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Aeromexico Restructures Debt, but Now Faces Charges of Political Corruption

by LADB Staff
Category/Department: Mexico
Published: 1995-08-23

In early August, the airline company Aeromexico took the final step in cementing its debt-restructuring agreement with several foreign banks, thus ending the company's financial uncertainty for the near term. The agreement, which involved the conversion of US$137.5 million in debt through the issue of five-year Eurobonds, was originally announced in mid-July of this year (see SourceMex, 07/19/95).

Notwithstanding the debt restructuring accord, however, the airline is now embroiled in a scandal in which the company is accused of illegally donating US$8 million to the governing Institutional Revolutionary Party (PRI) during the 1994 presidential campaign. Under the accord, a consortium of banks will take temporary control of Aeromexico. Ernesto Martens, director of Aeromexico's parent company Aerovias de Mexico, said the banks' control over the airlines is temporary.

Under Mexican law, the banks, as foreign entities, cannot assume permanent control of Aeromexico. However, Martens did not offer a timetable as to when the foreign banks would relinquish control over the airline. On the other hand, Martens emphasized that the restructuring of debt, along with approval by stockholders to raise another 3.2 billion nuevo pesos (US$515.3 million) in capital, provides Aeromexico with breathing room to take the steps necessary to restore financial health to the airline. The airline is also counting on strong revenues from its operations this year. According to company projections, Aeromexico expects to transport more than 7 million domestic and international passengers this year, through direct operations or through its joint operation with US-based Delta Airlines.

Meantime, Aeromexico's ability to resolve its near-term debt problems was overshadowed by allegations that the airline illegally donated about US$8 million to President Ernesto Zedillo's presidential campaign during 1994. The allegations of the illegal donation were mentioned in a legal document filed by former Aerovias chairman Gerardo de Prevoisin in a Texas court. The document is in response to a lawsuit filed by Aeromexico in the same Texas court to recover about US$72 million that Aeromexico says was embezzled from the company by de Prevoisin. De Prevoisin fled Mexico in late 1994. According to Aeromexico, de Prevoisin used the US$72 million in stolen funds to acquire a condominium in Colorado and to purchase additional stock in Aeromexico to increase his control over the airline.

De Prevoisin's legal response, however, alleges that US$8 million of the US$72 million was actually channeled to the Zedillo presidential campaign via his account at CitiBank in New York. He accused the PRI of placing heavy pressure on the airline to make the donation. "Those payments were extracted from Aeromexico by the incumbent party during election time in Mexico," read the court documents filed by de Prevoisin. "The payments were made in behalf of Aeromexico with the
knowledge and approval of Aeromexico's board of directors, which includes high-level officials of the government."

For their part, airline officials said the US$8 million transferred by de Prevoisin to the PRI was a personal donation by de Prevoisin and not by the airline. "We are not concerned whether de Prevoisin used some of the money he embezzled to make a donation to the PRI," said Martens. "We just want him to return the US$72 million he embezzled from us." John Barr, the attorney who is representing Aeromexico in the Texas proceedings, accused de Prevoisin of using the allegations about the illegal campaign donation to divert attention from the original charge that he embezzled money.

"This guy stole money and used it to improve his equity in Aeromexico, thereby gaining additional power to steal more money," Barr told the New York Times. For their part, PRI officials acknowledged that de Prevoisin donated US$8 million to the party in 1994, but declined to reveal details on how the money was spent. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug 21, reported at 6.21 nuevo pesos per US$1.00] (Sources: La Jornada, 08/09/95; Reforma, 08/08/95, 08/10/95; Excelsior, 08/09/95, 08/10/95; El Norte, 08/11/95; El Financiero International, 08/14/95; New York Times, 08/08/95, 08/15/95)