

The Role of Privatization in the Expansion Strategies of the Principal Spanish Corporations in Latin America

Michael Mortimore

Chief

Investment and Corporate Strategies

Economic Commission of Latin America and the Caribbean
(ECLAC)



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Principal Sponsors of Infrastructure Projects with Private Participation in LAC, 1990-2001

| Company | Investment ^a US\$ billions | Telecom (number projects) | Electricity | Transport | Natural Gas Transport / Distribution | Water & Sewerage |
|----------------------------------|--|----------------------------------|-------------|-----------|--|---------------------|
| Carso Global Telecom (Mexico) | 34.8 | 5 | 0 | 0 | 0 | 0 |
| Telefonica de España (Spain) | 33.7 | 11 | 0 | 0 | 0 | 0 |
| Telecom Italia (Italy) | 25.7 | 13 | 0 | 0 | 0 | 0 |
| Suez (France) | 17.1 | 0 | 6 | 2 | 6 | 10 |
| AES Corp. (US) | 15.9 | 1 | 24 | 0 | 0 | 0 |
| Andrade Gutierrez (Brazil) | 14.7 | 1 | 1 | 5 | 1 | 1 |
| Inepar (Brazil) | 13.9 | 5 | 7 | 0 | 0 | 0 |
| France Telecom (Fr.) | 13.2 | 5 | 0 | 0 | 0 | 0 |
| Enron Corp. (US) | 11.4 | 0 | 9 | 0 | 15 | 5 |
| Aguas Barcelona (Spain) | 10.6 | 0 | 0 | 0 | 0 | 14 |
| Total Top 10 | 158.6 | 37 | 47 | 7 | 22 | 25 |
| Total all companies ^b | 360.6 | 120 | 301 | 295 | 71 | 100 |

^a Investment from all sources in projects in which company had an equity participation of 15% or more.

^b Data may not sum to totals because projects can be associated with more than one company



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Source: World Bank, PPI Project database

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LAC: The Principal Focal Points of FDI

| Corporate Strategy / Sector | Natural resource-seeking | Market (national or regional) -seeking | Efficiency-seeking | Strategic element-seeking |
|-----------------------------|---|---|---|---------------------------|
| Goods | <p><i>Petroleum/natural gas:</i> Argentina, Venezuela, Colombia, Bolivia, Brazil, Trinidad & Tobago</p> <p><i>Minerals:</i> Chile, Argentina and Peru</p> | <p><i>Auto industry:</i> Brazil and Argentina</p> <p><i>Agro-industry:</i> Argentina, Brazil and Mexico</p> <p><i>Chemicals:</i> Brazil</p> | <p><i>Auto industry:</i> Mexico</p> <p><i>Electronics:</i> Mexico and Caribbean basin</p> <p><i>Apparel:</i> Caribbean basin and Mexico</p> | |
| Services | | <p><i>Financial Services:</i> Brazil, Mexico, Chile, Argentina, Colombia Venezuela, and Peru</p> <p><i>Telecommunications:</i> Brazil, Argentina, Chile and Peru</p> <p><i>Retail trade:</i> Brazil, Argentina, Mexico and Chile</p> <p><i>Electricity:</i> Colombia, Brazil, Argentina and Central America</p> <p><i>Gas distribution:</i> Argentina, Brazil, Chile and Colombia</p> | | |



LAC: Two Different Worlds of Corporate Strategies

1. *Market access seeking (services)*: Mercosur and Chile

- telecom, electricity, retail trade, banks
- mainly FDI from European (esp. Spanish) TNCs
- mainly purchase of existing assets (M & A)
- improved *systemic* competitiveness (easier to export)
- downside: B-of-P pressures, regulatory problems

2. *Efficiency-seeking FDI*: Mexico and Caribbean Basin

- autos, electronics, apparel
- mainly FDI from US TNCs
- mainly in creation of new assets (“greenfield”)
- huge increase in *international* competitiveness (more exports)
- downside: few linkages to host economy



LAC: one common effect -Transnationalization

(percent)

| | 1990-92 | 1994-96 | 1998-00 |
|---|---------|---------|---------|
| <i>Sales of the 500 Biggest Companies</i> | | | |
| Foreign companies | 27.4 | 32.1 | 41.6 |
| National private companies | 39.4 | 41.0 | 37.8 |
| State-owned | 33.2 | 26.9 | 20.6 |
| Total | 100.0 | 100.0 | 100.0 |
| <i>Sales of the 100 Biggest Manufacturing Companies</i> | | | |
| Foreign companies | 53.2 | 59.3 | 61.7 |
| National private companies | 42.6 | 38.6 | 37.6 |
| State-owned | 4.2 | 2.1 | 0.7 |
| Total | 100.0 | 100.0 | 100.0 |
| <i>Exports of the 200 Biggest Exporters</i> | | | |
| Foreign companies | | 29.2 | 43.2 |
| National private companies | | 35.9 | 30.3 |
| State-owned | | 34.9 | 26.3 |
| Total | | 100.0 | 100.0 |



