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AIRLINE BUSINESS DAILY

BRINGING YOU THE NEWS FROM THE ALTA LATIN AMERICAN AND CARIBBEAN AIRLINE LEADERS FORUM AT CANCUN

Latin airline GDS: Is it possible?

High costs inspire Latin airlines to look at forming their own global distribution system

The formation of a Latin airline global distribution system is one of the options being examined as the region's carriers work out how to tackle their soaring distribution costs. "This is a big deal for us as these costs for Latin carriers are higher than anywhere else," said Santiago Ontañón, Mexicana's chief information officer, who moderated yesterday's panel on distribution models at the Forum.

"One alternative that pops up every time is forming our own GDS or funding some other form of GDS," he told *Airline Business Daily*.

A group of carriers has been working with ALTA for the past two years to analyse and benchmark distribution and credit card costs, he said. In about six months' time, the working group should "have an idea if it makes sense or not". For the time being, Ontañón said he has "not seen a compelling business case" for such a move.

During the Panel, Ontañón asked the region's dominant GDS players Amadeus and Sabre what they think about the "feeling that you are squeezing Latin carriers to compensate for the loss of business with big carriers [in other regions]."

That feeling is "unfortunate", said Sabre's Kamal Qatato. "We are not doing deals where we are subsidising other parts of the world. We are going for a value-based approach." Amadeus executive Arnaud Debuchy said his company "does not incentivise one customer over another".

Stepping into the debate, CLAC president Eustacio Fábrega said he has often heard airlines complaining of GDS fees that are 10-20% more in this region than those US and European carriers pay.

He said CLAC would support the business by regulating the Latin GDS market if this was something the industry desired. ■

Brilliant Bobby is bullet-proof!

In addition to walking away with the Federico Bloch award on Thursday evening, Bobby Booth was presented with the very bullet-proof jacket he had made ex-American Airlines head Bob Crandall wear over a decade ago at one of his famous Latin chief executive conferences.

Crandall had worn the jacket to 'protect himself' while addressing the airline bosses his carrier was targeting with its aggressive Latin expansion in the 1990s. "Bobby had brought the enemy to see us," recalled ALTA president Pedro Heilbron. "We did survive and so did American – OK, there's room for all," he joked. A standing ovation greeted an emotional Bobby as he made his way to the stage at ALTA's gala dinner.

Cubana launches new routes, expands fleet

By the end of the year Cubana will have expanded its fleet to 15 predominantly Russian aircraft as it boosts traffic to 1.5 million passengers.

The Cuban flag carrier, which is 100% state owned but run autonomously from the government, expects revenues of around $300 million in 2007, up from $250 million the previous year, said president Arturo Bada.

Cubana's chief Arturo Bada

After some tough years since 2000, the carrier has recovered and is forecasting a 2% profit margin for this year.

The carrier has been upgrading its fleet using finance raised from a syndicate of European, Russian and Cuban banks. By year-end it will have taken delivery of two passenger versions of the Tupolev Tu-204 and a freight version of the twinjet. It also has three four-engined Ilyushin Il-96-300s in its fleet for long-haul destinations.

In 2008 Cubana will launch new routes to Chile, Rosario in Argentina and Santa Cruz in Bolivia, said Bada. ■

ALTA AIRLINE LEADERS FORUM 2007

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ALTA Asociación Latinoamericana de Transporte Aéreo

Mexicana and Amadeus form IT bond

Mexicana says partnership with Amadeus will improve customer functionality and put it at a competitive advantage

BY GEOFF THOMAS

Mexicana has signed a preliminary agreement with Amadeus, paving the way for a long-term IT partnership between the two companies.

The deal between Mexicana and Amadeus – subject to final negotiation – will see the airline installing the full Altéa 'customer management solution' to manage reservations, inventory and departure control as well as e-commerce technology to drive sales through the airline's website.

