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Earnings

Upcoming Q1 announcements

Wednesday:	Delta
Apr. 18:	United
April 20:	Hawaiian
April 25:	Allegiant
April 26:	Alaska
April 27:	Aeroméxico
	Lufthansa
	Southwest
	Norwegian
	Icelandair
April 28:	Finnair
	Spirit
May 2:	WestJet
May 4:	Air France/KLM
May 5:	IAG
	Air Canada
May 10:	Gol
May 16:	easyJet
May 25:	Wizz Air
May 30:	Ryanair

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Montréal's Moment

How do you say "traffic boom" in French? Go to Québec to find out.

Toronto is Canada's biggest city. Calgary is its fastest growing—yes, even today, despite the oil bust. Vancouver has the deepest links with the dynamic Asia-Pacific region. But when it comes to air traffic, none will grow quite like Montréal this summer.

For the combined second and third quarters, Montréal's seat capacity will be up more than 9% y/y, according to Diio Mi schedule data. That's a bit ahead of Vancouver's growth of just less than 9%, well ahead of Toronto's 6% growth and in stark contrast to Calgary's mere 1% growth.

Montréal, in fact, has become one of the fastest growing airports in all North America, in the same league with technology hotspots like San Jose and Austin, as well as LCC battlegrounds like Fort Lauderdale and Cleve-

land. This will surely mean another year of traffic growth for the French-Canadian city, which would be its eighth straight. In 2016, it welcomed a record 17m passengers, up 7% from 2015 levels and cementing its status as Canada's third busiest airport (behind Toronto with 44m passengers last year, and Vancouver with 22m).

See also:
• Top airlines in Montréal, p. 12

It's not, to be clear, economic growth that's driving this surge. There has been some, with a hot real estate market driving an uptick in business activity, for example. Inbound tourism to Montréal, more importantly for the airport, got a boost when Canada's currency started to decline in tandem with the commodity bust. And sure enough, the 375-year-old city is one of the country's top tourist attractions, as well as one of its least

dependent on the energy sector. Put another way, its airline sector benefits a lot more from a cheap oil/weak loonie scenario than, say, Calgary or Edmonton.

But again, it's not economic robustness that's driving Montréal's airline traffic boom. Québec's largest city is hardly an economic dynamo. It has been Canada's slowest growing major city during the past decade, in terms of both economic output and population. Many of its companies have moved their headquarters to other Canadian cities, most famously the Bank of Montréal itself—yes, even it is based in Toronto. Québec, the province to which Montréal belongs, nearly seceded from Canada in the mid-1990s, creating uncertainty for businesses. Tellingly, the most

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Pushing Back: Inside This Issue

It's time to wish everyone an earnings season's greetings. This week, Delta debuts the latest round of airline financial reporting, unveiling its results for the off-peak first quarter.

It's of course not so off-peak anymore for U.S. carriers, and sure enough, Delta expects another double-digit operating margin. But with fuel prices off their extreme lows, a new pilot contract in place and unit revenues recovering at a slower pace than expected, Delta's performance was well short of its monumentally strong showing a year earlier. On a separate note, the airline's sterling reputation for operational dependability was dented a bit last week as it struggled to recover from bad weather in Atlanta.

These days, Delta's tentacles stretch far beyond Atlanta, reach-

ing all the way to São Paulo, for example. It's there that with Delta's help, Gol is now on the mend, expecting to report good first quarter results next month. Key to its recovery: a stronger Brazilian real and heavy capacity cutting.

There's no capacity cutting in California. On the contrary, the state's booming economy is now theater for an escalating battle between Alaska and Southwest, both adding new routes and new flights. JetBlue, of course, has its own California ambitions, punc-

tured but not extinguished by Alaska's victory in the bidding war for Virgin America. JetBlue is now offering its premium Mint product on more transcon routes, including New York and Boston flights to San Diego.

You won't find anything quite like Mint on Ryanair. But the once-frill-free LCC is indeed migrating to higher-value offerings. The latest example: connecting itineraries.

Norwegian is connecting London with two more U.S. cities. And Argentina is on its radar. ○

“ Verbulence

The U.K. is KLM's single most important market out of the Netherlands. In three years' time, we have increased the number of seats to the U.K. by 20%.... This is proof of our commitment to the U.K. and our faith in the further development of this market.

—KLM CEO Pieter Elbers, speaking at the Aviation Club U.K. ”

Montréal's Moment: How do you say "traffic boom" in French? Go to Québec to find out.

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powerful symbol of Montréal's post-1960s struggles might be Mirabel, the large international airport built north of the city in the 1970s. It proved so inconvenient for travelers and airlines that it closed to all passenger traffic in 1997.

That decision enabled airlines to concentrate all their flights at the current airport (formerly known as Dorval but now called Trudeau after the father of the current Canadian prime minister). This concentration was a prerequisite for facilitating Air Canada's current sixth-freedom traffic strategy, which is every bit as active in Montréal as it is in Toronto and Vancouver. The airline's low-cost Rouge unit, meanwhile, is likewise every bit as active in Montréal as it is in Toronto and Vancouver. And therein lies the main catalyst for Montréal's surge.

