

LatinPetroleum.Com

Latin Petroleum Analytics (LAPA)



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LATIN AMERICA CONSENSUS FORECASTS 2001A, 2002E AND 2003F

LatinPetroleum.Com comments follow:

	REAL GDP			INFLATION			EXCHANGE RATE			CURRENT ACCOUNT			INT'L RESERVES		
	% change			% change			End of period			% of GDP			US\$ billions		
	01	02E	03F	01	02E	03F	01	02E	03F	01	02E	03F	01	02E	03F
Argentina	-4.4	-12.3	1	-1.5	50.7	45.2	1	4.07	5.09	-1.6	9.2	9.6	14.5	9.4	10.4
Brazil	1.5	1.1	1.5	7.7	7.2	9.4	2.32	3.47	3.72	-4.6	-3.1	-2.5	35.7	35.1	37.4
Chile	2.8	2.1	3.7	2.6	2.7	2.9	661	724	710	-1.9	-0.9	-1.3	14.2	14.5	14.8
Colombia	1.4	1.3	2	9	6.2	5.6	2,278	2,717	2,862	-2	-2.3	-2.8	10.2	10.3	10.8
Ecuador	5.6	3.1	3	22.4	11.3	6.6	1	1	1	-4.3	-6.4	-5.8	0.8	1.2	1.4
Mexico	-0.3	1.4	3.6	4.4	5	3.9	9.16	10.11	10.51	-2.9	-2.7	-3	44.7	44.4	46.7
Peru	0.2	3.7	2.9	-0.1	1.4	2.2	3.44	3.64	3.7	-2.2	-1.9	-1.9	8.7	9.4	9.7
Venezuela	2.7	-6.5	0.9	12.3	31.6	28.9	758	1,589	1,834	3.4	7	7	9.2	12.8	14

A= Actual E= Estimate F= Forecast

Sources: Banamex, BBVA, CS First Boston, Deutsche Bank, Goldman Sachs, J.P. Morgan Chase, Morgan Stanley, Salomon Smith Barney, Santander Central Hispano Investment, UBS Warburg, Latin Trade

OVERVIEW

The year 2002 was marked by a combination of political uncertainty with elections in Brazil, Colombia and Ecuador, among other things) and an increase in global risk aversion. With the threat of another war in the Persian Gulf, the danger of negative external events impacting capital inflows into the LATAM region again remains an all too familiar reality.

ARGENTINA – INTERNATIONAL AID, PLEASE

After more than a year of difficult negotiations, no more than a transitional agreement with the IMF is to be approved. What is going to happen next to Argentina's economy is anyone's guess, but at least the worst is over. The country remains in a recession but in a state of adjustment. Perhaps it will be more important to look at what stance the international community, particularly the IMF, takes regarding its former poster-child.

BRAZIL – LULA IS NOT THAT BAD

Following the formation of the cabinet and the Lula government's inauguration on Jan.1.2003, the financial markets have continued to stabilize. To wit, the Brazilian reais has made a modest recovery and companies are again starting to succeed in raising foreign loans.

The overall selection of competent cabinet ministers and the new central bank president are fueling expectations the present stability-oriented economic policy will continue, with greater emphasis being placed on social aspects.

CHILE – READY FOR ANOTHER GOOD YEAR

Chile can still boast the most stable and developed economy in LATAM. Without a doubt, Chile will be among the top countries to watch in 2003. A free trade agreement with the European Union should start to bare fruit this year. So again in 2003, we would expect Chile to steal the show when it comes to picking a winner in the LATAM region.

COLOMBIA – THE HOUSE OF URIBE

Like always, the country continues to deal with the guerrilla forces while the government continuously tries to do the right things (dealing with the guerrillas and managing the economy); however, with the unfortunate backdrop of a 40-year civil war within its borders. Key events to watch in Colombia are how the government handles public finances and the amount of capital to be spent fighting the, forever present, guerrilla groups.

ECUADOR – WAITING ON THE OCP PIPELINE

With a new President and some early non-favorable decisions made by the government, everything seems to be resting on the faith of new OCP pipeline which is slated to come online in late-2003. However, the final year has not been going as great as the OCP consortium would like, for a number of reasons.

MEXICO – ON THE COAT-TAILS OF THE US

Much unlike the other LATAM economies, most of Mexico's faith lies with its mirror-like relationship with the US economy. We expect Mexico's economy to rise again, on the coat-tails of the US economy, to only compete with Chile as the two top contenders in the LATAM region.

PERU – POLITICAL INFIGHTING

While the risk remains that the resurgence of domestic political infighting may put a stop to the economic upturn gaining momentum at the moment, we consider it more likely that the economic recovery will be accompanied by calm returning to the domestic policy front.

The Camisea natural gas project, which is expected to require a total investment of US\$4.5bn, would boost Peru's economic growth by 0.8% a year during its 40-year life and will be a blessing once online.

VENEZUELA - A LIVE FIRECRACKER WITH A DELAYED FUSE

Despite the ongoing general strike that started on Dec.2.2002, there are no signs of a resolution to the political conflict surrounding President Hugo Chavez. As a consequence, the economy is increasingly slipping into a deeper crisis.

Currency controls, the possible need to print more money to cover financing requirements and/or the possible devaluation of the Bolivar in the future, combined with political uncertainty has investors pulling out of Venezuela left-and-right. A potential war in the Persian Gulf and a colder-than-normal winter in the US could keep oil prices high enough to keep the country above water in 2003.

The future of the OPEC country lies in its ability to continue producing a reliable supply of crude oil. With or without Chavez, order needs to be restored to PDVSA as it is not only the life-line to the Venezuelan government but, to a certain extent, to the US oil-dependent economy as well.

ARGENTINA

Fitch Ratings downgraded the TGN CRIBs ratings of **Transportadora de Gas del Norte SA (TGN)** to 'DD' from 'C'. The downgrade reflects the non-payment of interest related to the CRIBs due Jan.25.2003. TGN was scheduled to pay semiannual interest of US\$9.5mm. A partial payment of US\$1.9mm was paid to CRIB holders on Jan.27.2003, corresponding to the period Jul.25.2002-Oct.31.2002. The payment was held in a trustee account and comprised of interest owed on the CRIBs debt from Jul.25.2002-Jul.31.2002 (US\$0.3mm), at the original interest rate of 10.875%, and interest from Aug.1.2002-Oct.31.2002 (US\$1.6mm) at a rate of 3.5%. Fitch believes that TGN will continue to pay interest quarterly on a pro rata basis to its lenders with an interest rate cap of 3.5%. The next payment to be made in the near term will correspond to interest at a cap of 3.5% from Nov.1.2002-Jan.31.2003 for all creditors, including its IFC 'A' and 'B' loans.

Through Jul.31.2002, TGN had paid full interest with no principal reduction of its debt. Ever since, TGN has been paying interest only with a cap of 3.5% interest on its total debt. TGN management is attempting to honor all creditors on a pari passu basis, independently of the stated payment dates of each obligation, and is not expected to replenish reserve funds (letters of credit) at the expense of paying interest to its other creditors. TGN continues to negotiate with lenders to reach a financing solution to improve its cash position and allow it to continue operating as a viable commercial concern. The ratings of TGNs other classes of debt were downgraded to 'DD' in Feb.2002.

TGN is a natural-gas pipeline company serving the Northern and Central regions of Argentina. TGN is 70.4% owned by **Gasinvest SA**, a consortium of **TotalFinaElf** (27.2% WI), **Compania General de Combustibles** (27.2% WI), **Organization Techint** (27.2% WI), and **Petroleum Nasional Berhad** (18.4% WI). **CMS Energy** owns a large interest (29.4% WI).

IMA Exploration Inc. announced preparations for Phase I drilling of its 100%-owned Las Bayas gold project in the Patagonia region of Southern Argentina are now underway. Drill sites are being prepared, all required government permits have been received and a detailed 2,000-m (6,500 ft.) diamond drill plan has been established. Drilling is expected to commence in Feb.2003.

The approximately 20 hole Las Bayas drill program will focus on several highly prospective low-

sulphidation epithermal gold veins within a 4.5 x 1.5(km) zone of intense quartz veining, at the southern end of the previously announced 10-km long Las Bayas Mineralized Corridor. Over 15-km of quartz veins have been mapped within the Las Bayas gold vein system and four high priority gold bearing veins will be drill tested during the Phase I drill program, including the Bola Vein, Laguna Veins (Northwest, Central and Northeast), Voladura Vein, and the Puesto Vein.

The veins targeted for drilling have been identified by IMA's geologists as the upper levels of a low-sulphidation epithermal gold vein system, with surface signatures similar to the geological model of the recently discovered Esquel deposit (3.8 million ounces of gold, 6.9 million ounces of silver) located approximately 150-km to the north. Arsenic (up to 1,146 ppm), antimony (up to 261 ppm) and mercury values (up to 23,700 ppb) combined with mapped and petrographically defined vein textures indicate the present level of erosion at Las Bayas is above the predicted 'boiling' or bonanza-grade gold zone within the classic Buchanan geological model. This model predicts the target depth for a high-grade gold discovery would be 50-100(m) below the present surface.

Las Bayas is located in Chubut Province of southern Argentina at an elevation between 675-800(m). The project has year round highway access, is a four hour drive from an airport, has water available on the property and has labor located nearby in several local towns.

Assays for the Patagonia Phase I surface program were performed by **ALS Chemex**, and check assays were carried out by an independent lab, **Alex Stewart Assayers**. Dr. Paul Lhotka, P.Ge., is IMA's Qualified Person for Chubut Province, Argentina, in compliance with National Instrument 43-101.

Silver Standard Resources Inc. and **Pan American Silver Corp.** reported further high-grade drilling results from their jointly owned Manantial Espejo silver-gold property in the Santa Cruz province of Argentina. Silver Standard is managing the 6,000-m core-drilling program, which is expected to result in an updated pre-feasibility study in 2003. Manantial Espejo is a 257.2 km² (99.3 sq-mile) project that includes mineral and surface rights to 20-km (12.4 miles) of the mineralized trend that contains the Maria, Marta and Melissa veins.

Information here within covers results from 3,170-m of drilling in 21 holes. Assays are complete for 13 holes in the Maria vein area, which were located to infill previous drilling to 25-m spacing (from 50-m) over a strike length of 700-m.

Silver Standard has finished sufficient drilling on the silver-dominant Melissa vein to complete a resource calculation, adding this zone to three other vein systems (Maria, Karina/Union and Concepcion) on which resources have been outlined on the Manantial Espejo project. The Melissa vein is a high-grade vein-type deposit open at depth. There are other mineralized trends on the large property package that require further exploration.

The drill program had three primary objectives: (1) infill drilling of the Maria vein where approximately 70% of total precious metals resources have been outlined on the property to date; (2) definition of the geometry of the Melissa vein where very high-grade silver-gold values have been intersected in earlier drilling programs; and (3) extension and exploration drilling of nearby vein targets on this large, well-mineralized property. Silver and gold mineralization at Manantial Espejo occurs predominantly as sulfides and electrum in low sulfidation quartz-adularia veins and stockworks hosted in Jurassic igneous rock.

Assay results were also received from five shallow holes drilled on the Marta and Ayelen veins. This drilling confirmed the presence of mineralization over narrow intervals and further work is needed to outline resources in these nearby vein systems. Drilling is now complete and further results will be reported as assays are received.

Silver Standard is a significant silver resource company with projects in Australia, Argentina, Chile, Mexico, the US and Canada. With approximately US\$10.8mm in cash, Silver Standard is actively advancing its portfolio with drill programs under way at Bowdens in Australia and Manantial Espejo in Argentina.

Pan American Silver is North America's purest large silver producer with three mines, two development projects, and multiple exploration projects in Peru, Mexico, Bolivia and Argentina.

The Argentine government issued a decree enabling it to circumvent a court ruling and order rate increases at the country's mostly foreign-owned utilities as demanded by the International Monetary Fund (IMF). The government was studying increasing electricity and gas tariffs as a way to ensure the largely

European utilities owners to invest enough in Argentina to maintain service levels. The government had decreed hugely unpopular electricity and gas service rate rises into law in Nov.2002 -- lifting a freeze in place since Jan.2002 -- but it was later overruled by a court in Dec.2002. The government's original decree had allowed for a 9% and 7% increase in electricity and natural gas rates, respectively. The utility companies had hoped for increases of at least 30%. Telephone firms had also hoped for higher rates.

Major foreign firms operating in the Argentine telephone and power utility sectors include Spain's **Telefonica**, **Telecom Italia**, **France Telecom**, **Electricite de France** and Britain's **BG Group Plc**. Utility companies have argued that rate increases are necessary to maintain the quality of service after the Jan.2002 currency devaluation, which has shaved around 70% off the Argentine peso's value against the US dollar.

Argentine electricity generator **Central Costanera SA** reported a net loss of Ps\$27.2mm Argentine pesos (\$1=ARS3.325) in 2002 compared to net income of Ps\$0.6mm in 2001. The loss in 2002 primarily reflected the impact of the devaluation of the peso and of an adjustment to account for inflation which settled in at 41% in 2002.

Central Costanera reported net income of Ps\$91mm during the 4Q:02 compared to income of Ps\$12.2mm during the 4Q01. The accounting adjustments came in a context of deep domestic economic recession, the conversion into pesos of energy tariffs, and sluggish energy exports.

