Joint International Business Ventures In Developing Countries

Case Studies and Analysis of Recent Trends

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General Outline of Fives Lille-Cail

The Company

Background. The company of Fives Lille-Cail (FLC) was the result of the merger in 1959 of the Fives Lille Company, already 100 years old, and the Cail Company, which dates from the beginning of the 19th century. It developed further by taking over the Apple-Company in 1963, and the firm of Maison-Bregon in 1966. In 1968, FLC split up into a holding company, the Compagnie industrielle et financière Fives Lille-Cail, with a capital of 66 million francs, and an FLC working company, with a capital of 70 million francs.

In February 1970, FLC entered into a merger with La Société des Constructions Babcock & Wilcox, a subsidiary of the same name. Under this arrangement two shares of Babcock & Wilcox will be exchanged for five new shares of FLC.

The new company is named Compagnie Industrielle et Financière Babcock-Fives. The merger was negotiated with the active support of Banque de Paris & des Pays-Bas, which is a shareholder both in FLC and in Babcock & Wilcox. The new group, which comprises ten companies and about 11,000 employees, will be the largest French engine in the field of heavy engineering equipment, with annual sales of about 1.5 billion of French francs.

With Activities. FLC produces the heavy equipment required for heavy industries. It specializes in the designing and equipping of
whole factories: sugar factories, cement factories, ironworks, complete handling plants for the iron and steel industry, and power plants. Among other things it supplies equipment for hoisting, and for the treatment of ores, compressors, and boilers.

Sales. FLC employs 5,000 people and has five factories—three in northern France around Lille, one in the Paris region, and one at Givors, near Lyon. Sales vary between 300 and 600 million francs ($60 = 120 million). After 20 to 25 million francs have been set aside for amortization, the net profit varies between 5 and 8 million francs.

Foreign Operations. The percentage of exports in FLC's sales is one of the highest in France: an average of 50 percent. Although operations have been established mainly in the developing countries, which receive about three-quarters of the exports, they have also been set up with the Common Market countries and Eastern Europe. Factories have been installed in Mexico, Brazil, Ecuador, Venezuela, Thailand, India, Pakistan, Morocco, Algeria, Tunisia, Congo, Cameroon, Egypt, Israel, Iran, Iraq, U.S.S.R., and Rumania.

POLICY TOWARD JOINT VENTURES

Incentives. FLC is not a financial group seeking, above all, to extract revenue from its joint undertakings; neither is it a company that gives priority to developing its products outside France. It is first and foremost a producer and exporter of equipment and it is interested only in production of goods. Its present policy is to develop sales. Its joint enterprises are the result of a sales promotion policy and not of a move toward establishment of foreign operations. FLC is therefore often led to establish joint enterprises with its clients, either at the client's request or in order to obtain a contract to sell equipment.

Methods. FLC has three types of foreign joint venture:

(a) Ventures to provide technical and commercial services, i.e., companies that examine and sell installations. These companies benefit from the technical expertise of FLC. In theory FLC has control of these companies, provided the local regulations allow it. The variety of arrangements that are used may be illustrated by several ventures that act as FLC's agent in foreign countries. FLC do Brazil is a wholly-owned subsidiary staffed by Brazilians. FLC Iberia is a 50:50 joint venture with Spanish interests. And Sedic, which represents FLC in Belgium, is 60 percent owned by Belgian financial institutions and 40 percent by FLC; the firm is staffed by Belgians.

(b) Ventures with a client as a condition of sale. A client wishes to order a complete factory requests or imposes as a condition th
participation of FLC as the supplier of the machinery and engineering skills. By this association the client obtains additional financial resources and technical guarantees, and FLC plays an active part in seeing that factory functions satisfactorily. FLC provides considerable technical assistance, and often helps the local company to draw up its budgets. As a general rule, FLC's participation amounts to about 5 percent to 25 percent. Portland de Mallorca, in Spain, and Azucarera Tropical Americana S.A., in Ecuador, come into this category of joint venture.

