



**BG Consulting**  
*Linking two worlds*

NEWSLETTER **10** July—August 2005

# DOING BUSINESS IN LATIN AMERICA AND THE CARIBBEAN

## Inside this Issue:

Telecom: 1—3  
Energy — Oil & Gas: 1,4  
Investment and M&A: 3  
Airline Industry: 4  
Hotel & Tourism: 5  
Pharmaceutical News: 5  
Economic News: 6  
CAFTA Essay: 7  
BG News: 8



## OIL & GAS

### Riopol sets up \$1bn PE complex

Rio Polimeros (Riopol) is setting up its \$1.08 billion gas-based ethylene and polyethylene (PE) complex in Rio de Janeiro state, in southeast Brazil. This will be Latin America's largest integrated gas-based petrochemicals complex, with

the capacity to produce 540,000 tons of PE, 520,000 tons of ethylene and 75,000 tons of propylene per year.

### Brazil creates carbon futures market

Renewable energy project developers in Brazil will be able to trade carbon credits in the domestic

market in a matter of months, under a program that officials from the Brazilian Mercantile & Futures Exchange unveiled in early July. The new electronic trading market will comprise companies and institutions from Brazil and Latin America.

Brazilian Mercantile & Futures Exchange (BM&F) and the Rio de Janeiro Stock Exchange would set up a free database of available and future carbon credit projects on their respective Web sites. The first project documentation is expected to come online as soon as next month.

## TELECOM

### Huawei To Set Up 1st 3G Network in Latin America

Huawei Technologies has built a pilot 3G network for ANTEL, a leading telecom operator in Uruguay. The 3G network provides enriched services to Uruguay consumers, such as video phone, high-speed Internet, live TV, real-time monitoring, and other multimedia services. Huawei has already invested USD 700 million for R&D in its 3G network. The company already won 11 WCDMA commercial use contracts, and has been providing commercial networks in nine countries and territories, including Holland, Malaysia, Brunei and Hong Kong.

### Ericsson Wins Contract With El Salvador

America Movil, one of Latin America's largest

telecommunications operators, has contracted Ericsson for a total upgrade of its fixed network to the Ericsson Telephony Softswitch solution in El Salvador. This upgrade will allow America Movil to evolve its current network to a Next Generation Network (NGN). Ericsson has already provided the Softswitch solution for America Movil in Guatemala in 2004.

### Wireless consolidation for Latin America

Latin America's wireless industry is facing the last part of its consolidation following three acquisitions by America Movil (Mexico), over a three-month period.

The region's mobile market is dominated by America Movil and the Spanish Telefonica SA, through its Telefonica Moviles unit. America

Movil revealed the acquisition of TIM Peru, part of Telecom Italia Mobile SpA earlier this week following the purchase of Chile's Smartcom last week and Hutchison Paraguay three months ago.

America Movil has overtaken Telefonica as Latin America's largest wireless operator, with an estimated 71.3m subscribers. Industry ana-

lysts claim that major consolidation in the region is complete and any new acquisitions will have a small subscriber base. It is anticipated that wireless penetration in the region could reach 60% of the population by 2010.

### Broadband users almost double over one year period – Argentina

According to Argentina's government statistics unit



Indec, the number of broadband connections in Argentina reached 491,354 at the end of March. This figure is up 93.3% compared to 254,134 connections at the end of March 2004. The total number of internet connections reached 1.84 million last March, up 3.7% from the 1.77 million in March 2004. Of the total internet connections, 1.03 million are paid accounts and 811,844 are free users, paying only for the telephone connection costs. Due to a growth in broadband, the number of dial-up accounts dropped 11.4%, while free users dropped 11.3%, when comparing March in 2004 and 2005.

#### **Digicel to launch fixed wireless before year-end - Regional**

Caribbean mobile operator Digicel plans to launch a domestic fixed wireless service in Barbados before year-end. The service will likely be launched in both Barbados and St Lucia by September this year. Barbados fully liberalized its telecommunications market in February, and licenses have already been given to Antilles Crossing, Digicel and Telebarbados. The company is looking for fixed wireless options in Barbados, St Lucia, the Cayman and in Jamaica in the upcoming months, so that they can provide internet and landline services over a wireless platform. Digicel also an-

nounced it had obtained the GSM operating license for Haiti through a tender process entered jointly with OneFone, a wholly owned subsidiary of Haiti's GB Group. Digicel now has licenses in nine countries.

