

# The Sacred And The Profane: Oil And Neoliberalism In Brazil And Argentina. (1989-2002)

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## Resumo

*O presente artigo objetiva analisar e comparar como que a indústria do petróleo foi afetada pela chegada das políticas neoliberais no Brasil e na Argentina durante a década de 90. Este foco de análise permite proporcionar aos pesquisadores da área de humanidades um melhor entendimento de como as políticas neoliberais afetaram o setor energético de ambos os países. Outra área de interesse para esse paper e estabelecer através da análise comparativa como que as políticas neoliberais afetaram os dois países no campo econômico, com possíveis diferenças e semelhanças.*

## Abstract

*The current paper intends to analyze and compare how the oil industry was affected by the rise of neoliberal policies in Brazil and Argentina during the early 1990s. This focus of analysis allows researchers in social sciences to have a better understanding of how the neoliberal policies approached the energy market in both countries, and how that was pivotal to implement a “free market” approach to the oil industry. Another area of interest to this paper is to use the comparative analysis of Brazil and Argentina in order to bring evidence on how neoliberalism developed itself in both countries, and most importantly, which was its economic impact over that period.*

**B**y the second decade of the twenty-first century it is certainly possible to claim that a new age of state dirigisme in Latin America had begun. The commanding heights of the economy are back to the tight control of the state, making the neoliberal wave of the 1990s seem a remote memory from a distant past. Political leaders such as Lula in Brazil and the Kirchners in Argentina built their political careers on the idea that only the destruction of the neoliberal model brought by Cardoso and Menem could bring prosperity back to Latin America. What Latin America has seen since then, at least in Brazil and Argentina, is the persistence of old problems such as poverty, urban violence, and corruption. Attached to that, inflation and dangerous public deficits are back, marking a new period where low growth and social strife have become the norm, as the recent protests in Brazil and Argentina have demonstrated.

This change in the economic landscape in Brazil and Argentina since 2002 has been welcomed by most intellectuals in both countries; there is still among them the belief that state dirigisme was the only possible solution in order to combine economic growth with social equality. From that perspective, the debate about oil has gained a mythical status. The privatization of Yacimientos Petrolifcos Fiscales (YPF) and the partial privatization of Petrobras are considered by some intellectuals the greatest sin of the neoliberal age. Marked by what they consider to be a “sellout” of the national interests to the “exploitative” foreign capital of the developed nations. According to the leftist parties and intelligentsia, the new Petrobras and YPF could not serve their own people as private companies. From their perspective, private companies only focus on profit while public companies focus on development. In the works of Elana Shever and

James Petras about oil and the neoliberal state in Brazil and Argentina, that perspective becomes clear.<sup>1</sup>

For twenty years this troop of corrupt elites with no national interest working for the American puppet master has stood strong in Brazil and Argentina. But, the time has come to historiography to shed new light on the economic impact of the political turn to a neoliberal model in the 1990s. This essay intends to use oil history as a way to provide a different understanding of what the neoliberal age meant to Latin America. A case study focused on the profound reforms that YPF and Petrobras have been through from 1991 until 2002 may provide important leads on how the neoliberal state acted. Above all, it may be possible to understand what were its gains and where the model failed in bringing meaningful change. The goal here is to go beyond the classic dichotomy of sellout x pro market that has marked the political/economic debate in Latin America for over the last century. In order to provide a different narrative on the reforms of the oil sector in Brazil and Argentina, it became necessary to combine different sources. An emphasis here is given to oil market analysis, that offers a sharp contrast with the bipolar narratives that were present in Brazil and Argentina during the 1990s. In triangulating three different perspectives that compasses the government, the opposition, and the international market, a more complex narrative emerges. One that perhaps may bring new elements to the economic history of Latin America and can provide a more rational debate and understanding on the nature of the neoliberal experience in Latin America.

<sup>1</sup> Shever, Elana. 2012. *Resources for Reform: Oil and Neoliberalism in Argentina*. Stanford, California: Stanford University Press. <http://site.ebrary.com/id/10571088>.

Petras, James F., and Henry Veltmeyer. 2003. *Cardoso's Brazil: a Land for Sale*. Lanham, Md: Rowman & Littlefield Publishers.

## The case for reform

In their respective works on oil and neoliberalism in Brazil and Argentina, James Petras and Elana Shever argued that the reforms that Petrobras and YPF went through in 1990s were not only unnecessary, but were close to being a case of treason perpetrated by the governments of Brazil and Argentina. Successful was the most common adjective used by Petras and Shever in order to describe YPF and Petrobras before the neoliberal age. Certainly this is something that can be argued when we take into consideration the trajectory of both companies. Given the fact that Brazil and Argentina faced an acute shortage of investment capital for the most of the twentieth century and both countries were plagued with political unrest and economic instability, the rise of YPF and Petrobras as oil giants is nothing short of a miracle. Both companies indeed helped to develop remote regions, dedicated themselves to some effective forms of social development, and put an amount of capital to develop a national oil industry that the giants such as Standard Oil and Shell were not willing to invest.

In spite of the corruption and waste that marked both companies from the start<sup>2</sup> until the 1970s, for the reasons presented above, their record was mainly positive. The problem here is that both Petras and Shever did not recognize that after 1975 Petrobras and YPF were becoming more a part of the problem than a part of the solution. According to studies conducted during the tenure of Jose Martinez de Hoz as finance minister in Argentina (1976-1981), YPF needed an injection of capital of US\$ 11 billion in the 1980s in order to become a company that could provide Argentina its dreamed energy independence.<sup>3</sup> This staggering amount of

revenue had to be raised by a government that by 1981 was owing to foreign governments and banks a sum close to US\$ 42 billion.<sup>4</sup> With an economy virtually paralyzed by political chaos of the transition to the civilian rule in 1983 and with foreign credit lines closed, there was no way that the Argentine government could find resources to develop YPF's plentiful oil and gas fields. In fact, the Argentine government in the 1980s took money from YPF in order to cover its budgetary deficits and for all sorts of different reasons that were not dedicated to oil development. With 56.000 workers spread all over the country, by 1989 YPF was losing US\$ 2 billion/year, contributing to a 25% increase in Argentina's foreign debt every year.<sup>5</sup> Given the dismal scenario faced not only by the YPF, but also by the whole country, the need for comprehensive reforms was huge.

The case of Petrobras was very similar to YPF, although the Brazilian company had an extra responsibility; it had to manage the oil imports for the Brazilian economy. Brazil was in a very delicate position after 1973, when the oil price in the international market soared after the OPEC oil embargo that followed the Yom Kippur war. The country's economy grew by an average of 12% a year between 1968 and 1973 and imported about 80% of its oil.<sup>6</sup> By 1976, Petrobras started exploring the Campos offshore fields in Rio de Janeiro state, which promised to diminish Brazil's exposure to the instability of the international oil market. At this particular moment, Petrobras started to face similar problems to those faced by YPF. In order

4 Babb, Sarah L. 2009. *Behind the Development Banks Washington Politics, World Poverty, and the Wealth of Nations*. Chicago: University of Chicago Press. <http://public.eblib.com/choice/publicfullrecord.aspx?p=448526>.

