



WORLDWIDE AIR TRANSPORT CONFERENCE (ATCONF)

SIXTH MEETING

Montréal, 18 to 22 March 2013

Agenda Item 2: Examination of key issues and related regulatory framework

Agenda Item 2.1 : Market access

THE LIBERALIZATION OF INTERNATIONAL AIR TRANSPORTATION IN BRAZIL

(Presented by Brazil)

1. INTRODUCTION

1.1 The liberalization of the Brazilian international aviation market started in 1993. The first step consisted of promoting flexibility in tariffs, from double approval of tariffs to discounts over the price-fixing IATA conferences. Another noteworthy event was the signature of the Fortaleza Agreement in 1996 by which the Parties (Argentina, Bolivia, Brazil, Chile, Paraguay, Peru¹ and Uruguay) could increase frequencies without limitations between their countries, as long as one of the airports in the new route was not already served in their bilateral agreement².

1.2 The establishment of the National Civil Aviation Agency (ANAC) in 2005 brought directives of free tariffs and unlimited capacity entitlements under its foundational law. In 2007, The Brazilian Civil Aviation Council (CONAC³) enacted Resolution n° 7, by which ANAC was instructed to pursue a pro-competition regime, to promote lower prices and to increase access to international air transportation.

1.3 Even though price controls were infrequently utilized, in 2008 Brazil began to formally eliminate price controls on flights to Latin America and in 2009 extended the measure to all international flights. The process, structured on successive stages (phase in), had been completed by the first semester of 2010.

1.4 Meanwhile, in 2009, the Presidential Decree n° 6.780 put in place the National Policy for Civil Aviation, eliminating restrictions to capacity and establishing as priorities the stimulus to tourism,

¹ Peru joined the agreement afterwards.

² Those routes are called sub-regional routes in contrast to regional routes that are part of the bilateral agreements.

³ CONAC is responsible for the elaboration of the public policy guidelines that instruct the Brazilian civil aviation authority. It is composed by the Chief of the Civil House of the Presidency of Republic and the Ministers of Defense; Foreign Relations; Economy; Development, Industry and Foreign Trade; Tourism; Planning and Budget; Justice; Transports; and the Air Force Commander.

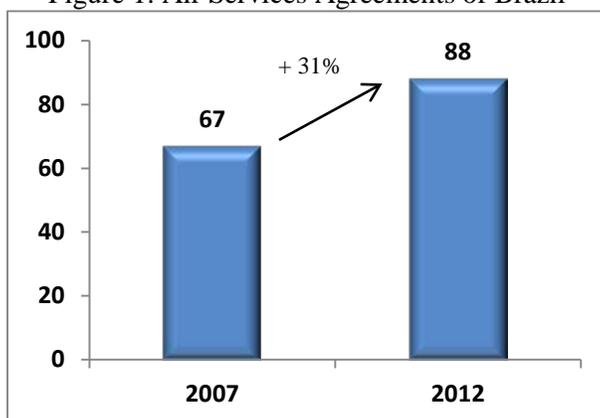
trade and connectivity that air transportation unarguably create. Those directives also placed emphasis on an effective integration of South America.

1.5 Given the directives above (removal of restrictions to new services, stimulus to tourism, integration, trade and connectivity), the civil aviation authority started renegotiating Air Services Agreements towards a flexible open skies system. In air services negotiations, Brazilian delegations aim to achieve free tariffs, multiple designation of airlines and no limits to route schedule and traffic rights up to 6th freedom whenever possible.

2. RECENT EVOLUTION OF BILATERAL AIR SERVICES AGREEMENTS OF BRAZIL

2.1 The adoption of the National Policy for Civil Aviation has accelerated the bilateral negotiations of Brazil. Since 2007, when ANAC received new directives from CONAC, 55 negotiations/agreements have been reached. Among them, 21 are new agreements (countries varying from Latin America, Africa, Asia and Middle East) and 34 renegotiations of existing arrangements. Figure 1 below shows the growth since 2007.

