

Aéroports de Montréal - 20 years of Entrepreneurship and Partnership

Address by James C. Cherry

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Good afternoon,

I'd like to thank the Board of Trade for giving me this new opportunity to address you and to provide an update on Aéroports de Montréal.

As you may know, the Board of Trade of Metropolitan Montréal and Aéroports de Montréal have close ties. We are, of course, a Major Partner of the Board. But the Board also plays an active role in the governance of Aéroports de Montréal. This isn't as well known by the public.

In fact, the Board acts as a nominating organization for the selection of three ADM board members. Every year, we meet with the Board of Trade executive to report on our activities and projects.

The Board, together with other active stakeholders in the city, was there at the very birth of Aéroports de Montréal nearly 20 years ago. ADM will be celebrating its 20th anniversary on August 1st.

This is therefore a good opportunity to go back to the establishment of ADM and review the highlights of its development. I will also talk about how the airport has integrated within the Montréal community, and end off with a look at the future.

Genesis of ADM

First, I think it is useful to recall that the idea of privatizing Canadian airports goes back to the mid-1980s.

There are several forms of airport privatizations. In general, governments are reluctant to give up full control of their airports. In fact, the outright handover to a third party is the exception rather than the rule.

In Canada, we opted for a very unique formula that gives a key role to local communities. In fact, the Canadian model is based on local airport authorities, created by communities to manage, operate and develop their airports.

Four cities first responded to the government's call, including Montréal. After long and arduous negotiations, Trudeau and Mirabel airports were finally handed over in 1992.

For Montréal, the negotiations were framed by the Société de promotion des aéroports de Montréal, or SOPRAM. Several members of the Chambre and Board of Trade at that time were members, in particular Bernard Roy, Luc Lacharité, Alex Harper, etc..

Today, 23 airports designated as part of the National Airports System are managed by non-profit corporations like ADM.

Canadian model

Although there are differences between the airport authorities, we can rightly speak of a Canadian model for the transfer of large airports. Here are the main characteristics.

First, the federal government retains title to the airport property. ADM is linked to the government through a 60-year lease, with an option to renew for 20 years. Under this lease, we pay rent to the Government of Canada. Today, this rent is calculated as a percentage of our gross revenues, totalling 12%. As we repeat at every opportunity, we believe that this rent is too high and undermines the competitiveness of Canadian airports. We have not lost hope that someday the government will lower or eliminate it.

ADM is financially autonomous, receives no government subsidy (which is not the case for all the authorities), and profits are fully reinvested in the company.

ADM is governed by a board of directors comprised of 15 individuals representing the Montréal community. They are selected based on a very specific selection process which includes a range of key skills. No elected official is eligible and, with the exception of the CEO, all directors are independent of management.

In addition to the Board of Trade, the other nominating entities are the Montréal Urban Community, the governments of Canada and Québec as well as airlines active at Montréal-Trudeau.

In 2003, ADM also established a community advisory committee, which is composed of 20 people nominated by various social-community organizations in Greater Montréal who are interested in one way or the other with airports. This committee, which meets twice a year, is mandated with issuing advice on any relevant matter.

We also have other more specialized consultative mechanisms, including the Airline Consultative Committee and the Advisory Committee on the Soundscape. In addition, our master plans are subject to ad hoc consultations.

Thus, Aéroports de Montréal is decidedly run by men and women from the Montréal community, taking into account the needs, interests and resources of the Montréal community.

Montréal-Trudeau is the airport of Montrealers! I think this is the main benefit of the Canadian model.

Entrepreneurship

Another objective of the creation of Aéroports de Montréal was to replace a governmental administration with a resolutely commercial administration that has an entrepreneurial culture.

This transformation did not happen overnight but I think we can say that ADM is now much more than just a manager of infrastructures: we are a developer that is investing and innovating to create wealth for the Montréal community.

During its 20 years of existence, and especially since 2001, Aéroports de Montréal has achieved several things that a government administration could not have done... or dared to do.

One of our first achievements was to clean up the house left by Transport Canada. I do not want to dwell too much on the past. But I would just like to remind you that we inherited an airport system in very poor condition. We in fact had two half airports without any land link between the two. This airport duality was very costly and made connections inefficient.

So we streamlined the system, namely by consolidating all passenger flights at Montréal-Trudeau. This reduced our operating costs and corrected an historical error. We do not need two major airports in Montréal. Montréal-Trudeau alone is able to absorb traffic growth until 2072 (incidentally, 2072 marks the end of our lease!).