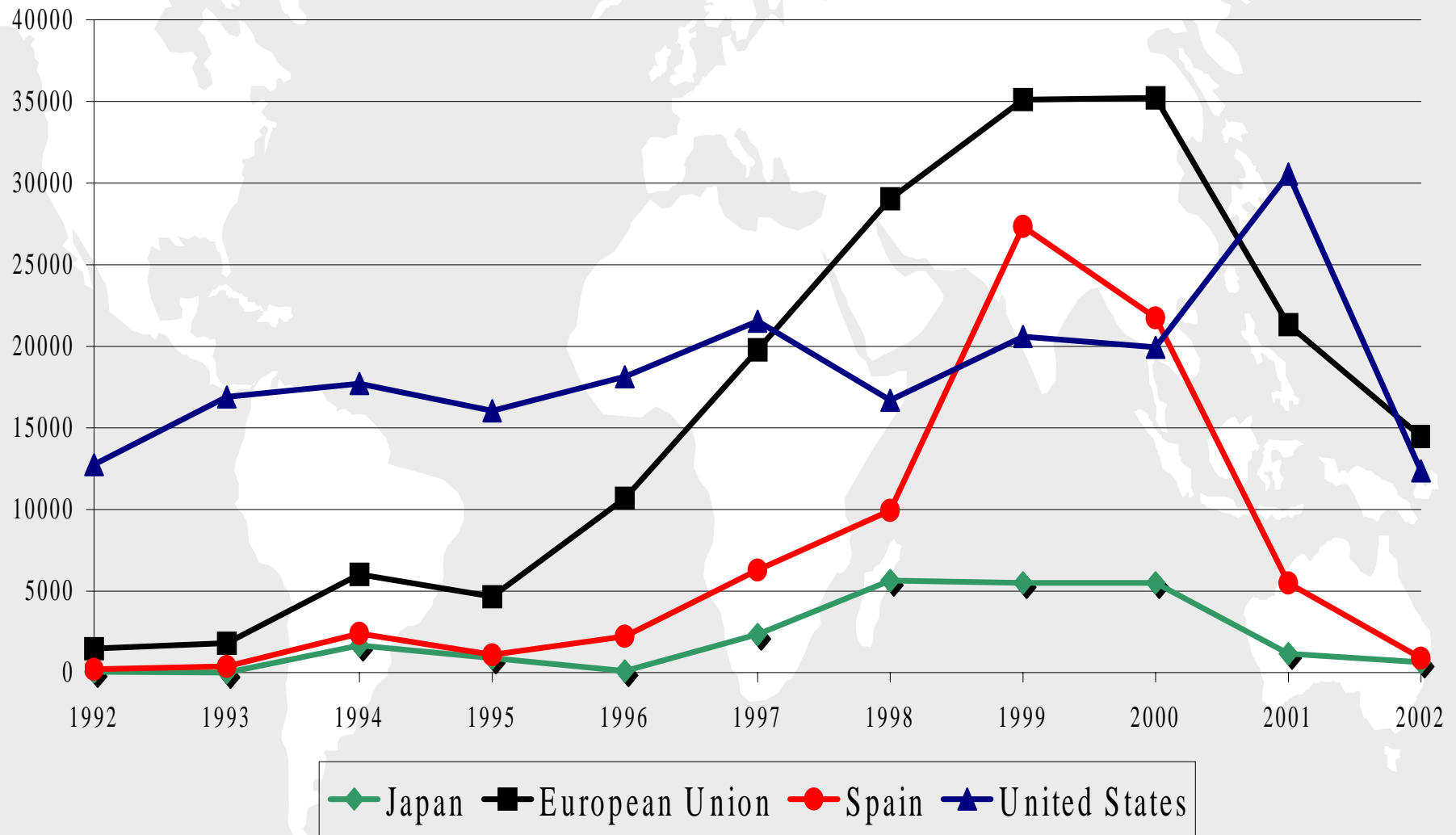
Factors Influencing FDI in South America

- Extensive process of trade and investment **liberalization**
- **Deregulation of services**, improved access to natural resources
- Extensive **privatization** of state assets and **mergers and acquisitions** of national private companies.
- Most dynamic sectors: **telecom, energy (electricity and gas), financial services, water/sewerage and retail trade.**
- **Multilateral agreements** under WTO (GATS) stimulate opening up of telecom and financial services sectors.
- **New regional strategies** for firms initiating their internationalization process and entering Latin America for first time. Mainly European, especially **Spanish**, ones.