Figure 1: Air Services Agreements of Brazil



Source: ANAC

2.2 As expected, the adoption of an open skies agreement is not always possible, since some countries remain reluctant to accept free capacity and additional traffic rights. Still, 35 of existing agreements are open skies insofar.

2.3 Nominal numbers of ASAs were not a drive factor behind negotiations. Rather, they have been conducted to boost the principles listed above. A special interest has been shown to countries with high rates of through traffic or their ability to operate as hubs to other farther destinations, in an effort to increase connectivity.

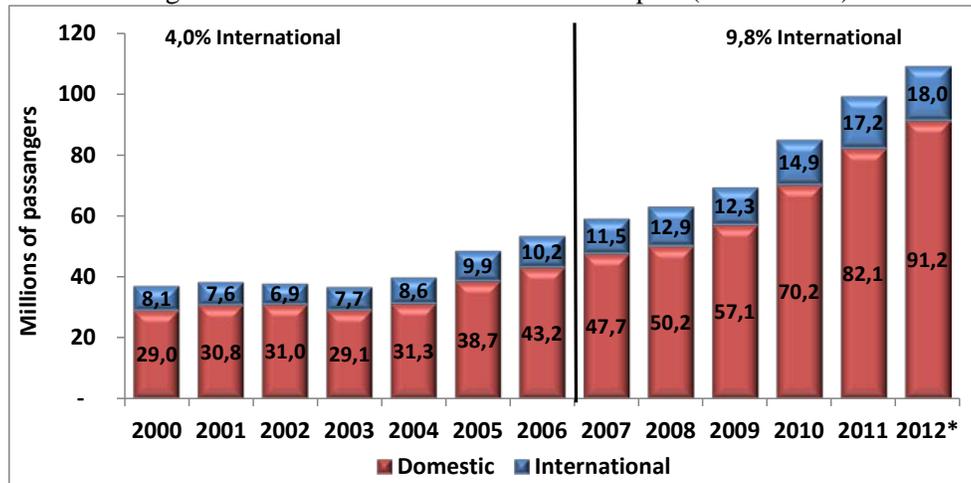
2.4 The actual effects of such policy are highlighted in the sections below.

3. THE EVOLUTION OF BRAZILIAN INTERNATIONAL AVIATION MARKET

3.1 The air transportation sector in Brazil has been growing very rapidly for nearly a decade, since domestic and international liberalization has taken place. The size of the market almost tripled

between 2000 and 2012, from around 37 million passengers to near 110 million. The figure below shows the numbers of passengers for each year during the indicated period and the average growth rates before and after the liberalization of international air transport, considered as 2007 after CONAC's resolution.

Figure 2: Evolution of Brazilian Air Transport (2000-2012*)



Source: ANAC *Preliminary numbers

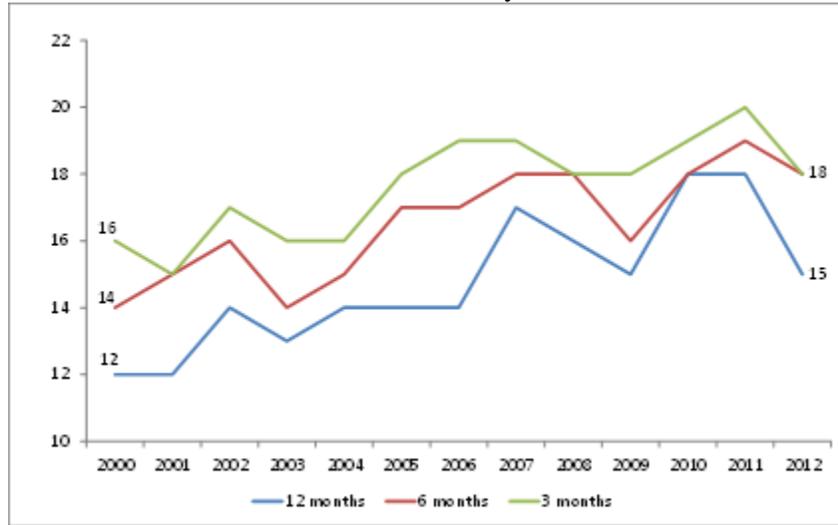
3.2 Figure 2 above shows that both domestic and international markets were favourably impacted by the liberalization policy after 2007. International air transportation was especially affected, since the growth rate went from 4% to 9,8% a year in the post-liberal period. Around 8 million passengers a year were added to the Brazilian international market.

