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http://www.asur.com.mx/asur/artman/uploads/110__opini_n_de_la_cfc_sobre_aeropuertos__011007_.pdf

[Seal of the United Mexican States]
FEDERAL COMPETITION COMMISSION

PRESIDENCY
Doc. No. PRES-10-096-2007-182

Mexico City, 1st October 2007

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Chairman of the Communications and Transport Commission
Senate of Mexico, 60th Legislature, Federal Congress

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Dr. Luis Téllez Kuenzler
Minister of Communications and Transport

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RE: Opinion

On the basis of Articles 2, 23, 24 Sections XI and XVIII, and 28 Sections I, V and VI of the Federal Law on Economic Competition (the LFCE), and on Articles 1, 3, 8 Section II, 20 and 22 Section VIII of the Internal Regulations of the Federal Competition Commission (the CFC or the Commission), the Commission hereby issues the following opinion with the aim of promoting the principles of free competition in the provision of airport services. This opinion is not applicable to aspects of any other nature, since they are outside the remit of the Commission.

This document is composed of seven sections. The first section presents some background information; the second describes the development of the Mexican airport system, with special emphasis on the restructuring carried out as a result of private investment; the third section describes the regulation applicable to airport services and examines its financial implications; the fourth analyses operating efficiency and congestion in Mexico City International Airport; the fifth section discusses a series of alternatives for competition between airports; the sixth assesses the degree of competition between complementary and related service providers; and finally, the seventh section sets forth a number of recommendations regarding competition.

I. Background

1. In 1995, the CFC approved the sale of Grupo Aeroméxico, S.A. de C.V. (Grupo Aeroméxico) and Grupo Mexicana, S.A. de C.V. (Grupo Mexicana) separately, to

independent proprietors.[1] Grupo Mexicana was sold in 2005 and Grupo Aeroméxico is currently in the process of being sold.

2. The separation of the country's two main airlines, together with new competitors on the market and a greater degree of liberalisation internationally, has stimulated competition in air transport services. The results have clearly been positive, as consumers now have a greater range of service options, fares have fallen on routes where competition has intensified and the market is particularly dynamic: the number of passengers transported on domestic scheduled flights increased by 11.7 percent in 2006, which is equivalent to the growth in the industry between 2001 and 2005. More recent data indicate that growth rates have accelerated during the first half of 2007: during this period the number of passengers on domestic scheduled flights increased by 20.1 percent in comparison with the first half of the previous year.

3. In order to ensure that the positive trend developing in the airline sector has the most possible social benefit, it is necessary to guarantee that airport services are also offered with the greatest degree of economic efficiency possible and that they do not become a bottleneck for the growth of the air industry.

4. Airports are the fundamental axis around which many service companies are organised in order to make air transport possible. Airports provide essential services for aircraft landings and takeoffs and coordinate the large number of support services that are required for airlines to operate and for passengers to be received.

5. From the point of view of competition, it is important to ensure that airports have clear incentives and rules in order, on the one hand, to guarantee that services are offered to airlines and passengers with high levels of quality, efficiency and competitiveness, and on the other to prevent them from providing preferential or discriminatory treatment to any given airline or support service provider.

6. In 1998, an important structural change in the airport sector was set in motion when the Mexican airport system was opened up to private investors. Currently, there are three private groups that are responsible for operating 34 of the most important airports in the country. In order to prevent the abuse of market power, the privatisation of the industry was underpinned by maximum tariffs for essential services and rules to ensure competition in support services. In this document, an assessment of the results of these policies is given.

7. The degree of competition and economic efficiency in Mexico City International Airport (AICM) are worthy of special attention. AICM is the airport that handles the most traffic in the country and is the origin or destination of a significant proportion of the passengers transported in Mexico. Competition considerations are especially important given the conditions of congestion prevalent at this airport and the measures that have been implemented to resolve this situation.

[1] For further information, consult the document: "Cintra Case: Resolution on Sale" published by the Federal Competition Commission, Mexico, 2000. Available at:
http://www.cfc.gob.mx/images/stories/comunicacion/Publicaciones/DOCUMENTO%20CASO%20CINTRA.pdf

8. The opportunities to increase competition between and within airports are infrequent, but significant. This document assesses some of the ways in which this would be possible. An analysis is also conducted of the possibilities that exist to promote a greater degree of competition and efficiency in certain services, such as fuel supply services and ground transportation services for passengers to and from the airports.

9. The objective of this document is to assess the performance of airports from the point of view of competitiveness and economic efficiency, and to make the relevant recommendations.

II. Structure and Development of Mexican Airports

10. The country's airport infrastructure is made up of 85 airports, of which 56 are authorised to provide international service and 29 are domestic.[2]

11. Mexico's airports handled approximately 69 million passengers in 2005, of which 59 percent were on scheduled domestic flights, 34 percent were on scheduled international flights, 5 percent were on charter flights and 1 percent were on general aviation flights (private aviation).

12. Commercial aviation in Mexico is a relatively small industry in international terms, which is illustrated by the numbers of passengers handled in the country's airports. The three airports that have the most passenger traffic in the world, Hartsfield-Jackson in Atlanta, O'Hare in Chicago and Heathrow in London, each handle more passengers than all of the airports in Mexico together. AICM, the country's largest in terms of passenger traffic, is 44th among the 50 largest airports in the world.[3]

Passengers Handled by the Mexican Airport System

	1999	2000	2001	2002	2003	2004	2005	CAGR[2] (%)
PASSENGERS (thousands)								
Commercial A[1]	57,795	58,903	58,290	56,584	60,405	65,338	68,304	2.9
Domestic	37,461	36,439	36,621	35,884	38,326	40,169	41,006	1.6
International	14,913	16,558	16,850	16,735	17,614	20,722	23,424	8.0
Charter	5,421	5,906	4,819	3,965	4,465	4,447	3,874	-4.6
COMMERCIAL AA[1]	538	463	490	496	541	630	649	3.6
TOTAL	58,333	59,366	58,780	57,080	60,946	65,968	68,953	2.9
OPERATIONS								
Commercial A	977,258	1,009,791	982,995	984,151	975,043	1,020,153	1,043,171	1.1
Domestic	740,196	746,519	761,095	743,958	731,626	744,028	733,390	-0.1
International	174,571	187,504	185,152	189,237	190,448	217,663	242,242	5.8
Charter	62,491	75,768	36,748	32,109	34,685	33,774	31,446	-7.4
Cargo				18,847	18,284	24,688	36,093	26.1
COMMERCIAL AA	183,379	160,812	161,549	169,022	181,218	204,801	215,240	3.0
TOTAL	1,160,637	1,170,603	1,144,544	1,153,173	1,156,261	1,224,954	1,258,411	1.4

Notes:
1/ Commercial A refers to civil aviation, whereas Commercial AA refers to general aviation.
2/ Compound average growth rate per year

[2] An airport is a public-service civil airfield that has adequate facilities to receive and dispatch aircraft (Article 2, Section VI of the Airport Law).
[3] Airports Council International, World Wide Airport Traffic Statistics, February 2007.

13. During the period from 1999 to 2005, the number of passengers handled by Mexico's airports grew at a modest rate of 2.9 percent per year, on average. However, several marked trends become apparent when this growth rate is broken down according to types of service. Passenger growth on domestic routes was 1.6 percent on average, whereas passenger growth on international routes averaged 8 percent. One of the reasons for this difference in growth rates between domestic and international routes was the lack of competition between Mexican airlines during the period. Another trend is the decreasing importance of charter flights, which fell by 7.4 percent in terms of the number of operations and 4.6 percent in terms of the number of passengers transported per year on average. A final aspect worth mentioning is the use of air freight as a means of transporting goods. Although initial levels were very low, the number of flights exclusively for cargo increased at a compound average growth rate of 26.1 percent per year between 2002 and 2005. This is an important development, given that the use of this mode of transport is still limited in this country.[4]

Passengers Handled in Mexican Airports
2006

	Passengers (thousands)	Market Share (%)
Mexico City	24,727	33.6
Cancún	9,728	13.2
Guadalajara	6,350	8.6
Monterrey	5,254	7.1
Tijuana	3,759	5.1
Subtotal	49,818	67.6
Rest	23,807	32.4
Total	73,625	100.0

Source: Information from financial statements of airport groups and ASA.

14. The defining characteristic of airport operations in this country is the degree of concentration. Mexico's five largest airports in terms of passenger numbers handle 67.6 percent of the market. The foremost airport is AICM, with 33.6 percent of the market, followed by Cancún, Guadalajara, Monterrey and Tijuana with 13.2, 8.6, 7.1 and 5.1 percent market shares, respectively.

15. The concentration of air traffic in AICM becomes even more evident when traffic statistics per route are analysed,[5] which show that AICM participated as an origin or destination airport in the transportation of 48 percent of all air passengers in the country and 66.2 percent of all passengers that travelled on domestic routes during 2006. The only segment that AICM did not dominate was international charter flights, where Cancún achieved a market share of 65.7 percent.[6]

[4] Monographic study in Punto de Inflexión, Mexican Institute for Competition, 2006, p. 433
[5] The difference in the two statistical methods may be illustrated thus: if from airport A 100 passengers depart for destination B and 100 for destination C, in terms of total passengers handled airport A has a share of 50 percent, whereas in terms of origin and destination airport A participates in the transportation of 100 percent of the passengers transported.
[6] Calculated by the authors, using origin-destination passenger information provided by the DGAC, available at http://dgac.sct.gob.mx/index.php?id=478

II.1. Restructuring of the Mexican Airport System

16. The reforms to the Airport Law (LA) of December 1995 established a new regulatory framework for the airport industry. This new framework opened up the possibility of the participation of private enterprise in developing the airport network.

17. In February 1998, the *General Guidelines for Private Investment in the Mexican Airport System* were published. They established the criteria according to which control of the country's airports would be transferred to the private sector, in order to ensure that the process would be transparent and fair. At that time, Aeropuertos y Servicios Auxiliares (ASA)[7] was managing 58 of the 83 airports in operation. The rest were managed by the states (10), municipalities (5), individuals (4) and Federal Government agencies (6).

18. For the privatisation process, four airport groups and their respective *Holding Companies* were created: the Mexico City Airport Group (GACM), the Southeast Airport Group (ASUR), the Centre-North Airport Group (GACN) and the Pacific Airport Group (GAP). They were constituted with 35 of the best airports operated by ASA.

