DAY 1 | WEDS/THURS | 19/20 NOV

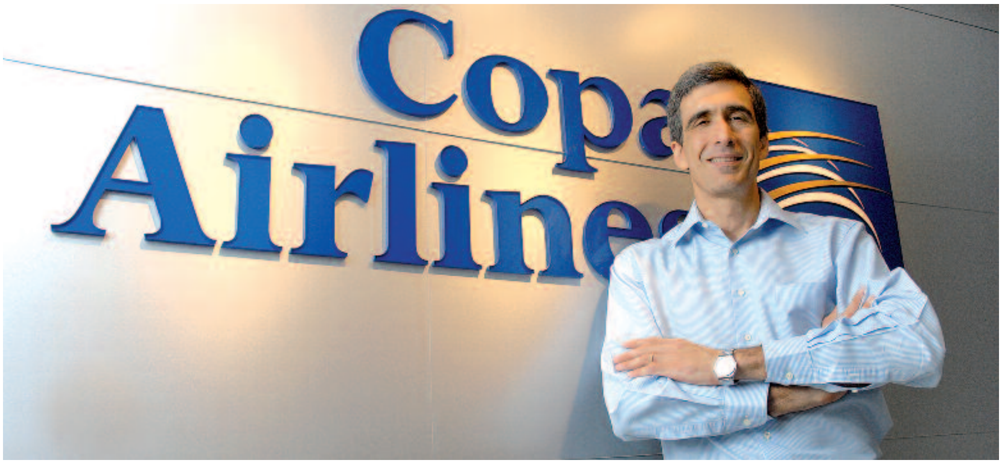
WEDS/THURS

AIRLINE BUSINESS DAILY

BRINGING YOU THE NEWS FROM THE ALTA AIRLINE LEADERS' FORUM 2008 IN CANCUN, NOVEMBER

HEILBRON CALLS FOR POSITIVE STATE ACTION

Pedro Heilbron pledges to continue to fight for Latin carriers following the conclusion of his three-year term as ALTA president



BY BRENDAN SOBIE

By the close of this year's conference Copa chief executive Pedro Heilbron will have handed over the reins of ALTA to another Latin carrier executive. But don't expect Heilbron, who has served as ALTA president for three consecutive years, to fade from the scene.

Heilbron says he will remain "very active" at both ALTA and IATA, where he is on the board of governors, and will continue to fight for the issues that continue to impede the Latin American airline industry. "Our main challenges come from operating in a region that still does not fully appreciate the value and contribution of aviation to our economic and social development," Heilbron said in an interview with the *Airline Business Daily* prior to the start of the conference.

"Aviation in Latin America, with some exceptions, is subject to high taxation and fuel costs, fragmented regulations, costly and inefficient infrastructure – airports, ATC etc – and artificial restrictions to competition."

Heilbron applauds the Brazilian government's decision in September to eliminate a fuel tax for international flights but says this is only one of a few "little examples" of Latin American governments doing something to help Latin carriers overcome the current turmoil. "We haven't seen government make major positive moves in response to the fuel crisis earlier this year or the economic slowdown now," he says. "Brazil eliminating its fuel tax is a very positive move, but there are still a lot of countries where fuel is taxed, where charges are high, where infrastructure is not up to par. We still have a lot of issues in Latin America."

As a result, ALTA and IATA continue to lobby the region's governments to be more supportive of the industry. Heilbron says there are many things ALTA hopes to achieve both on its own and through government support to help its members get through the current difficult period.

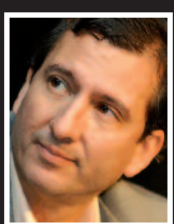
"ALTA is active both in short term actions, such as fighting unjustified cost increases for aeronautical services, and medium to

Story continued on Page 4

Latin traffic holds firm

A mixture of relatively strong regional economies and carriers that are well positioned to weather the storm are combining to make Latin America one of the only areas of the world to continue posting traffic gains in the past few months, says Alex de Gunten, ALTA's executive director.

