AIRLINE weekly®

INDEPENDENT WORLDWIDE COVERAGE

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Earnings

Net result in USD; operating margin in %

October-December 2017 (3 months)

Turkish Airlines:	-$40m; -1%
Pegasus:	$2m/-$23m*; -8%
Gol:	$20m/$95m; 13%
Azul:	$93m/$46m*; 14%

*net excluding special items (operating margins are all excluding special items)

The Radical and The Reluctant

As WestJet goes for sweeping change, Southwest takes a more cautious approach

A decade ago, in 2008, Southwest and WestJet announced they would soon begin codesharing. The world's first giant low-cost carrier would be teaming up with its newer, smaller and even more profitable counterpart north of the border. In a few ways, such as its seatback satellite TV, WestJet was more JetBlue than Southwest. But broadly speaking, Southwest and WestJet were a lot more alike than they were different. In addition to an open mind about partnering with other airlines, the two shared all-B737 fleets, reputations for friendly service and a sizeable corporate travel following in their respective countries.

Alas, the deal never amounted to more than mutual website referrals. In 2010, days after WestJet's now-departed CEO Gregg Saretsky took the reins, the two airlines called it off entirely. (Southwest said WestJet tried to change the terms midstream; WestJet had seemed impatient with Southwest's inability to execute IT upgrades.)

Looking back, that split also served as a symbolic divergence in the paths of the two airlines. WestJet, for one thing, has since added countless partners from around the world, culminating with its pending Delta joint venture. Southwest? It hasn't added a single codeshare, other than a temporary transitional arrangement with AirTran after acquiring it.

But for Southwest and WestJet, their diverging paths on partnerships only begin to capture the ways in which the two carriers no longer resemble each other. Then again, in some key ways, WestJet also doesn't resemble *itself* as it existed a few years ago. Indeed, WestJet today is one of the world's most strategically aggressive airlines, whereas Southwest is one of the world's most strategically conservative.

Is one approach better than the other? And if so, which one is prevailing? The answer isn't obvious in an industry where innovation doesn't always equate to profits—where doing nothing can be better than doing the wrong thing.

After falling out with Southwest, WestJet soon began codesharing with American and then Delta, two of what today are 16 codeshare partners and 27 other interline partners. Those are big numbers, but they're not terribly surprising for an airline with a major presence in the key global gateways Toronto, Vancouver and Montréal, where the only other major airline (Air Canada) partners mostly with its

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Pushing Back: Inside This Issue

The bull is back in Istanbul. Exceedingly bearish during 2016 and the first quarter of 2017, Turkey's airline market sprang back to life after April, enabling Turkish Airlines to make lots of money during the summer peak and keep losses relatively modest in Q4. The ambitious carrier also turned things around with aggressive cost cutting, booming cargo revenues and much slower capacity growth.

Like its rival Pegasus, though, Turkish remains subject to big seasonal demand swings that inhibit its ability to reach double-digit full-year operating margins. Perhaps moving to Istanbul's new airport in October will help. So too might the new widebodies it's buying.

Widebodies are now part of WestJet's future, as are ultra-low-cost operations. But that future is threatened by escalating labor strife, a likely reason behind CEO Gregg Saretsky's abrupt resignation last week. His replacement, Ed Sims, will seek to mend fences with unions.

As Ryanair mends fences with its own unions, the LCC is suddenly adopting a more committed policy toward reducing carbon emissions. Its London colleagues British Airways and Virgin Atlantic, meanwhile, are adopting new ways of profiting from premium economy and economy demand.

Demand in the U.S. is suddenly growing most voraciously in smallish cities across the nation, driven by ultra-LCCs adding new flights, and by United and American seeking more small-city traffic feed for their mega-hubs.

Some mega-airlines still haven't reported their Q4 results, including Lufthansa, LATAM and Cathay Pacific, which all go this week.❍

“ Verbulence

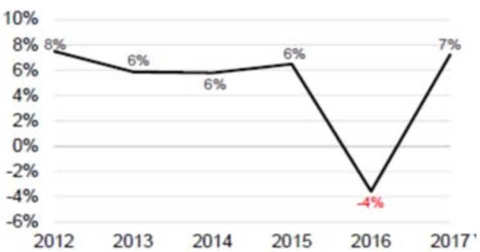
We don't target anybody. We don't run from anybody.

—Spirit Airlines CEO Bob Fornaro, speaking in Orlando at a Raymond James event ”

After a dreadful 2016, **Turkish Airlines** is back. In 2017, foreign visitor arrivals to Turkey rebounded sharply from a series of political and security shocks, rising 28% from depressed levels a year earlier. The country's airports, meanwhile, welcomed a record 138m passengers, after declining 8% to 122m in 2016. This gave the economy a big boost too, further helping Turkish Airlines mend its wounds. More quietly, the airline slashed costs during the downturn, a factor at least as influential as the demand recovery in helping Turkish produce extremely strong profits during its Q3 summer peak. During Q4, an off-peak period, results turned red: Net loss was $40m, and operating margin was negative 1%. But that's nothing unusual for Turkish even in good times. What mattered was that the negative 1% figure marked a significant y/y improvement. The even larger point is that Turkish returned to profitability for all of 2017, earning a solid 7% operating margin, compared to negative 4% in 2016. This 7% is more or less consistent with what it earned between 2012 and 2015 (see graph). Returning to just the fourth quarter, revenues rose 24% y/y on just 6% more ASK capacity, reflecting a recovery in both load factors and yields. Importantly, revenue strength also came from the airline's cargo business, which grew a stunning 39% and now accounts for 12% of total revenues. As for operating costs, the increase was 20%, swelled by higher fuel costs and the repayment of wage concessions promised on the condition that annual profits exceeded $100m, which they did. Turkish also fully or partly owns profitable businesses handling aircraft fueling, maintenance, catering, seat manufacturing and ground handling. It also shares ownership—with **Lufthansa**—of the leisure carrier **Sun Express**, which earned a $55m net profit (good for a 4% net margin) for all of 2017. In addition to leisure flights under its own brand, Sun Express wet-leases planes to **Eurowings** and **Anadolujet**, the latter a low-cost carrier wholly owned by Turkish Airlines. Anadolujet, with bases at Istanbul's Gökçen airport and Ankara, grew ASKs 12% last year and now flies 37 B737-800s. Back at the core mainline passenger business, unit revenues rose by double digits in all international geographies. The recovery comes just in time for the opening of Istanbul's giant new airport, scheduled for October. Already the city is a major global transit hub, serving big markets like Europe-Asia as well as profitable niche markets like Africa, central Asia and Israel. Turkish isn't expanding nearly as quickly as it once was. As recently as 2013, it grew ASKs 21%. Last year it grew just 2%, and this year it plans growth of 5% to 6%, facilitated by newly-arriving B737-MAX 8s and A321-NEOs. MAX 9s are due next year and B787-9s and A350-900s in subsequent years (see page five). By 2023, Turkish aims to have 450 to 500 planes, up from 329 at the start of this year. Encouraged by what it's hearing from European tour operators with respect to forward bookings for Turkey, Turkish sees its revenues increasing from $11.0b in 2017 to $11.8b this year. It foresees a 3% to 5% increase in non-fuel unit costs. This year will see some new routes like Samarkand in Uzbekistan launching later this month and Mexico City sometime later this year. Last month, Turkish began serving Sierra Leone in west Africa. Last July, Phuket in Thailand became its 300th destination. Naturally, Turkish is benefiting from developments in the

Back in Black

Turkish Airlines operating margins 2012 through 2017 (Source: *Airline Weekly* analysis of company reports)



Middle East, including Gulf carrier cutbacks and the rise in demand linked to higher oil prices. Healthier economies in Europe, the U.S. and Asia are boosting connecting demand through Istanbul, with sixth-freedom traffic (international-to-international connections) accounting for about one in every three passengers flying Turkish Airlines.