19. A company was formed for each airport, and was granted a concession to operate that airport for a period of 50 years.[8] The companies associated with each airport, plus a service company, were placed under the control of the respective *Holding Companies*.

20. Shares in the airport groups were sold in two phases. In the first phase 15 percent of the shares in the *Holding Companies* were sold via a public bidding process to a *Strategic Partner*, who was required to demonstrate technical, administrative and financial capacity, as well as international renown in the development of airport and commercial activities. The remaining 85 percent was subsequently sold to the general public in one or several public offers on the Mexican or international stock markets. The *Strategic Partner* was not permitted to hold interests in another of the airport groups.

[7] ASA was created in 1965 and given responsibility for managing, planning and operating 31 airports that at that time were part of the federal network.
[8] The AICM concession originally had a period of 12 years. In 2004 the period was extended for an additional 38 years to complete the 50-year period granted to the rest of the airport groups.

Passengers Handled by Each Airport Group in 2006[1]
(Thousands)

ASUR	13,780	GACN	11,784	GAP	20,514
Cancún	9,728	Monterrey	5,254	Guadalajara	6,350
Mérida	1,007	Acapulco	994	Tijuana	3,759
Villahermosa	725	Culiacán	844	Puerto Vallarta	2,978
Veracruz	718	Mazatlán	819	Los Cabos	2,721
Oaxaca	496	Chihuahua	699	Hermosillo	1,157
Huatulco	375	Ciudad Juárez	682	Bajío	1,157
Cozumel	371	Zihuatanejo	664	Morelia	599
Tapachula	188	Tampico	485	La Paz	502
Minatitlán	172	Torreón	410	Aguascalientes	460
		Zacatecas	332	Mexicali	386
		Durango	236	Los Mochis	234
		San Luis Potosí	227	Manzanillo	210
		Reynosa	137		

Note:
1/ Terminal passengers. Includes connecting passengers, excludes transit passengers.

Source: Compiled from financial reports presented by airport groups to the Mexican stock exchange, available at http://www.bmv.com.mx

21. The bid guidelines established requirements regarding the composition of the *Strategic Partner*. The *Strategic Partner* had to be made up by a *Mexican Partner* holding at least 25.5 percent of the capital, an *Airport Operating Partner* also with at least 25.5 percent of the capital, and, optionally, an *Investing Partner* with a maximum stake of 49 percent of the capital.

22. The airports to be transferred to the private sector were selected largely on the basis of their traffic levels and their growth outlooks. Economies of scale that are characteristic of this industry increase the chances of financial success of those airports with higher traffic figures. The airports with less traffic would continue to be operated by ASA.[9]

23. Each airport group was formed around an anchor airport with traffic in excess of 5 million passengers per year, which allows economies of scale to be fully exploited. The airports were also grouped regionally.[10]

24. Nonetheless, vertical integration is subject to strict restrictions by legislation. The LA limits the shares that may be held by shareholders or groups that control airports to 5 percent of the shares of an airline, and vice versa.

[9] ASA currently holds the concessions for the airports in Campeche, Campeche; Ciudad Obregón, Sonora; Colima, Colima; Ciudad del Carmen, Campeche; Chetumal, Quintana Roo; Cuernavaca, Morelos (49%); Ciudad Victoria, Tamaulipas; Guaymas, Sonora; Loreto, Baja California Sur; Lázaro Cárdenas, Michoacán; Matamoros, Tamaulipas; Nuevo Laredo, Tamaulipas; Nogales, Sonora; Palenque, Chiapas; Poza Rica, Veracruz; Puerto Escondido, Oaxaca; San Cristóbal de las Casas, Chiapas; Tehuacán, Puebla; Tepic, Nayarit; and Uruapan, Michoacán; it also holds stakes in the airports in Puebla, Puebla (25%); Querétaro, Querétaro (25%); and Toluca, México (25%); and has a stake in and operates the airport in Tuxtla Gutiérrez, Chiapas (49%).

[10] There are slight deviations from the regional scheme, which were intended to diversify the travel segments of the airports that make up the Centre-North and Pacific groups. The Centre-North Airport Group operates the airports of Acapulco, Mazatlán and Zihuatanejo, which are beach destinations on the Pacific coast, whilst the Pacific Airport Group operates airports in industrial cities in the centre of the country, such as Aguascalientes and El Bajío.

II.1.1. Results of Bidding Processes

25. The bidding processes for the 15-percent stakes in the Southeast, Pacific and Centre-North airport groups were carried out in 1998, 1999 and 2000, respectively. The criterion for deciding which was the winning bid was to award the airport group to the candidate who, having satisfied the technical requirements in the guidelines, presented the highest offer for the shares in question.

26. In December 1998, 15 percent of the Southeast Airport Group was sold for 1.1651 billion pesos (equivalent to 120 million dollars). Two public offers were carried out for the remaining 85 percent: 74 percent was sold in September 2000 and 11 percent was sold in March 2005.

27. The *Strategic Partner* stake in the Pacific Airport Group was sold in August 1999, and the remaining 85 percent was offered to the public in February 2006. The price paid by the *Strategic Partner* for its 15% stake in the shares of the Pacific Airport Group was 2.453 billion pesos (equivalent to 261 million dollars at the exchange rate of August 1999).

28. With regard to the Centre-North Airport Group, 15 percent of the shares were sold in June 2000, and the *Strategic Partner* paid 864 million pesos (equivalent to 88 million dollars at the average exchange rate of June 2000). The contract entered into with the *Strategic Partner* included a purchase option for an additional 36 percent if at least this amount was not offered on the stock markets within four years. This option was exercised in December 2005. In November 2006 the company was registered on the stock markets and the remaining shares (48 percent) were offered.

II.2. Financial Results

29. The financial statements of the Mexican airport groups show structures that are atypical when compared with other airport groups internationally or companies from other sectors. The low level of liabilities compared to capital stock is particularly notable. For this reason, and to provide a better notion of performance, this section describes different financial indicators and compares them to international airports.[11]

30. Accumulated Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)[12] for the 2001-2006 period was 6.537 billion pesos for ASUR, 3.559 billion for GACN and 8.843 billion for GAP, stated in pesos at the value of December 2006. EBITDA as a percentage of accumulated revenues for the same period represented 59 percent for ASUR, 45.8 percent for GACN and 64 percent for GAP. For the purposes of comparison, the average percentage from a list of 50 international airports in 2006 was 47.8 percent. The ranking of the Mexican airport groups among these 50 airports, if each were to be listed from the highest to the lowest, would be 11, 28 and 10, respectively.[13]

31. In the 2001-2006 period, ASUR recorded an accumulated operating profit of 4.016 billion pesos, GACN 2.298 billion pesos and GAP 5.22 billion pesos, stated in pesos at the value of December 2006. Operating profit as a percentage of revenues represented 36.3, 29.6

[11] The main financial indicators of the airport groups for the 2001-2006 period are presented in Appendix 1.
[12] EBITDA is used as an indicator in the financial field to compare the profitability of different companies by eliminating differences in financing methods and accounting policies.
[13] Airport Performance Indicators 2006. Transport Research Laboratories. Reproduced in Appendix 2.

and 37.8 percent for ASUR, GACN and GAP, respectively. The average for the representative sample of 50 international airports was 28 percent. If we compare the Mexican airport groups with these 50 airports, ASUR would be in 14th place, GACN in 21st place and GAP in 13th place.

32. In terms of net accumulated profits during the same period, ASUR recorded 2.653 billion pesos, GACN 1.568 billion pesos and GAP 2.968 billion pesos, stated in pesos at the value of December 2006. As a percentage of revenues, net earnings represented 23.9, 20.2 and 21.5 percent for ASUR, GACN and GAP, respectively.[14]

33. Profitability, measured as the percentage of net earnings before taxes over capital stock, for the 2001-2006 period was 5.2 percent for ASUR, 5.7 percent for GACN and 3.5 percent for GAP. The average for the 50 representative international airports was 4.1 percent, and the Mexican airport groups ranked 26th, 23rd and 32nd, respectively.

Selected Financial Indicators

	ASUR	GACN	GAP	TRL[1]
EBITDA / Revenues[2]	59.0	45.8	64.0	47.8
Operating Profit / Revenues[2]	36.3	29.6	37.8	28.0
Net Earnings Before Taxes / Capital Stock[2]	5.2	5.7	3.5	10.9[3]

Notes:
1/ Average for 50 international airports compiled by Transport Research Laboratories (TRL).
2/ Calculated with accumulated data for 2001-2006 period.
3/ Simple average of airports with positive values for indicator "Return on Shareholder's Funds".

Source: Authors' calculations based on financial reports presented to the Mexican stock exchange and with data from "Airport Performance Indicators 2006," Transport Research Laboratories.

34. The financial indicators of the airport groups highlight performance contrasts. The capacity to generate earnings is relatively high compared to other airports around the world, but their profitability is relatively low. This combination of apparently contradictory results is a result of the way in which the airport groups were put up for tender, as we will demonstrate in Section III.

35. The airport groups generated net earnings every year during the 2001-2006 period, despite setbacks such as the September 11th attacks, the 2002 recession and the adverse weather phenomena that principally affected ASUR's operations in 2005. Furthermore, profits have shown an upward trend. The growth rate for net earnings between 2001 and 2006 was a yearly average of 18.3, 29.8 and 21.2 percent for ASUR, GACN and GAP, respectively.

36. If we focus on the development of revenues and operating expenses per passenger, we find important similarities and differences that explain the trends observed in net earnings. All of the airport groups have recorded consistent increases in revenues per passenger; the annual averages between 2001 and 2006 are 4.8 percent for ASUR, 1.1 percent for GACN and 3.8 percent for GAP. On the contrary, operating costs per passenger have behaved differently. GACN's operating cost per passenger has decreased significantly by

[14] No figures were available for the net earnings of the sample of international airports for the purposes of a comparison with the Mexican airport groups.

2.9 percent yearly on average, which, in conjunction with revenue growth, has caused this group to have the highest increase in net earnings. GAP's operating costs have remained practically unchanged in real terms throughout the period, with a growth rate of 0.4 percent, and ASUR's operating costs have increased by 3.4 percent. With the exception of GACN, the increase in the net earnings of the airport groups has been due to increased revenues, and not greater operating efficiency.

