

Week Ended 28 June 2002

LATIN PETROLEUM
ANALYTICS (LAPA)

LAPA eWeekly (FREE).

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LAPA eWeekly is published weekly by LAPA and distributed via Doble-Click Internacional (DCI). Address editorial inquires/comments to:

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Houston, Texas 77272.

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LAPA eWeekly

ARGENTINA

Cell Phone Firms To Raise Rates

Argentina's four cellular telephone companies will raise rates up to 15% in Jun./Jul.(2002) to offset losses from the currency devaluation. **Telecom Personal SA**, a unit of Telecom Argentina Stet-France Telecom SA, and **Telefonica Comunicaciones Personales Unifon**, a unit of Telefonica SA, have raised rates 10-15% in Jun.(2002). **Compania de Telefonía del Interior CTI** and **Movicom BellSouth**, a unit of BellSouth Corp., plan to raise rates 10-11% in Jul.(2002). Costs for telecommunications companies in Argentine have surged by more than 150% since the bulk of their supplies are imported and have to be paid in US dollars.

New Central Bank Head Named

Argentina's President Eduardo Duhalde named central bank Vice President Aldo Pignanelli to head up the bank. Pignanaelli, who has been VP since Mar.(2002) and a bank board member since 1997, replaces Mario Blejer, who quit last week after complaining to Duhalde about the government's meddling with the bank's autonomy. Blejer, who worked for the International Monetary Fund (IMF) for 20 years before his appointment in Jan.(2002), quit following disagreements with the Economy Minister over how

to phase out restrictions on deposit withdrawals; the use of bank reserves to prop up the currency; and the decision to give discount loans to banks which became insolvent after the government devalued the peso.

Argentine Savers Expected To Covert Deposits Into Bonds

Argentina's central bank expects depositors to convert \$10.5bn pesos (US\$2.7bn) of their savings into government bonds under a program announced in Jun.(2002). The plan calls for the bank to print \$7bn pesos, double the amount printed so far this year, to bail out banks. Owners of the country's banks would have to supply \$3bn pesos of fresh capital to help cover further deposit withdrawals. The plan also sets the minimum level of foreign reserves at US\$9bn and projects 80% inflation and an exchange rate of \$4 pesos per dollar.

CHILE

Telefonica CTC Chile Workers To Strike Over Salary Disputes

Workers at Telefonica CTC Chile voted to go on strike this week over salary disputes. CTC is proposing to freeze salaries of selected workers while raising those of others. CTC is also seeking to lower severance pay to 30 from 40 days, the least allowed by law, for every year worked. Workers at the unit of Spain's Telefonica SA, said 95% of the union's members rejected a

25% pay cut. Telefonica is struggling to cut costs as Chile's economic growth stalls and as a government-imposed rate reduction lowers revenues.

COLOMBIA

FARC Threatens Mayors And Public Servants

More than 100 local government officials in Colombia withdrew their resignations in defiance of rebel threats they will be considered military targets. At least 34 mayors and close to 100 city employees in Arauca and Antioquia states agreed to return to work. The Revolutionary Armed Forces (FARC) threatened the officials after Alvaro Uribe was elected president in Jun.(2002). Military officials have offered the government officials bodyguards, armored cars and the opportunity to work from within military bases.

Uribe, who takes office in Aug.(2002), has announced he will not restart peace negotiations until the rebels declare a cease-fire and stop the kidnappings. Attacks by the FARC increased after peace talks with President Andres Pastrana's government broke down in Feb.(2002). The rebels have been blamed for the murder of one mayor since the threats were made public three weeks ago.

Pastrana Offers Rewards For FARC Chiefs

President Pastrana is offering US\$14mm (US\$2mm/member) in reward money for information leading to the capture of seven of the FARC's top leaders. Pastrana

also offered rewards of US\$1mm each for information leading to the capture of seven top field commanders. Separately, Pastrana announced the creation of a special task force comprised of elite policemen, soldiers and intelligence agency officers, backed with high-tech tracking devices, to lead the hunt for the top commanders. A similar task force led to the killing of former drug cartel boss Pablo Escobar about 10 years ago.

CUBA

Castro Claims US Diplomats Are Violating Cuban Sovereignty

Cuba's President Fidel Castro announced that US diplomats are violating Cuban sovereignty by organizing conspiracies on the island. As a result, the Cuban government may close the US Interests Section in Havana, Cuba and cancel migration agreements if the diplomats continue with their activities. The Interest Sections, opened in Havana and Washington in 1977, are the only official ties between the two countries while the migration agreements, reached in 1994-5, allow the US to grant 20,000 visas a year for the repatriation of Cubans trying to reach the US illegally.

MEXICO

Congress Prepares Bill To Allow Casinos In Mexico

A commission in Mexico's lower house of Congress has prepared a bill to legalize gambling, which would allow investment in casinos and regulate illegal

betting. The interior and public security commission will vote soon on the proposal before sending the bill to the floor of Congress. Officials estimate that 10 casinos located in Mexico would generate annual tax revenues of US\$800mm. The bill would also regulate horse races, rooster fights and sports betting, which could bring in another US\$52mm a year in tax revenue.

Access To The US For Mexican Trucks Delayed For 30 Days

The US will not expand access to Mexican trucks for at least 30 days while the Department of Transportation (DOT) reviews a report on the vehicles' safety and the effectiveness of its inspections. A shortage of inspectors for on-site safety reviews is hurting the DOT's ability to quickly begin monitoring the Mexican vehicles. As a result, the DOT has allocated US\$140mm of its 2002 budget to hire and train new inspectors, expand or build border facilities and create monitoring systems for Mexican trucks which will undergo compliance reviews within 18 months after they are certified for wider US operations. The Mexican trucks will also need to have US insurance, register with the DOT and obey limits on the number of hours truckers are allowed to drive.