4. INTERNATIONAL AIR TRANSPORT CONNECTIVITY

4.1 An important aspect of development of air transportation is the scope of options available to passengers: more operating airlines and additional destinations served to and from the country represent direct benefits of the established air transport policy. Needless to say that these figures offer a clear picture view of the evolution of the countries' connectivity, one of the main drivers of the national policy for civil aviation.

4.2 Figure 3 below shows the number of Brazilian cities served by scheduled international flights. Three different time criteria are adopted to present the number of served cities: a minimum of 3, 6 and 12 months of scheduled flights operations each year is shown to indicate actual (non-temporary) connectivity. As one can note, between 2010 and 2012 an increasing number of cities were served by international flights, by all three time spans, indicating effective, non-seasonal connectivity. Although 2012 witnessed a reduction in the number of cities, this is bound to be temporary, since the more flexible time span didn't fall as much.

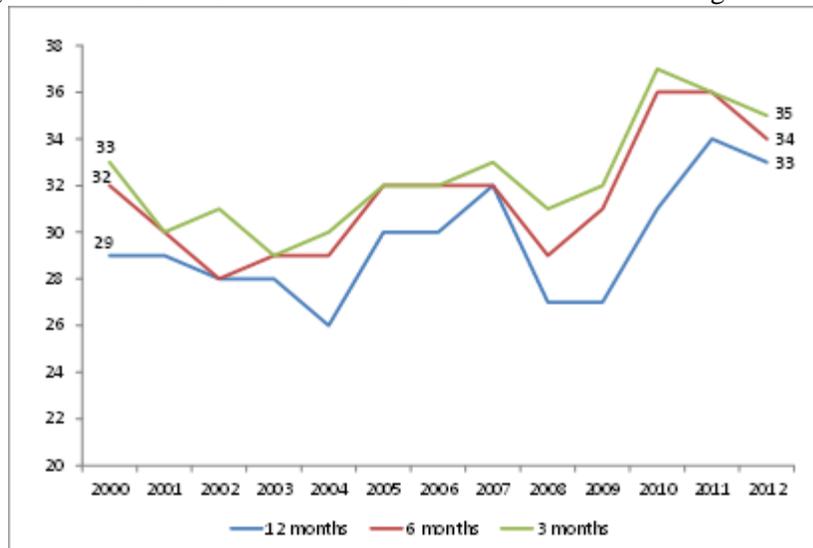
Figure 3: Number of Brazilian Cities Served by Scheduled International Flights



Source: ANAC

4.3 As shown in Figure 4 below, we adopt the same criteria relative to the number of countries served by flights from Brazil. It should be noted that, besides the financial crisis in 2008, the Brazilian international market suffered throughout the decade, as a consequence of successive bankruptcies of Brazilian carriers, among them VARIG, by then the biggest international air carrier of Brazil. The rebound after 2008 indicates a sustained recovery.

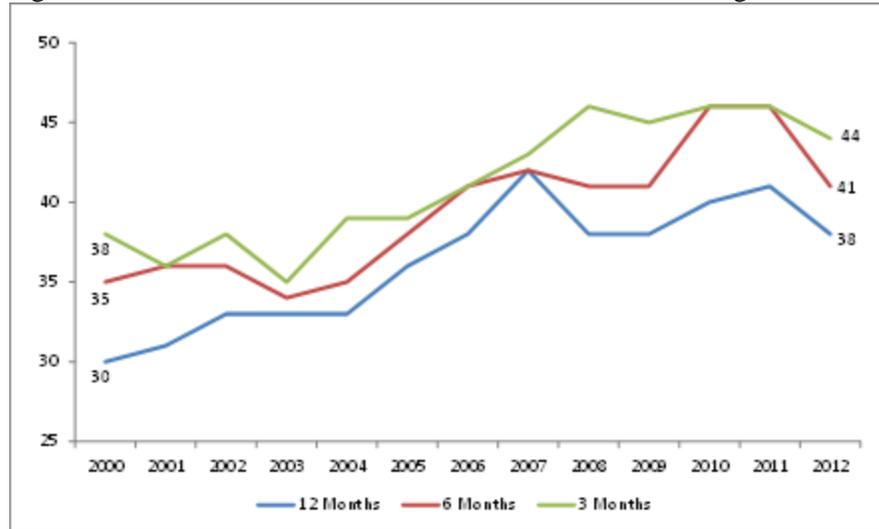
Figure 4: Number of Countries with Scheduled International Flights to Brazil



