

# On the radar

A look at Brazil, one of Boeing's most important international markets that you need to know more about



Rio de Janeiro is the second-largest city in Brazil, a nation Boeing sees as offering tremendous partnership opportunities. SHUTTERSTOCK.COM

By Eric Feters-Walp

**T**ravelers gravitate to Brazil for the tropical green of the Amazon's lush rainforests and the renowned sunny beaches of Rio de Janeiro. But this South American nation long known for its physical beauty also is an up-and-coming economic power.

Brazil is home to key Boeing airline customers and is embarking on defense modernization efforts. It's also seeking new avenues for cooperation between its growing aerospace industry and international counterparts. As a result, Commercial Airplanes and Integrated Defense Systems see promising opportunities in Latin America's largest nation. "Predictions of Brazil's emergence to prominence on the world stage have been made for years," said Ihssane Mounir, Commercial Airplanes' vice president of sales for Latin America and the Caribbean. "It's clear that Brazil's time is now and that, despite the current economic downturn, it is assuming its predicted prominence as one of the world's most important economies."

## Brazil *at a glance*

**Location:** South America, bordering the South Atlantic Ocean

**Area:** 3,286,488 square miles (8,511,965 square kilometers); comparable in size to the 48 contiguous U.S. states

**Population, 2008:** 196.3 million

**Capital:** Brasilia

**Official language:** Portuguese

**Other major cities:** Sao Paulo, Rio de Janeiro, Recife

**Total gross domestic product, 2007:** \$1.3 trillion; ranked 10th worldwide

**Estimated GDP growth rate, 2007:** 5.4 percent

**Main export partners:** United States, Argentina, China, Netherlands, Germany

**Sources:** Federative Republic of Brazil; *Central Intelligence Agency World Factbook*; World Bank

Brazil is one of the so-called BRIC economies—along with Russia, India and China—that are expected to account for 40 percent of global economic growth over the next decade, according to the consultancy Ernst & Young. Boeing's Current Market Outlook ([www.boeing.com/commercial/cmo](http://www.boeing.com/commercial/cmo)) predicts airline traffic within Latin America will increase by 6.7 percent annually over the next two decades, making it the highest growth region outside the Asia-Pacific market. If air traffic expands in line with predictions, the number of airline passengers transported in Brazil will double between now and 2014 to 100 million annually, said David Barioni Neto, president of TAM, Brazil's largest airline.

Meanwhile, Brazil, the world's fourth-largest democracy, is on the verge of fortifying its military air power, having soliciting bids for a major fighter aircraft contract scheduled to be awarded this year. "I think Brazil is becoming more aware of its place in the world. The nation wants to be a player on the world stage," said Joseph McAndrew, IDS regional vice president of Business Development for Europe, Israel and the Americas.

## AIR TRAFFIC INCREASED IN '08

Why is Brazil poised to take off as an economic and political power? "The question is why it hasn't happened before," said Alec Watson, managing director of Hills & Co. and a consultant to Boeing. With the world's sixth-largest population and an economy that's stabilized over the past decade, Brazil has all the right ingredients to grow, he said.

"It's a huge place with a lot of people, underdeveloped transportation systems, a growing middle class and great wealth," all of which bode well for expanding air traffic, said Watson, who lived in Brazil when he was a U.S. consul and then deputy chief of mission at the U.S. embassy there. Indeed, as many parts of the globe saw commercial air traffic drop in 2008, Brazil's domestic airline traffic increased by more than 7 percent.

For decades, one national airline, Varig, controlled the country's civilian air traffic. After deregulation in 1992, a number of carriers were launched, but many faded by the early part of this decade. The two dominant airlines from that period, TAM and GOL, now are modernizing and adding to their fleets to prepare for growth. GOL, modeled after U.S. low-cost carrier Southwest Airlines, has expanded quickly with an all-737 fleet. TAM recently began buying 777-300ER (Extended Range) jetliners.

"Despite the world economic downturn, we are optimistic. We made a bold decision to maintain our operations in 2009, and even to add a new route or international flight," Neto said of TAM, which ended 2008 with 85 percent of the market for international flights originating in Brazil. TAM estimates growth this year of 5 to 9 percent for domestic flights and is increasing seating for its international flights by up to 20 percent.

Eight-year-old GOL, meanwhile, has proven to be a prominent

Boeing customer, having ordered 127 Next-Generation 737s and secured purchasing rights on another 40 airplanes, said Jose Sicilia, Commercial Airplanes' sales director for Brazil. GOL's parent company purchased Varig in 2007 and last year replaced all Varig 767s operated on international routes with 737-800s. GOL also plans to aggressively replace its older 737s over the next four years. Additionally, Boeing and GOL worked together to develop the short-field performance package, a Next-Generation 737 enhancement that lets operators fly increased payload in and out of airports with runways less than 5,000 feet long (1,520 meters). That technology is used at the Santos-Dumont airport in Rio de Janeiro, which serves as one end of the lucrative link between that city and Sao Paulo.

"The modernization plan guarantees that GOL's fleet will maintain its status as one of the youngest and most modern in the world," said Fernando Rockert de Magalhães, technical vice president of GOL and Varig.

Despite Brazil's political and cultural ties with Europe, Boeing and Airbus compete on an equal basis for business

from Brazil's major airlines, Sicilia said. Brazil is home to the world's third-largest airplane manufacturer, Embraer. In fact, startup Brazilian airline Azul Brazilian Airlines plans to fly an Embraer-only fleet.

