Airline Business Daily

From FlightGlobal

ALTA AGM & AIRLINE LEADERS FORUM
Latin American and Caribbean Airlines General Meeting

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Challenges and opportunities

Few markets epitomise the challenges and opportunities of operating in the Latin American region better than Mexico.

Alongside flag carrier and forum host Aeromexico, which has emerged confidently from Chapter 11 restructuring, the country has a strong low-cost presence, in the shape of successful carriers such as Volaris and VivaAerobus.

Those operators have been buoyed by the FAA recently upgrading Mexico's air safety rating, notably enabling Aeromexico to capitalise on its joint venture with SkyTeam partner Delta Air Lines to launch a long list of new US services.

But while opportunities abound, government and regulator activity has brought a string of challenges, not least around airport capacity and charges, and the potential launch of a new competitor in the country.

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'UNLEASH OUR POTENTIAL'

The ALTA executive director insists governments and regulators should look at the aviation industry in a different way

PILAR WOLFSTELLER LAS VEGAS

As Jose Ricardo Botelho hosts his third ALTA Airline Leaders Forum as the group's executive director, the region's aviation industry has much to be proud of.

Airlines in Latin America have come out of the global Covid-19 pandemic with momentum, and the sector is thriving. Many carriers have been able to restore their capacities to 2019 levels or higher, and both leisure and corporate travel segments have rebounded strongly.

As aviation leaders gather in Cancun this year, they are celebrating these successes, and addressing some old and familiar challenges.

Also on Botelho's agenda are new ideas and technologies that he is eager to discuss with the continent's commercial aviation executives.

"What I love about these events is that everyone comes – the authorities, the airline CEOs, CFOs – it's a huge responsibility to lead these events," he says.

At this year's meeting, with the global Covid-19 pandemic increasingly in the rear-view mirror, Botelho says airlines in the region are focused on the future.

"We are going to talk about inclusion," he says. "We are living in the first time in history that up to six generations – the Silent Generation, Baby Boomers, Generation X, Millennials, Generation Z and Generation Alpha – are travelling, and the industry must learn to cater to all of them."

ALTA

Botelho: airlines looking to future

But despite Botelho's optimism, the region's aviation leaders must again address issues that are not unfamiliar: perceived over-regulation by national authorities, additional taxation, supply-chain snags and high jet fuel prices.

Some governments and their aviation authorities continue to have an adversarial relationship with the industry and tend to rule with a heavy hand, many

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Follow our coverage of the forum and the wider industry at: flightglobal.com

LEWIS HARPER LONDON

Leaders gather in Mexican hotspot

Cancun is seeing remarkable demand levels, offering a strong example of what can be achieved in tourism markets

The Latin American and Caribbean aviation community has gathered in one of the region's – and the world's – growth hotspots for this year's forum.

Cancun International airport has powered way beyond 2019 airline capacity and traffic this year, reflecting the strength of its appeal as a year-round leisure destination for travellers from a range of domestic and international markets.

Cancun's impressive growth story demonstrates the potential that exists in the region when it comes to leisure travel – particularly if governments and regulators act to improve the operating environment for airlines.

Airline capacity on flights to Cancun is up 43% in October this year versus October 2019 in terms of seats and available seat kilometres (ASKs), Cirium schedules data shows.

Its performance comes after the resort remained open during the Covid-19 pandemic, ensuring it did not experience the drop-off in visitors seen at other destinations and giving it a head start when international travel roared back.

DRIVING FORCE

Much of the growth is being driven by local carriers such as Aeromexico and low-cost operators Volaris and VivaAerobus. Mexico City, Monterrey and Guadalajara are among the busiest domestic routes.

North American carriers in particular have also made a significant contribution to Cancun's growth story.

American Airlines, Spirit Airlines, JetBlue Airways, Frontier Airlines, Alaska Airlines and United Airlines are among the highest-ranked carriers in terms of capacity growth into Cancun versus 2019, with the number of US cities with direct flights to the resort inching up towards 50.

Cancun traffic is way ahead of 2019 levels

Alexander Canas Arango/Shutterstock

Several of the busiest routes to Cancun are from some of the USA's biggest hubs, including Dallas-Fort Worth, Chicago and Atlanta.

Canadian carriers such as Air Canada, WestJet and Air Transat are also offering significantly higher capacity against pre-Covid levels.

Elsewhere, Turkish Airlines and TAP Air Portugal have made significant contributions to Cancun's traffic growth, as has Copa Airlines, helping Panama City to become one of the busiest sources of traffic to the resort.

In ALTA's view, the wider region has the potential to see similar growth trends.

"The more we work to generate efficiency and more and better options for passengers, the more tourists we will have," says ALTA executive director Jose Ricardo Botelho.

"Latin America and the Caribbean is full of cultural, gastronomic and natural wealth," he says. "We have a lot to show and a lot to grow.

Mexico is the most popular destination in the region, accounting for 24 million international tourists

"Aviation is here to boost tourism and jointly generate more opportunities for socioeconomic development for our countries and people."

ALTA data for the first half of this year shows a total of 65 million international tourists visiting the Latin America and Caribbean region, which is just 8% below the 2019 level. Within that total, Central America exceed pre-pandemic levels by 2%, while the Caribbean was down 5% and South America 13%.

Mexico is the most popular destination in the region, accounting for 24 million international tourists.

In terms of growth in international tourist arrivals, Colombia, the Dominican Republic and Aruba have grown well beyond 2019 levels, at 23%, 17% and 17%, respectively.

GLOBAL EXPERIENCE

The USA, Canada and the UK were the three leading outbound markets for tourists flying into Latin America and the Caribbean across the six months.

"The demand and spending on experiences has proven to be very profitable in the region, with travellers increasingly in search of access to experiences in different destinations around the world over material goods or things," says Botelho.

"This creates jobs for an extensive value chain. Not only restaurants, museums, cab drivers, but also small artisans, their providers and much more," he adds.

