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Public Expenditure on a Non-Viable Project: The Case of Mexicana de Aviación.

By Javier García




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L A T A M

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 how high above them those rights would extend. They decided on, Ad coelum et ad inferos, meaning that their property rights would extend as high up as the heavens and all the way down to hell.

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After two years of the launch of operations of the Mexican state-owned airline, *Mexicana de Aviación*, an evaluation of the use of public resources allocated to its operation can be conducted. The applicable legal framework regulates both the organization of state-owned entities and the use of public funds, establishing principles for their administration, including planning, measurable results, control, accountability, efficiency, and fiscal discipline.

In this context, a question arises: is it legitimate to allocate public resources to a project whose financial viability is highly uncertain? The case of Mexicana de Aviación serves as an ideal example to analyze the legal limits of public spending in state projects that have not proven to be self-sustainable, particularly in light of its deficient operational performance, its dependence on public subsidies, the adverse conditions of the global airline industry, and the adoption of expansion strategies within a context of financial fragility.

Context

The creation of the new Mexicana de Aviación, under military administration, cannot be understood solely as an aviation or transport policy. Following its bankruptcy in 2010, the brand remained in the collective memory as a national symbol. Its acquisition by the government and subsequent commencement of operations of the new carrier, rebranded as “the airline intended to serve the public,” reflects a strategy with symbolic and political weight, aimed at reframing a narrative of recovery of a historic asset.

The new Mexicana was created by decree as a majority state-owned entity¹, with the purpose of improving the quality and coverage of air services and promoting connectivity as a driver of national growth, development, and competitiveness². Subsequently, it was granted authorization to provide public air transport services through the legal figure of “allocation,” allowing it to operate without following the same mechanisms as a private concessionaire³. In other words, from its inception, the facts suggest that its implementation was not preceded by sufficiently robust technical planning, but rather resulted from a political move to strength operations at the Felipe Ángeles International Airport, another Government project, which serves as the airline’s primary base of operations.

Historical experience shows that state-owned companies are characterized by operational inefficiency and decision-making shaped by political pressure. This does not imply that the State should not participate in strategic sectors, but rather that such participation must be subject to clear limits, autonomous control mechanisms, and rigorous evaluation criteria to ensure the efficient use of public resources.

Legal Framework

A. Federal Law on State-Owned Entities

The Federal Law on State-Owned Entities establishes that state enterprises must operate under principles of planning, efficiency in public spending, and control⁴. This implies the obligation to define clear objectives, viable strategies, and rational use of resources. In this context, allocating resources to projects with a low probability of success, without robust feasibility studies, could be contrary to the legal duty of planning. Likewise, under Article 32 of the Law, when a state-owned enterprise no longer serves the national economy or the public interest, the Ministry of Finance may propose its dissolution or liquidation⁵.

1. https://www.gob.mx/cms/uploads/attachment/file/1023969/2025_08_14_MAT_shcp_15.pdf

2.- <https://www.mexicana.gob.mx/assets/images/components/landing-page/components/comunicados/comunicado-02-Junio-2024.pdf>

3.- https://asyv.com/wp-content/uploads/2023/12/11_23_Coelum_e810455cf0.pdf

4.- Ley Federal de Entidades Paraestatales, Art. 59.

5.- *Ibid.*, Art. 32

B. Federal Budget and Fiscal Responsibility Law

The Federal Budget and Fiscal Responsibility Law imposes strict obligations on the State regarding the administration of public resources under principles of transparency, legality, fiscal discipline, efficiency, performance evaluation, and accountability⁶. Public expenditure must be properly planned, budgeted, and linked to clearly defined objectives, measurable goals, and institutional activities, while also subjecting expenditures to mechanisms of control and performance evaluation. In addition, it establishes that public programs and projects must be evaluated based on their effectiveness and social impact⁷, reinforcing the obligation of the State to ensure that the use of public funds is economically rational and results-oriented.

Deficient Operational Performance

Despite its objective of improving connectivity, the airline has shown deficient operational performance. During its first year, it transported approximately 382,000 passengers, and in the first quarter of 2026 it carried just over 112,000, representing only 0.76% of the domestic market⁸. It has also cancelled relevant routes and operates with low-load factors, averaging 58 passengers per flight⁹ on aircraft with a capacity of 132 seats. These figures contrast sharply with official projections estimating around 5 million passengers by 2026¹⁰, revealing a significant gap between expectations and actual results.

This performance calls into question compliance with the principle of efficiency in the use of public resources. Financing a project that has not demonstrated financial viability, or a clear social impact may be incompatible with the principles of efficiency, rationality, and fiscal discipline established in the Federal Budget and Fiscal Responsibility Law.

