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LAPA eWeekly

ARGENTINA

Top US Diplomat Comments On Argentina

Otto Reich, the top US diplomat for the Americas commented that Argentina had let corruption undermine its economy and policies adopted in the 1990s of selling state assets and opening markets. Reich traveled to Brazil and Argentina to communicate the importance of the region after complaints President George W. Bush had ignored Latin America after the September 11, 2001 terrorist attacks on New York and Washington.

Mexican President Vicente Fox also said earlier this month that US commitment to the region had diminished, and called for US assistance to prevent financial problems in Brazil and Argentina from spreading throughout the region.

Government To Allow Utility Companies To Raise Rates

Argentina plans to allow utility companies to raise rates to help compensate for lower revenues caused by the peso's devaluation and rising inflation. The Economy Minister told executives from the biggest water, electricity and gas companies that he plans to allow rate increases of up to 10%. Public utilities in Argentina have been hurt by a 70% decline in the peso since the devaluation in Jan.(2002) and a government

imposed ban on rate increases to slow inflation. Most utilities were left with billions of dollar-denominated debt and peso-denominated revenue which caused them to default on their obligations. Late payments to utility companies have increased as the country's recession deepens.

Unemployment Rate Rose To Record 23% In May

Argentina's unemployment rate rose to a record 23% in May.(2002) compared to 18.3% in Oct.(2001). At least 3 million Argentines are out of work while another 3 million work less than 35 hours a week and are considered to be underemployed. The government surveys unemployment levels twice a year in Oct./May. Results of the May.(2002) survey will be released on Jul.25(2002).

Independent Panel Heads To Buenos Aires Next Week

The International Monetary Fund (IMF) named four former central bankers to help bankrupt Argentina come up with policies to curb inflation and preserve the independence of the Central Bank. The panel is scheduled to travel to Buenos Aires Jul.22(2002) to provide advice to Argentina and the IMF as both sides have openly differed on the policies the country should pursue to rebuild the economy. The need for an independent

panel underscores the lack of trust between the IMF and policy makers in the country.

Telefonica Paying Some Bondholders Cash

The Argentine unit of **Telefonica SA** made cash payments to approximately 16% of the bondholders who earlier rejected an offer to extend Jul.(2002) maturities as revenue declined. **Telefonica de Argentina SA** had convinced most holders of the US\$100mm debt coming due this month to receive new bonds due in 2006 instead of cash. The decision to make payments to bondholders who turned down the swap may create a disincentive for holders of other Argentine corporate debt to participate in similar exchanges being offered by companies such as **Pecom Energia SA**.

Pecom, a unit of **Perez Companc SA**, extended by a week the closing date for creditors to accept a swap on US\$1bn of bonds. **Telecom Argentina Stet-France Telecom SA** has stopped all debt payments after the devaluation and recession reduced revenues.

NASDAQ To Delist Shares Of Grupo Financiero Galicia

Grupo Financiero Galicia SA, said the NASDAQ Stock Market plans to delist its shares on Jul.17(2002). The NASDAQ decided to pull Grupo Galicia's American Depositary Receipts (ADRs) from the exchange after the company failed to provide a signed audit opinion and financial results in accordance with US

Generally Accepted Accounting Principles (GAAP). The company's inability to produce financial statements for US regulators underscores the difficulties it faces in gauging losses in Argentina. **Grupo Galicia**, also known as **Banco de Galicia y Buenos Aires SA**, needed a government-led bailout earlier in the year to slow a run on its deposits.

Federal Reserve Bank Steps Up Oversight Of Argentine Banks

The US Federal Reserve Bank has stepped up its oversight of the New York branches of Argentine banks on concerns of insolvency. US regulators have already required such banks as **Banco de Galicia Buenos Aires SA** and state-owned **Banco de la Nacion** to provide weekly statements and to increase reserve requirements at their New York branches. Other banks under the watchful eyes of Federal Bank include state-owned **Banco de la Provincia de Buenos Aires** and **Banco de la Ciudad de Buenos Aires**.

BOLIVIA

Run Off For Presidency Only A Month Away

Evo Morales, representing Bolivia's coca farmers, will face former president Gonzalo Sanchez de Lozada in a run-off vote for president. Morales leads the Socialist Action Movement representing Indian growers of the coca leaf, which can be processed into cocaine. Bolivia's Congress will choose between the top two candidates before the presidential inauguration

scheduled for Aug.6(2002) as no candidate won 50% of the vote.

Jorge Quiroga became president in Aug.(2001) when he took over from Hugo Banzer, who stepped down to be treated for lung cancer. Banzer later died in May.(2002) at the age of 75. Sanchez de Lozada, who served as president from 1993-97, declared himself the winner after the results of the exit polls were announced on Jun.30(2002).

