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LAPA eWeekly

ARGENTINA

Half Of All Argentines Live In Poverty

Recently published reports reveal that 50% of Argentina's 36 million people live in poverty while 21.5% of the workforce is unemployed. Data in a May.2002 census released by the National Statistics Institute showed Argentina has the highest unemployment of 56 countries tracked by Bloomberg. The government also said 22.7% of Argentines are indigent and lack the money needed to cover their basic nutritional, housing and other needs.

Argentina's debt default and currency devaluation have deepened a recession already in its fourth year, reducing both jobs and purchasing power. Rising unemployment has increased social and political turmoil and prompted President Eduardo Duhalde to move forward next year's presidential elections to Mar.2002 from Sep.2002 after two unemployed demonstrators were killed by police during an anti-government protest.

Rising poverty has prompted groups of unemployed to block roads almost daily to demand work and government support. Argentina's crime rate has also soared as the economy has deteriorated, with robberies increasing seven-fold from 1992-2001.

Argentine Courts Investigate Menem's Offshore Account

An Argentine judge is investigating suspected false financial returns by former Argentine President Carlos Menem. Tax officials also claim Menem is guilty of failing to report and pay taxes on assets. Argentina levies an annual 0.5% wealth tax on personal belongings with a combined value that exceeds Ps\$100,000 pesos (US\$27,400). If found guilty, Menem would face a prison sentence of as much as two years and a lifetime ban from holding public office.

Menem acknowledged the existence of a Swiss bank account after a New York Times story reported that Iran paid him US\$10mm to halt investigations into suspected Iranian links to the 1994 bombing of a Jewish community center in Buenos Aires. Menem leads other candidates from the governing Peronist party who will compete in the Nov.2002 primaries.

Foreign investors favor Menem's policies since they support free markets while opponents argue he increased debt to finance state spending, which ultimately led to Argentina's financial collapse. A recent survey of 200 businessmen and economist indicted that 89% foresaw a Peronist victory in the upcoming elections.

Foreign Advisors To Support IMF Aid

Argentina's Economic Minister said a group of foreign advisers that visited Buenos Aires will most likely support the country's requests for new loans from the International Monetary Fund (IMF). The advisers did not support re-pegging the peso to the US dollar, adopting the US dollar as the country's currency nor prompting economic growth at the cost of accelerating inflation. Argentine politicians and economists have already suggested all three policies.

Argentina To Assume Debts With New Bond

Argentina's central government plans to assume about US\$8bn in debt incurred by provincial governments, and in exchange plans to give banks that hold provincial debt a new 16-year bond. The decision comes as a result of a meeting between the country's Economic Minister and a handful of provincial governors. Most of the country's 23 provinces are in default.

BRAZIL

Brazilian Government To Revive Fuel Price Controls

Brazilian President Fernando Henrique Cardoso plans to control the price of cooking gas and other fuels, ending seven months of market pricing for the country's distributors. Cardoso ordered the national petroleum agency (ANP) to regulate prices after presidential candidate, Jose Serra, complained that a 32.41% rise in the price of cooking gas was excessive. Fuel prices have risen as a 22% decline in Brazil's

currency against the dollar has caused the local price of oil and other dollar-denominated commodities to rise.

CHILE

Chile To Ease Company Taxes

Chile plans to lower some taxes in an effort to increase investment and stimulate the economy. The measures include allowing companies to write-off the cost of fixed assets quicker, and easing taxes for international companies by speeding implementation of treaties to end double taxation.

The government wants to stimulate spending by companies to reduce a 9.1% jobless rate and bolster an economy that only grew 1.5% during 1Q:02, its slowest pace since 1999. Chile is adding incentives for international investment at a time when concern that Brazil may default on its debt, thus lowering corporate spending in Latin America (LATAM).

The measures include ending taxes in Chile on profits from international companies' investments in the rest of LATAM, and preventing companies from Peru, Ecuador, Poland, Korea, Norway, Brazil and Chile with units in these countries from paying taxes twice. Chile also will eliminate a stamp tax paid by consumers that want to refinance mortgages, a measure that will enable more people to take advantage of declining interest rates.

COLOMBIA

Uribe And Congress Split Over Reform

Colombian President-elect Alvaro Uribe and his supporters in congress continue to disagree over when to implement his campaign to cut the number of legislators. Uribe wants to merge the two houses of congress into one 150-member house. Members of Colombia's 102-member senate and 166-member lower house are pushing for the reduction in legislators to begin with the 2006 elections. Uribe and his supporters in congress agree that other reforms, which include the reduction of salaries in congress and a reorganization of how members are elected, should take effect immediately.

