



# Latin America Advisor

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## Today's Top News

Featured Q&A: What Is the Fallout in Latin America from the Parmalat Scandal?	1
US Official: Cuba "Playing with Fire"	2
Cuba Says United States Seeks to Scuttle Migration Agreements	2
Colombia Reports Decrease in War-Related Violence, Crime in 2003	2
Chile Last Year Posted Lowest Annual Inflation Rate Since 1935	3
Brazil Launches Probe into Local Unit of Parmalat	3
Company Briefs: Mexico's Gruma, Canada's Barrick Gold, Canam Manac	3

## Advisor ANALYSIS

Q

**Italian food company Parmalat is under investigation in what the US Securities and Exchange Commission is calling "one of the most brazen corporate financial frauds in history," with some of the investigative leads pointing to Latin America. What will be the fallout from the investigation for Parmalat's Latin American operations?**

A

**Guest Commentary: Oscar Gonzalez:** "I don't know to what extent Parmalat's local subsidiaries will get hit for the problems of the corporate office in Italy. I don't think their Venezuelan operation will be that dramatically impacted in terms of production and supply. Although the corporate offices are in a financial scandal, they are under bankruptcy protection; they will maintain at least in Latin America the same level of supply, with normal operations. The problem of Parmalat was not of one single entity, but it was the breakdown of many, many other entities, so it would depend on the country you are talking about and the capacity to meet financial obligations at a country level in order to continue to operate. But I think that in terms of the type of products they sell, there will be competition and the buying of some portion of Parmalat at bargain prices. My guess is that governments and the private sector in Latin America won't allow this company to go down that easily."

**Guest Commentary: Rafael Guedes:** "The Brazilian subsidiary is operating normally. It hasn't been touched so far by the consequences at the Italian parent. But what we see certainly is that Parmalat's access to the big market can become much more difficult. Talking to some of the banks, we hear that they always had some concerns with the numbers presented by the company in Brazil because it has a history of negative operating results. We understand Parmalat works with two kinds of milk producers in Brazil. They have what they call their own producers, which they're paying on time. But they also work with cooperative milk producers and there have been some delays in the payments to these producers. Certainly, for the company in Brazil, it has become a much more difficult operating environment. Also, the company will suffer a cash drain. It doesn't have access to cash as it used to. The markets are closed and certainly the banks -- if they are going to give any cash, extend any line, or renew any line -- will be looking for some tangible guarantees now."

**Oscar Gonzalez** is Director of the Food & Beverage Industry Practice at InfoAmericas.

**Rafael Guedes** is a Managing Director at Fitch Brasil Ltda.

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**Political News**

**US Official: Cuba "Playing with Fire"**

The United States' top Latin America diplomat warned Cuba against alleged efforts to destabilize democratic governments in the region and said the government of Cuban President Fidel Castro was "playing with fire," the Associated Press reported. "It should be very clear to Fidel Castro that his actions have caught the attention of Latin America leaders and that his actions to destabilize Latin America are increasingly



Roger Noriega. Photo: US State Department.

provocative to the inter-American community," said Roger Noriega, assistant secretary of state for Western Hemisphere affairs. "Those that continue in destabilizing democratically elected governments, interfering in the internal affairs of other gov-

ernments, are playing with fire." Noriega, however, did not specify which countries the US believes Cuba is destabilizing. On Monday, State Department spokesman Adam Ereli expressed concern that Cuba and the government of Venezuelan President Hugo Chavez were working together to undermine democratically elected, pro-US governments in the region. Ereli also said the US is worried about reports Venezuela is supporting leftist Colombian rebels operating along the two countries' shared border. Unnamed US officials told the Associated Press that Venezuela may also have been involved in efforts to topple former Bolivian President Gonzalo Sanchez de Lozada in October. Venezuelan Vice President Jose Vicente Rangel denied the accusations and demanded the US provide proof.

**Colombia Reports Decrease in War-Related Violence, Crime in 2003**

Colombia's defense ministry said late Monday that kidnappings, homicides and attacks by Marxist rebels dropped dramatically in 2003, vindicating President Alvaro Uribe's hardline security measures, Reuters reported Tuesday. Abductions in Colombia fell to 2,043 from 2,986 in 2002, while murders, including political homicides, fell to

**Cuba Says United States Seeks to Scuttle Migration Agreements**

The Cuban government on Tuesday accused the United States of trying to scuttle migration agreements between the two countries after the US delayed biannual migration talks.

