Airline Business Daily

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MAKING CONNECTIONS

Jose Ricardo Botelho outlines untapped opportunities in the event's host region and concerns about Latin American government attitudes towards aviation

PILAR WOLFSTELLER
ZURICH

As ALTA celebrates its 20th Airline Leaders Forum, executive director and chief executive Jose Ricardo Botelho is looking forward to drawing the organisation's focus on to the many island nations of the Caribbean Sea, and their networking potential.

This year's meeting of the Latin American and Caribbean airline association in Nassau is the first in the Caribbean since 2015, when it was hosted in San Juan, Puerto Rico. Nine years on, Botelho sees progress for the region's air carriers, but ALTA still has its work cut out for it when it comes to supporting air travel growth across the region.

The area's biggest challenge, he says, is connectivity. Much of the industry is focused on bringing cash-flush tourists for sun and beach vacations, but there is little connection between the island nations themselves.

"The growth [in the Caribbean] is amazing, but it's mainly from the USA," he says. "There is a lot to work on regarding routes between the countries."

Also, more flights between the Latin American continent and the strategically located islands would be a win for everyone. "South America is a market of more than 400 million people," he says. "Why shouldn't people go to the Caribbean on their way to their final destination somewhere else?"

Part of the reason is cost. Tourists from North America and Europe are in a financially stronger position than their Latin American counterparts, and together those tourists account for 82% of traffic to and from the region – 68% and 14%, respectively.

Botelho: Looking beyond the USA

ALTA

ALTA data shows intra-Caribbean traffic constitutes only 9% of the total air traffic to and from the region, highlighting a significant challenge in the connectivity within the Caribbean islands. This low percentage is particularly concerning for the movement of passengers within the Caribbean, where there are notable limitations in terms of affordable and accessible air travel options.

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Hot pursuit – 5

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LEWIS HARPER LONDON

Region's operators lead the way

Discussion of industry issues this week comes against a backdrop of passenger and cargo demand growth

The Latin American and Caribbean airline industry has gathered in the Bahamas during a period of 'normalisation' for many carriers around the world, as the post-pandemic highs seen in 2023 give way to something more organic in terms of demand and yield trends in 2024.

That comes after the global industry finally surpassed pre-Covid passenger traffic levels this year, although this was not news to a Latin American and Caribbean region that had already crossed that line months ahead of most others.

But alongside growth opportunities there are signficant global uncertainties for airlines to grapple with.

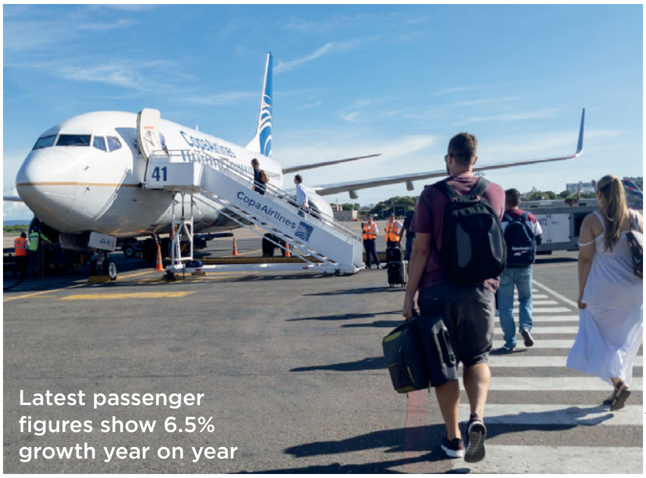
Conflict in the Middle East, for example, means an uplift from lower oil prices is by no means guaranteed, while concerns about the huge Chinese economy will not go away. Elsewhere, the outcome of the upcoming US election will be keenly watched for the geopolitical and economic consequences that might follow – not least any impact on the value of the US dollar.

HIGH TRAFFIC

And there are issues specific to the ALTA region, including much-discussed and long-held frustrations around regulatory and cost pressures. But for now, growth continues to be the order of the day for local carriers at an aggregate level.

Crucially, load factors are holding up, even as capacity moves way beyond 2019 levels.

IATA's latest data for the month of August shows Latin American carriers achieving passenger traffic growth of 6.5% year on year, on a load factor of 84%.



Latest passenger figures show 6.5% growth year on year

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While at face value that growth versus 2023 is unremarkable compared with other regions, the comparison month does make it noteworthy: in August 2023, Latin American carriers were already recording traffic growth of 6.9% versus August 2019. The only other region to see growth on that basis during that month was North America, at 0.9%. All other regions still had ground to make up on pre-Covid levels.

Much of the expansion this year in Latin America is being driven by international operations, with the region recording growth of 13.6% year on year in August. On that metric it only trailed Asia-Pacific, which is still making up ground on 2019.

At a global level, the airline industry recorded a record-high load factor during the month of August of 86.2%, IATA says, on traffic up 8.6% year on year and capacity 6.5% higher.

"The market for air travel is hot and airlines are doing a great job at meeting the growing demand for travel," says IATA director general Willie Walsh.

In the cargo sector the narrative is also a positive one at a global level, as 2024 turns out much better than many stakeholders dared expect. Even yields have ticked up slightly in recent months.

> **Much of the growth in Latin America is being driven by international operations**

Total global demand rose by 11.4% year on year in August, IATA says – the ninth consecutive month of double-digit growth – although much of it is being driven by specific factors in Asia-Pacific and the Middle East.

Indeed, Latin American carriers may not be enjoying all the fruits of the global uptick.

Cargo data specialist WorldACD says that increases in demand and freight rates in 2024 "have clearly been largely driven by Asia-Pacific and [Middle East/South Asia] markets", with the latter "bolstered by the disruptions to ocean freight supply chains caused by the attacks on shipping in the Red Sea".

The strong yields in some markets are, therefore, offsetting a less-positive picture in regions such as Latin America and North America, where freight rates fell by a few percentage points year on year in the second half of September, WorldACD data shows.

Latin American carriers saw 14.2% year-on-year demand growth for air cargo in August, IATA says, on capacity up 8.0%.

Encouragingly for all regions, however, the "slow but steady" expansion of global trade appears to be staying on track.

Moreover, the strong growth in Asia-Pacific – and in China and Hong Kong in particular – is partly attributed to rising e-commerce demand, which IATA suggests might be creating a structural rise in air cargo yields.

"New e-commerce players and shippers that shift from sea to air (due to capacity limitations in ocean shipping and the associated rise in sea freight rates) compete for capacity with the more traditional air cargo clientele," the association says.

