Venezuelans pressed to yield equity

by Salvador Lozano

On March 26, at a businessmen's seminar entitled Invest in Venezuela, Alfredo Morales Hernández, chairman of the Caracas Stock Exchange, made an unheard-of proposal: that between 10% and 15% of the stock of the state-owned oil firm Petróleos de Venezuela, SA (PDVSA) and its subsidiaries be sold to private entities, both national and foreign.

The proposal was immediately and categorically rejected by the relevant Venezuelan government officials. The Minister of Mining and Energy, Arturo Hernández Grisanti, denied the government may even consider the possibility of selling stock of Petróleos de Venezuela.

"This is a proposal which seems unusual to me. We must remember that the nationalization of the petroleum industry was not a political, nor even an economic act; it was a decision of historical character, of profound national significance, supported unanimously by the country. As a result, this proposal in a certain sense is equivalent to a kind of denationalization," said Hernández.

But that clearly was just the first round in what will be a much nastier fight. For the proposal was only a component of the present, broader drive to implement this year Henry Kissinger's scheme of collecting debt in the form of equity, which scheme Secretary of State George Shultz promulgated as official U.S. policy on March 6. "It must be clear to people by now," he said, "that financing future expansion in economic development around the world will not come about through commercial bank lending . . . [but] through funds that come in the form of equity, of ownership."

The debt-for-equity scheme was contrived at a meeting held a year and a half ago in Vail, Colorado, by Kissinger, Alan Greenspan, and U.S. bank officials, with the dubious ornaments of Gerry Ford, Helmut Schmidt, Valery Giscard d'Estaing, and other has-been heads of government, gathered for the ostensible purpose of discussing the future of the Pacific Basin. The meeting ended with Greenspan, member of Morgan Guaranty Bank's board of directors, announcing that the "private part" of the forum was dedicated to discussing the problem of the debt and concluded it has be repaid "in equity in the indebted nations." The push to implement the scheme began immediately afterwards.

On March 30, the president of the Andean Tribunal of Justice, José Guillermo Andueza, who was minister of justice under Venezuelan President Luís Herrera Campins, gave evidence on the vast scope of the debt-for-equity drive. He commented on the proposal: "An offensive exists in Latin America to present it as the only valid alternative to reactivate the economy of our countries by attracting foreign capital. . . . I just came from Ecuador and Peru, where I encountered a movement with the same characteristics and the same arguments which I have heard here in the Invest in Venezuela seminar."

In several ways, Ibero-American governments are yielding to the pressure. On March 15, *The Wall Street Journal* reported that the Mexican government was offering to its creditors the chance of buying stock in 40 of the most important Mexican firms, including some in the steel industry, in exchange for interest that was not paid. "Clarifications" from the Mexican authorities just confirmed the existence of negotiations of that sort. Earlier changes in the foreign investment law were seen as intended to facilitate debt-for-equity arrangements.

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During his U.S. visit, Argentina's President Raúl Alfonsín, met a group of oil investors in Houston, including the head of entrepreneurial relations of the Heritage Club, Christian de Fouloy, and president of the Center for International Business, Jack Murphy, to talk on the Argentine oil industry. Later, De Fouloy told the Buenos Aires magazine *La Semana:* "President Alfonsín was very sincere and put his cards on the table. . . . From now on, the companies which want to invest for development of the basic reserves and resources are going to do it under equal conditions to those which up to now have been enjoyed by the national companies."

In addition, the head of Peru's Central Reserve Bank said that a way to pay would be "allowing the IMF to capitalize the debts". A law which allows state-owned firms to individually repay debts by selling their estates has already been promulgated in Peru.

Despite the strong reaction of Venezuelan government officials to the proposal of PDVSA's being partially sold, the chairman of the Superintendancy of Foreign Investments, Alfredo González Amaré, is directing preparations for changing the Venezuelan foreign investment law. He has long lobbied for changes, and wanted them before the Invest in Venezuela seminar, according to Caracas sources. His proposed changes include foreign-currency denomination for foreign investments, no limitations on including foreigners

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on boards of directors, and the right of foreign investors to acquire real estate.

González calls this "Reverting the Miami effect to the Venezuelan economy," i.e., under a pretense of attracting flight capital to Venezuela, making it another Miami. Miami is one of the major laundering centers for narcodollars; flight capital from Venezuela helped to set up the laundering machine. González wants to bring that capital back to Venezuela by establishing the conditions there which first attracted it to Miami!

Documentation

Excerpted from Secretary of State George P. Shultz's remarks to reporters at a question-and-answer session before the National Academy of Sciences, Washington, D.C., on March 6:

I think that we should encourage other countries to take a lesson and provide an environment that's more attractive to investment.

In fact, I think, from the standpoint of the sort of gross financial problems of the world, it must be clear to people by now that financing future expansion in economic development around the world will not come about through commercial bank lending, and will not come about through increases in concessional aid.

If it comes about, it will come about through funds that come in the form of equity, of ownership, of that kind of investment—a form of investment that has tended to be resisted, if not rejected, in many developing countries. They have to learn, with all due respect to whatever bankers there may be in the room, that debt is dead. All debt wants is to get paid back. Otherwise, it doesn't care, and wants its interest.

Equity cares. Equity has a stake. Equity brings drive; equity brings technological know-how; equity brings access to markets. Also equity brings the fact that if things go sour, it doesn't get paid anything. There isn't any automatic interest.

So I think a big lesson people have to learn is how to make themselves attractive to that kind of money, and right now the United States is perhaps more attractive than any place else, with all our problems—and I know we have plenty—but the high dollar which is a result not of what one would get solely on the basis of trade flows, but rather as a reflection of these great financial flows to the United States. It's a kind of Switzerland effect, you might say.

We are like Switzerland right now, and the dollar strength is a result of that. And so it is playing havoc with our trade relationships in a manner that really can't endure. We can't run these kinds of deficits indefinitely. We all know that.

And it also, I think, carries a danger that it will distort the characteristics of our own industrial base as very competitive products made in the United States are priced out of world markets, not because of anything done here but because of what happens to the dollar.

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