Indeed, data from the World Travel & Tourism Council backs up Botelho's assessment of the importance of tourism to the region's economy.

The WTTC estimates that in 2023 the travel and tourism industry will account for around 17 million jobs in the region, or around 8% of total employment, and around 8% of the region's GDP.

Within that total, the Caribbean sees a particularly strong contribution from travel and tourism, with the sector estimated to contribute 12% of GDP and 15% of jobs. ■

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industry executives allege. That top-down approach makes it difficult for airlines and their vendors, employees and passengers to plan with certainty, which is counter-productive to the countries' economies and well-being of their citizens, Botelho insists.

GOVERNMENT STANCE

Analysts and observers agree that Mexico is not immune from such issues. A recent unilateral decision by the aviation authority to reduce the number of aircraft movements at Mexico City Benito Juarez International airport – the country's busiest – has angered carriers as well as their customers. In Brazil, higher taxes have added expense to every ticket. Argentina, meanwhile, held a general election on 22 October, and ALTA is anxious to learn about the newly elected government's stance toward continuing to democratise air travel in that country.

"My request to the authorities around the continent is that they look at the sector in a different way," Botelho says. "The region has massive potential, if only the governments and regulators would allow that potential to be unleashed."

IATA statistics show that per-capita trips per year in Latin America are still far less than those in developed countries. While in the USA that figure is 2.6 trips per year, in Chile it is 1.21 trips, in Argentina it is 0.6 trips and in Brazil it is 0.45 trips.

Botelho: AI can play big role in future

ALTA

The organisation's most recent estimates show that Latin America's aviation industry will lose about $1.4 billion this year, while US carriers, for example, will post profits of $11.5 billion.

On average, airlines in Latin America and the Caribbean lose $4.92 per guest on every trip, while the global average is a profit of $2.25 per passenger, IATA has calculated.

In Latin America and the Caribbean, ground-based transportation networks tend to be limited. Roads are often in bad condition and are sometimes dangerous.

"There are few roads connecting countries. So if you want to develop a place, airlines are absolutely mandatory," Botelho says. In addition, IATA says about 90% of tourism arrives in the region by air.

ECONOMIC OPPORTUNITIES

ALTA is in constant communication with the governments of the region, as it attempts to build awareness and understanding of the importance of supporting a healthy aviation sector.

"Where there is aviation, there is development, and there is success," Botelho says. "When we needed someone to deliver the Covid vaccines, or organs, or to rescue someone, aviation is there. Aviation creates economic opportunities – you build infrastructure, you need to hire people."

> "The amount of data that just one aircraft can provide is just amazing. And that information is power"

That, he says, is the message he and ALTA must successfully convey to the region's authorities, especially in countries that have made doing business a difficult endeavour.

"One thing we cannot forget is that while the pandemic is over, the effects on the airlines remain," he adds. "In this region there was no economic support for aviation [during the crisis], and still some governments are continuing to work against this sector.

"Why is that? I can't understand it."

Another hot topic at this year's ALTA forum is the advent of innovative technologies like AI tools and their adoption and usefulness in aerospace and aviation.

At the mention of AI, Botelho's eyes light up.

"In the past, you saw an aircraft flying and you said, 'Wow, look, an aircraft'. But now we see that aircraft in terms of data," he says.

"The amount of data that just one aircraft can provide is just amazing. And that information is power. With AI, it's time to use this information to increase safety and efficiency, for the benefit of companies, travellers and the environment, too," Botelho says.

"Can you imagine the amount of data can you collect and use to benefit of the entire world?"

The future potential of air travel in Latin America and the Caribbean, Botelho says, is huge. He is convinced Latin American airlines can become global industry leaders on numerous fronts, and given the opportunity, that the sector can lead the way to more wealth and success on the continent.

"We have so much space to grow," he says. ■

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Higher taxes in Brazil mean higher-priced tickets for customers

LEWIS HARPER MADRID

Industry fortunes still in 'sweet spot'

IATA economist cites strong traffic recovery in most markets, while cautioning that global risks are to the downside

The global airline industry's fortunes have improved since IATA's mid-year financial forecast, according to the association's chief economist Marie Owens Thomsen, with positive factors continuing to more than offset negative ones.

Speaking to FlightGlobal at the IATA World Sustainability Symposium in Madrid in early October, Owens Thomsen cited a stronger-than-expected recovery in global airline traffic, saying that the "sweet spot" the industry was in earlier this year is "maybe even sweeter" today.

By the end of this year, "almost everybody will be back to 2019 levels except China", she says of the global traffic recovery to pre-Covid levels, which IATA expects to be achieved on a whole-industry basis in 2024.

IATA's latest traffic and capacity data – released on 4 October – shows that in August this year, global revenue passenger kilometres were at 95.7% of 2019 levels, with available seat kilometres at 96.9%. Within those figures, North American and Latin American airlines were already exceeding 2019 traffic, with every other region within a single-digit percentage point of doing the same.

That strong traffic trend is one contributing factor to IATA's likely upgrading of its projection that the industry will achieve a net profit margin of 1.2% this year, Owens Thomsen says.

Other factors continue to underpin that performance, she states, crucially including relatively low unemployment rates globally, despite economic challenges, which are proving to be a "greater positive than the negative effect of the high inflation rates", she explains.

"Certainly in my 30 years in finance as a macro-economist I have never seen anything like it," she says, comparing today's "jobs rich" recovery with the "jobless" recovery that followed the financial crash in 2008.

"As long as people are earning an income, they can still fly," she says.

Having low unemployment rates and clear evidence that people are keen to travel is reassuring when it comes to the demand outlook, Owens Thomsen suggests, and is a more pertinent way of framing the market than notions of post-Covid 'pent-up demand'.

She further cites the supply-side challenges faced by airlines, particularly when it comes to securing new aircraft, suggesting that while this is "not a particularly positive phenomenon", it brings benefits to an industry that "often suffers from over-capacity".

