECOR

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GREAT DIVERSITY OF ACTIVE AIR CARRIERS IN MONTREAL, INCLUDING 20 CARRIERS WITH INTERNATIONAL SERVICES

A total of 29 air carriers are active at Montreal-Trudeau in 2014

- 20 of the current carriers in Montreal serve the international sector and 15 are affiliated with an air carrier alliance, allowing greater ease of connection

CURRENT AIR CARRIERS IN MONTREAL

AUGUST 2013 – JULY 2014

CARRIER	AFFILIATION	INTERNATIONAL SERVICE
1. Air Canada	Star Alliance	ü
2. Air Transat		ü
3. Westjet		ü
4. Porter Airlines		
5. American Airlines	OneWorld	ü
6. Delta Air Lines	SkyTeam	ü
7. Sunwing Airlines		ü
8. Air France	SkyTeam	ü
9. United Airlines	Star Alliance	ü
10. US Airways	OneWorld	ü
11. KLM	SkyTeam	ü
12. British Airways	OneWorld	ü
13. Royal Air Maroc		ü
14. Lufthansa	Star Alliance	ü
15. SWISS	Star Alliance	ü

CARRIER	AFFILIATION	INTERNATIONAL SERVICE
16. Aeromexico	SkyTeam	ü
17. Air Inuit		
18. CORSAIR		ü
19. Air Algerie		ü
20. Qatar Airways	OneWorld	ü
21. Cubana		ü
22. Royal Jordanian	OneWorld	ü
23. First Air		
24. Provincial Airlines		
25. Air Creebec		
26. Turkish Airlines	Star Alliance	ü
27. COPA	Star Alliance	ü
28. Air St. Pierre		ü
29. SATA International		ü

Sources: ADM, KPMG-SECOR

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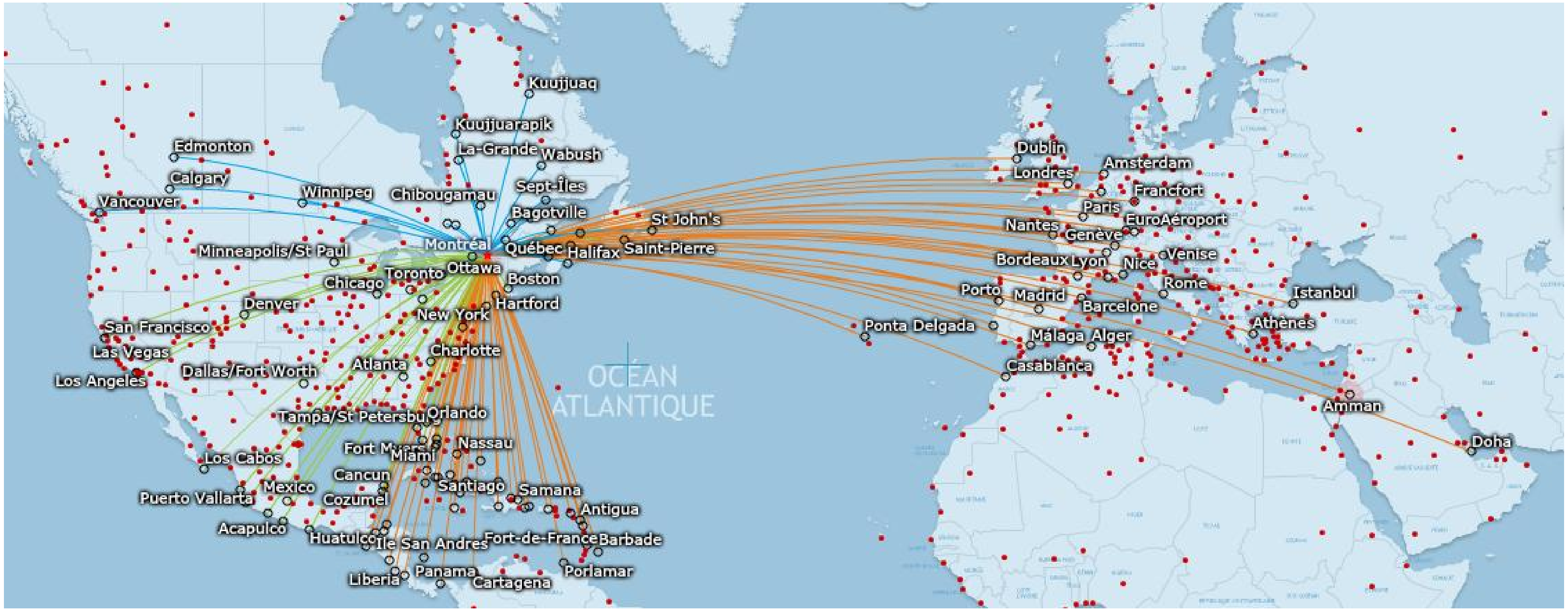
TOTAL NUMBER OF DESTINATIONS WITH A DIRECT SERVICE: 129 DIRECT LINKS AVAILABLE IN MONTREAL, INCLUDING 75 INTERNATIONAL LINKS

The air service in Montreal included a total of 129 destinations in 2013

- 75 international destinations, 26 in the United States and 28 in Canada



Source: ADM

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TOTAL NUMBER OF DESTINATIONS WITH A DIRECT SERVICE: ADDITION OF SEVERAL IMPORTANT CONNECTIONS IN THE LAST 10 YEARS

Montreal's air service has undergone significant improvement over the past ten years, the number of direct international destinations available from Montreal having increased from 30 to 75

- In 2014, four new direct destinations were added to the schedule, namely Istanbul, Panama City, Tunis and Prague (summer)

EXAMPLES OF IMPORTANT NEW DIRECT INTERNATIONAL CONNECTIONS FROM MONTREAL
2005-2014

2005	2006	2007	2008	2009	2011	2014
Brussels	Madrid*	Algiers	Dublin*	Geneva	Istanbul*	Prague*
Rome*		Barcelona*	Basel*	Venice*	Doha	Panama City
Lisbon*		Amman				Tunis
Toulouse*						Istanbul

**Destinations served on a predominantly seasonal basis (summer)*

Sources: ADM, KPMG-SECOR

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IMPORTANT DESTINATIONS AND FREQUENCY OF FLIGHTS: A REGULAR SERVICE TO 28 MAJOR CITIES

With regard to major cities, namely the 123 most influential cities in the world, Montreal had a significant connection in 2013 with 37 of them, with 50 flights or more flights per year

- 28 major cities are served on a regular basis, with a minimum of three flights per week throughout the year