Argentina and Bolivia will restart talks on a mining accord to allow for the joint development of deposits in their shared border region. Talks between the two countries began in 2002 but later stalled. Officials from both countries will meet in early-Feb.2003 to discuss steps needed to reach a mining accord, among other issues. The deal would likely be similar to one between Argentina and Chile that came into effect in 2002. The treaty facilitates production and exports by establishing a zone in which customs and other regulations are the same on both sides of the border. The area along Argentina's border with Bolivia has deposits of copper, tin, zinc, lithium, gold and silver, according to mining department data. Argentina produces copper, gold, zinc and silver, and fast-paced growth in the 1990s saw investment in the sector reach some US\$7bn. The government hopes to attract an additional US\$5-\$7bn

over the next 10 years to exploit about two dozen projects with estimated reserves worth some US\$50bn.

Developing mining in Argentina would help the recession-hit economy by bringing in foreign currency since most output is exported. Mining exports represent roughly US\$750mm a year, about 0.5% of the economy. The government hopes to increase such exports to US\$1.5bn by 2006.

Yamana Resources Inc. reported that recent work by the **Santa Cruz Joint Venture (SCJV)** has defined several promising gold-rich vein systems on Yamana's Martinetas gold property in southern Patagonia, Santa Cruz Province, Argentina. Nine separate veins will be tested by a 2000-m diamond-core drilling campaign scheduled to start early-Feb.2003.

The SCJV is a three-way partnership consisting of Yamana and Peru's two largest gold mining companies - **Compania de Minas Buenaventura SAA**, (operator), and **Mauricio Hochschild & Compania SAC** Under the SCJV program, initiated Sep.1.2002, a number of Yamana's existing gold properties are being explored in detail and additional properties are being acquired from a continuing reconnaissance effort. To date, detailed surface work - trenching, mapping and sampling - has been completed in three exploration sectors at Martinetas, with similar work now underway on the La Paloma (formerly Syrah) property. The reconnaissance program has added nine new properties to the SCJV property inventory, which now includes more than 1,500 sq.-km of exclusive mineral exploration rights.

Martinetas: Detailed trenching, mapping and sampling at Martinetas have focused on three exploration sectors - Coyote, Cerro Oro, and Armadillo (known earlier as T-1) - each crossed by a number of gold-bearing veins containing bonanza-grade shoots. Almost 2,000-m of new short trenches have been dug, hammered, or blasted across the major known vein systems in each sector. Further, 780-m of existing exploration trenches have been cleaned and deepened. This work defines various high-grade gold targets that will be examined at depth by diamond-core drilling. The 2,000-m drilling campaign will start late-Jan.2003, and cost approximately US\$0.3mm. Project area surface rights are owned outright by Yamana.

The new detailed surface work defines three important east-west trending vein systems in the Coyote Sector. The principal system, Veta Coyote Norte, is more than 600-m long and contains at least two bonanza shoots. The western shoot was previously known only at depth

with two Yamana core holes, 17.5-m apart, each hitting the vein 30-m down-hole and intersecting from 114.2-282.7 gram/tonne (G/T) gold over a true vein width of 2.5-m. New trenching and mapping indicate this bonanza-grade shoot extends upward to the surface and is at least 45-m long. A previously undefined second shoot has also been found in the central part of the system. This shoot, also about 45-m long, yields samples grading from 5-35 G/T gold. A third shoot has been found 100-m to the south in Veta Coyote Sur; it is about 60-m long, grades from 0.42-6.66 G/T gold, and includes a 0.5-m bonanza sample with 93.45 G/T gold. A fourth shoot, found in Veta Calafate, 140-m north of Veta Coyote Norte, is 110-m long and grades from 3-22.7 G/T gold. All four shoots will be tested by diamond-core drilling.

The Cerro Oro Sector, about 500-m south of Coyote, contains many sets of east-west trending veins, the principal two of which are Veta Cerro Oro and Veta Calandria. Veta Cerro Oro, more than 160-m long, yields several high-grade trench samples including a 0.5-m bonanza sample with 80.8 G/T gold. Samples from Veta Calandria grade from 2-17 G/T gold. Drilling is planned to further test both of these vein systems.

The Armadillo Sector, 1,200-m south of Cerro Oro, contains several large and complex east-west vein systems, which have now been mapped and sampled in detail. Yamana previously tested one of these systems - Veta Armadillo - at depth, with one core hole intersecting 89.5 G/T gold over 3-m true width. Surface samples taken along the currently known 210-m length of this system range from 1-24 G/T gold. To the west, two parallel vein systems - Veta Mara and Veta Mara Norte - extend from 500-1000(m) each along strike; sample results on these systems are pending. Another promising system 300-m to the north - Veta Choique - has yielded trench surface samples grading up to 11 G/T gold along 500-m strike length. Drilling is planned to test all four of these large vein systems.

La Paloma (Syrah): Four exploration sectors - Santa Rosa, San Juan, San Martin, and San Nicolas - have been identified on the La Paloma property, located 40-km northwest of Martinetas. Each sector is known to have at least two extensive gold-rich vein systems, collectively comprising a district-sized area prospective for high-grade gold shoots. The SCJV recently signed a lease-purchase option with the owner of the La Paloma Estancia securing 19,000 hectares of surface rights over the most favorable ground in this highly promising project area.

A detailed mapping and sampling program, now underway, is expected to last until late-May.2003. Approximately 1,000-m of new short trenches will be cut across the property's more important veins. This program, costing about US\$0.2mm, will define targets for a diamond-core drilling campaign expected to get underway in Sep.2003.

Reconnaissance and New Properties: Since Jul.2002, nine new cateos (exploration areas) covering approximately 85,000 hectares have been acquired to cover new prospects found and recommended by Yamana's reconnaissance team. Additionally, two new MDs (discovery zones) totaling 17,000 hectares have been filed to protect targets defined on the existing Martinetas and Microonda properties. Almost all new properties occur within a 40-km radius of Martinetas, a central site for possible future mining operations. The properties, all less than 250-m above sea level, are close to existing infrastructure and readily accessible year round by 2-WD or 4-WD vehicles. At least two more new cateos are expected to be acquired by the ongoing reconnaissance program, which will continue through May.2003, and cost less than US\$0.1mm. It is expected that a major program of follow-up mapping, sampling, and prioritization of these new properties will begin in Sep.2003.

Samples reported herein were collected by Yamana's JV operator, **Buenaventura**, using industry-accepted methods. The samples were shipped unprepared to ALS-Geolab in Santiago, Chile, for pulverization and analysis. Reported gold values are from gravimetric fire assays with internal quality checks made according to standard laboratory protocols.

BRAZIL

A successful tender offer to delist and incorporate the distribution arm of Brazil's oil giant **Petroleo Brasileiro SA (PETROBRAS)** totaled Rs\$872.3mm Brazilian reais (\$1=Rs3.605). The operation totaled 3,125 deals in which 2.2 million ordinary shares and 10.3 billion preferred shares in **PETROBRAS Distribuidora SA** (BR) were swapped for 9.7 millions shares in PETROBRAS at the ratio of 0.9427 PETROBRAS share for each lot of 1,000 shares in the fuel distribution unit. Nearly all shareholders in BR, as the distribution unit is known, accepted the tender offer by its parent. The price was Rs\$42.50 for the lot of 1,000 ordinary or preferred shares in BR while PETROBRAS' share price was Rs\$45.08. BR shares are traded in lots of 1,000, while PETROBRAS' are quoted per unit.

PETROBRAS has been trying to incorporate BR since 2000. During the past two years, PETROBRAS has worked to convince the market and BR minority shareholders that the incorporation was a strategic move that would help PETROBRAS cut costs and reduce confusion about the identity of the two companies. The oil company has been working to develop a multinational image, and the delisting of BR is part of that process. One of the strongest arguments for the deal was that PETROBRAS' traded volume was 70x greater than that of BR shares, while the oil company's free float was 85x larger than its distribution unit.

PETROBRAS may build a new refinery in the impoverished northeast region. The country needs new refineries and there are strong indications they would be located in the northeast. Project studies, which are still at a preliminary stage, should take account of the need to decentralise and regional demand for oil.

PETROBRAS made a new offshore discovery with estimated reserves equivalent to 150 MMbbls. The new well, 9-MLL-3, was drilled in 3,215 ft. of water in the Campos Basin, approximately 60 miles off the coast of Rio de Janeiro and close to the proven East Marlim Field, discovered in 1987 with reserves of 270 MMbbls. Production from the new well and the East Marlim Field should come onstream in 2006 with a combined, estimated capacity of 140 Mb/d. PETROBRAS has 9.3 billion barrels of proven reserves and expects to raise this volume to 13 billion by 2005. PETROBRAS produces an average of 1.5 MMb/d and expects to increase production to 1.9 MMb/d by 2005. The crude from the new field is 20-degree API. More production tests still have to confirm the reserve figure and output estimates.

PETROBRAS reported production flow tests from the offshore appraisal well SCS-10 A, located along the southeast coast of Brazil in block BS-3. The original Caravela Sul discovery was made in Oct.2001, when oil was found in three different reservoir zones in exploration well SCS-10 in depths between 4,761-5,126(m). The well was located about 175-km off the coast of Santa Catarina State, in water depths of 200-m. Three production tests were planned from three separate reservoir zones in the well. Due to technical problems only two of the production tests were completed.

The first test was performed in the lowest of the three reservoir zones named B3 and flowed approximately 3

Mb/d using a 3/8 inch choke. Estimated sustainable production from the whole of sub zone B3 is estimated to be a minimum of 6 M/d. The oil is light and of a very high quality, similar to the quality of the oil from the Coral field under development and located only 15-km to the north. (API of around 43 degrees with very low contents of sulphur and heavy metals).

Sub zone B1 was also attempted tested without successful flows. Only fractions of oil were produced from this flow-test. According to the operator, the low production rates were due to limited permeability in the reservoir in the area of the well.

Due to technical problems in the well, sub zone B2 was not tested. Even though this reservoir zone is well known from many years of production in the Caravela field and from production flow testing elsewhere in the area, the non-operating partners expressed great disappointment with the operator's decision to not perform the planned flow-test.

The operator has, primarily as a result of the production test in sub zone B3, made a preliminary revision of the estimates for recoverable reserves in this Caravela Sul discovery to 60 MMbbls, up from earlier estimates of 40 MMbbls. On Jun.25.2002 PETROBRAS announced the results of an independent reserve report concluding with recoverable proven and probable reserves of 26 MMbbls for the Caravela Sul discovery. More exact reserve estimates will be prepared and presented after the completion of an ongoing 3D seismic interpretation of the area and a full evaluation study for the flow-test. An independent reserve report will also be prepared in due course.

Despite the disappointing test result for sub zone B1 and the technical non ability to flow-test sub zone B2, PETROBRAS was greatly encouraged by the excellent flow-test from sub zone B3 and the substantial preliminary upgrade of recoverable reserves in Caravela Sul. The JV will now extend the work program with appraising the reserves and considering alternative development solutions. As such, a second appraisal well is now under planning to be drilled later on this spring.

The Coral field, under development, is still not online due to a series of technical problems incurred by the operator in preparation for the commencement of production. According to PETROBRAS, all the problems are individually of a minor nature, but have taken more time to overcome than expected. All environmental and governmental licenses to start production from the field have been obtained.

PETROBRAS informs that production start is imminent.

PETROBRAS is the operator of the Block BS-3 and **Naftex** subsidiary **Coplex Petroleo do Brasil Limitada** hold a 27.5% interest.

PETROBRAS announced that economist Sergio **Gabrielli de Azevedo** was named the company's new financial director. Gabrielli was officially nominated for the post at a board meeting on Jan.31.2003 and started work on Feb.1.2003. Gabrielli, 54, will replace Joao Pinheiro Nogueira Batista, who stepped down for personal reasons. Some investors frowned at Gabrielli's nomination, arguing that someone with more experience in the financial markets would have been more appropriate for the position.

Gabrielli holds a doctorate in economics from Boston University and has worked as a visiting scholar at the London School of Economics. He also has an extensive background in Brazilian academia, mainly in the economics department at the Federal University of Bahia, where he did his undergraduate work. Gabrielli will report to PETROBRAS' recently installed president, Jose Eduardo Dutra, who was appointed in early-Jan.2003 by Brazil's new president, Luiz Inacio Lula da Silva.

Brazil's integrated power utility **Companhia Energetica de Minas Gerais (CEMIG)**, missed a payment of Rs\$410mm Brazilian reais (\$1=BRL3.35) it owed on the country's wholesale power market. CEMIG is waiting for an account receivable from the federal government in the amount of Rs\$1.2bn. The negotiations for the funds involve the transfer of the payment obligation from the Minas Gerais State Government to the Brazilian Federal Government and the issuance of bonds to CEMIG by the Brazilian government.

CEMIG reportedly owes Rs\$820mm on the power exchange for electricity purchases. The wholesale power exchange, known as **MAE**, concluded the settlement of part of sale and purchase contracts registered since the creation of the electricity market in Sep.2000. MAE managed to settle Rs\$1.49bn of the transactions out of a total of Rs\$11.5bn. However, CEMIG was not the only company which refused to pay its debts on the MAE. Sao Paulo-based power generator **AES Tiete** missed a Rs\$100mm payment. Other companies managed to secure in court the right not to pay their debt on the MAE.

