International prices for steel and iron ore are increasing amid tight global demand. What effect will high steel and iron ore prices have on Latin America’s economies? Which countries and sectors will be most hard hit?

Guest Comment: Ruth Mazzoni:
"The recent news of higher iron ore prices is likely to have far reaching consequences for Latin American companies and economies. On the one hand, it is clearly very positive news for CVRD and for Brazil generally. The 71.5 percent price hike in iron ore prices that CVRD has pushed through is expected to result in a $3.5 billion increase in CVRD’s exports to a total projected $8.7 billion in exports for 2005. The impact on Brazil’s trade surplus will be larger still, as much of CVRD’s domestic sales are largely to pellet producers that also end up exporting their production. Additionally, Brazilian steel producers, the lowest-cost producers in the world, will be well positioned to continue to be very competitive with international steel producers, as they pay roughly 25 percent less for their iron ore. The proximity to iron ore reserves and consequently lower logistical costs give Brazilian steel companies an important cost advantage. Rising prices do increase the risk of inflation, but overall it seems clear that Brazil is in the best position to profit from the increases in iron ore and steel prices. During the last year, nearly every steel producer in Latin America benefited from high international prices, renewed US demand, strong demand out of Asia, and in the case of Argentina a strong rebound in the construction sector after several years of depressed economic activity. However, in an environment of rising raw material costs, steel companies operating in countries without a natural cost advantage are likely to see their margins negatively impacted and may begin to find it difficult to compete with global producers (like Arcelor) that are increasingly consolidating, acquiring scale, and diversifying internationally—including in Brazil. Look for more M&A activity in the Latin American steel sector in 2005. In both

Continued on page 4

PHOTO OF THE DAY

Venezuelan President Hugo Chavez, right, met Friday with Iranian President Mohammad Katami, left, and said he backed Iran in its confrontation with the US and Europe over its nuclear program. See related story, page 2.

Photo: ABN.

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**NEWS BRIEFS**

**Countries Propose March 30 for OAS Secretary General Election**

The governments of Chile, El Salvador, and Mexico last week asked the OAS to consider setting March 30 as the date for the election of a new secretary general. A final decision on the election date could be made this week, when the Permanent Committee of the OAS meets on Wednesday. The three candidates are Chilean Interior Minister, former President of El Salvador Francisco Flores, and Mexican Foreign Minister Luis Ernesto Derbez. 

*Source: OAS statement.*

**Carlos Slim Fourth-Richest Person in the World, Forbes Survey Says**

Mexico’s Carlos Slim is the world’s fourth-richest person, according to *Forbes* magazine’s annual survey. Slim’s $23.8 billion net worth puts him behind only Bill Gates, Warren Buffett, and Lakshmi Mittal. Joseph & Moise Safra (Brazil) and Gustavo Cisneros (Venezuela) ranked behind Slim as the second- and third-wealthiest among Latin America’s 29 individual or family billionaires.

*Source: Forbes.*

**Trinidad Agrees to $50 Million Wireless Contract with Nortel**

Trinidad and Tobago’s monopoly phone company, TSTT, is upgrading its wireless infrastructure with advanced third-generation (3G) solutions from Canada’s Nortel, Nortel said Friday. The two-year project, estimated to be worth more than $50 million, is expected to “significantly expand coverage and improve quality” of wireless voice and data services, Nortel said. TSTT is jointly owned by the government and the UK’s Cable & Wireless.

*Source: Nortel press release.*

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**Political News**

**Chavez Backs Iran in Dispute with US, Europe Over Nuclear Program**

In statements likely to further irritate Washington, Venezuelan President Hugo Chavez on Friday said he supported Iran in its confrontation with the United States and Europe over its nuclear program, Reuters reported. Chavez told visiting Iranian President Mohammad Katami in Caracas that he "can count on our support, affection, and solidarity against the threats of the US government against the brother nation of Iran." Iran is under pressure from the US, Britain, France, and Germany to end part of its nuclear program that could be used to develop nuclear weapons. The Iranian government has refused, saying its nuclear program is purely peaceful and only for energy purposes. "Iran has every right in the world, as do other countries, to develop its own atomic energy," Chavez was quoted as saying. During Katami’s visit, Iran and Venezuela signed more than 20 cooperation accords, including an agreement for oil and gas ventures. Chavez’s support for Iran is likely to increase US frustration with the Venezuelan leader. Since assuming office in 1999, Chavez has reached out to governments hostile to the US, such as Cuba and pre-war Iraq, and was a vocal critic of the US-led war in Iraq. In recent months, he has accused Washington of plotting to assassinate him and warned that Venezuela—the world’s fifth-largest oil producer and the third-largest supplier to the US—would cut off oil supplies if he is killed. US officials have rejected Chavez’s charges as "absurd" and questioned his commitment to democracy. Last week, US Assistant Secretary of State Roger Noriega said the US and Latin American countries need to prevent greater misery for Venezuelans and block the spread of Venezuela’s "failed model" in the region.

