

*TAM is the market leader among Brazil's regionals*



## Partial deregulation has stimulated the growth of Brazil's regional airlines.

BRIAN HOMEWOOD/RIO DE JANEIRO

**B**RAZIL'S REGIONAL AIRLINES, stimulated by deregulation and an anti-inflation plan which has boosted the economy, have enjoyed staggering growth in the last two years, with some doubling their revenues. They have also taken advantage of a loophole in legislation to compete, at least indirectly, with Varig, VASP and Transbrasil, which, in theory, have a stranglehold on national routes.

Until 1992, Brazil had only five regional airlines and each was restricted to operating in an area of the country allotted to it by the Civil Aviation Authority (DAC). RioSul, a subsidiary of Varig, operated in the south; TAM served the prosperous south-east; Brasil Central the centre-west; Nordeste the north-east; and TABA the vast Amazon region.

Then the rules were changed to allow the regionals to fly any route they wished, the only condition being that they could not fly non-stop between two state capitals (Brazil has 27 states including the federal district of Brasilia). The

only exceptions are on selected major routes, such as Rio de Janeiro and Belo Horizonte to Sao Paulo, but even then a regional airline must have at least a 15% share of the regional market before it can receive authorisation to do so.

A further boost to the sector came in July 1994, when the Government introduced an economic plan which succeeded in ending years of runaway inflation, which had at times exceeded 50% a month. The benefits were felt in two ways — the stability brought by the plan encouraged investment and the boost to the economy increased demand for air travel.

### TAM LEADS THE WAY

By 1996, the number of regional carriers had increased to 14 and their share of Brazil's domestic market had risen from 5% to 20%. TAM is the regional-market leader, with a 55% share. The carrier has also snapped up Brasil Central, giving it an extra 5% share. The airline operates 25 Fokker 100s, six Fokker 50s, seven Fokker F27s and 30 Cessna Caravans. TAM's revenues grew to \$450 million in 1995, up from \$260 million in 1994, and the airline was projecting further substantial growth for 1996: 1995 profit was \$63 million.

In 1996, the TAM Group formed Transportes Aereos Meridonais (also TAM), which has been approved as Brazil's fourth national carrier and which began operations in December 1996 with Fokker 100s. Also in 1996, the TAM Group acquired control of privatised

Paraguayan airline LAPSA, which it has renamed Transportes Aereos Mercosur (again TAM), and with which it began international services in late 1996, also using Fokker 100s.

TAM vice-president Luiz Eduardo Falco says that the company, which does not offer discounted fares, concentrates on offering a high-quality service aimed at business travellers. Its schedules are designed to allow them to complete business trips in one day, with most flights concentrated into early morning and late evening periods.

The airline's growth was sparked by a marketing campaign in the early 1990s, in which passengers walked to their aircraft on a red carpet laid on the tarmac and where company president Rolim Amaro, founder and controlling shareholder, personally greeted passengers boarding morning flights from Sao Paulo. In 1996, TAM ordered five Cessna Citation Ultra business-jets to transport first-class passengers overbooked on the airline's domestic flights.

By using what the Brazilians call a "jeitinho" (basically, a cunning way around a problem), TAM has been able to compete with the national carriers. The airline began operating certain major national routes, such as Sao Paulo-Recife and Sao Paulo-Fortaleza, by inserting a quick stop at a small provincial airport in Sao Paulo state, such as Sao Jose dos Campos or Ribeirao Preto. By making the stops very short and by operating from Sao Paulo's central Congonhas airport — where Varig, VASP and Transbrasil

have to use the distant international airport at Guarulhos — TAM has been able to compete.

Designation as a national carrier may remove the need for such tactics, but the technique has attracted attention. "After a lot of training, we have got the stops down to around 10min," says Falco. "Companies from Europe and North America have come out to see how we do it."

RioSul has enjoyed similar growth after expanding its operations with the purchase of eight Boeing 737-500s to be operated in conjunction with its existing Embraer EMB-120s and Fokker F27s. Revenue was forecast to exceed \$300 million in 1996, after jumping to \$231 million in 1995, producing a profit of \$20 million. RioSul has also taken over Nordeste and replaced its fleet of ageing 19-seat Embraer Bandeirantes with 30-seat Brasílias and 737s.