(c) Ventures to establish local engineering and manufacturing companies that, in view of government policies in some semi-industrialized countries, is a condition of continued export to these countries. In fact these countries wish to develop their industries starting with the least complex materials and therefore restrict the importing of these materials. It is therefore in the interest of FLC to have its equipment produced on the spot, using its own know-how, in order to keep open or encourage a market that has already indicated its potential. FLC hopes to maintain its sales either by a number of signed contracts, e.g., the case of Fives Lille Industrial do Nordeste S.A. (FLIN), or by possible future contracts, e.g., the venture with Krishna Corporation Private Ltd., which failed.

FLC's participation may reach or even exceed 50 percent of the capital and it plays a decisive part in controlling operations. The Saar Company in the Saar may also be placed in this category. It is an association with local interests for the manufacture of goods complementary to those of FLC. In this association, each partner controls 50 percent of the shares.

The main joint ventures in the developing countries are: a sugar factory in Madagascar (set up during the 1950's); four cement factories in Turkey (1954-1956); a cement factory in Niger (1962); a cement factory in Majorca (Portland de Mallorca—1962); a cement factory in Spain (1965); a sugar factory in Ecuador (Aztra—1966). These joint enterprises are of the "client-investment" type. FLIN and the KFC project (1964), on the other hand, are of the type of company that manufactures locally.

The four joint ventures selected, KFC, Portland de Mallorca, and FLIN, are the most representative. Aztra and Portland Mallorca have involved large-scale investments. The abandoned venture with Krishna Corporation Private Ltd. and FLIN reflect a generous policy of establishment in a market that otherwise would have remained closed.
Krishna Corporation Private Ltd. and Fives Lille-Cail Private Limited

THE ECONOMIC-POLITICAL CONTEXT

The Policy of the Government of India. Since 1956, the Government of India has vigorously encouraged local industry to take out manufacturing licenses while at the same time imposing strict limits on the currency available to them for imports. In practice, the only European firms that have been authorized to keep up their imports are those that have granted manufacturing licenses to local firms. These imports have been diminishing gradually, as the Indians have found it possible to manufacture the aforesaid equipment themselves. In August 1957 this was the situation facing the Cail Company—which later merged with Fives Lille to form FLC—and consequently they signed a licensing agreement with Krishna Corporation Private Ltd. (KCP), which at that time was the fourth most important industrial group in India, with its headquarters in Madras. When the merger took place, Cail's contracts were assumed by the new company, and later agreements were signed to make these contracts complete and binding on all parties. Because of these agreements, FLC was able to import its equipment into India, to the tune of approximately 300,000 metric tons per annum.

The third five-year plan in India, beginning in 1961, aimed at developing plants producing machinery for heavy industry. The Indian Government placed orders for the new plants with Indian suppliers who held licenses for building such plants. The authorized imports were greatly cut down and only available to foreign companies with a stake in Indian companies.

American policy toward aid to developing countries. In 1961, changes in United States foreign aid policy reflected concern for problems with its balance of payments. American aid allocated to developing countries was, in general, tied to purchases from the United States or from other developing countries. India was considered a developing country, and was therefore able to offer material produced in India to other developing countries receiving American aid.

THE NEGOTIATIONS

Both Indian policy, which was very restrictive toward imports, and very favorable to foreign investment, and American policy on aid.
hoping countries combined to make the prospect of forming a
venture in India particularly interesting for FLC. And so, with
a project in mind, contacts were made in India in 1961 with KCP
Madras, with which the FLC had had links for many years.

This Indian company, whose only means of offering complete fac
tories, especially cement factories, was through an association with
FLC, studied this offer, which was particularly advantageous to it.

A project aimed at forming a joint venture associating KCP
FLC and with a French paper manufacturing group, in order to
manufacture and sell material for cement and paper making factories,
presses, and boilers. The capital, 10 million rupees, was to be sub-
divided as follows: 25.5 percent by KCP, 25.5 percent for the two
French groups, and the remaining 49 percent to be placed with the
Indian public.

