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Airline Holding Company Spins Off Mexicana, Aeromexico

by LADB Staff

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The Mexican airline monopoly Corporacion Internacional de Aviacion (Cintra) has formally spun off its two main subsidiaries, Mexicana de Aviacion and Aeromexico, into separate entities to facilitate the partial privatization of the two companies. The decision, taken at a meeting of the Cintra executive council in Mexico City in mid-March, complies with a directive issued by the government's anti-monopoly agency (Comision Federal de Competencia, CFC). In October 2000, the CFC ruled that the government would have to break Cintra apart and sell Aeromexico, Mexicana, and other smaller airlines as separate units (see SourceMex, 2000-09-20).

The government's savings protection agency (Instituto de Proteccion al Ahorro Bancario, IPAB), which acquired a 63% share in Cintra in a debt-for-shares swap with a consortium of commercial banks in 1995, was prepared to privatize Cintra more than a year ago, but the decision was delayed because of opposition in the Mexican Congress. Many legislators wanted President Vicente Fox's administration to establish a clear policy on Mexican aviation before proceeding with the Cintra privatization plan (see SourceMex, 2001-05-02).

The breakup of Cintra has also been opposed by labor unions representing flight attendants, pilots, and ground personnel. Many airline employees are concerned that the sale of the airlines as separate units will weaken the financial position of one or both airlines and facilitate the layoff of thousands of workers.

But Cintra has been unable to withstand the sharp decline in passenger traffic that resulted from the attacks on the World Trade Center in New York and the Pentagon in Washington, DC, on Sept. 11, 2001. Mexicana and Aeromexico have also faced increased competition in the domestic market from newly formed Aerolineas Aztecas, Alegro, and other small airlines, which are offering discount prices.

In addition, the two Mexican airlines complain about the cut-rate fares offered by US carriers on Mexico-US routes. Late last year, Cintra went as far as to seek anti-dumping actions against US competitors for sharply reducing fares to Mexico (see SourceMex, 2001-10-17).

The company's financial problems have deepened to the point that it was forced to negotiate a restructuring of Mexicana and Aeromexico debt with credit banks earlier this year. "The restructuring will allow both companies to continue operating in normal conditions within the context of the current situation of the air-transport industry worldwide," Cintra said in a statement.

Because of Cintra's financial problems, the labor unions are resigned to the privatization of the company. But the unions representing the pilots (Asociacion Sindical de Pilotos Aviadores, ASPA) and the flight attendants (Asociacion Sindical de Sobrecargos de Aviacion, ASSA) are pushing for the two airlines to remain as one unit. The two unions have proposed that workers be given the right

to acquire some shares of Cintra, in a scheme similar to one in place at Mexico's telephone giant TELMEX.

Pilots union urges Slim to submit bid

ASPA has also encouraged entrepreneur Carlos Slim Helu and other Mexican business tycoons to submit bids for Cintra. Slim Helu, president of conglomerate Grupo Carso, said he is interested in leading a group of Mexican business owners in a bid for Cintra. The Mexican groups will have to compete with US and other foreign airlines that have expressed interest in participating in the process. US carriers Delta and United, which have marketing arrangements with Mexicana and Aeromexico, are among those expected to participate in the process.

In mid-January, US carrier Continental Airlines also said it would consider bidding for Mexicana or Aeromexico. But Cintra officials caution that the process may have to wait several more months. "The fact that Mexicana and Aeromexico were spun off into separate companies does not imply any imminent start to the privatization process," the airline company said in a press statement.

A major problem for the IPAB and the Fox administration is the decline in the value of Cintra, which at the end of 2001 stood at US\$2.5 billion pesos (US\$276 million). This is 60% below the value estimated at the end of 2000. Sen. Javier Corral, chair of the communications and transportation committee (Comision de Comunicaciones y Transportes) in the upper house, said the Fox administration faces a dilemma with Cintra.

The government does not want to sell the two airlines at a bargain price but neither does it want to continue pouring funds into a losing enterprise. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 3, reported at 9.04 pesos per US\$1.00] (Sources: Associated Press, 01/09/02; Notimex, 01/11/02; El Financiero, 01/24/02, 02/28/02; El Universal, 03/15/02; Novedades, 03/18/02; Reuters, 02/06/02, 03/19/02; CNI en Linea, 03/19/02; La Jornada, 01/24/02, 02/27/02, 03/20/02; Milenio Diario, 03/07/02, 03/20/02; La Cronica de Hoy, 02/18/02, 03/01/02, 03/20/02, 03/25/02; Reforma, 01/16/02, 01/22/02, 02/06/02, 03/20/02, 04/01/02, 04/03/02)

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