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Latin America & The Caribbean

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Air transport is vital to Latin America and the Caribbean and is a significant enabler of regional economic growth, generating $156 billion in GDP and supporting 7.2 million jobs.

- The power of aviation connects the region with 160 cities around the world on 2.6 million flights per year, fostering business growth, people-to-people ties and personal journeys of discovery.

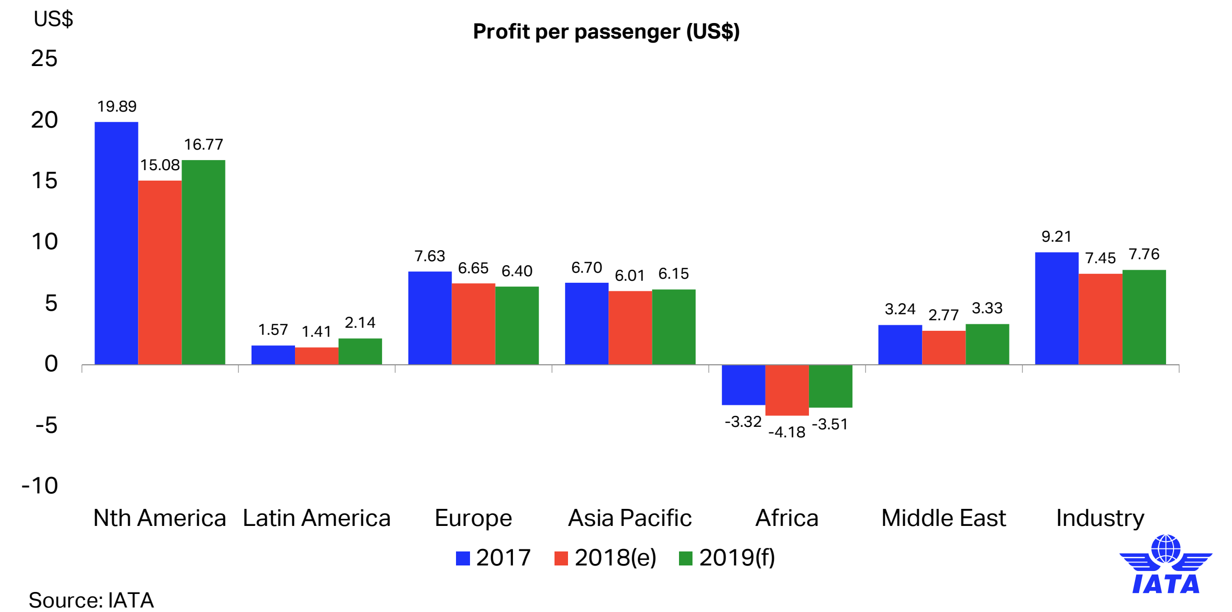
The regional economic outlook for 2019 is positive with Latin American carriers set to increase profitability as compared to 2018.

- To allow aviation to be an engine of economic growth and cultural development, we urge governments in Latin America and the Caribbean to be smart about the regulation of the air transport industry and ensure the right infrastructure is in place to maximize the many benefits the industry generates.

With passenger volumes in Latin America expected to double by 2034, the air transport industry's contribution to regional GDP could jump from $156 billion to $322 billion.

- But this will only happen if the industry is able to grow unhindered and the following roadblocks are addressed effectively.