Pegasus Airlines, based at Istanbul's Gökçen airport on the Asian side of the city, similarly benefited from Turkey's recovering tourist sector. Its Q4 losses were rather steep: Net loss ex special items was $23m and operating margin negative 8%. But Pegasus experiences even more extreme seasonality than **Turkish Airlines**, and as such enjoyed an even stronger summer peak. In the end, it also did slightly better than Turkish for the full year, posting an 8% operating margin. In Q4 of 2016, Pegasus suffered a devastating negative 24% operating margin, which makes this year's negative 8% look quite good. Unlike Turkish, Pegasus reports in Turkish lira, which depreciated a lot y/y. So although in U.S. dollar terms, Q4 revenues rose by about 20%, the reported increase was 40% (although Pegasus generates just 40% of its revenues in lira). More importantly, in whatever currency, costs rose more slowly, in lira terms just 23%, and only that much due to higher fuel prices. ASK capacity for the quarter rose 6%. To manage the downturn, Pegasus sold, deferred and wet-leased airplanes, shifted planes to non-tourist markets like Ankara, renegotiated supplier contracts, retooled its revenue management practices and generally cut costs. Now that demand is healthy again, it's dynamically pricing ancillary revenues (which account for about a quarter of total revenues), upgrading its IT, increasing aircraft utilization, introducing flexible fares for business travelers and planning to take advantage of a second runway at Gökçen airport next year. This year it plans to grow ASKs 11% to 13%, taking 10 new planes to end 2018 with 81. It's already flying A320-NEOs; A321-NEOs are due to arrive next year. Last year, Pegasus added 12 destinations, half of them in Turkey and most of the rest in Russia, once again a big source of tourism to places like Antalya.

Without much domestic tourism, Brazilian carriers depend heavily on business travel, something true for even low-cost carriers. Unfortunately, the Brazilian economic downturn was more prolonged and more severe than the one afflicting Turkey, with few signs yet of a durable recovery—GDP in 2017 grew a mere 1%. But at least it's not contracting anymore, providing some lift to airline demand. According to ANAC, the country's civil aviation regulator, Brazilian airlines carried 99m passengers in 2017, a 3% rise from 2016. The domestic market was split among just four carriers, led by **Gol**'s 36% traffic share. But did Gol make money in 2017? Yes. The LCC in fact produced strong results thanks to reforms it undertook while on the brink of bankruptcy two years ago. Its operating margin last year was 10%, up from 7% in 2016 and negative 2% in 2015. Indeed, 2017 was its best year by far since 2010. And now it believes it can reach 11% this year and 13% in 2019. Gol's improving fortunes despite the lack of economic momentum stem from aggressive capacity cutting and fleet restructuring, a deep partnership with its shareholder **Delta**, profits from its high-margin Smiles loyalty plan, a network revamp that increased exposure to leisure markets, growing ancillary revenues including bag fees and investments in amenities for domestic business travelers. Having a privileged grip on slots at key airports also helps. Gol's momentum continued during Q4, when net profit ex items reached $95m, joined by a 13% operating margin. This was a bit better than its result in the same period a year ago, excluding last year's special items related to fleet restructuring. Revenues were up 12% y/y and operating costs up 11%, all on 4% more ASK capacity. Labor costs fell 10%, but fuel costs rose 21%. Gol is now densifying B737-800s from 177 seats to 186. In July it will receive its first of 120 B737-MAX 8s, which will not only lower unit costs but also enable new Florida nonstops—starting in November—from Brasilia and Fortaleza. Speaking of Fortaleza, Gol is amplifying its presence there in conjunction with new **KLM** and **Air France Joon** flights. Overall capacity will remain restrained, rising just 1% to 3% this year before elevating to more like 5% to 10% in 2019. Growth domestically, however, will be close to zero for both years, implying more international expansion to come. Management admits, though, that international routes tend to be less profitable than domestic ones. All eyes now turn to Brazil's presidential election in October, which could have a profound impact on the direction of the economy.

Also in Brazil, **Azul** had an excellent Q4, beating **Gol** in operating margin terms by about a point. Its 14% operating margin coincided with a $46m net profit ex items, as revenues grew 21% y/y but operating costs rose just 14%. Azul is expanding capacity more aggressively, with Q4 ASKs growing by 10%. Fuel and labor expenses each increased by more than 20%, but other aspects of Azul's cost base are becoming more efficient with the introduction of larger planes (mostly A320-NEOs) and longer journeys (including more flights to Florida and Portugal). For all of 2017, Azul posted an 11% operating margin, up from just 5% in 2016. Although Gol did say corporate demand was recovering, Azul's comments were decidedly more bullish, describing a robust bounceback supported by an environment of relatively low interest rates and inflation. In the current quarter, too, business travel demand appears to be picking up right where it left off before the Carnival period, during which travel is more leisure oriented. Azul's growing success contains a number of ingredients, including the A320-NEOs it's getting. In addition, it earns strong returns from its 9m-member loyalty plan, which it fully controls (**LATAM**, Gol and **Avianca** all sold parts of their loyalty plans). Ancillaries (including cargo and tour packages) account for 14% of total revenues. Also important: partnerships with **JetBlue**, **United** and **TAP Portugal**, which help feed its flights to Florida and Lisbon. It now owns 41% of TAP after converting bonds to equity. It's separately eyeing a joint venture with United now that Brazil's Senate approved an open skies treaty (see page six). Another partner is China's troubled **HNA Group**, a major Azul shareholder. Note too that Azul founder David Neeleman recently joined HNA in buying a piece of France's **Aigle Azur**. This year, Azul is planning 17% to 20% ASK growth, although only 3% to 4% growth in departures—most of the expansion comes from larger planes and more longhaul flying, including a second daily frequency to Lisbon. It more importantly expects operating margin for 2018 to be between 11% and 13%, which doesn't factor in any potential gains from a new cargo partnership with Brazil's postal service. Azul says airline rivals are behaving rationally. It wants to accelerate A320-NEO deliveries while also awaiting 33 E2 E190s. Finally, the airline aims to boost annual operating margins by one or two points every year for the next few years.

Who We Are and How to Reach Us

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Editorial inquiries
Jay Shabat, Publisher
jayshabat@airlineweekly.com

Media inquiries
Seth Kaplan, Managing Partner
skaplan@airlineweekly.com

Subscriptions and advertising
Jason Cottrell, Marketing Manager
jcottrell@airlineweekly.com

AIRLINE weekly

+1 954 524 8855 • airlineweekly.com

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Airline Finance

- At a Raymond James conference in Orlando, **Spirit** outlined its battle plan for a more competitive world than it inhabited pre-2015. That's when big rivals like **American** and **United** began aggressively matching its prices, putting pressure on Spirit's once industry-leading profit margins. In the two years since, the ultra-LCC has sharply expanded its presence in America's two largest leisure and convention markets: Orlando and Las Vegas. It has pushed into some smaller markets too while building its base of outbound demand in the country's largest metro areas, including Chicago, Dallas-Fort Worth and Los Angeles. It has more recently entered Newark and Seattle. This year, as it maintains 23% ASM growth, targets include several new U.S. cities like Richmond and Columbus, more southbound international flying from its expanded gate portfolio in Fort Lauderdale and new transcontinental routes like Tampa-Los Angeles and Fort Lauderdale-Seattle. Canada is an opportunity, but airport costs often make it hard to "make the math work." Schedules, meanwhile, are becoming more fine-tuned by season. And more than 25% of routes now have more than two flights a day, versus more like 7% to 8% three years ago. Network and schedule changes, however, account for just part of how Spirit is coping with a more competitive pricing environment. It's also further growing ancillary revenues, which are already about half of total revenues, an astoundingly high portion. It says it's nearing a partnership that will enable it to provide and make money from inflight Wi-Fi. It's making it easier to book and buy extras. It's keen on improving the overall passenger experience, with efforts like putting staff through Disney-provided service training and building mobile self-service tools. But can it continue to maintain its cost advantage over rivals? It says yes, even with an expensive new pilot contract, which does contain some changes to help management run a smoother operation. Executives say its cost advantage, in fact, should grow thanks to capacity growth and scale. But to grow ASMs more than 10% in 2019, Spirit needs to acquire additional planes. And to hit its goal of growing in the low-to-mid-teens beyond 2019, it will need to place a big new aircraft order.
- Orlando and Las Vegas happen to be **Allegiant**'s two largest markets, and Florida in general has never been more critical to its fortunes. As it explained at the Raymond James event, March is its busiest month of the year, and Q1 its busiest quarter, owing to its outsized exposure to sun break states like Florida, Nevada and Arizona. Like **Spirit**, Allegiant has seen its margins decline in the past two years, but less because of competitive pricing dynamics—roughly 80% of its routes still have no direct nonstop competition. Operations have been problematic, and labor costs have soared. Also costly: a transition from an all-MD-80 fleet to—by the end of this year—an all A319/20 fleet. Many other aspects of Allegiant's business haven't changed. It still has a variable-heavy cost base, a closed distribution model (no GDS or OTA selling), heavy reliance on ancillaries and a highly-varied schedule by season and day of week—it flies its planes roughly half as much during summers as during the peak month of March. Also, about half of its markets have just two weekly flights. Most unusually, Allegiant—frustrated at the lack of hotel inventory it can sell to passengers during peak periods—is building its own condo/hotel between Fort Myers and Sarasota along Florida's Gulf coast. The airline itself will grow ASMs in the low teens this year, subject to change based on aircraft deals it can secure around the world—it was recently in the market for bargain-priced A320s used by **Air Berlin** and **Alitalia**.