Speaking at the ALTA Forum yesterday (Friday) Mexicana's IT director Santiago Ontañón said that the cost would be "between $40 and $50 million over the next five years", although total IT spend over the same period would be closer to $100 million as the world's fourth oldest international airline struggles to bring its systems up-to-date following privatisation two years ago.

Bonding: Mexicana IT director Santiago Ontañón (left) and Amadeus vice-president Arnaud Debuchy

The intention, says Ontañón, is to "provide us with a clear competitive advantage over other airlines in our market, most of whom use passenger systems with more limited and less customer-centric functionality".

"We have just about finished sorting out the back office systems and I'm very, very, very delighted to tell you that we successfully ran our first payroll on the Oracle software earlier today," said Ontañón.

"Now it's time to turn our attention to the front office systems and focus on delivering the highest-possible level of service to our customers."

Since privatisation, Mexicana has struggled with massive internal and external influences and it's only now, says Ontañón, that there's light at the end of the IT tunnel. Fierce competition; pressure on margins; rapidly changing business models; and demanding customers externally, have combined with a fragmented customer database; non-integrated/costly/non-user-friendly IT systems; and a flight driven, rather than customer centric mentality to create hurdles for the airline.

But now its nine million passengers a year – and around 6,000 employees – should find that their experience of Mexicana is hugely enhanced, at least where IT issues are involved. ■

Domestic drop-off causes TAM's third-quarter profit squeeze

Profits for Brazilian carrier TAM dropped by more than a third in the third quarter compared to last year, reports ATI.

Yesterday, TAM reported a net income of R$143 million (US$81 million), representing a 37.4% decline from the R$228.5 million profit posted during the third quarter in 2006, driven by a sharp decline in domestic sales compounded by a rise in overall costs.

TAM's total "cost of services and operational expenses" jumped 14.9% in the third quarter to R$1.9 billion, mainly through a 55.4% hike in personnel costs and a 9.1% increase in fuel costs.

Meanwhile, domestic ticket sales fell from R$1.4 billion in the third quarter a year ago to R$1.2 billion this year. ■

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DAILY editorial team
Kerry Ezard
Mark Pilling
Geoff Thomas

Design & production
Andrea Crisp

Photographer
Tom Gordon

Advertisement sales
Robert Hancock
Shawn Buck

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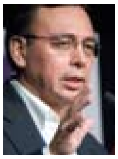
Jeanniot: Watch out for sleeping elephants

US carriers are taking more interest in the Latin American market, and as former Air Canada chief executive Pierre Jeanniot put it during yesterday's panel: "Being close to the USA is like sleeping next to an elephant – if it rolls over, you're likely to get crushed."

But not all US airlines are using their own capacity to expand in Latin America. United Airlines, for example, only serves five countries in the region using its own aircraft – Argentina, Brazil, El Salvador, Guatemala and Mexico. It relies instead on its alliances with TACA and TAM for its Latin American coverage.

"Alliances are an integral part of our Latin American strategy," says United vice-president Latin America, Josue Meza (*pictured*). The reason for this, he adds, is that



United has put "most of its eggs in one basket" to focus on Asia, which limits its capacity for Latin America.

Continental Airlines, on the other hand, decided to use its Houston hub to expand aggressively into the Latin American market. "People in Miami laughed at us when we said we would make Houston our Latin American hub, but today we have 1,300 flights a week from Houston into Latin America," says Continental vice-president Latin America, Pete Garcia.

Garcia adds that Continental plans to "capitalise on the free trade agreements" between the USA and Colombia, Peru and Central America. ■

ILFC boss examines fleet strategies

The growth of the airline industry in Latin America sees the need for over 200 new aircraft in the next five years

Over the next five years Latin American carriers will have a need for 239 new aircraft over their current commitments, according to Steve Udvar-Hazy, the chairman of leading lessor ILFC.

