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Featured Q&A With Our Board of Advisors

Q Portugal Telecom and Spain's Telefonica may clash over control of Brazilian mobile operator Vivo after PT earlier this month defeated a hostile takeover bid by a rival that Telefonica expected would sell its stake in Vivo. What happens next? How will Telefonica and PT resolve their conflict, and how it will impact Vivo?

A Guest Comment: Jose Otero: "Sonaecom's failure to acquire PT through a hostile takeover and the subsequent divestment of the around 1 percent that it held in the Portuguese company came with several negative consequences for Telefonica. First, the common belief that Telefonica would have an easy ride achieving 100 percent control of Vivo has been shattered. Second, and most important, the Sonaecom process highlighted all the 'behind doors' differences existing between Vivo's owners in terms of what's the best future for the company, what should be its market approach, and even its technology of choice. It's not a well-kept secret that the Portuguese favored maintaining CDMA as the operator's main technology and focusing on increasing profit margins, while the Spaniards wanted to unify Vivo with the rest of their Latin American operations by deploying a GSM network. Now, the battle for Vivo control is on with PT's Henrique Granadeiro firing the first shot by declaring that PT is more of a 'natural buyer' for Vivo than Telefonica, as they speak Portuguese

in Brazil and not Spanish. That said, it's highly unlikely—not to say impossible—that Telefonica would be willing to relinquish its 50 percent participation in Vivo without guaranteeing for itself a strong GSM presence in the country. Achieving this through the acquisition of TIM Brasil could be a possibility, but Telefonica recently declined to acquire a stake in the Italian parent company. Unless it's willing to make an extremely attractive offer for the operator—more than \$11-12 billion—it won't be able to seize the national operator. Thus, the future seems to be destined to an impasse between the two Vivo owners

Continued on page 4

PHOTO OF THE DAY



Bolivian President Evo Morales said Monday he would not be a candidate in an early presidential election. See story on page 2.

Photo: ABL.

Inside This Issue

FEATURED Q&A: How Will Telefonica and PT Resolve Their Conflict Over Control of Vivo?.....	1	News Briefs: Mexican Arrest Orders; McDonalds; Embraer Wins Contract.....	2
Bolivia's Morales Says He Would Not Run in Early Presidential Election	2	Petrobras-Led Group Announces Purchase of Brazil's Ipiranga.....	3
IDB: Possible US Economic Recession Would Hurt Region	2	French Bank Sues DR Government for "Catastrophic Losses"	3

NEWS BRIEFS

Five Mexican Mine Managers Ordered Arrested

Mexican authorities ordered the arrest of five mine managers on charges that they failed to fix unsafe conditions before a February 2006 explosion that killed 65 mineworkers, the Associated Press reported on Monday. The mine's owner, **Industrial Minera Mexico**, part of **Grupo Mexico**, said that it "trusts the Mexican justice system" and will cooperate with authorities. The company has been working to recover 63 miners' bodies, and says it does not plan to reopen the mine.

Report: McDonalds May Announce Sale of Latin American Outlets

US fast-food giant **McDonald's Corp.** this week may announce the sale of its outlets in Latin America to an investment fund, Reuters reported on Monday, citing Brazilian newspaper *Valor Economico*. The newspaper, citing unnamed industry sources, reported that the most likely buyer was Brazilian investment fund Pactual. The sources said the deal could be worth about \$600 million, much less than McDonald's asking price.

Embraer Wins Contract for up to 16 Jets from Italy's Alpi Eagles

Brazilian aircraft maker **Embraer** said Monday it was awarded a deal to sell up to 16 jets to Italian airline **Alpi Eagles** in a contract valued at as much as \$584 million. In a press release, Embraer said the order includes five Embraer 195s—the largest aircraft of Embraer's four E-Jets, with 122-seat capacity—options for five more, and purchase rights for another six. As of the end of last year, Embraer, the world's fourth-largest aircraft maker, had a firm order backlog of \$14.8 billion.

