

Week Ended 9 Aug. 2002

LATIN PETROLEUM
ANALYTICS (LAPA)

LAPA eWeekly (FREE).

The material and data in this newsletter have been compiled from a number of sources (primarily Bloomberg L.P.) by LAPA for the sole use of newsletter subscribers.

LAPA eWeekly newsletter believes the data to be accurate and its sources reliable, but does not warrant the accuracy and the information herein. Reproduction of this newsletter in whole, or in part, without prior consent of LAPA is prohibited. Federal copyright law prohibits unauthorized reproduction by any means and imposes fines up to US\$100,000 for violations.

Send subscription requests to:

requests@doble-click.com

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

LAPA
P.O. Box 721391
Houston, Texas 77272.

Copyright © 2002
LAPA™. All rights reserved.

LAPA eWeekly

ARGENTINA

Italian Courts To Freeze Funds Earmarked For Argentina

Italian court officials notified the Foreign Ministry, the Bank of Italy and the Finance Minister they must freeze Eur\$2.5mm euros (US\$2.3mm); Eur\$2mm destined for Argentina in health care aid and Eur\$0.5mm to help small businesses. The officials ordered the government to freeze funds earmarked for Argentina to compensate bondholders who lost money when the country defaulted on its debt.

In the first case of its kind against Argentina, court officials ruled authorities could seize Argentine government assets on behalf of a group of bondholders in Italy. The ruling may lead to a flood of similar suits. The court acted on behalf of the Argentine Creditors, a group of investors who won the lawsuit to seize Argentine assets. The order came after the group identified Italian government aid earmarked for Argentina. The court has set a hearing for Oct.10.2002 for ministries and the central bank to confirm the status of the assets that have been identified for seizure. The Argentine Creditors are preparing further legal action and have identified a Eur\$100mm government credit line to Argentina that may be vulnerable to seizure.

In a statement released after the Jul.19.2002 ruling, the Argentine government pledged to challenge the court decision. Since the ruling, more than 1,000 Italian owners of Argentine bonds contacted the group, seeking to join future legal action. Even if the assets are frozen, they will not be turned over to the Argentine Creditors unless a second court upholds the initial sentence.

BRAZIL

The European Union And Brazil Sign Trade Agreement

The European Union (EU) and Brazil signed an agreement to free up Eur\$479mm (US\$464mm) in trade related to textiles and clothing, boosting chances that developing countries will collaborate in opening other markets. The 15-nation EU will remove quotas on Brazilian products worth Eur\$32mm in 2001, including cotton and synthetic yarn and fabrics. In return, Brazil agreed to cap tariffs, such as its 20% tax on clothing imports and to refrain from imposing non-tariff barriers. The accord will also help shore up the faltering economies of the Mercosur trade bloc comprised of Brazil, Argentina, Uruguay and Paraguay. The EU and US have pledged to reduce tariffs on textiles to gain the support of developing countries for dismantling an estimated US\$700bn in tariffs and subsidies on food, industrial goods and services.

Brazil Gets Loans From International Lenders

Brazil will obtain US\$3bn in new loans from the World Bank and the Inter-American Development Bank (IDB) to fund programs for the next 18 months. The World Bank will provide US\$2bn in additional credits, bringing its total lending package to Brazil this year to US\$4.5bn. The IDB will provide Brazil with US\$1bn in new credits, bringing its total lending package to Brazil this year to US\$2.5bn.

Earlier, the International Monetary Fund (IMF) pledged to lend Brazil US\$30bn, with 80% of the money being payable in 2003 if Brazil meets

the terms of the agreement. Under the IMF loan agreement, Brazil will have to maintain an excess of revenue over spending not including interest payments, known as the primary surplus, of at least 3.75% of this year's gross domestic product (GDP) or US\$19.2bn. The pledge would require the next president to cut pensions, aid to the poor or government wages, which account for about 80% of spending.

