2-14-1989

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LADB Article Id: 073530
ISSN: 1060-4189

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Category/Department: General
Published: Tuesday, February 14, 1989

[The following article was distributed by Pacific News Service on 12/12-18/88. The LADB has authorization from PNS for reproduction.] By Anne Kalosh * The governments of Mexico, Chile, Argentina, and Uruguay have announced proposals to sell shares of their state-owned airlines in the first stage of more far-reaching privatization programs sweeping Latin America. Privatization seems to make sense, But in Latin America it is a politically touchy issue. It has not been that long since private companies were snapped up in waves of nationalistic fervor. Reversing that policy is not easy to sell to voters and is viewed as particularly risky as several governments are nearing national elections. Mexico's President Miguel de la Madrid, in the final days of his six-year term, unveiled a scheme to privatize Aero Mexico and a dozen other companies. In Chile, military strongman Gen. Augusto Pinochet has presented a program to sell 15 state-owned entities including carrier LAN Chile. The Argentine administration of President Raul Alfonsin, also nearing the end of its mandate, has made public a bold test case in which it would release a minority stake in Aerolineas Argentinas, followed by 13 other public companies. And according to newspaper reports, the Uruguayans are interested in selling part of their airline, PLUNA. The auction-block moves stem in part from the exasperation of Latin American governments unable to bail out their chronically debt-ridden national carriers. When it comes to the airline industry, politicians may also be reading the writing on the wall: deregulation. The United States initiated the process a decade ago and has been followed by Europe. "Deregulation is global," asserts Juana Maachi, an Aerolineas executive. The US experience showed that deregulation breeds cutthroat competition, consolidation and price wars, all foreign concepts in the heavily protected, nationalistic and artificially manipulated climate in which Latin American carriers operate. Even now there is a scramble among airlines to form alliances that increase their rate structures, bolster their capital reserves and guard against their being swallowed by bigger competitors. The tendency towards mega-carriers is inevitable, says LAN Chile's Patricio Sepulveda, who recently signed a technical and operational integration pact with Aerolineas president Eduardo Gonzales del Solar. LAN Chile officials are also talking with European carriers about alliances. In Brazil the profitable Varig an exception among the state-owned airlines of Latin America already enjoys a "hub-and-spoke" arrangement with Scandinavian Airlines Systems (SAS). The Scandinavians feed trans-Atlantic passengers onto Varig connections on the South American continent and vice-versa. In fact, it is a SAS-Aerolineas proposal that has caused a national political debate over privatization in Argentina. Although the airline launched its own ambitious economic turnaround program in 1987 and was rewarded with a $20 million profit, Gonzales del Solar claimed he has no alternative but to look to the private sector for expertise in marketing and help in improving industrial relations. Late last year the airline sought SAS as a consultant for its program, which is similar to one the Scandinavians use to secure a greater share of the lucrative business travel market. Aerolineas later offered SAS a minority share of the carrier, theorizing that the Scandinavians would be more motivated if they were risking their own capital. Aside from monetary matters, an alliance would open up new routes for both carriers, meaning access to far wider markets. The affiliation with Aerolineas would allow the Scandinavians to

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penetrate the southern half of the South American continent, which complements their existing arrangement with Varig in the north. It would also give SAS access to what are widely recognized as the best aircraft maintenance facilities in Latin America. Under Argentine law, however, selling shares in any public company is prohibited. The Aerolineas-SAS case has forced a special session of Congress. At stake is actually the far broader question of the government's plan to privatize 13 industries. The opposition Peronist majority in the higher house of the Congress is against any sale. "The Peronists think the state should control (the airlines)," says Argentine Tourism Secretary Ernesto Solari. "There is a fear of foreign penetration." Although Solari denied it was an issue, a disgruntled Argentine brigadier general has stated that his nation has no business associating with countries with which it has conflicting views of Antarctica and the Falklands/Malvinas. There is also evidence that the stable of Air Force academy graduates who run the airlines resent the prospect of businesspeople usurping their traditional territory. One of the first things the Venezuelan airline Viasa did in its recent turnabout was to cut off free tickets for government officials. This prospect in Argentina could be another ingredient thickening the stew. Both Argentina and Peru stand to benefit from unwinding the bureaucracy and red tape that binds government-owned airlines and makes it harder for them to initiate changes which would stimulate tourism. "Tourism is a solution for the economic problems of Latin America," Solari points out. Officials also acknowledge that deregulation could result in lower tourist-class air fares. "A barrier to resolve is that of prices since flights...within South America are very costly," says Alfonso Salcedo Rubio, president of Peru's national tourism office. "Per mile they are more expensive than air service for any other zone of the world." It is far cheaper for example, to travel from Miami to Lima than between Lima and Bogota. Even US carriers serving Latin America must base fares for flights originating in those countries at government-set levels. For the moment, Latin America has its eyes on the Argentine Congress as it debates the pros and cons of a privatization case which could determine whether the continent's airlines will continue to be weighted by debt and delayed by bureaucracy, or will get a chance to fly high, buoyed by a new influx of capital and streamlined regulatory practices. * Anne Kalosh has covered the travel and tourism industry in Latin America for the Wall Street Journal Europe and Advertising Age, among other publications.

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