Argentina privatizes its electricity company . . . and the lights go out

by Gonzalo Huertas

During a message to the nation on Feb. 2, Mexican President Ernesto Zedillo announced a set of reforms intended to privatize the Federal Electricity Commission (CFE), supposedly in order "to assure an adequate supply of reliable, quality, and competitively priced electricity for the long term."

However, recent developments in Argentina should serve as a warning to those politicians or rulers—be they in Mexico, Brazil, Russia, or Indonesia—who are planning to sacrifice public services and the national patrimony on the altar of "free trade."

On Feb. 15, at 4:00 a.m., a fire broke out in the Azopardo 2 substation belonging to the EDESUR electrical company, located in the San Telmo neighborhood of Buenos Aires; nearly half a million people were left without electricity, along with innumerable stores and small and medium-sized companies. The blackout occurred at the peak of the summer, with temperatures at their highest.

The more than ten-day delay in restoring electricity to the area, has caused multimillion-dollar losses both to companies and families. In the commercial area affected by the blackout, where 15-story buildings are the norm, not only did the elevators cease functioning, but 240 traffic lights went out, and health clinics and pharmacies lost medicines and serums which have to be refrigerated to prevent spoilage. There was also an increase in domestic accidents, as well as crimes against property in the afflicted area.

Making matters worse, the National Electricity Regulator authorized the electricity distribution companies to increase their rates by 3-4%, retroactive to Feb. 1. This caused outrage among the affected population, which declared itself on permanent mobilization, including holding street demonstrations in front of the EDESUR offices.

The Argentine government has been silent and unresponsive in the face of this disaster. Four days after the blackout, it managed to come up with a call to the Armed Forces and Federal Police to supply water and some generating equipment to the population. On Feb. 21, President Carlos Menem ordered the creation of a "crisis committee" to deal with the problem.

But the essence of the problem is that President Menem has based his entire economic strategy on privatizing everything in sight, to satisfy the demands of the International Monetary Fund and creditor banks. Between 1988 and 1997, Argentina privatized some $19 billion worth of state property, including Entel (telephones) and Yacimientos Petrolíferos Fiscales (oil), putting the country in fourth place in the world in terms of privatizations; only Australia, Brazil, and Mexico have privatized more.

EDESUR: 'a model privatization'

In August 1992, the government of Argentina carried out the privatization of the Buenos Aires electrical company SEGBA, which was responsible for the generation and distribution of electricity in greater Buenos Aires. This was done on the excuse that SEGBA was losing $1.2 million a day. Then-Economics Minister Domingo Cavallo considered the auction of SEGBA as the "model privatization" of his term.

The privatization was conducted under the format of a "concession contract." The state company was split into seven new companies: three distributors (EDESUR, EDENOR, and EDELAP) and four energy producers. The Argentine government received $1.7 billion for the sell-off.

The southern distributor EDESUR, whose stocks were largely in the hands of the Chilean company Enersis International, Ltd. and Argentina's Naviera Perez Company, paid only $911 million, according to the newspaper *Clarín*—just $111 million more than the $800 million the company had invoiced in 1998, one year earlier. In 1997, EDESUR had revenues of $870 million, including $90 million in profits.

Once EDESUR took control of a portion of SEGBA in September 1992, it didn't take it long to reduce energy safety measures, for the purpose of increasing financial profits, putting the service itself in serious danger. Last Feb. 16, Claudio Zlotnik, of the daily *Página 12,* wrote that in its last report, EDESUR explained that it had reduced its payroll "by more than half since taking over the concession." In 1992, it had 7,541 workers, and by the end of 1998, it was down to just 2,999 workers, with "a zeal to lower costs and to prove to stockholders how profitable it is to be a partner of the company." EDESUR's directors boasted of the decision, saying that "levels of productivity continue to improve on a sustained basis, reaching an index of 698 clients per worker, which represents a 6.9% improvement over 1997."

Zlotnick explained that in the electricity sector, "they are not unaware that a large number of the workers laid off with the privatization of SEGBA were specialized labor, pushed aside to cheapen costs and squeeze the maximum profit from the deal," and that "of every 100 pesos that EDESUR gained in 1998, sixty were obtained by spending less on salaries and social obligations."