> **"What the industry still struggles with is robustness"**
>
> Marie Owens Thomsen
> Chief economist, IATA

"Load factors are high, so planes are flying pretty full," she says. "That obviously contributes to yields and the financial performance for the industry." That situation is likely to "dissipate" as OEM delivery performance improves, she says, bringing the risk of falling yields. That impact will depend on the strength of demand when it happens.

While the current trends are positive, however, risks remain.

"The risks are still probably stacked on the downside," Owens Thomsen states, highlighting concerns about China's economy and also citing how close the USA recently came to a government shutdown. She was also speaking before the recent escalation in armed conflict between Israeli and Palestinian groups.

Key to maintaining the positive economic environment for airlines, she says, is global GDP growth staying "in the vicinity of 3%".

"There might be something in the idea that perhaps if the global economy slows significantly below 3%, certain unemployment rates are going to rise," Owens Thomsen states. Equally, she adds, the current "stable equilibrium" of low unemployment might endure, should GDP growth hold up.

But in any economic slowdown, the airline industry's lack of "robustness" would come to the fore, she says.

"Over and over again, this industry demonstrates its resilience… its ability to bounce back when it's knocked down," Owens Thomsen says. "Yet what the industry still struggles with is robustness… [or] financial sustainability."

IATA's original forecast for 2023, for example, showed a profit per passenger that would not buy a cup of coffee in most markets.

"I would love this industry to be regularly producing positive cash flow… and somehow managing to eke out a situation where there's perhaps less volatility in the earnings," she states.

But Owens Thomsen says this is unlikely without a fundamental change to the industry's cost structure – one that would enable airlines to "claw back some of the power that they might have over their upstream costs".

The net-zero transition could offer such opportunities through, for example, airlines taking control of sustainable aviation fuel production, although she acknowledges little industry appetite "to become fuel producers" at this point.

Still, she contrasts the razor-thin profit margins of low-single-digits with those in the energy sector, which can be closer to 30%.

"There's no doubt about where our money goes," she states.

For now, Owens Thomsen is clear that the industry's recovery has been "nothing short of phenomenal", saying: "I can't think of any other industry that has experienced such deep catastrophic hits and then managed to rebound in the space of three years."

While IATA often focuses on industry-level and regional data, there have been indications from individual airlines that alongside rising costs as fuel prices increase, demand outlook has shown signs of weakness. ■

Alvo cautions that the region needs a bespoke policy framework

IATA

LATAM chief highlights lack of progress on SAF

Speaking at a recent global sustainability event, Roberto Alvo said Latin America is yet to see meaningful steps on sustainable fuel development, leaving it 'one step behind'

LEWIS HARPER MADRID

LATAM Airlines Group chief executive Roberto Alvo has warned that Latin America is making no progress on the development of a sustainable aviation fuel (SAF) industry, putting at risk airlines' ability to meet net-zero targets.

Speaking on a panel of airline leaders at the IATA World Sustainability Symposium in Madrid in early October, Alvo concurred with peers that SAF is critical to the industry's net-zero ambitions and that "today is not the time to think that this won't happen".

But the situation in Latin America is stark, Alvo explains, with SAF production essentially non-existent, leaving the region "one step behind".

"Today there is not a single drop of SAF being produced in South America," he says.

LATAM Airlines has set its own target of 5% SAF usage by 2023, but this is "not because we know where this is going to come from – it's just because we need to make sure that we can start this conversation", Alvo says, adding that he does not think the airline "has the luxury" of failing to do so.

"We needed a sign of demand, as the largest airline group in the region," he states.

INCENTIVES NEEDED

That sign has so far been met with no response, and Alvo is reluctant to consider the imposition of formal mandates by governments and regulators until that changes.

"Unfortunately at this point in time, we have no set of public policies to incentivise producers to start thinking about SAF," he states. "Today, I don't have any confidence that we will get even close to 5% [by 2030] with the current set of policies that we have."

In common with peers elsewhere around the world, he suggests that "clarity and certainty of investment" are crucial if fuel producers are to build SAF plants, arguing that it is important for policymakers to clarify the conditions under which the fuel can be produced.

At the same time, "we need to think about how to bring in South America and Latin America into this conversation at the pace that we can take", Alvo says, adding that policy approaches in other geographies – such as Europe's SAF mandates – would not work in the region.

He explains that Latin American carriers are often operating in "poorer countries" with lower yields and geographies where customers do not have the option to consider alternative forms of transport.

It is important, therefore, that policy solutions on SAF do not "kill the industry altogether" by bringing about extra costs that airlines and the travelling public cannot afford.

And extra costs are inevitable. Speaking at the same event in Madrid, IATA director general Willie Walsh said that "whatever way you look at this, there will be a cost for the transition to net zero and ultimately that cost will be borne by consumers".

"We need to develop the industry in a sustainable way," Alvo says, noting that if LATAM Airlines Group were to cover all of its fuel useage with SAF today, the cost would exceed all of its revenue.

He further provides a reality-check on the timescales involved.

"A [SAF] plant takes four or five years to build," Alvo says. "Today in Chile, just getting the permits for a billion dollar investment will take an additional four or five years.

"So we're 10 years away from seeing the first crop of SAF being produced in Chile if we started today, and people are not starting today because they don't have a clear path on which to think about the decisions of investment."

That is frustrating, Alvo suggests, because "the feedstock is there, the technology is there and the people are there".

GROWTH POSSIBILITIES

Furthermore, the creation of a SAF industry "is also a great opportunity for economic development in the region", he says.

"But we need the right framework," Alvo adds.

He also says that the industry and policymakers need to keep an open mind on other measures in the net-zero journey, with SAF not being a "silver bullet".

Acknowledging that carbon offsetting has downsides, he explains that LATAM is instead directly investing in projects, including one that protects "0.5% of the surface of Colombia".

"Those wetlands capture tonnes of carbon per hectare," Alvo says.