Per passenger (net) profit shows wide regional variation



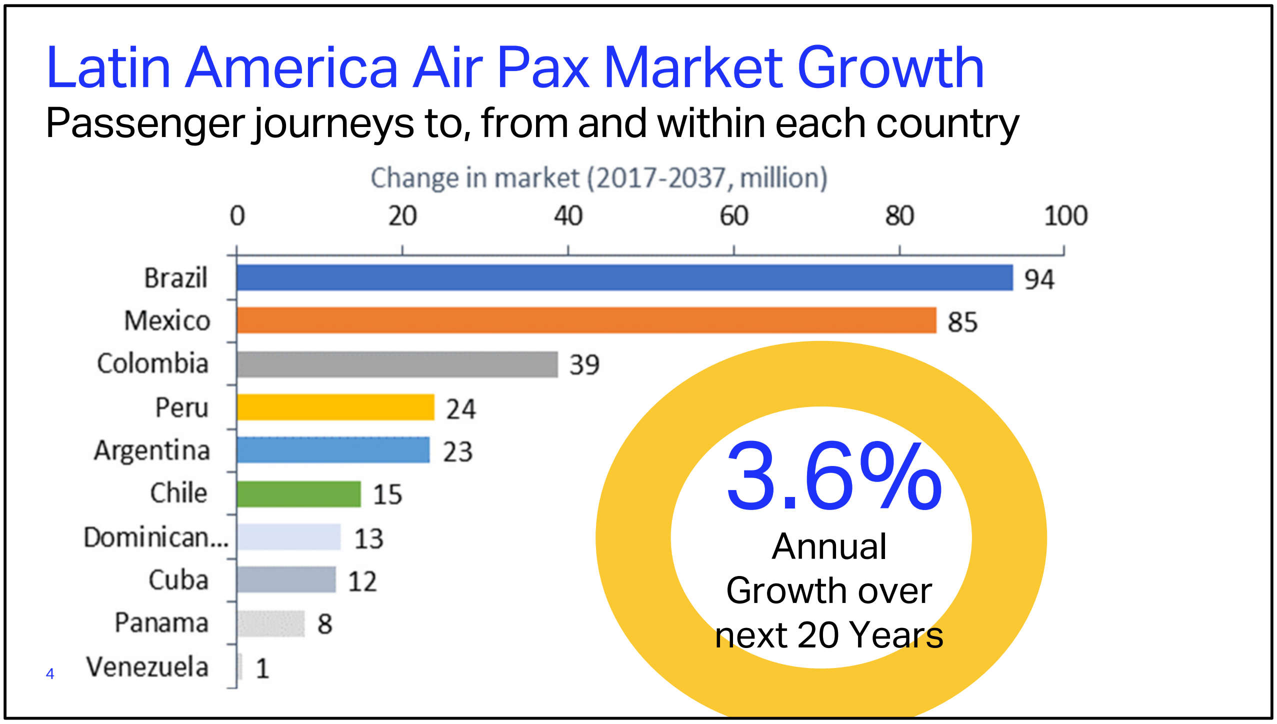
Source: IATA

The industry is doing well on a global scale.

- 2017 and 2018 saw strong profit levels and we expect 2019 operating profits to remain high.

However, when comparing the profitability of airlines in the Latin American and Caribbean region to the rest of the world, the profit per passenger is less than half the global average.

- Airlines across our region are expected to make around $2 per passenger on average in 2019, which is not even enough to get a cup of tea here in Seoul.
- And bear in mind that any changes to the operating environment, whether it is an increase in the cost of fuel or a new tax implemented, surely effects this already thin profit margin.



The Latin American airline industry of 2019 bears little resemblance to what it was at the turn of the century.

- In the last decade alone the number of passengers carried by the region's airlines has more than doubled.
- Consumers are benefitting. The region's travelers are taking advantage of a 64% fall in global ticket prices compared to 1990. And the number of travel options has increased exponentially—with new routes, and new products and services.
- Airlines in Latin America have seized the opportunity to build trans-national brands -> Avianca and Latam
- Joint Business Agreements were entered into and are being expanded -> example AA/DL, AV/CM/UA, LA/IAG Group
- Increase in low-cost carriers

Throughout this growth, safety remains our industry's highest priority and the region has improved vastly over the past ten years.

- Latin America recorded zero fatal accidents in 2017.
- However, the region lags the overall industry performance in terms of accident rates and we saw some high profile accidents in 2018 with the tragedy in Cuba and a near-tragedy

in Mexico. There definitely is more work to do.

- And experience shows that we are most successful when we embrace global standards and best practices.
- The IATA Operational Safety Audit (IOSA) is the gold standard—and a requirement for membership in both ALTA and IATA.
- This is producing results. Between 2013 and 2017, IOSA airlines in Latin American had an all-accident rate that was more than four times better than the rate for airlines not on the IOSA registry.

As we look ahead, over the next 20 years we expect 3.6% average annual growth so that over 750 million journeys are expected to touch the region by 2036. While this is great news, it is not guaranteed.

The Americas region is still affected by political instability, protectionist government policies, volatile exchange rates, aging infrastructure and excessive taxes and charges.

