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Mexicana Announces Plan to Launch Discount Airline

by LADB Staff

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The Mexican airline industry is about to go through a major transformation with the introduction of a new discount-fare, no-frills airline. The new air carrier, which will be known as Click Mexicana, is a subsidiary of Mexicana de Aviacion, one of Mexico's two major airlines. Mexicana plans to use its existing subsidiary Aerocaribe to create the new air carrier. Mexico already has several regional airlines that offer fares lower than those available from the giants Mexicana and Aeromexico. These airlines include Aviaca, Aeromar, and Lineas Aereas Azteca. Click Mexicana will be different from these carriers because operational costs will be reduced to a minimum, allowing the airline to offer travelers the lowest fare possible.

The new airline will be modeled after carriers like Southwest Airlines and JetBlue in the US and Ryanair and Easyjet in Europe, which are known in the airline industry as Low Cost Carriers (LCC). Andres Conesa, president of Corporacion Internacional de Transporte Aereo (CINTRA), said the creation of Click Mexicana is another step in the eventual reprivatization of the Mexican airline industry.

CINTRA is the holding company for Aeromexico and Mexicana. The government assumed 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 difficulty (see SourceMex, 1995-01-18).

In late 2004, the government's anti-trust agency (Comision Federal de Competencia, CFC) approved a plan to merge Mexicana and Aeromexico into a single company. Under the plan, regional carriers Aerolitoral and Aerocaribe would also be merged (see SourceMex, 2005-02-29). The Mexican government reversed its stance in February of this year and decided to sell Mexicana-Aerocaribe and Aeromexico-Aerolitoral as separate entities.

CINTRA officials said the scheme approved last year left the process open to anti-trust actions because AeroMexico and Mexicana control two-thirds of Mexico's domestic market. "It makes the sale easier," said Carlos Hermosillo, an analyst with Vector Casa de Bolsa SA in Mexico City. "This process is moving ahead." CINTRA immediately hired Credit Suisse First Boston (CSFB) to manage the sales of Aeromexico and Mexicana to private investors.

Analysts believe the most likely suitors will be European or Asian airline companies because US carriers have yet to recover financially from the aftermath of the attacks on New York and Washington on Sept. 11, 2001. Some estimates indicate the US airline industry has lost more than US \$30 billion during the past several years. "The main US airlines are going through a difficult period," said Conesa.

Click Mexicana to start operations in May

Mexicana is trying to make the airline more attractive for investors by creating a discount airline similar to the LCCs in Europe and the US, which eliminated meals and other amenities. "During the trip, passengers will have the opportunity to buy food and beverages," said Mexicana director Emilio Romano. Click Mexicana plans to start ticket sales in May and launch its first flights in July. The airline will initially offer nine round-trip routes from the Benito Juarez International Airport in Mexico City to Saltillo, Nuevo Laredo, San Luis Potosi, Oaxaca, Zihuatanejo, Huatulco, Tuxtla Gutierrez, Villahermosa, and Merida. All of these flights are 90 minutes or less from the capital.

Mexicana will market Click to potential US visitors by offering easy transfers to Huatulco, Oaxaca, Merida, and Zihuatanejo via the Mexico City airport. "A passenger arriving at the Mexico City airport from Los Angeles on Mexicana could easily transfer to a tourist destination via Click," said Romano.

Industry sources expect other discount airlines to join Click Mexicana in the Mexican aviation market. Three potential customers include A Volar, Aerolineas Mesoamericanas, and Protega, all of which are financed with Mexican capital. The principal owner of A Volar is former finance secretary Pedro Aspe. Gilberto Lopez Meyer, head of the Direccion General Aeronautica Civil (DGAC), said the new airlines are not out to weaken existing carriers like Mexicana, Aeromexico, and Lineas Aereas Aztecas, but to expand the market. "This trend not only allows passengers who fly on a frequent basis to find cheaper flights, but also to attract people who are currently do not use airlines as a means of transportation," said Lopez.

Low-cost airline for US-Mexico routes proposed

US-Mexico routes are also ripe for competition from US-based discount airlines. In early January, Texas businessman Ash R. Huzenlaub announced plans to launch Mexus Airlines Inc., which would offer routes connecting Dallas-Fort Worth International Airport with Mexico City and Guadalajara. "There is a real potential for a low-cost carrier service between the US and Mexico," analyst Bob Mann of Florida consulting company Avman Inc. told the Dallas Morning News. "Fares are relatively high, and foreign visitors to Mexico in the first nine months of 2004 were up 10%."

A typical fare between Dallas and Mexico City on Mexicana, Aeromexico, American, Delta, or Continental Airlines would run between US\$400 and US\$600 if bought in advance. Roughly US\$100 of the total fare includes a combination of special fees and taxes related to international travel. Still, Huzenlaub believes round-trip flights between Texas and Mexico do not have to be as high as they are. "If I can pay US\$40 from Love Field [in Dallas] to Houston, why can't I pay US\$40 or US\$80 more to go on a longer flight to Mexico City?" said Huzenlaub. (Sources: The Dallas Morning News, 01/06/05, 02/09/05; Bloomberg news service, 02/09/05; The Financial Times-London, 02/10/05; Dow Jones news service, 02/28/05; Spanish news service EFE, 04/08/05; El Universal, 04/08/05, 04/11/05; Reuters, 04/11/05; La Jornada, 03/01/05, 03/09/05, 04/08/05, 04/12/05; El Financiero, 03/01/05, 04/07/05, 04/08/05, 04/12/05; La Cronica de Hoy, 04/13/05)

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