There Is Nothing 'Natural' About Brazil's Electricity Crisis, Either

by Gretchen Small

Beginning on June 1, electricity consumption throughout more than three-quarters of Brazil's territory, was ordered cut by 20%, as the government of President Fernando Henrique Cardoso seeks to avoid the otherwise likely, uncontrolled collapse of the national electrical grid due to a shortage of capacity. By most projections, the shortage is expected to last well into 2002. Rationing will have to be extended to the entire country, and total power usage will be restricted even further, possibly to as much as 25% or 30% below Year 2000 levels. Even with that, some fear that the country may not be able to avoid California-style rolling blackouts, nationwide.

While financiers, and credulous believers in monetarism, worry about how this crisis will affect Brazil's ability to service its half-trillion-dollar debt, the real danger lies elsewhere. One-fifth or more of the energy throughput of an economy cannot be suddenly eliminated, without a shock-wave implosion of its physical economy. Given Brazil's size, the effects will be global.

Brazil is considered to be the world's eighth-largest economy. It is certainly the largest nation in Ibero-America in territory (and larger than the continental United States), and, with a population of 170 million, it has developed first-class industrial and scientific capacities of crucial importance for the reconstruction of all Ibero-America. While anger is building as the rationing sinks in its claws, it has dawned on few Brazilians that their country could see 20 to 30 years of growth wiped out, in as little as a year, as the energy shock-front advances.

How the country grasps the enormity of the crisis and rallies to confront it, will depend upon what Brazilians understand as its cause. The electricity crisis is not, as is oft repeated, the result of a record drought, nor was it a surprise to policymakers. One of Brazil's largest weeklies, *Istoé,* observed in its June 3 issue that "arriving at the blackout took a lot of time and obstinacy." It took two decades of the interwoven policies of privatization, environmentalism, and International Monetary Fund debt looting, imposed at an ever-accelerating rate, to bring Brazil to this fateful crisis. It was a *deliberate* policy, and it has achieved the result which it intended to achieve. The willingness to face *that* truth, will determine if, and how fast, Brazil mobilizes to survive.

What is going on in Brazil should be studied by the credulous fools who repeat the mantra that "conservation" is the answer to preventing more "Californias" around the globe. Brazilian industry, agriculture, and households alike are scrambling to gouge their energy usage, so as to avoid the steep financial penalties which are to be slapped onto anyone who fails to meet the 20% mandatory "conservation." Those who fail for two consecutive months, are to have their electricity cut off entirely for a several-day period; repeat offenders will be cut off for an even longer period.

A 'Darker Way of Life'

Cutting one-fifth of electricity usage in a modern economy is not so easy, despite the ravings of the likes of Rio de Janeiro's enthusiastic Secretary of the Environment, Eduardo Paes, who is campaigning for flashlights to replace electric lighting, and says it's time to get used to "a new, darker way of life." In the cities, sales of electrical appliances have plummetted, while candle sales have soared. People are unplugging their freezers, dishwashers, and washing machines. Microwaves may be done without; but refrigerators? Brazilians are taking cold showers, watching TV in the dark, and curtailing their use of personal computers.

Whole categories of activity are being shut down. All nighttime soccer games have been cancelled. Outdoor public lighting in the big cities has been cut by 35%, forcing people to stay home at night, rather than risk being assaulted on darkened streets. Banks now close one hour earlier. Gas stations in Rio de Janeiro are shut between 10:00 p.m. and 6:00 a.m., forcing taxis, too, to curtail service during those hours.

One plan reportedly under serious consideration by the Federal government's energy crisis committee (whose head, Pedro Parente, has been dubbed "the Blackout Minister"), is to declare Mondays a holiday, and thus impose a four-day work week. By that logic, electricity really could be saved if Brazil simply shut itself down entirely, and let its citizens die off all the more quickly. The latter, indeed, may occur, if the warnings of sanitation officials, that drastic drops in electricity flows to sewage and water filtering systems will lead to mass epidemics, are not heeded.

How badly industrial and agricultural production will be affected, and over what time frame, is not known. Those industries which are capable of doing so, are buying and installing private generators, to defend their production as much as possible. Published reports have tended to focus primarily on how exports will be effected, reflecting the predominant delusion that an economy's functioning is judged by the money it can raise through foreign trade, to pay its debt. Steel exports could fall by 25% this year, according to one estimate. The effect on Brazil's aluminum production is being watched closely, since Brazil is one of the leading producers worldwide of this energy-intensive product. The Brazilian Exporters Association projected in mid-June that exports of aluminum may fall by 37.5% in 2001, from 160,000 tons last year, to 100,000.