There is also a perception among the general public in Latin America that aviation is an industry of the rich that is often treated as a cash cow by local governments.

In order to support the **projected growth**, we need to focus on the following key three areas to ensure this growth can take place:

- Effective infrastructure
- Reasonable costs and taxes
- Smarter regulation

Infrastructure

Airport and Airspace Improvements Needed

- Mexico City - Workable solution is needed.
  - Cancellation costs of NAIM estimated at US$ 5 billion.
- Bogota - Building capacity at El Dorado Airport.
- Sao Paulo – Combination of air traffic management & airport infrastructure is needed.
- Buenos Aires & Panama City – Air traffic management infrastructure.
- Lima - New terminal and second runway moving too slowly.

To allow aviation to be an engine of economic growth and cultural development, we urge governments in Latin America to ensure the right infrastructure is in place to maximize the many benefits the industry generates.

Lower airfares, rising incomes and demographic growth are fueling significant passenger growth in Latin America. However, many of the region's key airports are unable to absorb it.

One of the biggest challenges for our industry is the cancellation of the new international airport in Mexico City.

- The public referendum held at the end of October resulted in the decision to cancel the New Mexico City Airport (NAIM) project and cancellation costs of NAIM are estimated at USD 5 billion.
- Various national and international organizations have expressed their disappointment with the decision to cancel the project and raised concerns about the future of México's economy and business environment.
- The government of Andres Manual Lopez Obrador (AMLO) has announced the construction of the "Santa Lucia-Toluca-AICM Airport System", which is estimated to be completed in 3 years.
- The immediate steps include to start the works to reactivate Toluca Airport and finalize the necessary studies for the construction of the 2 new runways at the military base at

Santa Lucia.
- IATA will study this new proposal once more information is available in terms of airspace efficiency and operational safety.

In Colombia, building capacity and improving processes at Bogota's El Dorado Airport should be a priority.
- El Dorado handles around 69% of the country's traffic and is already congested. Investment in existing infrastructure can raise capacity to 40 million passengers annually over the next few years.
- Adding a third runway and a new passenger terminal could enable annual capacity to reach 70 million. Colombia also needs to continue moving forward with airspace redesign.
- It is a good time for the Government of President Duque to ensure that General Aviation and the military are provided adequate infrastructure in another airport.
- The recent airspace redesign around Bogota made it possible to achieve 90 or more operations per hour.
- Additional capacity and efficiency gains can be achieved by a redesign of the rest of Colombian airspace including further easing of restrictions on use of the military-controlled Palanquero airspace. Opening this airspace up to commercial operations could generate additional savings of 12 to 41 nautical miles, equivalent to a daily saving of 15,000 kg in fuel and 46,000 kg in CO_2.

Argentina continues to improve its aviation environment and we are pleased with Minister of Transport Dietrich's recent policy announcements on continued deregulation of the ground handling market and the extensive infrastructure plans at Aeroparque (AEP), Ezeiza and domestic airports across Argentina.
- The infrastructure constraints will become even more evident as new airlines are entering the Argentine market and the government needs to continue working closely together with the industry to ensure the right investments are made.

In Panama, the new terminal at Tocumen International Airport (PTY) opened this year and we are holding an Aviation Day win Panama with the new government on September 10 to discuss the countries biggest opportunities, specifically to move forward with urgently-needed airspace improvements to accommodate the increased terminal capacity and eliminate delays and inefficiencies.

In Peru, Lima Airport Partners (LAP) signed a formal agreement with the Peruvian Government whereby LAP received 100% of the land required to start construction of the new terminal and second runway at Lima International Airport.

Overall, by not addressing these urgent infrastructure needs of the region, Latin America will leave $42 billion of unrealized economic benefits on the table by 2034.

Competitiveness

High charges and fees across region

- Latin America & Caribbean continues to be an expensive place to do business
- Aviation is often seen as an easy cash generator for governments.
- Many examples of excessive taxation across the region.
- Contradictory developments in Brazil.
- Argentina and Chile are positive examples.

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Latin America and the Caribbean remain a very expensive place to do business and unfortunately, aviation continues to be seen as a cash cow for many governments across the region.

- Taxes, fees, and government policies impose a huge burden on airlines and stifle air travel by making it more costly than it would be otherwise.

