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Azteca Airlines Suspended for Second Time; Powerful Group Buys Aeromexico

by LADB Staff

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For the second time this year, the government's aviation agency (Direccion General de Aeronautica Civil, DGAC) ordered the troubled airline Lineas Aereas Azteca (LAA) to suspend all operations because of safety violations. The latest suspension is the first step toward the full revocation of the airline's operating permit.

The SCT's decision to suspend LAA was announced less than a week before the government's controversial move to accept a bid by a conglomerate led by Grupo Financiero Banamex to acquire Aeromexico, a majority of which has been in government hands. In March of this year, the DGAC suspended LAA for 90 days to allow the airline to correct deficiencies related to safety, maintenance, and training (see SourceMex, 2007-03-28).

The DGAC, a unit of the Secretaria de Comunicaciones y Transportes (SCT), said LAA has failed to take the proper actions to correct the deficiencies, which will prevent the company from resuming service this year. LAA officials acknowledged that an internal struggle for control of the airline contributed to the company's inattention to the safety violations. The conflict, which apparently remains unresolved, involves a power struggle between majority owner Pablo Gonzalez Ulloa and his two associates Marcelo Manfredi and Julio Berthely.

The DGAC has started the procedures to revoke LAA's operating permit, a process that could take as long as four months, said SCT aviation director Gilberto Lopez Meyer. LAA officials remain confident that the airline can survive the process and eventually resume operations.

Financial problems could present an obstacle, however, as the airline has a debt of about US\$200 million, according to data released by Gonzalez Ulloa. Another possibility is that the airline will be sold. If this is the case, the new owners would have to demonstrate to aviation authorities that they have the proper administrative, legal, and technical capabilities to run the airline, said Lopez Meyer.

Banamex-led group acquires Aeromexico

In mid-October, the SCT accepted a bid by a 15-member business consortium to acquire Aeromexico, which had been in the Instituto de Proteccion al Ahorro Bancario (IPAB) since the mid-1990s. Aeromexico, Mexicana, and two other small airlines comprised the Consorcio Internacional de Transporte Aereo (CINTRA), which declared bankruptcy in the mid-1990s (see SourceMex, 1995-01-18) and was assumed by the IPAB.

The institute sold Mexicana to Grupo Posadas in 2005 (see SourceMex, 2005-12-17), but delayed the sale of Aeromexico until this year. The 15-member consortium that won the bid was led by Grupo Financiero Banamex and Jose Luis Barraza, former president of the Consejo Coordinador

Empresarial (CCE). The group includes powerful business owners with stakes in such companies as brewing company Grupo Modelo, television network Grupo Televisa, steel manufacturer Grupo Imsa, banking concern Organizacion Soriana, and telephone company Axtel.

The government's anti-monopoly agency (Comision Federal de Competencia, CFC) paved the way for the 15-member consortium to win the concession after ruling out a potential bid by another powerful player, rival airline Grupo Mexicana. Mexicana and its parent company Grupo Posadas were prepared to present an offer of US\$200 million. The consortium was selected over Grupo Saba, a business conglomerate owned by Moises and Alberto Saba (see SourceMex, 2007-09-26).

The winning bidder paid US\$249 million for Aeromexico, far more than Grupo Posadas had offered. In mid-October, the CFC ruled that a sale of Aeromexico to Grupo Mexicana would have inhibited competition to the detriment of the flying public. The commission said it conducted a comprehensive analysis of the airline industry to determine whether a Mexicana-Aeromexico merger would inhibit competition. "After we looked at each destination, we determined that the risk of market concentration was too high," said CFC president Eduardo Perez Motta. "Additionally, our current regulatory framework does not guarantee a greater opening [with the merger]."

The winning bidders announced initial plans for the airline, including a proposal to transfer a 4% share of the company to pilots. The company also expects to convert Aerolitoral, which was included in the sale, into a regional airline that would connect passengers from smaller markets to Aeromexico at its larger hubs. The new airline is to be called Aeromexico Connect, officials said. The concept is similar to one Mexicana employed when it converted its subsidiary Aerocaribe to a regional discount airline (see SourceMex, 2005-04-13).

Senate wants investigation of Aeromexico transaction

The sale of Aeromexico attracted its share of criticism, particularly among members of opposition parties in Congress. Legislators from the opposition Partido de la Revolucion Democratica (PRD) and Partido Revolucionario Institucional (PRI) had pushed for the airline to be sold to Mexicana, which would have created a flagship airline (see SourceMex, 2007-09-26). Opposition deputies also criticized the government for exempting the buyers from having to pay sales tax. Officials at the Secretaria de Hacienda y Credito Publico (SHCP) said the government could take this action when the sale of a government property was involved.

The opposition deputies said the move was just another sign that President Felipe Calderon's administration was giving unfair breaks to the large private entities in Mexico. Some critics said this was the second time that US-based Citigroup, a majority owner in Banamex, has eluded taxes through a transfer of stock. The company was given a tax break when it acquired Banamex in 2001 (see SourceMex, 2001-08-08). Sens. Eduardo Calzada and Manlio Fabio Beltrones of the PRI and Pablo Gomez of the PRD also took issue with the price that private companies paid for Aeromexico and previously for Mexicana.

The senators said the airlines had a combined value of US\$1.5 billion in 2005. "From my point of view, the sale was extremely undervalued," said Beltrones, who has taken steps to set up a committee in the Senate to investigate the transaction. Some PRD members suggested that the

sale of Aeromexico to a consortium of millionaires was a repayment by the Calderon government to Barraza, who helped coordinate the winning bid for Aeromexico and who is in line to become president of the airline's administrative council.

As CCE president, Barraza helped put together the television advertising campaign that contributed to the loss of center-left presidential candidate Andres Manuel Lopez Obrador. Lopez Obrador was way ahead in the polls just months before the election (see SourceMex, 2005-11-30), but lost the lead after negative advertising and political missteps (see SourceMex, 2006-04-05 and 2006-05-03). Calderon won the election by less than 250,000 votes (see SourceMex, 2006-07-12 and 2006-09-06). "Calderon was returning a favor to Barraza, who helped put together the dirty campaign against Lopez Obrador," said Sen. Gomez. "He gets an airline for his efforts."

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