In a statement, the Cuban foreign ministry said the Bush administration wants to "wreck" the migration accords, reached in 1994 and 1995 between Cuba and the Clinton administration, in an attempt to curry favor among a small group of hard-line Cuban exiles opposed to the government of Cuban President Fidel Castro.

Cuba had wanted to hold the latest round of migration talks, held every six months, on Thursday, but said the US has refused to meet until Cuba addresses issues on the US agenda.

"The government of the United States is entirely responsible for the cancellation of this round of migration talks," the foreign ministry said.

"These are merely new pretexts to aggravate tensions between the two countries."

US officials, however, say Cuba refuses to discuss a list of 200 Cubans with US visas who the government will not allow to leave the country.

The US also says it has not been allowed to sufficiently verify the well-being of would-be Cuban migrants intercepted at sea and returned to the island in compliance with the terms of the migration accords.

Source: Reuters.

22,969 from 28,837. "Acts of terror" and attacks by guerrillas fell almost by half to 846 in 2003 from 1,645 in 2002. In addition, Colombia destroyed 328,100 acres of coca, according to Defense Minister Jorge Alberto Uribe. Last year, the United Nations reported that Colombia had destroyed almost a third of its cocaine-producing crop in the first

seven months of 2003. When elected in 2002, Uribe followed up on campaign promises to mobilize more police and soldiers in the government's battle against rebels and coca production. Colombia and Ecuador last week caught Revolutionary Armed Forces of Colombia (FARC) boss Simon Trinidad, the most senior rebel leader captured in Colombia's four-decade-old civil war.

## Economic News

### Dominican Senate Approves \$3.5 Billion Budget for 2004

The Dominican Senate on Tuesday passed the government's 121.97 billion peso (US\$3.5 billion) budget for 2004, according to local daily *Listin Diario*. The vote was an important victory for the government of President Hipolito Mejia, which needs congressional approval of the budget as a condition for the resumption of a loan agreement with the International Monetary Fund. The Dominican Republic is struggling to recover from a bank fraud scandal and a steep dive in the peso last year. The lower house is expected to approve the budget today.

### Chile Last Year Posted Lowest Annual Inflation Rate Since 1935

Chile announced Tuesday that consumer prices rose only 1.1 percent in 2003, the country's lowest inflation rate since 1935. The National Statistics Institute (INE) said con-

## Comings & Goings

Brazil's finance ministry has named **Arno Meyer** to temporarily replace **Otaviano Canuto** as secretary of international affairs after Canuto was appointed Brazil's representative to the World Bank in Washington. Meyer was formerly assistant secretary of international affairs.

## THE DIALOGUE CONTINUES

**Q** **Guatemalans have elected conservative businessman and ex-Guatemala City Mayor Oscar Berger to be president of the Central American nation. What kind of changes will Berger bring to Guatemala, if any? Will he live up to promises to support efforts to prosecute Efraim Rios Montt for human rights atrocities committed during the ex-dictator's 1982-1983 rule?**

**A** **Guest Commentary: Eric Farnsworth:** "Guatemalans now have the opportunity to get it right. After the disastrous Portillo administration, new President Berger will have his hands full fighting corruption, promoting rural development, and fully implementing the peace accords signed in 1996. But he has a solid record of past success as mayor of Guatemala City, and with a little help from the international community, he will be well positioned to return hope to Guatemala. In this regard, the best thing the United States can do to support the new president would be to move forward to expeditiously ratify the trade agreement signed late last year with Guatemala and three of its neighbors. This will give a quick boost to the Guatemalan economy, while solidifying bilateral relations for the long term. Without job creation, Berger could be in for some rocky times, and his people may begin to wonder what the big deal with democracy is all about. CAFTA will help create the jobs that impoverished Guatemalans, especially the indigenous, desperately need, and in so doing help build democratic legitimacy and support US national security interests in the region."

