1. INTRODUCTION

In January 2002, the ILO Tripartite Meeting on Civil Aviation recommended that the ILO should further investigate the impact of 11 September on civil aviation in developing countries and disseminate the results. The basis for this recommendation was the fact that the documents for the Meeting, prepared by the Office, provided relatively little information on the situation of civil aviation in developing countries compared with the information available for North America and Europe. In an attempt to remedy this situation, the Office has decided to organize several workshops on civil aviation in developing countries, the first one to be held for Latin and Central America.

The purpose of the workshop is threefold:

- to strengthen the knowledge of the Office as well as the participants and their organizations about the situation of civil aviation in the region;
- to study best social practices within the region and elsewhere;
- to develop recommendations for the promotion of social dialogue and decent work in the restructuring of the industry in the region.
The paper highlights developments in civil aviation since 11 September 2001 with some emphasis on developments in Latin and Central America, based on the scarce information available. More detailed, general, information can be found in the documents prepared for the *Think Tank on Civil Aviation* (October 2001) and the *Tripartite Meeting on Civil Aviation* (January 2002) which can be consulted on the ILO Transport Sector web site: http://www.ilo.org/public/english/dialogue/sector/sectors/transp.htm

The paper will not go into great detail as its purpose is to stimulate discussion and an exchange of information between the participants.
2. CIVIL AVIATION AFTER 11 SEPTEMBER 2001

The events of 11 September 2001 were unlike any other shock experienced in the history of civil aviation. They have had a unique, unprecedented, devastating and immediate impact on all segments of the air transport industry in its broadest sense: airlines, airports, air navigation service providers, ground-handling and cleaning companies, air transport equipment manufacturers and a multitude of other suppliers.

The airline industry was competing in a difficult climate even before the attacks. No airline had been able to totally escape the effects of fuel prices that had risen considerably above forecasts, cutting profit margins even more than usual. Added to this, despite continued predictions of healthy growth for the industry, average growth across the board over the last 12 months before the events was only approximately 0.5 per cent. As a result, many carriers were experiencing hardships they had not budgeted for and, in the days following the events, some airlines announced harsh measures to cope with the financial problems they were already facing.

The developments in 2002 have, once again, demonstrated that there is no such thing as a global, homogeneous airline industry, and that very different influences and factors in different parts of the world, be they economic, regulatory or even social and cultural, create different operating environments and ultimately, different financial results.

North American carriers continue to largely dominate the world market with a 40 % share. Europe and the Asia/Pacific region come next, with a 25 % share each. Latin America (Central America, the Caribbean and South America) ranks fourth, but way behind with only 5 % of the world market. Then comes the Middle East (the smallest ICAO region) with a 3 %
share. In contrast, the African continent is huge but its carriers only account for 2% of the world traffic.\footnote{J. Pavaux: \textit{World Air Transport: An overview of the past decade}, Institute of Air Transport, Paris, \url{www.ita-paris.com}, 2002.}

According to the International Civil Aviation Organization (ICAO), one year after 11 September 2001, total scheduled passenger traffic of the world’s airlines has stabilized following the sharp decline in 2001, with \textit{zero growth} anticipated for 2002. Traffic should rebound in 2003, mainly due to an expected overall strengthening of the world economy. Passenger traffic should show robust growth in 2004. In the longer term, assuming continuation of restored consumer confidence and a stable economic and operating environment, global scheduled passenger traffic growth can be expected to proceed at about 5 per cent per year, measured in passenger-kilometres performed (PKPs), back in line with pre-2001 projections.
The International Air Transport Association (IATA) predicts that major airlines will see a 3 per cent drop in passenger traffic in 2002. It expects some recovery in 2003 in the order of 6 per cent, and an average growth rate of about 4 per cent through to 2006. Outside of the United States, there are signs of recovery. Airlines in Asia and Europe are showing improved results from non-US routes. China has shown strong growth and some Asian markets have benefited from increased tourist traffic. IATA has warned that war with Iraq would tip the aviation industry into a catastrophic financial crisis. It fears that a conflict would destroy an already fragile recovery from the 11 September events. After the Gulf War, it took a year for traffic levels to recover. This time the airlines are starting from a lower base because of 11 September. The most exposed airlines are those that rely on trans-Atlantic and trans-Pacific routes.\(^2\)

War with Iraq could bring the industry’s ambitions down to earth. The Air Transport Association, the main trade group for US airlines, has predicted that international traffic would drop by at least 10 per cent year-on-year if war broke out. Trans-Atlantic traffic would drop by at least 20 per cent. In February 1991, right after the start of the Gulf War, trans-Atlantic traffic fell by 44 per cent year-on-year, and travel across the Pacific by 21 per cent. Executives expect the drop would be less this time because the slow economy has already been hobbling travel for more than two years, and because travelers are more inured to the risk of flying since the 11 September 2001 attacks.

