FT.com FINANCIAL TIMES

Latin America investors reassess plans as fear of interference grows
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Published: May 29 2006 03:00 | Last updated: May 29 2006 03:00

Sergio Gabrielli saw few clouds on the horizon when he was asked back in February to size up his company's prospects in Bolivia.

The president of Petrobras, Brazil's state-owned oil giant, then believed that Evo Morales's landslide victory in Bolivia's presidential elections had created a "vision of stability".

Instead, within months, Petrobras found itself expropriated, the latest - and most surprising - casualty of a string of nationalist-inspired actions against foreign investors.

In Bolivia, BG and BP of the UK, Total of France and Repsol of Spain - which have pumped billions of dollars into Bolivia over the last decade - suffered a similar fate. Just over a week ago, California-based Occidental Petroleum, was added to the list, taken over by Ecuador's government after a contract dispute

Executives at Suez, a French conglomerate, have also had a rough time this year after Argentina's government moved to take over Aguas de Argentina, the water company that is a majority-owned subsidiary.

Repsol's share price fell after writing down the value of its investments in Bolivia, Venezuela and Argentina.

A new sensitivity towards the region has seen investors reassess their commitments. "Where there is any risk at all of things going the way of Bolivia, investments are on hold," says Stephen Donehoo, who advises investors at Kissinger McLarty in Washington.

In many ways, this is surprising. Latin America's economies are more stable now than at any time for the last 30 years. In most countries, inflation is in single digits and demand from China and growing Asian economies have enhanced the attractions of raw materials such as copper and iron ore that Latin America possesses in abundance.

In part because of this, foreign investment levels have been rising in the past couple of years, recovering from a slump associated with the financial crises of the beginning of the decade.

In its latest paper on foreign direct investment (FDI) in the region, the United Nations Economic Commission on Latin America reports that overall flows of FDI rose from $61.5bn (€48bn, £33bn) in 2004 to $68.1bn in 2005, a figure close to the annual average of $70.6bn achieved in the second half of the 1990s.

The recovery is all the more impressive since, during the 1990s, privatisation campaigns were attracting a wave of foreign investment into the telecommunications, energy and financial sectors. Telefó

On closer examination, the figures show a sharp disparity between the south of the region on one hand and Mexico, Colombia, Chile and the countries of the Caribbean Basin, which are more closely integrated with the US through trade, migration and security, on the other.

While investment into Mexico reached $17.8bn in 2005, up by almost 50 per cent on the average achieved at the end of the 1990s, Brazil inflows last year reached only $15.1bn, down by more than a third. Argentina attracted $4.7bn last year, less than half the average recorded 10 years ago.

Analysts attribute the decline in the south of the region to several factors. In the oil and natural resources sectors, governments have begun to impose much tougher contracts on foreign investors. Venezuela, the biggest oil producer in the region, imposed new terms on more than two dozen foreign companies last year, prompting Exxon Mobil to sharply reduce its presence in the country.

On paper, Argentina's investment codes are among the most liberal in the world. In practice, the left-wing government of Néstor Kirchner has intervened on a discretionary basis in a number of sectors, refusing to allow foreign-owned utility and financial service companies to increase rates. As well as Suez, Electricité de France has opted to leave Argentina; more than two dozen others have taken legal action against the government through the International Center for the Settlement of Investment Disputes at the World Bank.

"The environment has deteriorated significantly," noted Helena Hessel, a credit analyst with Standard and Poor's in New York in a paper this month.

Brazil's centre-left government has been more welcoming, but has failed to ease bureaucratic restrictions and onerous labour and tax burdens. The sharp appreciation of the real against the dollar - only partly reversed during recent volatility on international markets - has added to difficulties by increasing the costs of operating.

Advisers also note a sharp increase in popular sensitivities to environmental issues across the region, in part stimulated by internationally financed non-governmental organisations. Argentine demonstrators, fearful of air pollution. have tried to stop paper and pulp plants being built by Botnia of Finland and ENCE of Spain in neighbouring Uruguay.

In this context surprises such as the Bolivian nationalisation or Ecuador's action in Occidental are particularly damaging. US officials described the decision to cancel the Occidental contract as "horrific", partly because it seemed so arbitrary.

Petrobras thought it had good political links with the Bolivian government and had promised to invest heavily. So being taken over was particularly alarming, says one São Paulo-based international risk manager. "It doesn't help in term of perceptions. If you are sitting in Houston, New York or London and you see someone getting a kicking in Latin America it is bound to affect how you see things."