5 Kamm, Thomas. "South Americans Push Sales of State Assets in Swing to Capitalism." *Wall Street Journal* (1923 - Current File), Jul 09, 1991. 2, <http://search.proquest.com/docview/135540110?accountid=11091>.

ARGENTINA: *Privatisation*. Oxford: Oxford Analytica Ltd, 1989, <http://search.proquest.com/docview/192423976?accountid=11091>.

6 Republica Federativa do Brasil. *Ministério das Minas e Energia*. 1983. *Boletim Energético Nacional*.

2 YPF was founded in 1922 and Petrobras was created in 1953.

3 Palacio Deheza, Carlos. 1981. *El plan Martínez de Hoz y la economía argentina*. Buenos Aires: Corregidor.

to further develop its Campos basin and start exploration of the new fields of Santos basin, Brazil needed a staggering amount of capital inflow. Given the fact that all the meaningful Brazilian oil fields were in the ocean, Petrobras' needs for capital and state of the art technology far surpassed those needed by YPF.

Petrobras ambitious plans were stalled by the Brazilian Debt Crisis that fully emerged in 1982. Brazil had at that point the world's largest foreign debt, that stood close to US\$ 92 billion.<sup>7</sup> In order to deal with its debt issues, the country promised to follow a draconian fiscal adjustment suggested by the International Monetary Fund and the Reagan administration. Double digit inflation, economic recession, and urban violence affected the expansion of Petrobras offshore exploration projects and infrastructure expansion. The 1980s were a tough time for the Brazilian oil industry, since the country was not growing, the thirst for oil diminished. After the end of the dictatorship, in 1985, there was no clear policy for Petrobras. The largest company in Brazil was inefficient due to the lack of capital for expansion and a burdensome payroll dictated by strong unions.<sup>8</sup>

During the long 1980s, Brazil found solace in two events that unfolded over that decade. First was that after the global recession of 1981-1983, oil prices slumped from its peak in 1980. Brazil was still importing most of its oil, but its bill was smaller due to the price slump in the global markets and the severe recession at home.<sup>9</sup> The second was the blossoming of the sugar cane ethanol program called Pro-Alcool, that started by the mid 1970s. This pioneer

program, organized by the military regime, finally started to payoff during the 1980s. Foreign car companies in Brazil were producing cars that were adapted to ethanol. Those cars, although there were still some technological hurdles to overcome, became a huge success in the 1980s.<sup>10</sup> The main trouble faced by the users of sugar ethanol is that the producers tried to keep the prices artificially high by keeping the sugar cane crop artificially low. That model also pleased the famous "colonels" of the Brazilian northeast, where the new found wealth with ethanol helped to "fuel" patronage networks that went from small cities to president Jose Sarney's closest allies.<sup>11</sup>

## 2. Time for reform.

By the early 1990s, after several failed attempts to control inflation and restore economic growth, chaos seemed to have become the permanent order in Latin America. Influenced by the success of the Reagan and Thatcher pro-market economic measures, a new generation of Latin-American leaders believed that it was the time to shy away from strict state dirigisme. The embodiment of this new school of thought in Brazil and Argentina were Fernando Collor de Mello (1990-1992) and Carlos Saul Menem (1989-1999). Both promised a quick fix to the economic maladies faced by both countries, especially the hyperinflation.

In such reformist environment, it is no wonder that both Petrobras and YPF were on the top of the list for meaningful changes. Both companies were losing money and were not collaborating towards energy independence that both countries aspired to have.<sup>12</sup> Menem

7 Babb, Sarah L. 2009. *Behind the Development Banks Washington Politics, World Poverty, and the Wealth of Nations*. Chicago: University of Chicago Press. <http://public.eblib.com/choice/publicfullrecord.aspx?p=448526>.

8 Randall, Laura. 1993. *The Political Economy of Brazilian Oil*. Westport, Conn: Praeger.

9 Republica Federativa do Brasil. *Ministério das Minas e Energia*. 1983. *Boletim Energético Nacional*.

10 Meyer, D., L. Mytelka, R. Press, E.L. Dall'Oglio, de Sousa Jr, P.T. & A. Grubler. (2012). *Brazilian Ethanol: Unpacking a Success Story of Energy Technology Innovation. Historical Case Studies of Energy Technology Innovation in: Chapter 24, The Global Energy Assessment*. Grubler A., Aguayo, F., Gallagher, K.S., Hekkert, M., Jiang, K., Mytelka, L., Neij, L., Nemet, G. & C. Wilson. Cambridge University Press: Cambridge, UK.

11 "Uma ressaca a vista". *Veja*, February 19th, 1986.

12 Treisman, Daniel. "Cardoso, Menem, and Machiavelli: Political

and Collor sold the idea they were willing to wage a war against the waste and the corruption of the state companies. Since the Brazilian and the Argentine states were burdened by servicing the debt payment with the IMF, it was almost impossible for the government to inject the capital necessary to restore both companies. This dilemma also applied to other Latin-American countries in other areas such as electricity and telecommunication. Brazil and Argentina missed the technology (IT) revolution that marked all utility sectors in the 1980s, generating huge gaps in terms of technology and productivity when compared to similar companies in the developed world. Given this conundrum, there was the beginning of a consensus among Brazilian and Argentine elites, the IMF and the Bush administration. In order for these companies overcome the IT gap, only private capital could provide the financial backing for that. The famous Washington Consensus was not about privatization only for the sake of privatization, but it was about allocating a surplus of investment capital that existed in the developed world in order to build modern infrastructure and corporate behavior in Latin America. That modernization was needed was a consensus; that private capital was the best way to lead to that modernization was far from being a consensus.<sup>13</sup>

The perfect example about the lack of consensus regarding the Washington Consensus was Carlos Menem. When Menem was elected president in 1989, he was the Peronist stalwart, cursing any kind of neoliberal reform for Argentina. Menem was elected with the support of traditional Peronists, the poor and the unions, all the social groups that he would

turn against him later in his presidency. In spite of a populist discourse and some attempts to implement mild reforms in Argentina, by 1990 Menem had already realized that he was risking having to face a country in full social anomy. Hyperinflation, looting, and urban violence were common scenes in Argentina's major cities. Influenced by more conservative members of his political alliance such as Julia Maria Alzogaray and the top executives of the powerful industrial group Bunge y Born Menem was persuaded to change his course.<sup>14</sup>

Menem understood that only an alliance with the most conservative sectors of Argentine politics would guarantee his political survival as president. That was the moment when Menem was converted to the gospel of neoliberalism.<sup>15</sup> What is interesting is that this conversion did not result from pressure from the American government or from any personal conviction in favor of that economic model; it was a pure act of political survival. And the president did not waste time in implementing his new strategy; the president of YPF Octavio Frigerio confirmed to the Wall Street Journal that the government was moving ahead with the full privatization of the YPF.<sup>16</sup> Also in 1990, the Menem administration privatized the telephone company (Entel) and the state airline (Aerolineas Argentinas). It was a remarkable turn of events.