DIRECT CONNECTIONS BETWEEN MONTREAL AND THE 123 MOST INFLUENTIAL CITIES IN THE WORLD

MAJOR CITIES SERVED BY 50 FLIGHTS OR MORE PER YEAR, 2013

Scheduled destinations (3 flights or more per week throughout the year)		Destinations served throughout the year but with fewer than 3 flights/week	Seasonal destinations
1. Amsterdam	15. Houston	1. Amman	1. Athens
2. Atlanta	16. London	2. San Francisco*	2. Barcelona
3. Boston	17. Los Angeles		3. Lisbon
4. Brussels	18. Mexico City		4. Lyon
5. Calgary	19. Miami		5. Panama City*
6. Casablanca	20. Minneapolis		6. Rome
7. Chicago	21. Munich		7. Tampa
8. Cleveland	22. New York		
9. Dallas	23. Paris		
10. Denver	24. Philadelphia		
11. Detroit	25. Toronto		
12. Doha	26. Vancouver		
13. Frankfurt	27. Washington		
14. Geneva	28. Zurich		

**Note: During the analysis period (2013) Panama City had only a seasonal connection, and flights to San Francisco were maintained at a rate of 3 flights or more per week for each week of the year.*

Sources: ADM with Diio, KPMG-SECOR

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IMPORTANT DESTINATIONS AND FREQUENCY OF FLIGHTS: A REGULAR SERVICE TO 17 MAJOR INTERNATIONAL HUBS

In 2014, Montreal has a regular connection to 17 of the 25 major international hubs, with a minimum of 3 flights per week throughout the year

A quality service to the largest international hubs is important to all travellers as it allows easier connections

- Of the 123 major cities, all except one (namely Shenzhen, China) are accessible from Montreal by direct flight, or via a single connection

DIRECT CONNECTIONS BETWEEN MONTREAL AND THE 25 LARGEST INTERNATIONAL HUBS

2014

Hubs served by 3 or more direct flights per week all year round	Hubs served by direct flights on a seasonal basis	Hubs not served by direct flights
1. Amsterdam 2. Atlanta 3. Brussels 4. Chicago 5. Dallas 6. Frankfurt 7. Istanbul* 8. London 9. Los Angeles 10. Miami 11. Munich 12. New York 13. Paris 14. San Francisco* 15. Toronto 16. Washington 17. Zurich	1. Madrid (annual total of 21 direct flights, all in summer)	1. Dubai 2. Tokyo 3. Milan 4. Bangkok 5. Moscow 6. Hong Kong 7. Singapore

**Note: Istanbul and San Francisco have been added to the destinations served by 3 or more direct flights per week throughout the year, compared with the previous figure which only covered 2013*

Sources: ADM with Diio, KPMG-SECOR

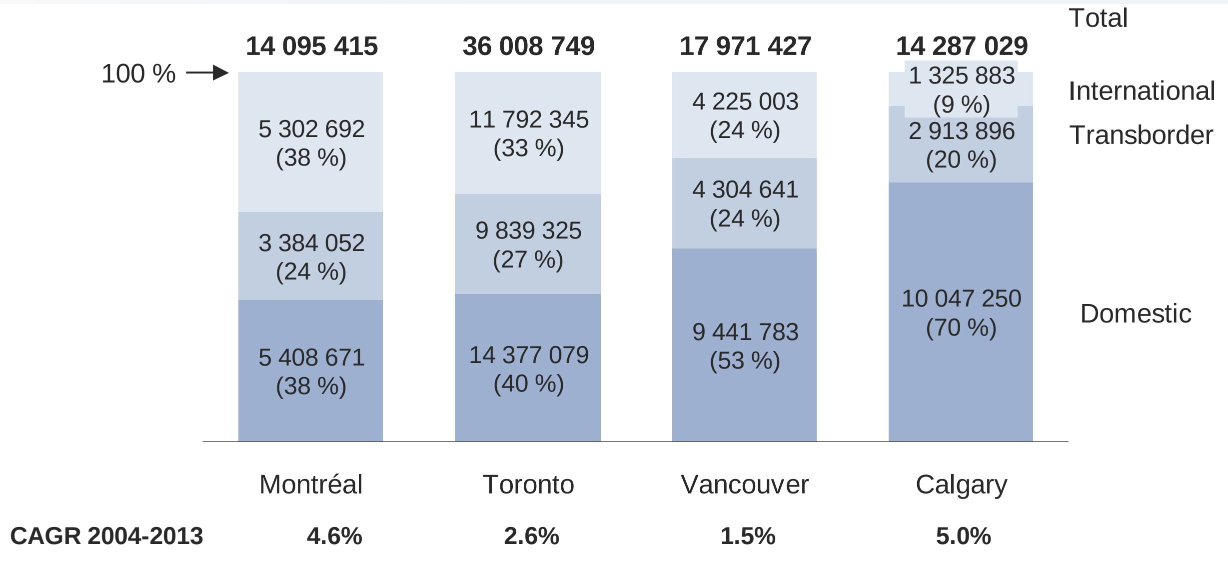
A GREATER CUSTOMER BASE THAN VANCOUVER AND CALGARY AT INTERNATIONAL LEVEL, BUT SMALLER AT DOMESTIC LEVEL

All major Canadian airports have seen their customer base increase and their specific positioning consolidated over the course of the last decade

- Toronto stands out as the principal major hub located in Canada with more than 60% of its traffic being international or transborder. It is also sustained in terms of domestic traffic by its economic base
- Vancouver is an important hub for Asia on account of its geographical situation, but more than 50% of its traffic is still domestic
- Calgary is an important regional hub thanks to the strength of its economy and to the presence of WestJet, but it has little international traffic
- Montreal is characterized by its transborder and international traffic, and also operates a significant service to Europe and the Middle East