This first project had to be abandoned after the withdrawal of the
foreign manufacturing group. It was replaced by a more limited pro-
ject—association between KCP and FLC. The company thus to be
formed was to take the licenses granted by FLC to KCP and to sell
in India the imported material for cement manufacturing. The capital
of the engineering company, shared equally between FLC and KCP,
was to be very limited.

The Indian Government vetoed this project, stressing (a) that engi-
neering companies do not have the right to sell material but only
to do engineering work, as their profits—and therefore the trans-
portation abroad—should not be disproportionate to the total in-
capital from foreign sources; and (b) that the licenses ceded to
an Indian company by a foreign company participating at a 50 per-
cent in an Indian company should not be subject to royalties.

In these circumstances the two partners returned to the formula of
a manufacturing and construction company with a capital of 4 mil-
liards, of which KCP and FLC would each hold 50 percent. The
additional capital required to make the planned investments was
raised through a loan from the Madras Industrial Finance Cor-
poration. On this understanding a protocol agreement was signed in

This project was never carried out. FLC attributes the failure
agreement to the slowness of the Indian administrative proce-
s and the hesitation of the Indian partner, who seemed to continue
to consider the possibility of a solution that would not involve the proposed association.

It is obviously impossible to make any judgment on a joint venture that never took place. However, the reasons for which FLC was led to consider its formation should be stressed—it was the most effective way in which this company could strengthen its position on the Indian market. Subsequent developments confirmed this view, since apart from the continuation of licensing agreements, the contracts concluded after 1965 have up to now only concerned the supplying of material and not of complete installations.

The desire to maintain a position in a closing market is behind the creation of the FLIN, the joint venture in Brazil, in which the FLC participates.

**Fives Lille Industrial do Nordeste S.A. (FLIN)**

**THE ECONOMIC-POLITICAL CONTEXT**

*The Policy of the Brazilian Government.* In Brazil there are two trends concerning foreign capital. The liberal point of view is that, as internal savings are weak, foreign contributions constitute the major source of investment. The "socialist-nationalist" point of view is that foreign investments are the main instrument for foreign exploitation of the country.

The policy of the Brazilian Government toward foreign investments demonstrates uncertainty. The Superintendência da Moeda e do Credito (Sumeoc), in its instructions of January 1955, renewed in January 1965, wished to facilitate short-term entry of foreign equipment companies. The foreign capital law 4.14(1) of September 1965 limited to 10 percent per annum the delivery of dividends by foreign companies; this law has now been neglected. But these fluctuations are not favorable to the placing of foreign investments.

Neither are the statutes concerning subsidiaries of foreign companies very favorable to the foreign investor. Into this category falls any company of which at least 50 percent of the shares giving right of vote belong, directly or indirectly, to a foreign enterprise. As regards the fiscal authorities, the transfer of funds from the branch to the parent company is not authorized. Tax on the dividends deducted at source is 25 percent if the dividends are to go to foreign persons, 15 percent if they go to persons whose residence or company headquarters is in Brazil. A tax of 30 percent is also levied on income-
sent abroad. Finally, national companies are granted easy loan conditions by the specialized agencies, which the branches of foreign companies do not enjoy.

The Northeast of Brazil. The northeast of Brazil is a particularly underdeveloped region. On account of this the government has agreed to special conditions for companies that consent to establish there, and has formed a special body responsible for encouraging economic development in the region—the Superintendência do Desenvolvimento do Nordeste (Sudene). If this body approves the establishment of an industrial project, the beneficiary enjoys considerable exemptions from taxes and customs duty.

THE NEGOTIATIONS

In April 1967, the Banque de Paris et des Pays-Bas, on the initiative of FLC, signed a financial agreement with the Brazilian Institute for Sugar and Alcohol Production, for the exporting from France of 60 million francs worth of equipment. The Sudene insisted on the installation of a workshop for the construction of machinery and the maintenance and manufacture of material for the sugar industry.

Within the terms of this agreement, FLC undertook to build the workshop, and as the main beneficiaries of the agreement were in the state of Alagoas, the Factory Workers Union in this state proposed that the workshop should be built there.