3. **CIVIL AVIATION IN LATIN AND CENTRAL AMERICA**

The aviation industry in **Latin America** is characterized by the fragmentation of the market with numerous competitors operating in relatively small domestic markets. The aggregate domestic markets of Latin America are approximately one-tenth of the North American domestic markets. The industry is also plagued by a low aircraft utilization rate, about 14 per cent of that of North American carriers. Since 1998, heavy losses combined with strong competition and an economic downturn, have forced several carriers into bankruptcy and forced the survivors to contract. In 2001, this negative trend was reinforced by the economic downturn in the United States and the 11 September events, leading to the worst crisis in the Latin American aviation history.³

**Boeing** remains optimistic and forecasts that Latin America’s intra-regional air traffic market will grow at an average rate of 7.9 per cent annually - one of the fastest growth rates in the world. Within the South American continent alone, air traffic will grow even faster at 8.5 per cent annually. Traffic between North America and South America will see robust growth at 6.2 per cent. Latin America-Europe traffic will also experience solid growth at 4.9 per cent.⁴

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Most studies indicate that cargo volumes in the region are poised to grow at an above average rate of over 6 per cent per year through 2020. Most of this projected growth will take place in the decade of 2010 to 2020. The next few years will see marginal growth as the regional economies struggle through economic, social and political turmoil.  

The difficult situation of airlines in the region is perhaps best illustrated by the decision of Brazil’s two largest airlines, Varig and TAM, to merge to create a huge new carrier - subject to government approval - following years of financial troubles and a steep drop-off in business. Brazil’s airlines have been hard hit by a slump in demand caused by the country’s sluggish economy and plunge in travel following the 11 Sept., 2001, attacks. Also, a steep drop in the value of the real has made it difficult for the country’s carriers to pay costs linked to dollars - including jet fuel and aircraft lease payments. The real lost 35 per cent of its value against the dollar in 2002.  

The companies have announced plans to reduce flights on key domestic routes by close to 30 per cent under a new codeshare deal. Varig may return six 767s on lease from GE Capital Aviation Services.

The wave of airline failures could trigger a consolidation that could strengthen Latin American airlines in their battle with US rivals. Air travel between Latin America and the US more than doubled between 1990 and 1998, faster than any other market in the world. Two-thirds of that traffic has been captured by US airlines: US airlines fly more passengers to Latin America and the Caribbean than across the Atlantic. More recently, because of their financial problems, several US carriers have reduced the number or frequency of their flights.

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to Latin America.

The statistical annexe provides the most recent information available on traffic figures and data on financial performance, number of employees and fleet size of airlines in the region. Passenger, cargo and movement data for selected airports are also included.

Data provided by the Airports Council International (ACI) - covering 107 airports in with almost 70 per cent of passenger traffic for the region - show that in 2001 the region experienced modest growth of 1.2 per cent over 2000 but showed improvement in both EBITDA\(^7\) and net profits over 2000. The number of passengers in 2001 was 167 million. However, like the in the rest of the world, there was a decline in cargo volumes: 2,256 million cargo-metric tonnes in 2001 or 5.8 per cent less than in 2000. Current political and economic instability in Argentina and Venezuela is dampening the short-term outlook for traffic growth in the region.\(^8\)

\(^7\) EBITDA = *Earnings Before Interest, Taxes, Depreciation and Amortization*, an internationally accepted accounting measure.

4. TENTATIVE LIST OF ISSUES

(a) restructuring

The industry in the region is involved in rapid process of restructuring: deregulation, open skies agreements, concentration, privatization and commercialization. A number of airlines have been privatized with different degrees of success, while the privatization of several airlines has been postponed until better days. Many of the airport systems in the region are in the process of corporatisation, concessioning or privatization, which normally affects the development of non-aeronautical income streams. No air traffic service (ATS) provider in the region has been corporatised, commercialized or privatized.

(b) low-cost carriers

Even before the crisis low-cost carriers in Europe and the United States were already making increasing inroads into the market share of major carriers. They also attracted many new passengers who would otherwise never have flown. The US low-cost carriers have about 20 per cent of the market. The share of their European counterparts is still only 7 per cent, but it is rapidly growing. On both sides of the Atlantic, low-cost carriers have placed large orders for new planes, benefitting from the present attractive prices for new planes.