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Ultra low-cost airline battle heats up as Canada Jetlines prepares to launch

The upstart airline's chief executive said WestJet's discount brand Swoop won't be able to match its low costs, which will allow prices to average at less than $100

By Ross Marowits

MONTREAL — The ultra low-cost airline battle is heating up as fledgling airline Canada Jetlines prepares to take on WestJet's efforts to regain its mantle as the country's low-cost leader.

The upstart airline's chief executive told an investor conference Tuesday that WestJet's discount brand Swoop won't be able to match its low costs, which will allow prices to average at less than $100.

"This country needs low fares. No doubt about it," Stan Gadek told the Scotiabank transportation and aerospace conference.

But he said WestJet's creation of a Swoop division just won't cut it.

"We all know that's going to be a temporary measure and then when the competition is wiped out, guess what, the airfares go right back up again. So who's kidding whom?"

Gadek said Canada Jetlines will minimize costs by outsourcing everything but pilots and flight attendants. Tickets will only be available on the internet, which dramatically cuts distribution costs.

That will enable the airline to fill its planes and make a profit on each departure.

By contrast, he said Swoop will be fighting internal resistance from people who are used to doing things a certain way, along with higher costs.

"There's one objective that Swoop has and that's to eliminate competition," he told analysts.

"It's not about bringing lower fares to Canada. It's not about creating more travel opportunities for Canadians. That's baloney."

He said Canada Jetlines is prepared for a fight with WestJet and is prepared to take it to task for uncompetitive actions, as WestJet did when it took on Air Canada in 1996.

WestJet countered that it will remain very aggressive in defending its market share.
"Our DNA is low-cost DNA and we're not going to let somebody else come in and take a chunk of the market without them having to fight us for it," CEO Gregg Saretsky told the conference.

He added that Canada hasn't historically supported more than the equivalent of 2.5 airlines.

Saretsky said the plans for three new startups including Flair Airlines and Canada Jetlines, along with Swoop and Air Canada Rouge, will make for a crowded market.

“With one ULCC already flying (Flair) and two seeking capitalization to start, that’s about two-and-a-half times more than the country can support.”

Saretsky added that WestJet won’t make Air Canada’s mistakes in launching Rouge in 2013 by ensuring passengers don’t get any nasty surprises.

Flights will be booked on a separate website, check-in will be at a separate Swoop airport counter and the uniforms will be a different colour.

Air Canada chief financial officer Michael Rousseau also told the conference that the country’s largest airline is watching the battle closely and is prepared to expand Rouge to compete, if required.

Gadek countered that there is enough demand in Canada to support 17 million passengers flying ultra low cost by 2023. That assumes a lower market penetration than has been achieved in Europe or the U.S.

He also said he has received interest from significant undisclosed airline investors outside Canada to get the airline flying on June 1.

The initial focus is foreign capital due to a lack of risk capital in Canada, while Europe and the United States have experience with the low-cost business model, he said.

The federal government has given the airline an exemption from foreign ownership rules that will allow it to have 49-per-cent foreign ownership with no single investor having more than a 25 per cent stake.

Canada Jetlines plans to start operations from Hamilton, Ont., and will add Abbotsford, B.C., in 2019 and hopes to fly out of Montreal down the road.

It will initially fly four Boeing 737s, adding four annually to reach 24 planes by 2023.