The most popular type will be the Airbus A320 family with 88 units required, followed by the 737NG family (67), Embraer EJets (42) and the 767-300ER. The rest were a mix of 787, 777, A330s and Bombardier CRJs.

In general, with the exception of five or six carriers, Latin airlines have too many aircraft types in their fleets, said Udvar-Hazy, a message he first gave two years ago.

Fleet modernisation is one of the issues confronting the region's carriers as is the interest and lease rate premiums that some airlines face compared to their North American or European competitors, he said. The failure of Varig "aggravated the weak credit image" of the region's airlines, he added.

Udvar-Hazy explained that Conviasa had caused ILFC problems over a 737-300 it had on lease to the Venezuelan airline. "We had a great deal of difficulty collecting lease payments from them. These types of operators don't improve the image of Latin carriers."

Although it is difficult to predict where the market is headed ILFC is "putting on its seat belt" and getting ready for slowdown, said Udvar-Hazy. "This boom cannot go on forever," he added. "Our focus is on building our balance sheet."

Since 2001 ILFC's total assets have doubled to $45 billion with the lessor expecting to generate a cash flow from operations of $2.8 billion this year. In the year to the end of September ILFC made a profit of $657 million. ■

Steve Udvar-Hazy: demand for aircraft in Latin America will increase

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SEA

Second time around for Santiago

Chile's Santiago airport has once again been recognised by ALTA members as the region's best airport. At Thursday night's ALTA Awards dinner Alfonso Lacamara (*right*), general manager of SCL Terminal Aereo Santiago SA, received the Captain Rolim Amaro award for an airport with outstanding customer focus from TAM's vice-president planning and alliances Paulo Castello Branco.

Santiago last won the award in 2005, with Panama's Tocumen airport the winner last year. The award is voted for by ALTA member airlines.

Man and boy: An aviation le

Airline Business Daily's David Field took time out to interview the legendary Bobby Booth – now
the *Federico Bloch award* – immediately before ALTA, discovering something of what makes th

Some names in the business are so familiar that it's easy to forget just how original they are and how fascinating they are. So it is with Bob 'Bobby' Booth, the Miami consultant and guru to Latin American airlines who for decades has formed a one-man clearing house and cultural bridge between the North, Central, and South Americas.

Now approaching his eighth decade, Bobby joins some stellar and near legendary figures in Latin aviation as this year's ALTA winner of the Federico Bloch award. Established in honour of the creator of the TACA group, the Bloch award has also been received by Enrique Cueto of LAN; Constantino de Oliveira, junior, of GOL; and Mauricio Botelho of Embraer – all driving forces in Latin and indeed world aviation.

UNFORGETTABLE

Bobby says that Bloch, who died in 2004, remains both an admired and unforgettable character. "He was my mentor in a lot of ways even though he was more than 20 years younger," reflects Booth from his Miami headquarters. "Had Freddy lived, he would have gone on to bring TACA into more countries, led consolidation and helped the region moved toward becoming the USA – United South America."

Bloch, Bobby says, would probably have brought TACA to the public markets with a flotation or IPO (Initial Public Offering) by now. It's this public status and its inherent transparency that has helped create the carriers Booth admires the most: COPA, LAN, TAM, and GOL, all of them traded on North American exchanges. "Public ownership gives a certain discipline, but each of these models also has a strong element of ownership and investment by the families or groups that used to own them," he says.

The emergence of these four powerhouses with their international relations and, in the case of LAN and TACA, their multi-national personalities, represents a major

Booth on Bloch: "He was my mentor in a lot of ways, even though he was more than 20 years younger"

transformation in the long-fragmented Latin American airline industry, probably the most significant trend since Bobby (as a teenager) began working in Uruguay for Pan Am.

The other major trend that Bobby sees is the entry into the Latin markets of low-cost and self-described ultra-low-cost carriers, most notably Brazil's Gol and more recently by the new harvest of low-cost carriers in Mexico and by Spirit of South Florida. Their ability to stimulate traffic with 'new flyers' has changed the business profoundly, helping create the critical mass that is needed for an airline to develop a network and

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Ready, steady, cook!

