

## CHAPTER VIII

### THE COLLAPSE OF ELSA

This chapter traces the immediate events which led to the failure of Empresas Longoria. It also chronicles the acts of the younger Longoria brothers and the part they played in the downfall of the corporation and Chito personally. It investigates the actions of the Mexican government, and particularly, the role played by José López Portillo in the settlement of ELSA's debt to the United States creditors and the part he played in the diminution of the corporation.

Presidents of Mexico assume office every six years for an non renewable term. The presidential election takes place in July of the election year and the winner takes office on December 1 of the same year. During the transition between July and December of an election year, strange legislation is apt to occur.<sup>1</sup> These last minute actions tend to make the citizens of Mexico highly nervous. Reasons for public transitional jitters stem from the fact

---

<sup>1</sup> It was during this period of transition that José López Portillo nationalized the Mexican banking system on the eve of his departure as President in 1982.

that often the outgoing President often attempts to prove that he is still a potent political power. It is in this final period that lucrative contracts are signed on behalf of loyal followers of the President or members of his family. Gossip abounds in this period. One of the usual stories that makes the rounds is that the incumbent plans to remain in office with the with the support of the Mexican Armed Forces. Such rumors are highly improbable. The more outrageous the rumor, the faster it travels. It was probable that Chito had hoped for a last minute reprieve for ELSA in the Díaz Ordaz administration through the intercession of one of his friends.

During the 1970 period of transition between the administrations of Díaz Ordaz and Echeverría, there were no earth shattering edicts or reprieves for ELSA. Chito was financially strapped by the government's inability or desire not to make good on the defaulted farmer's loans. Ortiz Mena and Rodrigo Gómez had guaranteed Chito in writing that the government would pay any farm loans that were in default by the farmers who were subsidized by ELSA.<sup>2</sup> The debts of the farmers were to be paid to ELSA

---

<sup>2</sup> Telephone interview with Paul Bouffier, Chito's executive assistant and bank liaison, on 7-17-89. He related how he was able to show the written guarantees of Ortiz Mena and Gómez to the US banks who found the letters very impressive. Bouffier thought the inclusion of the guarantees encouraged the US banks to loan IU/ELSA money.

with notes from Nacional Financiera. In the past NAFIN had given the notes to ELSA which ELSA sold at a discount to local Mexican banks. Now Ortiz Mena had resigned and Rodrigo Gómez was dead.

With both his close allies of the past government gone, Chito immediately made an appointment to see the new President-elect. He had to find someone in the government who would be willing to act on ELSA's behalf and abide by the guarantees the previous administration had made him in relation to the farm loans. The Díaz Ordaz administration had repaid some of the guarantees, but ELSA and Chito were still short almost one hundred million pesos. Echeverría's private secretary redirected Chito to the Secretary of the Treasury, Hugo Margain.

Margain had been Mexico's Ambassador to the United States from 1965 to 1970, during the Díaz Ordaz Administration. With the resignation of Antonio Ortiz Mena as Secretary of Treasury earlier in 1970, Margain had been recalled from the United States and appointed Secretary of the Treasury by Díaz Ordaz, and then reappointed by Echeverría.

At the meeting with Margain, Chito asked the Secretary to make good on the government's promise to repay ELSA for the defaulted farm loans, and continue to honor his agreement with Ortiz Mena, in which ELSA was not required

to pay the tax on interest paid to foreign banks. Margain was shocked at the request, said Chito, "and almost threw him out of his office".<sup>3</sup> Margain declared that he was appointed to the Treasury to protect the interests of the Mexican people, and he did not see how paying millions of pesos to ELSA would help the people. He also stated that he had no knowledge of these agreements with Ortiz Mena.

It was apparent from their acrimonious meeting that Margain was going to be of no help, so Chito again tried to see the President-elect. Echeverría gave him an appointment, and Chito spent two hours explaining his problems.<sup>4</sup> Echeverría asked Chito exactly what he expected

---

<sup>3</sup> Trial notes, G.H.L., 1976.

<sup>4</sup> Mr. Bouffier disputed Chito's recollection of his meeting with Echeverría. Bouffier recalled that Chito went to see Echeverría shortly after he had assumed the office of President. Bouffier waited in the foyer of Los Pinos while Chito met with the President. When Echeverría greeted Chito, the President sarcastically stated that he was "honored to meet a real billionaire who had made his fortune from the blood of Mexican peasants". Chito was dumbfounded by such a hostile greeting and stated to the President that he had not robbed the peasants, to the contrary, that all of his factories were located in Mexico and operated by Mexicans. Chito went on to say that ELSA financed the peasants so that they made a decent return from their crops. In fact, it was because of this financing that ELSA was heavily in debt. Echeverría brushed aside Chito's defense and attacked again by stating, "Chito, within two years time, not even a dog will bother to piss on you; my government is going to put you and ELSA out of business." Echeverría continued his tirade until Chito told him to "drop dead", and walked out.

Bouffier recalled that as Chito left Los Pinos, he was "white as a sheet and almost fainted".

from the Mexican government, and Chito listed ELSA's needs. Ultimately, Echeverría ducked the issue by stating that he was not yet president and suggested that Chito speak again with Margain.<sup>5</sup>

Subsequently, Chito tried to make several appointments with Margain, who refused to see him. Later, Chito related that he was privately told that Margain had complained to the President-elect that "Longoria was demanding 100 million pesos from the government and that it was not right".<sup>6</sup> Actually, Chito was demanding exactly that amount, for that was the amount of money paid to farmers who then defaulted on their loan. It was money that he in his turn owed to Mexican and United States banks that had loaned him the money, with the guarantee of the Mexican government. Whether it was Margain or Echeverría who was against Chito and ELSA may never be determined. In the slippery history of Mexican politics and Chito's desire to protect his reputation, "truth" is not always easy to ascertain.

Early in 1971, the government commenced an audit of ELSA, bringing in a team of twenty accountants from the Treasury to pour over the books of the corporation. They found that all ELSA's taxes were paid correctly with the

---

<sup>5</sup> Trial notes, GHL.

<sup>6</sup> Ibid.

exception of the tax required on interest paid to foreign banks. By July of 1971, the Treasury Department refused to acknowledge the agreement of Ortiz Mena. When pressed by Chito as to exactly how much he might possibly owe, the Treasury auditors mentioned that 50 million pesos might cover the back taxes, but they were not sure. They said they would let Chito know at a later date their final decision on his unpaid taxes.<sup>7</sup> Chito was devastated. The Treasury was also hedging on whether to acknowledge the guarantee of the farmer's defaulted loans.<sup>8</sup>

Because of the lengthy investigation by the Treasury, Price Waterhouse was late in sending ELSA's audited statements to the United States banks. They were usually received by the banks by May or June. With the government unable to come up with a concrete back tax amount, the statements were necessarily delayed, which led some of ELSA's lesser credit sources to close their lines of credit.

