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Canadians can't afford to fly without an ultralow-cost airline

By Mark Morabito

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On a cold and snowy morning, a family of four from Ottawa starts their Florida vacation by driving an hour south to the airport in Ogdensburg, N.Y. Despite having an international airport in their home city, the family crosses the border to access more affordable flights for their week of sun and fun. On the other side of the country, in Vancouver, a young couple heads to the airport in Bellingham, Wash., to board a flight to California.

These are not rare occurrences. The Canadian Airports Council estimates that every year, more than five million Canadians are crossing into the United States just to access more affordable flights.

But what about the estimated 10 million passengers that aren't flying simply because of the prohibitive cost? These are grandparents who can't visit their grandchildren, parents who can't visit children working in another city, or simply Canadians who want to explore other parts of the country but find the costs so prohibitive given the duopoly of Canada's two legacy airlines. Right now, these Canadians simply don't have an affordable alternative to Canada's two main carriers – Air Canada and WestJet – who together control 92 per cent of the domestic industry. This duopoly has priced air travel out of the budgets for millions of Canadians.

Thankfully, there is some light at the end of the runway. In every other Group of Seven country, with the notable exception of Canada, the ultralow-cost carrier (ULCC) model has emerged to create more affordable and accessible air travel. This model reduces fares through lower operating costs. ULCCs traditionally focus on standardizing plane sizes and seating options, so everyone flies at the same class and cost. In contrast to the hub-and-spoke model used by traditional airlines, ULCCs use point-to-point flight patterns that often operate out of lower-cost airports that surround major cities, such as Abbotsford near Vancouver or Hamilton in the Greater Toronto Area. A ULCC also controls costs by selling tickets directly from the airline's website. Finally, all amenities and in-flight services are unbundled to give passengers a choice as to whether they want to purchase things such as food or checked baggage.

The ULCC model has taken off in other developed countries, including the United States and across Europe. The business model also makes money, which means it's sustainable. Last year, four of the most profitable airlines in the world were ULCCs, proving that it doesn't take high-ticket prices to be profitable.

Traditional airlines are taking notice of this competition and some have even tried to launch their own budget carriers, with limited success. In the United States, United Airlines launched Ted, which operated from 2003 to 2009; Delta created Song, which flew from 2003-06; and Continental's Lite lasted from 1993-95. Back home, Air Canada's Zip was a blip on the company's corporate history, operating only from 2002-03. WestJet recently

announced its own plans to establish a ULCC within its network, but prospects seem uncertain, especially after announcing a delay in its launch.

Other airlines have failed because they aren't true to the ULCC model. They can't keep costs under control, or offer prices as low as those of ULCCs. Whether it's pressure from pilot unions, the challenge of operating a multilane fleet through a traditional hub and spoke model, or brand confusion, history shows that "airlines within airlines" don't work.

Travel website Kiwi.com recently reported that Canada ranks 65th out of 80 countries when it comes to affordable air travel. Meantime, WestJet and Air Canada are reporting record or near-record earnings. If Canadians are to finally get more affordable air travel, it clearly isn't coming from the duopoly.

This is why Transport Minister Marc Garneau, in a speech delivered last November, announced plans for an exemption for two ULCCs to raise the foreign-ownership limit for airline carriers from 25 per cent to 49 per cent. The underlying message was that the airline industry – especially Canadian consumers – would benefit from increased competition and lower fares.

There is no better time to give Canada its first ULCC and start repatriating those flights back from U.S. airports, while also giving Canadians families an affordable alternative.