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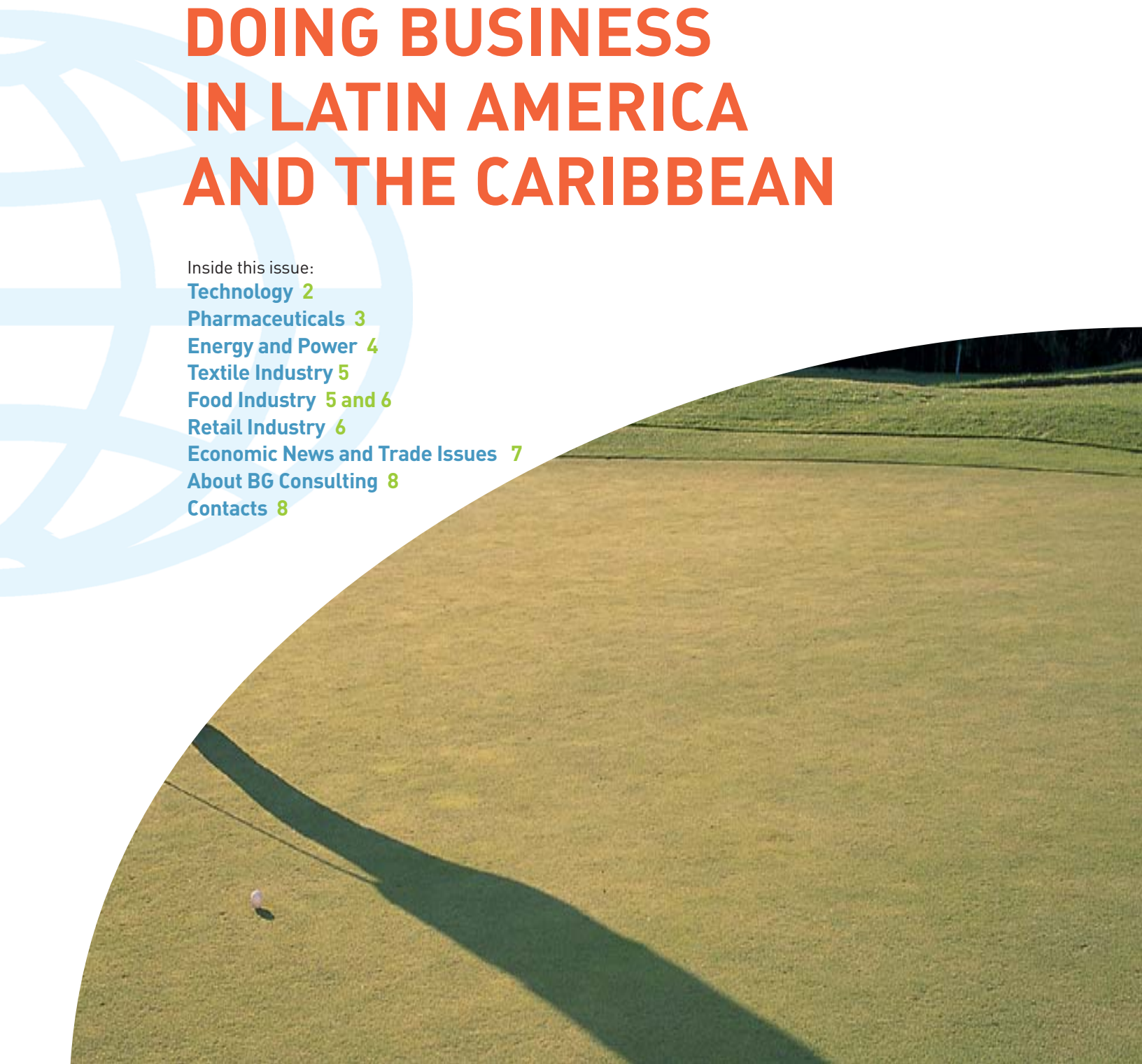
NEWSLETTER

March - April 2005

# DOING BUSINESS IN LATIN AMERICA AND THE CARIBBEAN

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## TECHNOLOGY NEWS

### ZTE Starts New Business in Mexico

ZTE, a Chinese Cell phone company, will start selling cell phones in Mexico in the second half of 2005. ZTE is one of five leading cell phone companies in Latin America with sales already in Brazil. Plans are also under way to build a plant for production of mobile phones in Mexico.

