

IN THIS NUMBER

Low Cost Airlines in Europe

Viridiana Barquin.....pag 1

Azteca!

Carlos Sierra.....pag 4

This month's extract of Mexican aviation news.....pag 7

COELUM is Latin for air space or sky. The Romans began questioning the rights they had in the space above the land they owned and to how high above did that right extended to. Ad coelum et ad inferos, they discussed, meaning that their right of property would extend as high up to the heavens and down to hell.

LOW COST AIRLINES IN EUROPE

Viridiana Barquin

Europe has a number of low cost airlines, the most established being EasyJet, Ryanair and Air Berlin. These airlines have stirred up air travel within Europe by dramatically cutting fares.

The European Open-Skies Treaty of 1992 blew the lid off the system then in place, where each national government would restrict access to their airspace to expensive 'flag-carriers', such as British Airways or Lufthansa. This Treaty enabled airlines to fly anywhere they wished in the European Union without government approval. These are boom times for cheap air travel in Europe, with fares as low as €10 (£7, US\$12) one-way including tax (though average fares are around €80 one-way).

Most discount airlines in Europe sell their tickets exclusively over their website or phone, and tickets are not available from travel agents. Most are ticketless; you simply turn up at the check-in desk with passport and confirmation number. A credit or debit card is mandatory for booking tickets. The pricing structure is complex, with fares fluctuating strongly according to demand, often on an hourly basis, and there are no hard rules for obtaining the cheapest fares. In fact, fares can vary from as little as £1 or £2 on special promotions, right up to £500, such as a London-Geneva return flight, during the weekend.

The following will however increase the probability of obtaining a cheap fare:

- Do fly in mid-week
- Do fly early in the morning or late at night
- Do fly in low season (Spring and Autumn)
- Do make use of sales. These sometimes appear 3-5 weeks prior to departure, however this is by no means guaranteed.
- Don't fly during public holidays.
- Don't book your ticket less than two weeks in advance.

Points to consider

- Discount airlines are often much more strict about their fares. For



example, other airlines usually allow some baggage over the weight limit; the discount ones have lower limits than the usual 20 kg. A few kilograms of weight can double the ticket price.

- Food is usually not served, or it is available for a fee.
- In-flight entertainment isn't normally provided either.
- Most discount airlines try to lower airport fees, by using smaller airports, sometimes quite far away from the city. For example Paris Beauvais Airport is some 90 km from Paris. A bus ride into Paris costs about €13 one-way and it takes about 1h15 to get to Paris.

- Following competition from discount airlines, main carriers such as BA have also cut their fares on competing routes, and are often only about 20% more expensive than discount ones, a price worth paying if the journey to the airport is cheaper and faster. Sometimes they can even be cheaper than discount airlines, especially during public holidays.

- Many airlines, including but not limited to EasyJet and AirBerlin have changed their schedule as little as week before departure, so the flight may be up to 10 hours earlier or later than the original reservation. Options they typically give are: accept the change; re-book on a different flight (normally you still have to pay the difference in ticket price but no fee); or accept a refund. Purchasing another ticket with either that airline or another at a week's notice may be very expensive. When flying low cost, it is always advisable to have good cancellation insurance bought from another supplier which is not the airline.

- Many discount airliners are "point-to-point", and do not sell connecting tickets. This means you might need to collect your luggage and check it in again. Another risk is that several low cost carriers do not take responsibility for missed connections.

Ryanair was the first airline in Europe to try this model. Fares are priced as single segment one way trips and there is no transfer of baggage. Ryanair charges a credit card fee of €2,50 per person and segment with the exception of some debit cards. If you miss a second flight due to a delay in the earlier Ryanair flight, you will not get a refund for the missed flight and will be forced to buy a new ticket. Most European airlines allow 1 free checked bag up to 20kg, Ryanair has a lot of add on fees such as 4.50 Euro per bag, up to 15kg before excess charges apply. There is no free checked baggage allowance. They have hubs in Shannon, Dublin, Glasgow (Prestwick), Liverpool, London (Stansted & Luton), Brussels (Charleroi), Frankfurt (Hahn), Stockholm (Skavsta), Milan Bergamo, Rome, Barcelona and add more practically monthly. They serve 82



Viridiana Barquin Ramirez
lawyer of ASyV

“Many discount airliners are “point-to-point”, and do not sell connecting tickets. This means you might need to collect your luggage and check it in again. Another risk is that several low cost carriers do not take responsibility for missed connections”.



other European destinations as well as Morocco, with over 209 routes. In order to lower travel costs, Ryanair uses small airports that can be quite far from the city. They offer no in-flight meals. To allow passengers with only hand luggage a faster check-in, Ryanair made it possible for them to check-in in advance on the web with a fixed fee of €7.00 return per checked suitcase, if booked in advance. In not booked in advance the fee is doubled at the airport. Luggage weight limits are 10kg for hand luggage and checked luggage is sold in 20kg increments.

