



Risky business: Lula's Middle Eastern diplomacy lacks credibility

President **Mahmoud Ahmadinejad's** visit to Brazil on 23-24 November, aimed essentially at enlisting its support for Iran's confrontation with the United States, the European Union - and indeed the UN Security Council - on the country's nuclear programme.

This is an extremely sensitive issue for Brazil, given its refusal to sign the Additional Protocol to the NPT. The government certainly does not want to be identified with the Iranian regime on matters nuclear.

The Iranian president came to Brazil accompanied by a staff of 130 and 150 business executives, who participated in a seminar on trade and investment. While in South America,

the Iranian president also visited Bolivia and Venezuela.

Lula believed, wrongly as it turned out, that he could persuade the Iranian leader to accept the Western proposal to have Iran's uranium enriched in Russia. Lula stressed Iran's right to use nuclear energy for peaceful purposes.

But things are not as simple and straightforward as Lula believes. President **Barack Obama's** letter to Lula, sent on 22 November, conveyed the notion that the United States valued the Brazilian initiative in inviting the Iranian leader as an attempt at dialogue, and suggested that Lula should raise with him such issues as human rights and co-operation with the IAEA.

Lula complied, timidly, but received from Ahmadinejad not an atom of a positive response.

Contradicting the rumours about **Petrobras'** leaving Iran, Foreign Minister **Celso Amorim** said on 2 December that the state company will intensify its operations in the country. He added that in March 2010, a delegation of Brazilian entrepreneurs will visit Iran and try to develop business there. A visit by Lula in 2010 is also likely.

There is a consensus among the informed élite of Brazil and in foreign capitals that Lula is being incredibly naive in trusting Ahmadinejad, and that he allowed himself to be used by Iran to break off its diplomatic isolation.

The **Economist Intelligence Unit** on 24 November called Brazil's rapprochement with Iran 'risky diplomacy,' and questioned Lula's motivations in supporting Iran's 'quest for peaceful nuclear energy,' when it is common knowledge that its nuclear programme is not peaceful at all. Scepticism at Brazil's new ties to Iran was voiced by most Western media and some governments, including the United States.

The consensus seems to be that thanks to the deals struck with Ahmadinejad, Brazil has lost in one fell swoop much of the international credibility that Lula had been painstakingly building up for the past seven years. Evidence of this was his public disagreement over the Iran sanctions issue with German Chancellor >>>

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Menas Associates

Brazil Focus is published monthly
Sold by subscription only
Produced by Menas Associates staff

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ISSN 1477-2450
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Angela Merkel, at a press conference in Berlin on 3 December.

Brazil-Israel

The visit to Brazil by Israeli President **Shimon Peres** on 10-15 November, the first time in 43 years that a head of state from his country set foot in Brazil, was a muted affair. As could be expected, Peres abstained from criticising Brazil for the impending visit **by Ahmadinejad**.

At the end of September, addressing the UN General Assembly, Lula had defended Iran's right to have its own nuclear energy programme, and went on to call Iran Brazil's 'great partner.' Illustrating Lula's wish to act as a sort of arbiter on the Middle East, he also invited Palestinian leader **Mahmoud Abbas** to visit Brazil.

Peres' visit resulted in the signature of a co-operation agreement in defence (anti-terrorism), and an expression of interest in collaboration with **Petrobras** on ultra-deepwater drilling technology.

Mediating the Palestinian question?

The president of the Palestinian Authority, **Mahmoud Abbas**, came to Brazil on 20-23 November, immediately before Ahmadinejad, and met Lula on 21 November in Salvador, Bahia. The highlight was a request from Abbas that Lula help to mediate in the Palestinian dilemma.

It is doubtful that Israel would accept such mediation, if only because on the same evening Lula publicly called Israel 'a tyranny' and made other highly disparaging remarks about the Israeli government.

POLITICS & SOCIETY

New electoral poll

CNT/Sensus released a new poll on 23 November. It shows four different scenarios, in all of which **Dilma Rousseff** is a constant, and a high percentage of undecided (11.1 to 19.9 per cent). Table 1 shows the results.

While any such poll, conducted nearly one year before the election, should be taken with a grain of salt, it reveals that in the all-important second ballot **José Serra** would beat Rousseff, Rousseff would win over **Aécio Neves**, and Serra would prevail over **Ciro Gomes**.

