Transportation Secretary Warns Aeroméxico to Improve Financial Situation or Face Same Fate as Mexicana

Carlos Navarro

Follow this and additional works at: https://digitalrepository.unm.edu/sourcemex

Recommended Citation
Navarro, Carlos. "Transportation Secretary Warns Aeroméxico to Improve Financial Situation or Face Same Fate as Mexicana." (2013). https://digitalrepository.unm.edu/sourcemex/6007
Transportation Secretary Warns Aeroméxico to Improve Financial Situation or Face Same Fate as Mexicana

by Carlos Navarro
Category/Department: Mexico
Published: 2013-09-04

Imagine Mexico without a flagship airline. Communications and Transportation Secretary Gerardo Ruiz Esparza raised this possibility as Mexico’s largest air carrier Aeroméxico was negotiating to avert a strike by the powerful flight attendants labor union (Asociación Sindical de Sobrecargos de Aviación, ASSA) in early June. Ruiz Esparza warned that Aeroméxico had to improve its economic situation or suffer the fate of Mexicana de Aviación, which has not been able to overcome bankruptcy. The communications and transportation secretary’s comments came just a few weeks before the three-year anniversary of the last time that a Mexicana flight took off, which was Aug. 28, 2010. The airline has had plenty of suitors but none of the bids have been deemed compatible with the requirements of Mexico’s bankruptcy laws.

Mexicana has not flown for three years

Some 30 companies or consortia expressed interest in acquiring Mexicana. Except for a couple of cases, the interest has not translated into actual bids. Mexicana thought it had a deal in 2012, when a Spanish-Mexican consortium won a bid to acquire the financially troubled airline (SourceMex, Feb. 29, 2012), but the transaction fell through because of financial irregularities with the bid. The 2012 collapse of a possible deal followed a similar failure in 2011, when private equity company PC Capital was unable to assemble sufficient investors to acquire the airline (SourceMex, Jan. 5, 2011).

"For a period of 1,095 days, the progress to allow the airline to resume its flights has been minimal," said the Mexico City daily newspaper Excélsior. "There has been nothing but speculation and lies from a series of investors who offered assurances that they have the capital to rescue the enterprise."

"Not one of these supposed investors provided the required capital," said José Yuste, a financial columnist for Excélsior. "They all offered guarantees, equity, and capital. What they really wanted was for the government to assume the debts of a private enterprise, so that they could acquire a lucrative business and gain control of an airline without having paid a single peso."

As a result, the airline, which filed for bankruptcy protection in 2010 (SourceMex, Aug. 4, 2010), has not flown a single flight in the past three years. "What was one of the most prominent emblems of our national aviation industry and the oldest carrier in the Mexican market—a company that at one time had its own office tower as a symbol of its economic power and prestige—is now completing three years of inactivity," said Yuste.

Excélsior said delays in selling the airline were also tied to numerous changes in the judges in charge of the bankruptcy decisions. One significant change came in August 2012, when Judge Edith Alarcón replaced Judge Felipe Consuelo. Consuelo was the presiding judge when the deal by the Spanish-consortium was approved in early 2012. Alarcón disqualified the bid, which sent the process back to square one.

A key problem, analysts point out, is the high cost of labor, which has made a deal extremely difficult. The problem dates back to the 1990s when Mexicana and Aeroméxico were public
companies managed by the government management unit Corporación Internacional de Transporte (Cintra). The labor unions—including ASSA and the pilots union (Asociación Sindical de Pilotos Aviadores, ASPA)—negotiated very favorable contracts with Cintra for workers employed by both Mexicana and Aeroméxico.

The government moved to sell off Cintra in 2000 (SourceMex, Sept. 20, 2000) but had difficulties spinning off the operation to potential buyers because of the labor contracts (SourceMex, March 19, 2003).

Despite all the uncertainties, deputy transportation secretary Carlos Almada believes a resolution is possible, in part because Mexicana has succeeded in significantly reducing its debt, which at one point had reached US$17 billion pesos (US$1.27 billion).

Agreements have been reached with 70% of debtors, and the decision is now in the hands of Judge Alarcón, said Javier Christlieb, the airline’s legal director. He said the airline only needs about US $350 million to resume operations.

"The company has drafted a plan to conduct business and resume operations, reached agreements related to the bankruptcy process, met all obligations related to the acquisition of operations permits, and moved to protect its routes and its [airport] slots," said Christlieb.

In his opinion, said Christlieb, the only step needed is to define the process that would allow investors to bid for the airline. "Once we have an investor that will put money into Mexicana, we will be able to move forward," said the airline’s legal advisor.

The currently idle Mexicana employees used the three-year anniversary of the airline’s decision to stop flying to set up their own protests at the Mexico City airport and nearby sites on Aug. 28. The protestors—including pilots, flight attendants, mechanics, and ground crews—carried signs that read "Fight, fight, fight, never stop fighting for a Mexicana that will fly again."

Many also blamed the government of ex-President Felipe Calderón for failing to act decisively to ensure that the airline resumed operations. "Mexicana is not dead but is in a coma induced by the past government," said ASSA member Dulce María Mejía.

Concerns about Aeroméxico

While Mexicana continues fighting to come out of bankruptcy, Aeroméxico has continued to serve in a de facto role as Mexico’s flagship airline, serving 48 cities in Mexico, 17 destinations in the US, and a handful of locations in Europe, the Americas, and Asia.

However, Aeroméxico’s finances are not on a solid footing, and officials worry that the airline could face the same fate as Mexicana if the airline does not make some drastic changes. "The airline needs to improve its economic situation," Communications and Transportation Secretary Ruiz Esparza said in June, shortly after airline and union officials reached an agreement to avert a strike. "If the company is unable to make changes to its labor contract, then [Aeroméxico] is going to have a difficult path ahead and could experience the same problems as Mexicana."

Under the agreement reached with the airline in early June, ASSA accepted increases of 4.5% in salary and 1.5% in benefits.
Still, observers believe that the high cost of labor remains a big obstacle. "Aeroméxico is a hostage of ASSA, the union that represents its flight attendants, and the rest of us Mexicans are also affected by this situation," columnist Ana Paula Ordorica wrote in Excélsior in early July. "Why do we think twice when buying an airline ticket? Because we have to choose between a low-cost carrier with poor service like VivaAerobus or pay the extremely high prices charged by Aeroméxico."

Ordorica said the problem lies in the contract that Aeroméxico has with ASSA, which was negotiated when the airline was part of Cintra. "The annual labor cost that Aeroméxico incurs for each flight attendant is higher than those of US air carriers Delta, American Airlines, and United," said the columnist. "It is also twice as high as the cost of the smaller domestic competitors such as Volaris and Interjet."

Even though Aeroméxico agreed to increase salaries and benefits for current employees in June, the airline received a favorable ruling from a federal mediator (Junta Federal de Conciliación y Arbitraje, JFCA) in mid-August on another labor matter. The JFCA agreed to allow the company to freeze the salaries of newly hired flight attendants for 10 years. "There are economic circumstances that justify this decision," said the JFCA, which also alluded to the "precarious financial situation faced by the company that made the request." [Peso-dollar conversions in this article are based on the interbank rate in effect on Sept. 4, 2013, reported at 13.31 pesos per US$1.00.]

-- End --