Compared to most other budget airlines, Ryanair provides very limited compensation in the event of flight cancellations, despite the EU regulations. Typically, Ryanair will only provide a replacement seat on a later flight (which can depart up to 3 days later than the original flight), or a full refund of the single journey price. Alternative travel arrangements and accommodation is not normally provided. Travel insurance is optional and but is encouraged at the time of booking. Tickets start from €10 all inclusive one-way.

EasyJet carried 30.3 million in 2005 making them just smaller than Ryanair and the 7th busiest airline in

Europe. Fares are priced as single segment one way trips. Their website allows booking multiple flights simultaneously however, and even allows exchanging a flight purchased for a different flight of the choice on their website providing a partial refund (e.g. changing to a flight on a different

“Some of the advanced features on the EasyJet website are only available if the customer creates an account”.

date and/or with different passenger names). Some of the advanced features on the EasyJet website are only available if the customer creates.

EasyJet has hubs in 3 London airports (Gatwick, Stansted, Luton) as well as Geneva, Paris (CDG and Orly), Berlin as well as Liverpool, Bristol and various other UK airports. As well as these hubs they serve 45 other airports throughout Europe and Morocco, with over 180 routes.

They have an extensive UK

domestic network, and operate to and between large European airports. Unlike Ryanair, EasyJet tends to operate out of principal airports, such as Barcelona rather than Barcelona-Girona. Travel insurance is optional but is encouraged at the time of booking. Tickets can range from €20 to €420, all inclusive one-way.

In Mexico, Líneas Aéreas Azteca was incorporated in 2001, as the first low cost airline, which began operations by acquiring the short-term liabilities from TAESA, but the cash flows were not sufficient to pay the obligations and additionally TAESA did not had a good safety record, so its growth was restrained. But now, (and as happened with the predecessor TAESA), for not warranting the safety of the passengers, the Federal Government suspended operations of Líneas Aéreas Azteca. After a series of audits, multiple irregularities were detected, especially in the areas of maintenance and training. Additionally, the airline was in a serious financial situation.

Currently, there are many imitators in Mexico offering low fares such as Volaris, Interjet and Click Mexicana. Therefore it will be interesting to see how the low-cost airline business develops in Mexico.



AZTECA!

Carlos Sierra

Unimpressive as it was to witness the much predicted demise of Azteca Airlines, a quasi-low-cost carrier that initiated operations in 2001 with what became a fleet of nine 737, 300 and 700 series aircraft, the intention of this article will be to discuss the reason why such failure was so easy to predict and why this is a sad result of the continuing absence of a consistent aviation policy in Mexico that can nurture the growth and development of airlines for the benefit of the traveling public.

From the start Azteca was a flawed project that surprisingly remained in business for little more than five years. With total absence of a viable business plan, without a commercial strategy and with clearly poor maintenance and operational systems and procedures it initiated operations in 2001 in such routes that “sounded” more profitable under totally random estimations. Fleet planning, yield management, reservations systems, tariff structures, automated control of records, part lives and maintenance procedures among many others were all unheard terms at Azteca when the company started and were later poorly implemented if implemented at all.

It was not surprising then, to see the suspension ordered by the Civil Aviation authorities on March 26 of this year to be the consequence precisely of all such failures and shortcomings. The airline was unprepared, uncompetitive and judging from the result of the audit conducted by the DGAC, even dangerous.

To make a long story short it ended its operations defaulting on all aircraft lease obligations, at the dawn of being evicted from the premises it occupies at Mexico City International Airport and worst of all defaulting on approximately 25,000 passengers that were left stranded at various airports and continue struggling to be indemnified as provided by law.

The question that remained in the air during Azteca’s brief existence was always whether the Civil Aviation Authority had conducted a thorough analysis, as it is required by law of the viability of the Azteca project, the answer to the question is clearly no.

