

# COELUM

COELUM Pronunciation: 'che-l&#228;m, 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.

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## Banamex prevails in AeroMexico bidding war

Viridiana Barquín

To continue with the topics discussed in September's edition: On October 17th, Mexico's government confirmed its agreement to sell its 62% stake in AeroMexico to a group of investors headed by Mr. Jose Luis Barraza and Banamex, a Mexican bank subsidiary of Citigroup, for MXN2.7 billion (\$249 million) following an intense bidding war. This was confirmed after the Federal Economic Competition Commission disapproved the offer made by the Posadas Group that owns Mexicana Airlines.

The Federal Economic Competition Commission rejected a \$200 million bid by Mexicana to buy Aeromexico. This Authority had already warned that the bid for Aeromexico might not be allowed because the two companies are the largest carriers in the country. This operation would create a corporation with substantial power in the airline market, which as defined by the Federal Economic Competition Law is anyone with the ability to unfairly push aside its competitors and impose unfavorable prices and conditions on consumers.

The Federal  
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sion rejected a \$200  
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A combined Mexicana and Aeromexico would dominate several key routes in Mexico, for example, a merged Aeromexico and Mexicana would have controlled 76 percent of the route from Mexico City to the Pacific beach city of Acapulco and 64 percent of the flights from the Mexican capital to Guadalajara in western Jalisco state according to information published by the Commission itself and through different Annual Economic Competition Reports and different journals. Aeromexico's shares fell 2.6 percent on the Mexico City stock market in reaction to the news the Commission would not allow the Mexicana bid.<sup>1</sup>

The Commission left only two interested groups, one headed by the Saba family and the other, as mentioned before, headed by José Luis Barraza of Banamex. Both groups had recently increased their offer, the largest being made by Banamex which apparently includes an investment commitment into the airline of 240 million over the next three months (no details are known as to how this investment is to be allocated within the group).

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<sup>1</sup> <http://www.forbes.com/feeds/1ap/2007/10/12/ap4215327.html>

The assumption of Aeromexico's liabilities brought the total value of the deal to \$1.46 billion. It is however not clear what specific liabilities Banamex will be taking on, which are based on its purpose behind the acquisition.

First of all, it is likely that Banamex will begin to carefully analyze the current financial liabilities of Aeromexico. For example, one of the areas in the analysis by José Luis Barraza (who will serve as the new chairman of the company) should be the aircraft lease agreements that are valued at 600 million Dollars of Aeroméxico's total debt which totals 1.1 billion Dollars. All of this prior to the committed investment for 240 million Dollars within 90 days.<sup>2</sup>

Notwithstanding the foregoing, this process will not be so simple; Barraza will need to ascertain that whether the lessee is Aeromexico or any of its subsidiaries in each case, the change of ownership should be notified to make sure that it meets the parameters of net worth stated in each of the existing aircraft lease agreements, considering that in some cases, the change in control might result in the occurrence of an event of default.

Once this change in control is completed, the question turns to the entity with whom lessor has entered into the lease and thus to the party that will be meeting or guarantying the contractual obligation thereunder whether it shall be to Aeroméxico, Aerolitoral, any of the subsidiaries or even the group headed by Jose Luis Barraza, as the case may be, to determine what, if any impact the acquisition will have on Aeroméxico and its subsidiaries.

To have an answer of the above questions, it will be necessary to make a detailed analysis of the terms and conditions of every aircraft lease agreement entered into by Aeroméxico on a case by case basis, in order to identify those clauses which could be subject to re-negotiation.

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<sup>2</sup> [Thishttp://www.eluniversal.com.mx/columnas/67974.html](http://www.eluniversal.com.mx/columnas/67974.html)

## The Rebirth Of Mexican Aviation-Component Manufacturing

Adolfo Samaniego

During the decade of the 20`s and 30`s Mexico used to have a very strong industry engaged in the manufacture of aircraft components. That was when the production of wooden propellers required more artisan work than technical expertise. Since then, this industry has completely disappeared because the manufacturing of aviation components came to require mostly technological and highly skilled labor.

