



# Brazilians go international

Of four airlines in Brazil, two of them, Cruzeiro and Varig, have international flag rights, although Cruzeiro is restricted to South America. As it happens both are owned by the same foundation, and are jealously guarding their privilege. The other two, Transbrasil and Vasp, are desperately seeking a change in the law that would allow them international scheduled flights.

Viação Aérea Rio-Grandense (Varig), Brazil's first airline, was formed on May 7, 1927, by 550 shareholders. The company's creator, Otto Ernst Meyer, and his 19-year-old secretary, Ruben Martin Berta, had initiated operations a few months earlier with trial flights of the Dornier Wal flying boat *Atlantico*, imported from Germany.

In 1941, when Brazil sided with the Allies, Meyer resigned the presidency, conscious of his German origin. Berta was elected in his place. It was Berta who, in 1945, swayed the shareholders to form an Employees Foundation. This foundation, today called the Ruben Berta Foundation, is Varig's biggest shareholder.

After the war, Varig grew from strength to strength, persevering where other airlines fell by the wayside. Purchasing company by company, it developed a network of worldwide routes. In 1951 it bought a small airline, Aero Geral, which was operating in the red and which gave Varig access to markets in the north of Brazil. Then in 1953 the Brazilian Government granted the company rights to fly a regular route to New York. The fleet was restructured with the purchase of Super Constellations for the long haul, Convair 240s for domestic trunk routes, and Curtiss C-46 Commandos for inland routes.

In 1961 Varig took over another debt-laden airline, Consorcio Real-Aerovias, which opened a Pacific route to Los Angeles with stopovers in Lima, Bogota, and Mexico. Then, in 1965, the Govern-

Brazil has four major airlines, a vast domestic area to cover, and huge distances to the rest of the world. Paul Lyons looks at its commercial air transport structure.

ment asked Varig to take over the European services of the failed Panair company.

The Ruben Berta Foundation became the majority shareholder of yet another international airline, Cruzeiro do Sul SA Serviços Aéreos, in 1975, allowing Varig and Cruzeiro, although not one company, to operate harmoniously. The Varig route map, for example, includes cities to which only Cruzeiro flies.

Around the mid-1970s the central Government decided on a new policy. The evident failure of several airlines to sustain viable operations in the international circuit led to Varig and Cruzeiro being given exclusive flag rights, the former for long-distance services and the latter for regional flights in South America.

Eleven years later it looks as though that policy may well change again. The aeronautics minister, Otavio Moreira Lima, said recently at the 4th national aviation conference (these are important affairs occurring only once a decade or less) that the Government might authorize Vasp and Transbrasil to fly regular international routes as a result of the increase in international traffic.

The president of Vasp (Viação Aérea São Paulo), Antonio Angarita Silva, explained to *Flight* why his company was lobbying so hard for scheduled international flights. Since early 1984 it has run successful charter flights to Argentina, the Caribbean, and to Miami. The Miami run is made regularly, three times a

week, and proves Vasp's capability, according to Angarita. The advantage of turning the charter flights into a regular scheduled service are numerous. In the first place, he says, Vasp would like to issue its own tickets. Secondly, it would like to bring American passengers to Brazil. Thirdly, it would be able to make its cargo traffic viable; and, fourthly, it would have access to foreign currency.

Once Vasp has international rights, a second step would be to set up scheduled flights to some West African countries such as Senegal and Cape Verde, to which charter flights are not viable because it is executive rather than holiday trade, and to which Varig has no service.

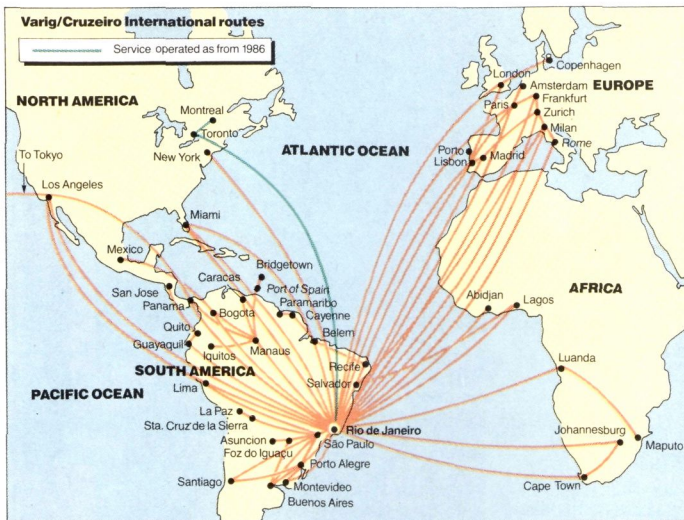
The Vasp fleet consists of 23 Boeing 737-200s (two for cargo), two Boeing 727-200s, and three Airbus A300s. This year it has added three new Boeing 737-300s on lease from GPA, and later this year will add a further three on lease purchase from the same company.

A decision in the early 1980s to use the 727 with about 150 seats has since proved a mistake, and of six originally in the fleet only two remain. The others have either been sold or leased out.