In Brazil, the largest market in Latin America, the industry is experiencing contradictory developments.

Last week the Brazilian Congress approved into law a Provisionary Project 863/2018. The project included a provision that grants 100% foreign ownership in Brazilian carriers, but in the markup process, an amendment was inserted that requires a minimum baggage allowance for flights within and to/from Brazil. The referenced bill was originally intended to apply to domestic flights only but the text is ambiguous and could ultimately result in it being expanded to include international flights.

This would essentially revoke Article 13 of Resolution 400, which allowed airlines to charge for checked baggage as an ancillary service. Now that the bill was passed by the Congress, it will proceed to President Bolsonaro for his consideration and signature within the next 15 days to be enacted into law. We understand that the President has the option to veto the bill which is what we are encouraging as we expect very negative consequences for the Brazilian market and ultimately the passengers flying to or within Brazil.

We believe that it should be up to airlines to decide what to charge for their services and offer a rock bottom price for those that do not want to carry baggage. Any commercial decisions should be left to the airline to decide and it will be very difficult for Brazil to attract foreign, low cost carriers if they are not allowed to charge for baggage.

Besides Brazil, here are some more examples across the region:

- A handling fee in the fuel pricing formula in Mexico adds an extra $45 million per year to airline budgets.
- Peru has a tourism promotion tax on tickets (which seems to defeat the purpose of promoting tourism) and collects VAT on overflight charges and international tickets in contradiction of ICAO standards.
- And Colombia ranks near the bottom of a list of 138 countries in terms of the cost-competitiveness of its fees and taxes, according to the World Economic Forum's Global Competitiveness Report. This has implications for air travel. On average, taxes and fees add $20 to a domestic one-way ticket and more than $100 for international tickets.
- Barbados by introduced a new Airline Travel and Tourism Development fee of US$70 for passengers flying outside of the Caribbean Community (CARICOM) and US$35 for passengers flying within CARICOM. This means, a family of four visiting from Europe or North America now had to factor in an additional US $280 in ticket taxes. What governments sometimes forget is that passengers today have more choice than ever and can be anywhere in the world within 24 hours. So Caribbean states no longer just compete with other Caribbean islands but rather global beach destinations.

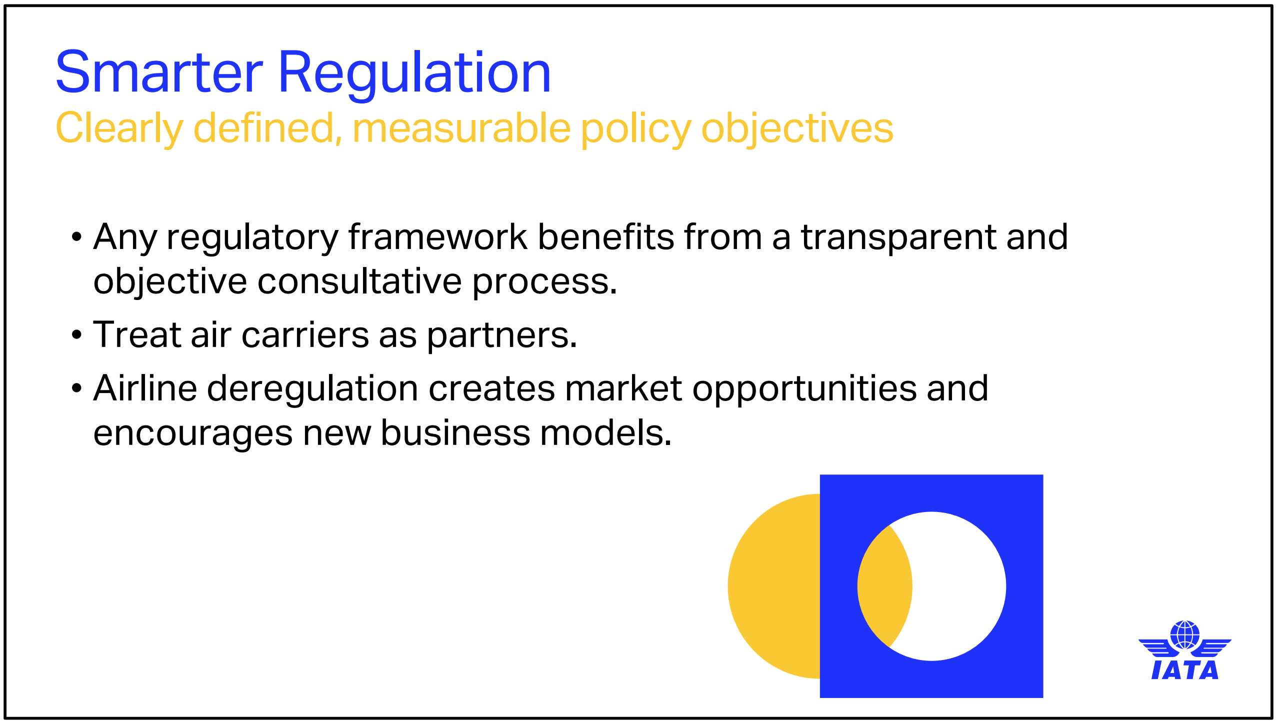
There are many other examples, all illustrating the same problem: far too many governments in the region see aviation and air travel as a target for heavy taxes and fees. In doing so they are killing the golden goose.

