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AHMSA to restructure debt after defaulting on loan payments

Mexico's largest steel producer, Altos Hornos de Mexico (AHMSA), has been forced to restructure an undetermined amount of debt after defaulting on two loan payments in April. The Coahuila-based company defaulted on a US$39 million debt payment due April 16 and failed to make US$24.7 million in bond interest payments April 30. The lion's share of AHMSA's outstanding debt of US $1.8 billion is denominated in dollars, including US$425 million in bonds placed on international markets.

AHMSA, a state-run enterprise until its privatization in 1991, said a global oversupply of steel and financial problems in Russia and Asia were major reasons behind its financial problems. Sluggish demand in Japan and other Asian industrialized countries has hampered Mexican steel exports. In addition, the Mexican steel industry is facing competition from lower- priced steel imports from Eastern Europe and Russia. Earlier this year, steel manufacturers asked the Secretaria de Comercio y Fomento Industrial (SECOFI) to launch an anti- dumping investigation on imports of Russian and Ukrainian steel (see SourceMex, 1999-04-14).

As part of its restructuring plan, AHMSA fired chief executive officer Alonso Ancira. Ancira was replaced by Jose Domene, who was recently director of international operations for cement manufacturer CEMEX. Domene said AHMSA will attempt to partially reduce its debt by selling off a share of the company. Several potential suitors have already expressed interest in acquiring a share of AHMSA, including Mexican competitors Hylsamex, IMSA Villacero, and ISPAT and Spain-based Aceralia.

A merger with a Mexican company, however, could be challenged by the government's anti-monopoly agency, the Comision Federal de Competencia (CFC). Hylsamex, which controls almost 20% of the Mexican steel market, has already begun discussions with AHMSA to acquire a share of the company. An AHMSA-Hylsamex merger would give the new company a 45% share of the Mexican steel market. "`The only question will be whether Mexican authorities decide there is too much concentration in the market," said analyst Hillary Peruzzi of Morgan Stanley Dean Witter. AHMSA officials said the company obtained a US$75 million loan from the Banco Nacional de Comercio Exterior (BANCOMEXT), but decided to forego the credit to give the company time to get its finances in order.

Anti-monopoly commission rules against Coca Cola

The government's anti-monopoly agency, the CFC, has moved to block US-based Coca-Cola Co. from assuming the Mexican assets of its competitor Cadbury-Schweppes. Coca-Cola is in the midst of a global buyout of Cadbury-Schweppes brands. In a ruling in early May, the CFC said Coca-Cola

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stood to increase its share of the Mexican soft-drink market to 71% if allowed to acquire Cadbury-Schweppes' soft-drink brands, including Orange Crush, Canada Dry products, and Penafiel. Cadbury-Schweppes controls slightly more than 4% of the Mexican soft-drink market. "There is sufficient evidence to conclude that Coca-Cola would be in a position to exercise monopolistic practices," said a CFC statement. Coca-Cola has 30 days to appeal the CFC decision.

Rodrigo Calderon, Coca-Cola de Mexico's corporate relations vice president, said the company will use a review process to present its argument that the company's purchase of Cadbury- Schweppes brands would not be detrimental to consumers. "Coca-Cola will have to offer a set of proposals that clearly shows that this transaction does not threaten the process of competition and free access to the market," a CFC spokesperson told the daily business newspaper El Economista.

But Coca-Cola is also expected to present an alternate plan that would reduce its control over the soft-drink market, including the sale of some of its own brands to another company. Coca-Cola currently owns rights to eight brands in the Mexican market, including Sprite and Fanta. Mexico is the first country in Latin America to object to a merger between Coca-Cola and Cadbury-Schweppes.

Anti- monopoly agencies in Germany, Belgium, and Australia have moved to block Coca-Cola from gaining access to Cadbury- Scheppes brands in their countries. Authorities in the European Union (EU), Spain, Italy, and Greece are also expected to block Coca-Cola from gaining control over Cadbury- Schweppes brands within their borders.

Business chamber criticizes PEMEX for investing overseas

Mexico's largest manufacturing industry chamber, the Camara Nacional de la Industria de Transformacion (CANACINTRA), is criticizing the state-run oil company for investing in an overseas project instead of devoting capital to boost domestic facilities. In a statement issued in late April, CANACINTRA questioned PEMEX's decision to enter into an agreement with Shell Oil Co. to expand production at a refinery in Deer Park, Texas, just outside Houston.

Under the plan, announced in late April, the refinery's capacity would be expanded to 360,000 barrels per day, compared with the current output of 280,000 bpd. About 220,000 bpd of the total production would be devoted to processing heavy crude (Maya) into unleaded gasoline for distribution in the Mexican market.

But CANACINTRA said the funds for the upgrade of the Deer Park facility would be best used to create investment opportunities in Mexico. "We find it difficult to understand how PEMEX could justify such an investment on foreign territory," said CANACINTRA's petrochemical division. "The salaries, taxes, and other expenditures devoted to this project would be welcomed here in our country."

CANACINTRA asked the Mexican Congress to push for closer scrutiny of PEMEX investment decisions. "These types of transactions should be conducted with the greatest transparency and only with the input of all the affected productive sectors." PEMEX did not issue an immediate response to the CANACINTRA concerns.

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But Shell de Mexico president Scott Roberts said expanding the Texas facility is more cost- effective than upgrading a Mexican refinery. He said the Deer Park refinery can produce unleaded gasoline at a very low cost. In addition, Roberts said transportation costs are minimal, since crude oil can be shipped very efficiently between its extraction sites in the Gulf of Mexico and the Deer Park refinery. (Sources: Bloomberg news service, 04/26/99; Novedades, The News, 04/27/99; Excelsior, 04/27/99, 04/29/99, 04/30/99; El Universal, 04/27/99, 04/28/99, 04/30/99, 05/03/99; El Financiero International, 05/03/99; El Economista, 04/27/99, 04/29/99, 04/30/99, 05/04/99; Reuters, 04/26-30/99, 05/03/99, 05/04/99; The New York Times, 05/04/99)

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