#### **Telemig gains 3% market share in 2 weeks - Brazil**

Brazilian mobile operator Telemig Celular, achieved a 3% market share in the Minas Gerais state's central-western region, the Minas Triangle, after only two weeks of operations. The Minas Gerais-based company launched GSM service in this part of the state at the end of May. The network includes EDGE technology that allows data transmission rates of 80-237kbps.

#### **C&WJ plans for 50,000 broadband subscribers in 2005 - Jamaica**

Jamaican fixed line operator Cable & Wireless (C&WJ) plans to focus its resources on developing its broadband internet business this year, company president Jacqueline Holding told *The Jamaican Observer*. Holding said C&WJ aims to increase broadband subscribers to 50,000 households by March 2006 from the current 8,000. Recent survey results show 94,000 homes having computers.

#### **VIVO buys 500,000 ZTE devices - Brazil**

Brazil's biggest mobile

operator Vivo has signed a purchase order for 500,000 mobile devices to be supplied by Chinese telecom vendor ZTE, local news agency Agência Estado reported. Vivo is a joint venture between Portugal Telecom and Spain's Telefónica Móviles. ZTE vice president Cheng Lin signed the contract during a recent visit to the Telefónica headquarters in Madrid.

#### **VoIP accounts for 36% of international calls - Brazil**

VoIP services already account for 36% of Brazil's international voice data transmission while new VoIP providers are entering the market and threatening the fixed operators' revenues. Fixed line operators lost revenues of 880mn reais (US\$369mn) in 2004 due to the rising VoIP services, while the government lost 252mn reais in taxes, according to a study by Brazil's fixed line incumbents association Abrafix.

#### **Xtera launches sales center in São Paulo - Brazil, Regional**

US networking solution company Xtera Communications has launched a Latin American regional center in São Paulo, as part of a global strategy that also sees the opening of centers in France, China, Southeast Asia and Japan. Xtera, based in Allen, Texas is best

known for its Nu-Wave DWDM system, which delivers optical networking transport solutions for regional, long-haul and ultra long-haul networks.

#### **Telefonica Buys China Netcom Stake, & Plans for More**

Telefonica SA, bought 2.99 percent of China Netcom Group Corp. (Hong Kong) Ltd. for 240 million euros (\$289 million) and plans to increase its stake to 5 percent. The Madrid-based company bought the stock for HK\$11.45 a share and will have the right to one board member. Netcom is China's second-largest fixed-line phone company and Telefonica is the main phone operator in Spain and Latin America.

Telefonica and Netcom will begin talks to form a strategic partnership that may include jointly buying technology and infrastructure, sharing technical experience and resources, the Spanish company said. Netcom dominates the fixed-line phone market in China's 10 northern provinces and cities, with a combined population of more than 400 million. Its subscribers rose 15.5 percent to 80.4 million at the end of last year.

#### **Vivo awards Lucent for 3G CDMA network expansions - Brazil**

Brazilian mobile operator

## TELECOM Cont...

Vivo has awarded US supplier Lucent Technologies a contract to extend capacity and coverage of its 3G CDMA network in four states. Market insiders believe the contract could be as much as US\$100mn, half of Vivo's total network expansion budget 2005.

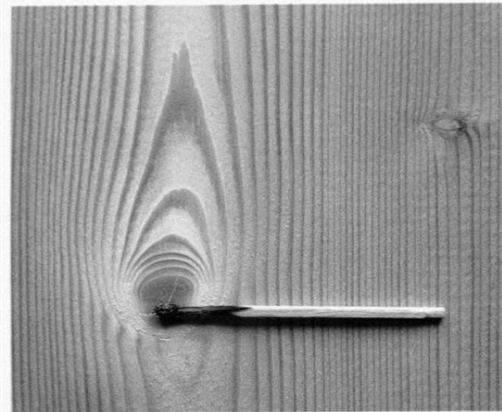
**Digicel acquires majority of Cingular Wireless Caribbean assets - Regional**  
US mobile phone service provider Cingular Wireless has sold the majority of its Carib-

bean assets to Jamaica-based Digicel which will expand Digicel's GSM Pan-Caribbean network to 14 countries once approved by regulators. The acquisition will expand Digicel's reach to Bermuda, Anguilla, St Kitts and Nevis, Antigua and Barbuda, and Dominica in addition to its existing nine markets, which include the recent addition of Haiti.

