

COELUM.

AirFinance Journal
Latin America 2019 .
by Jessi Saba



SEPTEMBER NEWS on
Mexican Aviation

COELUM: Pronunciation: 'che-l&m, is Latin for airspace 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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On September 19 -20, 2019, airlines, lessors, and financiers joined in Mexico City for the AirFinance Journal Latin America 2019 Conference, to share their insights on the aviation industry, the market in general, as well as to discuss market challenges faced by all players of the industry.

One of the topics of interest throughout the conference and covered in different panels, was the commitment of airlines on the utilization of new-technology aircraft. Leading airline officers discussed thorough different panels, the importance of having a new-technology fleet that covers the operational needs of the airline, gives them benefits such as fuel efficiency and reduction of costs, and of course, benefits the planet and environmental conditions. This was discussed by airlines, as well as manufacturers. The efficiency of new-technology aircraft, as explained by Embraer, is not exclusively related to environment and costs reduction, but also with being able to overcome challenges of connectivity. The Embraer E2 aircraft was presented in depth, its economics, performance and environment benefits. The idea of this regional aircraft is to *“contribute to a superior level of comfort and space for passengers, and for operators, the ability to exploit new opportunities and sustain profitability”*¹. Without going into much detail, this new-technology aircraft delivers a higher percentage of fuel reduction, reduces spare parts requirements, reduces maintenance costs, as well as CO2 emissions and noise, generating a benefit to the environment. Airlines such as GOL, Sky Airlines, and Aeromexico included this discussion in their presentations, discussing the incorporation of these aircraft into their fleet, as well as the market outlook for regional aircraft in Latin America.

Following this line, airlines such as Volaris and Interjet, also discussed the benefits of including new-technology aircraft into their fleet. This would be achieved by the Airbus A320NEO technology. The Airbus A320NEO provides a fuel efficiency not

provided by the A320, provides noise reduction, reduces CO2 emissions, and greater passenger comfort, making it a very attractive product for airlines, as it contributes to their economics and also provides environment benefits. For example, Volaris CFO, stated that by the end of this year, 26% of their fleet will be formed by A320NEOs, but by 2026, the entire fleet will be formed by A320NEOs. The incorporation of NEOs to their fleet, has shown a 15% of fuel savings for Volaris, specifically. As for Interjet, its CFO also discussed the benefits of having an A320NEO fleet and the airline intention to renovate its entire fleet to NEOs, which is expected to improve the company’s financial situation as they increase the cabin configuration to transport more passengers per flight, and reduce fuel costs.

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In terms of financial outlooks, Volaris CFO provided hard data stating that currently Volaris is the strongest airline in Mexico in terms of number of passengers and growth. It is important to consider that Volaris operates under a low-cost model. Volaris is seeking to enter into the bus market and move all those bus passengers to flights, by providing cheaper and more accessible prices, considering that around 40 million people currently use buses to transport themselves throughout Mexico. Volaris is seeking for aviation in Mexico to no longer be a luxury but rather a reality for everyone². Volaris has demonstrated that the LCC in Mexico is a reality. This statement

1.- <https://www.embraercommercialaviation.com/commercial-jets/e190-e2-commercial-jet/>

2.- Data provided by Sonia Jerez Burdeus, Chief Financial Officer of Volaris.

was backed up during the Viva Air panel presented by Viva Air Group Deputy Chief Executive Office & CFO, who presented data to sustain that the LCC model is becoming more and more common throughout different countries, such as Colombia, Mexico, Perú and Brazil. He also discussed the challenges faced by an LCC model, such as customer experience, technology, taxes and state policies specially in regards to air traffic control. The strength of an LCC is certainly the ancillary services provided, luggage charges and branded fares. As for Interjet, they operate under a “hybrid” structure, so they operate under an in-between model of an LCC and full-service airline, such as Aeromexico, so their model is not fully comparable to other airlines, and that was clearly stated by its CFO, who assured the financial situation of Interjet, and its three main competitors was intrinsically similar.

Aeromexico on the other hand, focused its presentation given by its CFO, on the benefits of the partnership with Delta Airlines, and the benefits that the synergy of both models would bring, provided that Delta has the highest unit revenue of the region, while Aeromexico has the lowest cost structure. Therefore, if they are able to combine these two factors, it will enhance travel experience and provide benefits on all aspects for both airlines. As for local competition, Aeromexico assured that they are leaders in punctuality compared to Volaris and Viva in terms of departure and arrival times, as well as leaders in completed flights (the rate of cancelled flights is quite small for Aeromexico). Another issue addressed by Aeromexico’s CFO was the grounding of the B737MAX and how their fleet department maneuvered this by extending current leases while the situation is resolved, as they currently have six B737MAX on ground, and were expecting to receive thirteen new ones in the course of the year, and this certainly caused some issues.