"The Latin region is much less dependent on just the US than in the past and internal trade between countries has been increasing. These factors have combined to delay the impact of the global recession for ALTA's member carriers." In September, ALTA reported that traffic grew by 7.7%, with the year-to-date rise up by 11.7%. De Gunten expects traffic growth to slow in 2009 but predicting the rate is difficult in such turbulent times. "This uncertainty means it is very hard for carriers to plan ahead," he says. There are regional differences however, he says, with Mexico and the Caribbean suffering more because of their close ties with the US economy and large tourist industries. Stronger economies like Argentina, Brazil and Chile will perform better.



One problem area is cargo, where traffic has fallen by 11.1% in the nine months to the end of September. This is mainly down to the failure of large Brazilian cargo operator VarigLog and the dampening effect of the high fuel prices, says de Gunten.

INSIDE THIS ISSUE

Rapid change ahead for Mexico

With four carriers having ceased operations so far this year and more consolidation likely, Mexico has become Latin America's most turbulent market

Interjet and Volaris plan US flights

BY BRENDAN SOBIE

After two years of explosive growth driven by the launch of six new low-cost carriers, Mexico's domestic market has entered a period of major consolidation.

Over the last month two Mexican low-cost carriers, Guadalajara-based ALMA and Tijuana-based Avolar, have ceased operations. ALMA and Avolar were long considered the weakest of Mexico's low-cost upstarts and had already lost market share over the last year.

The four remaining low-cost carriers remain relatively healthy and continue to grow, with Click steadily taking over routes from its parent Mexicana, Interjet breaking into the lucrative Mexico City market and Volaris continuing its rapid expansion at its base at Mexico City's alternative airport Toluca.

Interjet and Volaris are also now preparing to launch services to the US, with Volaris having just entered into a promising new partnership with Southwest Airlines that will include codesharing on planned transborder services.

The fourth surviving low-cost carrier, VivaAeroBus, already serves the US and has carved out a niche that keeps it out of the crossfire of other carriers by focusing on exclusive transborder routes and domestic services that bypass the capital.

On the legacy side, the weakest of four carriers, Aerocalifornia, ceased operations in July. Another struggling legacy carrier that has been short in cash, Aviacsa, late last month overcame a grounding threat after it was able to secure enough new capital to pay off overdue fuel bills. But many in Mexico believe Aviacsa, which almost sold out to Interjet early this year before the tentative deal was dropped, could be the next casualty.

> **"The number of operators will reduce dramatically. I see only four survivors"**
>
> **Jose Luis Garza –** chief executive, Interjet

Meanwhile Aeromexico and Mexicana, both of which have been cutting capacity in a bid to improve the profitability of their domestic operations in the face of continued low-cost expansion, could get the green light from the government to merge.

COMPETITIVE

The carriers haven't submitted any merger proposal but the government, which previously insisted on selling both carriers separately, has indicated the competitive environment has since changed and having one flag carrier may now be palatable.

Where does all of this leave the Mexican industry? Interjet chief executive Jose Luis Garza says the field may be whittled down to one legacy carrier and three low-cost carriers. "The number of operators will reduce dramatically," Garza says. "I see only four survivors."

Garza's prediction excludes niche regional, leisure and cargo carriers. However, the leisure sector has already seen consolidation with charter flight operator Aladia ceasing services in July.

While the number of players in Mexico's domestic market is shrinking, the casualties represent a relatively small part of the overall market. ALMA, Avolar and Aerocalifornia combined carried only about 10% of the country's domestic passengers. ■

Mexicana branches into Europe for the first time

BY KERRY EZARD

Mexicana is changing its strategy of focusing on services within the Americas and will enter the European market in early 2009, bringing it into direct competition with rival Aeromexico.