Since 2013, Air Canada and Rouge have internationalized Montréal's airport with Dubai-like zeal, adding or announcing Casablanca, Algiers, Tel Aviv, Barcelona, Venice, Nice, Marseilles, Lyon, Reykjavik, Mexico City and San Salvador. Air Canada was offered precious slots at Shanghai's Pudong Airport but only if it agreed to open a route that didn't currently have service. So it chose Montréal, launching flights in February. The airline also added—and continues to add—more and more U.S. cities to its Montréal network, contributing to the airport's growth and providing valuable traffic feed for all the new overseas routes. The latest U.S. move is a resumption of service, suspended in 2012, to Washington Dulles.

Air Canada's expansion isn't the end of the story, though. Also in February, WestJet announced a major Québécois offensive featuring Montréal nonstops to Halifax (launched last month), Québec City (starting in June) and Boston (starting in October). All three are Encore routes, operated with Q400s built by Bombardier, a company incidentally based in Montréal. Not stopping there, WestJet's mainline operation will double its weekly frequencies from Montréal to Vancouver, while increasing

Montréal flights to Calgary too. This marks a break with WestJet's history of largely neglecting Montréal, where it operated fewer flights last summer than it did from even Halifax and Ottawa, which are both far smaller markets overall.

WestJet has offered travelers in French Canada a handful of holiday options to a few destinations in Florida and the Caribbean. But most of its service to Québec, until now, has existed mainly for the benefit of its customer base elsewhere—in other words, people from Calgary, Toronto, Vancouver, Winnipeg and Edmonton who needed to get there. Canada's major LCC flies to just eight cities from Montréal, compared to more than 50 from Toronto.

Why the neglect?

In part because of the province's economic shortcomings, but also because much of Montréal's appeal is its outsized punch in intercontinental markets, supported by a heavy immigrant population and links to fellow French-speaking countries around the world. WestJet is only just now dipping its toe into intercontinental markets. Domestically, by contrast, Montréal punches below its weight, with surprisingly limited air links to the west of the country. In 2016, Montréal offered more international flights than Vancouver, but not even two-thirds the number of domestic flights.

Montréal also happens to be Air Canada's home city. And nearly as importantly for WestJet and other would-be rivals, it's also the home city of Air Transat. It too is partaking in the Montréal expansion boom, planning to grow Q3 seat capacity from the city a scorching 19% y/y. This includes some new domestic flights—to Vancouver and Ottawa, for example—to generate more connecting feed for its expanded offering to Europe. It's adding seats to France, opening a new route to Porto in Portugal and launching its longest-ever route, to Tel Aviv. Air Canada, by the way, promptly reacted with Montréal-Tel Aviv flights of its own, in another manifestation of its focused attack on Transat's transatlantic and southern sunshine markets. One strength Transat has, however, is a large travel agency network throughout Québec, providing an important distribution channel for leisure travel that WestJet in particular lacks. Even with the growing prevalence of online, direct distribution, and of people making air-only bookings, the vertically-integrated tour operator model has proved resilient. Transat is one example of this. So is TUI, a giant in Europe's airline market but also the 49% owner of Sunwing, a major player in the Canada-Caribbean/Florida market. And yes, Sunwing too is growing from Montréal this year.

As for foreign carriers, Montréal has its fair share, including some from Europe, like Air

France, KLM, Lufthansa, Swiss, British Airways and TUI's Corsair. Icelandair and Wow Air are recent entrants, suggesting Montréal's potential as a market for the emerging transatlantic LCC phenomenon. In 2015, Air China launched flights from Beijing to Montréal. This followed newly-launched service by Turkish Airlines and Qatar Airways. Other recent entrants include Copa, Aeromexico and Tunisair.

The U.S. Big Three naturally serve Montréal too. No other U.S. carrier does (just as no other U.S. carrier serves Toronto), although Spirit and Allegiant do, in a sense—not from Montréal itself but from Plattsburgh, N.Y., on the U.S. side of the border, just as they serve other Canadian population centers from airports south of the border. This worked especially well when the Canadian dollar was strong versus the U.S. dollar, if less so now that it's weak. Nevertheless, the differential in airport costs is enough to result in cheaper offerings from Plattsburgh. High airport costs, as Canadian airlines are always pointing out, are in fact a major de-stimulant to air travel throughout the country. Airfares are indeed rather high in Canada as a result.

This cost reality, meanwhile, will likely influence the outcome of a budding experiment with big implications for airline markets like Montréal. Can the ultra-LCC business model work in Canada? NewLeaf is the first to try, and its early troubles aren't encouraging. A startup called Jetlines hopes to launch soon from Vancouver. And the airline investor Indigo Partners is talking to a charter carrier called Enerjet about launching an ultra-LCC, provisionally called FlyToo. But Canada's airline history books are littered with failed airlines with names like Jetsgo, Skyservice, Canada 3000, Roots Air, Canjet, Harmony Airways, Zoom, Zip and Tango, the last two started by Air Canada.

Montréal will also be watching to see what new aircraft like the hometown CSeries will mean for its future air links. The A321-NEO LR is another plane with potentially big implications for Montréal, especially if Air Transat ever decides to buy it. WestJet might one day fly longhaul from Montréal. So might some other foreign airlines like Norwegian or Aer Lingus. On the other hand, this will be Air Canada's last year of rapid growth as its fleet stabilizes and as Rouge—assuming no changes to the airline's pilot agreement—nears its capacity limits.

Montréal has long been an important city for aviation, home not just to Air Canada and Bombardier but also ICAO and much of IATA's administration. But finally, Montréal is becoming more significant in the most fundamental way of all: as one of the world's fastest growing markets for passenger traffic. ○

Montréal's Top Airlines

Ranked by seats scheduled for the 12 months to June
(Source: Diio Mi)