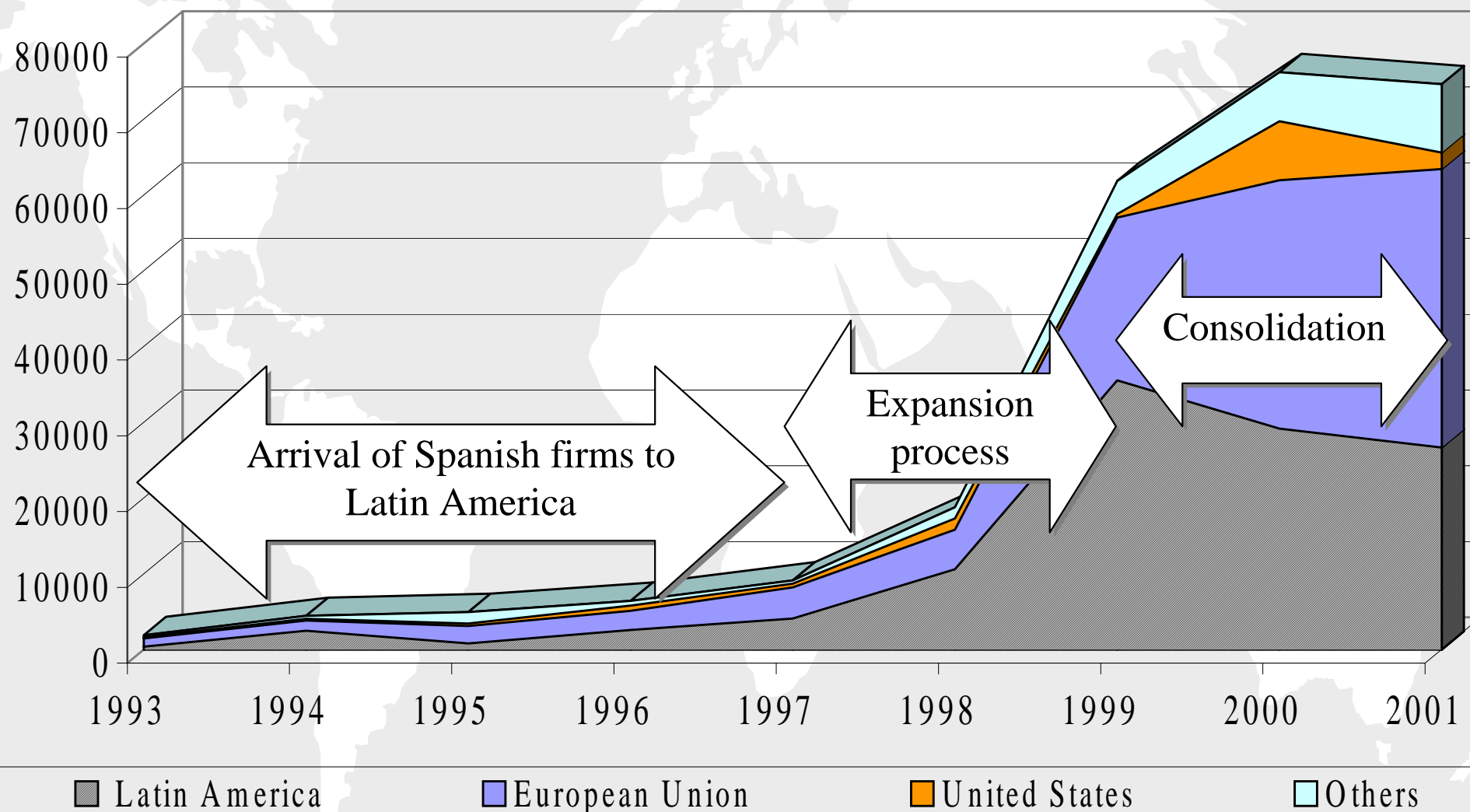


LAC: FDI inflows, by country of origin

(Millions of dollars)

