

AIRLINE BUSINESS DAILY

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

TACA AND COPA LINE UP TO JOIN STAR

Alliance balance of power shifts as Central American carriers opt to become Star Alliance members

BY BRENDAN SOBIE

Star Alliance has pulled off a major Latin coup with both of Central America's leading carriers, Copa and TACA, poised to join the alliance.

TACA chief executive Roberto Kriete revealed yesterday the El Salvador-based carrier has submitted an application to join Star. "The decision is supposed to be this year," Kriete says. "We have the best fit with them and they are the best of the alliances." He adds that once accepted "implementation may take six to 12 months".

Copa chief executive Pedro Heilbron, meanwhile, told the *Airline Business Daily* yesterday that the carrier has decided to leave SkyTeam and is in exclusive talks with Star. Heilbron says Copa has no "commercial choice" but to leave SkyTeam because its main partner, Continental, decided earlier this year to leave SkyTeam for

Star. Continental sponsored Copa's entrance into SkyTeam and owns a stake in the Panama-based carrier. Continental is scheduled to formally leave SkyTeam for Star late next year but Copa says "we have some time" to decide what it should do and "we won't rush it".

Getting both TACA and Copa concludes a drastic turnaround for Star in Latin America, which in early 2007 lost its only remaining Latin member, Varig. But Star succeeded in October at persuading Brazil's TAM to join and the carrier will formally become a member late next year or in early 2010.

NEW MEMBER

With TAM, TACA and Copa, Star could overcome oneworld as the largest alliance in Latin America. Oneworld already has LAN and American Airlines, which is the largest US carrier in Latin America, and early this year accepted Mexi-



Roberto Kriete

cana as a new member. Mexicana chief executive Manuel Borja said yesterday the carrier, which several years ago left Star, is on track to formally join oneworld in April.

SkyTeam, meanwhile, will be left with only Aeromexico and, according to Aeromexico chief executive Andres Conesa, is starting to look for new members in Latin America. "We don't like to lose any members," Conesa says. "They were good members but it was their decision to leave." ■

Time for a Mexican merger?

The possibility of an Aeromexico-Mexicana has become the hot topic at the ALTA Airlines Leaders' Forum for the second consecutive year. But while the Mexican government over the last year has warmed up to the concept of a possible merger, the two flag carriers say they are not currently in talks and a merger in the near-term is unlikely.

Mexicana chief executive Manuel Borja, who moaned at last year's forum that Mexicana's attempt to buy Aeromexico was thwarted by government competition authorities, said yesterday Mexicana is interested in making another attempt at the merger now that the government has indicated the deal is now potentially palatable. But Borja says Banamex, which bought Aeromexico last year from the government after the government refused to sell Mexicana to parent Grupo Posadas, does not seem interested in selling the carrier.

"I don't see a merger between the two of us in the short-term," Borja told *Airline Business Daily* following a press conference yesterday morning to announce expansion of Mexicana's long-haul operation (see page 11). "Five

Story continued on Page 11

Facing the music

Even a brief shower of rain couldn't dampen the spirits of ALTA delegates as they attended Wednesday evening's opening reception - sponsored by Sierra y Vazquez Abogados - on the hotel's sunset terrace. Called 'a taste of the region' the reception featured local music and drinks - all of which combined together to create the sort of relaxed atmosphere for which ALTA (and Cancun) are renowned!



DON'T FORGET...

Pick up your copy of *Airline Business Daily*, issue 3 at the entrance to the breakfast area and in the hotel lobby on Saturday morning.

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TAM launches link to Orlando today

Economic impact of new service is put at around \$100 million a year

BY MARK PILLING

The launch today of daily Airbus A330-200 service by TAM between its Sao Paulo Guarulhos hub and Florida's Orlando International Airport shows how patience is a huge virtue in route development.

It was almost 11 years ago to the day that Orlando's marketing director Vicki Jaramillo first began talking to the late TAM founder Captain Rolim Amaro about serving the Florida city.