Because 90-95% of Brazil's electricity is produced by hydroelectric plants, and because there is a drought of record proportions, the argument is made that Brazil's crisis stems from a failure to provide sufficient incentives for private companies to come in and build natural gas-run thermoelectric plants. The argument is wrong. As an soon-to-be-published *EIR* study will show, Brazil is one of the most water-rich countries on Earth, and had developed a very skilled technical force which ran its expanding, well-run national electricity grid—until 1993. Then the government began privatizing the system, selling off plants and transmission lines piece by piece, and breaking up the national technical capabilities in the process.

The Policies Which Kill

Enter the International Monetary Fund. The 1999 IMF accord, still in effect, requires that the government achieve a "primary" budget surplus. That means that government revenues must be larger than all its expenditures—except debt service, which has permission to grow into the stratosphere. In other words, a surplus must be generated to pay the debt, by cutting everything else. With tax revenues shrinking as the global economic crisis reduces all activity, the government increasingly had to cut expenditures. Infrastructure expenditures were gutted.

In 1999, the government disbursed only 80% of the money appropriated for the Ministries of Mines and Energy, Transport, and Communications, combined; in 2000, only 34%; and in the first five months of 2001, only 3% of what was appropriated, was disbursed!

IMF Director Horst Köhler protested to Brazil's largest weekly, *Veja,* in early June, that to accuse the IMF accord of discouraging Brazil from investing in the energy sector, is "totally unfounded and unjust," because "we never told the government what to do with the monies it collected." He proceeded to warn the government that any investments in electricity generation, could not "mess with its fiscal policy."

In fact, as *Istoé* detailed in its June 3 issue, Brazil would not be facing an electricity crisis, if the 16 billion reals—about $8 billion—stripped from the state energy companies since 1999 to satisfy the IMF and Wall Street, had instead been invested in electricity production.

It's quite a story: From 1999-2000, the state electrical company, Eletrobras, accumulated a profit of 3 billion reals, which, invested in thermoelectric generation, could have increased installed capacity by more than 2,000 megawatts, sufficient to cover the electricity deficit in the Northeast. The state oil company, Petrobras, accumulated 13 billion reals in profit over the same period, which could have been used to build 8,000 megawatts. Together, that would have been 10,000 megawatts of the total 14,000-megawatt shortfall which caused the need for rationing.

Instead, the money held by the two state companies "only served to make the books of the federal government look good, which, despite this useless sacrifice, saw its debt continue to explode with the rise in the value of the dollar and of interest rates."

Meanwhile, Eletrobras's budget was cut each year, both because Eletrobras was to be privatized, and because the government needed to generate a "primary surplus." And, "forget letting Petrobras generate energy: It is necessary to wait for private money," *Istoé* wrote.

"Arriving at the blackout took a lot of time and obstinancy. For the government, the State, even with money in its coffers, must not dare to generate energy and waste the private investor's opportunities—regardless of whether or not he is disposed to invest. Better to send the state companies' money to the financial market, to show better looking numbers to the IMF and Wall Street."

The IMF assault came on top of a several decades-long environmentalist assault upon Brazil. Not only did their campaigns stall Brazil's aggressive nuclear program, but environmentalists, led by the British Crown's World Wide Fund for Nature (WWF), successfully blocked dams and hydroelectric projects in the water-rich Amazon region of Brazil which were planned to produce *an additional 12,000 megawatts* of electrical capacity, another way the 14,000 megawatts' shortfall could have been prevented.

International energy pirates such as AES and Enron are now blackmailing Brazil, that until the government lifts all price controls and totally deregulates, they are halting all their investments in Brazil. But what a coincidence! The head of AES is Roger Sant, the former chairman of the World Wildlife Fund-USA, who now heads the WWF's campaign to stop all development in the Amazon!

As in California, the energy pirates are feeding off the crisis. *Valor Economico* reported on June 7 that the sale of electricity has become one of the most profitable businesses in Brazil. The price of one megawatt-hour in the Southeast of Brazil increased from 56 reals in January, to 684 reals in June. It also reported that investment banks are planning to negotiate derivatives for the energy market, the which they estimate will be worth $150 billion, starting in 2003, when full deregulation is scheduled to begin. Starting in that year, energy supply contracts are to be reduced by 25% each year, until 2006, when all energy generated in Brazil is to be freely negotiated in the market—that is, unless sanity is restored first.