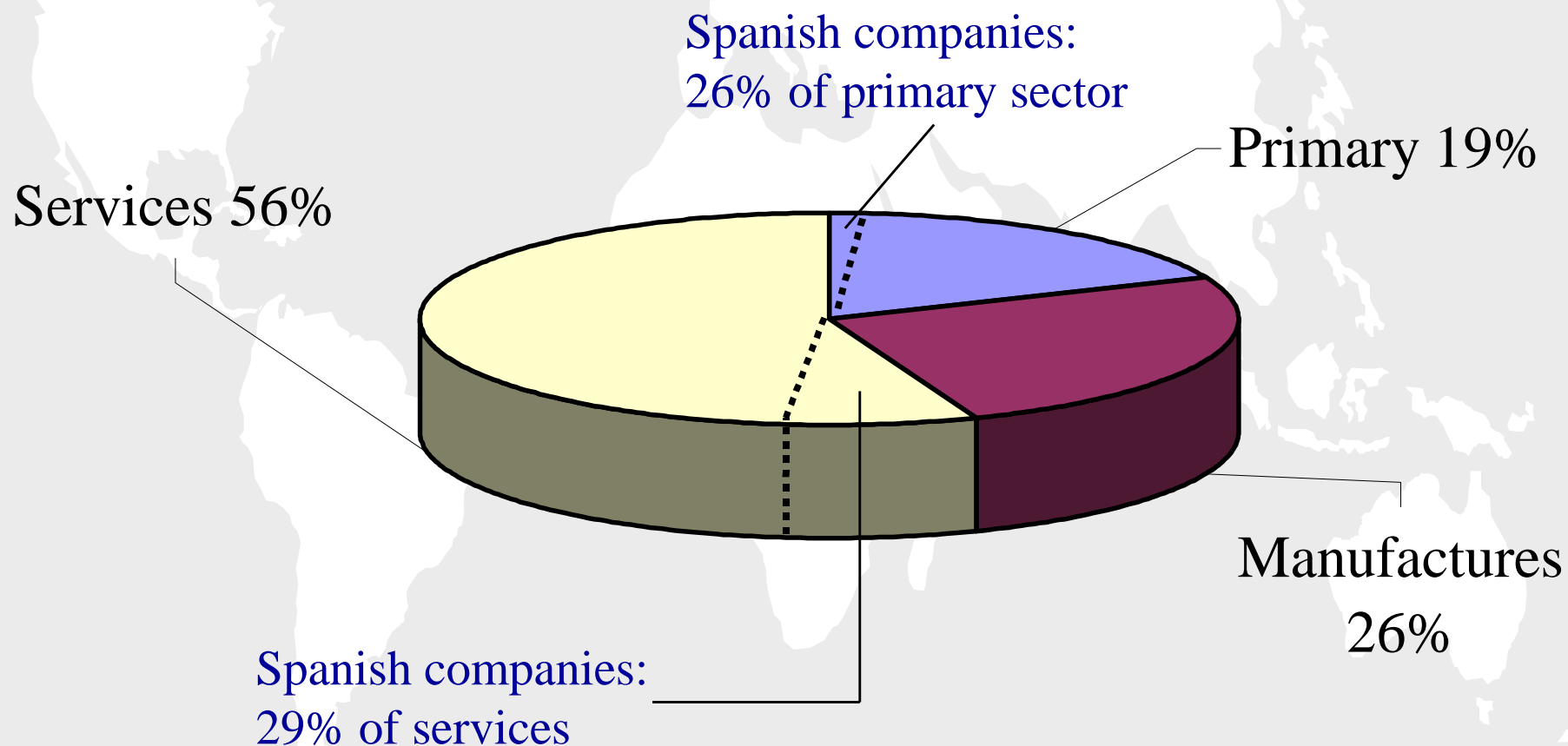


Spain: Evolution of Outward FDI, by Region, 1993-2001



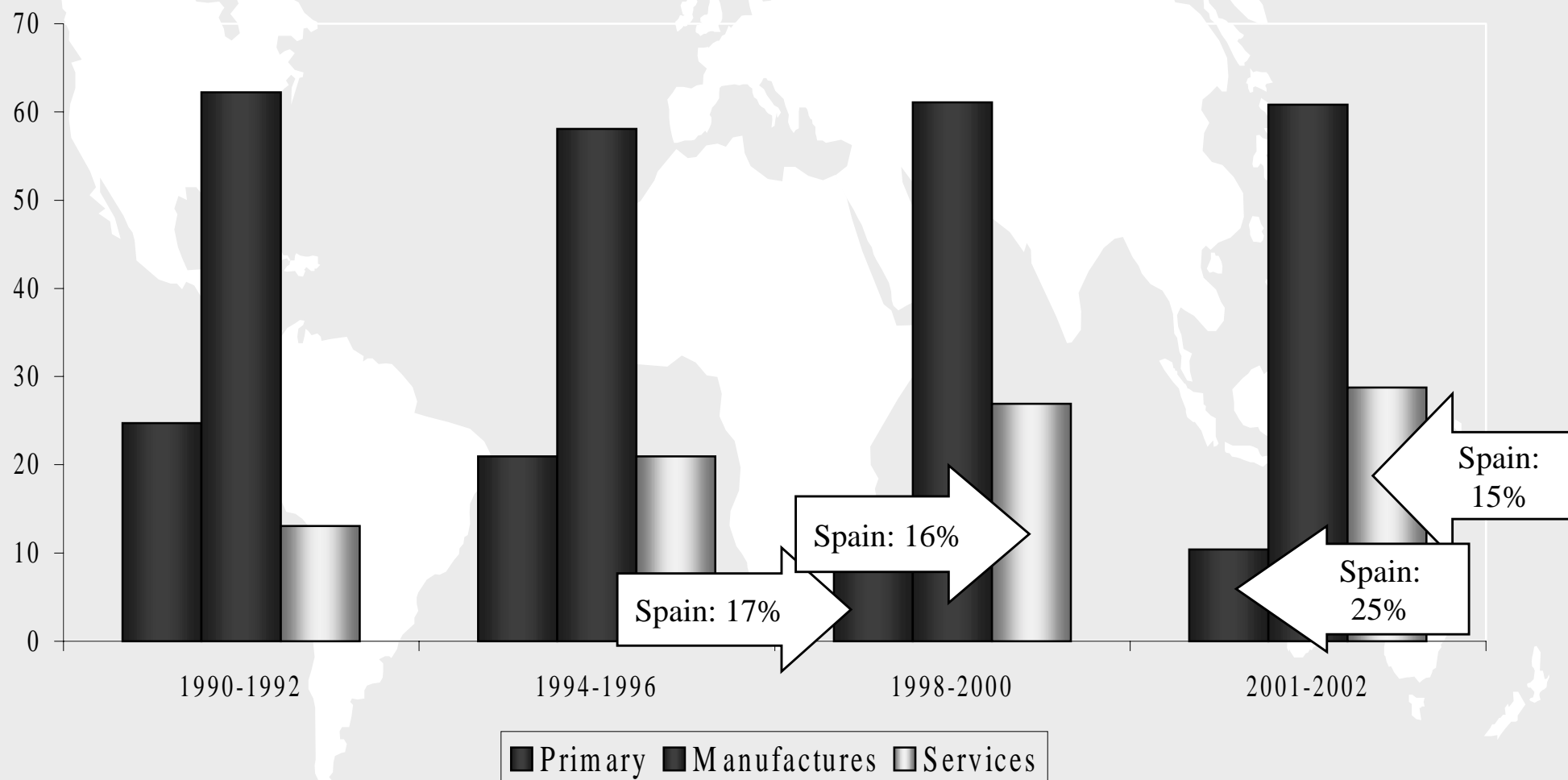
FDI Inflows to Latin America, by Sector, 1996-2002

(Percentages)



Total Sales of Foreign Companies within Top 500, by sector, 1990-2000

(Percentages)



Principal TNC *subsidiaries* operating in LAC, by sales, 2002

(millions of dollars)

| Subsidiary | Home | Market | Sector | Sales '02 |
|--|-------------|---------------|-----------------|------------------|
| 1 Telefónica (Br) | Spain | Brazil | Telecom | 30,139.5 |
| 2 General Motors (Mex) | USA | USA | Automotive | 11,444.8 |
| 3 Wal-Mart (Mex) | USA | Mexico | Retail trade | 10,193.2 |
| 4 Daimler Chrysler (Mex) | Germany | USA | Automotive | 8,633.1 |
| 5 Delphi Corp. (Mex) | USA | USA | Auto Parts | 7,507.5 |
| 6 Volkswagen (Mex) | Germany | USA | Automotive | 6,805.0 |
| 7 Repsol YPF (Arg) | Spain | Argentina | Petroleum/Gas | 5,781.4 |
| 8 Nissan (Mex) | Japan | USA | Automotive | 4,995.5 |
| 9 Sony (Mex) | Japan | USA | Electronics | 4,652.2 |
| 10 Samsung (Mex) | Corea | USA | Electronics | 4,500.0 |
| 11 Ford (Mex) | USA | USA | Automotive | 4,442.6 |
| 12 Delphi Packard Electric Systems (Mex) | USA | USA | Auto Parts | 4,268.0 |
| 13 Hewlett-Packard (Mex) | USA | USA | Computers, etc. | 4,110.0 |
| 14 IBM (Mex) | USA | USA | Computers, etc. | 3,991.9 |
| 15 GE (Mex) | USA | USA | Electronics | 3,830.3 |
| 16 Lear Holding (Mex) | USA | USA | Auto Parts | 3,551.4 |
| 17 Enersis (Ch) | Spain | Chile | Electricity | 3,450.2 |
| 18 The Coca-Cola Co. (Mex) | USA | Mexico | Beverages | 3,238.8 |
| 19 Volkswagen (Br) | Germany | Brazil | Automotive | 3,095.2 |
| 20 General Motors (Br) | USA | Brazil | Automotive | 2,919.2 |



