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Venezuela Renationalizes Leading Steel Producer, Major Bank

by LADB Staff
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The government of Venezuela's President Hugo Chavez has nationalized different major enterprises in recent months, including Venezuela's third-largest bank and one of the region's largest steelmakers. While parts of the English-language press characterized the government takeovers as "expropriations," parts of the Spanish-language press noted that the government paid corporate owners for their shares in the businesses and did not take total control of the companies. The government takeovers fell in line with Chavez's plans to nationalize major Venezuelan industries and reverse privatizations from the years before his presidency.

Chavez takes over Sidor

Chavez signed a decree in mid-May to nationalize Venezuela's biggest steelmaker, Siderurgica del Orinoco, known as Sidor, or Ternium-Sidor. It was a subsidiary of the Luxembourg-based company Ternium SA. The Chavez administration gave the Argentine-Italian company Techint, which owned 60% of Sidor, until the end of June to hand it over for the price designated by the government. The president named a commission to oversee the transition of the company by June 30.

President Chavez threatened to nationalize the steelmaker after trade union talks broke down in April. Labor conflicts at the company had dragged on for 15 months as workers called for better pay and benefits. Talks between the government and Techint broke down earlier in May when agreement on a price for the controlling stake could not be reached. Rodolfo Sanz, minister of basic industries and mining, was appointed as the new president of Ternium-Sidor. The government already owned 20% of the shares and had first threatened to take control of the company last year unless its owners agreed to sell more of its steel in Venezuela.

Sidor, formerly a state company, was privatized in 1997, but the government had retained a 20% stake, while current and former employees held another 20%. The group Amazonia, made up of Techint subsidiaries, purchased a 60% stake in Sidor from the Venezuelan government for US$1.2 billion. The company produces about 85% of the 5 million metric tons of steel Venezuela turns out annually, according to the Belgium-based International Iron and Steel Institute (IISI). Sidor is the largest steelmaker in the Andes and the Caribbean.

Miguel Octavio, executive director of BBO Servicios Financieros, a Caracas brokerage, estimated Sidor's total assets at roughly US$3 billion. The company employs about 4,500 workers. "It isn't about Sidor returning to what it was when it was privatized," Chavez said. "Sidor has to convert itself into a socialist company."

Chavez told workers gathered at a Caracas theater on May 1 that Sidor "has now been recovered by the revolutionary government." The statement came after lawmakers in the Asamblea Nacional...
(AN) opened the way for Sidor's nationalization on April 29, declaring the conglomerate a "public utility" a legal prerequisite to nationalization. Venezuela was still in talks with Ternium on how much compensation it would pay when international media first reported the takeover. Sanz said the government values the company at US$800 million, while Chavez had said Ternium was seeking between US$3 billion and US$4 billion.

Chavez said he wants state oil company Petroleos de Venezuela SA (PDVSA) to invest in the steelmaker to begin production of drill pipes in the "medium term," saying PDVSA will need "all the tubes in the world." By mid-August, the parties had not reached a final price for the government buyout, but Chavez said on Aug. 5 he had confidence that his government could make a "friendly" deal for the price to be paid. "There should be a final, prompt, and friendly agreement," said Chavez during a press conference in Buenos Aires. He said that the baseline price for Sidor shares that would be transferred to the Venezuelan state "is pending." The price was to be set through an audit, Spanish news service EFE reported.

In mid-July, Ternium, the Techint company that owned most of the stakes in Sidor, said that Aug. 18 was the deadline to discuss the issue with the Venezuelan government. While the transfer of stocks had not been completed, the Corporacion Venezolana de Guayana (CVG) had already taken operational control of Sidor. Venezuelan press outlets, according to Spanish newswire EFE, had reported that the government was prepared to pay US$2 billion for a 50% share in the company.

In the past two years, the Venezuelan state, empowered by high petroleum revenues, has taken over foreign-controlled companies including cement, telecoms, oil, gas, and electricity firms. Last year the government took over Venezuela's largest telephone and electricity companies Compania Anonima Nacional Telefonos de Venezuela (CANTV) and Electricidad de Caracas (EDC) as well as four joint oil ventures (see NotiSur, 2007-05-18), and announced the nationalization of the cement industry on April 4 (see SourceMex, 2008-04-16).

While Associated Press writer Christopher Toothaker, or his editors, described the Venezuelan government's actions regarding Sidor as an expropriation on May 1, Silvia Naishtat, a reporter for Argentine daily newspaper Clarin, noted on May 2 that the takeover of Sidor was not an expropriation but a nationalization. "The difference is not merely semantic," wrote Naishtat, "one can measure it in billions of dollars." Naishtat quoted an individual who wished to remain anonymous and who was familiar with the Venezuelan government. The source told Clarin that Chavez had not expropriated a single company. "In every case, the parties had time and space for negotiation, and Chavez conceded reasonable compensation to them," said Clarin's source.

