

# Argentina partially re-nationalizes YPF oil company

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Last week, Argentina's president, Cristina Fernandez de Kirchner, announced that her government was expropriating 51 percent of the formerly state-owned oil company YPF from its Spanish owner Repsol. The announcement provoked denunciations and threats from Spanish and European governments and corporations, along with recriminations in the Western media. It also evoked praise from petty-bourgeois "left" elements in Latin America and elsewhere.

Fernandez made her announcement at the presidential palace, standing in front of a large image of Evita Peron, Argentina's populist icon of the 1950s. She described her action as "a model for the recovery of sovereignty and control of a fundamental instrument," adding that it was a policy "that should unite all Argentines."

Indeed, the reassertion of state control over the company has overwhelming support in Argentina, with polls showing 80 percent of the population in favor of the move.

Similar percentages opposed its privatization in the 1990s under the previous Peronist government of President Carlos Menem. The sell-off of the company along with a host of other state-owned enterprises was the centerpiece of a neo-liberal policy backed by the International Monetary Fund that led to a sharp increase in unemployment and poverty for the Argentine working class.

In 1999, Fernandez Kirchner, then a Peronist legislator, and her late husband, Nestor Kirchner, then a Peronist governor of oil-producing Santa Cruz province and later president of Argentina, fully backed the privatization scheme and the sale of 99 percent of the company's shares to Repsol.

Argentina's Senate is to vote on the partial re-nationalization this week, and a final decision by the full Congress is expected by May 3. With the ruling Peronist Partido Justicialista (PJ) controlling both houses and broad support coming from most other parties for the measure, its approval is assured.

In Spain and Europe, however, as well as in the pages of the financial press, there were threats and howls of protest. Juan Manuel Soria, Spain's minister of industry, warned, "The government of Spain will defend the interests of Repsol and of any other Spanish business that is operating in the rest of the world."

Repsol's chief executive officer, Antonio Brufau, whose total

compensation was 10.2 million euros (\$13.5 million) last year, warned that "these acts will not go unpunished."

The US State Department announced that Washington was "very concerned" by Argentina's action, urging the government to "normalize its relations with investors."

Significantly, both the opposition Socialist Party (PSOE) and the two major trade union federations in Spain, the UGT, affiliated with the Socialist Party, and the Comisiones Obreras (CC.OO.), aligned with the Communist Party, lined up behind the right-wing government in Madrid and the Spanish-based transnational corporations, issuing statements condemning the Argentine expropriation.

The PSOE assured the government of Prime Minister Mariano Rajoy that "it can count on us and we are confident that this can finally be fixed and a very harmful decision reversed."

The CC.OO. denounced Argentina for a "measure that will cause grave harm to shareholders, above all small ones, to workers and to the Spanish economy."

The UGT, sounding like the Spanish colonial office, "condemned" Argentina's action as an "unacceptable aggression against Spanish economic interests."

Spain's foreign minister, Jose Manuel Garcia-Margallo, appeared to be trying to dial down the rhetoric following a meeting of European Union ministers Monday. Spanish capital has some \$23 billion in investments in Argentina.

"We are not questioning the right of Argentina to work for independence in energy supplies, although in my opinion that is an error in the 21st century," he said. "What we are questioning is whether they can expropriate a company without paying the shareholders."

Repsol has demanded that Argentina pay it \$10.5 billion in compensation for the expropriation, a valuation that reflects its highest share prices. The Argentine government has said it will not accept Repsol's terms.

While the rhetoric at times smacks of Spain contemplating the reconquest of its former colony, the only concrete action it has announced is a halt in purchases of Argentine biodiesel, something that apparently had already been in the works and whose main impact will be to push up prices for Spanish

consumers.

In justifying its expropriation of the bulk of Repsol's shares in YPF, the Argentine government has pointed to a looming energy crisis for Argentina, with oil production having plunged 22 percent over the last decade even as demand soared by 40 percent. As a result, the Argentine government has been forced to spend billions of dollars to import fuel.