The IMF agreement allows Brazil to use up to US\$10bn of the US\$15bn in reserves it had set aside under the prior agreement to prop up the currency. Brazil also would receive US\$6bn of the aid by YE:02. The remainder of the loan could be withheld if the next government does not meet IMF economic targets set for 2003.

The reais has lost 24% of its value since Mar.2002 on concern the next government will not be able to make payments on the country's Rs\$1tn reais (US\$334bn) in debt. The decline pushed up the cost of servicing the more than 40% of debt that is tied to the dollar. Brazil needs about Rs\$150bn by YE:02 to cover debt and interest payments.

International Banks Refusing To Lend To Brazil

International banks are refusing to renew loans to borrowers in Brazil. Bankers stated that the recent announcement by the IMF regarding a US\$30bn loan package to the country may not be enough to persuade them to lend additional funds. **Bank of America Corp., Citigroup Inc.** and other lenders have reduced financing to Brazil in order to cut their risk in the face of the current financial turmoil affecting the country.

International banks typically provide financing in Brazil by lending to banks in the country that in turn make loans to the final borrowers. **Uniao de Bancos Brasileiros SA**

(**UNIBANCO**), Brazil's sixth-largest bank, had its international lending cut by at least 50% in Jul.2002. The cutback in lending has partially contributed to the fall in the reais. At least US\$1.1bn has been transferred out of the country in the first three weeks of Jul.2002, almost double the amounts that left the country in Jun.2002. Outflows are expected to grow as the elections near as banks force companies to repay their debts.

BOLIVIA

Bolivia's President Announces Appointments

Bolivia's newly-elected President Gonzalo Sanchez de Lozada announced the appointment of 12 cabinet ministers, the chief of the Armed Forces and commanders of the three armed services. Former President Sanchez de Lozada, a 72-year-old businessman raised and educated in the US, was chosen by the Bolivian Congress on Aug.4.2002 as the country's 65th president for a five-year term. Sanchez de Lozada last served as Bolivia's president from 1993-97.

CANADA

Canada Plans Free-Trade Agreement With Andean Countries

Canada plans to negotiate a free-trade agreement with Bolivia, Colombia, Ecuador, Peru and Venezuela. Trade between Canada and the five Andean countries amounted to Cn\$3.6bn (US\$2.3bn) in 2001, which is about the same as the value of goods that cross the Canada/US border every 3-4 days. The announcement comes a day after US President George W. Bush declared free trade with Latin America (LATAM) as one of his top priorities. Canada already has trade agreements with Chile and Costa Rica and is talking to other countries in the Central American and Caribbean regions.

The US and Canada are pushing for a Free Trade Area of the Americas that would remove trade barriers among 34 Western nations. The accord would open a US\$13tn market of some 800 million consumers in every country of the Western Hemisphere except Cuba. Canada stated that bilateral and regional agreements it is working on will serve as models for the larger Free Trade Area of the Americas, making the 2005 deadline easier to achieve. Talks with the Andean countries are scheduled to begin in a few months after negotiators agree on an official timeline and after Canada's Trade Minister consults with provinces and other domestic interests.

CHILE

Central Bank Cuts Lending Rates

Chile's central bank cut lending rates to commercial banks to 3% from 3.25%, its sixth cut this year. The bank's lending rates have fallen by 3.5 percentage points this year to their lowest levels since the bank began setting a benchmark rate in 1986. The Chilean economy has been affected by deteriorating growth prospects in the US, its top trading partner. Exports make up about a third of Chile's US\$69bn economy. Chile's economic growth is expected to slow to 2.5% in 2002 compared to 2.8% in 2001. This compares to average growth rates of about 7% during the 1990s. Rising unemployment has also affected consumer spending and the demand for copper, Chile's top export. Consumer confidence has been affected by concerns that Brazil may soon default on its debt as did Argentina in Dec.2001.