As ever with air cargo, there are reasons for caution around the outlook. But the sector is heading for what WorldACD suggests could be a "strong" peak season through to the end of the year. ■

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ALTA's belief is that this "under-utilisation" presents a significant opportunity for the Caribbean to establish itself as a major hub, not just for the North-South America corridor, but also for enhancing intra-regional connectivity.

Airlines based in the region face numerous issues that have no quick or easy solution. Among these are low profitability, thin routes, long turnarounds, a high-corrosion environment which requires more and longer maintenance checks, limited local maintenance facility capacity, high seasonality, low aircraft utilisation, inconsistent government policies, expensive fuel, and high taxes and fees.

AGEING AIRCRAFT

Another issue is fleet renewal – a key component for passenger comfort, as well as in reducing greenhouse-gas emissions and contributing to aviation's global goal of net-zero emissions by 2050. The region's fleets are among the oldest in the world on average, at over 22 years.

That said, forcing airlines to introduce emissions-reducing measures, such as minimum sustainable aviation fuel (SAF) use, is not the way to go in Latin America and the Caribbean, and could send airfares higher in a region where customers are already very price sensitive.

"We are against any kind of mandates… [because] we have to respect the potential of each country," Botelho says.

ALTA's view is that all of these topics disproportionately affect passengers travelling within the Caribbean, especially those from lower socio-economic backgrounds.

Botelho believes air travel acts as a catalyst for economic development

ALTA

It is therefore helping governments to see these roadblocks, and "find a right balance".

Travel and tourism in the region makes up about 11.5% of gross domestic product, one of the highest proportions in the world. Tourism accounts for one in seven jobs, and the region is four times more dependent on tourism than any other region in the world, according to ALTA statistics.

The most-visited country in the Caribbean is the Dominican Republic, which represents 30%, and Cuba, with just over 20% of the total, comes in second place.

ALTA often repeats the mantra that air travel acts as a catalyst for further infrastructure and economic development in any region. "It's a snowball-effect," Botelho says.

> "We are against any kind of mandates… because we have to respect the potential of each country"
>
> **Jose Ricardo Botelho**
> Executive director and chief executive, ALTA

And in the past years, the impact has been positive. Travel between Caribbean nations and South America is growing at about 4.7% annually, but from a low base. That percentage, however, is higher than traffic to North America, which is at around 3.5% growth annually, ALTA says.

"The Caribbean has the potential to transform itself into a central node for air travel in the Americas," ALTA says. "The projected 20-year traffic flow growth rates – 6% for Europe to South America, 6.4% for Central America to South America, and 6.5% for South America to North America – further reinforce this opportunity.

"Establishing hubs in the Caribbean could be a strategic move to capture a larger share of these passengers, thereby bolstering the region's position in the global aviation landscape and enhancing economic growth through improved connectivity."

Only seven countries in the Caribbean region have improved their level of intra-regional connectivity since 2019. Overall intra-Caribbean connectivity in 2024 is 36% lower than it was in 2019, and just 14 airports out of the region's 94 have more than 10 frequencies per day to other Caribbean destinations.

According to ALTA's own statistics, the region encompassing Latin America and the Caribbean has among the lowest average number of trips per capita, at about 0.64 per year, compared to North America with 2.48 and Europe with 2.54 trips per year.

Within Latin America, Panama and Chile lead the pack, at 1.36 and 1.14 trips, respectively.

"Aviation is an essential service, it has to be seen as part of a strategic plan," Botelho says. "But sometimes it is seen only as the cash cow, and we need to stop that because it is damaging the people of Latin America.

"People want to fly, and they are asking the governments for more connections," Botelho adds. "When you do something for aviation, it's an economic and social programme for the people. Where you see aviation you see development, because then you need infrastructure, you need security, you need safety, you need technology, and you need a lot of other things."

As ALTA begins its 20th Leaders Forum in the Bahamas, Botelho says the organisation's work is never done.

"We are very happy with our association's achievements, we are the voice for the airlines and the industry in this region," he says. "But sometimes it is frustrating to see that we are not there yet, and how much further we have to go." ■

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Region's per capita trip rates are low by global standards

PILAR WOLFSTELLER ZURICH

Bahamasair's strategic ambition

Tracy Cooper is seeking airline partners both local and farther afield as the forum's host carrier expands

As host carrier of the 20th ALTA Airline Leaders Forum, Bahamasair has itself a lot to celebrate.

Founded in 1973, the same year the commonwealth of the Bahamas won independence from the UK, the airline currently operates four Boeing 737NG aircraft and six ATR turboprops.

The carrier flies to 18 destinations across the Bahamas, five in the USA (Orlando, West Palm Beach, Fort Lauderdale, Miami and Raleigh-Durham, North Carolina) as well as to Haiti, Turks and Caicos, and Cuba.

Bahamasair is the country's flag carrier and primarily owned by the government. As could be expected, its strategy goes hand-in-hand with the country's tourism strategy and aspirations.

And the 2024 tourist figures are on track to exceed last year's 9.6 million, which already was a record.

At the heart of the country's air transport industry sits Bahamsair and its chief executive Tracy Cooper. His airline's mission is two-fold: transportation of people and goods around the islands, as well as carrying foreigners to and from its famous beaches and reefs for sun-soaked holidays.

And the Bahamas' strategic location north of Cuba lends itself to creating a network with Nassau at its centre.

"When we're talking future expansion of the airline, there's no doubt about it that we would like to be a hub for the Caribbean," Cooper says. "In fact, we'd love to be a hub for beyond the Caribbean."

That said, the airline is limited to its fleet of just 10 aircraft at the moment, but Cooper says expansion is in the plans.

"As we grow the fleet, we're going to look to see how we could better increase connectivity within the Caribbean," he says.

That is also what ALTA is looking to rectify. Travelling between the island nations sprinkled across the Caribbean Sea currently can be a whole-day affair, with many carriers' connections leading through Miami or Fort Lauderdale on the North American mainland. Making travel through the Caribbean easier will be a boon to the entire industry.

"We are aggressively pursuing interlining agreements with other Caribbean carriers"

Bahamasair is driving a strategy of partnerships.

"We are aggressively pursuing interlining [agreements] with other Caribbean carriers," Cooper says, so that Bahamasair can expand its reach through those entities. These candidates include Haiti's Sunrise Airways, Cayman Airways, Surinam Airways, and Caribbean Airlines, headquartered in Trinidad and Tobago and Jamaica.