Putting themselves in the firing line – the hotel's French chefs got the digestive juices flowing by describing the culinary delights to come (left). While guests make the most of networking opportunities (right)

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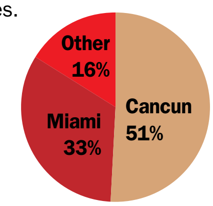
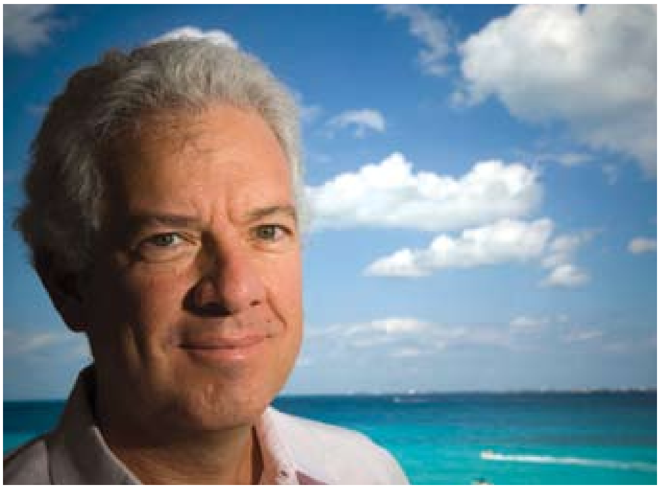
Bobby dazzler

Thursday night's **ALTA awards dinner** (sponsored by GECAS) was, as ever, a **glittering affair** held in the Fiesta Americana Grand Coral Beach hotel's grand ballroom. Following a gala dinner – introduced personally by the hotel's chef and his deputy – master-of-ceremonies **Michael Bell** of Spencer Stuart set the scene for the evening's two major award winners: Chile's **Santiago airport** and Latin American aviation legend **Bobby Booth**. There was scarcely a dry eye in the house as Bobby received his award from **Jackie Bloch**, widow of **Federico Bloch**, in whose name the award was instigated.

SEE YOU IN CANCUN 2008

As a democratic organisation, ALTA polled delegates to the Forum to find out where they would prefer the 2008 event to be held. The results were clear cut – Cancun was the clear winner with more than half the votes.





Gaston Azcarraga

Mexicana loses no time as...

Mexicana is preparing to go head-to-head with the newly capitalised Aeromexico

Mexicana chairman Gaston Azcarraga says there is "no time to lose" in strengthening the carrier's competitive responses to rival Aeromexico, after Mexico's competition commission ruled against its bid to acquire Aeromexico and merge the two airlines. Azcarraga says the ruling was a "big disappointment", adding: "We respect the decision but we disagree with it. In Mexico, this industry is going to need consolidation. There are 14 airlines in Mexico and anyone can set up a new one – the entry barriers are very low. So consolidating the two legacy carriers would have been good for everyone."

But Mexicana, which is still undergoing a restructuring programme aimed at attaining "north of $300 million a year" in cost savings, is a "larger, stronger company today" and there is "no time to lose" in consolidating its plan to become "Mexico's number one carrier" and compete against Aeromexico, says Azcarraga.

Grupo Posadas has injected "close to $60 million" into Mexicana since acquiring it from the Mexican government two years ago. The carrier is in the process of putting together its future widebody fleet plan and is considering both the Boeing 787 and the Airbus A350 XWB.

"We are replacing the leases that are running out. The most important aspect is making the right decision for our widebody strategy, and we will come up with this in the coming weeks and months," says Azcarraga. He declines to disclose how many aircraft Mexicana will order – or when.

