Henry Kissinger and company reorganize Venezuela's economy

by Alfonso Bueno

"There exists unanimous agreement among the President's advisers that the commercial banks should be opened to foreign investment, to bring them into harmony with the policy of opening and liberalization being pushed in the other sectors of the economy," declared Venezuelan Development Minister Imelda Cisneros de Pérez, in summarizing the conclusions of a meeting of the President's Advisory Committee on Foreign Investment. Nine of those advisers met March 21 and 22 in Caracas, with Henry Kissinger the flaming star of the show.

In addition to Kissinger, there were in attendance such luminaries as American Express President James Robinson III; Gianni Agnelli of FIAT and Luciano Benetton of United Colors of Benetton; Jean Luc Lagardère, of the French Hachette Group (owners of the Matra weapons company); Toyota's Shoichito Toyoda; Heinz International's President Anthony O'Reilly; from Spain, José Sánchez Asiain (president of the Foundation of Banco de Bilbao and Banco de Vizcaya) and Carlos March Delgado, president of the Juan March Foundation.

Debt for equity

According to Kissinger, the meeting of such international figures was "testimony to the trust the President [Carlos Andrés Pérez] has earned through all the measures he and his cabinet have taken." In fact, it was at Kissinger's New York home in late 1989 that President Pérez first announced the creation of his international advisory committee, at the conclusion of a reception given in his honor by the former U.S. secretary of state.

Pérez's relations with Kissinger and James Robinson took off around the time of Venezuela's 1988 electoral campaign, as indicated by then presidential candidate Pérez's speech at Harvard University, where he pointed to Kissinger and Robinson's own formulations as the inspiration for his proposal to restructure the foreign debt.

Kissinger's name has been associated since at least 1982 with the proposal to solve the Third World's debt problem through the surrender of the public and private companies of the debtor nations, either directly or through their "privatization," in payment for their debts. Further "discounts" would be offered to those who submit the administration of their national economies to the International Monetary Fund (IMF), the World Bank, and the General Agreement on Tariffs and Trade (GATT). As is well known, the continent's basic industries are to be found under the shelter of Ibero-America's state companies.

Kissinger made a preliminary trip to Caracas toward the end of January, where he met with President Pérez and Venezuela's entire economics cabinet, to review the agenda for the just-concluded committee meeting. In the aftermath of that visit, the daily *El Diario de Caracas,* the unofficial voice of the influential Roraima Group, published a Jan. 31 editorial entitled "Get Out, Mr. Kissinger!" The editorial noted that Kissinger, as a long-standing enemy of the Organization of Petroleum Exporting Countries (OPEC), was consequently no friend of Venezuela's.

Foreign takeovers

In opening the meeting of the foreign advisory committee, Planning Minister Miguel Rodríguez Fandeo reviewed the various macroeconomic measures adopted by the Pérez government to "open up" the economy. As the daily *Economía Hoy* summarized it on March 22, Rodríguez "stressed the importance of foreign investment in aluminum, steel, and petrochemicals, through debt-equity conversion mechanisms [and] privatization programs," in which foreign investment would be welcome.

The government is already negotiating a series of "megaprojects" in precisely the areas indicated by Rodríguez. The projects are being launched with funds from the IMF and World Bank, and will then be handed over to bond-holders in the Venezuelan foreign debt, restructured one year ago. Rodríguez explained to reporters, at the end of the meeting's first session, that "one of the primary recommendations" for achieving the objectives laid out was "to advance with greater decisiveness toward the total liberalization of the financial system."

However, the "unanimity" of the advisers so trumpeted by government spokesmen did not exist in reality. Shoichito Toyoda said that his advice to foreign investors was to wait until Venezuelans themselves began investing, and urged a more gradual opening. He further explained that the "megaprojects" the government was offering to creditors in exchange for the restructured debt would not work if there were not a strong small and medium-sized industry to feed them.

Eddo Polesel, president of Venezuela's Chambers of Industry and Commerce (Fedecamaras), backed Toyoda, while issuing a sharp critique of the government's financial policy. He emphasized that there could not be productive investment under a restrictive monetary policy of high interest rates which punish private investment, affecting especially small and medium-sized businesses." If this situation continues, he added, "we will become a country in which it will not be worthwhile either investing or producing, but only living off the interest from savings, which obviously is not possible."

Financial 'openings' and the drug traffic

The Pérez government is promoting a financial reform designed by the IMF, which, like most of the government's other programs, is intended to meet the conditionalities of the Letter of Intent signed with the IMF. But the reform is facing stiff opposition from Venezuela's traditional banking layers, and the issue has become the most controversial aspect of the Venezuelan economic plan.

"The financial reform should be deferred in those economies which are beginning the process of freeing prices," writes Gustavo Marturet, the reelected president of the National Banking Council, in a recent report. In any case, he insists, "the *final* phase of the reform should be the entrance of foreign banks," until monetary stability is achieved. Otherwise, wrote Marturet, the systematic currency devaluation ordered by the government will lead not to the influx of investments, but to "a nervous flow of capital" abroad, which the foreign banks would be in the best position to control. José Bouza Izquierdo, president of the Venezuelan Banking Association, expressed a similar view.