Lula has managed to transfer in part his popularity to Rousseff, who rose in the ratings from 2-3 per cent to the 20-plus level but finds it difficult to go further. Clearly, in the fickle world of Brazilian politics, things can change overnight. The same poll disclosed that only 25 per cent of voters are committed to their candidates.

On 7 December, a new poll released by IBOPE showed that **Ciro Gomes** had lost 4 percentage points, and **José Serra**, with 38 percentage points, is now 21 points ahead of Rousseff. She is known to only one-third of the electorate.

The government as such rose 6 percentage points and is now evaluated at 66 points, the same as one year ago. Lula is rated at 72 points, but he is unable to transfer his positive ratings to Rousseff.

New candidates?

Education Minister **Fernando Haddad** (PT-SP), against the wishes of his own party, is trying to position himself as a candidate for the São Paulo state governorship, to be vacated by **José Serra** if he becomes PSDB's presidential candidate.

It will be recalled that Lula had wanted the job for **Ciro Gomes** (PSB-SP) - who didn't want it and would have but slim chances of winning.

PT itself had wished to put forward **Antonio Palocci's** candidacy, but an internal poll convinced the party that his rejection index would make his candidacy non-viable. And yet Palocci is working within PT to have his candidacy accepted.

Haddad, one of the relatively better ministers in Lula's cabinet, might be a possibility, but it does not look as if he would have much popular support, especially if running against former PSDB governor **Geraldo Alckmin**. In the end, the decision on who will run for PT in São Paulo will be Lula's and Lula's alone.

PT has six possible candidates to succeed **José Serra** as govern of São Paulo. The latest in line is Senator **Eduardo Suplicy**, a very popular figure in the state even if he is a maverick in Brasília. Suplicy advocates party primaries to select a PT candidate

For its part, a faction of PMDB, displeased with the party's national leadership's decision on to endorse **Dilma Rousseff** and not run >>>

Table 1: Second-ballot scenarios for Dilma Rousseff

	JOSÉ SERRA	DILMA ROUSSEFF	CIRO GOMES	AÉCIO NEVES	MARINA SILVA
With Serra and Gomes	31.8	21.7	17.5	–	5.9
With Neves and Gomes	–	21.3	25.0	14.7	7.3
With Serra, without Gomes	40.5	23.5	–	–	8.1
With Neves, without Gomes		27.9	–	20.7	10.4

a candidate of its own, put forward **Roberto Requião**, the truculent governor of Paraná. While it has little chance of succeeding, it will further split PMDB, thereby tacitly strengthening the opposition.

Foreign acquisitions

Foreign corporations are buying up land in large quantities in Brazil, mainly for agricultural purposes. The areas of preference have been Amazonia, Mato Grosso and Mato Grosso do Sul, and the west and south of Bahia.

These land purchases are arousing xenophobic feelings. The constitution establishes equality of rights in this respect between foreign companies and those, headquartered in Brazil, that have the majority of their equity in foreign hands. Except for a strip of land 150 km wide and adjacent to Brazil's borders, which is regarded as a priority in the interests national defence, foreigners are free to acquire up to 25 per cent of the territory of any of Brazil's municipalities. Of these there are more than 5,500.

The Solicitor-General wishes to revise these rules and make them more stringent, 'in the name of national sovereignty.' But the devastation of Amazonia by Brazilian citizens goes largely unpunished.

Politics & society in brief

Indigenous votes

There are about 220 ethnic groups in the country, speaking 180 different languages. The novelty is that they are becoming a political force: in 2008, there were five mayors of indigenous stock, and some 90 were elected town councillors (*vereadores*). They now wish to elect five federal deputies in 2010, most running for the Green Party (PV).

Brazil has approximately 700,000 Indians, of whom some 150,000 are registered voters. The first Indian member of Congress was chieftain **Mário Juruna**, who served in the Chamber of Deputies in 1983-87 under the aegis of PDT.

Indians also intend to elect state deputies in no fewer than 19 of Brazil's 27 states.

Stymied cabinet

Of 35 members of Lula's cabinet, 17, including Rousseff, intend to leave their ministerial portfolios next March or April to campaign for elective posts. Lula wishes to keep them as long as possible, but when leave due to the electoral legislation, the president intends to appoint their deputies, the executive secretaries of the various ministries, to replace them.

