

Argentina's creditors gloat over privatization of state-run oil firm

by Cynthia R. Rush

When Argentine President Carlos Menem and Finance Minister Domingo Cavallo recently put up for sale 46% of the shares in the state-run oil firm Yacimientos Petrolíferos Fiscales (YPF), the Wall Street and London financial press, not to mention Argentina's creditor banks, were beside themselves with joy. The *New York Times* crowed on June 28 that "historically, state energy companies have been considered the crown jewel of any Latin American government—the patrimony of its history and the ultimate financial refuge from the pressures of international bankers and other foreign interests that threaten national security." But no more, the *Times* reported gleefully.

Luis Corsiglia, a director of the Buenos Aires stock market, said with equal crassness that YPF's privatization means that "the criterion is no longer not to sell what was considered national patrimony or national sovereignty." The financial community's mania is due not simply to the fact that Menem is following through on his commitment to deregulate his country's economy and spread the free market lunacy, which the June 25 London *Financial Times* described as "Thatcherite popular capitalism." YPF is something special. It is the largest and oldest state-run oil firm in the world, founded in 1922, and it symbolizes the achievements of Argentina's civilian and military patriots, who after World War I saw the development of the country's oil resources as a vehicle for building national industry and defending sovereignty. Having been cut off from oil and other vital raw materials during the war, they were determined to end Argentina's dependence on foreign suppliers through a dirigist economic policy which would protect industry.

Army Gen. Enrique Mosconi, the nationalist who served as YPF's director during 1922-30, transformed the company into a revered national institution by fighting for the legislation which protected the country's reserves from the predatory practices of such foreign oil trusts as Standard Oil and Anglo-Persian, and by investing in the basic infrastructure and technology which allowed it to expand output and benefit the Argentine people with lower consumption costs and higher living standards.

Justifiably, Mosconi is often called the "Mattei of Latin America," a reference to the founder of Italy's ENI oil firm, Enrico Mattei. YPF became a model for the rest of the continent, and the subsequent creation of state oil firms in Mexico,

Colombia, Brazil, Bolivia, Venezuela, and Uruguay owe much to Mosconi's influence. In 1928, he toured the continent to discuss with his counterparts how to achieve economic independence through the defense and development of oil and other natural resources.

A giveaway

It is precisely this tradition that has made users and financial speculators so eager to dismember YPF, as a prelude to grabbing all of Ibero-America's oil and other natural resources. As Argentine stock market analyst Christopher Ecclestone delightedly told the *New York Times*, the YPF privatization "could accelerate the eventual sale of state-owned natural resource companies around Latin America, not only oil but mineral companies as well that have traditionally been considered sacred cows." The July 11 *New York Times* quoted another energy consultant raving that "there is no question that Latin America is becoming a real hot spot for oil and gas investment and exploration."

That the hurried sale of YPF is related to Menem's political aspirations was never a secret. The Argentine President wants to be reelected in 1995, and, aside from having to obtain congressional approval for a constitutional amendment which would allow him to run for a consecutive term, he must clear away certain political problems which could be obstacles to his plans.

One of those is paying off \$2.5 billion in debt owed to the country's pensioners, which comes due in August and September. This could be a boost to Menem in the October congressional elections, in which his Justicialista party must do well to guarantee the majority needed to approve the constitutional amendment on reelection. The June 29 daily *Clarín* estimated that 60% of the \$3.04 billion in YPF proceeds will be used to pay off retiree debts, while the remaining 40% will pay off debts on royalties the federal government owes to oil-producing provinces.

But Menem's electoral plans are the least important aspect of YPF's privatization. From the beginning, it was designed as a giveaway to foreign financial interests. Former U.S. Treasury Undersecretary David Mulford, now an executive with First Boston Corp., guided the operation personally, together with executives from the Merrill Lynch investment firm. Over the past two years, the company has been

dramatically restructured to increase its profitability and make it attractive for privatization. Its work force stands at 10,600 today, down from 52,000 in August 1990. U.S. consultants McKinsey and Co., the same firm which restructured Mexico's state oil firm Pemex, recommended the sale of "superfluous" activities such as the tanker fleet, drilling crews, and pipelines.

