



Flying High

By Adam Jacobson

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Latin America represents one of the hottest growth opportunities for airlines, as competition makes mergers and alliances the new name of the game.

Travelers flying around Latin America today are enjoying options that were unimaginable just a few years ago. Given the bevy of new routes, direct access to more cities and the entry of scrappy, low-cost carriers, business and leisure customers are flying high.

So is the industry. The expanding ranks of global airline alliances are credited with helping to boost business for a broad swath of carriers operating in the region. And Latin American carriers, unlike many struggling counterparts in the United States and Europe, managed to skirt the turbulence of the crisis. While the International Air Transport Association (IATA) expects the global aviation industry to eke out a profit this year as passenger traffic recovers, Latin America stands out as the only region that remained in the black in 2009 and is projected to post further gains in 2010.

At the same time, the pressures from international consolidation may make it more difficult for airlines to fly solo over the longer term.

A historically lagging market has been energized, said Raphael Bejar, CEO of Paris-based airline operations consultancy Airsavings S.A. “The United States, Europe and Asia are well ahead in terms of volume,” Bejar said. “But deregulation, by light touches, is arriving in South America. This has helped local carriers in becoming more present and being able to compete more.” Latin America has been underserved, and the airline industry is now playing catch-up, said Kenji Hashimoto, vice president of strategic alliances for American Airlines. “This is a significant growth region.”

Among its new routes, American will initiate nonstop service between New York and Rio de Janeiro and between Miami and Brasilia starting in November.

The added flights will not only benefit American but also the oneworld alliance, whose founding partners include American and British Airways. Oneworld has a large presence in Latin America, built in part on the heft of LAN, the largest regional airline group, and Spain’s Iberia (now merging with British Airways). After relying on separate code-share accords with American and Iberia for several years, Mexicana signed on to become a full-fledged oneworld member late last year.

Damián Scokin, CEO of LAN’s international operations, said 10 years as a oneworld member has helped the airline transport more passengers to countries it serves directly. He sees the partnership as vital to regional growth. “Alliances offer more destinations, services and choices for passengers coming to South America,” he said. “This has been key to developing the tourism industry in Latin America.”

But the network of international airline alliances is shifting, forcing smaller players to rethink their business strategies. The principal U.S. members of Star Alliance -- United and Continental -- plan to merge to form the world’s largest



carrier. The pending deal could spell the end of OnePass, a smaller group created by Continental that includes Panama-based Copa Airlines. Copa is eager to expand service between the United States and the Americas, but its alliance affiliation is currently limited to OnePass.

Copa has separately been expanding its flight schedule. It inaugurated a second daily nonstop flight between Los Angeles and Panama City on July 1 in response to demand from both U.S. and Latin America travelers, said Fernando Fondevila, North America regional manager for Copa. The airline also is pursuing a strategy to make Panama an air hub for the Americas, with connections to Colombia available through a code-share agreement with Aero República.

BATTLE FOR BRAZILIANS

Copa also has a code-share agreement with Brazil's GOL Airlines, which reportedly is being courted ardently by both oneworld and Delta-led SkyTeam. GOL already has code-share and frequent-flier agreements with American, and in June, it signed a frequent-flier accord with Delta.

In a bid to increase its international presence, GOL launched its first nonstop flight to the United States, with service to Orlando, on July 2. GOL achieved parity in national market share with rival TAM – 40.2 percent and 40.9 percent, respectively, in May, according to Brazil's National Agency of Civic Aviation. But low-cost carriers Webjet and Azul, the 2-year-old airline launched by the founder of U.S. carrier JetBlue, have been nibbling away at the local business of both TAM and GOL.



However, TAM has a commanding lead when it comes to international flights from Brazil, with an 87.9 percent market share. Earlier this year, TAM signed on with the Star Alliance, giving that group an important foothold in the region's biggest and strongest economy.

Looking to bolster their ranks, the members of SkyTeam are not sitting idly by.

Delta anticipates establishing a code-share agreement with GOL as early as 2011, according to Christophe Didier, Delta's vice president of sales for Latin America and the Caribbean. Such a move would open up Bolivia, Paraguay and Uruguay to Delta, he said.

Meanwhile, the TACA-Avianca Group is "in very serious talks with SkyTeam," said Didier, refuting reports that the newly combined airline group would join the Star Alliance. "It would be very valuable and exactly the partner we're looking for."

The merger of Central American carrier TACA and Colombia's Avianca, completed in February, created the fourth-biggest airline group in Latin America — after LAN, TAM and GOL — and the biggest regional network, of about 75 cities. Should a deal be concluded, it would be a huge boon to SkyTeam.

Separately, Delta in January finalized a joint venture in North America with Air France-KLM, allowing for not only code-share and frequent-flier agreements on transatlantic routes but also shared revenue, profits and costs. "This creates savings for both airlines and customers," Didier said. For example, Delta took over all Mexico-based ticketing for Air France-KLM following the completion of its merger with Northwest Airlines, consolidating three offices into one.



MEXICO BOUNCES BACK

The Mexican market is rebounding from the double blow of the economic crisis and the H1N1 flu epidemic. Business is up 15 percent from 2009, said Sergio Allard, chief commercial officer for SkyTeam member AeroMéxico, which has introduced nonstop service from Monterrey to both Miami and Houston, among other new routes.

Outside of TACA-Avianca, the trend toward consolidation in the European and American markets has not taken hold in Latin America, said Allard. Nonetheless, “we are analyzing the possibility of increasing our participation in SkyTeam,” he said.

Yet the Mexican discount carrier Interjet, controlled by Grupo Alemán, recently announced that it still would like to buy out rival Volaris, in which TACA, media giant Televisa, Inbursa, the financial services division of Carlos Slim’s Grupo Carso, and an investment group each owns 25 percent. Interjet earlier this year had made a \$300 million offer that never got off the ground. Volaris is said to be moving forward with a code-share accord with U.S. carrier Southwest. Foreign discount carriers also have been moving into the region. U.S. operators like Spirit Airlines and JetBlue have added destinations in the Caribbean, Central America and parts of South America.

Air Europa, a one-time charter operator from Spain that became a full SkyTeam member on June 22, serves cities such as Buenos Aires and Caracas but has emphasized tourism destinations such as Cancun, Santo Domingo, Havana, and, as of March, Miami. It also connects to various European locales, including London’s Gatwick Airport, via hubs in Madrid and Barcelona.

Despite the added competition, the outlook for air traffic in Latin America is bright. The IATA estimates that the carriers will report collective profits of \$900 million this year, up from \$500 million in 2009.

