Colombia's industry facing Chapter 11

by Valerie Rush

The mid-April decision by one of Colombia's oldest and largest textile firms to file for bankruptcy proceedings has ripped the covers off one of the filthiest looting operations plaguing Colombian industry and, if properly investigated by the authorities, could cause heads to roll within this country's political and financial elite.

Fabricato, based in Antioquia province, is the country's second largest textile company and a mainstay of the industrial economy. Its management asked for a Chapter 11 reorganization last week when it could no longer hide an unpayable short- and medium-term debt of 9 billion pesos ($121 million). Stockholders, who have not received a cent in dividends in nearly five years, were not surprised.

Fabricato's directors simultaneously asked the government for an immediate credit line of some $8 million to buy the raw materials that would keep its doors open. Nearly 7,000 workers had a promised wage increase annulled while their future and that of their 20,000 dependents became a subject of national conjecture.

The nation in asked disbelief, "How did it happen?"

The company's history of ownership speaks volumes. Over the past decade, Fabricato passed from the hands of Medellín industrialists into the clutches of the drug/financial mafia known as the "New Colombia." First was Felix Correa Maya, the head of the Banco Nacional, which was liquidated last year by the Betancur government when it was discovered to be up to its proverbial neck in every fraud scheme imaginable. Correa, whose funds came from the drug trade, is now sitting in a Colombian jail.

After Correa's demise, Fabricato passed to the shadowy Isaac Midlenberg, the owner of several suspect banks in the United States who has earned a name for himself as a vulture who devours bankrupt companies. Feeling the heat of a government investigation, Midlenberg yielded control to the financial group of Casas-Rincon Aguirre, which was exposed earlier this year for fraudulent practices, leading to direct government intervention.

The new board of directors, overseen by the government, had a lost cause on its hands when it took over Fabricato—a once technology-proud company which had been asset-stripped to the tottering hulk it is today. The most scandalous aspect of the case is that, despite urgent orders by the Betancur government for special credit lines to be extended to the suffering textile industry, not one cent in bank loans has been made available to Fabricato since last year.

Efforts have already been made to cover up the explosive implications of Fabricato's bankruptcy. Fabricato director Robles Echavarría has blamed Fabricato's troubles on everything from the "world recession" to last March's currency devaluations in neighboring Ecuador and Venezuela, but it is these same speculative and looting practices—albeit on a global scale—that have brought the international monetary system to its current state of collapse.

Iván Marulanda Gómez, the young head of the Medellin Stock Exchange, accurately declared: "The 'New Colombia' has given the nation over to a generation of fictiously opulent financiers who managed the money of the public without God or law, and who imposed the demonic and ruinous game of speculation . . . . Thus the workers, the honest businessmen were pushed toward the abyss, thus the hopes of the new generations come of working age were frustrated."

Marulanda charged the monetarist administrations of López Michelsen (1974-1978) and his successor Turbay Ayala (1978-1982) with complicity in this looting. Fabricato, he said, was annihilated by "One, the assault of unscrupulous hands and perverse minds, who looted it without being stopped by the authorities of previous governments . . . and two, by the establishment, nine years ago, of an economic policy which closed the door to constructive and hardworking commitment to open it to speculative talents which, without any difficulty, seized hold of the productive sector."

Salvaging Fabricato from liquidation will involve more than a reorganization of its debt structure. While Colombian industries remain at the mercy of a financial elite loyal to Dope, Inc. and preoccupied with their Cayman Island bank accounts, the Betancur administration will have no hope of reviving the industrial infrastructure upon which Colombia's future as a nation depends.

The status of Colombia's vital steel works, Acerías Paz del Río, is exemplary. When Colombia's sole steel producer was discovered to be on the verge of bankruptcy earlier this year, a letter went out to all Paz del Ró stockholders from company president and former Finance Minister Jaime García Parra blaming greedy workers for its financial troubles. However, a study commissioned by the steel workers' union on the state of the company revealed the following:

- 95 percent of the company's $100 million debt is contracted in dollars, at usurious interest rates. Forty-one percent of the debt is owed to Colombian banks which lent dollars to Paz del Río through their foreign branches!
- In 1970, only 15 percent of dividends distributed to stockholders was taken out of the company; in 1980 nearly 100 percent of dividends paid to stockholders left the company, making reinvestment impossible.
- Despite an program to expand steel production to one million tons, production in 1982 actually fell to 219,000 tons, below 1962 production levels! The study claims investment money went to pay interest on the debt.