But Cooper's ambitions stretch beyond Bahamian neighbours. Latin America is also on his list of to-dos, he says, and he keeps an eye on the rest of the world, too.

"We fly into Miami, Orlando and Fort Lauderdale. All of Latin America flies into Miami, so we are looking to see how we can have tentacles to Central and South America. When you look at Orlando, you're talking about all of the Middle Eastern and European airlines that are flying there. And when you talk about Fort Lauderdale, you have all [US] domestic carriers like Sun Country and Spirit that fly there. So we are reaching out to them.

"Obviously, we can't do it all at one time, but we've set ourselves a mandate to do about four or five interlining [agreements] per year," he says.

The Bahamas are, of course, also limited by their infrastructure. While doubling business would be a fantastic goal, Cooper says that is unrealistic.

"There are other aspects to consider in this tourist destination. There have got to be enough hotel rooms and the like, so we're working within the margins that are permitted."

At some time periods in the past two years the country's accommodations were completely booked out, he adds. "We're encouraged that we can see that some expansion in the hotel availabilities, some new properties are going up, so possibly 10% [annual] growth would be within the margin of which we think the infrastructure can be sustained."

With the Bahamas hosting this year's ALTA meeting, Cooper hopes that the country can profit from the additional exposure to Latin American airlines and tourists. The country's ministry of tourism is placing a great deal of its focus on the continent, as it hopes to attract more business from an increasingly wealthy middle class searching for new holiday destinations.

SWEET SPOT

"We are looking, I would say, with interest, to see where would be a suitable location that we can ourselves interline directly in Latin America – hopefully we can find a sweet spot that will allow us to do that.

"We are also talking to the Latin American carriers, flying heavily into the Dominican Republic and into Cuba, which are virtually flying over our heads. So we are looking at both from what Bahamasair can do, and how we can tie it into the strategy of our ministry of tourism."

In the meantime, as hurricane season winds down and travellers from the increasingly autumnal northern hemisphere begin making their way to the Caribbean to escape the dark and cold, Cooper continues to lead the small flag carrier into a promising future.

His advice to ALTA guests, and others who might consider a stopover or an entire holiday? The country's tourism promotion slogan at the end of the last century still sums it up well, he says.

"It's always better in the Bahamas." ■

ALTA

PILAR WOLFSTELLER SANTIAGO

What next for changed LATAM?

Roberto Alvo had an unimaginably tough start to his time leading the group, but fortunes are improving

LATAM Airlines Group

Roberto Alvo's first day of work as chief executive of LATAM Airlines Group was 1 April 2020, two weeks after the Covid-19 pandemic brought international commercial aviation to a screeching halt, and travel bans around the world almost decimated the industry.

In April 2020, LATAM's passenger traffic plummeted 96.6% year on year, while capacity was down 94.3%. May was not much better, with traffic down 95.6% and capacity 93.3% lower.

Facing a cash crunch, on 26 May 2020 the company filed for Chapter 11 bankruptcy protection in a US court, looking to restructure its debt and enter a voluntary court-overseen reorganisation.

"We had no operation, we got no help from the government, we were in Chapter 11, there was no vaccine, and no clarity on the lethality of Covid," Alvo tells *Airline Business* during an interview earlier this year.

All Alvo had to offer his unsettled employees was his word.

"I needed to be in front of people, explain to them what was going on and what was I trying to do. Could I promise them anything? I couldn't. I said I would do whatever I can to keep as many of you here. I will do my best, I don't know how, but trust me that this is what I am going to try to do."

STRONG LEADERSHIP

The crisis pushed into sharp focus the most essential obligation of any chief executive.

"My most important responsibility is not making decisions, I have made decisions for 25 years, and I'm very used to making decisions," he says. "The challenge of a leader is to make people understand what they stand for, and why they are there.

"It's hard if you want to do it right."

And it's clear that he and his management team are doing something right. The airline that filed for bankruptcy protection and reorganisation in May 2020 is once again operating its pre-pandemic network.

"If I look at the glass half empty – it took us four years to get back to where we were in February 2020. But I also see a glass half full: in the last year and a half we saw a very speedy recovery in terms of demand.

"But what is different – LATAM is different. The airline went through the most difficult moments in its history as we needed to file for Chapter 11 [bankruptcy] after we got no help from governments. We used that time to ask ourselves hard questions. What do we need to do, now that our existence is threatened? Why should we even be here?"

Through the restructuring process, LATAM renegotiated some 6,000 supplier contracts and took 7,000 off the employee count. In the past few years, it has navigated economic uncertainty across the continent and absorbed double-digit inflation.

LATAM is now "the only nonstop shop for the region whether you want to fly within it, or to or from it. We are in a position that we can connect South America to the world in the best way possible". The network is more diverse, and passengers have more options.

JOB SATISFACTION

And the carrier is experiencing continued success in 2024, leaving Alvo to focus on his priorities for Latin America's biggest airline group.

"Our strong results are the outcome of things that we do right," he says. "I guess the most important task and it's probably not a sexy one in terms of destinations and flags on the map, is to humanise LATAM.

"First and foremost I need to make sure that the people that work for LATAM wake up every morning and feel that there is a professional and a personal meaning to be here. There's no money that buys alignment and loyalty. No matter what you pay, you are never going to get this out of people who don't understand why they are doing what they're doing."

He also thinks about his customers. "Every interaction – from the moment that you decide to go fly, to the moment you get your points credited in your mileage account – is important, and we have to be dependable every single step of the way.

"And then I think about the environment."

Since his 5% SAF pledge two years ago, much in the industry has changed, but the scarcity and the high cost of producing SAF has not, and will not in the foreseeable future. Cheap and easy operational improvements such as single-engine taxi and streamlining airspace and flight paths will also help on the path to decarbonisation.

"In Europe, for example, skies are a mess. We in Latin America don't have the same density of traffic, but there are still some efficiencies to be had," he says.

As the aviation industry collects more data, he is optimistic that a partnership with academics and legislators can lead to progress in finding solutions to the sustainability predicament.

"If you ask me today, 'Do you see a path of finding 5% of SAF for my operation in 2030?' I think it's extremely difficult. I don't know if we'll be able to achieve it or not," Alvo says.

"The idea was to spark a conversation because at that time nobody was talking about it, and that's what we needed. I'm less concerned about the specific goal and more concerned about the platform." ■

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Beltranena: Everybody hears the SAF alarm


Walsh: Situation will eventually change for the better

IATA

LEWIS HARPER MIAMI

Lack of SAF continues to frustrate

Leaders continue to see a pressing need for region's governments to incentivise sustainable fuel production

The global sustainable aviation fuel (SAF) industry might be small today, but that does not stop inequalities already existing in terms of the regional production split.