"We targeted TAM even though at that time it was not even flying to the USA," she says. "We did it because we knew about the vision of Captain Rolim and about TAM's

customer service philosophy.

"Brazil has always been a big market for central Florida," she says. "This route shows the value of persistence in air service development."

The turning point for the service came at last year's Forum, when Jaramillo first met TAM's vice-president commercial & planning Paulo Castello Branco, and presented a demand forecast showing how the route could succeed. While leisure traffic is the largest component on the route, there is also expected to be significant business and cargo demand.

This meeting kick started the discussions into a higher gear. A



Left: Orlando's Vicki Jaramillo and TAM's Paulo Castello Branco at ALTA

delegation from Orlando, including Mayor Buddy Dyer, also visited Sao Paulo in April to promote the proposed service, says Jaramillo.

"This route shows the value of persistence in air service development."

Vicki Jaramillo
marketing director, Orlando

The entire region is working to make the route work, she says. "The community came together to help support this route, including Disney, Seaworld, Universal Studios, the Chamber of Commerce and the Economic Development Commission of Metropolitan Orlando."

The economic impact of TAM's new service to central Florida is put at \$100 million a year. ■

Chile could be first to agree to new US exemption

BY MIKE MILLER

Chile may be the first country to take advantage of a new US bilateral initiative to waive a nationality clause that would liberalise airline operations further between the two nations.

US State Department deputy assistant secretary for transportation, John Byerly, says the current nationality restriction in Open Skies agreements "is a

problem," and he offered countries a chance to work with the US to waive the restriction. "I have a draft with me," he says, responding to a question by LAN CEO Enrique Cueto.

Cueto says that even though Chile and the US have an Open Skies agreement, current foreign ownership limitations "make it difficult for us to work together." After yesterday's Open Skies

session, Cueto asked for a copy of Byerly's proposal so that he could encourage Chile to explore signing it.

TREND

In a hypothetical example, Byerly says if GOL would buy LAN tomorrow, the Brazilian airline would not currently be able to operate LAN in the same way: LAN would lose its carte

blanche Open Skies ability to fly to any market in the US because Brazil is not an Open Skies partner with the US.

If Chile signs the new agreement, it may start a trend among nations wanting to remove one of the thorniest issues in Open Skies pacts. Byerly notes that

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IPOD NANO UP FOR GRABS...

Discover your musical ALTA ego by visiting the Air Transport Intelligence (ATI) booth. Drop off your business card and you'll be in with the chance of winning a tasty orange-coloured iPod Nano. It's the perfect Xmas gift for someone in your family – in the unlikely event that you don't want to keep it for yourself! All entrants will also receive a free trial of ATI's on-line information service, the leading source for the global air transport industry for the past decade, providing you with essential real-time news and market data 24-hours a day. The draw will be held on Friday afternoon – so don't delay, drop today!



Latin market can survive credit crunch

The Latin American airline market is better structured to withstand the current financial crisis than other regions, with an expected 2.5% GDP growth next year as other regions drop.

While the region may weather the current downturn in better shape afterward, Embraer vice president marketing and sales, Alex Glock says one of the biggest questions for his company is what airlines will do in their reactions.

"Successful carriers will not take the traditional path during the downturn," he says, such as not cutting their route network and staff.

"Instead, he expects some carriers to retire older aircraft and right-size their fleets.

Since 1997, when Latin America had 1,071 flight routes, the decline has been

substantial – to 883 routes this year, he says. "The environment is becoming more competitive," he says, although the region still suffers from having a significant concentration of narrowbody aircraft (76%) as a percentage of the total fleet.

Embraer will finance more new deliveries to existing customers during the next year, Glock says, but will not offer that financing to new customers. "If we have to step in and support some of our customers, we will," he says. "For us, financing hasn't been an issue."

