

> **We will go to Brussels to seek remedies to the TAP/Portugália merger**

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INTERVIEW with Tomaz Metelo, euroAtlantic

"We will go to Brussels to see remedies to the TAP/Portugália merger"

The chairman of euroAtlantic says that he has always objected to the lack of limitations to international routes in the decision by the Competition Authority as regards the TAP/Portugália merger. If his suggestions are not accepted, he will appeal to all those authorities necessary, including Brussels. A critic of the form of privatisation of TAP, he complains about unfair competition by the State.

"We will go to Brussels to seek remedies to the TAP/Portugália merger"
Francisco Ferreira da Silva

Expressing total opposition to the way in which the privatisation of TAP is being prepared and criticising the current management of the company which flies the flag, Tomaz Metello has doubts about the rationality of the TAP-Portugália merger and complains about unfair competition by the State. With an eye on Africa and the possibility of getting into regular flights euroAtlantic wishes to enter the cargo business and is thinking about signing an Iberian partnership as early as this year to increase synergies in other areas.

- How would you comment on the remedies proposed by the Competition Authority (AdC) for the purchase of Portugália by TAP?

- The AdC is focusing on the routes on which Portugália operates such as Lisbon-Oporto, Lisbon-Funchal, etc. But there are other much more important aspects. As an air company we have already replied to the AdC - moreover, apparently we are the only entity to do so – the question of occupying multidesignated routes since both companies can fly to Brazil. On the Brazilian side there is Varig and BRA, on the Portuguese side there is only TAP. Any normal manager that buys another air company will tend to launch the other one as the second carrier to Brazil. If TAP does the code-share and makes Portugália the second Portuguese carrier to Brazil, this means that any company that starts operations in Portugal cannot operate on this route. We are talking about Brazil because it is the first destination with multidesignation, but there is going to be multidesignation to the majority of destinations such as Africa, for example.

- Does this damage other companies who wish to operate on these routes?

- Exactly. At present in Portugal there is TAP, SA- TA and Portugália. The first two are public and the third will be too with the merger. If tomorrow euroAtlantic or some other private company decides to enter these routes, it will be totally blocked. Furthermore, if TAP, as is now being said, is privatised in 2008, it will have the monopoly of the monodesignated routes and also of these multidesignated, making its worth increase substantially and restricting the private companies.

- Is that what you told the AdC?

- Of course. We have already raised an objection and we are going to do so again because this point was not looked at and it damages my company and others that may appear on the market and who wish to operate on these routes.

- How can you safeguard this situation?

- It's very easy. You just need to mention that the purchase has been approved with restrictions. And one of the restrictions is that any state-owned company, besides TAP, can never be designated for any routes other than European ones.

- Have you no objections to the remedies of the AdC?

- None. These are situations which for us, a long-haul company, are unimportant. I think that the market, to wit the travel agents, will remain in the hands of the state-owned companies. But this is not my problem but theirs and they have an association to raise objections.

- If the TAP/Portugália merger is authorised, would you still be interested in TAP?

- In theory, I will always be interested in analysing an operation like that. We, as an air transport carrier, have to analyse different possibilities. We analysed and purchased a company in Mozambique. We analysed Varig and today we're their partners. And we are constantly analysing other companies abroad, not in Portugal. Besides that which is publicised by the media, I don't know much more about TAP, I have not been in touch with the chairman since November last year. I don't know and I have not read anywhere what the objective benefit is of merging TAP with Portugália.

- But does this merger make sense?

- I don't think so. It does not make sense because of the investment by TAP in Portugália. Apparently, and according to the press, the liabilities will be transferred to the Espírito Santo Group and TAP will pay around 140 million euros. If TAP wishes to get onto the Portugália routes, it will do so with 10 million euros. I have already told the minister responsible that if they gave me that amount, I would get onto those routes easily.

- With TAP's fleet?

- No. By getting Portugália's fleet which, in any case, will have to be renewed in the short-term. It is said that the Portugália routes complement those of TAP. TAP already had TAP Regional a few years ago and it didn't work. That's why I don't think it makes sense. What would make sense is if TAP felt the need to have a regional company, it would start it from scratch. That's what other companies do.

- So the deal is absurd?

