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a conversation with ...

Roberto Kriete

Chief Executive Officer
TACA Airlines

From its roots dating back to 1931 when it was founded in Honduras, TACA has grown significantly throughout its home region. Now, with headquarters in El Salvador and subsidiaries in Peru, Guatemala, Costa Rica, Nicaragua and Honduras, TACA has become an example of an airline that has taken advantage of the new, more open regulatory environment to develop into one of the largest and most influential airlines in the region.

From its three main hubs — San Salvador, El Salvador; San Jose, Costa Rica; and Lima, Peru — the airline serves destinations in North America, Central America, South America and the Caribbean. All together, the various TACA airlines serve 36 destinations in 19 countries. TACA also has codeshare agreements with airlines such as Avianca, Iberia and United Airlines to expand its reach.

The airline is also looking to expand further with the possible start up of new airlines in other Latin American countries.

TACA's fleet of 30 Airbus aircraft, all from the A320 family, is one of the youngest in the region, averaging 4.2 years. The young fleet also is extremely reliable — the airline has a 93 percent on-time performance. This year, the airline expects to carry 3.5 million passengers and generate US\$800 million in sales volume.

Since its founding more than 70 years ago, the airline has had a strong regional presence throughout Central America. The airline was founded by Lowell Yerex, a New Zealand pilot, who arrived in Honduras to join the forces of Gen. Tiburcio Carías. After Yerex was injured in battle, he was given a single-engine Stinson aircraft that he used to launch Transportes Aéreos Centroamericanos, which

was later renamed Transportes Aéreos del Continente Americano — TACA.

Shortly after founding TACA, Yerex launched TACA of El Salvador, beginning the airline's multinational tradition.

Since the 1950s, the airline has been controlled by the Kriete family. At the end of the '50s, Ricardo Kriete, a naturalized U.S. citizen from El Salvador, purchased 30 percent of TACA's stock. Kriete, who previously was involved in the production of coffee, cotton and sugarcane, passed leadership of the airline to his son. In 1980, Roberto Kriete, Ricardo's 27-year-old grandson, took the reigns and began increasing the family's holdings in TACA to today's 98 percent.

Roberto Kriete immediately began implementing his bold vision for the airline, increasing the size of the fleet, adding new destinations and investing in other Central American airlines such as Guatemala's Aviateca and Honduras' SAHSA.

Today, Grupo TACA includes six airlines, TACA (El Salvador), Aeronica (Nicaragua), TACA de Honduras, Aviateca (Guatemala), LACSA (Costa Rica) and TACA Peru.

Question: Your airline provides a clear example of the benefits of cross-border ownership, but many countries still restrict outside investments in domestic airlines. What needs to happen to make the industry more global?

Answer: In order to have a truly global industry, we need to set the basis for a free competitive environment where value for customers, shareholders and the broader economy can be maximized. Cross-border ownership, although important, is just one of



Photo by Diego Alonso Romero Alvarado/Aviation.net

Q: In 1999, you launched TACA Peru to join the five other airlines in the group. Why is it advantageous to establish local subsidiaries throughout the region rather than merely launching operations with your current airlines?

A: Airline freedoms establish how airlines based in one country can operate over and in other countries. Given the negotiated airline freedoms in South America, it was mandatory for us to establish, with Peruvian shareholders, a local company if we wanted to have enough flexibility to develop a hub for intra South American flights as well as connecting flights between South America and North America.

Q: How is the regulatory climate in the region different from other areas that have permitted TACA to expand throughout Central and South America?

A: With the exception of Europe where they already have a unified set of regulations, I don't see major differences in other regions of the world. Nevertheless, we are starting to see serious efforts in Latin America to harmonize the current regulations. More specifically, the Central American Safety Agency is working closely with each of the Central American civil aviation authorities in an attempt to harmonize Central American regulations. Also, Central American countries are keen on creating a single regulatory agency.

Q: How difficult it is to manage different airlines in several different countries? How do you deal with differing rules, regulations, culture, labor rules? Do you manage them centrally or does each subsidiary have a degree of autonomy?

A: Operating different airlines in different countries means we have to abide by different sets of rules and regulations, which definitely creates complexity, preventing efficiencies to be generated. We try to centralize as much as possible, but we recognize we cannot operate as a single entity. For example, a flight coming from Lima to San Jose and continuing to North America needs to completely replace its TACA

With an average aircraft age of 4.2 years, TACA operates one of the youngest fleets in Latin America. The carrier's 30 Airbus aircraft, all from the A320 family, have proven very reliable contributing to the airline's 93 percent on-time performance.

the many requirements to set up free competition, and we hope that in the mid term it will be substantially eased.

Among other things, we would also like to see that:

1. Governments stop direct financial aid used to support unprofitable and inefficient carriers that ultimately prevent fair competition,
2. Civil aviation authorities implement a set of consistent and harmonized regulations across countries, eliminating any artificial advantage certain operators may have,
3. All participants in the industry (airlines, airports and service providers) are treated equally in the application of competition.

Q: What role has Grupo TACA played in helping open markets throughout the Americas?

