

COMING MONDAY

Some questions and answers about the role of the consumer in today's economy.

RETAILING



NOT SLOWING DOWN: Barry Goldware, CEO of Houston-based Sun & Ski Sports, says the economic downturn is a chance for his chain to grow. **DAVE ROSSMAN / FOR THE CHRONICLE**

Oil's fall pinches Latin nations

Big projects may be reined in as producers' incomes slide

By JOHN OTIS
SOUTH AMERICA BUREAU

BOGOTÁ, COLOMBIA — During the five-year bonanza of rising oil prices, resource nationalism took hold across Latin America, and energy-producing countries boosted spending, raised taxes on foreign oil companies and salted away billions in petrodollars.

But with the onset of the global economic crisis and the collapse in oil prices, Venezuela, Mexico and other regional energy producers are feeling the squeeze.

If prices don't rebound soon, the countries will be forced to cut spending on popular programs or dig into their reserves. Governments also will probably see slow-downs or cancellations of energy projects ranging from explorations to bio-fuels plants.

"The old assumptions are out the window," said RoseAnne Franco, a Latin America analyst at PFC Energy in Washington. Lower prices "are forcing a very strong readjustment for all concerned."

Benchmark light, sweet crude has dropped to near \$40 a barrel from its record close above \$145 in July.

Venezuela, the world's seventh-largest exporter, saw the price of its oil — which sells for less than the benchmark crude because of its higher viscosity and sulfur content — drop to \$39 per barrel, its lowest level since May 2005. Venezuela uses oil revenue to fund much of its \$77 billion annual budget.

Venezuelan President Hugo Chavez has said the country, which has built up reserves of some \$76 billion, *Please see OIL, Page D2*



CHAVEZ



LOREN STEFFY

So much for eased lending

KURT Lieber feels as if he's had the TARP pulled out from under him.

As the owner of Werther International, a Houston company that sells air compressors and automotive service equipment, Lieber for years maintained a \$50,000 line of credit with American Express. He kept it mostly for emergencies, drawing on it occasionally to mitigate fluctuations in cash flow and meet monthly expenses.

He hadn't tapped the credit line since early 2006, but because of the souring economy, he thought he might need it toward the end of the year.

In September, he contacted American Express to ensure the line was still available and, he said, he was assured it was.

Last month, he received a letter from American Express telling him that the credit line was being discontinued as of Jan. 15. Until then, he could draw only *Please see STEFFY, Page D2*

Opportunity knocks, even during a slump

Some store owners see a slowdown as a time to grow, when real estate and workers are easier to find

By DAVID KAPLAN
HOUSTON CHRONICLE

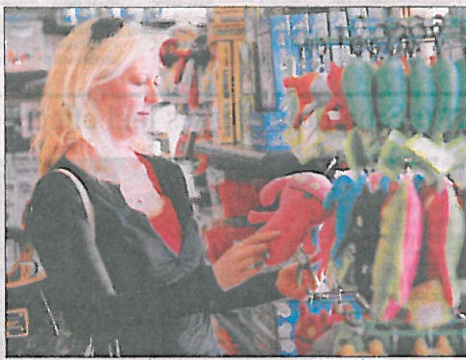
NOT all retailers got the memo, the one advising caution during the economic downturn. Some, like Barry Goldware, founder and CEO of Houston-based Sun & Ski Sports, sees the slowdown as an opportunity.

He just opened two stores in Dallas and recently remodeled two Houston-area locations, with one of them getting an expansion.

"There are incredible real estate deals," he says, and it's easy to staff new stores when other retailers are downsizing.

Across the nation this year, retail chains have closed stores, fallen into bankruptcy, laid off staff and curtailed expansion plans as consumers pulled back and bankers tightened credit.

But, here and there, retailers who are in good financial shape are expanding, looking for real estate opportunities or moving into areas like Houston that are weathering the



LOOKING GOOD: Customer Emily Frey looks at "Ugly Dolls" at the new Whole Earth Provisions location on Post Oak Boulevard. **STEVE CAMPBELL / CHRONICLE**

economy better than others.

Consider Austin-based **Whole Earth Provision Co.**, which just opened a Houston store near the Galleria on Post Oak Boulevard this summer.

