Challenges and trends of the Brazilian Aviation Sector

In collaboration with ALTA

Author: Fabio Steinberg
Commissioned by: IBS Software Pte Ltd
Publication Date: December 2022

Overview

In a country of continental proportions like Brazil, aviation plays a much more important role than merely offering a means of transport. As the world's 5th largest airspace, Brazil connects immense distances and extends throughout regions with little or no alternative transportation options.

During its hundred years of operation in the country, the aviation sector has grown consistently, only slowing down between 2020 and 2021 due to the COVID pandemic. Today, according to the airlines interviewed for this report and ABEAR, the Brazilian Association of Airlines, pre-pandemic numbers have been surpassed, which demonstrates the vigor and professionalism of aviation as an important factor in the development and integration of Brazil's national territory.

In July 2022, domestic demand was 0.9% higher than during the same period in 2019, and in August 2022, it increased by 0.6% according to ANAC (Brazil's National Civil Aviation Agency). International demand continues to rise as border restrictions implemented during the Covid-19 pandemic are relaxed.

"Brazil is one of the few countries in the world that has implemented a state agenda for aviation. The learning curve and institutional maturity that comes with this agenda allow the public and private sectors to consistently discuss topics that are essential in a market segment that still shows a lot of growth potential," José Ricardo Botelho, former president of ANAC and current CEO of ALTA (the Latin American and Caribbean Air Transport Association) affirmed.

"Aviation in Brazil represents a strong tradition. The nation has been a member of the ICAO (International Civil Aviation Organization) since its foundation in 1944 and has participated in its board ever since," says Jorge Leal Medeiros, Poli-USP professor and former director of VASP and VARIG and aviation consultant.

"We have airlines and first-rate airports with the most modern equipment and a recognized regulatory agency. Furthermore, regulations in Brazil are consistently updated by competent professionals," adds Paulo Henrique Possas, director of SAC (Secretariat of Civil Aviation).

Overview

In 2019 domestic and international aviation in Brazil, transported more than 95 million passengers. Brazil recorded 0.5 trips per capita, an index still much lower than countries such as the United States (2.6), Spain (4.5) or Chile (1.2). *"This indicates the immense growth potential for travelers, given the size of Brazil's population, economy and the country's physical dimensions,"* Dany Oliveira, the IATA's (International Air Transport Association) Brazilian director, concluded.

The benefits of aviation extend beyond the transportation of passengers and cargo, or even the effects generated by tourism and business relations.

The aviation sector also makes an important contribution to key social areas such as humanitarian aid and public health. During the Covid-19 pandemic, Brazil's airlines offered free transport of vaccines, medical equipment and health technicians. Additionally, since 2001 commercial aviation has allowed the world's largest public free-of-charge transplant system to be developed in Brazil.

In Brazil's most remote regions, many of them isolated from urban centers, air transport is often the only available means of transporting and receiving essential goods and services for the local population.

A brief history of commercial aviation in Brazil

The first two airlines in Brazil were founded in 1927: Varig and Sindicato Condor, which came to be known as Cruzeiro do Sul in 1942.

1929 saw the founding of NYRBA (acronym for New York – Rio - Buenos Aires), the predecessor to Panair do Brasil, which operated up until 1965. VASP (Viação Aérea de São Paulo) was founded in 1933 and privatized in 1990. The airline ended its operations in 2005. In 1955, Sadia was created, which changed its name to Transbrasil in 1972 and exited the market in 2001.

By the end of the 20th century, air travel was considered a luxury available to very few people in Brazil due to exorbitant ticket prices. Between 1970 and 1986, domestic airline ticket prices were fixed by the Government and international ticket prices were regulated by IATA. Passengers mainly consisted of sparse numbers of individuals with a great deal of purchasing power, businesspeople and civil servants.

The situation began to change in the 1990s, with the gradual deregulation of the Brazilian air market like that seen in the United States in 1978 and, years later, in Europe. Increased freedom regarding ticket prices and increased competition emerged within Brazil's aviation market. The new scenario surrounding aviation meant that airlines in Brazil also faced a deep financial crisis. None of Brazil's airlines made it past 2010 and were replaced by new companies, such as Tam (LATAM's predecessor), GOL and Azul. Avianca was founded in 1998 and operated for 11 years until its bankruptcy in 2020. A common element to all new companies is that they emerged under a new paradigm in which professional management, technology and marketing innovations predominate. Some examples of those innovations include online check-in and baggage dispatch by the passenger, reducing movement at counters, access to boarding via facial recognition, changes and rescheduling without the intermediation of an agent or via WhatsApp, among others.