**Eric Farnsworth** is Vice President of Washington Operations at the Council of the Americas.

*Editor's note: the above is a continuation of a Q&A that originally appeared in the January 6, 2004 issue of the Latin America Advisor.*

sumer prices fell 0.3 percent in December, the third consecutive monthly decline and the year's sixth monthly drop. Prices for imported goods, transportation, food, and home equipment stayed low in December, even as the Chilean Central Bank kept its benchmark interest rate at a record low of 2.25 percent. Inflation in Chile has been under 10 percent for about a decade. In 2002, inflation was 2.8 percent. In comparison, inflation in Brazil last year is estimated to have been above 9 percent, while consumer prices rose about 4 percent in Mexico. The Chilean peso appreciated 18 percent in 2003, contributing to the country's low inflation, and has continued its

steady climb in January, opening at a 35-month high against the US dollar on Tuesday. Economists expect inflation to remain low until rising in the second half of 2004.

## Company News

### Brazil Launches Probe into Local Unit of Parmalat

Brazil's stock market regulator revealed Tuesday it has been reviewing since last month the earning statements of the local unit of scandal-rocked Italian food company **Parmalat**, Reuters reported. "It is

being examined. We still do not have a position on whether anything (irregular) has been found or not," Securities and Exchange Commission (CVM) spokesman Ricardo Gontijo said. Agricultural Minister Roberto Rodrigues said the government was concerned with the impact of what may be the biggest corporate financial scandal ever on local producers' earnings, adding that the government was looking into possible milk purchases and providing aid through Brazil's National Economic and Social Development Bank (BNDES). Parmalat, whose Brazilian unit is Brazil's number two purchaser of milk and largest vendor, revealed in December a 4 billion euro (\$US 5.1 billion) accounting hole. Parmalat has since delayed payments to its smaller Brazilian milk suppliers, forcing smaller farmers and cooperatives to struggle for alternative buyers. In other company news, Parmalat's Ecuadorean subsidiary denied it played a role in hiding missing funds. **Parmalat del Ecuador** President Rafael Arcuri said the unit has assets of only \$21 million, nowhere near the billions of dollars involved in the accounting scandal. Arcuri also said he did not know why Parmalat founder Calisto Tanzi made a trip to Ecuador in December shortly before his arrest in Italy. "The last time I saw Mr. Tanzi was in November 2002," Arcuri stated. "After that date I never saw Mr. Tanzi personally." Italian Judge Guido Salvini, who suspects Tanzi's December visit to Ecuador may be scandal-related, has called for an investigation of Parmalat del Ecuador. Ecuadorean authorities, however, have said a review of the subsidiary's books turned up nothing.

### **Brazil's Telemig, Amazonia Apply for Change in Regulatory Status**

Brazilian mobile operators **Telemig Celular** and **Amazonia Celular** have asked telecommunications regulator Anatel to allow them to operate under personal mobile service (SMP) rules, Bloomberg News reported Tuesday. According to analysts, the change in regulatory status would mean the

### **Company Briefs ...**

#### **US Judge Dismisses Antitrust Case Against Unit of Mexico's Gruma**

A US judge on Tuesday threw out an antitrust case against the US unit of Mexican tortilla maker **Gruma**. The world's largest tortilla maker said that after a four-week trial the Houston, TX federal judge dismissed accusations brought by 17 competitors against the unit, **Azteca Milling**. Gruma noted, however, that the decision could be appealed.

#### **Barrick Expects to Open Peruvian Mine in Late 2005**

Canadian mining company **Barrick Gold Corp.** said Tuesday it expects to begin mining operations at its Alto Chicama gold deposit in northern Peru in the second half of 2005. Construction of the mine, which has current reserves of 7.2 million ounces, should start this year, Barrick said. The company is investing \$340 million in the mine.

#### **Canadian Firm Cancels DR Contract**

Canadian steel products maker **Canam Manac** said Tuesday it had canceled a \$56.8 million joint contract with Mexico's **Fervi** to provide materials for construction of an office tower in the Dominican Republic. Canam said it canceled the contract because of the low profit margin caused by the strength of the Canadian dollar and the weakness of the Dominican peso.

Source: Reuters.

companies could be sold by their controlling group, Brazilian fund **Opportunity**. Mexico-based regional mobile giant **America Movil** and Brazil's **Vivo** -- a joint venture between **Portugal Telecom** and Spain's **Telefonica** -- would be the leading candidates to acquire the two firms, analysts believe.

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