Political News

Bolivia's Morales Says He Would Not Run in Early Presidential Election

Bolivian President Evo Morales announced Monday that he would not be a candidate in an early presidential election, Reuters reported. "No one here is thinking about a re-election, what we have to do is to be responsible with the people.

I personally think I've done my bit with the process of change," Morales told reporters in the eastern city of Sucre. Morales said Friday that presidential elections could be held



as early as next year once an assembly finishes **Morales** *Photo: ABI.* rewriting the Andean nation's Constitution, which is scheduled to be

Economic News

IDB: Possible US Economic Recession Would Hurt Region

A possible recession in the United States would hurt Latin American economic growth, the Inter-American Development Bank (IDB) said at its annual meeting in Guatemala on Monday. "Through its effects on the volumes and prices of Latin American exports, a US recession would translate into at least two percentage points less growth in the region," the bank said in its annual report, released Monday. A National Association for Business Economics survey last month showed that experts see US economic growth at 2.7 percent this year, the slowest rate since 1.6 percent in 2002, Bloomberg News reported. Some US economists predict a downturn in the market as a result of the slowdown in the housing market due to a drop

“I personally think I've done my bit with the process of change.”

—Evo Morales

completed by December of this year at the earliest. Morales, Bolivia's first indigenous president, took office for a five-year term in January 2006 after winning election in December 2005. He convened the Constituent Assembly in August, giving it a year to draft a new Constitution that gives a stronger political voice to the country's mostly poor Indian majority. Opposition leaders have expressed concern that Morales would seek to use the assembly to extend his stay in power, like Venezuela's president, Hugo Chavez. Morales said the changes the Bolivian state will undergo after the assembly finishes its work justifies the need for a new election, according to Reuters. "We have the obligation to push forward a profound transformation through the constitutional assembly ... If there is a new constitution this year, there has to be a fresh election," he was quoted as saying. [Editor's note: look for related Q&A in an upcoming issue of the *Advisor*.]

in consumer spending, while others argue that the US economy will continue growing, though at a slower pace, despite the housing decline. The debate intensified last month when former US Federal Reserve Chairman Alan Greenspan said it was possible that the US economy might fall into recession by the end of 2007, amid signs that the current economic cycle was peaking. The IDB said the current outlook suggests growth in Latin America and the Caribbean will slow to between 4 to 4.5 percent in 2007 from 5.3 percent last year. IDB President Luis Alberto Moreno said that although poverty rates have declined in Latin America and the Caribbean to below 40 percent for the first time since 1980, poverty and inequality remain major concerns. The IDB said the fiscal positions of most countries are expected to weaken, but without jeopardizing economic stability. This year will be critical for consolidating the sustained growth trends with macroeconomic stability that

the region has maintained for several years, the IDB said.

Company News

Petrobras-Led Group Announces Purchase of Brazil's Ipiranga

Brazil's state-owned energy company **Petrobras** on Monday announced that it and two local partners—petrochemical firm **Braskem** and **Ultrapar Participacoes**—plan to buy **Ipiranga**, the South American country's second-biggest fuel distributor, in a \$4 billion deal that represents a major consolidation in the petrochemical and fuel distribution sectors. "Petrobras intends to have a more relevant role in petrochemicals than it has had in the past few years," Petrobras President Sergio Gabrielli said of the deal. "The Ipiranga negotiation is yet another step in the strategy of consolidating important economic groups in Brazil, with a relevant Petrobras presence in them." Braskem, Latin America's largest petrochemical company, said in a statement the deal represented "a new stage in the process of consolidation of the Brazilian petrochemical sector" and said it was an important step toward its becoming one of the world's 10 top petrochemical firms. Braskem's stocks surged on the announcement. According to the agreement, the Ultrapar Group will act as the purchaser of Ipiranga in the name of the other partners. Petrobras will spend \$1.3 billion on the deal, Braskem will come up with \$1.1 billion, and Ultrapar will issue stocks worth about \$1.6 billion. Ultrapar will absorb the Ipiranga fuel distribution network in Brazil's south and southeast regions. Petrobras will take over the Ipiranga distribution network in the north, northeast, and midwest. Last year, Ipiranga registered \$30 billion reais (\$US 14.4 billion) in net revenues, with EBITDA (earnings before interest, taxation, depreciation and amortization) at \$1 billion reais and net earnings of \$534 million reais. The transaction is subject to approval from Brazilian regulatory agencies. The regulators will consider long-term complaints from Ipiranga's refining arm that Petrobras' government-dictated