Power distributor **AES Sul Distribuidora Gaucha de Energia SA**, which serves nearly a million consumers in Brazil's southernmost state of Rio Grande do Sul, filed two injunctions in Jan.2003 requesting that Rs\$373mm worth of credits on the MAE be paid. The move was denied by Brazil's power sector regulator **Aneel** on two occasions in the past. Aneel considered AES Sul's sale of contracts of energy from the bi-national Itaipu power plant, on the border with Paraguay, were done irregularly and does not recognize the Rs\$373mm as credits.

CEMIG announced it will accrue a loss provision in its financial statements in the amount of Rs\$1,045mm, (US\$450mm) according to the Mar.31.2002 exchange rate. This provision is in compliance with Ordinance No. 358 dated Jan.1.2002, of the **Comissao de Valores Mobiliarios (CVM)** (the Brazilian Securities and Exchange Commission), and will be implemented in a restatement of CEMIG's 2Q:02/3Q:02 Brazilian GAAP financial statements. CEMIG's US GAAP financial statements for YE:01 will also reflect the provision.

CEMIG is accruing this provision due to uncertainty involving the recoverability of certain receivables from the State of Minas Gerais, Brazil. The receivables represent installments coming due on or after Jan.1.2003 under the CRC Assignment Agreement between CEMIG and the State of Minas Gerais. The CRC Assignment Agreement, which was originally entered into in May.1995, provided for the transfer of certain payment obligations from the Brazilian Federal Government to the State of Minas Gerais. These payment obligations arose from rate shortfall credits granted to CEMIG. The CRC Assignment Agreement originally had a term of 17 years.

The provision is being accrued in connection with an Oct.14.2002 amendment to the CRC Assignment Agreement, which relates to installments due under the CRC Assignment Agreement from Jan.2003-Jan.2015. This amendment was entered into in connection with the ongoing negotiations between CEMIG, the State of Minas Gerais and the **Secretaria do Tesouro Nacional** (the Brazilian National Treasury Secretariat) relating to the transfer of the obligation to pay the balance of the CRC Assignment Agreement back to the Brazilian Federal Government.

CEMIG confirms that, notwithstanding the accrual of the loss provision, it is continuing to negotiate payment of all outstanding amounts under the CRC Assignment Agreement with the State of Minas Gerais and the Brazilian Federal Government.

CEMIG reissued its Jan.-Sep.2002 earnings statement and posted a record loss of Rs\$1.15bn reais (\$1=BRL3.5) compared to a loss of Rs\$267.9mm for the Jan-Sept 2001 period. CEMIG recalculated its earnings after a request from the local Securities and Exchange Commission (SEC) to include a provision for losses of Rs\$1.045 bn with bad credits from the state of Minas Gerais, which controls the company. The state government has consistently missed payments to CEMIG and uncertainties surrounding future payments led Brazil's CVM to make the company account for the provision.

Companhia Vale do Rio Doce (CVRD) announced the formation of a partnership with **Mitsui Co.**, a major Japanese player in the global logistics market, with the idea of developing its intermodal transport business. Mitsui brings both capital and technological expertise to the partnership and is a firm believer in the growth potential of the Brazilian logistics market. The partnership with Mitsui opens new frontiers for coastal shipping services, currently provided by **Docenave**, a subsidiary of CVRD. As part of the agreement with CVRD, Mitsui will bring its know-how and technology in the management of container transport, an important component in the cost of operations, as well as the development of a feeder service - the loading of containers for long haul shipping. Mitsui will hold a 21% stake of the new venture, the remaining 79% being owned by CVRD. The goal in 2003 is to achieve a market share of more than 50% of the coastal shipping market for containers, mainly deriving from the electro-electronics, petrochemical, food and building material industries. As a form of intermodal freight transport, coastal shipping is part of CVRD's integrated logistics strategy, which also includes such services as scheduled trains, distribution centers, bonded warehouses and maritime terminals.

CVRD will submit a proposal to its Board of Directors to distribute in 2003 a minimum dividend (dividends and/or interest on shareholders equity) of US\$400mm, equivalent to US\$1.04/share. This amount will be paid in two equal installments, on Apr.30.2003 and Oct 31.2003, respectively. The dividend value, to be paid in Brazilian reais, will be calculated based upon the Rs/US dollar exchange rate for the sale of US dollars as informed by the Central Bank of Brazil the day before the Board of Directors meeting which will approve the distribution and respective payment of dividends. CVRD's Board of Directors will consider the proposal at two separate meetings scheduled for Apr.16.2003 and Oct.15.2003. The lag between the

decisions made by the Board of Directors and the beginning of payment to shareholders are the minimum periods required for operational processing of these transactions.

This announcement is in accordance with the Dividend Policy approved on Nov.13.2002. There were three main reasons for this policy: (a) to eliminate uncertainty regarding dividend payment dates; (b) to minimize currency volatility risks; (c) to increase correlation between dividend payment and CVRD's cash flow, which is much more stable than earnings. CVRD earnings behavior is strongly influenced in the short term by the Rs/US exchange rate fluctuations.

The minimum amount of US\$1.04/share is associated with the lower free cash flow projected for 2003, which, in turn, is affected by the increase of approximately US\$1bn in budgeted capital expenditures relative to last year. As announced on Jan.22.2003, the expected average return for such investments significantly exceeds the cost of capital estimated for CVRD. Consequently, a substantial growth is anticipated from future cash flows and subsequent creation of value to shareholders. The proposed US\$400mm to be paid to shareholders is consistent with maintenance of prudent levels of financial leverage and the optimization of its financial management.

A Brazilian unit of **AES Corp.** deferred an US\$336mm payment due to former holders of its preferred shares in connection with the purchase of those shares. The **Brazil National Bank for Economic and Social Development** and other former holders of preferred shares of **Eletropaulo Metropolitana Eletricidade de Sao Paulo SA** accepted an offer to defer payment until Feb.28.2003. **AES ELPA SA**, another unit of AES, also announced it had deferred, until Jan.30.2003, US\$85mm due to Brazil National Bank for Economic and Social Development related to its acquisition of common shares of Eletropaulo.

AES stated there could be no assurance an agreement with Brazil National Bank for Economic and Social Development will be reached relating to this payment or that this debt will be rescheduled.

AES Corp. reported 4Q02 charges of US\$2.7bn, or \$4.96/share, from asset and goodwill impairments related to its worldwide businesses. AES stated that energy rationing and the currency devaluation in Brazil led to an US\$1.3bn impairment write-down related to two of its utilities. AES expects to take a goodwill charge of US\$706mm for Sao Paulo state electric-

distribution utility Eletropaulo. AES will also take a US\$587mm impairment charge for CEMIG, a utility located in Minas Gerais state in which it invested alongside JV partner **Mirant Corp.**

AES, which was once on track to become the largest nongovernmental electricity generator in the world, has been hurt by deregulated markets that have failed to develop as earlier predicted. AES controls 176 facilities totaling 60,000 megawatts (MW) of generating capacity, as well as utilities, in 33 nations.

Brazil's **Gerdau SA**'s steelmaking unit posted a 12% increase in its 4Q02 net earnings, aided by increasing demand at home and abroad. **Metalurgica Gerdau**, one of Brazil's largest steel companies, said the consolidation of its US operations with Canada's **Co-Steel** in Oct.2002 also helped bolster the net income, even though the new firm, **Gerdau Ameristeel**, is still fine tuning its operations.

Metalurgica reported 4Q:02 net income of Rs\$195.5mm (US\$54.4mm) compared to Rs\$174.8mm during the 4Q:01. For all of 2002, Metalurgica's net profit was Rs\$821mm, up 49% over 2001, when the steel sector was hampered by government-imposed energy rationing. Improving market conditions abroad had also helped its bottom line.

In dollar terms, exports grew 75% to US\$375mm in 2002. Net sales doubled during the 4Q02 to Rs\$2.6bn, backed by a 43% increase in gross steel production and a 50% increase in rolled steel output. Total sales in 2002 reached Rs\$9.2bn while output increased 30% to 9.4 million tonnes of steel. At the operating level, earnings before interest, taxes, amortization and depreciation (EBITDA), more than doubled to Rs\$587mm during the 4Q02. For the year, EBITDA rose to Rs\$2.1bn from Rs\$1.3bn. (\$1=3.59 Brazilian reais)

PETROBRAS plans to issue up to US\$200mm in debt, taking advantage of improving investor confidence in Brazil. PETROBRAS hopes to conclude the issue of US\$150mm-US\$200mm in Jan./Feb.2003. Negotiations are being conducted with the investment banks **Salomon/Citibank** and PETROBRAS should get the funds in Feb.2003. PETROBRAS would be the latest of a growing number of Brazilian companies that have tapped international debt markets.

CVRD and steel maker **Companhia Siderurgica Tubarao** won a combined US\$339mm in credit from the **Japan Bank for International Cooperation** in

late-Jan.2003. A number of Brazilian banks have also issued debt recently. International capital markets largely shut their doors to Brazilian firms in mid-2002 amid concerns leftist candidate Luiz Inacio Lula da Silva would win the presidential elections and bungle the economy. Since winning the vote by a landslide in Oct.2002, Lula has promised to maintain tight fiscal policies and overhaul Brazil's bloated social-security system, winning him the praise of wary investors who once doubted his commitment to market-friendly economics.

Brazil's hydrous-alcohol fuelled vehicle fleet increased fourfold to 55,000 in 2002 from 18,300 in 2001. In 2000, there were only 10,000 vehicles fuelled by sugarcane based hydrous-alcohol, or less than 1% of the country's total.

The government also formally approved a 5% cut in the anhydrous alcohol blend in gasoline to 20% from Feb.1.2003. The reduction is intended to ensure sufficient supplies during the inter-harvest period in the key Center-South producer region. Demand for fuel alcohol, also known as ethanol, has risen sharply since it is less than half the cost of gasoline.

Sugar cane is crushed into sugar or distilled into two types of ethanol. Hydrous ethanol is used in vehicles with specially designed engines while anhydrous alcohol is mixed with gasoline. Brazil launched a Pro-Alcohol Program in the mid-1970s in response to rocketing prices of imported oil. In the mid-1980s hydrous alcohol cars accounted for 90% of new car sales. But the Pro-Alcohol program collapsed in 1990, due to a breakdown in fuel alcohol supplies, and the government is now trying to resurrect it following a surge in oil prices and sugar cane production.

Within a few years, Brazil's **CVRD** hopes to join the ranks of the biggest miners in the world in terms of market value. While experts praise CVRD's cash flow generation capacity, strong operating performance and sound corporate strategy, the group is still outside the inner circle of the world's mining elite. The Brazilian miner is the world's largest exporter of iron ore, but its market value of US\$11bn lags companies like **BHP Billiton** (market cap., US\$34.5bn), **Anglo American** (market cap., US\$21.4bn), and **Rio Tinto** (market cap., US\$21.1bn).

More than 85% of CVRD's revenue is in dollars, hedging the company against losses in the volatile local currency. Meanwhile, more than 70% of CVRD's costs are in reais.

CVRD announced a US\$1.8bn capital expenditure budget for 2003, more than doubling the US\$884.3mm investment in 2002. CVRD's investment program over the next eight years is expected to reach US\$6.6bn. CVRD, which has consistently hit production records since 2000, expects to double exports in 4-5 years.

CVRD's shares, which have been trading at around 91 reais (\$1=BRL3.515), are expected to rise above Rs\$135.00 by YE:03, according to mining analysts.

CARIBBEAN

In 2002, Latin American trade with the rest of the world suffered a setback due to a 9% fall in imports by the region, triggered by grating recessions in several of its major economies. Imports fell to US\$314.4bn in 2002 from US\$345.5bn in 2001, according to preliminary figures in a report by the UN **Economic Commission for Latin America and the Caribbean (ECLAC)**, citing economic woes in the region. ECLAC estimates the regional economy contracted 0.5% in 2002, mainly due to crises in Argentina, Uruguay and Venezuela.

Export returns rose by 0.6-0.8% in 2002 compared to 2001. A sharp increase in export volumes compensated for a drop in prices for the region's non-oil exports such as copper, coffee and fishmeal. Exports are estimated to have totaled US\$346.42bn-US\$347.11bn.

ECLAC estimates LATAM's foreign trade overall fell 4% in 2002 to US\$662.29bn compared to 2001. The **World Bank** predicted it to be the only region in the world to suffer economic contraction in 2002. Conversely, ECLAC forecasts the regional economy will grow 2.1% in 2003.

The 495 Mb/d **Hovensa LLC** refinery in the US Virgin Islands received its first shipment of Venezuelan crude oil in late-Jan.2003 since its JV partner, state-owned **Petroleos de Venezuela SA (PDVSA)**, declared force majeure on Dec.6.2002. Force majeure is a situation in which contract obligations cannot be met because of an extraordinary, unforeseen event.

The refinery had been running at approximately 350-360 Mb/d, down from its normal operating level of 450 Mb/d, since Venezuelan supplies were cut. Officials with **Amerada Hess Corp.** stated that Hovensa was not yet getting full shipments of crude oil from Venezuela in terms of contracted amounts, the refining margins are still favorable. Now that Venezuelan shipments appear to have been restored, even at

reduced levels, run rates are expected to increase. Hovensa LLC is a 50%-50% JV between Amerada Hess and PDVSA.

As of Jan.30.2003, runs at Curacao's Venezuelan-run oil refinery had reached 125 Mb/d after the successful start-up of a second crude distillation unit. However, repairs to the catalytic cracker are expected to take another month. The refinery, operated by **PDVSA**, has a nominal capacity of 320 Mb/d and was closed for a month by a strike that began Dec.2.2002. Repairs to the 60 Mb/d catalytic cracker, which failed to restart in mid-Jan.2003, will take at least a month as parts need to be ordered from abroad. The refinery expects to reach 150 Mb/d when the cracker unit comes on stream with other associated units including an alkylation unit.