Fernando Collor promised a radical reform of the Brazilian state; in 1990 he argued that Brazil's malaise was to blame on the spendthrift federal government. Waste and corruption in all spheres of power could only be fought with a pro market reform where Collor advocated for privatization and a free trade

*Tactics and Privatization in Latin America.* "Studies in Comparative International Development, September 2003, Volume 38, Issue 3, pp 93-109.

13 Williamson, John. 1990. Latin American Adjustment: How Much Has Happened? Washington, D.C.: Institute for International Economics  
Harvey, David. 2005. *A Brief History of Neoliberalism.* Oxford: Oxford University Press. Pp. 30-153.

14 ARGENTINA: Privatisation. Oxford: Oxford Analytica Ltd, 1989, <http://search.proquest.com/docview/192423976?accountid=11091>.

15 Wornat, Olga, Katherine Cortés Guerrieri, and Carola Iujvidin. 1999. *Menem: la vida privada.* Buenos Aires: Planeta.

16 Frigerio, Octavio. "Hurdles Won't Block Privatization of Argentina's Oil Industry." *Wall Street Journal* (1923 - Current File), Jul 06, 1990. 1, <http://search.proquest.com/docview/135479062?accountid=11091>.

platform from day one. Like Menem, Collor previously was the governor of a poor state (Alagoas) where only the mastery of traditional patronage networks could lift any candidate to the upper echelons of power from Maceio to Brasilia. After a hard fought election against the Workers Party candidate Lula, Collor almost had a *carte blanche* to implement its reforms. But, soon he realized that in Brazil the opposition to privatization was even larger than in Argentina.

Brazil's post dictatorship political life is marked by a coalition presidential system, that is controlled by political parties that only seek patronage from the State rather than any ideological creed.<sup>17</sup> Collor needed the support of those parties in order to guarantee any sort of governability; these parties relied on state companies as a source of political tradeoff. That political imperative made Collor go slow with his ambitious privatization program, where Petrobras was a sure target.<sup>18</sup> Ideological opposition from the left and political opposition from the Center-right made the implementation of his plans something impossible. When Fernando Collor resigned from power following corruption charges in 1992, he left a trail of a severe economic crisis, a paltry softening of Brazil's trade barriers, and only a minor reform of the oil industry. A major overhaul was a task that would have to be carried out by his successor, Itamar Franco.

In sum, the economic crisis that hit Brazil and Argentina by the late 1970s obliged both countries to look for a development model different from the state planned economy. Both countries struggled with the lack of capital, unstable currency, and social strife. Given that

<sup>17</sup> Santos, Fabiano and Vilarouca, Márcio Grijó. *Political Institutions and Governability from FHC to Lula*. University of Pittsburgh Press. (2008) <http://www.jstor.org/stable/j.ctt6wr9x1.9>

<sup>18</sup> "Collor encara o tigre." *Veja*, May 16th, 1990.

"Paginas em Branco." *Veja*, November 4th, 1992.  
Randall, Laura. 1993. *The Political Economy of Brazilian Oil*. Westport, Conn: Praeger.

scenario and the burden generated by the debt servicing, Menem and Collor adopted a neoliberal corollary, although adapted to the specificities of their own societies. The oil companies were not immune to this wave of change, and privatization was seen as the only way out for the problems of capital and efficiency faced by Petrobras and YPF.

Menem had a broader and more powerful political coalition as the leader of the Justicialista Party, but the president had to align himself with the neoliberal members of his party and of the Buenos Aires elite in order to guarantee his political survival. Collor, elected by a small political party (PRN) depended on patronage networks to put his coalition in place. The Brazilian coalition system always has benefitted from the perks of administering large state companies as Petrobras, whose presidency has been often been used for horse-trading. While Menem was persuaded by the right wing of his party to move forward with a full privatization program, Collor had to refrain from his original goal of privatizing Petrobras. The choices made by Collor and Menem had less to do with any grand design made by the US government or the IMF than with the political and financial needs of each country. The choices made in the early 1990s by Brazil and Argentina demonstrated that there was not only one neoliberal model in Latin America, but there were many, each following economic and political particularities of their respective countries, as the reforms in the oil industry that will be described in the next chapter demonstrate.

### **3. Sacrilege – the privatization of YPF and Petrobras.**

The neoliberal wave in Latin America would reach its apex during the mid 1990s. In that period, the scope and intensity of the

reforms carried out by Brazil and Argentina impressed foreign and domestic observers alike. As affirmed in the previous section, economic constraints and political needs pushed Brazilian and Argentine leaders towards this course, although by 1994, Argentina had a lot more to show than Brazil in terms of neoliberal reforms. Those reforms targeted all areas of the economy, where a major overhaul was indeed necessary.

The oil market was not immune to that, and changes that intended to bring growth in productivity and profitability to YPF and Petrobras were underway. The reforms and the privatization of YPF and Petrobras are one of the most important chapters in recent Latin-American economic history. Promoting the understanding of this moment helps scholars to perceive how the nature of neoliberal reforms changed from country to country and how the domestic power brokers sometimes had more importance than the foreign capital. Reforms only moved ahead when a comfort zone was reached among domestic and foreign interests, which brings a whole different nuance to the traditional perception that foreign investors dictated everything.

By 1991, Carlos Menem had been fully converted to the neoliberal camp. The president was living a honeymoon with the conservative wing of the Justicialista Party, the IMF, and the Bush administration. Menem even sent military support to the allied effort at operation Desert Storm during the First Gulf War. At that point, Entel and Aerolíneas Argentinas were privatized, and the Menem administration had set YPF as its next target. The president wanted it to be flawless, since YPF was the crowning jewel of the Argentine state, valued between US\$ 5 and 8 billion.<sup>19</sup> With oil reserves estimated at more

<sup>19</sup> Qassim, Ali. "Menem Oils the Wheels." *The Banker* 143, no. 810 (08, 1993): 53. <http://search.proquest.com/docview/225658005?accountid=11091>.

than 2 billion barrels and huge gas reserves, YPF one of the most desired state companies in South America by the foreign investors.

YPF could only fulfill its great potential if it could reform itself. The Argentine oil giant had 56.000 workers, and financed not only the oil industry; it built airports, hospitals, schools, and cinemas. A great part of its employees held their jobs through patronage rather than qualifications.<sup>20</sup> There was no budget control of the company and literally nobody knew where the money was going and how it was being spent. The only fact known about YPF was that the Argentine government had to cover a US\$ 2 billion/year deficit, a situation that was unsustainable given the sheer size of the Argentine public debt by 1991. The Entel and Aerolíneas privatizations were made in a rush, with no sanitation of those companies and with an evident lack of accountability and organization. Those auctions were seen as a fiasco by international analysts<sup>21</sup>, since even after being privatized those companies were still struggling with several lawsuits and strikes that stopped almost any meaningful reform. In order to avoid this type of situation, Menem decided that YPF had to be reorganized before going to auction.

There would be a transitional process to be coordinated by Jorge Estenssoro, the former president of the Hughes Tools in Argentina. Estenssoro was highly regarded as a competent oil engineer and disciplined administrator. But, the task ahead of him was huge. Labor Unions attached to YPF being fiercely against any kind of meaningful change. The whole infrastructure

<sup>20</sup> Frigerio, Octavio. "Hurdles Won't Block Privatization of Argentina's Oil Industry." *Wall Street Journal* (1923 - Current File), Jul 06, 1990. 1. <http://search.proquest.com/docview/135479062?accountid=11091>.

