1. BACKGROUND

Mexico's iron reserves represent approximately 0.15% of the world's total reserves, or 700 million tons, and are found in 240 deposits within 21 states. The three largest, Las Truchas (Michoacán), Peña Colorada (Colima) and Cerro de Mercado (Durango), account for 65% of total reserves. All of these are incorporated to the national mining reserves and are considered property of the nation.

After having been under private ownership between 1907 and 1965, Siderúrgica Las Truchas, S.A. was created in 1969 with a 50% participation of the federal government, 25% of Nacional Financiera, a government owned development bank, 12.5% of Altos Hornos de México (AHMSA) and 12.5% of Ing. Bernardo Quintana. In 1971 the company was called Siderúrgica Lázaro Cárdenas - Las Truchas and a Mex$6,200 million pesos investment was authorized to install a major processing plant and the necessary infrastructure at the Las Truchas site.

Peña Colorada was not explored until 1957. In 1967 the Consorcio Minero Peña Colorada S.A. was created with the participation of AHMSA, Fierro Esponja, Tubos de Acero de México (TAMSA), Fundidora de Fierro y Acero Monterrey and the federal government. In 1968, the company was renamed (by including Benito Juárez in the name) and its capital was increased.

Cerro del Mercado is the oldest known deposit and was presumably already exploited in the 16th century. During the 19th century, a series of owners and companies took advantage of these deposits, and in 1900 the Compañía Fundidora de Fierro y Acero de Monterrey, S.A. was created and started operations in 1903.

Until recently, the Mexican steel industry was composed of five fully integrated steel plants, which accounted for 66% of total national production, and several smaller semi-integrated and non-integrated manufacturers. Of the five large companies, three were included in the government owned SIDERMEX (Mexican Steel) complex: Compañía Fundidora Monterrey (FMSA - 1903), Altos Hornos de México (AHMSA - 1942) and Siderúrgica Lázaro Cárdenas - Las Truchas (SICARTSA - 1976). Hojalata y Lámina (HYLSA - 1946) and Tubos de Acero de México (TAMSA - 1955) are the two fully integrated, privately owned producers.

In a major effort to restructure the paraestate industry, and in particular the government owned steel industry, the Mexican government decided to reduce its participation in the sector by closing, merging, transferring or selling several companies. In 1986 Fundidora Monterrey was closed down, since it had major problems of technological obsolescence and therefore high production costs, which were translating into yearly losses. Government participation was also reduced in the associated companies, involved in other activities, such as distribution, transportation, real estate,