NUMBER OF PASSENGERS AT MAJOR CANADIAN AIRPORTS

2013



Sources: ADM, KPMG-SECOR

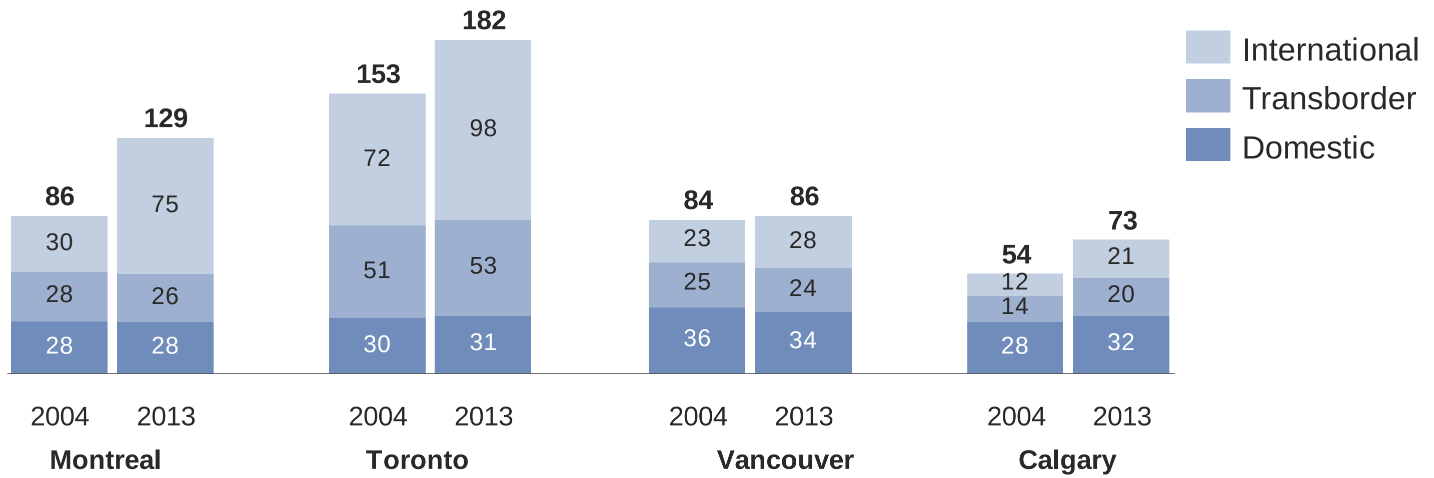
TOTAL NUMBER OF DESTINATIONS WITH A DIRECT SERVICE: MORE SIGNIFICANT DEVELOPMENT THAN OTHER CANADIAN AIRPORTS

Between 2004 and 2013, 43 new direct connections were made available in Montreal, a more significant development than in Toronto (29), Calgary (19) and Vancouver (2)

- 45 additional international connections in Montreal compared with 26 in Toronto, 9 in Calgary and 5 in Vancouver
- Calgary is the only airport with a significant increase in transborder and domestic destinations

NUMBER OF DESTINATIONS SERVED BY DIRECT FLIGHTS

REGULAR AND SEASONAL FLIGHTS, 2004 AND 2013



Source: ADM

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IN RELATION TO COMPARABLE AIRPORTS, A FAVOURABLE POSITIONING WITH REGARD TO DESTINATIONS AND AVERAGE FREQUENCY

In order to position Montreal within a North American context, 14 comparable airports were selected

- These are similar airports located in cities of comparable size and economic importance to Montreal, with the exception of Toronto which is in a different category due to its status as a major international hub

Montreal compares favourably in terms of the **number of direct connections** to major cities and is average in terms of the **number of flights**

NORTH AMERICAN CITIES INCLUDED IN THE SAMPLE

Source: KPMG-SECOR

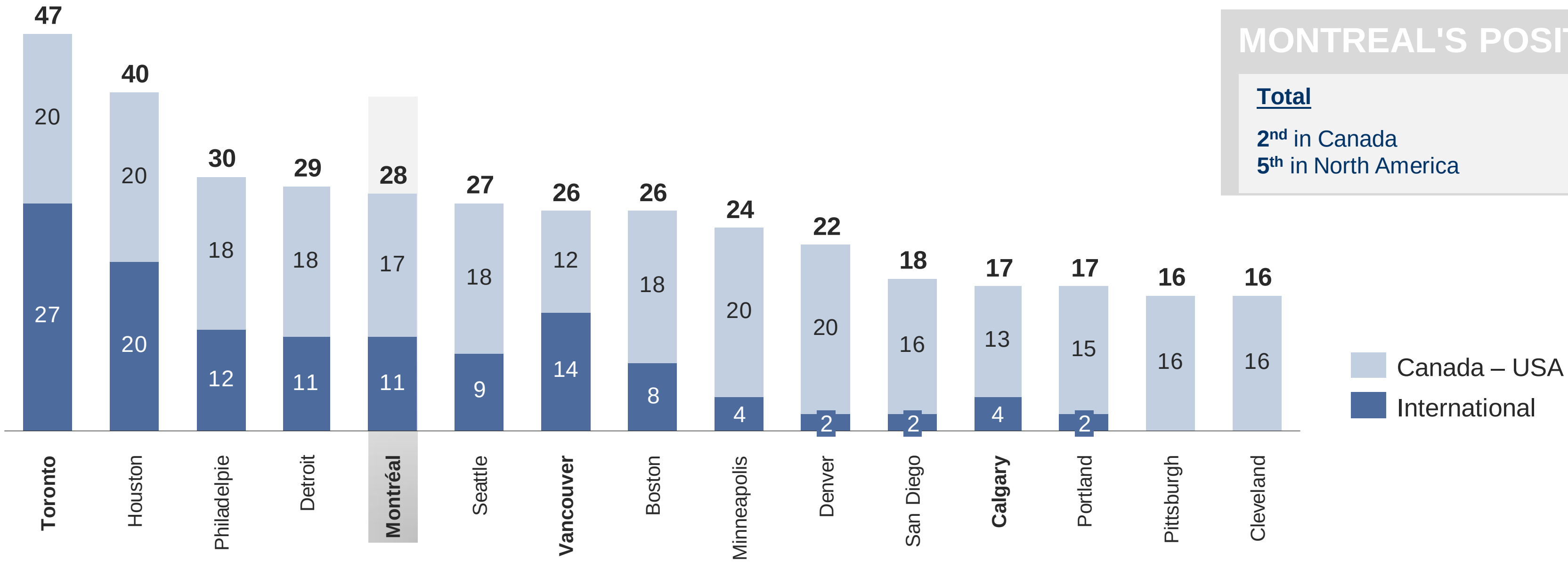
IMPORTANT DESTINATIONS SERVED: MONTREAL IN 2ND POSITION WITHIN CANADA, AND 5TH WITHIN NORTH AMERICA

With 28 direct destinations (32 in 2014) to the world's 123 most influential cities, Montreal is ranked 2nd in Canada and 5th in North America among comparable airports in terms of the number of destinations

- Montreal comes in ahead of Boston and Seattle and is roughly on a par with Philadelphia and Detroit
- Houston stands out due to its status as a hub toward South America
- In Canada, only Toronto comes in ahead of Montreal with 47 destinations; Montreal is thus better connected to major global destinations than Vancouver (26) and Calgary (17)

NUMBER OF DIRECT REGULAR CONNECTIONS TO MAJOR CITIES

DIRECT CONNECTIONS TO THE 123 MAJOR CITIES WITH A MINIMUM OF 3 FLIGHTS PER WEEK THROUGHOUT THE YEAR, FEBRUARY 2013 - FEBRUARY 2014



