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**Foreign electricity companies in Argentina & Brazil: The case of
American & Foreign Power (1926-1965)**

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Abstract: The article analyzes the evolution, strategies and position of American & Foreign Power subsidiaries in electric power sector in Argentina and Brazil from their entry in the mid-1920s to their nationalisation. We compare the economic performance and entry strategies followed by the American holding in different host economies. We also examine the relations between the American electricity firms and the Governments of both countries, focusing on the debates and policies that explain American & Foreign Power's withdrawal from Argentina and Brazil in 1959-1965. Finally, the article reviews the role of foreign direct investment in the development of electric power sector in both countries. The study is based upon the Annual Reports and Proceedings of American & Foreign Power (1923-1963) and other corporate reports, Government statistics and official Reports from Argentina, Brazil and the United States.

Keywords: Electricity companies. Holding companies, US foreign direct investment, Argentina, Brazil, American & Foreign Company.

Resumo: O artigo analisa a evolução, estratégias e posição das subsidiárias da companhia de serviços elétricos American & Foreign Power na Argentina e no Brasil desde sua chegada em meados da década de 1920 até sua nacionalização. Comparamos a performance econômica e as estratégias seguidas pela holdings americana nos diferentes países. Examinamos também as relações entre a companhia americana de eletricidade e os governos dos dois países, enfatizando os debates e políticas que explicam a saída da empresa da Argentina e do Brasil em 1959-1965. Finalmente, o artigo revisa o papel do investimento direto estrangeiro no desenvolvimento do setor de energia elétrica nos dois países. O estudo é baseado nos Relatórios Anuais da American & Foreign Power (1923-1963) e outros relatórios da empresa, de estatísticas governamentais e documentos diplomáticos e oficiais dos governos argentino, brasileiro e americano.

Palavras-chave: Empresas elétricas; Investimento Direto Estrangeiro; Argentina, Brasil American & Foreign Company.

JEL categories: N76; N86

Introduction

The arrival of the American & Foreign Power Co. Inc. in Brazil and Argentina indicated the beginning of the expansion of US direct investment to seek new consumer markets abroad in the 1920s. As refers to electricity market, this expansion launched the entrance of large national groups in Latin America. Between 1929 and 1955, American & Foreign Power was the largest US private equity investor in the region. However, the company arrived on the scene more than twenty years after other major electricity firms. Despite an aggressive expansion through subsidiaries throughout Latin America, in countries where electricity was already a reality—such as Brazil and Argentina—this American holding company established itself through brownfield-type investments in markets served by large multinational electricity holding companies.

Following the establishment of its subsidiaries and the implementation of strategies to both improve the services provided and to ensure higher returns, the company suffered deeply during the worldwide economic crisis that began in 1929: it faced difficulty in securing capital for the business, while the devaluation of national currencies and the increase of government intervention in the electricity sector impacted negatively on profits. In short, throughout the 1930s and 1940s the performance of the American & Foreign Power's subsidiaries highly depended on the tense relations between shareholders, domestic consumers, and local governments.

This article analyses the trajectory and performance of American & Foreign Power in Argentina and Brazil, focusing on its investment strategies and the business–state relations. Section II reviews the establishment of American & Foreign Power in Brazil and Argentina, looking at its early expansion in the US and examining the company's strategies in organising electric utility businesses in both markets in the interwar period. It also reviews the evolution of American & Foreign Power's subsidiaries in Argentina and Brazil, noting the profound change in the company's involvement in both countries. Section III analyses the shift of the regulatory strategies and describes the Business-State relations in both countries. Finally, the article identifies the basic conditions that explain the different trajectory of the holding company in both countries, as well as the reasons behind its decision to divest from its subsidiaries in the region in the late 1950s.

I. American & Foreign Power's businesses in Latin America (1923-50)

a) *From Electric Bond & Share to American & Foreign Power: American FDI in electric utilities in Argentina and Brazil*

At the end of the First World War, US foreign policy underwent a change. The armed conflict demanded a strong presence of the US, by funding the Allies and on the battlefield itself. With Europe war-weary and debt-laden, the US emerged as the great new industrial power and financial center of the world.¹ South America, like many other regions of the globe, received greater attention from American businesses: investment in the region increased in volume and diversified into new sectors, such as the industrial, and particularly infrastructure.² In Argentina and Brazil, the capital invested in infrastructure accounted for 45 per cent and 50 per cent respectively of total Foreign Direct Investment (FDI) from the United States.

Table 1. US FDI in Brasil and Argentina, 1929 (millions dollars)

Country	Agriculture	Mining	Manufac-Turing	Sales	Petroleum	Utilities	Misc.	Total
Argentina	-	5	82	52,9	29,8	147,8	19,3	331,8
Brasil	5	5	45,7	15,8	23,0	96,9	12,2	193,6

¹ Kindleberger, *World Economic Primacy*; Kenwood & Lougheed, *The growth of the international economy*; Eichengreen, *A globalização do capital*.

² For the evolution of US FDI abroad, see Wilkins, *The History of Foreign Investment*, pp.52-7.

South America	44	528	170	94	512	348	-?	1.720
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Source: Wilkins, *The History of Foreign Investment*, pp. 55-7

The expansion of US FDI in public utilities was dominated by a few large holding companies, which financed their new investments through the boom in the stock market.³ At the top of a pyramidal structure, financial holding companies controlled the operation of public utility holding companies, which in turn were responsible for local utilities across several countries.⁴ Electric Bond & Share, created in 1905, was a typical example of this strategy. In 1915-16, Bond & Share sought the opportunity to develop electricity companies in Latin America, as a result of a discussion between Sydney Z. Mitchell –chairman of Bond & Share- and representatives of General Electric Co., its parent company at the time. They agreed to acquire a number of gas, telephone, electricity, and tramway companies in Panama. In 1919, Electric Bond & Share moved to Guatemala, following the same strategy to Cuba in 1922. In 1923, the company organised American & Foreign Power and transferred its Latin American holdings. By 1925, Bond & Share controlled five holding companies in electric utilities, mostly operating in the USA: American Gas And Electric Co. (1906), American Power & Light Co. (1909), National Power & Light Co. (1921); American & Foreign Power Co. (1923), and Electric Power & Light Corp. (1925).⁵

Electric Bond & Share's initial investments were located in countries close to US national interest, such as Panama, Guatemala, and Cuba. Business success in these low-risk investments, might have given US companies the confidence to proceed to new markets in the second half of the 1920s. Even though most of these economies were dependent on commodity exports, it was a propitious moment to expand direct investment in the growing economies of Latin America and the Caribbean as the growth of urban population and industrial activities would increase the demand of electricity.⁶

Nevertheless, the group's expansion into Latin America occurred too late. The pioneering strategy of General Electric⁷—one of the largest electrical manufacturing corporations —of concentrating businesses in the US did not guarantee its preeminence in Latin America. In Argentina and Brazil, the entry of major foreign electricity companies had occurred nearly three decades prior to the arrival of American & Foreign Power. By the First World War, the cities of Buenos Aires and Rosario, already had granted electricity concessions to large companies like the German DUEG (*Deutsch Ueberseeische Elektrizitäts-Gesellschaft*, CATE in Spanish); the Belgian SER (*Société d'Electricité de Rosario*), a subsidiary of the holding company SOFINA (*Société Financière de Transports et d'Entreprises Industrielles*); while the Canadian Light & Power had obtained the concession to provide services in the most populous cities of Brazil, Rio de Janeiro and Sao Paulo.⁸ Therefore, American & Foreign Power's strategy in these two countries focused on trying to win over secondary markets, such as regional capitals or towns scattered throughout the country. Still, these concessions covered a number of medium and small communities in a widespread area, as shown by Table 2.

