

## Andean Report by Mark Sonnenblick

### Venezuela offers oil for debt

*The Pérez regime has plans to sell oil, steel, and aluminum—and the country down the river.*

Venezuela's socialist government is dickering with foreign bankers over how much of its basic industries and fabulous natural resources it is willing to give in exchange for paper reductions in its foreign debt. President Carlos Andrés Pérez is posturing about wanting to halve \$21 billion of the \$33 billion foreign debt owed private banks.

Planning Minister Miguel Rodríguez says the banks will give Venezuela a better deal than Mexico's pitiful one, since "discounts are proportional to the guarantees countries can provide. Venezuela is far more able than Mexico to provide those guarantees." He offered Venezuela's future oil exports as guarantees it would make timely payment of interest and principal on a reduced debt.

The banks have attached other strings to any deal. The *Wall Street Journal* portrays "debt reduction" as meaning the banks actually lose money. But they demand that Venezuela give them back most of the discount in the form of resources and industries.

A bank consortium headed by the French Banque Indosuez and including Rockefeller's Chase Manhattan and First National Bank of Chicago has proposed to turn \$426 million worth of debt into shares of the giant Aluminio del Caroni (Alcasa) aluminum complex. The Venezuelan central bank would trade the unpayable debt paper, at some discount, for Venezuelan currency, with which the banks would buy preferred stock in Alcasa. These shares would be guaranteed 11% annual return. Plus, their total value would be refunded over the

next 13 years.

Stripped of tax evasion and other tricks, the deal entails Venezuela's government giving foreign creditors the local capital with which it would otherwise have financed the aluminum complex. Under International Monetary Fund (IMF) conditionalities, state companies have been blocked from completing this complex, a seamless steel pipe factory and several petrochemical projects. Thus, the highly profitable basic industrial sector will be given to the creditors.

In its contract with the IMF, the Pérez regime promised to turn \$3 billion worth of debt into equity over the next six years. Exactly \$2.998 billion of proposals are already in the hopper. The Foreign Investment Secretariat is fighting for all limits on such "investments" to be removed.

The Venezuelan Investment Fund (FIV) was the state's vehicle for channeling oil revenues into major development projects during the past 15 years. On Aug. 7, its executive Vice President Ellis J. Juan announced it would be transformed into "a promoter of foreign investments and its vocation will be to coordinate the privatization of state enterprises." Juan claimed that "megaprojects" expanding aluminum, steel, and petrochemical capacities "would need foreign capital" including "the mechanism of debt for equity conversion."

The Pérez regime's Seventh National Plan excludes any concept of a national economy. Its technocrats foresee scrapping the industrial base built over decades saving only what can be made to work for export. Non-petroleum exports will be \$2.1 billion

in 1989. By 1994, the plan calls for them to be \$4.5 billion and by 1995, \$5.4 billion.

How do they propose to more than double such exports in five years? Simple: They plan that by 1995, aluminum exports will be double this year's \$600 million. Iron, steel, and gold exports will go from \$700 million to \$1.7 billion; and private sector exports will triple from \$600 million to \$1.8 billion.

These targets can only be met if internal consumption shrinks severely. That is precisely what is being achieved through the regime's shock program, designed by Jeffrey Sachs, the Harvard professor now trying to foist similar austerity plans on Poland's Solidarnosc. Domestic steel sales for the first half of the year, for example, were one-third down from 1988 levels.

Although it killed 1,000 people during riots against the consumption-slashing it imposed at the end of February, the Pérez regime is pleased with the outcome. Imports for January and February were running 21% above last year's; but, by May and June, they were 45% below last year's. Non-traditional exports, which were below last year's levels before the shock, were 50.6% above in June.

The social democrat Pérez has proven he is willing to steal bread from children to gain dollars for servicing debts. But Venezuela is hardly becoming "more productive." The national product, which rose 5.7% last year, will fall 8% this year. The area farmed has been halved. The government reckons industrial joblessness will double to 20% by December. But no one can calculate when the population's fears and frustrations will explode again. Under such conditions, no one but an "asset stripper" would dare invest.