The new joint venture was formed by FLC putting up the whole of the capital increase of the Industria Metalurgica Alagoana, which changed its name to become Fives Lille Industrial do Nordeste (FLIN). The initial capital of the company is to be divided as follows:

Factory Workers Union, Alagoas  98,000 cruzeiros (49%)
FLC  102,000 cruzeiros (51%)

The new resources are to be used first to buy an area of land of 50 hectares upon which to build the workshop for which FLC will supply equipment and technical assistance.

The question arose as to which company would make the investment, the parent company or its Brazilian branch, Fives Lille do Brasil. On the understanding that changes might later be made to the structure of the Brazilian group, it was the branch company that, in view of the original stakes, held the participation in the FLIN.

It must be noted that the elaboration of the project gave rise at
times to violent opposition from competitors, who did not kindly to the installation of FLC in Brazil. Once these difficulties had been overcome and the French authorities had given their permission, FLC paid over, in September, 1967, the 102,000 cruzados agreed on, and sent an engineer to Maceio, capital of Alagoas, to study the industrial project.

The Sudene approved the FLIN project and the agreement was signed in November 1967.

FINANCING AND MANAGEMENT

**Financing.** The final distribution of capital was to be as follows:
(a) shares including right of vote: $1 million (FLC has 51%, and the Factory Workers Union 49%); (b) shares without right of vote: $1 million (Sudene fund); (c) loans at 8 percent from the Nordbank: $2 million. In fact, the Bank's participation in the form of loans was replaced by the contribution from the Sudene of an equivalent sum in shares without right of vote. Apart from this slight change, the initial scheme (75% put up by Sudene without control of the management, the remaining 25% being divided between FLC and the Factory Workers Union) has been preserved.

Out of an authorized capital of 20,000,000 cruzados, 12,000,000 were subscribed and the distribution in August was as follows:

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<tbody>
<tr>
<td>FLC</td>
<td>1,530,000</td>
</tr>
<tr>
<td>Factory Workers Union</td>
<td>1,470,000</td>
</tr>
<tr>
<td>Sudene</td>
<td>9,000,000</td>
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These figures were reached after five increases in capital in which FLC participated as set out above, through the local branch, FLC-Lille do Brasil. It must be noted that for fiscal reasons the Brazilian partners would like to see the FLIN become listed on the stock exchange. Although FLC was reticent over the addition of new shareholders, it would not reject this development if the shares sold to the public belonged to the Brazilian group.

**Management.** At the General Assembly of Shareholders, FLC holds 51 percent of the votes and the Factory Workers Union 49 percent. On the Board of Directors FLC appoints the Vice-Chairman, the Sales Manager, and the Technical Manager. The Factory Workers Union appoints the Chairman and the Head Supervisor. Every year the Assembly elects a Fiscal Board of three members.

As FLC controls 51 percent of the capital, it was necessary to provide some form of protection for the Brazilian partners. As
General Assembly, the most important decisions --- modification of capital, by-laws, and loans involving mortgage guarantees --- are made with a two-thirds majority. Decisions of the Board of Directors other than those concerning the usual running of the company are made with a majority of four out of five directors.

ACHIEVEMENTS

It is too early to develop this aspect. It is, however, possible to give a brief idea of the results of the joint venture during the two years of its existence.

Technical Assistance. This is industrial assistance rather than financial. Financial aid is, however, by no means negligible and is conducted through the Brazilian branch of FLC. Industrial assistance has consisted mainly in a study course for a Brazilian engineer in France and a visit to Ecuador by the representatives of the factory workers in Alagoas, who examined the Aztra sugar factory, another of FLC's joint ventures. Finally, FLC plans to send out to Maceio two French engineers and three foremen.

Management of the Company. On this point the agreement has not been entirely respected. Out of the three members of the Board of Directors that FLC is authorized to elect, FLC has only appointed two: the Vice-Chairman (a Director of Fives Lille do Brasil) and the Technical Director (a Frenchman who has worked twelve years in the FLC at Demain).

