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Industrial Update: BRAZIL

SNA INDUSTRIAL UPDATE**PRESENTED BY: CPT. MARCELO CERIOTTI****1. GENERAL-ECONOMY/POLITICAL DETAILS**

As known, Brazil currently struggles through one of the worst economic and political crisis of its modern history. The impeachment process forward, culminating in the deposition of President Dilma Rousseff, passing the position to be occupied by Michel Temer. Since 2015, Brazil is implementing a fiscal policy based on austerity. After nine quarters of economic depression, the newly empowered Brazilian administration of Michel Temer is reinforcing austerity as ‘the’ medicine to treat the Brazilian economic crisis and to balance the Brazilian public accounts. His first measure was the proposed Amendment to the Federal Constitution, in order to limit the increase in federal spending to inflation of the previous year. Supporters of the measure say it is essential to curb the expansion of public spending and reverse the government deficit billionaire. According to them, this will increase investor confidence in the country, generating more investment and jobs.

The Monetary Policy Committee of the Central Bank of Brazil keeps a 14% per year nominal rate (around 5.0% in real terms). Brazil’s GDP is falling (-4.9% YoY), unemployment is climbing (more than 11%) and the Central Bank insists on a very conservative policy, providing no ‘monetary support’ to the economy. In a situation of anemic demand growth, the Brazilian Congress is about to pass a proposal for a constitutional amendment that freezes government (real) spending for 20 years. Pension and labour market reforms come next.

While the austerity rhetoric gains ground, the Financial Times highlights that “Brazil has shot from global pariah among investors to emerging market favourite in less than 12 months”. Brazilian asset prices surged but, as financial market analysts say, politics rather than economics is driving prices up. In other words, investors are endorsing Temer’s market-friendly orientation and austerity plans.

2. ECONOMY/POLITICAL IMPACT IN THE AVIATION INDUSTRY

The impact in aviation industry of this political and economic situation is very unsettling and domestic market faces a reduction in passengers and cargo demand. Furthermore, unemployment levels are very high and not being treated as priority as this new government has other pressing issues at play at the moment.

One of the biggest Brazilian airlines, *GOL Linhas Aéreas*, despite his worst economic crisis, with 14 months in demand decline, has improved the balance sheet in the last month, but sees growth back only in 2018.

3. ASSOCIATION CARRIERS

According to ANAC, last year, 117.8 million passengers were transported by Brazilian and foreign airline companies.

The market share, in May 2016, consists of: 36.88% GOL; 34.77% LATAM; 17.05% Azul and 11.31% Avianca.

4. OTHER CARRIERS (NON-ABRAPAC/SNA)

Not applicable. In Brazil, all pilots are represented by SNA.

5. NATIONAL ISSUES

5.1. Collective Labor Agreements

Given the current economic scenario, the prospect of renewal of the Collective Labor Convention is not good, and we can hardly achieve a real increase in workers' wages, for airline pilots, general aviation and air taxi pilots.

Brazil has three general Collective Labor Agreements, which are renewed annually, discussing economic and social clauses:

- Airline Pilots (the negotiation will be placed on December 1st.);
- General Aviation and Air Taxi Pilots (we expect to have a agreement soon);
- Crop Dusters (we achieved a real wage increase this year).

5.2. New Aviation Code

The propose of modernizing the 1986 Aviation Code that no longer suits the current model of Brazilian Aviation has been criticized because the lack of technique aspects, as well as the poor debate with aviation law experts, authorities and interested organizations.

5.3. LATAM

The launch of LATAM is of great concern as there are no guarantees that the new company (merger of LAN and TAM) includes labour and social matters in their business development strategies. As LATAM is a transnational company, it is not clear what legislation will be followed, and whether it will comply with the CLAC (Latin American Civil Aviation Commission) rules.

As working conditions are already critical in Brazil, LATAM's uncertainties cause great stress amongst their pilots. LATAM has caused layoffs of aircrew members in recent months without observing the Collective Labor Convention and signaled that another 600 jobs of pilots and flight attendants can be eliminated. According to data from LATAM Airlines' balance sheet, the company closed the first half of this year with 49,905 employees, compared to 52,961 employees a year earlier, that is, a reduction of 3,056 jobs in 12 months, equivalent to 5.8% of the company's jobs.

