

**Unclassified**

**DAF/COMP/LACF(2011)25**

Organisation de Coopération et de Développement Économiques  
Organisation for Economic Co-operation and Development

**12-Sep-2011**

**English - Or. English**

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE**

DAF/COMP/LACF(2011)25  
Unclassified

**LATIN AMERICAN COMPETITION FORUM**

**Session IV: Competition Issues in the Air Transport Sector**

**Contribution from Paraguay**

**13-14 Septembre 2011, Bogotá (Colombia)**

*The attached document from Paraguay is circulated FOR DISCUSSION under Session IV of the Latin American Competition Forum at its forthcoming meeting to be held on 13-14 September 2011 (Colombia).*

Contact: Ms. Hélène Chadzynska, Administrator, LACF Programme Manager  
Tel.: +33 (01) 45 24 91 05; Fax: +33 (0)1 45 24 96 95; Email: [helene.chadzynska@oecd.org](mailto:helene.chadzynska@oecd.org)

**JT03306762**

Document complet disponible sur OLIS dans son format d'origine  
Complete document available on OLIS in its original format

English - Or. English



## LATIN AMERICAN COMPETITION FORUM

13-14 September 2011, Bogota (Colombia)

Session IV: Competition Issues in the Air Transport Sector

### -- CONTRIBUTION FROM PARAGUAY \* --

#### 1. Introduction

1. The purpose of this contribution is to give a descriptive overview of the air transport sector and airport operations in Paraguay.

2. As a land-locked country, Paraguay is totally dependent on the waterway of the Paraguay River and air transport for its foreign trade. In spite of the limitation of not having a coastline, Paraguay has a strategic geographical location in the heart of Latin America and is potentially a continental hub for air transport. With its unparalleled geographical situation, with a minimum flight time from Asunción to the main capitals of the region, Paraguay can potentially become a storage and distribution centre for the region.

3. Paraguay has a total surface area of 406,752 km<sup>2</sup> and a population of 6 million inhabitants. The country has a low level of external debt, its rate of growth in 2010 was a record 15.3 %, and, with the recent discovery of titanium<sup>1</sup> in what is potentially the world's largest reserve, it now offers excellent opportunities for investment<sup>2 3</sup>. The use of titanium is currently limited due to the high price of mining costs, although a new mining process based on intensive electro-technology is being tested. Such technology can potentially be developed in Paraguay given that it is a joint owner with Brazil of the Itaipú

---

\* This report was drawn up by Cynthia Andino, Director of Trade Rules and Negotiations. Roque Diaz, Director of Aviation/DINAC, and David Sperber assisted in producing the document. The views expressed do not reflect the position of the government and are the personal views and responsibility of the author.

<sup>1</sup> <http://www.abc.com.py/nota/planta-de-titanio-podria-ser-la-mas-grande-del-mundo/>

<sup>2</sup> <http://www.5dias.com.py/4280-paraguay-habilita>

<sup>3</sup> <http://www.lanacion.com.py/articulo.php?hoy-se-habilita-la-primera-planta-de-titanio-en-pa&edicion=1&sec&art=33386>

hydroelectric dam, the largest operating hydroelectric facility in the world in terms of annual generating capacity. The two countries share all of the energy that is produced there and Paraguay continues to have unused power capacity.

4. Titanium has numerous uses, particularly in the aviation industry. Its discovery will potentially mean opportunities for sustainable development and progress in Paraguay, in particular in the air transport sector.

5. Paraguay has four international airports: Silvio Pettirossi Airport in Luque (near to the capital, Asunción); Guaraní Airport in Este; Dr. Augusto Fuster Airport in Pedro Juan Caballero and Luis Maria Argaña Airport in Mariscal Estigarribia. There are a total of 8 airports (including aerodromes) in the country, the two most important being the first two of the aforementioned.

6. There are currently six airlines operating in Paraguay: TAM AIRLINES, GOL, TACA, AEROLINEAS ARGENTINAS, AEROSUR and PLUNA, the services of which are currently (2011) insufficient to cover the demand for air freight. In addition, the American company ARROW AIR and LAN Chile (Cargo) also operate intermittently as air freight carriers using charter flights, although current demand in the market is not met.

## 2. Legal framework

7. The Convention on International Civil Aviation, or Chicago Convention, from which derive the laws and decrees mentioned below:

8. The National Civil Aviation Authority (DINAC) was created under Decree Law 25/1990. Congress subsequently passed Law 73/1990, which extended the functions of the DINAC, which comes under the Ministry of National Defence.

9. The DINAC is an autonomous, limited life entity, which is a separate legal entity with its own privileges and liabilities. It has a legal, financial and administrative status, together with the jurisdiction to plan, design and direct works and services in order to put these into operation and for their administration, for which purpose it may acquire rights and contract obligations.

