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Featured Q&A *With Our Board of Advisors*

Q After a four year-long crisis in international coffee prices that devastated coffee farmers in many Latin American countries, prices appear to finally be on the rise. How high will they go? Is the crisis for Latin American coffee farmers over? Has something changed, or is there another crisis on the horizon?

A Guest Comment: John Baffes: "Coffee prices have staged a remarkable recovery lately with arabica and robusta prices reaching \$2.66/kg and \$0.91/kg in February, a stark contrast compared to the end of 2001 when they declined to \$1.21/kg and \$0.51/kg. The collapse of coffee prices was basically a combination of four factors: 1) the emergence of Vietnam, which within a matter of a few years displaced Colombia as the world's second-largest coffee supplier (and the largest robusta supplier); 2) considerable expansion of Brazil's coffee output due to better technology (irrigation, mechanical harvesting, and better varieties) as well the move of coffee plantations to areas not affected by frosts; 3) better technologies enabling roasters to remove the harsh taste of coffee, thus allowing them to use lower quality beans and still maintain acceptable coffee quality; 4) in addition to an increase in the demand of specialty coffees, most of the expansion in demand came in the instant and flavored types of coffee, which require low quality beans. These four factors are still at play today as they were 2-3 years ago, and are likely to be in place in the future. The recent recovery in coffee prices is a reflection of four factors: 1) the end of a cyclical low, a situation whereby extremely low prices reflect, in part, supply and demand conditions (in the case of coffee excess supply) and, in part, an overreaction; 2) news that the current crop may not be as high as originally anticipated; 3) certainly some technical trading by hedge funds; and 4) some negative supply response by high-cost producers, which reduced coffee production. To conclude, while the worst in

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PHOTO OF THE DAY

Argentine President Nestor Kirchner on Wednesday rejected "advice" by the International Monetary Fund on how to respect investors' rights. See related story, page 2.

Photo: Casa Rosada.

Inside This Issue

NEWS BRIEFS

Bolivian Lawmakers Reject Mesa's Call for New Election

Bolivian congressional leaders on Wednesday rejected President Carlos Mesa's call for a new election to replace him, saying it would be unconstitutional. Mesa will have to decide whether to resign or stay in office until his term expires in 2007, the lawmakers said. Last week, Mesa submitted his resignation to Congress, saying he could not govern amid opposition-led nationwide highway blockades that have paralyzed the economy. Congress rejected his offer to quit, but with the blockades still raging Mesa on Tuesday called for new elections.

Source: La Razon.

Brazil's Central Bank Hikes Selic to 19.25 Percent

Brazil's Central Bank on Wednesday raised its benchmark Selic interest rate by 50 basis points to 19.25 percent, in what analysts say may be the last in a string of hikes aimed at curbing inflation. Yesterday's hike was the seventh straight monthly increase in the Selic by the Bank, which has raised the rate 325 basis points since September. In a research note, investment bank **UBS** said it expected yesterday's rate hike to be "the last in the current cycle" and forecast the start of gradual rate reductions "sometime in the second half of the year."

Source: Central Bank, UBS.

Head of PetroPeru Resigns

Alejandro Narvaez, the president of Peru's state-run oil company **PetroPeru**, resigned on Wednesday. Narvaez cited his opposition to government bureaucracy and a new law that prevent the company from reacting to global oil price swings.

Source: Reuters.

Economic News

Kirchner Dismisses IMF Advice on Respecting Investment

Argentine President Nestor Kirchner on Wednesday rejected "advice" by the International Monetary Fund on how to respect investors' rights, Reuters reported. "Argentina is an independent country, a sovereign country that knows how to administer things. We already had a sad experience with the International Monetary Fund ... and that kind of direct or indirect advice on investment in Argentina is unnecessary," Kirchner was quoted as saying. "We don't want this type of tutelage and Argentina has already suffered too much." Kirchner was reacting to comments made the day before by IMF Managing Director Rodrigo de Rato, who said the IMF would ask Argentina to respect foreign and domestic investors' rights as a condition for a new loan agreement. De Rato's comments came in the wake of Kirchner's call last week for a national boycott of gasoline service stations owned by **Royal Dutch/Shell** after the company raised prices. Sales at Shell service stations fell 70 percent as a result of Kirchner's call for a boycott, a fuel industry group said earlier this week. Argentina and the IMF are set to renew talks on a $13.3 billion loan agreement following Argentina's successful conclusion of its debt swap offer last month. In other Argentina economic news, the government said Wednesday that industrial production rose 4.9 percent in February compared to the same month of 2003, according to Reuters. The figure was below the 7.3 percent growth rate predicted by economists in a Central Bank survey. The government attributed the lower-than-expected result to a fall in automobile production due to more employee vacations.