The catalytic cracker is the plant's main gasoline producing plant, and its restoration is crucial to Venezuela's efforts to ease fuel shortages on the local market. The refinery was closed in Dec.2002 as PDVSA stopped assigning tankers to lift refined products, and storage levels reached capacity.

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CHILE

Chile's Escondida copper mine, the world's largest, has presented an environmental impact study for approval by Chilean authorities for a US\$1.13bn sulfide leaching project. Escondida, majority-owned by Australia-based miner **BHP Billiton**, plans to build two leaching plants and produce 200,000 tonnes per year of copper cathodes. Construction of the first plant is expected to begin in 2004 with operation commencing in 2006 while the second plant is expected to be operational sometime between 2006-10. The copper would be produced through bacterial leaching of low grade mineral currently discarded by the company. The leaching plant would have a working life of 40 years. The timeframe for construction, however, depends on market conditions. Escondida is located some 170-km southeast of Antofagasta in northern Chile.

Of the proposed US\$1.126bn to be invested in the project, US\$150mm would go into building a water desalination plant and piping infrastructure.

BHP Billiton scaled back production at Escondida in 2002 due to poor copper prices and expects cutbacks to be extended into 2003. Copper output from Jan.-Nov.2002 was 662,056 tonnes, down 9.7% from 732,914 tonnes from Jan.-Nov.2001. Despite the cutbacks, BHP-Billiton's US\$1.045bn "Phase Four" expansion will bring production online in 2003 and increase annual production by 400,000 tonnes when it reaches full capacity.

In Feb.2003, Nelson Pizarro will become chairman of the North Division of Chilean state copper giant **Corporacion Nacional del Cobre de Chile (CODELCO)**. Pizarro, currently vice president at UK-listed miner **Antofagasta PLC's Antofagasta Minerals** unit, will first need to settle a major labor dispute near the Chuquicamata mine, CODELCO's largest. On Feb.17.2003, he will replace interim Chairman Francisco Tomic, who took over in Dec.2002 after Carlos Rubilar resigned due to mismanagement of a major company housing project that sparked the dispute.

In late Nov.2002 CODELCO halted the project to move several thousand workers at Chuquicamata to new living quarters due to the threat of cost overruns. The decision has aroused the wrath of workers expecting new housing. CODELCO wants to move the workers, including supervisors, into close to 3,000 new houses in the town of Calama from the present company-owned workers' residence at Chuquicamata as part of an expansion and environmental-improvement plan. Halting the current project is not expected to cause production cutbacks at the mine at least until 2003, though some production in 2004 could theoretically be impaired. The problem surfaced when initial contracts with the housing contractor were reviewed and found to be too expensive. A subsequent review showed that the program threatened to cost 70%, or US\$90mm, more than had been budgeted, while CODELCO would accept at most a 20% overrun. The entire Calama project has a price tag of US\$260mm, including some US\$100mm in a cash or housing deal for the workers.

Chile, the world's No. 1 copper producer, predicted that world copper prices would improve slightly in 2003 to average US\$0.74-US\$0.78 per lb as consumption growth outpaces output. The state-run agency, **Cochilco**, estimated Chilean copper output was 4.565

million tonnes in 2002 and would increase 10% in 2003 to 5.032 million tonnes.

The **International Copper Study Group (ICSG)** expects world refined copper output to rise 2.6% to 15.067 million tonnes while consumption is expected to rise 3.7%. That estimate was made prior to announcements by BHP Billiton to curtail production and by **CODELCO** to stockpile part of its own output.

The Chilean price forecast remains unchanged from a previous estimate made several months ago. Copper prices in 2002 fluctuated between US\$0.65-\$0.76 per lb and closed the year at US\$0.70.6 per lb. Recent signs of a gradual global economic recovery and production curtailments by major producers is also seen helping copper prices this year.

Chile, which holds nearly 40% of the world's copper reserves, will boost its production dramatically this year due to expansions at BHP Billiton's Escondida mine, the world's largest, and at CODELCO's Teniente mine. From Jan.-Nov.2002, copper output in the South American nation was 4.097 million tonnes and is seen ending the year at 4.565 million tonnes.

Chile's **Central Bank** said economic activity grew 2.1% in Nov.2002 compared to Nov.2001 due to weak mining activity at home and one less working day in the month. The economic activity index known as Imacec, a close proxy of gross domestic product (GDP), was up 2.4% in Oct.2002 and has up an average 1.8% between Jan.-Nov.2002.

Chile's export-oriented economy has suffered a slowdown and is expected to have expanded 1.9% in 2002 compared with the average 7% growth seen in the 1990s. The Dec.2002 trade surplus was US\$206.7mm on exports of US\$1.50bn and imports of US\$1.29bn.

In other news, Chile reached a free trade agreement with the US in Dec.2002, which is expected to boost exports over the coming years.

The Chilean subsidiary of the US-based utility **Public Service Enterprise Group Inc. (Saesa)**, issued bonds worth US\$114mm in the Chilean market to restructure its debt. Saesa divided the debt issue into an US\$60.5mm, 7-year bond with a coupon rate at 5.39% and another into an US\$53.5mm bond maturing in 21 years at 6.6%. The bonds issued were denominated in **Unidad de Fomento**, an inflation-indexed monetary unit in Chilean pesos. The funds will be used to cover US\$160mm in short-term debt maturing in

Mar./Apr.2003. Saesa also signed a syndicated loan for US\$58mm. Saesa, which operates in southern Chile and Argentina, has interests in electrical distribution and transmission.

Empresa Nacional de Petroleo (ENAP, A-/Positive/--) and the Chilean Government signed an agreement, which involves several measures to increase the value of the company and confirms capital expenditures of US\$1.35bn. Those investments, involving upstream and downstream activities, are part of the company's strategic plan for the next 5-years and were already incorporated in an S&P analysis. This expansion plan, particularly in the upstream business, is expected to help expand ENAP's upstream activities as well as improve profitability and maintain its leading position in the Chilean market. As such, the announcement does not immediately affect the rating or outlook but S&P does expect ENAP to maintain solid credit quality throughout the investment period. Nevertheless, given ENAP's long track record as a refining company, S&P concerns remain focused on the performance of the upstream investment program, which could potentially require significant funding jeopardizing the currently strong credit quality of the company.

Chile's **National Institute of Statistics (INE)** reported that Chilean utilities generated 3,724 gigawatt hours (GWh) of electricity in Dec.2002, up 5.2% compared to Dec.2001.

High value-added hydropower output was up 11.8% for the year at 2,222 GWh, while thermal plants produced 640 GWh in Dec.2002, down 3.3% compared to Dec.2001. Combined-cycle plants generated 862 GWh, 3% less than in Dec.2001.

Regionally, electricity generation in the **Sistema Interconectado Central grid (SIC)**, which covers the heavily populated central region of the country, totaled 2,705 GWh during the month, 72.6% of total electricity generation. INE did not provide information on the percentage change in electricity generation for the SIC from the year-earlier period.

The central grid supplies electricity to the majority of Chilean homes and industries. The principal generation companies supplying energy to the grid are **Empresa Nacional de Electricidad SA, AES Corp.** through its **Gener** subsidiary, and **Empresa Electrica Colbun Machicura SA.**

Generators in the grid serving northern Chile produced 808 GWh of electricity, 21.7% of the total, in Dec.2002.

Gas transporter and power generator **GasAtacama** estimates Chile will require US\$7bn investment in generation and US\$500mm-US\$2bn in transmission through 2020 in more than doubling the country's current installed capacity. Annual demand in Chile's central (SIC) and northern (SING) grids is expected to increase 8% and 7% respectively through 2012. To meet this rising demand, Chile will need 40 new generation plants by 2020. Connecting the SIC and the SING would increase capacity by the equivalent of only 1-2 plants, while connecting with Argentina's grid would provide the equivalent capacity of 2 plants. Of the remaining 36 plants required, most will be fuelled by relatively cheap natural gas, and so Chile will have to diversify its natural gas sources, looking to Argentina and Bolivia for greater quantities of gas.

Chile's fast-track power bill, dubbed the "**Ley Corta**," would reduce uncertainty and make the sector's regulatory framework clear and stable for potential investors. The Ley Corta is designed to regulate node prices and transmission costs, but some generators, including **AES Gener** and **Colbun**, are opposed to the law, which they say is biased towards GasAtacama's joint owner **Endesa Chile**. In addition, the Ley Corta should incorporate quality of service requirements including back-up systems in case of power cuts.

Chilean environmental authorities gave the green light to plans by **CODELCO**, the world's No. 1 copper producer, to build a US\$1bn copper smelter and refinery in northern Chile. A regional office of the **National Environmental Commission (Conama)**, a governmental body, approved CODELCO's environmental impact study on the project in late-Jan.2003. The agency obliged CODELCO to carefully monitor gas emissions by the plant as well as its socioeconomic impact in the region.

All major investment projects in Chile must obtain environmental permits and can be delayed if authorities find fault with the company's environmental impact study.

CODELCO, a state-owned company, plans to seek a partner this year to help finance the plant in Mejillones, northern Chile, which would produce at least 1 million tonnes per year of highly-refined copper cathodes. A feasibility study on the Mejillones project is due for completion by Feb.2003.

Chilean electricity holding **Enersis SA** and its unit **Empresa Nacional de Electricidad SA (EOC)** received 13 nonbinding bids for two units they want to sell as part of a major debt-reduction plan. Once the final shortlist has been completed, the potential buyers will undertake a detailed due-diligence analysis. The interested parties include domestic and foreign power companies and investment holdings, as well as institutional investors. The objective of both companies is to conclude the entire process by the end of Mar.2003.

Enersis, a unit of Spanish utility **Endesa SA**, wants to cut its debt by some US\$2.6bn in the coming year. The two units being sold are **Rio Maipo**, in which Enersis owns 98.74%, and **Canutillar**, which is 100%-owned by **Endesa Chile**. Rio Maipo is Chile's fifth-largest power distributor with a 5.8% share of the power market and some 300,000 customers in the Santiago metropolitan area. Canutillar is a 172-MW hydroelectric power plant in southern Chile first fired up in 1991. It produces some 950 GWh of power a year.

Through its asset-sale plan, which also includes power transmission lines in Chile and Peru and infrastructure company **Infraestructura Dos Mil**, Endesa Chile expects to raise US\$600-US\$700mm to reduce debt.

Chile's fifth largest electrical distributor **Rio Maipo** posted a 2002 net profit of Ps\$11.727bn Chilean pesos (US\$16.3mm), up 26.6% increase compared to 2001. Rio Maipo, one of two firms due to be sold by energy group Enersis in Mar.2002, reported a net profit of Ps\$9.262bn in 2001. Rio Maipo's operating profit in 2002 was Ps\$10.274bn, up 2.2% compared to Ps\$10.049bn in 2001. Rios Maipo's revenues in 2002 rose 6.6% to Ps\$56.670bn compared to revenues in 2001 of Ps\$53.150bn. (\$1=718 Chilean pesos)

Top copper exporting port Antofagasta has partially privatized some of its operations as it faces sharply reduced copper shipments from the loss of its leading client to a US\$120mm nearby megaport. **Antofagasta, in northern Chile, will focus more on tourism and other business as it relies less on copper shipments.** Port officials are reportedly not concerned by CODELCO's decision to divert copper exports to a new port in Mejillones, 63-km (40 miles) from the Antofagasta port and due to begin operations in Oct.2003. The move by CODELCO, the world's No. 1 copper producer and the port's biggest client, will reduce Antofagasta's copper shipments by 1.2 million tonnes

per year, or 37.5% of the total 3.2 million tonnes of cargo shipped from Antofagasta port in 2002.

The Antofagasta port authority awarded a 20-year concession to Chilean consortium **Antofagasta Terminal International** -- comprised of Chilean companies **Sudamericana Agencias Aereas y Maritimas (SAAM)** and **Inmobiliaria Portuaria SA**. SAAM also holds concessions for three other Chilean ports-- which will invest US\$18mm over the concession period in upgrading decaying infrastructure and efficiency at five of the port's seven docks. The two remaining docks will continue to be managed by the state but used by multiple operators. Antofagasta's port infrastructure is in a state of disrepair due partly to damage suffered in an earthquake in 1995. Lack of expansion space and growing throughput at the port has led to congestion in the port and the city, slowing loading times and driving up transport and inventory costs.

Though CODELCO is the main proponent behind the Mejillones project, a concessionaire consisting of local construction company **Belfi** and shipping operator **Ultramar** will invest in and operate the project. Mejillones plans to serve not only CODELCO but also other mines in the district. By the end of its first phase, due to be completed by 2010 or before, depending on demand, the Mejillones port will have the capacity to ship 3.5 million tonnes per year of copper cathodes and other mining materials.

Chile's state oil firm **ENAP**, in its monthly tender, bought, bought 1 MMbbls of Marlim sweet crude from **PETROBRAS** at undisclosed values to arrive in Quintero Bay at the Concon terminal the first week of Mar.2003. ENAP also bought 1 MMbbls of Nigerian Bonny Light sweet crude from **Shell** at undisclosed values to arrive in Chile Mar.15-20.2003. The price differentials for the cargoes' value are against US benchmark West Texas Intermediate (WTI). ENAP buys from 0.4-1 MMbbls or more of Latin American, West African and North Sea grades each month for internal consumption.