³ In the 1920s, US investments in public utilities grew faster than in any other sector. Hausman and Neufeld, *U.S. Foreign Direct Investment*, pp. 363-364.

⁴ Hausman and Neufeld, *U.S. Foreign Direct Investment*, pp. 363-4.

⁵ Electric Bond and Share Company. *Power for national defense*. In 1929, Electric Bond & Share was the second-largest electricity group in the USA, controlling 14 per cent of all electricity produced by the private sector. United States. Securities and Exchange Commission; *The Public Utility Holding company Act of 1935, Report to the Subcommittee on Monopoly*, p.3 For the origins of Electric Bond & Share, see Hausman and Neufeld, *U.S. Foreign Direct Investment*.

⁶ Hausman and Neufeld, *U.S. Foreign Direct Investment*; American & Foreign Power, *The foreign power*, p.14.

⁷ Landes, *The Unbound Prometheus*; Hausman, Hertner & Wilkins, *Global Electrification*.

⁸ For Argentina, see Lanciotti, *Foreign Investments*; also *Ciclos de vida*. For DUEG, see Hertner, *Globale Elektrifizierung*. For Light's investments in Brazil see: Armstrong and Nelles, *Southern Exposure*; McDowall, *The Light*, and Saes, *Conflitos do capital*.

Table 2. American & Foreign Power’s acquisitions in Latin America: Population and number of communities served in 1929

Countries	Operation	Population (1.000 hab.)	Number of cities
Panama	1917	138	4
Guatemala	1919	182	11
Cuba	1922	1.478	175
Ecuador	1925	130	2
Brazil	1927	3.785	260
Colombia	1927	365	13
Venezuela	1927	127	3
Mexico	1928	1.278	108
Chile	1928	936	30
Costa Rica	1928	159	35
Argentina	1929	1.906	130
Total	-	10.484	754

Sources: American & Foreign Power (1929-1930), *Annual Report*, pp. 19-22; American & Foreign Power (1953), *Annual Report*, p.10.

Moreover, the electricity companies taken over by the group not only shared problems of financial management and technological development, but also diverse contractual terms set out in the various concessions granted by local authorities. Unlike the first experience of the American group abroad in the Caribbean countries, the concessions acquired in Argentina and Brazil were previously owned by local groups or by foreign companies -mainly British- operating with obsolete technology under different jurisdictions. On that ground, one priority for the company was to renegotiate the concession agreements with local authorities to build a homogeneous regulatory framework that would ensure future investments. In particular, the prevailing terms imposed flat rates on different services, creating barriers to electricity consumption, instead of regressive tariffs.⁹ Secondly, new investments were required, as plants using obsolete technology and electricity grids poorly integrated did not generate economies of scale.

According to 1929 report, American & Foreign Power intended to take over the financial organisation of the operating subsidiaries, expanding the capacity of their plants and modernising transmission and distribution systems. Moreover, it expected to develop new forms of energy use, applying special rates to promote a growth in electricity consumption and a greater variety of electric energy use. Plans also extended to new forms of operation and accounting methods, as well as the establishment of relationships between companies and local communities. In short, the modernisation project sought to develop more efficient and profitable systems.¹⁰

In Brazil, the electricity supply faced two strategic challenges in the 1920s: building integrated regional systems to supply more energy to diversified consumer markets; and implementing cost-saving innovations, as rising coal pricing had increased production costs in the First World War.¹¹ Hydroelectricity could be an option for the financial success of utilities, but also demanded huge resources to assemble the system, which were unavailable to local entrepreneurs.

In this context, American & Foreign Power acquired the *Companhia Brasileira de Energia Elétrica*, an electricity distributor in Salvador (Bahia) and cities in the state of Rio de Janeiro, which withdrew from the business in the early 1920s as long as it could not afford the expansion of the electricity supply during the

⁹ American & Foreign Power, *Annual Report* (AAR), 1929, p.7.

¹⁰ AAR, 1929, p.7-8.

¹¹ Saes, *A Grande empresa*, p.257; Lorenzo, *Eletrificação*, p.100). Brazil lacked coal reserves. Saes, Light versus CBEE.

Great War.¹² In the state of São Paulo, American & Foreign Power took advantage of a decentralised system, with a few regional companies such as *Companhia Paulista de Força e Luz* (CPFL), to start an integration project through transmission lines.¹³ This project would allow the company to substitute costly and obsolete thermoelectric power plants by hydroelectric dams—more distant, but with greater power-generating capacity.

By acquiring small and medium concessions through the stock market, the company quickly gained large concession areas. Between 1927 and 1939, the American company expanded its Brazilian market from 78 to 309 cities served. In this context, two subsidiaries were established: *Companhia Auxiliar de Empresas Elétricas Brasileiras* (CAEEB)—initially called *Empresas Elétricas Brasileiras*—and the *Companhia Brasileira de Força Elétrica*, both active in the interior of São Paulo state, an economically important coffee region. CAAEB also engaged to supply electric power to regional capitals (Table 3).¹⁴

**Table 3. American & Foreign Power’s subsidiaries in Brazil, 1932.
Generating capacity and cities served.**

Company	Subsidiaries	Main cities	Regions	Hidropower Generating capacity (kw)	Thermoelectric Generating capacity (kw)
Companhia Auxiliar de Empresas Elétricas Brasileiras	The Pernambuco Tramways e Power Co. Ltd.	Recife	Pernambuco		20,500
	Telephone Company of Pernambuco Limited				
	Companhia Energia Elétrica da Bahia	Salvador	Bahia	9,000	
	Companhia Linha Circular de Carris da Bahia				
	Companhia Força e Luz do Nordeste	Natal Maceió	Rio Grande do Norte; Alagoas		2,340
	Companhia Central Brasileira de Força	Vitória	Espírito Santo	5,240	5,672
	Companhia Brasileira de Energia Elétrica	Niterói	Rio de Janeiro	13,800	1,000
	Companhia Força e Luz de Minas Gerais	Belo Horizonte	Minas Gerais	11,400	
	Companhia Força e Luz do Paraná	Curitiba	Paraná	8,000	
	Companhia Tração Luz Força de Florianópolis	Florianópolis	Santa Catarina		
Companhia Brasileira de Força Elétrica	Companhia de Energia Elétrica Rio-Grandense	Porto Alegre	Rio Grande do Sul		24,600
	The Rio Grandense Light & Power Synd.	Pelotas			6,950
	Companhia Paulista de Força e Luz	Campinas; Ribeirão Preto	São Paulo	42,066	

Sources: Empresas subsidiárias da American e Foreign Power Co. Inc. do Brasil. *Revista Brasileira de Política Internacional*, pp.169-178.

¹² See Barros, *Guilherme Guinle*; Honorato, *O polvo*, and Saes, *Conflitos do capital*, ch.6.

¹³ For the expansion of American & Foreign Power in Brasil: Lorenzo, *Eletrificação*, p. 90ss, and Cachapuz *Panorama do setor*, pp.83-90.