The Backend

Sales, Distribution, Tourism & Corporate Travel

- At an all-day event for investors in its home city Dallas-Fort Worth, Sabre stressed not only its mere *relevance* in the evolving world of next-generation airline distribution, but what it considers its *indispensability*. Even mighty Google, Sabre said, while active in helping travelers search for flights, likely won't have an appetite for the complexities of travel fulfillment, covering all the operational details associated with the journey, including obscure tasks like enabling two airline partners to interline. As airline retailing becomes more dynamic and complicated, it explains, the industry's need for the kind of technology Sabre provides becomes ever more crucial. With IATA's NDC push, more specifically, Sabre says airlines will only realize its value with solutions that Sabre can devise and implement—NDC, remember, is designed to enhance the airline industry's ability to sell more effectively through travel agencies, which still overwhelmingly depend on GDS intermediaries like Sabre for their own fulfillment. Complexities also stem from airlines adopting changes at different speeds, and from agencies having to manage both traditional and NDC-style distribution side by side for surely many years to come. One aspect of NDC that will make life more complicated for airlines: its potential to upend revenue management as it's currently practiced—no longer will standardized published fares be a reliable basis of what travelers are actually paying. Sabre is also developing business intelligence tools based on the massive amounts of travel data it processes. Its popular SabreSonic reservation system will see improvements—testing is now underway to let airport staff check in passengers with mobile devices so they don't have to stay behind desks. Appearing as a guest speaker at the Sabre event was the chief revenue officer of **Aeroméxico**, a major Sabre customer that just deepened its partnership. Sabre, incidentally, while losing some big res system contracts to Amadeus in North America and Asia (i.e., **Air Canada** and **Japan Airlines**), remains a powerhouse in Latin America, where it won the **LATAM Brazil** business from Amadeus. In Europe, meanwhile, Sabre said the aggressive direct distribution strategies of **Lufthansa**, **IAG** and **Air France/KLM** are exceptions rather than the rule, owing to particular circumstances in their home markets. The broadest message of all from Sabre's presentation was the massiveness of the global travel sector, and how it continues to grow at rates above GDP expansion.
- In an interview with *Business Travel News*, IATA's NDC director Yanik Hoyles speaks of a "huge acceleration" in momentum for NDC adoption in just the past six months. And echoing what Sabre believes, he said that "for NDC to be successful, the GDSs need to be a part of it, simply because they have a huge reach to travel agents." Corporate travel buyers and travel management companies seem to show growing support for the initiative too. Hoyles says 53 airlines are currently certified for NDC transactions, of which about a dozen have actual commercial strategies to advance the practice.
- Back at Sabre, **Interjet** joined its rival **Aeroméxico** in signing a full-content agreement for distribution within the Sabre GDS. Compared to its rivals **Volaris** and **VivaAerobus**, Interjet takes a more **JetBlue**-like approach to low-cost flying, with two fleet types and many amenities.
- The now publicly-traded Despegar announced its Q4 results. The company, a top online travel retailer in Latin America, generated $66m from selling airline tickets during the quarter (up 12% y/y) and $241m for the full year (up 17%). Despegar's largest markets are Brazil, Argentina and Mexico, earning its airline ticket booking revenue from customer fees, GDS incentives and airline commissions.

Fleet Sheet

Aircraft Markets

- Although its vast narrowbody reach from Istanbul underpins much of its success, **Turkish Airlines** has a vibrant business to East Asia, the Americas and southern Africa too, regions requiring widebodies. So it's ordering both A350-900s and B787-9s, finalizing deals for 25 of each, with an additional five options for each. Turkish (as of the start of this year) flies an 87-strong passenger widebody fleet consisting of 32 B777-300ERs, four A340-300s, 31 A330-300s and 20 A330-200s.
- As expected, **Hawaiian Airlines** reached an understanding with Boeing to buy 10 B787-9s, plus purchase rights for another 10. That means it no longer wants its A330-800 NEOs, which no other airline has ordered. It also dashes any Airbus hopes that Hawaiian might have taken A350s as its A330 alternative. Hawaiian is separately selling some used B767-300ERs to **United**.
- Expect some big aircraft orders from India. Bloomberg reports that **IndiGo**—on the cusp of expanding intercontinentally—wants as many as 50 A330-NEOs. This would help dry any Airbus tears related to **Hawaiian**'s lost order. **Jet Airways**, meanwhile, seems on the verge of a big order, likely for B737-MAXs. IndiGo, remember, is interested in buying **Air India**. But so too now is **Jet Airways**, according to an *Economic Times* report this past weekend.
- Airbus, Boeing and Bombardier are fighting for a mega-narrowbody order from **Air Arabia**, Bloomberg reports. The LCC wants about 100 MAX, NEO or CSeries planes as its business fundamentals improve with higher oil prices in the Gulf and recovering tourism in North Africa. Air Arabia will take its first A321-NEO LRs next year.
- Not that this is going to surprise anyone, but **Virgin Atlantic** officially canceled its order for six A380s, first placed in 2001—that's almost two decades ago. At the time, Virgin founder Richard Branson, the consummate salesman, spoke of equipping the giant jets with casinos, bars, gyms, massage areas, beauty parlors and bedrooms. To that, consultant Michael Boyd (speaking to the *USA Today*) asked at the time: "Does Branson want the Playboy mansion with wings, or an airline?" In any case, Virgin really did plan to get its first plane in 2008, only to defer deliveries repeatedly. It became abundantly clear that it didn't want them when it ordered (in 2016) 12 A350-1000s, the first of which should arrive next year. Virgin, by the way, according to the *Sunday Express*, will soon restart flights to Australia, a market it exited four years ago. Flights will operate from London via either Los Angeles or Hong Kong.
- **Lufthansa** tells Reuters it's looking at A321-NEO LRs but with some reservations—the planes can't reach the U.S. east coast from Germany. Its enthusiasm for Boeing's potential new B797 is clear. But it's not interested in obtaining any more A380s. (**British Airways** suggested it might want some more ultra-jumbos but only at greatly discounted prices.)
- What's **Bamboo Airways**? Nothing yet—just a prospective Vietnamese startup serious enough to sign a memorandum of understanding with Airbus for 24 A321-NEOs. Deliveries would start in 2022. Bamboo's backer, a conglomerate called the FLC Group, spoke last year of potentially acquiring B737-MAXs and even B777-Xs, hinting at its longhaul ambitions. Today, the fast-growing Vietnamese market has just two major players: 1) **Vietnam Airlines** and its low-cost **Jetstar Pacific** unit, and 2) the LCC **VietJet**, apparently with longhaul ambitions of its own. *FlightGlobal*, in fact, recently reported that VietJet is evaluating an order for either B787s, A330-NEOs or A350s, with a decision expected by the end of this year.
- This month, **LOT Polish**, an early B787-8 operator, will get its first of three B787-9s, according to the Polish business news website WNP. They'll likely deploy to Chicago and New York JFK initially, based on statements the airline made last year.
- What's new at Embraer? The hottest topic of discussion is its flirtation with Boeing, which is more than just rumor. In its Q4 earnings call, Embraer said it's engaged with the Brazilian government and others "to find a structure that works for all stakeholders." In the meantime, Embraer is preparing to deliver its first next-generation E-Jet, an E190 E2 , to Norway's **Widerøe** next month. This comes after recently delivering its 1,400th E-Jet overall to **American**. The U.S. remains Embraer's largest E-Jet market, owing to the peculiarities of the market's labor relations, leading to lots of small-jet outsourcing. But for the E2 program to succeed in the U.S., pilots there will need to relax their scope clauses, which place limits on how much outsourcing an airline can do, and specifically the size of the aircraft permitted to be outsourced. In the case of Embraer's E175 E2—the favorite E-Jet of the U.S. Big Three, because it's typically the biggest they're allowed to use for outsourced flying—the issue is its maximum takeoff weight, which exceeds current U.S. carrier scope limits. Prior-generation E175s are lighter.
- Fly Leasing, in its latest earnings call, spoke about its recent deal to buy **AirAsia**'s leasing arm, which entails 55 A320-CEOs and NEOs. The deal gives Fly an option to take 20 future NEO deliveries too. AirAsia, to be sure, will still operate the planes. Fly separately said industry conditions were good, with strong passenger growth and airline profitability, readily available financing for planes and an eagerness among many carriers to add to their fleets.