Such work is important, he insists, because SAF and other efforts will still leave the airline sector with residual emissions that will need to be accounted for.

"We are not going to get to net-zero if we do not either sink carbon by industrial means or sink carbon by natural means," he states.

Whatever the means, Alvo is clear that airlines can only do so much on their own.

"I'm willing to be confident [about net-zero targets], as long as all the stakeholders face the same path and do this in the same direction, because this is not something we are going to solve by ourselves," he concludes. ■

PILAR WOLFSTELLER LAS VEGAS

Puzzlement amid growth in Mexico

The country's airlines are powering out of Covid-19 but airport and competitive challenges complicate the outlook

Restrictions at Mexico City's Benito Juarez airport have upset airlines

NickyRedl/Shutterstock

Mexico's commercial aviation industry finds itself in a position of envy among its Latin American peers despite what some call government overreach and over-regulation.

Operating in one of just a few countries that never completely shut down during the global Covid-19 pandemic, Mexican carriers were able to benefit from tourism throughout the crisis – albeit at lower-than-normal levels – and then quickly ramped up when travel restrictions across the region and around the world eased.

Aeromexico, the first of three Latin American airlines forced to voluntarily file for bankruptcy protection in mid-2020, completed its restructuring almost two years later, and is currently in growth mode. Volaris and VivaAerobus are also looking to expand their networks.

GOVERNMENT INTERVENTION

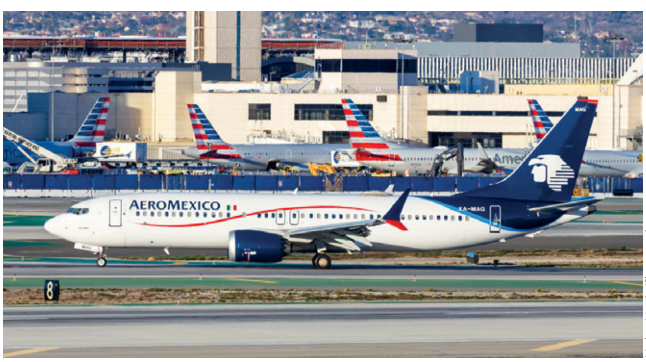
But while the country's carriers are once again looking to the future with confidence, some government interference in the market has puzzled experts and observers of the Mexican aviation and aerospace sector.

"Looking at the totality of recent decisions, it's just a little bit difficult to follow the logic," says Citi aviation analyst and managing director Stephen Trent.

On the one hand, the country's recent re-elevation to Category 1 safety status by the Federal Aviation Administration has already spawned new transborder routes and additional connectivity. On the other, the government's restrictions on traffic movements at the country's busiest airport in Mexico City, a recent increase in the tarriff system, as well as the launch of a government-run airline, Mexicana, leaves observers asking questions.

The original Mexicana ceased operations in 2010 and media reports suggest that the resuscitated brand will operate with 10 leased Booeing 737-800s, and will be run by the Mexican Army.

In an August note, Trent says that new airline, set to launch by the end of the year, plans to offer fares that are about 20% below current competitors' and focus on flights to the new Felipe Angeles International airport in Mexico City, a planned airport in Tulum and other underserved routes.



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Aeromexico plans 17 new routes to US cities as part of joint venture

Everyone had been keeping their powder dry, waiting for news on Category 1

"Although it is too early to gauge the potential competitive impact on Volaris and others, there also seems to be a lack of clarity on legal and regulatory issues associated with this launch. These issues could include subsidies for the government's airline, but not other carriers, along with government ownership of an airline and an airport installation," Trent writes.

Deutsche Bank's Michael Linenberg adds that the new Mexicana is "a solution looking for a problem" since Mexico is already a well-supplied market with low fares readily available. "Mexico's airline capacity is the most recovered of any major global market," he adds, saying that the domestic market is "clearly oversupplied".

Investors also fear unfair competition, and that the government carrier will have additional financial support and favourable agreements with vendors, suppliers and other partners including airports and fuel service companies – especially given the government's ownership stake in some of those operations – where the commercial carriers will not.

In late September Mexicana posted a basic website saying that it will initially serve 20 destinations in Mexico. The website allows bookings to the first destinations from 2 December.

Another thorny issue for airlines is the recent throttling down of hourly operations at the country's busiest airport, Mexico City Benito Juarez International airport, in favour of the newer but more distant Felipe Angeles International airport.

Last year, the older airport accommodated 62 aerial operations per hour. In early 2023, that was cut to 52, with the explanation being that there would be some infrastructure improvements made, says Peter Cerda, IATA's regional vice-president for the Americas. Those never materialised, and now the authorities have decided to reduce the hourly operations to 43. That new rule was to have gone into effect in October, but has been pushed back to January.

"Mexico City is not suffering because of capacity," Cerda says. "The Mexico City International airport is suffering because of antiquated infrastructure and needs."

The terminals need to be upgraded, and the aprons and runways also require refurbishment, he says.

Aeromexico also complained about the reduction in August, saying the measure will affect passengers, industry employees and the attraction of new investments that "depend on having legal certainty and adequate air connectivity".

The reductions impact customers beyond those travelling to and from Mexico City.

"Airlines will cancel routes and put them somewhere else," Cerda says. "So you're going to have less flights from Mexico City to other domestic markets and ultimately that is going to increase the price of a ticket because there is less capacity available."

That will have knock-on effects on international travel. "A large percentage of the international flight passengers that come into the country are then going on to domestic flights to other parts of the country," Cerda notes.

Services are increasing at Mexico City's newer Felipe Angeles airport

Arlette Lopez/Shutterstock

PRESIDENTIAL ELECTION

Anticipation is also building as Mexicans go to the polls in less than a year to elect a new president for a six-year term.

"It's hard enough to manage a business in this space, and if you have chaos in terms of the predictability of aviation policy that kind of makes it all worse," Trent says. "So it will be interesting to see what kind of strategy the next president is going to undertake."