This means that in practice, during the last eight or nine months of his presidency, Lula will have a cabinet more or less incapable of political initiative. Hence the current fever of new programmes launched, new interventionist policies, countless public appearances of Lula, all over the country.

Provoking Serra

Lula misses no occasion to provoke **José Serra** into a debate, which the São Paulo governor - given the president's immense popularity - is bound to lose. Serra, who is calmly biding his time and is expected to announce his candidacy by January 2010, refuses to be dragged into such a confrontation, and accuses Lula of having anticipated the electoral campaign by a full year.

Calling in the Army?

Worried about rising and rampant public insecurity in Brazil's main metropolitan areas, and notably in Rio, so close to the World Cup of 2014 and the 2016 Olympics, the government is preparing legislation that would give police powers to the Armed Forces. The Forces, however, are singularly reluctant to exercise that role, not allowed by the constitution. >>>



CESARE BATTISTI

The Battisti case

The Supreme Federal Court (STF) reached a sensible decision on 11 November in the extradition case of **Cesare Battisti**. Battisti is a terrorist wanted in Italy for a variety of crimes including four murders, but he is a darling of Brazil's Left.

The Supreme Court on 18 November decided, 5 x 4, to approve Battisti's extradition. By another 5 x 4 vote (not by the same justices) the Court ruled to leave in the hands of President Lula the decision whether or not to actually extradite the leftist terrorist to Italy, whose government has been demanding it.

The expectation is that, contrary to international treaties, Lula will delay the decision as much as possible. He fears a constitutional crisis.

At the Pan American Games of 2007, the government did deploy the Army in the streets of Rio, which resulted in a temporary decrease in criminality. Now, Lula now wants the Army to climb the hills and end drug traffic in the *favelas*, a job for which the military are unsuited.

They would already make a great contribution if they could control arms smuggling at the borders, since the Federal Police are clearly not accomplishing that function.

Déjà vu all over again

A major scandal erupted in Brasília on 28 November, when explicit scenes of corruption were filmed involving the governor, the administration, and legislators of the Federal District, in a repeat performance of the *mensalão* cash-for-votes scheme.

This time the perpetrators were not PT members but the opposition, in the form of the very moralising Democrats (DEM) party. The party's only governor, **José Roberto Arruda**, is utterly compromised, and demands for his resignation have been pouring in from all sides, as well as lawsuits requesting his impeachment.

While it is difficult to predict the outcome of this crisis, there is no doubt that it strengthens PT and weakens the opposition. (DEM is allied with PSDB.) In the same week, the Supreme Court indicted Senator **Eduardo Azeredo** (PSDB-MG), former governor of Minas Gerais, for financial misdeeds committed in the state. It was not a happy week for opposition to Lula.

Blocking bank accounts

An investigation by the Minister of Justice

divulged on 5 December that foreign banks have blocked accounts worth US\$3 billion belonging to Brazilian citizens suspected of corruption, money laundering, and so forth. So far, the investigations have encompassed only the United States, the Cayman Islands, and Switzerland, but it is suspected that considerably larger amounts are stashed away elsewhere.

Powerful Lula

Prestigious American *Forbes* magazine ranked Lula 33rd (out of 67) on a list of the world's most powerful people, headed by Presidents **Barack Obama** and **Hu Jintao** and Russian prime minister **Vladimir Putin**.

Unrestricted largesse?

As reported in *Brazil Focus* (October, 2009), the Lula government is doing its darnedest to coerce, restrain, and disqualify the Federal Court of Accounts (TCU) for having challenged it by paralysing the execution of several federal projects included in the Programme to Accelerate Growth (PAC) on account of irregularities and financial misdeeds, revealed in TCU audits.

The government's strategy is to explicitly undermine the court's jurisdictional authority by transferring it to Congress, where, experience shows, the government nearly always prevails. Moreover, Lula wishes to tamper with the Public Tenders Law (Law 8,666/93), which restricts the freedom of action of the executive branch to award public contracts.

In other words, Lula is 'demonising' effective guarantees of ethical behaviour and legal control by the federal government. With the huge contracts to be awarded for pre-salt

exploration, the World Soccer Cup of 2014, and the 2016 Olympics in Rio, and with 2010 being an electoral year, it is easy to see why the president wishes to be unencumbered in his authority to dispense federal contracts.

