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## **Anti-Trust Regulator Accuses Airline Holding Unit of Monopolistic Practices**

by LADB Staff

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The government's anti-monopoly commission (Comision Federal de Competencia, CFC) has filed a series of lawsuits against Mexico's airline holding company Corporacion Internacional de Transporte (Cintra) for anti-competitive practices. The commission alleges that Cintra, the parent company of Aeromexico and Mexicana, has raised prices 30% by eliminating flights from some markets. Most eliminated routes have involved Mexicana flights, the complaint said. "What we are seeing are very high profits in areas where there is no competition, the profit of a monopoly," CFC president Fernando Sanchez Ugarte said in early October.

The CFC complaints are directed primarily at the Aeromexico and Mexicana operations, even though Cintra also owns regional carriers Aeroliteral, Aerocaribe, and Aerocozumel, and cargo airline Aeromexpress Cargo. Cintra was created by Mexican creditor banks in 1995 to replace bankrupt Aerovias de Mexico as the parent company for Aeromexico and Mexicana. The financial troubles of Aerovias were blamed partially on mismanagement by former chairman Gerardo de Prevoisin, who is accused of embezzling US\$61 million from Mexicana.

De Prevoisin fled the country in 1994, but was arrested in Switzerland earlier this year and extradited to Mexico in September (see SourceMex, 1999-09-29). De Prevoisin alleges that some of the embezzled funds were channeled into the campaigns of Ernesto Zedillo and other candidates on orders from former president Carlos Salinas de Gortari (see SourceMex, 1998-08-26).

### ***High domestic fares said to affect tourism industry***

The commission took the legal actions against Cintra on behalf of the Asociacion Mexicana de Agentes de Viaje (AMAV), the Consejo Nacional de Turismo (CNT), and other tourism- industry organizations, which claim that excessive air fares have contributed to a decline in domestic tourism at popular resorts like Cozumel, Hautulco, Ixtapa, and Puerto Escondido. The groups accuse Cintra of overcharging domestic passengers to subsidize international routes.

Cintra spokesman Luis Villegas acknowledged that some flights have been discontinued, but he said this was mainly because of a drop in passengers. He also adamantly denied CFC allegations that Cintra is operating Mexicana and Aeromexico as a single company to enhance profitability. "Both airlines are separate and viable businesses," Villegas told The New York Times.

The airline industry chamber (Camara Nacional de Aerotransportes, CANAERO) has acknowledged that some might consider Cintra's operations a monopoly but says the situation would not differ much from other countries. "It is true that Mexicana and Aeromexico control at least 75% of the market," said CANAERO president Juan Ignacio Steta. "But I challenge you to look at the share of the domestic market controlled by British Airways in England, Air France in France, and Lufthansa in Germany."

The Mexican pilots union (Asociacion Sindical de Pilotos Aviadores, ASPA) has taken a mixed position regarding the government actions against Cintra. In February, ASPA filed a complaint with the CFC accusing then Cintra chairman Ernesto Martens of profiting from traffic growth while neglecting to develop routes and acquire new aircraft. But ASPA staunchly opposes Sanchez Ugarte's proposal to spin off Mexicana and Aeromexico into separate companies. "They want our national aviation to meet the same fate as our merchant marine," said ASPA president Jesus Ramirez Stabros. "They dismantle the company and later sell out to foreign interests."

### *Unions oppose plan to spin off airlines into separate units*

ASPA has joined unions representing flight attendants (Asociacion Sindical de Sobrecargos de Aviacion, ASSA), air traffic controllers (Sindicato de Controladores Aereos, SCA), and Aeromexico ground crews to oppose the divestiture of Cintra. The Secretaria de Comunicaciones y Transportes (SCT) also opposes the plan to spin off Aeromexico and Mexicana into separate companies. "We are against Cintra being diluted and the airlines being separated," deputy transportation secretary Aaron Dychter said in a radio interview earlier this year.

But Jaime Corredor, who replaced Martens as Cintra chairman in September, has formed a committee to study all privatization options, including selling the government's share in Aeromexico and Mexicana separately. "The board agreed that the company and its subsidiaries will cooperate to find a viable and adequate strategy for a sell-off as soon as possible," Corredor told reporters in early October.

The government, which privatized Aeromexico and Mexicana in the late 1980s and 1990s, was forced to regain partial ownership of Cintra when creditor banks ran into severe financial problems in the aftermath of the peso devaluation in 1994. The banks relinquished control of 22% of Cintra shares to the bank-rescue fund (Fondo Bancario de Proteccion al Ahorro, FOBAPROA). Those shares were later transferred to FOBAPROA's successor, the Instituto de Proteccion al Ahorro Bancario (IPAB).

In addition to the 22% share in IPAB, another 31% share of Cintra is in government hands. Of this, 16% is in financially troubled Banca Serfin, which was taken over by the government in July of this year (see SourceMex, 1999-07-14). The remaining 15% is owned by the Secretaria de Hacienda y Credito Publico (SHCP) and government lender Nacional Financiero (NAFIN).

Some foreign airlines have expressed interest in acquiring some of the government-owned shares of Mexicana and Aeromexico. But these companies would be restricted by law to only a 25% share in either airline. Regardless of any future sale to foreign partners, Aeromexico and Mexicana have become part of the recent trend for airlines from several countries to integrate their operations.

In mid-September, AeroMexico signed code-share agreements with Air France and Delta. And Mexicana has entered into a temporary agreement to form an alliance with Lufthansa, United, and Air Canada. This agreement could become permanent after a one-year trial. (Sources: Proceso, 06/07/99; El Universal, 02/17/99, 08/05/99; Associated Press- Dow Jones news service, 09/26/99; Reuters, 02/17/99, 03/08/99, 10/06/99, 10/07/99; El Economista, 03/04/99, 08/06/99, 09/01/99, 09/07/99,

09/17/99, 10/07/99; Excelsior, 09/22/99, 09/27/99, 10/07/99; The New York Times, 10/06/99; Novedades, 10/07/99; The News, 07/30/99, 10/08/99; The Dallas Morning News, 10/08/99)

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