The purchase will also strengthen Digicel's market share in the Cayman Islands, Grenada, St Lucia, Barbados and St Vincent & the Grenadines,

where Cingular's customer base will move to Digicel. It will also add a license in the French West Indies. The company is also present in Aruba, Curaçao and

Jamaica. Regulatory approval of the Cingular acquisition, the price of which was not revealed, is expected to close in four to six months.



## INVESTMENT AND M&A ACTIVITY

**AVIANCA**, the Panamanian subsidiary, will buy 10 Fokker F-50 from the Dutch firm Debits Air Finance BV to support its local routes (US\$ 22 m).

**BRASKEM**, the Brazilian petrochemical company, wants to build a factory in Venezuela in association with the state-owned Peruvian (US\$ 250 m)

**ENAP**, Chilean state petroleum company, will initiate exploration of natural gas wells in the south of Chile, which is known to have enough reserves to supply almost 25% of the country's needs (Investment US\$ 13 m).

**LAN**, the Chilean airline, will buy 25 short range Airbus A318 and A319 airplanes (cost US\$750m).

**PETROBRAS**, the Brazilian petroleum company, bought a thermoelectric plant costing US\$ 137 million in northeast Brazil. Petrobras also approved the concession of contracts to Transocean, of the U.S., to explore five petroleum platforms for 19 years. It is calculated that they will generate profits of some US\$ 1.000 million.

**TAM**, the Brazilian airline, will buy 20 Airbus A320 with the option to buy 20 more. The order will be received the between end of 2007 and 2010 and is valued at US\$ 2.600 million.

**PIRELLI**, the Italian manufacturer of tires, plans to invest US\$ 20 million to enlarge its operation in Argentina. Pirelli expects to generate five new tire models for the foreign and national market.

**FALABELLA**, the Chilean department store, will open 15 to 20 new stores this year. The investment is close to US\$ 200 million, and 60% more than last year's disbursements.

**DAIMLERCHRYSLER**, the German car manufacturer, will invest US\$ 50 million to produce its new compact car NCV 3 in Argentina for export to Latin America.

**SABMILLER** agreed a \$7.8bn takeover of Grupo Empresarial Bavaria. The deal will give the UK-based brewer of Castle, Lager and Miller Lite, access to Latin America's fast-growing beer market.

## OIL & GAS Cont...

### Petrobras signs export contract with China

State-owned Petrobras, Brazil, reached an agreement to sell 12 million barrels of petroleum to state-owned Sinochem International Oil Company, China, a contract valued at US\$600 million dollars.

The crude will be originating from the *cuenca de Campos*, off the coast of Rio of Janeiro state in the Atlantic Ocean, where Petrobras extracts 80% of its production in Brazil. For Petrobras, this is the first contractual bond with China, and the ships will have capacity to transport up to two million barrels per day.

### Chávez proposes regional gas company - Venezuela

Venezuelan President Hugo Chávez proposed regional gas company Gas del Sur to supply natural gas to other Latin American countries in need of the fuel, government news agency ABN reported. Venezuela has enough gas reserves, about 150-190 trillion cubic feet, to supply the whole continent for over a century.

### Export price jumps 9.5% to US\$46.10/b in week Jun 13-17 - Mexico

The Mexican crude oil

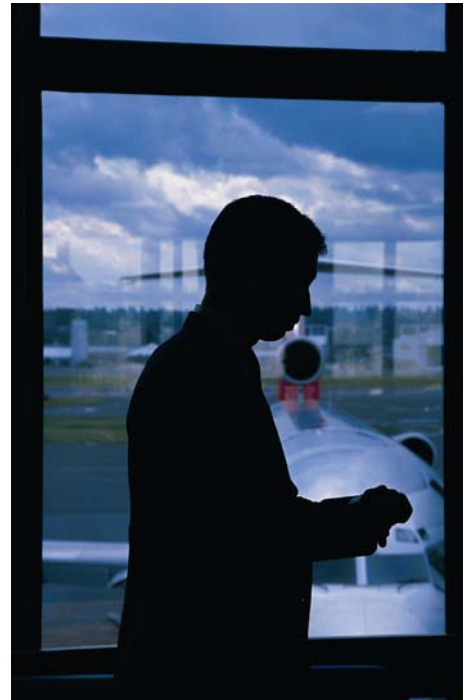
basket price closed at US\$46.10 a barrel during the week June 13-17, an increase of US\$4.02/b, or 9.5% from the previous week's close of US\$42.08/b, said the state oil company Pemex. The Mexican crude basket price is up US\$5.58/b from the end of May, representing an increase of 13.7% from the same period of 2004, according to Pemex figures.

