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Subscribers may pose questions to the Board of Advisors for the Featured Q&A by contacting the Editor at rsimpson@thedialogue.org

Featured Q&A With Our Board of Advisors

Q The Brazilian government last week reported a record farm trade surplus of \$34.13 billion in 2004. What are your predictions for Brazil's farm trade in 2005? Is there still room for growth of Brazilian farm exports? What are some of the major barriers to Brazilian agricultural export growth?

A Guest Comment: G. Edward Schuh: "The major barriers to Brazil's growth in agricultural exports during the current year are 1) currency realignments; 2) bottlenecks in the transportation and port infrastructure; and 3) growth in domestic demand. A complex of factors will be playing out in the currency arena, most of them leading to a rise in the value of the currency, the real, and thus making Brazil's exports somewhat less competitive than they have been in the recent past. As the Brazilian economy continues to grow, it will attract more foreign capital, and that strengthens the real. In a parallel fashion, as capital flows out of the United States, that will further raise the value of the real relative to the dollar. On the other side, the Chinese will probably engineer an increase in the value of the yuan and that may increase the demand from that huge market. The transportation infrastructure for bulky agricultural products continues to be a problem in Brazil. Significant increases in exports will challenge the system. Finally, as the Brazilian economy continues to grow the increases in per capita incomes will

increase the domestic demand for food and fiber. There may thus be an emerging competition between domestic consumption and export markets. On balance, Brazil's agricultural exports will probably continue to grow during the current year, but at a more modest rate than in the recent past."

A Guest Comment: Amaryllis Romano: "The great Brazilian advantage in this sector is the diversification of its trade. In spite of the great weight of soy (around 26 percent of the total value of annual exports),

Continued on page 4

PHOTO OF THE DAY



The chairman of Colombia's Senate Foreign Relations Committee, Manuel Ramiro Velasquez, spoke to reporters Monday after meeting with Defense Minister Jorge Uribe to discuss escalating tensions with Venezuela. See related story on page 2.

Photo: Casa de Narino.

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NEWS BRIEFS

Peruvian Economy Expanded 8.43 Percent in November

Peru's economy grew 8.43 percent in November 2004 compared to the same month a year earlier, according to the government's statistics institute, INEI. It was the highest monthly growth rate since April 2002, when the economy expanded 9.06 percent. Growth in November was led by the fishing sector (30.67 percent), followed by manufacturing (10.81 percent), mining and hydrocarbons (5.22 percent), water and electricity (4.64 percent), and agriculture (3.24 percent).

Source: INEI.

Colombia Aims for Fiscal Deficit of 2.5 Percent of GDP in 2005

The Colombian government has set a fiscal deficit of 2.5 percent of gross domestic product for this year, the same as in 2004, Finance Minister Alberto Carrasquilla said Monday. Carrasquilla said that although the deficit could be as low as 2.2 percent, the government decided to set a higher target because of the need to implement some high-cost projects. The finance ministry expects central government spending to rise 11.7 percent this year due to increased pension and debt servicing costs.

Source: SNE.

US Improvement of Tsunami Warning System to Benefit Region

A planned improvement of the US tsunami warning system will benefit Mexico, Central and South America, and the Caribbean. The US plans to add 25 tsunami detection buoys around the Pacific Rim from the tip of South America to Alaska, East Asia, and New Zealand. Seven buoys will be placed in the Atlantic and Caribbean, where there currently are none.

Source: Reuters.

Political News

Lula Offers to Mediate Colombia-Venezuela Dispute as Tensions Mount

Brazilian President Luiz Inacio "Lula" da Silva on Monday offered to mediate a dispute between Colombia and Venezuela over the capture in Venezuela last month of a Colombian rebel leader by bounty hunters hired by the Colombian government, Colombian daily *El Tiempo* reported. "Brazil is disposed to help if requested by one of the two countries or by both," presidential spokesman Andre Singer was quoted as saying. Lula's offer came amid escalating tensions between Colombia and Venezuela following the Colombian government's admission last week that it paid a bounty to capture Rodrigo Granda of the Revolutionary Armed Forces of Colombia (FARC) in Venezuela on December 13. Venezuelan President Hugo Chavez has