<sup>21</sup> Kamm, Thomas. "South Americans Push Sales of State Assets in Swing to Capitalism." *Wall Street Journal* (1923 - Current File), Jul 09, 1991. 2. <http://search.proquest.com/docview/135540110?accountid=11091>.

<sup>21</sup> Robinson, D. (1993). *Argentina Masters the Art of Privatization*. *Euro money*, 24. Retrieved from <http://search.proquest.com/docview/198838583?accountid=11091>

of the company was outdated, with the newest equipment being from the 1970s. YPF also had lots of assets that had nothing to do with oil, and were a burden to the company's budget.<sup>22</sup>

During 1991, Argentina was also moving ahead with a new stabilization plan known as Plano Cavallo. The Cavallo plan fought hyperinflation through the full dollarization of the economy. In order to guarantee the success of the new plan, Argentina had to have high Dollar reserves in order to cope with the similar amount of Pesos available in the country. In that sense, a faster pace of privatization was mandatory in order to keep a high flow of Dollars to Argentina's reserve bank. Given that conjuncture, the privatization of YPF was instrumental not only as a piece of state reform, but also for the survival of the stabilization plan.<sup>23</sup>

The Argentinian government started waging its war against the YPF union from the inside of the Justicialista Party. Menem used a strategy that mixed persuasion and perks with the main labor leaders of Argentina. That strategy proved to be successful, perks and patronage persuaded the main leaders of CGT (acronym) to soften up their opposition towards privatization as a whole. Similar deals were struck with other important leaders from the Justicialista Party and Argentine suppliers of YPF that wanted guarantees that their businesses with YPF would not be affected by the changes that the company was going through.<sup>24</sup>

While Menem guaranteed through **backroom deals labor peace at YPF**, Estenssoro

22 Grosse, Robert. "Financial Strategy at YPF." *Thunderbird International Business Review* 45, no. 1 (Jan, 2003): 93-104, <http://search.proquest.com/docview/202783979?accountid=11091>.

23 Szusterman, Celia. Carlos Saúl Menem: Variations on the Theme of Populism. *Bulletin of Latin American Research*, Vol. 19, No. 2, Special Issue: Old and New Populism in Latin America (Apr., 2000), pp. 193-206

24 Treisman, Daniel. "Cardoso, Menem, and Machiavelli: Political Tactics and Privatization in Latin America." *Studies in Comparative International Development*. September 2003, Volume 38, Issue 3, pp 93-109.

was applying a hardline reform. From 1991 until 1993, YPF's labor force shrunk from 56.000 to only 10.000. Such impressive accomplishment was achieved by a complex severance package that was offered to YPF workers. Some were simply asked to retire earlier, others took voluntary severance with generous compensation packages, and the rest were simply fired.<sup>25</sup> Estenssoro was hailed in the international press as an extremely competent manager that could thrive under difficult circumstances. Menem was also getting a lot of praise as well: Argentine inflation went from 1200% a year to 12%. International analysts were calling this "the Argentine miracle"; in this environment of sheer optimism, Menem moved ahead with YPF's privatization.

In 1992, Argentina moved forward with the largest privatization of its history. Sixty per cent of the government shares were sold in stock markets in the United States, Europe, and Argentina. The deal was intermediated by First Boston and Merrill Lynch, which had close contacts with bankers from the Banco de Valores, Banco de Galicia y Buenos Aires and Banco Rio de La Plata, that were politically close to president Menem. This time, the privatization was a huge success; the shares were sold at a higher price than initially expected.<sup>26</sup>

The reception of those shares in New York and London stock markets was impressive; international financiers were excited about the future prospects of YPF still under control of

25 Grosse, Robert. "Financial Strategy at YPF." *Thunderbird International Business Review* 45, no. 1 (Jan, 2003): 93-104, <http://search.proquest.com/docview/202783979?accountid=11091>.

Vielvoe, Roger. "Argentina on Track for Oil Industry Revamp (Part 1)." *Oil & Gas Journal*, Jan 07, 1991. 24, <http://search.proquest.com/docview/274432048?accountid=11091>.

Micklethwait, John. "The Meaning of Menemism." *The Economist*, Nov 26, 1994. Survey 15, <http://search.proquest.com/docview/224133903?accountid=11091>.

26 Qassim, Ali. "Menem Oils the Wheels." *The Banker* 143, no. 810 (08, 1993): 53, <http://search.proquest.com/docview/225658005?accountid=11091>.

ARGENTINA: Privatisation. Oxford: Oxford Analytica Ltd, 1992, <http://search.proquest.com/docview/192423976?accountid=11091>.



Estenssoro. With a huge influx of foreign capital into a company that had already been sanitized, the prospects of exporting oil and gas to Brazil, Chile, Paraguay, and Uruguay were enormous. And on top of that, the Argentine government received US\$ 3 billion for 60% of the shares, an impressive sum that helped to cushion for some time the astounding costs of Dollarization. But, for now all was praise and glory for Menem and YPF.<sup>27</sup>

While Argentina was reforming in full motion, Brazil was still standing idle on all fronts. By 1993, Brazil was still struggling with severe unemployment and hyperinflation. The interim president, Itamar Franco, did not have a great reformist appetite, but the situation demanded action. By late 1993, Franco appointed former senator Fernando Henrique Cardoso as the new finance minister. Cardoso had a clear mandate to come up with a stabilization plan that could finally tackle inflation.

On July 1<sup>st</sup> 1994, Plano Real started, and for the next six months inflation was under control for the first time since 1973. The early success of the plan catapulted Fernando Henrique from minister to president. During his campaign, Cardoso emphasized that if the country wanted the prosperity brought by the low inflation to continue, reforms of the Brazilian state had to be made. Analysts from abroad seemed pessimistic about the possibilities of Cardoso delivering the same kind of reforms that Menem was doing at that time. For those analysts, the success of Plano Real relied upon the ability of the Brazilian state to control its expenditures, keep inflation low, and foster a “healthy” environment for foreign investment.<sup>28</sup>

27 ARGENTINA: Privatisation. Oxford: Oxford Analytica Ltd, 1992, <http://search.proquest.com/docview/192423976?accountid=11091>.

28 JAMES BROOKE Special to The New York Times. “Brazilians Get Serious on Inflation and Deficit.” *New York Times* (1923-Current File), Mar 03, 1994, 1, <http://search.proquest.com/docview/109279085?accountid=11091>

JAMES BROOKE. Special to The New, York Times. “New Money no

Right from the start of his first term, in 1995, Cardoso struggled with similar problems faced by Fernando Collor and Itamar Franco. A loose alliance of parties with distinct ideologies obliged Cardoso to spend political capital in difficult negotiations for the reform package. Some of the parties in the coalition were against a program of full privatization, in a similar manner to that which was happening in Argentina. The Brazilian government had identified energy and telecommunications as the two main areas for reform and privatization.<sup>29</sup> Brazil was still dealing with the burden of servicing its foreign debt, and it was clear that the government did not have the resources to update and improve its infrastructure.<sup>30</sup> Therefore, the Brazilian government relied on foreign capital to provide a fast track for modernizing its infrastructure. And the surplus of US Dollars generated by the sales of state companies would be used to cover other state expenditures and also serve as an extra stock of reserves for the Central Bank.

