

IFALPA PROFESSIONAL & GOVERNMENT AFFAIRS (PGA) COMMITTEE MEETING

CHICAGO, IL, UNITED STATES OF AMERICA – 6-7 SEPTEMBER 2018

AGENDA ITEM: 9

Industrial Update: Brazil

SINDICATO NACIONAL DOS AERONAUTAS (SNA) INDUSTRIAL UPDATE**PRESENTED BY: OSVALDO NETO / MARCELO CERIOTTI****1. GENERAL - MEMBER ASSOCIATION GENERAL DETAILS**

SNA Brazil has been participating in IFALPA committees and local safety groups, but this participation has not grown this year. Mainly, influenced by the Brazilian Labour Reform and the end of the compulsory union tax, as of November 2017. It greatly affected the Brazilian unions, including SNA, generating a huge loss of revenue. We estimate that our union's revenue fallen by half, because of that. It is being a great challenge for us, this year, also affecting our capacity to be present at many international events and meetings. A new associative campaign is being conducted.

Apart from these problems, we are grateful for the opportunity to host in SNA Head office, in São Paulo (Brazil), the IFALPA FTL/FRMS Training Course, from 10th to 11th of October 2018. The event will have experts in FRMS from Brazil, Argentina, Australia and European Union, and aim to discuss human fatigue, the analysis system, practical implementation of FRMS and challenges, flight time limits, requirements of Safety Systems and other related issues. This is a very good opportunity to bring excellent education activities to South America and offer a free aviation course to the Member Associations, this time, in SAM region.

Moreover, the next IFALPA HUPER Committee Meeting will take place in Rio de Janeiro (Brazil), from 30th of October to the 1st of November 2018, hosted by SNA as well.

2. ASSOCIATION CARRIERS

According to the National Civil Aviation Agency (ANAC/Brazil), from July 2017 to July 2018, Brazilian domestic aviation registered demand expansion of 7.3%, supply expansion of 7.2% and an increase of total of trips by 6.4%. In July 2018, Brazilian airlines carried 8.8 million passengers domestically, with a market share consisting of: GOL – 38.4%; LATAM – 29.9%; AZUL – 18.7%; and AVIANCA – 12.7%. The occupancy rate remained stable and the cargo volume increased by 4.5%.

For the international carriage of passengers, the travel volume grew by 14.8%, reaching a total of 4 million passengers boarded from July 2017 to July 2018, with a market share consisting of: LATAM – 68.7%; AZUL – 15.8%; GOL – 8.1%; and AVIANCA – 7.4%.

a. OTHER CARRIERS: NA

3. NATIONAL ISSUES

a. POLITICAL/ECONOMIC SITUATION

The OECD published its Brazil 2018 survey just as the country released figures showing its economy grew 1% last year, its first year of expansion since 2014. This organization also reports predicted Brazil's GDP growth would pick up to 2.2% this year and 2.4% in 2019. This is a walking dead recovery for an economy emerging from its worst recession in history and looking to at least return to its previous size.

Brazil has abundant natural resources and a relatively diversified economy. It is also a large industrial power, but it continues to face social issues and has one of the highest levels of inequality in the world. Brazilians overpay for consumer goods and services, a factor that increases inequality and costs in the economy.

The service sector represents over 73% of Brazilian GDP and employs 69% of the active workforce. In recent years, the country has embarked on the production of high added-value services, especially in the fields of aeronautics and telecommunications.

After a promising rise on the global stage that included hosting the 2014 World Cup and the 2016 Olympic Games, Brazil today is entangled in profound economic and political crises.

Latin America's largest country is not only trying to recover from its deepest-ever recession, but also facing political disturbance brought about by corruption scandals that have embroiled the last three presidents and the leaders of all major political parties.

Brazil experienced the impeachment of president Dilma Rousseff, the condemnation and imprisonment of ex-president Lula, the Operation Car-Wash (who denounced a scheme of payments of billions of bills involving large corporations and several political parties) and other scandals involving several politicians (ministers, deputies, senators and current President Michel Temer, ended up reporting on corruption and tip fees).

4. GOVERNMENT AFFAIRS

The SNA has been having many issues related to the bureaucracy of the National Civil Aviation Agency (ANAC/Brazil) and Airport Operators, mostly linked to problems with the flight crew access to restricted areas of the airports.

