

Week Ended 30 Aug. 2002



LAPA eWeekly (FREE).

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

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LAPA eWeekly

ARGENTINA

IMF Says Argentina Lacks Political Consensus On How To Revive Its Economy

The **International Monetary Fund (IMF)** said Argentina lacks political consensus on how to revive its economy. The fund has no timetable for providing aid to Argentina since the country defaulted on its US\$95bn in debt obligations in Dec.2001 and devalued its currency in Jan.2002. Argentina's economy is expected to shrink by 20% this year.

A new IMF team was in Argentina this weekend negotiating on how to control inflation and other policy disputes. President Eduardo Duhalde urged presidential candidates running in the Dec.2002 primaries to pray for the help of Virgin Mary in reviving the economy and starving off further defaults to government-backed lenders such as the **World Bank (WB)**.

The IMF has denied Argentina's request for aid this year, arguing the country lacks plans to revive its shuttered banking system and to control spending. Argentina imposed withdrawal restrictions on bank accounts in Dec.2001 in a failed attempt to keep from defaulting on its debt obligations and devaluing its currency. Since, the government has struggled to find a way to lift the withdrawal restrictions, which have enraged savers and stalled hopes of economic recovery. Policy makers have been predicting the eventual return of aid to the country in varying degrees since the default and bank closures brought its economy to a halt in Jan.2002. In Apr.2002, even the IMF said it expected to renew aid to the country within a month. Investors are now worried that Argentina could be forced to stop repayments to

Washington lenders such as the WB and IMF, further magnifying its problems. Argentina has said the IMF keeps demanding more from it while providing aid packages to neighboring Brazil, Paraguay and Uruguay.

The new aid that Argentina seeks would be used to pay off US\$4.7bn in debts to government-backed lenders that is due by YE:02. The IMF signaled further disagreement with two new laws last week that would cause more losses for banks, which have already lost more than US\$11bn since Dec.2001.

The US Eliminated Tariffs On 57 Argentine Products

The US eliminated import tariffs on 57 Argentine products -- including leather, popcorn, jewelry, peanuts, cheese, citrus fruit, lumber, auto parts and meat products, just to mention a few -- that generated annual trade figures of about US\$200mm. The changes are to take affect in mid-Sep.2002.

Argentina Losses Ground In Latest International Corruption Survey

Argentina fell 12 spots in an international corruption survey as its politicians continue to use their positions for illicit gains. Argentina fell to a rating of 2.8, in the study conducted by **Transparency International**, from 3.5 in 2001. The rating scale is from 1 to 10, with 10 being a completely clean score. The scores were compiled from several surveys of business people and analyst. Finland had the highest score with a rating of 9.7 while Bangladesh had the lowest score at 1.2. After Finland, the best ratings were for Denmark and New Zealand with ratings of 9.5 and Iceland at 9.4.

The Latin American (LATAM) and Caribbean regions averaged 3.4 while African countries in the survey averaged 3.3. The Pacific region of Australia, New Zealand and Malaysia, was the least-corrupt region with a 9.1 rating. North America received a rating of 6.8 while Europe and Asia received a rating of 5.6 and 4.2, respectively. Chile was found to be the least corrupt LATAM country with a rating of 7.5, while the US came in at 7.7. Chile came in the 17th position worldwide.

BRAZIL

Economy Still Expected To Slow Despite Expansion During 2Q:02

The Brazilian government said the economy expanded 0.99% during 2Q:02 compared to 2Q:01, helping to pull the country out of its first recession since early-1999. Nevertheless, Brazil's economic growth is slowing as a decline in the currency and restricted financing makes it harder for companies to invest. Companies blame high rates in part for the sluggish performance of Brazil's economy over the past year. The overnight rate is now at 18%, about 10 percentage points above the annual inflation rate of 7.5% in Jul.2002. A drop in spending may slow growth to an average of 1.3% in 2002, according to estimates provided by 6 of the 10 biggest underwriters of Brazilian debt this year, while the government cut its growth forecast for 2002 to 1.5% from 2%. Economists believe the slowing economy may help contain inflation in 2003, paving the way for interest rate cuts. Inflation is expected to reach 5% in 2003, below the central bank's maximum target of 6.25%. The following is a breakdown of gross domestic product (GDP) growth forecasts by company:

<u>Firm</u>	<u>GDP Forecast 2002/2003</u>
JP Morgan	0.5%/2.0%
Citigroup Inc.	1.5%/1.0%
Merrill Lynch	2.1%/3.9%
Goldman Sachs	1.5%/3.0%
Morgan Stanley	0.6%/2.8%
Dresdner Kleinwort	1.8%/2.5%
Average	1.3%/2.5%