The carrier will branch into the transatlantic market for the first time in January with the launch of Boeing 767-200 flights from Mexico City to London Gatwick. Mexicana has also leased two Airbus A330-200s to enable it to launch flights from Mexico City to Madrid the following month.

Speaking to the *Airline Business Daily* at a press conference in London to announce the new Gatwick route, Mexicana senior vice-president customer service and corporate communications Adolfo Crespo said the carrier has leased two A330-200s from CIT. These aircraft will be used to launch service to Madrid in February.

Mexicana's new flights to London will be operated from 17 January using two leased Boeing 767-200s, which Crespo describes as "transitional aircraft".

Until now, Mexicana has solely operated flights within the Americas. Rival carrier Aeromexico has traditionally been the only Mexican airline to serve Europe. While Aeromexico does not serve London, Mexicana's new Madrid route will compete head-to-head with its former stable mate's daily flights to the Spanish capital.

And Aeromexico could face more competition on European routes from Mexicana: "We plan more destinations to Europe," says Crespo, although declining to specify cities under consideration. ■

AIRLINE BUSINESS DAILY
PUBLISHED BY AIRLINE BUSINESS IN ASSOCIATION WITH AEROCOMM

DAILY editorial team
Mark Pilling
Geoff Thomas
Brendan Sobie
Graham Dunn
Mike Miller

Design & production
Amelia Clark

Photography
Tom Gordon

Advertisement sales
Robert Hancock

Printed by
Pixel Press,
Cancun

Visit us on the web:
flightglobal.com/ab

Got a story?
Come and see us at
Lower level,
Coral Sea 2

Gol sees life in Varig brand

Gol's acquisition of Varig has created a year of massive challenges but chief executive Constantino de Oliveira Junior remains confident in the future

BY BRENDAN SOBIE

Chief executive of Brazilian carrier Gol, Constantino de Oliveira Junior, still has long-term ambitions for the Varig brand internationally, despite scaling back its operations to just three medium-haul routes.

Gol first stripped back long-haul flights operated by subsidiary VRG – which uses the Varig brand – earlier this year and from October pulled the plug on VRG's domestic flying.

Speaking to the *Airline Business Daily* last week, Oliveira said the decision to cut almost the entire VRG network was "a tough but responsible decision". He cites volatile fuel prices, a lack of new generation aircraft availability and lower economic growth in the US and Europe for the repositioning of the carrier.

"We believe those actions were necessary to maintain the company's continued success and sustainability."

Despite all the setbacks, Oliveira says he is not second-guessing Gol's decision to buy the remnants of the ailing flag carrier.

"We've gained a lot," Oliveira says of the acquisition. "We can count on a highly trained and customer service-oriented team. We've gained the know-how of Brazil's most experienced airline. We've also extended the Smiles mileage programme – the largest in Latin America, with over 5.9 million members – to Gol. In addition, we now occupy even more space in the country's major airports."

Oliveira says it makes sense to hang onto the Varig brand for only three routes rather than stop using it altogether because it is still "highly regarded" internationally. While Gol and VRG formally became one carrier in October and the two are now operating under a single certificate, the company has decided there is value to continue using the Varig brand in the Bogota, Caracas and Santiago markets. Oliveira says the passengers on these flights "are predominantly business travellers and prefer more complete service – a 'Varig' characteristic."

> **"We've gained a lot... We can count on a highly trained and customer service-oriented team"**

Oliveira retains long-term ambitions for the Varig brand internationally and is not yet ready to confine the once proud brand to the history books. "We plan to use this brand on our longer flights in South America and are working to strengthen it, so that, in the future, we may be able to resume Varig's long-haul operations in a more structured and competitive way." ■

Latin carriers well-placed for challenges

Continued from Page **1**

long-term initiatives for airline members to work together to obtain cost efficiencies in areas such as distribution, promoting standardised regulations and contributing to the strengthening of safety in the region," Heilbron says.