Democratization of access

The participation of air transport in the Brazilian economy grew, in large part, thanks to the simplification and regulatory modernization of the sector, in addition to the creation of ANAC (Brazil's National Civil Aviation Agency) in December 2005. The first government measures towards more liberal ticket pricing and routes subsequently emerged.

The increase in efficiency and the subsequent reduction in costs experienced by airlines were also decisive factors to make this transport more accessible to the Brazilian population.

As a result, the number of air passengers in Brazil increased from 38 million in 2002 to 119 million in 2019, considering domestic and international markets.

One way to measure the contribution the Brazilian aviation market has made to the country's economy is to observe the consequences of the unprecedented drop in air transport during the pandemic. For example, according to ABEAR, the U$ 8.6 billion of wages paid out by the sector up to that point were reduced to less than one-third during the Covid-19 pandemic, for a total of U$ 2.6 billion. The total amount of taxes collected by the industry dropped from U$ 6.6 billion to U$ 2 billion. The aviation sector's 1.5 million direct and indirect jobs pre-pandemic dropped to 400,000. As a result, the sector's share of Brazil's GDP, estimated to be 1.4%, plummeted to 0.3%.

COVID

Passenger traffic in 2020 dropped by 70% worldwide compared to 2019, according to data from ICAO, and Brazil wasn't the exception.

The airline industry is showing signs of recovery to levels seen in 2019, with some changes in traveler behavior and specific emerging characteristics. As an example, Alex Malfitani, Vice President of Finance and Investor Relations at Azul Linhas Aéreas, highlighted the impact of virtual meetings as an alternative to business travel. On the other hand, this technology has expanded leisure travel by allowing people to work remotely. Early post-pandemic results suggest that, while corporate travel with Azul remained relatively low (80% compared to pre-pandemic levels), leisure traffic has increased when compared to 2019 (130%).

According to GOL at the beginning of 2023, with the increase in demand for travel, the company will reach operational levels similar to those seen in the pre-pandemic era. LATAM, which maintained only 5% of its flights and reduced its staff by nearly 30% in 2020, informs that the company adopted a strategy focused on expanding its presence within the domestic market.

Modern's Vice President of Aviation Operations and consultant Adalberto Febeliano also highlighted measures implemented in the aviation sector during the pandemic that have now become permanent, such as contactless check-in, security and boarding procedures.

One of the factors that contributed most to the accelerated recovery of the Brazilian air movement was the confidence that flyers placed in the sanitization standards implemented at airports and onboard aircraft. In July 2020, during the pandemic, ABESATA (Brazilian Association of Ground Handling Service Providers), in partnership with IATA, launched a successful campaign publicizing the measures adopted to make air travel safer during the pandemic.

Post-pandemic opportunities

In the new emerging post-pandemic scenario, which favors nature and outdoor areas and less large crowds and indoor spaces, Brazil has a major advantage in attracting international tourism and reaching each corner of the country almost exclusively requires air travel. For now, however, this movement has not yet shown significant results, but it is only a matter of time.

Aviation and Tourism

The tourism industry has probably benefited the most from the increase in available flights in Brazil. There is a two-way causality at play here, however, tourism generates demand, which in turn promotes investments in developing new routes. *"More offers and more people boarding planes means more investment in hotels, bed & breakfasts, local transport, restaurants, bars, venues and event structure, etc."*, explains Mariana Aldrigui, Chair of FecomercioSP's Tourism Council and Tourism researcher at USP.

Among the factors hindering further development of aviation in Brazil, and consequently tourism, Aldrigui highlighted the concentration of regional income. Most of the income received in Brazil is concentrated in the country's south and southeast regions. For this reason, Brazil's air transport network is concentrated in these areas. Of the 10 busiest airports in Brazil, six are located in the country's southeast region.

Aldrigui, however, pointed out that the situation is steadily changing. In the northeast, the airports in Salvador and Recife have become essential elements of Brazilian aviation thanks to investments in leisure tourism. Additionally, in recent years connectivity in Brazil has also increased, with smaller airplanes used for regional routes.

Airlines

Three main national airlines currently serve the Brazilian market: LATAM, GOL and Azul. The aircraft usage rate (RPK/ASK) for domestic flights reached 79.5% between January and September 2022. This index, which measures the ratio between the availability of seats/use per passenger in kilometers flown, increased by 28.6% compared to the previous year.

