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Linking two worlds

NEWSLETTER 7 January and February 2005

DOING BUSINESS IN LATIN AMERICA AND THE CARIBBEAN

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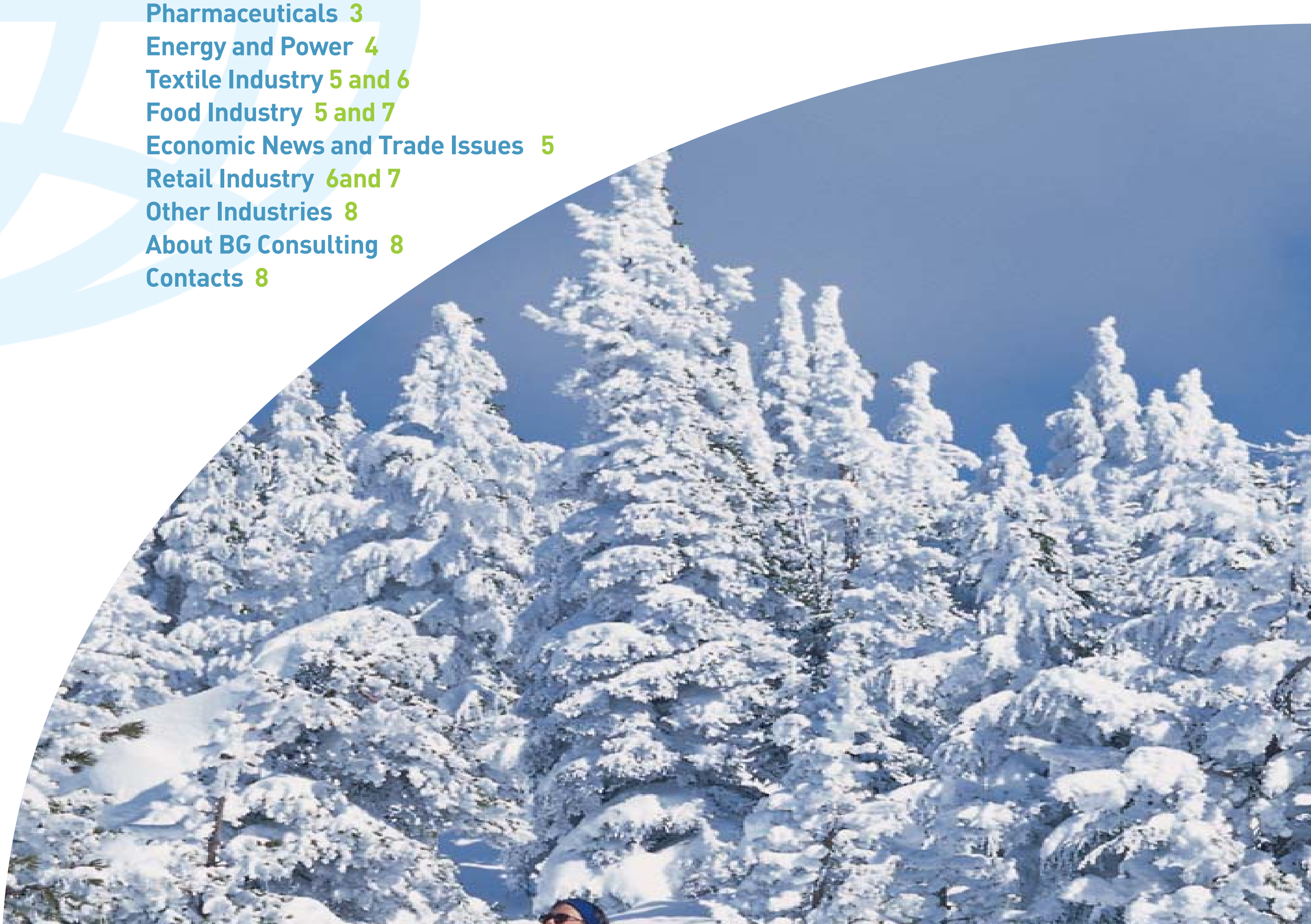


TECHNOLOGY NEWS

IBM Sells PC Business to Chinese Firm in $1.75 Billion Deal

International Business Machines Corp. agreed to sell its personal computer business to China's largest computer manufacturer, backing out of a market that the venerable technology giant helped pioneer and making Lenovo Group Ltd. the world's third-largest PC maker.

