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LATIN PETROLEUM
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LAPA eWeekly

ARGENTINA

Utility Companies Allowed To Increase Rates

Argentina will allow utility companies to increase rates to help compensate for rising inflation and a freeze on bank deposits that has reduced demand for their services. The rate increases are expected to commence on Aug.1(2002) and will average at least 10% with a sliding scale that provides higher rates for larger consumers. Utilities had hoped for rates three times higher in hopes of returning revenues to pre-devaluation levels. New prices for water, electricity, gas and telephone services will be released over the next couple of days.

The expected higher rates, which have been frozen since Jan.(2002), will provide some relief for utility companies, which have been experiencing higher-than-expected late payments from customers since the government restricted access to bank deposits in late-2001 and devalued the currency in early-2002.

A number of companies, including telephone operator **Telecom Argentina Stet-France SA**, gas distributor **MetroGas SA**, and water provider **Aguas Argentinas**, have defaulted on their bonds. **France Telecom**, which owns **Telecom Argentina** in partnership with **Telecom Italia Spa**, announced its decision to exit Argentina and

wrote off its stake in its units in Mar.(2002).

Citigroup's LATAM Divisions Suffering

Citigroup Inc.'s consumer banking business in Latin America (LATAM) lost money for a third straight quarter due to persistent recessions in Argentina and Brazil. LATAM, excluding Mexico, was the only region in the world where Citigroup failed to profit during 2Q:02. The LATAM consumer unit reported a loss of US\$26mm during 2Q:02 after reporting a combined loss of US\$170mm in the prior two quarters.

Citigroup has 89 branches in Argentina and 53 branches in Brazil where the Brazilian currency and bonds have declined for three consecutive months on concerns the government may default on its debt. Citigroup has reported US\$2.2bn in losses in Argentina since the default but says it remains committed to the country.

Price Caps Set On Domestic Flights

Argentina will set a price cap on increases that airlines can charge for domestic flights after they solicited increases of as much as 90% to offset higher costs. After discussion, the government decided to allow airlines to raise prices by as much as 40% above or below a ticket reference price

set before the currency devaluation. The bulk of airline costs, including fuel, are either set in dollars or are influenced by the exchange rate.

San Luis Province Challenges Supreme Court

Argentina's Supreme Court ruled against an order by the northwestern province of San Luis to return bank deposits the national government is attempting to freeze. The country's banking associations had appealed the law by San Luis, the only province to challenge the national rules in the high court. The Economic Minister blamed the court orders for the government's failure to persuade depositors to take state bonds in exchange for their savings. The central bank stated banks would not be able to return to solvency until the orders stop.

BRAZIL

Capital Markets React To News Of IMF Visit

Brazil's bonds, stocks and currency all rose last week after the International Monetary Fund (IMF) announced Deputy Managing Director Anne Krueger would soon visit the country. Brazil's benchmark 8% bond due 2014 rose to 63.63, pushing the yield down to 18.27% from 18.3%. The proposed visit added to speculation Brazil would line up more IMF aid after tapping a US\$15bn credit line approved in 2001.

Brazil's bonds and currency have declined since Apr.(2002) on concerns an opposition victory in Oct.(2002)'s presidential elections

would increase the odds of the country defaulting on its US\$336bn in debt. Luiz Lula da Silva, the Worker's Party candidate, leads in opinion polls while Jose Serra, the government candidate is trailing in third place.

To assure that a new IMF agreement is reached by Sep.(2002), the Brazilian government will require all presidential candidates to agree to its terms. The candidates will also be involved in negotiations and asked to sign an agreement committing them, if elected, to a 4% inflation rate and a surplus of revenue over expenses before interest payments on government debt of 3.75% of gross domestic product (GDP) in 2003.

COLOMBIA

2003 Budget Forecast To Remain Flat With 2002 Levels

Colombia plans to keep spending in 2003 flat at Ps\$62.9tn pesos (US\$25bn), the forecast for 2002, in order to reduce an expected deficit of more than US\$2bn. Colombia needs to control spending to boost investor confidence that it is reducing its deficit. President-elect Alvaro Uribe has promised to boost expenditures for the military and the poor. Officials of the outgoing and incoming administrations have been working together on next year's proposal, which must be presented by the outgoing administration before Aug.7(2002), when Uribe takes office. The government is trying to keep its 2002 budget deficit at the equivalent of 2.6% of the country's GDP of US\$89bn compared to 3.3% during 2001.