COLOMBIA

Colombia's largest coal exporter, **El Cerrejon**, reduced its production 11% in 2002 to 17.3 million tons from 19.4 million tons in 2001, amid a worldwide drop in coal prices. El Cerrejon, which accounts for about 50% of Colombian coal exports, is owned jointly by Switzerland's **Glencore International AG**, London-based **Anglo American PLC** and Australia's **BHP Billiton Ltd**. For 2003, Cerrejon expects to reverse the

downward trend in output and expects to produce 22.5 million tons during the year. Among open-faced coal mines that produce strictly for export, Cerrejon is the world's largest. El Cerrejon, located in Colombia's northern Guajira peninsula, plans to invest US\$500mm on expansion during the next five years and expects to produce 28 million tons in 2007. Colombia estimates it exported about 39 million tons of coal in 2002, worth US\$1bn, making it the country's No. 2 legal export after oil.

Colombia's state oil firm, **ECOPETROL**, is slated to load 1.5 MMbbls of medium-sour Vasconia crude in Mar.2003, one extra cargo than the previous month. ECOPETROL is set to load an additional 0.5 MMbbls in Mar.2003 than those to be loaded in Feb.2003.

PETROBRAS has two 0.5 MMbbls cargoes, one loading during the first five days of Mar.2003 and the other during the last days of Mar.2003. International trading firm **Vitol** has one cargo loading during the second decade of the month, or between Mar.11.2003 until Mar.20.2003. Price differentials for the cargoes loading in Febr.2003 were around US\$1.75/US\$1.50 below the benchmark WTI.

ECOPETROL will load 2.75 MMbbls of its sweet Cusiana crude in Mar.2003, down two cargoes compared to Feb.2003. The Cusiana crude program for Mar.2003 holds 1.1 MMbbls, or two cargoes of 0.550 MMbbls, less than in Feb.2003. BP has two cargoes of 0.550 MMbbls, one loading in the first half of Mar.2003 while the other is loading during the last days of Mar.2003. **Repsol-YPF** has one 0.550 MMbbls cargo loading early Mar.2003, while **TotalFinaElf's** trading arm **Atlantic Trading** has a 0.550 MMbbl cargo loading during the second decade, or between Mar.11-20.2003. ECOPETROL has the last cargo loading in Jan.2003, which crossed over to Apr.2003. Price differentials for sweet Cusiana loading in Feb.2003 were sold at between US\$1.40-US\$1.80 over benchmark WTI as a result of a supply crunch after Venezuela cut oil exports due to a workers strike.

French engineering company **Technip-Coflexip SA** won a new contract in Colombia, worth Eur\$19mm. The contract is to design and oversee project management for the master plan of the Cartagena Refinery Development project for ECOPETROL.

Houston American Energy Corp. has acquired a 12.5% working interest with an 11.25% net revenue

interest in the Tambaqui Association Contract in Colombia. This concession is subject to a reversionary interest by ECOPETRO. The most likely result of this reversionary interest is a 50% working interest back-in after Houston American recovers in excess of four times its total investment.

This concession covers approximately 90,000 acres and engineers have assigned in excess of 500 Mbbls as proved producing reserves and over 7,400 Mbbls as proved undeveloped reserves. In addition to the existing producing well, the company expects to drill as many as three development wells offsetting existing production with the first well expected to be drilled in Mar.2003. Based on current production rates and oil prices, the acquisition is expected to add approximately US\$120,000 of cash flow to the company in 2003.

In addition, the company has signed an agreement with its industry partners in this concession that provides for each to participate for a 12.5% interest in each other's new projects in Colombia at cost. The term of this agreement is five years. Management believes this will provide the company with a number of additional opportunities in Colombia on a ground floor basis. The company's first well on its Cara Cara Project in Colombia has been tested and is expected to go on production in a Feb.2003 after the surface and production facilities are in place.

After pouring nearly US\$2bn into Colombia's war on drugs, the US is gradually expanding its assistance to the guerrilla conflict, branding the rebels "narcoterrorists." The **FARC** admit to taxing the cocaine trade, but deny any direct involvement. Sixty US special forces touched down in a northern "rehabilitation zone" in Jan.2003 to train Colombian troops on how to defend the country's second largest oil pipeline from frequent rebel attacks. The oil pipeline in Arauca province is operated by US-based **Occidental Petroleum**. The US also plans to train an elite Colombian unit to hunt down guerrilla leaders.

Colombia's largest public works company, **Empresas Publicas de Medellin (EPM)**, plans to invest Ps\$1.95tn Colombian pesos (US\$681.7mm) in 2003 in sewage treatment, energy, telecommunications and gas. The investments would represent 46% of its total 2003 budget.

Founded in 1955 with assets of more than US\$4bn, EPM has been expanding recently from its main public works businesses of sewage treatment and energy generation and distribution to other industries,

including cable television and broadband Internet. EPM posted a 57% increase in profits in the 1H:02 compared to the 1H:01, largely by cutting costs. (US \$1 = 2,837 pesos)

Energy Solutions announced that **ECOPETROL** has awarded Energy Solutions a contract to upgrade the existing set of advanced applications installed on their pipelines. ECOPEPETRO is currently using Energy Solutions' LICLDS, a Real Time, On-Line Modeling System, with applications for Leak Detection and Location, Batch Tracking and Pig Tracking. LICLDS and all its applications were configured to model eight of their most complex multi-product pipelines. The ECOPEPETRO system is one of the most challenging systems in the world to model due to large elevation changes, as well as changes in pipeline diameters. Energy Solutions International considers ECOPEPETRO as one of the great successes of their modeling technology.

As part of their "Better Operational Procedures" project, ECOPEPETRO is updating all major systems related to the operation and supervision of its transportation pipelines. ECOPEPETRO has contracted with Energy Solutions to upgrade all the advanced applications from LICLDS 7.1 to the latest version of the system, ESIPAS 8.1. ESIPAS 8.1 runs on the Windows® platform and includes several additional enhancements, including a graphical configurator, Pipeline Studio®, and a standard Man Machine Interface (MMI). Energy Solutions will also configure seven new multi-product pipelines and handle the integration with the newly upgraded SCADA system. Officially announced in mid-Dec.2002, the project's implementation is scheduled to take seventeen months, including three months for stability testing.

ESIPAS 8.1 (Energy Solutions Pipeline Application System) is a field-proven pipeline simulation platform based on state-of-the-art modeling technology that provides the perfect environment to implement advanced pipeline applications related to optimization systems operations, facility planning, training and business support.

Seven Seas Petroleum Inc. filed for Chapter 11 bankruptcy protection in the Southern District of Texas, Houston Division. Seven Seas said the filing pertains only to Seven Seas Petroleum, the Cayman-based corporate parent. The company's units, which are separate legal entities, will continue normal operations and proceed with the closing of the previously announced sale of their 57.7% stake in the shallow

Guaduas Oil Field and related assets. Seven Seas, which trades on the Pink Sheets, also said it consented to the appointment of a court-appointed trustee.

In Dec.2002, seven directors resigned from the company due to an involuntary bankruptcy petition filed against the company and the inability of Seven Seas to obtain directors' insurance.

Stockholders of **Harken Energy Corp.** approved a US\$10mm rights offering, the redemption of up to US\$20mm in principal amount of Harken's 5% Senior Convertible Notes due May.2003 for shares of Harken common stock, and the re-election of Marvin M. Chronister, James H. Frizell and Stephen C. Voss to Harken's Board of Directors.

ECUADOR

Ecuador's Environment Minister Edgar Isch has ordered the temporary suspension of work on the country's new heavy crude oil (OCP) pipeline on a 3,200-m stretch in a nature preserve. The suspension was ordered after it was determined that a path through trees was cleared but was not included in the construction plan approved by the ministry. A team from the Environment Ministry has been analyzing the situation and the ministry has not discarded the possibility that it could temporarily suspend the license the **OCP Ecuador consortium** has to build the pipeline. In Mar.2002, OCP Ecuador temporarily lost its license to work in the same zone, on a 15-km stretch. That decision had been handed down by the Energy Ministry.

When he was named as Environment Minister in late Dec.2002, Isch said he would evaluate the work being done on the pipeline, adding that if irregularities were identified the consortium's license could be suspended. The construction of the pipeline has been criticized by various environmental groups that say the work damages the area's ecosystem, above all the Mindo-Nambillo woodlands, a large reserve for birds. Work on the pipeline is more than 80% complete, and is expected to be finished by the end of Jun.2003. The new 503-km pipeline will cost about US\$1.3 billion to build.

The consortium carrying out the work to get the pipeline up and running is comprised of **Occidental Petroleum Corp., Perenco; Repsol-YPF SA, Agip SpA; Perez Companc Ecuador, Alberta Energy Co. and Techint.**

International (formerly Ecuadorian) Minerals Corp. (IMC) acquired a 100% interest in the Canicapa gold project in Ecuador and has signed a "Heads of Agreement" with **IAMGOLD Corp.** to JV the project with IAMGOLD. Canicapa is located in southern Ecuador, approximately 380-km south of the capital city of Quito and 50-km north of Loja.

The Canicapa project area comprises two concessions (Canicapa and Celen) totaling 39 sq. km. On the Canicapa concession, argillic (clay) alteration covers an area of approximately 14 sq. km within which a 2.5 sq. km zone possesses the alteration characteristics that are typical of systems that host epithermal gold mineralization of the high-sulfidation type elsewhere in the world, such as Yanacocha in Peru. This view of the alteration characteristics at Canicapa has been endorsed by international epithermal-gold specialist, Dr. Jeffrey Hedenquist, who visited the Canicapa project area in 2002 on behalf of IMC. Preliminary exploration work on the property conducted by the previous property owner has shown anomalous concentrations of gold, copper, arsenic, antimony and bismuth, which are consistent with epithermal mineralization of the high-sulfidation type.

Gold values from 1,317 rock channel samples taken by the previous property owner from approximately 4-km of hand-dug trenches on the Canicapa concession ranged from trace levels to 3 G/T and averaged 0.17 G/T. The most notable trench sections averaged 2.2 G/T gold over a trench length of 12-m and 0.6 G/T gold over 132-m. Generally the anomalous gold concentrations are associated with leached rocks and concentrations of residual quartz.

In 1999, the previous property owner drilled a total of seven shallow core holes on the Canicapa concession, ranging in depth from 15-162(m), for a total of 569-m. Severe drilling problems were encountered due to adverse ground conditions found in the strongly altered rocks and drill core recoveries were very low, and, in some cases, no core could be recovered. The drill program was abandoned before the targeted depths for expected precious metal mineralization could be reached. Gold values in drill samples were low and overall reflect the gold values found in the trench samples.

IMC and IAMGOLD believe that the Canicapa project represents a relatively low-cost opportunity to test a large epithermal gold prospect of potential high-sulfidation type on which preliminary exploration work to date has given significant encouragement. IAMGOLD's initial exploration program, which is expected to commence in early-2003, will involve

detailed geological mapping and rock sampling with a view to commencing drilling in the 2Q:03/3Q:03.

Terms of IMC Agreement with Underlying Property Owner: IMC has acquired a 100% interest in (and received titles to) the Canicapa and Celen concessions (the "IMC Concessions"). IMC's 100% interest in the Concessions can be maintained by making nominal annual payments of US\$10,000 to the previous property owner. The agreement also provides for a 2.5% Net Smelter Return (NSR) production royalty to the property owner that can be purchased by IMC for US\$5mm within 120 days of the start of commercial production from the IMC Concessions. In addition a one-time cash payment of US\$0.5mm is payable upon commencement of commercial production.

Terms of IMC Agreement with IAMGOLD: Under the terms of the JV Heads of Agreement (HOA) with IMC, IAMGOLD can acquire an initial 60% interest in the Canicapa property by spending US\$2.0 million in exploration expenditures over a 5 year period from the date of the HOA, with minimum expenditures of US\$200,000 in the first year and US\$250,000 in the second year. IAMGOLD will then have the option to acquire a further 20% interest in Canicapa (for an aggregate 80% interest) by funding and completing a bankable feasibility study within an eight-year period from the date of the HOA.

In addition to the IMC Concessions, Canicapa includes certain IAMGOLD concessions (covering 159 sq. km) within a 3-km "Area of Interest" surrounding the IMC Concessions. IAMGOLD will assume responsibility for the maintenance of Canicapa and for the payments related to the agreement between IMC and the previous property owner. The HOA is subject to IMC Board approval and is intended to be replaced by a formal JV agreement at a later date.

Ecuador raised bus and taxi fares in Jan.2003 to compensate vehicle owners for higher fuel prices decreed to solve a fiscal crisis and get the economy on track. Transport authorities hiked the basic bus fare from US\$0.20 to US\$0.25 and taxi minimum fares from US\$0.80 to US\$1.00, in an effort to respond to public transport owners who in the past have led strikes and road blockades seeking higher fares. The fare hike comes four days after the government announced tough austerity measures including fuel price hikes and budget cuts to plug a gaping US\$2bn financing shortfall and get the economy on stable footing. Students have complained about the fare increase in this nation where 60% of Ecuadoreans live in poverty and minimum wage is just under US\$138/month.

Ecuador has used the US dollar as its official currency since 2000.