MONTREAL'S POSITION

Total

2nd in Canada
5th in North America

Sources: ADM with Diio, KPMG-SECOR

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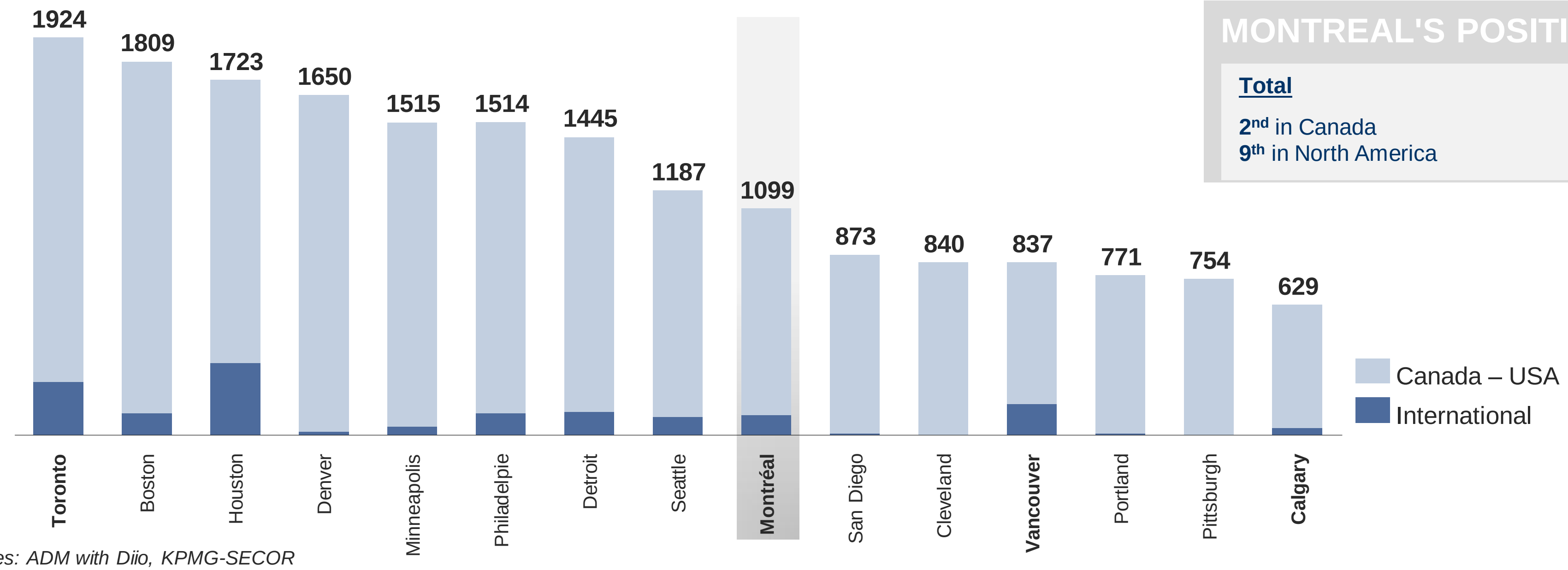
FREQUENCY OF FLIGHTS TO MAJOR DESTINATIONS: MONTREAL IN 2ND POSITION WITHIN CANADA AND 9TH WITHIN NORTH AMERICA

With regard to the number of flights to major cities, Toronto is ranked first in Canada with 1924 direct flights, ahead of Montreal with 1099 direct flights

- Seven major US cities are also ahead of Montreal. This is largely a reflection of their considerable volume of domestic flights and also their more flexible position due to the bilateral and multilateral "Open Skies" agreements in force in the United States

NUMBER OF DIRECT FLIGHTS PER WEEK TO MAJOR CITIES WITH A DIRECT REGULAR CONNECTION

DIRECT FLIGHTS TO DESTINATIONS SERVED BY A MINIMUM OF 3 FLIGHTS PER WEEK THROUGHOUT THE YEAR, FEBRUARY 2013 - FEBRUARY 2014



MONTREAL'S POSITION

Total

2nd in Canada
9th in North America

Sources: ADM with Diio, KPMG-SECOR

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IMPORTANT DESTINATIONS AND FREQUENCY OF FLIGHTS: GOOD CONNECTIVITY TO MAJOR INTERNATIONAL HUBS

When the analysis focuses on service to the 25 most important international hubs:

- Montreal is ranked 2nd in Canada and 5th in North America for the number of hubs served regularly in 2013, namely 15 (17 in 2014)
- Montreal is ranked 2nd in Canada and 8th in North America for the number of flights to regularly served hubs

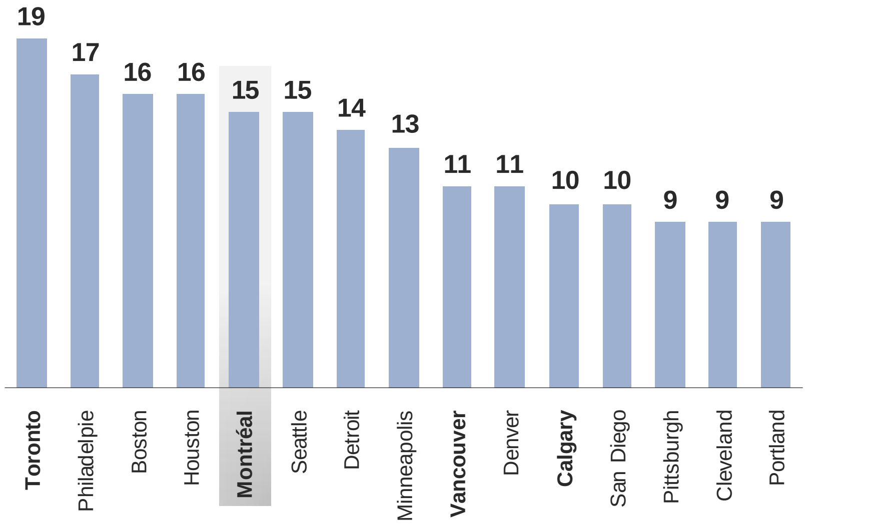
MONTREAL'S POSITION

Connections	Flights
2nd in Canada 5th in North America	2nd in Canada 8th in North America

