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# A Bold GOL

*In one of its patented straightforward business moves, GOL Airlines assumes ownership of Brazilian rival Varig.*

By Phil Johnson | *Ascend Staff*

**B**razil's GOL Airlines has sustained its well-established reputation as a growing industry force by boldly acquiring the assets of its previously struggling Brazilian competitor Varig for approximately US\$275 million in cash and stock.

Not only is GOL's plan to maintain separate operations and executive staffs heading up the two primary branches of its airline business — GOL and Varig — but in theory, at least, the two will essentially continue to compete against each other, although their business models vary significantly and, therefore, the customer demographic each pursues is distinctly different.

The primary objective for the GOL brand is to economically provide the opportunity to experience the pleasures and efficiencies of air travel to the "everyman" passenger among Brazil's (and much of greater South America's) potential traveling public.

For the Varig brand, on the other hand, the objective may be a little more difficult to characterize. Varig is Brazil's traditional international air carrier with a proud and storied history dating back to 1927, but in recent years it has been rocked by operating inefficiencies and steep costs that in 2005 sent the airline into bankruptcy.

In 2006, Varig was bought by Brazilian consortium Volo de Brasil along with private-equity investors and Varig's own logistics/cargo arm, VarigLog. In fact, among the key assets GOL has received in acquiring Varig are the industry-respected capabilities of VarigLog.

Through the Varig transaction, GOL has also acquired lots of other business advantages, including Varig's valuable slots at Brazil's São Paulo-Guarulhos International Airport that can be used to

fly to various highly desirable destinations in Europe and North America.

And while yesterday's heavily debt-burdened Varig was not making active use of very many of its coveted São Paulo slots, under GOL's ownership, Varig figures to be flying regularly to places including London, England; Paris, France; Milan, Italy; Madrid, Spain; and, of course, to Frankfurt, Germany, which Varig has continued to serve from Brazil's Rio de Janeiro and São Paulo.

Also in the near future, Varig is expected to make regularly scheduled round trips from Brazil to New York, New York; Miami, Florida; and Mexico City, Mexico, in North America, as well as serve South American destinations including Santiago, Chile; Bogota, Colombia; Caracas, Venezuela; and Buenos Aires, Argentina, in addition to numerous high-demand Brazilian destinations besides Varig's scheduled arrivals and departures at São Paulo and Rio.



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Brazil-based GOL made a bold move earlier this year when it acquired assets of its struggling competitor, Varig, for approximately US\$275 million. The airline plans to operate separately, and both carriers will keep their executive staffs.



Through the Varig acquisition, GOL has obtained several other business advantages, such as Varig's slots at São Paulo-Guarulhos International Airport that can be utilized to serve numerous attractive destinations in Europe and North America.

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ing about were the non-Brazilian airline companies, particularly Chile's LAN, which had been seriously evaluating the potential of acquiring Varig (and prior to GOL's deal for Varig, Brazil's No. 1 international airline TAM was also speculated to be weighing a Varig bid).

Obviously, GOL's preemptive acquisition kept Varig under Brazilian ownership and enhanced Varig's capability to help strengthen Brazil's international economic hand in the coming years.

But it did much more than that. One of the great questions regarding international air travel in the early 21st century is whether hard-nosed, relatively frugal economic principles can be applied to allow a truly low-cost carrier to succeed on a global scale.

GOL would like to find out — and some analyst speculation has it that the carrier would like to try spreading its own intercontinental wings to Europe and North America, among other worldwide destinations.

Perhaps the operations of Varig — particularly in Varig's coach cabin, which should most closely resemble operations under GOL's single-cabin principle — could prepare the intercontinental path for GOL to launch a broader worldwide schedule within the next several years.

Certainly, the airline today directly experiences the advantages of international operations within South America, but its ambitions — after all, GOL was only founded with a total of six aircraft in 2001, and under current orders will have more than 150 aircraft by the end of 2012 — seem limitless.