Trying to compensate for what was perceived to be “wasted time”, Cardoso pushed through the Congress in 1995 a series of measures that intended to start the reforms. One of the most important was the end of Petrobras’ monopoly on oil extraction and refining on Brazilian soil. Cardoso understood that privatizing Petrobras was anathema for the opposition and for his coalition. On top of that, Cardoso himself believed that Petrobras was not as bad as YPF was before the privatization. Petrobras efficiency standards could not be compared with other oil majors such as Exxon and Shell, but for Brazilian standards at that time, it was a very efficient company. For the government, the main problem

Novelty in Brazil.” *New York Times* (1923-Current File), Jul 09, 1994,

35, <http://search.proquest.com/docview/109352362?accountid=11091>

29 Hugh-Jones, S. (1995, Apr 29). Brazil: A Glass Half-Full. *The Economist*, 335, 3. Retrieved from <http://search.proquest.com/docview/24119928?accountid=11091>

30 Brazilian Debt Issuers Queue Up After Cardoso Election Win, Rating Review.” *Euroweek*, no. 373 (Oct 07, 1994): 5, <http://search.proquest.com/docview/231014347?accountid=11091>.

was that the monopoly made the company “lazy” in exploring the full potential of the offshore oil fields. Another problem that was detected by the Cardoso administration was the lack of capital. Petrobras desperately needed external funding and better accountability in order to modernize the company and make it competitive with other oil majors.<sup>31</sup>

The motion that ended Petrobras’ oil monopoly was surprisingly approved on the Congress in March 1995. This achievement was the result of the hard work of two shrewd political operators, the Telecommunications minister Sergio Motta and the Congressman Luis Eduardo Magalhães. Those two men not only managed to pass the bill and kept the coalition together, but did it with a comfortable majority.<sup>32</sup> Magalhães and Motta were instrumental in coordinating the move to other important privatizations such as Telebras (telecom) and Vale (mining).<sup>33</sup> But, soon it became clear to the Cardoso administration that reforming Petrobras would not be the cakewalk that the Congress seemed to make it out to be. In May 1995, Petrobras went through the largest strike of its history. The powerful left-wing labor union CUT, with the full support of the opposition led by the Workers Party (PT), brought the whole company to a halt for almost a month. For PT, it was a clear chance to weaken a new president at the beginning of its mandate. And for CUT, it meant a unique opportunity to stall the process of reform. The real reason for the strike was that by late 1993 president Franco, in one of his regular bouts of populism, gave all Petrobras workers pay rises of 35% followed by a package with a series of extra perks.<sup>34</sup>

31 “End to Petrobras Oil Monopoly Seen Imminent.” *Oil & Gas Journal*, Jun 19, 1995, 30, <http://search.proquest.com/docview/274359484?accountid=11091>.

32 “End to Petrobras Oil Monopoly Seen Imminent.” *Oil & Gas Journal*, Jun 19, 1995, 30, <http://search.proquest.com/docview/274359484?accountid=11091>.

33 Parkinson, Gerald. “Brazil Spins Off its Mining Conglomerate.” *Chemical Engineering* 104, no. 6 (June, 1997): 47, <http://search.proquest.com/docview/194413681?accountid=1>

34 Espinoza, R. (1995, Jul 31). *HOLY OIL. News for Brazil*, 7, 8.

The Brazilian budget had to produce a primary surplus due to the constraints imposed by the IMF for its foreign debt, but also the core of the stabilization plan was threatened by excessive expenditures that always have been a part of the Brazilian state. Cardoso was determined to put the country’s finances under control and he couldn’t accept the pay rises asked by CUT. For both sides the stakes were high, and soon a stalemate affected the negotiations between both sides. What followed was almost chaos, with acute gasoline shortages affecting the whole country. The Brazilian government had to purchase US\$ 500 million in crude oil to supply the country’s needs for May, and a gasoline black market at the border with Argentina and Bolivia soared.<sup>35</sup> In such dismal scenario, the Supreme Court declared the strike illegal and ordered the Petrobras’ workers to go back to work. Given the fact that for the unions and PT this was an admission of defeat, the workers refused to accept the court’s decision. With the popular opinion fiercely against the strike and the government fearing a defeat following the stalemate, Cardoso opted for a hardline stance. The president ordered the military occupation of all Petrobras’ installations, so that the workers that were willing to go back to work could do it so. Such an expected show of force by Cardoso broke the strike, since Petrobras workers now were fearing the threat of massive layoffs.<sup>36</sup> In the end, raises and perks were not conceded, Cardoso’s political capital became even stronger, and the reforms seemed to be unstoppable.

By 1997, president Cardoso finally signed into law the end of the Petrobras monopoly on oil exploration and refining on Brazilian soil.

Retrieved from <http://search.proquest.com/docview/201530728?accountid=11091>

BRAZIL: Petrobras Strike. Oxford: Oxford Analytica Ltd, 1995, <http://search.proquest.com/docview/192427465?accountid=11091>.

35 *Idem*.

36 “End to Petrobras Oil Monopoly seen Imminent.” *Oil & Gas Journal*, Jun 19, 1995, 30, <http://search.proquest.com/docview/274359484?accountid=11091>.

But this was just the beginning. From 1997 until 2000, the government sold 45% of its shares in Petrobras.<sup>37</sup> The Brazilian government opted for a different model when compared to Argentina's. Partial privatization seemed to be a better balance between national interests and a more market oriented company.<sup>38</sup> Brazil, also took a step ahead when compared to Argentina regarding oil regulation and establishment of adequate standards of accountability for oil business in the country. In 1998, Cardoso administration created the National Oil Agency (ANP), an independent regulator whose duty was to provide civilian oversight for all oil entities that now were allowed to enter the Brazilian market.<sup>39</sup> Differently from YPF, Petrobras did not need a major internal overhaul. The Brazilian company was given the exact medicine that it needed, more capital and a more competitive environment that would push it towards more productivity and efficiency. A stable economy and strong regulatory framework within a market friendly environment made the prospects for the Brazilian oil market very promising. Foreign analysts were talking of an "oil boom" in Brazil. Only between 1997 and 1998 Petrobras signed more than 35 joint-venture with several international oil giants to explore the promising Santos basin.<sup>40</sup>

It is clear that the thorough reforms that happened to YPF and Petrobras came more as the result of internal political/economic needs

37 Williams, P. (1997). *Deepwater service firms to benefit from Brazil's opening*. *Oil & Gas Investor*, 17(10), 22-25. Retrieved from <http://search.proquest.com/docview/224912358?accountid=110>

38 Hira, Anil and Pierre-Oliver Pineau. "TURNING PRIVATIZATION UPSIDE DOWN: PETROBRAS AS AN EXAMPLE OF SUCCESSFUL STATE CAPITALISM." *Canadian Journal of Latin American & Caribbean Studies* 35, no. 69 (2010): 231,258,288-289, <http://search.proquest.com/docview/819182625?accountid=11091>.

