

# Tough times for VASP

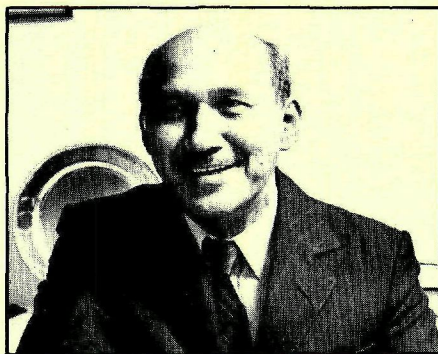
The downturn in the Brazilian economy has had a major impact on the nation's domestic airlines, including VASP, which cancelled nine A310s last year. **Patrick Knight** reports from Sao Paulo.

One of Brazil's major domestic airlines, Viacao Aereo Sao Paulo, more commonly known as VASP, and one of the prides of its home state, is now embarking on its 51st year of operations amidst the most serious crisis that the company has ever faced.

VASP, which has a third of Brazil's jet airliner fleet, has been making a loss for the past three years, and its foreign debt now stands at about \$300 million. Worse than that, its internal debt continues to grow month by month, as receipts of about \$13 million are exceeded by operating expenses equivalent to about \$15 million a month.

Decades of rapidly growing demand, often running at almost 20 per cent a year, culminated a couple of years ago in the decision to buy a fleet of A310s to keep pace. But Brazil's deep economic crisis has hit the air transport industry very hard because it is dependent on business traffic for at least 80 per cent of its passengers. In a year when demand is growing by only about 1 per cent (considerably less than the growth in population) VASP has also had to bear the extra capacity of three A300s purchased earlier.

The airline's problems have been exacerbated by the fact that, unlike Brazil's three other major airlines (the Varig-Cruzeiro consortium and Transbrasil), it is not wholly privately owned. Some 95 per cent of its shares are in the hands of the Sao Paulo State Government, and VASP plays an important part in the political life of this, Brazil's most important state. In 1982, important elections were held in the country, and in November 1982 control of the state was won by a different party. In the three years prior to the election, however, VASP's staff had increased by no less than 97 per



VASP president Prof Antonio Angarita

cent to 9,200, largely political appointees. One of the first things which incoming company president Prof Antonio Angarita had to do was to get rid of some of the obviously superfluous appointees. So far, staff have been cut by 600, to 8,600, and a further 400 are to go in the next few months. Offices are being shut, administration reduced, and services streamlined, in an attempt to get operating receipts in line with costs.

The VASP fleet now comprises 20 737s and six 727-200s plus three A300s. The company operates 41 routes, covering all of Brazil's 23 states, and two of the three territories in the Amazon region. Some 32 cities are served, 85,000 passengers are carried each week, with 1,600hr of flying time being clocked up along the 1,400 separate stages operated in that time. VASP has about 30 per cent of the country's commercial jet airliner fleet, and now has 31 per cent of the seats available. In the first 50 years of its existence, achieved in November 1983, VASP carried 46.6

million passengers.

The airline was started during 1933 by a group of businessmen in Sao Paulo State anxious to help develop the state's major resource of the time, coffee, by improving communications between the capital and the interior. The first aircraft to be bought were Croydon-built, three-passenger, Monospars which linked Sao Paulo with the town of San Jose de Rio Preto. VASP stayed British with its next acquisition—de Havilland Dragons.

In 1936, VASP inaugurated the important Rio de Janeiro-Sao Paulo route (now operated by all four of Brazil's major airlines in a consortium Shuttle operation). VASP used 17-passenger Junkers Ju-52s. In the post-war period, in common with almost all other Brazilian airlines, VASP snapped up surplus DC-3s. Nine were bought, enabling the airline to extend its routes to serve 20 locations, although almost all of them were still within the State of Sao Paulo.

The fleet was then expanded to include 36-seater Scandias and, shortly afterwards, the Viscount played an important part in the development of the company serving a city which by then had grown to a population of four million.

In 1969 the first 737s were bought, followed in 1975 by 727s. In 1982 VASP took delivery of its three A300s. The previous administration had planned to acquire a further nine A310s, and a contract to this effect was agreed in September 1982. When the present administration took over in March 1983, it became apparent immediately that the actual purchase of these aircraft would cripple the company, whose debt had been made considerably more onerous by a 23 per cent devaluation of the currency in February. So VASP had to say no to Airbus Industrie, and make do with its existing fleet. Fortunately for the airline, the Western banking consortium providing finance for the purchase had failed to consummate the deal in the wake of the



Opposite page VASP flies 20 Boeing 737s and three A300s (above). Its route network, below, serves a wide variety of destinations, although the majority are still within its home state of Sao Paulo

Brazilian debt rescheduling crisis, so VASP was able to extricate itself from its predicament (see *Flight* for September 3, 1983, page 606).

When the time comes for VASP to make a decision about the modernisation of its fleet—and this will not be before 1985—a 150-seater will probably be sought, says Angarita, as this is the size most suitable for VASP's route network and forecast demand.

In the meantime, to help make some inroads into the debt, and extract itself from a position where earlier this year fuel supplier Petrobras threatened to cut off supplies if bills were not paid, VASP is examining the possibility of selling and

leasing back some of its fleet. Negotiations are under way with American banks for the lease-back of 13 aircraft. This deal is taking more time to work out than had been anticipated, partly because of Brazil's general financial difficulties.

VASP is also looking for other solutions to its problems. The airline operated the first of a series of charter flights to Miami early in the new year and is also negotiating with SAS to take that airline's passengers on to Montevideo and Santiago from Brazil. SAS aircraft, which now continue down to those cities, would terminate at Rio de Janeiro or Sao Paulo. VASP already has a large share of the feeder traffic for European and North

American companies which terminate flights at Rio de Janeiro. Among them are Pan Am, British Caledonian, KLM, Lufthansa, Royal Air Maroc, and Viasa. The airline also operates the ground services in Brazil for Lloyd Aero Boliviano, and the Chilean Ladeco airline.

As befits the airline of Brazil's major industrial state, VASP is the nation's leading cargo operator. Two exclusively cargo 727s are operated, but, in a close reflection of Brazil's economic difficulties, the company is now generating only between 7,000 and 8,000 tonne-km each month, compared with the 10,000 tonne-km which were being carried at the beginning of 1983.

VASP has been attempting to encourage new cargo from the developing states in the north and north-east of Brazil, giving concessionary rates for such things as tropical fruits and vegetables, handicrafts, textiles, and processed foods of all kinds. Business demand from the duty-free manufacturing zone of Manaus, where many of Brazil's electronic industries are located, and where most motor-cycles are manufactured, is also very important to the airline.

In December 1983 VASP operated its first cargo charter, carrying 13 tonnes of shoes to Miami. The large cargo hold of the Airbus is seen as one of the aircraft's major advantages, and allows VASP to offer 80 tonnes of cargo capacity a day on its routes.

The airline's president does not hold out much hope of 1984 being a major improvement on 1983. Brazil's gross national product probably declined by up to 5 per cent in 1983 and, although the decline may be arrested in 1984, there is little chance of growth. The immediate future is likely to see continued pressure within the airline for cost cutting, staff reductions, and an attempt to be more attractive than the opposition. Things will only look up when the Brazilian economy gets going again, hopefully in 1985. □

