

## New budget airlines to keep WestJet, Air Canada on their toes

Cheap new competition is 'very good for consumers,' transportation expert says

By Sheena Goodyear, [CBC News](#) Posted: Jan 18, 2016 5:00 AM ET Last Updated: Jan 18, 2016 3:57 PM ET

*[UPDATE: As of 3:30 p.m. ET Monday, NewLeaf Travel is "temporarily postponing" sales of tickets for flights originally scheduled to start running on Feb. 12., pending a Canadian Transportation Agency (CTA) review of licensing regulations for Indirect Air Service Providers.*

*NewLeaf, rather than applying for a carrier licence, has partnered with the already licenced B.C.-based charter airline Flaire, which has agreed to provide planes, crew and maintenance. The CTA is deciding whether companies who bulk purchase all seats on planes and resell those seats to the public should be required to hold a licence.*

*NewLeaf says it aims to start selling tickets again by the spring.]*

NewLeaf Travel and other discount airlines are shaking up Canada's air travel industry, and that's good news for all passengers, analysts say.

NewLeaf, which bills itself as an "ultra low-cost airline," had announced it would [start Flying between seven "underserved" Canadian cities on Feb. 12](#) with tickets as cheap as \$79.

Icelandic carrier WOW Air will [begin offering \\$99 flights to Iceland and \\$149 flights to European destinations](#) from Toronto and Montreal in May.

Two other budget airlines — Jetlines and Jet Naked — are also hoping to get off the ground this year.

- [Expert says NewLeaf charges for bags, boarding pass](#)
- [Low-cost airlines may offer greener way to travel](#)
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This proliferation of cheap flights has the potential to rattle an industry long dominated by Air Canada and WestJet, two companies that have developed a "cozy relationship" with similar prices and fees, says transportation economist Barry Prentice.

"The mere fact that we do have somebody coming in means that the airlines do have to recognize there is a credible threat there, and I think that's very good for consumers," Prentice, a professor at the University of Manitoba's Asper School of Business, told CBC News.

## Price war

WestJet [has already responded by lowering its ticket prices](#) to undercut NewLeaf on many competing routes.

"We will vigorously defend our low fare leadership position in the market. Our success over the past 20 years demonstrates that Canadians love our unique combination of low fares and remarkable guest experience," WestJet spokeswoman Lauren Stewart said in an email.

Air Canada hasn't said yet whether it will follow suit, but spokesman Peter Fitzpatrick told CBC News: "We welcome competition and offer competitive pricing in every market we serve."

The new low-cost carriers in Canada are copying the business models of successful budget airlines south of the border by offering cheap introductory fares and charging extra for things like printing a ticket, bringing aboard a carry-on or checking luggage.

"By unbundling the entire service, you get to choose what you want," NewLeaf CEO Jim Young said when he announced the airline's routes. "Ultra low-cost carriers are some of the most financially successful airlines in the world today."

## Tickets are selling

It's too early to say whether Canadians will embrace this model, but they seem to be taking interest.

WOW spokeswoman Svana Fridriksdottir said its sales in Canada have been "a great success." She wouldn't give specific numbers, but says they've surpassed the booking rates of WOW's U.S. offerings, which had a load factor of 85 per cent throughout 2015.

Air travellers in Winnipeg, where NewTravel will be based, [told CBC News they're eager to check it out](#).

Vancouver-based Jetlines and Calgary-based Jet Naked haven't started selling tickets yet, but both hope to begin operations this year — Jetlines within six months, and Jet Naked by spring.

Still, Prentice doesn't think these newcomers pose a serious threat to Canada's established airlines. Both Air Canada and Westjet have posted soaring profits and announced international expansions in recent months.

Through its subsidiary Rouge, Air Canada [added a slew of sun international destinations](#) in recent months, including Barbados, Nassau and Hawaii.

In 2016, Air Canada will add flights to [Prague, Glasgow, Casablanca, Budapest, Warsaw](#) and [more than a dozen U.S. cities](#). WestJet is also expanding, and has added flights to [Hawaii](#), while both airlines have added flights to [Gatwick Airport near London](#).

- [Air Canada profit soars on lower jet fuel costs](#)
- [Westjet profit soars 19% as jet fuel costs plummet](#)
- [WestJet to cross Atlantic Ocean, eyes further expansion](#)
- [Air Canada, WestJet add flights to Gatwick](#)

NewLeaf, meanwhile, has only four planes flying between seven cities, none of which are major travel hubs.

"The more flights you have, the more places you go, the more attractive you are as an airline, which is why there's real benefit to being bigger," Prentice said.

## Where others have failed

NewLeaf and its counterparts aren't the first to launch discount airlines in Canada. JetsGo, Canada

3000, Greyhound Air, Zoom Airlines all came and went.

Still, Prentice said these new airlines could succeed where others have failed.

"Fuel prices are low, which helps. And with the low Canadian dollar we may well see more people having staycations within Canada," he said, so they might be interested in low-priced domestic trips.

- [NewLeaf Travel takes flight amid Canada's turbulent airline history](#)
- [Loonie troubles turn foreign getaways into Canadian staycations](#)

Others are less optimistic.

Transportation analysis firm Raymond James described NewLeaf's entrance to the market as a "rather inauspicious opportunity with history stacking the odds against its long-term success."

In a research note to investors, Edward Gudewill and Ben Cherniavsky of Raymond James questioned the wisdom of opening a new airline amid a turbulent economy with a [weak loonie and slumping oil prices](#).

"To the unemployed, it doesn't matter how low fares are," they wrote.

They also took issue with NewLeaf's winter launch and travel destinations.

"Launching a domestic-only operation in the middle of February seems like a tenuous proposition. Presumably cash will be very tight for a startup operation like this, which means it could be financially vulnerable for the first three months until seasonal demand picks up in Canada," they wrote.

"And as far as the strategy of flying to small, secondary markets is concerned, we remind investors that these are 'small' and 'secondary' for a reason."

Nevertheless, they predict savings across the board for travellers.

"Regardless of New Leaf's long-term success, a new entrant into the market will at the very least mess with the incumbents' pricing power, which has already been under considerable pressure."

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