Brazil To Reduce Maturities On US\$2bn In Government Trade Loans

Brazil plans to reduce to less than 180 days the maturities on US\$2bn in government trade loans it expects to hand out as a number of companies have already met their financing needs. The central bank has not set the new repayment periods but will announce new auctions for the trade lines this week due to declining demand for the credits. Shorter maturities will allow the bank to get the money back faster and stem the outflow from the country's international reserves. Traders and investors say the cut in trade loan maturities should boost demand for government credits and further strengthen the currency. Currently, the average maturity for Brazilian trade financing lines is 90 days while exporters need at least 10 additional days to complete their paperwork.

International banks have reduced financing to Brazilian companies by some US\$5bn, curbing investment and making it difficult to roll over debts, as the country's currency, bonds and stocks have all plunged on average 25% to date in 2002. The shriveling credit lines, especially for exporters and importers, threaten to derail a recovery in the US\$513bn economy.

CHILE

Chile May Sell At Least US\$500mm In Debt Abroad

Chile may sell at least US\$500mm in debt abroad in 2003 to fund government spending as a slowing economy and declining metal prices have reduced revenues. The government needs the approval from legislators to sell the bonds and the idea will be submitted to the country's Congress in Sep.2002. Chile, which sold US\$867mm in bonds in Apr.2002, needs to increase the sale of bonds as spending outpaces revenues. The current budget deficit may occur

again in 2003 if Chile does not act quickly.

Unlike other LATAM countries, Chile can take advantage of lower borrowing cost since its foreign debt has an "A-" rating from **Standard & Poor's**, the highest of any country in the region. Lower prices for copper, the country's biggest export, have also reduced government revenues from state-run **CODELCO**, the world's largest copper producer.

COLOMBIA

Budget Deficit In 2002 May Reach 4.1% Of GDP

Colombia's President Alvaro Uribe asked the board of directors of the central bank to continue with their efforts to lower inflation and interest rates to help spur economic growth as the economy is on track to achieve the bank's inflation target of 6%. In his inauguration speech, Uribe indicated that he wanted the bank to focus more on promoting growth, setting the stage for what could be a confrontation with the bank. Since, Uribe, has pledged to respect the bank's independence.

Colombia's Finance Minister warned the 2002 budget deficit may reach 4.1% of GDP unless additional steps are taken to reduce spending or boost revenues. The minister said the deficit target would surpass the 2.6% level agreed to last year with the IMF due to falling tax revenues. Subsequently, the government said the target had been raised to 3.5%. The minister said the increase was mainly due to falling tax revenues caused by the slowing economy. A higher deficit implies the government may increase domestic borrowing, raising interest rates. The minister also urged Congress to approve pension and labor bills presented by Uribe's administration. The government has taken steps in recent days to reduce spending, such as a decree halting extra bonuses to local government workers and a measure suspending tax rebates to exporters.

ECUADOR

Central Bank Raises Maximum Annual Interest Rate To 21.21%

Ecuador's central bank raised the maximum annual interest rate banks and other lenders charge on loans to 21.21% from 20.69%. The rate is set each month according to the average market rate on loans during the last week of the previous month plus a premium. The bank starting limiting interest rates on loans in Apr.2000 after Ecuador adopted the US dollar as its national currency. The government said at the time that the ceiling was intended as a temporary measure to help revive the economy.

Ecuador Comes Under Legal Pressure Regarding Its Refusal To Reimburse Oil Firms For VAT Payments

Ecuador is under growing legal pressure following the tax authority's refusal to reimburse oil firms for US\$180mm in value-added tax (VAT) payments. The tax authority is facing 26 trials in the national courts and **Occidental Petroleum Corp.** has taken the dispute to the WB arbitration center, with **Encana Corp.** also set to follow. While the government previously refunded the VAT to oil firms and other exporters, repayments have been withheld from the oil firms since Aug.2001. In response, foreign oil firms have cut planned energy investments in Ecuador and say spending will not increase until the dispute is resolved.

Ecuador's refusal to reimburse oil firms for VAT payments may threaten the country's access to preferential US trade tariffs. Unless the government can resolve the dispute, Ecuador may be excluded from the US **Andean Trade Preferences Act (ATPD)**.

Ecuador exported US\$1.79bn in goods to the US in 2001, making the US its biggest export market. Ecuador's tuna

fishing, footwear and textiles industries would be among the biggest beneficiaries of the ATPD, which is part of the US government's program to fight drug trafficking and allow for the creation of viable alternative industries in Bolivia, Colombia, Ecuador and Peru.

