



nearly R300 million of its losses. Coupled with R170 million in debt interest payments and the rest related to operational expenses, at no other time in its 75-year history has Varig been in such dire straits.

"We were expecting an exceptionally good year," said Varig's CEO when announcing the airline's exceptionally bad financial performance during the first half of 2001. Most certainly the unfavourable dollar/Real exchange rate and rising fuel prices played a role. But, Silva says, "the economic slowdown took us completely by surprise. An aircraft is not something that you just place on a shelf when things go wrong." Analysts indicate that part of Varig's problems can be traced further back than current difficulties. Penalised by a five-year fare freeze that ended in 1990 and also affected rivals Vasp and Transbrasil, Varig's has expanded capital funds as it attempted to work its way between monthly double-digit inflation figures and yearly fare hikes. To compound matters, Varig's unwieldy corporate structure has not allowed it the flexibility to address pressing economic issues.

Varig recognises that it urgently needs to find solutions. As a means of quickly injecting funds into the ailing company, the Ruben Berta Foundation – which controls 87% of the stock of Varig's owner Fundacao Ruben Berta Participacoes (FRBPar) and its four airlines – intends to sell 35% of its voting shares. Likewise, priority will be given to enlisting foreign partners for its VarigLog air cargo company and the recently established VarigVEM air-

craft maintenance enterprise.

Despite its financial results, Varig has not cancelled or postponed aircraft ordered as part of its fleet renewal strategy. Indeed, this month will bring the arrival of the first of 14 Boeing 737-800s. To bolster VarigLog's operations, two more cargo-configured Boeing 727-200s are set for delivery in late September. Finally, the first of two confirmed Boeing 777-200s is to be handed over in November.

Born as regional carriers and faring better than their larger FRBPar stablemate Varig, Rio-Sul and Nordeste Linhas Aéreas also logged losses this year, albeit smaller in scale. Both are confident that by aggressively cutting costs they can overturn the negative financial results. Most measures taken have been orthodox in nature, but Salvador-based Nordeste Linhas Aéreas has shown that the unorthodox will work equally well. It has cut 50% of the leasing expenses on one of its four Boeing 737-500s by using it as a billboard through an advertisement contract with Brazil's leading financial newspaper. Two further contracts are ready to be signed.

Newcomer Gol Transportes Aéreos, Brazil's first low-fare airline, has, not unexpectedly, fared better than most. Company sources have stated that it has operated at a slight profit since July. Transporting more than one million passengers since it started operations last January, Gol has aggressively sought to wrest a larger share of the market, which now rests at 5.12%. Registering in July a load factor of 78%, according to Brazil's civil aviation authori-

ties, the carrier intends to end the year with a 9% market share or better when it will have all 10 of the initially ordered Boeing 737-700s. Planning to receive a further four aircraft next year, it recently launched a system of internet fare auctions it hopes will increase load factors significantly on selected routes. Next month, Gol will add another three destinations to the 10 on its route network. Gol's enviable financial track record is basically ascribed to the carrier's diligent attention to maintaining a tight and trim operation – in contrast to the country's other carriers.

While it did suffer a R99 million net loss during this year's first quarter, TAM Linhas Aéreas was quick to react to the adverse affects of the rising dollar, spiralling fuel prices and the cooling of the country's economy. Delaying plans to launch its São Paulo-Madrid service in 2002, TAM also postponed a \$20 million scheme to improve information services.

According to commercial and marketing vice-president Luiz Eduardo Falco, the crisis did dent TAM's profitability, but the airline has not been overly handicapped. Indeed, it has maintained a growth rate consistent with its overall strategy. So far unaffected by the death of founding chief executive Rolim Amaro, TAM recently overtook Varig in the domestic market. Gearing itself to grab a larger slice of the international routes market, TAM has scheduled the launch of services to New York and another, as-yet unannounced, US destination while increasing frequencies over many of its international routes. Should its measures work, the company forecasts a gross income of R2.9 billion – measurably better than last year's results.

Fare relief

Operating for nearly 50 years in a highly regulated airfare environment, Brazilian carriers have been relieved by the government's relaxation of its rein on fares since last year. Moves toward deregulation culminated on 14 August in a government edict that withdrew all restrictions on airfare pricing. Local carriers will be able to operate under market laws, with all the flexibility it entails.

Although no measures can be taken to neutralise the increase in fuel prices and the upward climb of the US dollar, the Brazilian Government has signalled its intention to help its air transport industry – not through the injection of public funds, but by substantially reducing the tax burden. Government and airline executives convened in late August to hammer out an emergency plan that industry sources believe will lead to considerable change in legislation – most critically reducing the 34.8% duty load to 15-20%. ■

Foreign exchange fluctuations contributed to Varig's record-breaking loss for the first half of 2001