Consider the additional fact that not long before announcement of the Varig acquisition, GOL had established codesharing with TAP Portugal — basically prying open a significant conduit into the European market through which GOL could begin figuratively dipping its toes in the trans-Atlantic water.

With the Varig deal, GOL has fundamentally incinerated all barriers to its full intercontinental air travel participation. Yet the eventual form into which that participation will evolve remains an intriguing mystery.

Suffice it to observe at this point that GOL's Varig arm is going to be a real and substantial presence in intercontinental air travel. And regardless of its own low-cost business model, GOL is going to be — at the very least — on the minds of airline thinkers and planners throughout the Americas and Europe, not to mention those in the

Under current plans, the Varig fleet — which had been carved down to a virtual skeleton complement of 17 aircraft, a number barely capable of maintaining viable operations — is to be doubled by its GOL ownership to 34.

More specifically, those 34 aircraft are to consist of 20 efficiently configured and maintained Boeing 737s, plus an additional 14 of Boeing's longer-haul 767

As part of the deal, GOL has assumed approximately US\$45 million in Varig debt, but GOL obviously sees many exciting potential advantages in its future with Varig that may thoroughly outdistance the costs within a relatively short timeframe.

In one of GOL's early press releases explaining its reasoning behind the acquisition, its chief executive officer Constantino de Oliveira Jr. said, "With

**"With this acquisition, Brazil will maintain an important flag in global aviation, the industry will benefit from an increase in jobs and demand will be better served."**

— Constantino de Oliveira Jr., GOL chief executive officer

aircraft for intercontinental routes.

And although it is GOL's intention to have Varig operate under many low-cost parameters as established by GOL — and to benefit from further efficiencies of scale between the two branded carriers — Varig still differentiates itself from GOL with two travel classes (business and coach) and its "Smiles" frequent flyer program, which is and will remain a Varig-exclusive feature.

this acquisition, Brazil will maintain an important flag in global aviation, the industry will benefit from an increase in jobs and demand will be better served.

"We will work so our companies become the Brazilian carriers of choice for both domestic and international passengers."

In this context, among the salient items Oliveira was undoubtedly think-



vast Asia/Pacific regions that could also be dimly visible in GOL's future.

For now, owning Varig will do, but what's next for GOL? What new parameters is this young South American upstart establishing for the industry?

Judging by GOL's history, the answers will probably be big and brash. And lots of the carrier's worldwide competitors may be left wondering why they didn't have the nerve and foresight to be so audacious first. **F**



Photo by shutterstock.com

Despite its fallback in 2005 when Varig, Brazil's network international airline, filed bankruptcy, the carrier's brand is still strong, dating back to 1927, and the acquisition by GOL will likely secure a future for the struggling airline.

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## +count it up

### 70

The number of airports the International Air Transport Association expects to have common-use self-service kiosk technology, or CUSS, by the end of 2007, resulting in annual airline savings of US\$1 billion at 40 percent market penetration and an average industry-per-check-in savings of US\$2.50.

### 5.3

Percentage of the average annual growth rate of domestic passenger demand, which is expected to grow from 1.37 billion passengers in 2006 to 1.77 billion in 2011. The increase is fueled by expansion in the Indian and Chinese domestic markets.

### 3 million

The number of passengers that will board 42,300 flights on Boeing jetliners in the next 24 hours, carrying them to nearly every country on earth.

### 5.1

Percentage of the average annual growth rate of international passenger demand, which is expected to rise from 760 million passengers in 2006 to 980 million in 2011. This will be lower than the 7.4 percent AAGR recorded during 2002-2006, largely due to slightly slower global economic growth.

### 4,650

The number of shipments of spare parts Boeing will send to airline customers worldwide in the next 24 hours.

### 24

The number of hours millions of travelers, hikers and boaters will find their way home using the global positioning system designed and built by Boeing.