BRAZIL

China Imports Soybeans From Brazil And Argentina

Last week China imported 120,000 metric tons of soybeans from Brazil and Argentina, easing a shortage caused by new rules on gene-altered food that held up shipments for two months earlier this year. The deliveries will help domestic soybean crushers, which began suffering from shortages after China implemented new rules on imports of gene-altered crops on Mar.20(2002). The deliveries follow the first soybean shipments brought into China in late-May.(2002) under a temporary safety certification system intended to prevent the rules from halting soybean trade between China and its main soybean suppliers, the US, Brazil and Argentina. China has imported about 350,000 tons of soybeans since late-May.(2002), including this week's shipment while another 60,000-ton shipment is expected to arrive next week.

Credit Lyonnais To Close Offices In Latin America and Eastern Europe

Credit Lyonnais SA plans to scale back part of its brokerage business by closing offices in Latin America and Eastern Europe, and will split its emerging markets business between London and New York. The decision will result in the loss of at least 43 jobs. While reducing business in countries like Brazil where the stock market has fallen by as much as 36% during 2002, Credit Lyonnais plans to expand in Australia, Japan and other parts of Asia where it expects an economic recovery to increase demand for its services.

CLSA Ltd., the brokerage unit of Credit Lyonnais, is in negotiations with a number of Australian institutions to set up an alliance. The Asian Development Bank forecasts that East Asian economies as a whole will grow 5.8% during 2002 compared to 4.3% during 2001 and 5.2% in Apr.(2002). CLSA has also acquired an investment bank unit in the Philippines and may soon receive a local investment banking license in China.

CHILE

Banco Santander To Reduce Staff In Chile

Banco Santander Central Hispano SA, Spain's biggest bank, will reduce its workforce by as many as 700 people at its two Chilean banks, as part of a plan to boost earnings. BSCH plans to offer early retirement to as many as 8.2% of its employees at **Banco Santiago SA** and **Banco Santander Chile SA**, which collectively had a workforce of 8,544 workers at

YE:01. BSCH plans to merge the two banks soon in a combination that will create Chile's largest bank, holding 27% of the banking industries US\$46.4bn in loans as of the end of May.(2002).

COLOMBIA

Colombian Airlines To Face Higher Fines For Bad Service

Colombian airlines will face higher fines for bad service following a rise in complaints. Customer complaints rose to 798 during the 1H:02 compared to 420 during the 1H:01, although 50% of the complaints referred to flight cancellations. As a result, the fine for late flight departures will rise to five minimum monthly salaries or Ps\$1.5mm pesos (US\$600) from one to three minimum monthly salaries. Airlines will be fined Ps\$3.1mm pesos for each flight cancellation.

Government Taps Frozen Funds

Colombia tapped Ps\$233bn (US\$94mm) of Ps\$2.3tn pesos in funding frozen last week, to finance social programs included in the US-backed anti-drug strategy. The funds would be used for health care, jobs and judicial-system support programs contemplated under the anti-drug program Plan Colombia. The funds were freed after the government studied the financing needs of specific ministries following the move to freeze part of the country's Ps\$58.2tn spending plan for 2000/2001. The move would give the incoming administration of President-elect Alvaro Uribe greater leeway in

meeting immediate financing needs.

Last week the government froze part of its remaining funding for 2002 to assure international investors it would meet its deficit reduction target of the equivalent of 2.6% of gross domestic product (GDP). The move was announced ahead of this week's visit by a delegation from the IMF.

CUBA

French Airline, Air Lib, To Offer Flights To Cuba

Air Lib, a regional French carrier, will offer flights to Cuba in partnership with **Cubana de Aviacion**. Air Lib passengers will be able to book flights starting at US\$632 to Santiago de Cuba and Havana on flights operated by the Cuban company while Air Lib will offer operational and technical assistance. Air Lib will offer as many as three flights a week to each destination it offers, often by setting up partnerships with other carriers. It also set up its own low-fare unit to compete with **Air France** on some routes and slashed prices on others.

MEXICO

Supreme Court To Reinstate A 20% Tax On Colas Made With Corn Syrup

Mexico's Supreme Court will reinstate a 20% tax on soft drinks made with corn syrup, reversing President Vicente Fox's decree that eliminated the tax. The tax had been approved by Congress during 2001 to ease growing trade tensions between Mexico and the US but was dropped after the US

Corn Refiners Association complained the tax violated the North American Free Trade Agreement (NAFTA).

Replacing the tax could force Mexican soft-drink makers to revert back to domestically grown sugar to sweeten their beverages, possibly costing millions in lost sales to US companies such as **Archer Daniels Midland Co.** and **Corn Products International**, which sell corn syrup to Mexico.

Reinstatement of the tax would be Fox's third loss before the high court, which previously overturned his decree to change the country's daylight-saving time and another to give power companies a larger share of the US\$10bn electricity market. In both cases the court argued Fox had overstepped his authority.

Farmers Protesting The Construction Of A New Airport Kidnap Officials

About 60 Mexican farmers forced their way into a government office in the state of Mexico and kidnapped 10 officials as part of a protest against the construction of a new airport on their land. The machete-toting farmers, who live in communal land north of Mexico City, first clashed with police, resulting in 25 injuries and 15 arrests. Farmers from the village that will become the site for Mexico City's new international airport have been holding regular protests since Oct.(2001) when their land was expropriated for the US\$3bn facility in Texcoco, a dried-up lakebed located about 20 kilometers (12.4 miles) northeast

of Mexico City. In Jun.(2002), about 200 farmers kidnapped workers from the construction site, but released them some three days later unharmed.