The Ministry of Communications and Transport through the DGAC had a duty to observe that Azteca was in compliance of several rules when it started operations in 2001 and it had a duty to supervise that all the complex mechanisms required to place an airline in revenue service operation were correctly



Carlos Sierra
Partner of ASyV



implemented in accordance with law by the time when the required concession to operate was applied for and subsequently granted.

Article 9 of the Civil Aviation law requires for any party interested in obtaining a concession to provide public air transportation services to demonstrate technical, financial, legal and administrative capacity for the provision of the service with quality, safety, opportunity, permanency and price.

The applicant must show the availability of aircraft and equipment in compliance with technical safety, airworthiness and environmental requirements.

The applicant must also demonstrate to have hangars, maintenance facilities and the required infrastructure for its operations, including aeronautic technicians and administrative staff duly qualified for the exercise of the requested concession.

Overall, experience for the permanency and the safety of the services are requirements that must be met before any concession is granted.

The Regulation of the Civil Aviation Law describes the above requirements in more detail in Articles 18 through 24-A. In particular Articles 19, I and 20, III require thorough

demonstration of the technical capacities of the applicant through the compliance of the applicable official norms (NOM), which in much detail describe each and every requirement that must be met and from which NOM-008-SCT3-2002 is applicable to the technical requirements that require to be met by concessionaires and permit holders that provide air transportation services. Article 19, II also requires the applicant to demonstrate its financial viability and a viable investment plan and the availability of sources of adequate financing for a period of no less than three years.

As it was quite evident when the airline initiated its services and throughout its existence most of these requirements were never adequately met by Azteca as is demonstrated in the analysis made of the carrier when it was preparing to operate, on one of which this author participated, and in the text of the suspension order issued by the DGAC on March 26, 2007. The question is whether the authority, at the time, was strict enough to

“Article 9 of the Civil Aviation law requires for any party interested in obtaining a concession to provide public air transportation services to demonstrate technical, financial, legal and administrative capacity for the provision of the service with quality, safety, opportunity, permanency and price”.



permit a carrier of such characteristics, which was clearly not in compliance with several of the legal prerequisites described above to commence operations in the first place.

Azteca was a failure waiting to happen since day one, the lack of adequate standards and again of a consistent aviation policy in Mexico allowed, hopefully for the last time, for an airline as such to provide services in Mexico. In recent years the applicable norms and regulations have become stricter and the DGAC has played a larger and more professional role in the supervision of air operators. Some of the new entrant carriers are clearly more compliant and more thoroughly supervised than ever before; this is a major step forward although, in truth, the same cannot still be said of all carriers that operate in Mexico, including some of the new ones.

Aviation is growing in Mexico, many, much better structured, planned and financed projects have been approved in recent years resulting in new players that are clearly re-shaping the face of this industry. Hopefully we can consider these new carriers and the measures taken against Azteca the result of a more strict intervention by the authorities in the development of Mexican aviation. As we have said in previous articles, a lot remains to be done in Mexico to build a comprehensive aviation policy that can eventually lead to a mature, sophisticated and professional industry. In the case of Azteca the intervention of the authority prevented an accident from occurring, hopefully this will be the last time that the life of passengers is endangered by such an unprepared venture.



THIS MONTH'S EXTRACT OF MEXICAN AVIATION NEWS

o **Aeroméxico adopting measures to add value**

Aeroméxico continues with its actions to increase the value of the company. Among its plans are new maintenance contracts and the creation of new routes. Chef Mónica Patiño will design the menus that Aeroméxico will offer to the passengers on its new Premier Class flights to Europe, South America, Tokyo and New York. Aeroméxico is moving forward with these changes while still in the process of deciding on the sale of the company.

El Universal. 07/ Mar / 2007

<http://www.eluniversal.com.mx/notas/410833.html>

o **SCT action on abandoned aircraft**

The SCT begins the process to get rid of 13 aircraft located at Mexico City International Airport. Anyone who has ownership of the aircraft will have until April 24th 2007 to advise the authorities.

Reforma. 14 / Mar / 2007

<http://www.reforma.com/negocios/articulo/748087/>

o **Thousands of Airbus employees protest staff reduction plan**

Toulouse, France: More than two thousand Airbus employees protested against the company's planned staff reduction, which is included in its restructuring plan named "Power 8". This plan will reduce staff numbers by ten-thousand employees around Europe and include the sale of six of its manufacturing facilities.

