Unified Energy System (UES) electricity company, which is estimated to be worth as much as $200 billion, but which will surely be auctioned off at far less than that amount.

*Telecommunications* is another infrastructure capability which is vital to any modern economy, and which plays a crucial role in terms of national security as well. If a foreign power controls a nation's telephone, satellite, computer, and other communications capabilities, that nation's most basic security—including its military security—is compromised. State telecommunications companies worth over $50 billion have been privatized to date, including the national telephone companies of Argentina, Australia, the Czech Republic, Hungary, Indonesia, Mexico, New Zealand, Peru, Venezuela, and other nations. The beneficiaries include AT&T, Bell Canada, George Soros, and Deutsche Telekom. Not yet privatized, but expected to be put on the chopping block over the next year, are Brazil's giant Telebras (priced at about $17 billion); Russia's Svyazinvest holding company, which controls 38% of the country's telephone enterprises; and others.

Foreign takeover of the telephone and electricity giants in the Third World has been politically explosive, both because of the mass layoffs which have inevitably ensued, and also because the new owners have, as a rule, raised rates to the public to exorbitant levels. For example, between December 1991 and June 1996, Peru's privatized phone company jacked up user rates by 873%; and over the same period, electricity rates there increased by 510%. In the case of New Zealand, Telecom sacked 15,900 workers (65% of the total) between 1987 and 1996, in preparation for, and then subsequent to, its 1990 privatization. That country's other "mega-privatiza-

## Mexico's 'highway' robbery

The financial oligarchy is not quite as ideologically committed to the glories of the so-called "private sector" as they would have everyone believe. If they can make a killing by privatizing state-sector companies, then they are certainly all for it. But, if they can make another killing by *re-nationalizing* formerly privatized enterprises, which they themselves have bankrupted, well, they are not opposed to that, either.

Take the case of Mexico's privately run highways.

On Aug. 22, 1997, the government of Ernesto Zedillo announced that it was putting together a $7.5 billion bailout fund, in order to renationalize 23 private highways and two bridges which were going belly-up. This is about half of the 43 private highways and nine toll bridges built between 1987 and 1994, which, with great pomp and fanfare, the government had authorized and licensed as part of its sweeping privatization program.

With this move, the government bailed out not only the private construction and management companies involved, but also the national and international bond-holders on the money loaned to build these new toll roads—which is more significant. As the *New York Times* noted at the time: "The government is under direct pressure from banks which want their debts serviced and from companies which are losing money."

The government decree expropriating the concessions explained the problem as follows. It was determined that, in 23 of the toll roads which were granted concessions,

- the construction costs "turned out to be more onerous than foreseen in the executive projects";
- "the traffic flow was less than expected";
- "the financial structure of the projects did not correspond to the income capacity of the highways";
- "the licensing agreements made a series of suppositions which were clearly exceeded in reality," and so on.

According to the Presidential decree, all of this led to "significant shortfalls in the maintenance and upkeep of the highways which, if not corrected, will generate conditions of deterioration which will place the security of the users at risk, and will further discourage the use of this infrastructure."

Put more simply, the tolls for the new roads were generally set so high, that there was virtually no traffic on them. The rest was history.

How did it happen? Simple: It was designed that way from the outset, as *EIR* warned at the time. In our *Feature* on Oct. 8, 1993, *EIR* explained how the scam was meant to work: "The privatization of Mexico's highways, ongoing for three years, exemplifies the process that is under way. The government assumes the old debt, puts up 'seed money' to attract private so-called investors, who, in return for a pittance spread over time, are given 'concessions' on the revenue stream extracted from the project. The revenue stream is the collateral for new debt, directly or indirectly backed by the government."

*EIR* went on to warn that these government guarantees would eventually have to be used, since "tolls have been set high, exorbitantly high. So high that the toll roads haven't functioned."

The same 1993 *Feature* quoted Carlos Melcher, a Mexican-born officer of Public Financial Management, a Philadelphia-based subsidiary of London's Hongkong and Shanghai Banking Corp.: "Privatization of roads works on the principle of 'build, operate, and transfer. . . . A group comes in, usually involving a construction company, and tion," of the Forestry Corporation, led to 4,473 layoffs (63% of their total labor force).