LATAM pilots and flight attendants received internal communication from the company in which they were informed that their jobs would be at risk, especially if they did not accept changes that would result in a reduction in wages. This policy of fear is precisely what has caused extreme anxiety and instability among the aircrew and which, according to SNA's assessment, seriously jeopardizes flight safety.

SNA has already alerted authorities of ANAC (National Civil Aviation Agency) about the seriousness of the problem. The fall in demand in Brazil for eleven months in a row has led airlines to reduce the supply of flights in the country. LATAM plans to close this year with capacity up to 12% below 2015.

Finally, it is important to inform that the Brazilian antitrust agency (CADE) recommended the invalidation of the **long term agreement between LATAM, British Airways and Iberia**, which would allow to coordinate the airships of the three companies as one. It would be a deepening of the agreement of codeshare (sharing of flights) already celebrated between the companies. CADE's internal opinion pointed out that there are "major competition concerns in this act of concentration".

5.4. GOL

GOL, which plans to reduce its offer on domestic flights by up to 8% this year, is also cutting staff numbers by freezing vacancies. The company's staff decreased from 16,830 on June 30, 2015 to 15,280 on the same date in 2016, eliminating 1,550 vacancies, or 9.2% of the total.

6. INTERNATIONAL ISSUES

6.1. O&C and Liberalization

Brazil is still facing a fierce debate about Open Skies and the liberalization of foreign capital's shares in National Companies. In March 2016, it began to transact in Congress, the Provisional Measure 714, authored by Former President Dilma Rousseff. The proposal grew from 20% to 49% to the maximum limit of foreign capital in the Brazilian civil aviation companies. A later amendment came to release this percentage to 100% - that is entirely foreign companies could operate in Brazil. Despite having initially supported by the current President, Michel Temer, the new proposal was against the interests of both the opposition and the governing coalition. **Temer shifted and vetoed the amendment.**

Otherwise, by the Temer's leadership, the Brazilian position on O&C is still unclear, we believe that the new Brazilian policy for the aviation sector is moving toward liberalization. In this way, Temer may change his mind and it is possible for Brazil to undergo, in air service agreements, to guarantee, on the basis of reciprocity, the possibility of participation of foreign capital in domestic airline companies, for up to 100% of the voting capital.

6.2. Brazil/European Union

The negotiations of a multilateral agreement between European Union and Brazil is still on going. The European Commission is promoting in its negotiations with third countries, including Brazil, an approach that is not entirely in line with the Brazilian's proposal, which is the liberalisation of O&C (Owner and Control) only on the basis of reciprocity.

6.3. Brazil/ United Arab Emirates

A new Air Services Agreement, between Brazil and the United Arab Emirates, is about to be signed. In this regard, we understand that the exploitation of 5th and 6th freedoms by the airlines of the United Arab Emirates, as it has been occurring in recent years, is being detrimental to Economic and Social interests of the country, since no Brazilian airline has established frequency of flights to that route. Thus, there are direct flights between the two countries, but only the UAE company exploit the service (mixed and freighter), and these companies have been using the freedoms above to establish commercial routes between Brazil and third countries of South America, to the detriment of domestic airlines, as well as, indirectly, to Brazilian workers.

As is well known, it is not possible in the current scenario that Brazilian (or other countries) airlines establish fair competition with UAE airlines, such as Emirates and Etihad. There will always be unfair competition, as these airlines are subsidized by the government of the UAE, have a much more advantageous taxation, have access to a fuel with much better prices, its employees, especially aircrew members, are not unionized and have very few labor rights, they have been practicing dumping, among other reasons.

In view of this scenario, SNA has already requested to ANAC to at least maintain the ASA restrictions currently in force, such as the exercise of 5th freedom traffic rights via Europe and

North America for mixed services. However, an ASA that only provides greater regulatory security to the aeronautical relationship of the two parties can be advantageous to the country.

7. SUMMARY

Despite the fragile economic situation and liberalization scenario that the country is facing, Brazilian pilots are actively working to guarantee the modernization and development of the industry without work disruption.

More than ever the exchanging of expertise with IFALPA members is crucial for Brazil to overcome the negative issues presented in this report.