Teneo



# ARGENTINA: Expropriation rears up again

On 8 June, President Alberto Fernandez announced the state takeover of the leading agro-export company Vicentin, the country's sixth largest agricultural exporter. The takeover will last 60 days. However, an expropriation bill will be sent to Congress shortly with the aim of bringing Vicentin, which filed for bankruptcy in late-2019 amid financial problems that pre-date the Covid-19 crisis, under the management of the agricultural arm of state-run energy company Yacimientos Petroliferos Fiscales (YPF).

Fernandez justified the takeover as an "exceptional" case and a "rescue operation" for a company whose collapse would have a negative cascade effect across the economy. Vicentin has 2,600 suppliers in the agricultural heartland fanning out from Santa Fe province, and 4,000 direct employees. Concerns over rising unemployment represent a particular concern in government. The company's collapse would also ripple out across the domestic banking sector, with state-owned Banco Nacion especially vulnerable as Vicentin's main creditor. Administration insiders, including Fernandez himself, have compared the situation to the German government's move to take a stake in struggling carrier Lufthansa.

However, the Lufthansa parallel is misleading given the negative precedent of *Kirchnerista* expropriations over the last 17 years, and there is more than meets the eye in the Vicentin plan. A company of this size and vertically integrated structure under state control could act as a linchpin for the agricultural sector, enabling the government to try some kind of reconfiguration of a sector that has endured highly conflictual relations with VP Cristina Fernandez (CFK) in the past. In the immediate term, it appears that the government has plans to use Vicentin to pressure producers to sell soybean stockpiles to increase export tax receipts and boost depleted Central Bank (BCRA) reserves; stockpiles are at their highest level in five years as producers hold on to harvested crops in expectation of the peso weakening.

Fernandez also referred to the need for "food sovereignty", a *Kirchnerista* trope used to justify previous expropriations (e.g. YPF and currency-printing company Ciccone, both in 2012). During the announcement, Fernandez was accompanied by the Mendoza senator Anabel Fernandez Sagasti, who he presented as the architect of the expropriation move. Fernandez Sagasti, who is a trusted CFK lieutenant, likely drew on a parallel *Kirchnerista* proposal – rejected by the president – to make all corporate bailouts conditional on the state taking stakes in affected companies. Amid reports of external interest in Vicentin, Sagasti (and CFK) were likely motivated to protect domestically owned assets from foreign companies looking to make acquisitions at what *Kirchneristas* regard as knockdown prices.

A key question is whether Vicentin will be a one-off. Fernandez may hope that the expropriation will act as a sop to his left flank, though – as previously forecast – Sagasti and others clearly see the Covid-19 crisis as an opportunity to restructure the state and secure a tighter political grip. How this tension plays out is likely to become one of the recurring themes of the Fernandez presidency. What is more certain is that state management is unlikely to resolve Vicentin's difficulties, raising the cost to an already-overburdened state. Meanwhile, CFK will likely use the situation to press for corruption investigations against the previous administration over bank loans to Vicentin. Finally, business confidence will suffer, not just as a result of unpredictable state intervention, but as see-sawing policy shifts upend investors' planning horizon.

**Nicholas Watson**
Managing Director
+44 20 7186 8875
nicholas.watson@teneo.com

**Client Portal >>**

**Nicholas Watson**
Managing Director
+44 20 7186 8875
nicholas.watson@teneo.com