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# Inter-American Dialogue
LATIN AMERICA ADVISOR



## Featured Q&A *With Our Board of Advisors*

**Q In what many saw as a surprise decision, Brazil's antitrust agency, CADE, last week ruled that Swiss food company Nestle's February 2002 acquisition of local chocolate maker Garoto would limit competition in Brazil's chocolate market and ordered Nestle to sell Garoto. Do you agree with CADE's decision? Does the ruling signal tighter oversight of competition in Brazil?**

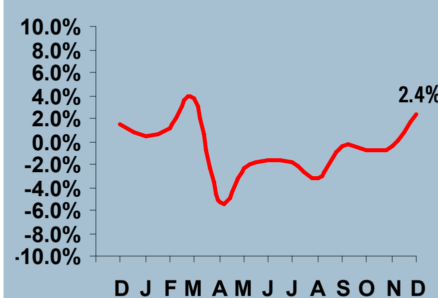
**A** **Guest Comment: Jerry Haar:** "CADE's decision should not be viewed as a great surprise; for it is one based on sound antitrust principles—with a healthy dose of nationalism mixed in. Five of the six regulators who vetoed Nestle's $250 million acquisition of Garoto were firmly convinced that the Swiss food giant's cornering of 90 percent of the Brazilian chocolate candy market may be a sweet deal for Nestle, but not for Brazilian private enterprise. Market share of that size is a monopoly by any other name. Additionally, given the antiglobalization/anti-neoliberal backlash among the Brazilian public, the climate for antitrust adjudications involving foreign multinationals is not particularly favorable. Granted that bonbons and chocolate covered peanuts do not hold the same national security importance as Brazil's energy, steel, and agricultural industries, there are hundreds of small candy producers—usually family-owned enterprises—that provide precisely the labor-intensive manufacturing that Brazil sorely needs to respond to structural problems of unemployment and underemployment."

**A** **Guest Comment: Gesner Oliveira.:** "I agree with the decision. I think that it was a solid decision. There was a careful analysis of the impact upon the market power of the new firm with the acquisition of Garoto. At the same time, there was an assessment of the efficiency defense presented by Nestle, and

*Continued on page 4*

### CHART OF THE DAY

**Mexico Industrial Production**
Dec 2002–Dec 2003, YoY % Change




Industrial output in Mexico rose 2.4 percent YoY in December. The increase ended eight straight months of decline and may signal the start of a recovery stemming from US growth.

*Source: INEGI.*

## Inside This Issue

## NEWS BRIEFS

### Peruvian Newspaper Urges President Toledo to "Step Aside"

A leading Peruvian newspaper, *El Comercio,* published a front-page editorial on Wednesday calling on unpopular President Alejandro Toledo to "step aside" and transfer some powers to a prime minister and politically independent cabinet in order to avert a governmental collapse. The paper said Toledo, whose popularity stands at just 7 percent, would remain as formal head of state with oversight over national security and other matters. The president has been mired in a series of corruption scandals involving a former close aide and members of his cabinet.

### Colombia to Privatize Gas Pipeline Operator in H2 2004

A Colombian official said Wednesday the government plans to privatize gas pipeline operator **Ecogas** in the second half of this year. Alejandro Alvarado, infrastructure and energy director at the National Planning Department, did not say how much the government hoped to earn from the sale of the Bucaramanga-based Ecogas, which operates a network of almost 2,000 miles of gas pipelines.

### Petrobras Proven Oil Reserves Rose 70 Percent in 2003

Brazilian state-owned oil company **Petrobras** said Wednesday its proven foreign reserves of oil equivalent were up 70 percent in 2003 to 1.9 billion barrels, under the Society of Petroleum Engineers reserves accounting standards. Petrobras attributed the growth in reserves to its acquisition of Argentine energy firm **Perez Companc**, now operating under the name **Petrobras Energia**.