### PDVSA to sell Petrochina 30,000b/d of fuel oil - Venezuela

Venezuela's state oil firm PDVSA has signed a one-year contract with China's Petrochina Oil to supply 30,000 barrels of fuel oil per day. The first shipment under the contract, some 1.8 million barrels (Mb), bound for China, left Venezuela on June 17.

### PDVSA expects US\$6.5bn net profit in 2005 - Venezuela

Venezuela's state oil firm PDVSA expects to earn a net profit of US\$6.5bn in 2005 on sales of about US\$100bn thanks to high international oil prices, company CFO Eudomario Carruyo announced. In 2004, PDVSA generated revenues of US\$64.5bn and net profits of US\$6.19bn.



## AIRLINE NEWS

**TAP Portugal** ended negotiations to acquire a 20% stake in Varig following the Brazilian carrier's June 17 bankruptcy filing. Varig will continue to operate as it seeks to reorganize under the New Bankruptcy and Restructuring Law of Brazil, which took effect June 9 and is similar to US Chapter 11. Varig said the filing was necessary in order to prevent lessors from repossessing aircraft for which payments are in default.

**LAN Argentina** began operations June 8 by introducing twice-daily Buenos Aires-Mendoza

services, followed by the launch of twice-daily Buenos Aires-Cordoba flights June 9. Just before starting services, the airline agreed to operate unprofitable domestic routes as part of a commitment with the Argentine government. Capital ownership is shared by local entrepreneurs and LAN, which for many years had tried to establish a domestic airline in Argentina, its most-important South American market after home country Chile. The LAN network also includes affiliated airlines in Peru, Ecuador and the Dominican Republic.

## TOURISM & HOTEL

### Latin America Attracts U.S. Hotel Chains

Starwood Hotels & Resorts Worldwide Inc. is opening two hotels in Uruguay, while Four Points by Sheraton has already made its debut in Montevideo, the capital city. This signals a growing trend for U.S.-based hotel companies to expand to the Latin American market. The Sheraton Colonia Golf & Spa Resort will open in Colonia in August. The presence of major U.S. hoteliers in Latin America has been limited to large hotels in main cities and resort areas, and segmented expansion is not likely to occur until full-service hotels and resorts are developed. According to Ross Woods, director of hospitality and leisure at PricewaterhouseCoopers, hotel expansion in the region will

occur only after strong brand recognition is achieved. Older established international chains already have a major presence in Latin America, and are expanding in the region through contract relationships and new hotels and resorts. The lack of chain affiliation in Latin America's hotel supply, and the nonexistence of Latin American domestic hotel chains open up a world of opportunity for U.S. hotel companies. More than 10 percent of the region's hotels are chain-affiliated, with the majority belonging to U.S. and European chains.

**AM RESORTS**, the hotel chain, will invest US\$ 270 million for three hotels in Rivera Maya, after buying the Camino Real hotels in Los Cabos, Cancun and Puerto Vallarta.

## PHARMACEUTICAL

### Teva to Acquire Ivax for \$7.4 Billion

The deal will establish a new leader in the generic drug industry, with the possibility of other mergers to come. Teva, based in Israel, had long been interested in acquiring Miami-based Ivax because it had certain product lines and a presence in international markets that Teva lacked. This deal gives Teva a strong foothold into Latin America and strengthens its position in some European markets. The deal also fills a hole in Teva's portfolio by adding respiratory medicines to its lines of oral tablets, capsules, ointments and injectable drugs.

### Sankyo licenses U.S. firm to sell antihypertensive drugs in Latin America

Pharmaceutical maker Sankyo Co. (Japan) has licensed New Jersey-based Schering-Plough Corp. to exclusively market its "Olmesartan" antihypertensive drug in six Latin American countries including Argentina and Bolivia. The agreement signed on July 26 also gives Schering-Plough the rights to co-market the "Olmesartan" in nine other Latin American countries including Mexico and Costa Rica. Olmesartan is currently available in 29 other countries including Japan, the United States and many European and Asian nations.