The investigation of ELSA's books by the Treasury Department created other problems for ELSA and Chito. Price Waterhouse, ELSA's auditors, refused to certify that

---

<sup>7</sup> O.L.L. Deposition, Vol. I, p. 417. 4-10-78.

<sup>8</sup> Gossip at the time among the family hinted that the reason ELSA's back tax amount was so great was that Chito refused to pay the exorbitant mordida that Echeverria demanded. What seemed to be inferred was that the Diaz Ordaz administration mordidas were more reasonable.

the corporation's accounts were in order, as of April 30, 1971. They insisted in noting in their audit that the Treasury had been auditing ELSA's books for months and that there was a possible liability of several million pesos.<sup>9</sup>

Chito had pleaded with Price Waterhouse not to include the statement in their audit. Knowledge of tax problems with the Mexican government by the United States banks would surely close his remaining lines of credit, which he desperately needed to keep his mills in operation. But Price Waterhouse was compelled ethically to include the statement in their audit, and they moved accordingly.

To protect ELSA, Chito sent a letter written in English to ELSA's creditor banks in October, 1971, explaining the delay in the statements from Price Waterhouse, and the tax problems with the government. The letter in part, stated:

"As a result of the new Government Administration the tax authorities started auditing our books at the beginning of the year and did not finish until the middle of October, therefore we had no figures as to the possible liabilities that the Government could determine against our company, as far as the taxes are concerned, and our auditors, Price Waterhouse & Company, could not issue a qualified opinion which we estimate very important to you and to ourselves.

Once the Federal Government was convinced that all our taxes were paid in full, with exception of misinterpretations on certain taxes,

---

<sup>9</sup> O.L.L. Doc. 10027, written by O.L.L.

we have its full understanding and cooperation and it is especially interested in the success of our businesses because of the number of people employed and the wealth that they generate to the country especially in the dollar balance and also as a source of taxes, since our firm is determinant in industrialising (sic) farm products.

The tax authorities have been against the existence of the Bahamas Continental Bank Ltd. and have asked us to liquidate this institution and pass all its capital and reserves to Empresas Longoria, S.A. which we are starting to do, thereby increasing our capital from 25,000,000 Pesos to 500,000,000 Pesos and expect our creditors to agree as this will not reduce in any way the capital structure of both institutions by consolidating them into one, which will only be Empresas Longoria, S.A. in the future...".<sup>10</sup>

Chito phrased the above missive so that it appeared to the bankers that ELSA's problems had already been resolved with the government. This was not the case, but the assurances to the banks were designed to keep them from worrying unduly about their loans to ELSA.

The Echeverria Administration and Echeverria personally were obviously unimpressed by Chito and considered that ELSA and the Longorias had prospered excessively by gaining favorable treatment from previous administrations. They were especially annoyed with the establishment of the Bahamas Continental Bank, which they considered nothing more than a clever tax dodge.<sup>11</sup> As a

---

<sup>10</sup> Memorandum to all creditors, from ELSA and O.L.L., 10-30-71.

<sup>11</sup> UCB, internal bank memo from J.J. Mardula to H.J. Mangum, Vice President, 12-24-71, Doc. 20710.



part of the settlement with the Mexican Government, Chito was forced to promise to give up his off shore bank and pay back taxes on interest paid to foreign banks.

Giving up the off shore bank was a problem, but one that could be overcome. ELSA would be forced to pay more taxes on profits but at that moment there were no profits. The real problem was where Chito was going to find enough money to pay the proposed back taxes. The Mexican government refused to acknowledge its obligation to pay ELSA for the defaulted farm loans which had thrown the corporation's operating capital into chaos.

The delay in the Price Waterhouse audits had already closed needed credit lines for his industry and it was unlikely that one of the United States banks might loan ELSA money for payment of back taxes to the Mexican government. Nor could Chito turn to Federico and Banco Longoria. Federico was already out of patience with Chito's precarious financial position.

The financial picture was bleak for Chito and at this point the Mexican government refused to assist. Echeverria was determined to make an example of a man and a corporation that, in his opinion, had profitted and expanded at the expense of others.

United California Bank (UCB), in its inter-bank status report on ELSA, related that the Mexican government, obviously with the permission of Echeverría, had decided to make an example of ELSA for its non-payment of taxes. The government called ELSA "the primary tax evader in the country". The UCB report went on to state that the government backed down on its threat once it was understood that were ELSA to renege on its foreign loans, the repercussions it would cause abroad would be too damaging to the reputation of the corporation and of Mexico.<sup>12</sup>

At the end of the tax dispute, Margain agreed to recognize Ortiz Mena's agreement under which ELSA did not have to pay the tax on interest paid to foreign banks, but only up to the time that Ortiz Mena resigned from the Treasury. This reduced the amount owed to 24,900,000 pesos.<sup>13</sup> The Treasury further did not seek interest

---

<sup>12</sup> UCB, 10-21-71, Doc. 26582.

<sup>13</sup> In all of the inter-bank memos which reviewed ELSA's financial statements, and in personal letters to each bank, Chito told the banks that he was liable for 4 million dollars. Yet the canceled check which is in possession of this writer indicates that the actual amount paid to the Mexican government was 24,900,000 pesos or approximately 2 million dollars. It is not immediately clear what benefit was gained by inflating the amount paid to the government, or if there were other payments made which were not specifically stated in the final arrangement with the Treasury.

penalties since they conceded that there was no fraud intended.<sup>14</sup>

Chito refused to pay.<sup>15</sup> Actually, ELSA did not have the funds to do so. But Chito's attorneys insisted that he pay and be rid of the problem, pointing out that the Secretary of the Treasury had no legal right to grant an exemption to any company, and that the right belonged only to the President and the Senate.

In desperation, Chito turned once again to Banco de México, where his late friend Rodrigo Gómez had been replaced by Ernesto Fernández Hurtado.<sup>16</sup> Chito told Fernández Hurtado of his financial difficulties, and that if he did not pay the notes due to the United States lending institutions and his back taxes, he would be in serious difficulty. Fernández Hurtado directed him to go and see Julio Sánchez Vargas, the director of Sociedad de Mexicano Crédito Industrial (SOMEX).

In September of 1971, Chito made an appointment with Sánchez Vargas and again explained his problems. Sánchez

---

<sup>14</sup> Telephone interview with Paul Bouffier, 7-17-89, Bouffier stated that although Chito and Margain were good friends, that Margain took orders from Echeverria and did not act independently, which explains why he was initially hostile to Chito and ELSA's demands for repayment.

<sup>15</sup> Trial notes, G.H.L., 1976.

<sup>16</sup> Fernández Hurtado's son had been engaged at one time to one of Chito's daughters. A few weeks before the wedding the young couple quarreled, and the wedding was called off.

