

Chavez's Economic Plans Set Latin Markets Reeling

White House Warns Venezuela Over U.S. Companies

The Washington Post
January 10, 2007

BOGOTA, Colombia, Jan. 9 -- Financial markets from Buenos Aires to Caracas reeled on Tuesday following Venezuelan President Hugo Chavez's announcement that he plans to nationalize some private companies, and the White House warned that it expects U.S.-based corporations to be compensated for any losses.

The U.S. Energy Department also expressed concern after Chavez, who has pledged to accelerate his socialist "revolution," said Monday that he would nationalize telephone and electric utility companies and increase state control over four major oil projects in which American and other foreign companies have invested \$17 billion.

At the White House, Gordon Johndroe, a spokesman for the National Security Council, said that "if any U.S. companies are affected, we would expect them to be promptly and fairly compensated." He also said that a nationalization plan, if it proved far-reaching, could be harmful to [Venezuela](#).

Meanwhile, White House press secretary Tony Snow lambasted Chavez's plan, saying: "Nationalization has a long and inglorious history of failure around the world. We support the Venezuelan people and think this is an unhappy day for them."

The Venezuelan leader did not say whether his nationalization plan would mean outright expropriation, higher taxes or majority state control. And as is often the case after Chavez's announcements, Venezuelans scrambled Tuesday to play down the news, with energy officials saying the president was only reiterating existing policy.

But the announcement, made in a bombastic speech in which Chavez also attacked the Catholic Church and insulted the secretary general of the Organization of American States, sent stocks into a tailspin in Venezuela and generated market jitters across Latin America.

In Venezuela, the stock market suffered its biggest loss on record, plunging 19 percent, according to the Bloomberg news agency. The currency was also hit hard. The bolivar, which is officially pegged at 2,150 to the dollar, dropped to more than 4,000 to the dollar on the black market.

Trading on shares of CANTV, Venezuela's largest telephone company, was suspended for 48 hours after shares fell 30 percent. And trading on shares for the electric utility, Electricidad de Caracas, was halted after a drop of more than 20 percent. On the New York Stock Exchange, shares of AES Corp., the Arlington-based company that owns 86 percent of Electricidad de Caracas, fell 86 cents, or 4 percent, on news of the Chavez speech.

In [Mexico](#), the stock prices of Telefonos de Mexico and America Movil SA also dropped. The two companies, both owned by the richest man in Latin America, Carlos Slim, had launched a joint effort to take control of CANTV, whose largest shareholder is now Verizon Communications Inc. Stocks in Argentina and Colombia, the latter a close trading partner of Venezuela's, dipped, as well.

"Obviously, the markets responded," said Maya Hernandez, an analyst with HSBC in New York. She said that although Ch?vez had said he would move to consolidate his socialist agenda, "what surprised us was the urgency with which he moved, not the direction."

Still, she said, the government has generated numerous questions that officials in Venezuela say should be answered Wednesday, when Ch?vez is to be sworn in to a third term.

"It's very unclear how he will go about this, especially the nationalization," Hernandez said. "What will he do? Is he going to compensate the companies? Is he going to expropriate the companies?"

Since first being elected in 1998, Ch?vez has moved quickly to overturn the old social and economic order, sidelining his opponents and spending billions of dollars in oil revenue to found state-run cooperatives and government companies. He has steadily taken a larger share of the pie from companies such as Exxon Mobil, Chevron, Total of [France](#) and BP, multinationals drawn to Venezuela in the 1990s. New state lending agencies have been created, and new regulations have been imposed on banks, which are now required to dedicate a percentage of loans to micro-businesses and other sectors identified by the government as important to the economy.

But Ch?vez has promised more. Emboldened by a landslide electoral win in December that gave him another six-year term, the former paratrooper has announced he will seek special constitutional "enabling" powers to pass laws affecting the economy, as he did in 2001 when the government first pushed through legislation to increase the state's hold.

Ch?vez also said the Central Bank, one of the few semi-independent entities in the country, would come under state control as its directors are replaced. The Central Bank controls cash flow and releases economic data, operations the administration wants to wrest away.

One of the bank's outgoing directors, Domingo Maza Zavala, decried the government's moves.

"The Central Bank must be autonomous," Maza said in an interview Tuesday on Globovision, a Caracas news station. "Otherwise, the people will lose confidence in the currency."

In Venezuela, businessmen were bracing for more details about the government's plan while hoping for the best. Many have long complained that private investment has plummeted under Ch?vez, hurting industry.

Flavio Fridegotto, a businessman speaking by phone from Venezuela, said the government has to understand that it needs foreign companies to operate freely in the country.

"We don't think that they're going to be that radical," he said. "He needs businessmen. They need to take care of the transnationals."