### Huawei Expecting to Build a Plant in Brazil

China's leading telecom company, Huawei Technologies, is planning on launching production of cell phones in Brazil after an increase in sales in Latin America. This would be the first international plant of its kind for Huawei. Huawei expects double its sales in Brazil in 2005. The company currently has a contract with the largest operator, Vivo, and it supplies equipment to most of the country's telecom firms.

### China's Government to Finance Telecom Development in Ecuador

China's government is talking to Ecuadorian telecom company Conatel about funding local telecom projects. Projects include a plan to bring telephony and internet access to rural areas. The Chinese mission proposed a reciprocal

agreement whereby each country would open up its market to the other's software developers.

### China and Venezuela Coming Together for Telecom Initiative

Chinese companies are planning on supporting local cooperatives providing telephony and internet access with Venezuela's Conatel. The Chinese government is also planning on helping in developing a state run telecom company which plans to develop network connections in the Caracas area as well as data transmission services in areas not covered by private firms.

### Telefonica Invests 1.1bn euros in Latin America

The Spanish telecom group, Telefonica, revealed its plans to invest 1.1bn euros (approx. \$1.28bn) in Latin America for ADSL or other broadband services between 2005 and 2008. Broadband lines in Latin American increased 88% in 2004. Telefonica has also acquired BellSouth's mobile network in Chile, giving it 48.5% of the market.

### Telcel: Networks for Universal Service

The Venezuelan National Telecommunications Commission has given Telcel

the go ahead to install connectivity at 34 access points to networks in Mérida, Táchira, Apure, and Barinas states. This project is part of the Universal Service program established in the Basic Telecommunications Law. Telcel plans to complete this project in 18 months.



### Movilnet: New data transmission service

Movilnet announced the launching of Neo, a platform that brings together its data transmission services, broken down into four categories. The company specified that no additional subscription or basic monthly rental would be required, as the charge for the service will be based on the application used and the actual transmission time.

### Siemon Sets up Business in Venezuela

Siemon is to cater directly to the growing Venezuelan market from its new office in Caracas.

The company has launched BladePatch, a new solution aimed at networks deployed in companies and organizations with high yield and density requirements.

### Nokia Obtains GSM Deal in Argentina

Nokia Corp will provide Telecom Personal of Argentina with equipment for its GSM/EDGE network in nine northern provinces. Under the agreement, Nokia will install base stations with EDGE capacity and related equipment. Telecom Personal is the largest GSM provider in Argentina and has more than four million subscribers.

### Mexican America Movil Looking to Buy Two Brazilian Mobile Companies

The Mexican America Movil S.A. announced it might buy two Brazilian mobile companies, Telemig Celular Participacoes S.A. and Tele Norte Celular Participacoes S.A. Both are being sold by the Brazilian Banco Opportunity. America Movil has increased its presence in Brazil and plans to invest \$500 million this year. Currently they are analyzing their opportunities and have not officially decided.

## PHARMACEUTICAL NEWS

### Dr Simi plans expansion of pharmacies chain

Dr Simi, the Mexican pharmacies chain, is preparing its expansion in Argentina, where it would replicate a successful model to acquire generic drugs locally produced and distribute to consumers through 2,810 pharmacies in Mexico, creating a US\$400mil turnover and profits of US\$30mil in 2004. Simi has set up 9 pharmacies in Buenos Aires, and plans to set up 200 pharmacies with investments of US\$20mil.

### Generic drug makers head for Latin America

Brazil's drug market is one of the fastest growing markets in the world and several generic drug companies are interested in increasing their presence. Indian drug makers like Ranbaxy, Wockhardt and Strides Arcolab have already established their presence in the Latin American region. Many other mid-sized generic makers are in the race to enter the growing Latin American market.

### Grupo Babe to expand in Latin America

Spanish pharmaceuticals group Babe is to begin selling its products in Chile, Mexico and the Dominican Republic this year via local drugs

retailers. The group saw its turnover soar 53 per cent in 2004, to 15.3m euros (approx. \$20bn), as a result of its expansion throughout Spain and in numerous countries in Europe. Babe's products are available in four out of five Spanish pharmacies. Grupo Babe is made up of Laboratorios Babe and RNB and is based in Valencia, in Spain.

### Chile healthcare: Pharmacy chain expands

After spending most of last year consolidating, the Chilean-based drugstore holding company, Farmacias Ahumada (FASA), will resume expansion in 2005. The company announced plans to open 100 units in 2005, distributed equally among its subsidiaries in Chile (Farmacias Ahumada), Brazil (Drogamed), Peru (Boticas FASA) and Mexico (Farmacias Benavides). FASA, with a regional network of 937 stores and a turnover of nearly US\$1.1bn in 2004, is one of the Latin America's largest drugstore companies.