The takeover by Lenovo is another step in China's efforts to integrate itself into the world economy, as companies hope to build their own global brands by acquiring companies internationally.

Mergers and Acquisitions up 33% in Chile, thanks to telecommunications sector

For the first time in five years, mergers and acquisitions (M&A) grew in Chile last year after reaching US$3.8 billion, a 33% growth compared to the previous period when deals totaled US$2.85 billion. The increase was mainly to do with the interest of international investors in acquiring Chilean productive assets, which have become more attractive after a year of economic recovery. Foreign capital regained importance after the decreases seen prior to 2004. Funds abroad increased from US$490 million to around US$1.9 billion in 2004.

Telefonica Moviles closes buy of BellSouth Chile assets

Spanish cell phone operator Telefonica Moviles SA has closed the purchase of BellSouth Comunicaciones in a deal that values the Chilean unit of BellSouth Corp at $532 million.

The BellSouth Comunicaciones purchase is part of a larger deal, announced in March, 2004, in which Telefonica Moviles agreed to buy BellSouth's assets in 10 Latin American countries for $5.85 billion. Telefonica Moviles' purchase of BellSouth's Argentine assets is the only part of the deal remaining.

Bear Stearns: Cable firms see telephony opportunity

By 2008, Mexican cable firms will be selling telephony services on 700,000 lines. Cable companies are currently

forbidden from selling telephony services across their networks just as Telmex (NYSE: TMX), the country's largest telecom, is prohibited from selling cable TV services on its networks. Each side offered resistance to prevent the other from expanding onto its turf.

It is assumed that Mexican cable companies will be permitted to enter the telecoms market in 2005 and that Telmex will be able to enter the pay TV market. Mexico has hundreds of small cable firms but two of the largest, Megacable and Cablevision, control nearly a third of the market. Mexican cable TV penetration currently stands at 12%.

Wireless Broadband Joint Venture in Argentina

Websky announced that a joint venture wireless broadband project for Argentina will take place by the end of February. Initially wireless broadband will be offered to businesses and residential customers in La Plata, the capital of the Province of Buenos Aires, and then be extended to the entire province; covering more than 16 million customers.

America Movil and Nextel move to enter Peruvian Market

America Movil and Nextel announced they would consider bidding for Peru's fourth mobile band. The Peruvian mobile phone market has increased from 36,000 users in 1993 to 3.8 millions users in September 2004. Both companies hold little or no market share presently.

Mexico's Telemex buys shares of Brazil's Television Firm

Mexico's Telefonos de Mexico (Telemex) bought 7.3% shares of Brazil's pay television firm Net Servicos de Comunicacao SA. This is Telemex's first purchase of Net shares and will probably lead to further purchases or acquisitions. However, Telemex will not be able to gain a controlling stake because Brazilian law prohibits more than 49.9% of foreign ownership.

PHARMACEUTICAL NEWS

Oncology; Clinical research organization announces alliance with oncology consortium

PRA International (NASDAQ:PRAI) announced the formation of an alliance with the Brazilian Cooperative Oncology Group (GBOC) which assures the delivery of expert oncology clinical development services to pharmaceutical and biotechnology companies that are investigating new or existing oncology treatments.

The agreement between PRA and GBOC supports the creation and provision of coordinator training at Santa Casa Medical School in Sao Paulo City, a significant benefit to Brazilian medical students as well as for GBOC and the clinical trials that will be conducted by the consortium's 41 sites.