Results of Operations. At the end of November 1969 the technical services were completed, the factory covered, and a third of the machines delivered. The factory will not be entirely completed until the end of 1970. But the canvassing for clients has already begun and is going well. Firm offers of 1 million new cruzeiros have already been made and orders worth 13 million new cruzeiros from 42 clients are being considered. When the factory is running at full capacity, it should have annual sales of approximately 12 million new cruzeiros.

From the orders received the beginnings of a new development can be seen --- FLIN is ready to produce not only boilerworks material for the sugar industry, as was intended at the outset, but also other material, in particular light framework for factories.

EVALUATION

It is impossible to give a complete judgment on a joint venture set up recently, but it can be noted that the partners seem satisfied with their association, which is functioning without major setbacks.
In general, relations between the company and the government, or rather its local representative, the Sudene, are highly satisfactory.

The joint venture also seems to correspond to the hopes of partners. For the government, the installation of a workshop for the manufacture of machinery in this particularly underdeveloped region is a very positive step, as it is for the Factory Workers Union in Algiers. For FLC, FLIN is the best way to obtain new orders in France and to renew a policy of active presence in this country—a policy that had lain dormant for over twenty years.

*Portland de Mallorca S.A.*

**THE ECONOMIC-POLITICAL CONTEXT**

*The Policy of the Spanish Government toward Foreign Investment.* With regard to foreign investment, the Spanish Government is in an ambiguous position. Nevertheless, since the law of July 1, 1959, a certain number of principles have been laid down. The repatriation of profits is theoretically free, although reinvestment in Spain is strongly encouraged. Direct investments require the authorization of the Spanish Government, and in any case, if a joint venture is formed, 50 percent of the capital must remain in Spanish hands unless the authorities have given express and exceptional permission.

*The Cement Market in the Balearic Islands.* Portland de Mallorca S.A. was set up in order to construct a cement factory near the town of Palma de Mallorca in the Balearics. There was in fact no doubt there being a market for cement on the island of Mallorca, given the spread of tourism to the island, the planned development of the port, and the need to build a dam. According to official statistics, cement consumption was as follows:

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<th>Year</th>
<th>Tons</th>
<th>Year</th>
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<tr>
<td>1954</td>
<td>28,500</td>
<td>1960</td>
<td>52,000</td>
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<tr>
<td>1957</td>
<td>40,600</td>
<td>1961</td>
<td>60,000</td>
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<tr>
<td>1959</td>
<td>48,500</td>
<td>1962</td>
<td>70,000</td>
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These figures do not take into account purchases on the parallel market, and are in fact 20 percent less than the actual consumption. Consumption has risen steeply in recent years, exceeding 150,000 tons in 1965, and it is likely to exceed 350,000 tons by 1969.

There was no local cement factory to supply this market.
was necessary to import cement produced on the east coast of Spain. This in itself was not sufficient, and an Italian company imported cement from Taranto where there was excess production. Mallorca is in fact on the route from Taranto to the Catalan coast. The setting up of a cement factory in Mallorca therefore seemed an attractive proposition.

THE NEGOTIATIONS

After rejection of the initial project to construct a cement factory three kilometres from Palma, Portland de Mallorca decided to construct a cement factory at Lloreta on a piece of land in its possession, near the chalk and slate quarries. The company obtained the necessary authorizations and on June 7, 1962, the agreement of the General Assembly of Shareholders.

On June 13, 1962, FLC signed a contract with Portland whereby FLC would provide a factory worth 6 million francs of which it was to subcontract a little over half to Spanish industry. This order was bound by the signing of two special and separate contracts. On the one hand FLC agreed to undertake the engineering of the whole project and carry out work until the factory could be used, in return for a renumeration of 10 million pesetas payable in installments of 5 percent on the annual profit of the company. Moreover, FLC had to subscribe an increase in capital of 10 million pesetas. FLC obtained the necessary permission from the French authorities, in return for certain obligations.

FINANCING AND MANAGEMENT

Financing. At the General Assembly of Shareholders of Portland de Mallorca on June 7, 1962, it was decided to increase the capital from 29 million to 40 million pesetas in order to allow FLC to participate. Ten million pesetas were subscribed by FLC, and 1 million by the local Spanish group (mainly Mallorcan).

