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Anti-Monopoly Agency to Dissolve Airline Holding Company Cintra

by LADB Staff

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The government's anti-monopoly agency (Comision Federal de Competencia, CFC) has drafted a plan to dissolve the Corporacion Internacional de Transporte (Cintra), the parent company for Aeromexico and Mexicana airlines. Under the plan, the government would sell its 63% share in Cintra to private investors and spin off Aeromexico, Mexicana, and several smaller airlines into separate companies.

CFC officials said the sale of Cintra is essential to open up competition in the Mexican airline industry and reduce ticket prices for domestic flights, since Aeromexico and Mexicana account for 80% of the country's domestic flights. "We need to look at the exact behavior and effect this company is having on the market," CFC president Fernando Sanchez Ugarte said in a recent interview.

The federal government acquired a 63% share in Cintra in a debt-for-shares swap with the consortium of banks in 1995. The banks had assumed control of Cintra's predecessor, heavily indebted Aerovias de Mexico, but were unable to afford to keep ownership in the holding company because they were going through their own financial crisis.

As a condition of taking over Cintra in 1995, the CFC said the company would have to be dissolved once Aeromexico and Mexicana were deemed solvent. "Both companies are economically viable," CFC spokesman Manuel Sandoval told the Mexico City English-language daily newspaper The News in early September.

Aerovias' financial problems were tied primarily to devaluation of the peso in 1994 and the ensuing economic crisis. But company finances were also affected by the loss of millions of dollars in an embezzlement scheme by former company chairman Gerardo de Prevoisin (see SourceMex, 1994-09-21). De Prevoisin fled the country and remained in hiding for several years, but was eventually located in Switzerland. In 1999, the Swiss government agreed to extradite de Prevoisin to Mexico (see SourceMex, 1999-09-29).

Labor unions concerned about job losses

The pending divestiture of Cintra is strongly opposed by labor unions representing pilots, flight attendants, and ground crews. Union leaders have raised concerns that the only private investors in a position to acquire the government's share in Cintra are US and other foreign airline companies. Airline industry sources recently said they would not be surprised to see bids for Aeromexico or Mexicana from US carriers like Delta Air Lines or UAL Corp., parent of United Airlines.

Union leaders are worried a foreign takeover of Mexicana or Aeromexico could result in the loss of many jobs in the Mexican airline sector, which currently employs about 20,000 workers. "We

are concerned about the vulnerability of our only source of employment," said Alejandra Barrales, leader of the flight attendants union (Asociacion Sindical de Sobrecargos de Aviacion, ASSA). The unions have asked the CFC to delay any final action on Cintra divestiture until after the new administration of President-elect Vicente Fox is in place. Fox takes office on Dec. 1 of this year.

Barrales, who represents the center-left Partido de la Revolucion Democratica (PRD) in the Chamber of Deputies, also raised concerns that a foreign company could transfer its older and more obsolete aircraft to its Mexican subsidiaries. "This could create problems of safety and unfair competition," said Barrales. One of the CFC's arguments in seeking increased competition is to benefit consumers.

The Secretaria de Turismo (SECTUR) and other government agencies say the high cost of airline tickets within Mexico could be inhibiting domestic and foreign tourism (see SourceMex, 1999-10-13). But Jose Luis Gonzalez Navarro, director of the pilots union (Asociacion Sindical de Pilotos Aviadores, ASPA), questions whether lower ticket prices sought by the CFC are worth the cost of reduced safety. "The floor on ticket prices should never supersede the safety of operations," Gonzalez Navarro told the daily newspaper Excelsior. Other critics have suggested that a reduction in ticket prices could lower the operating income and create financial problems for Mexico's two large airlines.

Cintra officials have generally supported the government's position to effectively reprivatize the airlines. But company spokesperson Arturo David Ortigosa criticized the CFC for failing to consult more closely with airline executives in drafting its plan to dissolve Cintra. In particular, said David, the CFC has not taken into account proposals from Aeromexico and Mexicana executives to impose tight restrictions on foreign ownership in Mexican airlines. "We have sent recommendations (to the CFC) for the breakup," said David. "But the truth is the commission has become a monster; it thinks its word is the law."

The union protests were occurring at the same time that 1,500 flight attendants for Mexicana airlines were threatening to strike for higher wages. The flight attendants were initially pushing for a wage increase of 25%, but eventually settled for a 12% raise and increased pension benefits. Aeromexico flight attendants received a similar increase in June of this year.

But the Mexicana labor situation was resolved with relative ease compared with the Aeromexico case. A prolonged impasse between labor and management forced the Secretaria de Comunicaciones y Transportes (SCT) to temporarily assume control over Aeromexico (see SourceMex, 2000-06-07). [Sources: La Jornada, 08/09/00, 08/10/00; Notimex, 08/14/00, 08/15/00; The Dallas Morning News, 09/07/00; The News, 09/08/00; Reuters, 09/10/00, 09/12/00, 09/14/00; El Financiero, 08/23/00, 09/06/00, 09/13/00; Excelsior, 09/13/00, 09/14/00; Reforma, 09/12-15/00; El Economista, 08/17/00, 08/18/00, 08/21/00, 08/23-25/00, 09/07/00, 09/08/00, 09/13/00, 09/15/00, 09/19/00, 09/20/00; El Universal, 09/13-15/00, 09/20/00]

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