MEXICO

The Bank Of Mexico Is Requiring Commercial Banks To Increase Their Deposits

The **Bank of Mexico** is requiring commercial banks to increase their deposits with the central institution to confront an expected rise in liquidity in the coming months. The central bank said it will require banks to make deposits of Ps\$150bn pesos, replacing about Ps\$95bn in existing deposits operating under different terms. The new deposits, to be made as of Sep.26.2002, are aimed at reducing the amount in circulation of monetary regulation bonds, or BREMS, which the bank has used in the past to clean up excess liquidity in the market. With around Ps\$200bn in BREMS in circulation, they now exceed the amount in Treasury bills, or Cetes. The new bank deposits will allow the central bank to reduce the amount of BREMS in circulation.

The Bank of Mexico said it expects to see increased liquidity in coming months as a result of its operations with the government - largely state oil monopoly **Petroleos Mexicanos (PEMEX)** - and of maturing BREMS. The new deposits by commercial banks will be for an indefinite period. Interest will be referenced to bank funding rates, capitalized daily and paid every 28 days. The increased deposits will not affect its monetary policy, which is currently restrictive. Although it does not target specific interest rates, the Bank of Mexico influences rates through its monetary policy mechanism known as the "corto," or "short." It involves restricting money market liquidity by a small fraction of the monetary base.

The corto is currently set at Ps\$300mm, meaning that banks that borrow from the central bank to meet their daily requirements will have to pay interest rate penalties on the last Ps\$300mm. The last change in the position was in Apr.2002, when the bank eased the restriction from Ps\$360mm. The rate on benchmark 28-day Cetes stood at 6.69% at last week's primary auction, although the rate had fallen below 6% earlier this year.

PEMEX Plans To Invest Ps\$42.2bn Over The Next Eight Years To Boost Heavy Oil Output

PEMEX plans to invest Ps\$42.2bn over the next eight years to boost heavy oil output at its Ku-Maloob-Zaap oilfields in the Gulf of Mexico. PEMEX said the investment is aimed at maintaining overall heavy oil output levels. The project at Ku-Maloob-Zaap, a series of offshore deposits in the Campeche Sound, calls for the drilling of 82 wells, and the construction of 17 rigs and 32 pipelines. Four of the wells will be for the injection of compressed nitrogen into the deposits. PEMEX is already injecting nitrogen to increase the pressure of the nearby Cantarell heavy oil deposits. Pemex expects the project to raise heavy Maya oil output at Ku-Maloob-Zaap to 800 mb/d by 2011 from current levels of 282 mb/d. PEMEX currently produces 2.13 mmb/d of heavy oil, out of total oil output of 3.15 mmb/d.

PERU

Toledo Announces A Package Of Measures Aimed At Boosting Exports

President Alejandro Toledo announced a package of measures aimed at boosting exports from Peruvian companies that can benefit from the **Andean Trade Preferences Act (ATPA)** which expired last year, but now runs until Dec.2006. The ATPA, renewed by the US in early-Aug.2002, gives various Andean nations lower

tariff barriers as a reward for controlling illegal drug production. Among the new measures announced by Toledo was one to lower import tariffs to 4% from 7% on 178 items, such as machinery and equipment, to be used in various industries. The reduction in tariffs will cost the government US\$5mm annually. Toledo also said a new US\$100mm fund will offer credit lines to finance foreign trade deals and another US\$50mm fund will help small/medium-sized companies obtain bank loans. Toledo said the public and private sectors will create a fund of up to US\$200mm to provide risk capital for export industries. Toledo also said the government would increase its efforts to reduce smuggling and the dumping of goods, and he also said his government would work to strengthen the effort of its embassies to sell Peruvian goods. Peru's exports fell 0.7% to US\$696.6mm in Jul.2002 compared with US\$701.7mm in Jul.2001.

World Bank Approves US\$50mm Loan

The WB approved an US\$50mm loan to finance the construction and improvement of water supply and sanitation facilities in rural regions of Peru. The loan will help finance the **National Rural Water Supply and Sanitation Project (PRONASAR)**, an initiative of the Peruvian government. The project aims to provide access to water and sanitation for approximately 1.3 million people. As a result of this financing, new drinking water supply and sanitation facilities for about 125,000 people in 450 communities will be constructed. Existing piped water supply for about 750,000 people in 2,500 communities will be repaired and expanded. The new supplies might be piped networks with house connections, capped springs, wells, or systems for catching rainwater. This single-currency, fixed-spread loan will be administered by the **Ministerio de Vivienda, Construccion y Saneamiento** and implemented via the **Fondo de Compensacion y Desarrollo Social (FONCODES)**, the Peruvian

government arm responsible for channeling infrastructure investments for the rural poor. The loan has a repayment period of 14 years, including 8 years of grace. Disbursements will run from 2003-9.

