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# LAPA eWeekly

## ARGENTINA

### Over-looking Argentina, the US Endorses Aid For Uruguay and Possibly Brazil

US Treasury Secretary Paul O'Neill endorsed additional international aid for Uruguay and Brazil. O'Neill's endorsement implies the International Monetary Fund (IMF) may soon reach an agreement on new aid packages with other Latin American (LATAM) countries. As the IMF's top shareholder, the US can effectively veto assistance programs.

In recent weeks, a wave of banking, debt and political crises have forced policy makers in Argentina, Brazil, and Uruguay to appeal for help. O'Neill will visit the countries this week to assess the needs of each.

Banks in Argentina have been left insolvent after a US\$96bn debt default and currency devaluation wrecked havoc on its economy. Argentine officials estimate US\$18bn in loans will allow it to avoid another default. Argentina's US\$20bn credit line was severed in Dec.2002 and IMF officials say they will not help the country until it curbs inflation, limits the printing of pesos, rebuilds its shattered banking system and cuts provincial spending.

Brazil's bonds and currency have fallen over the last five months due to concerns it will default on its Rs\$1tn reals of debt after

presidential elections in Sep.2002. Brazilian officials estimate the country needs US\$20bn to continue financing its debt after its current US\$16bn package expires in Dec.2002.

Uruguay lost its investment-grade rating and closed banks last week after a run on deposits threatened the stability of its banking system. Uruguay's US\$20bn economy had been little affected by the troubles of its neighbors up until recently.

## ECUADOR

### Finance Minister Meets With IMF

Ecuador's Finance Minister Francisco Arosemena met with the IMF on Aug.2.2002 in an attempt to close on a US\$240mm loan agreement. Arosemena presented the IMF with a plan to help reduce Ecuador's budget deficit.

Arosemena, who becomes Ecuador's 13<sup>th</sup> finance minister in five years, helped negotiate a debt swap after the country defaulted on its bonds in Sep.1999, and has worked as a general secretary and economic advisor in the presidency since Feb.2001. Arosemena assumed his new position in Jun.2002 and immediately announced that reaching a new loan agreement with the IMF before the Oct.2002 presidential elections was his top priority. The loan would help keep Ecuador from continuing to default on its loans to the Paris

Club, a group of international lenders.

Both Arosemena and Ecuador's President Gustavo Noboa, have pledged to not roll back any of the large public-sector wage increases implemented in early-2002.

Talks with the IMF were strained in early-2002 after months of unsuccessful negotiations over the budget deficit and fiscal improvements under the previous minister, Carlos Julio Emanuel, who resigned amid a corruption scandal.

## MEXICO

### Economy Expands During Second Quarter

Mexico's economy is estimated to have expanded 2% during 2Q:02 compared to 1Q:02. The expansion is primarily the result of rising industrial output which helped create 103,000 jobs and break an economic decline that began in late-2000. Industrial production in Mexico grew 4.2% during 1H:02, led by robust electricity and construction production. Strong economic growth during the quarter also helped increase tax collections to Ps\$174.3bn pesos (US\$17.7bn).

Economists are skeptical Mexico, which sends 80-85% of its exports to the US, has completely shaken off an economic slowdown. Many believe that even after posting growth during 2Q:02, a weaker than expected recovery in the US could still slow demand for Mexican goods and services and soon drag the country back into recession.

The Mexican government failed to meet its own total revenue goals for the Jan.-Jun.2002 period due to overspending during 1Q:02 even after tax collections and other income rose during 2Q:02. Total revenues were Ps\$670.8bn during 1H:02 or 15% lower than first projected. Mexico posted a surplus after selling Ps\$36.3bn of state assets, including a 12% stake in the No. 1 bank, **Grupo Financiero BBVA Bancomer SA**, and the country's largest life insurance company, **Aseguradora Hidalgo SA**. Federal spending rose by 5% to Ps\$645bn during the 1H:02, prompting investor criticism that Mexico was over dependent on asset sales and oil revenues to guarantee future growth.