¹⁴ Cachapuz, *Panorama do setor*, pp.83-90.

In Argentina, the most significant change in the power sector during the first postwar period was the transfer of DUEG-CATE to the Belgian firm SOFINA, which took control of the electricity and tramway systems in the nation's largest markets by population and income. In parallel, an Italian-Swiss consortium led by CIAE (*Compañía Ítalo-Argentina de Electricidad*) constituted itself through the acquisition of plants located in small towns.¹⁵ Both groups increased their investments in order to expand the capacity of their power plants and to extend distribution networks. In an environment of heightened demand, the increased production and consumption resulting from these investments generated economies of scale, thereby increasing the profitability of companies mainly located in the coastal region of the pampas (the provinces of Buenos Aires and southern Santa Fe).¹⁶ In the rest of the country, electric utilities continued to be provided by various separate British and Argentine companies until the arrival of American & Foreign Power. These companies operated low capacity hydroelectric and thermoelectric power plants.¹⁷ Unlike in Brazil, hydroelectric power generation was not important in Argentina: in 1930, the hydroelectric plants in Córdoba and Tucumán accounted for only 6 per cent of overall production.

Between 1928 and 1932, American & Foreign Power acquired 19 electricity companies, and reorganised them by region into five firms (see Table 4), which aimed to reduce the number of concession contracts. New commercial departments and sale offices introduced marketing strategies to foster Electric Bond & Share's businesses. In the late 1930s the company had 58 offices and shops, whose sales of electrical equipment totaled 2 million pesos. By 1933, after eliminating common stocks and updating fixed assets, the financial reorganisation of the subsidiaries came to an end.

**Table 4. American & Foreign Power's subsidiaries in Argentina, 1932.
Generating capacity, electricity production and number of customers**

Main Operating Company	Subsidiaries	Number of cities served	Region	Generating capacity (in kw)	Electricity output (1000 kwh)	Electric customers
Compañía Central Argentina de Electricidad	Compañía General de Electricidad de Córdoba	56	Provincias de Córdoba y centro norte de Santa Fe	66,373	98,259	80,417
	Electricidad de Alta Gracia					
	Compañía de Luz y Fuerza de Córdoba					
Compañía de Electricidad del Norte Argentino	Compañía Hidroeléctrica de Tucumán	5	Provincias de Jujuy, Salta, Tucumán	11,354	19,501	12,979
Compañía de Electricidad del Sud argentino		64	Provincias de Buenos Aires, La Pampa, Río Negro, Chubut, Santa Fe.	34,123	53,829	69,149

¹⁵ Financed by the Swiss holding Columbus, (associated with Brown Boveri, Pirelli, and the Argentinean group Devoto), this group controlled five companies in Argentina, one in Paraguay, Lima Light & Power in Peru and Empresas Unidas de Energía Eléctrica in Bogota, Colombia. Barbero, Lanciotti and Wirth, *Capital extranjero*.

¹⁶ Only a few electric appliances were in use in the 1920s. According to the US Department of Commerce, they were quite expensive for Argentine customers. US Department of Commerce, *Central Light and Power Plants*, p. 33.

¹⁷ As late as 1927, regional capital cities such as Santa Fe, Entre Ríos, San Juan, Salta y Catamarca, used direct current electricity. U.S. Department of Commerce, *Central Light and Power Plants*, pp. 29-33.

Compañía de Electricidad del Este Argentino	12	Provincias de Entre Ríos, Chaco	14,087	20,832	19,519
Compañía de Electricidad de los Andes SA	19	San Juan, Mendoza, San Luis.	19,487	32,866	29,631
Total	156		145,424	225,287	211,695

Source: Revista Electrotécnica 19 (Oct. 1933): 442–500.

In this early 1930s context, American & Foreign Power consolidated its position in the Argentine and Brazilian markets. In Argentina, it generated 12 per cent of overall electricity production, making it the second largest company in the sector, but still well behind SOFINA, whose subsidiaries generated 53 per cent of the country's electricity. In Brazil, the industry structure was similar: American & Foreign Power accounted for almost 20 per cent, while Canadian Light grabbed 50 per cent of Brazil's electricity generation.¹⁸ Although the American company remained in secondary markets, it reached a prominent position due to the volume of investments. In terms of assets invested abroad it was the largest electricity company in the world in 1937, with US \$534 million invested in its subsidiaries in 11 countries. The Canadian group Brazilian Traction, Light and Power (Light) came second with US \$425 million, followed by Belgian firms SOFINA and Electobel in third and fourth place, with US \$398 million and US \$217 million in assets respectively.¹⁹

b) Reversal of the investment scenario in 1930.

In the early years of operations, American & Foreign Power developed an expansion program financed by issuing US \$50 million of funded debt securities and shares, representing an investment of US \$358 million, supplemented by a substantial reinvestment of profits. However, 1930 marked the end of this expansion. The company needed large amounts of capital to meet its commitments for property acquisition and construction projects. For both purposes the company issued another US \$50 million of gold debentures, of which 42.5 million were sold to the public. As a consequence of the international economic crisis, public financing dried up and the holding company turned to its parent company, Bond & Share, obtaining a loan of US \$30 million at 6 per cent interest. In the following years, American & Foreign Power was not able to service its bank loans, which amounted to US \$50 million, and had to renegotiate them at higher interest rates. Bond & Share granted a new loan of US \$5 million, for a total of US \$35 million, renegotiated at a 7 per cent interest rate.²²

In addition to financial restrictions, exchange rate losses and the economic downturn, negatively impacted on the profitability of Latin American subsidiaries. From 1933 to 1939, American & Foreign Power paid no dividends to its shareholders and electricity business stood still, while current incomes were dedicated to pay loan interests.²³

This situation did not improve until Second World War. By 1941, bank debt was reduced to only US \$15.5 million dollars, and so did the interest rate (3 per cent). Nevertheless, the US \$35 million borrowed from Bond & Share remained at a rate of 7 per cent. In 1943, bank loans were entirely repaid and the debt loan with Bond & Share became an overdue obligation at an interest rate of 6 per cent, according to the laws of the State of New York. In 1944, American & Foreign Power resumed payments to Bond & Share,

¹⁸ Szmecrsányi, *Apontamentos*, p.132-5; Martin, *Processus d'Industrialisation*.

¹⁹ Hausman, Hertner & Wilkins, 2008, *Global electrification*, p.218.

²² US Securities and Exchange Commission, *Holding Company Act 1935, Findings and opinion of the Commission*, pp. 10-14.

²³ The crisis strongly impacted the U.S. electricity industry: until the end of World War II there was practically no new investment in this sector. Ebasco Services Incorporated, New York, December 1952.

amortising US \$5 million, and the remaining US \$30 million became notes at 3 per cent.²⁴ Local currency devaluations and restrictions on foreign currency remittances ceased during the Second World War, when Latin American exports rose and currencies began to appreciate.²⁵ From 1940 onwards, profits recovered and the company resumed partial payment of dividends as indebtedness decreased.