PERU

President Toledo To Replace Seven Cabinet Ministers

Peru's President Alejandro Toledo will replace seven of his 16 ministers in a broad cabinet shuffle aimed at strengthening the presence of his party in the government. Toledo has not yet defined the new full cabinet though six ministries will be filled with people from his party, Possible Peru. Only two ministers belonged to Possible Peru in the current cabinet undergoing reconstruction.

Toledo fired two cabinet chiefs in a move that sent the country's bonds tumbling on concerns related to possible changes in economic policies although the government said the changes would not affect the policies.

PORTUGAL

Portugal Lining Up \$1Bn Credit Line

Portugal is lining up a \$1bn euro (US\$989mm) credit line with banks to provide it with a standby source of credit. The new credit line will replace a \$1.5bn euro financing that expires in Oct.(2002) and that had never been used.

Portugal is struggling to avoid becoming the first nation using the euro to have a budget deficit that breaches the limit of 3% of GDP. Portugal's debt is rated Aa2

by Moody's Investor Services and AA by Standard & Poor's Corp.

SPAIN

Profits Of Spanish Companies Lower Under US Accounting Rules

Banco Bilbao Vizcaya Argentaria SA and **Telefonica Moviles SA** separately stated that 2001 profit under US accounting was a fraction of what they reported under Spanish standards. BBVA's profit was \$680mm euros (US\$673mm) or 71% less than the \$2.36bn euros reported under Spanish accounting rules, which permit certain expenses to be charged over more years while Telefonica's profit was \$320mm euros or 64% less. After accounting errors at **WorldCom Inc.** and other US companies shocked investors, Spanish companies are highlighting the differences in accounting rules for local investors who are increasingly making decisions based on trading in US markets.

Spain's Two Main Unions Call Off Strikes At Tourist Attractions

Spain's two main unions called off a strike planned for eight days in Jul./Aug.(2002) in the Balearic Islands and the Costa del Sol, two of Spain's main tourist attractions, after hotels and restaurants agreed to raise wages 4%, while the unions were asking for 6%. Companies on the Costa del Sol agreed to raise wages by 1 percentage point more than the inflation index and hire more workers on fixed contracts.

Separately, **Sol Melia**, Spain's largest hotel operator, which is based in the Balearic Islands, and **Grupo Planeta SA** will end up with control of an internet joint venture as their partners are abandoning the deal. **Santander Central Hispano SA** and **AOL Time Warner Inc.**, both with 40% stakes, will not continue with the project, which offered tourism and banking services. The venture will change its name to **Prodigios** from **AOL Avant** and Santander will either sell or liquidate its 40% stake.

VENEZUELA

Polar To Expand Beer Sales Outside Venezuela

Cerveceria Polar SA could possibly expand sales to Brazil, Colombia, Cuba or Peru - where the company already owns a 22% stake in **Union de Cervecerias Peruanas Backus & Johnson SA** - to boost growth after its share of the US\$1bn Venezuelan beer market declined as a result of increased competition from rivals such as **Cerveceria Regional SA**, which benefited from growing demand for light beer. Sales of light beer have increased to represent 30% of total sales in Venezuela compared to only 3% two years ago while Polar's market share has declined to 65% from 85% during the same two-year period.

Unions Call For General Strike Against Chavez

Just hours after a general protest march drew hundreds of thousands of people to the streets of Caracas, Venezuela's largest labor organization called a

general strike to force President Hugo Chavez from power. Marchers called on Chavez to resign as his policies have polarized the country and led the economy into a recession.

The Confederation of Venezuelan Workers plans to set a date for the next walkout early this week and has plans to block highways during the strike in a bid to bring the country to a halt and to pressure Chavez to resign. The Confederation, which represents about 800,000 workers, aims to capitalize on the success of the most recent march to force Chavez out of office. The federation led a strike in Apr.(2002) that led to the coup that deposed Chavez for two days.

LATAM WEEK AHEAD CALENDAR

-Monday, July 15, 2002

Peru: Cement producers release output and sales figures for Jun.(2002).

-Tuesday, July 16, 2002

Mexico: Central Bank releases weekly results of the auction of the government's Treasury bills or cetes.

-Wednesday, July 17, 2002

Chile company meetings: **Telex-Chile SA**.

Argentina: Government to release preliminary industrial production figures for Jun.(2002).

-Thursday, July 18, 2002

Chile company meetings: **Banco Santander Chile**; **Banco Santiago SA**.

Argentina company meetings: **Banco Suquia SA**.

Uruguay: Banks, schools, and businesses closed for Constitution Day celebration.

-Friday, July 19, 2002

Peru: Central Bank issues weekly report on international reserves as of Jul.16(2002).