

Report from Rio by Silvia Palacios and Lorenzo Carrasco

Brazil's patrimony ambushed

In his zeal to "internationalize" the economy, Collor is serving up the state sector on a silver platter.

President Fernando Collor de Mello's economic cabinet has announced that the next sacrificial victim of its failed anti-inflationary policy will be the wealthy Brazilian state sector. It, and the private companies associated with it, will be offered up to the creditor banks as tribute for "inserting" the country into the internationalized free market economy which President Bush has been peddling.

Following a visit from Trilateral Commission banker David Rockefeller to Brazil in December, the Collor government agreed to submit to the scheme of swapping its foreign debt for equity, a scheme it has resisted since former Secretary of State Henry Kissinger first launched it in 1983. And thus it is revealed that the government's so-called toughness in its negotiations with the banks is nothing more than theatrics, to divert attention from the most scandalous surrender of the national patrimony in the country's history.

In fact, when talks with the steering committee of creditor banks resume shortly, the Brazilian government will offer as its "trump card" the green light that central bank president Ibrahim Eris gave on Jan. 4 for "conversion of debt into fixed assets." That is, bankers with worthless foreign debt paper will be able to capture whole chunks of national equity.

Eduardo Modiano, president of the National Economic and Social Development Bank (BNDES) and president of the Commission for Privatization, gave an interview to *Jornal do*

Brasil Jan. 6, in which he explained that the objectives of the privatization plan have nothing to do with encouraging productive investments. "The idea is that resources derived from the sale of state companies be used principally to rescue internal and foreign debt. . . . We are talking about selling assets worth \$18 billion, through the end of 1992."

The government, in its zeal to accelerate the privatization program, has added to the number of companies on the block, to include the National Steel Company of Volta Redonda and the Rio de Janeiro electrical company, Light.

Modiano frankly admitted that his sole function is to bolster the value of the international banks' debt holdings by plundering Brazil's patrimony. "To the extent that the government is privatizing and thus reducing its debt, the debt will begin to be worth more. That will be the point at which debt holders will be more interested in exchanging it for state sector assets."

In its drive to internationalize Brazil's economy, the economic cabinet is trying to force changes in the Constitution which would, among other things, permit changing the percentage that today limits foreign investment in public companies to 40% of voting capital, thus allowing de facto foreign takeover of the companies. Central banker Eris, in a Dec. 23 interview with *Folha de São Paulo*, denigrated the 1988 Constitution as "inflationary," because of the social obligations it imposes on government.

The BNDES's Modiano cynically explained to *Jornal do Brasil* that, "case by case, the law allows us to consult Congress to increase the participation of foreign capital now limited to 40% of voting capital. However, there is no limit to non-voting stock . . . if we keep that structure, foreign capital could retain nearly 80% of total capital."

Economics Minister Zelia Cardoso de Mello told a cabinet meeting on Jan. 4 that this ambush of the public sector will include drastic cutbacks in state sector investment, equivalent to 1% of GNP. Such a measure will not only dramatically worsen the economic depression, but also the financial problems of the public sector itself, thereby increasing their vulnerability to takeover.

To complete this assault on the state companies, it is rumored in Brasilia that the government will shortly be declaring a moratorium on the \$10 billion in debt that the state companies have with the private sector. This will in turn unleash a chain reaction that could collapse a substantial portion of the capital goods industrial sector centered around such energy giants as Petrobras and Electrobras, the most powerful in all of Ibero-America.

It could even reach the state banks which hold a large part of that debt. On Jan. 11, M.F. Thompson, vice president of the Brazilian Association to Develop Basic Industries, warned that "the major creditor of the state companies is the state banking system. The BNDES, for example, holds \$2.5 billion from the steel and electric sectors alone. . . . Some state companies are also creditors of other state companies. Last November, Petrobras held nearly \$1.2 billion worth of credits, \$470 million with the electrical sector, \$140 million with Siderbras, [and] \$53 million with the Federal Rail System."