### AIDS/HIV Drug Technology

Brazil plans on joining seven other developing nations, including India and China, in an alliance to share AIDS/HIV drug technology. Brazil is seen as a success case in containing the numbers of AIDS/HIV infected people for being a developing nation.

## MEET OUR VICE PRESIDENT



María Gabriela Sosa, one of the founding partners of BG Consulting, received a law degree, Summa Cum Laude, from Universidad Católica Andrés Bello in Venezuela in 1991. In the same year, she received an Excellency Award from Fundación Gran Mariscal de Ayacucho. Ms. Sosa received a Masters of Laws (LL.M.) from Harvard Law School in 1994.

Working at Baker & McKenzie in Venezuela and as senior consultant at BG Consulting, Ms. Sosa's career focused on the areas of taxation and customs in Latin America and Caribbean. Ms. Sosa actively participated in the reform of Venezuelan tax laws and regulations and lectured at several conferences including the Venezuelan Chamber of Technical Instruments (CAVEOFIT), the Venezuelan Chamber of Commerce and the Venezuelan Chamber of Oil and Gas.

As Vice President of BG Consulting, Ms. Sosa has led several projects as consultant in Central and South America. She has been the Inter American Development Bank's leading consultant in designing and implementing a code of conduct and ethics for customs and tax officers in several Latin America and Caribbean countries. She has also led customs reform projects in the Andean Community and throughout Central America. As an international tax consultant for the World Bank, Ms. Sosa worked on a project to reduce administrative barriers in Venezuela.

Currently, Ms. Sosa is working as Attorney 1 for the Advance Rulings Process Improvement Assistance to the Central American CAFTA Countries, under the USAID Facilitating Streamlined Trade Project (FASTrade).

Ms. Sosa is a member of the Board of Directors of the International Basketball Association (IBA) Team as the Director of Latin American Affairs and looks forward to developing the LRPR program throughout Central America. Ms. Sosa speaks fluent Spanish and English and intermediate French.

## ENERGY NEWS

### Sinopec, Petrobras to Build Gas Pipeline

Petrobras, the Brazilian petroleum company, is in final stages of negotiations with China's Sinopec regarding the building of a gas pipeline that would connect the south-east production area to the north-

tender for the modernization of the Talara refinery, launched by Peru's state-owned oil company Petroleos del Peru (Petroperu). The project is expected to begin by the end of 2005 or by early 2006.



east. This deal proves the closer ties that are connecting China and Brazil.

### Chinese Sinopec Shows Interest in Peruvian Talara Project

Leading Chinese oil company Sinopec Corp. has shown interest in participating in the modernization of Peruvian refinery Talara in northern Peru. Executives from the China Petroleum & Chemical Corp., or Sinopec, (SNP) are currently in Peru evaluating whether to take part in the

### Carbosuramérica to be Formed

Carbosuramérica, the joint venture between the Brazilian Vale do Rio Doce and the Venezuelan Carbones del Zulia (Carbozulia), will come into being in the near future. The exploitation of the coal deposits in Zulia state will continue with a joint investment of US\$ 1 billion. Brazilian companies would also participate in the production of chemicals derived from coal, oil and the construction of energy and

infrastructure works, in addition to a rail line and a new deep-water port.

### EDC Takes Over Affiliates to Comply with Law

La Electricidad de Caracas (EDC) completed the takeover of its affiliates Luz Eléctrica de Venezuela (Calev) and La Electricidad de Guarenas Guatire (Elegua) on January 1. This operation would allow EDC to adapt its operating and administrative structure to the requirements of the Basic Electricity Service Law (LOSE after its initials in Spanish) by putting all the assets involved in the distribution of electricity under a single firm.

### Super Octanos Changes Technology

Super Octanos, a company that produces 600,000 tons a year of MTBE (an oxygenate used to increase the octane rating of gasolines instead of lead tetraethyl), is to invest US\$ 65 million in its plant at Jose Complex in Anzoátegui to switch technologies. This will enable the state-owned Petroquímica de Venezuela (Pequiven) and Ecofuel to produce isooctane, an alternative to MTBE in order to meet the demands of its customers.

### Pdvsa and Shell to Negotiate New Associations

Petróleos de Venezuela (Pdvsa) and Shell will

negotiate new joint ventures for exploitation of the Urdaneta North field in Maracaibo Lake (Zulia state) and the production of heavy crude in the Orinoco Oil Belt. They agreed to discuss the final agreements and speed up the development of the Mariscal Sucre project, before the end of the year.