Pfizer's sales up 7.86% in Ecuador

Sales of the Ecuadorian branch of US pharmaceutical industry Pfizer surpassed the 4% growth estimated for 2004. The company's sales in the country went up 7.86%, while the national average of the pharmaceutical industry stood at 7.93%. Ecuador's sales of the multinational are the highest in Latin America. Last year the company generated 80 jobs, totaling 180 employees. In 2005 the firm expects to revenue US$ 30 mn in the country, as published by Hoy newspaper.

Bayer acquires rights over Levitra's sales in Brazil

The division Health Care from the German pharmaceutical lab Bayer has acquired the commercialization rights of the erectile dysfunction drug Levitra from GSK (GlaxoSmithKline) in Latin America, Canada, Asia and Africa for Euro$208mil. Levitra is among the five main medicines sold by Bayer in Brazil, with R$13.3mil turnover in 2003. Brazil is the 2nd largest market for erectile dysfunction drugs.

Traditional Chinese Medicine to Obtain UNESCO Heritage Status

The Chinese State Administration for Traditional Chinese Medicine (SATCM) and Department of International Co-operation have announced that they have applied to the United Nations Educational, Scientific and Cultural Organization (UNESCO) for the ancient Chinese branch of medical treatment to be recognized as a 'world intangible heritage'. It would represent the first time a medical science has received this designation, following in the footsteps of various types of music and literature.

CHINESE PRESIDENT HU JINTAO VISITS LATIN AMERICA

Last November China's president Hu Jintao visited several Latin American countries, demonstrating the increased interest in Chinese-Latin American trade. During his trip he signed $30 billion in trade and development deals with Brazil, Argentina, Chile, and Cuba and promised $100 billion in investment in the Latin America and Caribbean region (LAC). From 1993 to 2003 China and LAC trade has increased by 600% and the IDB estimates LAC exports to China will increase 34% in 2005 reaching $14 billion.

Hu Jintao's two day visit to Cuba led to a multi-billion dollar agreement in the island's key nickel industry and increased Chinese involvement in Cuban Tourism and Telecommunications. A contract was also signed were China would help fund Cuban exploration off the coast in areas believed to hold oil deposits.

During the president's visit to Caracas, Venezuela, an energy deal was signed, giving China the rights to mine oil in 15 provinces. Also, plans were under way to build pipelines to pump oil to Pacific ports through Colombia and Panama in order to export Venezuelan oil to China.

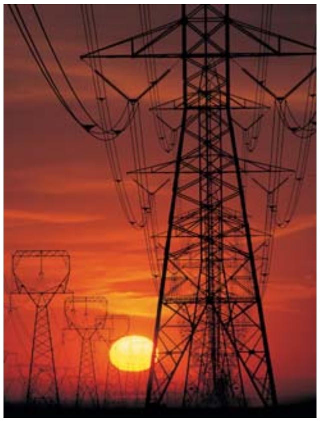
China's main investments went to the areas of energy and transportation to move energy resources. Trade from Latin America will also include food and other exports as these countries are increasingly frustrated with US and EU subsidies and Chinese industrialization is leading to an increased demand with less available land.

Early concerns that China's growth and increasingly market friendly economy would devastate Latin American economies seemed to have overestimated the degree of similarities between the economies and underestimated the potential for LAC-bound FDI with Chinese origin and the need for primary materials that Lac supply China with.

ENERGY NEWS

Repsol YPF plans to invest more than 300m euros in Venezuela

It has been reported that Spanish petrochemicals group Repsol YPF plans to invest more than 306m euros in an oil project in southwestern Venezuela.



The Barrancas project takes place in the states of Trujillo, Portuguesa and Barinas. In addition to the development and operation of the project, Repsol YPF will also build a 45 megawatt power plant in the state of Barinas. Half of the sum to be invested will be allocated to the construction of 11 wells, while the other half will be used to build the Termobarrancas power plant, operated using gas extracted from the wells.

Spanish Union Fenosa To Build $2.0 Bn Electricity Plant in Mexico Veracruz State

Spanish energy company Union Fenosa plans to build an electricity generation plant in the northern part of the Mexican central state of Veracruz, requiring an investment of $2.0 bn, Carlos Garcia Mendez, the state's Minister of Economic Development, said on January 11, 2005.