JetGreen

Environment, Conservation & Fuel

- Has **Ryanair** CEO Michael O'Leary had an epiphany on climate change? Perhaps his favorite glacier has melted? Did he buy a condo in Miami? Maybe he shared a taxi with a polar bear, who softened his heart? It's anyone's guess. But after years of disparaging climate change concerns as "rubbish," "nonsense" and "horseshit," O'Leary's name—in a Ryanair document released last week—appeared under the words "…aviation must play its role in addressing climate change; and Ryanair … is committed to leading the way." Regardless of whether O'Leary is personally having a moment of clarity, his airline last week laid out its environmental policy, which included an impressive carbon target. Ryanair aims to reduce its per-passenger-kilometer carbon footprint by another 8% by 2030. While 8% over 12 years certainly isn't breathtaking, consider that Ryanair is already arguably the most carbon-efficient airline in Europe. Furthermore, if the carrier reaches this goal, it will have reduced its per-passenger-kilometer emissions by a whopping 66% since 2000.
- The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) appears to have cleared another potential sticking point. The European Commission is so far accepting the set of standards and practices crafted by the International Civil Aviation Organization (ICAO). However, the E.U. also appears to be attempting to keep ICAO on a short leash. In a letter relaying to ICAO the acceptance of the rules package, the commission said that although "not completely satisfied," its endorsement comes "in the interest of reaching and maintaining agreement." In addition, the commission recommends adoption of the proposal "without further amendment." Any further changes that would weaken the environmental effectiveness of CORSIA would be "strongly opposed." Whether CORSIA would be stringent enough to appease the E.U. government has been a major concern. For the moment, it appears it narrowly meets E.U. expectations.

AirBuzz

Marketing, Price, Promotions & Alliances

- **British Airways** unveiled changes to its longhaul leisure product from London Gatwick. World Traveler Plus (premium economy) and World Traveler (economy) will get a revamp, with larger IFE screens, inflight power, better lighting and so on. But the economy section will be densified with 12 extra seats by moving to a 10-across configuration on BA's 10 Gatwick-based B777s. Many airlines now go 10 rather than nine across on their B777s, including BA's partner **American**, as well as **Emirates**, **Air France** and most recently **Cathay Pacific**. Others like **Delta**, **Singapore Airlines** and **All Nippon** still offer a roomier nine-across. BA's B777s at Gatwick will also see fewer seats in Club World (business class). But the airline is promising Wi-Fi on all of its planes, everywhere in its network, by two years from now. Gatwick leisure longhaul flying, by the way, has proved an unanticipated growth engine for BA during the past few years, helping to lift the carrier's overall Gatwick traffic some 40% since 2012. It now serves 74 cities from the airport, up from 48 then. Of the 74, 22 are longhaul destinations, many of them in the Caribbean. Others like Fort Lauderdale seem designed solely to make life tough for **Norwegian**.

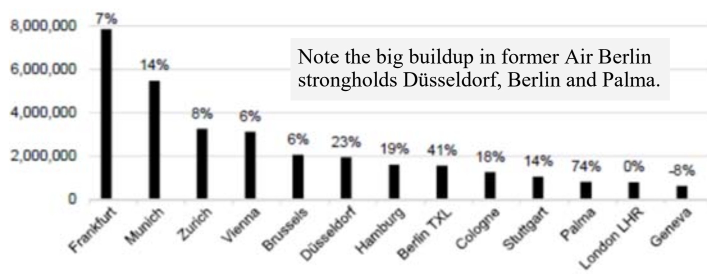
- **British Airways**, remember, now offers basic economy fares on its transatlantic flights. So too, now, does its archrival **Virgin Atlantic**, part-owned by **Delta** and **Air France/KLM**. Starting in the spring, Virgin will offer three economy class options: "Economy Delight" (with extra legroom—yes, Virgin is changing its cabins a bit too), "Economy Classic" and "Economy Light," which are akin to Delta's Comfort Plus, Main Cabin and Basic Economy products, respectively. Slightly confusing, by the way, is the fact that even as Virgin adds an extra-legroom section in back of its premium economy cabin, Delta itself doesn't offer its extra-legroom Comfort Plus product on planes where it has its true premium economy cabin—it's either one or the other on any given flight. Virgin too, remember, has a large longhaul leisure business from London Gatwick, exposing it to **Norwegian**'s expansion and BA's densification.

- The long arm of **Delta** stretches in all directions, including south toward Mexico. There, **Aeroméxico** too has a new set of fare options closely aligned with those of Delta. For domestic, U.S. and Canada flights, Mexico's largest airline will now offer six fare options: Basic, Classic, Flexible, AM Plus, Comfort, and Premier.

- It took a while, but the Brazilian senate finally approved an open skies deal with the U.S., which removes a barrier to forming joint ventures. That's good news for **American** and **LATAM**, which announced a JV in 2016. **Azul** will step up talks with **United**. And **Delta**, if it chooses, could try to do something more with **Gol**.

Lufthansa's Busiest Airports

Ranked by seats scheduled for Q2; y/y growth above bars (source: Diio Mi)
Includes mainline, Eurowings, Swiss, Austrian, Brussels Airlines



State of the Unions

Workforce Developments

- In a surprise announcement, **WestJet**'s CEO Gregg Saretsky, at the helm since 2010, said he's resigning with immediate effect. His predecessor Sean Durfy similarly resigned unexpectedly and abruptly. Now the job goes to Ed Sims, a former **Air New Zealand** executive who came to run WestJet's commercial team less than a year ago. As discussed in this week's cover story, Saretsky was nothing if not strategically bold, launching the LCC into intercontinental markets and devising a new ultra low-cost carrier called **Swoop**. His resignation comes despite solid financial performance, but amid mounting labor tensions. Swoop, in fact, is a major point of contention with ALPA, the union representing WestJet's mainline and regional pilots. In a victory for ALPA last week, Canada's government agreed that the company was violating labor codes by negotiating directly with employees rather than via the union—management is hiring non-union pilots for Swoop. Saretsky was unusually public with his negotiating stance, noting threateningly in the carrier's Q4 earnings call: "There are hundreds of Canadian pilots flying in the Middle East and in China, many of whom would love the opportunity to come and fly at home." It's not just Swoop though. ALPA is growing frustrated with stalled contract talks, which could lead to a strike as early as May. It claims to still be far apart with management on many issues. Separately, WestJet gave an update on Q1 developments, saying RASM should increase 2.5% to 3.5% y/y. This is down from previous expectations of a 4.5% to 5.5% rise. It attributed part of its more pessimistic outlook to 25 days of weather-related irregular operations in January and February. Among other things, reaccommodations from the disruption limited the airline's ability to capture high-yield revenue from last-minute bookings.
- Back on Feb. 22, a coalition of **Air France** unions ordered a one-day work stoppage that grounded about a quarter of the airline's flights and about half of its longhaul flights. Some 22% of Air France workers participated, costing the company about $30m. Well, the dispute—over wages—remains unresolved. So the unions are threatening an encore on March 23. They point to **Air France/KLM**'s $1.7b in operating profits last year as justification for their wage demands. Management, in response, says yeah, but **IAG** earned $3.5b—and it's a smaller airline. In addition, the KLM side of the business produced a disproportionate share of the group's profits.
- **Ryanair** agreed to recognize the Italian Air Pilots Association, also known as ANPAC. In December, the LCC made a major policy shift by agreeing to negotiate directly with labor unions. Italy, it said, is home to about a fifth of all Ryanair pilots, flying about 80 of its 400-plus planes. Another quarter of its pilots fly from the U.K., where management recognized the BALPA union in January.
- **Allegiant**'s mechanics voted to unionize with the Teamsters union, which also represents the airline's pilots. Flight attendants are unionized too, in their case with the Transport Workers Union (TWU). Allegiant's mechanics are mostly based in Las Vegas and Orlando Sanford.
- **Allegiant**'s pilots signed a new collective bargaining agreement that took effect in mid-2016. **Spirit**'s pilots just finalized a new pilot deal earlier this month. Pilots at **Alaska** and **Hawaiian** got new contracts last year. The Big Three and Southwest all have pilot contracts that won't become amendable until next year or the year after (see chart at right). This leaves **JetBlue** and **Frontier**, both of which are negotiating new contracts with the ALPA union. In Frontier's case, pilots are picketing to protest what they call "the last airline in America with a bankruptcy contract." The union also claims that without a new contract, the company will experience trouble recruiting new pilots to fly all the A320-family NEOs it ordered.
- **United** is rethinking a new incentive plan that generated employee outrage plus a lot of unwanted mainstream media coverage. The old plan pays quarterly bonuses to all eligible employees when the carrier hits certain operational targets. The new plan was to award bigger prizes—but only to winners of random drawings. Turns out employees already know where to buy lottery tickets and prefer the smaller but certain payments. So management is sticking with the old plan while it comes up with a better replacement.