The 737-300 has a capacity more suited to Vasp's long-distance flights. However, should Vasp, whose turnover last year was \$270 million, win scheduled routes, then it will have to make a decision on widebody

## Varig Fleet

Boeing 747-300	2
Boeing 747-200B	3
Douglas DC-10-30	12
Airbus A300B4	2
Boeing 707-320C	6 for passengers 6 for cargo
Boeing 727-100	7 for passengers 3 for cargo
Boeing 737-200	12
<b>Total jets</b>	<b>53</b>
Electra II	14
<b>Total</b>	<b>67</b>



Above Only Varig can fly intercontinentally at the moment, but this is being challenged. Top right Cruzeiro flies domestically and within South America. Bottom right Vasp is domestic



aircraft. It is currently in discussion with both Boeing and Airbus.

Transbrasil (Transbrasil S/A Linhas Aereas) refused to co-operate in *Flight's* investigation, but is also known to be lobbying hard for international flights. Like Vasp it has begun charter flights to Argentina in the holiday season, and regular charters to Miami. It is now also said to be looking for approval to run charters to Washington. It has recently decided to expand its fleet with the same Boeings as Vasp, although the rest of the fleet is different—nine Boeing 707-320s, three Boeing 767-200s, and 12 Boeing 727-100s. Currently it has two of the new 737-300s, and another three will be incorporated before the year's end.

Clearly Varig would be unhappy to lose its monopoly, or exclusivity, as president Helio Smidt prefers to call it, owing to competition from nearly 30 other international airlines. In an interview with *Flight*, Smidt questioned the wisdom of a change of policy that would give more operations international rights in the face of the evidence from the past, when several airlines failed.

In reply, Vasp's president says that conditions have entirely changed. Decades ago airlines were running on cheap fuel, Government subsidies, and old aeroplanes. Today only professionals survive. Furthermore, the market is much bigger.

An argument Varig uses to protect its patch is that Vasp is 99 per cent owned by the state of Sao Paulo. Angarita admits that this can cause problems because the

entire board of directors changes every four years with a new state Government (his own term expires early next year). But, he says, Vasp is taking steps to minimise the inconveniences. Besides, the company has existed and grown for 53 years.

Even if Vasp and Transbrasil succeed in expanding into the international arena, they have a long way to go before seriously threatening Varig's position. Smidt cautiously estimates that Varig is among the world's top 20 airlines, taking a broad spectrum of parameters.

Varig boasts a fleet of 53 jets, largely Boeings. It recently closed a \$400-million deal for six Boeing 767-200ERs, which was said to be the largest single aircraft purchase deal made by Brazil. There is also an option to purchase four more. The first six are due for delivery during the middle of 1987, but will not expand the number of passenger aeroplanes because two of the fleet's DC-10s are being converted to cargo, and four Boeing 707-320Cs will be sold to the Brazilian Air Force.

The main need for the new aeroplanes, Smidt explains, is to serve Latin America. Demand for the intra-continental routes is not great, and does not justify the use of DC-10s or 747s. The idea, he says, is to reduce costs, as well as to free the DC-10s and 747s to expand the number of flights to Europe.

After the USA, Europe is Varig's second largest market; 320,000 and 280,000 passengers a year respectively, Smidt says. It is not easy for Varig to hold its own

against the European operators, and it never quite takes 50 per cent of the market share to and from any European country. It does best, for example, in the Italian market, carrying 47 per cent of the passengers. Against KLM and Iberia it does less well, winning only 30 per cent and 33 per cent respectively. J. B. Andrade, assistant to Smidt for Government affairs, explains that the difficulty is over fifth-freedom rights.

Varig's scheduled flights are organised through bilateral agreements between governments. In Brazil's case, an Aeronautic Ministry organ (CERNAI) does the negotiation. Details are based on the principles of reciprocity and fair and equal opportunity. The first four rights are standard in all such agreements, while fifth-freedom rights, which allow a carrier to collect passengers from a third country, are not actually standard but fairly common, certainly between Brazil and most of its bilateral partners.

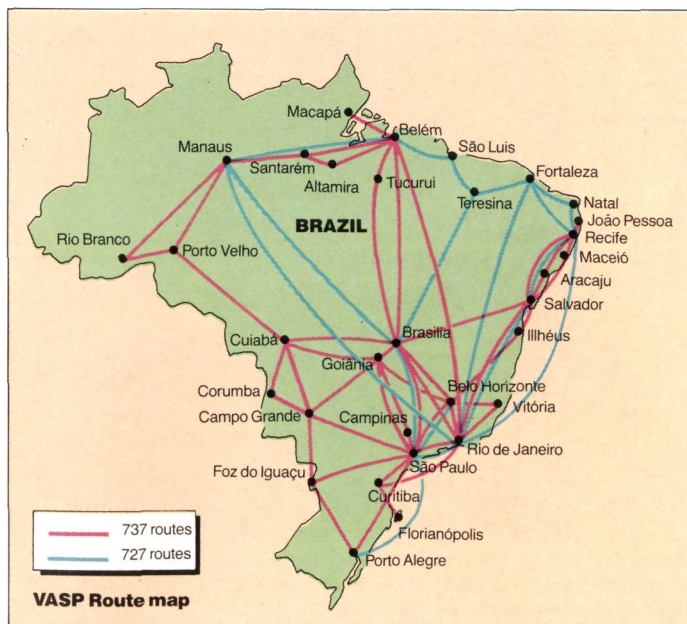
However, this tends to work against Varig in the case of Europe, where the airlines can collect passengers from any of the nearby countries and carry them to Brazil. In reverse, geography, politics, and economics do not allow Brazil to collect passengers from Peru or Ecuador, and of course distances are much greater.