Retired army captain and chemical engineer Guillermo Rosero was named president of Ecuador's state oil company, as it struggles to reverse a decline in crude output. Rosero, 36, is a chemical engineer who has worked as a researcher and professor at a local university, was named to the post by **PETROECUADOR**'s new board of directors, which is made up of ministers and other officials designated by the country's new President Lucio Gutierrez. Rosero replaces lawyer Gustavo Gutierrez, who had served as president of the company since Jul.2002.

Rosero takes office as PETROECUADOR's president as the company struggles to raise crude output after it hit its lowest levels in at least a decade in 2002 and as Ecuador prepares for a new 450 Mb/d pipeline to start pumping in Jun.2003. Ecuador has watched state crude output decline due to aging fields, a lack of investment and a failed drilling project in 2002 that sapped resources but tapped little crude. Oil accounts for about a quarter of state revenues. The country currently has one pipeline, the state-run SOTE, with a capacity for about 400 Mb/d. The privately built US\$1.3bn OCP pipeline is due to start pumping in Jun.2003 and would raise the nation's crude transport capacity to 850 Mb/d.

PETROECUADOR reported the average price of Ecuadorean Oriente crude oil for export was US\$28.85/bbl on Jan.20.2003, up 6% from US\$27.21/bbl registered Jan.13.2003. The price was up 96% from an average of US\$14.69/bbl in all of Jan.2002. Ecuador exports an average of 235 Mb/d, primarily to Asia, the US and the Caribbean. PETROECUADOR is forecasting an average price of US\$20/bbl for 2003. In all 2002 the average price was US\$21.99/bbl.

PETROECUADOR's crude exports dropped 22% in Dec.2002 to 90.1 Mb/d from 114.8 Mb/d in Nov.2002. PETROECUADOR received about US\$72mm for its crude exports in Dec.2002, compared with about US\$74.8mm in Nov.2002. The average price of the company's crude was US\$25.69/bbl in Dec.2002, compared to US\$21.74/bbl in Nov.2002. The company's crude exports fell 20% compared with Dec.2001. Oil is this Andean nation's biggest export and accounts for about a quarter of state income.

MEXICO

Fitch Ratings assigned a foreign currency rating of 'BBB-' to the GBP\$250 mm, 7.5% notes due Dec.2013, issued by Mexico's state-owned **Petroleos Mexicanos (PEMEX)**. Proceeds will be used to fund the Proyectos de Infraestructura Productiva de Largo Plazo, PIDIREGAS (Long-term Productive Infrastructure Projects). The Rating Outlook is Stable.

Through PIDIREGAS, PEMEX has continued to expand its exploration and production (E&P) assets, as well as to upgrade its key refineries to process heavy crude inputs and meet clean air mandates. These projects, approved by the Mexican Government, are off-budget items not subject to across-the-board budget restrictions. The most important are focused on increasing production at Cantarell, Mexico's largest single oil field and the primary source of Maya crude production, the Burgos natural gas fields in Northern Mexico, and the strategic gas program (Programa Estrategico de Gas (PEG)) involving 19 different natural gas projects.

PEMEX enjoys a solid oil and gas reserve position, which, together with a low cost structure, lends confidence that the company can continue to generate high levels of production required to support domestic and export growth. A portfolio of supply contracts with US petroleum refiners underpins the latter, supporting prospects for sustained demand and cash flow. PEMEX's cash flow volatility reflects not only crude oil price fluctuations, but more importantly, its substantial tax burden relative to revenues and external funding of an aggressive capital budget. PEMEX's tax payments amount to 60.8% of its revenues, suppressing creditor protection and siphoning off cash flow which could otherwise be used to support the company's ambitious investment program. This burden is not likely to decline over the near term, given that the company remains the largest taxpayer in Mexico. Hence, PEMEX is forced to rely heavily on external funding to carry forward its substantial program to expand hydrocarbon production and to revamp its refineries.

Established in 1938, PEMEX is Mexico's state oil and natural gas company. It is the nation's largest company and ranks among the world's largest petroleum enterprises with YE:01 proved crude oil and condensates reserves of 21,900 MMboe and a current mean annual crude production of 3.3 MMb/d. PEMEX's operations are integrated through E&P, refining and marketing, and petrochemical production. Under the Ley Organica de Petroleos Mexicanos y Organismos Subsidiarios

(the Organic Law for Petroleos Mexicanos and Subsidiary Entities), PEMEX is entrusted with the central planning and the strategic management of Mexico's petroleum industry. PEMEX's mission is to maximize the value of Mexico's crude oil and natural gas reserves, while developing the infrastructure necessary to supply Mexico's growing energy demand at the lowest cost.

PEMEX's E&P unit will have US\$10bn to invest this year in halting the decline of reserves and boosting oil and natural gas output. PEMEX's 2003 budget for its E&P units is expected to total Ps\$108.4bn Mexican pesos (US\$10bn), compared to around US\$9.6bn in 2002.

PEMEX will be in a position to increase production of crude by 34% and natural gas by 47% during this government's six-year term and reverse the declining trend in reserves. PEMEX forecast crude oil production would reach 4 MMb/d by the end of President Vicente Fox's government in 2006 compared with 3 MMb/d when it came to power at YE:00.

In 2003, Pemex is targeting record crude oil production of 3.5 MMb/d, an 11% rise compared to 2002. PEMEX plans to raise natural gas production by 2.217 Bcf/d to 7 Bcf/d by YE:06, of which 2 Bcf/d is expected to come from the Burgos basin near the border with Texas.

PEMEX sold \$250mm pounds (US\$401) of Eurobonds, tapping into increased demand from investors who see Mexico as one of the world's most stable emerging markets. The bonds due Dec.2013 were priced to yield 7.468%, or 3 percentage points more than equivalent UK Treasury bonds. **HSBC Holdings Plc** in London arranged the sale with **Barclays Plc**.

The last time Pemex sold sterling bonds was in 1993, before a peso devaluation in Dec.1994 plunged Mexico into its worst recession in six decades. Mexico earned investment grade ratings from **Moody's Investors Service** in 2000 and **S&P** in 2002, which allowed more pension funds and insurance companies to purchase its debt. Demand for the bond sale reached \$300mm pounds and more than 40 different investors participated. Investors are embracing emerging markets debt to boost their returns after rates on UK 3-month Treasury bills fell to 3.86% from 5.58% two years ago.

PEMEX sold US\$1bn of 12-year bonds in the US in Dec.2002 with a 7 3/8 coupon. Mexico sold US\$2bn of

bonds in Jan.2003 with a coupon of 6 3/8, doubling what it originally planned to sell because of investor demand. The money from the most recent sale will be used for future productive projects yet to be determined. PEMEX separately plans to boost exports by 120 Mb/d, to 1.88 MMb/d in Feb.2003, to make up for lower production from Venezuela.

Mexico's crude oil export port of Cayo Arcas in Campeche state reopened on Jan.27.2003 after being closed Jan.25-26.2003 due to strong gusting winds and high waves. It was the only one of Mexico's four crude oil ports to be affected by a cold front. On the Gulf coast, Dos Bocas in Tabasco state and Pajaritos, part of the Coatzacoalcos complex in Veracruz state, and Salina Cruz on the Pacific coast were unscathed by the inclement weather.

A public offering of 22 million shares of **Hecla Mining Co.** priced at US\$4.25/share. The underwriters group was led by **Merrill Lynch & Co.** Hecla, based in Coeur D'Alene, Idaho, is selling 20 million of the shares in the offering. The remaining 2 million shares are being sold by Hecla Mining Co. Retirement Plan and Lucky Friday Pension Plan. The deal was priced at a 6% discount to the US\$4.53/share closing price of Hecla's shares on the New York Stock Exchange (NYSE) on Jan.23.2003. The 20 million shares the company is selling will dilute the equity of the roughly 86 million outstanding shares by about 23%. Proceeds from its sale will be used for exploration and development, working capital requirements, capital expenditures and for other general corporate purposes.

PEMEX plans to open bids in Mar.2003 for building a petrochemical complex with capacity to produce 1 million tons of ethylene. PEMEX is keen to boost Mexico's flagging petrochemicals industry, which has been neglected in terms of investment while imports have soared to US\$9.4bn in 2001 compared to US\$1.5bn in 1990. The complex is aimed at producing ethylene to meet domestic demand for the production of polyethylene, ethylene oxide, glycols and styrene. PEMEX's new petrochemicals push aims to add more value to the hydrocarbons it produces, expand the capacity of its plants and develop projects aimed at strengthening the ethane chain and its derivatives.

Construction of the US\$2.8bn complex, widely slated to be in Coatzacoalcos in Veracruz state in the Gulf of Mexico, is expected to begin in late-2004. PEMEX has contracted the consulting firm **Hogan & Hartson** to analyze the viability of the project. Several Mexican

and foreign firms have shown interest in participating. Successful bidders will decide where the complex will be built, based on market opportunities, raw material supply and optimum conditions for profitability. However, it was unclear how the project proposes to get around stringent constitutional laws restricting foreign involvement in the oil industry. An attempt by PEMEX to privatize the state's petrochemical assets in 1995 sparked such a political furor that the oil giant was forced to cancel the sale. Investors have also steered clear of attempts to sell 49% stakes in existing state-run facilities in need of modernization.

Increases in energy costs faced by Mexican consumers this year will be in keeping with projected 3% inflation. Average increases in electricity rates will be 4%, while gasoline is expected to rise 2.7%, and diesel 0.1%. Sharp increases in power rates charged by the state-run electricity sector were in large part responsible for inflation being above target last year. The Consumer Price Index rose 5.7% in 2002, above the **Bank of Mexico's** 4.5% goal. Mexico's Finance Ministry reiterated that average increases in prices of goods and services set by the government will be 2.7% this year. Overall government- set prices rose 11% in 2002.

Gasoline prices along the northern border will be adjusted according to prices on the US side, to avoid loss of business among Mexican gas stations, while the rest of the country will see a 3% increase. The average increase is expected to be 2.7%. Diesel prices will rise 0.1% on average, with a 55% reduction for farmers who face heightened US competition under the **North American Free Trade Agreement (NAFTA)**, and a 3% increase for other users. Residential electricity rates will rise 5.1% on average, while rates for electricity used to pump water for irrigation will drop 14.5%. Industrial and large commercial users will see a 0.3% decrease for high tension, a 0.6% increase for medium tension, and a 1.3% increase for low tension power use. The government has also raised the consumption levels under which domestic consumers will still receive subsidized electricity.

The decision follows protests from states with extreme weather conditions, mostly in the north of the country, where rates soared last year because the use of air conditioning pushed customers above the level where consumption was still subsidized. Apart from helping to keep inflation down, the moderate increases, or decreases, in energy prices this year will encourage greater efficiency at the state-owned energy companies. The government will also raise highway tolls by 2.8% in 2003.

PEMEX completed an upgrade of its Madero refinery in north-eastern Tamaulipas state aimed at boosting output of petroleum products and cutting gasoline imports. With the upgrade, Pemex expects to boost crude oil processing capacity to 190 Mb/d from 155 Mb/d. PEMEX said the overhaul should enable it to produce 90 Mb/d of gasoline and 53 Mb/d of refined products like jet fuel and diesel. PEMEX expects to cut gasoline imports by 50 Mb/d as a result of the upgrade that cost US\$1.2mm and began in Aug.1999, involving the construction of 10 new processing plants and modernizing seven existing ones.

PEMEX has completed revamps of four of its six refineries and plans in the first few months of 2003 to open tenders for upgrading its Minatitlan refinery. The Madero refinery now has total storage capacity of 8.123 MMbbls of which 2.140 MMbbls are for crude oil, 1.553 MMbbls for intermediate products and 4.430 MMbbls for finished products. PEMEX in Nov.2002 produced an average of 3.080 MMb/d, of which it exported an average of 1.691 MMb/d.

PEMEX plans to issue up to US\$1.5bn in foreign-currency denominated bonds and US\$2bn worth of peso-denominated paper this year. Financial Director Juan Jose Suarez said PEMEX required about US\$7bn-US\$8bn in funding from the markets. Suarez broke down the funding sources as follows: around US\$2bn in export credits, between US\$2.5bn-US\$3bn from capital markets, between US\$1.5bn-US\$2bn in bank loans and US\$2bn will be issued as peso-denominated bonds. Of the up to US\$3bn to come from capital markets, PEMEX would use part of a US\$1bn bond it issued in Dec.2002 as well as a \$250mm pound (US\$400mm) bond issued in Jan.2003.

PEMEX will start seeking private bids next month to produce natural gas under multiple service contracts (MSCs), and hopes to sign the first contracts by Sep.2003. The contracts for non-associated gas production in the Burgos basin of northeastern Mexico are expected to contribute 1 Bcf/ d to Pemex's projected output of 7 Bcf/d in 2006. The MSCs, which will group together the individual service contracts that PEMEX traditionally farms out to private contractors, are the quickest way for PEMEX to ramp up gas production. The first gas under the contracts, about 30-40 MMcf/d, could be flowing by Dec.2003.

The contracts, which could be extended for up to 20 years, have been the cause of political opposition.

PEMEX officials reiterated their conviction that the contracts are legal and respect a constitutional ban on hydrocarbons concessions. The contracts are not ideal from a contractor's point of view, since oil companies prefer to book reserves, but the projects are acceptably profitable. Among independents and medium-sized companies, there has been important interest.

