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New Way to Loot Debtors

Swapping 'junk debt' for 'oil bonds'

by David Ramonet

An important group of U.S. bankers is now preparing to implement Phase 2 of the looting scheme known as "debt for equity," or, the notion of paying the foreign debt with shares in productive enterprises. The new ploy is to convert debt into stock in companies which are productive *and* still profitable.

There is still a faction fight among the creditors. They do not all agree, since part of the scheme involves the debt being sold at the prices of the so-called secondary markets, where the debt packets are quoted at only 40-60% of their face value. But the promoters of the scheme assume that the debt is unpayable as things stand. In exchanging debt for bonds, the banks shed the risk and assure themselves of punctual interest payments.

Since most of the debtor countries' economies are dependent on a single export product, certain firms in particular have been the source of crucial foreign revenues for each of the indebted nations. With the new scheme, all the revenues of these companies would be channeled to the payment of interest on these bonds.

The creditors' scheme is copied in part from the fraudulent example of the so-called junk bonds, in which bankrupt companies generate enormous "capital earnings" on the New York stock market. Of course, junk bonds are worthless, while these new "equity" bonds would be hooked directly into Third World wealth. The person who has pushed this idea publicly is none other than Michael Milken,
the junk bond market for the Drexel Burnham Lambert investment house.

Milken explained how the scheme would function to a *New York Times* editorial writer, on Sept. 13: The debtors would issue bonds for an amount equivalent to part of the debt. With these bonds, the debt would be bought at a discount on the so-called secondary market.

He offers Mexico as a hypothetical case of how the scheme would function: The state firm Petróleos Mexicanos (Pemex) would issue a series of bonds to buy Mexico's debt at 50¢ on the dollar. The 8.5% annual interest on the Mexican debt's face value would thus be converted into a 17% profit for the bondholders. In this way, the creditor banks convert the debt into an investment in oil; they get rid of the risk involved in the debt and guarantee that their interest will get paid. Best of all, they get their paws on Mexico's oil.

As the *New York Times* commentator recognized, the scheme is really a means devised by the bankers to convince those who still resist turning over entire sectors of their economies to pay foreign debt. "Innovations such as debt for equity," says the newspaper, "are a business with very little potential," given the political resistance they have run into.

Venezuela, Colombia, Mexico targeted

Venezuela is the first country where the scheme has been publicly discussed. *Diario de Caracas* reported on Oct. 6 that the state firm Petróleos de Venezuela, S.A. (Pedevesa) is studying the possibility of "acquisition or purchase of 50% of the obligations" of the foreign public debt, to "later negotiate them with any international company or financial institution, either directly or by means of bonds." The same newspaper adds that this would "force" Venezuela "to transform the country's obligations."

For Colombia, a group of leading international banks is reportedly putting the finishing touches on a hefty loan, dubbed the "Concord," by the press, of $1.06 billion. The credit is destined in part toward payment of old debts; specifically, financing the sale of the debt of the state coal company, Carbocol, by the oil company, Ecopetrol.

In fact, part of the Concord loan is for Ecopetrol. Recently, Ecopetrol bought from the creditor banks a large chunk of the Carbocol foreign debt, some $600 million worth; then it exchanged the debt for shares in Carbacol.

This year, Colombia will pay $2.9 billion in debt service, which represents more than 50% of what the country expects to receive through exports. In the last year, the foreign debt increased by $2 billion to a total of $15 billion. With the new loans, the "Concord" and others which are anticipated, the debt will reach $19 billion in a few months, which implies that shortly, Colombia will have to pay $2 billion in interest alone, and that the annual debt service will surpass $4 billion, or almost 100% the value of its exports.

Faced with this prospect, the creditors are pinning their hopes for repayment on Colombian oil, i.e., on Ecopetrol. In the beginning, the Colombian government had expected that coal would earn hard currency, but it is selling at $30 per ton, instead of the anticipated price of $90 per ton. So the creditors have succeeded in converting the coal company's debt into oil company debt. The next step is to get Ecopetrol to "buy" still more debt from the banks, and then issue bonds.

Colombian President Virgilio Barco, whose personal fortune comes from oil and who is a favorite of the U.S. creditor banks, is not apt to stand in the way of such a looting scheme. And with the likelihood of Carlos Salinas de Gortari becoming the next President of Mexico in 1988, talk has already begun among some of Mexico's creditors that the time has come for Pemex to start taking over the Mexican public debt.

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