Since the enactment of the Public Utility Holding Company Act, Electric Bond & Share introduced new forms of corporate governance. Interlocking-directorates had been the main strategy of Electric Bond & Share to control its holding companies, but in 1935, policies of corporate governance changed to elude the regulations of the Securities and Exchange Commission. The financial, technical, legal, and administrative services delivered to American & Foreign Power by its parent company were undertaken by Ebasco Services Incorporated (EBASCO), another subsidiary of Bond & Share.²⁶ American & Foreign Power's directorship was renewed, but Bond & Share still controlled the managerial decisions by its majority voting power. From 1937 to 1944, Bond & Share owned 76.8 per cent of common stock voting rights in American & Foreign Power, dropping to 40.2 per cent in 1952. By the second postwar period, American & Foreign Power contributed 21 per cent of Bond & Share's revenues in shares and interests, and 11.3 per cent of its revenues through dividends.²⁸

c) American & Foreign Power business performance, 1930-50.

The stagnation of public financing via international market restricted the development of the investment plan of the US- holding company, particularly in Argentina. Against the backdrop of the Great Depression, the prospect of modernising management and services was compromised on account of the financial issues and a decreasing profitability in foreign currency.

In the early 1930s, the company's situation in Brazil was not as critical as in Argentina thanks to investments made by the former concessionaires in the 1920s. In the states of Bahia and Rio de Janeiro, the company could take advantage of midsize hydroelectric plants: *Bananeiras* (9000 kW) serving the city of Salvador, and Alberto Torres (9000 kW) and Fagundes (4800 kW) serving the interior of Rio de Janeiro state. Therefore, in those states, projects only sought the expansion of existing generating plants, such as the enlargement of the Paraguaçu River reservoir which served the *Bananeiras* plant.²⁹

The *Cia Força e Luz de Minas Gerais*, serving the state capital of Minas Gerais, Belo Horizonte, maintained the hydroelectric plant *Rio das Pedras* (11,800 kW); in Curitiba, capital of Paraná, the *Chaminé* (8000 kW) plant was completed in 1931, allowing the thermoelectric plant to be decommissioned. In Brazil's Northeast, on the other hand, the capital cities of Maceio, Recife, and Natal depended on thermoelectric power plants, which drove up the cost of services. Before the Second World War, the most that American & Foreign Power could undertake in these cities was the expansion of the thermoelectric plants or the construction of smaller ones. Companies in Rio Grande do Sul faced the same scenario and their thermoelectric plants were enlarged in 1932 and 1937.³⁰

²⁴ Electric Bond & Share paid no dividends either. The renegotiation of its loans produced a deficit from 1941. By 1945, 45 per cent of the firm's revenues came from its interests in controlled companies and 55 per cent, from dividends. Electric Bond & Share Co., *Electric Bond and Share Company*, 1947.

²⁵ US SEC, *Holding Company Act 1935, Findings and opinion of the Commission*, pp. 13-4

²⁶ The Public Utility Company Act aimed to minimise the adverse effects of monopoly in gas and electricity industries. Section 11b limited each system's operation to a unique integrated public utility system. US SEC, *The Public Utility Holding company Act of 1935, Report to the Subcommittee*, p.3; US SEC, *Holding Company Act 1935, Findings and opinion of the Commission*, p. 33; Electric Bond & Share Co., *Remarks of C.E. Groesbeck (Chairman) to stockholders*, 1937

²⁸ Electric Bond & Share Co.; *Electric Bond and Share Company*, 1947 (booklet).

²⁹ AAR, 1929-39.

³⁰ AAR, 1929-39.

In São Paulo, the company inherited a rather dispersed system of small hydroelectric plants, including one of the largest, the Marimbondo Hydroelectric Plant, which opened in 1928 (8000 kW). There, the *Companhia Paulista Força e Luz* (CPFL)³¹ was concerned about connecting local plants to form a new 450 km-regional grid. Moreover, American & Foreign Power agreed to integrate a regional power grid together with Brazilian Traction -Light's parent company- in capital cities of São Paulo and Rio de Janeiro. By integrating the transmission network, CPFL reached an optimal load factor as it expanded the number of cities and population served up to 259 cities and more than 3.2 million people in São Paulo state by the end of Second World War. After 1945, the company needed to accelerate new plant construction projects, such as the *Peixoto* site.³²

Consequently, the performance of American & Foreign Power in Brazil was quite auspicious in the 1930s. On the upside, taking advantage of the improvements made by earlier concessionaries, it did not need to invest in costly works such as new hydroelectric plants. In 1929-39, its revenues fluctuated around an average of US \$10 million, despite the devaluation of the Brazilian currency. During the war, the exchange rate recovered and the company's revenues increased, reaching over US\$19 million in 1945.³³

In Argentina, the 1929 plan for financial reorganisation, reducing the number of concessions, and promoting sales of electrical equipment were ongoing, but the US \$7.5 million investment project to expand the systems was never carried out.³⁴ Nevertheless, profitability of the Argentine subsidiaries increased both in local currency and US dollars since 1935. Incomes in US Dollars grew at a moderate rate (3-4 per cent) in 1934-37 as the Argentinean currency depreciated, but rising fuel costs and wages affected operating profits from 1937 on. At the outbreak of the Second World War, the appreciation of the local currency and the increase of the country's gold reserves caused operating and net revenues to boost; and so did profits as the interest rates of company loans dropped.³⁵ The revenues of the Argentine subsidiaries continued to grow until 1946, but as shown in Table 5, the annual growth rate began to slow down in 1943, when the military regime paved the way to the expropriation of American & Foreign Power's subsidiaries.

Table 5. American & Foreign Power: Segregation of Gross Earnings of Operating Subsidiaries in Latin America. (US currency at par exchange)

	Argentina	Brazil	Mexico	Chile	Cuba	Total all subsidiaries
1928		6.772.790	1.653.744		17.395.693	30.112.578
1929	4.085.237	10.990.920	8.712.591	11.695.321	18.179.657	63.709.207
1930	14.221.420	14.310.684	9.655.099	12.780.597	18.023.473	84.657.214
1931	9.708.387	9.315.939	7.909.877	10.716.507	15.259.032	65.426.170
1932	8.357.867	9.595.612	5.236.418	6.846.371	12.142.253	53.137.081
1933	10.152.848	11.191.329	4.729.330	8.090.688	10.590.232	57.513.332
1934	8.017.731	10.178.081	5.916.478	4.720.358	8.721.446	53.035.088
1935	8.520.692	9.274.655	6.442.700	5.276.841	9.909.735	54.837.650
1936	9.396.942	10.367.921	6.598.811	5.087.936	10.513.933	56.371.011
1937	10.760.854	12.054.279	7.280.914	5.927.932	11.748.581	62.162.264

³¹ On December 12, 1947, through Decree No. 24,145, the federal government authorised the CPFL to incorporate fourteen other concessionaries in São Paulo.

³² A 20,000 kW expansion project had been planned by the company in 1941, but it could not be developed until the second post-war. AAR, 1941, p XX.

³³ American & Foreign Power, *The Foreign Power system*.

³⁴ The company built a few plants in small towns such as Junín, Villa María y San Francisco, and expanded the generating capacity in Tucumán, San Juan, Mercedes y Mar del Plata power plants. AAR, 1930-41.

³⁵ AAR, 19-1941.