Nowadays neither the Mexican Civil Aviation Law, issued on May 12, 1995, or its regulations, issued on December 7, 1998, contains any mention of independent workshops dedicated to the manufacture of aircraft or aircraft components. The only disposition that we can find in the Civil Aviation Law Regulations is article 139, that mentions that aeronautical workshops are intended to 1) provide aircraft maintenance or repair to aircraft components; and 2) provide manufacturing or assembly for aircraft maintenance or repair purposes. So, by the 1990`s, Mexican Aviation laws did not even contemplated the possibility of regulating activities related to the manufacture of aviation components for commercial purposes.

Manufacturing for the aviating industry finally became a reality a decade later when Bombardier, decided to invest \$200 Million Dollars to establish a project in Queretaro for the development of an aerospace park for the manufacture of structural aircraft components. Queretaro won out over their other options, such as Belfast or Tokyo, considered initially because of their skilled labor force, but which were later on dismissed mainly because of the lower operation and labor costs that Mexico represented for such company.

In that regard Mexican Government has good reasons to facilitate the establishment of foreign companies in the country in order to encourage major rates of economic growth. A strategy that started back in 1985 and was accentuated in 1994 with the execution of the NAFTA treaty, which has brought a gradual process of commercial business openings through preferential market access pursuant to the free trade agreements that Mexico has executed so far with forty four countries.

Since then, more and more companies have been interested to invest capital in Mexico so as to make their production process more attractive to the international market, mainly because of the many dispositions that the Mexican government have issued in order to promote foreign investment, providing incentives such as Immediate capital investment deduction, income tax credit on projects involving research and development in manufacture process, and no importation duties on equipment and raw materials.

Although nowadays the Queretaro Aerospace Park is manufacturing electrical harnesses as a first stage of Bombardiers` program, that by 2011, is intended to assemble complete aircraft.

A situation that would bring back the business of aviation manufacture to Mexico, providing new business opportunities to Mexican companies that in the future could compete worldwide.

## News | October

### Extract of Mexican Aviation News

#### USA is looking for the "total opening" of Mexican skies

While the American aviation companies bet that Mexican Government will accept a policy of "total open skies" within Mexico, such as they enjoy with Canada, Mexican companies are opposed to this, since they will not be able to compete under these conditions. The Federal Government said that open skies would not become policy for the next 6 years due to weakness and the lack of infrastructure in Mexico's aviation sector.

Reforma, 01/ October / 2007

<http://www.reforma.com/negocios/articulo/407/813724/default.asp?Param=4&PlazaConsulta=reforma&EsCobertura=false&DirCobertura=&TipoCob=0>

#### Guadalajara, Cancun & Monterrey airports among the most expensive in the world: CFC

The Federal Competition Commission (CFC) explained that regulatory issues in the Mexican airports results in high rates and users' detriment, because they are forced to pay the cost as part of each air ticket. The Commission indicated that the airports of Guadalajara, Cancun and Monterrey ranked 11 among the most expensive in the world in a list of 50 airports.

La Crónica, 02/ October / 2007

[http://www.cronica.com.mx/nota.php?id\\_notas=325735](http://www.cronica.com.mx/nota.php?id_notas=325735)

#### Air traffic goes up 13.8% s

Air traffic increased to 963,954 passengers in September. This means 13.8 percent growth year-over-year, according to the Mexican Southeast Airport Group (ASUR). They specified that air traffic in the Cancun, the group's main airport went up by 9.3 percent with 619,904 passengers.

El Financiero, 08/ October / 2007

<http://www.elfinanciero.com.mx/ElFinanciero/Portal/cfpages/contentmgr.cfm?docId=83544&docTipo=1&orderBy=docId&sortby=ASC>

#### Mexico City Airport's second runway will be completed this year

The work on the Mexico City Airport's second runway will be completed before end of the year, said Ernesto Velasco, general director of Airports and Auxiliary Services (Aeropuertos y Servicios Auxiliares). He explained that the work will be completed on October 30, but the transfer of the airlines and their systems will be ongoing.

