WORKING TO SHAPE THE HEMISPHERIC POLICY AGENDA

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LATIN AMERICA ADVISOR

Featured Q&A *With Our Board of Advisors*

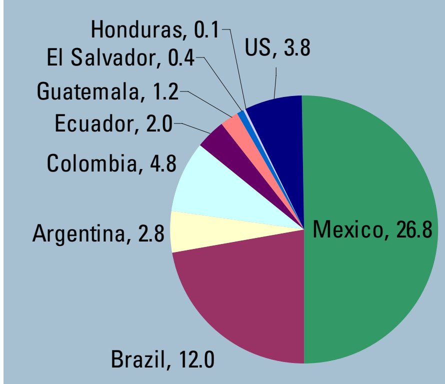
Q The foreign ministers of nine South American countries signed an agreement last week to merge the Mercosur common market—made up of Argentina, Brazil, Paraguay, and Uruguay—with the Andean Community—composed of Bolivia, Ecuador, Colombia, Venezuela, and Peru—according to *Miami Herald* columnist Andres Oppenheimer. What is the significance of the agreement? Does it represent the creation, as former Argentine President Eduardo Duhalde stated, of a "United States of South America?" Or is South America still too divided both economically and politically to effectively unite?

A Board Comment: Jon Huenemann: "We are a long long way off from a United States of South America. While the concept of truly free trade in South America is not without its appeal in theory, the fact that even free trade and sustained in-depth macroeconomic coordination within Mercosur and the Andean Pact, respectively, have proved elusive still means one should examine such grand pronouncements with a significant degree of caution. I think it is fair to say that the motivation behind the initiative is significantly political in its origins. But, the reality is there appears little if any prospect of real economic and trade policy coordination within the region. Too many of the countries are absorbed with their own economic management issues or otherwise preoccupied. What I hope does not happen is that certain disturbing trends driven by a complicated set of domestic politics and in some cases convenient frustration with the 'Washington consensus' gets reinforced in a perverse way. That would hurt the region and its prospects for prosperity in the global economy. There are clear signs of that in some sectors and countries. On the other hand, legitimate efforts to build open and competitive markets in South America should be encouraged, so I hope this effort is a genuine effort to move in that direction. Time will tell."

Continued on page 4

CHART OF THE DAY

America Movil Mobile Customers
End of Q3 2004 (millions of subs.)



See related story on page 3.

Source: America Movil.

Inside This Issue

NEWS BRIEFS

BHP Billiton Approves $990M Chilean Copper Mine Project

Australia-based global miner **BHP Billiton** said Monday it approved the $990 million Spence copper project in northern Chile. The project, which will have a designed capacity to produce 200,000 tons of copper cathode per year for 19 years, is scheduled to start production in the fourth quarter of 2006.

Source: company statement.

Industrial Output in Colombia Expanded 8.9 Percent in August

Industrial production in Colombia, excluding coffee, rose 8.9 percent in August from the same month of 2003, led by 36.7 percent growth in the automotive sector. For the first eight months of this year, industrial output increased 5.5 percent year-on-year. Including coffee production, industrial output grew 8.8 percent year-on-year in August.

Source: DANE.

Colombia's Coltabaco Posts Narrower Nine-Month Net Profit

Colombian cigarette maker **Coltabaco** posted a net profit of 16.81 billion pesos ($US 6.6 million) for the first nine months of this year, down from 20.34 billion pesos for the same period of 2003. In August, a Dutch unit of US tobacco firm **Philip Morris** offered to pay as much as $310 million for up to a 100 percent stake in Coltabaco.

Source: Reuters.

Hylsamex Posts Q3 Profit

Hylsamex, Mexico's third-largest steelmaker, on Monday reported a third-quarter net profit of 1.369 billion pesos ($US 120 million). The result compared to a 273 million-peso loss a year ago.

Source: Reuters.