While it has been a difficult year for Latin carriers and 2009 promises to be challenging for all the global industry, Heilbron believes Latin carriers are in relatively good shape compared to their peers in other regions. "It seems like the economies of Latin America will keep on growing and aviation will keep on growing. Relatively I think we'll be better off," he says. "But it's all happening so quickly it's hard to tell. There's so much we don't know."

For example, the global credit crunch could derail expansion plans for some Latin carriers and force weaker carriers to cease operations. But Heilbron says while access to credit could be an issue for ALTA members "it's too early to tell". With the exception of Mexico, which has its own unique issues including overcapacity, Latin America so far has not seen as many airline casualties this year as other regions. Heilbron says so far Latin carriers also haven't felt a need to slash capacity like their counterparts in North America and overseas.

"We haven't seen any capacity cuts in Latin America. It's still a growing market. It's not a mature market like the US. There's still a lot to be developed. We're in a different position," Heilbron says. "I feel Latin America, and most of its airlines, are better prepared than in the past to face the economic challenges ahead."

Heilbron knows he is stepping down as ALTA president at a difficult juncture. But he says after three years it is time to allow someone else to have a crack at leading the association, pointing out that typically ALTA presidents stay on for two or three years.

"Even though this is my last year as ALTA's president, I plan to continue participating actively in the board of directors. Our industry, being highly regulated and very vulnerable to outside factors and political meddling, requires a unified front in order to address issues of common interest to its members. I recognise the need for an active role from the airline's leadership in order for this unified front to be effective and am willing to dedicate the necessary time and effort." ■

5TH ANNUAL ALTA AIRLINE LEADERS' FORUM | 2008

NOVEMBER 19-21, 2008 | CANCUN, MEXICO | FIESTA AMERICANA GRAND CORAL BEACH

CONFERENCE ATTIRE | BUSINESS CASUAL

PLEASE NOTE: The ALTA Airline Leaders Forum Agenda is subject to change

WEDNESDAY NOVEMBER 19

10:00am-5:00pm	**Exhibitor Set Up:** Grand Ballroom Foyer
3:00-8:00pm	**Registration:** Fiesta Americana Group Foyer/Special Registration Area
7:00-9:30pm	**Welcome Reception:** "A Taste of the Region" **Entertainment sponsored by Sierra y Vazquez Abogados** Sunset Terrace/outdoors

THURSDAY NOVEMBER 20

7:00-9:00am	**Morning Registration:** Grand Ballroom Foyer
8:00am	**Exhibit Area opens:** Grand Ballroom Foyer **CEO Meeting Room Sponsored by AIG**
8:00-8:45am	**Coffee Break:** Grand Ballroom Foyer **Sponsored by Willis Lease**
8:45-10:00am	**Official Opening:** Grand Coral Ballroom **Moderator: ALTA Executive Director, Alex de Gunten** ■ Welcome from Mexico Authorities ■ CLAC President & DGAC of Chile Director General, Jose Manuel Huepe ■ ALTA President & Copa Airlines CEO, Pedro Heilbron
10:00-10:30am	**Key Challenges of the Latam Airline Industry** **Embraer, Vice President Marketing and Sales, Alex Glock**
10:30-10:55am	**Coffee Break:** **Sponsored by Miami-Dade Airport**
10:55-11:25am	**The Wall Street Perspective** **Merrill Lynch Senior Analyst, Mike Linenberg**
11:25-12:25pm	**Improving the Region's Safety Record** **Moderator: IATA Director Program Implementation & Audit, Safety Operations & Infrastructure, Mike O'Brien** ■ ASA Director General and Former DGAC Mexico, Gilberto López Meyer ■ FAA Manager Flight Standards Service International Programs and Policy Division, Mel Cintron ■ ICAO Regional Director NACC Office, Loretta Martin
12:30-2:00pm	**Lunch:** Coral Gallery – Lobby Area Subfloor **Keynote Speaker: Aeromexico CEO Andrés Conesa** **Sponsored by Embraer**
2:05-2:55pm	**The US-EU Open Skies Agreement, Implications for Latam and Caribbean Moderator: Airline Business Editor, Mark Pilling** ■ US Department of State, Deputy Assistant Secretary for Transportation Affairs, John Byerly ■ European Commission, Directorate-General for Energy & Transport; Internal Market, Air Transport Agreements & Multilateral Relations, Mark Nicklas ■ Mexicana Vice President Legal, Javier Christlieb ■ IATA Regional Vice President Latam, Patricio Sepulveda
2:55-3:15pm	**Coffee Break:** **Sponsored by Fuel Plus**