One recent positive development will though help support the country's industry going forward: the FAA's reinstatement of Mexico's Category 1 safety status. The US regulator lifted the restriction in September, and Mexican carriers immediately set about expanding their networks.

Low-cost carrier VivaAerobus has detailed numerous new routes, all of which will begin operating in the first half of 2024. Aeromexico has announced 17 new routes to nine US cities in the framework of its joint venture with Delta Air Lines. Volaris is expected to introduce new routes soon as well.

All airlines have been eagerly waiting for the change, and have repeatedly expressed interest in expanding their presences to cities north of the border.

"The recovery of Category 1 represents a great opportunity to encourage air dynamism and the role of this industry as one of the main levers of economic development in both countries," says Volaris chief executive Enrique Beltranena.

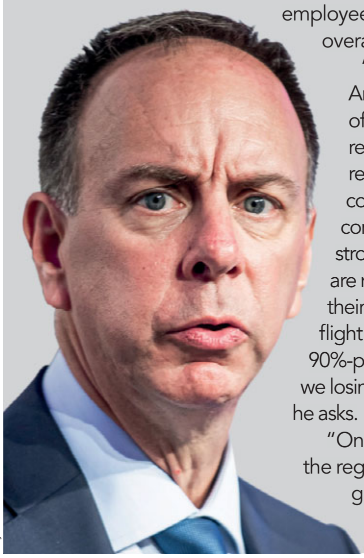
The change will allow the sector to support "the advantages that this industry brings to the development of fundamental activities for our economy, as well as to strengthen the connectivity necessary" for tourism as well as visiting friends and family.

"Going back to this more normal situation should allow code sharing, and the ability to launch new northbound service. There's been a two year hiatus on that, which has certainly impacted growth plans," Citi's Trent says. "Not only because some of these northbound routes are lucrative, but also [there's been] too much capacity in the domestic network.

"Everyone has been keeping their powder dry, waiting for the green light on Category 1, so it's going to be good to see this get resolved," he adds. ■

Rising taxes continue to hit industry

IATA's Peter Cerda complains that the authorities across the region, including in Mexico, often act without consulting the industry, which is to the detriment of not only the airlines, but also customers, employees and the overall economy.


BillyPix

"If Latin America is one of the leading regions in the recovery, and connectivity is coming back strongly, airlines are reinforcing their networks, flight loads are at 90%-plus, why are we losing money?" he asks.

"One reason is the regulatory regime, which appears to be less aviation-friendly than in the past.

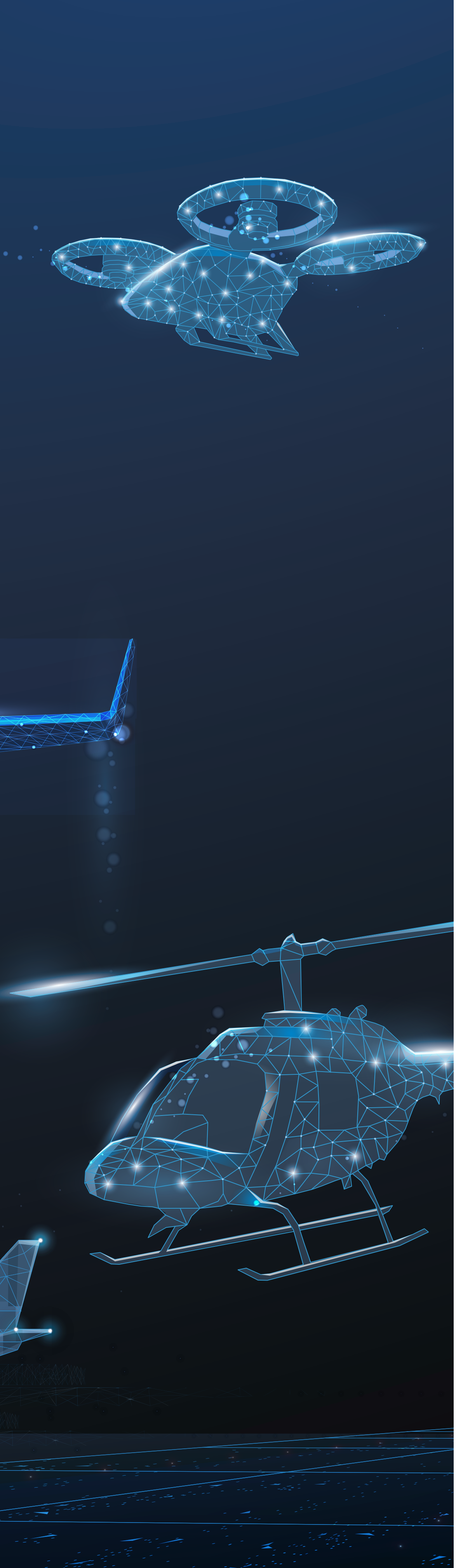
"We have had a significant shift from centre-right governments that were more pro-market to more centre-left, which are more pro-public or public policies and that resulting in added taxation," he says. "It is becoming more expensive to travel because of taxes."

In Mexico, for example, according to data from IATA since 2011, domestic ticket prices for the Mexican consumer (excluding taxes) have declined an average of 50% to $66.

"But on top of those $66 you have to add this mark-up of 44% for taxation," Cerda says. "So it makes it a very difficult environment to succeed."

The country's airlines are promoting air travel against competition from less-comfortable and slower ground transportation networks. But they face disadvantages there too.

"Now, going by air can compete with going by buses, and may even be cheaper in some cases," Cerda continues. "But in many countries in Latin America, ground-based transportation networks are not heavily taxed, and often they are subsidised and not regulated the same way. So, that puts the industry at a significant disadvantage."