"The market grew at a reasonable rate between 2008 and 2019, something like 7% per year. We went from 50 million to almost 100 million departures compared to a GDP growth of less than 2% per year. Even so, the market penetration rate is still relatively low: Azul estimates that only 10 million individuals travel at least once a year," says Alex Malfitani, from Azul.

Celso Ferrer, GOL's CEO, considers 2020 and 2021 to be the most challenging years in the history of commercial aviation. Ferrer believes that during the summer peak season, which begins in December 2022, the company's activity will return to pre-pandemic levels. Company figures indicate that leisure travel will increase by 85% and a 70% increase in corporate travel.

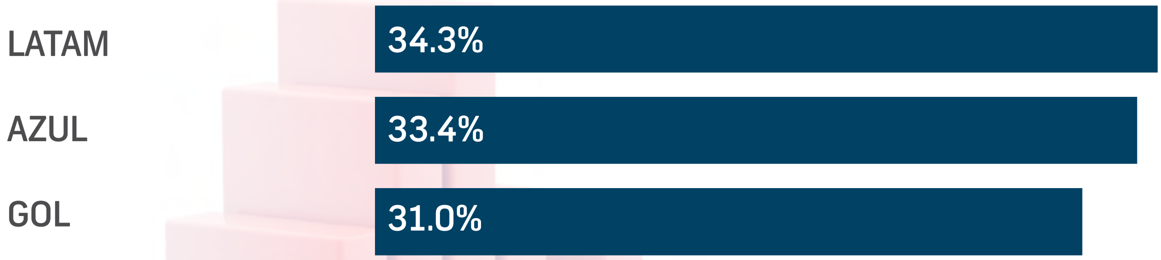
LATAM registers the resumption of passenger movement, especially from the domestic market. The expectation is the sustainable growth of the air network, aiming at more efficiency. By September 2022, the company had reached 103% of the seat offer in the domestic market, flying to 54 destinations – ten more than it had ever flown. In the international market, it had returned to 20 of the 26 destinations, with a 72% greater number of seats compared to September 2019.

A great deal of progress still needs to be made in aviation in terms of its market presence in Brazil. Of 5500 municipalities, approximately 130 have commercial aviation services available. The remaining municipalities depend on other means of travel and general aviation.

A study that assesses the division of transport in the country, prepared by SAC demonstrates the imbalance between modes of travel. Roadway travel (81%) is still dominant in Brazil, together with significantly less usage of rail (0.3%) and waterway transport (1%). The airline industry is responsible for no more than 18% of travel in Brazil.