Keeping the judiciary impartial

The recent appointment by Lula of **Mr. Justice Toffoli** to the Supreme Federal Court (STF), an obviously partisan choice, raised hackles with Brazil's legal and judicial community. As a result, new and stringent criteria are being proposed for the appointment of Supreme Court judges, and Deputy **Vieira da Cunha** (PDT-RS) is collecting signatures to introduce a constitutional amendment to that effect, with the backing of the Association of Brazilian Magistrates.

Controlling the media

Lula has convened a National Communications Conference, to be held in Brasília on 14-17 December, to formulate recommendations to the government. From the papers and documents that have been circulating, containing proposals from trade union groups and such, one detects antagonism towards the 'great media,' and renewed attempts to control them.

The brains behind the scheme are those of **Franklin Martins**, an experienced journalist and former guerrilla fighter who, as minister for social communications, wields an inordinate degree of influence over the president and the government.

Dirceu bounces back

The Workers' Party held internal elections to select the president and steering committee of

PT for the all-important electoral year of 2010. The ballot brought **José Dirceu** and his group back to power, with the active backing of Lula and **Dilma Rousseff**. (Dirceu did not, however, gain the presidency of the party, which went to **José Eduardo Dutra**, former senator and president of **Petrobras**.)

The former éminence grise of the president, Dirceu was ousted from the Chamber of Deputies and is still awaiting trial before the Supreme Federal Court for his ignominious role in the *mensalão* affair (cash-for-votes). Dirceu's official rehabilitation within the party is ominous.

Lula has used him this past year as personal emissary to align the PT and PMDB in various reluctant states, but his restoration to a role of influence within the party (he is also coordinating Rousseff's campaign) attests to the ethical debacle of Lula's administration.

Stakeholder Analysis by Menas Associates >>>



A surfeit of natural gas

Even before pre-salt reservoirs begin to be commercially exploited, Brazil will have a surfeit of natural gas, as early as 2010.

By September 2009, the country had accumulated a surplus averaging 38 million m³/d. This surplus will rise by another 10 million m³/d in mid-2010, with the entry into operation of the Mexilhão field in the Santos basin. Once pre-salt fields come on stream, the surplus may rise to 80 million m³/d.

The head of the gas and electric power division of **Shell Brazil**, **Antonio Menezes**, ascribes the glut of natural gas to the current model of the electric power sector, which discourages investments in gas and energy. Thermo-electric plants are activated only on an emergency basis, in periods of drought, and almost all electric power is still derived from hydropower.

Menezes observes that after 2020, when pre-salt will be exploited at full tilt, Brazil's gas reserves will amount to at least 1.8 trillion m³, which could be exported.

Current demand for gas in Brazil averages 40 million m³/d, more than half of which is imported from Bolivia under a GSA that will remain in force over the next ten years. What then, will Brazil's posture be in regard to Bolivia, even admitting that, for political rather than economic reasons, natural gas will continue to be imported beyond the expiration of the contract in 2019?

Nobody seems to know in either country.

The regulatory framework for the natural gas sector may suffer changes as a consequence of the greatly increased inflows of gas likely to accrue from the exploration of pre-salt. This is the conclusion of a study produced by the Study Group for the Electric Power Sector (GESEL) of the Federal University of Rio de Janeiro (UFRJ). This will entail a significant change in the operation of thermo-electric plants.

IOCs losing interest

When the government made its proposal for a highly nationalistic normative framework for pre-salt, it was feared that IOCs would lose interest in Brazil and leave the country altogether, inasmuch as they were going to be excluded, for all practical purposes, from the choicest prospects for E&P in the pre-salt reservoirs. It is already happening.

Devon Energy has put its Brazilian assets up for sale, **ENI** is at least curtailing its activities, and there are rumours that **El Paso** and **Amerada Hess** are looking for buyers for their blocks. There is no official confirmation from the companies, but the signs of readiness for departure are evident.

This is unlikely to change anything in the government's posture. The proposed legislation on pre-salt is being approved by the Chamber of Deputies almost unchanged, although it may face hurdles in the Senate. And this legislation is not encouraging for the IOCs.

In an interview on 3 December, **Petrobras** president **José Sérgio Gabrielli** denied that the new regulatory framework for pre-salt is inducing IOCs to leave Brazil. He called the movement 'an adjustment of the companies' international portfolios.' Maybe.