*Sources:* El Comercio, *Reuters*

# Company News

## Brazil Investigating Illegal Transfers by Italy's Parmalat

Brazil's Central Bank said Wednesday it is investigating hundreds of millions of dollars in illegal transfers by scandal-plagued Italian food company **Parmalat** to and from Brazil, Reuters reported. Ricardo Liao, head of the Bank's financial and foreign exchange crimes department, said the nature of the transfers, which used fake names and false destinations, suggested that they were part of a money laundering operation. Liao, however, did not say whether the Bank had any individual suspects in the investigation. "The criminals are some distance away," he stated. News of the investigation came amid reports that Ricardo Goncalves, the president of Parmalat's main Brazilian subsidiary, would resign today. A Sao Paulo judge has appointed former Central Bank Director Keyler Carvalho Rocha to run the unit in Goncalves' place. Brazil, which accounts for one sixth of Parmalat's global workforce, or some 6,000 workers, has been a key focus of a multinational fraud investigation into the Italian parent ever since the company reported a multibillion-euro hole in its books in December. Italian authorities believe Parmalat executives used offshore companies, fake documents, and inflated revenues to conceal billions of euros in nonexistent assets and to issue bonds. Members of Brazil's Congress suspect that Parmalat transferred funds to some of its Brazilian subsidiaries to cover fake debts. The cash, however, was siphoned off, the lawmakers claim. In testimony before lawmakers on Wednesday, Agriculture Minister Roberto Rodriguez said he backed a congressional investigation into Parmalat's Brazil operations.

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# Economic News

## Mexican Official: US Lacking in Compliance on Mad Cow Measures

Mexico's director of National Service for Food Quality and Safety said yesterday the US cattle industry still needed to make assurances it has complied with two sanitary measures before Mexico lifts a ban on US beef implemented in December following the US' first case of mad cow disease, Bloomberg News reported Wednesday. "It's not a question of time, but a question of sanitary compliance," said Javier Trujillo. The Mexican official said the US needs to use humans, not machines, to remove meat from bones and insure that downer cattle, which can't walk to slaughter, are separated from the human food chain. "There are two processes remaining, and the day we see that they have been established, we will not have any reason to impede trade," Trujillo stated. Following the Dec. 23 announcement that a Washington state cow had tested positive for bovine spongiform encephalopathy—known commonly as mad cow disease—more than 40 countries imposed full or partial bans on US beef exports, a $3.8 billion-a-year trade. Mexico was the US' number two beef buyer after Japan, importing $765.8 million in US beef products during the first ten months of 2003, according to the US Department of Agriculture (USDA). The USDA has agreed to Mexico's sanitary measures and is confident beef exports will resume, although it would not specify when. In related news, Brazil is among nine countries that have imposed a ban on all imports of poultry from the US due to an outbreak of a bird flu virus at two Delaware farms. Colombia has imposed a ban only on poultry from Delaware.

## Capitol Hill Watch

*A weekly look at US congressional activity on Latin America*

**Congressman Proposes Ban on Soybean Imports from Argentina, Brazil**

Iowa congressman Tom Latham (R) on February 4 introduced a bill calling for a ban on the import of soybean and soybean meal from Argentina and Brazil. In a press release announcing the bill, Latham's office said he proposed the measure to slow the northward advance of "the devastating crop disease known as 'soybean rust'" and give the US government and industry groups time to develop "resistance techniques and possible chemical treatments." The bill's introduction comes at a time of intense competition between the US and South America—especially Brazil—for domination of the global soybean market. [Editor's note: see related Q&A in the September 15, 2003 issue of the *Latin America Advisor.*]

**Homeland Security Official: US-VISIT Program Running Smoothly**

In testimony before lawmakers on January 28, US Department of Homeland Security Under Secretary Asa Hutchinson said the new US-VISIT immigration control system had been operating smoothly since its its launch on January 5. The system, designed to improve security at US ports of entry by requiring foreign visitors to be digitally photographed and fingerprinted before arrival, had logged over 600,000 visitors in its first few weeks without any significant delays in immigration processing, Hutchinson told the House Select Committee on Homeland Security's Subcommittee on Infrastructure and Border Security.

*Sources: Office of Rep. Tom Latham, US Department of Homeland Security.*

### Three LatAm Nations Fail to Make US Fund 's Investment Grade

Argentina, Peru, and Colombia, failed to make investment grade status in accordance with standards established by the US' largest pension fund for investment in emerging markets, Reuters reported Wednesday. Mexico, Chile, and Brazil were among the 12 countries that met with approval, according to a report prepared for the California Public Employees' Retirement System (Calpers). The $164 billion fund—the world's third-largest—targets emerging markets for investment based on nations' performance in such areas as market efficiency, corporate governance practices, political stability, and respect for human rights. Poland was Calpers' top choice for 2004. While some analysts call Calpers a "lagging indicator," the fund wields influence through its reputation as a market watchdog and corporate reform advocate, triggering buying into its approved markets and protests from failed countries. Argentina and Peru had made the cut in 2003, but this year scored too low to qualify, surprising some as Argentina's MerVal share index grew 104 percent in 2003. The two countries now have a year to improve under Calpers' established practice, which recently came to include respect for civil liberties as a requirement. Otherwise, they face being dropped from the list of countries permitted for investment. The fund's investment committee put about $2 billion into emerging markets last year.