Mexican trucks are currently limited to a 20-mile zone north of the US border. The transportation spending bill passed in 2001 calls for full access to roadways in the US, which could occur sometime during 2H:02. Fewer than 30

Mexican companies have been approved to travel beyond the 20-mile zone once the border opens.

Fox Seeks \$4bn For Proposed Development Plan Dubbed Plan Puebla-Panama

Mexican President Vicente Fox plans to raise US\$4bn to build roads and install electric lines in rural areas stretching from Puebla, Mexico to Panama. Opposition to Fox's plan -- which was ratified in 2001 by participating countries Belize, Costa Rica, Guatemala, El Salvador, Honduras, Nicaragua and Panama -- has primarily come from the Institutional Revolutionary Party (PRI) and other politicians. The Central American countries are looking to the Inter-American Development Bank, foreign governments and companies to help finance the project, dubbed Plan Puebla-Panama. Mexico's Congress has allocated US\$159mm of its 2002 budget to the project, while Spanish power company **Endesa SA** is the first and only private investor to commit resources to-date. Endesa announced it would spend US\$70mm to help build a power line connecting all the countries except Belize in return for a percentage of the sales from the line to local distributors.

PERU

Problems In Argentina Blamed For Delay In State-Asset Sales

The fallout from Argentina's default threatens Peru's potential sale of four state-owned electricity distributors, as US and European utilities are backing away from investments in Latin

America (LATAM). The collapse of investments in LATAM has caused power companies such as **AES Corp.**, **CMS Energy** and **Powergen Plc** to write off millions of dollars thus far this year. As a result, Peru plans to lower the price or shift tactics to sell shares of other enterprises to approach a US\$700mm target from state-asset sales this year, and if not, the government plans to seek as much as US\$150mm from creditors in the US.

The government of President Alejandro Toledo has already suspended the sale of two electric utilities to **Tractebel SA** after the move sparked violent clashes, as protesters complained the sale would lead to layoffs and higher electricity rates. Peru is still attempting to sell four distributors-- **Electronorte SAC**, **Electronoroeste SA**, **Hidrandina SA** and **Electrocentro SA** - located in the central/northern regions of Peru. The companies generated revenues of \$1mm soles (US\$172mm) in 2001 and had about 1 million clients.

Toledo Ordered By Courts To Take A DNA Test

A Peruvian court ordered President Toledo to take a DNA test to settle a paternity suit by a 14-year old girl who claims to be his daughter. The test will be conducted at the presidential palace on Aug.7(2002) at the request of Toledo's lawyers. The suit became an issue during presidential elections in 2001 and has since hurt Toledo's reputation. Based on recent opinion polls, Toledo's popularity has fallen to about 21% from

59% when he took office in Aug.(2001).

SPAIN

Unions Calling For Nine Days Of Strikes

Spain's largest unions have called for nine days of strikes along the popular tourist destination, the Costa del Sol, after failing to come to agreements with tourist establishments in the area. The main disagreements between the employers and unions are related to the regulation of sub-contracted workers, the size of wage increases and the percentage of workers to be hired with temporary and permanent contracts. On Jun.20(2002), the same unions held a general strike that shut down factories at companies such as **Ford Motor Co.** and forced companies such as **Repsol YPF SA** to reduce production.

Former Santander Officials Ordered To Stand Trial

A Spanish judge has ordered **Santander Central Hispano SA** Chairman Emilio Botin and former officials of Spain's biggest bank to stand trial over a credit product sold more than a decade ago (during 1987-1991) that allegedly was used to evade taxes. The alleged offenses took place before the 1999 merger that formed Santander Central Hispano, when the bank was known as **Banco Santander SA**. Spanish judges found 138 criminal acts related to the accounts, through which the government was deprived of close to \$143bn pesetas

(US\$863mm) in potential revenue.

VENEZUELA

G-15 Summit Postponed Due To Proposed Opposition Protest

Venezuela has postponed a G-15 summit originally scheduled for Jul.(2002) in Caracas due to a planned protest march on Jul.11(2002) from opponents of President Hugo Chavez. The summit, slated to begin Jul.13(2002), would take place two days after a planned protest march on the presidential palace to mark the three-month anniversary of the military coup that briefly ousted Chavez.

Ban On Companies Wishing To Fire Workers Extended For Another Month

Venezuela extended a ban on companies wishing to fire workers by a month after a 20% increase in the minimum wage two months ago. The ban prevents companies from laying off employees to avoid paying the higher wages. The ban, originally scheduled to last for two months, ended in Jun.(2002). Minimum wages in Venezuela were raised to Bs\$190,000/month (US\$141.20/month) from Bs\$150,000/month. The wage increase is expected to cost the government Bs\$634bn (US\$471mm) this year to pay for raises given to government employees.

LATAM WEEK AHEAD CALENDAR

-Monday, July 1

Colombia: Financial and money markets, schools and state-run offices closed in observance of St. Peter's Day celebration.

-Tuesday, July 2

Mexico: Government releases its monthly report on public debt and spending.

-Wednesday, July 3

Argentina: Mexico's President Vicente Fox meets with Argentine President Eduardo Duhalde.

-Thursday, July 4

Argentina: Mexico's President Vicente Fox meets with Argentine President Eduardo Duhalde.

US: Financial and money markets, schools and state-run offices closed in observance of Independence Day.

-Friday, July 5

Argentina: Mexico's President Vicente Fox meets with Argentine President Eduardo Duhalde.

Argentina: Presidents of MERCOSUR Trade Bloc meet with Argentine President Eduardo Duhalde.

Venezuela: Financial and money markets, schools and state-run offices closed in observance of Independence Day.