Economic News

Cuban Businesses to no Longer Accept Dollar

Starting early next month, Cuban stores, hotels, and other businesses will no longer accept the US dollar, the government said Monday, according to Reuters. As of November 8, Cuban businesses will only accept local pesos, which can be bought with dollars at a one-to-one exchange rate. However, a 10 percent commission will be charged on any exchanges. The commission effectively equates to a tax on cash dollar remittances by Cubans living abroad, who send an estimated $1 billion per year to relatives living on the island. The government of Cuban President Fidel Castro said it was taking the action in response to a tightening of sanctions against Cuba by the United States. In June, the US implemented controversial new measures aimed at putting more pressure on the Castro government, including harsher restrictions on travel and remittances to the the island. Appearing on television, Castro said possession of dollars, which was decriminalized in the early 1990s amid an economic collapse, would not be banned. He suggested that Cubans tell their relatives living abroad to send them money in foreign currencies besides dollars, such as euros, British sterling or Swiss francs, which are not subject to the 10 percent exchange commission, according to the Associated Press. In related news, the Bush administration announced Monday that it was prohibiting US nationals from using Cuban money-transfer firm **SerCuba** to send remittances to Cuba, *The Miami Herald* reported. The Treasury Department labeled SerCuba a Specially Designated National, meaning US citizens and residents cannot do business with the company and that any of the firm's assets in the hands of US nationals would be frozen, the *Herald* said. Those doing business with SerCuba could face criminal prosecution and fines, the Treasury Department said. The Bush administration said SerCuba allows people subject to US jurisdiction to send cash to Cuba via third countries or through its Web site, according to the *Herald*.

A 10 percent commission on dollar-for-peso exchanges effectively equates to a tax on cash remittances by Cubans living abroad, who send an estimated $1 billion per year to relatives living on the island.

Argentina Hopes to Strike Debt Deal with Local Banks, Insurance Firms

The Argentine government hopes to strike a debt restructuring deal with local banks and insurance companies this week, Reuters reported, citing an unnamed economy ministry source. The deal would follow an agreement reached earlier this month with local pension funds, which hold some 17 percent of the $100 billion in debt in default since early 2002. Argentina's largest foreign creditor group, the Global Committee of Argentina Bondholders (GCAB), has criticized the deal with local pension funds because it says that, by including improved terms for swapping defaulted Treasury bills that the funds were forced to accept in 2001, the deal unfairly gives preferential treatment to one group of creditors over another. GCAB, which says it represents holders of about $37 billion in defaulted Argentine bonds, have rejected as unacceptable the government's offer to swap the $100 billion in defaulted debt for $40 billion in new bonds. If the swap goes forward, it would be the largest sovereign debt write-off in history. It is not clear how much of the defaulted debt is held by local banks and insurance companies. Local Argentine investors hold some 40 percent of the defaulted debt. The economy ministry expects to send its debt restructuring proposal to the US Securities and Exchange Commission for approval in the coming days, according to the Reuters source. The debt restructuring proposal also needs the approval of authorities in Europe.

Company News

America Movil's Q3 Net Profit More Than Triples from a Year Ago

Mexico-based mobile giant **America Movil** on Monday reported a third-quarter net profit of 7.2 billion pesos ($US 633 million)—three and a half times its profit for the same period of 2003—amid strong subscriber growth. In an earnings release, American Movil, which competes with Spain's **Telefonica Moviles** to be the largest mobile operator in the region, said the pace of net subscriber additions quickened to 3.7 million new customers during the quarter, up from 3.5 million net subscriber adds a year ago. The operator's subscriber base has grown by 10.2 million subscribers since the beginning of this year, ending the third quarter with 54.1 million customers. Its largest base of subscribers is by far in Mexico, with 26.8 million subscribers, followed by Brazil (12 million) and Colombia (4.8 million). America Movil, which is owned by Mexican billionaire Carlos Slim, also has operations in Argentina, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, and the United States. The operator's revenues increased 50.9 percent year-on-year during the quarter to 33.8 billion pesos, while EBITDA (earnings before interest, taxes, depreciation, and amortization) rose 27.2 percent to 11.0 billion pesos. For the first nine months of this year, America Movil posted a net profit of 14.6 billion pesos. In related news, America Movil's fixed-line affiliate **Telefonos de Mexico** (Telmex) said Monday it plans to invest $1.8 billion in 2005, up from $1.7 billion this year, according to Reuters. Mexican daily *El Universal* reported that Telmex will invest next year in upgrading its central telephone exchange offices and in expanding its network. Last week, Telmex reported a third-quarter net profit of 6.71 billion pesos, up 20.2 percent from the same period a year ago.

Chilean Court Approves Merger of Liberty Media Affiliates

The merger in Chile of two affiliates of US-based **Liberty Media International** (LMI) has been approved by the South American country's anti-monopoly court in a ruling made public on Monday, Reuters reported. The resulting company is to have 88 percent of Chile's pay-television market and close to 50 percent of the broadband Internet market. The new company will sell packages of telephone, cable television and broadband Internet services, and is expected to be a major competitor for dominant fixed-line telephone company **Telefonica CTC Chile**. LMI will own 80 percent of the merged company, while Chilean glass and media conglomerate **Cristalerias** will have 20 percent. The court restricted the merged company from participating in the satellite television business, from partnerships with CTC, and from forcing programmers to sell their productions at below-market prices. **VTR**, one of Chile's biggest cable and telephone companies with roughly 800,000 subscribers, is a subsidiary of LMI, which was spun off from **Liberty Media Corp**. in June. LMI also holds 50 percent of cable television company **Metropolis-Intercom**, which has 300,000 subscribers. Through its subsidiaries and affiliates, LMI is the largest cable television operator outside the United States in terms of video subscribers.

