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FEATURED Q&A

Has the Global Crisis Whetted Latin American M&A Appetites?

Q Brazil's JBS announced Sept. 16 that it is acquiring 64 percent of bankrupt US chicken producer Pilgrim's Pride for $800 million, a move that would make JBS the world's largest meat producer. How has the global financial crisis affected Latin American companies' possibilities for acquisitions of US companies? Which Latin American multinationals, and which industries, are best positioned for growth beyond their home-country borders in the near term?

A Alberto Pfeifer, executive coordinator of the Business Council of Latin America in Sao Paulo: "The global financial crisis affected businesses unevenly worldwide, including in Latin America. In some countries, social and institutional instability was exacerbated by the crisis, as in the case of Mexico and northern Central America, harming the whole economy and hurting almost all productive sectors. Exporters of industrial goods to the US, as Mexico's NAFTA-oriented companies, are paying the price of single-market focus. Companies that embarked in risky finance are direct casualties of the crisis, as with Brazilian poultry and pork producer Sadia. In order to avoid bankruptcy, Sadia had to merge with long-time rival Perdigao to form Brazil Foods. Companies based in countries that handled the crisis well—Brazil, Chile, Peru and Colombia—now have a competitive edge vis-a-vis US-based firms. Credit is cheap and accessible for healthy businesses. However, vibrant domestic markets and sound financial sheets are not sufficient conditions to explain why some Latin American businesses are overtaking US firms. To become global is a big strategic step forward. To enter the US market during such instable and uncertain times requires long-term vision and a drive to be a big player in the US as well. This is a major league game. Small players may drown in the financial tsunami aftermath, but big players can ride big waves. A new balance of power in Latin

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Anticipating Protests, Honduras Suspends Constitutional Rights

The government of de facto Honduran President Roberto Micheletti on Sunday suspended some constitutional rights in anticipation of massive protests today, the three-month anniversary of the country's coup. See story on page 2.

File Photo: Telesur.

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NEWS BRIEFS

Venezuela Probing Uranium Deposits With Russia, Iran

Venezuela's government is working with Russia and Iran to explore for uranium in the South American country, Venezuelan officials said Friday and Saturday, the Associated Press reported. Jesse Chacon, Venezuela's science and technology minister said Saturday that the country will be working with Russia and added uranium would be used for "peaceful purposes." On Friday, Mining Minister Rodolfo Sanz said Iran is helping Venezuela detect uranium.

Colombian Central Bank Lowers Benchmark Interest Rate

Colombia's central bank on Friday lowered a key inflation rate by 50 basis points, citing lower inflationary pressures and the need to stimulate economic growth. The bank's board reduced the benchmark lending rate to 4 percent in an effort to "consolidate economic recovery and reduce possible negative effects of restrictions on trade and the appreciation of the peso," according to a statement. The bank predicted an annual inflation rate of 3.5 percent.

Kraft to Resume Ops at Argentina Plant After Removal of Workers

US food processor **Kraft Foods** said Sunday it would resume normal operations at an Argentine plant this week following the court-ordered expulsion by Argentine authorities of workers who had occupied it for three weeks, Agence-France Presse reported. Argentine police on Friday used tear gas and rubber bullets to remove the workers, who were protesting 156 layoffs. This morning, employees and union members gathered in front of the plant to show support for laid off workers, state news agency Telam reported.

Political News

Honduras Suspends Constitutional Rights, Issues Brazil Ultimatum

In anticipation of massive protests today, the three-month anniversary of the coup that toppled the government of Honduran President Manuel Zelaya, the country's de facto government on Sunday suspended rights guaranteed by Honduras' Constitution, the Associated Press reported today. The de facto government's order bans unauthorized gatherings and also allows authorities to temporarily shut down media outlets and make arrests without a warrant. The government said it suspended the rights in order to "guarantee peace and public order in the country and due to the calls for insurrection that Mr. Zelaya has publicly made." The decree came just hours after Zelaya, who has been holed up at the Brazilian Embassy in Tegucigalpa since last Monday, called on supporters to hold large-scale protests. The de facto government also gave Brazil 10 days to determine whether to hand Zelaya over to be arrested or grant him asylum. Brazilian President Luiz Inacio Lula da Silva responded by saying Brazil "doesn't accept ultimatums from coup plotters," the AP reported. The government did not say what action it would take after 10 days, but de facto President Roberto Micheletti has pledged not to raid the embassy. However, Micheletti's foreign minister, Carlos Lopez, has said that since Brazil has no diplomatic relations with the interim government, the embassy would become "a private office."

> "[Brazil] doesn't accept ultimatums from coup plotters."
>
> *— Luiz Inacio Lula da Silva*

Featured Q&A

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America's business sector will result from the financial crisis. Brazilian companies in particular are ripe to buy strategic US assets. JBS is following the track of InBev, Vale, Gerdau and others. Brazilian companies are familiar with big markets, have dealt with instability and can master crises. A strong Brazilian real is an additional incentive to close deals priced in US dollars. Becoming a US business entitles one to be a beneficiary of the US governmental apparatus, a significant competitive advantage to Latin companies operating in global markets. So yes, it's time to buy American."