VENEZUELA

Venezuela Will Soon Open Bids For Partnership In The US\$2bn Tocoma Dam Project

Venezuela will soon open bids for partnership in the US\$2bn Tocoma dam construction project, the final part of the Lower Caroni hydroelectric power facility. Of the investment, 50% will come from private contractors while the other 50% will come from government entities. Construction of the 2,100-megawatt (MW) dam, the last part of a 12,060-MW electricity utility, is just beginning and should be completed by 2010. The hydroelectric complex in Venezuela's Bolivar state currently provides about 70% of the country's electricity needs, which totaled 87,694 gigawatt hours in 2001, about 6.2% higher than in 2000. Power demand is leveling off this year, in tandem with a shrinking economy. However, electricity demand continues to outpace supply developments.

The country is buying power from private providers to cover a shortfall the government blames on record-low reservoir levels due to insufficient rainfall last year. Others have pointed to the lack of investment in old power facilities. Last year the government abandoned a program to raise private investment in the sector, but said a new law designed to facilitate investment is in the works.

PDVSA Puts Aside Oil For Shipment To Cuba Under Preferential Terms

Venezuela's state-owned oil monopoly **Petroleos de Venezuela (PDVSA)** has put aside oil for its shipments of 53 mb/d under preferential terms to Cuba on Sep.1.2002. The volumes that

correspond to Cuba have already been scheduled and Cuba has agreed to embark on a new payment schedule of its debt of US\$142mm. Strong domestic opposition still exists over the shipment of oil to Cuba. PDVSA executives suspended shipments during the Apr.2002 coup that briefly ousted President Hugo Chavez for outstanding amounts owed by the island. After Chavez regained power, PDVSA President Ali Rodriguez renewed the shipments and said the loan had been refinanced.

Top PDVSA officials claim the company is giving oil to Cuba while its country is mired in recession. A number of white-collar workers from different company departments are collecting signatures opposing the move. PDVSA currently provides 33.3% of Cuba's oil imports. Venezuela's Supreme Court opened a case in Mar.2002 questioning the legality of an oil assistance pact with Cuba and recently gave National Assembly president William Lara 15 days to show that Chavez's government fulfilled legal requirements before signing the pact in Oct.2000. The social-Christian party **Copei** also filed an injunction claiming the deal between Venezuela and Cuba as illegal since the National Assembly was not consulted. The deal was sealed between President Chavez and Cuban leader Fidel Castro, one of Chavez's strongest allies.

AOL Latin America Inc. May Be Delisted From The NASDAQ

America Online Latin America Inc., the third-biggest provider of Internet services in the region, may be delisted from the NASDAQ Smallcap Market since the company's market value is too low. NASDAQ requires that companies have a market value of at least US\$35mm while the current market value for AOL Latin America, a joint venture between **AOL Time Warner Inc.**, Venezuela's **Cisneros Group** and Brazil's **Banco Itau SA**, is US\$24mm. AOL Latin America plans to appeal and a decision may take up to 60 days.

The shares have declined in 2002 on concerns a decline in customers may reduce revenue growth. AOL Latin America's subscribers fell 7.3% to 1.31 million at the end of Jun.2002 from 1Q:02 after 103,000 users discontinued their service.

LATAM WEEK AHEAD CALENDAR

-Monday, September 2, 2002

Argentina: Government reports tax revenue for Aug.2002.

Brazil: World Petroleum Congress conference, Sep.1-5, 2002.

US: Holiday – Labor Day. Banks, financial markets, schools and most businesses closed.

-Tuesday, September 3, 2002

Brazil: World Petroleum Congress conference, Sep.1-5, 2002.

Colombia: DANE, the official statistics agency, releases figures for Jul.2002 exports.

-Wednesday, September 4, 2002

Brazil: World Petroleum Congress conference, Sep.1-5, 2002.

Chile: National Institute of Statistics releases consumer price index for Aug.2002.

-Thursday, September 5, 2002

Brazil: World Petroleum Congress conference, Sep.1-5, 2002.

-Friday, September 6, 2002

Brazil: World Petroleum Congress conference, Sep.1-5, 2002.

Chile: Central Bank sets benchmark lending rate.

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