III. Airport Regulation

37. In order to manage, operate, exploit or, if applicable, build an airport, it is necessary to have a concession granted by the Ministry of Communications and Transport (SCT). Concessions are granted through public tender, except in the case of permit holders for civil airfields that are already in operation who wish to change their status to that of an airport, when existing concession holders require a "complementary" airport, and when the concessions are granted to federal government bodies or companies that have one of the state governments as their majority shareholder.[15] Concessions may be granted for a period of up to 50 years, and may be extended for an additional 50 years.

38. Concession holders have the obligation to present a Master Development Programme (MDP) to the SCT, which describes, among other things, the construction and maintenance plans for the airport. The MDP must be updated every 5 years and resubmitted to the SCT for approval.[16] Once approved, the MDP becomes binding for the next 5 years and is considered an integral part of the corresponding concession contract. The concession holder has the obligation to invest the total sums set forth in the MDP.

III.1. Classification of Services Rendered at Airports

39. For the purposes of regulating the services provided in an airport, these are classified into three categories:[17]

Airport Services. These are the basic services rendered in an airport. It is ostensibly the responsibility of the concession holder to provide them, although it is also possible for a third party who has entered into an agreement with the concession holder to render such services. The services include:

- the use of runways, taxiways and aircraft parking aprons;
- the use of hangars, mechanical passenger boarding devices, shuttle buses and car parking facilities;
- security, rescue, fire fighting and ground traffic control services, as well as lighting and visual aids;
- the general use of space in the terminal and other facilities by aircraft, passengers and cargo, and

[15] The exceptions are described in Articles 12 and 13 of the LA.
[16] The next reviews of the MDPs of ASUR, GACN and GAP will be carried out in 2008, 2009 and 2010, respectively.
[17] Article 48 of the LA.

- controls on access to the airport by third parties that render complementary and ground transport services.

Complementary Services. These are support services that may be provided by an airline for its own operations or for those of a third party, by the concession holder or by a third party under contract with either of the other two. These services include ramp and baggage handling services, passenger check-in, aircraft safety, the sale of food and beverages to the airlines, cleaning, maintenance, repairs, fuel supply and other related activities.

Commercial Services. Commercial services are those that are not considered essential for the operation of an airport or an aircraft. They include, among others, the leasing of space for shops, restaurants, banks, car rental agencies and advertising.

40. Among the obligations included in the LA, it is established that airport and complementary services must be provided to all users consistently and regularly, with no discriminatory conditions in terms of service quality, speed or price. Concession holders also have the obligation to provide whatever is necessary for the airport to have competitive complementary service options, allowing users to choose the service that most satisfies their needs. Concession holders may only limit the number of complementary service providers in their airports due to considerations relating to space, efficiency and security. In this case, with the participation of the airlines, complementary service contracts must be awarded to the provider that offers the best conditions in terms of efficiency, safety, quality and price.[18]

III.2. Revenue Regulation

41. The LA states that the SCT may establish tariff regulation rules for all those airport services that are not provided under conditions of reasonable competition, in the opinion of the CFC. Between 1999 and 2000, the Commission issued three resolutions to the effect that there were no conditions of reasonable competition in the 34 airports that form part of the privatised airport groups.[19] On the basis of these resolutions, the SCT issued tariff regulation rules for airport services and for the leases and fees relating to the provision of complementary services. The tariff regulation rules became part of the concession contracts.[20]

42. The remaining airports in Mexico are not subject to tariff regulation under the LA. however, the tariffs charged by the airports that ASA has under concession are subject to approval by the Ministry of Finance and Public Credit (SHCP), in much the same way as any other state-owned company.

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[18] Articles 53 and 57 of the LA.

[19] File AD-78-1998, Grupo Aeroportuario del Sureste, S.A. de C.V., dated 4th March 1999, published in the Economic Competition Gazette No. 3; File AD-24-1999, Grupo Aeroportuario del Pacífico, S.A. de C.V., dated 8th September 1999, published in the Economic Competition Gazette No. 5; File DC-01-2000, Grupo Aeroportuario del Centro Norte, S.A. de C.V., dated 3rd August 2000, published in the Economic Competition Gazette No. 7. All available at http://www.cfc.gob.mx

[20] Controls on access by complementary service providers are airport services, while access fees charged to ground transport services and for car parks are excluded from the tariff regulation rules, according to the Airport Law Regulations.

43. In practice, the tariff regulation rules have taken the form of a joint maximum tariff. Under this scheme, each concession holder is free to determine prices for specific airport services, provided that the revenues from such services divided by the traffic units[21] at the airport do not exceed the maximum tariff allowed. Revenues, expenses and investments in commercial services are not taken into consideration for the purposes of the calculation of the maximum tariff.

44. The maximum tariff is updated annually according to inflation and an efficiency factor. This factor gradually reduces the maximum tariff, in an attempt to transfer part of any possible savings generated by the airports due to increased efficiency to the consumer. At the end of each 5-year period, and on the basis of the updated MDP, the SCT establishes new tariffs and new efficiency factors.

45. For the airport groups that are subject to tariff regulation by the SCT, regulated airport services account for between 70 and 81 percent of their revenues. Particularly important among airport services are the revenues obtained from the TUA airport tax, which in turn represents around 80 percent of regulated revenues and more than half of total revenues.

46. Revenues from commercial operations are the second most important item for the airport groups. These revenues have increased consistently, and now represent between 14.1 and 22.5 percent of total revenues. Nonetheless, the proportion of commercial revenues continues to be very low in comparison to other airports around the world. Among the 50 most representative international airports, commercial revenues accounted for 43.5 percent of total revenues.[22]

II.2.1. The International Experience of Revenue Regulation

47. Despite a growing participation by private operators, publicly managed airports continue to be the norm around the world. Among the various regulatory schemes used in public airports, that of the United States is most noteworthy, whereas for privatised airports the most notable scheme is that applied in the United Kingdom, which began transferring its airports to the private sector in 1988. Other countries, including Mexico, have adopted their own systems based on the British scheme.

United States

48. In the United States the vast majority of airports are public, owned by the county or the state, and they are not operated in order to make a profit. They function under a leaseholder model, and their focus is on the development of the airport and its infrastructure, as well as real estate management and some administrative duties. Many of the services are provided by the airlines themselves or by third parties, and it is common for entire terminals to be leased to specific airlines, who will then take charge of managing them.

49. Airport expansion and growth is financed by municipal bonds and federal funds from a tax paid by passengers. Since they are not operated for profit, their objective is basically to

[21] One traffic unit is one terminal passenger or 100 kilos of cargo.
[22] Ibid., Transport Research Laboratories.

recoup operating costs and, if applicable, to pay the interests on the bonds issued. There are three schemes that have this as their objective:

- **Residual.** This scheme is designed to balance out the airport's operating costs and revenues year by year. The *residual* cost that remains after commercial revenues have been offset against operating costs is charged to the airlines. When commercial revenues increase, this is reflected in lower tariffs for airport services, and vice versa. All risks inherent in commercial operations are absorbed by the airlines. Among the airports that apply this scheme are Dallas, Chicago, San Diego and San Francisco.

- **Compensatory.** Under this scheme, the airport charges the airline only the cost of the services it uses. If there is any infrastructure that is underused, the airport will not recover all of its operating costs. However, it can make up any shortfall with commercial revenue sources. Under this scheme, the risk of fluctuations in commercial revenues is absorbed by the airport. Among the airports that apply this scheme are Atlanta, Houston, New York (JFK), Newark, Las Vegas and Los Angeles.

- **Hybrid.** This is a variation on both of the preceding schemes. The operating costs of some aeronautical services (such as landing) are subject to a residual mechanism and the full costs are absorbed by the airlines. Other services are charged according to a compensatory scheme. This scheme allows airports to have a more stable revenue base than under the compensatory scheme, but with the possibility of greater earnings than a purely residual scheme. Among the airports that apply this scheme are Washington (DCA), Saint Louis, Missouri, and Baltimore.

Europe

50. The private sector participates to a greater extent in European airports than in US airports. The different schemes for private participation that have been used include the capital contribution scheme, as in the airports at London, Copenhagen, Rome and Vienna, or financed projects of a "build-operate-transfer" nature, as in Düsseldorf and Athens.

51. The most noteworthy tariff regulation scheme is that applied in the United Kingdom, from which Mexico adopted many important aspects. As in Mexico, in the UK there is a joint maximum tariff or price cap scheme, according to which revenues per traffic unit cannot exceed a certain limit. The maximum tariff is established for a 5-year period, and is only modified during that time according to inflation and an efficiency factor, under a mechanism referred to as CPI – X. However, the possibility of adjusting tariffs if they change considerably from acceptable levels is an important element in the regulatory scheme. Although it is recognised that this system generates a series of incentives for investment, it can also create problems. If the initial tariff level is incorrectly set, this can lead to huge profits at the expense of excessively high prices for airport services. For example, in the United Kingdom during the first 5-year period that the regulatory scheme was in place (1988-1992), extraordinary profits were made and in the subsequent 5-year period it was necessary to apply efficiency factors in the order of 8 percent, for two years, and 6 percent, for three years, to bring tariffs down to acceptable levels.

52. Although they are similar, there are some important differences between the regulatory schemes applied in the United Kingdom and Mexico. The most significant is that in the UK all of the airport's revenues, including commercial revenues, are included in the maximum

tariff (the system known as the *single till*). In Mexico, only those revenues from airport services are subject to the maximum tariff (the *dual till* system).[23]

53. It should be mentioned that during the 5-yearly review carried out in 2003 in the United Kingdom, the aviation authorities proposed changing their system to a dual till scheme, under which commercial revenues would not be regulated revenues. The UK competition authorities did not approve the proposal, citing the following reasons, among others: a) the airports enjoyed monopoly status, in terms of both aeronautical services and commercial services; b) it is difficult to draw a line between airport facilities and commercial facilities, and as the commercial revenues cannot be generated without the airport, both should be considered a single business; and c) as commercial revenues are generated by the traffic brought in by the airlines, the benefits of commercial operations should be shared by the airlines and the passengers; this is not the case under a dual till system.[24]

54. Another important element in the regulatory scheme in place in the United Kingdom is transparency. The 5-yearly review process takes place in the context of a public inquiry, with extensive participation by all stakeholders. All documents exchanged between the authorities and the regulated parties and all statements made by interested parties are published.[25] Furthermore, the division of responsibilities between the aeronautical and the competition authorities contributes to a more open, transparent and solid process. Taking the case of the UK as a reference, it is clear that the 5-yearly review process in Mexico could benefit from more extensive, more open interaction between the authorities, the regulated parties and users.

