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## LatAm airlines join consolidation trend

By Jude Webber in Buenos Aires and Jeremy Lerner in New York  
Published: August 15 2010 19:35 | Last updated: August 15 2010 19:35

An alliance between Latin American airline groups **Lan** of Chile and **Tam** of Brazil is more than a marriage of convenience but neither could risk being left on the shelf in the fast-consolidating global industry.

The family-run companies, which late on Friday announced a deal to join forces under a single parent, Latam Airline Group, have long been friendly and increasingly close – Enrique Cueto, Lan's chief executive, says they have held 20 rounds of conversations in the past five years.

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"It's much easier to be alone than to have a partner but times have changed. Things are much more complicated now," he told the Financial Times after unveiling details of the alliance designed to create the world's 11th biggest airline in terms of passenger numbers and 15th in revenue.

The all-share deal, expected to be approved in early 2011, will give Lan 70 per cent of the new holding after the offer of 0.9 Lan shares for every Tam share.

The two airlines will continue to fly under their own brands but believe that, by operating together, they can achieve synergies of \$400m a year; cash in on the lure of Brazil as it prepares to host the 2014 soccer World Cup and 2016 Olympic Games; grow new routes to Europe, the US and Mexico; establish new hubs to connect to Europe and the US; and boost their cargo business. International airlines are increasingly teaming up to gain the muscle to cope with volatile oil prices and economic shocks.

Since the start of the year, **Continental Airlines** and United Airlines have announced a merger and, in the past few months, **British Airways** and **Iberia** have moved ahead with their long proposed tie-up.

"If we want to survive in this world, we have to have a megafusion of our own," said Mr Cueto, who will become chief executive of the new group, which pairs Lan's reputation for efficient management and its international and cargo expertise with Tam's might in Brazil and strong revenues. "We think this issue of [global] alliances is going to continue. . . this deal allows us to compete on a much more even footing," Mr Cueto said.

Most airline tie-ups have so far been within the same geographic region – European carriers with each other and US groups with other US airlines. But Mr Cueto did not rule out Latam in future seeking a partner within or outside Latin America.

He noted that Lan and Tam, which have combined revenues of \$8.6bn, have placed orders for more than 200 aircraft in the next five years, virtually doubling their joint fleet. "There are big opportunities. Are we staying here? No. To compete in this league, you have to be flexible."

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