The capital of 40 million pesetas soon proved to be insufficient. It rose to 70 million at the end of 1964. The new distribution of shares was as follows: 15 million pesetas for an industrial group in Madrid; 10 million pesetas for the original Mallorcan group; 25 million pesetas for the new Mallorcan shareholders; 20 million pesetas for FLC and its Spanish associates (mainly the technical director of Portland appointed by FLC and its Spanish subsidiary, Fives Lille-Cail Española, which was later to become Fives Lille-Cail Iberica).
The beginning of 1966 showed a further increase in capital of 56 percent, which brought the total of 105 million pesetas to cover operations and for accounting purposes. FLC and the associate Spanish group held between them a total of 27 million pesetas (of which 18 million belong directly to FLC). The increase in capital decided in June, 1968 (from 105 to 157½ pesetas) was approved by FLC, which did not participate directly, but the associate Spanish group held 31½ million pesetas in new shares. FLC, directly or through its Spanish associates, therefore controlled about 20 percent of the capital stock at the end of 1968.

Management. At the General Assembly, before changes in 1969, FLC held a number of votes proportional to that of its shares. At the meeting of the Board of Directors, it held three seats, in spite of the variations in its capital participation. Two of these seats were held by the Chairman-Managing Director and the Sales Manager, the third by the representative of the associate Spanish group.

According to the law of July 17, 1951 on the legal system governing corporations, each shareholder or group of shareholders controlling more than 10 percent of the capital has standing to request that an extraordinary session of the General Assembly be held and, by taking legal action, to oppose the decisions taken by the General Assembly.

DEVELOPMENT OF THE JOINT VENTURE

Technical Assistance. The technical assistance given by FLC to the Portland de Mallorca is very considerable. According to the initial agreement, FLC undertook to supply the necessary personnel for the organization and direction of the production and commercial departments. Separate agreements were signed. Moreover, during the construction of the factory, FLC not only secured the installation and initial functioning of equipment, but also looked for the site, examined the land available, supervised the civil engineering work, and controlled the operations of the factory.

As has been mentioned previously, in return for its technical assistance, FLC was to receive 5 percent of the net annual profit of Portland de Mallorca until the total sum received should reach 10 million pesetas. As the operation of the factory has not yet shown a profit, this clause of the contract has not yet come into play.

Activities and Development after 1968. From 1966 onward the factory functioned at its full capacity and production was 100,000 tons per year. It soon became obvious that the possibilities of the
Malloorean market were such that cement production was on the increase. At the start, FLC and its Spanish partners seemed in agreement on this point.

Contacts were therefore made with English and Swiss cement-producing groups likely to be interested, and a project for increased production was realized when the U.S. company, American Cement Corporation, agreed to become an associate, on condition that its participation in Portland de Mallorca was at least 50 percent. When the decision to expand on this basis was taken by the Board of Directors in March 1968, the representative of FLC noted the general economic factors (difficulties likely to occur in Spain connected with the probable diminishing of its tourist trade, the incidence of devaluation, and less sure earning capacity) for not signing the agreement with the U.S. company. The agreement was nevertheless signed and came into force at the beginning of 1969. American Cement took twelve of the twenty-four seats on the Board of Directors. FLC's participation was reduced to about 10 percent of the shares and to two seats on the board.

Portland de Mallorca had set off to a good start. After a fairly serious crisis (in 1967 and 1968) due to the slump in tourism in Spain, the business progressed very satisfactorily. The technical assistance supplied by the French company was by no means a negligible factor in this success. Relations between the French and Spanish partners were good, although complicated by the division into several groups on the Spanish side.

After 1969. It is too early as yet to know how relations between the three groups within the company will evolve. However, it seems obvious that the almost total control exercised by the American group leaves little initiative to the two other groups—this is not really a “multinational joint venture” since the management is not in fact shared. FLC has nevertheless preserved its representation on the Board of Directors, which was enlarged considerably. In this way it considers that it will ensure that the financial management of the business will allow the appreciation and profitability of its own participation, as well as the payment for its technical assistance.