Milenio, 09/ October / 2007

<http://www.milenio.com/mexico/milenio/nota.asp?id=556290&sec=5>

#### Interjet to start a regional airline with up to 25 jets

Interjet will go ahead with a new airline that will start operation in the first half of 2008. The objective is to build a new airline to support Interjet, but with a strong focus on regional routes. The aircraft supplier will be selected before 2008. They have already analyzed two options: Bombardier from Canada and Embraer from Brazil.

Excelsior, 11/ October / 2007

<http://www.exonline.com.mx/diario/columna/18221>

## News | October

### Extract of Mexican Aviation News

#### [ASA receives award at the Aviation Night in Spain](#)

Airports and Auxiliary Services (ASA) was awarded with one of the three special prizes as "the best Spanish-American airport services company". This award comes from authorities and specialists of the Spanish Airport sector.

El Universal, 11/ October / 2007

<http://www.eluniversal.com.mx/finanzas/60429.html>

#### [Mexicana won't be able to buy Aeromexico](#)

The Federal Competition Commission (CFC) rejected the Mexicana proposal for the purchase of Aero-méxico. If Gastón Azcárraga, Mexicana CEO, presents an appeal against this decision, the only thing it would do would be to retard the bidding process for its competitors.

El Economista, 12/ October / 2007

<http://www.economista.com.mx/impreso/articulos/06256D5C000466298625737200029DC0>

#### [Aeromexico goes to Banamex](#)

The Institute for the Protection of Bank Savings (IPAB) declared winner to be the group supported by Citibank-Banamex, that will pay more than 249M dollars for 100% of the airline's shares tax-free.

El Universal, 18/ October / 2007

<http://www.eluniversal.com.mx/finanzas/60671.html>

#### [Azteca Airlines has been fined by Profeco](#)

The Federal Office for Consumer's Rights (Profeco) advised that Aztec Airlines has been fined more than 4 million pesos because of the breach of services already paid for by passengers. This fine is one of the highest ever economic sanctions for a Mexican company.

El Universal, 22/ October / 2007

<http://www.eluniversal.com.mx/notas/456648.htm>

#### [Creation of the Mexican Association & Council of Education of the Aerospace Industry.](#)

The aerospace industry in Mexico increased its leverage with the creation of the Mexican Association and Council of Aerospace Education. The objective is to stimulate the Aerospace sector in our country said Eduardo Solís, Manager of the Foreign Investment Promotion Unit. More than 150 companies offering factory, engineering or maintenance services, operate in our country with good results.

Milenio, 29/ October / 2007

<http://www.milenio.com/index.php/2007/10/29/140650/>

## Contributors



### VIRIDIANA BARQUÍN

Attorney at Law: Admitted to practice law in 2007. Ms. Barquín, of Mexican nationality obtained her law degree at Universidad La Salle, Mexico City and attended post-graduate studies in International Business by Universidad La Salle, Barcelona, Spain; Airline Contract Law by International Air Transport Association (IATA), Geneva, Switzerland and International Arbitration by Escuela Libre de Derecho, Mexico City. LANGUAGES: Spanish, English and Catalan. PRACTICE AREAS: Aviation Law, Aircraft Contract Law and Corporate Law. e-mail: [vbarquin@asyv.com](mailto:vbarquin@asyv.com)



### ADOLFO SAMANIEGO

Attorney at Law: Admitted to Practice law in 2001. Mr. Adolfo Samaniego, of Mexican nationality obtained his law degree at Universidad Panamericana, Mexico City. LANGUAGES: Spanish and English. PRACTICE AREAS: Aviation Law, Corporate Law and Real Estate. e-mail: [asamaniego@asyv.com](mailto:asamaniego@asyv.com)

ABOGADOS SIERRA Y VAZQUEZ

Prol. Reforma N° 1190 Piso 25  
Santa Fé México D.F. 05349  
t. (52.55) 52.92.78.14  
f. (52.55) 52.92.78.06  
[www.asyv.com](http://www.asyv.com)  
[mail@asyv.com](mailto:mail@asyv.com)