El Universal. 16 / Mar / 2007

<http://www.eluniversal.com.mx/notas/412665.html>

o **Querétaro Aeronautical Center takes off**

The *Centro de Desarrollo de la Industria Aeronáutica* (Aeronautical Industry Development Center), in Querétaro was recently inaugurated. The Center will train engineering students with a specialization in aeronautical matters. They will be engaged in different projects during their training with companies such as Pratt & Whitney Canada, ITR, Seat, GE, Snecma and Bombardier. The Center has a simulation classroom and 15 supercomputers with special desing from Unigraphics, Ansys, etc.

Reforma. 23 / Mar / 2007

<http://busquedas.gruporeforma.com/utillerias/imdservicios3W.DLL?JSearchformatS&file=MEX/REFORM01/00858/00858614.htm&palabra=Despega%20centro%20aeronáutico&sitereforma>

o **Interjet goes international in 2007**

Interjet is looking at the possibility of starting international flights in the second quarter of this year. Under considerations are routes to the USA and South América. The routes will be suited to its two new Airbus-320 aircraft, which will be delivered to Interjet in June.

Reforma. 26 / Mar / 2007

<http://www.reforma.com/editoriales/negocios/752421/>



- o **Delta Air Lines to come out of bankruptcy**

Delta Air Lines estimates a profit before taxes and restructuring expenses of 816 million Dollars during 2007 and expects to come out of bankruptcy on April 30th. Delta reported that its stock listing will become active again in May.

El Financiero. 28 / Mar / 2007

<http://www.elfinanciero.com.mx/ElFinanciero/Portal/cfpages/contentmgr.cfm?docId=49649&docTipo=1&orderby=docid&sortby=ASC>

- o **ASSA and Mexicana talks break down**

Mexicana de Aviación and the *Asociación Sindical de Sobrecargos de Aviación* (Association of Flight Attendants) broke negotiations aimed at reaching a new productivity agreement, which will give stability to the company in order to continue its operations. ASSA said that the talks broke down because of the requested increase in work hours, rests and by the withholding by Mexicana of financial statements that would allow ASSA to know the real financial situation of the airline.

Reforma. 29 / Mar / 2007

<http://busquedas.gruporeforma.com/utillerias/imservicios3W.DLL?JSearchformatS&file=MEX/REFORM01/00860/00860595.htm&palabra=assa%20y%20mexicana&sitereforma>

- o **Travel Agents closing because of airline suspensions**

The suspension of Azteca Airlines, Aerocalifonia and World-Cup frauds have caused the closure of 50 Travel Agents in 2006 and losses for more 200 million Pesos. This according to *Asociación Mexicana de Agentes de Viajes* (Association of Mexican Travel Agents), which asks that the airlines establish a security deposit that will allow for the creation of a contingency fund to cover cases of this kind.

Reforma. 30 / Mar / 2007

<http://busquedas.gruporeforma.com/utillerias/imservicios3W.DLL?JSearchformatS&file=MEX/REFORM01/00861/00861049.htm&palabra=Cierran%20agencias%20por%20sus pensiones&sitereforma>

- o **Azteca Airlines affects to passengers traffic of 13 states**

Azteca Airlines was suspended because of irregularities in its operations and violations of the Airports Law. Passengers traffic of thirteen states is being affected over the Easter holiday period. The airline had operated nineteen national routes. Now it must reimburse between 20 and 25 thousand full-fare tickets.

El Financiero. 30 / Mar / 2007

<http://www.elfinanciero.com.mx/ElFinanciero/Portal/cfpages/contentmgr.cfm?docId=49989&docTipo=1&orderby=docid&sortby=ASC>

- o **British may sell its shares in Iberia**

British Airways announced that it has contracted UBS Bank to advise about how the airline can better use its 10% share in Iberia Airlines of Spain. BA advised that it has received an acquisition offer.

El Economista. 30 / Mar / 2007

<http://www.eleconomista.com.mx/articulos/2007-03-30-33287>

The links above will direct the reader to the original Spanish version of the article involved. For English translations please contact us at mail@asyv.com



COELUM

NEWSLETTER



ABOGADOS SIERRA Y VÁZQUEZ

ABOGADOS SIERRA Y VÁZQUEZ

Prol. Reforma N° 1190

Piso 25

Santa Fé

CP. 05300

México D.F.

T. (52.55) 52.92.78.14

F. (52.55) 52.92.78.06

www.asyv.com

DESIGN



www.mierysteran.com