1938	9.865.875	10.757.402	6.534.259	6.808.227	12.518.381	59.808.648
1939	9.294.019	10.563.632	5.985.592	6.187.585	11.958.602	58.543.446
1940	9.341.223	11.431.176	5.918.692	6.858.965	12.006.161	61.389.670
1941	10.028.096	11.945.044	6.669.909	6.769.555	14.131.088	59.234.838
1942	10.712.284	13.224.288	7.203.342	6.876.294	15.928.793	64.384.946
1943	12.423.105	15.095.165	8.032.887	7.712.888	17.503.519	72.414.900
1944	12.420.072	16.541.745	8.490.634	8.728.468	18.941.857	77.716.599
1945	12.383.149	19.138.155	9.666.785	9.748.556	21.437.777	86.257.222
1946	12.953.875	23.460.740	11.069.866	10.727.237	24.084.308	97.168.640
1947	12.441.014	27.899.248	12.308.459	14.241.986	27.066.704	109.469.622
1948	10.987.524	32.035.916	11.953.033	18.384.300	33.343.038	124.108.841
1949	9.787.302	36.901.797	11.250.469	23.073.634	34.295.016	135.331.658
1950	6.990.408	39.883.964	11.765.069	26.828.480	37.343.561	145.394.998
1951	7.197.089	44.650.021	13.530.123	29.075.450	42.066.130	160.700.000
1952	9.030.608	49.523.623	15.575.524	38.306.548	47.290.306	187.186.003
1953	10.251.826	53.590.386	16.976.641	55.780.213	51.056.558	218.896.614
1954	s.d	s.d	s.d	s.d	s.d	186.200.000
1955	11.504.850	37.587.975	16.421.760	25.211.540	59.883.000	188.400.000
1956	6.111.053	44.789.993	18.555.600	26.695.431	67.552.000	202.900.000
1957	6.805.498	49.950.000	22.984.000	28.284.000	73.984.000	214.735.000
1958	7.791.356	31.296.000	27.084.640	19.932.000	75.617.000	207.104.090
1959	-	25.470.000	29.517.760	28.198.000	56.712.750	216.729.668

Source: AAR, 1928-60.

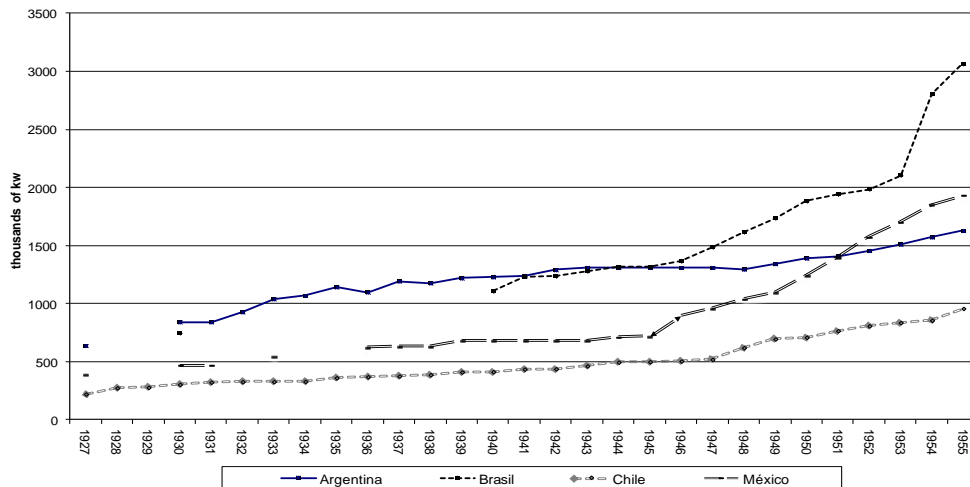
Before the expropriations, American & Foreign Power's businesses in Argentina were stable but unsatisfactory, insofar as the problems encountered in the diagnosis of 1929 remained unresolved. Despite the improvement of electricity networks by building transmission lines to connect small cities, the systems operated by this company did not developed economies of scale, nor were they integrated as those systems controlled by CIAE and SOFINA. Few investments applied to increase generating capacity, compared with those in Brazil and other Latin American countries. The option of financing in the local market, as practiced in 1941, produced no results.³⁶ Consequently, electricity supply was poor, leading to numerous conflicts with local authorities.

The earnings of American & Foreign Power's subsidiaries in Latin America, excepting for Chile, followed a similar path until the end of Second World War: stable revenues until the mid-1930s, with minimal growth afterwards. The poor performance of company's businesses in 1931-46 resulted from its low investments to improve the electricity systems as the Great Depression blocked the ability to raise capital. Moreover, towering indebtedness with banks and with the parent company Electric Bond & Share at high interest rates, in addition to currency exchange losses in Latin America, limited the resources for self-financing. The stagnation of investments in electricity systems is confirmed by the evolution of the generating capacity by country, shown in Figure 1.

³⁶ In 1941, *Compañía General de Electricidad de Cordoba*, placed debentures and shares in the local market in the amount of \$ 1,000 million. AAR, 1941, p. 5.

Figure 1.

Generating Capacity in Selected Latin American Countries, 1927-1955



Source: CEPAL, *La energía en América Latina*, pp. 121-48.

After a decade of stagnation, in 1946 generating capacity began to increase in all countries, with the exception of Argentina, where expropriations stopped the company's investment of capital. As a result, in 1955, the generating capacity of American & Foreign Power's subsidiaries in Argentina was 33 per cent lower than in 1932, even though the number of customers served and production were slightly higher. While the Brazilian subsidiaries expanded their generating power capacity in almost 95,000 kW, and the Mexican and Chilean around 38,000 and 25,000 kW, respectively, the Argentine subsidiaries expanded by only 8,500 kW in the postwar period.³⁷

As of 1950, capital expenditures in the electricity power industry revived, especially applied to renew the equipment, mechanisation, and the installation of high capacity generating units. In this period a new financing model for the electricity industry emerged, based largely on long-term loans with international banks and in a much more cautious manner, by issuing securities. The revival of investments increased revenues for the subsidiaries operating in Latin America (excluding Argentina), which reached their peak in 1953. In 1960, another important change in the business history of the American company took place with the expropriation of its Cuban subsidiary, a scenario that extended to other locations, including the process of expropriations in Brazil and the sale of Mexican subsidiaries. In this new scenario, the operating revenues fell by half, marking the final chapter of the group's venture in Latin America.³⁸

In addition to the devaluation of the exchange rate, the company had to deal with changes in the regulatory framework for the electricity sector and the unprecedented initiatives of the State. Central governments intervened differently in each country in the 1930s, but their role was certainly decisive in the evolution of the business of American & Foreign Power's subsidiaries by the 1940s.

II. The relations between AMFORP and the State in Argentina and Brazil, 1930-60.

a) State conflicts with American & Foreign Power's subsidiaries

American & Foreign Power' directors could not imagine, however, that the effects of the Great Depression on Latin America economic policy would be so painful and long lasting. Their main concern was that currency devaluation would damage the sustainability and profitability of their investments: rising prices

³⁷ AAR, 1949, p. 5.