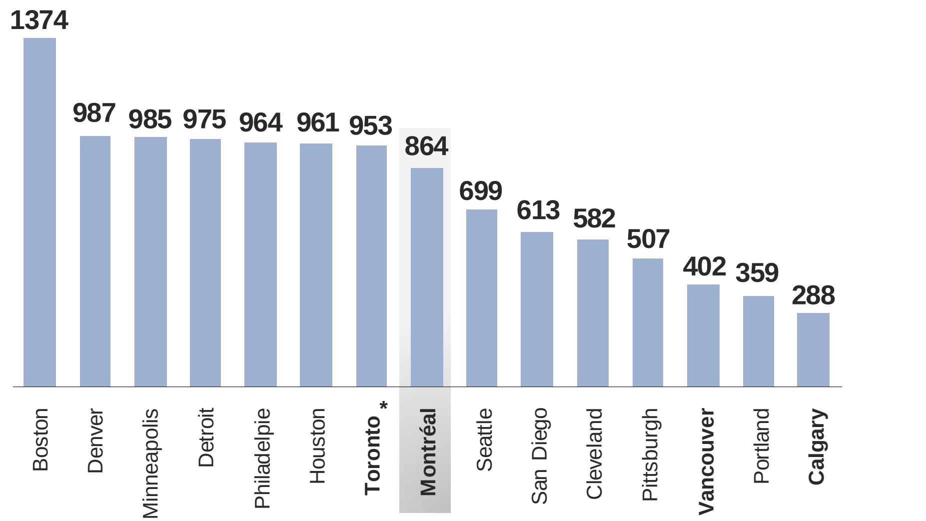
NUMBER OF CONNECTIONS AND DIRECT FLIGHTS TO THE 25 MAJOR INTERNATIONAL HUBS

FOR DESTINATIONS SERVED BY A MINIMUM OF 3 FLIGHTS PER WEEK THROUGHOUT THE YEAR, FEBRUARY 2013 - FEBRUARY 2014

Number of regular direct connections



Number of direct flights



Sources: ADM with Diio, KPMG-SECOR

Note: As Toronto is the only city in the sample that is a major international hub, it is at a disadvantage

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A SERVICE CONSISTENT WITH THE SOCIOECONOMIC VARIABLES OF THE MONTREAL REGION

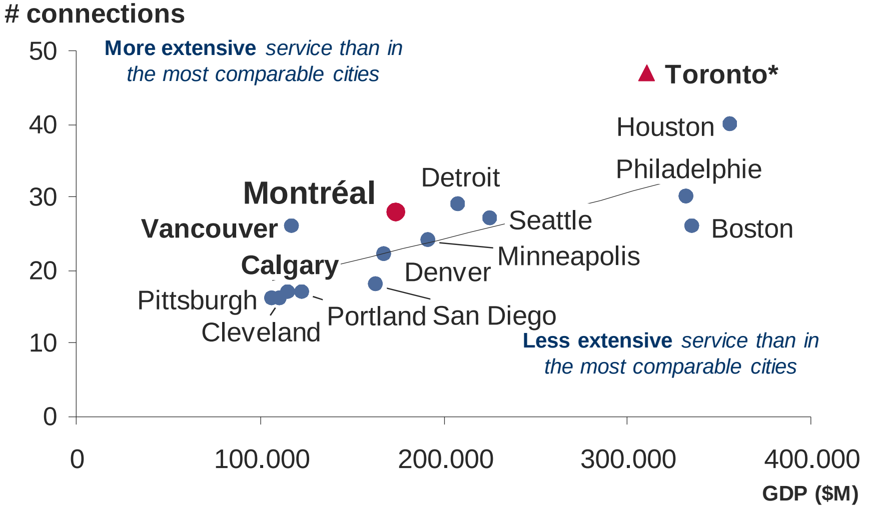
The service in Montreal appears consistent with the level of wealth of its economy

- Taking into account wealth measured by GDP (or wealth per capita), Montreal is situated above the level expected for the number of destinations and at the level expected for the number of flights.
- This wealth effect may partly explain the difference in the propensity to travel. We note that there is less travel per 1,000 inhabitants in Montreal than in other major Canadian cities, the per capita personal income or per capita GDP being higher in Calgary, Toronto and Vancouver.

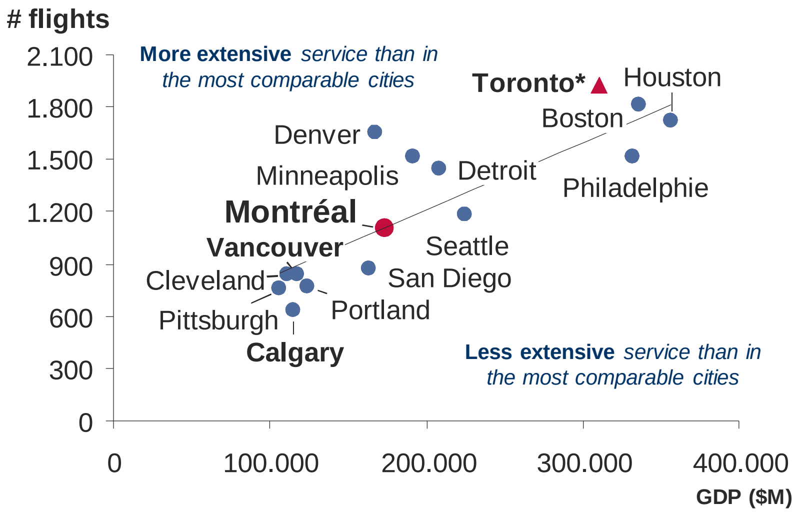
NUMBER OF CONNECTIONS AND DIRECT FLIGHTS IN RELATION TO GDP

TO THE 123 MAJOR CITIES, FOR DESTINATIONS SERVED BY A MINIMUM OF 3 FLIGHTS PER WEEK THROUGHOUT THE YEAR

Number of direct connections in relation to GDP



Number of direct flights in relation to GDP



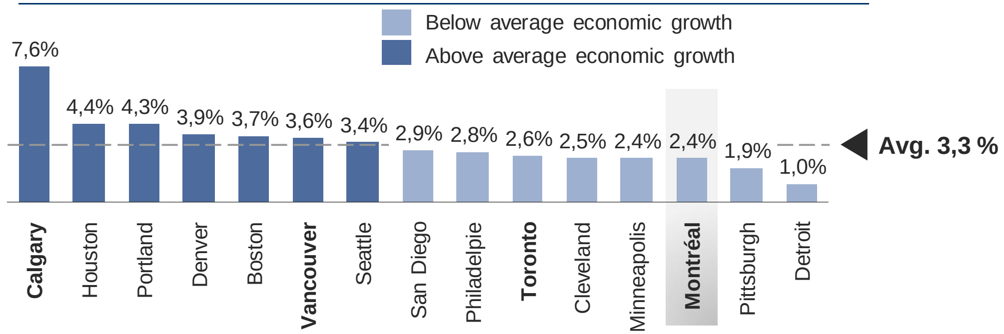
***Note:** *Toronto has been excluded from the calculation of regression lines, given its status as a major international hub*

Sources: Diio, Statistics Canada, U.S. Bureau of Economic Analysis, KPMG-SECOR analysis