Fernandez and her aides have blamed the crisis on Repsol's "looting" of YPF, including paying out the vast bulk of the company's profits in dividends to shareholders, failing to invest in production, and not increasing output to meet expanding demand.

While all of these charges are true—reflected in CEO Brufau's obscene salary—the Argentine government has been a full accomplice in this looting operation.

Created by President Hipólito Yrigoyen in 1922, YPF (Yacimientos Petrolíferos Fiscales) was the first fully state-run oil corporation in the world. The goal of successive Argentine governments was to utilize the firm to achieve energy self-sufficiency and as a source of revenue that funded much of the country's infrastructure. By the 1960s, imported oil had been reduced to approximately one-sixth of total demand.

While previous governments used the state-owned firm for political purposes, the wholesale looting of the YPF unfolded in the latter years of the military dictatorship that ruled the country between 1976 and 1983, when it was placed under the control of Gen. Guillermo Suárez Mason. The general was also responsible for running some of the country's most infamous prison camps and torture centers, where many of the 30,000 "disappeared" were killed.

Suárez Mason, who died in 2005 while waiting trial for murder, kidnapping and the theft and sale of babies of political prisoners, siphoned off vast sums from YPF to his own personal accounts as well as to the Nicaraguan "contras," the fascist P2 lodge and other right-wing groups. In 1983, at the end of his reign as the firm's director, it recorded a \$6 billion loss, at that time the largest for any firm in the world.

President Carlos Menem, the right-wing Peronist who pardoned Suárez Mason, organized the privatization of YPF, along with the post office, the rail system, the telephone company, and the gas, electricity and water utilities. Again there was massive looting by private companies operating in league with government officials.

It was Nestor Kirchner, elected president in 2003 and serving as Fernandez's "co-president" between her election in 2007 and his death in 2010, who pushed Repsol to initiate an "argentization" of YPF. This involved helping a wealthy close friend and supporter of the Kirchners, Enrique Eskenazi, the head of a construction firm with no experience in the oil industry, to buy a 25 percent share in the firm. He did so under extraordinarily favorable terms, putting no money down, and with Repsol agreeing to cover his payments on some \$3.45 billion in debt with dividends that accounted for 90 percent of

the company's profits. Repsol removed its own director from YPF and installed Eskenazi in its Buenos Aires offices.

Thus, the payout of the bulk of YPF profits as dividends rather than their reinvestment in production was an integral part of the deal worked out by the Kirchners to benefit one of their cronies. The parasitism was driven not only by Spanish capital, but by their politically connected Argentine partners.

Also depressing Repsol's desire to invest in Argentina was a government price cap of \$55 a barrel at a time when oil was trading on the world market at \$100. The company shifted capital to Brazil, Trinidad and Bolivia.

According to some accounts, there has since been a falling out between the government and Eskenazi. There are also reports that Repsol was negotiating a deal to sell its interest in YPF to the Chinese state-owned enterprise, Sinopec.

There is no indication that Fernandez's move to take a controlling interest in YPF is linked to any coherent energy policy or that it will spell an end to the political corruption surrounding the government's dealings with the firm. In the first instance, the government may want to use YPF to obtain assets to cover its trade deficit and meet foreign payments requirements.

On Sunday, Argentine Planning Minister Julio de Vido and Vice Minister of Economy Axel Kicillof, appointed as state supervisors of YPF, announced plans to start meetings on Monday with major oil companies to solicit foreign investment. Meetings already held with French Total and Brazil's Petrobras were to be followed in quick succession by talks with ConocoPhillips, Chevron, ExxonMobil and other companies. One of the aims of these negotiations is to secure both capital and expertise to develop a recently discovered shale field, Vaca Muerta, believed to be the world's third largest.

This rush to obtain foreign capital points to the reality behind the "recovery of sovereignty." In the end, it will be the Argentine working class that will pay the price for compensating Repsol, ensuring the profits of the new transnational oil giants that replace it, and subsidizing the corruption of the Peronist government. This will sooner rather than later take the form of higher fuel prices, declining living standards and accelerating inflation.



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