Principal TNCs in LAC, by consolidated sales, 2002

(millions of dollars)

| TNC | Home | Sector | Sales '02 |
|------------------------|-----------|-----------------|-----------|
| 1 Telefonica de España | Spain | Telecom | 33,922 |
| 2 General Motors | USA | Automotive | 16,146 |
| 3 Endesa España | Spain | Electricity | 13,250 |
| 4 Delphi Corp. | USA | Auto Parts | 11,775 |
| 5 Ford | USA | Automotive | 11,584 |
| 6 ExxonMobil | USA | Petroleum/Gas | 11,541 |
| 7 Volkswagen | Germany | Automotive | 11,472 |
| 8 Wal-Mart Stores | USA | Retail trade | 10,976 |
| 9 The Coca Cola Co. | USA | Beverages | 10,701 |
| 10 DaimlerChrysler | Germany | Automotive | 10,238 |
| 11 Royal Dutch/Shell | Holl / UK | Petroleum/Gas | 9,621 |
| 12 Pepsico | USA | Beverages | 9,603 |
| 13 Sony | Japan | Electronics | 9,304 |
| 14 Samsung | S. Korea | Electronics | 9,000 |
| 15 IBM | USA | Computers, etc. | 8,312 |
| 16 Unilever | UK | Home products | 7,780 |
| 17 Nestle | Switz. | Food products | 6,745 |
| 18 Hewlett-Packard | USA | Computers, etc. | 6,348 |
| 19 Nissan | Japan | Automotive | 6,346 |
| 20 Repsol YPF | Spain | Petroleum/Gas | 6,216 |



LAC: Principal Spanish Operations Among Principal Acquisitions, 1990-2002

| TYPE / RANK | YEAR | BUYER | COMPANY PURCHASED | AMOUNT US\$ mill. |
|-------------|------|--------------|----------------------------------|-------------------|
| MA 1 | 1999 | REPSOL | Shares YPF (Arg.) | 13.158 |
| MA 3 | 2000 | TELEFONICA | Shares of Telesp.S.A. (Bra.) | 10.423 |
| MA 5 | 2000 | TELEFONICA | Shares of ENTEL Sur (Arg.) | 3.718 |
| P 1 | 2000 | BSCH | BANESPA | 3.550 |
| MA 7 | 2000 | TELEFONICA | Shares of ex ENTEL Perú | 3.218 |
| P 3 | 1998 | TELEFONICA | Telesp S.A. | 2.833 |
| MA 8 | 2000 | TELEFONICA | Tele Sudeste Celular S.A. (Bra.) | 2.419 |
| MA* 9 | 1999 | ENERSIS (Ch) | Endesa Chile | 2.100 |
| P 5 | 1999 | REPSOL | YPF (Arg) | 2.011 |
| P 6 | 1994 | TELEFONICA | Entel Perú | 2.000 |
| MA 11 | 2000 | BBVA | BANCOMER (Mex.) | 1.850 |
| MA 14 | 2000 | BSCH | Serfin | 1/560 |
| MA 15 | 1999 | ENDESA (Sp) | Enersis (Chile) | 1.450 |
| MA 21 | 2000 | TELEFONICA | Atlantida (Arg.) | 1.200 |
| MA 22 | 1997 | ENDESA (Sp) | Enersis (Chile) | 1.179 |
| P 16 | 1998 | TELEFONICA | Telesp Celular S.A. (Bra.) | 1.104 |
| P 20 | 1998 | TELEFONICA | Tele Sudeste Celular S.A. (Bra.) | 964 |
| P* 25 | 1997 | ENDESA (Ch) | CDSA (Ch.) | 714 |
| P 27 | 1999 | AGBAR / SUEZ | Aguas Andinas (Ch.) | 694 |
| P 30 | 2002 | BSCH | Shares of Banco de Santiago | 682 |

MA:

Merger or Acquisition

P:

Privatization

* ended up as part of Endesa (Spain)



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LAC: FDI of the Principal Spanish Corporations

(Millions of dollars)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|------------------------|--------------|--------------|---------------|---------------|--------------|--------------|
| Telefónica | 934 | 4,705 | 2,992 | 21,818 | 4,126 | 1,857 |
| Repsol-YPF | 687 | 85 | 15,169 | 1,311 | 2,475 | 1,579 |
| Santander Group | 1,249 | 1,156 | 1,565 | 8,969 | ... | ... |
| Endesa | 1,493 | 930 | 3,584 | 1,219 | 2,256 | 884 |
| BBVA | 613 | 2,905 | 549 | 2,781 | ... | ... |
| Iberdrola | 947 | ... | 264 | 595 | 823 | 695 |
| Unión Fenosa | 212 | 101 | 165 | 362 | ... | ... |
| Total | 6,135 | 9,882 | 24,288 | 37,055 | 9,681 | 5,014 |

Source: Company Reports



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LAC Sales as % of Total Sales, 2002