### Five Companies get Contract for Natural Gas Exploration in Mexico

A group of five companies, two from the US and three from Mexico, received a contract for \$456 million to explore natural gas in the north part of Mexico. The Mexican state petroleum company, Pemex, stated that it will remain in control of the exploration and exploitation of the property.

### Advances Made in Gas Reserve in Gulf of Mexico

The first phase of the bidding process for contracts to drill in the Gulf of Venezuela and the north of Falcon state will begin shortly. The hydrocarbon reserves are located close to the Paraguaná Refining Center and El Tablazo petrochemical complex. About fifty companies will be present and it is expected that half of them will decide to register for the process.

### Shell to invest \$200 million in Brazil for exploration and development in oil and gas.

## TEXTILE INDUSTRY NEWS

**Chinese Shoe Maker Hongguo Reports 25% Hike in FY Profit** access to Central American countries if American raw materials are used.

Chinese-headquartered shoe manufacturer Hongguo International Holdings posted a 25 per cent jump in 2004 net profit, to CNY52.96 million from CNY42.50m in 2003. Sales for the year totalled CNY294.47m, an increase of 33 per cent over last year's CNY220.59m. Hongguo designs, manufactures and markets ladies' fashion footwear under the brand names C Banner and E Blan

**Brazil: Textile Imports from China Increases**

Brazil's textile imports from China rose 275% during 2003 and 2004. Chinese products currently account for 60% of Brazil's overall textile imports. While Brazil has a trade deficit for the textile industry with China, it has an overall trade surplus with this country.

**CAFTA Agreement: Textile industry**

The Latin American textile industry is looking towards the CAFTA agreement currently pending in Congress which would provide textiles duty free



## FOOD AND DRINK INDUSTRY NEWS

**Brazil approves GM soy crops**

Due to the Brazilian Congress' decision to make genetically modified soy beans legal, the Brazilian government research agency, Embrapa, is expected to start producing up to 11 new varieties for the new harvest. Brazil is the world's second largest soy bean producer. This decision is expected to spur new research and increasingly more genetically modified seeds which will be better suited for Brazil.

**Brazil looks to sell wine globally**

Brazilian wine makers are looking to sell globally and compete with Argentina and Chile. There has been a new surge of wine makers who are looking for new territories to produce wine in. Brazil has a tradition of wine making dating back to the Portuguese and has always produced wine for the domestic market.

## RECENT PUBLICATIONS

**Why Due Diligence Fails to Uncover Problems in Latin American Companies**

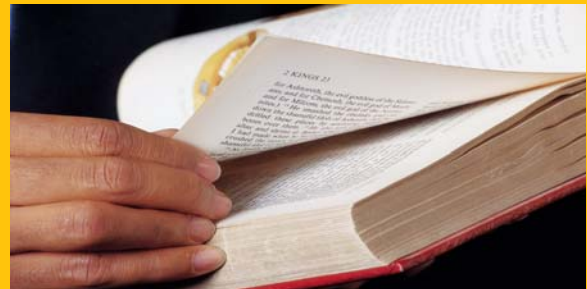
This article looks at the reasons for the failings, and notes how the process can be improved so that unpleasant surprises- after the merger is complete- can be avoided.

**Latin America and China: Sino Amigos?**

In November last year, President Hu Jintao of China spent two weeks traveling throughout Latin America. During his trip, Hu signed a total of \$30 billion in trade and development deals with Brazil, Argentina, Chile, and Cuba and promised \$100 billion in investment into the Latin America and Caribbean region (LAC).

Conventional economic theory might suggest that economies with seemingly similar compositions as those of China and Latin America would have relatively little to gain from their economic integration. China's development of a comparative advantage in labor-intensive manufacturing, influencing international prices, factor returns, and specialization patterns across the world, would seem a threat to a region that relies heavily on inexpensive labor. However, a closer look at these economies provides an indication of a growing commercial relationship and a degree of compatibility not immediately evident. This article examines some of these issues and ways investors can profit from this trend.

For the full text of these articles go to our website [www.bg-consulting.com](http://www.bg-consulting.com)



## FOOD CONTINUED...

### IFC to purchase 2 million shares in Bavaria brewery

The International Finance Corporation (IFC), the investments arm of the World Bank (WB), is to purchase over 2 million shares of Colombian brewery Bavaria. The international entity decided to exchange a US\$30-mn loan for common shares in the company's stock. Bavaria is South America's largest independent brewer and has a virtual monopoly in Colombia, Peru, and Ecuador. Bavaria decided to look for a foreign partner after posting a loss last year due to the appreciation of the Colombian Peso.