Source: ANAC

4.4 The last connectivity data (Figure 5) shows the number of airlines offering scheduled international flights to and from Brazil. It is noticeable the improvement over the period, since the number of airlines offering flights all year long (12 month criteria), grew from 30 to 38 between 2000 and 2012.

Figure 5: Number of Airlines with Scheduled International Flights to Brazil



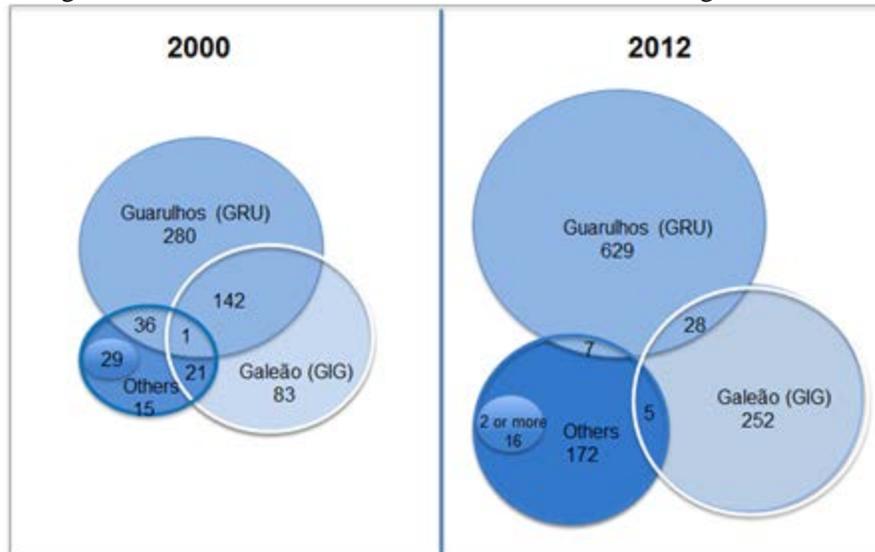
Source: ANAC

5. BUILDING NEW GATEWAYS: DECENTRALIZATION OF INTERNATIONAL FLIGHTS IN BRAZIL

5.1 Historically, the two major airports of Guarulhos (GRU) in São Paulo and Galeão (GIG) in Rio de Janeiro represented the international gateways in Brazil. Brazilian citizens from nearly all other regions had to endure delays and connections to fly abroad. Flights from northern regions would fly south through those two hubs before going abroad. Due to the country's large territory, domestic stops prolonged travel times greatly. Alongside more expensive and less convenient flight to Brazilians, the situation also put limits to tourism throughout the country due to reduced accessibility and worsening competitiveness in comparison to other tourism destinations.

5.2 Departing from that scenario, the decentralization of international flights in Brazil is accelerating as result of the actual policy. Figure 6 below presents the distribution of scheduled international flights by the two main gateways and the other airports.