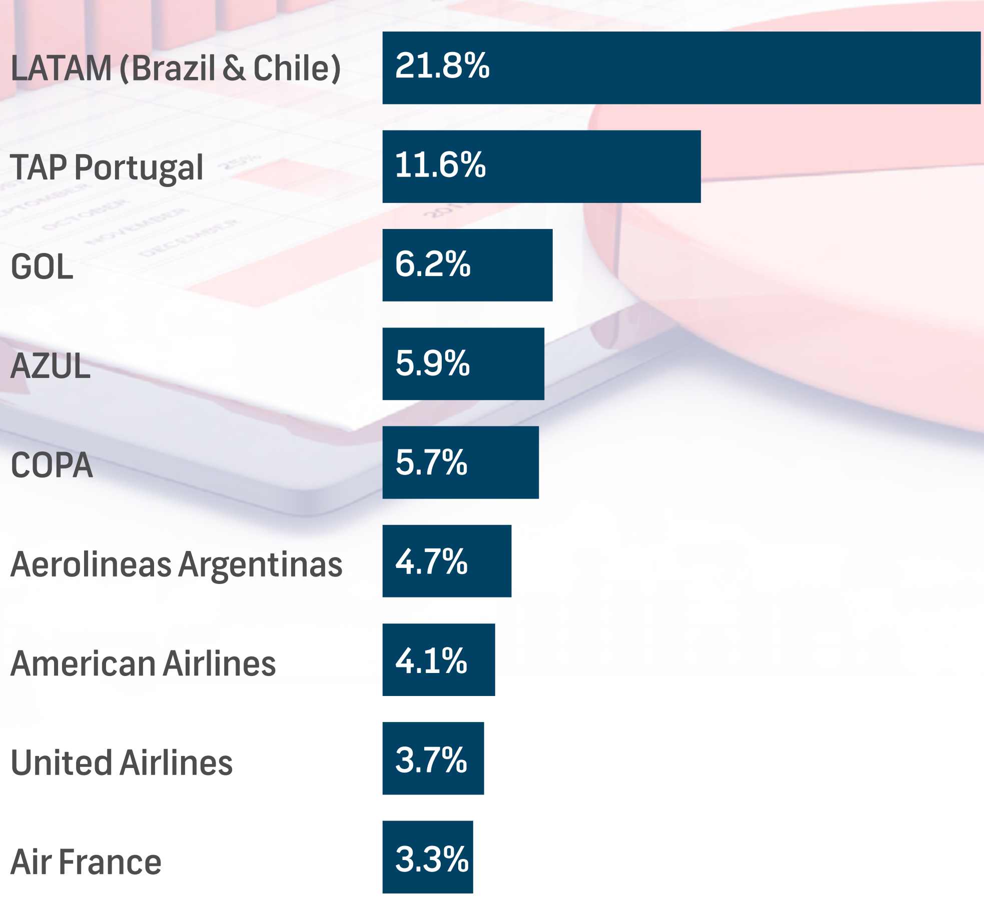
Ranking

In August 2022, according to ANAC, there were seven Brazilian and 29 foreign aviation companies operating in the country, including passengers and cargo. On domestic flights, with a usage rate (RPK/ask) of 81.4%, the three largest national companies held the following market share:



During the same month, international flights presented occupancy rates of 86.7%. In August of 2022, LATAM (including LATAM Brazil and LAN Chile) was the leader of the 5 main international airlines, followed by TAP Air Portugal, GOL and Copa.

The ten best-positioned airlines in Brazil held the following market share as of August 2022:



Brazilian fleet

The total fleet in Brazil's includes approximately 22,000 aircraft of all types. The number of passenger and cargo aircraft operating scheduled flights generally hovers at around 500 units. Even without a significant increase in the number of aircraft in this category, Brazil's fleet is subject to a consistent modernization process. Brazil's three largest airline fleets held the following inventory in August 2002:

Azul	GOL	LATAM
161 aircraft	**135 aircraft**	**136 aircraft**
44 Airbus A320neo	20 Boeing 737-700	21 Airbus A319-100
6 Airbus A321neo	82 Boeing 737-800	61 Airbus A320-200
8 Airbus A330-200	33 Boeing 737-Max 8	6 Airbus A320neo
4 Airbus A330neo		30 Airbus A321-200
2 Boeing 737-400		7 Boeing 767-300
2 Embraer E190		10 Boeing 777-300
50 Embraer 195		1 Boeing 787-900
9 Embraer195-E2		
33 ATR72 (500)		
3 ATR-72 (600)		

Indicators

According to ABEAR, the quality of services provided by Brazilian airlines, when assessed in terms of punctuality and regular frequency, are comparable to American airlines. Similarly, passenger complaints regarding the country's airline services occur around the same frequency in both countries. There is, however, a significant difference in the formalization of complaints in Brazil and the subsequent resolution of disputes. *"Dispute resolution in Brazilian commercial aviation is second to none worldwide,"* Jorge Leal, Poli-USP professor and former director of VASP and VARIG and aviation consultant, stated.

Reducing airline fuel consumption is a major global objective of the sector for economic and environmental reasons. The goal is to reduce greenhouse gas emissions by 50% by 2050. Brazilian airlines are just as engaged in this effort as those based in other countries around the globe.

Operation

The Brazilian air transportation network operates across several different market segments. Some routes offer a high density and limited capacity (such as Congonhas, SP and Santos Dumont, RJ), high density and available capacity (Guarulhos, SP; Brasília, DF; Confins, MG), and medium and low density (regional).

According to Possas, from SAC, Brazil's network has its pros and cons. Regarding quality, Brazil's network is one of the most modern in terms of the types of aircraft used on its routes. Brazilian airports can rely on excellent management practices, although they are often faced with a relatively low occupancy rate, particularly in cities that represent the start of a route in specific times. Coverage in terms of available destinations is still generally lacking in Brazil.

Efficiency levels in the use of crew members at Brazilian airlines (pilots, co-pilots and flight attendants) are equivalent to those obtained by airlines in North America, according to data gathered using the Massachusetts Institute of Technology (MIT)'s assessment methodology.

The quality of operations at Brazilian airports has not yet been standardized. As seen in most countries throughout the world, few Brazilian airports have more than one runway available, and several do not have taxiways that run along the entire length of the runway, which would increase capacity.

Passenger terminals in Brazil include facilities that are among the world's most sophisticated and modern and those that are more basic and do not offer a complete range of services. This scenario is gradually changing thanks to the country's program granting private airport concessions, which has picked up speed in recent years. These concessions have brought new investments in infrastructure and provided users with a better experience.

