Energy Pirate Firms Are Exposed in Mexico

by Ronald Moncayo

The clandestine attempt to privatize Mexico's energy sector, publicly exposed by *EIR* magazine as far back as December of 2001, was legally stalled on June 25, when Mexican Sen. Manuel Bartlett presented a formal demand to the Superior Auditor of the Federation and to the Oversight Committee of the National Congress' Chamber of Deputies, for an investigation of 225 licenses for electricity generation, that had been granted by the previous Ernesto Zedillo and the current Vicente Fox governments. Bartlett's accusation states that, in clear violation of standing laws, several private companies had committed various irregularities, as part of an "illegal clandestine privatization" of the national energy sector. Although the accusation does not address all the constitutional violations involved, it does represent an important first step in calling a halt to the ongoing energy privatization, long declared by mouthpieces of Wall Street as their first priority with regard to Mexico.

Senator Bartlett, of the opposition PRI party, charged specifically that a group of energy producers are selling energy to third parties, in open violation of the rules and regulations established for the generation, use and sale of electricity in Mexico. All of this has occurred as part of the Fox government's strategy to foment the financial bankruptcy of the state-run Federal Electricity Commission (CFE), and thereby to facilitate the privatization of energy in Mexico.

"Pressures are coming from the major financial centers, which have made a killing and have all of Latin America paying their electric bill," Bartlett charges in his explosive statement. "There are 17 multinationals which already produce 19% of what the CFE produces, and which enjoy illegal benefits and subsidies"—a fact which requires that "administrative, political, and penal responsibilities should be laid on those public and private figures involved" in this illegal trade. "Energy pirate" companies like Enron, Tractebel, American Electric Power, Bechtel, Integren, Azteca III, Abengoa, Telvent, and others are mentioned in the accusation.

Senator Bartlett's charges are absolutely true. Further, this scandalous illegal privatization scheme has serious financial implications that run contrary to the national interest. And this is merely one part of the looting structure that has been imposed on Mexico, to guarantee the timely payment of its debt and enable the multinationals' and banks' seizure of its national assets.

Foreign Debt Looting

On June 12, while the Mexican government and leading authorities of the international financial community were noisily celebrating Mexico's pre-payment of the last $1.2 billion installment of the so-called "Brady Bonds," the insanity spread to mouthpieces for such bankrupt brokerage houses as Wall Street's JP Morgan, which declared that Mexico has entered "the first world of healthy adminstration of its debt." Merrill Lynch, for its part, called the payment "a tremendous happening for the economy! . . . All that is now lacking are the structural reforms."

In March of 1989, then U.S. Treasury Secretary Nicholas Brady presented a plan to guarantee that Mexico would not fail to make timely payments on at least the interest on its foreign debt, and thereby avoid an international "domino effect" of debt moratoria. The Brady Plan merely proposed prolonging the life of the battered hen that lays Wall Street's golden eggs, so that it would not die too soon. From this came the "Brady Bonds." According to the agreement, the creditor banks would give Mexico a chance to undertake a final restructuring of its existing debt, by exchanging it for an emission of new bonds, at a 35% discount, or with a 6.25% preferential rate. To this was added the "concession" that Mexico would receive new credit—"Brady Bonds"—from the same banks, for 25% of the restructured amount—at market rates, of course! This was called at the time a "definitive solution" to the problem of Mexico's foreign debt, which would be reduced. Many dared to say that the ghost of foreign debt payments would soon disappear altogether.

But as *EIR* exposed at the time, the new credit issued was quick to return to the bankers' pockets, in the form of interest payments higher than the principal itself. And lo and behold, the debt did not decline, but grew! The initial amount of the Brady Bonds was $35 billion. But, between 1990 and 2002, Mexico paid—in interest on the foreign public debt alone—more than $82 billion—10.7 times the $7 billion "reduction" of the debt achieved through the Brady Plan. Part of that interest, along with part of the capital, was *pre*-paid by the Zedillo and Fox governments—Merrill Lynch's so-called "tremendous happening" which they now want countries such as Brazil and Argentina to imitate.

With these "Brady Bonds," then-President Carlos Salinas de Gortari fed the fantasy that the foreign debt would decline. But he began his six-year term in 1988 with $81 billion in debt, reduced it by $7 billion with the Brady Plan in effect, and then concluded his term in office with a foreign debt of $86 billion; and this, without counting the $30 billion in "internationalized domestic debt" of the so-called "Tesobonos" (public debt bonds that are immediately convertible into dollars), which dragged Mexico once again into insolvency and bankruptcy by December of 1994. Salinas had inaugurated the mechanism of "internationalized domestic debt." which Zedillo brought to the illegal level of "contingent liabilities."