Vargas was not immediately sympathetic to Chito's financial plight, but he deliberated the request for several days and then indicated that SOMEX would be willing to loan ELSA the necessary monies to keep the plants running and pay off the foreign banks, but he demanded security in return for the loan.<sup>17</sup>

Chito gave SOMEX all the security that was not already pledged, which amounted to over 2 billion pesos. The security consisted of all of the stock of ELSA, his shares of stock from Bosques de las Lomas, and various mortgages on land and buildings used by ELSA throughout Mexico, whether they were owned directly by ELSA or by the Longoria Group. Chito's brothers were forced to sign on the ELSA stock since they were the nominal owners of that institution.<sup>18</sup> Chito was compelled to give his power of attorney to Sánchez Vargas. Having ELSA's power of attorney allowed SOMEX, if it so desired, to manage ELSA as if it were the property of SOMEX.

SOMEX advanced Chito 75 million pesos at the end of September of 1971, at the outset of the loan agreement,

---

<sup>17</sup> Trial notes, G.H.L., 1976.

<sup>18</sup> Ibid.

with the promise of another 75 million pesos to follow at the end of October.<sup>19</sup>

With the infusion of cash from SOMEX, Chito paid the treasury ELSA's back taxes. Late on the night of December 31, 1971 Chito wrote a check to the Treasury for 24 million pesos. His lawyer commented, "Now, just like a new born baby. Empresas Longoria has no liabilities with the government."<sup>20</sup>.

Chito also paid his secondary short term loan obligations to Kidder Peabody and other brokerage firms in the United States. He also increased ELSA's inventories. Yet the initial loans from SOMEX were not enough to cover all of ELSA's obligations.

In the meantime, the foreign banks finally received the audited statements from Price Waterhouse in November of 1971, which indicated a substantial deterioration of the ELSA's working capital. Little did they know that within the next thirty days, ELSA would be in default of all its loans.

The deterioration of ELSA's working capital had begun earlier owing to natural disasters to the cotton crops of Northern Mexico. Cotton production and ginning fell,

---

<sup>19</sup> United Bank of California, Inter-bank memo, 11-2-71. Doc. 20579.

<sup>20</sup> OLL Deposition, , Vol. I, p.440.

causing farmers to default on their loans. Total crop loans extended in the fiscal year 1971 amounted to 24 million pesos.<sup>21</sup>

It was true that ELSA had received a 150 million peso loan from SOMEX, but this was a straight loan with an annual interest rate set at 12%. This loan was in no way a repayment by the Mexican government for the outstanding loans to the farmers.

ELSA's liquidity was further diminished by equipment shut downs which were necessary in order to increase production at several of the plants. Several of ELSA's gins and compressors were at least thirty years old and obsolete. To remain efficient and competitive, the gins had to be replaced. With plant production curtailed for the replacement of obsolete mills, inventories were allowed to build up, also with an eye to increasing inventories for the anticipated opening of the new super-plant at Tutitlán, outside of Mexico City.

The natural disasters which affected the cotton crops of Northern Mexico for three consecutive years caused the price of cotton to fluctuate on the world market. Although the price of cotton rose world-wide, for Mexican producers, there was not enough cotton to gin in order to make a

---

<sup>21</sup> UCB, internal memo from J.J. Mardula to H.J. Mangum, Vice President, 12-24-71. Doc. 20709.

profit. The volume of cotton production kept falling and many farmers planted other crops in the following years. The actual land devoted to the farming of cotton decreased since 1968 and has never fully recovered.

The unprofitable cotton situation was abundantly clear to Chito, and one of the major reasons for the construction of the super-plant at Tutitlán. The new plant would be devoted to the production of oils for consumption, pasta made from wheat, and tortillas made from wheat and corn.

Because of the cotton disaster, and the above mentioned financial difficulties, Chito was forced to seek short-term loans at a higher interest rate from brokerage houses in the United States, including Nyhaco, Kidder Peabody, and Rosenthal and Rosenthal. The loans were due to be repaid in October of 1971. ELSA did not have the funds.

Another loan complication was that of the Ford Foundation loan to ELSA.<sup>22</sup> For expansion purposes, Chito always sought capital from foreign banks. The interest rates were less than those offered by banking institutions in Mexico and the loans were guaranteed by ELSA's warehouse inventories. The influx of foreign money made it possible

---

<sup>22</sup> The Ford Foundation, besides making grants of money to worthwhile causes also loans money to corporations in the same manner as banking institutions. Interest on the monies loaned increases the amounts it is able to grant as outright gifts to charities.

for ELSA to use its current liquidity to advance loans to the farmers which until 1970 were guaranteed by the Mexican government and NAFINSA. United States banks were leary of loaning ELSA money as an advance to the farmers but were not averse to loaning money for capital expansion. What Chito was doing was akin to robbing Peter to pay Paul.

In 1969 the Ford Foundation declined to renew a 4 million dollar straight-term five-year loan to ELSA which was due to mature in July of 1970. The loan was collateralized by 15,000 shares of Banco de Comercio, S.A., and 35,000 shares of Banco Longoria, S.A. Hartford National Bank and Trust Company of Hartford Connecticut agreed to assume the Ford Foundation loan for ELSA on a multi-currency medium-term revolving credit basis, with promissory notes renewable every six months.

The collateral was the same bank shares which had been given to the Ford Foundation. The collateral bank shares were appraised by Hartford at \$15,300,000. ELSA and Chito did not wish a straight-term loan because there was more flexibility in a short-term revolving credit loan. There was always the chance that the foreign currencies might diminish in relation to the dollar amount borrowed and the amount owed to the bank would be less. The monies were conveyed to ELSA in Deutsche Marks and Swiss Francs. ELSA



then paid off the Ford Foundation its remaining \$3,200,000 debt, since it had already repaid \$800,000 on the note.

The Banco Longoria stock was delivered to Hartford National Bank accompanied by documents signed by The Brothers stating that the shares delivered were the sole property of Octaviano L. Longoria.<sup>23</sup> The Hartford National Bank loan was payable in installments to be paid in December, 1971, February and May of 1972 with the balance to be paid in full in August of 1972.

ELSA missed the interest payment due in December to Hartford, and the bank sent a letter of concern reminding ELSA that if the interest payments on the loan were not paid, they would sell the shares they were holding as collateral of Banco de Comercio and Banco Longoria.<sup>24</sup>

In addition to the 150 million peso loan, SOMEX in 1972, agreed to pay ELSA's outstanding loan obligation to the Hartford National Bank. The outstanding amount was \$3,200,000. In return for the canceled loan to Hartford, SOMEX collected the Banco Longoria stock from Hartford and kept it as collateral at SOMEX.<sup>25</sup> Through the monies first advanced by SOMEX and other short term loans from Irving

---

<sup>23</sup> Letter from Banco Longoria to Hartford National Bank and Trust Co., 9-22-70. Doc. 100205.