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An important aspect that was confirmed by all four Mexican operators (Viva, Volaris, Interjet and Aeromexico) is that the suspension of the New Mexico City Airport will not cause a short term affectation, provided that for example, Volaris only operates 14% of its flights from Mexico City, and Aeromexico is looking into establishing a hub in Monterrey.

Of course, other aspects of the aviation industry apart from operation, technology and environment were covered and discussed by panelists. Financial structures were discussed by a group of highly recognized experts from Deutsche Bank Securities, Citi Bank, and Natixis, given that airlines are currently opting to own aircraft rather than leasing them. Matters such as credit risk was also discussed and the implication of having the best remedies available in each jurisdictions in case necessary, such as remedies provided by the Cape Town Convention and Aircraft Protocol.

The discussion on the Cape Town Convention and Aircraft Protocol (“Cape Town”) implementation was further carried by panelists discussing the descent of Avianca Brazil. After thorough analysis, it was concluded that Cape Town was indeed a determining factor, and while it was not applied exactly as it should have been in accordance with the declarations made by Brazil at the time of accession (specifically during the timeframes established), Cape Town proved its worth. All involved parties agreed that without Cape Town remedies, the process would have taken longer, and it would have been much more difficult to obtain repossession of aircraft. It was actually confirmed that lessors indeed wished to position the Avianca Brazil aircraft on other airlines in Brazil, instead of getting the aircraft out, as at the end results were favorable.

In conclusion, the Airfinance Journal Latin American 2019 Conference was very fruitful, filled with valuable information, and provided strong networking opportunities for all attendees. It is indeed one of the must go to events in the aviation industry.

The DGAC issues guidelines for the use of drones in case of catastrophes.

The General Direction of Civil Aviation, published a compulsory circular for the usage of unmanned aerial vehicles (drones) in cases of emergencies and/or disasters, triggered by a natural phenomenon. Among the main requirements registered by the DGAC, the drone operator who seeks to volunteer in a disaster area, must coordinate his flight with the Disaster Coordinator, as well as have an emergency safety procedure, before starting the operation, "to avoid any incident or accident". www.a21.com.mx/normatividad/2019/09/08/dgac-publica-reglas-para-el-uso-de-drones-en-caso-de-desastres September 08, 2019.

International Amnesty prevents travelers from flying to the U.S.A.

The International Amnesty issued a travel warning to tourists considering visiting the United States, in a notice released days after the mass shootings in El Paso, Texas and Dayton, Ohio, which left 31 people dead. Thus, the statement urges travelers to maintain caution in relation to the lack of adequate protection by the US, it also suggests avoiding areas where too many people gather, including shopping centers, schools and places of worship. www.a21.com.mx/aeronautica/2019/08/09/amnistia-internacional-previene-viajeros-que-van-eua September 08, 2019.

UK Air Transport Props for No Deal Brexit Consequences.

The possibility of the UK abandoning the European Union on October 31 without an agreement on future relations, currently appears to be the current assumption of the country's air transport industry. Likewise, there is no prospect that it will happen with less than two months to complete preparations. In fact, the United Kingdom's confidence has not been boosted this week. The UK industry's confidence has not been enhanced this week by the publication of the government's "reasonable worst-case planning assumptions" for the so-called No Deal Brexit. www.ainonline.com/aviation-news/air-transport/2019-09-12/uk-air-transport-braces-no-deal-brexite-consequences September 12, 2019.

Mexican Air Force will Acquire Aircraft in 2020.

The Ministry of National Defense (Sedena) informed, through the Federation Expenditure Budget for 2020, that it will acquire three new aircraft in 2020. This is a Bell 407 helicopter, with an approximate amount of 238 million pesos, and with the purpose of increasing spraying operations in the state of Jalisco and the acquisition of two planes to fortify operations at Military Air Base no. 18 in Sonora. The approximate cost of the two fixed-wing aircraft is 906 million 715 thousand pesos, of which an advance of 55 million will be given by 2020. www.a21.com.mx/fuerza-aerea/2019/09/18/sedena-adquirira-tres-aeronaves-en-2020 September 18, 2019.

The U.N. Aviation Agency president expresses the openness to meet climate activist Greta Thunberg.