A: We have been deeply interested in serving the three Americas in the best possible way; therefore, we have actively supported agreements that could help us bring cities together. An example from the past is the open-skies agreements between Central American countries and the United States. A more recent example is the bilateral agreement between Colombia and Costa Rica that we are hoping to see signed soon so we can start flying from San Jose to Cali and Medellin.

Q: What government regulations are still creating barriers to a more international industry?

A: There are three sets of laws and regulations that create barriers:

1. Ownership laws,
2. Route rights,
3. Regulations from civil aviation authorities.

Ownership laws in most Latin American countries impose restrictions on airlines' foreign ownership, preventing free movement of capital and disrupting achievement of cost efficiencies.

Route rights and frequencies are granted by governments, restricting free market

dynamics and allowing inefficient operations to survive. CAA regulations are not harmonized across countries, increasing complexity of operations with no increase in safety and security.

Q: Some countries are seemingly hesitant to sign open-skies agreements. Why do you think there is still resistance to opening aviation markets? Do you believe those attitudes will change?

A: Open-skies agreements only work when each of the participant countries can be equally benefited by similar amounts of traffic and a similar number of beyond routes granted by negotiated airline freedoms as well as geographical location; otherwise it only promotes an unfair competitive scenario where one of the countries is benefited at the mercy of the other.

I believe over time flexibility will continue to increase, but there are other issues that need to be sorted out first in order to set the basis for a fair competitive environment. A key necessary issue is to stop the direct financial aid that U.S. carriers receive from the government through subsidies, loan guarantees and pension liabilities that have been transferred to a government agency.

HIGHLIGHT

We have been deeply interested in serving the three Americas in the best possible way; therefore, we have actively supported agreements that could help us bring cities together.



Peru crew for a LACSA crew. In other words, under current regulations crew interchangeability is not possible.

Q: In some countries, you can only maintain a minority ownership position in your subsidiary. What challenges does minority ownership pose?

A: Minority ownership can be a governance challenge because legally you don't have absolute control over the operations of the company. Fortunately, that has not been TACA's case. I think we have selected our partners wisely; they recognize our industry knowledge and accept our leadership role for running the airline.

Q: What impact would removing restrictions on cross-border ownership have on the air transport industry? Should they be removed?

A: Given that the airline industry is intensive in fixed assets, adequate capital flows are essential for the business. Removing cross-border ownership would give airlines free access to the world capital markets and, therefore, it would increase their probability of getting cheaper and more flexible financing. These benefits would be ultimately transferred to the passengers and the broader economy.

Q: Will the current trend toward more open-skies agreements and global alliances lead to a consolidation of airlines throughout the world?

A: We have seen both phenomena — some airlines, such as KLM and Air France, have consolidated while others, such as jetBlue and easyJet, have joined the market. I think we could expect the same behavior in the future.

Q: Some have compared the opening of the air travel industry to the development of the interstate highway system in the United States during the 1950s, which helped fuel economic growth by opening previously remote areas. What will need to happen for the aviation industry to achieve the same results on a global scale?

A: The interstate highway system is only regulated regarding issues related to safety and security, such as maximum permitted speed. However, there are no controls over the commercial aspects of the highway traffic. If we expect to see a similar

economic effect but on a global scale, we will need to have similar conditions, meaning we will need to further deregulate the commercial aspects of the aviation industry.

Moreover, we need to take into account that land traffic operations costs are significantly lower than air traffic operations costs; therefore, if we want to open new areas, we have to be able to provide commercially attractive products that could generate enough demand.

Also, during the 1950s, the government provided the necessary infrastructure to connect remote cities. We would need the same support to create adequate airport facilities.

Q: What areas around the world are the most ripe for increased openness and cross-border ownership of airlines?

A: Areas with more hospitable business climates may be better prepared for openness and cross-border ownership. Europe is already opening its markets and Latin America will be next. As a matter of fact, Central American governments are working on a project to consider as domestic flights all flights within the region; therefore, eliminating immigration, customs, taxes and fees, opening up the market for a much more fluid traffic to develop tourism.

Q: What role will technology play in a more open industry?

A: Technology can be seen in two very important assets for the business: aircraft and information systems. More sophisticated aircraft will allow us to fly routes that nowadays can only be flown through a hub or with bigger aircraft models. Also, we can expect the next generation of aircraft to have substantially reduced fuel burn, emissions and maintenance costs as well as bigger capacity that hopefully will create economies of scale, all of which will make flying more accessible for the passengers and further stimulate traffic. Information systems provide us not only more precise and timely data, but also more friendly and direct interactions with the ultimate customer, such as Internet purchase and check-in options, which further reduce distribution and airport costs.

Q: How long do you think it will take to achieve the necessary degree of openness for air transport to become a truly "global" industry?

A: We have been observing gradual changes; we are optimistic, and with airlines and governments working together to benefit the people who use our services, we expect to see more changes at an accelerated pace in the future. **F**



Photo by Ander Aguirre/ATTeamimages.com



Photo courtesy of TACA

Grupo TACA has expanded throughout Central and South America by investing or launching airlines in several countries. Today, Grupo TACA includes five airlines in addition to its El Salvador-based TACA: Aeronica (Nicaragua), TACA de Honduras, Aviateca (Guatemala), LACSA (Costa Rica) and TACA Peru.