Azucarera Tropical Americana S.A. (Aztra)

The Economic-Political Context

The Policy of the Government of Ecuador. Ecuador enjoys an economic (especially monetary) stability that is rare in Latin America.
This stability is one of the factors favoring foreign investment, which the government is trying to encourage. The laws of 1962 and 1963 governing industrial development are a considerable encouragement to investment in industry, without any discrimination as to the origin of the capital.

These laws protect the food industries in particular (including the sugar industry) and aim to stimulate investment in the least-developed parts of the country.

Role of Government in Aztra. Aztra produces sugar. For several reasons it was understood at the outset that the company would receive assistance from the public authorities. The factory is situated 80 km. to the southeast of Guayaquil in the heart of one of the poorer provinces, Azuay y Galar. Moreover, the military junta that was in power until 1966 attempted—mainly for political reasons—to break the sugar monopoly. In fact, sugar was produced in Ecuador only by two or three factories whose capital was highly concentrated.

There had been no sugar refining in Ecuador previously. Therefore the prospect of a fairly important home market, especially for refined sugar, combined with the U.S. system of sugar quotas made the installation of a new sugar refinery a serious project, especially as a by no means negligible contribution was to be expected from the government.

THE NEGOTIATIONS

In 1964 Aztra was formed to grow sugar cane, to produce and sell sugar and its by-products, and to encourage auxiliary industries. The capital was theoretically 60 million sucre. The capital actually put up was 20 million sucre, divided into 20,000 shares of 1,000 sucre each, held by the promoters of the company and the owners of the land used for growing sugar.

The construction of the sugar factory was laid open to international offers. The only offers to remain in the running for final adjudication were those by an American company, a German company, and FLC.

The Government of Ecuador agreed to guarantee the contracts undertaken by Aztra on several conditions:

1. an increase in capital from 20 to 100 million sucre, in which government participation could theoretically be 20 million sucre;
2. the setting up in the government's favor of a mortgage on the total capital of Aztra;
3. a contract guaranteeing the placing on the foreign market of
sugar produced during the period covered by the financial agreements.

As the American and German competitors had both offered to put up 18 million sucres ($1 million), FLC agreed to accept the same obligations and carry off the deal after obtaining the agreement of the Compagnie Française d'Assurances pour le Commerce Extérieur (CIC). By the contract signed on October 16, 1964, FLC undertook to deliver a complete sugar factory able to turn out 7,000 tons per day, and a refinery attached to it, with a capacity of 150 tons per day, for a total sum of $13,998,000. The contract came into force under an agreement on March 17, 1966, between FLC and Aztra, laid down among other things FLC's participation in the capital of the latter. A contract had previously been signed between Aztra and the French export-import group, Louis-Dreyfus, for the placing of part of the production abroad.

FINANCING AND MANAGEMENT

Equity Capital. On March 18, 1966, FLC paid half of its share of the increase in Aztra's capital, i.e., 9,400,000 sucres (about $500,000). The rest was paid slightly later than the fixed date of payment (March 1967), in the summer of 1967. As no clause was included to cover the resale of the shares subscribed, it was originally understood that FLC would transfer some of its shares to its local agents, but in fact, this transaction did not take place.

The new government of Ecuador, which came into power after the coup d'état of 1966, was less interested in the business than the previous government and, contrary to the intention of the latter, did not insist in the increase in capital. The total sum of the capital subscribed was therefore only 60 million sucres: a third by the promoters, a third by FLC, and a third by new subscribers, especially landowners.

A first increase in capital, 20 million sucres, took place in 1968. FLC cancelled debt owed to it by Aztra in exchange for shares worth 10 million sucres, and, in total, increased its participation to 24 million sucres. Following the decision of the General Assembly in March 1969 to increase the capital by 20 million sucres, FLC stated that it did not subscribe to any additional shares. But in order to remain in control of 25 percent of the capital, it did in fact participate to the extent of 1,200,000 sucres. Its share was therefore 25.2 million sucres in a total capital of 100 million.