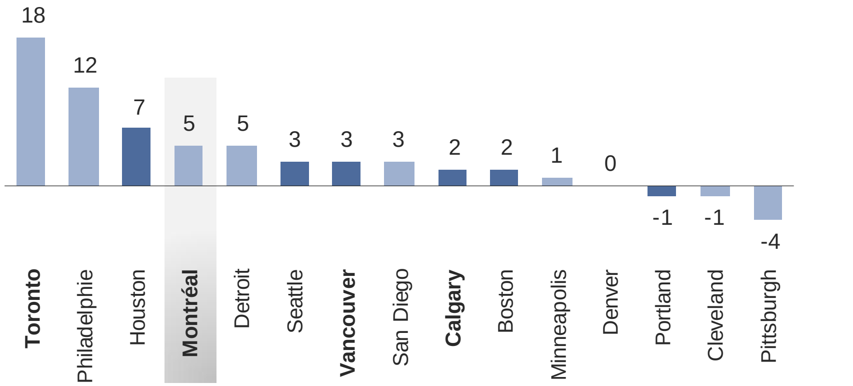
A SIGNIFICANT IMPROVEMENT IN THE MONTREAL SERVICE, IN SPITE OF BELOW-AVERAGE ECONOMIC GROWTH

Despite below-average economic growth in the 15 cities studied, Montreal is among the cities whose quality of service has improved the most, both in terms of the number of connections and the number of flights to major cities

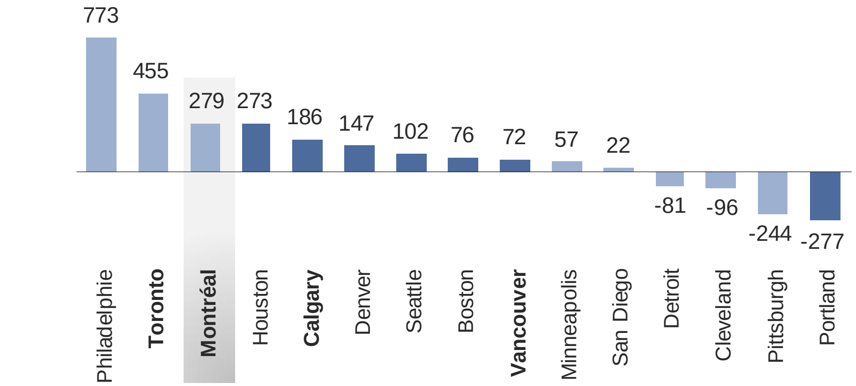
GDP growth
2002-2012



Net variation in direct regular connections
To the 123 major cities, 2003-2013



Net variation in direct flights
To the 123 major cities regularly served, 2003-2013



Sources: ADM with Diio, KPMG-SECOR

MONTREAL, IN BRIEF: AN ENVIABLE SERVICE TO EUROPE AND THE MIDDLE EAST, IMPROVEMENTS TO BE MADE TO ASIA AND SOUTH AMERICA

In comparison with similar North American airports, Montreal has an enviable service to Europe, and increasingly to the Middle East and North Africa

- But a lack of direct connections to South America and Asia is noted. However, this situation is not surprising when the focus is on O-D traffic between Montreal and these parts of the world (see following section).

AIR SERVICE BY GEOGRAPHICAL REGION (NUMBER OF REGULAR DIRECT CONNECTIONS AND DIRECT FLIGHTS)

	Above average	Average	Below average
Canada and United States		ü	
Mexico and Central America		ü	
South America			ü
Europe	ü		
Middle East and Africa	ü		
Asia and Oceania			ü

Note: Montreal achieves "above average" rating when it is ranked in the first third (first 5 cities out of 15), "average" when it is in the second third (cities 6 to 10), and "below average" when it is in the group of the last 5 cities

Sources: ADM with Diio, KPMG-SECOR

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POTENTIAL FOR IMPROVING THE SERVICE

1. Service in relation to potential for carriers
2. Regional strategies

27 MAJOR CITIES HAVE AN O-D DEMAND THAT MEETS THE MINIMUM REQUIREMENT, INCLUDING 23 ALREADY SERVED BY MONTREAL

An analysis of the O-D demand between Montreal and the 122 other major cities reveals that the current provision by carriers is broadly in line with the size of the region's O-D customer base. The minimum demand required to provide potential profitability for carriers is met in the case of 27 cities.

- Among these, 23 are already served directly from Montreal, including 19 on a regular basis
- 8 cities show a particularly high demand justifying daily frequency and/or several different carriers (300% and above O-D traffic compared with the required minimum demand)

O-D traffic in % of the required minimum demand*	Distribution of the 122 major cities according to the % of minimum demand met in Montreal	Number of direct connections in 2013-2014 for these cities
300% plus	8 cities	§ 8 regular connections
100% - 299%	19 cities	§ 11 regular connections § 5 seasonal connections
75% - 99%	6 cities	§ 4 regular connections
50% - 74%	14 cities	§ 6 regular connections § 2 seasonal connections
25% - 49%	21 cities	§ 2 regular connections § 1 seasonal connection
Less than 25%	54 cities	§ 1 regular connection § 1 seasonal connection

Required minimum demand* reached

Required minimum demand* not reached

Depending on destinations, the required minimum demand is between 10,000 and 40,000 passengers (see table on page 6). The percentage of demand met for each of the 122 major cities is available in the appendix.

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OF THE 8 DESTINATIONS WITHOUT A REGULAR SERVICE AND SHOWING THE REQUIRED LEVEL OF DEMAND, ONLY 3 PROVE FEASIBLE THROUGHOUT THE YEAR

Only four destinations not yet served have a sufficient level of demand throughout the year to provide a minimum level of profitability for an airline. These are Beijing, San Diego and San Jose (Costa Rica). Beirut (which cannot currently be served for national security reasons) may also be added to these.

- In the medium term, with the arrival of new energy-efficient aircraft such as the Dreamliner, certain additional links including Madrid, Seattle, Tel Aviv, Lima and Shanghai could become viable

Routes not served but with potential (required minimum O-D demand)

8 cities

Regular "feasible" routes

3 cities

Beijing, San Diego, San Jose (CR)

Despite efforts made over the years by ADM and its partners, it has not yet been possible to establish a Montreal-Beijing connection. This is mainly due to the lack of a suitable landing slot at Beijing airport.

Seasonal routes

4 cities

Rome, Barcelona, Lyon, Athens,

Rome, Barcelona, Lyon and Athens are currently served by seasonal flights only. Analysis of the potential demand to these destinations reveals that the low season (winter) demand does not at present allow the minimum level of demand required throughout the year to be met.

Currently "non-feasible" potential routes

1 city

Beirut (national security)

Beirut cannot currently be served for national security reasons.