Technical challenges for pre-salt

Petrobras is testing new technologies for pre-salt operations, which present daunting technical challenges. These refer not only to the geology of carbonate rock formations encountered in E&P, and to the need for chemical fluids to prevent freezing of oil and gas (due to very low temperatures found in ultra-deep waters), but also to the development of special steels to be used in pipes at these depths, and indeed to new models of drilling platforms.

Petrobras is availing itself of the two long-duration tests being carried out in two pre-salt deposits - the Tupi field in the Santos basin, and Jubarte, in the southern portion of the Espírito Santo basin - to seek technological solutions and innovations for these problems.

The person in charge is **Solange Guedes**, executive manager for production engineering in **Petrobras'** E&P area. In an interview published in *Valor* on 14 October, she said that the company's original expectations have been confirmed. Tests are being conducted at **CENPES**, the company's research centre in Rio de Janeiro. The industry is creating a network for Innovation and Competitiveness for Naval and Offshore Industries.

Petroleum news

Encouraging the 'Dutch disease'

A prestigious economist from the **Getúlio Vargas Foundation (FGV)**, **Samuel Pessoa**, on 22 November criticised the government's ambition to make Brazil self-sufficient in the production of equipment for pre-salt E&P. He sees in this drive, paradoxically, a path towards dis-industrialisation: since Brazil lacks sufficient capital to finance the production of such equipment, it will have to import the capital, which will enhance the pressure for appreciation of the *real*.

Pessoa argues that, given the Brazilian propensity for consumption but not for savings, there is a clear danger the 'Dutch disease' will affect Brazil. He goes on to comment on the poor quality of higher education in the country, which is a mortgage on the country's future.

Pres-salt proposals

At the World Gas Conference, held in Buenos Aires on 6-8 October, **George Kirkland**, VP for E&P at **ChevronTexaco** and about to be named vice-chairman, commented on the Brazilian government's regulatory proposals for the pre-salt. The proposals are under review by Congress.

According to Kirkland, they do not leave much margin for IOCs to participate in discoveries in Brazilian waters. Indeed, he said, opportunities are confined to the concessions already held by IOCs.

Chevron obtained its first success by extracting oil from the Frade field, in the Campos basin, >>>

and within two years should be able to increase output to 90,000 b/d. The company also participates as a non-operator in four other fields in the Campos basin (Atlanta, Oliva, Maromba, and Papa-Terra), which it views as long-term prospects.

OGX discoveries

OGX announced on 12 November its third oil discovery of this year, in block BM-C-41, in shallow waters in the south of the Campos basin, 77 km from the coast of Rio, at a depth of 130 m. The well, christened OGX-2, is being drilled further. On 30 November, OGX announced another discovery of oil in the same block, at a depth of about 3,000 m, which may be a new petroleum province.

OGX further announced on 3 December the fourth find of oil from the same well. Since the first discovery on 12 November, the company's stock rose 16 per cent. The reservoirs found in the Pipeline area of the Campos basin are located at different geological levels, from shallow waters to ultra-deep pre-salt. The new discoveries have not yet been quantified.

Sonangol ventures

Sonangol, the Angolan state oil company, is making inroads into Brazil: on 22 November it announced the acquisition of small Brazilian oil enterprise **Starfish Oil & Gas**, for a reported US\$180 million. The Angolan company had previously bought 18 per cent of the Brazilian company **Starfish**.

Sonangol also has a 15 per cent stake in Portuguese company **GALP Energia**, which is participating, with **BG** and **Petrobras**, in >>>

Petrobras news

Domestic Floating LNG terminal

Petrobras and **BG** will join forces to build the first floating LNG terminal, to facilitate the outflow of the gas produced at the pre-salt level underneath the Santos basin, 300 km offshore. The terminal will begin operations in 2015, with a liquefying capacity of 14 mcm/d.

The product, to be known in Brazil as GNLE (embarked liquefied natural gas), is an alternative to gas pipelines, which are not economically viable at that distance from the coast.