"We'd probably do it again, because that location is great, and we believe in the Houston market," said co-owner Joe Jones, whose chain of stores sell travel-and-nature-themed clothing, toys and gadgets. It also has locations in Austin, Dallas and San Antonio.

Sun & Ski and Whole Earth are not alone in expanding in the Houston area. J.C. Penney, Marshalls, Ross and Michaels recently opened stores in League City near the boom-

ing Victory Lakes subdivision. Even Starbucks, which is closing stores in the area, is opening a shop there.

Still, taken from a wider perspective, expansions are rare, the experts say.

"You have to be an independent thinker and have a good set of chops given today's economy. It's a matter of having patience and guts," said retail consultant Dan Skoda, president of D&R Consulting.

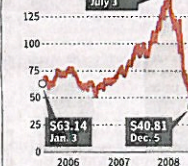
Typically, one company executive might want to expand when the economy is difficult, but a more risk-averse partner or board member will hold him back, Skoda said.

"Warren Buffett says to buy when *Please see EXPAND, Page D2*

CRUDE'S COLLAPSE

Crude oil sunk to its lowest level in years recently after hitting an all-time high in July.

Daily closing price per barrel on the New York Mercantile Exchange



Source: Bloomberg
EDWIN LOUIE / CHRONICLE

OIL: Prices pressure Mexico, Venezuela

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will practice "austerity" in the 2009 budget.

If Chavez decides to cut the budget, he likely will slash foreign aid to other countries in the region before cutting domestic spending programs. Chavez, who wants to remain in office "as long as God wants and the people demand it," is trying to overturn a constitutional limit on presidential terms. His supporters are working on getting a referendum to the voters by February, and Chavez does not intend to alienate poor and working-class voters who are the spending programs' recipients.

After passing laws to take over privately managed energy projects, Venezuela and other Latin American countries are once again courting international oil companies. In the past, Chavez has focused on deals with state energy companies in Russia, China and Iran. But recently his oil minister announced that 21 international companies were preparing bids to develop fields of heavy crude in the Orinoco belt in central Venezuela.

Reforms in Mexico

Elsewhere, Mexico's Congress approved a long-awaited package of energy reforms last month to allow limited foreign investment in the state oil monopoly, Petróleos Mexicanos, or Pemex.

Yet some experts described the move as too little, too late for the Mexican government, which derives 35 percent of its total revenue from oil income. The new legislation, they said, will do little in the short term to boost oil production, which is rapidly declining.

Mexico's output has fallen from 3.4 million barrels per day in 2004 to the current 2.8 million barrels. Increased demand and declining production could turn Mexico into a net oil importer by 2015, according to Pemex estimates.

New enterprises will take years to come on line. Yet Mexico's expensive deep-water projects in the Gulf of Mexico now look less profitable for outside companies.

"When oil is at \$140 per barrel, there is a lot of expensive oil that's worth producing," said Michael Goldberg, a senior partner at the Houston office of Baker Botts, the international law firm whose clients include major oil companies. "At \$50, it is not. So projects that were being considered just six months ago are now on hold."

A recent report from the Eurasia Group, a global consulting firm, seemed even more bleak.

"President Felipe Calderon and Pemex bureaucrats all say the reform package will help the company

under take badly needed exploration projects and boost declining production," it said. "However, there is a strong argument that Mexico's energy reform will do little to help

neath the sea bottom and will require a massive infusion of capital to bring on line.

The credit crunch, however, has hurt Petrobras' ability to raise money and finance huge investments, said Erasto Almeida, who tracks the region for the Eurasia Group. And in a case of bad timing, Brazilian lawmakers are planning to consider an energy bill that would give the government more control over the industry, not less.

Brazil ranks as the world's second-largest producer of ethanol after the United States, and a leading exporter. But in Brazil, ethanol is no longer profitable when oil prices fall below \$40 per barrel, said Johanna Mendelson Forman, an expert on biofuels at the Center for Strategic and International Studies in Washington.

Colombia also has invested heavily in ethanol and biodiesel plants, but interest could diminish if oil prices continue to drop.

"The big question is: How will this stimulate or inhibit investment in ethanol in Colombia and Brazil?" Mendelson Forman said. "We could see a reduction, which is also happening in the United States."

Flat prices predicted

How long will the low oil prices last? The U.S. Energy Information Administration has forecast that world prices will be relatively flat in 2009. The global economy's condition, it said, is expected to remain the most important factor driving world oil prices.