Andres Conesa


Fernando Pinto

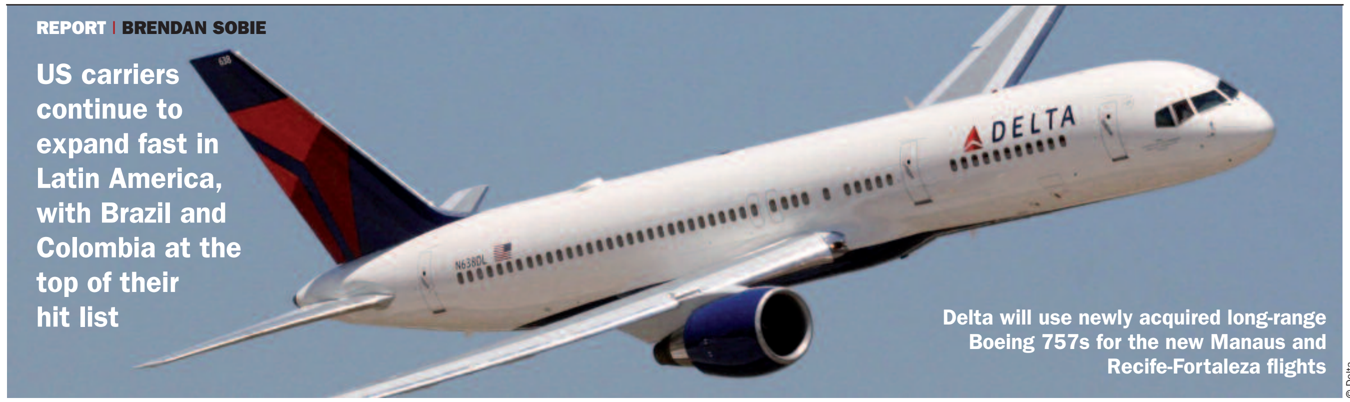

Enrique Cueto


Steven Udvar-Hazy

3:15-3:45pm	**Looking Beyond the US – How others Perceive the Region** ■ TAP CEO Fernando Pinto
3:45-4:30pm	**The Environmental Challenge, New Approaches** **Moderator: William J. Clinton Foundation Program Director Aviation, Clinton Climate Initiative, David McCann** ■ Volaris CEO Enrique Beltranena ■ IATA Assistant Director of Aviation Environment Communications, Quentin Browell
7:00-8:00pm	**Cocktail Reception:** Grand Ballroom Foyer **Sponsored by Boeing**
8:00-10:00pm	**ALTA Awards Dinner:** Grand Coral Ballroom **Sponsored by Airbus** **Master of Ceremonies: Spencer Stuart Managing Director, Michael Bell** ■ The Rolim Amaro Award **Sponsored by Airbus** ■ The Federico Bloch Award **Sponsored by Airbus** **Entertainment sponsored by Powerjet**