But the most precise evaluation of the situation is contained in "a report prepared by experts of the Venezuelan Labor Party (PLV), on the financial reform and the door it will open to an enormous mass of funds generated by the drug trade at the international level," according to *El Universal* columnist Carlos Chavez on April 1. Venezuela "will be used as an 'offshore' center for the capital of other Ibero-American countries moving into international banking centers," Chavez quotes from the PLV report. "This is the warning of Dr. Edison Peroso [former superintendent of foreign investments], concerning our geopolitical and economic role as the link between the Andean region and the Caribbean."

Denationalizing oil

After offering general praise for the government's economic program, Kissinger honed in on one of his favorite subjects: oil. He insisted on a meeting of oil producers and consumers being organized by President Pérez, which would lead to the creation of a supranational institution to replace OPEC.

This viewpoint was also expressed by the president of Venezuela's state oil company, Petróleos de Venezuela, S.A. (PDVSA), Andrés Sosa Pietri, who insists that OPEC should be solely an advisory body to member nations, and should neither fix production quotas nor involve itself in questions of price.

Following his intervention at the foreign advisory committee meeting, Kissinger told reporters, "I will write an article on my position, which is along the same lines as that of President Pérez."

While the Pérez government prepares to sabotage of OPEC, it is also elaborating the legal mechanisms at home by which it will "internationalize" Venezuelan oil activity, without having to confront the political crisis that would be entailed in trying to change the oil nationalization law.

For example, in order to exploit Venezuela's natural gas wealth—an activity reserved by law for the state—a multinational company has been created to carry out the Christopher Columbus project, in the Gulf of Paria oil zone. A PDVSA affiliate, Lagoven, will join in association with Exxon, Shell Oil, and Mitsubishi, with 31%, 30%, 30%, and 9% respectively. In order to avoid violating the spirit of the law, the participating companies will undertake a division of labor: Lagoven will do the drilling, Shell and Exxon will be in charge of the processing, and Mitsubishi will handle the transportation of the gas.

This arrangement is establishing a precedent for even broader such associations. According to the March 5 *Economía Hoy,* Lagoven has already "taken its questions to the Supreme Court, to try to determine whether the project falls within the guidelines established by Article 5 [the nationalization law], and at the same time to explain any possible clash with, in this case, the nationalization law."

The government's intention, clearly, is to win the endorsement of the Venezuelan Supreme Court, by establishing jurisprudence that would permit the creation of other similar companies that would serve as entry points for the return of the oil multinationals into the country. With the Supreme Court's approval, the Christopher Columbus Project will be presented to the National Congress.

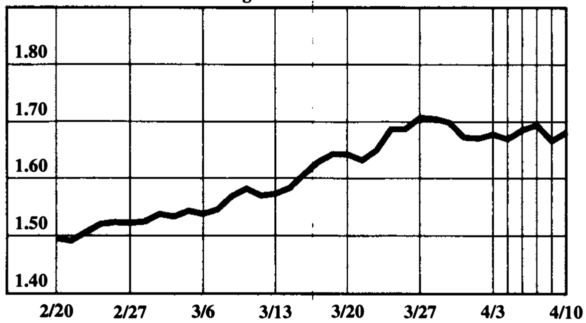
PDVSA itself is also opening the way for return of the oil multinationals to Venezuela. It is currently taking bids on the reactivation of 55 oil wells that are currently closed, with the intention of increasing production beyond those quotes established by OPEC. For the first time since the 1975 oil nationalization, these oil wells will be given in concession to private companies.

According to the March 21 *El Diario de Caracas,* 53 multinational companies will participate in the bidding, including Exxon, Amoco, Texaco, and Shell.

Currency Rates

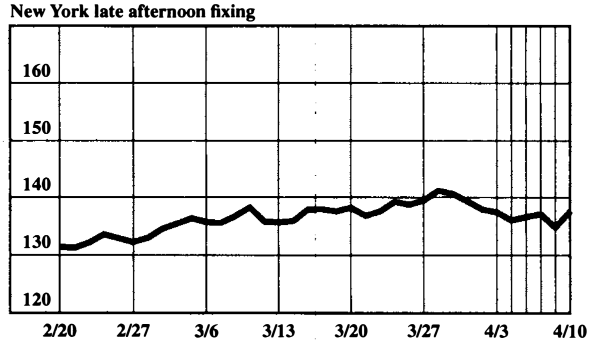
The dollar in deutschemarks

New York late afternoon fixing



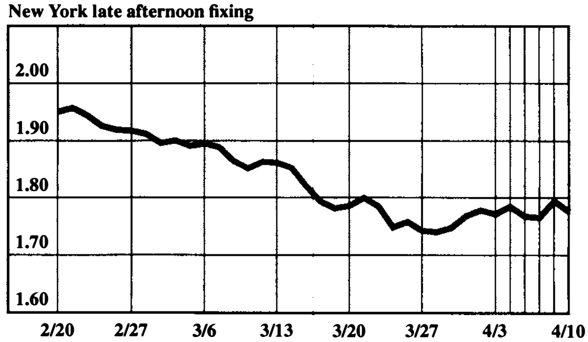
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing