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Spanish-Mexican Consortium Wins Bid to Acquire Mexicana Airlines

by Carlos Navarro

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Mexicana de Aviación took a major step toward resuming operations when a bankruptcy judge approved a plan by a Spanish-Mexican conglomerate to acquire the airline. The buyer, Med Atlántica, had talked about resuming operations in April. But the buyer must still overcome several obstacles before the airline can resume operations, including renegotiating huge debts owed to creditors. One creditor in particular, the Mexico City airport (Aeropuerto Internacional de la Ciudad de México, AICM), has said the airline would not be allowed to operate at that facility until a debt of about 380 million pesos (US\$29.7 million) is paid. The airline also cannot resume operations until it receives an operations certificate from the la Secretaría de Comunicaciones y Transportes (SCT).

Med Atlántica, led by Spanish hotel magnate Christian Cadenas, was one of 30 potential suitors for Mexicana, which was forced to cease operations in July 2010 because of financial problems ([SourceMex, Aug. 4, 2010](#)). This is the second time since the bankruptcy that the airline announced plans to resume operations. In an earlier attempt in January 2011, the airline said private equity company PC Capital had planned to bring together investors to acquire the airline, which would resume operations on a much smaller scale ([SourceMex, Jan. 5, 2011](#)). But PC Capital failed to put together a viable group of investors ([SourceMex, March 16, 2011](#)), keeping the airline in limbo.

The SCT and the federal bankruptcy court then reopened the process, vowing to accept only investors with solid financial backing. More than 30 suitors have expressed interest in acquiring the airline since the beginning of the bankruptcy process, but a federal bankruptcy court narrowed the list to four suitors. The court then selected Med Atlántica after the conglomerate deposited US \$300 million with the Mexican government as evidence of its ability to capitalize the airline. "The group brings together the elements to be awarded Mexicana de Aviación," said Federal Bankruptcy Court Judge Felipe Consuelo Soto. "It had demonstrated that it has the money and the willingness to restructure Mexicana."

Med Atlántica is backed by the BlueBay hotel chain, which operates in 13 countries in Europe and the Caribbean. Cadenas is also owner of the Canadian-based charter airline Air Transat, which moves about 3 million passengers per year.

Agreement with creditors pending

But Med Atlántica still has to reach agreements with a number of creditors, mostly government entities. In addition to the fees owed to the AICM, Mexicana has outstanding debts with the agency that handles air traffic (Servicios a la Navegación en el Espacio Aéreo Mexicano, SENEAM), the social security institute (Instituto Mexicano del Seguro Social, IMSS), and the federal taxation agency (Sistema de Administración Tributaria, SAT). The company also owes money to several travel agencies and hotels.

AICM director Héctor Velázquez said Mexicana would have to pay its entire debt to the Mexico City airport before the carrier could start any operations at the facility. He noted that authorities took a

similar stance with financially troubled Aviacsa ([SourceMex, July 8, 2009](#)), which suspended flights in 2009 and ceased operations altogether in May 2011. "We have to treat everyone equally," said Velázquez.

Med Atlántica's solid financial footing increases the likelihood that Mexicana will resume operations at some point in 2012. The company must also reach an agreement with labor unions representing pilots (Asociación Sindical de Pilotos Aviadores, ASPA), flight attendants (Asociación Sindical de Sobrecargos de Aviación, ASSA), and ground crews Sindicato Nacional de Trabajadores de Transportes, Transformación, Aviación, Servicios y Similares (SNTTTASS).

Med Atlántica's plans to launch operations with a much smaller fleet than Mexicana had before the bankruptcy. The airline expects to begin with seven aircraft but plans to gradually increase the fleet to 44 units as the number of destinations is increased over a 12-month period.

Even with the potential increase in operations over a year, the airline plans to keep a work force of about 2,500 employees, which compares with 8,000 workers employed at Mexicana before the bankruptcy. This means that severance packages would have to be negotiated with 5,500 employees.

Still, the unions were generally happy with developments. "The important thing is it's a done deal that Mexicana de Aviación will return to the skies after a year and six months of anguish and despair for thousands of workers and their families," said SNTTTASS leader Miguel Ángel Yúdice.

The unions were pleased with Med Atlántica's financial strength, as evidenced by the company's plans to allocate investment funds beyond the US\$300 million for the airline for other purposes. "The new owners have decided to invest another US\$300 million in hotel projects and US\$50 million more for contingencies, which amounts to US\$650 million," said Yúdice.

The presence of Mexicana in the market would be good for consumers because of the increased competition. Additionally, the return of the airline would restore some of the 200,000 indirect jobs that existed before the bankruptcy.

Syndicated columnist Sergio Sarmiento said the airline's departure from the market following its bankruptcy could have created a difficult situation if other alternatives had not been present. "Aeroméxico took advantage of Mexicana's departure to increase fares significantly," said Sarmiento. "But competition from airlines like Interject and Volaris has been strong, which has brought some balance to the market." [Peso-dollar conversions in this article are based on the Interbank rate in effect on March 1, 2012, reported at 12.78 pesos per US\$1.00.]

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