The company has a 419-aircraft backlog in Latin America, and "most of it has already been financed," he says. Embraer's Latin portfolio has swelled from just 15 aircraft in 2004 to 124 aircraft today. The company will deliver the first EMB-190 to new Brazilian carrier Azul on 11 December. ■

Money's too tight to mention

There may be a permanent higher cost of capital for the next year or two, says Michael Linenberg of Merrill Lynch

BY MIKE MILLER

The availability of cash to finance new aircraft deliveries and new aviation projects is tight but will be "more pronounced six months from now," says Merrill Lynch airline analyst Mike Linenberg.

"There's a new cost of capital, and the appetite for risk in the market has collapsed," he says. "There may be a permanent higher cost [of capital] for the next year or two. The paradigm has changed."

While some experts are looking at theoretical numbers, "we don't live in the theoretical world, we live in the real world," he says. While indices show the cost of capital higher, current data doesn't tell the whole story.

For true high-yield rates on borrowing, "a few days ago we were looking at 19%. Yesterday, it crossed 20%," says Linenberg, who tracks the finances of 23 airlines. The world market lost \$35

trillion of value in the last 12 months, and that means fewer lending institutions and fewer sources of capital.

Right now, however, Latin America is a "bright spot on the map," he says. While Merrill Lynch expects US GDP to drop to negative 2.1% next year, Brazil's GDP will fall from 4.9% this year to 2.9% in 2009 – a decline, but still positive.

CUTTING CAPACITY

"US airlines are cutting capacity at a greater level than they did after 9/11," he notes. "One of the concerns we have globally is the number of aircraft delivered, just as airlines cut capacity."

However, US airlines, which had been adding flights to Latin America, are now cutting – with Latin seat capacity down 7% in September. "We have the situation where GDP could be down, and



Tough times ahead: Merrill Lynch airline analyst Mike Linenberg

the industry could make money," he says. If oil stays near \$55 per barrel – it sunk to \$49 yesterday, Linenberg notes – that the airline industry could see \$110 billion in savings, on \$550 billion in total revenue. "The bigger question is 'how much revenue falloff are we going to see over the next 12 months?'"

Boeing and Airbus will "unfortunately have to step up their financing" of new deliveries, he says. "There will be situations where a new aircraft will not be delivered because of lack of credit." ■

Airbus yet to hear the cash call

BY MARK PILLING

Although at the global level Airbus is expected to finance millions of dollars worth of aircraft in 2009, in the North and South American markets the number will be very small.

Airbus has not conducted any manufacturer financing for Latin American carriers over the past couple of years, says Barry Eccleston, chief executive of Airbus Americas, speaking here at the Forum, and does not expect to do much next year.

"However we are at a point where the crisis is having an effect and we are beginning to have discussions with Latin carriers on possible deferments, but there are also some who want earlier deliveries." For example,

an undisclosed Latin airline confirmed a deal with Airbus this week to accelerate the delivery of three aircraft, says Eccleston.

"Nobody is talking financing with Airbus at the moment, but they do want our support when they go to financiers or to ECAs (Export Credit Agencies)," he



says. This support is in the form of explaining the value of the aircraft asset.

"So far, through 2008, the Latin carriers have come through the crisis extremely well. The main players are well managed, financially healthy airlines that were still growing in 2008."

Even in North America, Airbus is encouraged by relatively few calls for it to help with financing. There has been "less than a handful" of requests from airlines asking Airbus to provide finance this year and into 2009, says Eccleston.

"No US customer for Airbus has cancelled aircraft other than SkyBus. Everybody else has either financed their aircraft or deferred them," he says. ■

ALTA | AIRLINE LEADERS' FORUM

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



Roberto Kriete



Philip Saunders

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

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 Hourri
- LIAT CEO Mark Darby
 - Caribbean Airlines CEO Philip Saunders
 - Air Jamaica CEO Bruce Nobles
 - Cayman Airways CEO Gilles Filiatreault

1:30-3:00pm

Lunch: Coral Gallery – Lobby Area Subfloor
Keynote Speaker: ILFC CEO Steven Udvar-Hazy
Lunch sponsored by Lufthansa Systems

