

## Report from Rio by Silvia Palacios

### Congress blocks privatization

*The congressional stall on privatizing the state sector has revived a commitment to protect Brazil's national patrimony.*

**B**razil's creditor banks, and former U.S. Secretary of State Henry Kissinger, will soon realize that the economic measures adopted by President Fernando Collor de Mello give them little, if any, cause to celebrate. Exemplary is the congressional debate on the government's proposal for privatizing state sector companies, where an intense fight is being waged to keep those valuable companies out of the hands of the international banks, which are looking to the old Kissinger plan of "restructuring" Ibero-America's foreign debt through debt-for-equity swaps, as a way to decapitalize—i.e., loot—those economic sectors.

As *EIR* reported back in 1983, Kissinger's proposal was adopted as the strategy of the "Creditors' Club" at a Vail, Colorado gathering of bankers, who demanded that state sectors be privatized, or be declared bankrupt. That exposé, recirculating now in Brazilian circles, is alerting various national sectors to be wary of such privatization scenarios.

Nonetheless, as soon as Collor de Mello assumed the presidency of Brazil, bankers began a pilgrimage to the country and to various international forums, demanding that Brazil bring its foreign debt arrears, totaling \$4.5 billion, up to date. The bankers are hopeful that Brazilian debt payments can be revived through implementation of debt-for-equity swaps.

At the recent Montreal meeting of the Inter-American Development Bank, co-sponsored by the Canadian government, U.S., German, and Jap-

anese bankers joined forces, according to *O Estado de São Paulo* of April 2, to demand that "Latin Americans should intensify the process of converting foreign debt into fixed investments, opening up opportunities for debt conversion to all sectors of the economy, including industry and banking services."

Citibank, the bank most exposed by Brazil's "white moratorium," has sent the same message, as has Lloyds Bank, which sent its chief executive to Brasilia to hold talks with Antonio Kandir, the secretary of economic policy at the finance ministry. The Lloyds banker told Kandir to "put his house in order" and urged including "the option of converting foreign debt into investment" in ongoing debt talks.

In the Congress's deliberations on those presidential measures, which would effectively extinguish state companies and regiment future privatization efforts, the controversy focused on those articles which would open up such companies to debt conversion schemes. Article 25 dictates that public companies be subject to the same bankruptcy rules as any private company. That item, together with one which stipulates debt-equity swaps, was overturned by an initiative of Deputy Oswaldo Lima Filho, president of the Nationalist Parliamentary Front.

Thus, at least for the moment, Congress has blocked execution of those measures. *Gazeta Mercantil* of April 12 noted, "The power of the President to veto changes introduced

by Congress will not be able to rehabilitate the conversion proposal. The reason is simply that conversion has disappeared from the text sent to the President for approval." According to law, therefore, the debt-equity conversion scheme so heavily promoted by the banks must wait at least one year before it can be re-submitted for legislation.

In addition, Congress resolved to limit participation of foreign capital in said privatizations to no more than 40% of voting capital. Congress also retained its prerogative to veto privatization of any state company it chooses.

Particularly striking in the congressional effort to overturn the debt-equity measures, is that the override vote required a substantial majority, a fact which did not pass unnoticed by the propagandists for Thatcherite economic liberalism. In its April 13 editorial, *O Estado de São Paulo* admitted that the government bloc in Congress united in purpose with that of the Nationalist Parliamentary Front. "In truth, it cannot be said that the victory of the nationalists over those who defend participation of foreign capital in the privatization process was achieved without the participation of deputies and senators who in one form or another make up the government bloc."

Until now, the sole hint of government hostility to Congress's changes came from Infrastructure Minister Oziris Silva, who commented that the congressional vote had blocked the privatization process. The congressional fight on the privatization issue has, in fact, achieved a lot more: It has succeeded in reviving the nationalist commitment—set in the 1988 Brazilian Constitution—to define such strategic state companies as Petrobras as untouchable, as national patrimony. It is unlikely that this fact entered into Henry Kissinger's calculations.