39 *Idem*.

40 BRAZIL: *Oil Liberalisation*. (1998). Oxford: Oxford Analytica Ltd. Retrieved from <http://search.proquest.com/docview/192429711?accountid=11091>

Perdue, J. M. (1998). *Brazil Opens Oil Sector with 397 Concessions*. *Hart's Petroleum Engineer International*, 71(9), 9. Retrieved from <http://search.proquest.com/docview/224537551?accountid=11091>

than from blind ideological belief or direct external intervention. Both Menem and Cardoso had to manage to find solutions that were politically feasible and financially favorable. In that sense, the outcome of the privatization process in each country demonstrated how delicate that balance was. Menem and his entourage focused on a model that put a prime on raising easy money from the financial markets in order to keep their stabilization plan working and the vast political machine well oiled.

Meanwhile, in Brazil, other concerns shaped Petrobras partial privatization model. Cardoso and his economic team understood that full privatization of Petrobras would seal their political doom. And Cardoso could not buy his way through privatization without generating a major political battle within the coalition on top of having to deal with a fierce opposition bloc led by PT. For the Cardoso administration, it was pivotal to pass a positive image to foreign investors and governments that Brazil was shying away from old patronage practices. Although some horse-trading was mandatory to move ahead with the economic reforms, Cardoso did not have the luxury to indulge in that practice like Menem had. In the end, the constraints created by the Brazilian coalition presidential model unwittingly helped to create a more stable privatization model for Petrobras.

### 3. Turbulent transition

By the end of 1998, the positive economic perspectives for Argentina and Brazil were fading away. Foreign investors were selling their financial assets in the developing world following the Asian and the Russian defaults on their sovereign debts. Although Brazil and Argentina were following their payment schedules, mega investors such as George Soros started to speculate against the Peso and the

Real.<sup>41</sup> During this severe economic turbulence, both countries had to deal with higher unemployment and the sudden depletion of their Dollar reserves.<sup>42</sup> However, YPF and Petrobras seemed to be living in a parallel universe. Both companies market value continued to soar, and the extra capital that was available put both companies in a clear strategy of business expansion not only in Latin America, but abroad. From 1998 until 2002, Petrobras and YPF consolidated and expanded their previous gains. But, it was a rough path for both companies with unintended consequences along the way.

By 1994, YPF was an organized company that had at its disposal a huge war chest. Jorge Estenssoro did not waste time in expanding YPF's retail business in Chile, an important market for Argentine oil. Estenssoro was aiming at the acquisition of the American company Maxus Oil in order to have a foot in the US market. Estenssoro also hoped that this move could bring to YPF instant technological transference to the Argentine company. YPF, under Estenssoro leadership seeing the prospect for participation in the promising Brazilian oil market started to negotiate with Petrobras an exchange of assets that would enhance YPF's presence in Brazil in all areas of the oil market.<sup>43</sup> But, a huge blow affected YPF and changed the course of the company. Jorge Estenssoro died in a plane crash when he was about to seal the Maxus Oil deal in Quito. Although some gossip pointed to the fact that Estenssoro had many enemies and that his plane was sabotaged, nothing has ever been proved in a court of law.<sup>44</sup>

41 Speri, A. (1999). *Surviving the Storm. Project Finance*, (192), 15-16. Retrieved from <http://search.proquest.com/docview/211378115?accountid=11091>

42 Idem.

43 BRAZIL/ARGENTINA: *Oil Collaboration*. (1996). Oxford: Oxford Analytica Ltd. Retrieved from <http://search.proquest.com/docview/192429870?accountid=11091>

44 JONATHAN FRIEDLAND Staff Reporter of THE WALL, STREET JOURNAL. "Argentine Oil Chief Dies in Crash, Casting Shadow on YPF's Future." *Wall Street Journal* (1923 - Current File), May 05, 1995. 1, <http://search.proquest.com/docview/1023797888?accountid=11091>.

Jorge Estenssoro's death was a fatal blow to the new YPF. Although the company kept its original plan set up by Estenssoro, with the expansion in Brazil and the confirmation of the Maxus deal, the presence of its leader was missed and nobody in the oil industry was sure to where YPF was heading to.

The unexpected death of Jorge Estenssoro opened the door for an even more unexpected turn of events. By the early 1990s, the perennially lackluster Spanish economy was finally thriving. After the sedimentation of democracy following Francisco Franco's long dictatorship (1938-1975) and Spain's ascension as a member of the European Union (1982), things were changing fast. With an investment boom from wealthier European economies and a comprehensive series of reforms, the Spanish companies were thriving boosted by a robust domestic demand. Spanish giants such as Repsol (oil), Telefonica (telecom) and Iberdrola (electricity) had set their sights on Latin America as a prosperous market for further expansion. Market analysts were calling this "the second conquest" and in Brazil and Argentina, its effects were being felt in a decisive way.<sup>45</sup> Repsol had recently being privatized by the Spanish state, and the company was not a part of the select group of the oil majors. Repsol was strong in refining and retailing, but it was weak in oil drilling. The strategy set by the Repsol board to make it a more complete company was to promote a merger with another oil company that had strong oil reserves and could at the same time serve as beachhead for new expanding markets. In that sense, YPF fit the mold perfectly. YPF had promising reserves of oil and gas and would help to strengthen Repsol's position in what seemed to be its most promising market, Latin America.<sup>46</sup>

45 Ken Warn. "YPF Board Backs Merger with Repsol." *The Financial Times* (London, England), Wednesday, May 12, 1999; pg. 32; Edition 33,905.

46 Raymond Colitt. "Repsol Pours Money into Latin America." *The Financial Times* (London, England), Friday, August 04, 2000; pg. 26;

After Estenssoro's death, Repsol started to "flirt" with the YPF board on a possible takeover. YPF and politicians did not express any major concern and sent signs that the deal could move ahead. Another factor was also important in persuading Repsol to follow this course. First, the Spanish government led by Jose Maria Aznar promoted a broad liberalization of the energy sector in Spain. The reform aimed to promote more competition and lower prices for natural gas and electricity in Spain. This measure started a real corporate war between Repsol and Iberdrola for the control of the Spanish energy market. Since profit margins in its domestic market would be thinned, it made sense for Repsol to look for a more profitable market, which Latin America promised to be. Moreover, Argentina had huge gas reserves that could be exported back to Spain. With cheap gas from Argentina, Repsol believed it could out price Iberdrola and even expand its gas sales to Northern Africa and Western Europe.<sup>47</sup>

Another factor behind the deal was that oil prices were very low by 1998 (US\$ 12.00) and companies were struggling to make profits. A wave of mergers and agreements affected the oil sector, such as Exxon with Mobil, British Petroleum with Amoco, and Elf Aquitaine with Total. Given the challenges that the market presented to both companies, a merger was a movement that made sense at that time. By May 1999, Repsol bought the majority stake in YPF from its main shareholders. The stocks were sold with a 25% premium over its original price in 1993, demonstrating how the company prospered during those years as a private company. The merger shook the oil market and created one of the ten largest oil companies in the world.<sup>48</sup>

Edition 34,287.