The decision to close Mirabel to passenger aircraft required a certain amount of courage. We did not win any popularity contests that year. This move, however, proved extremely astute, both operationally and financially. The savings have been in the tens of millions. Carriers and passengers have also benefited.

On the other hand, to compensate for the loss of passenger flights, we accelerated the development of cargo and industrial activities in Mirabel. And we sought new uses for the former passenger facilities. Today, more than 3,500 people work directly on the airport site. And with new projects underway, including the Bombardier CSeries and the Pratt & Whitney Aerospace Centre, this number will grow in the future.

Our second major strategic policy decision was to expand and modernize Montréal-Trudeau Airport. In 2001, we launched an extensive construction program which was completed in 2009 and which required an investment of about \$1.5 billion. In particular, the terminal has been modernized almost top to bottom and its capacity doubled. The new customs hall looks nothing like the old one. So today, Montrealers enjoy world-class airport infrastructures.

And it is continuing. Montréal-Trudeau is evolving to meet ever-growing demand, especially for international flights. By the end of 2016, we expect to invest some \$800 million, mainly to expand the international jetty and add capacity in the departures and arrivals halls.

To finance this work, we have established a platform for tapping financial markets. To date, this has allowed us to complete four bond issues totaling \$1.5 billion. Speaking of funding, we have used some novel approaches similar to PPPs for some components of the terminal. In the case of the de-icing centre, for example, this approach has spawned a new company that now exports its services to other airports.

At the same time, we have focused on customer service. Each year we have introduced new services, and little attentions. We now have a very high satisfaction rate, and our challenge is to keep it up.

We have also deployed new technologies to enhance safety and improve traffic flow. Montréal-Trudeau is in the forefront in terms of self-service check-in and baggage tracking. In a few weeks, by the way, we plan to inaugurate a new system to speed clearance through Canada Customs. With automated control terminals, Canadian citizens will be able to make declarations by themselves. They will still be seen by an agent but it will be much quicker. Fluidity will be significantly improved.

The modernization of Montréal-Trudeau has also allowed us to expand our air services and make Montréal-Trudeau a more active hub between North America and

Europe/North Africa/the Middle East. There are currently more than 130 non-stop destinations leaving from Montréal. With the addition of Doha in Qatar in 2011, our service has extended even further since the flight from Montréal to Doha is currently our longest. I am confident that our efforts to win a direct link with Asia will be rewarded one day.

Thirdly, we have intensified the development of our non-aeronautical business, namely commercial services (mainly shops, restaurants and parking lots) and real estate.

Montréal-Trudeau now has some 87 businesses, boutiques, restaurants and other services, the equivalent of a medium-sized shopping centre. As part of the terminal's reconstruction program, we took the opportunity to expand our commercial network in restricted areas where passengers have plenty of time to shop...

In addition, we had the foresight to integrate a 4-star hotel in the new transborder departures sector: it has been a great success.

We also operate some 11,500 parking spaces, which make Montréal-Trudeau the largest parking complex in Montréal.

Finally, we have a large inventory of land at our two sites and a large portfolio of rental buildings. A total of some 250 companies are located at our airports, including very large ones such as Bombardier and Pratt & Whitney.

With all these initiatives, our non-aeronautical activities today represent nearly a third of our gross income and are a significant source of cash flows that help fund our capital programs.

Partnership

On another subject, throughout our history we have sought to strengthen our ties with Greater Montréal and with the institutions that contribute to its development, such as the Board of Trade of Metropolitan Montréal.

Montréal-Trudeau being an important gateway for tourism, we work closely with Tourisme Montréal to promote Montréal as a destination.

We partner with Montréal International and the Association québécoise de l'aérospatiale to stimulate Montréal's economic development, particularly in the aerospace sector.

I am proud to say that we are a strong supporter of Centraide Montréal and other charities.

We also work with various levels of government to better integrate the airport into the urban fabric and enhance its connectivity with ground transportation networks. Roadwork that is taking place in front of the terminal is proof of this... but I'm sure you are all anxious that this proof disappears! The Ministry of Transportation forecasts that the main links with the airport will be operational by the end of 2013.

Airport shuttle

Regarding our express shuttle to downtown, our interest in seeing this project completed has never wavered. Quite the contrary. We and our partners are more enthusiastic than ever.

As you may know, we are now exploring one of the most promising approaches based on an electric light rapid-transit train. This very modern and efficient approach would represent a return to our original vision, namely a common infrastructure and two separate services for airport customers and for commuters.

Moreover, you should know that the STM has joined the committee formed by the Ministry of Transport, Infra-Québec, PPP Canada, and the City of Montréal to assess the potential of this approach for serving the West Island. The contribution of the STM is essential because the train would be primarily fed by buses.

