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FEATURED Q&A

What is Driving Optimism Among Latin America's Executives?

Q More than half of company CEOs polled in Latin America recently said they were "very confident" of revenue growth this year, according to a new survey from PricewaterhouseCoopers. That contrasts with just 44 percent of Western European and only about a third of US executives. What is driving this optimism among Latin America's executives? How confident are you about Latin American companies' revenue prospects in the rest of 2008?

A **Board Comment: Nicolás Mariscal:** "Latin America has enjoyed solid growth in the last five years. As was stated at the recent meeting of the World Economic Forum, the good macroeconomic indicators put the region in a good position to face the complex global economic situation. In Davos, various scenarios were discussed concerning how the US crisis would 'contaminate' the region. The main one involves contagion throughout Latin America, with an emphasis on Mexico and Central America. But in this case, it is mitigated by Mexico's economic stability, the recently approved fiscal reform that will allow an increase in tax collection, extraordinary revenues from higher oil prices, and the emphasis being placed on infrastructure development. Another reason for optimism by Latin American business owners is the good purchasing power enjoyed by millions of people in the region, which is

mainly attributed to the ease of obtaining credit and to remittances, and contributes to economic recovery. For its part, Brazil is also contributing positively by participating as an investor as much at the global level as within the region. This is 'momentum' that Latin America cannot cease taking advantage of. For positive results to be realized, it is necessary to work hard on strengthening institutions, improving education systems, and putting greater emphasis on innovation as a key to development and competitiveness in the region."

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PHOTO OF THE DAY



Colombian Foreign Minister Fernando Araujo said Friday Colombia is committed to facilitating the release of rebel-held hostages. See story on page 3.

Photo: Latin America Advisor.

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NEWS BRIEFS

Dean Barrow Elected Prime Minister of Belize

Belizeans elected Dean Barrow of the opposition United Democratic Party prime minister of the small Central American nation, final election results showed on Friday, according to Reuters. Barrow will become Belize's first black prime minister, replacing Said Musa, whose People's United Party was ousted after a decade in power. In his campaign, Barrow promised to end corruption and financial mismanagement that hurt Musa's last years in office.

Morgan Stanley Names New Regional Head for Latin America

US investment firm **Morgan Stanley** named Christopher Harland its regional head in Latin America, replacing Guillermo Jasson, as the company increases its focus on emerging markets. The 50 year-old Harland, previously chairman of Morgan Stanley's global media and communications group, will be based in New York and join the firm's management committee, according to an internal memo cited by Bloomberg News.

Brazil's Industrial Output Grew at Best Pace in Three Years in 2007

Industrial production in Brazil rose 6.4 percent in December compared to the same month a year earlier, pushing output for full-year 2007 above 6 percent to its fastest pace in three years, the government said Friday, according to Bloomberg News. Industrial production was fueled by growing domestic demand spurred by increased credit, employment, and income. Output in 2007 was led by production of capital goods, which grew 19.5 percent, followed by durable goods (9.2 percent).

Economic News**Chavez Threatens to Halt Oil Sales to the US Over ExxonMobil Suit**

Venezuelan President Hugo Chavez said Sunday he would halt oil sales to the United States if his country is hurt by recent court decisions freezing billions of dollars in assets held abroad by Venezuelan state-owned oil company **PDVSA**. "If you end up freezing [PDVSA's assets] and it harms us, we're going to harm you," Chavez was quoted as saying by the Associated Press said during his weekly radio and television program. "Do you know how? We aren't going to send oil to the United States." Chavez, who in the past has frequently threatened to cut off oil supplies to the US in response to alleged US plans to oust him, added that "Venezuela will join in your economic war

The US oil giant has said its former 41.7 percent stake in the Cerro Negro project had a net book value of about \$750 million at the time the assets were expropriated. Venezuelan Oil Minister Rafael Ramirez on Friday called ExxonMobil's judicial moves acts of "legal terrorism," but downplayed their effect, saying they would have little impact on the cash flow or operations of PDVSA, which has about \$100 billion in assets, according to Reuters. On Friday, French oil company **Total** said it would receive \$834 million in crude oil shipments to compensate it for the transfer of a 16.67 percent stake in another Venezuelan heavy oil project, Sincor, to PDVSA, according to Reuters.