Economic News

Diplomat: Argentine Relations with Italy in Crisis Over Debt Swap Offer

Argentina's ambassador to Italy said this morning that relations between the two countries were "in crisis" over Argentina's debt exchange offer, Argentine daily *Clarín* reported. Victorio Taccetti said the government of Italian Prime Minister Silvio Berlusconi told him last night it had "grave concerns" about the offer to exchange \$103 billion in defaulted sovereign bonds for \$42 billion in new bonds in what would be the biggest sovereign debt haircut in modern history. About 450,000 Italian investors hold \$14.5 billion of the defaulted debt, making Italy the largest holder of the bonds outside of Latin America, according to Bloomberg News. "The Italian government has to defend the interests of bondholders, but it cannot do

“The sheltering of terrorists violates the sovereignty of Colombia.”

- Colombian government statement

accused Colombia of violating Venezuela's sovereignty, and on Friday froze ongoing bilateral accords with Colombia, including construction of a cross-border gas pipeline. He also said Venezuela's ambassador to Colombia, recalled to Caracas last week, would not return to Bogota until Colombian President Alvaro Uribe issued a public apology. In a statement released yesterday, the Colombian government denied violating Venezuela's sovereignty and said it would provide Venezuela with proof that officials there gave their blessing to Granda's stay in Venezuela. Colombia also insisted it had the right to pay bounty hunters to capture "terrorists" outside of the country. "The sheltering of terrorists violates the sovereignty of Colombia," the statement read. Chavez has denied granting protection to FARC rebels in Venezuela and says the two countries' 1,400-mile shared border is too long to fully patrol. Uribe will meet with Lula tomorrow, and the Colombia-Venezuela crisis is expected to be the main topic of discussion.

much. There are not a lot of options," Taccetti said. Several major bondholder groups have said they will reject the Argentine government's exchange offer, which was launched on Friday. However, many analysts believe Argentina will secure sufficient bondholder participation to allow the exchange to go forward. Last week, Argentine Economy Minister Roberto Lavagna said the government would consider its debt restructuring over if more than 50 percent of bondholders participate in the exchange. However, Piercarlo Padoan, the International Monetary Fund's executive director for Italy, said Argentina needs at least 75 percent of bondholders to accept the offer for the debt restructuring to be successful. Despite repeated calls from international bondholders for an improved deal, Argentina has insisted the offer, which closes February 25, is final. A successful debt restructuring is a key condition for continued lending to Argentina by the International Monetary Fund. [Editor's

note: look for a Q&A on Argentina's debt exchange offer in this Thursday's issue of the *Latin America Advisor*.]

Mexico, Australia Sign Energy Cooperation Agreement

The energy ministers of Australia and Mexico on Monday signed a 10-year energy cooperation deal, Reuters reported. Australian Energy Minister Ian Macfarlane and Mexican Energy Minister Fernando Elizondo signed a memorandum of understanding on energy cooperation, including the exchange of technology and personnel during a visit to Mexico City by Macfarlane. The agreement builds on a similar deal on coal signed last year. Macfarlane is traveling to Mexico and California this week to seek buyers for Australian liquefied natural gas. He said last week that Mexico's possible import of Australian LNG would be a key topic of discussion in meetings with Mexican officials. US oil firm **ChevronTexaco** hopes to export Australian LNG to an import terminal on Mexico's northern Pacific coast. Earlier this month, **Sempra Energy** announced it had awarded \$670 million in contracts for construction of an LNG import terminal near the port of Ensenada, south of Tijuana. The terminal is scheduled for completion in 2008. In addition, **Royal Dutch/Shell** is building an LNG import terminal on Mexico's east coast.

Company News

Chile's Cencosud Plans \$1 Billion Capital Increase to Buy Store Chain

Chilean supermarket retailer **Cencosud** said Friday it is planning a \$1 billion capital increase to buy department store chain **Almacenes Paris**, Reuters reported. Cencosud, currently Chile's second-largest supermarket chain with \$4 billion in revenue forecasted for this year, said it would seek shareholder approval for the capital increase on January 31 and then, assuming it gets the green light from shareholders, launch a public offer to purchase Almacenes Paris, which it values at \$870 million. The acquisition of

Almacenes Paris would make Cencosud the largest retailer in Chile. "Paris and Cencosud have complementary businesses and that will contribute to [creating] one of Latin America's main retail actors," Cencosud Chief Executive Laurence Golborne was quoted as saying. "In the short term, we will build on those synergies and later we'll analyze growing in other countries." However, Cencosud faces competition in acquiring Almacenes

Paris. Financial conglomerate **Quinenco**, which owns about 11 percent of Almacenes Paris, has expressed an interest in bidding for a controlling stake in the retailer. Quinenco's chief executive has said he thinks Cencosud's offer is too low. Cencosud is also trying to buy Argentine store chain **Disco** from Dutch retail giant Ahold for \$315 million. However, that deal is being challenged in Argentine courts.