I believe that this light rail project fully reflects our philosophy based on entrepreneurship and partnership.

The shuttle project is an initiative of Aéroports de Montréal. We are motivated by the desire to improve customer service and offer our passengers a rapid and reliable form of access at all times, as now exists in a majority of airports around the world. This is an essential complement to our service offering. It will also increase Montréal's attractiveness as a tourist destination while reducing the number of cars on Highway 20.

We want an airport shuttle for Montréal that is comparable with the best in the world, such as Vancouver, London, Vienna, Oslo, Stockholm or even New Delhi, for example.

It is only by providing such a quality service that we can significantly increase the share of public transit at Montréal-Trudeau.

The eventual profitability of the service is also critical to us, and that is why we want to optimize the parameters. According to all our studies, the main winning conditions for an airport shuttle service are: (build up)

- Reliability at all times
- An express service
- Frequent departures
- Cars adapted for air travelers
- A central and easily accessible station downtown
- Good connectivity with the metro, and finally
- High volume

The more winning conditions our project brings together, the more dollars will come from the private sector as part of a PPP.

On the other hand, we have always worked in partnership. It is clear that we need support from all levels of government to implement the infrastructure required for the shuttle. In addition, we have always sought the cooperation of other passenger train services to maximize the use of infrastructures. We have worked with the AMT and VIA Rail, and now we want to team up with all interested parties to develop the light rail approach, both for service to the airport and to the West Island.

We are all very excited by the flexibility that this approach offers. A light rail could run deep into the heart of the island where the highest concentrations of residents live.

Several routes have been studied and simulations performed. The route ending near Fairview is by far the most interesting because it would generate traffic of 40,000 passengers per weekday, not including 10,000 passengers from the airport.

As shown in the diagram on the screen, it would be possible to develop intermediate stations at strategic locations along the route such as, for example, at Des Sources, Dorval, Lachine (with feeder buses in each case), at St-Rémi (for serving the future CUSUM and the Southwest) and near the Georges-Vanier metro station.

The level of service would also be comparable to the metro. That is to say trains every 3 minutes during peak hours and 12 minutes in off-peak hours.

A light rapid-transit train has several other advantages. Apart from a fast and quality service for users, this approach would result in very significant environmental benefits. The light and 100% electric train would produce no greenhouse gases and would substantially reduce the number of cars on the road.

You will say to me: that's nice Mr. Cherry but is this going to cost more? To this I would reply that, given what we know now, a light rapid-transit train would not cost much more to build than constructing additional tracks within the existing CN and CP railway rights-of-way. Also, a light train would cost much less to operate, year after year.

It's very important to note as well that the entire project could be done through a PPP, with a smaller bill for the Government of Québec. This could set an example for other infrastructure public transit projects in Québec!

Moreover, thanks to a separate fee structure, the surplus generated by the shuttle would reduce the operating deficit of operating the commuter service, so this means a lower bill for municipalities as well.

In short, we believe that a light rapid-transit train represents an optimal solution for both ADM and for the West Island. So I invite all interested parties to consider this alternative with an open mind. It's certainly worth a thought!

Of course, if the Montréal community climbs on board this train, Aéroports de Montréal, which is currently at the controls, would be more than happy to give way to a limited partnership created specifically to carry out this project.

The future of ADM

In closing, let me say a word about the future of Aéroports de Montréal.

Over the past 20 years, we have accomplished a thing or two. Our track record speaks for itself. But the achievement that we are most proud of is to have assembled such a highly professional and competent team. In addition, we have developed innovative ways of doing things and we are recognized for our expertise in many areas.

Our ambition now is to become one of the world's best airport managers. We also intend to be recognized as an employer of choice.

Through our subsidiary, ADM Airport Services, we have also started to market our expertise in airport operations and development. We are still at the exploratory stage. But we are currently pursuing several exciting business opportunities, often in partnership with other companies.

While there is much competition, we think there is a future for us in this market, both here and abroad. Just in Canada, there will be airports to be built and operated in support of the development of the North.

We want first and foremost to provide development and advancement opportunities for our employees, in addition to generating additional revenues. I want to emphasize that our employees are very enthusiastic about this and that our professional white-collar workers have recently accepted major changes to their collective agreement to allow some to work on external mandates.

Of course, we will always stay focused on our primary mission, which is to provide quality airport services to the Montréal community. Rest assured that we will continue our efforts to keep our airports on the cutting edge and also be worthy of Montréal, the world's capital of aviation.

Thank you for your attention.

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