FRIDAY NOVEMBER 21

10:00-11:30am	**Regional Solutions to the Industry Crisis – ALTA's Executive Committee** ■ TACA CEO Roberto Kriete ■ LAN CEO Enrique Cueto ■ AVIANCA CEO Fabio Villegas ■ MEXICANA CEO Manuel Borja Chico ■ TAM CEO David Barioni Neto
11:30-11:55am	**Coffee Break:** **Sponsored by UATP**
11:55-1:20pm	**Caribbean Challenges and Opportunities Moderator: Unysis President & General Manager Global Transportation, Olivier Houri** ■ LIAT CEO Mark Darby ■ Caribbean Airlines CEO Philip Saunders ■ Air Jamaica CEO Bruce Nobles ■ Cayman Airways CEO Gilles Filiatreault ■ Cubana de Aviación CEO Arturo Bada Alvarez
1:30-3:00pm	**Lunch:** Coral Gallery – Lobby Area Subfloor **Keynote Speaker: ILFC CEO Steven Udvar-Hazy** **Lunch sponsored by Lufthansa Systems**
3:00-3:15pm	**Closing Remarks:** **ALTA Announcement: ALTA Executive Director Alex de Gunten**
3:15-5:00pm	**Networking**
6:00-7:00pm	**Cocktail Reception:** Sunrise Beach Terrace Area
7:00-9:00pm	**ALTA Beach Fiesta:** Sunrise Beach Casual dress – no shoes required **Beach Fiesta sponsored by AWAS**



REPORT | BRENDAN SOBIE

US carriers continue to expand fast in Latin America, with Brazil and Colombia at the top of their hit list

Delta will use newly acquired long-range Boeing 757s for the new Manaus and Recife-Fortaleza flights

© Delta

NORTHERN RAIDERS

US carriers continue to expand in Latin America at a breakneck pace even as they slash capacity domestically.

According to data from Innovata, North American carriers will fly 8% more ASKs into Latin America in December than the same time last year. The growth is driven mainly by new long-haul routes, in particular to Brazil, by the three largest US carriers in Latin America. American, Continental and Delta Air Lines' Latin capacity will be up in December 4%, 9% and 15% respectively *(see chart)*.

Delta general manager of international network planning for Latin America and Caribbean Christine Floistad says capacity added to the region over the last year "has done very well for us" and Delta is now looking to further expand its Latin network in 2009 following its merger with Northwest Airlines. Northwest has the smallest Latin presence of all US majors but Floistad says the merger "opens up a whole new world of opportunities".

Delta has launched several new Latin routes so far this year, with New York-Georgetown performing particularly well according to Floistad. She says in December alone Delta will launch another seven Latin routes: Nashville to Cancun; New York JFK to Buenos Aires and Bogota; and Atlanta to Tegucigalpa, Guayaquil, Manaus and Recife with continuing service to Fortaleza.

Delta's Manaus and Recife-Fortaleza services are part of an onslaught of new routes to secondary cities in Brazil made possible by the expanded US-Brazil bilateral. American earlier this month also added three new Brazilian destinations from Miami: Belo Horizonte, Salvador and Recife.

American senior vice-president for the Caribbean and Latin America Peter Dolara says this autumn it added four more weekly flights on New York-Buenos Aires and is adding capacity on several routes by switching to larger aircraft. "We continue to explore opportunities for [further] growth," he says.

Continental, meanwhile, is launching in December four weekly non-stop flights to Rio de Janeiro from its Houston hub. Continental managing director for Latin America John Slater says a non-stop link to Rio, previously only served by Continental with a stopover in Sao Paulo, was specifically requested by its most frequent fliers.

Continental in September dropped two South American destinations, Cali and Guayaquil, but Slater says at the same time it has been adding capacity on several routes. "On a year-over-year basis we're actually up in capacity despite the pull outs," he says.

> **"On a year-over-year basis we're actually up in capacity despite the pull outs"**
> **John Slater –** Continental

After Brazil, Colombia is another big driver of the additional Latin capacity as US carriers take advantage of another expanded bilateral. In addition to Delta's upcoming New York-Bogota launch, Spirit Airlines launched services to Cartagena in May and Bogota in July.