A case in point is Latin America, which still firmly falls within the group of regions – also including Africa and much of Asia – where progress on building a SAF industry is essentially non-existent.

And there is little sign of progress when it comes to addressing that challenge, stakeholders at late September's IATA World Sustainability Symposium in Miami suggested, which puts at risk the airline sector's ability to decarbonise as one and reach its net-zero 2050 target.

"I don't want to say that some governments are not hearing the alarm – I think everybody hears the alarm," says the chief executive of Mexican low-cost carrier Volaris, Enrique Beltranena, during a panel discussion.

"It's just the system of priorities where these kind of things are way behind the rest of the world – our governments have a lot of priorities before getting to this."

That does not mean, however, that airlines should accept their fates, Beltranena argues.

So how can the region's carriers help to ensure a SAF industry develops, giving airlines access to a fuel that is forecast to power the majority of their net-zero journey?

The problem is not that Latin America lacks the fundamentals for building a SAF sector, points out IATA director general Willie Walsh during a press briefing at the same event.

"Personally I find it strange that we are not seeing Latin America produce more SAF," Walsh says. "The feedstock is there, the technology is well understood."

It is government policy that will make the biggest difference, he argues, while noting that biofuels are already produced in the region for non-aviation purposes.

"What we need is the right policy frameworks in place to ensure that investment in production of SAF will be attractive and that we'll get more and more investors looking to build the bio-refineries which will be necessary, which Latin America has a good experience of, but we need to translate that into investment in the production of SAF," Walsh states.

Beltranena concurs.

"It's about incentives, it's about the things we need to do," the Volaris chief states.

PUSH TOGETHER

The challenge is convincing governments to play ball; to take the next step beyond hearing the airline industry's concerns.

"We need to speak more… we are all working on all these different topics [but] we are not being outspoken in the things we are also achieving," Beltranena says of the steps that airlines can take today.

"We don't need the stick, we need incentives, we need to work together, we need to push together," he says.

> Governments often view the aviation industry as a luxury, rather than a driver of economic and social good

Beltranena's belief is that unlike regions such as Europe and the USA, where governments have accepted the need for action on sustainability and are legislating as such, policymakers in Latin America are some way behind.

That means he sees little point in speculating on whether European Union-style policies on SAF might work in Latin America.

"It is important that we understand that countries in Latin America, most countries in Asia and most countries in Africa are never going to get there unless the governments start to understand that sustainability is now part of their programmes, and they have to think like that," he states.

"The way they think when they say 'we have to construct airports', the way they think when they say 'we need to construct roads', 'we need to construct trains', 'we need to development infrastructure for aviation' – for governments the name of the game has to be sustainability.

"They need to understand that unless they do it in a sustainable way, it's not going to work for the future."

But a further problem is that governments can still view the aviation industry as a luxury, rather than a driver of economic and social good, Beltranena says.

"Sometimes I think that people are thinking about aviation as a way of just doing leisure travelling, or doing things that do not produce economic development," he says.

"We are a company that is transforming ground transportation into air transportation with a much more efficient system… and 50% of our routes do not compete with the airline system; they compete first with the buses in Mexico.

"These states – the 32 states where we fly in Mexico – they need transportation in order to take out their products, to take out ››

Airlines push for global policy framework

Willie Walsh has often pointed out that his role as director general of industry association IATA allows him to say things that would be unsayable by individual airline chief executives, given the political sensitivities they have to consider.

And he was as good as his word at the IATA World Sustainability Symposium in Miami, where the European Union was again the target of much of his ire.

"We should look at what they are doing and not make the same mistakes they are making," he said of the bloc's sustainability policies during a panel discussion.

UNEVEN PLAYING FIELD

His contention is that burdening European carriers with costs such as those relating to the Emissions Trading System, while at the same time mandating the purchase of expensive sustainable aviation fuel (SAF) without sufficiently incentivising production, leads to an uneven playing field that damages the competitiveness of local carriers.

Not everyone was in agreement, with some delegates in Miami arguing that it is more realistic to expect leadership on sustainability to come from individual regions and governments, and that others will eventually follow suit.

But Walsh was not alone in arguing that regional disparities in sustainability policies are counterproductive, during an event where positivity about airline industry progress and ambition on net-zero was balanced against concern about the need for urgent action on several fronts.

"I'd be remiss if I didn't sound the alarm; we're not moving fast enough," American Airlines chief executive Robert Isom said during his opening speech to delegates.

Isom: We are not moving fast enough

IATA

And referring to ICAO's long-term aspirational goal of net-zero CO_2 emissions by 2050, Isom said during a later panel discussion: "It's time for our countries to act upon what their delegates voted for.... Regional differences won't work."

Notably, that desire for global solutions meant that ICAO's CORSIA global offsetting scheme had a higher profile during discussions in Miami than it has at events in recent years (although that is also partly explained by the 2019 baseline used in the scheme being exceeded for the first time in 2024).

For IATA, no matter what the shortcomings of CORSIA are in terms of achieving actual emissions reductions, the scheme theoretically offers a benchmark for global action based on co-operation between industry and policymakers that keeps a level playing field between regions.

"We've got to prove that these global initiatives work and give people the confidence that we can achieve the goal in 2050," Walsh says.

» their services, to move their economies and get development for the people who work and really produce development."

For energy producers around the world, the reality is that under current government policies, the production of fossil fuel-based products is still incentivised by government policy and often lucrative.

A further frustration is that there is only so much airlines themselves can do to develop a SAF industry, Beltranena says, particularly when margins are already very tight – and tightened even further by the mishmash of aviation regulation and taxes that covers the Latin America region.

But they are trying to play their part, the Volaris chief insists.

The carrier participated in a $50 million investment in US SAF start-up CleanJoule last year through its parent Indigo Partners, while it is also part of an Airbus initiative aimed at encouraging the development of SAF production in Mexico.

"We companies are doing investments," Beltranena says. "Our group did an investment in a SAF development programme in California, but that is not even half of Volaris's consumption in one month.

> **"Aviation has become a commodity and you won't change that from here to 2050"**
>
> Enrique Beltranena
> **Chief executive, Volaris**

"We did a great project with Airbus in Mexico and it had great results.

"But we are well behind in our regions."