### Plans For New International Airport Cancelled

Mexico will have to locate another site to build its new US\$3bn international airport. The government decided to cancel its plans to build the proposed airport after months of protests by farmers who refused to sell their land. Many small communities affected by the construction complained the government's original offer of US\$0.06/square meter of land was too low, while other landowners had decided not to sell their land regardless of the offer price. Further, the government will return the communally owned land that was expropriated in Oct.2001 for the proposed airport in Texcoco, located about 20 kilometers (12.4 miles) northeast of the capital, Mexico City.

The decision to abandon the site that took years to select will delay

a project President Vicente Fox's government deemed necessary to ease congestion at Mexico City's 74-year old Benito Juarez International airport, where aging infrastructure and runways operating at full capacity have increased the likelihood of accidents. As a result, the government may opt to build a new airport in Tizayuca, located 65 kilometers north of Mexico City, in Hidalgo state. Tizayuca was earlier deemed a more-costly location and less-convenient.

## THE AMERICAS

### Passage Of Fast-Track Authority To Further Affect US Textile Industry

The US textile industry, which has lost more than 700,000 jobs in the last eight years, will feel the effects of the most recent trade legislation approved by the US Congress. US President George W. Bush signed the bill into law on Aug.6.2002. The fast-track legislation, which gives the president the power to negotiate trade accords that lawmakers cannot amend, includes a provision cutting duties and quotas on apparel and footwear from LATAM, the Caribbean and Africa. Approval of the legislation will put further pressure on textile companies to reduce costs to remain competitive.

The fast-track legislation will also allow for duty-free imports of apparel and footwear from Bolivia, Colombia, Ecuador and Peru constructed from Andean fabrics. It also more than doubles the duty-free limit on T-shirts from Caribbean countries, to 24 million a year.

The Andean countries are expecting exports to the US to more than double over the next decade from the US\$800mm collectively sold in 2001. Caribbean producers also expect exports of textiles and apparel to more than double over the next decade compared to the US\$9.4bn sold in 2001 due to the higher T-shirt quotas.

Since the implementation of the North American Free Trade Agreement (NAFTA) in 1994, the US textile industry has shed 35-40% of its jobs. A significant number of jobs were lost to Mexico, which saw textile imports rise to US\$10bn in 2001 compared to total imports of US\$2bn in 1993. Other jobs were also lost to low-cost producers such as China and Pakistan. The passage of free trade agreement prompted the US textile industry to mount a protectionist campaign that called for the implementation of import quotas and tariffs.

## URUGUAY

### Southern Cone Contagion Spreads To Uruguay

Uruguay plans to limit withdrawals of dollar-denominated fixed-term bank deposits from state banks and possibly **Banco Comerical SA** and **Banco de Credito Uruguay SA** for which the government owns 25% and 51%, respectively. Uruguay's Economic Minister submitted a bill to Congress aimed at restructuring Uruguay's banking system. The bill would give the Central Bank emergency powers to restrict deposit withdrawals from state-owned banks. Last week Uruguay closed

banks after a run on deposits threatened to cause bank failures and drain foreign reserves. Protest broke out after the government's decision to close banks for four days.

Violence could escalate if the government does not reopen banks, which have been closed since early last week. Uruguay's economy is in its fourth year of contraction and is expected to shrink 5-6% in 2002. On Jun.20.2002, Uruguay let its peso trade freely for the first time in two decades. Since, the currency has dropped 37% against the dollar. Central bank reserves declined 55% to US\$655mm in Jun.2002. Unemployment in the three months ended May.31.2002 rose to 15.6% from 15% in the three months ended Apr.2002.

Economic Minister Alejandro Atchugarry addressed the Senate last week to discuss plans to help the banking industry. Uruguay banks paid as much as 3.8% interest for 30-day dollar deposits and 5.5% for 180-day deposits compared to Swiss banks that paid 0.7% for 30-day deposits and 0.8% for 180-days. Analysts estimate that US\$2bn or US\$100mm/day was withdrawn from banks in Jul.2002. Although Uruguay has only about US\$6.6bn in debt, a run on banking deposits and an almost 50% drop in its peso in the past two months have shattered confidence in its banks.

For decades, Uruguay enjoyed lower credit risk ratings than its neighbors, Argentina and Brazil. Further, bank transactions remain secret, as neither banks nor depositors are required to report large cash deposits and

individuals are not required to pay taxes on interest. Since many Argentine banks have units in Uruguay, the transfer of funds between the two countries is facilitated.