Subscriber Notice

A conference presented by:

Steel Hector & Davis LLP
and
The University of Miami School of Law

SEVENTH ANNUAL INTERNATIONAL ROUNDTABLE ON COMPETITION & TRADE POLICY

with

Milton Ladera Jimenez
Superintendent, Superintendencia Pro-Competencia
Venezuela

Ismael Malis
President, Comision Nacional de Defensa de la Competencia
Argentina

Eduardo Perez Motta
Chairman, Federal Competition Commission
Mexico

... among others.

Monday, February 28, 2005
Biltmore Hotel—Conference Center of the Americas
Coral Gables, Florida

Agenda and registration information can be found by linking to:
http://www.steelhector.com/ITC_Roundtable_Conference_2005/

Featured Q&A*Continued from page 1*

the country is a big producer of a lot of other farm products, which have better outlooks in terms of price and volume in 2005. This is the case for poultry, beef, pork, sugar, alcohol, coffee, forestry products, and others. The amount of farm exports projected for this year of around \$40 billion represents a 2.54 percent increase from last year. It's not going to be as strong as the 27.3 percent

“The great Brazilian advantage in this sector is the diversification of its trade.”

- *Amaryllis Romano*

increase in 2004, but it is still a great number. What can make a difference in the farm trade balance is the amount of imports to feed the increased absorption expected to take place in the domestic market due to increases in wages and labor. Our projection is of an increase of around 5 percent over the \$4.88 billion in farm imports in 2004, resulting in a trade surplus of \$34.88 billion this year, up 2.17 percent from last year.”

A **Guest Comment: Steve Suppan:** "The Institute for Agriculture and Trade Policy has no basis on which to estimate a dollar figure for a Brazilian

AmBev Posted 13.8 Percent Growth in Beer Volume Sales in 2004

Brazilian brewer **Companhia de Bebidas das Americas** (AmBev) on Friday reported a 13.8 percent increase in beer volume sales last year, Reuters reported. AmBev, owned by Belgium's **InBev**, said it sold 79.31 million hectoliters of beer in 2004, with three-fourths of sales taking place in Brazil. AmBev, which ended 2004 with a 68.1 percent share of Brazil's beer market, said sales in the country rose 4.6 percent to 57.78 million hecto-

agribusiness surplus in 2005. It is reasonable to assume that due to the discovery of soy rust in the United States, exports of soy products from Brazilian rust-free zones may increase to the US. If the US continues to refuse to meet the Japanese and South Korean import requirements for beef, Brazil may be able to pick up some market share in those countries. Given the controversy over sugar provisions in the Central American Free Trade Agreement, it does not seem likely that Brazil will make a US export beachhead in sugar. The ongoing litigation between the US and Brazil over US cotton subsidies makes it unlikely that cotton exports will increase to the US. Brazilian attempts to introduce a WTO standstill provision on the introduction of new sanitary and phytosanitary measures by developed countries while developing countries assess their economic impact likewise does not seem likely to succeed in removing non-tariff barriers to trade."

G. Edward Schuh is *Regents Professor and Director of the Freeman Center for International Economic Policy at the University of Minnesota.*

Amaryllis Romano is an *Analyst at Tendencias Consultoria in Brazil.*

Steve Suppan is *Director of Research at the Institute for Agriculture and Trade Policy.*

liters, while sales elsewhere in Latin America increased 24.1 percent to 17.90 million hectoliters. AmBev accounted for more than half of InBev's beer volume sales in 2004. InBev bought AmBev last year to create the world's largest brewer by volume. AmBev said soft drink sales rose 77.9 percent in Latin America last year, excluding Brazil, where sales grew just 1.7 percent. AmBev is seeking to expand outside of Brazil into other Latin America countries, including Argentina, Peru, and Venezuela.

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