COLOMBIA

Declaration Of Emergency Issued To Defend Terrorist Attacks

Colombia's President Alvaro Uribe is trying to combat rebel attacks that

have left a few dozen Colombians dead since his inauguration. After an emergency Cabinet meeting late-Sunday, Uribe issued an emergency declaration that went into effect on Monday. The declaration allows his government to boost its security forces and increase taxes to pay for the increases.

The declaration invokes a provision in the Colombian constitution that allows the government to take special measures if there is a threat to institutional stability, state security or citizen well-being. The emergency decree can be applied for 90 days and reactivated for two additional 90 day periods, the second of which must be authorized by Congress. Under the state of emergency, the government can restrict citizen movement, detain suspects prior to obtaining warrants and put limits on the media. The government has yet to determine which of these restrictions it may evoke, but has no plans to limit the freedom of the press.

Steps will be taken immediately to increase the size of the army and police force. About 10,000 additional police officers will be hired and two army brigades of 3,000 soldiers each will be added. Uribe also plans to create a force of civilian supporters to help inform police and the army of rebel and paramilitary activities.

These plans will be financed by a new 1.2% tax for higher-income groups. There are no plans for now to issue war bonds. Uribe has emphasized the need for stricter laws to face the crisis in Colombia, ravaged by a 38-year civil war that pits rebels against the government and illegal paramilitaries.

The Colombian government used to have the right to declare both state of economic emergency or state of siege. From 1958 until 1990, one or both of these declarations were in place 75% of the time. A new constitution that came into effect in

1991 revoked the right to call a state of siege.

MEXICO

Mexico Imposes Tariffs On Imports Of Apples From The US

Mexico imposed a 40% tariff on apples imported from the US, arguing US producers were dumping below-costs products and forcing Mexican competitors out of the market. The tariff will affect US\$118mm worth of annual fresh apple sales to Mexico or about 30% of all the apples exported from the US to Mexico. Mexico consumes about US\$130mm worth of fresh apples every year.

The tariff is likely to spark protests from US trade officials as the US and Mexico – partners in the North American Free Trade Agreement (NAFTA) – are already entangled in trade disputes over sugar, transportation and tuna. Mexico sells about 85% of all its exports to the US market. The US could challenge the tariff through a NAFTA arbitration panel or file a complaint with the World Trade Organization, arguing that Mexico has raised barriers unfairly to protect its markets.

NAFTA took effect in Jan.1994 and calls for the elimination of nearly all tariffs on trade involving the US, Canada and Mexico by Jan.2003. However, smaller Mexican food producers still lack the economies of scale necessary to compete competitively with US agricultural giants such as **Cargill Inc.** and **Archer Daniel Midland Co.**

Mexico's Economic Minister asked the Mexican Congress to pass legislation in the Sep.2002 session to allow the government to implement import tariffs more promptly when Mexican companies complain of unfair trade practices. Current Mexican law requires 3-6 months of investigation before complaints can be acted upon.

Dengue Outbreak Reported In Veracruz

An outbreak of dengue fever in Veracruz, Mexico has killed two people and affected at least 1,005. Mexican health officials are trying to reduce illegal immigration from Guatemala fearing immigrants traveling through the jungle are carrying the disease. Officials are also educating people in the region about the symptoms, which include high fever, rash, headache, and muscle and joint pain. Dengue fever is transmitted by mosquitoes and is found in tropical and sub-tropical regions. There were 609,000 reported cases of dengue fever throughout the Americas in 2001.

THE AMERICAS

O'Neill's Trip To LATAM Downplayed By "Mini" Protests

US Treasury Secretary Paul O'Neill's message to LATAM about why open markets are critical to economic growth was drowned out during his four-day trip last week by the sounds of Brazilians striking his limousine with sticks and Argentine protesters banging pots outside his Buenos Aires hotel.