Revenue revival

Airline executives are in Cancun for this year's forum off the back of a strong year of growth, which has already seen collective turnover among the region's leading players top pre-pandemic levels

Andres Felipe Perez/Shutterstock

GRAHAM DUNN LONDON

Collective revenues among leading Latin American airlines outstripped pre-pandemic levels last year and have continued to rise so far during 2023.

While Latin American carriers were forced into more restructuring efforts than arguably those in any other region – notably with the three biggest airline groups LATAM Airlines Group, Avianca and Aeromexico all undergoing formal restructurings – operators have benefited from the relatively early reopening of travel markets after the pandemic.

FlightGlobal analysis of nine leading Latin American airline groups featuring among the 100 biggest by traffic in 2022 shows RPKs among these carriers just 9% down on 2019 levels last year. That is the closest any region's carriers collectively got to pre-pandemic peaks last year.

This strong recovery in passenger traffic helped drive a robust revenue performance among the region's largest operators. Collective revenues for Latin America's nine biggest carriers totalled around $33 billion last year – nearly double the 2021 figure and topping 2019 revenues for the same operators.

CLOSING THE GAP

Five carriers – Aerolineas Argentinas, Azul, Copa Airlines, VivaAerobus and Volaris – recorded higher revenues in 2022 than in 2019. While Aeromexico has not publicly released full-year financial results for last year, the SkyTeam carrier's revenue at the nine-month stage was higher than in 2019.

The region's biggest carrier, LATAM Airlines Group, almost doubled its revenues from 2021 to around $9.5 billion last year. That though was short of the $10.4 billion the airline made in 2019 before the pandemic.

Avianca Group revenues of just over $4 billion were also below pre-pandemic highs of $4.6 billion, while Brazilian carrier Gol's revenues of nearly $3 billion last year compared with a 2019 figure of $3.5 billion.

While IATA sees Latin America's carriers as a whole remaining in the red this year after collective losses in 2022, many of the region's leading carriers did restore profitability at an operating level last year – albeit one-off restructuring gains in some cases had an impact.

Leading operators in the region can also take heart from a continued strong performance over the first half of 2023, with several reporting record sales.

Data for seven leading Latin American groups to have disclosed figures for the first six months of 2023 shows improved revenues and an operating profit. That is in stark contrast to the same period last year, when all but two of the same carriers were in the red.

While challenges, notably higher fuel costs, remain, executives across these airlines largely set out a positive outlook during the recent second-quarter reporting season.

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Latin American airline first half results

Airline	Revenue ($m)		Operating result ($m)		Net Result ($m)	
	2023	2022	2023	2022	2023	2022
LATAM Airlines	5,481	4,185	566	-181	340	-762
Avianca	2,202	1,834	231	-75	4	-304
Gol	1,760	1,255	259	-22	228	-47
Azul	1,695	1,382	91	-3	-138	37
Copa	1,676	1,265	388	88	139	144
Volaris	1,513	1,258	20	-51	-65	-98
VivaAerobus	803	622	45	6	-11	-28

Source: FlightGlobal, Gol/Azul converted from local currency

Azul reported higher revenues than in 2019

Airbus

"Our positive results… combined with greater stability in the economic environment, position us to maintain the pace"

Celso Ferrer
Chief executive, Gol

Gol

» "We are excited for the upcoming months as we enter the strongest seasonal period of the year with a very constructive demand, pricing and capacity environment," said Azul chief executive John Rodgerson on a second-quarter earnings call.

"We expect to leverage our strengthened balance sheet, liquidity position, and lower cost of capital to further enhance our sustainable growth."

UPWARD TREND

Celso Ferrer, chief executive of another Brazilian carrier Gol, said: "Our positive results in [the quarter], combined with greater stability in the economic environment, position us to maintain the pace of delivering consistent results during this second half."

Avianca and LATAM, both having completed their Chapter 11 processes, point to progress in implementing their post-restructuring strategies.

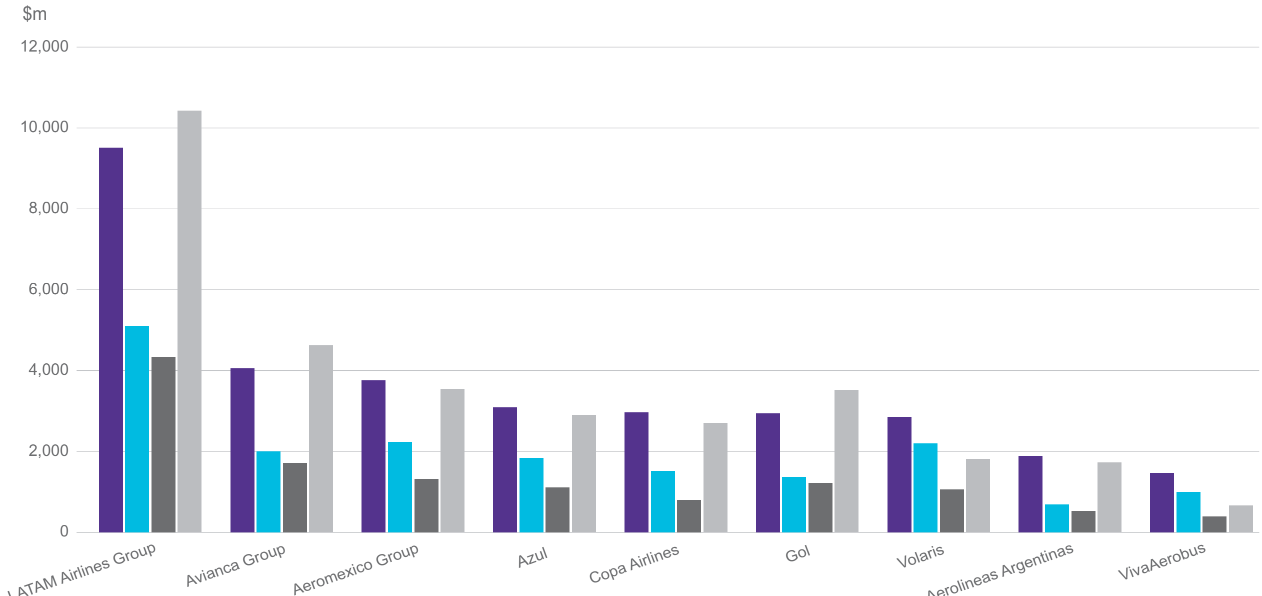
"Our financial results are the result of the combination of an effective business strategy, an attractive value proposition for customers, cost discipline, a robust network in the region, globally-leading punctuality worldwide and a solid balance sheet," LATAM Airlines chief executive Roberto Alvo said after the carrier posted a return to the black for the first half.