³⁸ AAR, 1960.

of imported equipment were paid in foreign currency while consumers paid in national currency. Moreover, governments restricted currency remittances in Argentina, Brazil, Chile, Colombia, Costa Rica, and Ecuador.³⁹ In this context, foreign companies and governments clashed over the standard of public utilities, but the timing and patterns of government intervention differed greatly in Brazil and Argentina.⁴⁰

Brazilian electricity policies shifted during the administration of Getúlio Vargas in 1930-45. All decisions about electric utilities were centralised and transferred from the local authorities to the Federal government, concessions for perennial water courses and waterfalls were suspended, the exploitation of hydropower was undertaken by the central government. In 1932, Minister Juarez Távora created a board for issues concerning hydropower exploration and regulation of water resources at the *Departamento Nacional de Produção Mineral* [National Department of Mineral Production].⁴¹ It was, however, the suspension of the gold clause (Decree No. 23501, 1933), which confronted the interests of foreign utility companies. The adjustment of electricity tariffs to gold, reduced the effects of currency devaluation on the company's current incomes in US dollars after 1930. In 1934, with the new Brazilian constitution, the Water Code—the first national legislation on water and electricity—was finally enacted.⁴²

These state control policies clearly upset the electricity companies, especially the foreign ones. However, the regulation of electricity tariffs and restrictions on private access to waterfalls —enforced from 1937 to 1942— did not threaten the electricity concessions managed by Light and American & Foreign Power. However, the role of the government shifted through the creation of CHESF (*Companhia Hidrelétrica do São Francisco*) in 1945, to overcome electricity deficit in the surrounding area. In parallel, other regionally-oriented state-owned enterprises were created from the late 1940s to the 1950s.

In Argentina, on the other hand, local concessions prevailed in the interwar period, except in those provinces such as Córdoba and Tucumán that relied on water resources (whose use was regulated by provincial governments).⁴³ Local concessions set minimal standards of service provision, maximum tariffs adjustable to gold price, and in some cases, the reversion of the initial investment to the municipality at the end of concession. Electricity companies were exempt from paying import taxes for raw materials and equipment, only paying an annual fee that ranged between 2 and 6 percent of gross incomes. In the most populated cities, such as Buenos Aires and Rosario, the concessions extended for 50 years—in Brazil up to 90 years—but in other Argentine cities concessions lasted between 20 and 25 years.

The impact of the 1930 crisis on the exchange rates and revenues, led to the first attempts at regulation by local governments. Municipal commissions for electricity companies were created in the cities of Buenos Aires and Rosario, as well as in the provinces of Tucumán and Córdoba.⁴⁴ Based on the criteria of the US Federal Trade Commission, their reports revealed assets overvaluation and excessive profits. On top of it all, the quality of service was poor. Municipalisation was recommended; however, the regulatory framework did not change until 1943.

The military, who seized power in 1943, changed the regulatory strategy for electric utilities.⁴⁵ A decade after the first regulations in Brazil, the Argentine government took more radical actions, not only introducing discretionary regulation but also creating federal agencies to manage electric utilities. Diagnosing that the energy deficit was one of the main obstacles to economic and industrial growth, the national government created the *Dirección Nacional de la Energía* [National Agency of Energy],

³⁹ AAR, 1953; Hausman, Hertner & Wilkins, *Global Electrification*, p.211

⁴⁰ Lanciotti and Saes, *La regulación de los servicios*.

⁴¹ Lima, *Estado e energia*, p.32-3; Cavalcanti, *Concessões de energia*.

⁴² In 1939, the National Council of Water and Power (CNAEE) was formed following the US Federal Power Commission. This agency consolidated a state technical bureaucracy for the electricity sector. See Correa, *O setor de energia elétrica*, chap. 3.

⁴³ For a typology of regulatory strategies for electricity monopolies, see: Gómez Ibañez, *Regulating Infrastructure*, pp.18-36.

⁴⁴ Mosher, *Electrical utilities*.

⁴⁵ An analysis of the reforms of the military government in Campione, *Orígenes estatales*, pp. 71-134.

responsible for overseeing the production and distribution of energy and promoting the development of renewable energy sources. The Ministry of Interior also established two investigative commissions charged with reviewing the foreign power concessions in Buenos Aires and the rest of the country, and ordered rate reductions of around 20 per cent, while suggesting the possibility of expropriating public utility assets.⁴⁶

Electricity policy was integrated with the planning of the National Post-War Council (1944), which gave priority to the development of hydroelectric energy production to reduce fuel consumption by thermoelectrical plants.⁴⁷ The transition from local concessions to centralised management of resources also motivated the creation of the National Water Administration, an agency responsible for coordinating water uses throughout the territory.⁴⁸ Implementation of the plan was the responsibility of a new agency, the *Dirección General de Centrales Eléctricas Estatales* [General Department of State Power Plants], whose mission was to plan, construct, and operate electric power plants and distribution networks.⁴⁹

The reports of the inquiry commissions recommended to suspend the legal status of concessions and to expropriate the foreign subsidiaries. However, the national government opted to send the documentation to the provincial governments which would take the necessary steps, thereby transferring the decision whether or not to expropriate to the provinces. Provincial authorities in the provinces of Tucumán, Jujuy, Corrientes, Mendoza, Santa Fe, Entre Ríos, Córdoba, and San Luis began to expropriate small plants belonging to American & Foreign Power's subsidiaries.⁵⁰ The reasons given were the problematic status of the plants, whose obsolete equipment prevented efficient provision of service and whose limited capacity left them unable to meet demand.⁵¹

By 1946, among the 14 companies expropriated, 11 were American & Foreign Power's subsidiaries. The expropriation mainly affected small plants in the north and center of the country which used hydraulic and thermal energy; however some larger plants were expropriated as well, such as those located in the province of Córdoba. Notably, large thermal power plants located in the most populated regions of the country, belonging to the SOFINA and the Italian-Swiss group, were not expropriated. Expropriation decisions were based on the diagnosis that the electricity deficit was concentrated in cities in the interior of the country, and that the installation of new power plants would contribute to decentralise industrial agglomerations and stimulate the growth of regional economies. The state intervention in this area would also promote the use of water resources to reduce fossil fuel consumption.⁵² Moreover, the compensations for those expropriated assets were substantially less than the potential costs of expropriating the large plants owned by SOFINA.

Compared to the Brazilian experience of the 1940s, expropriations in Argentina were more radical. While the Argentine provincial governments expropriated electricity plants, the Brazilian government followed a policy of rapprochement with the US. By 1947, American & Foreign Power's directors agreed to the government's view: it was time to reinvest in the electricity sector and review tariff structures to ensure higher revenues. The difficulty of raising funds in the financial market led to the strategy of seeking resources from international lending institutions, such as the International Bank for Reconstruction and

⁴⁶ Decrees 4910 and 12648, 1943.

⁴⁷ The organisation reported directly to the vice presidency of the country and was led by Colonel Juan Domingo Perón. Villarruel and Berrotarán, *Un diagnóstico de la crisis*.

⁴⁸ Campione, *Orígenes estatales*, p. 116.

⁴⁹ Dirección General de Centrales Eléctricas del Estado, *Memoria de Centrales Eléctricas*, p. 1.

⁵⁰ El Informe Rodríguez Conde, *Informe de la comisión investigadora*.

⁵¹ Archivo General de la Nación (AGN), Legajo 664, Carpeta 67- Cámara de diputados. *Comunicación sobre concesiones eléctricas*, Decretos 1086 y 1093; AAR 1943, p. 9; AAR 1944, pp. 5-6, AAR 1945 p. 7; AAR 1946, p. 7; AAR 1947, p. 6. For the expropriations, see Lanciotti, *Del estado garante*.