- Some international companies who have commented on the deal agree that less and less cannot result in more. There may be clauses or plans to dispense with 200, 300, 400 employees. How should I know? I've no idea. Or a plan to cut fixed costs so that the deal will start being profitable. Portugália may just do a code-sharing with TAP and cease to exist as a company. Or the size of Portugália could be reduced considerably, cutting total fixed costs, thereby making it profitable. The people who did the deal are smart and will have found a way of obtaining a positive benefit. Otherwise, the deal doesn't make sense and afterwards they'll have to explain it to all of us who pay taxes.

- Was the shareholder State and the Government imprudent in this regard?

- I don't know what the basis for negotiation is except for what I've read in the papers. To be honest, I think the amount to be paid for Portugália is exaggerated. But I don't know what the synergies are and what the benefit is to TAP. I can't give a watertight opinion about this merger as I don't know on what terms it is going to be carried out. Now, with the information appearing in the papers, looking at the results of Portugália, looking at the results of TAP, it seems to me that less and less cannot result in more.

- What's being analysed at the moment are the Lisbon-Oporto routes...

- We're just contemplating our navels. The problem and the serious error is the possibility of designating Portugália for routes where TAP already operates. I mentioned it in a recent

conversation with the minister Mário Lino. The minister sought to reassure me by saying that this is not TAP's intention. But I'm not so sure. What I do know is that today one person is heading up TAP and tomorrow it may be someone else with different ideas. The only thing I can say is that if I was buying Portugália, the first thing I'd do would be to block the Brazil route. I'd only not do it if I was stupid.

- If your endeavours fail to work with AdC, are you thinking about appealing to other authorities?

- If this problem is not dealt with, we will make our objection in Brussels.

- Do you still think that TAP is in a bad position?

- They asked us recently if we would be interested in getting involved in the privatisation of TAP. These managers have been in the company for six years or more. In 2005, they turned in negative results of ten million euros which, from turnover of 1.6 or 1.7 billion, is not relevant, in the same way as the profit of seven million presented last year is not relevant. That's why I can't comment on TAP's situation because I don't know. Once again, what I see is what appears in the papers. I see the objection by the Groundforce about an invoice which, if excluded, makes the results negative again. Besides, I don't know what situation TAP is in and that's why I answered it is still too early to say whether we are interested in getting involved in privatisation or not. In theory, we are. But there should be more public information every month so we can follow the progress of the situation. euroAtlantic may say, for example, that of the Portuguese air companies it is the only one that has paid millions of euros in corporation tax.

- Don't the others pay?

- Millions of euros in corporation tax? No-one else has ever paid that in 62 years of aviation in Portugal.

- Why is a positive or negative result of ten million for TAP irrelevant?

- Because if I was a company shareholder I'd demand an explanation from the managers who've been in charge why after six years they have achieved such a small result on turnover of 1.6 or 1.7 billion.

- On turnover of 1.6 billion what result would be required in your opinion?

- The required result is that of the air companies i.e. between 3% and 6% of turnover.

- Between 50 and 100 million euros?

- Exactly.

- euroAtlantic has 10%.

- In actual fact, it has 11%. But also, to be fair and honest, I can't demand that a TAP or some other regular transport company has results of this ilk. It's a different kind of market. That's why I would suggest an interval of between 3% and 6% as the result that I, if I was a shareholder, would accept.

- The variation in the price of fuels did not affect your performance contrary to what has happened with TAP. What is euroAtlantic's secret?

- I am not a shareholder of TAP. But if I was the non-executive chairman of euroAtlantic and my CEO used as an argument for not achieving results that fuels had risen sharply, I wouldn't accept it. He would have to justify that result far better or he wouldn't be in his post for much longer. There was a big price increase, but all the air companies with sound financial results have a hedging percentage: the regular flight companies know how much fuel they are going to use. We are not that exposed to this phenomenon.

- Do you trust rules that the Government has established for the management of public companies and which are already operating with TAP and the CTT?

- I'm waiting for the implementation of those rules. I agree that there should be a supervisory board to analyse them, but the rules have to be implemented. In aviation there should be an obligation to publish the results of state-owned companies every month: TAP, SATA, etc. We pay millions of euros in corporation tax, they don't. We have never received a cent of State subsidies and these companies - TAP, SATA, even Portugália – do on various routes. Here at euroAtlantic we are in a very strong position to demand total transparency, as we demand of ourselves.

- Would it make more sense to merge TAP and SATA than TAP and Portugália?