A concern for Beltranena and the wider Latin American airline industry is that his messages at the symposium in 2024 were largely unchanged from those delivered by LATAM Airlines Group chief executive Roberto Alvo during the 2023 event in Madrid.

Indeed, Walsh points out that he recently met Alvo and heard that familiar message again.

"Roberto is expressing the same frustration – we want to buy SAF, we want to use SAF, we want to improve our performance, but we can't because it's not produced," he states.

Still, Beltranena's longer-term view is that commercial aviation has become a critical commodity for the Latin American region, meaning things will eventually change for the better when it comes to SAF.

"Aviation has become a commodity and you won't change that from here to 2050," he states. "Aviation will still be a commodity and more of a commodity than ever in 2050."

OPEN COMMUNICATION

He reiterates his point that airlines need to become better at explaining the steps they are taking to reduce their environmental footprints, including through participation in ICAO's CORSIA offsetting scheme, to show governments that change can happen.

"We need to say 'we have really reduced emissions by this amount' and we are really doing things to reduce fuel burn. All these measurements and all these things we have on our plates and we are working on need to be translated… into a measurement and those measurements need to be published and need to be public and need to be part of things that we are speaking about, so the people and governments have the perception that we are achieving and we are doing it," he says.

And with governments hearing the message on SAF and other steps being taken by airlines, Walsh believes that the situation will eventually change for the better.

"I'm optimistic that it's just going to be a matter of time before we see a pivot in Latin America and more and more SAF being produced," he states. ■

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Exchanging fortunes

Currency pain and airport closure add to Brazilian carrier challenges as Azul strives to avoid following Gol into formal financial restructuring

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GRAHAM DUNN LONDON

Brazilian government moves to open up R5 billion ($886 million) in credit support for the country's airlines comes in a year that has been anything but straight forward for Latin America's biggest market.

The legislation, part of a reform of Brazil's tourism regulations, would provide airlines access to up to R5 billion ($886 million) in credits from the country's Civil Aviation National Funding (FNAC). The move has been welcomed by Brazilian Association of Airlines (ABEAR). "A credit line in this direction may contribute to the economic sustainability of the companies, benefiting the whole chain of national tourism," says the association.

It comes against a background of shocks faced in Brazil's airline industry during 2024, which include one of the country's biggest carriers, Gol, entering a formal financial restructuring, the several-month closure of Porto Alegre's Salgado Filho airport following flooding and August's fatal crash of a Voepass ATR 72-500 in the vicinity of Sao Paulo.

That has been compounded by fresh economic challenges presented by the weakness of the Brazilian real, which at the end of the second quarter was down almost 12% compared with the start of the year. While the real has rallied slightly, it remains around 10% down over the year so far.

For airlines, the weak local currency notably increases the financial burden of dollar-denominated expenses, including fuel, aircraft leases and loans. Both Azul and Gol flagged the impact as a major contribution to net losses in the second quarter.

> **Everybody is focused on the exchange rate, but… unemployment is going down and GDP is going up**
>
> John Rodgerson
> Chief executive, Azul

However, despite the challenges, Azul chief executive John Rodgerson struck a positive note about the broader fundamentals of the market during a second quarter earnings call in August.

"I think everybody is focused on the exchange rate, but if you look at the other macro indicators in Brazil, unemployment is going down and GDP is going up," he said.

"And I think what is a testament to that is that [Azul] was able to have increased RASK in July year-over-year 5% with Porto Alegre still offline, so that is a big indicator that the Brazilian economy is actually in a different direction than what you are seeing in the US right now."

FRESH INITIATIVES

This positivity aside, Azul founder David Neeleman believes the airline must go through another "major evolution" in its business and tasked the carrier's leadership to deliver R1 billion ($182 million) in "incremental value" through higher revenues and lower costs.

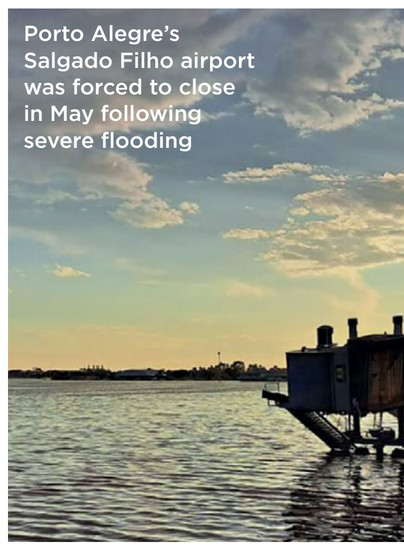
"As we went through the quarter and realised the… realities of the new exchange rate, it became clear to me that Azul once again had to adapt, something we have done incredibly well as we have navigated the last 15 years," Neeleman says.

The carrier has now embarked on a major programme it is calling "Elevate".

In total, Azul has "a list of over 40 initiatives spread across the entire airline and this plan will be our number one priority for the entire company as we move forward", Azul chief financial officer Alexandre Malfitani says of the Elevate programme.

Malfitani adds that with some of the initiatives already in play, they will make "much less than a full year's worth of contribution to 2024, but then they should have a full year's worth of contribution for 2025".

He characterises Elevate as a "natural extension" of the business's work to "optimise" its capital structure last year – an effort that saw it avoid the Chapter 11 proceedings that compatriot Gol is currently working its way through.


Porto Alegre's Salgado Filho airport was forced to close in May following severe flooding

Azul-Gol codeshare agreement is showing promising results

Ariadne Barroso/Shutterstock

In a region where airlines have not been able to access the levels of state financial support that many others enjoyed during the pandemic, Azul is notable as one of Latin America's largest carriers which did not have to undergo a formal financial restructuring since Covid hit.

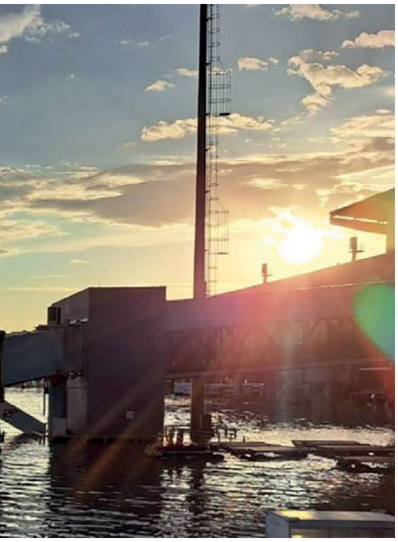
AMICABLE SOLUTIONS

Azul at the end of August, in dismissing reports it was weighing a potential formal restructuring, reiterated that it has "consistently demonstrated" it favours "amicable, commercial solutions". It subsequently in October disclosed it has reached conditional commercial agreements with lessors and OEMs covering 92% of its existing equity issuance obligations, representing "a significant part" of its cash generation and capital structure enhancements efforts.