The Latin American energy producers have some wiggle room. Because oil prices rose to record heights this year and some countries based their spending on conservative revenue estimates, they may not face a severe shortfall for several months, some analysts said.

"This will allow them to resist for some time, and then it becomes a matter of how long the world economic crisis lasts," Almeida said. "If it lasts more than one or two years, then we will start seeing a serious impact."

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STILL GROWING: Jack Jones, left, and his brother Joe own the Whole Earth Provisions stores. They opened the Galleria-area store recently to go with their Montrose location.

EXPAND: Some retailers find opportunities in slowdowns

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everyone else is selling," he noted, and that's often true. Of course, to expand when credit is so tight, you'd better be in a strong financial position, Skoda said.

Recent opening

Golf Galaxy, a large pro shop in an off-course setting, opened a store in Sugar Land less than two weeks ago, its fifth Houston-area location.

The Sugar Land store "rounds out our market strategy" for Houston, said Ron Hornbaker, Golf Galaxy's senior vice president of sales and operations.

When the company signed the lease about a year ago, "we did not see the current retail environment," Hornbaker acknowledged.

"It's hard to say" if the company would have gone forward if it had realized how the economy would weaken, but seeing how good business is in the new store so

far, "yes, I would have still opened it."

Minneapolis-based Golf Galaxy is a subsidiary of publicly owned Dick's Sporting Goods.

The sporting goods business is not as hurt by the downturn as other retail sectors, Sun & Ski's Goldware said. His specialty sporting goods concept is focused on snow and water sports, cycling, skating, camping and running merchandise. Sun & Ski has 21 stores, five in Houston.

Not that he hasn't felt the effects of the weakening economy. While the last several years have generally been "excellent" for Sun & Ski, the current fiscal year is not. Same-store sales are down 5 percent, he said.

Goldware is still optimistic, though: "We feel that by the end of 2009, we will begin to come out of it."

Because his business has performed well over the

years, he has cultivated solid lending relationships with his bank and increased his line of credit six months ago, he said.

Choice location

Still, a choice location can tempt a retailer even in a rough economy.

The new Galleria-area Whole Earth Provision store is less than five miles from its other Houston store in Montrose, but the two locations serve different purposes, said Jack Jones, co-owner and brother of Joe Jones.

The Post Oak Boulevard store is right off the West Loop, making it accessible for people from outlying areas. And being near the Galleria, it can draw international shoppers, he said.

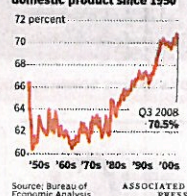
Dallas-based Pacigo, an Italian gelato and coffee shop, just opened its fifth Houston location in Sugar Land.

Pacigo's Houston-area

CONSUMER-DRIVEN

Personal expenditures account for more than 70 percent of the total U.S. economy.

Quarterly consumer spending as a percentage of gross domestic product since 1950



Source: Bureau of Economic Analysis ASSOCIATED PRESS

developer, Robert Le, said the economy has made him more cautious, but he's still looking for new spots.

"The key for us is finding a great location where people have disposable incomes," Le said.

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STEFFY: Small businesses feel effects of credit program's cancellation

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10 percent of it.

Lieber wasn't alone.

American Express discontinued its entire small-business credit program nationwide, according to the letter he received.

The letter was dated Nov. 13. Just three days earlier,

the Federal Reserve granted the company a bank charter. A day after that, reports surfaced that American Express had applied for \$3.8 billion in federal bailout funds.

"It goes totally against the spirit of the government bailout — to keep lending to the small businesses," Lieber said.

Fortunately for Werther and its 13 employees, Lieber had other financing options



CUT OFF: Kurt Lieber, owner of Werther International, lost his line of credit with American Express when the company discontinued its small business credit program nationwide.

ways," he said.

Sclafani stressed that American Express was making the decision as part of a broader restructuring to focus on its card business, but the timing of the decision points to the overriding problem with the TARP program.

You can make capital available to banks, but without stricter oversight, you can't make them lend.

Lacking oversight

Meanwhile, having blown through the first \$250 billion of the bailout program, Treasury Secretary Henry Paulson is considering asking for another round, this time \$350 billion, the Wall Street Journal reported Tuesday.

MICHAEL PAULSEN | CHRONICLE

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CALDERON