PEMEX produced around 4.4 Bcf/d in 2002, down from 4.7 Bcf/d in 2000. The Burgos basin is expected to be producing 2 Bcf/ d by 2006, of which half will be from the first round of MSCs. About two thirds of PEMEX's current natural gas output is associated gas, which is extracted along with crude oil. PEMEX is also planning to raise crude output in 2003 to 3.5 MMb/d from around 3.2 MMb/d in 2002. By 2006, Pemex plans to be producing 4 MMb/d of crude oil.

ICA Fluor Daniel, the industrial engineering company jointly owned by **Fluor Corporation** and **Empresas ICA Sociedad Controladora** announced the signing of a contract for the construction of a combined-cycle power plant in Gomez Palacios, Durango, Mexico. Awarded by **Iberdrola Energia SA**, a subsidiary of Spain's **Grupo Iberdrola**, the plant has been named La Laguna II. The US\$250mm plant will have a capacity of 498-MW and will provide electricity to the booming northern industrial zone of Mexico, as well as stabilizing the electrical grid in the area. Power generated will be sold to the **Federal Electricity Commission (CFE)**, under its program to develop independent power producers (IPPs).

The contract is a 30-month, lump-sum, turnkey project that involves engineering, procurement, construction and start-up services. The project is scheduled for completion in Apr.2005.

This plant will be a clean, combined-cycle, gas-fired plant designed to have minimal environmental impact. It will meet the highest atmospheric emissions standards and have low water consumption by means of an air-cooled condenser. Additionally, the plant will conserve fresh water by recycling residential waste water.

This project is the second power plant awarded by Iberdrola to ICA Fluor Daniel. Currently, ICA Fluor Daniel is constructing the 1,036-MW Altamira III-IV power plant on the Mexican Gulf Coast. This new contract ratifies Iberdrola's confidence in ICA Fluor Daniel's performance.

S&P assigned its 'CCC+' local and foreign currency corporate credit ratings to Mexican steelmaker **Hylsa SA de CV**. S&P also assigned its 'CCC-' rating to the company's US\$139mm senior unsecured bonds due 2007 and US\$161mm senior unsecured bonds due 2010 reflecting their structural subordination to the company's secured debt. The outlook is positive.

These actions follow the completion of Hylsa's debt restructuring and exchange offer of the company's US\$300mm senior unsecured bonds due 2007. The company obtained consent to extend the maturity of US\$161mm under this obligation to 2010. This occurred after Hylsa failed to make the Mar.15.2002, US\$13.9mm coupon payment on its eurobond, as a result of the company's extremely low liquidity position.

The company's financial profile should improve in the near term due to the improvement in the steel-price environment, evidenced by the recovery of flat product prices and the stabilization of long products prices; the improvement of Hylsa's product mix through the company's focus on increasing the sale of high-value added products; and the company's cost reduction initiatives.

S&P also said that the positive outlook is supported by an improved financial profile as a result of its debt restructuring and good operating prospects. A somewhat higher rating could be achieved if current stabilizing trends in US and LATAM steel industry conditions continue or improve. The adverse economic environment in 2000-1 for the steel industry worldwide affected the company's performance. As a result, the company's EBITDA fell by 48% to US\$101mm in 2001 as the recession in the US and Mexico, the company's two biggest markets, hurt demand and prices for steel products.

PERU

Compania Minera Antamina SA's Executive Chairman Augusto Baertl is stepping down from his post. Baertl, a mining engineer, joined the company in 1997 as president and general manager. He was later named executive chairman. Baertl brought the mining project, situated high in the central Andes Mountains, into commercial production in Oct.2001. After his fruitful work at Antamina, Baertl has decided to promote new private investments and to provide management and consulting services.

Antamina is owned by **BHP Billiton** (33.75% WI); **Noranda Inc.**, (33.75% WI); **Teck Cominco Corp.** (22.5% WI), and **Mitsubishi Corp.** (10%WI). Annual

production of the mine in central Peru has been estimated at an average 675 million pounds of copper and 625 million pounds of zinc in its first 10 years with a mine life in excess of 22 years.

Argentine marketer **Pluspetrol** is tendering to sell one 380 Mbbl cargo of Peruvian Loreto crude, loading early-Mar.2003. The cargo is scheduled to load Mar.6-10.2003 from Peru's Pacific port of Bayovar on a free-on-board (fob) basis. Loreto, a sour grade similar to Ecuador's Oriente, is rated at an API gravity of 19 degrees, and generally trades at a discount to Ecuadorean Oriente sour crude differentials. The marketing firm sells Loreto sour crude in monthly tenders to LATAM countries and the US.

More than 20,000 Peruvian mining and energy workers signed on to a new code of conduct designed to protect the environment and practice social responsibility in Peru. The seven-point code was drawn up and approved in Sep.2002 by the **National Society of Mining, Oil and Energy**, which groups 56 companies. The code was initialed by 20,734 workers of those member companies around the country over three months. Whichever firm violates the commitment could be expelled from the society. The society also showed a video in which the presidents of six newly created regional governments home to major mining and energy activity said they would support the code.

Peru's mining sector, responsible for around half of this Andean nation's exports of around US\$8bn in 2002, has been the target of criticism of nongovernmental organizations and indigenous communities that allege miners pollute the environment and trample local residents' rights. Mining companies counter they use cutting-edge technology to protect the environment and boost communities with millions of dollars in aid and technical support.

Compania Minera Antamina SA's copper output fell in Dec.2002 compared to Dec.2001. Antamina's copper output reached 27,096 metric tons in Dec.2002 compared with 39,904 tons in Dec.2001, a 32.1% decline. In 2002, Antamina produced 341,412 tons of copper compared with 161,947 tons in 2001.

Southern Peru Copper Corp. was the largest copper producer in Dec.2002, with production of 33,616 tons, a 1.2% increase from the 33,215 tons produced in Dec.2001. Southern Peru produced 344,298 tons in the full year 2002, a 0.7% increase from the 341,947 tons produced in 2001.

In Dec.2002 **Antamina** also produced 23,531 tons of zinc, compared with 17, 505 tons produced in Dec.2001. In 2002, Antamina produced 260,434 tons of zinc compared with 68,909 tons in 2001.

Volcan Compania Minera SAA had output of 21,322 tons of zinc in Dec.2002. That was also down, by 29.8%, from the 30,361 tons produced in Dec.2001.

The Antamina project is owned by **BHP Billiton** (33.75% WI); **Noranda Inc.** (33.75% WI); **Teck Cominco Corp.** (22.5% WI) and **Mitsubishi Corp.** (10% WI).

Manhattan Minerals Corp. gave the Peruvian government data needed to decide whether it would get the green light for its controversial plan to build a US\$405mm gold and copper mine in northern Peru. A statement released by Manhattan provided the government with a surface and subterranean water study, weather data, air quality, soil and noise analysis.

Manhattan's plan to move some 1,800 homes in a poor town of 16,000 to make way for its open-cast mine has caused a stir in the fertile Tambogrande valley, some 640 miles (1,050-km) north of Peru's capital, Lima, as locals argue the mine would derail local farming and harm the environment. The project is seen as a test of how the interests of foreign mining firms, which the government is trying to lure to this mineral-rich nation, will stand up against the complaints of locals, who say their health and livelihoods are at risk. Farms in the valley produce some 40% of Peru's limes and mangoes.

Manhattan expects annual gold and copper mine production worth US\$110mm a year, or US\$1.33bn, including royalties for the project's 17-year lifespan. Peruvian state miner **Centromin** will own 25% of the project.

In keeping with Peruvian mining requirements, Manhattan submitted an environmental impact study in Dec.2002, arguing that negative impact would be minimal and that the mine will bring the town needed jobs and infrastructure. However, Manhattan's report fell short of government requirements, which notified the company through the **National Institute of Natural Resources (Inrena)** that it would need to fill in the gaps with missing information.

Manhattan says that public opinion in Tambogrande is turning in favor of the mine. Nevertheless, the town's new mayor, Francisco Ojeda, pledges to fight the public hearings process. In an informal vote in

Jun.2002, Tambogrande overwhelmingly rejected the plan to develop the mine. Manhattan slammed that vote as unfair. Ojeda said the town would stage a march in late-Jan.2003 to the regional capital Piura, some 30 miles away, in opposition of the mine.

The government signed five agreements with the **Inter-American Development Bank (IADB)** for US\$70.1mm in loans to reduce government bureaucracy, develop policies for foreign trade and monitor environmental effects of the Camisea natural gas project. Of the total amount, the IADB will finance US\$53.8mm and the Peruvian government US\$16.4mm. A US\$40mm, 20-year loan is to finance a 5-year program on government modernization and decentralization aimed at increasing transparency in administration and citizen participation. Another US\$15mm line of credit is for the preparation and execution of programs and projects. A third operation for US\$0.8mm is to finance the preparation of the Program of Consolidation of Citizen Security. An US\$7.2mm loan operation is to help strengthen the government's capacity to supervise and analyze the social and environmental aspects of the Camisea gas project and implement mechanisms for sustainable development in Camisea's zone of influence.

The Camisea project, which is expected to require a total investment of US\$4.5bn, would boost Peru's economic growth by 0.8% a year during its 40-year life. But the project has stirred controversy among champions of indigenous and environmental interests, who argue the project would cause irreparable damage to Peru's virgin jungle and the isolated native tribes that live there.

The fifth US\$7.2mm operation is for a program of development of foreign trade policies.

Peru will receive loans from the IADB this year for US\$500mm-US\$700mm.

The IADB signed a US\$5mm loan with the Peruvian government to help fund a US\$7.2mm project to strengthen state companies monitoring the Camisea natural gas project on the eastern slopes of the Andes, located some 500-km east of Lima. Peru is to pay the remaining US\$2.2mm for that project from state funds.

Camisea partners, who so far have invested some US\$650mm on field development and pipelines, need an equivalent amount to complete the project. Camisea expects to obtain financing by the 3Q:03.

The IDB loan is part of US\$275mm that Camisea participants hope to obtain from development banks, including US\$75mm from IDB, US\$50mm from **Andean Development Fund**, and US\$150mm from the US **Export-Import Bank**. Additional financing is expected through private banks.

Pluspetrol SA's Peru unit heads the consortium operating the upstream concession for the Camisea project. Another, Argentine company, **Techint SA**, heads the group that operates the transportation concession, and Belgium's **Tractebel SA** subsidiary **Gas Natural de Lima y Callao** leads a third consortium for distribution of the gas in Lima. **Tecgas** and partner, **Transportadora de Gas del Peru**, said investment for transportation facilities would total US\$800mm including financing costs.

Peru postponed a Jan.17.2003 auction for a 30-year concession for its half-built hydroelectric generator Yuncan, which will require a total estimated investment of US\$262mm. The decision (to postpone the auction) comes after a recommendation from an investment bank advising the government on the process. The bank also added that putting off the auction would allow the chief bidders to finish their analyses. The postponement is just one of a score of modifications the government of President Alejandro Toledo has made to its privatization program.

Last year, the government was forced to scale back its plan to raise US\$700mm in state asset auctions following violent anti-privatization protests in the southern city of Arequipa. No new date had been set for the auction, although the government is currently in talks with officials in the Pasco region, where the project is located.

Three companies -- US-based **Public Service Enterprise Group**, local miner **Volcan** and **Tractebel SA** -- had pre-qualified to bid, according to Pro-Inversion. The winner will have to finish the plant and reimburse building costs. Yuncan, located 200 miles (320-km) north of Lima, has a projected installed capacity of 130-MW. The plant is due to be finished by YE:04.

IADB bank President Enrique Iglesias and Peruvian President Alejandro Toledo signed five loan agreements between Peru and the IADB. Peru receives about US\$500mm annually of the some US\$8bn in loans the IADB makes to LATAM. Peru is also negotiating a US\$75mm credit from the IADB for Camisea.

The Energy and Mines Ministry said that Camisea -- which would require an initial investment of around US\$1.96bn and a total of US\$4.5bn to export the gas to the US and Mexico -- was seeking some US\$400mm, including some US\$75mm from the IADB. A group including Argentina's **Pluspetrol** and US-based **Hunt Oil** are due to extract hydrocarbons from Camisea -- with 13 Tcf (368 billion cubic meters) of gas, some light crude and naphtha -- by Aug.2004.

Consequently the project has stirred controversy among champions of indigenous and environmental interests, who argue the project would cause irreparable damage to Peru's virgin jungle and the isolated native tribes that live there. They are lobbying the IADB, the US **Export-Import Bank** and other lenders to deny Camisea the funding it has requested. The IADB has said the project is extremely promising for Peru but cautions it would not participate in the project unless it could guarantee that environmental, social, health and safety aspects could be dealt with.

Argentina's **Techint** is leading the building of a 430 mile (720-km) pipeline that would bring Camisea's gas across the Andes to a plant on the Pacific coast and to Lima. **Tractebel**, a unit of French utility **Suez Lyonnaise des Eaux**, would distribute the gas across Lima, where it would be used to make electricity, supplied to industry and consumed in private homes.

State oil company **PeruPetro** said Peru produced an average of 96,865 b/d in 2002, down 0.2% from an average of 97,097 b/d in 2001. Total oil output in 2002 was flat compared with the previous year at 35.4 MMbbls. Production in Dec.2002 was 95,854 b/d, down 5.4% from Dec.2001. Argentina's **Pluspetrol** is the largest of the 11 oil firms operating in Peru in terms of volume, followed by the Peruvian unit of US company **Petrotech** and Argentine energy company **Perez Companc**.