3:00-3:30pm

Closing Remarks:
ALTA Announcement: ALTA Executive Director Alex de Gunten
■ Subsecretario de Transporte de Mexico José Treviño

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

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

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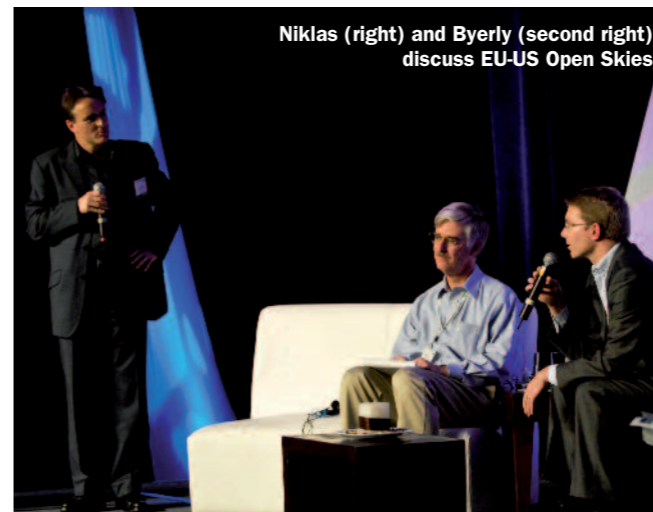
there are 3,500 air service agreements worldwide, and if nationality clauses were removed, “we could change the world fairly

quickly” and that the move “would create a more competitive airline industry.” European Commission direc-

tor general for energy & transport, Mark Niklas, agrees with Byerly, adding that the European Union “waived the nationality clause with Chile last year.”

Both US and EU representatives called the first stage of the broad US-EU pact – that became effective in March 2008 – a success. Byerly notes that the pathway of future negotiations shouldn't change after US President-elect Barack Obama takes over in January. “The commitment to pursue the second stage is a legal commitment. It's in the document.”

Mexicana's legal vice president Javier Christlieb called for US and EU factions to “recognise the differences” in Latin countries. Byerly disagreed, saying that terms such as “balanced and holistic” also mean “protectionist.” ■



Niklas (right) and Byerly (second right) discuss EU-US Open Skies

IN BRIEF

Capacity growth slows at Gol

Gol CEO Constantino de Oliveira Jr has decided to slow domestic capacity growth at the Brazilian low-cost carrier. He says Gol will only expand domestic capacity by 4% next year, compared to 9% this year and previous 2009 projections of 7% to 8%. “We believe that it is below market growth and we expect that to help us recover load factors. We believe that 2009 will be a challenging year for air transportation in Brazil, due to the worldwide economic environment.”

Get your tail to Orlando!

Since we met last year at ALTA in Cancun these airlines have added or expanded service to Orlando International Airport:

- TAM** São Paulo – new daily service effective November 21, 2008
- mexicana** Mexico City - new daily service effective December 1, 2008
- jetBlue AIRWAYS** Bogotá – new daily service effective January 29, 2009
Nassau – new daily service effective February 1, 2009
Cancun – new daily service commenced March 13, 2008
Santo Domingo – new daily service commenced March 6, 2008
- DELTA** Cancun – new weekly service commenced February 2, 2008
- AEROMEXICO** Mexico City - expands to 14 weekly flights effective December 4, 2008
- Copa Airlines** Panama City - expands to double daily effective December 16, 2008

High tail it to Orlando International!

Contact: Vicki Jaramillo
vjaramillo@goaa.org
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Aerosur builds overseas routes

After a year of route consolidation, privately owned Aerosur plans to expand its international network again in 2009 with service to capitals Santiago in Chile and Colombian city Bogota.

The Bolivian carrier, which has a domestic traffic market share of around 80%, is adding two Boeing 737-200s in the first quarter of 2009 and a 767-200ER in the second quarter, says Miguel Angel Roca, commercial vice-president of Aerosur.