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Inter-American Dialogue Conversation on

President Bush's Visit to Latin America

with

Thomas Shannon
Assistant Secretary Of State for Western Hemisphere Affairs

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Please include your name and affiliation.

fuel pricing policies are stifling private competition, which accounts for just about 2 percent of Brazil's refining capacity, Reuters reported.

French Bank Sues DR Government for "Catastrophic Losses"

French bank **Societe Generale** says it has suffered "catastrophic losses" from its investments in the Dominican Republic's power sector and on Friday filed a \$680 million lawsuit against the country, Reuters reported. The bank claims that its subsidiary, Los-Angeles-based **TCW Group Inc.**, has lost hundreds of millions in revenue since its 2004 purchase of half of Dominican power distribution company **EDE Este** due to government mismanagement of the electricity sector. "The Republic's continuing intentional, wrongful, willful, and reckless actions and omis-

sions have caused catastrophic losses," Societe Generale stated in its claim, which was filed under the terms of a Dominican-French bilateral investment treaty. The French bank also requested arbitration under rules of the UN Commission on International Trade Law. The bank claims that the Dominican Republic breached contracts, did not enforce rate increase agreements, and has not tackled widespread electricity theft, according to Reuters. "They're not honoring the contracts that were put in place for the private player," said Blair Thomas, head of infrastructure and energy at TCW. Thomas said the government has not let EDE Este turn off power to people who steal it. EDE Este powers six southeastern Dominican provinces and most of the capital of Santo Domingo, according to local daily *Dominican Today*. The state-run power company owns the other half of EDE Este.

Featured Q&A*Continued from page 1*

while both try to identify potential acquisitions that could provide a better market position. In the short term and until Brazilian regulations are altered, PT has more choices than Telefonica, as it could bid for one of the two other 'Baby Bras' (Brasil Telecom or the newly branded Oi) and complement its subscriber base with Telemig/Amazonia. But in order to do this the operator will have to incur heavy debt levels and compete with a few other interested parties, including Orascom and the always marauding presence of companies that are looking into emerging markets as new opportunities for growth: Vodafone, China Mobile, etc."

A **Guest Comment: Luis Minoru Shibata:** "Although Vivo is important, I don't believe Vivo was the main reason for Telefonica's decision to back Sonae. I don't expect major changes in Vivo's operations because—independent of the shareholders' conflict—the operator needs to keep bringing value to the market. Vivo has a busy agenda with a network overlay and launch of GSM services as a priority in the short term. This agenda wouldn't change if one or the other took control. However, looking ahead, the operator has challenges that will require shareholder decisions, especially about coverage and bundling with fixed services. Conflict or delay in these decisions may affect the company's future. Getting new licenses to close the coverage gap, mainly in Minas Gerais

state but also in the northeast region, will be important to keep the operation growing and to confront competitors' superior offers. Bundling services will depend on the shareholders' interest. If Telefonica takes control of Vivo, the Spanish would probably increase cooperation among the fixed and mobile

“... Looking ahead, the operator has challenges that will require shareholder decisions.”

– *Luis Minoru Shibata*

operations. However, if PT takes control of the operator, they will incline toward a strategy more in line with that of Brasil Telecom, focusing on mobile substitution. Either way, even if one of Telefonica or PT were to sell their stake in Vivo, I believe it would be to buy control of another operator in Brazil, possibly TIM."

Jose Otero is President of Signals Telecom Consulting.

Luis Minoru Shibata is a Managing Director for Latin America at The Yankee Group.

Two reasons: 1) cut and 2) paste

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