Until May.2002, Uruguay had an investment grade rating from Moody's Investors Service. Moody's cut its rating last week two notches to B3, leaving it six levels below investment grade. Devaluations and economic slowdowns in Argentina and Brazil, Uruguay's largest trading partners, have cut demand for the country's agricultural exports and slowed the flow of tourists to its beaches. Tourism accounts for 13% of Uruguay's economy.

## VENEZUELA

### Court Decision Leads To More Violence In Caracas

A handful of marchers, including a number of police officers, were injured as supporters of Venezuelan President Hugo Chavez attacked the police in different parts of the capital. The Venezuelan National Guard was later deployed to calm the disturbances and to provide relief to units of Caracas' police force as they withdrew from the city's downtown and western neighborhoods to allow the National Guard to restore order.

Owners and managers of stores closed their doors early for fear of looting while subway service to certain parts of the city was suspended on fears the disturbances would turn deadly.

Chavez supporters have been fighting with police since the Supreme Court's decision last

week to not prosecute four military officers on charges of rebellion for their part in the aborted two-day coup in Apr.2002.

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### Cisneros Group Acquires Stake In Peruvian Brewer

Venezuela's **Cisneros Group** bought a 14% stake in **UCP Backus & Johnson SA** for US\$176mm. The purchase comes as part of a plan to acquire nearly a quarter of the voting shares of Peru's largest beer maker, paying S\$56 soles a share (US\$16/share) for 11 million shares of the company.

Cisneros plans to spend as much as US\$300mm to purchase 24.8% of Backus' voting shares and last week offered to buy 7.3% of the company on the Lima Stock Exchange after getting an option on 16% of the shares from the Bentin and Montori families. The acquisition intensified a battle for control of Backus after **Bavaria SA**, Colombia's largest beer maker, bought 22% of the company's voting shares just weeks earlier.

Cisneros, which controls **Cerveceria Regional CA**, Venezuela's second-biggest beer maker, bought 5% of Backus' voting shares from a group of small shareholders. The company bought 9% more as it began to exercise its options. **Polar SA**, Venezuela's largest beer maker, and **JP Morgan Chase & Company** own 22% and 6%, respectively, of Backus' voting shares. The Bentin and Montori families and other shareholders own the remaining shares of Backus.

## LATAM WEEK AHEAD CALENDAR

### -Monday, August 5, 2002

Argentina: **Telecom Argentina Stet-France Telecom SA** release earnings for 2Q:02.

Brazil: **Telecom Participacoes SA**, Brazil's third-largest fixed-line phone company, will release earnings for 2Q:02 after the market closes.

El Salvador: Country celebrates San Salvador Feast.

### -Tuesday, August 6, 2002

Argentina company meetings: **BBVA Banco Frances SA**; **Central Costanera SA**; **Compania Argentina de Comodoro Rivadavia**.

Brazil: **Telesp Celular Participacoes SA**, Brazil's largest cellular phone company to release earnings for 2Q:02.

El Salvador: Country celebrates San Salvador Feast.

### -Wednesday, August 7, 2002

Argentina: **Siderar SAIC** releases earnings for 2Q:02.

Colombia: President-elect Alvaro Uribe takes office as Colombia's president, replacing outgoing President Andres Pastrana.

Colombia Holiday: Country celebrates/remembers the Battle of Boyaca.

El Salvador: Country celebrates San Salvador Feast.

Peru earnings expected: **Credicorp Limited**.

### -Thursday, August 8, 2002

Argentina: Companies with fiscal year ended May.31.2002 have until Aug.9.2002 to report earnings to the Buenos Aires Stock Exchange.

Brazil: The Central Bank president will participate in an event titled "Brazil and Wall Street: Face to Face". Paul Leme, chief emerging markets economist with Goldman, Sachs & Co. and Ruben Ricupero, head of the United Nations Conference on Trade and Development, and other authorities will also be present.

Brazil: **Petroleo Brasileiro SA (PETROBRAS)**, will announce 2Q:02 earnings after the market closes.

### -Friday, August 9, 2002

Colombia: **Bancolombia** will release its 2Q:02 earnings results and hold an investor conference call.

### -Saturday, August 10, 2002

Ecuador Holiday: Country celebrates Independence Day.