Because the value of aviation is not in the tax receipts that can be squeezed from it, but rather in the economic growth and job creation it supports. Cut taxes and fees and the industry delivers more value.

There is proof within this region. The Chilean government recently announced the reduction of departure taxes, for domestic and international operations.

- Domestic departure taxes were reduced by 20% on September 1 last year, another 10% in 2019, and an additional 10% by 2020.
- International departure taxes were reduced by USD$4 on September 1, from USD$30 to USD$26.
- We expect a positive economic impact for Chile with an anticipated increase in domestic and international passengers.

I would also like to recognize the government of Argentina for its “La Revolucion de los aviones” initiative to open hundreds of new routes, deregulate domestic pricing and encourage the arrival of new entrants. These moves are very positive for Argentina, but more remains to be done on the cost side to further boost competitiveness.



Finally, I would like to address the issue of smarter regulation. Airlines in the region are at the forefront of creating multi-national brands. Consumers have benefited by access to bigger route networks, more connecting options and an increase in low-cost airlines.

However, the full scope of potential efficiencies is not being realized, because regulations remain nationally-based in areas like training, licensing and aircraft registration. This denies opportunities such as the ability to easily move aircraft and staff around an airline's network to match market requirements.

Therefore, governments across the region need to ensure regulatory oversight following the principles of smarter regulation.

- The goal of all regulation should be to achieve clearly defined, measurable policy objectives that can be adhered to in the least burdensome manner possible.
- And any regulatory framework benefits from a transparent and objective consultative process between governments and industry.

Recently we have seen some positive steps.

Brazil has liberalized its regulations on aircraft interchanges, making it easier to transfer aircraft belonging to the same parent company into the country.

And in Central America, the six member states of the Central American Corporation for Air Navigation Services (Cocesna) unanimously passed legislation that standardizes the requirements for all aeronautical licenses—pilots, cabin attendants, technicians and so forth--so that a license in one state is valid across all Cocesna states.

But far more needs to be done. It is past time for a serious discussion among regulators and stakeholders to find ways to unlock additional value from the restructurings that have taken place through a regime of mutual recognition of common standards for training, licensing and registration of aircraft and crew.

This region is also increasingly out-of-step with the rest of the world when it comes to commercial regulation.

- Airline deregulation creates market opportunities and encourages new business models.
- Unfortunately, across Latin America, lawmakers and regulators are trying to turn back the clock to a regulated era by introducing restrictions in the name of passenger rights.
- These limit the ability of airlines to provide passengers with a wider range of products and choice, while at the same time raising the cost of travel for all.

Latin America has all the necessary elements to become an aviation success story: competitive and efficient airlines, a growing middle class, favorable demographics and a geography that necessitates travel by air.

- However, with the exception of a few countries, the region's governments are not treating air carriers as partners who drive valuable social and economic development.

Lastly, if you would like more in-depth information and economic analysis of the key markets of the region with Brazil, Colombia and Mexico, please visit www.iata.org/magic to access our most recent economic studies.

As we say, flying in the business of freedom, and these studies are a good example of the positive impact aviation can have on a country and its population, when governments create the necessary business framework.

With that, I would like to thank you for your time and I am ready to take your questions.

Thank you

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