The ANAC has opened a number of public consultations to reform some of the civil aviation standards, including standards for FRMS, Civil Aviation Instruction Centers, and amendments to RBAC 119 (Certification: regular and non-scheduled operators), RBAC 121 operational: domestic, flag and supplementary operations) and RBAC 135 (Operational requirements: complementary and on-demand operations). The SNA participated in these public consultations and monitored all proposed changes, always with the aim of safeguarding the rights of the category.

5. SOCIAL/LABOUR/INDUSTRIAL ISSUES

A Brazilian statistical institute estimates that over 14 million Brazilians are out of work. Over the past three years, the nation's jobless rate rose by more than 6 percentage points, reaching 13.7% of the labor force in the first quarter of 2017. Young adults are especially affected by the economic crisis: Nearly three-in-ten Brazilians (28.8%) between the ages of 18 and 24 are jobless, an increase of nearly 16 percentage points since the end of 2013.

High no salary labor costs, low domestic productivity, and ongoing political uncertainties hamper business formation. Business owners often complain about the Custo Brasil (Brazil Cost), including poor infrastructure, inflexible labor laws, and complex tax, local content, and regulatory requirements. It is the same for the aviation market, Brazilian airlines' expenses and costs are 27,5% for fuels and lubricants and 20,3% for rental, insurance and maintenance of aircraft. A large part of these costs is taxation.

Recently, the Brazilian Supreme Court ruled that outsourcing (subcontracting) might also include all the production activities, corroborating with last year's labor reform, which freed outsourcing for the entire production chain. However, mostly thanks to the work of our union, the pilots and cabin crew of the country is not subject to this practice, since the new Flight Crew Law, also approved at the end of last year, established safeguards, so pilots and flight attendants cannot work as outsourcers.

Despite the economic and political instability we are constantly undergoing, the increase in the number of passengers transported in the last 12 months by the Brazilian airlines, the rise in profit and the hiring of co-pilots make us believe that airlines will maintain the trend of growth and hiring pilots for the next few years.

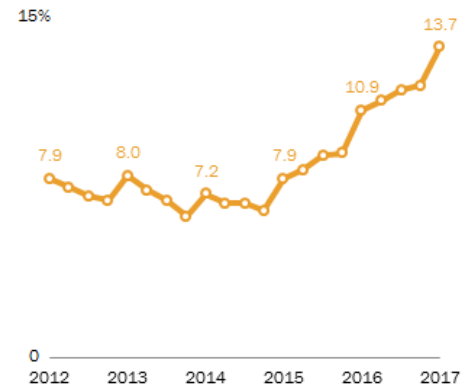
However, the last few years demonstrates a dangerous government liberal position in the aviation market. The country will face elections next month and the possibility of liberal government in economy for next year is very high. Considering that, the liberalization of air services and the opening of 100% of the capital of Brazilian airlines to foreign capital will be a strong possibility. Currently, by law, foreigners can only have up to 20% of a national airline.

The effect of unrestricted capital opening, coupled with other issues such as bilateral agreements, mergers and exchanges of air traffic rights between countries, can be catastrophic, not only for the maintenance of Brazilian jobs, but for aviation as a strategic sector. There may be impacts including flight safety, as companies could hire foreign pilots with lower labour costs and whose training is unknown, without control of the Brazilian state.

Finally, the last year published new labour law came to modernize the labour relationship, but somehow it has retroceded into a number of labour rights. The SNA won some victories in Congress, causing some legal mechanisms not to be applied to pilots.

Unemployment in Brazil has risen sharply

% of the labor force unemployed



Source: Brazilian Institute of Geography and Statistics (IBGE).

PEW RESEARCH CENTER

6. SUMMARY

Brazilian IFALPA has been participating in committees and local safety groups. It is exercising leadership among the industry, bringing to the table the pilot's needs and helping the development of the industry. Besides, next month, SNA will host the IFALPA FTL/FRMS Training Course and the IFALPA HUPER Committee Meeting.

Even with the economic crisis and high level of unemployment, the Brazilian domestic and international aviation is registering demand expansion and we expect more pilots to be employed by the companies.

Moreover, the SNA is participating in ANAC public consultations and is monitoring all proposed regulatory changes, always with the aim of safeguarding the rights of the category.

Finally, SNA believes it is extremely important to follow all the governments' movements in the international civil aviation market, following the bilateral and multilateral air services agreements between the States Members of ICAO and, mostly, the ICAO ATRP meetings. The liberalization of international air services is something inevitable, and it is up to us (IFALPA) to defend the maintenance of the jobs and the worthy working conditions of the pilots.