Two other sectors of privatizations should be noted: *financial* institutions, and *raw materials* companies (which includes both oil and mining). In an earlier study (*EIR,* Aug. 22, 1997), *EIR* exhaustively documented the role of British Commonwealth companies in seizing control over the banking and mining activities in Africa and Ibero-America, in particular. As for oil and natural gas, the British resource grab in the developing sector and the former Soviet bloc nations, has only just begun. Argentina's national oil company, YPF, was privatized in 1993 (for a pathetic $3 billion), as have been Peru's PetroPeru and Russia's Lukoil. But the international vultures now have their sights set on Mexico's Pemex, Brazil's Petrobras, Venezuela's PDVSA, half a dozen major Russian oil companies (Rosneft Oil, Eastern Oil Co., and others), and Russia's natural gas giant, Gazprom, whose assets are estimated to be worth from $100 billion to $1 trillion, and which they intend to seize control of, whether by privatization or other means.

To get an idea of what this means in physical terms, consider that Pemex, Petrobras, and PDVSA, respectively, produce oil at the rate of 2.9 million barrels per day (bpd), 1.0 million bpd, and 3.0 million bpd. Together, this adds up to about 85% of the total output of Saudi Arabia. Similarly, investigative journalists in Russia have estimated that the handful of Russian oil companies targetted for privatization in the near future, jointly produce 2.4 million bpd of crude, or 41% of the national total. These sources pro-rated these output figures by the percentage share of each company being

they build a road. . . . If the construction company operates the road, then this is a concession. The term of the concession can run 10 or 12 years, but now they're getting longer, and concessions are running up to 20 years. . . . The concessionaire gets the revenues for running the roads. The concessionaire keeps the tolls."

In hearings called by then-chairman of the U.S. House Banking Committee, Rep. Henry Gonzalez (D-Tex.), on Sept. 8, 1993, additional aspects of the arrangement were revealed. The income stream extracted from the highway projects, which is in pesos, has to be converted into dollar-denominated bonds on behalf of the foreign private investors who are supposedly investing in the "build, operate, and transfer" projects.

These were the infamous "highway bonds," which were the first step toward the establishment of other paper instruments which were called "NAFTA bonds" or "NAFTA dollars." This is a reference to George Bush's North America Free Trade Agreement (NAFTA) among the United States, Mexico, and Canada, one of whose principal objectives was to establish a new "monetary zone" in the northern Western Hemisphere.

## 'Garden variety' corruption

As can be seen, the Mexican Presidential decree of August 1997, which announced the re-nationalization of the privatized toll roads, is the "light" version of what actually happened. Besides the mentioned "securitization" of the income stream related to the tolls, there were other, more garden varieties, of corruption involved.

The general "concession" scheme, most of which was put in place between 1988 and 1991, invariably consisted of the construction company estimating a cost for the project, toward which it "contributed" one-third of the total. The rest of the financing was lined up from some commercial banking institution, from among those "recently privatized" by the Salinas de Gortari government (1988-94). According to a Mexican Senate investigation, what actually happened, was that the majority of the resources were coughed up by the Federal government itself, through the National Bank for Public Works and Services (Banobras), and by the Federal Toll Road department of the Ministry of Finance, which administers Mexico's highways. In all of this, there was precious little so-called "private investment."

Thus, the much-touted "four-lane highways" that were presumably built, in many cases boiled down to adding two new parallel lanes to existing (free) two-lane highways, and then imposing tolls on the "new" highways, thereby effectively eliminating the constitutional guarantee to all Mexicans of the right to free transit throughout the country. Furthermore, the "concessions" were generally granted when the "highways" were still under construction.

The incredible part of all of this, is that the "superhighways," which were never really used, due to their stratospheric tolls, may now require emergency maintenance by the government—also at taxpayer expense. On one stretch under construction, in San Juan de Los Lagos, Jalisco, a bridge collapsed before it was opened; and another bridge, also in Jalisco, came crashing down after barely three months of use. One last fact: The highways which the Federal government is currently building, cost about half as much as the the "superhighways" built under the Salinas government—and this, despite the fact that, after the December 1994 debt crisis, the peso was devalued by over 40%, leaving about 200% inflation as a result.

*—Carlos Cota Meza*