Pre-empting the private sector

In light of rumours that two large Brazilian petrochemical companies (**Braskem**, of the **Odebrecht** group, and **Quattor**, of the **Ultra** group) plan to merge, the pre-eminent role of Petrobras in the petrochemical sector came to the fore. Petrobras owns 31 per cent of the capital of Braskem and 40 per cent of that of Quattor, as well as majority participation in other enterprises of the sector. Those remaining under private control see in these moves every indication that the state intends to pre-empt their participation in the petrochemical industry.

Third fertiliser plant

Petrobras plans to announce in December details about the construction of a third fertiliser plant, with a production capacity of 1 million tonnes per annum, practically double the company's present output. Production had been constrained during the last few years by

a scarcity of natural gas but now that there is a surplus, excess capacity will be directed to the fertiliser plant. Its location is being studied; the two existing plants operate in Bahia and Sergipe.

Bond issue

Petrobras announced on 31 October that it had issued on international capital markets bonds worth US\$4 billion, due between 10 and 30 years and guaranteed by the company itself. This was the largest issue of debt papers ever undertaken by a Brazilian company.

A comparison of riches

As Petrobras attained a market value of R\$208 billion on 15 October, it became the world's fifth largest company. Its preferred stock has appreciated 60 per cent so far in 2009. Among IOCs, Petrobras is surpassed only by **ExxonMobil** and **PetroChina**. According to consultancy **Economática**, Petrobras is the second most profitable enterprise in the Americas, second only to ExxonMobil. **Vale** is 22nd on the list.

Third quarter results

Petrobras' net profit for the third quarter dropped 25 per cent compared with the same period in 2008, to R\$7.303 billion. The company ascribes the loss to a R\$2.048 billion payment to **ANP** as additional special fees for the Marlim field, in the Campos basin. The company's results for the third quarter were still better than those of the major IOCs during the period.

Marimbá deposit

Petrobras announced on 16 November the

discovery of a sizeable deposit of high-grade (29° API) light oil at the Marimbá field in shallow waters of Campos basin. The recoverable volume of oil is 25 million barrels, which expands the block's reserves by 27 per cent.

The Marimbá field, 110 km off the coast of the state of Rio de Janeiro, has been producing since 1988, and at that time attained the record depth of 492 m for a Petrobras drilling effort.

The company is now intensifying E&P in areas contiguous to blocks in operation, in order to use the existing infrastructure. This will cut costs while expanding output.

Gabrielli speaks

Petrobras president **José Sérgio Gabrielli** said on 16 November, at an international conference on geophysics held in Rio, that the company intended to surpass its US\$60 billion of projected investments in 2009, and that the target for this year was to extract 2.05 million b/d. Analysts think this will be difficult.

Referring to pre-salt, Gabrielli said that 35 areas are under development. He also noted, on 4 December, that the company will most likely invest more than the US\$174.4 billion budgeted for 2009-10.

Another pre-salt find

Petrobras confirmed on 12 November that it had gone beyond an oil and gas reservoir at a depth of 4,900 m, in a fourth well drilled in the Tupi project, thus far the largest pre-salt find in the Santos basin. Reserves are >>>

estimated to contain between 5 and 8 billion barrels. The oil found is light (28° API). In the reservoirs of Tupi, Iara, and Guar, Petrobras has so far found 9.1 and 14 billion barrels of oil and gas.

Domestic oil production up

Average domestic oil production by Petrobras in October was up 6.8 per cent, to slightly over 2 million b/d, compared with the same month in 2008. Total domestic and foreign oil and gas production is 5.6 per cent higher than in the previous year.

Near Iara field

Before the end of this year, Petrobras plans to develop possible reservoirs adjacent to the Iara field, in the pre-salt layer underneath the Santos basin. This E&P effort is specifically aimed at finding the 5 billion barrels of oil the company is supposed to receive from the federal Union for the capitalisation of Petrobras, under the new regulatory framework for pre-salt.

Petrobras operates the Iara field, in which it has

a 65 per cent stake, with **BG** (25 per cent) and **GALP** (10 per cent). The reservoir is estimated to contain between 2 and 4 billion barrels.

Limiting equipment imports

Petrobras has created a technological barrier that will limit the entry into Brazil of machinery and equipment such as valves from India or China (where they can cost one-third what the Brazilian equivalent product does). The company says the measure was prompted by concern 'to guarantee the quality of equipment.' It is obviously designed to promote local content and protect Brazilian industry, even if the cost will be much higher.

This may bring about difficulties within the context of the WTO, which has already reported (negatively) about control of the offshore platform sector by Petrobras.