The Landing Strip

Airport Developments

- Shanghai's aviation momentum slowed a bit last year. But not much. Pudong and Hongqiao airports handled about 70m and 42m passengers, respectively, to reach 112m combined, up 5% y/y—Pudong's growth rate was 6%, Hongqiao's 4%. Pudong also happens to be the world's third busiest cargo airport after Hong Kong and Memphis. Next year, Pudong will open a new terminal, and there are also plans for a fifth runway. There's even talk of building an all-new airport. There's no shortage of milestones marking China's rise to economic powerhouse, and one came in *2016* when Shanghai Pudong became one of the world's 10 busiest airports, leapfrogging Paris Charles de Gaulle, Dallas-Fort Worth, Istanbul Ataturk and Frankfurt Main. That year, the city also crossed the rarified 100m mark for passenger traffic. The only other global cities currently with more than 100m annual airline passengers are London, New York, Tokyo, Atlanta, Chicago, Los Angeles and Paris.
- A new terminal at Guangzhou's airport is more than just talk. Next month, a big one will open, with capacity to handle 45m passengers annually within the next few years—and 100m in the long run, after further expansions. Hometown carrier **China Southern**, along with its subsidiary **Xiamen Airlines**, will use the new facility. Guangzhou also plans additional runways next decade as it competes against Shenzhen and Hong Kong for Peral River Delta traffic.
- **American** established a website to air its complaints about Chicago's plan to expand and revamp O'Hare airport. It's upset about a "last-minute deal" between the city and **United**, which would give the airline five additional preferential-use gates that were supposed to be part of a common-use pool for all airlines. The extra gates, American says, could enable United to add as many as 45 additional flights per day. United says the deal has been in place for two years, ever since American got the go-ahead to build itself five extra gates. Both airlines operate hubs at O'Hare, although United has a larger presence.
- Chicago's ambitious plans for O'Hare, by the way, make it harder to argue America isn't investing in its aviation infrastructure. New York LaGuardia is undergoing a complete makeover, with plans for a JFK revamp also in the works. Los Angeles LAX is working on a new midfield concourse. Other big projects are underway in Atlanta, Newark, Seattle, Salt Lake City, Orlando, New Orleans and Honolulu, among other cities. In some cases, airlines themselves are directly funding the investment. In other cases, they'll pay indirectly in the form of higher airport fees. All major airports in the U.S. are run by government or quasi-governmental entities, not private companies, as is prevalent in Europe and elsewhere.

The State of U.S. Pilot Pacts

- Frontier still flying with bankruptcy-era contract
- JetBlue seeks first deal since pilots unionized
- United's contract amendable in less than a year

(Source: company reports)

Airline	Amendable date
United	January 2019
American	January 2020
Delta	January 2020
Alaska/Virgin	April 2020
Southwest	September 2020
Allegiant	August 2021
Hawaiian	July 2022
Spirit	March 2023
JetBlue	Already open
Frontier	Already open

Who's Flying Where

- **Qatar Airways** always makes a splash at the ITB travel show in Berlin, and this year's event was no exception. The Gulf carrier, while admitting it suffered a "very large loss" in its fiscal year that ends this month, announced plans to serve 16 new destinations. 16? Yeah, although this does include some cities previously announced but not yet launched. And judging from past ITB route announcements, some launches never wind up happening: Qatar is still not in San Francisco or Las Vegas, for example. In any case, the 16 cities include Cardiff, Mykonos, Thessaloniki and Hatay (all already in the schedule). Along with Hatay are two other Turkish destinations: Bodrum and Antalya. There's a clear interest in ASEAN leisure spots, namely Cebu, Davao, Langkawi and Danang. The European leisure spots Lisbon, Málaga, Tallinn and Valletta (in Malta) are on the list. That leaves two, both in Europe: Luxembourg and London Gatwick, the latter an airport it served before exiting in 2012. The Gatwick flights are a sure thing, with double-daily B787 flights starting in May, supported by Qatar's joint venture with **British Airways**, a JV which is incidentally is expanding to cover more routes. BA will also start sending its own B787-9s to Doha.
- Faced with its own losses of gargantuan magnitude, Abu Dhabi's **Etihad** is taking a different approach, contracting rather than expanding. It did launch new service to Baku last week, but this was just its first new city since adding Morocco's capital Rabat in 2016. (It tried Venice and Istanbul SAW but pulled out.) According to some reports, Etihad has parked or sold 16 planes, including some cargo-only widebodies.
- In its latest schedule update, **Southwest** unveiled some new nonstops. In October, America's largest domestic airline by passengers will link Houston Hobby to Columbus and Louisville every day. Denver-Memphis is another new daily offering. On Sundays only, Southwest will connect Oklahoma City with Nashville and Denver with El Paso. Phoenix will see frequencies increase on some key routes. And last week, the LCC began flying from Fort Lauderdale to Aruba, its tenth international destination.
- Last week also marked the start of new **JetBlue** flights to New York JFK, Fort Lauderdale and Atlanta from **Delta**'s fortress hub Atlanta. A year ago, JetBlue began flying to Boston from Georgia's capital.
- It really was a busy week for route launches, and not just in the U.S. **Ethiopian Airlines** began flying all the way to Buenos Aires, via São Paulo with B787s. That gives it two destinations in South America to go along with its four in North America (Newark, Washington, Los Angeles and Toronto). A fifth, Chicago, opens in June.
- **Air India** says it's ready to go with new flights to Tel Aviv, which Israel says is made possible by Saudi Arabia's willingness to allow the Indian carrier to fly through its airspace. Israel's **El Al** flies to Mumbai but takes a circuitous routing that avoids flying over hostile countries like Saudi Arabia, the U.A.E., Pakistan, Afghanistan and especially Iran, currently Israel's most implacable geopolitical foe. Israel and India, by contrast, are becoming closer allies, fostering more commerce that should generate more air traffic.
- Remember all those new routes **Alaska Airlines** added from California. Well, quite a few of them aren't working out. As the *Puget Sound Business Journal* reports, the Seattle-based carrier has exited 12 California routes since its takeover of San Francisco-based **Virgin America**. Eight of these were routes that Alaska or Virgin were already flying before the takeover (i.e., San Francisco-Mexico City). The other four were routes added after the deal, namely San Diego-Mexico City, San Francisco-Minneapolis, Orange County-Reno and Los Angeles-Havana. There's a lot of airline demand these days in booming California. But there's also a lot of supply.
- With political relations between the U.S. and Russia as bad as they've been since the Cold War, **Delta** does not see enough demand to merit restarting flights to Moscow this summer. It previously flew to Russia's capital, where it hooked up with SkyTeam partner **Aeroflot**, all year round, for a time from both New York JFK and Atlanta. It more recently operated only JFK flights and only during the summer peak. Now, no U.S. carrier will have a presence in the world's ninth largest country by population. Then again, no U.S. carrier flies to Indonesia, Pakistan or Bangladesh either—these countries also rank among the top 10 by population.
- New York-area **Delta** fliers upset by lost access to Russia have a fallback option for their next vacation: The carrier's regional unit **Endeavour** will start LaGuardia flights to Chattanooga, Tennessee, this summer. On the other hand, like Moscow, Dayton will no longer be on Delta's New York menu of nonstops—flights end this month. Elsewhere, Delta will begin flying to Cleveland from its Salt Lake City hub using mainline A319s.
- Its longhaul expansion understandably gets all the attention. But **Norwegian** has a new shorthaul route starting next month. The LCC will fly twice weekly from Gothenburg in Sweden to the Czech capital Prague. Rival **SAS**, for its part, will fly from Stockholm to Rhodes this summer. It also, incidentally, is running a couple of round-trips to Austin, Texas, to facilitate hops to the city's annual South by Southwest festival, now underway.
- **American** already flies to Mexico City from Dallas-Fort Worth, Los Angeles, Phoenix, Miami and Charlotte, but not Philadelphia. That will change this summer though, when A319 flights begin.
- **Ryanair** is rolling out winter schedules for its many bases across Europe. From the main airport in Brussels (BRU), the LCC will launch new routes to Amman and Marrakech. Charleroi outside Brussels gets a new nonstop to Malta. Germany gets 22 new routes, five of them from Düsseldorf, four from Memmingen near Munich, three each from Berlin SXF, Hamburg and Baden Baden and two each from Frankfurt FRA and Nuremburg.
- Now almost four-years old, the French airline **La Compagnie** is switching airports. Starting next month, it will use Paris Orly, not Charles de Gaulle. The airline oddly flies just one route—Newark-Paris—with B757s featuring 74 lie-flat business class seats. It says 60% of its passengers originate in the U.S., and 25% are repeat customers. It now works closely with **XL Airways** and will next year replace B757s with A321-NEOs.
- **Allegiant** is going to Nashville. The Tennessee state capital, long a **Southwest** stronghold, will get nonstop flights to Myrtle Beach, Richmond, Savannah, Punta Gorda and Destin. The Las Vegas-based airline announced a few other routes too, including Denver-Asheville, Syracuse-Orlando Sanford, Memphis-Oakland, Denver-Bellingham, Flint-Fort Lauderdale and Richmond to both Jacksonville and Orlando Sanford.
- **Sun Country** has some new routes for summer sojourners. The Minneapolis-based carrier, becoming more of an ultra-LCC and a bit less Minneapolis-centric under the guidance of a former **Allegiant** executive, will fly Austin-Cancún, Dallas DFW-Las Vegas, Portland PDX-Orlando MCO, San Diego-Los Cabos and Seattle-Anchorage. Earlier this year, Sun Country also said it would fly to Honolulu from Los Angeles.
- **Flybe**, the U.K. regional airline subject to Stobart takeover rumors, published its winter schedule for the period between late October and mid January. It includes 127 routes, some catering to seekers of Spanish sun, others to skiers headed for the slopes near Chambery, Geneva, Lyon and Innsbruck. Flybe also flies high-frequency business travel routes like Birmingham-Amsterdam and Belfast City-Manchester.