10. The DINAC was created through the merger of three national bodies; the *Dirección General Administración Civil* (DGAC, civil administration); *Administración Nacional de Aeropuertos Civiles* (ANAC, civilian airports) and the *Servicio Nacional de Meteorología e Hidrología* (SNMH, the national meteorology and hydrology service).

11. The budget of the DINAC depends exclusively on revenue from the fees charged for services provided to users. No provision is made for the authority in the national budget.

12. The DINAC is governed by the abovementioned laws, the Aviation Code (*Código Aeronáutico*) and other applicable legislation.

13. With regard to the exploitation of air transport services and the regulatory and procedural framework, the prevailing legislation is Law 1860/2002, which lays down the national Aviation Code.

## 3. Background

14. *Líneas Aéreas Paraguayas* (LAP), the national flag carrier of Paraguay until 1994, was founded in 1963 and covered various routes in Latin America, North America and Europe to the following destinations: Buenos Aires, Montevideo, Rio de Janeiro, Santa Cruz, Santiago de Chile, Lima, San Paulo and intercontinental routes to Miami, Madrid, Brussels and Frankfurt.

15. LAP ceased operations in March 1994 and it was privatised the same year (with the name LAPSA) and taken over by a joint Paraguayan and Ecuadorian consortium, SAETA-LAPSA. Its operations were restarted in February 1995 and in mid-1996 the company was sold to the TAM group, which changed the company's name to TAM MERCOSUR. In March 2008, TAM MERCOSUR was taken over by the parent holding company, TAM AIRLINES. This operation was unopposed by the State authorities and there was no third party claim.

16. With this merger between the airline companies, users lost the privileges of a national carrier and the benefits of direct flights to destinations in North America and Europe.

#### **4. Industry characteristics**

17. Airport infrastructure in Paraguay has endured twenty years of limited investment. The structure of the aviation industry in Paraguay is assigned a Category 2 rating according to the Federal Aviation Agency (FAA).

18. American Airlines, the major US airline, ceased operations on the route to Asunción in 2005. Paraguay continues to be one of the few countries in Latin America, together with Surinam, where American airline companies do not operate. Nevertheless, the National Civil Aviation Authority (DINAC) has recently announced that negotiations are under way for American Airlines to return to Paraguay.

19. One option to bring about building improvement works and to increase income, which could total USD 100 million per year, is the award of concessions for private investment in the airports. This would enable airport terminal infrastructure to be brought up to international standards.

20. Under the present government, a draft bill was presented to Parliament dealing with the granting of concessions at the international airports of Silvio Pettirossi in Luque, Guaraní in Minga Guazú and the aerodrome in Mariscal Estigarribia (Chaco).

21. Initial investment (approx. USD 100 million) will only be necessary at Silvio Pettirossi Airport, according to preliminary studies carried out by the Ministry of Public Works and Communications (MOPC), the driving force behind the venture, a matter which being dealt with by the Paraguayan Parliament (September 2011).

#### **5. Regulatory body**

22. Although there is no regulatory framework for antitrust compliance in Paraguay, it does fully comply with the Open Skies agreement and prevailing national legislation referred to in the country's legal framework, according to which the DINAC is the regulatory body in the sector.

23. The air transport sector benefits from policy incentives to attract investment, which consist of fixed-term exemptions for overhead costs payments, with the market being open and highly competitive.

#### **6. Future prospects**

24. There is a pressing need for modernisation of the Silvio Pettirossi International Airport (the main one in the country), which is currently being dealt with, with the installation of radar, navigation systems, communications, emergency services, meteorology, fuel storage and supplies, and all other technical aspects.

25. The role of the government in prioritising this sector is fundamental given its importance as a commercial means for development. One alternative to this is private investment by means of airport concessions.

26 Paraguay is currently working on incorporating a national flag carrier with the company “*Sol del Paraguay*”, of mixed national and international investment. This is in the process of certification so it can operate with the national (Guaraní) emblem, which is scheduled for the end of this year.

27 In terms of sustainable economic development, the Technical Secretariat for Planning (STP, *Secretaría Técnica de Planificación*), within the context of the IIRSA Initiative (Initiative for the Integration of Regional Infrastructure in South America) and through our Agency (the Vice-President's Office), is also developing various railway projects linking Paraguay with the neighbouring countries, which take into consideration the country's energy resources.

## 7. Regulatory framework

- The Convention on International Civil Aviation (Chicago Convention).
- Decree Law 25/90, whereby the National Civil Aviation Authority (DINAC) was established.
- Law 73/90, “which endorses, with amendments, Decree Law 25/90, whereby the National Civil Aviation Authority (DINAC) was established”.
- Aviation Code Law 1860/02, whereby the Aviation Code for Paraguay was established.
- Feasibility study for the award of airport concessions in Asunción. Document by the Inter-American Development Bank (IABD).
- ABC daily publications in colour.
- National Civil Aviation Authority (DINAC).

### Flight time from Asunción to the main capital cities in the region

