

## Report from Rio by Silvia Palacios

### War breaks out on privatization

*Collor's privatization director confesses: If we hadn't given away our patrimony, no one would have bought it!*

A mere reformulation of Brazil's privatization program on orders of President Itamar Franco was enough to totally exasperate the bankers and their mouthpieces inside Brazil, who are terrified that a major source for capital speculation is about to be cut off. Their hysteria has increased in direct proportion to the growing number of exposés of the fraudulent mechanisms being used by bankers to buy up state companies.

The battle got under way on Nov. 20, when President Franco suspended the auction of the state-owned fertilizer company Ultrafertil, primarily because there were three wildly different price tags that had been placed on the company. The first, set in June 1991, fixed a value of \$408 million; the second and third, both set in September 1992, set it at \$195 million, which was to have been the final sale price.

The presidential challenge to this procedure triggered a crisis within the team in charge of state privatizations, ending with the resignation of Marcos Vianna, vice president of the National Development Bank (BNDES), the government agency responsible for the program. In an interview with the daily *O Globo*, Vianna stated that he "considered the privatization program the only really important legacy left by Collor."

The only thing known for certain is that the government seeks to change the privatization process to leave untouched those companies considered of strategic importance by the Brazilian Constitution, but *not* to abandon it. In particular, the government seeks

to halt the use of junk bonds in the acquisition of state companies. Thus, purchases with so-called "rotten currency" (debt paper, expired bonds, and other such artifices), the centerpiece of the privatization program of the former Collor de Mello government, will no longer be permitted.

The theft that such a policy had permitted is now coming to light. For example, on Nov. 26, *Jornal do Brasil* commented that one of the victims of "rotten currency" was the state oil company Petrobras, which in the process of selling off some of its subsidiaries, received more than \$1 billion in funny money, but on its 1992 balance sheet the company will have to report the sales at a market value of only about \$550 million.

Worse still, it is now being revealed that the Collor government attempted, during its final days, to give the last piece of the pie to the speculators, and that the present tumult in BNDES is because, on the initiative of the "previous administration," they had wanted to accelerate the sale of the state companies before the Senate could approve Collor's impeachment.

A closer look at the behavior of Collor and his gang of thieves is afforded by the comments of Eduardo Modiano, president of BNDES under Collor, who in a Nov. 27 interview with *O Globo* attacked Franco's proposal that at least 30% of the value of companies to be privatized would have to be covered by cash in the future. Modiano admitted that without the use of "rotten currency," no one would have shown the slightest inter-

est in buying any state company at all. "If we had demanded that 30% of the value of the companies had to be paid in cruzeiros, we would only have sold three companies." Further, he complained, "the infrastructure and electricity sectors which attract foreign investment throughout the world, are being considered strategic" by Itamar, and therefore exempted from privatization.

Even if the Franco government hadn't hardened its position vis-à-vis the banks and the International Monetary Fund, the pressures to keep Collor's economic austerity policies are intensifying. In a recent meeting with 200 businessmen from southern Brazil, congressman and arch-monetarist Delfim Netto strove to separate Collor's moral behavior from his economic program, which he described as "formidable." And on Nov. 12, Francisco Gros, the former Central Bank president who continues to act as its president, addressed a group of bankers at the annual international symposium of the *Crédit Lyonnais* group, where he virtually issued a call to boycott the new Brazilian government, using the shopworn line that Franco has "populist instincts," and that under his reign, "the state seems again to be viewed as a benevolent being that can solve all problems."

Collor himself gave a delirious interview to the Nov. 14 London *Financial Times*, in which he accused Franco of destroying his achievements: "He is pushing Brazil toward the fifth world. He is talking about freezing tariffs, reducing interest rates, and submitting each privatization to Congress for approval."

But while President Franco has repeatedly scoffed at the "modernization" lobbyists and has declared that "the stock exchanges don't worry me," he is giving too long a lease on life to his enemies.