The Radical and The Reluctant: As WestJet goes for big change, Southwest takes a more cautious approach

CONTINUED FROM p. 1

Star Alliance compatriots. WestJet being the only non-Star game in town, its leverage drives strong revenue from global airlines desperate to tap its shorthaul network to fill their flights to places like Santiago, Shanghai and Sydney. It's not a terribly risky strategy, one Alaska and JetBlue likewise practice south of the border, and one whose costs (of facilitating the technological and commercial relationships) are surely worth it.

WestJet's next moves, on the other hand, took it into riskier territory. It was a growth airline that correctly identified that its obvious growth prospects were limited. Not only was its home market Canada less than a tenth the size of the U.S. market, but in Canada, just four airports (in 2013, according to an *Airline Weekly* analysis of Diio Mi schedule data) accounted for 60% of all departing seats in the whole country. There are only so many routes connecting Toronto, Vancouver, Montréal and Calgary, and WestJet was flying all of them multiple times a day plus amply serving every other sizeable market. Unlike Southwest, which never felt compelled to do this, WestJet long ago began crossing borders. But it decided some of its highest-margin opportunities might be at home, in markets too small to fill a B737. So it launched WestJet Encore, using 78-seat Bombardier Q400 turboprops (of which it now has 44, according to ch-aviation) to penetrate small markets, many of which Air Canada had long monopolized.

The next year, 2014, WestJet tapped another source of growth when it began crossing not just borders but now oceans too, with flights to Europe. At first, this entailed as little risk as

CONTINUED ON p. 12

Smaller Markets, Bigger Growth

U.S. airports No. 51 through No. 100 (by scheduled seats for the upcoming second quarter), ranked by y/y seat growth (source: Diio Mi)

Continuing a recent trend, but in stark contrast to prevailing trends of the past decade and a half, airline capacity at small- and medium-sized U.S. airports will again, in the upcoming second quarter, grow more quickly than at larger airports. More specifically, 4.4% overall scheduled seat growth at U.S. airports is driven by 3.9% growth at airports in the top 50 by scheduled seat capacity and 6.8% growth by those outside the top 50. Until about a year ago, any growth was almost always driven by large airports; airports outside the top 50 were generally shrinking on average. For perspective, in case you're wondering, the airports just outside the range of this chart are No. 50 Fort Myers and No. 101 Colorado Springs.

Airport	Q2 seats	y/y	Why?
Islip ISP	296,017	53.1%	One word: Frontier, with its many new routes to Florida, Atlanta, Chicago, Detroit, etc.
Providence PVD	723,916	24.6%	Two words: Frontier and Norwegian; Allegiant, although far smaller there, also new to the market
Spokane GEG	607,355	21.3%	Example of a midsized market of renewed interest to legacies: American up 84% y/y, United 65%
Myrtle Beach MYR	504,925	18.4%	Frontier new to the market but Spirit driving much of the growth with new routes like Columbus
Fresno FAT	277,570	16.9%	Another city where United is seeking more hub feed; Fresno in poorer interior of California
Charleston CHS	741,960	15.8%	Frontier and Allegiant new to the city, which is home to a Boeing factory; United also adding seats
Savannah SAV	485,052	15.8%	Frontier new here too but most new seats from United, American and Allegiant
Jacksonville JAX	1,008,706	15.8%	Once again, growth driven by ULCCs (Frontier) and United's chase for feed; Southwest adding too
Albuquerque ABQ	884,204	15.0%	Southwest not growing here (where it dominates), but Alaska, American, United and Frontier are
Boise BOI	628,624	14.5%	Airlines adding lots of seats to California and Seattle; Southwest responsible for the most new seats
Ontario ONT	791,502	14.4%	Here's an interesting growth engine: new flights to Taipei courtesy of China Airlines
Richmond RIC	640,614	13.4%	Spirit new to the Virginia state capital; Delta and JetBlue adding new seats too
Pensacola PNS	312,521	13.3%	Frontier new to this market too? Yes. But American also adding seats to DFW, United to Chicago
Palm Springs PSP	337,776	13.2%	California resort town benefiting from state's economic boom but also, once again, Frontier
Madison MSN	342,418	12.7%	Prime example of market where United is grasping for more Chicago feed; Frontier growing too
El Paso ELP	548,821	12.2%	Sounds like broken record, but here again, Frontier a newcomer and United, American eyeing feed
Portland PWM	325,105	12.0%	What, no Frontier? Not yet. But American and Delta both have new flights to New York
Birmingham BHM	496,800	11.9%	Back to the old story: Frontier new to the market, adding flights to places like Denver and Orlando
Grand Rapids GRR	484,255	11.6%	Thanks again Frontier, which showed up offering new flights to Florida, Denver, Philadelphia
St. Petersburg PIE	346,587	10.7%	Allegiant the only U.S. carrier that serves the Tampa-area airport, where it's adding service
Kona/Hawaii KOA	645,598	8.7%	United in the midst of big Hawaii buildup; Alaska also growing; Japan Airlines now flying to Kona
Greensboro GSO	307,785	8.4%	The old furniture capital of the U.S. benefiting from some new United and American capacity
Norfolk ORF	593,107	7.9%	Allegiant new to the Virginia city, a big navy and shipbuilding center; American the busiest carrier
Knoxville TYS	347,189	7.8%	Served by the Big Three plus Allegiant and Frontier; all carriers up in capacity y/y
Burbank BUR	898,554	7.3%	Market leader Southwest adding the most new seats, but Alaska and others growing on some routes
Lihue LIH	546,212	6.7%	United more than doubling seat capacity, offsetting the demise of Island Air; Hawaiian up modestly
Little Rock LIT	346,180	6.6%	Another market benefiting from Frontier's expansion (see page eight); Allegiant present too
Omaha OMA	787,102	6.4%	American, Frontier, Allegiant, Alaska, Southwest and Air Canada all have new routes
Oklahoma City OKC	668,625	6.4%	Market leader Southwest shrinking, but Frontier now there and American adding flights
Louisville SDF	618,462	6.4%	Frontier new here too, but growth mostly driven by new Allegiant capacity
Orlando-Sanford SFB	480,939	6.2%	Alternative airport to go see Mickey Mouse; used almost exclusively by Allegiant, which is growing
Buffalo BUF	811,397	5.9%	Southwest shrinking, but Frontier a newcomer and United growing
Hartford BDL	1,045,632	5.6%	A growth market for Spirit, which added flights to multiple Florida destinations
Syracuse SYR	343,070	5.5%	Halfway between Buffalo to the west and Albany to the east; JetBlue now flying Syracuse-Boston
Tulsa TUL	492,845	5.4%	Like Oklahoma City, also an Oklahoma oil town—and also a new city for Frontier
Albany ALB	459,435	4.8%	United sending more seats from throughout upstate NY to its Chicago, Washington, Newark hubs
West Palm Beach PBI	996,598	4.6%	Closest airport to Mar-a-Lago, but no Trump Shuttle flights; JetBlue and United adding seats though
Reno RNO	670,334	4.6%	Frontier again, i.e., new flights to Denver; Reno a gateway to Lake Tahoe resort area
Rochester ROC	421,443	4.4%	It's upstate New York (between Buffalo and Syracuse), so it must be United fishing for more hub feed
Greenville/Spartanburg GSP	336,328	3.9%	Home to BMW's largest auto factory worldwide; American now connecting it to Chicago
Tucson TUS	524,514	3.2%	American scrapped its NY JFK flights but added links to Charlotte; others have new routes too
Anchorage ANC	917,036	2.4%	Overall departures to Alaska's largest city will actually be down this spring
Long Beach LGB	616,322	1.7%	Market leader JetBlue shrinking a bit, but Southwest and Hawaiian have new flights
Des Moines DSM	409,623	1.4%	Several airlines shrinking capacity on various routes, but American has new Philadelphia flights
Kahului/Maui OGG	1,121,123	1.1%	United is growing, yes, but Delta is shrinking, and Island Air is gone forever
Memphis MEM	688,159	1.0%	Southwest reducing its exposure; Memphis a considerably poorer city than booming Nashville
Milwaukee MKE	1,109,919	(0.2%)	Southwest responsible for the most lost seats; United adding flights but with smaller planes
Manchester MHT	321,555	(0.6%)	Southwest, the dominant player, reducing frequencies to its Baltimore-Washington stronghold
Dayton DAY	298,694	(11.8%)	Victim of Southwest's decision to withdraw all service; decided to serve nearby Cincinnati instead
Guam GUM	473,685	(14.3%)	North Korea missile threats scare away tourists; Delta, United and others cut flights from Japan

Around the World

A Look at the World's Airlines, Including End-of-Week Equity Prices

Airline	Share Price	Change from last week	Change from last year	Comment
American	56.07	5%	28%	Will join Big Three peers, among other carriers, in presenting at JP Morgan event this week
Delta	56.09	5%	17%	IATA mentions risk of U.S.-instigated trade war as threat to international airline demand
United	71.55	6%	-1%	Said last week it expects Q1 passenger unit revenues (PRASM) to be flat to up 2% y/y
Southwest	59.70	3%	7%	Average duration of flights just two hours; inflight amenities on short journeys less important
Alaska	64.80	2%	-33%	Plans to implement single pilot scheduling system later this year; Virgin crews still separate
JetBlue	22.00	3%	10%	*WSJ* describes evolving Port Authority plans to expand and redevelop New York JFK
Hawaiian	36.35	4%	-25%	Sent its profit-sharing checks last week; employees awarded $24m after record 2017 results
Spirit	43.00	3%	-17%	Targets new routes forecast to earn operating margins in the mid-teens or higher
Frontier	(not publicly traded)			Back on Denver-Little Rock route; Arkansas capital a three-hour drive from Wal-Mart's HQ
Allegiant	174.30	6%	9%	Hitting a size where it has to start reporting operational figures (i.e., on-time rate) to DOT
SkyWest	57.95	6%	62%	Approximately 22% of its workers are unionized, all on the ExpressJet side
Air Canada	27.16	1%	104%	Will use B737-MAXs on Hawaii routes from western Canada; sending MAXs to Mexico too
WestJet	24.31	-4%	10%	Insists Swoop still on course to launch in June despite CEO resignation and labor turmoil
Aeroméxico	29.20	4%	-34%	Chief revenue officer notes with smile: Mexico City the closest capital city to Silicon Valley
Volaris	15.11	-5%	-38%	VivaAerobus tells *Routes* it's looking at A321-NEOs; doesn't rule out codesharing long term
LATAM	13.06	2%	40%	Chilean low-cost rival Sky Airline still wants to do an IPO but not this year (*Esmerk*)
Gol	12.55	8%	-59%	Norwegian tells Bloomberg News it will fly to Brazil from both Argentina and London
Azul	33.51	11%	x	By 2020, almost half of its total ASKs will be flown by either A320-NEOs or E2 E-Jets
Copa	135.06	1%	28%	Wingo, its Colombian LCC, increasing frequencies on some routes, i.e., Bogotá-Punta Cana
Avianca	8.91	1%	22%	Domestic capacity still depressed by strike hangover; Feb. ASKs in Columbia down 9% y/y
Emirates	(not publicly traded)			Unveils new biz class product for its B777-200LRs, which do not have first-class cabins
Air Arabia	1.30	0%	9%	U.S. and Saudi investors planning $3b theme park near Alexandria to lure more tourists
Turkish Airlines	16.70	-11%	198%	Business class passengers generated a fifth of its total passenger revenues last year
Kenya Airways	13.00	-10%	126%	CEO Sebastian Mikosz tells Reuters he'll introduce premium economy product later this year
South African Air.	(not publicly traded)			Auditor report finds sloppy accounting and business practices at the airline—and huge losses
Jet Airways	682	-8%	55%	Rival Vistara, backed by Singapore Airlines, announces expansion from Kolkata
IndiGo	1288	-3%	47%	SpiceJet expecting first B737-MAX by August; has 200-plus Boeing jets on order (*Mint*)
Crude oil futures (WTI, for delivery next month; source New York Mercantile exchange)	$62	1%	28%	Latest report on job creation provides more evidence that the U.S. economy is booming; oil prices at levels seemingly low enough to not impede consumer spending but high enough to support what's now a giant U.S. oil sector.

Some stocks traded on multiple exchanges; not intended for trading purposes

Around the World

A Look at the World's Airlines, Including End-of-Week Equity Prices

Airline	Share Price	Change from last week	Change from last year	Comment
Lufthansa	25.86	-3%	81%	Ryanair targeting 20m pax to/from its 16 German airports this year, up 13% from last year
Air France/KLM	9.35	-5%	27%	Unit revenues in February "slightly up" y/y, adjusting for forex movements
IAG	624	1%	10%	U.S. wants to renegotiate open skies deal with U.K. after Brexit, reports the *Financial Times*
SAS	20.84	-2%	42%	Pax RASK down 4% y/y in Feb. on flat capacity; Chinese new year dates had some impact
Alitalia	(not publicly traded)			New deadline for sale: the end of April; Lufthansa apparently still a potential buyer
Finnair	12.61	7%	195%	Increased ASK capacity 19% y/y in February; more than half of all ASKs on Asian routes
Virgin Atlantic	(not publicly traded)			Renews IT contract with India's Tata Consulting Services (TCS); relationship began in 2004
easyJet	1563	-1%	60%	Scotland's Logan Air adding flights from Glasgow following Ryanair's downsizing there
Ryanair	16.20	1%	13%	CEO Michael O'Leary not shy about predicting Norwegian's collapse in next downturn
Norwegian	172.0	0%	-34%	Unit revenues fell 6% y/y in February on 35% more ASK capacity; yields, loads both down
Wizz Air	3444	-3%	103%	In the past 12 months (up to and including February), its load factor was a resounding 91%
Aegean	9.02	0%	31%	Sees positive demand trends for upcoming summer but with more competitive capacity
Aeroflot	157.45	4%	6%	Aeroflot mainline and LCC Pobeda each grew pax counts 13% last year; Rossiya up 27%
Japan Airlines	4203	0%	13%	Mainland China accounts for about 27% of all tourists to Japan; 52% for all of greater China
All Nippon	4187	-1%	20%	U.S. and Thailand the largest sources of inbound Japan tourism ex greater China and Korea
Korean Air	33900	4%	22%	Two of China Southern's most profitable routes are Dalian-Seoul and Shenyang-Seoul
Cathay Pacific	13.54	2%	18%	Newest codeshare partner is Kazakhstan's Air Astana; will cover itineraries to Australia
Air China	11.06	-5%	92%	Ambitious Taiwanese startup StarLux getting closer to applying for operating license
China Eastern	6.46	0%	55%	Kunming Airlines, linked to Air China, applying to serve more ASEAN leisure routes
China Southern	9.78	-2%	102%	Mainland Chinese airports handled 1.1b passengers in 2017, up 13% y/y
Singapore Airlines	10.96	0%	10%	Airbus confirms plan to build just six A380s a year starting in 2020 (all for Emirates)
Malaysia Airlines	(not publicly traded)			No longer saying it expects to make money this year; predicted profits as recently as Sept.
AirAsia	4.00	-8%	41%	AirAsia X CEO, on social media, says he visited Seattle to discuss a possible B787-10 order
Thai Airways	14.00	-7%	-23%	Lion Air Group's busiest country markets: Indonesia, Thailand, Malaysia, China (Diio Mi)
Vietnam Airlines	52700	-7%	67%	Increasing frequencies to Taipei and Singapore from Ho Chi Minh City (a/k/a Saigon)
Cebu Pacific	100.70	1%	11%	Philippine Airlines considering A350 Manila-Seattle route (*Puget Sound Business Journal*)
Qantas	5.97	5%	57%	Carried 40% of pax between U.S. mainland and Australia last year; Virgin 17%, United 14%
Virgin Australia	0.24	4%	26%	Wants to expand codesharing with Air Canada to cover more of latter's Canada-U.S. flights
Air New Zealand	3.07	2%	41%	Cyclone season in Australasia: "Hola" expected to hit New Zealand's North Island Monday

Some stocks traded on multiple exchanges; not intended for trading purposes.

