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OPINION

Unfair pricing aims to stop new airlines from competing and lowering Canadian airfares

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By Mark Morabito

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Canada's air travel industry is a mess, with 87 per cent of the domestic market controlled by two carriers and Canadians enduring some of the highest airfares in the world. We actually fly less and see less of our own country compared with citizens of other countries precisely because it's so expensive. We deserve a better system and, believe it or not, Canada's Competition Bureau is working to make sure we get it.

The bureau is investigating whether Swoop, the WestJet-owned discount carrier, used "predatory pricing" to undercut new entrant Flair Airlines. Flair alleges it was forced to stop flying its Edmonton-Hamilton route after Swoop sold tickets for $69, a price that includes taxes and airport fees, or $28.59 without those extra costs.

Under Canada's competition laws, predatory pricing occurs when an incumbent with market power sets its prices below avoidable costs (meaning costs that could have been avoided had the airline chosen not to offer the service). There is an important distinction between price cuts that reflect a firm's genuine efforts to enhance value or performance to better serve customers, and predatory pricing to drive out the competition. The former is healthy competition; the latter is a violation of Canada's competition laws.

It is ultimately up to the Competition Tribunal and courts to decide whether WestJet has engaged in predatory pricing or not. But common sense dictates that WestJet's steep discounts on routes where it competes with Flair hardly equates to "healthy competition." It is WestJet's attempt to eliminate the competition. WestJet executive VP Bob Cummings said as much in a Financial Post article published on Sept. 27, 2017.

"Looking at the market characteristics, population, land mass and what a network would look like in Canada," he said, "we believe there's really only room for one major ULCC (ultra low-cost carrier) in Canada going forward, and WestJet is best suited to be that ULCC."

A month later, Ed Sims, who is now the CEO of WestJet, seemed to reassert WestJet's intent when interviewed for an article published in the Aviation Tribune.

"Sims made it clear that Swoop is intended to deter ultra low-fare carriers, like Spirit and Frontier from the United States, from poaching Canadian customers, as well as battling Canadian airlines seeking to emulate the American ultra low-fare model," wrote aviation journalist Paul Tooher, who interviewed Sims. "Swoop is a fighting brand," Sims was quoted saying in the article.

A "fighting brand" is a term that describes a new brand priced very low made available for a limited time period in specific market areas in order to combat competition from other (usually smaller) companies. Companies introduce "fighting brands" to avoid lowering the prices charged for their established brands, which could prove to be costly for reasons such as the established brands being priced uniformly across a wide number of markets.

It is within the Competition Bureau's mandate to protect Canadians from what appears to be WestJet's thinly veiled attempt to shield its legacy airline from vigorous price competition through its "fighting brand," Swoop. Even a casual spectator of the airline market can see the below-cost fares offered by Swoop are intended to drive existing low-cost carriers out of the Canadian market, while preventing new ones from entering.

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Today's price wars may result in lower fares initially. However, if the smaller competitors are driven from the market, how long will it take for fares to increase to the detriment of Canadian consumers?

Canada's airline industry is highly concentrated and the cost of air travel is disproportionately high compared with other western countries. Even Australia, which has a smaller population than Canada, has more options for travellers and lower prices. However, the airline industry in Canada is on the brink of change. Flair entered the market in 2017, and Jetlines, Canada's newest ULCC (I am executive chairman), is poised to enter the market later this year.

The entrance of new low-cost carriers has the potential to dramatically reduce airfares for Canadians on a long-term, sustainable basis. It is thus more important than ever for the Competition Bureau to guard against abusive conduct by dominant firms, to ensure healthy competition in the Canadian airline industry for Canadian consumers.

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