The project will expand Union Fenosa's generation capacity in the municipality of Tuxpan, where the company already has one facility. The project, which will create over 2,000 jobs, is expected to begin in 2005 and be completed in 2007, and will help the region meet growing electricity demands in the industrialized central parts of the country.

China Sinopec To Join Brazil Petrobras Refinery Project

China Petroleum and Chemical Corp. (Sinopec) plans to join a Rio de Janeiro refinery project of Brazil's petrochemical group Ultra and federal oil company Petroleo Brasileiro (Petrobras). Petrobras, which has already agreed with BNDESPar, the operations unit of Brazil's National Social and Economic Development Bank (BNDES), to join the project, has started talks with Sinopec, controlled by China National Offshore Oil Corp. (CNOOC).

China Signs Energy Deal with Venezuela and Cuba

China signed an energy deal with Venezuela on December 25, giving China approval for mining oil in Venezuela's 15 districts, where the reserves of oil reached 100 million barrels.

Venezuela is the world's fifth biggest oil exporter, while China has became the world's second biggest energy consumer. Under the deal, Chinese enterprises can participate in the oilfield operation in Venezuela, and invest in setting up refineries there. Meanwhile, Venezuela will also increase the oil export volume to China. Talks are under way to build pipelines to pump Venezuelan oil to the Pacific ports through Colombia and Panama to export oil easier to export to China.
China also recently signed a contract with Cuba to work in areas off the coast of the island believed to contain oil deposits.

China Aims to Tap Canada Oil Sands — Access to Alberta Reserves Would Build on Investments Beijing Has in the Americas

Chinese state-owned oil companies may be on the verge of becoming large-scale investors in Canada's vast reserves of oil sands. China's oil thirst has already resulted in a series of deals stretching from the southern tip of South America to the Caribbean, areas that have long been dominated by the U.S. Now it seems to have its sights on North America.

In November, Chinese President Hu Jintao signed off on Latin American investments covering some US$100 billion. In return for the investments, the Latin American countries have invited China to be future partners in a range of oil and gas exploration ventures and other energy- and nonenergy-related projects as they try to lessen their trade dependence on the U.S.

Venezuela to Purchase Shell Assets in Argentina

President Hugo Chavez has confirmed that Petróleos de Venezuela, the state-owned oil company, plans to buy Shell's assets in Argentina. Shell plans to withdraw from the region and Chavez expressed Venezuela's interests in Argentina. Shell assets include 16.5% stake in local fuel sales, 900 service stations and a refinery in Dock Sud.

TEXTILE INDUSTRY NEWS

Argentina Clothing Imports from Paraguay at $8.0M in 2004

Argentina imported clothing from Paraguay worth $8.0M in 2004, up by $3.7M compared to 2003. Argentina was the main destination for Paraguay's clothing exports in 2004, accounting for 42.5 pct of total exports.
Brazil is the second largest importer of Paraguayan clothing with 10.2 pct of the total, followed by Mexico, with 8.4 pct, Spain with 7.4 pct, the USA with 7.1 pct, Chile with 5.8 pct, Uruguay with 4.5 pct, Venezuela with 1.9 pct, Guatemala with 1.8 pct and Peru with 1.2 pct.

Chile: Textile exports up 24% last year

Chilean textile and clothing exports made US$173 million last year, 24.5% more than the US$139 million observed in 2003. The increase in earnings was due mainly to the recent free trade agreement (FTA) between Chile and the United States. For example, exports sent to the US reached US$26 million last year compared to US$13 million in 2003. The sector's main export products are fabrics made from cotton denim, wool, polyester, polyester-wool blends and viscose, as well as nylon and acrylic yarns. These last two products are shipped primarily to Brazil and Mexico.

