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Mexicana Airlines Faces Another Financial Crisis; Proposed Cuts Put Company In Conflict With Unions

by Carlos Navarro
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Mexicana de Aviación, Mexico's second-largest commercial airline, is again in financial hot water, and its plan to deal with the crisis has put the company in conflict with the unions representing flight attendants and pilots. The company has proposed salary reductions and layoffs as one of the options to deal with its financial contingencies. The unions counter that the airline's problems are not as bad as advertised and that Mexicana is simply looking for an excuse to cut costs.

As part of its response to the crisis, Mexicana has already suspended service to some US cities. This comes on the heels of news that the Canadian government seized two Mexicana aircraft because the airline has failed to pay several debts. Mexicana's financial crisis is only one problem facing Mexican aviation. In early August, US authorities downgraded Mexico's commercial-aviation sector because of multiple deficiencies in safety, training, and emergency preparedness.

Mexicana seeks protection from creditors

The Canadian government's decision to seize Mexicana aircraft in Calgary and Montreal because of unpaid debts was the first public sign that financial trouble was on the horizon. Creditors seized a third plane in Chicago. But the airline—which in 2005 became a unit of the tourism-oriented company Grupo Posadas ((SourceMex, 2005-12-07))—was already showing signs of strain. In June 2009, Mexicana asked for government loans of 1.5 billion pesos (US$119 million) after the swine-flu epidemic cut revenue in half ((SourceMex, 2009-05-06)) . Then in May of this year, the government's development bank Banco Nacional de Comercio Exterior (BANCOMEXT) rejected a request to partially support a US$60 million structured bond. Mexicana said at the time it wasn't seeking a government rescue.

The Canadian government's seizure of aircraft prompted management to call an extraordinary meeting of executives and investors in Mexico City. The meeting addressed the airline's "difficult" financial circumstances, but participants had not decided in that initial meeting whether to file for bankruptcy protection. On Aug. 3, the company opted to file papers both in the US and Mexico to seek protection against creditors.

Company officials went to great pains to sugarcoat the action, refusing to call the emergency action outright bankruptcy. "[This request] does not imply bankruptcy or a suspension of payments," said Mexicana, which pointed out that the airline was looking for a "reasonable" approach to meeting obligations to its creditors.

"This is a recourse established by Mexican law to help preserve businesses and prevent noncompliance with obligations from putting them at risk," said Mexicana spokesperson Adolfo Crespo.

The protection is only a short-term measure, and the airline is going to have to take a closer look at other considerations. One immediate measure was to eliminate flights and consolidate flight

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schedules. On Aug. 2, the airline suspended flights to several US cities, and service remained in doubt to some of its more lucrative destinations like Los Angeles, Las Vegas, and New York City. The measure might also have been intended to keep its aircraft out of the hands of US creditors, although there was no confirmation that this was the case. The airline also serves Denver, Chicago, San Francisco, San Jose, Sacramento, and Orlando.

There was no immediate word on how Mexicana's domestic flights would be affected. Some flights inside the country are handled through its two commuter-airline subsidiaries, Click Mexicana and Link Mexicana, which are separate entities and not directly affected by the emergency action.

Proposal to cut salaries and personnel angers pilots, flight attendants

Mexicana officials made no secret of their desire to win concessions from the unions representing pilots (Asociación de Pilotos Aviadores de México, ASPA) and flight attendants (Asociación Sindical de Sobrecargos de Aviación, ASSA). The airline has proposed reducing the cost of the collective contract by 70% and reducing the work force by 30%.

To make their point, Mexicana officials released information suggesting that high salaries were one of the major reasons for the airline's financial difficulties. "We have not seen a major restructuring in collective-bargaining contracts similar to the changes that have occurred for many airlines in the world," said Mexicana director Manuel Borja. "Our pilots are totally out of synch with the market."

ASPA leader Fernando Perfecto Cruz acknowledged in a radio interview that pilots represented by the union earn more than non-ASPA pilots who fly for more profitable Mexican airlines such as Interject and Volaris. But the union leader said Mexicana should not blame its problems on the salaries. "You can blame [this situation] on bad management and not on the employees, whose work ethic, responsibility, and professionalism are recognized throughout the world," said Perfecto Cruz.

