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# Under-utilised

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**Troubled privatised utilities are threatened with state control**

ALTHOUGH President Néstor Kirchner appeared all smiles as he wrapped up a state visit to France last weekend, his grip-and-grin in the Hotel Meurice lobby in Paris could not remove what President Jacques Chirac called “a little stone in the shoe”—Argentina's stalled negotiations with Aguas Argentinas, a water provider serving 6.5m people in greater Buenos Aires, which is 40%-owned by a French conglomerate, Suez.

Like all Argentina's privatised utilities, Aguas Argentinas saw its dollar fees converted to devalued pesos (or “pesified”) and frozen by a government emergency law during the default crisis of 2001-02. Although the government initially promised a renegotiation within four months, it has taken three years. Since that crisis, rates have not budged despite a rise in prices of over 50% and a 70% currency devaluation.

Now that Argentina has begun to tackle the biggest consequence of the crisis—the restructuring of $81 billion in non-performing debt, the utilities are moving back up the agenda. But given the current climate of negotiations, it seems unlikely that utility investors will have much more reason to be optimistic than Argentina's creditors, who are barely getting back 30 cents on each dollar invested.

The state and Aguas remain far apart. After fining the utility $680,000 for recent cuts in drinking water, the government is calling for $136m in new investment. But Aguas, whose debts already total $700m, is loth to part with further capital. It is demanding a 60% rate increase; the government is offering just 16%, plus a $50m capital investment grant. Aguas says this is not enough. Yet with congressional elections looming this autumn, the government is reluctant to offer any more to Aguas or the other foreign-owned utilities.

Its hand may yet be forced. The utilities have lodged claims with the International Centre for Settlement of Investment Disputes, the World Bank's arbitration body, demanding some $16 billion in compensation from the state for “pesification” and the rate freeze. A first decision is expected by March. If the ruling goes against the government, it may decide to raise its offer substantially to ward off further claims.

But to undertake new investment, the utilities need assurance of reliable future income from much higher rates—which Argentina might not convincingly be able to offer even if it wanted to. As France's deputy foreign minister, Renaud Muselier, said, French firms interested in further investments in Argentina need “clear rules of the game in the economic field”.

The government, however, seems to be moving in the opposite direction. Its recent talks with Aguas have focused on restructuring the enterprise into a public-private partnership. A bill before Congress would give the state sweeping new powers over the utilities, enabling it to modify contracts almost at will. Alberto Fernández, Mr Kirchner's chief of staff, has even hinted at a possible complete renationalisation of Aguas. While this might boost support for the president's Peronist party in the coming legislative elections, Argentina's dismal track record of infrastructure investments by state-owned enterprises should give pause to voters concerned about the quality of their utility services.

Whatever the government decides, its vaunted economic recovery will founder if it cannot secure the environment for capital. “We can't be reinventing the country every ten years,” says Héctor Huici, a lawyer involved in utility arbitration cases. “We need to learn that stability and honouring contracts are important and will benefit us in the long run.”