Dependence on Subsidies

Financial analysis of the Profit and Loss Statement¹¹ reveals a strong dependence on public resources. Although the company reports “profits” in its financial statements—542 million pesos in 2024 and more than 2,046 million in 2025—these results do not stem from business profitability but from non-operating income and government transfers. Particularly relevant is the category of “other income and benefits,” which in 2025 exceeds 2.7 billion pesos without clear explanation regarding its origin or nature, raising concerns about transparency.

When comparing revenues and costs, the lack of self-sufficiency becomes evident. The airline incurs operating costs of approximately 3.4 million pesos per day¹², exceeding 1.2 billion annually, while operational revenues are only around 297 million pesos¹³. As a result, the company generates less than 25% of the resources needed to sustain its operations, with the remaining covered by public subsidies.

This means that the costs of failed operations and decisions are ultimately shifted to taxpayers, requiring a particularly high standard of transparency and justification. “When a state-owned company depends recurrently on subsidies without demonstrating viability, the State’s obligation to justify such spending becomes significantly more stringent.”

Moreover, the classification of information as confidential on grounds of “national security” has restricted public access to certain operating costs and regulatory charges (including airport fees, immigration services, airspace usage, and taxes). This lack of transparency makes it difficult to properly assess whether public funds are being used efficiently and in accordance with the principles established by law.

6.-Ley Federal de Presupuesto y Responsabilidad Hacendaria, Art. 1.

7.- Ibid. Art. 24, 45 and 85

8.- Operational Summary by Airline: <https://www.gob.mx/afac/acciones-y-programas/estadisticas-280404>

9.- Ibid.

10.- https://www.youtube.com/watch?v=XKcD_PxRQ4M

11.- Estado de Actividades de Aerolínea Mexicana del Estado, S.A. de C.V. <https://transparencia.mexicana.gob.mx/finanzas>

12.- <https://www.youtube.com/watch?v=UXplfQcXwrU>

13.- Estado de Actividades de Aerolínea Mexicana del Estado, S.A. de C.V. <https://transparencia.mexicana.gob.mx/finanzas>

Additionally, subsidies allow the airline to offer artificially low fares, potentially distorting market conditions and creating unequal competition with private operators. From a fair competition standpoint, Mexicana appears not be subject to the same conditions and regulatory framework applicable to other domestic and international carriers operating in Mexico.

Industry Conditions

This situation is even more concerning in light of global airline industry conditions. According to the International Air Transport Association (IATA), even under favorable conditions, airlines operate with low net margins (around 3.9%) and returns below the market's required minimum, reflecting limited value creation capacity¹⁴. In this context, operating an airline requires rigorous strategic planning, financial discipline, and efficiency.

Allocating public resources to projects with a low probability of success may therefore constitute inefficient use of public funds. Likewise, projects lacking adequate prior evaluation may lack proper budgetary justification under the applicable legal framework. The absence of these elements suggests structural viability issues in the case of Mexicana.

Expansion Strategy

Ahead of the 2026 World Cup, Mexicana's intention to expand into the U.S. market reinforces concerns about the rationality of its strategy, particularly given that obtaining the necessary operational permit in time appears unlikely. Authorization depends on the discretionary decision of the U.S. Department of Transportation (DOT)¹⁵, introducing significant regulatory uncertainty and requiring long-term planning and solid financial capacity, especially considering the current limitations that the DOT has on all Mexican carriers alleging Mexico has not been in compliance with the Bilateral Agreement¹⁶, hence, it appears that this expansion is not feasible nor sustainable in the near future.

In a context where the airline has yet to consolidate its position in the domestic market, pursuing international expansion appears reactive rather than the result of sufficient preparation. Moreover, Mexicana's continued reliance on subsidies may further complicate its entry into international markets, as substantial state support may attract greater regulatory scrutiny and raise concerns regarding unfair competition.

Such high-risk investment may conflict with the legal duty of planning, while the absence of clear objectives and prior evaluation undermines its budgetary justification under the applicable legal framework.

Conclusion

The problem does not lie in the existence of a state-owned airline, but in the absence of effective legal limits ensuring that its operation complies with principles of rationality, planning, and viability. The deficient operational performance, structural dependence on subsidies, and the adoption of strategies in highly uncertain contexts significantly weaken the legal justification of public spending.

However, the apparent permissibility of such decisions stems from the flexible nature of the principles governing public expenditure, which allow the State to sustain projects under arguments of public interest, even when their viability is questionable. In this sense, the system allows legally weak projects to persist, transferring the operational costs and financial losses directly to taxpayers.

14.- <https://www.iata.org/en/pressroom/2025-releases/2025-12-09-01/>

15.- <https://elceo.com/negocios/mexicana-de-aviacion-corre-contra-el-reloj-para-volar-a-eu-antes-del-mundial/>

16.- <https://www.transportation.gov/briefing-room/trumps-transportation-secretary-sean-p-duffy-preliminary-aviation-understanding>

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