<sup>24</sup> Letter to O.L.L. from H.N.B., February 11, 1972. Doc. 03860.

<sup>25</sup> O.L.L. Deposition, Vol. I, p. 439

Trust, Chito had been able to keep ELSA and his other obligations afloat until the end of December of 1971.

Since SOMEX was advancing more monies to ELSA, Sánchez Vargas of SOMEX demanded more collateral from Chito. He suggested that Chito hand over to SOMEX the remaining shares of Banco Longoria.

The bank up until the mid 1960's had been capitalized at 35 million pesos. At that time Chito arranged for the capital to be increased to 50 million pesos and paid the increase of the capitalization from his own account at ELSA. With the increase in capitalization, the shares of bank stock had been increased proportionately from 35,000 shares to 50,000 shares. Sánchez Vargas wanted all of the stock as collateral. The bank shares that were held by Hartford National Bank were delivered to SOMEX after it had paid ELSA's outstanding obligation to Hartford National Bank.

The remaining 15,000 shares of Banco Longoria had been held for safekeeping by Federico at Banco Longoria in Nuevo Laredo. In late 1973, Chito called Federico and asked him to send him the shares. Federico refused. Chito asked his brother Alfredo to convince Federico to bring them to Mexico City and he again refused. SOMEX had threatened to sell the bank shares it already held if the other shares were not added as collateral. Federico was incensed at the

notion that Chito might sell the bank out from under him. Finally, when Federico was in the capitol, Chito pointed out to him that if they gave the remaining shares to SOMEX, ELSA would have more time to work out its debt problems. In the end, Federico acceded to the demands of SOMEX and Chito.

It was at this point that Federico lost his equanimity. He was convinced that Chito was going to lose all the wealth and status all five brothers had worked to achieve. Federico was angered that Chito had considered selling the bank to SOMEX in return for saving ELSA. "He was the one that wanted to sell my stock of the bank".<sup>26</sup> He failed to remember that the stock of Banco Longoria belonged to Chito, except for four shares.

In the meantime, because Chito was not successful with Echeverría and the new government in direct negotiations, he hired as his attorney Arsenio Farrell, supposedly an old friend of Echeverría. Farrell was hired to discreetly plead Chito's case to the President. He represented himself as a close confidante. Unfortunately, Farrell proved to be ineffective as a personal conduit and no offers from the government were forthcoming.

---

<sup>26</sup> Deposition, Federico Longoria, p. 355. November 17, 1977.

On the advice of Farrell, Chito formally declared ELSA in suspension of payment. Actually, ELSA ceased paying its financial obligations in the last days of December, 1971. The suspension of payment was designed to give ELSA time to raise money by selling its inventories. ELSA owed approximately 100 million dollars to the foreign banks.

In February of 1972, Chito wrote a letter to ELSA's creditors explaining the suspension of payment and inviting all foreign creditors to a meeting in order to discuss future payment of ELSA's obligations.

The United States banks that held securities in the form of warehouse receipts and shares in negotiable securities were not particularly worried by the suspension. Essentially the banks with security were safe. ELSA had never borrowed in excess of 70% of the value of its warehouse merchandise.<sup>27</sup> The banks that held no security were not as sanguine. In his letter, Chito stressed the future profitability of ELSA. He offered to close down the entire operation and sell it immediately if this became necessary.<sup>28</sup>

In March of the same year a trust agreement was drawn up by a committee of creditor banks which sought to outline the form and time of payment of ELSA's debt. To the

---

<sup>27</sup> Trial notes, G.H.L., 1976.

<sup>28</sup> Letter of suspension, 2-23-72.

unsecured creditors, Chito and Farrell also proposed several plans, all of which were rejected by the creditors as far fetched. Nothing was resolved in the next several months since Chito kept paying his secured creditors and flooded the unsecured creditors with unacceptable proposals for repayment.

Chito's relationship with the Mexican government was a problem in two ways. On the one hand, the government was offering to help save ELSA from bankruptcy, but the loans from SOMEX were straight loans, and the interest was compounded each month the loan was not repaid. On the other hand, the government refused to acknowledge its obligation to repay the farmers' defaulted loans.

Meanwhile, in the the nerve-racking year of 1972-73, Chito had not been idle in finding a solution to ELSA's debt to the foreign banks. He managed to pay off most of his secured creditors by selling off ELSA's inventory. With added capital infusions from SOMEX, and the assumption of ELSA's remaining external debt by SOMEX, the corporation was virtually clear of external debt. ELSA and Chito owed SOMEX 22 million dollars. In essence, SOMEX had replaced the foreign bankers as ELSA's major creditor. To gain the above mentioned capital from SOMEX, Chito had turned over as additional security the titles to the industrial park at Tutitlán and his home in Bosques de las Lomas. SOMEX

already had as collateral Chito's shares of Bosques de las Lomas, all the shares of Banco Longoria, the finance companies, and ELSA. The collateral given exceeded ELSA's debt. The above were the main sources of wealth of the Longoria enterprises.

Yet Chito still owed his unsecured creditors approximately 24 million dollars. To settle with the latter, he sold his stock in Banco Comercio for 10 million dollars, gave the unsecured creditors 8 million and SOMEX the remaining 2 million. This left a balance of debt with SOMEX of 22 million dollars. ELSA was scheduled to pay SOMEX 4 million dollars per year for seven years at 12% interest. Chito also released his brothers from any financial obligations arising from ELSA's debt position. He assumed all the financial obligations personally.

On September 28, 1973, ELSA's suspension of payments was lifted and Chito formally settled with both his secured and unsecured creditors. The secured creditors were paid from the sale of their collateral in the form of warehouse receipts and the assumption of the remaining debt by Somex. The unsecured creditors signed an agreement of trust whereby they received 8 million dollars immediately, another 4 million in six months and the balance paid over a 7-year period.

Chito had avoided selling Banco Longoria which he thought was the government's main acquisition objective.<sup>29</sup> In fact, his attorney Arsenio Farrell insisted that Chito sell the bank to the government. Chito refused and Farrell threatened to quit if Chito did not follow his advice. Again Chito refused and Farrell withdrew his services.<sup>30</sup>

The Brothers were unassuaged by ELSA's settlement with its creditors. As far as they were concerned, Chito had simply exchanged creditors. Their claimed shares in the Longoria enterprises were still in jeopardy, and they were determined to liberate all Longoria stocks held as security by SOMEX--one way or another.