⁵² Dirección General de Centrales Eléctricas del Estado, *Memoria de Centrales Eléctricas*, pp. 1-4.

Development (IBRD) and the Export-Import Bank of the United States (Eximbank).⁵³ From the end of the Second World War to 1956, both institutions invested more than US \$450 million in Latin American electricity sector, especially in Brazil and Mexico (Table 6). As a result of the expropriations of US subsidiaries, Argentina was denied access to these sources of capital.

Table 6. Latin America: International loans authorised for the electricity sector by May 1956 (thousands of dollars)

Countries	To state Companies		To private companies		Total
	Eximbank	IBRD	Eximbank	IBRD	
Brazil		57,300	47,552	91,390	196,242
Colombia	4,990	13,030	297		18,317
Costa Rica	3,523				3,523
Cuba			24,004		24,004
Chile	11,137	13,500			24,637
El Salvador		12,545			12,545
Mexico	23,150	53,800	24,853	26,000	127,803
Nicaragua	600	7,950			8,550
Peru	444				444
Uruguay	12,000	31,900			43,900
Venezuela			6,854		6,854
Total	55,844	190,025	103,560	117,390	466,819

CEPAL, *La energía en América Latina*, p. 82.

In Brazil, Light received over US \$91 million from IBRD, while American & Foreign Power received US \$47 million from Eximbank. State enterprises together received a total of US \$57 million, which was invested in CHESF and other state-owned companies in Rio Grande do Sul (CEEE), Minas Gerais (Cemig), and São Paulo (CESP). In 1948 alone American & Foreign Power's expenditures came to US \$6.2 million, distributed among eight subsidiaries and funding projects like CPFL's Carioba Thermal Power Plant (30,000 kW) in São Paulo state. The amount of the loan would jump to more than US \$40 million by 1952, when CPFL became responsible for a US \$30 million investment for the construction of the *Peixoto* Plant, one of the largest in the world at that time, allowing the subsidiary to increase its generating capacity by 65 per cent. The plant was inaugurated in 1957 and it reached an annual production of 192,000 kW by 1960.⁵⁴

To sum up, in the 1950s the situation of American & Foreign Power in Brazil and Argentina was quite different: while the uncertainty already pointed to a definitive exit from Argentina, the electricity sector in Brazil offered the prospect of continuity, especially after the new investments. Both governments had expanded their participation in the electricity sector, through new laws and agencies; however, US capital still had an important share in the project of the Brazilian government, while it was distant to the Argentine project. The trajectory of American & Foreign Power in both countries depended on the relationship between national governments and international companies, mediated by the very active American diplomacy throughout the decade.⁵⁵

⁵³ American & Foreign Power, *Review of Company's progress and its future Outlook*, AAR 1947.

⁵⁴ CEPAL, *La energía en América Latina*, Appendix X.

⁵⁵ For US-Argentine relations, see Di Tella and Watt, *Argentina between the great powers*; Rapport, *Gran Bretaña, Estados Unidos*.

b) *The end of an era: Expropriations in Argentina and Brazil.*

The fate of the Argentine holdings was clear by the end of the 1940s. In 1944-46, American & Foreign Power had brought suits in the provincial courts, claiming that subsidiaries had been deprived of current incomes and compensations were inadequate. The appeals reached the Supreme Court, which in 1946 rejected them, on the grounds that the concessionaries were part of a system of holding companies. Subsequently, American & Foreign Power stop investing in Argentina and proposed a deal to sell the all its properties to the Argentinean government.⁵⁶

The regulation strategies applied by the military government continued during the administration of Juan Domingo Perón (1946-52). The electrification project was included in the First Five-Year Plan, which proposed developing hydroelectric potential, expanding the generating capacity, coordinating energy policy between the federal, provincial, and local authorities, and assuming direct management of electric utilities when needed. To this end, the state would build 12 thermal power plants and 47 hydroelectric plants, a planned investment of US \$417.5 million along 15 years.⁵⁷ By 1951, the National Energy Company, and state-owned company which replaced the former agency, administrated 51 plants, with a total capacity of 83,643 kw.⁵⁸

Competition with state-owned plants was seen by American & Foreign Power as a further problem. According to the company reports, the expansion of energy sales in Argentina would not compensate for losses caused by the expropriation of plants in Santa Fe and Cordoba.⁵⁹ Incomes from non-expropriated subsidiaries did no more than cover operating costs, since rates had been frozen until 1949. Moreover, the 1949 Constitution provided for acquisition of public services by the State either by purchase or expropriation; subsequently, the company again proposed to sell all its assets to the Government.⁶⁰ From 1950 on, the US subsidiaries in Argentina faced deficits.

Negotiations moved forward in 1953, when the Argentine government ‘announced the enactment of a new foreign investment law providing for improved foreign Exchange treatment for new foreign investments in that country’.⁶¹ Nevertheless, both parties did not reach an agreement until the administration of Arturo Frondizi in 1958, when a cooperation program between US companies and the Argentine state oil company *Yacimientos Petrolíferos Fiscales* (YPF) was launched. According to it, all the subsidiaries would be transferred to the government, and their assets would be valued by the Supreme Court, and four experts appointed by the executive branch, the IBRD, the Chief Justice and the American & Foreign Power.⁶² A year later, American & Foreign Power transferred its properties to the Argentinean government, which paid US \$2.250 million and agreed to cancel the remaining amount of US \$2.457 in 15 years.

In Brazil, on the other hand, optimistic business expectations prevailed until 1958. The report of 1956 celebrated the Juscelino Kubitschek government’s Target Plan, aimed to develop the country’s infrastructure.⁶³ Kubitschek’s economic policy facilitated the entry of foreign capital, showing a strong interest in developing the Brazilian energy sector.⁶⁴ Hence, in 1956, the US group proposed a five-year project to expand electricity generation, which would cost US \$250 million, increasing the installed capacity

⁵⁶AAR 1944, pp. 5-6, AAR 1945 p. 7; AAR 1946, p. 7-8; AAR 1947, p. 6; AAR 1949, p.7-8.

⁵⁷ AGN, Fondo documental Secretaría de Asuntos Técnicos de la Nación 1946-1955. Legajo 456, Planificación Primer y Segundo Plan Quinquenal. Proyectos y objetivos; Legajo 395, 2do Plan Quinquenal, Plan de Energía Eléctrica (anexos). Legajo 664, Memorandum de la Dirección de Economía y Estadística del 6 de setiembre de 1946.

⁵⁸ AGN, Fondo documental Secretaría de Asuntos Técnicos de la Nación, 1946-1955, *Planificación Primer y Segundo Plan quinquenal, Proyecto y Objetivos*.

⁵⁹ AAR 1948, pp. 5-6.

⁶⁰ AAR 1947, p. 6-8; AAR 1950, p. 7; AAR 1952, p. 16.

⁶¹ AAR 1953, p. 15

⁶² AAR 1958, PP. 18-19

⁶³ President’s Letter. AAR, 1956, p.3.