Mexicana's low-cost subsidiary, Click Mexicana, will add eight Fokker 100s to its fleet over the next six months, representing a 50% growth. The aircraft will be leased from GECAS. Click will turn in a "positive performance" this year, says Azcarraga, but Mexicana will not fare so well financially: "Mexicana has a more complicated reality because it is subject to all this restructuring. It is not profitable now and it will not be profitable this year." He adds: "The target is to get back to profitability as soon as possible. Our financial situation is pretty good – we have no net debt so the balance sheet looks pretty good." ■

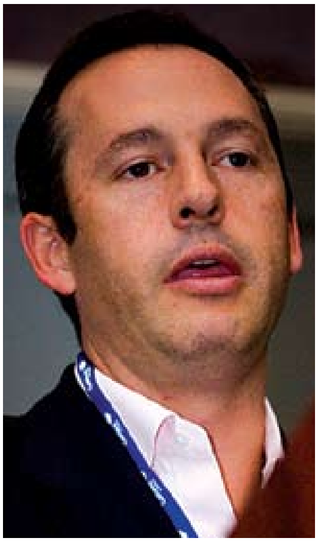
...Aeromexico outlines post-privatisation plan

Privatisation has put the carrier in a much stronger position to compete both domestically and internationally

Aeromexico is working with its new owner, a consortium led by Banamex, on a new business plan, expected to be finalised in the first quarter of next year. In an interview with *Airline Business Daily* yesterday, Aeromexico chief executive Andrés Conesa said the carrier's recent privatisation will put it in a much better position to compete both domestically and internationally.

The Banamex consortium, which won a bidding war for control of Aeromexico with its $249 million bid, has agreed to inject $250 million into the carrier. This investment will make a "big difference" to Aeromexico because under government control no capital was allowed to be injected.

Said Conesa: "We were competing with our hands tied and this was very difficult, although we did very well over the past couple of years under these conditions. With fresh capital there are many things we can do to improve the structure of the firm. We are working right now on a plan to start preparing for next year and the next five years."



Andrés Conesa

Under the plan, Aeromexico will likely continue its push into international markets, but will also use its regional subsidiary Aeromexico Connect – previously known as Aerolitoral – to compete in its domestic market, according to Conesa.

"We have scaled back on the number of seats we offer [in the domestic market by using regional jets] but we have found it more profitable using Aeromexico Connect than Aeromexico." Using the regional jets to operate higher frequencies has also led to higher load factors.

NEW EMBRAERS

The regional subsidiary, which operates a fleet of Embraer ERJ-145s, Saab 340B turboprops and has just taken delivery of the first of four Embraer 190s, will not operate all of Aeromexico's domestic routes – high density destinations such as Guadalajara, Monterrey and Cancun will continue to be served with narrowbodies.

However, other domestic city pairs will be served by Aeromexico Connect or a combination of the regional carrier and Aeromexico. Aeromexico Connect will also be used to serve certain US cities, such as San Antonio and Austin with more to be added in the future, said Conesa.

As part of its international push Aeromexico will begin service to Barcelona next month, and flights to Shanghai and Rome in March. US flights to Seattle, Phoenix and Atlanta are also planned.

Banamex aims to make Aeromexico profitable within 12 to 18 months, said Conesa. The carrier incurred a full-year net loss of Ps512 million ($47.4 million) in 2006. It posted an operating loss of Ps698 million on revenues of Ps21.1 billion. ■

ALMA plans foray into North America

Mexican carrier seeks US certification to expand operations north of the border

Mexican regional carrier ALMA plans to launch transborder services to various cities in the USA, and will open two more bases in northern and southern Mexico to complement its existing Guadalajara base.

In an interview with *Airline Business Daily* here in Cancun, ALMA chief executive Guillermo Heredia said the carrier is in the process of applying for certification from the US FAA and the Department of Transportation to operate flights to the USA; he expects to obtain the necessary permits before the end of this year. "We will then find the right time to move across the border," says Heredia, adding that ALMA plans to serve cities in the southern USA, such as San Antonio and San Jose.

