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## **Anti-Monopoly Agency Approves Merger of Aeromexico, Mexicana Airlines**

by LADB Staff

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Mexico's antitrust agency (Comision Federal de Competencia, CFC) has given preliminary approval for the country's two largest airlines, Aeromexico and Mexicana, to merge into a single company. The CFC also approved the merger of two smaller air carriers, Aerolitoral and Aerocaribe. Aeromexico and Mexicana currently operate as separate entities, although they are both part of the holding company Corporacion Internacional de Transporte Aereo (CINTRA). Aerolitoral has operated as a subsidiary of Aeromexico, and Aerocaribe has been an affiliate of Mexicana.

The government assumed a majority control of CINTRA in 1994, when the savings protection agency (Fondo Bancario de Proteccion al Ahorro, FOBAPROA) acquired Aeromexico and Mexicana to prevent them from falling into serious financial difficulties (see SourceMex, 1995-01-18). FOBAPROA has since been disbanded and its debts assumed by the Instituto de Proteccion al Ahorro Bancario (IPAB).

The airlines had already begun negotiations with creditors to restructure their debt just a month before the peso was devalued (see SourceMex, 1994-11-16). The CFC decision to allow the Mexicana-Aeromexico merger represents the first step in the government's plan to sell its 85% share in CINTRA to private investors. The sale is expected to take place sometime in 2005. "This ends 10 years of uncertainty about the sale of CINTRA," said the company's chairman Rogelio Gasca Neri.

### ***Decision hinges on creation of another domestic air carrier***

The CFC opposed previous government efforts to privatize Aeromexico and Mexicana, but agreed to support the latest plan because of a promise by the two large airlines to help strengthen the new Aerocaribe-Aerolitoral partnership, which would become an independent entity.

Mexicana and Aeromexico are obligated to transfer assets to Aerolitoral-Aerocaribe before the Aeromexico-Mexicana merger can receive final approval, said CFC president Eduardo Perez Motta. "If we cannot find a way to ensure that Aerolitoral and Aerocaribe have sufficient aircraft in adequate conditions to compete in these routes, it would be difficult for the commission to approve this," Perez said in a radio interview.

Mexican legislators, who have resisted efforts to sell the flagship airlines to foreign companies, took a cautious approach to the CFC announcement. The Senate delegation of the former governing Partido Revolucionario Institucional (PRI) said the plan appeared workable. "The proposal to merge Aerolitoral and Aerocaribe would create another strong airline to compete against Aeromexico-Mexicana and prevent a monopoly on domestic routes," said Sen. Araceli Escalante Jasso. "A merged Mexicana-Aeromexico would create a strong Mexican company to compete on the international market." A merged airline could put the Mexican aviation industry on a better financial footing, allowing the purchase of new aircraft and other equipment.

Earlier this year, Mexicana and Aeroemexico officials raised concerns about their inability to take advantage of an aviation agreement recently signed with China. The two countries agreed to begin direct flights without restrictions on frequency and the type of aircraft used. The problem for Mexico is that neither Aeromexico nor Mexicana owns the type of aircraft capable of making the long-distance trips to China. Until Mexico resolves that dilemma, its flagship airlines will have to resort to cooperation agreements with their strategic partners through code sharing, industry sources said.

Mexicana signed a code-sharing agreement with American Airlines earlier this year that could allow passengers to book flights to China via the US airline and Cathay Pacific. Sen. Escalante said the PRI Senate delegation would monitor the merger proceedings very closely to ensure that the rights of unionized workers are respected, that the merged company remains primarily in the hands of Mexican investors, and that smaller Mexican cities do not suffer a loss of service because of the merger.

President Vicente Fox's administration also promised to monitor key aspects of the merger, especially the labor situation. "We will ensure that the labor agreements currently in place are respected," Labor Secretary Carlos Abascal Carranza told reporters. A few days before the CFC decision was announced, Mexicana reached an agreement with the pilots union (Asociacion Sindical de Pilotos de Aviacion, ASPA) granting its pilots a 3% increase in salary, plus another 2% in benefits.

### *Travel agents, hotel groups say merger could hurt tourism*

The proposed Mexicana-Aeromexico merger brought mixed reactions within the tourism industry, including concerns that a merged airline could reduce the options for Mexican fliers. The Asociacion Mexicana de Agencias de Viaje (AMAV) had been lobbying for the original plan to sell off the airlines separately, which would have fostered competition. "High airline-ticket prices sometimes become an obstacle in developing tourism," said AMAV president Jorge Hernandez.

Airlines have had to raise their fares because of the rising cost of fuel, further discouraging travelers. The AMAV and the Asociacion Mexicana de Hoteles y Moteles (AHMT) also called on Cintra to ensure that the airlines remain primarily in the hands of Mexican interests. Otherwise, the airline industry could go the way of the banking sector where foreign interests control the industry, often to the detriment of users, said spokespersons for the two organizations. (Sources: Associated Press, 01/21/04; El Sol de Mexico, 05/24/04, 05/27/04; El Universal, 04/22/04, 07/21/04, 09/22/04, 10/27/04; Bloomberg news service, 10/26/04, 10/27/04; Unomasuno, 10/27/04; La Cronica de Hoy, 05/27/04, 06/01/04, 06/03/04, 08/26/04, 09/27/04, 10/27/04, 10/28/04; La Jornada, 10/27/04, 10/28/04; The Dallas Morning News, 10/28/04; The Herald-Mexico City, 10/27/04, 10/29/04; El Financiero, 03/09/04, 05/13/04, 05/25/04, 06/07/04, 10/27/04, 11/01/04; Notimex, 10/26/04, 11/01/04; Agencia de noticias Proceso, 11/02/04; Por Esto, 11/03/04)

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