⁶⁴ Lessa, *15 anos de Política Econômica*; Orenstein and Sochaczewski, *Democracia com desenvolvimento*, p.179.

in 421,500 kW.⁶⁵ At that time, American & Foreign Power's investments in Brazil accounted for 38.8 per cent of its total investments.⁶⁶

In the second half of the 1950s, American & Foreign Power remained the second largest company in the country, but it soon came to a turning point: increasing incomes were consumed by the increase of general expenses.⁶⁷ According to the perception of the company's directors, profits were less than expected, as consequence of currency devaluation and Brazilian legislation and new domestic and foreign investments were required to maintain business growth.⁶⁸

Even though the company provided electricity services throughout most of Brazil, in 1959, the government of Rio Grande do Sul expropriated *Companhia de Energia Elétrica Rio-Grandense*. The conflict was caused by the nationalist leanings of the state governor who, questioning the services of the US company, took over the subsidiary for the amount of 1 cruzeiro!⁶⁹ The case was appealed to the federal government but saw no definite solution. In 1962, new disputes emerged in the city of Recife. The local government claimed that the company's assets should be reverted to the government of Pernambuco at the end of the concession. From the company point of view, even if the expropriations were reversed by the Federal government, the uncertainty would continue to persist. Moreover, at that time the company faced significant losses abroad, especially those resulting from the 1959 Cuban revolution. Its strategy thus was to rapidly withdraw from remaining concessions, and minimised losses as far as possible.

Seeking support from the US government, American & Foreign Power alleged that it suffered considerable losses—as had happened in Cuba, with expropriations amounting to US \$153 million—and it needed to reduce the risk of further expropriations, as seemed likely to occur in Brazil. Company's director requested the government to sell eleven electric utilities, as it had done in Mexico, taking advantage of the fact that the João Goulart administration (1961-64), was undergoing serious financial difficulties, thereby requiring US financial support.⁷⁰ President Goulart wanted to roll over existing debts with the US,⁷¹ so the US government conditioned the success of negotiations to an agreement with American & Foreign Power. In fact, the US company requests were not solved during the Goulart administration, which fell to a military coup in 1964. The report for the sale of American & Foreign Power's subsidiaries was presented by the Scandinavian Engineering Corporation,⁷² which was responsible for placing them under government trust, and signed the agreements for the expropriation on November 12, 1964. Company's assets were to be transferred to the newly formed state-owned company *Eletrobras*, and their valuation proved to be a victory for the interests of the US holding company. The 1960s therefore marked the end of American & Foreign Power's involvement in Latin American electricity companies. Despite their divergent trajectories, Argentina and Brazil seem to have typified an era of US investments in the electricity sector in Latin America.

III. Concluding Remarks

American & Foreign Power's trajectory reveals the fluctuant trend of US direct investment in Latin America. Early company's goals, aimed at reorganising and centralising administrative, technical, and

⁶⁵ The plan was not entirely fulfilled: 156,900 kW were installed according to the company due to the non-commitment of BNDE. *Memória da Eletricidade [Memory of Electricity]* 2006, p.238-242).

⁶⁶ AAR, 1954-60.

⁶⁷ AAR, 1957 p. 27.

⁶⁸ The company suggested to seek additional resources in Brazilian capital market. AAR, 1957 p. 3-4

⁶⁹ Brizola, L, *A Compra das subsidiárias*.

⁷⁰ Bandeira, *O governo João Goulart*.

⁷¹ John F. Kennedy Library, *Conversation between John Kennedy and João Goulart*, p.1.

⁷² Electricity Archive, Sweden. Scandinavian Engineering Corporation. *Report on the findings and determinations specified in clause eighteen of the contract of sale between Eletrobrás, American & Foreign Power, and BEPCO*.

financial management of Latin American subsidiaries, were only partially achieved. The revision of the concessions in order to homogenise the legal status of utility companies in different provinces and municipalities failed. Despite some progress in restructuring the organisation of subsidiaries' s capital and the implementation of modern accounting methods, plans for financial organisation and technical modernisation of power plants and distribution networks, were slowed by the prevailing crisis of the financing style for funding huge investments in public utilities, which relied on international capital markets before 1930.

The crisis of 1930 marked the end of public financing of electric utilities; thereafter, public utility holding companies consolidated their dependence on the controlling parent company by increasing debt at high interest rates. At the same time, the end of the gold standard, followed by the devaluation of Latin American currencies, increased the companies' financial costs until 1940. During the first decade of operations, operating incomes increased together with the expansion of the Argentinean and Brazilian economies; however, financial losses push profits in US dollars down. In the second post-war, a new form of financing based on international bank loans began to emerge while national governments broadened their participation in the electric power sector with plans for electrification and regional integration. The availability of capital to modernise electricity systems renewed the business expectations of success. In that context, the Brazilian subsidiaries of American & Foreign Power increased their generating capacity and extended their systems, obtaining higher incomes. However, fluctuating exchange rates and price inflation in Brazil, reduced the earnings in dollars as of 1954.

In contrast to Brazil, American & Foreign Power never made its planned investments in Argentina. The poor quality of the services and the insufficient electricity supply, paved the way to the expropriation of several plants in 1943-48. Tense relations between the US State Department and Argentina's military government hindered any negotiations between the two parts until 1946 when the company decided to sell its properties in Argentina. The claim for adequate compensations remained unsolved for more than a decade, as the conflict arising from the expropriations lasted through the Peronist administration and continued with the military government who overthrew Peron in 1955. As a result from these controversial relations, Argentina did not get international funding until the end of 1950s, and the generating capacity of Argentinean electricity system increased slower than it did in other Latin American countries.

In the late 1950s, the leading role of Latin American governments in electricity systems, which included the confiscation of American & Foreign Power properties in Cuba and the subsequent expropriation of some of their subsidiaries in Brazil, in addition with the current losses from the exchange rate, grounded the firm's decision to withdraw from the region. The company sold its properties to the Mexican government and signed an agreement with the Argentine government to pay off the debt of expropriated companies, transferring the remaining assets to the state-owned electricity enterprise.

Overall, we conclude that in the long run American & Foreign Power's revenues fluctuated substantially, and that the average performance was no entirely satisfactory. Business performance was greatly affected by changes in the international financing conditions and in the regulatory framework, moving from concession contracts to discretionary regulation. Nevertheless, the main reason to explain the poor performance of this American company was its late entry into a market controlled by European and Canadian holding companies, which had been operating electricity companies in more developed areas since the end of the nineteenth century. From 1930 to the second post-war, American & Foreign Power followed a venture capital investment strategy: its investments were reduced to minimum and technology transfer was low. Therefore, the systems managed by this company hardly increased the generating capacity of its plants and they did not benefit from economies of scale. As the payment of loans interests was the top priority, the development of the electric power systems actually depended on the investments made by the former companies in Argentina and Brazil. Previous investment patterns determined the different trajectories of

American & Foreign Power's subsidiaries in the interwar period, which certainly influenced business-state relations as of the end of the Second World War.

This article reviewed the performance and strategies of American & Foreign Power in Argentina and Brazil, demonstrating that the interests of its parent company, Electric Bond & Share, hindered the expansion of low-cost and high-quality electricity services to Latin American consumers before the second post-war. In this sense, national governments seeking to intervene in the potential conflicts between companies and consumers, began to discuss the extent of foreign ownership and control of electric utilities. The analysis of these conflicts in Argentina and Brazil, also highlights how discussions between the company and both governments were not confined to business issues but encompassed diplomatic efforts as the financing of new ventures was conditioned upon solving the problem of expropriations posed by the US government.

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