Loans. No outside loan was provided for at the outset. In fact,
Aztra received a loan of 10 million sucrees granted by the Corporación Financiera Nacional on reasonably advantageous conditions. The loan was for buying additional agricultural land. Aztra also received considerable credits in 1969 (30 million sucrees) and will do so in 1970 (40 million sucrees).

Management. At the Board of Directors of the joint venture, FLC holds two of six seats, those of the second vice-chairman and of the director-in-chief. Two heads of departments in the French company hold these positions.

At the General Assembly, FLC had 25.2 percent of the votes. It was in order to keep this percentage that FLC finally agreed to participate (to a limited extent) in the capital increase decided on 22 March 1969. Legislation in Ecuador stipulates that a group holding over 25 percent of the shares may in certain circumstances oppose majority decisions.

ACHIEVEMENTS

Delivery and Technical Assistance. The factory was delivered in normal circumstances. The first structural parts were sent out in September 1966. Construction began in December 1966, and was completed in October 1967. In late 1966—early 1968, the sugar factory and refinery carried out a set of tests over a period of one and a half months, corresponding to the amount of sugar cane available. For these tests Puerto Rican experts were called in. But in the spirit of the 1966 agreement, and at the request of Aztra, FLC supplied the experts to carry out subsequent sets of tests as part of its technical assistance.

FLC's technical assistance also touched on the financial sphere in account of the presence of its two representatives on the board of the agricultural sphere, especially on account of the intervention of a French specialized body, the Technical Center for Research on Sugar Cane.

Governmental Assistance. The Government of Ecuador gave Aztra several advantages. In doing this, it followed two objectives: the development of an under-developed area and the splitting up the sugar monopoly.

For these reasons, the government had intended taking part in the capital increase decided in 1964, but the government established by the coup d'état of 1966 did not carry out that intention. However, it did extend to Aztra the benefit of the industrial development act.
August 8, 1962, which granted exemption from all taxes on exported material, on transfer of capital, and on increase of capital. Moreover, the company was classified in a privileged category, it enjoyed the following advantages:

(a) 100 percent exemption from taxes on sales and from local and government taxes during the first five years, from the date of actual production;

(b) 75 percent exemption from income tax during the same period;

(c) 100 percent exemption from customs duty and import stamps on the material necessary for the functioning of the factory;

(d) when required, accelerated depreciation.

Results of Operations. During 1969, 250,000 tons of sugar cane were handled. In 1970 the capacity will reach 500,000, which corresponds to an increase of sugar production 25,000 to 50,000 tons. At the same time, sales will rise from 2.5 million sucres in 1969 to 5 million in 1970. The number of people employed during the whole year ranges from 160 to 200, but this figure rises above 3,000 during the period following the harvest in which cane is converted into sugar.

Operations produced a deficit in 1967 and 1968, but should break even in 1969 and subsequently produce a large profit. The possibilities concerning placement of production are very encouraging—a third of the production is to be placed in the home market (especially refined sugar of which Aztra is the only producer in Ecuador) at the price of 100 to 120 sucres per ton; a third is to be sold at the same price on the American market; and the remaining third will be absorbed into the world market at an approximate price of 40 sucres per ton. The total production is to rise in 1971 to 100,000 tons of sugar (a million tons of sugar cane handled)—about half the total production of Ecuador.

EVALUATION

Aztra is typical of the kind of joint venture requested by the FLC. FLC only participated in it at the outset because its participation was one of the conditions of a large order. But FLC, although not a sugar-producing company, does maintain an interest in the running of the business. The French company is directly concerned in the smooth running of the joint venture, which constitutes the only source of payment for the sugar factory.

The relations between the partners, although difficult at first, have
become very satisfactory; confidence was shown on both sides. It is in FLC's interest to associate actively with its partners in Ecuador, who have acknowledged that they have common interests.

As for the Government of Ecuador, it seems satisfied, if one is to judge by the advantageous conditions of rediscount offered by the Central Bank, obtained for the credit allocated to the 1970 operations.