"We are discussing code shares in the Santiago and Bogota markets," says Roca. The carrier is also planning to increase frequency on its popular Miami route to five times weekly in the summer season.

The carrier has a staff of 1,300 and is on track to carry 1.6 to 1.7 million passengers this year, a growth of 8-10% over 2007, says Roca. Its revenues will climb to between \$200 million and \$220 million and it expects to be profitable this year, despite the high fuel prices of earlier this year.

Icelandair aircraft on offer

Rising investments from Icelandic executives are here in Cancun scouting for carriers interesting in leasing aircraft or using the maintenance services of the Icelandic airline, says Sigfus Olafsson, manager corporate communications. At present the airline has a Boeing 757-200 on an ACMI deal with Venezuela's Santa Barbara Airlines. The contract began in April and runs until spring 2009, with the aircraft operating daily flights between Caracas and Miami. "We are promoting the group and the tools we can offer, such as dry leases, aircraft maintenance and the complete solution of an ACMI deal," says Olafsson. The carrier can also offer cargo aircraft.

Regulators and agencies discuss LatAm safety record

LatAm's rate of loss of Western-built aircraft is double the world's average

BY GEOFF THOMAS

LatAm's historically inferior aviation safety record – at least by world standards – was discussed at a pre-lunch session yesterday (Thursday) when speakers from ICAO, the FAA and insurance company Marsh were introduced by IATA's director, programme implementation & audit, safety operations & infrastructure, Mike O'Brien.

O'Brien said it was appropriate for this session to follow Merrill Lynch's session on the 'Wall Street perspective' as "the world's financial troubles make safety even more important – especially as LatAm's rate of loss of Western-built jet hulls per million sectors is double the world average".

IATA's operational safety audit (IOSA) has been introduced to improve aviation safety around the globe and O'Brien says that it is a "test of conformity" which has been adopted to a greater extent in

LatAm and the Caribbean than anywhere else in the world. He called on more governments in the region to tackle the accident rate "which is still too high" and to "improve their infrastructure, commit to adopting IOSA and to implement the industry's safety roadmap".

ICAO's regional director, Loretta Martin (pictured) began by saying that "safety is a balancing act" and that the number one cause of accidents had become loss of control in flight rather than controlled flight into terrain (CFIT) that had been tackled successfully over recent years.

"Industry and governments have to work together," she said, "and that means integrating the roadmap into the global aviation safety plan



(GASP). My plea is for airlines to do more too and join in with roadmap implementation in the region".

The FAA's Mike Flores (manager international affairs, flight standards service) explained about the US government agency's technical assistance package.

He was followed by Sandy Lonsbury (VP, aviation risk advisory solutions) from aviation insurance company Marsh, who said that the three key areas to address were equipment; management systems; and finally behaviours and culture, because "quality and safety are complementary".

Without everyone in an airline being immersed 24/7 in a culture of safety and security, she said, improvement could be hard to achieve. ■

Caribbean boosts SITA's Latin business

BY MIKE MILLER

Rising investments from Caribbean airports are boosting SITA's Latin American outlook, as the desire to improve connections is pushing IT spending higher.

"Latin America is a growing area

for us. And Caribbean airports need solutions that integrate all areas and this has been a strong area for SITA this year," said Cristiane Dart, SITA marketing manager for Latin America & Caribbean.

SITA also has seen gains from

civil aviation authorities in the region, although Dart credits their airline partners for ensuring that the business develops.

"TAM has worked with us to help Brazil's air traffic control group, DECEA, modernise its air-to-ground communication," she said. Likewise, LAN's assistance with Chile's civil aviation authority DGAC has helped revamp Chilean datalinks.

In the coming weeks, SITA will unveil the results of Mexican airline Aviaca's use of SITA's Airfare e-commerce platform. Dart says the airline has been able to reach 6,000 stores in Mexico by using the technology.