### Salvadoran coffee exports increased

The value of Salvadoran coffee exports in February were up 9% from last year's figures. The actual volume was down but the price of coffee has risen %19.41 compared to the February 2004 figures.

### InBev plans to enter Costa Rican

The beer consortium Inbev, which includes Brazilian AmBev and Belgium Interbrew, has decided to enter the Costa Rican market which is currently dominated by local producers. They hope to enter before 2007. InBev plans on entering the market chocolate

company, Garoto, in order to avoid a monopoly charge. The Brazilian anti-monopoly authorities rejected Nestle's purchase of Garoto. Nestle hopes that buy selling a third of the company, they will be able to retain the rest without problems.

### Argentinean Biotechnologists Selling Blueberries

The biotechnology company Biotext, created by students from the National University of Quilmes in Argentina, used vegetable cloning to produce blueberries which they are now selling on the international market. Blueberries are very popular in the US and other Northern countries for their therapeutic properties. The company hopes to further research biotechnology using the profits from the blueberries.

## RETAIL INDUSTRY

### Giordano 2004 Net Up 48% On Robust Retail Markets

Fashion retailer Giordano International Ltd. reported a rise in 2004 earnings with both its Hong Kong and China operations posting strong growth. A continuing strong recovery in Hong Kong's retail market since early 2003 and the strong economic growth in China helped the company's revenue there to grow 16.8% to HK\$852 million. The

company will maintain capital expenditure in 2005, and it will open about 100 new sales points in China.

### UPS Opens New Distribution Centers for Apparel

Package delivery company United Parcel Service Inc is opening three new warehouse and distribution centers in China to dispense a range of goods, including textiles and apparel, for both export and import. The new facilities will be located in Shanghai, Suzhou and Futian, China, and located adjacent to manufacturing centers.

### Wal-Mart, Carrefour Post Soaring Chinese Sales

Two of the biggest retailers in the world, Wal-Mart and Carrefour, had their sales in China jump by a third and a fifth respectively last year according to government data.



### Best Buy to enter China

Best Buy, the largest home electronics chain retail enterprise in the world, has studied the market in Beijing, Shanghai and Guangzhou and

will open the first store in Shanghai soon, marking the formal entry of the company into the Chinese market. Best Buy may expand in China through mergers. At present, large home electronics retail enterprises are strongly developing in Hong Kong and China's second-tier cities.

### Chile Retail Sales Up 1.8 Pct Y/Y Feb 2005

The 2004 retail sales reached their highest since 1999 chiefly as a result of improved domestic demand in the second half of 2004. In February 2005, Chile's retail sales increased 1.8 pct year-on-year. Sales at groceries and self-service stores increased 3.6 pct, bookstores sales hiked 2.8 pct, liquor stores sales increased 2.6 pct, restaurants sales rose 2.4 pct. Retail sales pct year-on-year in 2005. Retail sales in Chile are expected to grow 5.0 pct year-on-year in 2005.

### Grupo Comercial Chedraui is buying Carrefour's Mexican operations

Chedraui stores operate in 13 states in the East and South-east regions of Mexico and include more than one dozen La Hogaza bakeries as well as having a large stake in Bodega Latina. The US\$545m acquisition of the Carrefour's 29 stores in Mexico gives Chedraui a presence in the area, and could bolster the retailer's sales by more than half.

## ECONOMIC NEWS

### Chinese Economy, Q1/2005, Growing Robustly

Chinese government released figures on fixed-asset investments showing that investments in the Mainland during January and February of 2005 had increased 24.5 percent, against a growth of 21.3 percent in December 2004. Except for accelerating growth in investment, other Chinese economic indicators are also moving in the same direction

beginning of Zeng's visit to Latin America with 125 official and business delegates. Trade between China and Venezuela is expected to reach \$3 billion this year due to these and other agreements.

### Free Trade Agreement Between China and Chile

Chinese and Chilean officials began negotiations on a free substantial increase in trade between the two countries



over the first two months in 2005 including industrial production, CPI inflation, and exports.

### Venezuela and China Signed Agreements

Venezuelan President Hugo Chavez and Chinese Vice President Zeng Qinghong signed several agreements on Saturday March 5<sup>th</sup> regarding oil, agriculture, and technology. These agreements marked the

beginning of Zeng's visit to Latin America with 125 official and business delegates. Trade between China and Venezuela is expected to reach \$3 billion this year due to these and other agreements.