Rebels Release Video Of Political Captives

Colombian rebels released a video of Ingrid Betancourt and Clara Rojas, a candidate and her running mate in the May.2002 presidential election. In the video, Betancourt called on the Colombian government to resume peace talks with her kidnappers, the Revolutionary Armed Forces of Colombia (FARC), the country's largest rebel group. Betancourt also condemned the Colombian government for not attempting to rescue her or her running mate.

Betancourt and Roja were captured on Feb.23.2002 after they entered the rebel-controlled zone in the country after the government broke off peace talks. The government rejected the FARC's offer to trade Betancourt and other hostages held up for jailed rebels. The captives include five congressmen and the elected governor of Antioquia province.

ECUADOR

South American Foreign Ministers Hold Meeting

South America's foreign ministers held a two-day meeting in Ecuador to discuss the fight against drug-trafficking and strengthening democracy in the region. The leaders of Ecuador, Argentina, Bolivia, Brazil, Colombia, Chile, Guyana, Paraguay, Peru and Venezuela participated in the meeting while the presidents of Surinam and Uruguay cancelled their participation. The diplomats will prepare the final document titled "Guayaquil Consensus for Integration, Security and Development", to be published at the conclusion of the conference.

Telecommunications Industry Opens To Competition

Ecuador sold two telephone licenses for US\$5.2mm, opening the country's telecommunications industry to competition and clearing the way for millions of dollars in investments. **Consortio TVCable**, the nation's main provider of cable TV, and **Sakon Holding Ecuador**, won the two licenses. They were the only two companies of seven qualified bidders to make offers. The two new providers now have six months to begin offering services to residents. Each company must invest at least US\$40mm over the next decade and install at least 50,000 lines. A quarter of them must be outside the main cities of Quito and Guayaquil.

The sale means that for the first time new operators will compete

with state companies **Andinatel SA** and **Pacifictel SA** in fixed line and data transmission operations. The two operators will provide Wireless Local Loop service, which uses radio waves to transmit voice and data. With the state companies, residents have had to wait months or years for the installation of new telephone lines.

Airport Contract Awarded

Ecuador's government awarded the Canadian Commercial Corporation the concession to construct and operate the city's new international airport. Canadian has five years to build the airport at a cost of US\$300mm. Under the concession, the company then owns operating rights for 30 years before turning the airport over to the Quito government.

The new airport will replace the existing airport which was built in the early-1970s, and will be equipped to handle wide-bodied aircraft. Quito has grown around the present airport, which has no room to expand to allow more car parking or bays for aircraft.

Plans for the new airport were drawn up several years ago, but were never implemented due to a lack of funding. Construction of the airport in the city of Puembo, located about 16 miles west of Quito, is expected to begin in Mar.2003. Canadian will take over the operation of the existing airport in the coming months until the new facility is ready.

MEXICO

Chamber Of Commerce Lobbys For Casinos

Mexico's tourism chamber of commerce is urging Congress and President Vicente Fox to legalize casino gambling in Mexico as a way to compete with other tourist destinations and increase foreign investment. The tourist association, which represents hotels, shopping centers and golf courses, argued that allowing casinos to operate in locations such as Acapulco and the Pacific Coast would help to modernize hotels and resorts in need of investment.

The proposal calls for Mexico's gaming industry to be as much as 49%-owned by foreign companies to ensure the casinos have strong financial backing and management from companies with gaming experience. The association said it would build or upgrade two hotel rooms to five-star quality for every slot machine in the casino, capping the expansion at 2,500 rooms. Casino profits would have to be reinvested in Mexico for the first decade.

Congress is slated to debate granting licenses for operating casino's at their next session, which begins in Sep.2002. The industry estimates 40 casinos would generate at least US\$3bn in additional revenues and create close to 200,000 new jobs.

Government To Sell 36% Stake In Scotiabank Inverlat

Mexico will sell its 36% stake in **Grupo Financiero Scotiabank Inverlat SA**, the country's sixth-largest bank, as part of an effort

to close a budget gap. The government acquired Scotiabank during a 1995 bank rescue program after a devaluation led to increased loan defaults. Scotiabank, with Ps\$78.5bn pesos (US\$8.1bn) in assets, is controlled by **Bank of Nova Scotia**, Canada's fourth-biggest bank.

The sale would be the government's third asset sale this year, helping it raise cash and close a budget deficit expected to be 0.65% of the US\$620bn economy. The stake will be sold as a whole to Scotiabank or the government will sell the shares in parts on the Mexican stock exchange.