Telefónica 38%

Endesa 23%

Repsol 26%

Aguas de Barcelona 33%

Santander* 26%

BBVA* 30%



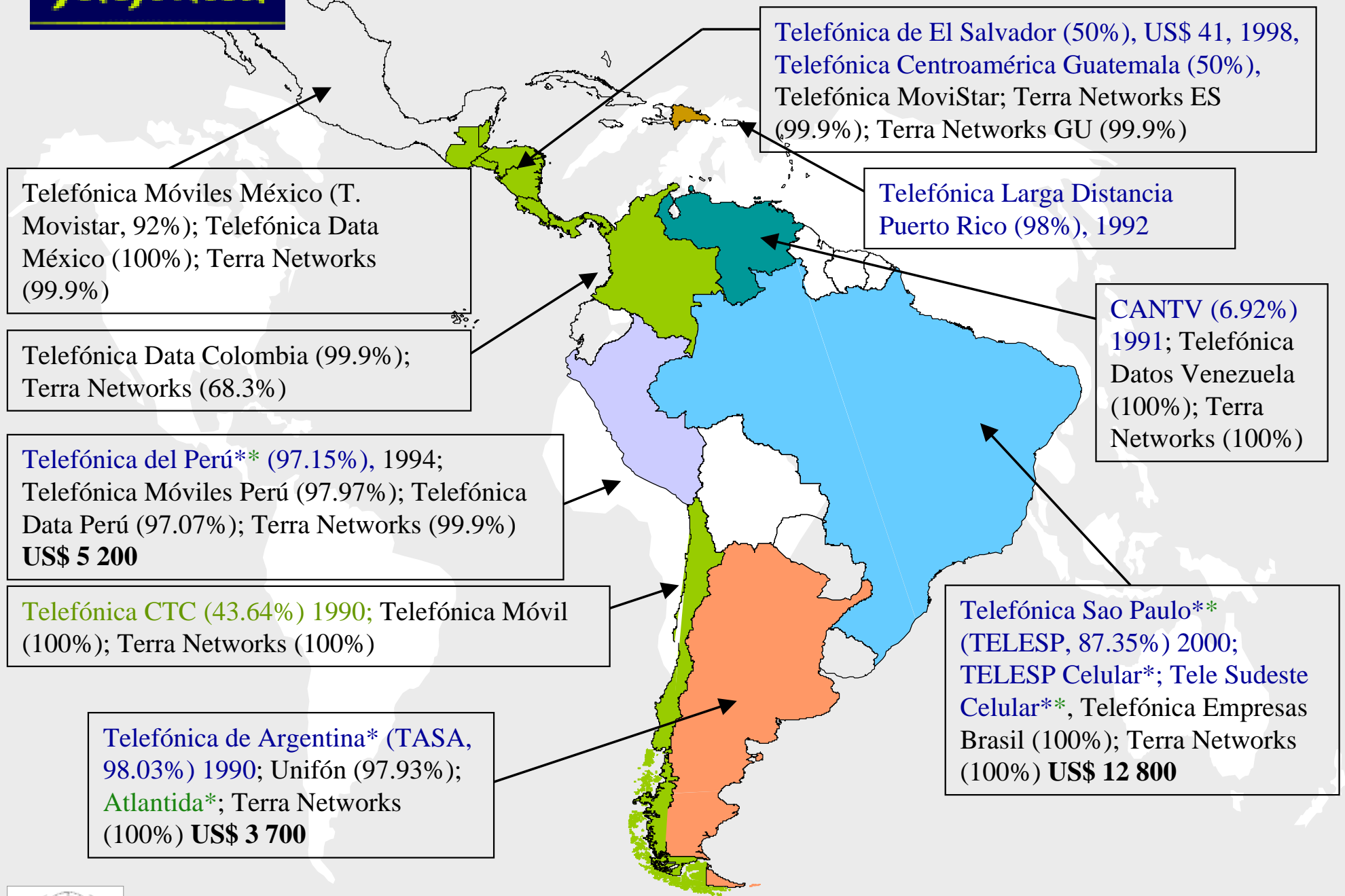
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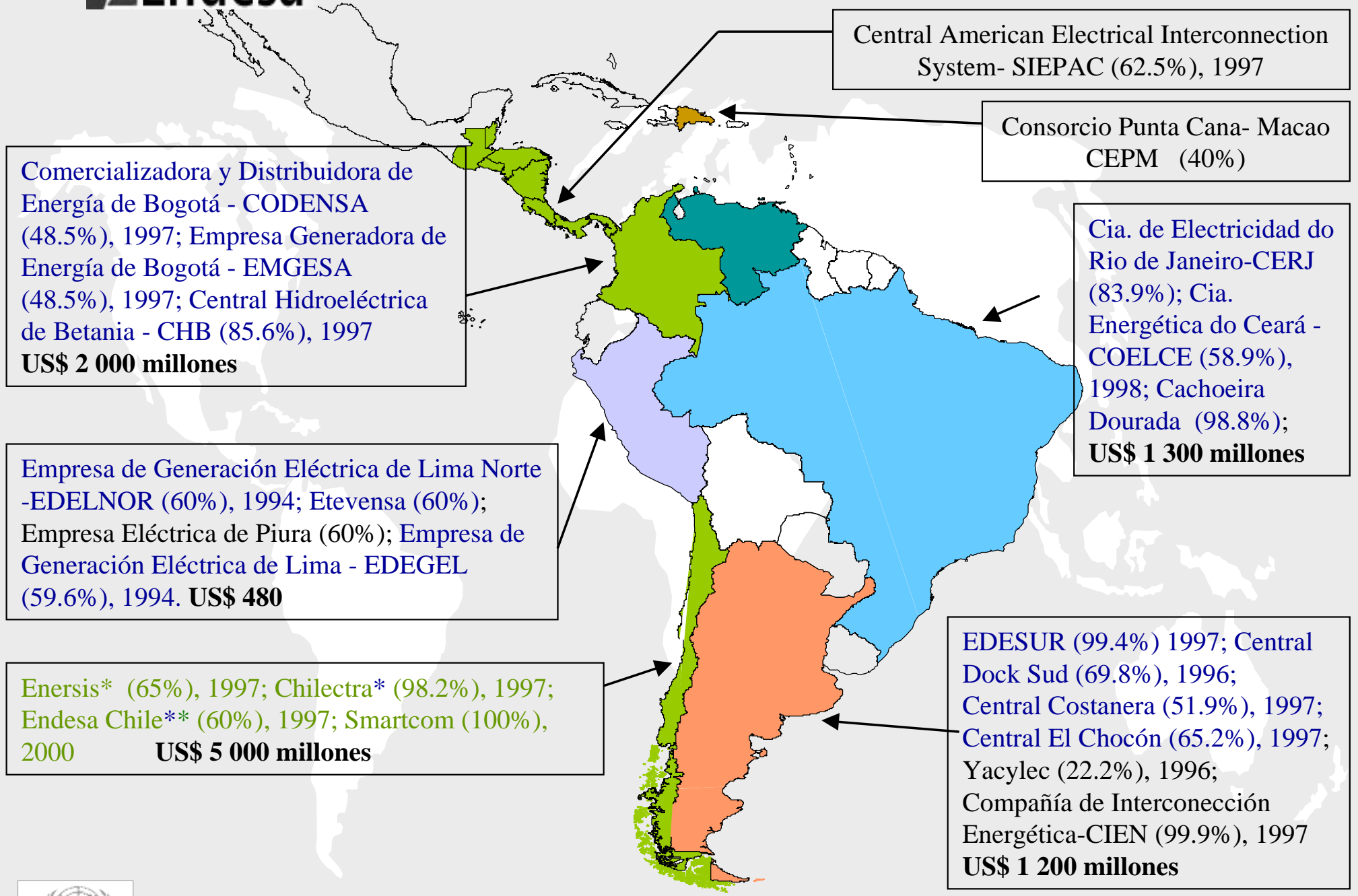
Factor Influencing the Privatization of Spanish Companies