It is under these circumstances that the Azopardo 2 substation of EDESUR, which had been inaugurated only a month earlier, burned down. An engineer linked to Argentina's electricity sector assured *EIR* that "there was inexperience in running the place, and they did not respect safety norms."

A former technician for the defunct SEGBA, explained to the daily *Tiempos del Mundo* that "it was nearly inevitable that a disaster would occur at that plant: It couldn't hold up. They should have built three smaller and more manageable plants, but this would have cost them more money. Now they are really sunk, because besides being corrupt, it turns out they are inept."

A preliminary report by the Engineering Faculty of the University of La Plata had already warned that EDESUR had been violating safety norms: "The distributor had failed in its obligation to install, operate, and maintain its installations and equipment in such a way as to not pose a danger to public safety," and committed "abuse of its dominant position in the market," the report states.

But worst of all is that this precarious situation was nothing new for the Menem government. On Jan. 28, the Auditor General of the Nation had sent a report to the Argentine Congress on electricity distribution in Buenos Aires, which warned of EDESUR's inefficiency in supplying electricity to its users.

Popular opposition

As *Tiempos del Mundo* wrote in its Feb. 25 edition, the electricity crisis has meant that, "for the first time since 1989 . . . the policy of privatizations carried out by the government and supported by the opposition is now in doubt among the broadest layers of the population." The crisis has also caused "the entire private structure in charge of providing services to wobble. . . . Stated another way: The myth of private efficiency collapsed in the shadows of this merciless February."

The government's response has been to give all the state entities in charge of public services (electricity, gas, telephone, and water) a period of 50 days to conduct a revision of all emergency plans for those services.

The political opposition, which never offered any serious resistance to the privatizations, is trying to make political hay out of the situation. Fernando de la Rua, Presidential candidate of the Alliance, who is also Buenos Aires Mayor, has simultaneously demanded that the government undertake a "technical intervention" into EDESUR and annul the state concession, and also offered to help the blackout victims by any and all means.

With each day that passed in which EDESUR was unable to fulfill its promise to restore service, the social situation became more and more uncontrollable. Finally, the political authorities decided to act. On Feb. 19, the offices of the National Electricity Regulator (ENRE), of the central office of EDESUR, and of the Azopardo 2 substation, were searched by order of federal Judge María Servini de Cubria, a Menem supporter who was "responding" to a suit by lawyer Ricardo Monner Sans.

Former ENRE chief Carlos Mattaush told *La Nación* on Feb. 20: "I have no precise knowledge of the technical incident, but what there was, was a stinginess in investments throughout this period. . . . The regulatory scheme is based on economic sanctions that kick in when quality falls, but which were never applied in the last two years. The grid required important investments that were never made."

Privatizations in danger

As if the scandal weren't enough, all sectors screamed to high heaven when they learned that in the contract signed between the government and EDESUR, there were only two clauses—in fine print—in favor of the user, in the event services were suspended. Neither clause guaranteed indemnification for damages.

As of this writing, the fine ENRE hopes to collect from EDESUR has already surpassed $100 million. José Antonio Guzmán, president of Enersis, has already declared from Chile that his lawyers will fight not to pay a single peso, either to the government or to the population of Buenos Aires.

The situation is so politically explosive that all kinds of rumors have already begun to circulate about EDESUR's future. On Feb. 25, on the television program "Hora Clave," which has molded public opinion in Argentina in favor of privatizations, moderator Mariano Grondona presented three possible alternatives:

1. "Green light," if the government wins an agreement with the current owners of EDESUR, for them to pay the fines and the indemnifications;
2. "Yellow light," or warning, if the government uses its power to keep 51% of EDESUR stocks in reserve, to expropriate or sell them to a new bidder;
3. "Red light," that is, total danger, if the government, using its powers, re-nationalizes EDESUR.

Grondona concluded this introduction to his program, by noting that this third point would fulfill the slogan that has become popular in protest rallies nowadays: "SEGBA come back; all is forgiven."

'General collapse' looms

The architect Rodolfo Livingston drew the obvious conclusion, when he told a magazine that this crisis "is nothing but a warning: The city is in continuous danger of a general collapse of all its services. Private businesses, out of control, only aim to win immediate profits, and do not invest with foresight."