Twenty percent of the firm will remain in government hands, and 10% will go to the work force. But what will determine the makeup of the 12-member board of directors—and the company's policy—is ownership of YPF's Class D ADS's (American Depository Shares), the four largest purchasers of which are the U.S. Fidelity pension fund, the Argentine private oil company Pérez Companc, Citicorp, and the Argentine Private Development Trust (APDT), an investment fund made up of the World Bank's International Finance Corp., Midland Bank, Bank of Tokyo, and others. These four alone control 7.5% of the Class D shares, or 58% of YPF's capital.

The 20 largest purchasers, almost all of which are U.S. or other foreign companies or investment firms, together control 25% of the Class D shares. The private sector, including foreigners, will name eight of YPF's directors; the state names two, even though it still owns 20% of the company.

Although many oil experts place YPF's total value at as much as \$14 billion, the government set the sale price at just under \$7 billion, and relied on International Monetary Fund Managing Director Michel Camdessus to help set the share price of \$19, said by many to be too low. At this rate, the June 28 *New York Times* reported, the value of a barrel of YPF reserves would be about \$2.50, much less than the current average among international oil companies of about \$6 a barrel. Many Argentine analysts also question the government's rush to sell before carrying out thorough studies of YPF's reserves. Estimates for the value of the company's oil and gas reserves alone have been placed at \$7 billion, the amount asked for the entire company.

The gathering of vultures

A more ominous side to the YPF privatization are the signs that international currency speculator and nation-wrecker George Soros may be involved. Soros first showed his face in Argentina last April. Then on May 20, the IRSA real estate firm (45% of whose capital Soros owns) paid \$10.6 billion for the Chrysler Palace building, formerly owned by the Argentine Army. According to the July 6 *Somos* magazine, Soros moved into Argentina through Citibank's industrial holding firm, Citicorp Equity Investment.

Aside from reports that Soros's Quantum Management Fund is ecstatic at prospects for moving into Argentine oil, there are other leads that suggest its involvement. The international speculator handles many of his transactions through Citicorp, one of the four top purchasers of YPF's Class D shares, and works closely with Merrill Lynch, which was intimately in-

involved in the YPF privatization from the beginning.

Persistent rumors that international energy magnate Marc Rich was ready to buy YPF may be another avenue for Soros's entry into the country. Rich, a fugitive from U.S. law, is said to be the man behind Soros. When Menem traveled to Geneva in early June to address a conference of the International Labor Organization, an executive from Rich's oil group told *Le Nouveau Quotidien* that they had offered to discuss the YPF privatization. On several occasions, Menem angrily denied any dealings with Rich.

But, according to the June 13 edition of the Buenos Aires daily *Página 12*, London-based sources at Rich's holding company confirmed the offer to buy YPF. Nor is Rich unknown in Argentina. He has sought previous ventures with YPF in Nigeria, and at the end of 1991, through the Sudelektira firm, purchased 35% of the capital in Santa Cruz One, an oil and natural gas extraction firm located in the Patagonian province of Santa Cruz.

The July 9 edition of the weekly *El Informador Público* reported that several Argentine legislators are very concerned about reports that Soros is also interested in exploiting Argentina's gold mines.

What about sovereignty?

On July 11, the *New York Times* reported the enthusiastic comments of Daniel Yergin, an energy consultant in Cambridge, Massachusetts. "Oil nationalism was born in Latin America," Yergin said, so the decision of several Ibero-American governments, starting with Argentina, to open up their oil industries to foreigners "is quite a turnaround."

Put more bluntly, it's a decision to once again bend to the Anglo-American banking community's demand for debt payment and usury at the expense of industrial development and human welfare.

Many Ibero-American patriots revere the memory of General Mosconi, and their governments would do well to recall the general's 1927 radio address on the topic "Oil and the Latin American Economy." In it, Mosconi explained that "the situation of the Argentine Republic is similar to that of the other Latin American nations which are fighting to consolidate their economies and their moral and material progress." In this endeavor, Mosconi continued, "oil plays and will play a vital role in the future, because it is the indispensable tool to promote and protect the growth and development of national industry, and thus continue the evolutionary process of our people who in the full expansion of their creative powers have arrived at a positive well-being and consolidated their nationality."

He warned that "the nations of Latin America which, like us, exploit oil and who have no coal deposits or none that are commercially exploitable, must protect the sources of this liquid fuel from all influences which are not eminently nationalist; that fuel is the base upon which future industrial organization will be built."