



Campaign to Stop Killer Coke

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‘KILLER COKE’ ORCHESTRATES BIG MERGER, BUT THE COLOMBIAN MALADY LINGERS ON

The following is a statement by Terry Collingsworth, executive director of the International Labor Rights Fund, and Ray Rogers, director of the Campaign to Stop Killer Coke:

The Coca-Cola Co. is orchestrating a merger of its Latin American satellite companies at a “special shareholders’ meeting” of Panamerican Beverages, Inc. (Panamco), set for 9 a.m. next Monday, April 28, at the Ritz-Carlton Hotel in Key Biscayne, Fla.

But if the deal is completed, one company — Coca-Cola FEMSA — could face legal liabilities totaling hundreds of millions of dollars for the misdeeds of others.

In Key Biscayne, Coke will be stage-managing a meeting at which shareholders will be asked to approve the merger of debt-ridden Panamco, which markets and distributes Coke products in nine countries, including Colombia, and the smaller but highly profitable Coca-Cola FEMSA, based in Monterey, Mexico.

The meeting comes less than two weeks after Coca-Cola’s own annual meeting in Houston, where demonstrators protested the involvement of the world’s largest beverage company in massive human rights violations in Colombia, including at least eight murders of union leaders and hundreds of instances of kidnappings, torture and illegal detention.

Although neither Coke nor Panamco have publicly admitted it, after a Panamco/FEMSA merger, FEMSA would have to assume the liabilities of any settlement of the pending lawsuit in which the International Labor Rights Fund (ILRF), the United Steelworkers of America and Sinaltrainal, the Colombian Food and Beverage Workers Union, assert that Panamco and another Coke bottler in Colombia, Bebidas y Alimentos, “contracted with or otherwise directed paramilitary security forces that utilized extreme violence and murdered, tortured, unlawfully detained or otherwise silenced trade union leaders.”

Panamco, headquartered in Miami, is Latin America’s largest bottler. Sales of Coca-Cola products represented 89% of Panamco’s \$2.35 billion in net sales last year. In what *The New York Times* described as “a move aimed at increasing sales in one of Coke’s most important regions,” the merger will create the second largest Coca-Cola bottler in the world behind Coca-Cola Enterprises of Atlanta.

If you think of Coca-Cola's worldwide operations as one big ocean liner, the purpose of the meeting in Key Biscayne is simply to rearrange some of the deck chairs. Coke claims that both Panamco and Coca-Cola FEMSA are independent companies, but Coca-Cola is really pulling all the strings. Every aspect of the merger is being driven by The Coca-Cola Co., and the rubber-stamp shareholders' meeting is an attempt to lend the appearance of propriety to financial manipulation on a hemispheric scale.

Consider a few facts about Panamco and the impending merger:

- Coca-Cola is the largest shareholder in Panamco and owns 25% of its outstanding Class A shares, 25% of its outstanding Class B shares and 100% of its outstanding Series C Preferred Stock. According to Panamco's Definitive Proxy Statement, prepared in anticipation of the merger and filed on March 28, "The Coca-Cola Company has the right to prevent any merger transaction involving Panamco, by virtue of its ownership of Panamco's Series C Preferred Stock..."
- Coca-Cola's Chief Financial Officer and Executive Vice-President, Gary Fayard, is both a director of Panamco and a director on the board of Coca-Cola FEMSA.
- Henry Schimberg, a former president and chief operating officer of Coca-Cola Enterprises whom Coca-Cola installed on the Panamco board, also serves as Vice-Chairman of Panamco. Schimberg was therefore excluded by Panamco from voting on the merger. But oddly enough, he was allowed to *advise* Panamco on the merger after Panamco got word from Coca-Cola that it had agreed to exempt Schimberg from representing Coke's interests during the merger negotiations.

There also appears to be a conflict of interest involving the role of J.P. Morgan Chase in the proposed merger. Under the merger plan, Coca-Cola FEMSA must raise \$2.72 billion to pay for Panamco stock. J.P. Morgan Chase, one of FEMSA's key creditors, acted as Panamco's financial advisor, offering among other things a "fairness opinion" of FEMSA's offer. Yet, J.P. Morgan Chase and Morgan Stanley are together providing more than \$2 billion in lines of credit to FEMSA. If J.P. Morgan Chase takes its fiduciary responsibilities seriously, how can it provide a "fairness opinion" to the seller and then turn around and offer financing to the buyer?

J.P. Morgan Chase's financing to FEMSA had not been finalized by the time Panamco filed its Preliminary Merger Proxy on January 30, 2003. But two months later, after the Definitive Proxy was filed, Maria Elena Lagomasino, the chair and chief executive of J.P. Morgan Private Bank, was nominated by Coke to serve on its board.

Killer Coke's tentacles dig deep into FEMSA, too. The FEMSA board includes:

- Herb Allen, president, CEO and managing director of Allen & Co. (a privately held investment firm) and a director of Coca-Cola.
- Stephen Heyer, president and chief operating officer of Coca-Cola.
- David Taggart, vice president and treasurer of Coca-Cola.

- Jeffrey Dunn, president and chief operating officer of Coca-Cola's North American operations and executive vice president of Coca-Cola.
- Charles McTier, designated by Coca-Cola to the FEMSA board in 1998, also a director of SunTrust Bank-Georgia. SunTrust Banks is so intimately connected to Coke through board interlocks, stock holdings and credit relationships that it is often referred to as "Coke's bank."
- Gary Fayard, Coca-Cola's chief financial officer and a member of Panamco's board.
- Patricia Powell, senior vice president of Coca-Cola and an alternate director of Coca-Cola FEMSA.
- José Octavio Reyes Lagunes, president and chief operating officer of Coca-Cola Latin America and executive vice president of Coca-Cola, another alternate director of Coca-Cola FEMSA.
- Lawrence Cowart, a former consultant to Coca-Cola and an alternate director on FEMSA's board who was designated to that position by Coca-Cola.

In short, Coca-Cola is manipulating both Panamco and Coca-Cola FEMSA into a merger that solidifies its hold over the Latin American soft drink and bottling market, but it's a deal that could leave FEMSA facing a legal and financial nightmare.

Plaintiffs in the ILRF/Steelworkers/Sinaltrainal lawsuit originally sought \$500 million in damages. The amount that Coca-Cola FEMSA and the other defendants ultimately pay could be even higher. A federal district court in Miami recently ruled that the case could go forward against Panamco and Bebidas.