## DEFENSE NEEDS GROW

Coinciding with this economic growth in Brazil is a boost in its defense needs. As South America's largest air force, the Brazilian Air Force (FAB) has a long history of distinguished service. Today, the FAB operates more than 700 aircraft for tasks ranging from humanitarian missions to Amazon Surveillance System administration.

Boeing is one of three finalists to provide 36 fighter aircraft for the FAB's F-X2 program. Last year, Brazil narrowed the competition to Boeing's F/A-18 Super Hornet, Dassault's Rafale and Saab's Gripen NG. The decision for this contract—one of today's largest fighter competitions and a pact with potential to expand over the contract's life—is scheduled to be announced this spring.

Winning the F-X2 contract could lead to greater defense and industrial cooperation between Brazil and the United States in general and Boeing in particular. According to McAndrew, Brazil's purchases to date of Boeing-built military assets include Harpoon antiship missiles and a few KC-137 airborne tanker and transport planes, based on the 707.

"There's a fantastic opportunity for us in Brazil," said Bob Gower, vice president of the F/A-18 and EA-18 Programs. "Their needs are growing from a defense perspective."

Boeing has reason to be confident, Gower said. As the world's most advanced multirole combat aircraft, the Super Hornet has advantages with its twin-engine configuration and rugged design, allowing long-range capability over maritime and remote territorial regions, he noted. Other benefits include its situational awareness (with its Raytheon APG-79 Active Electronically Scanned Array ra-

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Brazilian Defense Minister Nelson Jobim sits in a Super Hornet, which is a finalist in the nation's fighter aircraft competition.

dar and integrated electronic warfare suite), its ability to carry a versatile weapons load, a strong logistics support backbone and an active production line. What's more, the aircraft's service life with the U.S. Navy will last at least through 2035. That means Brazil can be confident the fighters will be kept at the cutting edge of their capabilities over at least the next two decades.

If Brazil opts for the Super Hornet, it would be the aircraft's second export customer after the Royal Australian Air Force, which is acquiring 24 F/A-18Fs, McAndrew said. He added that the aircraft's track record with the expansive nations of the United States and Australia make it a natural choice for Brazil's large territory.

In addition to which aircraft best fits the nation's needs, Brazilian officials are considering which company can help the country enhance its defense industry through technology and training.

Patricia Warren, IDS regional director for Industrial Participation, said the 16 members of the Super Hornet industry team can offer significant value when it comes to industrial opportunities. Projects offered to Brazilian industry range from F/A-18 work packages to training in manufacturing practices to the transfer of aerospace technologies. Boeing also could contribute to and collaborate with Brazil's advanced alternative energy and biofuels research sector, Warren said.

In return, winning the F-X2 contract and expanding Boeing's presence in Brazil could lead to future contracts with the nation's armed forces. "It's a completely new market for IDS," Warren said.

One thing everyone is certain of is Brazil's economic and cultural vitality. Its world-class airlines and Embraer's competitive products exemplify Brazil's capability in aviation, technology development and integration, said Sicilia, who added that some are surprised by the country's similarities to the United States. He said he's been impressed by Brazil's size and diversity, as well as its "very warm and gracious" people.

Gower, who has traveled there several times, agreed. "You see that they are, in my opinion, getting ready to make big strides in the global economy," he said. "It's a very energetic place." ■

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## Who's who among

Here's a quick look at some of Brazil's major carriers.

### **GOL LINHAS AÉREAS INTELIGENTES**

**Headquarters:** Sao Paulo

**Fleet:** 104 airplanes, all 737s, including 737-300s and Next-Generation -700s and -800s. GOL has 23 more 737s on order.

**Customer base:** Using a discount model similar to Southwest Airlines in the United States, GOL holds about 35 to 40 percent of the domestic air travel market.

**Did you know:** Since launching operations in 2001, GOL has been South America's fastest-growing airline.



# Brazil's airlines

## TAM LINHAS AÉREAS

**Headquarters:** Sao Paulo

**Fleet:** 129 airplanes, including 777-300ERs (Extended Range) and 767-300s. TAM has four more 777-300s on order. The airline also flies Airbus and Fokker aircraft.

**Customer base:** As of late 2008, TAM held 85 percent of the market for international flights originating in Brazil. The airline's international destinations include cities in the United States, France, the United Kingdom, Italy, Germany, Spain, Argentina, Bolivia, Chile, Paraguay, Uruguay, Venezuela and Peru.

**Did you know:** TAM is Brazil's largest airline.

## AZUL LINHAS AÉREAS BRASILEIRAS

**Headquarters:** Sao Paulo

**Fleet:** Azul plans to operate 42 Embraer E-Jets by 2012.

**Did you know:** Azul was launched in 2008 by David Neeleman, who founded JetBlue in the United States.

*Other Brazilian airlines include Webjet, a low-cost carrier that flies about a dozen 737s; Avianca Brasil (formerly OceanAir), which has Boeing 737s and 767s in its fleet and 12 787 Dreamliners on order; and Varig, once Brazil's national airline, which was bought in 2007 by GOL's parent company. Brazil-based ABSA Cargo Airline, owned by Chile's LAN Airlines, operates Boeing 767-300 Freighters and is an early customer for the new 777 Freighter.*

Brazilian airline GOL operates a business model similar to U.S. carrier Southwest Airlines—right down to using an all-737 fleet.

JIM ANDERSON/BOEING