Earlier in 1973, when Federico delivered the outstanding shares of Banco Longoria and the savings and loan companies to SOMEX, he assumed the bank shares would be registered equally in the names of the five Longoria brothers. In fact, the government agency wrote its receipt of the shares indicating that Chito was the sole owner of all of the bank shares except for four, which were in the names of the other brothers, one to each brother. When

---

<sup>29</sup> In an inter-bank memo from Irving Trust, October 10, 1973, to R.W. Hastings, the memo mentioned that the rumor in Mexico was that SOMEX planned to sell Banco Longoria to the Garza Sada family of Monterrey. The memo corroborates Federico's understanding that Chito had authorized SOMEX to sell the shares of the bank at its discretion.

<sup>30</sup> OLL Deposition, Vol. I, p. 443.

Federico eventually saw the receipt from SOMEX indicating that he and the other four brothers each owned only one share of the bank and the finance companies, he demanded that Chito change the shares immediately. Chito explained that this was merely a convenience, since the first 35,000 shares of Banco Longoria were already in his name, it was confusing to list the remaining 15,000 shares in the names of the four brothers. Chito indicated that he would change the bank shares to reflect equal ownership sometime in the future.<sup>31</sup>

At this revelation, which occurred just as Chito had settled with the foreign banks, Federico and The Brothers had reached a state of near apoplexy. They rejected Chito's explanation. Nothing would satisfy them now except for Chito's total ruin.

With the government's approval, Chito was still running ELSA, and true to its word, the government sold ELSA commodities for ELSA's mills through CONASUPO, the government commodity warehouses. In the summer of 1973 CONASUPO sold ELSA wheat for 800 pesos per ton. In its arrangement with CONASUPO, ELSA had to pay cash, but the

---

<sup>31</sup> I found a carbon copy of a letter addressed to Banco Internacional, which held the shares of Banco Longoria in trust for SOMEX dated October 17, 1974, in which Chito directed the bank to change the shares to reflect equal ownership by the five brothers. I do not know if the letter was ever sent.



price of the wheat was well below the market rate. The price of wheat increased on the open market to 1,400 pesos per ton, yet ELSA was still able to purchase wheat for 800 pesos per ton from CONASUPO.

ELSA used letters of credit from Banco Longoria to purchase the wheat, and each letter of credit was good for a period of six months. The first letter of credit from Banco Longoria was about to expire and José Rosas Figueroa from the legal department of SOMEX requested its renewal. Rosas Figueroa called Banco Longoria in Nuevo Laredo and spoke to Freddie Longoria, Federico's son and requested the renewal of the letter of credit. Freddie assured Figueroa that the note would be renewed immediately. When Federico was notified of the request for renewal, he objected, indicating that the Mexican Banking Commission refused to allow Banco Longoria to renew it because ELSA had defaulted on a previous note. Chito swore that the reason it was not renewed by Federico was spite.<sup>32</sup> The result of the withheld letter of credit was that ELSA was forced to buy

---

<sup>32</sup> In Volume II, p. 40 of the deposition of Federico Longoria, he states under oath that the Mexican Banking Commission does not require an independent audit of the banks, and that the Commission periodically "spot checks" banking operations. It seems unlikely that the Banking Commission was on hand the day of the renewal request.

the wheat on the open market and lost the opportunity to make a profit of fifty to sixty million pesos.<sup>33</sup>

To further complicate ELSA's precarious financial position, inflation in Mexico was rampant by 1972. In the past, the Mexican government had subsidized the basic commodities used by the Mexican population, such as beans, wheat, maize and other staples of the Mexican national diet. In 1971, subsidies were removed by the government, which caused some staples to double in price.

Until December of 1971, ELSA was the largest buyer of Mexican farm products. It purchased 20-30% of Mexico's entire farm production. With ELSA debilitated by tax and creditor difficulties, the government could not keep the prices on farm commodities under control. Other commodity buyers could afford to pay the farmer what they wished since ELSA was not competing for the same products. Producers then could charge the public whatever they wished due to lack of competition. The result was that the farmers earned less for their crops and the public paid more for the finished product.

To meet its loan obligations, ELSA had sold most of its inventories. The corporation needed more money to buy commodities for its plants and to manufacture and replace its sold off goods.

---

<sup>33</sup> OLL Deposition, Vol. I, p. 472

ELSA had sold its cotton inventories to Mexican textile industries. It gave the textile industries the usual 30-60-90 days to pay. This was a standard procedure in the cotton industry. At the time of delivery to the textile mills, ELSA was given notes (or IOU's) by the industries. The usual practice was to sell the notes at a discount to Mexican banks. The banks advanced ELSA money on the notes. The banks then held the notes until they matured and collected the full value of the notes.

It was widely known that ELSA was in suspension of payment and no bank would discount ELSA's notes or loan the corporation money. At the end of 1973, ELSA was holding approximately 100 million pesos in notes from the textile mills which it could not turn into cash.<sup>34</sup>

In December of 1973, Chito made an appointment to see Francisco Alcalar, director of Banco Nacional de Comercio Exterior. Fernández Hurtado of Banco de México suggested that Alcalar and his bank might be able to help discount the textile notes to ELSA. Alcalar's secretary arranged for an appointment on December 26th, the day after Christmas.

On December 22, Chito, Jeanette and the children flew to Rancherías, their ranch in northern Mexico, for Christmas. On the 26th, Chito returned to Mexico City for

---

<sup>34</sup> Trial notes, GHL, 1976.

his meeting with Alcalar. When he entered Alcalar's office, the director expressed his delight at seeing Chito, but asked him why he had made an appointment to see him the day after Christmas. Chito explained the reason for the meeting. Alcalar replied that although his bank might be able to discount ELSA's notes, he could do nothing until he met with the board of directors, and that was not scheduled until January 9, 1974.<sup>35</sup>

Thwarted once again, Chito returned to ELSA's offices to bid the employees good-bye and a Happy New Year. He planned to return to Rancherías immediately. On his way to his car, his secretary caught up with him and told him that President Echeverría had called him and wished to see him immediately at Los Pinos.<sup>36</sup>

Arriving at the Presidential Palace, Chito was ushered into the President's office where he was having a meeting with his Cabinet. He was given a seat while the President and the Cabinet discussed other problems, and then he was invited to join them for lunch. After lunch, Echeverría seemed to remember that Chito was still present, and invited a discussion of ELSA's financial difficulties.

Jorge de la Vega, director of CONASUPO, spoke of the problems the government had keeping commodity prices stable

---

<sup>35</sup> Deposition, OLL, 1978. Vol. I, p. 429.