Bavaria Planning To Increase Stake In Peruvian Beermaker

Bavaria SA, Colombia's biggest brewer, expressed plans to buy out a rival's 22% share in Peruvian beermaker **UCP Backus & Johnston SA**. Bavaria stated it is willing to pay Venezuela's **Empresa Polar SA** US\$21.95 for each Backus Class A voting share, the same price it paid the Peruvian investor group Brescia for an 18% share in the company. Polar, which acquired its first shares in Backus three years ago, unsuccessfully tried to block the sale in an over the counter transaction, alleging to Peruvian stock authorities that there may be accounting errors by Backus related to invoices to suppliers.

Central Bank Says Proposed Salary Increases Should Not Exceed Inflation Targets

Colombia's Central Bank stated that proposed salary increases for 2003 should not exceed the forecast inflation target of 4-6%. The bank urged government and private companies to use the inflation target as a benchmark to set their wage increases and added that increases beyond the inflation target, which has yet to be established, would hurt state and company finances. During 2002, Colombian state workers received pay raises between 5-8% with inflation running about 6% for the trailing 12 months. The wage increases triggered a series of strikes and protests, as workers argued their average wages were below inflation. The government and Central Bank want to keep salary increases at or below inflation to keep prices under

control. Inflation in 2002 is on track to end in the single digits for the fourth consecutive year after climbing to 7.7% in 2001.

CUBA

Bush To Veto Legislation Allowing US Citizens To Visit Cuba

US President George W. Bush stated he will veto legislation allowing US citizens to visit Cuba if it is approved by the US Congress. Bush also suspended for six months a trade provision (The Helms-Burton law) opposed by European Union (EU) allies and Canada that would allow US citizens to sue foreign companies that obtain assets seized by Fidel Castro's government. The move continues former President Bill Clinton's decision to set aside a part of a 1996 law to toughen sanctions against Cuba. Bush signed similar waivers in Jan.(2002) and Jul.(2001).

The Helms-Burton law allows US citizens and companies to sue non-US companies that obtain assets in Cuba formerly owned by US citizens that were seized by Castro's government. The EU, Canada and other countries say the Helms-Burton law inhibits their rights to trade. US-based Cuban-American groups oppose any easing of the 40-year old trade embargo to punish Castro.

ECUADOR

Refinery Cuts Output Amid Demonstration

Ecuador's biggest oil refinery cut output by 25% after demonstrators in the province of Esmeraldas blocked roads and

prevented trucks from entering and leaving the plant. The Esmeraldas refinery, which produces most of Ecuador's domestic fuel, cut output to 82.5 mb/d from 110.0 mb/d after workers were unable to transport liquid petroleum gas (LPG) out of the plant. The strike may cause the Esmeraldas refinery to shut down completely and create a shortage of fuel for vehicles and power plants. A second refinery, La Libertad, in the province of Guayas already cut output to 20 mb/d from 45 mb/d since Jul.4(2002) due to protests by workers over salaries. Demonstrators are demanding that an area known as La Concordia be included in Esmeraldas province. The area is currently divided between Esmeraldas and Pichincha provinces. Oil is Ecuador's second-largest source of revenue after taxes and the country's leading export product.

MEXICO

Santander Will No Longer Bid For Shares Of Bital

Santander Central Hispano SA will no longer bid for additional shares in **Grupo Financiero Bital SA**, clearing the way for **HSBC Holdings Plc** to seek a controlling stake in Mexico's fifth largest bank. Santander, which owns 25% of Bital and had considered increasing its holding stated it would not make an offer for now since price expectations of Bital's controlling shareholders, two Mexican families, were too high.

Spain's largest bank backed away from a bid a day after its larger rival HSBC said it may offer to

buy a controlling stake in Bital. Investors believe Santander, whose market value is about a third of HSBC's, stood little chance against Europe's biggest bank in a bidding war. Bital has a US\$6.7bn peso (US\$690mm) market value.

Money Transfers To Mexico From The US Could Surpass 2001 Levels

Mexicans working and living in the US sent US\$912mm back to their families in Mexico in May.(2002), putting the money transfers this year on track to surpass last year's levels. The May.(2002) remittances, which averaged US\$330 each, an increase over the US\$806mm reported in Apr.(2002). Dollar transfers in the first five months of 2002 climbed 10% to US\$3.89bn compared to the same period last year, on pace to break 2001's US\$9bn record.