Ironically, an important part of Azul's plans to increase its revenue under Elevate is driven by the codeshare agreement – covering non-competing routes – that it struck with Gol earlier this year.

"We started selling the codeshare in July, so we are only in the beginning, but we're very happy with the early results and I want to thank our partners Gol," says Malfitani.

The door also remains open for a potential deeper partnership between Azul and Gol, given the former's interest in looking into a possible merger. Azul has previously confirmed it is in discussions with Avianca and Gol holding group Abra to explore possible partnerships or business combinations relating to Gol.



Fraport Brazil

Given how competition concerns have impacted some other high-profile consolidation moves, it remains to be seen how Brazilian regulators would view such a tie-up. To that end, some indication may come from the result of local competition watchdog CADE's initial review into the codeshare link-up between the two airlines.

For its part, Gol cited exchange losses, together with costs related to its financial restructuring, for a second quarter loss of R3.9 billion. The carrier says the loss would have been closer to R1 billion excluding these impacts.

> **"This process will allow us to fully address the challenges caused by the pandemic"**
>
> **Celso Ferrer**
> **Chief executive, Gol**

Gol filed for Chapter 11 restructuring in January this year. "We have made outstanding progress to date and believe that this process will allow us to fully address the challenges caused by the pandemic," chief executive Celso Ferrer said at the time.

In May, the company submitted a five-year financial plan to a US court as part of its bankruptcy process that calls for refinancing $2 billion in debt, an equity raise, and new deals for lessors. The financial plan is "expected to serve as the foundation" for the Sao Paolo-based carrier's reorganisation.

Both Azul and Gol, as well as LATAM Airlines Group, flagged the impact of the closure Porto Alegre airport in the second quarter and remainder of the year.

Porto Alegre's Salgado Filho airport suffered extensive flooding as a result of destructive storms that hit the state of Rio Grande do Sul at the end of April. Flights have been suspended since the end of May, with some services shifting to nearby Canoas air base.

However, services are scheduled to partially reopen at the airport during October ahead of a full restoration of operations by the end of the year.

Gol says the flood impacted its operating result by around R100 million, while Azul estimates it took a hit of at least R200 million.

"Rio Grande do Sul is the fourth largest state in Brazil in terms of economic activity and represents over 10% of our total capacity," says Azul's Rodgerson. "The relevance to us is equivalent to the relevance of Los Angeles for a major US airline.

"We actually believe operating at Porto Alegre and being the largest airline will be a benefit to us going forward, as there is an enormous amount of economic activity projected in the city to rebuild."

LATAM COMEBACK

For its part LATAM Airlines Group flagged a roughly $25 million hit on second quarter operating profits from the airport closure. The carrier was operating 24 daily flights from the airport.

Having completed its own post-Covid Chapter 11 restructuring in late November 2022, LATAM is itself returning to the front foot.

LATAM Airlines Group chief executive Roberto Alvo told FlightGlobal earlier this year that it took four years to get the carrier back to where it was before the pandemic *(see p6)* and the airline has continued to grow this year.

That includes expansion in Brazil, where the group has a strong foothold. LATAM's Brazilian affiliate increased its domestic capacity almost 7% in the second quarter and its domestic market share rose to 40% from 38% a year previously.

In August the group pledged to invest $2 billion in Brazil in the next two years, focusing on "products, technologies and services for passengers as well as aeronautical maintenance activities".

The Santiago-based company signed a "protocol of intention" after executives met with Brazil's president Luiz Inacio Lula da Silva in the Chilean capital.

While in contrast to the Brazilian-based business, LATAM reported a $47 million positive impact from foreign exchange in the second quarter, some other strong players in the market also flagged a currency hit.

Notably, TAP Air Portugal, for whom Brazil is a key strategic market, cited foreign exchange losses for an €8 million ($9 million) fall in second quarter net profits to €72 million.

The Portuguese carrier further bolstered its presence in Brazil earlier this month by launching flights from Lisbon to the Santa Catarina state capital Florianopolis for the first time, while it will increase its Brazilian network to 15 routes next month when it restores flights to Manaus.

Traffic data from Brazilian civil aviation regulator ANAC underlines the strength of the air travel demand in the country, particularly on international routes.

July data shows domestic passenger traffic more than 5% higher than the same month in both 2023 and 2019. International traffic was up almost 15% on last year and 3% on 2019. ■

LATAM maintains spot as the largest Latin American airline group

Markus Mainka/Shutterstock

Regaining ground

Latin America's leading airline groups enjoyed strong fortunes in 2023 as both revenues and profits outstripped pre-pandemic levels almost across the board

GRAHAM DUNN LONDON

While challenges over the first nine months of this year serve as a clear reminder that there is no easy path to consistent profitability for carriers in Latin America, analysis of financial results does underline how strong 2023 was for the region's largest operators.

The latest *Airline Business* Rankings show that Latin American carriers among the top 100 global airline groups in 2023 delivered a collective net profit of over $5 billion, up from $1.3 billion the year previous.

Notably, all eight carriers to publish operating figures were profitable, while a ninth – loss-making Aerolineas Argentinas – was expecting to report its first net profit since 2008.

The region's biggest operator, Chile-based LATAM Airlines Group, led the charge in posting an operating profit of almost $1.2 billion for 2023. This was $1 billion higher than in the previous year.

While its net profit more than halved to $582 million, the comparable period in 2022 included one-off gains related to its financial restructuring – which it emerged from in November 2022. Last year's net profit was comfortably higher than that achieved in 2019 before the pandemic hit.

An improved bottom-line performance was a trend seen across the board by the region's biggest carriers last year, both in comparison to 2022 and prior to the pandemic in 2019.

Indeed, only Mexican budget carrier Volaris – which posted an operating profit of $223 million last year, roughly on a par with its pre-Covid performance – did not exceed previous profit levels for both 2019 and 2023.

Avianca, which alongside Aeromexico and LATAM successfully restructured through a bankruptcy protection process, has enjoyed one of the most striking improvements. The Star Alliance carrier, which was the first in the region to exit Chapter 11 in late 2021, posted an operating profit of $619 million last year. That compares with a loss of $554 million in 2019.