"I believe that we will see the trend towards expanding air transport in Brazil continue since the country's three main airlines are now offering services in smaller cities, either using their airplanes or through partnerships (such as Voepass and GOL)," Jorge Leal affirmed. *"To extend available routes, the issue of a relatively low availability of smaller aircraft needs to be addressed, which Brazil's majors are seeking to mitigate, with the addition of TwoFlexes to Azul's fleet of Cessna Caravans (9 seats) being an obvious example,"* he concluded.

Employability and productivity

According to SAC, aviation employs more than 140,000 workers in Brazil, 90% between 25 and 64 years old. 47% have a postsecondary degree, and 50% have completed high school. Workers in Brazilian aviation hold a wide range of positions, including air operators, flight attendants, pilots and aircraft maintenance mechanics. The workers employed in Brazil's aviation industry are mainly Brazilian citizens. 72% of workers are male, and 28% are female.

The sector offers professional training through 2,139 courses offered by 485 institutions across Brazil. Most of these courses (34%) are provided in São Paulo and Rio de Janeiro, and 31% of the training received is provided in other states in Brazil's Southeast region. The professional courses provided include training for airplane and helicopter pilots, flight instructors, aircraft maintenance mechanics, flight attendants, air navigation service providers, cargo handling and storage, aeronautical engineering, aircraft rescue and firefighting, operational dispatchers, ground handling, airport management and security, and the cleaning of aircraft.

Although the number of flight attendants holding an active license in Brazil held steady between 2019 and 2020 (totaling approximately 11,000 flight attendants), the number of pilots and co-pilots increased from 27,000 to 30,000. Only 3% of pilots and co-pilots are women, a stark contrast to flight attendants, 67% of which are female.

In 2020, the number of new licenses issued to pilots and co-pilots dropped by approximately 80%. According to Azul, this drop in licenses can be attributed to the high cost of training pilots and the need to accumulate flight hours needed to obtain certification, which is significant given the high cost of aviation fuel in Brazil. Training flight attendants and maintenance technicians are less costly, but it is still beyond the reach of a large part of the Brazilian population.

The productivity of pilots and co-pilots, measured by the average number of hours flown by pilots or co-pilots per week, is practically identical in Brazil and the United States, with US airlines holding a small advantage of 6% over their counterparts in Brazil.

The productivity of Brazilian flight attendants is almost 80% below that of American colleagues, but this gap has narrowed in recent years. This is mainly due to the minimum number of crew members required per plane. Brazil has stricter legislation in place in this regard than the USA.

Cargo

The vastness of Brazil's national territory includes areas far from large urban centers. Access to such areas by road is often difficult or restricted. The difficulties in Brazil's road network offer great opportunities for air cargo. Air cargo in Brazil is carried out by dedicated freight aircraft operating on high-density routes, such as Viracopos-Manaus, or in the belly of commercial aircraft.

"There have been signs of strong growth in the door-to-door market segment using air transportation networks, mainly due to the expanding use of e-commerce in recent years," Azul's Alex Malfitani affirmed. Adalberto Febeliano, from Modern adds that the proportion of revenue attributed to cargo services for the three main Brazilian airlines also increased due to the pandemic.

The challenge is to ensure that supplies and goods are transported over long distances to supply national and global production chains and carry out shipping to the final consumer. As previously recorded, air cargo is an important, if not the only, means of providing rapid and efficient access to areas that are remote or hard to reach by land, particularly for products that require a high level of safety, are sensitive in terms of physical integrity, or offer a high added value.

According to ANAC, between January and August 2022, 1 million tons of air cargo were transported in Brazil. Approximately a third of this cargo was transported within the domestic market.

São Paulo International Airport (Guarulhos)	36%	365,000 tons
Campinas' Viracopos	27%	271,000 tons
Manaus	9%	89,000 tons
Rio de Janeiro International Airport (Galeão)	4%	38,000 tons
Recife, Pernambuco	4%	38,000 tons

Data made available using SAC's Horus system.

Cargo

"At GOL, we have always considered the cargo sector an essential part of our work. The company even began working with its logistics solutions unit, Gollog, at the same time it began its commercial aviation operations ", explains Celso Ferrer, GOL's CEO. The company offers interstate same-day home delivery from 38 airports located throughout Brazil. In partnership with the e-commerce website Mercado Livre, GOL has dedicated six Boeing 737-800 BCF (Boeing Converted Freighter) aircraft exclusively to making these deliveries.

LATAMCargo operates domestic and international flights and transports general cargo, medicines, electronics and vaccines using seven specifically designated cargo planes, as well as holds passenger aircraft, transporting goods and products to 144 destinations in 24 different countries. The company plans to convert an additional 10 B767-300 passenger aircraft into cargo aircraft for 21 specifically designated for this purpose by the end of 2023.