55. Another regulatory scheme worth mentioning is that of Australia. This country carried out a privatisation process similar to that of the UK, although it was decided that the maximum tariff scheme would only remain in place for the first 5 years, after which tariffs would be subject to a price surveillance scheme. One of the main benefits of this system is that it avoids the complexity and the cost of the tariff review process.

56. The Australian authorities decided to take advantage of the single 5-year period to eliminate the extraordinary profits that would have been generated by switching from public to private management. To this end, the efficiency factor during the 5 years was set at average levels of 5 percent. In other words, at the end of the 5-year period, tariffs were approximately 25 percent lower in real terms than they had been at the start of the privatisation process. Subsequently, no detailed review process will be carried out, although tariffs are subject to approval by the regulatory authorities.

III.3. Maximum Tariffs

57. The average maximum tariff for the privatised Mexican airports in 2006 was 115.9 pesos per traffic unit, stated in pesos at the value of June 2006. The spread between the highest

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[23] The system of a single regulated revenue stream applied in the United Kingdom is similar to the "residual" scheme in the United States, whereas Mexico's dual till system is more closely related to the "compensatory" scheme.
[24] BAA plc: A report on the economic regulation of the London airports companies (Heathrow Airport Ltd., Gatwick Airport Ltd. and Stansted Airport Ltd.). UK Competition Commission, November 2002. Available at: http://www.competition-commission.org.uk/rep_pub/reports/2002/473baa.htm#full
[25] As an example, see the exchange of opinions that is currently taking place as part of the 5-yearly review for Heathrow Airport, available at http://www.competition-commission.org.uk/inquiries/ref2007/heathrow/index.htm

maximum tariff (Zihuatanejo) and the lowest maximum tariff (Tijuana) was 45 percent of the average tariff.

58. The airports have tried to take the greatest possible advantage from the tariff limit, according to data reported by the Mexican Civil Aviation Authority (DGAC) and the financial reports of the airport groups themselves. Consequently, the maximum tariff is a good benchmark for comparing the costs that users have to pay between different Mexican airports.

Maximum Tariffs in 2006
(Pesos at the value of June 2006)

ASUR		GACN		GAP	
Mérida	91.70	San Luis Potosí	89.81	Tijuana	82.53
Veracruz	95.13	Ciudad Juárez	103.77	Hermosillo	89.86
Villahermosa	106.24	Monterrey	106.22	Mexicali	97.17
Huatulco	107.61	Chihuahua	112.56	Guadalajara	103.48
Oaxaca	112.01	Culiacán	114.84	Aguascalientes	110.65
Minatitlán	114.05	Reynosa	120.30	Los Mochis	113.66
Cancún	121.67	Tampico	127.23	La Paz	119.00
Cozumel	130.54	Durango	128.26	Guanajuato (Bajío)	119.21
Tapachula	133.83	Torreón	129.86	Manzanillo	125.53
		Mazatlán	131.81	Puerto Vallarta	126.35
		Acapulco	132.81	Los Cabos	131.28
		Zacatecas	134.56	Morelia	132.28
		Zihuatanejo	135.57		

Source: Authors' calculations based on information provided by the DGAC, restated to June 2006 according to National Producer Price Index Excluding Oil.

59. According to an internationally recognised methodology for comparing airport tariffs, it was determined that Mexican airports are ranked in intermediate positions, between 17 and 37, among the 50 representative international airports.[26] If the tariffs are adjusted for parity in purchasing power, the Mexican airports are located between positions 7 and 19. Therefore, according to these criteria, the prices for airport services in Mexico are relatively high in an international context (see Appendices 3 and 4).[27]

III.4. Formula for Determining the Joint Maximum Tariff

60. The tariff regulation rules established by the SCT set forth a maximum tariff and an efficiency factor for each of the 5 years in the period.

61. The maximum tariff is established by using a formula based on the net present value of the cash flow relating to the regulated services. The cash flow for each period is defined as the difference between revenues and operating costs plus investments, for all items relating to the regulated part of the business. Revenues are calculated by multiplying traffic units by the maximum tariff. Cash flows up until the end of the concession period are brought down to present value by applying a discounting rate. Total discounted cash

[26] Review of Airport Charges 2006. Transport Research Laboratories. October 2006.
[27] The airports at Cancún, Guadalajara and Monterrey would rank 11th among the 50 airports, whilst AICM would be in 19th place, with tariffs adjusted for parity in purchasing power.

flow is referred to as the reference value in the airports concession contracts (see details of the formula in Appendix 5).

62. The formula for determining the maximum tariff generates the following peculiarities. The tariff increases in relation to the reference value, expenses and investments, and decreases in relation to traffic and the discounting factor. In other words, the maximum tariff will tend to be higher in an airport where a large-scale investment programme is planned than in one where investments will be minimal in the near future; it will be lower in an airport with strong forecast growth than in one where traffic growth is expected to be insignificant.

63. The maximum tariff will reflect the specific needs and conditions of each airport, provided that traffic forecasts and cost projections are correct, the investment programme is appropriate and the discounting rate adequately reflects the existing conditions on the financial markets. Ensuring that all these different variables are coherent is one of the major challenges faced by the regulator. A high degree of transparency and a free exchange of information with users may assist in this process.

III.4.1. Reference Value

64. One of the components of the formula that has a different role from the rest of the variables used to calculate the maximum tariff is the reference value. This is a predetermined value used in each 5-yearly review that serves as an "anchor" to calculate the maximum tariff. Once the tariff for this period is approved, this gives rise to the reference value that will be used as the starting point for the next 5-yearly review, and so on. Consequently, the first reference value that was used has a considerable degree of influence on the average level of the tariff throughout the concession period.

65. In order to better understand the impact of the reference value, it is useful to restate the maximum tariff formula in such a way that the initial reference value is equal to the average difference between the maximum tariff and the annual unit cost, weighted according to traffic units and discounted according to the interest rate. Consequently, a positive reference value will imply that the average annual maximum tariff will be higher than unit costs, including investment costs. In a competitive market it would be impossible to establish a discretional reference value, as the free participation of competitors would eliminate excessive profits.

66. In the case of Mexico, the initial reference values for the airport groups were 4.302 billion pesos for ASUR, 4.758 billion for GAP and 3.312 billion for GACN. These reference values make it possible for extraordinary profits to be made. When the airport groups were put up for tender, these potential profits were reflected partially or completely in the bids submitted by the winners, and they therefore became income for the Federal Government. This explains the behaviour of the airport groups' financial indicators, which on the one hand show relatively high profits as a proportion of revenues, which is consistent with a business that generates high cash flows, and on the other a low return on accounting equity.[28]

[28] In the airport groups, accounting equity is basically equivalent to the fee paid to obtain the concession and does not necessarily reflect the tangible assets of the airports.

III.4.2. Efficiency Factor

67. The efficiency factor is an important part of the regulatory scheme, as a mechanism that provides an incentive for the regulated party to make efforts to reduce costs and to transfer the benefits to users. In other countries, the efficiency factor has also been used to cut back excessive profits to adjust tariffs to more acceptable levels. In the Mexican regulatory scheme, the efficiency factor has not fulfilled all the objectives that it was designed for, as a result of both the way in which the mechanism was created and the way in which regulation has been implemented. In structural terms, the absence of any kind of cross reference between the reference value and the efficiency factor produces a maximum tariff over time that "jumps" once every five years.

68. This is illustrated by the fact that 31 of the 34 privatised airports had an increase in their maximum tariff in real terms in the first year of the second 5-year period, compared with the final year of the first 5-year period. Similarly, 24 of the 34 airports have an average maximum tariff in the second 5-year period that is higher than the maximum tariff in the first 5-year period in real terms (see Appendix 6).[29] The effectiveness of the efficiency factor should be reflected in decreasing tariffs that do not "jump" when there are no significant changes in the growth or investment outlooks for an airport between 5-yearly reviews.

IV. Mexico City International Airport

69. AICM plays a fundamental role in the country's aviation. Approximately two of every three passengers on domestic flights and one of every three on international flights fly into or out of AICM. The fact that passenger traffic is so concentrated in Mexico City means that the efficient administration of this airport is critical for operations throughout the Mexican air transport system.

70. The nature of airport services and barriers for new competitors suggest that there are no conditions of reasonable competition in the services provided by AICM. Consequently, AICM should be subject to the same tariff regulation rules as the privatised airport groups. However, as the company is majority state-owned its tariffs are subject to approval by the SHCP, in accordance with Article 31, Section X of the Federal Public Administration Law.

71. The SHCP has different objectives in the tariffs it approves for different state-owned companies. However, its overarching concern is budgetary control against the backdrop of the macroeconomic situation and depending on the availability of resources. In this context, tariffs are not always determined with the aim of improving operations in the airport and investment decisions are subject to additional sources of uncertainty. This complicates the planning of a business which, by its very nature, must be long-term.

72. On the basis of AICM's profit and loss statements, it has been estimated that the cost of providing services is high compared with the other airport groups. If we take a modified indicator as our premise,[30] the cost of services at AICM was 76 pesos per passenger in

[29] In 5-yearly reviews, the tariff may also increase as a result of changes in any of the variables that make up the formula. However, the "jump" is the result of the way in which the regulatory scheme is designed.
[30] In 2005, AICM relinquished its TUA revenues for 15 years to NAFIN, to finance the construction of Terminal 2. The way that this transaction is reflected in the financial statements makes it difficult to compare operating costs with those of previous years and with those of other airport groups. The modified indicator eliminates the line items

2006. This is 58 and 20 percent higher than the corresponding costs at GAP and GACN, which were 47.9 and 62.9 pesos, respectively. Additionally, the cost of providing services remained practically unchanged in real terms over a period of four years; that is to say, that no improvements in the airport's operations were achieved.[31]

Mexico City Airport Group
Results Indicators
(Millions of pesos at the value of December 2006)

	2003	*2004*	*2005*	*2006*
Revenues	**2,489.4**	**2,543.4**	**2,833.1**	**3,611.3**
TUA	1,371.6	1,403.0	1,454.8	1,496.9
Airport	570.2	595.1	669.0	676.7
Commercial	525.7	520.1	486.5	485.3
Complementary	21.9	25.2	25.8	82.6
TUA Remnants[1]			197 .0	869.8
Operating Costs	**2,276.0**	**2,548.0**	**6,766.6**	**4,417.3**
Personal Services	305.9	313.0	307.9	314.2
Material Services	149.9	29.9	166.5	176.3
Administrative Services	817.4	872.2	878.3	906.5
General Services	454.4	634.1	613.3	658.0
Concession Usage	548.5	698.9	4,288.4[1]	921.5
Transfer of TUA Charging Rights[1]			512.2	1,440.8
Operating Profit	**213.4**	**(4.6)**	**(3,933.5)**	**(806.0)**
Modified Cost of Services[2]	1,650.0	1,738.8	1,812.7	1,879.5
Passengers (thousands)	21,693.0	22,994.0	24,115.0	24,727.0
Cost per Passenger	76 1	75.6	75.2	76.0

Notes:
1/ In 2005, AICM relinquished TUA revenues for 15 years to NAFIN, to finance the construction of Terminal 2. This transaction is reflected in several line items in the P&L as of 2005: TUA Remnants, Concession Usage and Transfer of TUA Charging Rights.
2/ The modified cost of services refers to operating costs, minus concession usage, minus transfer of TUA charging rights, minus depreciation and amortisation.
Source: Audited Financial Statements. The restatement to December 2006 of the 2003 and 2004 results was the authors' own calculation based on CPI.

