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Government Suspends Lineas Areas Azteca Because of Safety Violations

by LADB Staff

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The Secretaria de Comunicaciones y Transportes (SCT) has suspended the operating permit for Lineas Aereas Azteca (LAA) just days before the start of Mexico's Easter holiday season. The SCT said the airline's permit was suspended for 90 days to allow the airline to correct safety violations. This is the second time in less than six months that an airline with operations in Mexico has suspended service during a busy holiday season.

In late 2006, the upstart Air Madrid declared bankruptcy during the busy Christmas period, cancelling flights between Toluca and Madrid. The SCT directed LAA to suspend all flights after government inspectors uncovered problems in safety procedures and obligatory training for pilots, technicians, and maintenance personnel during a review on March 5-23.

"The company has problems in nearly all areas: its administrative, financial, and technical segments are all very deteriorated," said Gilberto Lopez, head of the SCT's civil aeronautics unit (Direccion General de Aeronautica Civil, DGAC).

In addition to the suspension, LAA will be subject to a fine of about 5 billion pesos (US\$90 million), said the consumer-protection agency (Procuraduria Federal de Proteccion al Consumidor, PROFECO). The decision to shut down LAA, which began operations in 2001, affects as many as 25,000 travelers who had already bought tickets from the airline.

LAA carried almost 114,000 passengers in the first two months of the year. This is only about 2.3% of the total 4.9 million travelers who used commercial airlines in Mexico in that period. PROFECO said travelers are entitled to refunds from the airline. However, authorities have asked other air carriers to honor tickets issued by LAA.

The routes operated by LAA are already covered by 13 other airlines, officials said. One of those airlines is Aerocalifornia, which the government shut down in April 2006 because of safety violations (see SourceMex, 2006-04-19). Aerocalifornia corrected its violations and resumed flights later in the year.

In addition to mechanical and operational problems, LAA is facing financial difficulties, with 20 million pesos (US\$1.8 million) in payments still owed to the Mexico City airport for fuel, leasing arrangements, and other services. The company also owes some of its workers about 20 million pesos (US\$1.8 million) in productivity bonuses it has failed to pay, said the Mexico City daily newspaper La Cronica de Hoy.

Furthermore, one of the companies that leases some of the nine aircraft used by LAA seized airplanes temporarily in the US because of nonpayment of debts. The airline and the lessor

eventually negotiated an arrangement. Travel agents warned about LAA problems. Travel agents said they warned authorities at the start of the year about LAA's problems, but their warnings fell on deaf ears. In mid-January, the Asociacion Mexicana de Agencias de Viaje (AMAV) recommended that its members exercise care when dealing with LAA tickets and not book flights beyond the next week. "We had noticed the airline's financial difficulties and the debt that it owed to the Mexico City airport," said AMAV president Jorge Hernandez, who noted that LAA was removed from some listings because of debt owed to ticket-listing systems. "The SCT, instead of looking into the matter, said Azteca's operations were all in order," Hernandez told the Mexico City daily newspaper *La Jornada*.

Some columnists noted that LAA's financial and operational difficulties are rooted in the poor operating practices that carried over from the days when the airline was called Transportes Aereos Ejecutivos (TAESA) in 1999 (see SourceMex, 1999-12-01). Mexican businessman Leonardo Sanchez Avalos and Texas-based investor Marco Delgado formed LAA after acquiring TAESA's assets in 2000 (see SourceMex, 2000-01-11). Columnist Francisco Rodriguez of the Guanajuato daily newspaper *Correo* said Sanchez resorted to some of the poor practices employed by TAESA, such as taking parts from one airplane to fix another. "Sanchez was trying to keep his operational costs down by sacrificing costs for maintenance and safety," said Rodriguez.

The SCT has already made it clear that no government money will be used to rescue the airline, but there are some rumors that the government may push for LAA to be sold to other investors. One rumored buyer is former Veracruz Gov. Miguel Aleman Velasco, the principal owner of regional airline Interjet.

The market has been mixed for upstart independent carriers who are competing with traditional giants Aeromexico and Mexicana for passengers in Mexico. In addition to LAA, the troubles of AirMadrid affected operations in Mexico. The Spain-based airline, which began service between Toluca and Madrid, suddenly halted flights in December, leaving many travelers from Mexico and other countries stranded in Europe. The Spanish courts were able to force the airline to offer refunds to Spanish citizens, but the airline was slow to reimburse Mexican passengers.

Other low-cost airlines report success

Despite the problems of LAA and Air Madrid, other independent airlines like Volaris and Interjet appear to be thriving in Mexico. In late January, Volaris the air carrier owned by Mexican billionaires Carlos Slim Helu and Emilio Azcarraga announced plans to more than double the number of cities it serves by April. Volaris plans to add flights to Merida, San Jose del Cabo, Villahermosa, Morelia, Culiacan, Mexicali, Aguascalientes, and Leon this year, giving the airline a total of 14 destinations, including its hub at the airport in Toluca.

In its first year of operation, the low-cost airline transported 1 million passengers, resulting in earnings of US\$100 million. The expansion is expected to boost Volaris' earnings to US\$300 million in 2007. "Our business plan always anticipated a ton of competition," Volaris chairman Pedro Aspe, who served as finance secretary under former President Carlos Salinas de Gortari, said at a news conference. "The toughest competition for us is the bus lines, especially on trips of less than seven hours." [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on March 28, reported at 11.07 pesos per US\$1.00] (Sources: *Correo*, 03/08/07; Agencia de noticias

Proceso, Reuters, 03/26/07; Excelsior, El Economista, The Herald-Mexico City, 01/30/07; 03/27/07, 03/28/07; La Cronica de Hoy, 02/21/07, 03/27/07, 03/28/07; Milenio Diario, 02/0-2/07, 03/27/07, 03/28/07; La Jornada, 03/25/07, 03/27/07, 03/28/07; El Universal, Reforma, 03/27/07, 03/28/07)

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