- It would make complete sense. It's the same shareholder. There should be a total restructuring of TAP and of SATA. If we're honest, no-one can defend this situation, not even the managers of the two companies. They are using public resources to compete against each other. It will be hard to privatise TAP with a SA- TA free to do as it wishes and vice-versa. Unless the Government lays down rules saying that SATA will only make insular flights. However, in this case it may belong to TAP, as has already happened.

- Has the concurrent existence of the two companies distorted competition?

- Totally.

- And have you ever lodged an official complaint?

- We are awaiting to see how the TAP/Portugália merger turns out. We lost charter flights to SATA and the Government has to define once and for all whether it wants private or public commercial aviation. This is the main problem. Let's wait for the moment.

"The competition of SATA with private companies will facilitate the entry of foreigners onto the market"

Portugal is totally negligible in our accounts. There is a lack of rationalisation and joint strategy [on the national market]

- What growth prospects do you have for this year?

- We are looking at growth of around 10%, more "normal" than the 500% in other years. We are thinking about increasing our fleet, but this alteration will not make any impact this year. From 2008 onwards this will depend on company capitalisation. In the next five to ten years there will be great opportunities in aviation and we need to take advantage of them in India, in China and in Brazil and Russia too which may have double-figure growth and where there is a shortage of long-haul planes. This capitalisation involves entry onto the second English market (AIM) and we are also being pressured to enter Euronext after the merger with the New York stock market. Or it may be achieved by the entry of partners and there has been pressure in this regard recently and permanent contacts with other companies. Getting onto the Lisbon stock market is out of the question. There is a proposal from a Portuguese financial institution which is pressuring us to get onto Euronext, whereby they would be taking up a stake in the company of up to 45%.

- With the size of your international operation, Portugal seems increasingly less of a priority as a market. Is that because of internal competition?

- Self-evidently. Portugal today is totally negligible in our accounts. There is a lack of rationalisation and joint strategy. Portuguese companies are damaging Portuguese companies, led by the public companies. When we started long-haul flights Yes took us on five years later and TAP supported them. They lost millions and no-one was held liable. SATA gave us stiff competition on the routes to Brazil and the Caribbean, competing with the private companies and even with TAP itself. In the long-term this will facilitate the entry of foreign companies. We

have even had talks with a Spanish company, Orbest, to strike up a partnership which may result in some partial agreements as early as this year. In Portugal no-one has opened their doors to them. We did. There is no attempt by public companies here to seek the best strategy for the Portuguese.

- What is the aim of this partnership?

- We will start off with a task force to establish where there could be synergies between fleets which are very similar.

- At a later stage could this involve Orbest taking up a position in your capital?

- Anything could happen, but it's still too early to talk. The Portuguese are very poorly positioned strategically – and this is evident from the results of public companies – and we are vulnerable to the entry of foreigners. Even us, and we don't have any bank behind us we started with equity.

- How will the next fleet expansions be carried out, under operational leasing again?

- We have entered a sounder, more credible stage and we would like to be owners of the next aircraft to join the fleet. It lends us soundness and flexibility. Half the planes being our own and half under leasing is the ideal figure.

Today, who are your main competitors?

Besides SATA, Iceland Air and the Polish company Lot.

- As with TAP, do you have any complaints about the performance of the Groundforce in Lisbon?

- We have had and continue to have great problems with the Groundforce, the service has been atrocious, I understand TAP's criticism. And that's why we're looking at other possibilities, including self-handling for which we have the approval of the regulator, INAC.

"If SATA remains in existence, we will no longer be interested in the privatisation of TAP"

The low-cost business model is "more financial than aviation" and does not interest euroAtlantic. Indifferent to the localisation of the new Lisbon airport, the air company is happy about the opening of a Passenger Terminal in Beja where the parking prices will be cheaper and where the company can set up a maintenance base. And it reveals that it would be preferable to buy TAP and SATA as a package than to let the Azorean company fly concurrently.

- You said that, in theory, you're interested in TAP and nothing else nationally. Doesn't SATA interest you?

- In Portugal there should only be one state-owned company. If TAP is privatised separately from SATA, it is of no interest. Why buy TAP if SATA remains state-owned and totally free? What's the motivation in that? SATA was formed for inter-island flights in the Azores. Today it is in direct competition with TAP on various routes. Now they're going to do Funchal- Paris. They already do Lisbon-Funchal and they are on various international routes. I think it's a unique case worldwide because it makes no sense whatsoever there being two state-owned companies competing with each other. Besides the fact that there are two boards of directors, two flight operations managers, etc, everything is duplicated. How many million euros are spent on these two parallel structures and are obliged to do code-sharing because they are state-owned companies? For all these reasons I'm not interested in the privatisation of SATA if there is a TAP and I'm not interested in a TAP if there is a SATA.

