Tango has given Air Canada the flexibility to respond to market conditions, says Milton, as aircraft can be reconfigured overnight, according to market requirements. He brushes aside comparisons with similar co-branding failures in the USA, such as Continental Lite, Delta Express, Metrojet and Shuttle By United. “Other operations were established before internet ticket booking and distribution became a cost-effective way of marketing.”

Air Canada has also established Zip, a separately certificated, low-fare subsidiary. Based in Calgary, rival WestJet’s backyard, Zip took flight in June of last year and operates 50 mostly short-haul daily flights to 10 Canadian destinations. The airline’s fleet of 13 737-200s could increase to as much as 20, Milton says.

Niche growth

On the international side, Milton says Air Canada’s new lower-cost structure is stimulating growth into niches that would have previously been economically prohibitive. The new daily non-stop Toronto-Delhi service, operating with an A340 and starting next month, will be the first and only non-stop service between North America and India. Capacity is also being rebuilt on transpacific routes, which suffered during the SARS scare.

Air Canada’s only serious domestic rival is Calgary-based WestJet. According to chairman and chief executive Clive Beddoe, WestJet now claims a 25-27% share of Canada’s domestic revenue passenger kilometres. The airline, which started in 1996 with just three 737-200s and 220 employees, now provides coast-to-coast service in Canada, flying an all-737 fleet of 42 aircraft and employing 3,500 staff. WestJet now flies charters into the USA, mainly to Las Vegas and other leisure destinations.

As Beddoe explains, the airline based its business plan on that of successful Southwest Airlines in the USA. “We took the Southwest model and adapted it to the Canadian market,” he says. “Southwest operates high-frequency services within many markets but, in Canada, there isn’t the population to justify high frequencies in most places. The real challenge was to operate an airline with a low cost structure in lower density markets.”

Beddoe adds that the company’s decision to operate a single fleet type, specifically the 737 family – as is the case with Southwest – has been a key component of WestJet’s success. The fleet is composed of 21 737-200s, and 21 New Generation 737-700s. “With the addition of the 737-700, we have an aircraft family that is equally adaptable to short- and long-haul markets,” he says.

All 21 737-200s will be gone by 2008, with the 737-700 as the replacement model – for now. “When the fleet was planned, we considered the 737-600 for some markets, and our contract with Boeing permits us to substitute the -600 for any of the -700s on order,” Beddoe says. “We are also considering the 737-800, but no final decisions have been made on either the -600 or -800.”

WestJet was also the launch customer for the Aviation Partners 737 blended winglet modification, which will be applied to all of the carrier’s 737-700s, out of the factory and through retrofits. The modification is expected to result in a 4-5% fuel burn improvement, depending on stage length.

Beddoe says that, while the present pricing environment has had an impact on WestJet, the carrier’s costs have continued to decline, especially as the new, more fuel-efficient 737-700s have entered the fleet. “They are providing an offset to a good portion of the revenue erosion resulting from the aggressive price-cutting practices in the Canadian air travel market today,” he says.

Low-cost challenge

WestJet’s current cost per available seat kilometre is about C8 (€5). Beddoe reports that, without the burden of Canada’s heavy fuel taxes, those costs could be further reduced.

“In Canada, fuel taxes are about 30% higher than in the USA,” he says. “Disallow that, and we would be at USc7.5 per available seat mile [€4.6/km] for a 630nm [1,170km] stage length – which is about our average. Fuel represents about 20% of our costs. Still, as new aircraft are delivered, we will continue to focus on cost reduction.”

Although it is a lower-cost carrier, WestJet is being challenged in some markets by Tango, and recent start-up Zip. Beddoe does not seem especially worried. “Tango is gradually shrinking, and we see it as much less significant than it was a year ago. We are, however, waiting to see what will happen with Zip Air, which we believe was established solely to undermine us, especially in the eastern part of the country,” says Beddoe.

Unlike Air Canada, WestJet experienced minimal impact from the SARS outbreak in Toronto, since most of its flights to the Toronto area use Hamilton airport, to which it has 24 daily flights. WestJet has served Toronto Pearson International since 2002, but with just seven daily flights.

Halifax-based CanJet, which was started in June 2002 by Canada’s IMP Group, operates six 120-seat 737-200 Advanced aircraft on a route system that is heavily centred on Canada’s Atlantic provinces. Serving seven Canadian destinations, CanJet also flies a seasonal service to Florida’s St Petersburg-Clearwater International Airport from Halifax.

Julie Gossen, the company’s executive vice-president and chief operating officer, says CanJet was established as an alternative to the high-fare environment that