IV.1. Declaration of Airfield Congestion

73. According to the framework established by AICM itself concerning maximum numbers of takeoffs and landings, the SCT has declared the airport overloaded, as it handles more than 54 operations per hour.[32]

74. The declaration of airfield congestion at AICM became effective on the 1st of June 2005.[33] The peak hours when congestion was worst were from 9:00 a.m. to 10:59 a.m., from 2:00 p.m. to 2:59 p.m. and from 7:00 p.m. to 9:59 p.m. However, it was also observed that from Monday to Friday, between 8:00 a.m. and 11:00 p.m., the average number of operations was more than 50 per hour. This intensive use of AICM is an indication that new airport investments are needed.

"Concession Usage" and "Transfer of TUA Charging Rights" from AICM's operating costs, as these are not strictly related to the operation of the airport. Depreciation and amortisation is also eliminated from operating costs, in order to establish a consistent basis for comparison with the other airport groups.

[31] A considerable expense is the technical assistance agreement that AICM has with ASA, which is reflected in the line item administrative services.

[32] In practice, the number of takeoffs and landings that AICM is capable of handling in one hour can be more than 54. For example, with good visibility this figure can be as high as 74 operations per hour.

[33] The declaration of congestion is issued when the capacity of an airport is exceeded in any given hour at least 52 times in one year.

75. The declaration of congestion forces the airport to apply a special set of rules for the assignment of slots. In general terms, these rules are as follows:

a) During the 4-year period following the declaration of congestion, those slots that have not been used for more than 85 percent of the time assigned are taken away from the airlines. These slots are then auctioned and assigned to the highest bidder.

b) If the airfield is still congested at the start of the 4th year, a process is implemented that becomes effective at the beginning of the 5th year: each year, 10 percent of the slots assigned to airlines are recovered and re-auctioned. The winning bidder has the right to use the slot for the next 4 years.

76. In a congested airport, the lack of availability of slots is a concern from the point of view of competition, as it constitutes a serious barrier for the entry of new competitors and a source of advantage for the airlines that are already established.[34] In Mexico City Airport the lack of slots has made it impossible for new competitors to gain access to the airport. The slots that are available are also highly concentrated among the country's largest airlines. From Monday to Friday, 3,902 slots were assigned among the Mexican airlines for the summer season in 2007, representing approximately 85 percent of the total number of slots assigned to all airlines. Aeroméxico and Mexicana each have more than 30 percent of the slots assigned to Mexican airlines: together they account for 65.8 percent of the total. The remaining 34.1 percent is divided up between five additional airlines. In the hours identified as congested, the number of slots assigned to Mexican airlines is 1,657, of which 62.7 percent are assigned to the two major airlines mentioned.

Slots Assigned to Mexican Airlines at AICM from Monday to Friday
For the period between 1st April and 27th October 2007

	Total Assigned	(%)	Assigned in Peak Hours	(%)
Grupo Aeroméxico[1]	1,234	31.6%	502	30.3%
Grupo Mexicana[2]	1,336	34.2%	537	32.4%
Other Mexican airlines[3]	1,332	34.1%	618	37.3%
Total	3,902			1,657

Notes:
1/ Aeroméxico and Aerolitoral
2/ Mexicana and Click Mexicana
3/ Aviacsa, Aeromar, Aerocalifornia, Líneas Aéreas Azteca and Magnicharters
4/ The times that were declared congested were 9:00 a.m. to 10:59 a.m., 2:00 p.m. to 2:59 p.m. and 7:00 p.m. to 9:59 p.m.

Source: CFC with data provided by AICM, available at http://www.aicm.com.mx/ClienteseInversionistas/Slots/

77. The existing rules for the assignment of slots have some elements that promote competition, such as the confiscation and auction of slots that are used less than 85 percent of the time. This measure prevents airlines from obtaining slots simply for the

[34] In order to establish fairer access conditions for new competitors, since 1993 the European Union has required congested airports to create a reserve fund of slots, made up of newly created, unused and abandoned slots. Half of these reserve slots must then be assigned to new competitors (EEC Regulation no. 95/95, amended by EC Regulation no. 793/2004).

purpose of blocking them and avoiding new competitors. Nonetheless, the regulations are not conducive to the rapid materialisation of the pro-competition incentives. No significant changes are made in the first 4 years, and 9 years must go by before 50 percent of slots are put up for auction. This clearly favours the established airlines.

78. Additionally, more than two years after the declaration of congestion, to date there has not been a single case of a slot put up for auction and there are no clear rules as to how such an auction should be carried out. Specifically, it is unclear whether an airline that does not currently operated at AICM may participate in an auction.

79. The use of auctions as a mechanism to apportion capacity has two functions: to eliminate the discretional element inherent in the assignment of slots and to raise the cost of providing airport services so that they reflect the congestion value. For as long as the auction scheme fails to function adequately, slots will continue to be assigned according to an inefficient system.

V. "Complementary" Airports and Economic Competition

80. Article 12, Section II, of the Airport Law authorises the SCT to grant a new airport concession without holding a public bid:

"To concessionaires who require a complementary airport, for the purposes of meeting an increase in demand. This is provided that it is demonstrated that said increase makes it necessary to expand capacity with another airport; that the operation of both airports by the same concessionaire shall be economically more efficient, compared to other options, in order to achieve greater co-ordination and improved service rendering; that the obligations set forth in the concession title have been complied with, and the requirements indicated for the purposes of the new concession have been met."

81. Airport concessions constitute a considerable barrier to entry into the airport services market and regulation to limit market influence is difficult to instrument adequately. If a concession were to be granted under the terms of Article 12, this would cancel out the opportunity to introduce competition.[35]

82. These considerations are particularly relevant given the announcement of the creation of new airports included in the National Infrastructure Plan and the uncertainty that surrounds the construction of a new airport to handle excess demand at Mexico City and the role that will be played by the Metropolitan Airport System.

83. One of the few opportunities that exist to promote competition in the Mexican airport system is when new airports are built whose catchment area overlaps that of existing airports. Of the three new airports mentioned in the National Infrastructure Plan, the one on the Riviera Maya and the one in Ensenada are worthy of a competition analysis, given the possibility of a horizontal concentration with the airports of Cancún and Tijuana, respectively.[36]

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[35] For a discussion of this matter prior to the privatisation of airports in the United Kingdom, see "Privatising London's Airports". The Institute for Fiscal Studies. David Starkie and David Thompson. 1985.

[36] The other new airport envisaged in the National Infrastructure Plan is the Mar de Cortés Airport, which would be located in Puerto Peñasco, Sonora.

84. The granting of new concessions to established private airport groups without putting them up for tender, in accordance with Article 12, Section II, of the LA, should only take place if it can be irrefutably demonstrated that the advantages in terms of efficiency and the benefits for the user would outweigh the danger of consolidating the market influence of the airport group. In such a case, it would be highly advisable for the CFC to review the transaction.

85. The participation of the CFC would also be justified on the ground that the catchment areas of airports are liable to change in the medium term, as a result of the development of transport infrastructure and the growth of cities. The entry of new competitors is also limited, since the granting of new airport concession is infrequent.[37]

V.1. Metropolitan Airport System

86. The Metropolitan Airport System (SMA) was created by the Federal Government in response to the congestion at AICM, with the objective of distributing passengers among the airports in Toluca, Puebla, Querétaro and Cuernavaca. To promote these airports, considerable investments have been made and temporary discounts were granted on TUA and other airport services. The strategy has been especially successful in Toluca Airport. The two airlines that established operations bases there achieved passenger figures of more than 1 million during the first year of operations. However, the strategy could pose sustainability problems in the long term, once the motivation represented by the discounts disappears. Specifically, the airlines currently operating in these airports will have an added incentive to request slots at AICM and, due to the lack of an adequate auctioning mechanism that raises prices at AICM, some kind of assignment system will have to be implemented.

87. International experience shows us that the degree of influence of the government to direct traffic toward secondary airports and to bring in new competitors is very limited.[38] Secondary airports are, by definition, "niche" destinations that handle passengers in a certain market segment that the main airport fails to serve adequately. The specific "niche" for each airport rarely conforms to any administrative plan and it is better to allow market forces to determine the specialisation of each airport while promoting greater competition.

88. The airports at Toluca, Puebla, Querétaro and Cuernavaca are owned jointly by the respective local governments, ASA and, in two cases, private investors. It is considered that participation by the Federal Government in these airports and in AICM could have anti-competitive effects in the medium term.

89. It is notable, for example, that these airports are not subject to tariff regulation rules, despite the fact that in two of them the private investor is the largest shareholder and ASA holds a stake of just 25 percent.

VI. Complementary Services

90. The complementary services can be rendered by airlines, for themselves or for other users, by the airport or by third parties named by them. In the cases where the airlines do

[37] Since 1989, only three new airports have been built in the country.
[38] Planning Multi-Airport Systems in Metropolitan Regions in the 1990s. R. Neufville. MIT

not render the service themselves, it is generally done by a third party under contract with the airlines. The concessionaires act as a last resource when none of the previous options exist. These services include, among other things, ramp, traffic, provision of fuel to aircraft, cleaning, storage and safekeeping of cargo and repair of aircraft.