FOOD AND DRINK INDUSTRY NEWS

Brazil: Wineries announce investments

In the next five years R$30 million will be invested to expand vineyards in the Campanha region from 1,600 ha to 3,500 ha. Currently 22 of the 30 big wineries from the state of Rio Grande do Sul are installed in the region but only two process the product there.
Vinicola Miolo plans to set up a winery in Candiota through investments of R$18mil. The company currently holds a vineyard of 100 ha and intends to reach 400 ha by 2012.
Vinicola Almaden announced investments of R$4mil to expand its 600 ha vineyard.

Belgravia offers new way into Chinese market

Belgravia Asset Management, a Jersey-based specialist manager, is to become the first investment house to offer overseas investors access to non-tradeable shares in listed Chinese companies, possibly giving investors access to a highly restricted part of the

ECONOMIC BRIEFS...

The US ratifies its support for Colombia

US President George W. Bush briefly visited Colombia in late November, ratifying his support of the country's wars against terrorism and drugs through Plan Colombia. Bush also highlighted the Colombian economy's growth and overall performance over the last few years. He especially noted the recovery of foreign investor confidence, the drop in unemployment, the reduction of violence and the agreements and pacts signed with other countries to improve export levels.

Chile, India Seen To Sign Partial Scope Agreement End Jan 2005

Chile and India signed a partial scope agreement. The basic aim of such an agreement is to lead to the increase in the trade between the two countries. Chilean businessmen who accompanied President Lagos plan to make trade agreements with Indian firms and promote Chile as a door to the rest of Latin America.

Private Investments in Argentina Up to $13.586 bl Jan-Oct 2004 - CEB

Private investments in Argentina in the first ten months of 2004 rose 71.5 % year-on-year, to $13.586 bl, according to data from the Buenos Aires Research Centre (CEB) released on January 10, 2005. The recovery in private investment was boosted by the telecommunications, energy and retail trade sectors.

Venezuela: Trade with China to double within three years

The trade between Venezuela and China amounted to US$1.2bl in 2004. Of the total, Venezuelan exports to China represented US$640m, while imports of Chinese products, mainly farm machinery, accounted for US$560m, according to the president Hugo Chavez.
Venezuela has recently made eight agreements with China involving energy, agriculture, railroad transportation, mining, tourism, housing, telecommunications and technology. Trade between both countries could double to US$2.5bl within three years. The eight agreements recently made in Beijing were added to the further 58 already made over the last four years.

BG CONSULTING HAS SIGNED A PARTNERSHIP AGREEMENT WITH A CHINESE CONSULTING FIRM TO OFFER MANAGEMENT CONSULTING SERVICES TO CHINESE COMPANIES FOR LAC AND THE US AND COMPANIES THROUGHOUT THE WORLD FOR CHINA.

TEXTILE INDUSTRY NEWS CONT.

Brazil: Textile industry estimates US$2.5bil in exports

The lift of the world's textile and apparel import quotas will not affect Brazil, at least at first. An estimate of the Brazilian textile industry association Abit points to an increase of 25% of exports in 2005, to US$2.5bil due to investments and improvement of the products quality. In 2004 there were US$2bil against US$1.65bil in 2003. The main fear of the Brazilian industry is a generalized fall in prices, by 10%, as a result of the increase in offers by big producers such as China, India and Turkey. In 2004, the Brazilian textile industry turned over US$25bil - only US$2bil in exports. The country is the world's second largest denim producer.

Paraguay: Clothing exports up 21%

Paraguay exported US$17.8mil (Gs$107bil) in clothes in 2004, an increase of 21% in comparison with US$14.7mil posted in 2003. Argentina was the main market accounting for 45.2% of clothing exports, followed by Brazil (10.2%), Mexico (9.4%), Spain (7.4%), US (7.4%), Chile, 5.8%), Uruguay (4.5%), Venezuela (1.9%), Guatemala (1.8%) and Peru (1.2%).

RETAIL INDUSTRY

Wal-Mart celebrates record sales last year

The US retail giant Wal-Mart turned over US$139.9 billion pesos (US$12.3 billion) in Mexico last year. This was a record annual earning for the Mexican subsidiary, and a real-term increase of 10.5%, discounting inflation, compared to 2003, highlighted the firm in a statement.