- Are you interested in entering the privatisation of ANA?

- Possibly, with a substantial increase in capital, listing or the entry of a venture capitalist, we could think about that. But we have to be realistic about our size. We're small, we don't think we will have the capacity to get involved in the privatisation of ANA.

- How is the privatisation of São Tomé e Príncipe Airways going?

- We're still waiting for a decision. The company only had one plane whose maintenance was carried out by TAP who owned the plane and all the management and which came down in the meantime. We spent a week studying the business model and we said that we thought the Angolan company TAAG should get involved in the privatisation. They've been here analysing the capacity of our company, now we're just waiting for a decision. If we win the tender, we'll keep those routes we think are profitable with a hub in São Tomé.

- Does it make sense to take part in the management of São Tomé airport?

- Taking part in everything relating to aviation in that country, from the infrastructure to handling, we'll have synergies if we control everything. The GRUPO PESTANA itself, an associate of euroAtlantic, has several investments on the island and that's why it makes sense to achieve verticalisation of the business.

- And does the Cape-Verdean TACV interest you?

- They're interesting but the management is being carried out by a US company and there is no knowledge of the privatisation model, the results or any other detail related with the operation. If we get involved in São Tomé, it would make sense to look at other companies in the area. Besides ourselves, TAAG and Gemini are involved in the race for STP Airways, I know that unofficially.

- Would you be interested in getting into the low-cost model and regular flights?

- Some regular flights yes, if well chosen and located, are being studied. But I don't believe in the low-cost business model, it's a business which is more financial than aviation. There were dozens of these companies which shut down and lost millions; you need to have the capacity to soak up those losses.

- And is the cargo business attractive?

- Yes, we started a joint-venture last year with a Lufthansa company which turned in very good results. We were very happy and we're going to continue to develop this market, possibly taking on our own cargo aircraft. We have a great relationship with Variglog, a Varig transport company, and we have spoken about a possible joint venture outside Brazil.

- Does the localisation of Ota matter to you?

- Very much so, as an air company. What matters is there being a decision and going ahead with construction. For the time being, we don't need a hub. What interests us is having operating certificates in other countries so we can be in several locations in the world. If we start having regular flights, then it would make sense to have a hub. For TAP it makes sense to have a hub in Lisbon for Brazil, but if there is a "slip-up" in Brazil, the same may happen as occurred in the past with decolonisation where there was an excessive reliance on African routes.

- And what about Beja airport, is it an opportunity?

- For our business model it makes no difference to us whether our planes are in Lisbon or in Beja. But it would be cheaper to have them in Beja, affording us more flexibility and we could possibly have a maintenance base. It's a great opportunity and is the ideal one for us.

- Is there still the lack of an air transport policy?

- Yes. It would have to be headed up by the National Civil Aviation Institute which, despite its current leadership, has a lack of human resources and support, and it requires a carte blanche affording it the authority to achieve results.

- Have Air Luxor's debts been settled?

- With the exception of two flights signed with Air Luxor São Tomé, the debts have been settled. There is 300,000 euros still outstanding to the directors of Air Luxor São Tomé, that's the only pending business. When we started analysing the purchase of the company, there was a tricky situation. Then we negotiated with Air Luxor to ensure its charters in 2006 for Guinea and São Tomé, which did not go well, and cheques without cover emerged. In the meantime, bankruptcy has been filed for and it was learned that it had been sold to Longstock.

- Despite the criticism, what is the relationship like between Euro Atlantic and TAP?

- With TAP the institution, the relationship is the best it can be given the circumstances. We are controlling shareholders in operators and distributors and in this way we buy millions of euros of airline tickets, maintenance, catering and handling. My clear instructions are to always maintain - always – the relationship with TAP as a national company. Self-evidently, the relationship with the main current manager has not been completely clear in view of the sale of Yes and the statements which have been improperly made in the papers. But I'm going to deal with that personally, I just haven't had the opportunity yet, though I wouldn't rule out other ways of resolving the problem. We're also completing negotiations for another TAP plane, a Lockheed which used to belong to Yes, and which the company has up for sale.