**Former Haitian Soldiers Demobilize, but Surrender Few Weapons**

Some 280 members of Haiti’s disbanded army on Sunday agreed to fully demobilize, but surrendered only a handful of weapons, the Associated Press reported. In a ceremony watched by interim Prime Minister Gerard Latortue and United Nations envoy Juan Gabriel Valdes, the former army soldiers handed over just six aging M1 rifles and a corroded Uzi 9mm before being taken to Haiti’s police academy for an evaluation of their fitness to serve as members of Haiti’s police force. "What we’re doing is for the good of all Haitians," ex-Army commander Emanuel "Manno" Dieusel was quoted as saying. "We’re ready for peace and want to help stabilize the country." Dieusel said his demobilizing battalion previously had more weapons, but gave them away to other former soldiers operating in other parts of the country. Valdes said "the important thing is not the number of weapons, but that some 300 former soldiers have agreed to reintegrate into society." The UN’s 7,400-strong peacekeeping force has been criticized for not being aggressive enough in disarming Haiti’s illegal armed groups, although some analysts say there has been progress in recent months [Editor’s note: see related comment by James Morrell on page 3]. However, former soldiers who helped oust exiled former President Jean-Bertrand Aristide a year ago still control much of Haiti’s countryside, while opponents and supporters of Aristide clash in gunbattles almost every night, according to the AP. Valdes said the UN force would soon launch a large-scale disarmament plan, although he acknowledged that it would be a difficult undertaking. Many members of Haiti’s former army, which was disbanded in 1995, are demanding the army be restored and that they receive back pay. The government plans to pay $29 million to about 6,000 former soldiers.
**Economic News**

**Brazilian Senator Proposes Greater Autonomy for Central Bank**

A Brazilian senator on Friday submitted a bill that would grant greater autonomy to the Central Bank, Reuters reported. Under the bill by Senator Ney Suassuna of the Brazilian Democratic Movement Party, Brazil’s president would still be able to appoint the Bank’s president and directors to four-year terms, with senate approval, but their terms could only be renewed once. Suassuna said his proposal, which was originally proposed in 1994 and is part of a package of reforms sought by Brazilian President Luiz Inacio "Lula" da Silva, would reduce political influence and boost investor confidence in the Bank’s monetary policy. "When investors see that the Central Bank's president and directors don’t have to make political concessions to keep their jobs, inflation targets will become more credible," Suassuna was quoted as saying. His bill would also lead to a quicker reduction in interest rates, the senator said. The Bank is expected to raise its benchmark Selic interest rate at its monthly meeting on Wednesday in an effort to slow inflation. The Bank has raised the Selic, which stands at 18.75 percent, six straight months. Brazil’s IPCA consumer price index rose 0.59 percent in February, putting 12-month inflation at 7.39 percent, above the Bank’s 5.1 percent target for 2005.

**Company News**

**Brazilian Online Retailer Submarino Plans to Raise $187 Million via IPO**

Brazilian online retailer **Submarino** said Friday it plans to raise up to 504 million reais (US$ 187 million) from an initial public offering of its shares this month, Reuters reported. The company, Brazil’s largest online retailer, said it would sell 21,875,500 shares at a price of between 20.33 reais and 23.305 reais on the **Sao Paulo Stock Exchange**’s New Market. Submarino’s Global Depositary Shares (GDS) should price at between $15 and $17. Each GDS will be worth two local shares. However, only 6,250,000 shares will be new company stock, as the rest belonging to existing shareholders will be sold through a secondary offer. The retailer plans to use the proceeds from the share offering, the first in Sao Paulo this year, to pay down debt, pay for day-to-day activities, and fund its expansion plans. The six year-old company, which sells health and beauty products, digital cameras, footwear, toys, electric appliances, and other items posted its first annual profit—6.4 million reais—last year. Electronic commerce has grown steadily in Brazil, with business-to-consumer sales increasing 27 percent in 2004 to $725 million, according to **E-Consulting**. Analysts note, however, that Brazil’s low Internet penetration, unreliable shipping and distribution, limited use of credit cards, and concerns about privacy and security, act as restraints on greater growth [Editor’s note: see related Q&A in the February 18, 2005 issue of the **Latin America Telecom Advisor**].
Look for more M&A activity in the Latin American steel sector in 2005."

- Ruth Mazzoni

Mexico and Argentina, which do not have a natural cost advantage to produce steel and where steel producers also face sharply increasing gas prices, steel companies’ margins will certainly decline unless the steel producers are able to push through price increases to the automotive and construction sectors. Steel price increases in both of these countries will certainly exacerbate inflationary pressure and may result in weaker domestic demand.

Guest Comment: Luiz Mann: "A big chunk of steel produced in Brazil is for local consumption. In other words, it will impact the prices of the goods produced directly, as already seen in the inflation and higher prices for those goods. We do not see this jeopardizing demand because it is very strong and is supported by sectors that will continue to grow, like the construction and infrastructure sectors. The impact on the economy will be the same. In terms of iron ore, it is definitely very different. The price increase is no doubt very good for Brazil. The trade impact is through the trade imbalance, as Brazil is the only one that exports iron in Latin America, so it is definitely the big winner."

Guest Comment: Jim Steel: "Steel and iron ore have been among the sharpest price increases of all commodities mostly because a whole range of economies in East Asia have a nearly insatiable desire for iron ore and have had that desire for more than two years now. We have seen a progressive and strong demand for a couple years. Industrial production has been, for example in a country like China, growing at a rate double the economy itself. And most of these economies—China is not the only one, just the biggest—are really in a high commodities-intensive phase of development, whereby because of the nature of the growth—in particular in road construction, transportation, building, and manufacturing—the demand for steel and iron ore is strong. We are also seeing a similar trend in North America, where industrial production was up 4.5 percent last year … There is no doubt in my mind that this has been on balance beneficial for much of Latin America simply because as a region it is commodity-dependent. We have seen an enormous dollar inflow into many of these economies. The Pacific economies with the biggest mining sectors—Mexico, Peru, and Chile—have benefited the most. Most of the industrial production in these countries revolves around commodity extraction, so it is not as if there is a major auto industry in Peru that suffers because steel prices are high. Most of the industrial production in Peru goes toward increasing mining infrastructure. What we have seen basically in these countries is a sharp increase in growth and industrial production, but also they enjoy trade surpluses that are quite good. This is without a doubt a function of greater exports, as imports have not fallen much. Basically out of the commodities rally worldwide only two regions have really benefited enormously: one is Latin America, and the other is the Middle East, obviously."

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