> **Data shows passenger traffic 18% up last year versus 2022**

While Aerolineas Argentinas is still to publish full-year results for 2023, the SkyTeam carrier has previously indicated the year marked a return to profit. Late last year it said it was set to post a profit of $32 million. That compares with losses of $246 million in 2022 and $667 million in 2019 before the pandemic, and would be its first surplus since 2008.

A return to profit is a boost to Argentinian government hopes to privatise the airline, a step towards which it took by publishing a decree at the start of October declaring the flag carrier "subject to privatisation".

Aerolineas revenue was projected to be around a quarter higher in 2023 at just over $2.1 billion, and again the nine biggest carriers in the region all reported revenues above pre-pandemic levels last year.

LATAM remains the largest Latin American airline group, ranking just outside the top 20 with revenues of almost $12 billion. Avianca and Aeromexico are both among the 50 biggest airlines in the world, while Gol, Azul, Copa and Volaris all feature just outside the top 50 with revenues in excess of $3 billion each.

RECOVERY HIGHS

The improved revenue and profit performance reflects the strong traffic demand recovery seen in the region. Data covering the same nine Latin American airline groups shows passenger traffic 18% up last year versus 2022 and some 8% higher than pre-pandemic levels.

That is the biggest improvement over pre-pandemic levels of any region excluding Africa, where data is skewed by the relatively low sample size of African carriers featuring among the 100 biggest groups.

Revenue across the biggest 100 airline groups reached almost $900 billion last year, up around $150 billion on 2022 and by around $100 billion on 2019.

Operating profits for the 83 leading operators that disclosed figures stood at $67.7 billion. That compares with $19 billion and $47 billion in 2022 and 2019 respectively. ■

Leading Latin American airline groups by revenue 2023

Rank 2023	Airline/group	Revenue 2023 (US$)	Change v 2022	Change v 2019	Operating result (US$)		
					2023	2022	2019
22	LATAM Airlines Group	11,789	24%	13%	1,169	135	742
42	Aeromexico Group	4,916	29%	38%	715	511	149
43	Avianca Group	4,771	15%	3%	619	98	-554
52	Gol	3,759	28%	7%	669	108	541
53	Azul	3,743	21%	29%	581	220	515
55	Copa Airlines	3,461	17%	28%	812	450	346
57	Volaris	3,259	14%	77%	223	44	231
80	Aerolineas Argentinas*	2,125	13%	23%	-	-312	-461
82	VivaAerobus	2,022	38%	202%	264	101	43

Source: *Airline Business* Rankings
Note: *2023 revenue estimated by airline

LEWIS HARPER LONDON

Currency weighs on Q2 earnings

Brazilian issues lead to loss-making performance in aggregate second-quarter financials for Latin America

Full second-quarter results from Airline Business's benchmark airlines in the Latin America region show them plunging into a deep net loss at an aggregate level, driven entirely by losses at Brazilian carriers Azul and Gol as the weak local currency weighed on earnings.

The aggregate net loss of $1.18 billion for the three months ending 30 June represented a swing from a $406 million profit in the same period in 2023. The aggregate operating profit – which excludes the foreign exchange impact at the Brazilian carriers – was positive at $651 million, albeit that was down by around $120 million year on year.

HIGHER REVENUE

Those results came on revenues that were up 5% year on year at $6.74 billion.

In contrast to North America – where overcapacity is a concern and load factor dropped in the period – the aggregate load factor in Latin America improved by 1.2 percentage points on traffic up 6.3% and capacity 4.8% higher.

But the net losses at Azul – $742 million – and Gol – $750 million – were deep. In the case of the former, the currency trend prompted chair David Neeleman to declare that the business must go through a "major evolution" to offset the impact *(see p12)*. In Gol's case, the currency challenge comes as the business continues to make its way through the Chapter 11 bankruptcy process.

Azul was in the black at an operating level during the quarter, at $85 million, which was down $35 million year on year. Gol reported a tiny operating loss of $2 million, having achieved a profit of $109 million a year earlier.

The four non-Brazilian airlines in the aggregate grouping all contributed positively to the region's profitability at net and operating levels in the April-June period.

The region's largest operator LATAM Airlines Group was upbeat about demand trends, particularly on international routes, as its operating profit improved slightly to $260 million and its net profit held steady year on year at $245 million. It saw a $47 million positive impact from foreign exchange during the period, in contrast to the Brazil-based businesses.

Key Latin America performance indicators for Q2 2024 from our benchmark airlines

Indicator	Q2 2024	Change	Q2 2023
Operating revenue	$6,743m	▲ 5.0%	$6,424m
Operating profit	$651m	▼	$768m
Net Profit	-$1,183m	▼	$406m
RPKs	77,082m	▲ 6.3%	72,494m
ASKs	92,654m	▲ 4.8%	88,413m
Pax load factor	83.2%	▲ 1.2 pp	82%

In Mexico, low-cost carriers VivaAerobus and Volaris both improved their net and operating profits year on year despite facing challenges relating to the groundings of Pratt & Whitney PW1100G-powered aircraft. In Volaris' case those groundings meant its capacity fell 17% year on year during the quarter, while VivaAerobus used various mitigation measures to boost its capacity by 13%.

STRONGER PESO

Volaris – which, like VivaAerobus, reports in US dollars – noted during its earnings call that around two-thirds of its costs are in US dollars and that it expects around 45% of its revenue to be in US dollars by year end, but that peso-revenue routes are currently more profitable than US dollar ones. That reflects the relative strength of the Mexican peso against the dollar, in contrast to the story at Brazilian carriers, where the real weakened almost 12% against the dollar over the first six months of the year.

Panama's Copa Airlines meanwhile saw its second-quarter operating profit weaken slightly to $160 million, but its net profit improved by more than $100 million to $120 million during the quarter.

Avianca – which is not included in the aggregate data because its quarterly reporting since 2019 is incomplete – saw weaker operating profits and reported a small net loss for the period *(see box)*. ■

The six Latin American airlines included in Airline Business's benchmark data for the region are: Azul, Copa Airlines, Gol, LATAM Airlines Group, VivaAerobus and Volaris.

Oversupply hits Avianca profits

The decision by Colombia's Avianca to significantly increase its capacity at the end of 2023 had a negative impact on its second-quarter earnings this year, but the carrier is convinced that demand will catch up with supply sooner rather than later despite economic pressures in its home country.

The airline made the decision to grow "pretty dramatically" in the fourth quarter of last year based on two factors, according to the chief executive of Avianca's parent company Abra Group, Adrian Neuhauser: the release of capacity following the failures of compatriots Viva Air and Ultra Air within weeks of each other earlier in 2023, and the rise in the number of operations allowed per hour at Bogota airport.