"We continued our strong execution on the business plan in a seasonally challenging quarter," Avianca chief executive Adrian Neuhauser said after the carrier's second quarter results. Traditionally, its first two quarters of the year are its weakest.

Few carriers have grown as rapidly since the pandemic as the Mexican low-cost pair VivaAerobus and Volaris, with the potential for further growth on transborder routes now the US Federal Aviation Administration has returned Mexico's aviation safety rating to Category 1.

However, while Volaris still sees strong demand and expects revenues to reach around $3.2 billion – at the lower end of its full-year guidance – it has flagged the impact on profitability from higher fuel costs and the accelerated inspections of the Pratt & Whitney GTF engines that power its Airbus narrowbodies. It now expects 2023 EBITDA margins of 26%, down on its forecast range of 29-31%. ■

Latin American airline revenue snapshot (2019-22)



Source: FlightGlobal analysis
Notes: Aeromexico 2022 estimated on 9m data, Avianca 2021 estimated

2022 | 2021 | 2020 | 2019

Metal missions

While supply-chain challenges have made new capacity hard to come by, many of the region's carriers have been boosting their fleets with aircraft old and new

Embraer completed the sale of an E190-E2 to Brazilian financial institution Crefisa earlier this year. Operating with the Placar Linhas Aereas livery, the jet is providing charter flights to the country's football teams.

Embraer

Aerolineas Argentinas

Aerolineas Argentinas took delivery of its first Boeing 737-800BCF in April, marking the carrier's return to operating dedicated freighters. It has since taken delivery of a second example of the type.

Nathan Coats/Creative Commons

After retiring its four remaining Airbus A330-200s earlier this year, Avianca plans to return two to service as converted freighters, or A330-200P2Fs. It expects the first one to rejoin its fleet next year.

LATAM Airlines received its first A321neo in early October, at the same time announcing an order for 13 more of the type. The delivery came from a previous commitment for 76 of the twinjet variant. The first example will be operated by the Brazilian division of LATAM.

Airbus

InterCaribbean

InterCaribbean Airways deployed its first ATR 72-500 turboprop in late August. The airline had in January began operations with its first ATR – a 42-500 – as it refreshes its fleet with larger aircraft types. It expects to receive several more ATRs in the coming months.

Surinam Airways put its first Boeing 737-800 into service in January this year. It has since taken delivery of a second example, also on lease from Aercap. The carrier also operates a single Airbus A340.

Johan Adolf Pengel International Airport

Ortiz's work at JetSmart impressed judges

Leo Johnson/FlightGlobal

Awards recognise region's talent

This year's Airline Strategy Awards celebrated stand-out leadership at two of Latin America's top low-cost carriers

LEWIS HARPER LONDON

Two airlines from the Latin America region were among those recognised at the Airline Strategy Awards in London on 16 July, with Volaris and the chief executive of JetSmart picking up awards at the prestigious global event.

The awards – which have been held since 2002 – recognise individuals, airlines and companies supporting air transport that have demonstrated dynamic leadership and clear vision. The event is organised by FlightGlobal in partnership with the civil aviation practice of Korn Ferry, the largest human capital solutions provider in the world.

The winners on the night were: Estuardo Ortiz of JetSmart for Executive Leadership, Latin America and the Caribbean; Volaris for Digital Leadership; Ben Minicucci of Alaska Air Group for Executive Leadership, North America; Guliz Ozturk of Pegasus for Executive Leadership, Europe; Goh Choon Phong of Singapore Airlines for Executive Leadership, Asia-Pacific; Rodger Foster of Airlink for Executive Leadership, Africa & Middle East; John Dietrich and Michael Steen of Atlas Air for Air-Cargo Leadership; Air New Zealand for ESG Leadership; and former American Airlines chief executive Doug Parker, who received the *Airline Business* Award.

INTRA-REGIONAL SUCCESS

Among the Latin American winners, judges agreed that JetSmart has made an impact that belies its size over the past few years, under the leadership of founding chief executive Ortiz.

Indeed, the Chile-based ultra-low-cost carrier has been making strides through organic and inorganic growth since its launch in 2017, notably in the tough intra-region markets.

"I consider them to be the first true intra-Latin America low-cost carrier," said one judge.

Judges were impressed by several aspects of the Indigo Partners-backed carrier's story, noting that the odds were stacked against its success in a region where regulation and government red tape tend to weigh on cross-border operations in particular.

And despite the extra challenges created by the Covid-19 pandemic, Ortiz has ensured that JetSmart emerged confidently from the crisis.

Leo Johnson/FlightGlobal

Daniel Gelemovich and Ana Alcantar picked up Volaris' award

JetSmart's expansion focuses on offering new, point-to-point routes that do not necessarily go through traditional hub airports.

As that strategy proves successful, judges complimented the airline's focus on maximising efficiency and its ambition to have the lowest cost in the market.

They also noted that JetSmart has not been afraid of bold moves, such as the acquisition of Norwegian Air Argentina.

Showing the airline's maturity and further impressing the judges, JetSmart is working under a commercial partnership with American Airlines, through which the US major has invested in the carrier.

"My hat goes off to JetSmart," a judge said. "What it has achieved so far is very promising."

Volaris, meanwhile, was recognised for its strong work in the digital arena.

