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Foreign Gas Companies Abandon Prices Hikes

by LADB Staff

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Argentine President Nestor Kirchner called for a national boycott against gasoline retailers who raised their prices in March, focusing specifically on US-owned Esso and Dutch-English Shell Corporation. After almost a month of losing well over half their business, the companies announced in April that they would repeal the increases. The president's call for a boycott came in part as a response to fears of accelerating inflation in Argentina.

Shell, Esso lose business, then drop most increases

On March 9, Shell decided to increase its fuel prices at Argentine gas stations between 2.6% and 4.2%, depending on the variety of gas. The company said the move was necessary to maintain profitability at service stations. Neither Brazil's Petrobras nor Spain's Repsol-YPF followed with similar raises. It was the first time Argentines saw prices higher than 2 pesos a liter, according to daily newspaper Clarin. Shell said the hikes were "a partial reflection of the sustained rise that the cost of petroleum is experiencing," with a barrel of crude reaching US$55 at that time.

The move immediately brought a harsh response from Kirchner. "Argentines don't have to buy from Shell," said Kirchner the day after price increases were announced. "We won't even buy a can of oil from them." Kirchner called for a "national boycott" against gas companies that raised their prices. He thanked Petrobras and Repsol-YPF for not following Shell's lead.

Shortly after Kirchner's boycott convocation, the Uruguayan state company ANCAP repealed price increases that the government of newly inaugurated President Tabare Vazquez had decided to put in place.

Within days, Shell's sales around the country dropped as much as 70%. The company said on March 22 that it would try to sell its gas stations in Argentina, though it denied that the move was in response to losses from the boycott. The company also said the move was hurting local station owners, particularly since Shell only owned one of every five stations that sold its brand.

Government figures said local owners should consider selling gas supplied by Venezuela's PDVSA or Argentina's Enarsa. Worldwide, Shell has been seeing record profits as oil prices reached record highs. The company saw "record earnings and cash generation" with a net income of US$18.5 billion in 2004, a 48% increase from 2003. But the company said the price hikes would be necessary to keep up "profitability" at gas stations.

On April 4, Esso announced that it would be selling gas at prices similar to those prior to the mid-March hike. Two days later, Shell followed suit, reducing its gasoline prices 3.3% while maintaining the elevated diesel price, according to Clarin reports. The government characterized the action as a victory for the boycott. Kirchner called it "a clear victory for the Argentine people." Piqueteros
take over 32 stations Kirchner's stand against Shell helped re-establish political links between the
government and jobless groups and consumers that widely approved of the call for a boycott.

Jobless groups, known as piqueteros, have often expressed dissatisfaction with the moderation of
the Kirchner government and its failure to provide more economic opportunity to their constituents.
Though the boycott seemed to bring some reconciliation, the government soon found itself obliged
to distance itself once again from the piqueteros when groups marched on gas stations.

Daily paper La Nacion said that Kirchner could count on a 60,000-member piquetero army, which
took over 32 gas stations on March 11. It said the Kirchner government held weekly meetings with
Luis D'Elia, head of the Federacion Tierra y Vivienda (FTV), Edgardo Depetri, head of the Central
de Trabajadores Argentinos (CTA), and Jorge Ceballos, leader of the movement Barrios de Pie, who
also works in the Ministry of Social Development.

This is the first government in Argentina to get political support from piquetero groups, though the
hard-liner "piqueteros duros" maintain opposition to the government and frequently hold protests
where they blockade streets or take over businesses.

Two days after the piqueteros took over gas stations, Interior Minister Anibal Fernandez said the
citizen seizures were "not good" and denied that the government gave "instructions" to conduct
takeovers. The government, said Fernandez, "does not give orders like a Prussian army," and he
called on the groups to leave and comply with the law.

Kirchner taking on the multinationals

The national boycott of Shell and Esso represented another of Kirchner's strikes at foreign
companies and organisms, an apparently winning strategy for the Peronist president. The
multinationals that he has taken on this year include not only gasoline dealers, but the International
Monetary Fund (IMF), privatized utility companies owned by foreign corporations, and even the
Catholic Church (see NotiSur, 2005-03-11). When Antonio Baseotto, bishop of the Argentine
military, criticized the minister of health for calling for the decriminalization of abortion, Kirchner
demanded that Baseotto step down as military bishop.

The move caused a breach between the Kirchner government and the church, contributing to
criticisms when the president declined to go to the funeral of Pope John Paul II and sent his
foreign minister instead. Kirchner has gone after the utilities for charging high rates on water and
electricity, the latter being particularly significant with an ongoing regional power crisis (see NotiSur
2004-04-30).

Privatized utilities, for their part, have struck back, calling the president's statements "shameful"
and "very permissive." In one case, a top gas company executive said he resented Kirchner's
statements that it was the companies' failure to invest that had caused Argentina to cut off gas
deliveries to neighboring Chile. The cutoff of gas deliveries to Chile has been a major source of
tension and has contributed to a power crisis and blackouts in Chile.
Analysts predict that the multinational-baiting will help Kirchner's party in upcoming midterm congressional elections and has shored up his popularity prior to his 2007 re-election campaign. Inflation gains speed Kirchner has said that prices will now be the focus of his government after successfully negotiating a "haircut" of Argentina's sovereign debt and exiting default. With worldwide prices increasing, driven in part by growing petroleum costs, along with continuous economic growth, Argentina has reason to be worried. After two years of low inflation, consumer prices jumped 2.5% in the first two months of 2005 alone.

In March, the cost-of-living index rose 1.5%, raising the specter of hyperinflation that sank the Argentine currency in the 1980s (see NotiSur, 1997-06-13, Chronicle, 1995-09-28, 1990-07-19, 1989-06-20). The basic basket of food goods for a married couple with two children went up 2.99% in March to 345 pesos (US$120), according to the Instituto Nacional de Estadisticas y Censos (INDEC). The average basket that included food, goods, and services rose 1.6% to 773 pesos (US$268).

In the first three months of this year, according to INDEC figures, retail inflation rose 4% and the value of a basic food basket only those primary foods necessary for basic nutrition increased by 5.9%. In addition to fighting rising prices, the government will be turning its attention to claims filed by foreign companies that are suing over damages caused by the early 2002 devaluation of the peso.

A total of 62 suits have been brought before the World Bank's International Center for Settlement of Investment Disputes (ICSID) by companies that invested in Argentina during the 1990s wave of privatizations (see Chronicle 1994-10-27). The total amount sought by those companies that have specified the indemnification they are seeking is US$18 billion. The actual figure might, however, be much higher if claims for which no money value has been set are included.

National Treasury prosecutors estimate that the claims would actually run around US$80 billion, an amount similar to the public-sector foreign debt that Argentina defaulted on during the late 2001 economic collapse, which the government just finished restructuring. The foreign corporations in question were granted public-service contracts in the 1990s.

Kirchner is pressing them to drop their claims, while it renegotiates around 30 contracts, allowing the companies to raise utility rates, for example. But several lawmakers have proposed new mechanisms aimed at bringing the cases to a halt. One initiative would require the companies to withdraw their claims as a condition for renegotiating contracts with the state. Another would reassert national jurisdiction, to allow international dispute settlement rulings to be appealed in local courts.

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