- Related to **liberalization process** within European Union (Spain had more time than most).
- Principal companies privatized: **Telefonica de España, Repsol, Endesa, Gas Natural, Iberia.**
- Took place slowly with **“golden share”** for State to avoid takeovers.
- In this context, Latin America represented **an opportunity** to expand internationally in order to gain critical mass for global (esp. European) competition.
- Thus, to a significant degree privatizations in LAC *fed off* the privatization process in Spain.





Endesa : PRESENCE AND EXPANSION IN LATIN AMERICA

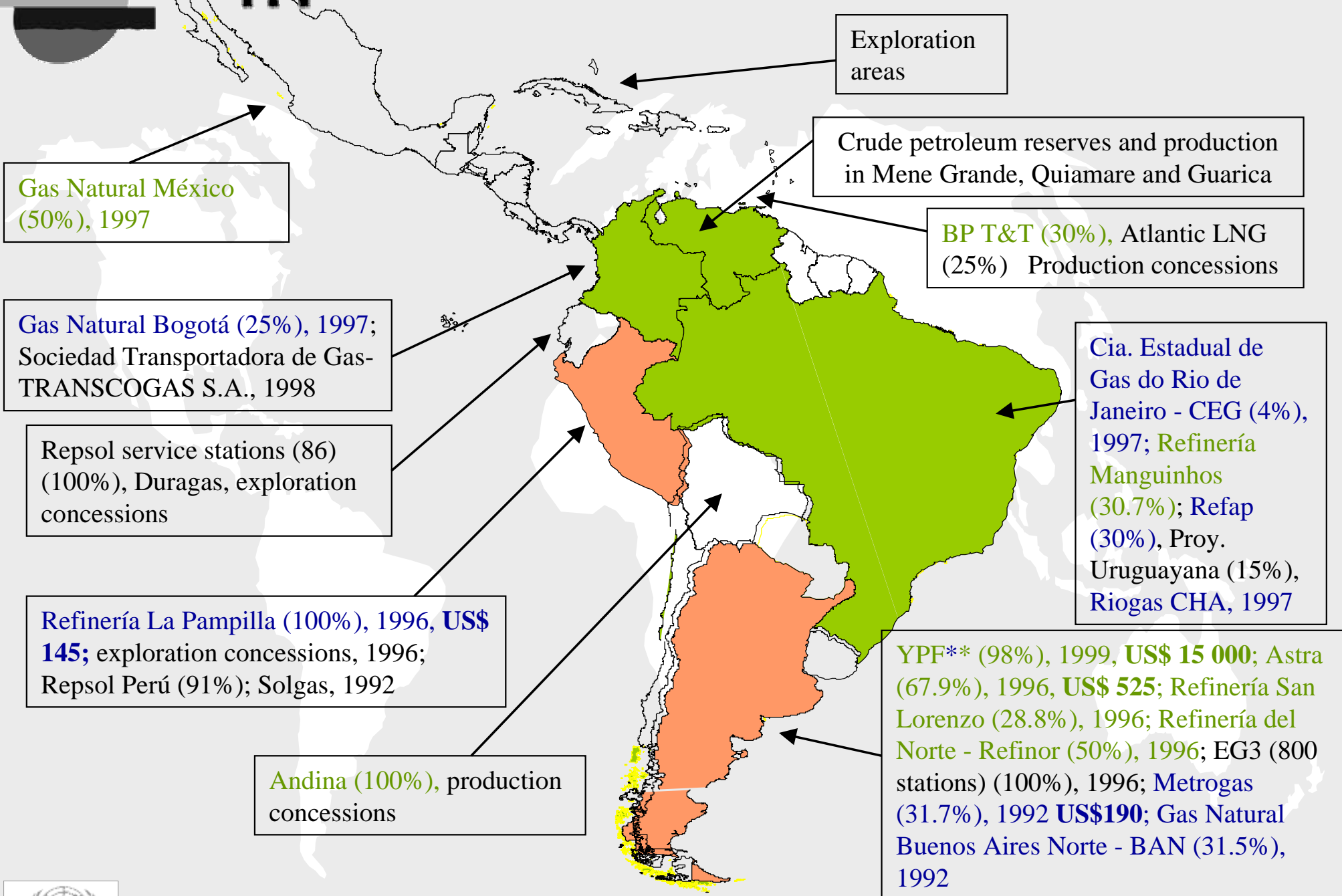


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Purchase of State assets – Purchase of private assets

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REPSOL YPF : PRESENCE AND EXPANSION IN AMERICA LATINA



Gas Natural México (50%), 1997

Exploration areas

Crude petroleum reserves and production in Mene Grande, Quiamare and Guarica

BP T&T (30%), Atlantic LNG (25%) Production concessions

Gas Natural Bogotá (25%), 1997; Sociedad Transportadora de Gas-TRANSCOGAS S.A., 1998