Dolara says American is now interested in adding a third daily frequency on Miami-Bogota, while Slater says Continental is interested in adding a second daily Newark-Bogota flight. Spirit Airlines chief marketing officer Barry Biffle claims US-Colombia is one of the world's most underserved markets and Spirit could justify doubling capacity on its new Fort Lauderdale-Bogota and Cartagena services as well launching flights to Medellin and Armenia.

Another US low-cost carrier, JetBlue, is also planning to launch services to Bogota from Orlando in February. Bogota will be JetBlue's second destination in Latin America after Cancun but the carrier is keen to make inroads in the region following the model of Spirit, which has steadily grown its Latin American network in recent years. JetBlue manager of network planning Jim Fuoco says JetBlue has not yet applied for other traffic rights to Latin America "but we definitely see opportunities over the next couple of years to develop markets in South America and Central America". ■

PLANNED DECEMBER CAPACITY GROWTH FOR NORTH AMERICAN CARRIERS ON NORTH AMERICA TO LATIN AMERICA ROUTES

AIRLINE	WEEKLY CAPACITY		ASK MARKET SHARE
	ASK million	change	
American Airlines	391	3.7%	35.0%
Continental Airlines	194	9.4%	17.4%
Delta Air Lines	194	15.2%	17.4%
United Airlines	87	1.9%	7.8%
Air Canada	71	42.7%	6.4%
US Airways	48	10.9%	4.3%
Others	131	-3.5%	11.8%
TOTAL	**1,115**	**7.6%**	**100.0%**

SOURCE: INNOVATA.
Data is based on scheduled operations for 15-21 December 2008 against 10-16 December 2007. Latin America = Mexico, Central America & South America / North America = Continental USA & Canada

To read about how US carriers are also expanding in the Caribbean, go to: **flightglobal.com/USCaribbean**

Caribbean carriers on profits track

Caribbean Airlines and LIAT see fortunes revived

BY GRAHAM DUNN

Reinvented Caribbean operators Caribbean Airlines and LIAT are both on track to reach their profit targets for the year.

Caribbean Airlines is set to break even in 2008 two years after it was established as a successor to BWIA West Indies Airways.

The Trinidad-based carrier this month took its eighth Boeing 737-800 – under a wet-lease agreement with Transavia – to further bolster its international operations. This will boost services on North American routes, where new daily flights to Fort Lauderdale join its existing flights from Trinidad to New York, Miami and Toronto.

"On a financial level we have exceeded our internal targets in 2008 so far and are confident of break even for 2008," says chief executive Philip Saunders. "You can see Caribbean Airlines is experiencing positive growth during a challenging period for the industry.

"It's hard to predict what is going to happen in the market over the coming months. But our market place is not like the rest of the Caribbean," he adds, pointing to the company's strategy of remaining a full-service carrier.

"This type of business .... has so far proven to be more resilient than other sectors. There are very significant challenges in the tourism market, to which we are less exposed."

Meanwhile, chief executive of LIAT, Mark Darby, says the Antiguan regional carrier is set for a second consecutive profitable year in 2008 in a further sign of its turnaround.

Mark Darby, LIAT

The airline has grown after last year acquiring assets from rival Caribbean Star Airlines and taking over the lease of its Dash 8 turboprops. It now operates 18 of the type.

"We have moved to be a profitable airline that is holding its head above water in what, by any measure, are difficult times," says Darby. "We set a budget for 2008 and we are smack on it – and we felt it was quite an aggressive plan. We are confident we are going to make money this year."

But while the carrier is not directly affected by weakening in the tourism sector, Darby is under no illusions that this could ultimately filter through to its market.

"At the moment the economies of the eastern Caribbean are very tourism driven. Our business is 80% local traffic so we haven't been directly affected by the slowdown in tourism.