Contingent Liabilities

The looting schemes directed against Mexico, murderous as they are—living standards are far below 1990 levels—have become increasingly inadequate to the requirements of foreign debt repayment. The default in payment on Tesobonos in December 1994 led the oligarchy to demand more immediate exports, to satisfy Mexico's international liquidity needs. From there emerged the accelerated implementation of NAFTA, by means of Zedillo's "new export model," whose central feature was the fascist recycling of cheap labor power in the *maquiladoras* assembly plants near the U.S. border, and the destruction of national production of goods and services. Thus, Mexico's economy was launched into a new era of dependency on the fluctuations of the U.S. economy.

The "zero deficit," or "Argentinization" approach emerged: the elimination of "new [government] emissions of productive credit"; and new conditionalities by the international banks for granting credit. Those conditionalities were: first, that new international credits would be used primarily for paying debts, and would be acquired through emission of "sovereign bonds"; and second, that they would have to find new forms of "internationalized internal debt" to give the appearance that the foreign debt was shrinking.

At the same time, Mexico's remaining national assets would be seized through such illegal mechanisms, created by Zedillo, as the so-called "contingent liabilities." These included mechanisms for:

- Privatizing the pension system, some $36 billion in obligations, and injecting liquidity into the bankrupt national banking system, which would then pass into foreign hands. The only thing missing is for the private banks to begin lending money, at "competitive" interest rates, to pay pensions.
- Providing billions of pesos to the bankers, so that they can continue to operate. Reviving the banks at top-dollar cost, and then selling them to international banks at bargain-basement prices, currently means more than $70 billion in bad bank debt, which the government has assumed and is paying interest on.
- Privatizing strategic sectors of the nation, such as energy, water, general infrastructure, and public services, such as health and education.
- Other rescues, such as the one to bail out the private concessionaires who had been handed the right to collect tolls, and the support for debtors which are not banks, but giant corporations.

This fascist trick of presenting an apparent decline in the foreign debt, which hides fraudulent looting mechanisms and growth of the "internationalized internal debt," has been exposed by *EIR* both at the time of the Tesobonos, as now with the case of the "Pidiregas" bonds to assume energy companies' debt. In August 2002, Marivilia Carrasco, president of the LaRouche movement MSIA in Mexico, presented a study at the international seminar, "Mexico, Brazil, Argentina: The Hour for Integration" in Guadalajara, Mexico (see *EIR,* Sept. 6, 2002). Carrasco demonstrated that in 2002, beyond the official foreign debt of $161 billion, there is also an additional de facto foreign debt of $109 billion, making the total real foreign debt of Mexico $271 billion.

One of the substantial components of that de facto foreign debt are the Pidiregas bonds, which Zedillo created to the tune of $45 billion. During 2000-02, Fox increased this to $101 billion, and seeks to double this in 2003. Thus, the illegal privatization push.

Businessmen Leave Fox, Call for Development

As *EIR* warned after the Mexican "debt bomb" exploded in 1994, the financial oligarchy would seek to seize large reserves of crude oil, natural gas, and the production and distribution of future electricity. To accomplish this, they have introduced reforms that violate the spirit of the Mexican Constitution. These reforms were approved between December 1995 and August 1996. They create a new legal instrument of private investment, known as the Project for Deferred Impact in Registering Expense (Pidiregas), which allow for total private and foreign financing of energy, communications, transport, and even water and health projects and infrastructure. These government obligations to private, often foreign interests, are not counted as part of the public debt.

Despite the fact that the Mexican Constitution clearly establishes that all of these, and other, sectors are considered strategic to the national interest, and cannot be placed under the total or majority control of private interests, much less private foreign interests, the Zedillo regime ignored the fact, and Fox assumed responsibility for accelerating this process of denationalization of the nation's assets.

And now, even the stubborn Mexican businessmen who refused to pay heed to the recent warnings, in Mexico, by U.S. Presidential pre-candidate Lyndon LaRouche on the systemic crisis of the world economy and financial system, have recognized that Fox's "change" has not, and will not come. Businessmen like Dionisio Garza Moreno, spokesman for the Monterrey Group, Lorenzo Servitje of the Bimbo Group, and others, have come out against Fox's current economic policy.

Carlos Slim, owner of the company Teléfonos de México, went further on June 24, and called for "development models, and not economic adjustments like those prescribed by the IMF." But Slim, like others, still made the deluded claim that "the recession in the United States is coming to an end."