TRINIDAD & TOBAGO

Aventura Energy Inc. received requisite shareholder approval to proceed with an agreement with **Vermilion Resources Ltd.** that will result in the two companies consolidating their activities in Trinidad. Subject to final Vermilion approval, the transaction will result in the transfer of Vermilion's 100% subsidiary, **Vermilion (Barbados) Ltd.** to Aventura in return for approximately 210.1 million Aventura common shares at a deemed price of US\$0.35/share. Following the transaction, Vermilion will own approximately 71% of Aventura's common shares on a fully diluted basis and

Aventura at an effective 65% interest share will assume the responsibility of managing the operations of the Trinidad Central Block. Vermilion will continue to provide technical, marketing and administrative support. This strategic realignment promises to improve the effectiveness and efficiency of the Trinidad exploration and exploitation activities.

In conjunction with the aforementioned transactions, shareholders also approved a reconstituted Board of Directors of Aventura which will consist of: Steve Bjornson, Lorenzo Donadeo, Claudio Ghersinich, Richard Grafton, Wim Korndorffer, James McFarland, Scott Price. In connection with the new Board appointments and reorganization of companies, the new corporation intends to issue options to purchase up to 15 million common shares to directors, officers, employees and consultants at an exercise price equal to the current market price of the new corporation's common shares.

Shareholders also approved a consolidation of Aventura's share capital on an up to 1:10 basis. If this consolidation were to occur on a 1:10 basis, upon completion of the transaction, Aventura would have issued and outstanding approximately 45.4 million post consolidation common shares.

Completion of the transaction still remains subject to satisfaction of certain closing conditions, including the completion of Vermilion's previously announced reorganization, which is to be considered by Vermilion's shareholders on Jan.15.2003.

VENEZUELA

Shares of Venezuelan iron briquette producer International Briquette Holdings (IBH) will stop trading on the Nasdaq's SmallCap market Feb.18.2003.

The company's local shares will, however, continue to trade on the **Caracas Stock Exchange**. International Briquette stated the administrative costs of maintaining a listing on the Nasdaq SmallCap Market were not justified.

The company had been hit by depressed steel prices, which have cut demand for its products. A general strike in Venezuela that began Dec.2.2002 severely affected the country's oil industry and, in turn, caused shortages in associated gas - which depends on oil production. IBH declared force majeure about 10 days later. A force majeure is a clause in contracts that allows a buyer or seller to declare a special "act of God" or situation "due to circumstances beyond our control" as a reason to not be bound by contract terms.

Although many businesses have begun reopening, strike leaders have refused to call off the action until President Hugo Chavez agrees to early elections. Chavez's critics blame his left-leaning policies for the country's deepening economic crisis, as the economy likely contracted 8% in 2002 amid unemployment of 17% and inflation of 31%. Chavez continues to say the country's problems are due to an "economic coup" led by his opponents.

Venezuelan Finance Minister Tobias Nobrega, outlining planned foreign exchange controls aimed at countering the impact of an opposition strike, said the government would begin with a fixed single exchange rate that would be adjusted monthly. The government would later introduce a dual rate when production in the strike-hit oil industry recovered and political tension eased somewhat.

In late-Jan.2003, President Chavez's government suspended currency trading to halt capital flight and a sharp fall in the bolivar currency caused by the opposition strike, which has slashed vital oil exports. Opposition leaders launched the protest shutdown Dec. 2 to press the leftist leader to resign and call early elections. The sharp drop in oil income caused by the strike has pushed the economy deeper into recession and triggered a fiscal crisis.

Venezuelan Finance Minister Tobias Nobrega slashed the budget of strike-hit state oil company **Petroleos de Venezuela (PDVSA)** by Bs\$5tn Venezuelan bolivars (US\$2.7bn). A prolonged national strike aimed at forcing President Chavez to resign has slashed oil exports, which traditionally provide half of government revenue. PDVSA will shoulder half of a total Bs\$10tn (US\$5.4bn) budget cut, part of a series of measures including currency controls to fight off the economic effects of the crippling opposition strike.

The number of Venezuelan oil workers who have been fired from their jobs topped 5,000 and will keep rising as the government steps up its attempts to break the national strike that has crippled the world's fifth largest oil exporter. **PDVSA** chief Ali Rodriguez said the number of dismissals for dereliction of duties had reached 5,111 and would continue to rise. The company had 37,000 employees before the strike began.

PDVSA has delayed plans for a nitrogen injection project in the east of the country and a combined

nitrogen injection and power generation project in the west indefinitely. Combined investment in the two projects would be some US\$2.7bn. PDVSA's new management has formed a technical committee, which is re-evaluating the feasibility of the two nitrogen injection projects, without saying when the committee might make a decision. Bids for the eastern and western projects were due in Dec.2002

The projects would have produced nitrogen for reinjection to increase hydrocarbons production, and the western project, at Ciudad Ojeda in Zulia state, would have included a 1,000-MW power plant. PDVSA had sold about 40 sets of bidding rules for the projects before Venezuela's general strike started

Fitch Ratings downgraded the senior unsecured foreign currency ratings of **PDVSA** and **CA La Electricidad de Caracas SA (EDC)** to 'CCC+' from 'B'. Fitch also downgraded EDC's senior unsecured local currency rating to 'CCC+' from 'BB-'. All of the assigned ratings have negative outlooks.

The rating actions follow Fitch's downgrade of the **Bolivarian Republic of Venezuela's** long-term foreign currency rating to 'CCC+' from 'B' and its long-term local currency (Venezuelan bolivar) rating to 'CCC' from 'B-'. The ratings remain on negative rating outlook. The sovereign actions reflect pressures on government finances and international reserves due to the severe disruption of the economy, especially the oil sector, as a result of the national strike.

Venezuela has delayed the establishment of a new 4-year power tariff structure that should have become effective Jan.1.2003. **CA La Electricidad de Caracas (EDC)** said the new tariff agreement is now slated to be worked out in mid-2003. In the meantime, the method used to determine tariffs from 1999-2002 will be extended. The 1999-2002 tariff agreement expired Dec. 31.

As for the national strike, the opposition has supported EDC's continued operations. The thermal generator provides power to Caracas, the capital, and surrounding areas, supplying about 16% of national power needs.

EDC reportedly has been receiving normal levels of natural gas. EDC reported its liquid fuels tanks were full, and that it also was taking energy from Guri, the hydrogenerator that produces the bulk of Venezuela's power needs. EDC officials also said PDVSA, which has joined the strike, has also provided a tanker with fuel for EDC.

Crystallex International Corp. has named Ken Thomas as COO, effective Apr.1.2003. The company did not say who Thomas was replacing. Thomas will direct the company's mining operations in Venezuela and Uruguay and will be instrumental in the development, construction and operation of the company's Las Cristinas project in the Bolivar State of Venezuela. Thomas served as senior vice-president, metallurgy and construction, at **Barrick Gold Corp.** from 1990-95, and was senior vice-president, technical services, from 1995 to his departure in 2001. In Apr.2001, Thomas joined **Hatch** and served as global managing director, mining and mineral processing. He is currently managing director for Hatch in Western Australia.

Venezuelan Energy and Mining Minister Rafael Ramirez said the country's oil production should recover to hit an **OPEC** quota of 2.819 MMb/d during the 1Q:03. The oil industry is currently operating below its usual levels of about 3.1 MMb/d.

Venezuela's 130 Mb/d **El Palito** oil refinery was successfully restarted by workers on Jan.24.2003. After several failed attempts to restore it, one of El Palito's crude units is running at 100 Mb/d, but auxiliary units including key gasoline producers, are still shut. Government attempts to restart El Palito hit a snag in mid-Jan.2003 when a fault caused an explosion.

The **Amuay-Cardon** refinery is running one 50 Mb/d crude unit, while the **Puerto la Cruz** refinery is running at 75 Mb/d. The Venezuelan-operated refinery in **Curacao** started up at a rate of 32 Mb/d, but an attempted start of the catalytic cracker failed and will take weeks to repair.

Venezuelan gasoline production, which is key to government efforts to break the strike and ease fuel shortages, is still well below the country's 250 Mb/d demand level.

Citgo Petroleum Corp. announced plans to cut capital spending, delay a US\$250mm public offering and reduce inventories to minimum levels in 2003. Citgo is taking the measures to boost cash flow that has been hurt by the national strike by Venezuelan oil workers. Citgo also announced it would shut down the Lake Charles, Louisiana, Conversion Optimization Project and a mixed distillate hydrotreater project at its Corpus Christi, Texas refinery. Citgo also announced it would

defer several large maintenance turnarounds scheduled at its refineries and reduce product inventories to minimum working levels, and announced that it feels it can continue to keep our customers supplied with the products they need. Citgo will also cut the number of corporate airplanes to one. Citgo owns one plane and leases one.

Credit-rating downgrades and the slowdown in crude-oil supplies from Venezuela had raised the company's cost of doing business. Citgo bought additional volumes of crude in the open market to keep its plants running, paid more for the oil and received less-favourable payment terms.

Citgo, a wholly-owned subsidiary of **PDVSA**, said in a filing with the **US Securities and Exchange Commission (SEC)** that it expects to receive crude oil deliveries in Jan.2003 from PDVSA that will equal about 83% of the volume it received in Jan.2002.

The Venezuelan government plans to offer an US\$300mm domestic debt swap as it struggles with a fiscal crisis deepened by an opposition strike. The swap to extend maturities of bonds would offer an exchange of **National Public Debt (DPN)** bonds and would mature sometime in Aug./Sep.2003.

Finance Minister Tobias Nobrega also announced that the government would carry out domestic debt exchanges as part of a plan to counter the impact of the general strike.

About half of the Bs\$540bn in notes available for the swap are with public institutions, with about Bs\$130bn worth held by private banks, and the remainder spread between public and private trust funds. The Central Bank will conduct the exchange.

The swap would be similar to the auction conducted at the end of last year when the government extended for 1-5 years maturities on US\$2bn in domestic debt -- about 37% of the total domestic public debt due between Dec.2002 and Jun.2005.

With more than 75% of the country's domestic debt maturing during that period, the government hoped the swap would smooth out a crunch in payments over the next two years.

The government has also slashed its 2003 budget and suspended foreign exchange trading to halt capital flight and stop the sharp slide in the local bolivar currency. The bolivar has been battered by strong

demand for US dollars as investors look for safe haven from Venezuela's economic crisis.

Venezuela's state-owned aluminum smelter **Corporacion Venezolana de Guayana (CVG)-Alcasa** chose a consortium comprising Swiss-based **Glencore International AG**, **Pechiney** of France and US construction firm **Fluor Daniel** to build a fifth production line at the plant. Glencore would be the financing partner in the US\$650mm Alcasa Line V project, Pechiney would provide the technology and Fluor Daniel would carry out the construction. Alcasa is expected to will increase its annual aluminum production to 450,000 tonnes a year from 210,000 tonnes.

The Alcasa Line V project forms part of strategic plans by Venezuela's state-run aluminum industry to expand its overall annual output capacity by more than 400,000 tonnes to more than 1 million tonnes by the end of the decade.

To-date, the viability of the project was not affected by the current situation in Venezuela.

Venezuela's state-run aluminum smelter **Venalum** produced 37,000 tonnes in Dec.2002, bringing the plant's total output for the year 2002 to 436,000 tonnes. **CVG**, the state industrial holding which operates the smelter in southeastern Bolivar state, said a cargo of 10,000 tonnes of primary aluminum had already left for Japan. This would be the first shipment to Japanese buyers since CVG agreed a new supply contract with them after a previous contract expired at the end of Mar.2002. CVG said another Venalum shipment of 13,000 tonnes of aluminum ingots also left for the Dutch port of Rotterdam.

Venezuela's state-run aluminum industry has maintained production despite an ongoing opposition strike against leftist President Chavez which has disrupted natural gas supplies to basic industries in mineral-rich Bolivar state.

The gas deliveries were restored at end Dec.2002, according to CVG.

Venalum is 80% owned by a wholly owned subsidiary of CVG. The remaining 20% is held by six Japanese firms -- **Showa Denko K.K.**, **Kobe Steel Ltd**, **Sumitomo Chemical Co. Ltd.**, **Mitsubishi Materials Corp.**, **Mitsubishi Aluminum Co. Ltd.** and **Marubeni Corp.**

GLOSSARY OF TERMS

Bcf - Billion cubic feet
Bcfe - Billion cubic feet equivalent
Bcm - Billion cubic meters
B/d - Barrels per day
BOE - Barrels of oil equivalent
\$/Bbl - Dollars per barrel
\$/Mcf - Dollars per thousand cubic feet
E&P - Exploration and production
Eur - Euro currency
Gas - Natural gas
G/T - Grams per Tonne
IADB - Inter-American Development Bank
IMF - International Monetary Fund
LATAM - Latin America
LOE - Lease operating expense
M - Thousand
MM - Million
Mb/d - Thousand barrels per day
Mcf - Thousand cubic feet
Mcfе - Thousand cubic feet equivalent
Mcm - Million cubic meters
MMbbls - Million barrels
MMbtu - Million British thermal units
MMcf - Million cubic feet
MMcfе - Million cubic feet equivalent
MMcf/d - Million cubic feet per day
MMcfе/d - Million cubic feet equivalent per day
NGL - Natural gas liquids
NSR - Net Smelter Royalty
Oil - Crude oil
Ps - Peso
Rs - Brazilian reais
S&P - Standard & Poor's
US - United States
Tcf - Trillion cubic feet
Tcfе - Trillion cubic feet equivalent
WB - World Bank

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