Parmalat's Latin America Focus Down to Four Countries

Italian food group **Parmalat** will focus on operations in four Latin American countries following a reduction in its worldwide holdings by the end of next year, an executive said Monday, according to Reuters. "Here in Latin America, the key countries for development are Venezuela, Colombia, Nicaragua and Cuba," said Parmalat's head of global industrial operations, Giuseppe Asti. Asti said the company aims to cut its foreign affiliates from 30 to 11 by the end of 2005. Asti briefed Venezuelan government officials Monday on the company's business plans in the country, where it hopes to receive government help, Asti said. The firm has been in emergency administration mode since December 2003, following the discovery of a 14-billion-euro accounting hole. Parmalat founder Calisto Tanzi and others are accused of squirrelling away billions of euros from the company over the last decade, misleading investors and blocking regulators. In March, it announced plans to pull out of much of Latin America—including Argentina, Brazil, Chile, the Dominican Republic, Ecuador, Paraguay, and Uruguay—as part of an effort to keep its operations afloat in Europe, Canada, and Australia.

Featured Q&A

Continued from page 1

A **Guest Comment: Ivan Rebolledo:** "The recent gathering of Mercosur and Andean Community foreign ministers concluded with an interesting communique regarding the possible merging of their two trading blocs, but this has very little chance of success. Since the creation of the Andean Pact in 1969, attempts at economic integration have been rather bleak. At first, countries of the region were keen on protecting local industry from foreign competition by means of high tariffs and import quotas. Then, in line with the 'Washington Consensus,' the region decided to reduce the size of the government and let the market play a more important role in the allocation of economic resources. Trade barriers were partially removed and export-led growth promoted. However, in spite of this, regional economic integration was still not at the pace of other similar trading blocs. Finally, in the 90s there was an explosion in economic integration agreements in the Western Hemisphere, and the Andean Community began to experience limited success. If the Andean Community has taken over 30 years to begin to show signs of economic integration, can this new initiative get off the ground that much sooner? The merging of trading groups may be positive for Argentina and Brazil, but the benefits for the Andean countries, which are about to conclude negotiations on the US-Andean Free Trade Agreement are not clear or logical. Who would you rather trade with: the US or Paraguay? The relevance of a so-called South American trading bloc could be political in nature in order to negotiate more favorably with larger trading partners (*i.e.*, the US, Europe and Asia), considering that in unity there is force. Aside from this, its prospect for success is limited."

A **Guest Comment: Javier Tizado, Jr.:** "Every measure aimed at increasing trade and commerce, and at reducing and eliminating tariffs and quotas among Latin American countries is very positive and promising. More trade relations among Latin American countries will definitely create more jobs in every country, and will both reduce the poverty and create wealth and prosperity in the whole region. Ideally, Latin American countries need to increase their exports to developed countries, and to do that they must concentrate on discussing and claiming a drastic reduction of trade protection measures (such as subsidies and quotas) within the World Trade Organization (WTO) scheme. The joining of forces between Mercosur and the Andean Pact through an Economic Complementation Agreement (ECA) within the Latin American Free Trade Association (LAFTA) is a clever idea, possibly aimed at resisting unwanted economic and political pressure, and at developing bargaining power to negotiate the elimination of trade restrictive measures with developed nations. However, this proposed trade agreement could only work efficiently if there is consensus on its plan and objectives from the outset. How this ambitious trade integration association will live with the broader free trade agreements that Bolivia, Colombia, Ecuador and Peru are currently negotiating with the United States of America is an unanswered and key question that will possibly determine the outcome of this regional initiative."

Jon Huenemann *is a member of the* Advisor *board, Senior Vice President at Fleishman-Hillard Government Relations, and a former Assistant US Trade Representative with responsibilities in the Americas.*

Ivan Rebolledo *is President of the Bolivian-American Chamber of Commerce.*

Javier Tizado, Jr. *is a Senior Associate in the General Corporate Group at Bruchou, Fernández Madero, Lombardi & Mitrani Abogados in Argentina.*

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Erik Brand,
General Manager, Publishing

Robert Simpson,
Editor

Devin Finn,
Reporter

Danielle Jetton,
Computer Services Coordinator

Subscription Inquiries are welcomed at freetrial@thedialogue.org

Latin America Advisor is published every business day by the Inter-American Dialogue
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553