<sup>36</sup> Ibid, p. 438.

without the purchasing power of ELSA. He also mentioned that the farmers were no longer given fair prices for their crops without ELSA's competition. He concluded that it was indispensable to control prices in Mexico and that the government must intervene.<sup>37</sup>

Echeverría asked Chito if he were willing to help the government. Chito replied, "Well, absolutely". The President asked him what he needed, and Chito said "I don't even need money. I need raw materials." Echeverría said, "We need your help. You can count on all the help from the government. Whatever you need, we'll give you."<sup>38</sup>

Elated, Chito flew back to Nuevo Laredo on the night of December 26, 1973, to give his brothers the good news. Chito crowed to his brothers that he had saved everything, that there was nothing to worry about. The Brothers brushed aside his meeting with the President and his Cabinet. They did not congratulate Chito, as he expected they would. Instead, they came directly to the point of the meeting. Federico, as spokesman for the four brothers, stated that the four brothers were legally the owners of 80% of Empresas Longoria. Federico announced their intention to replace Chito as the chairman of ELSA. If Chito wished to continue working for ELSA, he would work

---

<sup>37</sup> Ibid, p. 439.

<sup>38</sup> Ibid.

under the direction of Alfredo Longoria, his youngest brother.<sup>39</sup>

Nothing was resolved between The Brothers on that fateful confrontational evening. They met again the next day and reiterated their intention to remove him. Chito said little. It was Chito's contention that he alone had negotiated with SOMEX and the foreign creditors. He considered it inconceivable that the government would listen to The Brothers claims of ownership of ELSA and Banco Longoria. He thought the notion absurd that one of his other brothers was capable of running ELSA since he was its creator and moving force.

Yet it was possible that The Brothers were in a position of power because Federico, as Chairman of Banco Longoria, held the property deeds and stock certificates of all the enterprises (except for those held by SOMEX) for safe keeping in Banco Longoria in Nuevo Laredo. The shares were mostly in the form of bearer bonds, that is to say, the person who holds physical possession of the bonds is the legal owner. Bonds or deeds that were in the Chito's

---

<sup>39</sup> Ibid, p. 440. Jennifer Jaffe, the eldest of Chito's step daughters, recalled that Chito had called The Brothers the minute he left the Presidential Palace to gloat to The Brothers that he had pulled ELSA out of the fire, and that the government was going to support him. It is Jennifer's contention that had Chito kept quiet about the meeting, The Brothers could not have mobilized so quickly to remove Chito from ELSA.

name could be changed at will since The Brothers had each other's power of attorney.<sup>40</sup>

In January, 1974, to prove that they meant business, The Brothers, with Federico as the leader, proceeded to Gomez Palacio in the state of Durango, where ELSA had originally been incorporated. There, they held a formal meeting of the Board of Directors without the presence or notification of Chito. The Brothers voted to remove Chito as Chairman. The meeting was later declared invalid by the Secretary of Hacienda, José López Portillo, because Chito had not been notified of the meeting. López Portillo declared that Chito was still legally the Chairman of ELSA and reminded the five brothers that they had better settle their dispute quickly and quietly.

Blocked from immediate action by López Portillo, The Brothers attacked Chito closer to home. The Brothers arranged with the local police to have a warrant for arrest issued against Tad Brittingham, Chito's son-in-law. The warrant, as related in a local Nuevo Laredo newspaper, was issued because Brittingham, as manager of Automotriz Laredo, had committed crimes of abuse of confidence,

---

<sup>40</sup> Power of attorney meant that each brother was able to sign a legal document on behalf of the absent brother when it was necessary and the signature was legally binding.

falsification of documents and fraud.<sup>41</sup> Brittingham was forced to flee across the river to Laredo until he agreed not to enter the dealership premises again. The Brothers had decided to take over the dealership themselves, even though it belonged to Chito.

Although López Pórtillo's ruling was a setback, The Brothers were not easily dissuaded. Proceeding to Mexico City, they met with Sánchez Vargas and José López Pórtillo stating that they were 80% owners of ELSA, and therefore entitled to operate the corporation as they wished without the advice or influence of Chito.

Sánchez Vargas and López Pórtillo were sympathetic to The Brothers, but insisted that the five Longoria brothers settle the matter of ownership of the enterprises privately, and quickly as possible. It was not in the best interest of Mexico or The Brothers to have an open quarrel. Both officials declared their faith in the manner in which Chito was running ELSA and his ability to extricate the corporation from bankruptcy.

This was a defeat for The Brothers, but they were by no means finished. ELSA's board meetings were normally held in Mexico City at the SOMEX headquarters, since SOMEX held ELSA's stock and had been given the right of the

---

<sup>41</sup> El Ciudadano, of Nuevo Laredo, Thursday, February 22, 1974.



directorship if it so chose. Sánchez Vargas did not choose to actively run the corporation but attended all the meetings and allowed Chito to preside. The Brothers began to attend, declaring at each meeting that they were the majority owners and not Chito. The meetings were usually disrupted by their outbursts and often ended in heated arguments between the five brothers.

The Brothers flooded López Portillo and Sánchez Vargas with letters of complaint, stating again and again that they, as 80% owners of the stock of ELSA, should be allowed to determine the course of operation of the corporation. At first, the responses of López Portillo were sympathetic yet measured, ultimately favoring Chito. As time passed, López Portillo moved ever so slightly to the side of The Brothers, stating that although The Brothers were legally in the majority as stockholders, were the five brothers to divide-up ELSA, Chito should be given a larger share because he had worked the hardest. By the autumn of 1974, López Portillo ceased his neutrality and was willing to swear in a court of law that 80% of ELSA was the property of the four younger Longoria brothers, as well as Banco Longoria, and should be shared accordingly.<sup>42</sup>

---

<sup>42</sup> It was also rumored that Chito had paid López Portillo in the early years. The Los Angeles Times on June 22, 1987 quoted López Portillo calling corruption the "cancer of this country, but López Portillo apparently caught the disease".

It was rumored that The Brothers had paid López Pórtillo one million dollars to change his opinion. Perhaps, not coincidentally, The Brothers at the same time, each applied for and received loans from the Laredo National Bank and other US banking institutions, for 220 thousand dollars. During the depositions, Federico could not remember why The Brothers had needed a loan. The loan application and statements of assets of The Brothers were filed with the US banking institutions on April 30, 1974.<sup>43</sup>

In 1974, The Brothers did manage to force SOMEX and Chito to accept a government-appointed administrator as the nominal general director of ELSA. Luis Rodríguez Duhalt was borrowed from another government agency to preside over ELSA and make sure that the corporation was run in the best interests of SOMEX and the shareholders.

In the event, Duhalt made no recommendations or decisions without consulting with Chito, which further infuriated The Brothers. In fact, SOMEX and Duhalt heartily approved of Chito's purchase of state of the art pasta plants from Italy for the completion of the super-plant at Tutitlán. The Brothers considered this purchase a waste of "their" money. The government considered ELSA a corporation in the process of recovery and was pleased with its operations in 1973.

---

<sup>43</sup> Deposition, Federico Longoria, Vol. V, p. 441.

Through the intercession of Duhalt, ELSA received further credits from Banco de México's industrial credit division, which permitted ELSA to continue the purchase of raw material from CONASUPO.