Next year should be "challenging," Darts says, due to worsening economic conditions, but "we don't think it will hit Latin America as much." ■



Cristiane Dart and Ana Paula Gioia of SITA at the event

Carrier adds international service to Brazil

Mexicana to add São Paulo flight

BY BRENDAN SOBIE

Competition between Mexico's two flag carriers is set to further intensify as Mexicana has added São Paulo to its long-haul expansion plan.

Mexicana chief executive Manuel Borja (pictured) announced at ALTA yesterday that the carrier will launch on 10 December five weekly flights between Mexico City and São Paulo, a route now served daily by rival Aeromexico. Borja says it will use its fleet of two newly acquired Boeing 767-200s for the new Sao Paulo route.

Mexicana earlier this month unveiled plans to launch two weekly flights to London Gatwick on 17 January, expanding to four weekly flights from

17 February, also using 767-200s. Borja says the aircraft, which have recently exited the fleet of Polish carrier LOT, are being leased from American Financial Group.

DAILY SERVICE

Mexicana also earlier this month announced that it had leased two new Airbus A330s from CIT to launch a daily service in February between Mexico City and Madrid. Borja says these aircraft became suddenly available after the collapse in September of UK leisure carrier XL Airways.

Borja says Mexicana would have preferred to lease only A330s instead of a mix of A330s and 767s but in June when it started looking for widebodies



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



and after that probably to the Airbus A350 or Boeing 787," Borja says.

A350s or 787s would likely be delivered in the second half of next decade as Mexicana has agreed to lease the two A330s for 10 years.

Mexicana currently only operates one long-haul route, to Buenos Aires, but early this year decided to pursue long-haul network expansion, including its first European routes. Borja says it identified London, Madrid and São Paulo as the best opportunities and applied for traffic rights for all three. "We pushed at all fronts hoping one would open and later the others. To our surprise all three fronts opened at the same time. ■

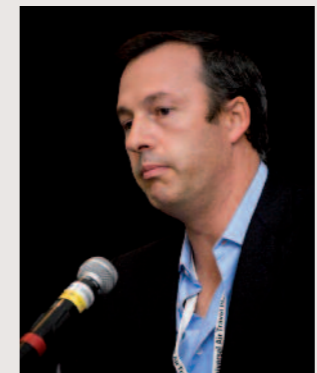
Continued from Page 1 | **TIME FOR A MEXICAN MERGER?**

years from now let's hope there's one legacy carrier in Mexico."

Speaking just minutes later in the main auditorium, Merrill Lynch senior analyst Mike Linenberg pushed the issue forward and suggested the two carriers should merge now rather than in 2013: "Maybe now is the time to consider combining Aeromexico and Mexicana."

The Mexico government in August indicated it would re-consider the concept of a merger as the recent growth in Mexico's low-cost carrier sector means the two flag carriers no longer control the domestic market. Linenberg points out that Aeromexico's share of the

domestic market has dropped from 38% in 2005 to 35% in 2008 while Mexicana's share has dropped from 26% to 22% over the



same period. "Now they have a more politically palatable solution," he says.

During lunch, Aeromexico chief executive Andres Conesa went through his entire speech without mentioning the possibility of a merger with its archrival. But after a question from the floor Conesa (pictured) noted that a merger with Mexicana is "always a possibility" but Aeromexico is now focused on its own operation. "We want to make sure the company is profitable on our own so we can add value in a potential merger," he says. "We're concentrated on that. I'm sure they are as well."

Speaking to *Airline Business*

Daily after his luncheon speech, Conesa acknowledges Aeromexico is still unprofitable but says "we're in better shape than we were six months ago". He adds Aeromexico aims to return to profitability in 2009 and while 2008 has been "difficult" it has succeeded in reducing its debt from \$300 million to \$220 million.

Borja says Mexicana will only incur a very small loss in 2008, a year he describes as the "perfect storm" given the economy, fuel prices and intense competition in the domestic market. "Our outlook for 2009 will be neutral. Probably we'll budget for a small gain," he adds. ■

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