## RAW MATERIALS

### Raw Materials Plummet

Given the wave of cuts announced by leading steelmakers in Europe, Latin America's suppliers of scrap, briquettes, pig iron and slab have been hard hit. With their hefty (71.5%) 2005 price increases tucked under their belts, the region's

iron ore producers were pretty pleased with themselves, but are certainly not untouchable, given reports that a pool of international steelmakers is now starting to lobby for a renegotiation of this year's iron ore prices.

### Snapshot: India's acquisition of strategic resources in Latin America

With an increase in demand for copper, India's imports from Chile jumped from \$100 million in 2000 to \$400 million in 2004. Latin American production is almost half the global output, and Chile is

the world's largest producer. India's imports of wood in 2003-04 were worth over \$700 million and are said to increase. Indian companies are already importing wood from Colombia and Panama. At present, India's imports of pulp are over \$1 billion per year.

## ECONOMIC NEWS

### ECONOMIC ISSUES AND TRADE NEWS

#### Colombian elected as new president of IADB

Mr. Moreno has long been the favourite candidate to replace Enrique Iglesias, the Uruguayan president of the IADB who resigned in May after 17 years. Candidates from five countries were in the running, and the result is a disappointment to Brazil's was Joao Sayad, vice-president at the bank. Mr. Sayad's chances appear to have been dampened by the political crisis in Brazil. Elected candidates must secure a majority based on voting power, and an absolute majority among the bank's 28 regional members. The IADB disburses over \$5bn in loans every year.

#### Latin America's economy to grow 4.3 percent in 2005

The economies of Latin America and the Caribbean are expected to grow by 4.3 percent in 2005. The South American countries are forecasted at a 4.7 percent average growth rate for this year, the Caribbean region with a 4 percent growth and Mexico and Central America with 3.6 percent, according to a report by the Economic Commission for Latin

America and the Caribbean.

#### Egypt and Mexico: Talks

In light of the Egyptian foreign policy interest in reactivating relations with the African and Latin America countries, The Egyptian and Mexican Foreign Ministries have agreed to hold a round of dialogue between the two groups in Cairo next October. This dialogue will discuss ways to enhance relations between the two groups and will address regional and international issues, such as peace, settlement of conflicts, development efforts and expanding commercial and economic cooperation.

### RELATIONS WITH CHINA

#### Latin America's economy & China's revaluation

Some Brazilian industries, such as textiles and clothing, have been feeling the effect of competition from Chinese imports. While helping to increase Brazil's exports, the Renminbi revaluation will also reduce China's competitive advantage within the Brazilian market, although so far, the 2.1% change in the unit's

value is probably too marginal to make much of a difference. China's decision to decouple from the dollar and link its monetary unit, the renminbi, to a basket of currencies, which resulted in a small 2.1% revaluation, will have positive benefits for Latin American exporters. In the short term, however, these will be limited and will be overshadowed by other factors, such as overall external demand and trade preferences in the US market.

#### Brazil to gain from Chinese yuan appreciation

According to economists, Brazil's exporters and currency should reap long-term benefits from the appreciation of China's yuan, unless it is revalued too fast. Brazil's basic commodities exports such as soybeans and iron ore would rise as the yuan gains buying power. That would help Brazil's real appreciate by eventually boosting the central bank's international reserves.

However, if China suddenly stopped purchases of U.S. Treasuries, which it has been buying for years to keep the yuan cheap, Brazilian asset

prices would plummet. In practice, this scenario would resemble another conventional source of risk in Brazil -- rapid Federal Reserve rate rises that siphon away capital from Latin America's largest country.

### RELATIONS WITH INDIA

#### India's Exports to Latin America

China's exports to Latin America were nine times India's last year, and its trade missions have received more press attention. However, Indian auto parts, drugs, textiles, and machinery are beginning to make their mark in Latin markets. In the first six months of 2005, India's trade with Brazil nearly tripled over the previous year, to \$1.1 billion, according to Brazil's External Commerce Secretariat. India's exports to Mexico are up 15% through March, to \$286 million. For example, Mahindra & Mahindra's operations in Uruguay consist of pickup trucks arriving in pieces each month at a small assembly plant in Montevideo. These are the first wave in a tide of Indian exports heading for Latin America. India's relaxation of rules for outward investment, its increasing ap-

## CAFTA

The U.S. Congress approved legislation for the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), on July 28. The agreement is meant to improve trade between the U.S. and El Salvador, Honduras, and Guatemala, who have already ratified the treaty, and Costa Rica, Nicaragua and the Dominican Republic, who are set to do so in the months to come.