91. It is estimated that the current regulation is adequate for promoting competition in the majority of complementary services. However, there are two services where more competition could improve the general functionality of the airports: fuelling services and ground transportation services to and from the airport.

VI.1. Exclusivity in fuelling services

92. According to Article 9 of the Rules of the Airport Law, fuelling services in the Mexican airports is reserved for ASA[39]. The exclusivity of ASA en the provision of the services is not justifiable in economic terms, it decreases the incentives for reducing costs and diminishes flexibility of the airlines in the physical and financial management of one of the most important inputs for the aviation industry.

93. In airports in other countries, it is common for various service providers to participate in the provision of fuel, particularly in airports where traffic makes it economically viable for more than one provider to participate.

94. The price paid by an airline to ASA for jet fuel includes three components, the price of the product in the delivery plant of PEMEX, the cost of transporting it to the airport and the cost of introducing it into the fuelling tanks of the aircraft. The first two are out of the control of ASA and are only passed on to the user. The third component is the one charged by ASA for their services and represents around 1.5% of the total cost[40]. The tariff charged by ASA is a differentiated tariff as a result of the amount of consumption and currently only the two biggest airlines can access the segment of the lowest tariff.

95. Under the current scheme, the airlines cannot contract the different components of the service in an independent manner with their respective providers, as is common in other countries. That is to say they cannot buy the jet fuel directly from PEMEX, nor contract a transporting service to take it to the airport, whereby the lack of competition extends beyond the airport sphere.

96. It is foreseen that the elimination of the exclusivity of ASA would induce a greater competition in the fuelling service and tariffs more aligned with the cost of the service. Furthermore, a competitive environment is more adequate for avoiding conducts that may discriminate airlines.

VI.2. Passenger Ground Transportation Services to and from the Airport (Taxi)

97. The cost of ground transportation services from the airport to the city is elevated in a large number of airports and could mean a considerable part of the total cost of the traveller, sometimes above the TUA (Tariff for the Use of Airport).

[39] In some small airports there are other providers that rendered the service before the new Rules entered into force and they continue to do so.
[40] The provision service of ASA includes the reception, storage, quality control and fuelling of the jet fuel to the aircraft.

98. An element that contributes to elevating the cost is the regulatory scheme applied to taxis that provide services in the airports, which implicitly generates empty trips and therefore an important under utilization of the equipment.

99. A permit is required from the SCT in order to operate a ground transportation vehicle for passengers in the airports. The SCT requests the acceptance of the airport in order to issue a permit. A taxi with a local permit cannot pick up passengers in the airports and a taxi with a federal permit can take passengers to the airport when the user is picked up at their home address.

100. In many cities around the world, transport services to the airport are offered by the same local service providers, paying an access fee to the airport. A similar scheme is applied in the bus stations for passengers in Mexico City. This alternative incentivizes a better utilization of vehicles by reducing the number of empty return trips, more flexibility in the offer by having more units at the peak hours of demand and more competition. The better utilization of vehicles together with adequate competitive conditions will lead to lower prices for the users.

101. The elimination of regulatory barriers is an important step towards making the supply more flexible, but it is also a measure for changing the relationship between the permit holders and the airport. The airport, through agreements with associations of permit holders, establishes the conditions for access and the criteria for quality and security of the service. These agreements frequently contain elements that can become entry barriers or can facilitate the setting of excessive tariffs[41].

VII. Opinions

The airports are an essential input for air transport. Therefore it is necessary to ensure that airport services are offered with quality, efficiency and competitiveness, as well as guaranteeing a non-discriminatory treatment of airlines and the support service providers. Based on the analysis in the previous sections, the following opinions have the objective of promoting a greater level of competition where there is space for it and to propose measures for improving the regulation which leads to mitigating the exercise of market power of the economic agents where it is appropriate.

First. Introduce economic efficiency criteria in the bases for tariff regulation of new concessionaires.

The level of tariffs for airport services is artificially high as a consequence of the criteria used for award applied in the tenders for the airport groups and the form that was selected for implementing the bases for the tariff regulation[42]. The combination of the two above elements

[41] For an example of the above, see the resolution of the FCC regarding contracts signed between the AICM and ground transportation service providers available at:
http://www.cfc.gob.mx/images/stories/resoluciones/extractos_de_resoluciones/consultas/CON-13-2006.pdf

[42] The criteria for award was granting the concession to the participant which offered the best Price for the equity stake. Other criteria are more adequate to achieve economic efficiency when there is existence of market power in the activity subject of the tender. For example, declaring the winner based on the lowest tariff for providing the service.

had the effect of maximizing the revenues that the Federal Government received from the tenders and were not aimed at procuring the best tariffs for the users.

On the other hand, the efficiency factor as a mechanism for reduction in costs and transfer of improvements in efficiency to consumers has not had the expected effect. At the end of the only five-year period that has been reviewed it is observed that tariffs have increased in a large number of airports.

Therefore it is proposed:

a) To evaluate the convenience of modifying the legislation regarding the criteria which must be fulfilled by the bases of the tariff regulation applicable to new concessionaires[43]. These criteria must ensure that: (i) the tariffs have a reasonable relation with costs; (ii) the efficiency factor promotes the reduction of costs in benefit of the users.
b) Establish that the bases of the tariff regulation have obtained the opinion of the FCC in order to verify the compliance with the above criteria.

Second. Include commercial revenues in the bases for tariff regulation for new concessionaires.

The airports have technical-economical characteristics that make them prone to have market power and fix prices above those that would prevail in a competitive market. The current legislation regulates the revenues related to airport services but excludes the regulation of revenues generated by commercial activities. In the opinion of this Commission, this policy does not adequately ponder the nature of economic relations given in an airport, in particular, that airport revenues and commercial revenues derive from one business and that, as the case may be, the airport has market power in the entire business.

Therefore, it is proposed to modify the legislation so that the bases of tariff regulation applicable to new concessionaires have as an objective to regulate on single till of revenues constituted by airport services and commercial services[44].

With this measure the market power of airports is mitigated in all possible aspects and frictions are reduced between airport operators and users that consider that investments in the commercial business enter into conflict with those necessary for the efficient operation of the airport[45].

Third. Strengthening the independence of the regulator and increase the transparency of airport regulation.

The regulation of airports is a complex task that requires specialization in different fields of knowledge and independence in the application of the same. The multiple roles played by the SCT in the definition of policies, planning of growth, promotion and regulation both of aviation as well as of airports, are difficult to carry out adequately.

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[43] Reference is made to concessionaires to whom bases of tariff regulation are applied in the future.
[44] In this case the expenses of the investors derived from the commercial activities should also be included in the regulation.
[45] For airports in saturated conditions, the revenue derived from auctions should not form part of the revenues for airport services in order for the prices to reflect the cost of congestion and in order for improved use of resources to be promoted.

On the other hand, the tariff regulation of airports requires a more transparent five-yearly revision process. In Mexico, the limited participation of the users and the lack of discussion during the process do not allow the regulator to analyze all the available elements in order to take a decision which takes into account all the positions of all the parties involved.

Therefore, the following measures are proposed:

a) Creating an independent regulatory organ[46].
b) Making more transparent and open the process of five-year revisions[47].
c) Ensuring that in the next five-year revisions, the regulator has the necessary capacities in order to guarantee the best tariffs for users.

The regulation of the airports is complex and requires the best understanding of those involved of all details and functionality. More independence and transparency would add solidity to the regulatory process.

Fourth. Promoting more efficiency in the mechanism for assigning slots in saturated airports.

The slots for take-off and landing in saturated airports are an important entry barrier for new competitors. The current rules clearly favour the established airlines: there is little space for assigning slots to new competitors and the decisions regarding the slots are carried out by the airports Operations and Slots Committee, where only the established airlines participate.

Auctions are a more efficient mechanism for the designation of slots than reasoning. Therefore, by strengthening the mechanism of auctions, a better efficiency can be achieved.

Based on the above, this authority recommends the following to the AICM:

a) Periodically publishing all the necessary information in order for users to have knowledge of the slots to be reassigned and immediately initiate the process of auctioning the same[48].
b) As soon as possible define the rules of participation in the auctions, including as a criteria that any airline can participate.
c) Obtain the opinion of the FCC regarding the bases of the auctions and regarding the participants in order to guarantee free competition and participation.

Furthermore, in order to have the best rules for future situations of saturated airports, the FCC proposes to incorporate the above recommendations as well as the following measures into the legislation:

d) Reducing from four to two years the period immediately after the declaration of saturation referred to in Section I of Article 99 of the Rules of the Airport Law.
e) Designation of a third independent party as responsible for the slot assignation process in saturated airports, including the auctioning process[49].

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[46] This regulatory organ could carry out the more ample functions that include other activities associated to transport such as ports, roads and railroads.
[47] For example, the obligation could be established in order to publish for a reasonable period of time the required information for the users to consult and analyze.
[48] In accordance with Section I of Article 99 of the Rules of the Airport Law, it is established that during the first four years after the emission of the declaration of saturation, the new slots subject to auction, are those used in a proportion below 85%, those left unused and those retired due to outstanding payments of airport or navigation services.

f) Substituting the authorization issued by the SCT to the airlines for operating new routes for a notification of service rendering, in such a manner as to guarantee the necessary safety conditions for the correct rendering of the service.

These recommendations have the central objective of achieving that the mechanism for designation of slots is excessively concentrated and in order to promote efficiency in compliance with Article 28 of the Constitution.

Fifth. Promoting more competition between airports.

The possibility for direct competition between airports is limited and therefore it is convenient to take advantage of them. This is relevant in two contexts. In the development of new airports and for the System of Metropolitan Airports (SAM). Therefore it is proposed:

a) To ensure that the award of new airport concessions is pro-competitive.

The development of new airports is a rare event. For example, the National Plan for Infrastructure, only three airports are established as being developed in the coming six years: Mar de Cortes (Puerto Peñasco), Ensenada and Riviera Maya.

It is convenient that the FCC participate in the process of concessioning the airports, both in the case of tenders as well as when they are awarded directly in accordance with Section II of Article 12 of the Airport Law, in order to ensure the competitive process.

It is recommended to introduce the legal obligation to have the favourable opinion of the FCC in order to participate in the tender process for an airport concession or in order to directly receive a concession.

b) Gradually retiring the participation of the Federal Government in some of the airports of the SAM.