47 David White. "Spain to Boost Competition in Energy and Telecoms." *The Financial Times* (London, England), Saturday, June 24, 2000; pg. 10; Edition 34,252.

48 Ken Warn. "YPF Board Backs Merger with Repsol." *The Financial Times* (London, England), Wednesday, May 12, 1999; pg. 32; Edition

Petrobras in turn, opted for a different model based on joint-ventures, some of them even included Repsol-YPF. One clear result from the change in the financial fortunes of YPF and Petrobras was the creation of an informal "common market" between both companies. Repsol-YPF moved ahead with Estenssoro's plans and expanded dramatically its business in Brazil. They were the first foreign company that invested in refining activities in Brazil since the 1970s, when they acquired a 12% stake at the Alberto Pasqualini refinery in Rio Grande do Sul in 2000. On top of that, YPF acquired several gas station networks from BR Distribuidora, increasing its presence in the booming Brazilian retail market.<sup>49</sup>

Petrobras also entered the Argentine oil market in a very strong way. Financially well positioned after the sales of 45% of its shares, Petrobras also acquired from Repsol-YPF a vast network of gas stations, a deal which gave Petrobras a considerable share of the Argentine fuel market. Petrobras also allied itself with Repsol-YPF in two major projects. One was that YPF would explore new oil fields in the Santos basin together with Petrobras, increasing Brazil's oil output. The second project was related to the use of Argentine gas as a power source for Brazilian industry.

For many years, Petrobras openly boycotted any attempt to use natural gas in the Brazilian industrial core, because it affected the profits of its monopoly on oil imports. Since that monopoly was effectively over by 1997, such attitude from Petrobras did not make sense anymore. And the Cardoso administration realized that Brazil had an energy deficit, since

33,905.

Ken Warn. "Strain on YPF and Repsol Link. ." *The Financial Times* (London, England), Monday, February 15, 1999; pg. 22; Edition 33,832;

49 Raymond Colitt. "Repsol and Petrobrás Swap Assets." *The Financial Times* (London, England), Friday, July 28, 2000; pg. 29; Edition 34,281.

the existing hydropower plants couldn't provide enough energy for the post-Real economic boom. In that sense, natural gas from Bolivia and Argentina was welcome. The Brazil-Bolivia pipeline was being built in partnership with Enron and the Southern pipeline was being built together with Repsol-YPF.<sup>50</sup>

What it is interesting from all those moves in the South American oil market was that Petrobras and Repsol-YPF were a model of economic cooperation at a time when Brazil and Argentina were fighting a "currency war" in Mercosur. After the speculative attack of 1998, Brazil devaluated the Real while Argentina kept the Peso attached to the US Dollar. Immediately, Brazilian products became cheaper in Argentina and threatened to destroy what was still left of the Argentine industry. While Cardoso and Menem were at odds, Petrobras and Repsol-YPF proved that from adequate economic opening and enhanced trade, wealth could be generated on both sides of the border, strengthening the South American energy market. Argentina was a natural producer and Brazil was a natural consumer. In that sense, both Petrobras and YPF, as solid companies, were perfectly positioned to benefit from cooperation. Unfortunately, this example was not followed in other areas of trade, and Brazil and Argentina missed a historical opportunity to transform Mercosur into a stronger trade bloc.

By the early 2000s, the optimism that marked the Brazilian and Argentine oil market slowly faded away. The rigid dollarization plan adopted by Argentina in 1991 was unsustainable at the long run, especially due to the fact that the Menem administration could not adapt to low

prices on the world market, and Menem's opening of Argentine industry to foreign competition was a disaster, since it failed to increase its productivity or to make meaningful technologic strides. Repsol struggled to pay its enormous debt with the Spanish banks when it leveraged credit to buy YPF.<sup>51</sup> After promising profits posted by the company in 1999, its promise of easy wealth for the Spaniards never materialized. Default on sovereign debt, economic chaos, and political turmoil shattered Repsol's perspectives for its Argentine business. When Menem was gone in 2000 and the Kirchner dynasty rose after 2003, political meddling and populism marked a new stage for the relationship between Repsol and the Argentine government. Repsol's downfall culminated with the YPF's takeover by the Kirchner administration in 2012.<sup>52</sup> And the fact that the Argentine government was willing to offer YPF something around US\$ 5 billion (almost the same value of 20 years before) shows how much value the company has lost over time and how the constant economic turmoil made Argentina lose strength in the oil market.

Meanwhile, Petrobras saw its fortunes changing dramatically in the 2000s. Thanks to the civilian oversight of ANP, Brazil finally stopped subsidizing its oil. By playing by the market rules, Petrobras was seen as a solid investment by foreign financiers and other oil companies. The financial strengthening of the Brazilian company was related to the fact that it adopted a relationship based on efficiency with its suppliers and global standards of accountability.<sup>53</sup> Although the company had some

<sup>51</sup> Bertrand Benoit. "Repsol to Raise Capital." *The Financial Times* (London, England), Thursday, May 20, 1999; pg. 32; Edition 33,912;

David White. "Repsol Bid Leaves Profits down 36%..." *The Financial Times* (London, England), Thursday, September 02, 1999; pg. 22; Edition 34,002.

<sup>52</sup> Rucinski, Tracy, Gonzalez, Andre and Gray, Kevin. "Spain's Repsol Agrees over \$ 5 Billion Settlement Over YPF." *Reuters* [Madrid, Buenos Aires]. 25 February, 2014. <http://www.reuters.com/article/2014/02/25/us-repsol-argentina-idUSBREA1O1LJ20140225#hkQABtUJ3SSDtehh.97>

<sup>53</sup> BRAZIL: Petrobras Restructuring. Oxford: Oxford Analytica

<sup>50</sup> "Repsol Powers on Alone in YPF Takeover Bid." *The Financial Times* (London, England), Saturday, May 01, 1999; pg. 19; Edition 33, 896;

Grosse, Robert. "Financial Strategy at YPF." *Thunderbird International Business Review* 45, no. 1 (Jan, 2003): 93-104, <http://search.proquest.com/docview/202783979?accountid=11091>.

serious accidents during the Henri Reichstul leadership<sup>54</sup>, Petrobras during the Cardoso left a positive legacy. The reforms finally made it the strong national company that it should always have been.

By 1998 Brazil produced 72% of the oil that the country consumed, and by 2006 Brazil was very close to self-sufficiency. The rise of oil prices during the early years of the twenty-first century gave Petrobras even more financial and technological clout to explore new offshore fields that before 1995 were unthinkable. All the improvements made by Petrobras since 1995 culminated in 2007 with the finding of one of the largest offshore oil reserves in the world, in the pre-salt layer at the bottom of the Brazilian coast.<sup>55</sup> Then president Lula (2003-2010) vowed to explore those reserves as soon as possible, so Brazil could have an abundant energy supply for its booming economy.<sup>56</sup> Thanks to its global clout, Petrobras was able to leverage the necessary financial resources to explore the pre-salt layer.