The trade pact has already faced opposition from Democrats and some sugar- and textile-state Republicans, who believe it doesn't offer enough labor and environmental standards and the lowering of barriers may put domestic industries at a disadvantage. Meanwhile, areas such as roads, ports and infrastructure are not affected by the agreement despite their importance in facilitating trade within the

Central American region.

While concerns loom over CAFTA's effects on the member state's economy, many are unlikely to be seen in the short-run. More than 80% of the region's exports to the U.S. are already duty free, due to regional and bilateral agreements existing since the 1980's. For those products facing stiff competition (such as rice and chicken legs), tariffs will gradually be scaled to zero over a 20-year period.

### Benefits to CAFTA-DR members

American, European and Asians are likely to increase investments within the region, since it will be regarded with increased stability following the signing of the treaty. That stability will be key to improve infrastructure and increase competitiveness for the member countries.



## Events & Trade Missions

### **Secretary of Commerce Carlos M. Gutierrez will lead a Business Development Mission to Guatemala, Honduras and El Salvador from October 16-22, 2005.**

This Mission is an opportunity to highlight the new regional opportunities for U.S. business in the promising sectors of Central America that have emerged as a result of the successful passage of the Central American-Dominican Republic Free Trade Agreement, commonly referred to as CAFTA. With CAFTA, U.S. companies stand much to gain from open markets, expanded business opportunities, and stronger trade ties with Central America. The Mission offers a unique opportunity in which U.S. businesses can develop business partnerships and cultivate existing relationships.

The CAFTA region is the second-largest export market in Latin America and the 10th largest market in the world for U.S. exports. The United States exports more to this region than to India, Russia and Indonesia combined. Last year, U.S. exports to the region surpassed \$15 billion and nearly half of the region's imports are from the United States. CAFTA

provides substantial new market access for U.S. companies and solidifies the United States as the leading supplier of goods and services to Central America by eliminating the vast majority of tariffs on U.S. goods exported to the region. More than eighty percent of U.S. exports of industrial, consumer, and agricultural products to Central America will become duty-free immediately upon entry into force of the Agreement, with the remaining tariffs phased out over 10 years. Small and medium-sized enterprises in particular should benefit from the significant tariff cuts provided under CAFTA. As a member of this official U.S. trade delegation, you will receive:

- Prescreened government & business appointments tailored to interests and market strategies;
- In-depth market briefings;
- Individualized counseling sessions;
- In-country market promotion; and Full logistical support including interpreters, reduced hotel rates, and in-country transportation.

## BG CONSULTING NEWS

### Recent Publications:

#### [Capital Formation in Latin America and the Caribbean: Private Equity Funds](#)

Published in 'Latin American Law & Business Report', Volume 13, Number 07, 31 July 2005. Written by Marc Ricart

#### [Brazil Strategy for Farming Equipment Machine Manufacturers](#)

Source: "The Great Brazilian Land Grab" featured in Forbes, July 25, 2005.

#### [Brazil Strategy: China and India](#)

Published in 'Newsbulletin', Volume 40, Number 03, May-June 2005. Written by Marc Ricart and Wei-Ling Chang

#### [Requirements to transact business in Russia, the CIS & Eastern Europe](#)

Written by Henry A. Smith

All publications may be obtained by visiting our website.

### New Projects:

BG Consulting is conducting an assessment in Honduras to determine the competitiveness advantages of the Agro industry of that country.



**BG Consulting**  
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BG Consulting is an international business development consulting firm focused on Latin America and the Caribbean.

At BG Consulting we help clients do business in Latin America and the Caribbean answering key questions. "What": we provide assistance identifying business opportunities that match the strengths of clients. "Where": we provide assistance conducting market research to identify the appropriate places to do business. "Who": we provide assistance identifying the right partners, distributors or manufacturers; including comprehensive due diligence. "How": we provide assistance designing the best strategy to get into the Latin American and Caribbean market.

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