PERU

Peru To Sell US\$500mm Of Foreign Bonds

Peru may sell US\$500mm of foreign bonds to plug a shortfall in revenue from state asset sales. The **Andean Development Corp.** bank will guarantee the securities. Peru is seeking US\$700mm from state asset sales under an agreement with the IMF to finance a projected budget deficit. Peru sold its first foreign bonds in more than seven decades in Feb.2002. The country has a foreign debt rating at Moody's Investors Service and Standard & Poor's of Ba3 and BB-, respectively. Both ratings are three levels below investment grade.

Cisneros To Buy Stake In Peruvian Beermaker

Grupo Cisneros, owner of Venezuela's second-largest

brewer, acquired an option to buy a US\$200mm stake in **UCP Backus & Johnston SA**, in a takeover battle for Peru's largest beer maker. The option is equal to about 16% of the Backus voting shares or 11.5% of the combined voting and non-voting shares.

Last week Peru's **Brescia** investor group sold an 18% stake in Backus to **Bavaria SA**, Colombia's biggest brewer, for US\$420mm, or more than a 100% premium, sparking a takeover bid for the Peruvian company. Venezuela's **Empresas Polar SA**, which owns 22% of Backus, unsuccessfully objected to Bavaria's purchase. According to recent data, **Cerveceria Regional** has a 26% share of the Venezuelan beer market while Polar has a dominant 63.4% market share.

THE AMERICAS

US Treasury Secretary Postpones Trip To Latin America

US Treasury Secretary Paul O'Neill postponed his trip to LATAM until Aug.5.2002 at the request of US President George W. Bush. President Bush requested the O'Neill remain in Washington to help lobby Congress for his administration's economic agenda. O'Neill had planned to travel to Brazil, Argentina and Uruguay this week but will now tour the region Aug.5-7.2002.

Lawmakers Expand Bush's Trade Power

The US House and Senate agreed to expand President Bush's trade-negotiating power, clearing the

path for congressional approval of one of his top legislative priorities. Legislation also includes as much as US\$12bn over 10 years to provide job training and health insurance for workers displaced by expanded trade as well as requirements that trade negotiators protect worker rights and the environment. The negotiators also agreed to end most tariffs on imports from Colombia and other Andean nations and cut duties on goods from poor countries working to improve human rights. Passage of the fast-track legislation will help Bush regain momentum to open markets in the US and overseas.

URUGUAY

Economic Minister Resigns

Uruguay's Economic and Finance Ministers resigned after members of the governing coalition demanded new policies to halt a slide in foreign reserves, bank deposits and the economy.

Uruguay's Senate voted to replace the country's three-member central bank and named Julio de Brun to head it up a day after President Jorge Batlle replaced his economy minister. Miguel Vieites was appointed vice president of the central bank and Andres Pieroni took the third director's seat. The new directors will need to implement policies to halt a wave of bank withdrawals that threatens to undermine the currency and financial system.

Even though Uruguay recently received US\$3bn in loans from the IMF to help shield the economy from financial and economic problems in South America, investor confidence is

waning due to currency devaluations and recessions in neighboring Argentina and Brazil, where the country sends more than 50% of its exports. Foreign reserves have fallen 38% as of Jul.2002 and are down more than 65% since Dec.2001. Bank deposits are falling as savors worry Uruguay may implement withdrawal restrictions similar to those in Argentina.

LATAM WEEK AHEAD CALENDAR

-Monday, July 29, 2002

Peru holiday - Independence Day. Financial markets, banks, government offices and most businesses are closed for two consecutive days as the government established a second holy day to boost tourism.

Chile earnings expected: **Enersis SA** and **Empresa Nacional de Electricidad SA**.

Mexico: Pope John Paul II visits Mexico where he will meet with President Vicente Fox.

-Tuesday, July 30, 2002

Argentina company meetings: **Mercado de Valores de Buenos Aires SA**; **Ledesma SAAI** and **Midland Comercial SA**.

Mexico: Pope John Paul II visits Mexico where he will meet with President Vicente Fox.

-Wednesday, July 31, 2002

Brazil earnings expected: **Klabin SA**.

Mexico: Pope John Paul II visits Mexico where he will meet with President Vicente Fox.

Peru earnings expected: **Banco de Credito del Peru**.

-Thursday, August 1, 2002

Brazil earnings expected: **Tele Norte Leste Participacoes SA**.

-Friday, August 2, 2002

Peru: Central Bank issues weekly report on international reserves as of Jul.30.2002.