The Radical and The Reluctant: As WestJet goes for big change, Southwest takes a more cautious approach

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intercontinental flying could possibly entail: B737-600s flying from St. John's in far eastern Canada to Dublin. In 2016 came London Gatwick from big cities like Toronto—no more nibbling at the fringes of the transatlantic market—although at first with a handful of cheap B767s, which could fly to Hawaii when demand to Europe was low. As widebody flying goes, this was still rather low-risk. Not so for B787 Dreamliners, which—however attractive their operating economics—don't come cheap. And those are exactly what WestJet announced, in 2017, it was ordering (at least 10 firm, with deliveries beginning in 2019).

Back in shorthaul markets, WestJet had long contended indirectly with the pesky U.S. ultra-low-cost carriers Spirit and Allegiant, which served airports immediately south of the U.S.-Canada border. But now upstart Canadian ultra-LCCs were threatening a much more direct assault. WestJet started by adding competitive capacity and matching fares, successfully stalling the growth of the one ultra-LCC that had managed to launch (NewLeaf, now called Flair). But not stopping there—nor at, say, anti-anti-ULCC basic economy fares, which Air Canada is now launching—WestJet announced it would launch an ultra-LCC unit of its own called Swoop, initially with five B737-800s.

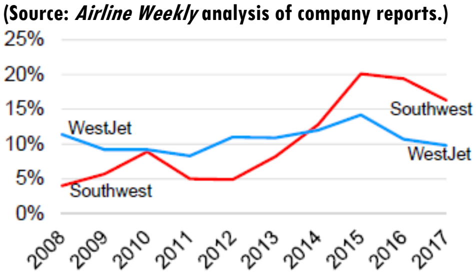
With Encore, longhaul and Swoop, WestJet was going small, going long and going ultra. In doing so, it was trying not one, not two but three strategies with questionable track records: How many LCCs around the world had expanded their margins by adding a second, smaller fleet type? How many had succeeded with low-cost longhaul operations? How many airlines of any stripe had launched a successful lower-cost airline-within-an-airline?

Like Air Canada, WestJet is aware of the analogies between the Canadian and Australian markets, including Qantas-owned Jetstar, a rare exception to the rule about unsuccessful lower-cost units. But as Air Canada somewhat mimics Qantas, WestJet needs to avoid becoming like Virgin Australia, the one-time all-B737 LCC that now does far more but earns far less.

For Southwest, meanwhile, its decision not to partner extensively might be just as unsurprising and uncontroversial as WestJet's voracious appetite for partners. Few global longhaul airlines serve the airports Southwest dominates,

Trading Places

Operating margins (excl. special items) for the past decade. Southwest includes pre-merger AirTran. (Source: *Airline Weekly* analysis of company reports.)



such as Baltimore-Washington and Chicago Midway—and the list is even smaller of airlines that don't already have U.S. partners offering feed that Southwest could provide.

So don't read much into the divergent partner strategies of WestJet and Southwest. Do, however, read into something else: Just as WestJet was doing three things with questionable track records for an LCC—going small, going long and launching an airline-within-an-airline—Southwest was *not* doing three things with highly successful track records: bag fees, online travel agency distribution and seat assignments.

As every American knows, thanks to an airline that spends far more on advertising than any other, "bags fly free" on Southwest. Many Americans realize they're not really free; rather, they're included in the price of what are often pricier base fares. Unbundling in general, and bag fees in particular, were key elements in the restructurings that many U.S. airlines (but not Southwest, to its credit) were forced to undertake. Bag fees raise revenues while also lowering costs (because people check fewer bags). Even JetBlue, like Southwest an image-conscious airline that long resisted charging for bags, quickly realized that it had underestimated the financial benefit of doing so and overestimated the amount of customer pushback it would receive. And whereas Southwest thinks bag fees don't make sense for itself, in particular, the opposite is likely true: It competes relatively little against other airlines in many of its key markets (thus share shift should be less important for it than for others), whereas its short average stage lengths mean it competes more against cars (thus the slightly lower base fares that would result from bag fees could enable some people to fly rather than drive).

Southwest, meanwhile, continues to insist that consumers book its flights directly—its inventory doesn't appear with online travel agencies (OTAs), such as Expedia. This can't be a cost issue: Airfare is already a loss leader for OTAs, which use the convenience of searching many airlines to lure consumers to their sites, hoping to sell them higher-margin products like hotel rooms. Because Southwest's presence would greatly enhance the utility of those searches, they would probably allow it to appear for practically if not literally free, which could actually save it money if it could reduce the massive sums it spends on advertising to drive direct bookings. Southwest's absence from OTAs seems to constrain its network, too, because in crowded markets where Southwest has a relatively small presence, such as New York City, a lot of travelers don't think to check its site, making it particularly difficult to sell routes connecting two such markets. (Ryanair can get away with insisting on direct bookings because it has a far larger share of, say, London's overall market than Southwest has of New York's.)

If JetBlue is the poster child for airlines leery of charging for bags that later realize how wrong they were, Ryanair and easyJet serve that role for seat assignments, which have been a bonanza. Southwest can't promise even its very best customer, or another customer willing to pay a lot for certainty, a particular seat—sometimes, the first person boarding finds dozens of people (who boarded at the plane's last stop) already aboard. Understandably, Southwest worries about the feelings of open seating fans, particularly in its longstanding markets in the southwestern U.S. But those customers tend to live in markets where Southwest will always be their most convenient option anyway, whereas customers in markets where it is newer and smaller—and where open seating is likely less popular—have more choices.

None of this is to say Southwest is wholly afraid to innovate, even in ways that could displease some customers. One example: It boldly, and with great apparent success, moved toward a revenue-based frequent flier program even before Delta, United and American did so. And WestJet, to its chagrin, is becoming more like Southwest in another important way: rising levels of union membership, in its case (unlike at long-unionized Southwest) because of a dramatic deterioration in labor relations in recent years at a company that long prided itself on these, an added cost of the new initiatives. WestJet's inflight entertainment offering, meanwhile, has become more like Southwest's, now that WestJet has ditched seatback screens in favor of streaming video. Still, the exceptions prove the rule: These are vastly different companies since the time a decade ago when Southwest planned to codeshare with what people sometimes called the "Canadian Southwest."

So then back to the question: Whose approach is right? Well it's never possible to prove cause and effect, with other factors in play and without, for example, truly knowing how WestJet's different units are performing relative to each other (it doesn't break that out). But for what it's worth, WestJet, seemingly trying everything, is running lower operating margins than it was a decade ago (see graph, bottom left). Southwest, seemingly doing relatively nothing, is now doing far better. That's not vindication for doing "nothing"—there's reason to think Southwest could supercharge its profits by adding the things that have worked almost everywhere they've been tried to its longstanding advantages, such as its nearly impenetrable network. That network, by the way, is one thing that has always distinguished the two airlines from each other: Southwest has numerous markets to itself on a nonstop basis and can generally pick and choose its competitive battles, whereas WestJet has nowhere to hide, competing head to head against its primary (and now similarly profitable) rival nearly everywhere.

As for WestJet, with little incremental profit to show for all it's doing… well, sometimes the medicine can be worse than the disease. Are its many initiatives causing its woes—or perhaps preventing them from being worse? It'll be the job of Ed Sims, WestJet's new CEO, to decide whether any of the carrier's big moves are producing unacceptable side-effects.❍