Ecuador's Correa Pushes Antitrust Bill as Solution to Inflation

A proposed antitrust law in Ecuador would reduce speculation by retailers and

“If you end up freezing [PDVSA's assets] and it harms us, we're going to harm you.”

— Hugo Chavez

and other countries will be with us in the economic war." On Thursday, it was reported that courts in the United States, United Kingdom, the Netherlands, and the Netherland Antilles had frozen up to \$12 billion in assets belonging to PDVSA in response to legal action brought by US oil giant **ExxonMobil**.

ExxonMobil said in a UK court filing that it sought the court orders on concern PDVSA will shift assets to other Latin American countries and China to put them out of reach of an international arbitration commission, according to Bloomberg News. Last September, ExxonMobil filed for international arbitration against Venezuela after the Chavez government seized control of four heavy oil projects in which ExxonMobil and other foreign oil companies had invested billions of dollars.



Chavez
Photo: ABN.

lower inflation, President Rafael Correa said Saturday, according to Bloomberg News. Correa said during his weekly radio address that there was a "major speculative component" behind a 1.14 percent jump in consumer prices in January, the biggest increase in five years. "We won't allow that to continue," the president stated. However, the head of Ecuador's National Statistics and Census Institute, Byron Villacis, said Friday that an 18 percent increase in the minimum wage was the main cause for the increase in inflation last month. Other factors blamed for the high inflation reading are the global rise in food and fertilizer prices, and flooding along Ecuador's coast, which impaired the distribution of goods. The government has reacted to accelerating inflation by capping milk prices, and says it will extend price controls to other basic foods, a move economists says would harm the Andean nation's economy, according to Bloomberg News.

Company News

Mexico's Cencosud Denies it is in Alliance Talks with Mexico's Comerci

Chile-based retailer **Cencosud** denied Friday it was in talks with Mexican super-market chain **Comerci** about a possible alliance, Reuters reported. Local media have speculated that Cencosud was in talks with Comerci about establishing an alliance as part of Cencosud's strategy to expand its operations in Latin America. "That information is not correct," Cencosud was quoted as saying in a statement. Cencosud, which owns supermarkets, home improvement stores, department stores, and shopping malls, has operations in Argentina, Brazil, Chile, and Peru. It plans to launch operations in Colombia this year. In December, Cencosud said it expects the acquisition of Peruvian retailer **Wong** to increase its annual revenues from \$7.6 billion in 2007 to \$10.3 billion this year. Comerci is one the top retailers in Mexico, where it competes with **Wal-Mart de Mexico**, **Grupo Gigante**, and others.

Panamanian Copper Project in Jeopardy Due to Higher Costs

The future of Panama's Petaquilla copper project is in doubt amid a more than doubling of cost estimates in the past year, the project's stakeholders said Friday, according to Reuters. The stakeholders—Canadian firms **Inmet Mining** and **Teck Cominco Ltd.**, and Panama's **Petaquilla Copper**—said they believe the project

“When you look at the capital costs and operating costs, it's not a slam dunk.”

— *Inmet Chief Executive Jochen Tilk*

"still has potential," but Inmet Chief Executive Jochen Tilk said "when you look at the capital costs and operating costs, it's not a slam dunk." Teck said Friday it was not sure whether it would come up with

Special Advisor Report

Minister: Colombia Committed to Facilitating Hostage Handover

By Elisabeth Burgess

WASHINGTON, DC—Colombian Foreign Minister Fernando Araujo said Friday that his government is committed to facilitating any handover of hostages held by Colombia's FARC rebels to Venezuelan President Hugo Chavez.

"We reiterate our position of facilitating the handover giving all guarantees so that it happens as soon as possible," Araujo told an audience at the Inter-American Dialogue.

Chavez said last Monday that his government has started preparing for an operation to receive three hostages held by the FARC. Last month, the rebel group handed over to Chavez former Colombian vice presidential candidate Clara Rojas and ex-lawmaker Consuelo Gonzalez, despite Colombia's decision late last year to terminate the Venezuelan president's role in negotiating a larger humanitarian exchange.

