Hands off Petrobrás!

The new President's commitment to respect Brazil's Constitution has led to a head-on clash with the World Bank.

As one of his first acts of government, President Itamar Franco has determined to express his regard for the Brazilian Constitution, which gives the state the right to retain an economic monopoly over any sector considered strategic, such as energy. The World Bank's conditionalities explicitly demand the weakening, and ultimate privatization, of the state oil company Petrobrás.

On Jan. 14, Mines and Energy Minister Paulino Cicero announced that Petrobrás, through one of its subsidiary companies, would take charge of the construction of a gas pipeline and the transport of natural gas from Bolivia as of 1995. "Out of obligation to the Constitution, Petrobrás must participate in the project and in the purchase of the product," stated the minister. Private sector participation in the project will be limited to 49%.

With this move, the government has chosen to ignore the pressures of the World Bank, which has sought to prohibit the participation of the state company in any aspect of the Brazil-Bolivia project. A letter from the World Bank to the Brazilian government was released to the public by the ultra-liberal mouthpiece *O Estado de São Paulo* on Jan. 14, which summarizes the bank's demands.

Offering the example of the energy privatization program being carried out by International Monetary Fund toady Carlos Menem, President of Argentina, the World Bank letter makes financial assistance for the project conditional on "control by the private sector. . . . The private sector understandably refuses to invest in any project over which it can only have a small degree of control. Therefore, it is not, nor could it be, viable to have 51% participation by Petrobrás and 49% participation of the private sector."

In addition to taking on the World Bank regarding Petrobrás, the Franco government has shown consistency in resisting the privatization frenzy imposed by the previous government of Fernando Collor de Mello.

Continuing with his reformulation of the privatization program, Franco's most recent order was to take control of the program out of the hands of the National Bank for Economic and Social Development (BNDES), and place it in those of a high-level commission under the coordination of lawyer José de Castro Ferreira, general adviser to the republic.

That decision has astounded such monetarists as economist Eduardo Modiano, the former president of BNDES under the Collor de Mello government and a co-author of the privatization program. Modiano warned that "this could prove the *coup de grace* of the privatization program. . . . José de Castro knows nothing about privatization. BNDES' experts are the only specialists in privatization in Brazil."

We are witnessing a factional battle inside the current Brazilian government with the liberal monetarist grouping encrusted within the state bureaucracy. The country's most important newspapers admit that the earthquake currently taking place inside BNDES will be followed by others, because "a select group of individuals inside the presidential palace wish to control" the financial institutions of the state. Thus, they claim, the group to which Castro Ferreira belongs also seeks to take control over the Banco do Brasil and the Banco Central.

The anti-free-market dynamic that has begun to emerge in Brazil is causing a variety of destabilizations. According to *Jornal do Brasil* of Jan. 9, the unpopular President of Venezuela, Carlos Andrés Pérez, is suffering from "persistent nightmares" because of Collor de Mello's impeachment.

The international financial community is also worried. Revealing in this regard is a London *Financial Times* editorial of Jan. 6, entitled "The Third Way," which agonizes over the setback that the Anglo-American plan known as "Enterprise for the Americas" has suffered across the continent.

Warning President Franco against the "temptation" of doing away with budget cutbacks and instead "spending" to fulfill his promises to the nation, the *Financial Times* laments that "there still appears to exist a point of view within the Brazilian elite according to which Brazil does not need to draw lessons from its neighbors, who have developed more open markets and have sought to balance their budgets, but rather should follow a 'third way' in resolving its economic difficulties."

Although the government's efforts to offer independent alternatives to further the recovery of its industrialization programs have yet to be defined, it is clear that these cannot be delayed for long; as President Franco himself admitted, it is "impossible to live with absolute misery." Should the situation continue, the country will be facing new social convulsions.