In December alone, sales in Mexico were US$18.6 billion pesos (US$1.6 billion), up 8.7% in real terms compared to the same month of last year. The retailer added that some 633 million shoppers visited its stores and restaurants during the course of 2004, 10.5% more than in 2003. It inaugurated 58 new outlets, 17 restaurants, 23 Aurrerá department stores, eight Sams Club, six Wal-Mart super stores and four Superama facilities in the same period.

Supermarket: Carrefour opens 16th shop in Colombia

French supermarket chain Carrefour opened its 16th shop in Colombia and the first in the Atlantic Coast region. The project, located in Barranquilla, received investments of COP 60 bn (Colombian pesos). According to the management, the second shop in the area is to operate in October. Investments sum COP 30 bn. The retail giant intends to sum 21 supermarket stores in the country by 2008, as published by La Republica newspaper.

Chile: MAS hopes to raise market share to 3%

MAS (Multialianza de Supermercados), the alliance of Chilean small and medium-sized supermarket companies, hopes to increase sales to about US$145mil in 2005, raising its share in the domestic market from 2% to 3% by the end of 2006. In order to face competition from large supermarket chains, the alliance plans to add new members to increase its bargaining power and obtain better prices from providers. MAS currently records sales of Pesos$6,700mil (US$12mil) per month.

Chile: Empresas Santa Elena to invest US$20mil in Angol

Empresas Santa Elena, the Chilean holding company with interests in the forestry (Forestal Santa Elena and Bosques Santa Elena), transport (Transportes Santa Elena) and agriculture and fruit (Comercial Santa Elena) sectors, has announced plans to invest US$20mil in a number of new production plants in Angol, in the Region VIII, over the next two years.

The project will create 600 jobs in the region. In the first phase of the project, the company will invest US$8mil in the construction of a new timber drying and remanufacturing plant. In a second phase, the company will build a new corporate building and a new facility for processing, packing and storing fresh apples with processing capabilities of 1 million boxes per year. The company is also renewing its transport fleet.

Argentina: Brazil wants fixed share of the Argentinean market

Brazil will propose to Argentina an alternative way of reducing the asymmetries between the two countries but will reject the introduction of safeguards in the Mercosur, according to a source from the Secretary of Industry. Brazil intends to quantify the Argentinean markets of so-called vulnerable products, including home-appliances, textile and shoes, and reach an agreement over fixed market shares. Brazil wants its allocated shares to be bigger than the shares of any other country. However, as this measure would favor Brazil against other countries, it will

RETAIL CONTINUED...

be difficult to implement.

Toymakers bypass HK to export products

Hong Kong toymakers are shipping more exports directly from the mainland because it is cheaper and saves time. More than 75 per cent of the world's toys were made in the mainland, mostly by Hong Kong-owned factories, said Samson Chan, chairman of the Hong Kong Toys Council. In the past, most of these toys were exported from Hong Kong.

From January to November last year, US$10.7 billion of traditional and electronic toys as well as video games were shipped from the mainland, while US$9.1 billion of the same products were shipped from Hong Kong, according to the Trade Development Council.

Mexico Snack-Food Stores Sales increase in 2004

Mexicans are continually increasing their purchases at convenience stores, demonstrating a shift to urban lifestyle. Oxxo, the market leader, experienced a 24% increase within the first 9 months of 2004 and increased stores by 718. Convenience stores including Oxxo, Seven-Eleven, and Extra are becoming one of the most dynamic businesses in the retail segment. Average convenience store sales rose by 17% last year and predict further increases in the year to come.

FOOD CONTINUED...

Chinese capital market.

The fund is planning to invest its seed money, about $170m of assets, in 15 state-controlled companies, buying equity stakes of up to 20 per cent. The initial portfolio will include companies in the power generation, manufacturing and food and beverage sectors.