To make their point, ASSA and ASPA members organized protests at Mexico City's International Airport (Aeropuerto Internacional de Ciudad de México, AICM). As part of the protest, the unions publicly rejected three proposals presented by the company, including a very restrictive plan to sell the airline to the unions. The two other alternatives were restructuring the collective-bargaining contract and an outright bankruptcy filing.

Under the plan to sell the airline to the unions, the transaction would not include the company's brand name of Mexicana, and the unions would assume all assets and liabilities. The sale would not include Click Mexicana and Link Mexicana. Company officials said it was necessary to have a name change under new management to avoid confusion for travelers, because Click Mexicana and Link Mexicana still have "Mexicana" as part of their name. Pilots at Link and Click are also represented by ASPA.

Perfecto Cruz accused management of diverting Mexicana profits to Click and Link. "We agree that the financial situation of the company is critical, but we have also seen the earnings of Mexicana diverted to the other companies," said the ASPA leader.

The unions rejected all three options and instead wrote an open letter to President Felipe Calderón asking for the federal government to intervene in the conflict to prevent job losses. "Jobs, Mr. President, which you have said are a priority for your administration, are what's at stake," said the letter signed by Perfecto Cruz, ASSA leader Lizette Clavel, and other leaders of the unions representing the pilots and flight attendants.

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The letter was presented during the protest, which took place at Terminal 1 of the AICM. Clavel called on the Calderón government to consider the rights of the passengers, airline employees, and future Mexicana stockholders by ensuring that all information related to the bankruptcy becomes transparent. This would be the only way to prevent any "abuses and injustices that would violate the rule of law," said the ASSA leader.

Despite the pleas from union leaders, the administration is not inclined to intervene in the labor conflict. Deputy transportation and communications secretary Humberto Treviño said the Mexicana issue did not present a situation where the safety of passengers was at stake. "The federal government is watching the Mexicana situation very carefully," the official said at a press conference.

FAA audit finds multiple safety violations in Mexico

The Mexicana conflict came just days after the US Federal Aviation Administration (FAA) announced that it had downgraded the rating for Mexico's aviation safety under guidelines established by the International Civil Aviation Organization (ICAO). The FAA launched the audit of Mexico's aviation safety standards at the request of the Calderón government following the death of ex-interior secretary Juan Camilo Mouriño((SourceMex, 2008-11-12)).

The FAA study found several deficiencies in Mexico's civil-aviation system, citing major shortcomings in the practices and policies of the Dirección General de Aeronáutica Civil (DGAC). The findings included a lack of clarity in adopting safety norms, inadequate allocation of air space, unsatisfactory regulations at airports and other facilities that handle aircraft, a lack of resources for training, and poor regulation and control of the issuance of pilot licenses. On top of that, the FAA said aviation authorities had failed to develop an instruction manual to be used in case of accidents involving aircraft.

As a result of the audit, the FAA downgraded Mexico from its previous rating of Category 1, which means that a country complies with ICAO standards. The drop to Category 2 will affect commercial aviation between the two countries. Existing flights will be allowed to continue, but Mexican airlines like Mexicana and Aeroméxico will not be able to expand service to the US. Given Mexicana's current financial predicament, this was probably not a possibility in the near term.

The downgrade also prevents Mexican airlines from carrying passengers to or from the US via code-sharing agreements with US airlines. This prompted US-based Delta Airlines to remove its code from Aeroméxico flights. "Our customers are still permitted to travel on Aeroméxico but must be rebooked with an Aeroméxico flight number to do so," said Delta spokesperson Kent Landers.

But Mexican officials do not believe the problem is as complex as presented by the FAA. In a statement, the SCT said the rating drop was primarily the result of "administrative and organizational matters," including a shortage of flight inspectors. "The reason the classification was dropped is because the DGAC does not have sufficient personnel to supervise the airlines that operate in our country," said the SCT.

The FAA disagreed with the SCT assessment. "While Mexico has been responsive to the FAA's findings and has made significant improvements in recent months, it was unable to fully comply with all of the international safety standards," the US agency said in a statement.

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Despite the difference of opinion, Mexican and US officials have pledged to work together to try to improve Mexico's aviation. "The FAA is committed to working closely with the Mexican government and providing technical assistance to help Mexico regain its Category 1 rating," the agency said.
[Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug. 4, 2010, reported at 12.54 pesos per US$1.00]

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