Outline of Presentation

The Canadian Air Cargo Industry
  • Not the same as the U.S.

Infrastructure Development at Canadian Airports
  • Funding
    • Recent Facilities Development

Industry Challenges
Similar in many ways … but fundamentally different in others
Canadian carrier services are limited

Few major Canadian players in air cargo

- Canada’s main carriers only offer belly space
  - AIR CANADA
  - WEST JET
  - Air Transat

- Only a few relatively significant freighter operators
  - Purolator
  - CARGOJET

- Smaller operators serving the north

<table>
<thead>
<tr>
<th>Fleet Size</th>
<th>Cargojet</th>
<th>Kelowna Flightcraft</th>
<th>First Air</th>
<th>Morningstar</th>
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<tr>
<td>Boeing 727</td>
<td>12</td>
<td>14</td>
<td>3</td>
<td>3</td>
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<tr>
<td>Boeing 737</td>
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<td>6</td>
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<td>smaller</td>
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<td>10</td>
<td>15</td>
<td>6</td>
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<tr>
<td>Total</td>
<td>12</td>
<td>24</td>
<td>24</td>
<td>9</td>
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</table>
Canadian carrier services are limited

Canada is thus reliant on foreign metal for main deck lift for international service

- Cargojet offers main deck space (e.g., wet lease operation with LOT, YHM-EWR-BDA service) but has small fleet

1 leased 757

2 leased 767
Air Cargo is much more concentrated

Canadian air cargo is focussed primarily on two airports, Toronto and Vancouver, although Hamilton and Winnipeg play important roles for domestic cargo
Airline competition is limited

- Regional Air Carrier policy
- Division of the World Policy
- Merger policy
- Blue Sky policy

Canadian policy is geared around interests of incumbent carriers – not shippers
Foreign carrier access is limited

Since “Blue Sky” Policy announced:

- Ireland, Iceland, New Zealand, Barbados, Dominican Republic, Costa Rica, South Korea, El Salvador, Switzerland, Trinidad & Tobago, Jamaica, Brazil, Honduras, Nicaragua, Curacao, Sint Maarten

- Japan, Portugal, Mexico, Philippines, Singapore, Croatia, Serbia, Algeria, Kuwait, Jordan, Turkey, South Africa, Panama, UAE, EU, Cuba, Tunisia, Ethiopia, Egypt, Algeria, China, Columbia

Canadian has not embraced open skies policy

Number of Open Skies Agreements

Source: IVC calculations based on U.S. and Canadian government press releases
Costs are Inflated through Fees and Taxes

The Canadian government views air transport as a cash cow – not as an economic generator

- Montréal would be $253M ahead
- Vancouver $357M ahead
- and Toronto $798M ahead

Source: IVC calculations
Summary of Key Features

Limited Canadian freighter presence internationally

Relatively restrictive foreign carrier access

Higher costs

Markets close to the US

Market leakage to U.S. airports
Part II : Air Cargo Infrastructure Developments at Canadian Airports
Funding is primarily the airport’s responsibility

Canadian airports are self-funding

- Airports must fund all capital projects through user charges, retained earnings and debt
- Small capital assistance program exists for regional/local airports
- Occasional ad hoc capital programs

- No equivalent to U.S. Airport and Airway Trust Fund
- No equivalent to FAA funding support
  - Any ANS improvements to be covered completely by user fees
- No equivalent to General Fund support for security costs
  - All security costs covered by user fees
Air Cargo Developments in Canada

Recent themes

- Pure air cargo plays
- Multimodal facilities
- Techstop/transshipment initiatives
- 3rd party common use facilities/Joint Ventures
Pure Air Cargo Developments

YYZ
  • Infield cargo $250M development

YHM
  • 60,000 square foot multi-tenant cargo facility
  • Over $9M spent by Purolator alone

YYC
  • 12,000 sq. ft. livestock facility

YHZ
  • 40,000 sq. ft. facility, incl. 7,000 sq. ft. climate controlled
  • Extended runway under construction
Multimodal Developments

Winnipeg – CenterPort

• new 20,000 acre inland port and Foreign Trade Zone (FTZ)
• Investment of $2.3M

Regina – Global Transportation Hub

• Phase 2 will be operational in 2012 with an additional 565,000 sq. ft.
• Fastfrate investment of $4M for 10-acre cross dock loading facility

Edmonton – Port Alberta

• 50,000 sq. ft. facility at $16M
Tech Stop / Transhipment Developments

Prince George

- Runway Expansion
- Fuel tanks (150,000 L capacity)

Gander
Globally, AMB Property Corporation is a major owner, operator and developer of industrial real estate, including airport cargo facilities.

Canadian example is IAT

- YVR, YYC, YEG, YXE, YWG

Recently, Gateway Facilities ULC set up in YHZ

Integrated carriers invest in their own facilities.
Part III:
Industry Challenges
Air Cargo Industry Challenges

**Strengths**
- Strong economy
- Growing trade with Asia
- Geographic position as gateway to NAFTA from Eurasia
- Increasing # of FTAs

**Weaknesses**
- Economy reliant on commodities and services
- High costs
- Restrictive policies that limit opportunities
- Low priority for cargo by Canadian carriers

**Opportunities**
- Gateway development
- FTZs
- Multimodal hubs
- Value added exports
- Airport privatization

**Threats**
- No change in government policy:
  - Air carrier access
  - Costs
  - FTZs
- Leakage to U.S. airports
- Increased reliance on commodities to drive the economy
Thank You!

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