The SAM is formed by the AICM and the airports of Toluca, Cuernavaca, Queretaro and Puebla. Structurally it is recommended in the medium term to have a metropolitan airport system configured by airports pertaining to different groups of control which compete for the air transport market of the capital of Mexico and which would lead to a greater economic efficiency, lower costs for users and improved quality of service.

The Federal Government participates as majority shareholder in the AICM while at the same time, through ASA, they have a 49% participation in the airport of Cuernavaca and 25% of the airports of Toluca, Queretaro and Puebla. It is recommended to gradually retire the investment of the Federal Government in the AICM or in the other airports forming the SAM in order to promote more competition among this group of airports. The speed with which this process should be carried out will depend on the growth of traffic in said airports. Currently the clearest candidate is the airport of Toluca.

Sixth. Eliminating the exclusivity of ASA en the service of provision of fuel.

The exclusivity of ASA in the provision of fuel in the Mexican airports is not sustainable from an economic point of view. Eliminating this exclusivity would strongly promote competition.

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[49] A similar figure exists in the legislation of the European Union. EEC Rule no. 95/93, 18th of January 1993.

Notwithstanding, this measure is inoperable if it is not accompanied by others that allow access to possible providers to the necessary infrastructure for providing the service. The infrastructure currently installed is property of ASA and it may not be physically possible (due to space restrictions) or economically viable partially or totally replicating said infrastructure.

Therefore it is proposed to the SCT to:

a) Emit a resolution terminating the exclusivity of ASA established in Article 9 of the Rules of the Airport Law.
b) Evaluate alternatives for allowing private third parties to render fuelling services, including the possible privatization of assets related to the activity.

Seventh. Eliminating restrictions to the entry of competitors in the service of rendering car transportation services to passengers to and from the airports (taxis).

The service of car transportation of passengers to and from the airports could be more efficient. The regulatory scheme that applies to the rendering of this service leads to under-utilization of equipment and higher prices for users. On the other hand, the underwriting of agreement for access between airports and associations of permit holders can facilitate the fixing of excessive prices and convert into a barrier of entry.

In order to introduce more efficiency into the car transport services of passengers to and from the airports it is recommended to introduce the necessary measures in order to promote more competition and lower price of the service.

Without underestimating other options that may lead to the desired result, one alternative is that the service is rendered by the permit holders or concessionaires of the local public transport service of passengers. The above must consider the adequate transition in order for the necessary security measures to be adopted in the rendering of the service.

Eighth. Monitoring the vertical integration between airports and airlines.

The vertical integration between airports and airlines has a high probability of compromising competitiveness. The Airport Law considers this fact and it therefore restricts the equity stake of shareholders or controlling groups of an airport to 5% of the equity structure of an airline or vice versa.

The FCC will be especially careful in avoiding any vertical integration that may affect competition, including those under the limit established by the Airport Law.

The above recommendations constitute general guidelines for public policy and they are issued with full knowledge of the impact of different legislations and authorities in order to achieve the social and economic objectives formulated for airport services.

The incorporation of these recommendations into the regulatory framework requires a detailed, coordinated and integral revision under the legal framework applicable to airport services. Therefore, this authority issues its full cooperation in order to work with competent authorities in order to, and in the environment of respective contributions and adding knowledge and experience in the sector, design specific proposals for reform that promote the efficient development of the markets involved in benefit of the Mexican society.

Finally, this authority restates its commitment to take action in the area of its competence in order to avoid and sanction behaviour contrary to the competition legislation.

This opinion is issued based on articles 2, 23, 24 Sections XI and XVIII and 28, Sections I, V and VI of the Federal law on Economic Competition as well as articles 1, 3, 8 Section II, 20 and 22 Section VIII of the Rules of the Federal Competition Commission.

Without any further, I take the opportunity to send you my greetings.

SINCERELY

EDUARDO PEREZ MOTTA
PRESIDENT

Exhibit 1. Financial Indicators of Airport Groups

Selected Financial Indicators - Grupo Aeroportuario del Sureste (1)								
	2001	2002	2003	2004	2005	2006	Accumulated 2001-2006	% over Revenue
Revenues	1,447,169	1,458,900	1,658,742	2,124,524	2,147,460	2,238,961	11,075,756	
Operational Cost	978,253	1,041,228	1,091,173	1,223,944	1,315,670	1,409,293	7,059,562	63.7%
Operational Profit	468,916	417,671	567,569	900,580	831,790	829,668	4,016,194	36.3%
Net Profit	314,170	259,047	312,371	652,623	586,017	528,115	2,652,343	23.9%
EBITDA (2)	837,152	801,924	967,404	1,330,165	1,283,464	1,317,456	6,537,564	59.0%
Net Profit/Equity	2.4%	2.0%	2.4%	4.9%	4.3%	3.8%		

Notes:
1/ Numbers in thousands of pesos as of December 2006
2/ EBITDA means Earnings Before Interests Depreciation and Amortization

Source: Own calculation based on annual reports of the airport group and the BMV

Selected Financial Indicators - Grupo Aeroportuario Centro-Norte (1)								
	2001	2002	2003	2004	2005	2006	Accumulated 2001-2006	% over Revenue
Revenues	1,178,831	1,096,336	1,160,930	1,286,339	1,426,264	1,626,182	7,774,882	
Operational Cost	913,549	849,005	864,047	888,353	938,914	1,022,766	5,476,634	70.4%
Operational Profit	265,282	247,331	296,883	397,987	487,350	603,416	2,298,248	29.6%
Net Profit	128,057	138,921	184,319	297,161	367,299	452,237	1,567,994	20.2%
EBITDA (2)	432,847	422,867	490,636	606,055	712,084	895,343	3,559,832	45.8%
Net Profit/Equity	1.9%	2.1%	2.7%	4.1%	4.9%	5.9%		

Notes:
1/ Numbers in thousands of pesos as of December 2006
2/ EBITDA means Earnings Before Interests Depreciation and Amortization

Source: Own calculation based on annual reports of the airport group and the BMV

Selected Financial Indicators - Grupo Aeroportuario del Pacifico (1)								
	2001	2002	2003	2004	2005	2006	Accumulated 2001-2006	% over Revenue
Revenues	1,913,883	1,848,357	2,061,807	2,354,976	2,696,264	2,935,806	13,811,092	
Operational Cost	1,308,825	1,249,458	1,331,870	1,450,250	1,549,249	1,700,553	8,590,204	62.2%
Operational Profit	605,058	598,899	729,937	904,726	1,147,015	1,235,253	5,220,888	37.8%
Net Profit	437,843	244,729	334,274	416,437	685,494	894,396	3,013,173	21.8%
EBITDA (2)	1,142,813	1,070,134	1,287,233	1,517,635	1,811,515	2,013,978	8,843,308	64.0%
Net Profit/Equity	1.8%	1.0%	1.3%	1.6%	2.7%	3.6%		

Notes:

1/ Numbers in thousands of pesos as of December 2006

2/ EBITDA means Earnings Before Interests Depreciation and Amortization

Source: Own calculation based on annual reports of the airport group and the BMV

Exhibit 2. Selected Financial Indicators of International Airports

Position	Airport	Operational Profit (1)
1	Atlanta	68%
2	Auckland	66%
3	Johannsesburg	60%
4	Airports	56%
5	Sydney	55%
6	Melbourne	55%
7	Brisbane	49%
8	ACSA	46%
9	Singapore	43%
10	Perth	42%
11	Copenhagen	40%
12	Cape Town	38%
13	London-Heathrow	37%
14	Athens	36%
15	Washington National	36%
16	BAA Group	35%
18	Hong Kong	32%
17	Vienna	32%
19	Dallas Fort Worth	31%
20	London-Gatwick	30%
21	Oslo	29%
22	Birmingham	29%
23	Aeroporti di Roma	27%
24	Stockholm	27%
25	Calgary	25%
26	Beijing	25%
29	Washington Dulles	22%
28	Amsterdam Group	22%
27	Los Angeles	22%
30	Aeroporti di Milano	21%
31	Manchester	21%
32	AENA	19%
33	Malasyan Airports	18%
36	Zurich	17%
34	Aeroports de Paris	17%
37	Vancouver	17%
35	Finnish Airports Group	17%
39	San Francisco	16%
38	Toronto	16%
40	Tokyo Narita	15%
42	ANA	15%
41	Miami	15%
43	Chicago O'Hare	13%
44	Geneva	12%
45	Aeroports de Montreal	10%
46	Ontario	7%
49	Swedish Airports Group	4%
47	Frankfurt	4%
48	Munich	4%
50	Berlin Group	-17%

Position	Airport	EBITDA (1)
1	Atlanta	81.50%
2	Sydney	80.20%
3	Auckland	79.10%
4	Brisbane	71.80%
5	Melbourne	70.10%
6	Athens	67.10%
7	Airports of Thailand	66.00%
8	Singapore	65.40%
9	Johannsesburg	64.30%
10	Copenhagen	60.60%
11	ACSA	58.40%
12	Hong Kong	58.00%
13	Dallas	57.40%
14	Perth	57.20%
15	London Heathrow	53.20%
16	Washington Dulles	52.90%
17	Oslo	51.90%
18	Washington National	51.60%
19	Cape Town	51.20%
20	Aeroporti	50.60%
21	Zurich	49.60%
22	Tokyo Narita	49.50%
23	Stockholm	48.00%
24	Calgary	47.70%
25	Aeroporti	47.50%
26	Vienna	47.40%
27	BAA Group	47.00%
28	Beijing	45.40%
29	Birmingham	44.90%
30	San Francisco	43.90%
31	Manchester	43.40%
32	AENA	43.00%
33	London-Gatwick	42.80%
34	Toronto	40.90%
35	Amsterdam Group	40.70%
36	Chicago	40.40%
37	Aeroports de Montreal	38.20%
38	Aeroports de Paris	37.60%
39	ANA	37.60%
40	Swedish Airports Group	36.60%
41	Miami	34.40%
42	Vancouver	33.60%
43	Finnish Airports Group	33.50%
44	Geneva	33.00%
45	Los Angeles	32.00%
46	Berlin Group	31.10%
47	Malasyan	28.20%
48	Frankfurt	26.90%
49	Munich	24.00%
50	Ontario	22.40%

Note:
1/ As percentage of total revenues. EBITDA means Earnings Before Interests Amortization and Depreciation

Source: Airport Performance Indicators 2006. Transport Research Laboratories. August 2006