With TAP in particular the problem had become so acute that Brazil decided to cancel fifth- and sixth-freedom rights in its agreement with Portugal. In 1985 Varig's market share of Portugal/Brazil traffic slipped to 43 per cent, the lowest for more than ten years. Andrade believes that, of actual passengers travelling to and from Portugal, Varig carries over 60 per cent.

The cancelling of fifth-freedom rights, however, does little more than deny TAP power to advertise flights in Brazil to or from third countries. Andrade laments that it can still issue tickets to anywhere it wants, and passengers can continue

	Cruzeiro		Varig		Vasp	
	1984	1985	1984	1985	1984	1985
Hrs flown	43,140	44,825	121,703	127,573	74,552	74,938
Km flown	29,134	9,852	90,021	94,554	48,320	48,489
Passengers	2,120,286	2,272,143	4,453,973	4,807,913	3,426,000	3,567,955
Load factors	59%	64%	67%	69%	55%	62%

(NB: Transbrasil figures not provided)



Left and above South American and Brazilian distances and terrain are such that air transport is essential, and there is room for competition. Below The Boeing 767 is Transbrasil's flagship

changing flights in Lisbon.

At present Varig makes 25 flights a week to Europe, and it concedes 32 from Europe to Brazil to competing airlines under the terms of bilateral agreements. This occurs because some of Varig's flights touch down in two countries. The high payload thus generated is essential. But, as its market expands, Varig intends to fly as many direct flights as it can.

This touches on another problem that may arise if Vasp and Transbrasil are given international rights. Again Andrade spells out the difficulty. If Transbrasil was given the right to fly to, say, Lyon in France, then Air France would be entitled to an extra flight to Brazil. But it would not compete with Transbrasil on the Lyon run; rather it would aim for more of the cream and add to its flight schedules from Paris, biting into Varig's market.

Varig flies to 24 countries. Brazil has even more bilateral agreements, but Varig declines to take up all the opportunities because of lack of demand. Oddly, however, there is no agreement in force with the USA, its single biggest market. Varig claims that it takes 44 per cent of the two-way traffic, while Pan Am has 43 per cent (the rest is taken up by third-party operators such as Aerolineas Argentinas). And in terms of cargo Varig claims to have over 50 per cent of the USA-Brazil market.

An agreement between the two countries came into force in 1946, and included a multiple carriers clause. Despite the exclusivity given to Varig in the mid-1970s, this caused no serious problems until US deregulation. By 1980, when six American airlines had been given



authority to fly to Brazil, Varig called a stop, unable to compete effectively, and Brazil suspended the agreement. Despite regular talks it has still not been reinstated, and both sides rely on the renewing of three-monthly unilateral permits.

The latest expansion to Varig's route network was initiated earlier this year, with scheduled flights to Toronto and Montreal. Now that Brazil has re-established diplomatic relations with Cuba, Andrade looks forward to direct flights to Havana.

Besides its international operations, Varig commands a major presence in the domestic market. Only about 23 per cent of its flight revenues (about \$980 million in 1985) comes from internal routes, yet it claims about 30 per cent of the market. Angarita says Vasp is top dog in Brazil, with a 33-34 per cent share, though if Cruzeiro's 10 per cent is added to Varig's the Varig group comes out first. Transbrasil's share is about 25 per cent.

Ask a local travel agent how the airlines compare, and Varig invariably comes out top for on-board service, but bottom for special deals available to small

agents.

Transbrasil has a reputation for being less reliable, while Vasp's image has been seriously dented by a strike that grounded its fleet for more than two weeks in September.

Flight's experience flying around Brazil is rather good, considering the fact that high standards are not expected from all service industries there. The relatively smooth operation of the industry has to be due in large part to the civil aviation

authorities, which hold it on a tight rein. All civil aviation is controlled by the Departamento de Aviação Civil (DAC), which is subordinate to the Aeronautic Ministry.

The DAC tightly regulates ticket prices around the country. To do this effectively each company sends a monthly balance sheet to the DAC, which it then audits. It is the DAC which decides whether an airline is given permission to fly a new internal route. To do this, it examines which other airlines are flying the same route, whether there is sufficient traffic, whether the airline has adequate equipment, and whether the available airports are suitable for that equipment. When an airline requests an addition to its fleet, the DAC decides whether it is in a suitable financial position.

Essentially the DAC is divided into three parts—planning, operations, and technical—but at any given time there are a number of permanent and semi-permanent commissions sitting to tackle special questions or problems. One, for example, was set up to organise the 4th national aviation conference. Another is used to decide on route conflicts, and yet another to investigate causes of airline overcharging. □