"Air cargo has always been an important market segment for ground handling and has been growing significantly at privatized airports that offer specific terminals for air cargo, which means that specialized ground service professionals need to be hired," explains Ricardo Miguel, the CEO of ABESATA (Brazilian Association of Auxiliary Air Transport Service Companies), which represents 13 companies operating at 48 Brazilian airports, with a total of 26,000 employees.

Loyalty programs

Like international air travel markets, loyalty programs in Brazil have been consolidated and implemented by Brazil's three main airlines. Loyalty programs involve the accumulation of points supplied through various channels, including 'Air Miles' or the use of credit cards, among others.

"Frequent-flyer programs have become essential for airlines, not only because of the loyalty they generate for brands but also because they are an important source of revenue," consultant Jorge Leal Medeiros affirmed. This loyalty programs scheme represents between 10% and 15% of the demand for tickets, generating more than US $1.6 billion in sales per year, Azul's Alex Malfitani confirmed.

The Smiles loyalty program, which was previously an independent company and has now been integrated into GOL, generates a significant portion of the company's revenue. In addition to developing a close relationship with the airline's customers, Smile also serves to expand business opportunities.
"In the second quarter of 2022, we recorded revenues of U$199 million and synergy totaling U$260 million, which are expected to provide an additional U$600 million over the next few years," Carla Fonseca, Smiles' CEO, affirmed.

Although Smiles initially allowed flyers to redeem points in exchange for free airline tickets, the rewards offered under the program have been increasingly expanded to other areas, such as accommodations, car rentals, the purchase of consumer products, and various other types of services.

With the advent of e-commerce, customers using airline loyalty programs have become increasingly interested in other products. The platforms used by airlines are a reflection of this trend. In the case of Smiles, more than 100 partnerships have been formed with different companies, and the program has launched its marketplace. *"Having a wide range of options available for accumulating and redeeming miles allows GOL to engage and retain an increasing number of flyers,"* Carla concluded.

LATAM's loyalty program has also proven to be a powerful brand development tool. LATAMPass, which is used by 45 million customers worldwide, half of which are located in Brazil, offers a wide portfolio of available rewards.

Prices and costs

ABEAR classifies Brazilian airlines' operating expenses under two different categories. The first category, measured in US dollars, represents 51% of total expenses and is more difficult to control because it depends on fluctuations in the exchange rate. The second category (49% of expenses) refers to expenses provided for in Brazilian reals and are, therefore, easier to manage.

Expenses measured in USD	
Fuel and lubricants	21%
Insurance, leasing and aircraft maintenance	18%
Depreciation, amortization and depletion	12%

Expenses measured in Reals	
Operating expenses	20%
Personnel	13%
Air navigation and airport tariffs	6%
Commissary, aircraft handling and cleaning	3%
Passenger assistance, out-of-court compensation and judicial rulings	3%
Other expenses	4%

The number of passenger complaints that are brought before the courts are considerable. *"A legal precedent has emerged in Brazil that is different from that seen in other countries around the globe, which is the idea that airlines must be held liable in situations that are inherently a part of air transport, offering compensation for pain and suffering regardless of whether concrete proof exists in this regard,"* IATA's Dany Oliveira affirmed.

For Oliveira, this practice hurts consumers and taxpayers, who are ultimately left with the bill, mainly in the form of higher ticket prices.

According to ALTA's study, around 98.5% of the legal suits against airlines worldwide are in Brazil. The increase in these cases is also astonishing- in 2017, there were 42K cases. In 2022 the cases increased four times. And, if we consider that one legal case in Brazil costs the equivalent of 17 air tickets, we can see why this item has a significant impact on the overall cost structure of the airlines.

"Delta Air Lines recently announced that more than 90% of the civil lawsuits in which it is involved originate in Brazil, which represents less than 5% of its total passengers. The amount spent on these legal proceedings increases the operating costs for companies offering flights in Brazil, which subsequently impacts ticket prices," Azul's Malfitani affirmed.

Limitations on the productivity of the Brazilian workforce also create a disadvantage vis-à-vis international aviation. For example, there is an annual limit of 900 flight hours for pilots under Brazilian law. In the United States, this limit is 1000 hours a year.

The challenges posed by costs

The biggest factor contributing to the economic inefficiency seen in Brazilian airlines is the price of kerosene-type fuel (JET A), which in Brazil is 30% to 40% more expensive than in countries such as the United States due to a number of factors including taxes and others.