The Brothers complained at each new government-approved expenditure for ELSA. They berated the officers of ELSA and SOMEX for allowing any further expenditure of any kind. They considered all debt and expenses as further proof that Chito was incapable of running ELSA. As stock holders and board members of ELSA they refused to approve any expense. SOMEX, Chito and Duhalt ignored their outbursts.

Chito had made up his mind to separate from The Brothers as soon as his problems with the foreign banks and SOMEX were settled. In May of 1974, he sent a letter to The Brothers suggesting a division of the Longoria assets. Chito proposed to give The Brothers Banco Longoria and the finance companies outright. The remaining assets should be distributed "according to the just and fair basis that the Secretary of the Treasury Department, Lic. José López Pórtillo pointed out to us, that the parts receive according to their merits, for which I suggest to you that

two parts be made, one for the four of you and the other for me."<sup>44</sup>

The proposed division was the final insult to The Brothers. It led them to act immediately to undermine Chito's leadership position at ELSA and turn the plants over to the Mexican government. Chito was claiming the lion's share of the enterprises, and The Brothers were adamant that this not occur. It was better that The Brothers each claim one fifth ownership of all the enterprises than allow Chito to take the largest portion.

In the first week of July, 1974, the super-plant at Tutitlán was completed and President Echeverría, with several members of his cabinet, including López Pórtillo, presided at the inauguration of the plant.<sup>45</sup> The Brothers chose not to be present.

On July 17, 1974, at a meeting of the board of directors of ELSA, Sánchez Vargas representing SOMEX announced that letters of credit from Banco Mexicano had been approved for further purchases of raw material from CONASUPO. The five Longoria brothers were asked to personally guarantee the repayment of the new line of

---

<sup>44</sup> OLL Exhibit 507, Vol. V. The letter was addressed to The Brothers with copies to Echeverría and López Pórtillo.

<sup>45</sup> Although not indicted in the records, Tutitlán must have annoyed Echeverría since the plant was capital intensive rather than labor intensive. The pasta plant required only twelve men to run the entire operation.

credit. The Brothers refused and suggested that Chito personally guarantee it. Chito bitterly retorted that since The Brothers claimed 80% ownership, they should be 80% responsible.<sup>46</sup>

A letter from The Brothers to Secretary of the Treasury José López Pórtillo was produced and discussed in which The Brothers complained that the stock from Banco Longoria and the finance companies had been signed over to SOMEX listing as the majority owner, O.L. Longoria, and not The Brothers as equal owners. Chito stated that López Pórtillo had approved the method by which the shares had been nominated, and that he had done it with López Pórtillo's permission. The minutes of the meeting reflect that Sánchez Vargas contradicted Chito and said that Chito had represented to him that the shares were owned "in equal parts" by the Longoria family.<sup>47</sup> Sánchez Vargas requested that the shares be recorded in equal parts and attached to the letter of receipt of the shares.<sup>48</sup>

---

<sup>46</sup> Minutes of meeting of ELSA Board of Directors, 7-17-74.

<sup>47</sup> OLL Deposition, Vol. III, p. 1287, Chito swore that the minutes of ELSA were later altered by the notary. He stated that the first copy of the minutes reflected that Sánchez Vargas said the shares of Banco Longoria belonged to the Longoria family, not to The Brothers "in equal shares". The inference was that The Brothers had bribed the notary to change the minutes later to reflect the addition of the words "in equal shares".

<sup>48</sup> Minutes of the ELSA board meeting, 7-18-74.

At the next meeting, on August 1, 1974, nothing had changed. Chito was still in control. Chito and Duhalt reported that the lines of credit from Banco Mexicano S.A. had been extended, and The Brothers again complained. They saw no reason to increase ELSA's debt. Sánchez Vargas indicated that these lines of credit had already been taken into account when the plan for the restructure of ELSA was proposed the previous year. Another accountant to the board indicated that The Brothers were correct, that this credit was not covered by the plan. Chito noted that although not covered, the commodities purchased were used as the guarantee for the debt and therefore the debt would no way affect ELSA's debt position. Sánchez Vargas and Duhalt agreed with Chito and recommended that ELSA proceed with the line of credit.

At this point The Brothers submitted their resignations as members of the board of directors of ELSA. Sánchez Vargas asked them to reconsider because he realized that ELSA would break up. He asked The Brothers to remember that the government had gone to great lengths to save ELSA and that, as shareholders of the corporation, it was in their interest to remain on the board. Sánchez Vargas warned The Brothers that before their formal resignation, they had better notify the Treasury Department. Federico, in the understatement of 1974,

indicated that they had already done so.<sup>49</sup> The Brothers walked out.<sup>50</sup>

Chito's relations with Alfredo Longoria, the youngest brother who had been assisting Chito in the administration of ELSA, came to a head. Ostensibly, Chito ignored his suggestions and countermanded his orders.<sup>51</sup> To vent his frustration with Chito, Alfredo resigned from his position.

A few days later, Sánchez Vargas telephoned Chito and told him that SOMEX would be forced to form a new board of directors now that The Brothers had resigned. Sánchez Vargas said it would be better for ELSA and Chito if he resigned as chairman and let The Brothers resume their positions on the board. Sánchez Vargas asserted that it would be of benefit to Chito if he resigned his board position rather than be fired. In this way he could remain an employee of ELSA, entitled to a salary and his pension. If he were fired, he would receive nothing.

On August 21, 1974, Chito sent Sánchez Vargas his letter of resignation. He walked out of his office at ELSA and never returned. Sánchez Vargas, under orders from López Pórtillo, named Federico the new chairman of ELSA. It had originally been agreed among The Brothers, that

---

<sup>49</sup> See page 222.

<sup>50</sup> Minutes of the ELSA board meeting, 8-8-74.

<sup>51</sup> Letter to OLL from A.L. 8-14-74.

Alfredo would become chairman, since he lived in Mexico City and was familiar with its operation. The appointment of Federico was a surprise, but they could do nothing about it. The Brothers had finally prevailed.

With The Brothers securely in control of ELSA, they moved quickly to consolidate their position in all of the Longoria enterprises. They immediately fired Chito's son from ELSA and closed all of Chito's bank accounts with Banco Longoria. Deeds to properties in Chito's name, which had been kept by Federico at Banco Longoria for safe keeping, were changed from Chito's name to the names of the brother's children. The Brothers still had Chito's power of attorney. To add insult to injury, The Brothers sold a ranch in the name of Chito's daughter, Sara Alice, to cover ELSA's alleged unpaid letter of credit to Banco Longoria. This was the highest form of irony, since The Brothers had lately succeeded in claiming that they were the majority stockholders and owners of ELSA.