> "It's time to buy American."
>
> *— Alberto Pfeifer*

A Henrique Rzezinski, chairman of the Brazil Industry Coalition in Washington and chairman of the Brazilian section of the US-Brazil Business Council: "The crisis affected the overall demand for goods and services in the Brazilian and export markets, but the impact in relative terms was, on average, softer than in the majority of countries. Also opportunities showed up especially in the primary sector as in the case of JBS, where strong cash positions can play an important role in the M&A processes. Solid monetary and fiscal policies, since the Cardoso administration, have given Brazil, for the first time in decades, an opportunity for the country to emerge much stronger from the crisis. This scenario also creates the opportunity to strengthen Brazil's offensive commercial interests, especially

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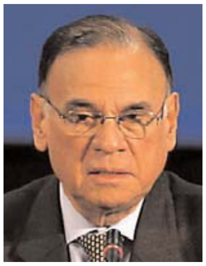
Economic News

South American Nations Form Bank of the South With $7 Bn in Capital

The presidents of seven South American countries on Saturday formed the Bank of the South, an institution to finance development projects in energy, health care and agriculture as well as to increase trade among members, Bloomberg News reported. The presidents of Argentina, Brazil, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela signed documents to create the bank, which will begin with $7 billion in capital and eventually reach $20 billion, said Venezuelan Finance Minister Ali Rodriguez. The presidents formally approved the agreement to create the institution on Venezuela's Margarita Island, on the sidelines of the Africa-South America Summit. "It's our bank, to bring our reserves, those that were in countries in the North, to increase lending between ourselves," Venezuelan President Hugo Chavez said Saturday, Bloomberg News reported.



Rodriguez

File Photo: Venezuelan Government.

Company News

Pemex Output Falls 7.9 Percent in August Amid Drop at Chicontepec

Mexican state oil company **Pemex** said Saturday that its output of crude declined 7.9 percent in August because of disappointing production at its Chicontepec field, Bloomberg News reported. The company's production dropped to 2.54 million barrels a day last month from 2.76 million in August of last year. Daily output from Chicontepec dropped to 30,706 barrels per day last month. Pemex previously predicted increasing production at Chicontepec to 40,000 barrels daily by August and 60,000 by the end of the year.

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in the US market. Also from a strategic point of view, there is room for an important upgrade in bilateral relations between the two countries. Bilateral dimensions of multilateral issues such as the UN Reform, the WTO reform and the IMF reform are some of them. In the commercial front there is room for opening discussions on a free-trade agreement between Brazil and the United States as well as a tax and investment treaty. This can become a very special moment for the strengthening of the hemispheric dimension of the bilateral relations between Brazil and the United States."

A **Tapen Sinha, the ING chair professor of risk management at the Instituto Tecnologico Autonomo de Mexico in Mexico City and professor in the University of Nottingham Business School in England:** "JBS' acquisition of Pilgrim's Pride leads a four-way dominance of beef, pork, turkey and poultry markets in the US: Cargill, JBS, Smithfield and Tyson. It has raised the alarm bells in the US Congress. Agriculture has always been a sacred cow for the American lawmakers even though less than 2 percent of Americans depend on agriculture directly. Cargill, Smithfield and Tyson already have a strong presence in Latin America. During the first outbreak of the H1N1 virus in Mexico, some fingers were firmly pointed at Smithfield. [Editor's note: In May, Smithfield announced that Mexican authorities concluded the virus was not found on its farms in Mexico.] There is unease about these companies in Latin America as they are seen to be flouting US norms when they operate in other countries in the region. Thus, the acquisition of Pilgrim's Pride by JBS was a very novel event indeed. It seems unlikely that other Latin American multinationals would go beyond their borders. First, all large economies in the region have been hit hard in the current crisis. For example, Mexico is looking at a decline of GDP during the current year worse than it experienced in 1994-95 Tequila Crisis. The only country that has come out of the crisis relatively unscathed is Brazil. Second, while the possibility of expansion in the US exists in the media markets, they are not very friendly to foreigners. If they want to make a play in the financial services industry, the same problem would arise under a Democratic administration in Washington."

A **Vander Giordano, managing director at Kroll in Miami:** "Just like companies on other continents, Latin American businesses are also suffering from the global financial crisis. The decreased commercial activity across the world, currency issues and devaluation of stock listings on local exchanges contributed to a breakdown in performance. However, Latin American companies are accustomed to growing despite adverse circumstances in sharp comparison to companies in developed countries. This management knowledge and adaptability have always differentiated Latin American companies. Those traits are now allowing them to quickly recuperate post-crisis. JBS' acquisition of Pilgrim's Pride exemplifies that some sectors in Latin America are better prepared in a post-crisis scenario. I believe there are many other attractive assets for Latin American companies in the North American and regional markets. Like the case of JBS, some groups in Brazil and Mexico, principally in the agribusiness, finance, petrochemical and energy sectors, are now in a buying position. They join already internationalized companies including Vale, Gerdau and Petrobras in eying distressed assets during the crisis. Brazilian companies such as Brasil Foods (BRF), Itau, Bradesco and Braskem are in position to lead the Latin American charge, but Mexican groups such as Bimbo are prime candidates for geographical expansion."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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