Cia. Estadual de Gas do Rio de Janeiro - CEG (4%), 1997; Refinería Mangunhos (30.7%); Refap (30%), Proy. Uruguayana (15%), Riogas CHA, 1997

Repsol service stations (86) (100%), Duragas, exploration concessions

Refinería La Pampilla (100%), 1996, US\$ 145; exploration concessions, 1996; Repsol Perú (91%); Solgas, 1992

YPF** (98%), 1999, US\$ 15 000; Astra (67.9%), 1996, US\$ 525; Refinería San Lorenzo (28.8%), 1996; Refinería del Norte - Refinor (50%), 1996; EG3 (800 stations) (100%), 1996; Metrogas (31.7%), 1992 US\$190; Gas Natural Buenos Aires Norte - BAN (31.5%), 1992

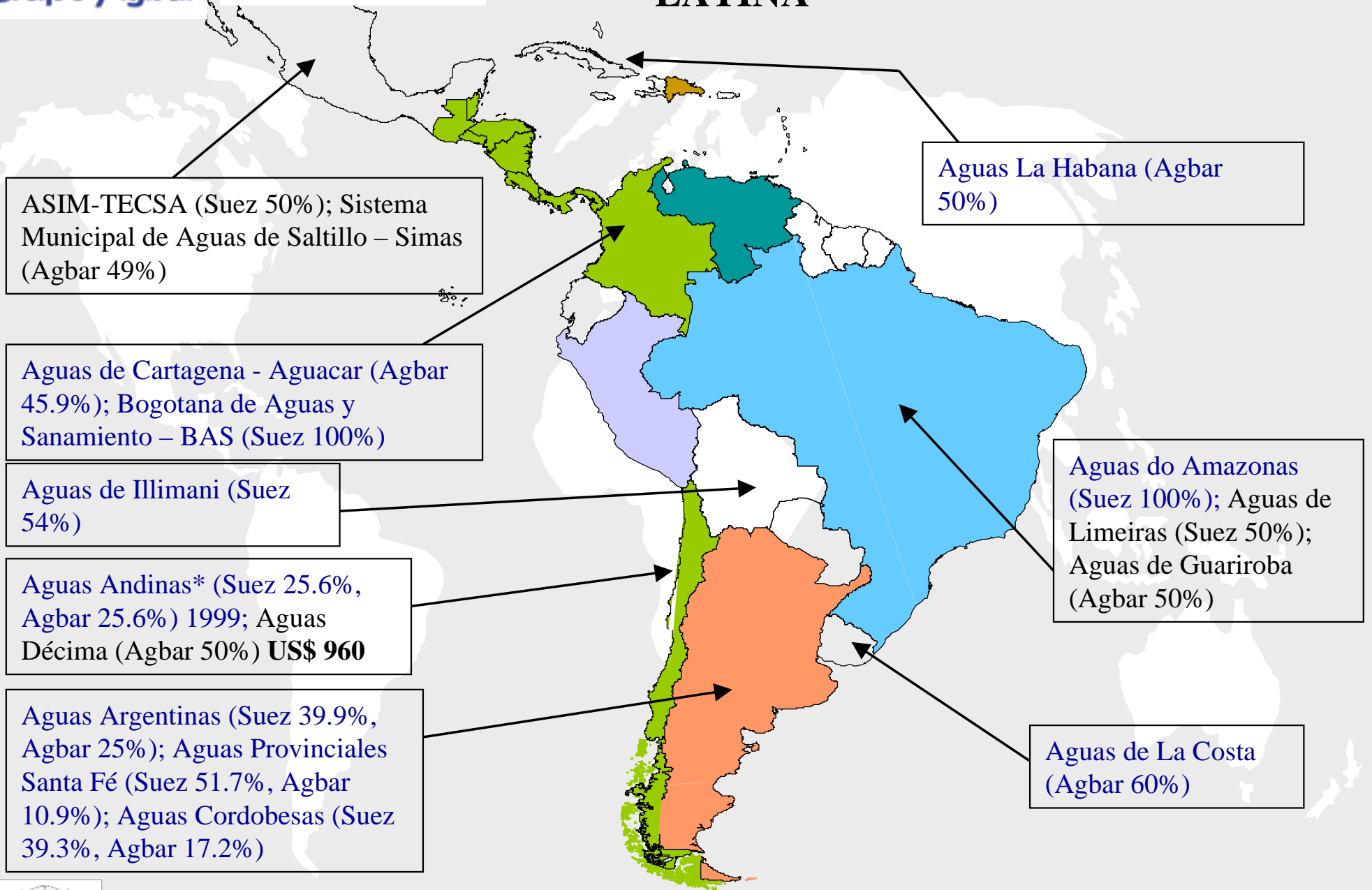
Andina (100%), production concessions



United Nations Purchase of State assets – Purchase of private assets

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PRESENCE AND EXPANSION IN AMERICA LATINA



Conclusions

- ✓ One must look beyond privatizations to get a fuller picture (M&As are relevant). Corporate strategies are central.
- ✓ Example: Spanish FDI in LAC during the last 10 years.
- ✓ This Spanish “Reconquest”:
 - was linked to European policy liberalization and Spanish privatization policies
 - was concentrated in a handful of mostly privatized Spanish corporations (Telefónica, Endesa, Repsol, BSCH, BBVA, etc.)
 - was concentrated in a few services: telecom (Telefónica), electricity (Endesa, Iberdrola, Unión Fenosa), gas (Repsol), water/sewerage (Aguas de Barcelona), banks (BSCH, BBVA).
- ✓ The cultural affinity of recently privatized Spanish corporations with soft Latin American governments and inexperienced --where existent-- regulators helped give privatization a bad name in the region.