The threat of expropriation did, however, hang over the heads of Ternium's negotiators once the AN passed the declaration of Sidor as a public utility. On May 1, government-allied protestors criticized the 1990s privatization of the company during May Day commemorations. "The endogenous right made us believe that Sidor belonged to our Argentine brothers, but this exploiting transnational corporation that feeds on the sweat and tears of Venezuelan workers has nothing to do with our Argentine brothers," said Edgar Jimenez of the Colectivo de Trabajadores en Revolucion.
Banco Santander in Venezuela renationalized

In July, Chavez expanded the wave of nationalizations to the banking industry, taking over his government's first bank, the local unit of Spain's Banco Santander SA, the country's third-largest bank in terms of deposits.

The government announced plans to nationalize Banco Santander on July 31, saying the move would give the state access to Banco de Venezuela SA Grupo Universal's 285 offices and US$9.46 billion in deposits. Chavez said he would pay fair compensation for Banco de Venezuela, which Santander bought from the government in 1996. He said that he had been in touch with the bank's local president and that he was interested in seeking a "friendly agreement." "I want to get it back because it's the bank of Venezuela that's its name," Chavez said in July 31 comments on state television. "We will recover Banco de Venezuela to put it at the service of the Venezuelan people, because the bank was very profitable."

The government may have to pay as much as US$1.9 billion to take control of the bank, said Asdrubal Oliveros, a director at Caracas-based consulting firm Ecoanalitica. "The government is interested in a big bank to increase its presence in the industry," Oliveros said. "I don't think this is a signal that they are going to nationalize more banks or take over the industry." The bank, founded in 1890, was first nationalized in 1994. Two years later, Banco Santander bought 93.4% of the shares for US$351.5 million, according to the bank's Web site. Banco de Venezuela contributed US$170 million to its parent company's income in the first half of 2008, 2% of the Spain-based bank's profit.

Chavez said he previously blocked Santander's bid to sell Banco de Venezuela to domestic private investors. The bank holds 11.8% of all outstanding loans in Venezuela and 10.7% of deposits, according to Banco Santander's first-half earnings report. The Venezuelan unit has 3 million clients nationwide. Banesco Banco Universal is the largest bank in Venezuela, with a 14.2% market share. Banco Mercantil is the second largest, with an 11.5% market share by deposits.

Inflation problems, declines in foreign investment

While Chavez is using the vast surge in oil revenue to increase his control of the economy and move the South American country closer to his goal of "21st century socialism," the business press says the government takeovers are scaring off investors. The economy expanded at its slowest pace in more than four years in the first quarter as private investment contracted. Growth was 4.8% in the first quarter of 2008, a sharp fall from 8.8% the previous year.

The deceleration came even as prices for oil, Venezuela's top export, surged to a record. "With this price of oil, the government has the capacity to buy, and it seems they're upsizing to control new sectors of everyday life," said Alejandro Grisanti, an economist at Barclays Capital Inc. in New York. Planning and Development Minister Haiman El-Troutdi tried to allay investor fears, saying on May 29 that Venezuela's economy needs investment from the private sector to keep expanding. Accusations that companies are afraid to invest because of government takeovers are "political," El-Troutdi argued in comments broadcast by state television. The Chavez administration is only interested in nationalizing "strategic sectors" of the economy, El-Troutdi said. "The productive sector
of the economy should be confident that economic policies are encouraging them to try to improve output."

While the government was not planning to devalue the currency, it was considering steps to make the country's exchange controls more "flexible," El-Troudi said, without providing more details. Venezuelans are also grappling with accelerating inflation of more than 30% this year. Chavez announced a stimulus plan to help the country's businesses as the rising inflation threatened the economy.

Under the stimulus package unveiled on June 11, Chavez scrapped a 1.5% tax on foreign transactions and eased currency controls that made it harder for Venezuelan firms to operate. He also announced a US$1 billion fund to help key industries such as food, oil, and manufacturing. "We will eliminate the tax on foreign transactions. Really the tax was stopping the productive process and boosted inflation," said Chavez.

Chavez also made it easier for firms to trade in US dollars. Companies that import goods worth US $50,000 or less will not have to complete complex paperwork or get permission from authorities. Analysts had said these controls damaged corporate Venezuela, making it harder for firms to compete and make a profit. Chavez wants to maximize oil revenues that make up 90% of the country's total exports. Venezuela is the world's fifth-largest oil exporter.

Efforts to diversify the Venezuelan economy have often been difficult, and no less so now. Venezuelan industrial production fell 7.9% in March from a year earlier, the biggest decline since April 2006, as labor stoppages and import delays slowed output. Manufacturing fell 4.4% from the previous month, the central bank said June 17 on its Web site.

Production had grown 2% in the first three months of the year. "This shows the supply response of the economy is suffering," said Boris Segura, an economist at Morgan Stanley in New York. "There are a whole host of factors that are causing this unwelcome development." Delays in the allotment of foreign currency to importers for raw materials and machinery maintenance also put a drag on manufacturing, Segura said.

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