Many in LATAM blame the economic recessions, rising unemployment and debt crisis throughout the region on a decade of following US and IMF advice to dismantle trade barriers, cut spending and sell state companies. Even some Washington officials acknowledged the lack of progress in the region. However, many protesters fail to acknowledge that economic problems in LATAM also stem from an inability to control government spending, unsustainable debt levels, mismanagement and corruption.

Peru recently scaled back plans to sell state utilities after rioters blocked a Jun.2002 sale of four electricity

distributors; Argentina's collapse after embracing IMF advice has sparked violent protests; and Brazil's voters have made public their favoritism for two presidential candidates who built careers challenging the sale of state-run companies.

URUGUAY

Riots Breakout In Uruguay

Last week, riots broke out in Montevideo after the government implemented a freeze on deposit withdrawals after a run on the nation's banks. Labor unions also staged strikes that shut down transportation, schools and hospitals. The run on the banks has further damped Uruguay's economy, which has been burdened by a four-year recession and is forecast to shrink 5% this year due to recessions in Argentina and Brazil.

Banking accounts for about a quarter of Uruguay's US\$20bn GDP. The banking crisis threatens to deplete central bank reserves, leaving the country short of resources to pay its debt, thus increasing the risk it may follow Argentina's default.

The US gave Uruguay a US\$1.5bn emergency loan on Sunday and expects to be repaid by the IMF, the World Bank, and the IDB. The loan is hoped to increase investor confidence and prevent mass withdrawals from the banking system. Uruguay will also get a total of US\$1.1bn from the IMF and World Bank as part of a lending package intended to help end its current economic crisis. The money is part of a US\$3.8bn credit line from the IMF, World Bank and IAD that will be used to help reverse a slide in Uruguay's bonds and currency and to hopefully boost investor confidence that it will not default on its debt.

The US\$1.1bn loan to Uruguay comes in two parts: an US\$793mm credit line approved by the IMF and

loans in the amount of US\$300mm offered by the World Bank. The new credit line follows the announcement of an US\$500mm loan from the IDB to support education and health programs.

The latest assistance comes some six weeks after the IMF increased Uruguay's credit line to US\$2.3bn. Uruguay is expecting a total of US\$5bn in existing and fresh loans from the IMF to cover US\$1.7bn in interest payments which come due through 2003.

VENEZUELA

Chavez Supporters Clash With Police

Clashes among Venezuelan police and supporters of President Hugo Chavez injured 15 people after the Supreme Court ruled against prosecuting four military officers who took part in a failed coup in Apr.2002. About 1,700 National Guardsmen and hundreds of police protected the courthouse and surrounding areas from pro-Chavez demonstrators. A similar ruling last week by the court led to three days of fighting between Chavez supporters and local police.

Chavez and his supporters say the coup was planned in advance and the officers involved should be tried for rebellion while opponents say a military-civilian coalition took power to prevent anarchy after Chavez supporters killed 19 marchers.

LATAM WEEK AHEAD CALENDAR

-Monday, August 11, 2002

Argentina company meetings: **Perez Companc SA** releases 2Q:02 results.

Brazil: Brazil's Nuclear Energy Association hosts the ExpoNuc 2002 and International Nuclear Atlantic Conference 2002 in Rio de Janeiro.

Additional information is available at www.inac2002.com.br.

-Tuesday, August 12, 2002

Brazil: **Cia Vale do Rio Doce**, the world's largest iron ore producer, will announce 2Q:02 results after the market closes. **Empresa Brasileira de Aeronautica SA**, the fourth-largest aircraft maker, will announce 2Q:02 results.

-Wednesday, August 13, 2002

Colombia: **Bancolombia**, the largest private bank, and **Almacenes Exito SA** will release 2Q:02 results and hold conference calls with investors.

-Thursday, August 14, 2002

Peru: Cement producers release output and sales data for Jul.2002.

-Friday, August 15, 2002

Argentina: Government releases preliminary industrial production data for Jul.2002.