"We don't want this type of tutelage and Argentina has already suffered too much."

- Argentine President Nestor Kirchner

Bolivia's Lower House Approves Compromise Hydrocarbons Bill

The lower house of Bolivia's Congress on Wednesday approved a compromise hydrocarbons bill that would impose a new tax of 32 percent on oil and gas companies, but keep royalties at their current level of 18 percent, local daily *La Razon* reported. Passage of the bill was a partial victory for Mesa and a partial defeat for opposition leader Evo Morales, whose Movement Toward Socialism party has demanded an increase in royalties to 50 percent as a condition for ending a two week-long blockade of highways that have strangled the South American nation's economy. However, Morales yesterday declared a preliminary victory, stating that "with this bill we're near our proposal for 50 percent royalties," according to Bloomberg News. He said he would push for more concessions in the Senate, which is expected to take up the bill next week. Morales' followers lifted most roadblocks yesterday while waiting for the Senate vote. The bill passed by the lower house yesterday did not include a proposal by Mesa to deduct the new 32 percent tax from other corporate taxes. Government officials said Mesa would veto the law if it excluded the deduction because then costs would be too high for companies, Bloomberg News reported. Hydrocarbon Minister Guillermo Torres said **British Gas** is threatening legal action if Bolivia, through the new hydrocarbons law, makes changes to a risk-sharing contract the company has with the government, *La Razon* reported. An unnamed source in the presidency said the proposed hydrocarbons bill is putting at risk aid from multilateral agencies, including the International Monetary Fund, World Bank, Inter-American Development Bank, and the Andean Development Corporation, according to *La Razon*. The aid is needed to plug Bolivia's $450 million fiscal deficit, *La Razon* said.

Brazil Asks US Drug Companies for Permission to Make AIDS Drugs

The Brazilian government said Tuesday it had asked three US drug companies for "voluntary licensing" to copy four products and lower costs for its vaunted anti-AIDS program, Reuters reported. The government, which has threatened to break patents on four drugs used in its anti-AIDS program because of high costs, said it asked **Merck & Co.**, **Abbot Laboratories**, and **Gilead Sciences** for the licenses. If the licenses are granted, the government says it would be able to cut costs for the drugs in half by producing them itself. The government began free access to its anti-AIDS drug cocktail in 1997. It expects to increase the number of Brazilians participating in the program from 180,000 in 2005 from 150,000 last year. However, the cost to provide foreign drugs used in the cocktail has risen from 50 percent of the program's budget in 1998 to an estimated 85 percent this year, prompting the government to press foreign drug companies for the right to make cheap copies of the drugs. World Trade Organization rules allow countries to break patents by applying a "compulsory license" on a product in the case of a national emergency or in the national interest. [Editor's note: see related Q&A in the December 10, 2004 issue of the *Latin America Advisor.*]

Capitol Hill Watch

A weekly look at US congressional activity on Latin America

Senate Probe Uncovers Web of Hidden Pinochet Bank Accounts in US

Former Chilean dictator Augusto Pinochet and family members hid at least $15 million in more than 125 banking accounts in the United States, according to a Senate report issued Wednesday. The report by the Senate's Permanent Subcommittee on Investigations found that Pinochet and his family had 63 accounts at **Citigroup** and 28 accounts at Washington, DC-based **Riggs Bank**, as well as accounts at the US subsidiaries of **Banco de Chile**, Portugal's **Banco Espirito Santo**, and the **Royal Bank of Scotland**. Pinochet often used false documentation and aliases to open the accounts, the report said. "As a former general and president of Chile, Pinochet was a well-known human rights violator and violent dictator. Even the most rudimentary compliance with federal 'know your customer' rules would suggest that these accounts should have [been] scrutinized and closed long ago," Subcommittee Chairman Norm Coleman (R-MN) said in a statement. The report did not specify the source of Pinochet's wealth, although at least one person—Chilean human rights lawyer Carmen Hertz, who is involved in a Chilean investigation of Pinochet's finances—accused Pinochet of stealing the money during his 1973-1990 regime.