Sources: ADM with Diio, KPMG-SECOR

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POTENTIAL O-D DEMAND TO THE MOST POPULAR DESTINATIONS IN SOUTH AMERICA AND ASIA

For the moment, no Asian or South American destination shows a sufficient level of demand to justify establishing a cost-effective direct connection, with the exception of Beijing

- In other cases, establishing a direct connection would require a combination of destinations, a solution not favoured by air carriers because of the additional costs linked to fuel consumption and landing fees, among other reasons

POTENTIAL O-D DEMAND TO THE MOST POPULAR DESTINATIONS IN SOUTH AMERICA AND ASIA

POTENTIAL PASSENGER DEMAND BETWEEN MONTREAL AND THE MOST POPULAR DESTINATIONS IN THE REGIONS CONCERNED, 2013

Required minimum demand: 30,000 to 40,000 passengers per year

South America

Asia

Sources: ADM with Diio, KPMG-SECOR

STAKEHOLDERS IN MONTREAL AND QUEBEC ARE LARGELY SATISFIED WITH THE CONNECTIVITY OF MONTREAL AIRPORT

In addition to the analyses presented above, interviews were also carried out in order to understand expectations and opinions in Montreal. To this end, various stakeholders were interviewed (multinational companies, international organizations, regional and provincial authorities).

On the whole, the various stakeholders consulted consider the air service in Montreal to be generally satisfactory

- Most of the organizations consulted are of the opinion that there are simple and effective options for travelling anywhere in the world, even when a connection is necessary.

According to stakeholders, priority needs relate mainly to:

1. The addition of a direct link to Asia
2. Greater frequency in Canada and the United States, in particular to cities in the West

With regard to the traveller's experience at Montreal-Trudeau airport, which is not directly connected to the quality of the air service but is nevertheless important, the greatest weakness that stakeholders regret is the absence of an efficient link between the airport and the city centre, either by rail or improved road access given the current state of the roads to the airport.

PRINCIPAL DEVELOPMENT STRATEGIES FOR AN AIR SERVICE: INCENTIVES, POSITIONING AND COLLABORATION

Cities and airports compete strenuously to obtain new air connections. The principal strategies preferred by airports to ensure the development of an air service include:

FINANCIAL INCENTIVES. Although less crucial to carriers' decisions, these nevertheless seem to be essential in order to compete with other airports. All the airports studied offer financial incentives to encourage carriers to establish new routes. The objective is always the same: to reduce the commercial risk during the launch period

A STRATEGY TARGETING A NICHE POSITION (FOCUS ON A SPECIFIC REGION) OR SIGNIFICANT LOCAL CONNECTIVITY. Vancouver has positioned itself as the gateway to Asia from the Americas, and Boston is increasingly successful in positioning itself as a transit airport without being the hub for a large carrier. Montreal is positioning itself as a hub between North America and Europe, the Middle East and North Africa.

SIGNIFICANT INVOLVEMENT OF STAKEHOLDERS. Winning approaches to airlines are often characterized by a high level of cooperation between airport, city and province. In addition, mobilizing the business community is also desirable, particularly to demonstrate the future use of the new connection.

The case of Montreal-Beijing

Cooperation between stakeholders was established in the summer of 2013 with a view to creating a direct Montreal-Beijing connection. Indeed, several partners, including Aéroports de Montréal, the Ministry of Finance of Quebec, Tourisme Montréal and Tourisme Québec, have agreed on the composition of a financial incentive program to interest a carrier in providing such a connection with a minimum frequency of 3 flights per week.

However, the issue of the accessibility of a viable landing slot at Beijing airport has prevented the implementation of the project. ADM is nevertheless continuing its canvassing efforts to connect the city with Asia.

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FINANCIAL INCENTIVES OFFERED TO CARRIERS: MONTREAL IN A GOOD POSITION

Negotiations between airports and airlines take place on a case-by-case basis and offers made to carriers are not always known

According to publicly available information, Montreal's offer seems to be the most favourable in Canada

- A 100% **reduction of the landing fee** in year 1, 50% in year 2 and 25% in year 3 for new direct flights to destinations defined as "priority"
- **Investment in the promotion** of the new destination to match the amount invested by the carrier (50-50)

EXAMPLES OF FINANCIAL INCENTIVES OFFERED TO CARRIERS BY NORTH AMERICAN AIRPORTS

Abolition or reduction of landing fees	• Abolition or reduction of landing fees (by between 25% and 100%) offered by all airports studied • Incentives also offered by very large airports (e.g. Miami and Atlanta) as well as smaller airports (e.g. Syracuse, NY)
Promotional investment for the new route	• Objective: To promote the new route (at the airport of origin and/or destination) in order to ensure its use • Matching the amount invested by the carrier (50-50) is offered by almost all airports studied. In some cases, amounts are granted unilaterally, without the requirement to match (e.g. Portland and Houston). • Amounts granted vary according to airport, destination and airline (between $25 K and $400 K per route annually, over periods of 1 to 2 years)
Preferential rates for aircraft parking	• Preferential rates or free aircraft parking, for a limited time period (one or two years)
Other incentives	• Free use of common gates and free customs services for periods of 1 to 2 years (e.g. Denver and Portland) • Free check-in desk for one year (e.g. Portland)

Source: KPMG-SECOR

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EXAMPLE OF AN AIRPORT FOCUSING ON A NICHE POSITION: VANCOUVER

Vancouver: hub position targeting an international region

KEY FACTORS FOR SUCCESS	DESCRIPTION
Market size	• Passenger volume of nearly 18 M per year • Significant O-D market, with a growing population and strong community of Asian origin • Proportion of passengers in transit: 28%
Strategy of the airport and carriers	• Distinctive "Trans-Pacific" position and role as a hub for the West Coast (according to the airport's "Master Plan") • Proposal to create a "stop-over-zone" that does not require passengers to go through customs/visa when arriving from China • Determination of Air Canada (which holds 50% of the market) to develop Vancouver as a hub between Asia and the Americas • Agreements between WestJet and Cathay Pacific and Taiwan's China Airlines also contribute to increasing international transit • Opening an office in Hong Kong to contribute to achieving the "Gateway Development Strategy"
Involvement of public partners and the business community	• Abolition by the province of fuel tax for international routes (financial impact for carriers estimated at $2 K to $3 K per long-haul flight) • Liberalization of aviation treaties between Canada and Japan to allow more flights to Tokyo • Request that the federal government expand the airport and create a "stop-over-zone" between Asia and the EU and South America (transfer without having to go through customs or needing a visa)
Recent new international routes	• Guangzhou (China Southern Airlines) • Chengdu (Sichuan Airlines) • London (Virgin Atlantic): seasonal flight • Munich (Lufthansa) • Tokyo (ANA) • Tokyo and Beijing: additional flights
Financial incentives	• In the framework of the "Gateway Incentive Program", landing fees and terminal fees for carriers remain fixed, even with the addition of new routes or more flights (between 2010 and 2015)

Source: KPMG-SECOR

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EXAMPLE OF AN AIRPORT MAXIMIZING LOCAL AND REGIONAL CONNECTIVITY: BOSTON