"If there is a weakening in the overall tourism sector next year, that will find its way through to the local economy. So we are not kidding ourselves it will bypass us, there will just be a lag." ■

For more news, images and videos go to: flightglobal.com /ab

REPORT | DAVID KNIBB

NATIONAL INTEREST

The re-nationalisation of Aerolineas Argentinas remains in dispute in the long-running saga over the future of the troubled flag carrier

Argentina's Government and Marsans remain at loggerheads over Aerolineas

Argentina's government and Spain's Grupo Marsans, which owns Aerolineas and domestic subsidiary Austral, are still far apart on a price. Even worse, they seem unable to agree on a way to resolve their differences.

Marsans decided earlier this year to give up on Aerolineas after several years of recriminations between unions and Argentina's government, and Marsans. Seeing no end to this strife, Marsans abandoned plans for a local float of Aerolineas and agreed to relinquish ownership and control to Argentina's government. President Cristina Kirchner's administration was anxious to re-nationalise Aerolineas as it has several other companies. Marsans handed over control in mid-July and began talks with government officials on a price. They set a mid-October deadline to reach agreement.

It soon became clear that each side held widely divergent views on the airline's value. Marsans pointed to a Credit Suisse valuation of Aerolineas at $66 million and Austral at over $400 million. Together, the two carriers were worth $250 million to $450 million, Marsans claimed. Argentina's tax tribunal countered that half of the Aerolineas fleet was "junk" and it owes $890 million in back taxes and traffic control fees. The national appraisal court estimated that Aerolineas/Austral has a negative value of $622 million. Several senators questioned why Argentina's citizens should have to "pay for the bad management of Aerolineas".

Marsans maintains that it will not accept a "unilateral definition of the price". It points to its July agreement with the government, which says that if they cannot agree on a price, an independent appraiser should settle it. Calling for "a definitive solution", Marsans has nominated three appraisers and demanded that the government pick one of them in accordance with the contract procedure.

> **"Marsans maintains that it will not accept a unilateral definition of the price"**

But the Kirchner government responds that the law enacted by parliament in August authorising the re-nationalisation of Aerolineas replaces this contract with a requirement that the national appraisal court set the airline's value. Some lawmakers insist that the government lacked authority in July to enter a contract committing Argentina to pay an amount without parliament's approval.

THIRD PARTY APPRAISER

Marsans disagrees. Jorge Molina, the group's spokesman, argues that this law cannot dictate what price Marsans will accept. The only way to resolve this, Molina insists, is with a third-party appraiser. The alternative is for Marsans to take back Aerolineas.

Returning Aerolineas to Marsans would set off major protests. Airline unions have opposed Spanish control for years, and have a tradition of expressing their apprehensions by disrupting service and even blocking runways or access roads to Buenos Aires' Ezeiza International Airport.

Transport secretary Ricardo Jaime raises the spectre of expropriating Aerolineas in the absence of an agreement on price. In that event Marsans threatens to claim a breach of contract and sue in an international court.

This dispute has not escaped Spain's notice. At a Latin American summit in El Salvador, Spain's President Jose Luis Zapatero and Argentina's President Kirchner held talks about it. Zapatero expressed confidence that Argentina and Marsans would find a way to solve their differences. By raising the subject, however, he underscores that Spain is watching.

Lan Argentina is doing more than watch. It plans to add another Airbus A320 to its fleet of eight, and two more domestic routes to its current 12. "Lan Argentina has doubled capacity in the domestic market this year," says Alejandro de la Fuente, chief financial officer of the Lan group. By next year, he predicts Lan Argentina will control nearly half of Argentina's domestic market. The Aerolineas dispute may rumble on, but Lan Argentina is doing what it can to take advantage of it.

Some insiders predict that the government and Marsans eventually will settle. Patricio Seidel, President of Consultair in Buenos Aires foresees that this "could even include Aerolineas leasing some of the aircraft that Marsans is purchasing from Airbus". Such an accord, he notes, would be "an elegant way to leave, while still making a buck". ■