Exhibit 3. Cost of Airport Services in International Airports (1)

	Airport		DEG (2)	USD PPP(3)		Airport		DEG (2)	USD PPP(3)
1	EWR	Nueva Jersey	3,634	5,415	26	ICN	Incheon	1,768	3,394
2	YYZ	Toronto	3,114	4,153	27	OSL	Oslo	1,757	1,904
3	ATH	Atenas	3,067	5,095	28	MIA	Miami	1,737	2,589
4	KIX	Osaka Kansai	2,853	3,993	29	PRG	Praga	1,709	3,955
5	JFK	Nueva York	2,736	4,077	30	TXL	Berlin Tegel	1,667	2,210
6	VIE	Viena	2,469	3,338	31	MXP	Milan Malpensa	1,546	2,095
7	YVR	Vancouver	2,465	3,288	32	LIS	Lisboa	1,512	2,508
8	AMS	Amsterdam	2,280	3,050	33	FCO	Roma Fiumicino	1,491	2,020
9	LHR	London Heathrow	2,255	2,845	34	CPH	Copenague	1,482	1,531
10	FRA	Frankfurt	2,252	2,986	35	GRU	Sao Paulo	1,423	2,120
11	SYD	Sydney	2,165	3,019	36	PEK	Beijing	1,386	2,066
12	DUS	Dusseldorf	2,112	2,800	37	MEX	Ciudad de Mexico	1,368	2,941
13	BRU	Bruselas	2,090	2,830	38	JED	Jeddah	1,298	2,234
14	NRT	Tokio Narita	2,088	2,923	39	HEL	Helsinki	1,262	1,530
15	MUC	Munich	2,041	2,706	40	LGW	London Gatwick	1,242	1,567
16	ZRH	Zurich	1,961	2,140	41	BKK	Bangkok	1,152	5,011
17	IAD	Washington	1,932	2,879	42	DUB	Dublin	1,087	1,256
18	SVO	Moscu	1,928	2,873	43	TPE	Taipei	1,052	3,123
19	CDG	Paris	1,894	2,460	44	SIN	Singapur Changi	1,014	1,669
20	WAW	Varsovia	1,888	4,699	45	JNB	Johanesburgo	987	3,736
21	ORD	Chicago O'Hare	1,846	2,750	46	HKG	Hong Kong	985	2,069
22	ARN	Estocolmo	1,840	2,170	47	MAD	Madrid Barajas	956	1,443
23	LAX	Los Angeles	1,838	2,738	48	KUL	Kuala Lumpur	895	2,853
24	SFO	San Francisco	1,824	2,718	49	DXB	Dubai	719	948
25	BUD	Budapest	1,805	4,555	50	BOM	Mumbai	558	4,134

Notes:

1/ Total passenger and airline cost of airport services for an aircraft type Boing 737-300 with 133 seats with a load factor of 75%. Includes tariff for use of airport, landing fee, 2 hours of apron, security revision and mecanical boarding bridge as the case may be. When there are critical hours, it is assumed that they are used 25% of the time.

2/ Special turn around rights

3/ USD adjusted for Purchase Power Parity

Source: Own calculations based on information from Review of Airport Charges 2006. Transport Research Laboratories. August 2006 and World Economic Outlook Databaase. International Monetary Fund. April 2007. available at: http://www.imf.org/external/pubs/ft/weo/2007/01/data/weoselgr.aspx

Exhibit 4. Cost of Airport Services in Domestic Airports (1)

	Airports	DEG (2)	PPP (3)		Airports	DEG (2)	PPP (3)
1	Minatitlán	1,939	4,147	19	Tampico	1,647	3,522
2	Tapachula	1,939	4,147	20	Durango	1,646	3,521
3	Mérida	1,903	4,070	21	Culiacán	1,637	3,501
4	Huatulco	1,894	4,052	22	Torreón	1,628	3,483
5	Los Cabos	1,881	4,023	23	Mazatlan	1,623	3,471
6	Villahermosa	1,869	3,997	24	Chihuahua	1,622	3,470
7	Hermosillo	1,863	3,984	25	San Luis Potosi	1,622	3,470
8	Cozumel	1,838	3,930	26	Manzanillo	1,620	3,465
9	Guadalajara	1,833	3,921	27	Zacatectas	1,606	3,435
10	Oaxaca	1,821	3,895	28	Zihuatanejo	1,604	3,432
11	La Paz	1,800	3,851	29	Tijuana	1,628	3,400
12	Monterrey	1,770	3,785	30	Acapulco	1,564	3,345
13	Cancun	1,763	3,772	31	Aguascalientes	1,523	3,258
14	Bajio	1,753	3,750	32	Reynosa	1,513	3,236
15	Los Mochis	1,752	3,748	33	Ciudad Juarez	1,484	3,174
16	Puerto Vallarta	1,783	3,732	34	Mexicali	1,482	3,169
17	Morelia	1,708	3,654	35	Cd. De Mexico	1,375	2,941
18	Veracruz	1,707	3,652				

Notes:

1/ Total passenger and airline cost of airport services for an aircraft type Boing 737-300 with 133 seats with a load factor of 75%. Includes tariff for use of airport, landing fee, 2 hours of apron, security revision and mecanical boarding bridge as the case may be. When there are critical hours, it is assumed that they are used 25% of the time.

2/ Special turn around rights

3/ USD adjusted for Purchase Power Parity

Source: Own calculations based on information from Review of Airport Charges 2006. Transport Research Laboratories. August 2006 and World Economic Outlook Databaase. International Monetary Fund. April 2007. available at: http://www.imf.org/external/pubs/ft/weo/2007/01/data/weoselgr.aspx

Exhibit 5. Formula for Determining the Maximum Tariff

$$VPN = VT + \sum_{n=1}^{15} \left[\left((TM_n \times UT_n) - E_n \right) \div (1+r)^n \right]$$

Where:

VPN=	Net Present Value of cash flows expected from the business before taxes
VT=	Terminal Value of the business at the end of year 15
TM=	Joint Maximum Tariff
UT=	Traffic Units
E=	Total expenses of each year related to the airport business which includes all expenses without depreciation nor amortization as well as all projected investmetns
r=	Objective rate of return on investment
n=	Each of the calendar years from 1 to 15

Source: DGAC, SCT

Exhibit 6. Maximum Tariffs per Airport

Airports

ASUR	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Cancún	114.71	113.58	112.42	111.29	110.16	112.65	111.80	110.97	110.13	109.30
Cozumel	108.75	103.65	107.58	106.50	105.44	120.87	119.96	119.06	118.16	117.28
Huatulco	100.00	99.07	98.88	97.09	96.91	99.84	98.89	98.15	97.41	96.69
Mérida	87.87	86.99	86.12	85.26	84.40	84.90	84.25	83.53	83.01	82.38
Minatitlán	96.04	95.14	94.19	93.26	92.31	106.60	105.81	104.92	103.24	102.47
Oaxaca	95.43	94.46	93.53	92.59	91.66	103.70	102.92	102.15	101.38	100.62
Tapachula	118.06	116.89	115.72	114.56	113.41	123.90	122.97	122.05	121.14	120.23
Veracruz	100.22	99.21	98.22	97.24	96.26	88.09	87.42	86.76	86.12	85.47
Villahermosa	100.06	99.08	98.09	97.11	96.13	98.36	97.61	96.89	96.15	95.44
GACN	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Acapulco	114.53	111.04	109.93	108.84	107.75	127.68	126.71	125.76	124.82	123.88
Cd. Juárez	93.59	87.54	86.65	85.79	84.93	99.78	99.01	98.27	97.53	96.81
Chihuahua	112.56	97.57	96.59	95.63	94.68	106.21	107.40	106.59	105.79	105.00
Culiacán	107.33	101.42	100.41	99.41	98.40	110.41	109.58	108.76	107.94	107.13
Durango	119.11	115.41	114.24	113.11	111.98	123.30	122.37	121.45	120.54	119.64
Mazatlán	106.02	100.45	99.45	98.46	97.47	126.72	125.77	124.83	123.89	122.97
Monterrey	109.85	99.37	98.38	97.40	96.42	102.12	101.36	100.59	99.84	99.09
Reynosa	117.15	110.36	109.25	108.15	107.06	115.65	114.78	113.92	113.07	112.22
San Luis Potosí	135.00	93.61	92.76	91.91	91.12	98.33	95.69	95.05	94.41	93.78
Tampico	118.46	113.42	112.29	111.16	110.05	122.31	121.40	120.49	119.59	118.68
Torreón	111.25	105.59	105.62	104.58	103.52	124.84	123.89	122.97	122.04	121.13
Zacatecas	115.84	111.53	110.41	109.31	108.21	129.36	128.39	127.43	126.47	125.52
Zihuatanejo	99.47	97.04	96.08	95.11	94.16	130.33	129.36	128.37	127.42	126.46
GAP	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Guadalajara	95.16	94.20	93.25	92.33	91.40	104.22	103.44	102.66	101.89	101.12
Tijuana	108.74	107.66	106.59	105.52	110.61	112.28	111.44	110.60	109.77	108.95
Puerto Vallarta	95.59	95.62	94.67	93.71	92.77	97.47	96.74	96.02	95.29	94.57
Los Cabos	85.14	84.29	83.44	82.61	81.78	84.65	84.01	83.38	82.76	82.14
Hermosillo	106.61	105.54	104.48	103.43	102.40	112.08	111.24	110.41	109.58	108.77
Bajío	129.50	128.20	126.91	125.64	124.38	123.66	122.73	121.81	120.89	119.99
Morelia	103.74	102.70	101.68	100.65	99.65	107.06	106.26	105.46	104.67	103.89
La Paz	98.73	97.75	96.78	95.79	94.84	118.23	117.35	116.46	115.59	114.73
Aguascalientes	85.86	85.00	84.15	83.31	82.47	91.53	90.84	90.15	89.48	88.81
Mexicali	113.76	112.62	111.49	110.38	109.26	124.60	123.66	122.73	121.81	120.89
Los Mochis	110.16	109.05	107.96	106.91	114.21	119.01	118.12	117.23	116.35	115.48
Manzanillo	74.40	73.67	72.93	72.19	71.47	77.74	77.15	76.57	76.00	75.44

Note:

Maximum Tariffs in pesos as of 30 June 2006 updated with the National Producer Price Index without oil
Source: Own calculations with information from the DGAC, SCT.