Figure 6: Decentralization of Scheduled International Flights in Brazil



Source: ANAC

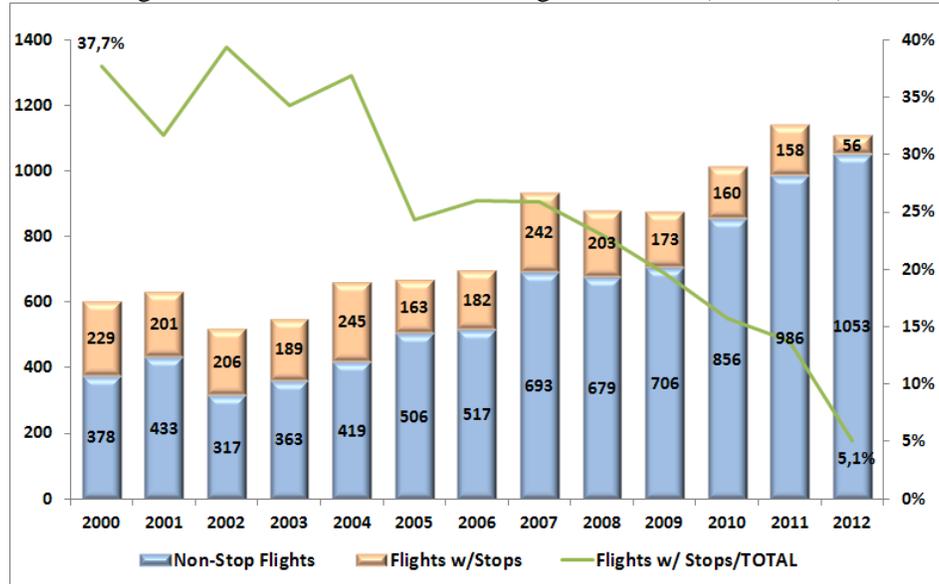
5.3 The three main circles in Figure 6 above show the number of scheduled international flights that used GRU, GIG or other Brazilian airports in 2000; the intersections indicate the number of flights where two (or more) airports were used. The small circle inside “Others” indicates that the flight included two or more airports outside the main gateways; for example, in 2012 there were 16 flights in that situation.

5.4 It is noticed over the past decade a significant growth and independence of “other airports” within the country from connections through GRU and GIG. The number of non-stop scheduled international flights from “other airports” went from only 15 to 172 during this period. Naturally, both GRU and GIG still absorb a very large share international arrivals and departures. Other gateways have grown exponentially, however, to the benefit of local citizens and business alike.

5.5 Besides growth in the period in the number of flights from other parts of the country, overall, Brazilian airports developed more direct connections with their foreign destinations. Even the gateway of Galeão (GIG) showed improved results, since most of the 142 flights in 2000 that went through both GIG and GRU had the second as last airport in the route; in 2012 this number went down to 28 flights, indicating a change from indirect to direct flights to and from the country.

5.6 The overall trend is seen in Figure 7 below. Between 2000 and 2007, previous to liberalization, the number of scheduled international flights that had connections in Brazil revolved around 200 per week; in 2012 this number was only 56. Taking in to account that the number of total flights increased during this period, the pattern can be explained as most indirect flights were turned into non-stop, direct flights.

Figure 7: Scheduled international flights in Brazil (2000-2012)



Source: ANAC

5.7 The right axis of Figure 7 above shows the total percentage of flights with connections inside Brazil, indicating a decrease from around 38% in 2000 to only 5% in 2012. In other words 95% of the international scheduled flights today in Brazil are non-stop. The left axis shows the number of scheduled international flights, which grew from 600 to about 1100 during the same period. Non-stop flights presented an even higher growth during the period, escalating from 378 to 1053 weekly flights.

6. CONCLUSIONS

6.1 This Information Paper reviews the most important changes in the Brazilian international air transportation sector over the last 12 years. The open skies policy currently adopted by Brazil has its roots around 2007, when the Brazilian Government directed the aviation authorities to increase access and promote competition in international markets.

6.2 Since that period, overall traffic grew more rapidly if compared to the previous period. Other indicators like connectivity and decentralization showed similar improvements. The Brazilian experience indicates that an open skies policy can bring benefits for consumers, expanding their options and leading to a faster and sustainable growth of the international air transport market.

6.3 Needless to say that the numbers could have been even better if negotiations with other key aviation partners had taken place. Brazil is still consolidating the liberalization of international markets, which will obviously require more sophisticated regulatory actions to improve competitiveness and the doing business environment within the country.