But Lula's administration had a different perspective of how Petrobras should be managed. Petrobras should be "less neoliberal" and had to go back to a stronger government control. By 2010, the Brazilian government affirmed that only Petrobras would have full access to the Pre-

salt reserves; foreign companies would be kept out. Under president Lula, Petrobras is coming back to its old ways. That downfall culminated with a series of scandals that came out in March 2014 in an operation called Car Wash, executed by the Federal Police and the federal court of Parana state. What Car Wash unveiled was one of the largest corporate scandals of all time, one that ran through the upper echelons of the Brazilian government.<sup>57</sup> The US\$ 6 billion scandal demonstrates the legacy of the reforms has been disappearing fast, and blind nationalism, political patronage, and wastefulness. Petrobras is mired in debt and uncertainty, its bright future from the 2000s turned into dust.

In analyzing the current situation in the oil market of Brazil and Argentina, it is possible to conclude that although the neoliberal reforms of the 1990s were flawed in many ways, they left a positive legacy. Petrobras and YPF of the 1990s were much stronger than the ones administrated by the leftist governments of the Workers Party (PT) and the Justicialismo (Peronists). Those neoliberal reforms also tell a lot about the economic choices made by Brazil and Argentina over the last twenty years. In looking to these two countries, it is possible to realize that there was not a single neoliberal model that derived from the Washington Consensus. There were different "neoliberalisms" that were adapted to the political and economic circumstances of each country.

In Argentina, Menem's control over the vast patronage machine of the Justicialista Party allowed him to pursue a more radical reform than Cardoso had ever dreamed of. But also, Menem was more interested in his political survival than building a viable economic model

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Ltd, 1999, <http://search.proquest.com/docview/192433030?accountid=11091>.

BRAZIL: Petrobras and Privatisation. Oxford: Oxford Analytica Ltd, 2000, <http://search.proquest.com/docview/192434848?accountid=11091>.

Hira, Anil and Pierre-Oliver Pineau. "Turning Privatization Upside Down: Petrobras as an Example of successful state capitalism." *Canadian Journal of Latin American & Caribbean Studies* 35, no. 69 (2010): 231,258,288-289, <http://search.proquest.com/docview/819182625?accountid=11091>.

54 Michael Kepp. *President of Brazil's Petrobras Resigns*. Platt's Oilgram News. 2001;79: 2.

A deadly accident with the P36 offshore platform added to several oil leaks on the coast sapped Reichstul authority as Petrobras's president. He was accused of being negligent with safety and maintenance procedures in order to push for extra oil output. Reichstul resigned in 2001.

55 McNulty, Sheila. "Petrobras Field Could Hold 8bn Barrels of Oil and Gas." *Financial Times* [London, England] 9 Nov. 2007: 27.

56 Wheatley, Jonathan. "Lula Sets Rules on Exploiting Oil Reserves." *Financial Times* [London, England] 1 Sept. 2009: 8.

57 Bello. "Whose Oil in Brazil?" *The Economist* [London, England] 14th February 2015. <http://www.economist.com/news/americas/21643224-one-many-casualties-petrobras-scandal-misguided-industrial-policy-whose-oil>

for Argentina in the long run. That thirst for power led to the full privatization of YPF and several flawed privatizations of other public utilities. Argentina's civilian oversight through regulatory agencies was virtually non-existent. If Menem wanted, he could have used Estenssoro's leadership to establish a YPF that could achieve a balance between being a national champion and an efficient oil company. That lack of strategic planning culminated with the Repsol deal, which had more to do with the elites making global deals than with the wellbeing of Argentina. Repsol was not committed to the development of Argentina as a nation, and the fact that it struggled with political meddling and persistent economic crisis only made the situation impossible. The gains made by Estenssoro in the early 1990s were lost in the economic maelstrom of the early 2000s and in the political meddling of Kirchnerista populism. YPF became a minor player in the Latin-American oil scene, a far cry from the hailed company of the 1990s.

In the Brazilian case, it reveals that the neoliberal model adopted by the Cardoso administration was "milder" when compared to the one implemented by Menem. Given the fragmentation of the Brazilian political system (coalition system), the distaste that some members of Cardoso's cabinet had for traditional patronage and the fierce oversight by the PT opposition, President Cardoso did not have the same room for a radical reform as Menem had. Cardoso himself believed that a balance had to be found between, capital, labor, and national interest. In that sense, most of his cabinet was in favor of the partial privatization model attached to a strong regulatory agency (ANP). That model, embodied a softer pro market approach, one that could mingle better with traditional Brazilian economic and social structures. It brought good results to Petrobras and paved the way for Brazil's impressive economic growth

during Lula's administration.

It is also possible to conclude that the reforms were necessary at the moment they were made. Despite what several intellectuals argue, those companies were losing money and were adding to the national debt. Both Petrobras and YPF were inefficient at their core business. The neoliberal reforms changed that and both companies became more efficient and regained market share. But, it cannot be denied that those reforms were made at great social and environmental costs.

Most of the former workers of YPF couldn't find a proper job after the massive layoffs of 1992 and 1993. Some were hired again, but now as out sourced contractors, that got lower wages than an average YPF worker. YPF's largesse also provided the only economic activity for many poor communities in the countryside of Argentina. After the reforms, most of those cities were left without anything, and they were not included in the short period of prosperity brought by Menem's economic measures.

In Brazil, the push for self-sufficiency in oil made Petrobras a company prone to errors and environmental disasters like oil spills and platform accidents.<sup>58</sup> That side effect of Petrobras expansion should have been more studied by Brazilian historians. Although Brazil had a strong environmental regulation system after the 1988 Constitution, Petrobras frequently breached those regulations. The company still had major strides to make, but still the reforms were able to find the right balance between national interest and market efficiency.

<sup>58</sup> Adriana Lieders. *A New Chapter in Brazil's Oil Industry: Opening the Market While Protecting the Environment*. *Georgetown International Environmental Law Review*. 2001;13:781-1013  
Wagner, J. P. (2001). *Disaster strikes*. *Petroleum Economist*, 68(5), 32-34. Retrieved from <http://search.proquest.com/docview/197409191?accountid=11091>



Finally, it is possible to conclude that the consecrated concept about neoliberalism and Latin America cannot be confirmed in this study. There was no verifiable direct influence or colonialist behavior by the American government or the IMF in the reforms implemented by YPF and Petrobras. There was certainly the support of the financial markets and its investors, but their attitudes were not related to anything that the US government told them to do.

For the foreign investors in the 1990s, Latin America promised substantial gains. For the governments of Brazil and Argentina, foreign capital was vital to promote the modernization of their oil industry and to guarantee the consolidation of their stabilization programs through the improvement of the national Dollar reserves. Reforms are always a work in progress. Any country that leaves reforms behind as a less important item of its agenda is doomed to lose space in the global economic competition. Reforms are usually unpopular by their very nature; as they challenge entrenched political/economic interests and have grave social consequences, politicians very often shy away from them. It does not matter if reforms were neoliberal or not, what historians must pay attention to is if they were necessary and fairly effective in the historical context to which they belong. In that sense, in order to promote a better understanding of the recent oil history of Latin America, historians must leave behind the sacred/profane logic when analyzing the history of such important national companies as Petrobras and YPF. The only profanity in the end has nothing to do with neoliberalism, but is related with one's inability to provide a more balanced analysis that may provide a better understanding of a such complex topic in a turbulent period of Latin-American history.

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