### IMF Okays $66 Million Loan Payment to Dominican Republic

The International Monetary Fund's executive board on Wednesday disbursed $66 million in loans to the Dominican Republic after approving the government's progress to date in taming its economic crisis. The board okayed the disbursement despite the government's failure to meet several "performance criteria" tied to its total $657 million IMF loan package. "In completing the review, the executive board approved the Dominican Republic's request to waive the nonobservance of structural performance criteria regarding the approval of by-laws of the monetary and financial law, the approval of the law for systemic bank resolution, the approval of the 2004 budget law, and the unification of the foreign exchange market," the IMF said in a statement. It also noted that the Dominican Republic failed to meet 2003 year-end fiscal and monetary targets, and requirements related to its debt accumulation and foreign exchange policy. The Caribbean nation, among the fastest growing Latin American economies during the 1990s, has been reeling from an over 100 percent drop in its peso currency relative to the dollar and from the explosion of a fraud scandal at a major bank last year. IMF Deputy Managing Director Agustin Carstens said Wednesday that "rigorous implementation" of the country's program with the Fund, combined with a strong effort to enact reforms, are key to the country's emergence from its current crisis. "Provided confidence can be re-established, and structural reforms are resolutely implemented, the country could restore the high growth and macroeconomic stability that were the hallmarks of its development through most of the 1990s and early 2000s," Carstens stated.

## Political News

### Pro-Arisitide Forces Retake Town; US Prepares Base for Possible Refugees

Haitian police and supporters of embattled President Jean-Bertrand Aristide on Wednesday recaptured the town of Saint Marc from armed rebels, while the US State Department said it would accommodate up to 50,000 Haitian refugees at the

**Featured Q&A**

*Continued from page 1*

the efficiency gains were not sufficient to compensate for the sharp increase in market power on the part of Nestle. So I think it's very much in line with international antitrust and is a quite solid decision. There has been a historic revolution of CADE over the last few years and this decision represents a certain institutional development of the antitrust authority. It is a signal that companies should plan their activities and transactions taking into consideration the competition law. I do not think that it is in contradiction with past decisions of CADE."

> "CADE and the Brazilian government had ample time before the acquisition was made by Nestle to argue and oppose the purchase of Garoto."
>
> *– Alvaro Quintero*

**A** **Guest Comment: Alvaro Quintero:** "The decision is regrettable. CADE and the Brazilian government had ample time before the acquisition was made by Nestle to argue and oppose the purchase of Garoto. They decided not to do so and, by doing that, CADE implicitly accepted it. Now, after two years, CADE comes back with a different opinion. What can be expected then with the consolidation of the Brazilian beer industry (AmBev and others) and other acquisitions? This ruling is signaling tighter oversight of competition in the Brazilian market."

**Jerry Haar** *is a Professor of Management & International Business, and a Senior Fellow in the Global Entrepreneurship Center at Florida International University.*

**Gesner Oliveira** *is a Professor of Economics at the Getulio Vargas Foundation and a former President of CADE.*

**Alvaro Quintero** *is Food & Beverage Director at InfoAmericas.*

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US' Guantanamo Bay naval base, if necessary, Rueters reported. Aristide's supporters killed at least three people in the process, in apparent retribution for the revolt that began last week in Gonaives when a gang of former Aristide-supporters capped months of anti-government protests by attacking police. Forty Haitians have died in the revolt, and the United Nations has warned that if blocked roads were not opened, up to 268,000 people could starve in a "major humanitarian crisis." Rebels still control the city of Gonaives, although police and government supporters have taken back two towns. While Washington shared its plans for Haitian refugees with humanitarian groups, on Tuesday the US implied that Aristide, who the US reinstalled in 1994 following a coup, might have to step down. Aristide, who is accused by opponents of civil rights abuses and political thuggery, told reporters Wednesday he would not leave the presidency until his mandate expires on February 7, 2006. "Haiti suffered from 32 *coup d'etats*. It's too many," Aristide said yesterday. "We should not continue to move from one *coup d'etat* to another one. We have to go from democratic elections to democratic elections." A unnamed US State Departmet official said the US was getting Guatanamo Bay naval base ready for a possible influx of refugees. "We are ready for that type of situation," the official stated. The US used the base in the early 1990s to house some 30,000 Haitian refugees while the country was under military rule.

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