Araujo said he has had an open communications channel with his Venezuelan counterpart, Foreign Minister Nicolas Maduro in the process.

Colombian President Alvaro Uribe has been under pressure to negotiate the release of FARC-held hostages, but talks have been deadlocked. The rebels, who are believed to hold hundreds of captives, are demanding that Uribe create a safe haven the size of New York City in southern Colombia as a precondition for negotiating a broader exchange of hostages for rebels held in government jails.

Uribe has rejected the FARC's demand, instead offering to create a smaller zone under international observation in a rural area where there is no police or army presence.

Araujo, a former development minister who was kidnapped and held by the FARC rebel group for six years until he escaped in December 2006, said the success of a broader "humanitarian exchange depends solely on the FARC's will to do it."

Two weeks ago, Colombian Senator Piedad Cordoba, who had invited Chavez to mediate talks with the FARC last year, used a similar expression, arguing instead that a successful humanitarian exchange "depends on" Venezuela.

Colombia has accepted proposals from the Roman Catholic Church and a group of European nations to mediate the conflict.

the funding. "We will review the opportunities for reduction of capital costs over the next six weeks and make our decision at the end of March," said Teck spokesman Greg Waller, according to Reuters. Inmet holds 48 percent of the project, while Petaquilla owns 52 percent. Teck has the option of acquiring a 26 percent interest if it commits to fund 52 percent of development costs. The cost to develop Petaquilla, considered one of the biggest undeveloped copper projects in the world, has more than doubled from a \$1.7 billion

estimate issued by the companies just over a year ago to about \$3.5 billion currently. The increase in costs is due to enhanced erosion control, water management, and other environmental protection measures, as well as to higher equipment and construction costs, according to the companies. In its first 10 years, Petaquilla is expected to produce an average of 223,000 tons of copper per year and an average of 87,000 ounces of gold, with production expected to rise over the 23-year life of the mine.

Featured Q&A*Continued from page 1*

A Guest Comment: Sergio Werlang: "Brazil is experiencing particularly good economic times. The election of President Lula in 2002 made it clear that Brazil's democratic process can create changes in power (going from the right, of which ex-President Fernando Henrique Cardoso was part, to the left) without the country adopting populist measures. That is, it showed that Brazil can have leftist presidents who adopt responsible economic policies. In addition, the increase in international commodity prices, caused by the growing economic importance of China (together with sensible macroeconomic policies) has brought Brazil's external liquid debt practically to zero. This has as a result greater economic stability, less country risk, lower real interest rates, and a greater range of investments and credit. In addition to this, measures that greatly improved the quality of credit guarantees also allowed an expansion of credit. External risks clearly still exist. A recession in the US is always something that impacts the world as a whole. Currently, Brazil is the least vulnerable externally it has been in many years, with a solid combination of fiscal (maintaining high primary surpluses), monetary (inflation targeting), and currency (floating exchange) policies. As such, although it would be better for the country if there were no recession in the US, this is the best possible time for Brazil to go through a crisis, with minimal effects."

A Guest Comment: Jerry Haar: "Latin American executives, as well as astute US, Canadian, and European multinational executives doing business in the Americas, know full well that a vigorous

consumption boom in country after country in Latin America is fueling spectacular levels of sales growth and profitability. Five years of strong export growth and generally sound fiscal management have injected enormous liquidity into Latin American economies and driven down interest rates, sparking the world's fastest and deepest expansion of consumer credit. The resulting explosion of consumer spending is the economic engine that will drive Latin American growth over the next two to three years. Additionally, the raging global demand for agricultural commodities and natural resources, the modernization drive within the region *vis-à-vis* infrastructure (energy, utilities, ports, roads), and the steady flow of remittances from Latin Americans working abroad, all contribute to the growing optimism and confidence among Latin American CEOs. I am confident that the revenue prospects of Latin American companies in 2008 are very good, though not excellent across the board. While some countries, such as Brazil and Mexico, can take advantage of large internal consumer markets, the slowdown in the US and European economies will dampen export growth and inward foreign investment flows to some extent."

Nicolás Mariscal is a member of the Advisor board and Chairman of *Grupo Marhnos* in Brazil.

Sergio Werlang is Executive Director of *Banco Itau S.A.* in Brazil.

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