CHILE: 2004 Soft drinks sales hit record

Sales of soft drinks in Chile in 2004 reached a record 1.7bn liters, 4.3% above the level recorded in 2003. Sales totaled $1bn in 2004. This year the industry is expecting further growth of between 5% and 6%.

Carbonated drinks made up 87% or 1.5bn liters of the total, while mineral water sales made up 8%. Sales of mineral water rose by 7.9% to 133m liters, while juice sales increased by 6% to 97m liters. The industry expects much of this year's projected growth to come from increased sales of mineral water, juices and lower-calorie soft drinks.

Brazil Exports First Ever Coffee Shipment to Mexico

Brazil unshipped at the port of Mexico 1,000 kg of fine roasted coffee on January 6, 2005, which was the first ever export of Brazilian coffee to that country. The Brazilian coffee shipment is made of the brands Cafe Tiradentes and Cafe Toledo, produced by two Sao Paulo-based coffee roasters. Although the coffee cargo exported to Mexico is very small, it is considered in Brazil a big achievement, partly because the coffee will be presented in the Mexican market as a luxury product, to be sold only in the units of local Palacio de Hierro department stores.

Argentina: Penaflor, Catena Zapata and Norton account for 30% of total wine exports

Argentinean bottled wine exports totaled US$189.1M in 2004, an increase of 40% over 2003. The Argentinean wineries Penaflor, Catena Zapata and Norton accounted for 30% of total exports and together with Trivento and Zuccardi, they accounted for 40%.

The sector wants to increase exports by 25% a year over the next five years, reaching revenues of US$700< in 2010. The sector's growth will be driven by the opening of new markets, the consolidation of existing ones and investments in promoting their products. The markets will greater potential for growth in 2005 are the US, the UK, Brazil and the Netherlands.

Peru: PepsiCo and Ambev to expand distribution

PepsiCo and its Peruvian bottler Ambev are engaged in an evaluation on the ways to extend distribution and soon would decide on the opportunity to invest US$10mil to set up a plant at Arequipa, or to invest in outsourcing, or to associate with Consorcio Andino, a PepsiCo distributor in Southern Peru. The move would involve also the distribution of beer.

China signs soy oil agreement with Argentina

China signed a soy oil trade agreement with Argentina saying that stricter import standards will not affect trade. Argentina is the number one supplier of soy oil. This agreement could increase sales in China and also lead to an end to the ban on Argentinean beef, as no new cases of foot and mouth disease has been reported.

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For business, we offer mechanisms to develop the global strategies of business organizations in their investments and international transactions.

For governments, we identify strategies for development and help them to achieve an appealing investment climate, efficient institutions, transparency, appropriate incentives to the public and private organizations as well as knowledge of the opportunities that the new international context offers.

We also provide services to settle investment disputes for both investors and host States.

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OTHER NEWS

US official: US-China economic relations have never been better

During 2004 the world economy recorded its highest rate of growth (5 per cent) in almost three decades. The reason for this is the Chinese economy recorded another year of 9 per cent plus growth, while keeping inflation in check. It also continued its steady march to becoming the world's manufacturing centre and not just in low-value goods.

China and the United States are important trading partners. Good US-China economic and trade relationship is not only in the interest of Americans and Chinese, but has a broader impact. In this aspect, it is the responsibility of the two countries to better manage the relationship and resolve conflicts.

BG CONSULTING: EVENTS, NEWS AND PUBLICATIONS

"BUSINESS STRATEGY & VIABLE VENTURES " FOR THE IT/TELECOM & ENERGY/LNG AND PETROCHEMICAL INDUSTRIES IN LAC, CHINA & INDIA

The event will take place on March 16th , 2005 at the Ritz Cartlon Washington DC hotel. You can obtain more information or register by going to:

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Omar Garcia and Jon Schmid published and article on the Latin America Law and Business Report on Investment Disputes

Marc Ricart and Wei-Ling Chang published an article in the same report on China and Latin America - there is more to gain that loose from China for LAC.

Both these articles can be obtained from our Website

www.bg-consulting.com/publications.html