Venezuela debt deal: license for looters

by David Ramonet

On March 20, Venezuelan President Carlos Andrés Pérez announced that negotiators had reached agreement with the creditor banks to reduce the foreign debt service burden under the "Brady Plan," on terms similar to those granted Mexico in 1989. "We have been given the instruments to be able to begin the process of development and growth for our country, in accordance with the plans outlined in the Eighth National Plan, and in accordance with the Investment Plan presently under discussion in the Congress," Pérez bragged. In reality, the debt deal is just the opening gambit in a plan to open Venezuela up for the kind of looting that turned Thatcherite Britain into a slum.

The terms of the accord cover some $20.5 billion of Venezuela's public sector debt of nearly $30 billion, the rest being owed to the International Monetary Fund, the World Bank, and foreign governments. The deal was not the result of hard bargaining by Venezuelan negotiators; a set of "options" was presented by the banks themselves, and merely fine-tuned in later negotiations with Venezuela.

One chunk of the $20.5 billion will be traded dollar-for-dollar for 30-year Venezuelan government bonds which will bear a fixed interest rate of 6.75%—a 30% reduction in interest rate. The other portion of the debt will be exchanged for 30-year bonds at 70¢ on the dollar, but will carry the full commercial interest rate, currently around 10%, thus reducing both the total indebtedness and the interest charge. All of the new Venezuelan government bonds issued will be backed by 30-year U.S. Treasury zero-coupon bonds which will have a face value in 30 years equal to the redemption cost of the Venezuelan bonds.

In a departure from the Mexico prototype, the smaller creditor banks agreed to let Venezuela buy back its debt from them at the secondary market price, much below par value. The net result for the Venezuelan government will be a saving of about $750 million a year in debt service charges. Citibank and Chase Manhattan, among others, will also buy additional bonds that represent "new money" for Venezuela, to the tune of no more than $1 billion.

The vultures are circling

Here's the catch: These bonds are not intended to be redeemed for *cash* in 30 years, but for tangible productive assets of Venezuela's economy over the next few years, which explains the banks' apparent generosity. The new Venezuelan bonds can—and are meant to—be used by the foreign creditors to buy the companies of the Venezuelan state sector that will now be privatized in periodic sales or auctions. According to the Eighth National Plan, the priority sectors to be sold are the primary export revenue generators: petroleum and petrochemicals, aluminum, and steel. These auctions began in 1989 on a small scale, and will now proceed with petrochemical and other "mega-projects."

To help sell the public sector to the creditors, the government, in accordance with the Investment Plan, is trying to restructure, reorganize, and expand the capacity of the state companies, primarily those that export, to make them more alluring to private buyers.

Of the 127 trillion bolivars worth of investment envisioned by the Investment Plan, fully half is for "restructuring" the public companies, which is a euphemism for laying off many workers and cutting back operations. For example, the National Institute of Ports will cut its payroll from 15,000 to 5,000 workers. Orinoco Steel (SIDOR) will fire all employees producing steel for the domestic market, since SIDOR will specialize in products for export. Under the plan, companies such as Cadefe (electricity), Interalumina, Venezolana de Navegación (shipping), and others, are slated to be sold. Once restructured, the companies are to be recapitalized, and then handed over to the creditors in exchange for the new bonds issued as part of the debt deal.

In its haste, the Pérez administration is not even waiting for the Congress to approve the entire package. For example, the government approved the formation of the first private company, Aluminio de Angostura (Adalca), ever allowed to produce aluminum. Of its investment cost of $720 million, $369 million was the cost of a swap of debt for investment, organized by Britain's Midland Bank (see page 14); another $234 million came from two European firms who will be repaid in future deliveries of aluminum; and the remaining $116 billion came from Venezuelan tycoons led by the Diego Cisneros Organization.

The Eighth National Plan envisions doubling or tripling the export of aluminum and steel. But nary a thought has been given to whether the nation's infrastructure, above all its electricity production, can support the planned production increases. The company responsible for administering the Guri dam project, Electrificación del Caroni (Edelca), leaked a report in *El Universal* April 8, which warned that there doesn't exist the electrical generation capacity to meet the demand that the government is projecting these projects will require.

Edelca already sells 50% of its energy to basic industry, and 60% of that is for aluminum, which depends for its profitability on cheap power. The company says installed capacity cannot meet the increase in demand. The Venezuelan economy will not be able to withstand this looting plan to which the technocrats of the Planning Ministry intend to submit it by abandoning real economic planning to the "forces of the market."

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