Since founding the Mexican low-cost carrier in 2005, chief executive Enrique Beltranena has been determined to give the business a digital heartbeat and a clear identity in the online marketplace, as well as its internal operations.

He once said: "Volaris is a digital company that just happens to fly planes."

Under his leadership, the airline has capitalised on the ability of a start-up to build a digitally focused business from a clean sheet of (virtual) paper.

Volaris has pioneered an impressive range of digital products and tools – all of which are based on the principle of customer self-service – with several launched over the past two to three years.

As one judge observes: "Volaris has taken an integrated approach, consistently pioneering digital technology and solutions over the past few years to drive revenue, improve customer service and reduce costs."

During the Covid-19 pandemic Volaris used the down time constructively, relaunching its website and developing an app that shows personalised offers depending on the traveller's itinerary.

One of the most successful digital tools developed by Volaris is an automated disruption handling system that manages flight cancellations virtually. This was developed in the months after Covid, spurred by congested customer service lines at the call centre.

And despite a strong increase in traffic as demand returned to the market, the carrier's digital service focus means it has only hired 2% more agents.

"From day one, Volaris has been built with the mission of making as much as possible automated, using digital technology in a smart and appropriate way," observes another judge.

Recipients of the Airline Strategy Awards in all categories except the *Airline Business* Award were selected by an independent panel of industry experts, following nominations overseen by FlightGlobal's *Airline Business* and Korn Ferry. *Airline Business* also presents its own award, recognising an individual making a lasting strategic contribution to the industry.

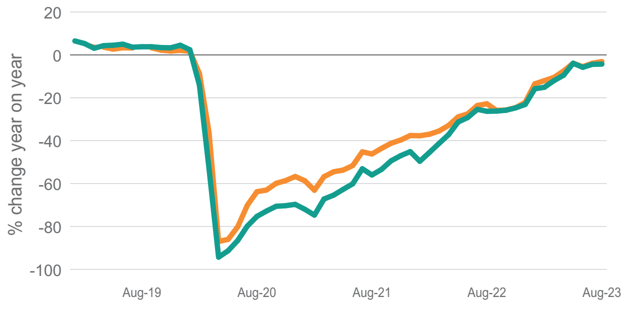
Collins Aerospace is a platinum sponsor of the awards, while category sponsors include CFM International, Cirium, SmartKargo, Tampa International Airport and Volantio.

Flightglobal.com/strategyawards

Industry performance indicators

The latest global data for several important airline market indicators, including traffic and capacity across passenger and cargo markets, share-price developments, and 12-month fuel-price trends. Subscribers to FlightGlobal Premium can view a monthly version of this data, which includes further metrics such as in-service fleet size and share prices for the world's largest operators. Visit FlightGlobal.com/Subscribe for more information

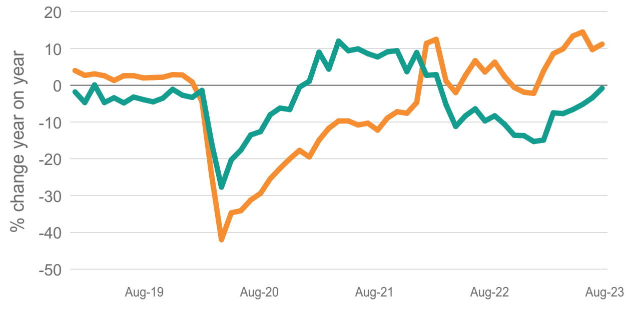
Global air passenger market, year-on-year* demand and capacity trends, to August 2023



Source: IATA
Notes: RPK = revenue passenger kilometres ASK = available seat kilometres
*Data for 2021, 2022 and 2023 compared with 2019

RPK | ASK

Global air cargo market, year-on-year* demand and capacity trends, to August 2023



Source: IATA
Notes: Notes: CTK = cargo tonne kilometres ACTK = available cargo tonne kilometres
*2021 data compared with 2019. 2022 and 2023 data back to year-on-year comparison

CTK | ACTK

Global passenger market: August 2023 snapshot

	World share	RPK	ASK	Load factor change	Load factor
Africa	2.1%	-8.3%	-9.3%	0.8pp	76.4%
Asia-Pacific	22.1%	-7.1%	-5.1%	-1.8pp	82.2%
Europe	30.8%	-6.6%	-5.1%	-1.4pp	87.6%
Latin America	6.4%	6.9%	4.6%	1.8pp	85.1%
Middle East	9.8%	-3.7%	-4.8%	1.0pp	83.0%
North America	28.8%	0.9%	2.5%	-1.4pp	85.8%
Total market		**-4.3%**	**-3.1%**	**-1.1pp**	**84.6%**

Source: IATA Note: Changes versus August 2019

Global air cargo market: August 2023 snapshot

	World share	CTK	ACTK	Load factor change	Load factor
Africa	2.0%	-4.7%	3.8%	-3.5%	38.8%
Asia-Pacific	32.4%	4.9%	28.5%	-9.9%	44.3%
Europe	21.8%	-0.2%	3.6%	-1.8%	48.4%
Latin America	2.7%	6.2%	13.7%	-2.3%	32.6%
Middle East	13.0%	1.4%	15.7%	-5.8%	40.7%
North America	28.1%	-1.2%	2.7%	-1.5%	37.7%
Total Market		**1.5%**	**12.2%**	**-4.4%**	**42.0%**

Source: IATA Note: Changes versus August 2022

Indexed five-year share price trend at world's largest airline groups

Source: FlightGlobal analysis of Yahoo Finance data
Notes: Basket of 18 airline groups covering North America, Europe and Asia-Pacific.
Closing share prices w/c 1 October 2018 = 0. Data covers weekly closing prices to w/c 2 October 2023

Five-year weekly jet fuel price

($/gal)

Source: US Energy Information Administration
Notes: US Gulf Coast kerosene jet fuel spot price FOB. Data to w/e 29 September 2023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