Higher remittances, the biggest dollar-earner for Mexico after exports and oil sales, will help Mexico reduce its US\$17.8bn current account deficit and may help to strengthen the peso which lost 9% against the dollar during 2Q:02. More than 90% of the remittances were made via wire transfers, while the remaining 10% was divided between money orders, checks and cash.

PARAGUAY

Five-Day State Of Emergency Lifted

Paraguayan President Luis Gonzalez Macchi lifted a five-day state of emergency after federal police quelled anti-government

protests. Macchi has faced daily criticism from political opponents who say his administration is corrupt and has failed to solve economic problems. Macchi banned gatherings and ordered police to put down demonstrations last week after two people were killed, 90 injured and about 300 other arrested in confrontations with protesters loyal to former General Lino Oviedo. Oviedo and Vice President Julio Cesar Franco, a member of the opposition, have called on Macchi to resign.

Paraguay, ruled by a military dictatorship until 1989, has been hampered by political turmoil, a recession in neighboring Argentina and slow growth in Brazil. Oviedo, who fled to Brazil to avoid a 10-year sentence for alleged involvement in a failed uprising in 1996, denied organizing the protests. Paraguayan officials have accused Oviedo of organizing several coup attempts in the past couple of years.

Paraguyan government officials asked Brazil to expel Oviedo as Globo News television showed video footage of Oviedo urging a crowd in a town along the border of Paraguay and Brazil to organize protests aimed at toppling the government. The Brazilian government does not permit foreigners to use its territory for political demonstrations that cause instability in neighboring countries, especially partner countries.

THE AMERICAS

Bush Urges Lawmakers To Resolve Fast-Track Issues

President Bush urged lawmakers to rescue legislation expanding his trade-promotion power or fast-track authority, amid concerns by companies such as **Boeing Co.** and **Caterpillar Inc.** that the measure was losing momentum. The companies are concerned that opposition - from free-trade advocates such as labor unions together with turf battles in Congress - are hurting the bill's chances. The lawmakers want the issue sorted out, fearing a delay could doom the bill's chances as lawmaker's begin to focus on the Nov.(2002) elections.

Bush meet with the 23 Congress members appointed to resolve House and Senate versions of the fast-track bill and urged them to finish their work before leaving for recess in Aug.(2002). The measure, if passed, would give the president the power to negotiate trade deals lawmakers can not amend, giving him a stronger hand to open markets and boost the economy. Without the bill, the US will not be able to finish negotiations at the World Trade Organization to bring down market barriers or reach a free-trade agreement covering 34 Western Hemisphere nations. After the meeting, the lawmakers stated their intentions to agree on the bill, while outlining the partisan disputes standing in its way.

LATAM WEEK AHEAD CALENDAR

-Monday, July 22, 2002

Brazil: **Net Servicos de Comunicacao SA**, Brazil's largest cable television operator, will explain to analysts of the

Capital Market Association their plan to issue new shares. **Embratel Participacoes SA**, Brazil's largest long-distance operator, will announce 2Q:02 results after the markets close. Luiz Inacio Lula da Silva will present his official political plan. The event will take place at the Auditorium Nereu Ramos in the Lower House.

-Tuesday, July 23, 2002

Brazil: **Ciro Gomes**, the Popular Socialist Party's presidential candidate, will participate in a debate with the Sao Paulo Industry Federation about economic, political and social issues. The meeting will take place at the Federation's headquarter. For information, contact 55.11.3549.4605/4222 or falbuquerque@fiesp.org.br

Argentina company meetings: **Argitech Inversora SA**.

-Wednesday, July 24, 2002

Peru earnings expected: **Cia de Minas Buenaventura SA**.

Venezuela: Banks, schools, and businesses closed for Simon Bolivar's Birthday celebration.

-Thursday, July 25, 2002

Argentina company meetings: **Colorin IMSSA**.

Colombia: Colombia's National Association of Financial Institutions, think tank Federsarrollo and Council of the Americas host a conference on how Colombia is viewed by Wall Street. Speakers include Council VP Susan Kaufman, **ABN Amro Bank** economist Carlos Janada,

visiting Princeton professor
Eduardo Pizano, Finance
Minister-designate Roberto
Junguito and US Ambassador
Anne Patterson.

Cuba: Banks, schools, and
businesses closed for National
Rebellion Day celebration.

Peru: Peruvian President
Alejandro Toledo travels to
Guayaquil, Ecuador to attend a
summit of South American
presidents.

-Friday, July 26, 2002

Peru earnings expected: **Volcan
Cia Minera SA** and **Southern
Peru Copper Corp.**