The current pricing of JET A was defined under Brazilian legislation in 1997 and using an appropriate model based on the price parity policy implemented by oil-importing countries when Brazil imported more than 96% of its refined oil. This situation has since changed drastically. Since 2019, Brazil has imported less than 14% of the oil that it consumes.

Brazil maintains an agreement with ICAO (International Civil Aviation Organization) member states that do not allow taxes to be applied on JET A used in international flights. PIS/COFINS (a social contribution tax of around 5% of the amount paid at the refinery) is levied on fuel used in domestic air travel, and ICMS (a state goods tax varies by State and totals up to 17%). As a result, domestic flights in Brazil are more expensive than similar international flights.

Movement at airports

According to ANAC, between January and August 2022, 53 million domestic passengers and 1.4 million international flyers passed through 213 Brazilian airports on regularly scheduled flights. This represents an increase of 49% in domestic flights and 355% in international flights compared to the previous year's period.

ANAC registered 10,234 authorized flights in Brazil, traveling along 532 routes and at 204 different airports/airfields. Of these flights, 77% were operated by Brazil's three major airlines, GOL, with 14% of flights, followed by 21% of LATAM and 42% of Azul.

Airports' infrastructure

To improve its national infrastructure, Brazil has implemented the world's largest airport concession program, Jose Ricardo Botelho affirmed. *"Proof of the program's success can be seen in that eleven of the twelve largest international airport operators are operating in Brazil."* However, to encourage more investment in infrastructure, it is first essential that demand is increased. *"It is necessary that Brazil's tourism industry be expanded, which is the biggest driver of infrastructure development".*

According to Fabio Rogério Carvalho, the President of ABR (National Brazilian Airports Association), as of November2022, 59 federal airports in Brazil were operating under a concession agreement.

Many state airports have also been granted a concession, including 22 airports located in the interior regions of São Paulo and approximately ten in Bahia. In the case of federal airports, investments of approximately US $2.4 billion have been made over the last ten years to improve infrastructure and the services provided to users.

Of the federal airports that have signed concession agreements, the six associated with ABR (Brasília, DF and Natal, RN), GRU Airport (Guarulhos, SP), Aeroportos Brasil (Viracopos, SP); BH Airport (Confins, MG) and RIOgaleão (Rio de Janeiro) – represent 92% of Brazil's passenger traffic and 99% of the cargo transported in the country.

With these concession agreements in place, ABESATAs (Brazilian Ground Service Providers Association) are experiencing a significant increase in demand. The increased performance of Brazil's airports and airlines allowed improvements in ground services.

The new concessionaires formed under this program have contracted specialized firms responsible for managing cargo terminals and secure areas such as X-ray facilities and providing property security services, among other services – explains ABESATA's Ricardo Aparecido Miguel.

Competitiveness

In terms of supply and demand, the domestic market held by major Brazilian airlines is generally well-balanced, and available flights are consistently used. Foreign airlines have a greater presence on international flights, with usage rates above 70%.

Despite these promising indicators, few airlines are still active within Brazil's domestic market. Additionally, despite efforts made by existing companies towards optimizing operations and reducing costs, there are no ultra low-cost carriers within the Brazilian market.

Technically nothing impedes new competitors, local or international, from entering this market, no significant barriers exist and there are no restrictions for foreign capital in the country. Additionally, most airports in Brazil have the available capacity required for such operations, with certain notable exceptions, including Congonhas. However, some specific conditions, particular to Brazil, have made it hard for ultra low-cost carriers to enter the market.

"GOL was able to emerge as a force in the Brazilian market due to increased freedom regarding ticket pricing and has always defended healthy market competition. A balance between supply and demand is essential to a sustainable aviation industry. To achieve such a balance, we must address the structural issue behind costs to democratize access to air travel and work to implement measures that have an impact on airfares," Celso Ferrer affirmed.

" There's not much a new company can do when entering this market. For example, the largest expenditure, which is fuel, would also affect companies entering the market. Labor would need to be hired locally and, given a large amount of the costs, burdens and impacts on productivity that currently exist in Brazil, the difficulties would be the same," Alex Malfitani suggested.

There are even more obstacles for the ultra low-cost companies: many of the extra fees that ultra low-cost carriers charge overseas are not allowed in Brazil, including paying for airport check-ins or using the luggage compartment in the aircraft's cabin, not to mention the relatively high frequency of litigation in Brazil.

"Ultra low-cost companies would need to operate in secondary airports that offer lower operating costs, which, unlike the United States and Europe, do not exist in Brazil, " Jorge Leal added.

