A pound of Mexican flesh

The Alfa Group's creditors want to use the conglomerate's troubles to wreck the country's "alliance for production."

On April 22, Grupo Industrial Alfa, S.A., the Monterrey-based conglomerate that is Mexico's largest private firm and a key part of the government's "alliance for production" program for development—and Mexico's largest Volcker casualty—halted payments on principal for $2.3 billion in debt held by private commercial banks, mainly in the United States. One week later, the Alfa Group held an extraordinary meeting in Houston with 130 creditor banks to outline a reorganization plan involving sales of many subsidiaries, in the face of projected losses that could total $314.8 million in 1982.

At the Houston meeting, the company's creditors, led by Citibank, Continental Illinois, and Chase Manhattan, made it clear that their intention is to grab as much of Alfa's hard assets in steel, capital goods, foodstuffs, petrochemicals, and tourism as Mexico's nationalistic laws allow. Alfa is only the weakest of Mexican private-sector firms which could face insolvency in the future. The bankers therefore see it as a test of government reaction, a potential precedent for foreign takeover.

Alfa has already sold a $60 million share in Mexico's media conglomerate, Televisa, and is attempting to sell its $20 million investment in the Las Hadas resort.

Much more is being demanded. U.S. press acounts say the bankers want Alfa to sell 49 percent of all its subsidiaries—including the profitable Hylsa steel operations, the core company which constitutes some 40 percent of Alfa's assets. Hylsa's direct reduction technology is among the most modern in the world.

Citibank, in its eagerness to attach hard assets in the troubled firm, secured Alfa's agreement to a mortgage on one of Alfa's corporate buildings. When Alfa confirmed this arrangement at the Houston meeting, there was a round of boos; none of the other bankers want to be left out in the cold if Alfa's technical default situation is called.

The same Rockefeller-linked interests attempting to control the bankers' side of the negotiations—Chase Manhattan emerged as the "chair" of the 20-bank steering committee set up—are not just calling for 49 percent of firms such as Alfa to become open to foreign purchase; they want 100 percent. This call for reversing Mexico's nationalistic foreign investment regulations came from a Rockefeller front group called the "U.S.-Mexico Businessman's Committee," at an April 20-22 meeting of the CEMAI business council in Mexico.

Mexican press sources indicate that the bankers' demands go beyond gaining hard asset collateral. Among conditions reported to have been placed on the table in Houston were: 1) reorganization of its administrative board; 2) the formation of a "technical council" of "outside experts" to advise whether Alfa met "current standards" in its management practices; and 3) joint appointment of a new comptroller to supervise the firm's complicated finance structure.

One of the key questions is what the Mexican government's role will be. Last fall, when Alfa's troubles first surfaced, the government extended some $680 million in credits. Alfa had fallen into the red due to the effects of high U.S. interest rates, which sent the Alfa Group's loan-charge costs soaring to $358 million in 1981, twice the level of the year before. Then, it was hit hard by the February peso devaluation, which in effect, required it to suddenly earn 40 percent more pesos to pay its dollar debts.

The government views Alfa's steel-making division as part of strategic national production and will not permit its closure or sale to foreign interests. Ironically, in the midst of these financial woes, Hylsa inaugurated its latest plant, in Tlaxcala, and the firm continues forward with an expansion plan to 1.6 million-ton capacity.

It is not known, however, how far the government will go to keep the operation as a whole alive, which accounts for 43,000 jobs. The government may step in with further loan guarantees, or buy up some of the Alfa subsidiaries itself.

Some Anglo-American policy centers are attempting to make such a move as difficult as possible. Susan Purcell, Mexican expert for the Council on Foreign Relations in New York, threatened at a late March seminar that "The takeover of Alfa [by the government] during a period of high inflation could have a discouraging effect on needed private investment."