### Latin American Officials Coordinate Free-Trade Positions

Officials from Ecuador, Colombia and Peru have coordinated some stands ahead

of more free-trade talks with the US. Representatives agreed to adopt standards common to international treaties on contentious intellectual property issues. Further, 22 agricultural products have been identified as "extremely sensitive." The Andean governments are aiming to negotiate for a gradual repeal of their import tariffs over a 25-year period on the goods of potatoes, rice and other cereals.

### Venezuelan Non-traditional Exports Rise to US\$ 6.8 billion

Venezuelan non-traditional exports grew US\$ 1.5 billion (28.9%) to US\$ 6.8 billion between 2003 and 2004. The "preliminary" numbers reveal that imports of raw materials, inputs and products totaled US\$ 14.9 billion (+79.9%) during the period.

### Venezuelan Economy Picks up 17.3% in 2004

The Venezuelan economy rebounded 17.3% in 2004, which is the highest annual growth figure ever recorded by the Central Bank. For the full year, oil output rose by 8.7% and non-oil activity by 17.8%. The highly cyclical construction sector achieved the most rapid pace of growth (32.1%), closely followed by finance (26.6%), transport (26.4%), commerce (25.5%), and manufacturing (25.4%).

From an expenditure point of view, the increase in output was entirely attributable to a 27.9% expansion in domestic demand.

### Canada and Central America Free Trade Talks Resume

Governments from Central America will resume talks with Canada over a free trade area after they were ended in 2003 due to disagreements. The Central American countries hope for free access for agricultural products such as coffee and rice. The reunion date has not yet been set but the vice ministers do plan on holding a preliminary meeting.

### Honduras Approves Free Trade Agreement with US

The congress of Honduras approved the free trade agreement with the US, making it the second in the region after El Salvador to do so. Known as CAFTA, the free trade agreement would eliminate commercial barriers between the US and Central American countries also including Guatemala, Nicaragua, Costa Rica, and the Dominican Republic.



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BG Consulting is a multidisciplinary consulting firm specialized in assisting business and governments of developing countries through a combination of political, economic and legal analysis.

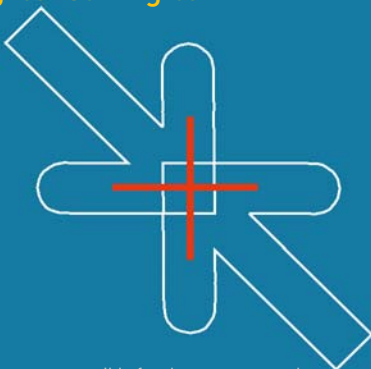
For business, we offer mechanisms to develop the global strategies of business organizations in their investments and international transactions.

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.

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## BG CONSULTING: EVENTS

### “BUSINESS STRATEGY & VIABLE VENTURES” FOR THE IT/TELECOM & ENERGY/LNG AND PETROCHEMICALS INDUSTRIES IN LAC, CHINA, & INDIA

On March 16, 2005 BG Consulting together with its partners in China and India, ApproaChina and ERG respectively, hosted the First Annual China - Latin America - India Forum held at the Ritz-Carlton Washington DC. This year the Forum focused on business opportunities and industry trends in the telecommunications and energy sectors in China, India, Latin America and the Caribbean. Considering these sectors' high rate of growth and dynamism in the regions in question, the seminar sought to bring together some of most important players within each industry to discern a picture of the current state of each sector and provide insight into future trends.

The event began with a discussion of industry-wide trends, focusing on recent developments in the telecommunications and energy sectors in some of the world's largest markets. Particular focus was placed on the manner in which industry trends would affect business strategy and the sub-sectoral opportunities the panelists identified as possessing particularly strong growth

potential.

While the first half of the seminar focused on industry trends and country-wide developments, after lunch the event's focus shifted to the particulars of doing business abroad. The panel on international financing focused on vehicles available for companies to finance their operations in either industry through government and private sector solutions. It is important to note that besides the traditional project financing methods brought about by both institutions, the IFC provides equity financing and even forms of venture capital for companies in the telecom sector in emerging markets.

The seminar concluded by breaking attendees into two roundtable groups: one focused on opportunities in energy and one on those in telecoms. During the roundtable forums, participants discussed their own experience in the various markets.

To read the full press release on the seminar, go to the BG Consulting website at [www.bg-consulting.com](http://www.bg-consulting.com).