Regional aviation

Regional aviation is vital for fully integrating air travel in Brazil, particularly in remote regions. A recurring issue is a lack of interest from the private sector in providing airport concessions in Brazil's interior regions due to a common perception that such operations are not profitable.

Possas from SAC says that regional airports that have received private investments have done well in addressing passenger demand, such as Jericoacoara in Ceará, Vitória da Conquista in Bahia, and Cascavel in Paraná.

Regional aviation is the market segment that has grown the most in recent years. Before the Covid-19 pandemic, Azul flew to 119 different destinations. It currently offers flights to 154 locations, most of which are regional destinations. One explanation for Azul's performance is that the GDP of larger Brazilian states such as São Paulo and Rio de Janeiro tends to show less growth compared to the national average of smaller states, which reflects the potential of the regional air network.

GOL plans to expand its existing air transportation network through regional aviation. *"We have a long-standing partnership with VoePass, allowing us to carry out operations in several Brazilian states. More recently, we also announced a partnership with Abaeté Linhas Aéreas to expand flights within Bahia,"* the CEO stated.

Possas offered three recommendations for boosting regional aviation:

1. Improve mechanisms to provide financing for regional airports by guaranteeing the investment
2. Improve the projects and quality of work at airports
3. Investments in providing wide-scale labor training

Additionally, added Leal, using smaller aircraft would help expand Brazil's air transportation networks. However, there is a major barrier to the use of smaller aircraft. *"Because these planes offer a higher operating cost per seat than the larger aircraft, these operations are only feasible through the provision of subsidies, which is difficult to implement, or by integrating regional and non-regional flights."*

"Growing domestic tourism, the "discovery" of new destinations and the lack of transport to remote regions has boosted regional aviation. We identified an immense potential for the development of this business model and we bet a lot on it, but we need to overcome the political, economic and support barriers for the sector. We need specific regulations for the development of regional aviation, something that currently does not exist" said Hector Hamada CEO, Abaeté Linhas Aéreas.

Challenges and opportunities

“Brazil can quickly progress within medium and low-density areas to expand aviation services in the country’s interior regions. Brazil also needs to quickly recover its connections to international markets to allow more tourists to visit the country,” Dany Oliveira, corporate officer at IATA, stated.

“If we compare Brazil to similar markets such as the United States, Australia and China, there is still great potential for growth in the country,” Possas concluded.

“I feel enthusiastic about the future of aviation in Brazil. There are challenges, but the opportunities are more. The key is to continue working together with a State Agenda in the country that includes the government, airlines, airports, service providers and associations working together to find better and more efficient ways to provide a better essential service for the people” says Botelho, CEO of ALTA.

A document from September 2022, signed by ABEAR, ALTA, IATA and JURCAIB and delivered to the then-candidates for the President of the Republic, consolidated the main proposals provided by the aviation sector as a means of improving Brazil’s current scenario.

These organizations suggest measures such as reducing the price and taxes of fuel, discouraging the use of legal proceedings, implementing financing programs, and improving competitiveness and attracting investments by ensuring that the Brazilian air transportation market is aligned with international best practices.

The proposals also recommended investments in infrastructure to stimulate regional aviation and the increase of demand, in addition to efforts to reduce bureaucracy and the cost of cargo transportation and implementing policies encouraging domestic and international tourism.

With regards to environmental, social and governance (ESG) practices, these proposals included incentives for the implementation of sustainable aviation fuel (SAF), regulation of the carbon market and alignment with international practices for reducing emissions, establishing policies for encouraging innovation and workforce training and increasing efficiency within the sector.

About IBS Software

IBS Software is a leading SaaS solutions provider to the travel industry globally, managing mission-critical operations for customers in the aviation, tour & cruise and hospitality industries. IBS Software's solutions for the aviation industry cover fleet & crew operations, aircraft maintenance, passenger services, loyalty programs, staff travel and air-cargo management. IBS Software also runs a real time B2B and B2C distribution platform providing hotel room inventory, rates and availability to a global network of hospitality companies and channels. For the tour and cruise industry, IBS provides a comprehensive, customer-centric, digital platform that covers onshore, online and on-board solutions. The Consulting and Digital Transformation (CDx) business focuses on driving digital transformation initiatives of its customers, leveraging its domain knowledge, digital technologies and engineering excellence. IBS Software is a Blackstone portfolio company and operates from 15 offices across the world. Further information can be found at https://www.ibsplc.com/.

ibs software

Contact us

Engage, grow, and adapt with IBS Software.