The secretary general of the U.N. aviation agency stated last Friday, she is willingly to meet Greta Thunberg, the Swedish teenage activist who, will be leading the Montreal climate protest, targeting flight emissions, next week. The activist, who sailed across the Atlantic from Britain to the US in a zero-carbon emission boat, as a protest to air travel emissions, is being seen by some environmentalists as well as European politicians to address a global gathering at IATA, the International Civil Aviation Organization (ICAO) when she heads the September, 27 climate protest. www.reuters.com/article/us-un-aviation-environment/u-n-aviation-agency-head-says-open-to-meeting-climate-activist-greta-thunberg-idUSKBN1W52JA September 18, 2019.

In this month extract was prepared by J. Estrada, J. Muñoz, J. Dorantes, A. De la Fuente, P. Arandia, R. Nerio, R. López, R. Mancilla.

Are Aviation Taxes an Effective Answer to Climate Change?

While aviation taxes may delay economic growth and negatively impact airlines, these phenomena could largely be forgiven if they achieve their desired effect. That is, if aviation taxes successfully limit and mitigate the aviation industry's environmental impact. However, according to IATA, no government that introduced a ticket tax has been able to demonstrate that such tax reduced CO2 emissions. In fact, in the UK for example passenger numbers have increased by 138.7% between the introduction of the APD (Air Passenger Duty) and 2017. Nonetheless, APD seems to have been unable to curb the industry's environmental impact. Similar results can be found in other jurisdictions such as France, Germany, Austria or Italy. www.simpleflying.com/aviation-taxes-climate-change/ September 19, 2019.

Russia will ask Mexicans for e-Visas.

As of October 1, citizens of 53 countries, including Mexico, will be able to apply for a free electronic visa to visit St. Petersburg or the Leningrad region, Russia, a document that will be admitted at air, naval, automobile and pedestrian checkpoints. Through social networks, the Russian Embassy informed that "e-Visas", whether humanitarian, business or tourism, will be obtained by completing an electronic form, which can be found on the website electronic-visa.kdmid.ru and You can enter at any time since it is open 24 hours a day. www.a21.com.mx/aeronautica/2019/09/25/rusia-pedir-e-visas-mexicanos September 25, 2019.

Starfish Airport in Beijing.

The Starfish-shaped Daxing International Airport, which cost around 11.5 billion dollars, was officially opened in Beijing by the Chinese leader, Xi Jinping, on Wednesday after it was built in less than five years. This is the second airport built in Beijing and was designed by the now deceased, Zaha Hadid, an architect who devised the place in the form of a star, but with five large rooms that are connected between them. The place measures approximately 700,000 square meters, in which the four runways that will open the airspace to an estimated 72 million passengers per year in 2025. www.infobae.com/america/eeuu/2019/09/27/asi-es-el-nuevo-aeropuerto-estrella-de-mar-en-beijing-que-costo-la-exorbitante-suma-de-usd-11500-millones/ September 27, 2019.

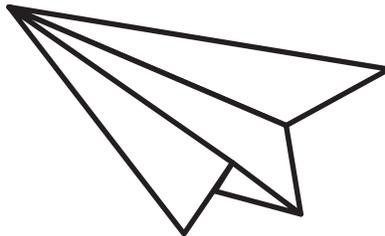
IATA promotes gender diversity with a new campaign.

The International Air Transport Association (IATA) launched the 25by2025Campaign initiative, which aims to promote gender diversity in the industry by 2025. In this regard, the group notes that, although there is no complete statistical report on diversity in the industry, it is estimated that women represent 5% of the pilot population globally and 3% in management positions, an obvious imbalance. www.a21.com.mx/organismos/2019/09/29/promueve-iata-la-diversidad-de-genero-con-nueva-campana September 29, 2019.

Mexico - United States air safety agreement will be renewed.

As part of the participation of the United States as a guest of honor for the Mexico Aerospace Fair (FAMEX) 2021, the Mexican authorities will explore the possibility of renewing the Bilateral Aviation Security Agreement (BASA). "We have the great opportunity that this Mexico-United States relationship, improve for the benefit of both countries, will depend on the dialogue between the Federal Aviation Administration and the General Directorate of Civil Aviation," said General Rodriguez Quezada, chairman of the FAMEX committee. The announcement was made during the extraordinary session of the Aerospace Industry Advisory Council (CCIA) held in Terminal 1 of the International Airport of Mexico City (AICM). www.a21.com.mx/aeronautica/2019/09/29/renovaran-convenio-de-seguridad-aerea-mexico-estados-unidos September 29, 2019.

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LANGUAGES: Spanish and English.

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