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The Ingredients of a Genuine ULCC for Canada

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There have been a lot of headlines lately about ultra-low cost carriers (ULCCs) finally coming to Canada.

As the only G7 country without one and with Canadians paying some of the highest airfares in the world, this enthusiasm is understandable. However, the question remains whether we have yet to see a genuine ULCC enter the Canadian marketplace.

In one case, we may be witnessing a wolf in sheep's clothing with a legacy Canadian airline cynically establishing a cross-subsidized competition killer to hamper the emergence of a true ULCC. This development becomes more evident when you take a broad look at the ingredients that have made ULCCs work worldwide.

Since their emergence twenty years ago, ULCCs have moved from the periphery to become significant players in the airline industry. In 2016, according to *Airline Weekly*, three of the world's top four most profitable carriers were ULCCs. These no-frills airlines have been so successful, both commercially and for investors, because they have followed a specific business model.

At its core, this model is about delivering quality air travel at a low price in a way that also keeps costs down so that the business is profitable and sustainable. The key measure to track is the operating cost per available seat mile. Known as CASM, this industry standard identifies how much an airline spends to fly an individual passenger.

Canada's two major airlines, which control over 90 per cent of the market, have relatively high metrics with Air Canada reporting 16.4 cents per passenger in the first quarter of 2018 and WestJet reporting 14.15 cents during the same period. By comparison, ULCCs, such as Europe's Ryanair and US-based Spirit, have recently reported CASMs as low as 7.52 cents and 7.72 cents respectively.

What separates these lower cost airlines from legacy carriers are a few key ingredients, which also provide a litmus test for assessing Canada's emerging ULCC landscape: flying one type of efficient aircraft; offering one class of unbundled fares; taking off from lower-cost airports; committing to cost discipline throughout all operations; and reducing labour costs.

With respect to the new ULCCs coming to Canada, including WestJet's Swoop and Flair Air, the focus on secondary airports has been a priority. It is not a coincidence that Hamilton's John C. Munro International Airport was Canada's fastest-growing airport by passenger volume in 2017. On the west coast, Abbotsford's International Airport is currently undergoing a major expansion to accommodate ULCCs as it expects to hit one million passengers a year by 2020.

Where there are deviations from the ULCC model are the types of aircraft employed and the ability to reduce operating costs.

Both Swoop and Flair have unionized pilots and crews that have made it difficult for them to keep costs down. WestJet's failed attempt to launch its no-frills little brother with non-unionized pilots is another sign that the ULCC model does not work when you have an airline within airline. It is not a surprise that when Canadians go online to compare fares between WestJet and Swoop, the difference is often less than $85 per ticket—hardly representing a significant change in the Canadian marketplace and raising serious questions about WestJet's intentions.

Meanwhile, Flair faces a double challenge. On the one hand, it is operating an ageing fleet, including 737s that are older than a quarter century, which have trouble staying in service. On the other, its unionized flight attendants and pilots have threatened the company with the same uncertainty that looms over WestJet.

For Canadians looking for affordable airfare, there is still some light at the end of the runway. Vancouver-based Jetlines has been working to lineup the right ingredients for a successful ULCC.

We have finalized our leasing agreement for A320s, which are the most used aircraft by ULCCs worldwide, and were previously flown by Air New Zealand, which consistently ranks as one of the world's top airlines for aviation safety. We have established partnerships with airports in Abbotsford, Hamilton and Halifax, which serve large populations but at as low as 20 per cent of the costs of flying out of Toronto's Pearson International Airport or the Vancouver International Airport. We have also recruited a new CEO, Lukas Johnson, who helped Allegiant Air increase its annual revenue per plane increased by over 30 per cent.

Although we recognize we may not be the first ULCC off the tarmac, Jetlines will be the first genuine ULCC that will finally bring affordable airfare to Canadians over the long haul.