#### RECENT START-UPS

Among the new regionals which have started up recently are Panatal Linhas Matogrossenses, which is based in Sao Paulo; Passaredo Linhas Aereas, started by a bus company from Riberao Preto in the heart of Sao Paulo state; Helisul Linhas Aereas, based in Curitiba; and Inter-Brasil Star, a subsidiary of TransBrasil based in Sao Paulo.

Most of the airlines look for their own niches and create new markets rather than simply stealing customers from rivals. Consequently, Brazil has not seen any all-out price wars and relatively few routes are operated by more than one carrier. Panatal, for example, identified potential markets in the previously unserved cities of Videira (in the south-eastern state of Santa Catarina), where one of Brazil's largest food producers has a factory, and Mucuri (in Bahia state), home of the cellulose industry.

Likewise, Passaredo became the first airline to operate non-stop from Sao Paulo to Vitoria de Conquista, an agricultural centre in the heart of the north-eastern state of Bahia. "If you just stay in one region, it is inviable to have a competitive company," says Passaredo executive director Ajuari Barros de Melo.

#### NOT ENTIRELY OPEN

Brazil's regional-airline system, in fact, is still not completely open, and companies have the right to object to rivals wishing to start new services, which avoids saturation of the main routes and the resulting fare wars.

When an airline wants to begin operating a new route, it has to submit an application to the DAC's Air Routes Commission, which generally meets every Thursday. The commission has 20 members — one from each of the country's 17 airlines plus three from the DAC. When the application comes before the meeting, the other airlines are given one week to submit objections. In the third week, the applicant has the right to reply to the objections and, in the fourth week, the DAC gives its verdict. "It's all done on a very high level. Everything is submitted in writing,



Passaredo offers cut-price Brasília flights; Rio-Sul has taken on Nordeste, and given it 737s

there is no arguing," says Barros de Melo.

The DAC fixes a fare per route and operators can charge anywhere between 50% and 130% of that fare. Most airlines charge around 100%, but some, such as TAM, charge the full 130%.

Passaredo is one of the few companies to offer cut-price travel. "Our aim is to bring air transport to regions and people who have not previously had access to it," says Barros de Melo. "We don't have luxurious on-board service and we don't have the red carpet. Our services are for small businessmen who would otherwise have a 6h drive on Brazilian roads," he says.

Passaredo began operating in July 1995 with two EMB-120s and has since added a third. "We have a very promising market and we have local town councils asking for us to start a service to their town," Barros de Melo says.

Panatal, which was predicting revenues of \$36 million in 1996 after seeing its income more than triple to \$27 million in 1995, concentrates on convenience and targets executives, according to planning director Andre Medrado. "Our flights are geared, for example, to getting executives to Sao Paulo early in the morning and enabling them to fly out on the same day," he says, adding: "There is still a lot of room for growth. Brazil has a lot of towns and cities which have very few flights."

Panatal is one of the few Brazilian airlines to operate the Aero International (Regional) ATR-42, which Medrado says is the most suitable for the country's small city-centre airports. It has three ATR-42-300s, in addition to two

Brasílias, and plans to add another two every year. Panatal has 3.5% of the regional market.

Helisul was started in early 1995 as a subsidiary of Helisul Taxi Aereo, an air-taxi company which has been operating for 32 years, to take advantage of the boom in regional air travel, says director Jose Alfredo Ribas Oliveira. With five Brasílias and four Bandeirantes, Helisul services 17 cities in the south-eastern states of Paran and Santa Catarina.

InterBrasil Star, meanwhile, began operations in 1995 as a subsidiary of TransBrasil, which was eager to get into the regional market, operating three EMB-120s. InterBrasil, Panatal and Passaredo, meanwhile, are among the airlines to which the DAC has redistributed routes no longer operated by troubled Brazilian regional TABA. RioSul and TAM, along with regionals Penta Transportes Aereos and Total, have also taken over former TABA routes.

#### SATISFACTORY SET-UP

Brazil's regionals agree that they are happier with the current set-up than with all-out, free-for-all deregulation, saying that the restrictions which still apply have prevented too many companies from sprouting and have avoided overloading the country's infrastructure. The October 1996 crash of a TAM Fokker 100 at Congonhas, which killed all 96 people on board and eight on the ground, underlined the overcrowding at Sao Paulo's small city-centre and served to highlight the challenges still facing the country's burgeoning regional airlines. □