On the latter point, Avianca took "proportional market share" to "protect those slots as a strategic asset for the years to come", Neuhauser says during an earnings call – just as competitors were doing the same.

"Our network went from 600 flights a day to 750 flights a day in December," he recalls.

That means year-on-year capacity growth at some of Colombia's airlines this year goes way beyond the organic growth levels seen in the wider industry.

"And with that, we've obviously seen some excess supply challenges that have led to yield pressures," Neuhauser says.

Boeing

Arajet

Dominican carrier Arajet received its 10th Boeing 737 Max earlier this year, adorned with a special livery depicting the flag of the Dominican Republic.

First-class liveries

Airlines in the region have been unveiling new one-off and fleet-wide paint schemes for their aircraft this year

Avianca

Avianca

As part of the commemoration of World Environment Day, Avianca and the Wildlife Conservation Society announced the extension of their alliance in Colombia and Ecuador this year with a commemorative design on one of the airline's Boeing 787-8 twinjets, bearing the message "united for biodiversity".

LATAM Airlines Group

LATAM Airlines

LATAM Airlines Group this year rolled out five aircraft painted in the colours of the respective national flags of the countries where its subsidiaries operate domestic flights. Kicking off with an Airbus A320neo belonging to LATAM Airlines Brazil, the roll-out then extended to aircraft in Colombia, Chile, Peru and Ecuador.

Aeromexico

Aeromexico unveiled a new livery for its entire fleet this year as it celebrated its 90th anniversary. First seen on an Embraer 190, it features an update to the carrier's Caballero Aguila – or Eagle Knight – logo. The Eagle Knights were an elite group of warriors selected for their bravery and heroism.

Aeromexico

Gol

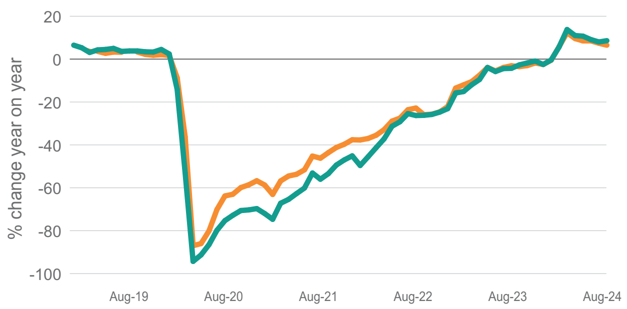
Gol

Gol this year rolled out a special paint scheme celebrating Chico Bento, the comic book character created by Mauricio de Sousa. The livery was applied to one of the carrier's Boeing 737-800 jets.

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 five-year fuel-price trends. Subscribers to the new Airline Business website can view the latest data for these metrics and more covering the world's largest airlines and groups. Visit flightglobal.com/airline-business for more information and a free trial

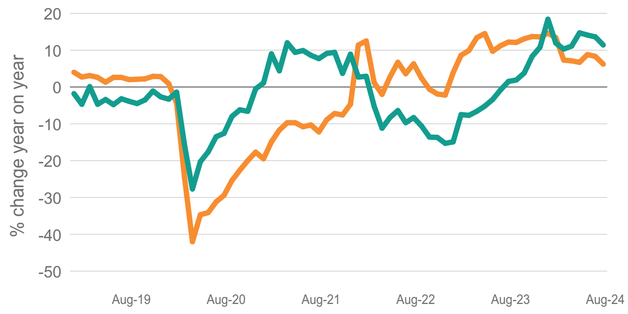
Global air passenger market, demand and capacity trends, to August 2024



Source: IATA
Notes: Covers IATA members and non-members. Changes for 2019 and 2020 are year on year. Thereafter, comparisons are with 2019 through to February 2024. March 2024 reverts to year on year. RPK = revenue passenger kilometres. ASK = available seat kilometres.

RPK ASK

Global air cargo market, demand and capacity trends, to August 2024



Source: IATA
Notes: Covers IATA members and non-members. 2019 and 2020 changes are year on year. 2021 changes are against 2019. Thereafter comparisons are year on year. CTK = cargo tonne kilometres. ACTK = available cargo tonne kilometres.

CTK ACTK

Global passenger market: August 2024 snapshot

	World share	RPK	ASK	Load factor change	Load factor
Africa	2.1%	9.6%	6.7%	2.1	77.9%
Asia-Pacific	31.7%	13.4%	8.7%	3.6	86.0%
Europe	27.1%	7.8%	7.3%	0.4	87.9%
Latin America	5.5%	6.5%	8.1%	-1.3	84.0%
Middle East	9.4%	5.0%	5.9%	-0.7	82.3%
North America	24.2%	4.8%	2.4%	2	87.1%
Total market	**-**	**8.6%**	**6.5%**	**1.6**	**86.2%**

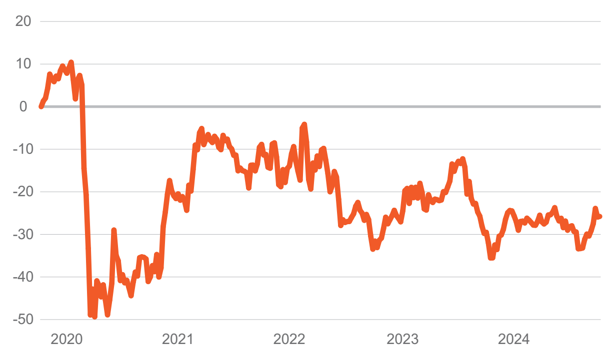
Source: IATA Note: Changes versus August 2023

Global air cargo market: August 2024 snapshot

	World share	CTK	ACTK	Load factor change	Load factor
Africa	2.0%	7.5%	11.4%	-1.4	37.8%
Asia-Pacific	33.3%	14.6%	8.6%	2.4	46.6%
Europe	21.4%	13.5%	9.4%	1.8	50.1%
Latin America	2.8%	14.2%	8.0%	1.9	35.9%
Middle East	13.5%	13.5%	4.0%	3.7	44.5%
North America	26.9%	4.8%	2.4%	0.9	38.7%
Total Market	**-**	**11.4%**	**6.2%**	**2**	**44.0%**

Source: IATA Note: Changes versus August 2023

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



Source: Airline Business
Notes: Basket of 34 airlines covering global market. Closing share price w/e 12 October 2019 = 0. Data covers closing prices to w/e 12 October 2024

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 4 October 2024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