The Brothers made an appointment to see José López Portillo in late August of 1974. They told the Secretary that they needed another loan of five hundred and twenty four million pesos to keep ELSA operating.<sup>52</sup> López Portillo indicated that this could be arranged without any problem, but The Brothers would have to put up more

---

<sup>52</sup> Deposition, Alfredo Longoria, Vol. I, p. 162.



collateral for the loan. True to form, The Brothers refused. López Portillo subsequently suggested that perhaps the Mexican government might be willing to take some of ELSA's plants and in exchange, forgive ELSA's debt to SOMEX. He told The Brothers to go back to ELSA and decide the value of each of the plants and present the list to the Treasury the next day.

On the following day, The Brothers returned to the offices of López Portillo and there they were presented with a contract of "sale" of the four most valuable plants of ELSA, including Mexicali, Obregon, Monterrey, and the newly completed super-plant at Tutitlán to the government. The government, through CONASUPO, would assume all of ELSA's debt in exchange for the four most modern processing plants. The "sale" was contingent upon an appraisal of the four plants from neutral appraisal firms, both on behalf of the government and The Brothers. Without any argument, The Brothers signed the contract and left. The Brothers made no attempt to consult with Chito.

The appraisals were made for The Brothers by Pan Americano de Avalúos and Ingeniero Juan Oteric. Oteric called The Brothers after looking at only two of the plants to tell them that the first two plants alone would be more than sufficient to cover ELSA's indebtedness to SOMEX. Oteric placed the value of the four plants at more than one

billion two hundred thousand pesos.<sup>53</sup> The Brothers told Oteric not to continue the appraisals and the evaluation was never formally presented in writing to The Brothers.<sup>54</sup> The government did not insist on another appraisal because it was well aware of the value of the plants.

Three months later, in March of 1975, López Portillo again summoned The Brothers to Mexico City and told them that the government had changed its position on the four properties of ELSA that had already been ceded to CONASUPO. López Pórtillo and Sánchez Vargas demanded five more of ELSA's plants in return for the debt the government had already assumed. To make the deal more appealing, the government offered not to charge The Brothers any capital gains tax on the cession of ELSA's assets.

At this point, The Brothers tried to consult with Chito. Totally unaware of the real value of ELSA and its operations, even The Brothers finally realized that the government might be taking advantage of their incredible ignorance. At The Brothers request, Chito met with them in an apartment that ELSA maintained near Bosques de las Lomas, in Mexico City. He told The Brothers that they

---

<sup>53</sup> Deposition Fernando Martinez Salinas, Controller of ELSA. Vol. I, p. 109. Martinez Salinas was still employed by The Brothers after the "sale" of ELSA, and considered impartial and honest by all attorneys involved in the litigation.

<sup>54</sup> Ibid, p. 171.

would be fools to transfer the additional five plants to CONASUPO. He insisted that the government had already gotten the better of them in the original transaction. But Chito refused to give them an alternative suggestion. Chito walked out of the meeting and never saw The Brothers until the law suits commenced.

The Brothers returned to the Treasury and transferred the remaining processing plants without a word of complaint. The government decided to value the nine processing manufacturing plants at 917 million pesos. They waived the sales tax, and irony of ironies, threw in a check for 65 million pesos to cover the defaulted farmer's loans from 1970 and 1971.<sup>55</sup> Out of the total sale, The Brothers walked out with a profit of 422 million pesos cash. Needless to say, they offered none of the money to Chito.

The Brothers were ecstatic at the notion of receiving net cash for the "sale" of ELSA. It never occurred to them that they had made a gift of the processing plants to the government. Federico boasted in his deposition in 1978, that the "sale" of ELSA to the government was the best deal he had ever made.<sup>56</sup> The Brothers had determined the relative worth of ELSA's processing plants by ascertaining

---

<sup>55</sup> Ibid, p. 166.

<sup>56</sup> Deposition, Federico Longoria, Vol. II, p.516.

from the financial records the cost of the land plus the cost of the equipment less depreciation. Since Chito had always used the actual cost, less depreciation of the depreciable assets in order to save on taxes, the figures upon which The Brothers based their transactions with the government in no way reflected the fair market value of the nine plants and the extensive real property upon which they were erected.

What remained of ELSA was relatively insignificant. It consisted of forty cotton gins in Northern Mexico and an insecticide plant in Matamoros. Of the forty gins, only sixteen were being operated by The Brothers in 1978.<sup>57</sup> Chito's endeavor to diversify ELSA outside of ginning cotton in Mexico's weak cotton industry was at an end. The value of ELSA was reduced to the worth of real property upon which aging and virtually obsolete gins sat rusting.

The underlying battle for the sale of ELSA to the government was fought between Chito and Federico. Federico was adamant that Banco Longoria not be sold to satisfy ELSA's debt to the government. Giving SOMEX the Banco Longoria stock listing Chito as the owner of all shares was tantamount to waving a red flag in the face of a bull. Never mind that Chito was the legal owner. The war was on. Federico considered Banco Longoria to be the apex of the

---

<sup>57</sup> Deposition, Alfredo Longoria, p. 138.

Longoria family prestige in Nuevo Laredo where he lived. Federico was chairman of the bank. He was determined to remain in that position. That this was a parochial attitude is an understatement. The remaining three Longoria brothers were peripheral to the operation of the Longoria enterprises. Chito and Federico were always the major actors, with the others following their lead.

The deterioration of Chito's position in ELSA had been caused by circumstances, many beyond his control. Natural disasters, inflation, an initially hostile government and timid brothers who refused to further endanger their personal wealth brought ELSA and Chito down. But these circumstances also brought The Brothers down. From actors on the national and in some respects international economic and therefore social stage, reflecting in the glory of their older brother Chito, The Brothers were reduced ultimately to being major players at Mexico's northeast border with the United States, much like their father. Perhaps The Brothers never understood that their position in Mexico was any greater than that in the first place.

Perhaps, had Chito not expanded and retooled ELSA so rapidly, the debts to the foreign banks and later the government, might have been kept under control. Perhaps also, had the government made good earlier on its guarantees to Chito of the farmer's defaulted loans, the

collapse of ELSA could have been avoided. Assuredly, had he not offered to sell Banco Longoria and the finance companies to the government in order to pay off ELSA's debt, Chito would not have incurred the eternal wrath of Federico, the controller of all the Longoria wealth outside of ELSA's holdings.

Could ELSA have been saved? It is impossible to be sure, but probably. With the infusion of more capital, which the Mexican government was willing to loan, it was very possible that ELSA could have been clear of debt within a few years. The projected revenues of Tutitlán alone were four hundred thousand pesos per day, with a profit of one hundred thousand pesos per day.<sup>58</sup> But given The Brothers' conservative financial philosophy, especially Federico's the existing partnership was impossible. The Brothers were not risk takers.

---

<sup>58</sup> Deposition, Fernando Martinez, Vol. I, p. 93.