Boston: maximization of local and regional connectivity

KEY FACTORS FOR SUCCESS	DESCRIPTION
Market size	• Nearly 30 M passengers per year, 20% of whom are international passengers • Significant local market in terms of number (population of the city and surrounding areas) and profile (companies, universities, etc.) • Significant O-D market: maximizing the size of the business population, professionals and students in businesses, hospitals and universities.
Strategy of the airport and carriers	• JetBlue, a low-cost-carrier, controls almost 30% of the market (ranked first, ahead of United at 14%) • JetBlue targets the business community by introducing new connections to business destinations with lots of flights. E.g.: New York (JFK), Washington DC, Charlotte, Chicago, Dallas. • JetBlue has developed numerous agreements with major international carriers such as Aer Lingus, American Airlines, Icelandair, Japan Airlines, Lufthansa, Virgin Atlantic and Emirates Airline. Passengers can thus make "easy" connections, as between carriers in an alliance (codeshare).
Involvement of public partners and the business community	• Commitment of Boston businesses to ensure volume on new routes • Establishment of an "Asian Task Force," a committee of nearly 100 individuals from the financial, technology, health, education and other sectors, who often travel to Asia and have supplied the customer base predictions for a direct flight to Tokyo and given a presentation to JAL • Strong involvement of the governor of Massachusetts in attracting carriers
Recent new international routes	• Beijing (Hainan Airlines): significant Chinese student population in Boston • Tokyo (JAL): the carrier's first international destination for the Dreamliner • Istanbul (Turkish Airlines) • Panama (COPA) • Dubai (Emirates): combined with the addition by JetBlue of a link to Detroit for Arab customers
Financial incentives	• A sum of $5.6 million will be paid over the next 4 years for the 5 new international routes • Free landing rights for one year (or 2 as the case may be) • Cooperative promotional investments, the amount of which varies depending on the carrier and route (e.g. $200 K over 2 years for COPA and $350 K for Emirates)
Benefits of the airport	• Short waiting time • Investment of $100 M announced to improve the international terminal

Source: KPMG-SECOR

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CONCLUSION


rs au Canada
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Résidents du Canada
Canadian Residents
ou / or

IN SUMMARY

The quality of an air service depends primarily on the size and dynamism of the local market. On this basis, it should be noted that Montreal's air service is in line with the size of its market.

- The supply of carriers is broadly in line with traveller demand. Almost all important destinations with sufficient demand are already served directly from Montreal.
- Montreal's air service compares favourably with that of other North American cities of similar size. Montreal is ranked 2nd in Canada for the total number of destinations and 5th among the 15 North American airports used for comparison in terms of the number of connections to the most influential world cities and major international hubs.
- If the economic wealth of the region is taken into account, Montreal's air service seems significant when compared with that of similar regions.
- Finally, Montreal's air service has improved over the last ten years, both in terms of passenger traffic and air service quality (number of destinations and frequency), in spite of below-average economic growth in comparison with other similar cities.

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IN SUMMARY

In some cases, air service quality exceeds a region's economic strength. Despite its proximity to a global hub in Toronto, Montreal can capitalize on certain development opportunities to make itself stand out:

- Montreal can build on its position as a hub between North America and Europe, and also increasingly the Middle East/North Africa, to develop its connection traffic
- The deployment of aircraft such as the Dreamliner, which lowers the minimum level of customer base required for certain destinations, will make new routes to major cities profitable.
- Major international alliances in Montreal can increase its attractiveness to foreign carriers. For example, the latest two international carriers to have chosen Montreal as a destination (Turkish and COPA) are, like Air Canada, members of the Star Alliance.

The involvement of various stakeholders, in particular ADM, the Quebec government, the City of Montreal as well as the business community, may be key in establishing favourable conditions for the introduction of new connections.

- To this end, the parties involved over the past few years in developing a direct connection with Beijing should continue their efforts in this direction in order to provide Montreal with its first direct link with Asia.

APPENDIX

REQUIRED MINIMUM DEMAND PERCENTAGE, BETWEEN MONTREAL AND THE 122 OTHER MAJOR CITIES THAT IS MET BY O-D DEMAND

Destinations	% Dem. required
Toronto	11011%
New York	1931%
Paris	866%
Chicago	753%
Vancouver	656%
Calgary	539%
Washington	414%
Miami	300%
Boston	285%
Los Angeles	265%
Mexico City	243%
Atlanta	223%
London	213%
Casablanca	199%
Rome*	195%
San Francisco	189%
Philadelphia	157%
San Jose (CR)*	150%
Minneapolis	133%
Barcelona*	125%
Lyon*	121%
Panama City	118%
Beirut	114%
Dallas	109%
Beijing	104%

Destinations	% Dem. required
Athens*	102%
San Diego	102%
Seattle	96%
Brussels	95%
Cleveland	90%
Detroit	88%
Tunis	86%
Guatemala City	82%
Bogota	72%
Geneva	71%
Lisbon*	67%
Tel Aviv	67%
Denver	62%
Houston	60%
Lima	60%
Shanghai	57%
Bucharest	55%
Amsterdam	54%
Frankfurt	52%
Caracas	51%
Madrid*	50%
Munich	50%
Hong Kong	48%
Zurich	44%
Dubai	43%

Destinations	% Dem. required
Milan	43%
Istanbul	39%
Berlin	36%
Manila	35%
Bangkok	34%
Tokyo	34%
Moscow	34%
New Delhi	33%
Cairo	33%
Copenhagen	33%
Sao Paulo	32%
Vienna	32%
Prague*	31%
Dublin	30%
Budapest	29%
Santiago	27%
Monterrey	25%
Buenos Aires	25%
Stockholm	23%
Seoul	21%
Warsaw	20%
Sofia	19%
Mumbai	19%
Sydney	18%
Amman*	18%

Destinations	% Dem. required
Kiev	18%
Ho Chi Minh City	18%
Manchester	16%
Edinburgh	16%
Rio de Janeiro	15%
Düsseldorf	14%
Taipei	14%
Quito	14%
Doha	13%
Singapore	12%
Hamburg	12%
Johannesburg	11%
Hanoi	11%
Helsinki	10%
Riyadh	9%
Cape Town	9%
Melbourne	8%
Guangzhou	8%
Belgrade	8%
Nairobi	8%
Auckland	8%
Oslo	7%
Luxembourg	7%
Bangalore	7%
Abu Dhabi	7%

Destinations	% Dem. required
Brisbane	7%
Kuwait City	6%
Birmingham (UK)	5%
Kuala Lumpur	5%
Stuttgart	4%
Chennai	4%
Montevideo	4%
Manama	4%
Jakarta	4%
Karachi	4%
Lagos	3%
Perth	3%
Almaty	2%
Calcutta	2%
Hyderabad	2%
Riga	2%
Rotterdam	0%
Shenzhen	0%
Antwerp	0%
Bratislava	0%
Nicosia	0%
Port Louis	0%

Legend:
Cities served by a direct regular connection throughout the year
*Cities served on a seasonal basis or with reduced frequency

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