9-23-2005

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French, Spanish Companies Pull Out of Aguas Argentinas

by LADB Staff
Category/Department: Argentina
Published: 2005-09-23

The French company Suez has pulled out of the private water utility Aguas Argentinas (AA) after repeated clashes with the administration of Argentine President Nestor Kirchner. The company controlled approximately 40% of the utility, but its announcement of withdrawal marked the end one of the most conflictive relationships Kirchner maintained with the country's privatized companies.

Suez, Aguas de Barcelona exit potable-water contracts

Suez announced that it would leave AA by Sept. 19, during the company's board meeting. Aguas de Barcelona, a Spanish company holding 25% of AA, followed Suez in its exodus from the business. Contract renegotiations between the Argentine government and the European companies had, according to spokespeople for the companies, been delayed too long. Kirchner had repeated discussions with the presidents of France and Spain regarding the companies' terms in their contracts to provide potable water to 11 million people, including those in Buenos Aires and surrounding areas. The water company, financed in part by loans from the Inter-American Development Bank (IDB), represented a significant part of the wave of privatizations of public utilities during the mid-1990s (see Chronicle, 1993-06-17, 1994-11-17).

IDB loans to European corporations running the water utility marked the first time the bank had financed private groups rather than states for infrastructural projects. In a public speech, Kirchner welcomed the exit of the European companies. "If they want to go, let them go," he said. "The Argentine people will know what needs to be done." "The Argentine president wants to make three things very clear to Suez, which complains that rates are not being raised, and, for that, it threatens to go away," said Kirchner. The first thing was that he had "received no pressure from any president" during the conflict that the government had with the French consortium, and "if I had received [pressure], I would not have given in to it."

"Second," he said, "was that Suez, for the money it spends in the media to try to victimize itself, during many years has caused total disinvestment in Argentina, and this president will not permit this company to continue leaving Argentines without sewers or water."

Third, he said, if the company wanted to leave because he would not authorize the company to increase rates, frozen since 2002, "let them go." The withdrawal of Suez and other stockholders in the AA concession was part of "the laws of the market, [since] it was not satisfied with the conditions of its investment," according to France's Foreign Relations Ministry adjunct spokesperson Denis Simonneau. "This forms part of the laws of the market. When an investor is not satisfied with the conditions of its investment, it can remove itself," said Simonneau. "It is a decision of the company" that would not provoke a "confrontation" in bilateral relations, he said. He did point out, however,
that there have been several French companies that have withdrawn from Argentina in the past, Electricité de France (EDF), France Telecom, and the Societe Generale and Credit Agricole banks.

Just as Suez was planning its departure, former French first lady Danielle Mitterrand arrived in Argentina to encourage Kirchner to put the state in charge of AA. The widow of ex-President Francois Mitterrand said that "mixed" companies had proven a failure in France and that "many municipalities are returning to the model of public service," which netted them cost reductions of up to 50%. "These associations between the public and private sector, according to the experience we had in the past, have not been a good model," said Mitterrand, representing a nongovernmental organization (NGO) she heads that promotes access to potable water.

**Kirchner's defiance contributes to popularity**

President Kirchner has frequently antagonized European companies with stakes in Argentina's privatized utilities. This, in part, has made him the region's most popular president, according to at least one survey. Mexican survey firm Mitofsky found that Kirchner currently has an approval rating of 77%, the same number as when he first came into office. It makes him the most popular president in the Americas.

Uruguay's President Tabare Vazquez's numbers have fallen from 80% to 54% in the three months he's held office, while President Luiz Inacio Lula da Silva in Brazil has dropped 10 points to 40% as a prolonged corruption scandal has tainted his image. Colombia's President Alvaro Uribe is second to Kirchner with 71% approval, while US President George W. Bush was recently found to have 46% approval, a decrease that Mitofsky attributed to his poor handling of the disaster caused by Hurricane Katrina.

Continued stellar economic growth is another reason Kirchner's popularity among voters is strong and allows him fighting room to keep pressing foreign companies with holdings in Argentine utilities. His hard negotiations with private utilities have gone hand in hand with the "K style," as press outlets have nicknamed his tough approach to negotiations with multinational corporations and lending groups.

This year, Kirchner wrangled a substantial reduction of the country's sovereign debt out of the International Monetary Fund (IMF) and holders of Argentine bonds (see NotiSur, 2005-02-04, 2005-03-11). After that, his call for a national boycott forced fuel retailers to reduce planned increases in gas prices (see NotiSur, 2005-04-15). Although business-press commentators regularly deride Kirchner's policies and say that many of them are undermining a healthy investment environment, large increases in GDP have kept Argentina's economic recovery on-track.

Utility-rate controls and controls on speculative capital that flies off depending on the investment weather have brought the opprobrium of the business press down on Kirchner, while it has simultaneously brought him the approval of voters. Argentina's economy probably will expand 7.5% this year and 4.2% in 2006, the IMF said on Sept. 21, more than its April forecast of 6% growth for 2005 and 3.6% next year. The Argentine economy grew 9% in 2004, the fastest pace since 1992.
In July, the economy grew by 7.8% with respect to the same month in 2004. The accumulated growth rate for the year thus far is 8.9%, according to the Instituto Nacional de Estadisticas y Censos (INDEC). Inflation has been a concern for economic analysts, with the IMF telling the country that it must raise interest rates to lower inflation from a 26-month high.

Consumer prices in Argentina, South America's second-largest economy, are rising at an annual pace of 9.7%, in part because the central bank has sought to bolster economic growth by keeping lending rates below the inflation rate.

**Edenor signs electric distribution agreement**

The Argentine government was able to come to an agreement with electricity distributor Edenor, establishing new conditions on a concession given originally in 1992. Planning Minister Julio de Vido said the agreement would "guarantee the business, users, and the company's creditors foresight." Argentine group Dolphin purchased 65% of EDF in June. Edenor supplies electricity to 2.4 million consumers in the northern part of Buenos Aires and its surrounding areas.

Edenor vice president and head of Dolphin Marcelo Mindlin pointed out that EDF accepted withdrawing its demand for US$970 million that it had presented in 2003 before the Centro Internacional de Arbitraje de Disputa de Inversiones (CIADI) against the Argentine state. The suit sought to recoup losses incurred by the 2002 rate freeze.

Since the end of 2003, the Argentine government has been negotiating new terms of concession contracts with 62 companies that are providing public services. Among the conditions for an agreement is a requirement from the state that stockholders withdraw complaints before CIADI, an organ of the World Bank.

Edenor president Alejandro Macfarlane said the company would now concentrate on restructuring its US$524 million debt and announced an investment plan for the next five years for 1.2 billion pesos (US$415 million). Macfarlane said there would not be rate hikes for residential clients of the business. The distributor started the first half of the year with a 29 million peso loss (US$9.9 million).

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