Source: Senate Permanent Subcommittee on Investigations, Bloomberg News.

Burton Declares Interest in International Relations Committee Chair

Rep. Dan Burton (R-IN), chairman of the House Subcommittee on the Western Hemisphere, this week declared his interest in the soon-to-be-vacant chairmanship of the House International Relations Committee. Current chair Henry Hyde (D-IL) plans to step down at the end of the 109th Congress, but amid speculation that Hyde may be appointed ambassador to the Vatican and end his tenure early, Burton on Tuesday made clear his intentions of running for the position. He said he plans to promote his years of leadership experience in the Senate in his campaign with Steering Committee members, who decide most chair and ranking-member nominations. Cuban-American congresswoman Ileana Ros-Lehtinen (R-FL) has also made her interest in the IR committee position clear. Other potential candidates include Republican Reps. Jim Leach (IA), Ed Royce (CA), and Chris Smith (NJ), who serves as vice chairman of the committee. Burton is currently fourth on the panel roster behind Hyde, Leach, and Smith, while Ros-Lehtinen is sixth. Burton has headed several different IR subcommittees over the years, in addition to chairing the Government Reform Committee for six years until 2002.

Source: Roll Call.

Company News

High Prices for Copper Help Codelco More Than Double Revenues in 2004

Chilean state-owned copper miner **Codelco** on Wednesday said its annual revenues more than doubled in 2004 from the previous year amid high global prices for the metal, Reuters reported. Codelco, the world's largest copper producer, said 2004 revenues totaled $8.2 billion, versus $3.8 billion the year before, while output rose 10 percent to 1.84 million tons. The miner expects to increase production to 2.2 million tons per year by 2010, with much of the additional copper going to China. Codelco, which operates five mines in Chile as well as smelters and refineries, plans to purchase the **Ventanas** smelter and refinery from another state-run copper company, **Enami**, in order to help meet growing demand in Asia. Copper is Chile's number one export.

Featured Q&A
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the coffee market—as experienced during the last few years—may be over, it is unlikely that the glory days of the mid-1980s and late-1990s will be repeated."

A **Guest Comment: Luis Fernando Samper:** "All Latin American coffee farmers were affected by the coffee crisis over the last five years, but some suffered more than others. In Central America, currency appreciations and the lack of solid institutional support created the worst conditions. Apart from the production cost advantages linked to the absence of harvesting and to mechanization, Brazilian coffee growers were greatly helped by the large real currency devaluations observed a few years ago. Colombian coffee growers were in a position to maintain total levels of production thanks to increased productivity, a peso devaluation registered in 2002-2003, and the solid organization that helps protect their interests in the domestic and international fronts. Although one can expect remunerative prices in the next year or two, one should count on this price rise generating a new low price cycle in a not too distant future. Coffee producers that remain on the market have to learn to be not only more efficient, but also learn to capture more value added with a consistent, coherent, and sustainable long-term strategy so that they become less dependent on price and exchange rate swings. To achieve this long-term objective, Colombia's Coffee Grower Federation is moving faster than any other country, implementing aggressive commercial ventures such as the Juan Valdez coffee shops."

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>
> *- Luis Fernando Samper*

A **Guest Comment: Buck Hendrix:** "As a general policy, Starbucks does not publicly comment or speculate on the state of the market or market prices. In light of the coffee crisis of the last five years and its devastating impact on coffee farmers, their families and local communities, Starbucks believes that rising prices (for green coffee) is an important and positive development. This increase in prices can benefit the coffee industry by increasing the likelihood that coffee farmers will be able to make livable wages, invest in their farms, and continue growing high-quality coffee, and may go a long way toward ensuring the environmental and social sustainability needs of coffee-growing regions. At Starbucks we believe the success of the farmers with whom we do business is a critical component of our own success, and as such we place a tremendous emphasis on building mutually-beneficial relationships with the coffee farmers and coffee communities with which we work."

John Baffes *is a Senior Economist in the Trade Department at the World Bank.*

Luis Fernando Samper *is Director for Intellectual Property at the Colombian Coffee Growers Federation.*

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