ALMA's chief executive Guillermo Heredia

Guadalajara-based ALMA launched operations in June 2006. By the end of this year it will operate a fleet of 19 Bombardier CRJ200 regional jets and in 2008 it will have added a further 12 CRJ200s and four CRJ900s. The carrier is now looking to add two further operational bases; one in the north of Mexico and one in the south.

"We are trying to develop three regional centres," says ALMA executive commercial director Jorge de Lara, adding that attractive cities in the north include Culiacan, Hermosillo and Monterrey, while cities under consideration in southern Mexico include Merida, Tuxtla and Villahermoso.

ALMA recently began interlining with Mexicana and de Lara says this may eventually lead to a codeshare agreement between the two carriers. "We are the biggest carrier at Guadalajara and Mexicana is the second biggest so this is a very natural alliance because we feed them from central Mexico," he adds.

Heredia says ALMA will be profitable this year and passenger numbers will hit the one million mark. ■

Dallas/Fort Worth courts more business in Latin America

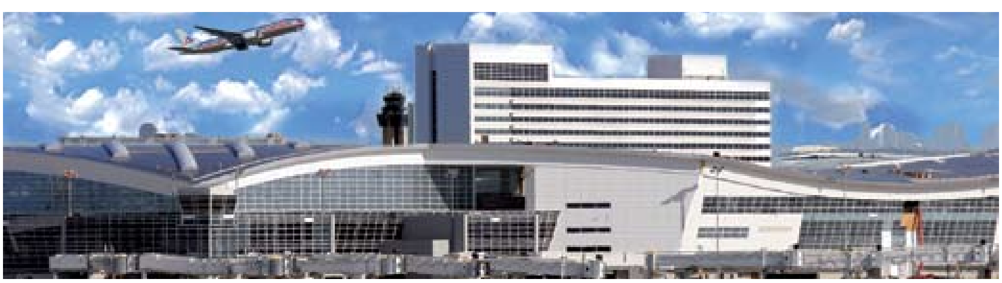
The big Texas hub, Dallas/Fort Worth International Airport, began a major marketing campaign on Tuesday this week to attract more South American business, joining with local convention and visitors bureaus.

Its first stop was in Buenos Aires, where officials from the airport, the Dallas tourism bureau and the Fort Worth visitor bureau spoke to local business and travel groups. Officials on the $4 million promotion then visited Santiago.

The airport, a hub for American Airlines, wants to position itself as the major US connecting hub to South America. The airport's executive vice-president of marketing and terminal management, Joe Lopano, said that a recent 30% increase in US-to-Argentina travel and an 18% increase in DFW-to-Argentina travel made Buenos Aires a prime destination.

"We are seeing more and more South American passengers connecting through Terminal D to Asia and Europe and we want to continue to promote our airport as the best connecting hub in the USA," Lopano said. Terminal D, DFW's newest facility, can handle 32,000 international passengers a day and offers connections to domestic flights via the airport's new automated people mover.

DFW officials hope the ease of connection at the two-year-old facility will make it competitive with Miami, Los Angeles and Houston as a transfer point. ■



Dallas/Fort Worth

Carriers fight over Colombia

Colombia has become a battleground for US carriers in the aftermath of last month's signing of a new US/Colombia bilateral. The pact cleared the way for passenger services to the cities of Cartagena and Barranquilla, and increased the scheduled weekly roundtrips to other points from 70 to 91 over the next year.

American and Avianca are the dominant airlines flying between the two countries, and American has some unused route rights. But as added frequencies opened for US carriers, a fight erupted.

US low-fares carriers JetBlue and Spirit want to fly between the two nations, while Delta said it had wanted to increase its service for some time. American then said it would start taking advantage of its unused rights and this forced the US Department of Transportation to ensure that American does indeed add the extra flights it said it would. ■