International

Pernambuco refinery

The Pernambuco refinery, a joint venture of

Petrobras and **PDVSA**, is disaster prone. Petrobras advised on 2 December that the project will be again delayed, to come on stream only in April 2012. The budget has been renegotiated to around R\$30 billion (about US\$17.14 billion), and PDVSA's initial payment of US\$400 million is still pending.

The Venezuelan company has advised it may resort to **BNDES** to finance its share of the project (about US\$10.5 billion).

Find in northern Peru

Petrobras has made a major gas find in northern Peru, equivalent to one-third of the Andean country's total current gas output. This could satisfy Peru's gas needs through to 2050. The drilling of a first well in block 58, in the Cuzco province, may yield up to 140 bcm.

Petrobras has not discarded bidding for 17 other blocks that the government may put up for tender between now and early 2010.

The company's Peruvian reserves account

today for 17.7 per cent of its international reserves. It is the second largest oil and gas producer in Peru.

Two Angolan finds

Within the same week, Petrobras made two oil discoveries in deep waters offshore Angola, in partnership with **Sonangol**.

On 11 November, the company announced an oil discovery at block 15/06. It has a 5 per cent share in the block.

On 17 November, a new find of high-quality oil was disclosed in well Mangans-01, drilled in block 18/06, 200 km distant from Luanda, at a depth of 1,500 m. Petrobras is the operator with 30 per cent, **Sonangol Sinopec** (SSI) has 40 per cent, **Sonangol P&P** (20 per cent), **Geminas** 5 per cent, and **Falcon Oil** (5 per cent).

Petrobras intends to invest US\$3 billion in the Angolan market between now and 2012, up from the current US\$2 billion.

Brazil's first pre-salt reservoir in the Santos basin, Tupi, believed to contain between 5 and 8 billion barrels of high-quality oil.

ONGC investment

Since 2006, Indian state oil company **ONGC** has had a 15 per cent stake (US\$383 million) in

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BC-10 offshore block in Brazil, majority-owned by **Shell**. It will now invest an additional US\$70 million in the block.

Anadarko find

Anadarko announced that it had found oil in the Walvo2 well in block BM-C-30 in the Campos basin. It is the operator of the project, in which it has a 30 per cent stake, while **Devon Energy** has 25 per cent, **IBV Brasil** another 25 per cent, and South Korea's **SK Energy** 20 per cent. The oil reserves found have not yet been quantified.

Black-out sparks a crisis

A massive power failure that plunged 18 states into darkness on 10 November and caused havoc among 60 million residents for many hours has become a political football. The Lula government is giving an assortment of conflicting explanations and disclaiming any responsibility, but technicians point the finger at the vulnerability of the electricity transmission system.

Since **Dilma Rousseff** was responsible for

planning the system when she was minister of mines and energy, much of the blame is rightly or wrongly, ascribed to her. Rousseff obviously declines any such responsibility.

The opposition - which for many years suffered jibes and charges of poor planning resulting in a national black-out in 2001 under Cardoso's presidency - is joyfully making hay of this new incident, and demanding impartial investigations. >>>

Upcoming events

TITLE	DATE	PLACE	SPONSOR	CONTACT
The future of private equity & venture capital in Latin America	14 December 2009	New York	Americas Society	amejia@as-coa.org
Global Economic Outlook: What are the implications for Latin America?	17 December 2009	New York	ASCOA	www.as-coa.org
2nd Annual Carbon Trading Summit '10	12-13 January 2010	New York	Global Forum	events@globalforum.com
10th Conference on the Marketing of Electric Power	27-28 January 2009	São Paulo	IBC Brasil	informagroup.com.br/energia renata.lara@informagroup.com.br
PA-Offshore Wind Power conference	2-3 February 2010	Philadelphia	Green Power Conferences	www.greenpowerconferences.com
IX Energy Forum: The law of electric power, 2010	24-25 February 2009	São Paulo	IBC Brasil	energia@ibcbrazil.com.br
Sugar & Ethanol Brazil 2009	22-24 March 2009	São Paulo	F.O. Licht's	eventos@ibcbrazil.com.br

Should they succeed, they would probably reveal that the electric power sector in Lula's administration is the dominion of PMDB, and specifically of **José Sarney**, who has staffed the sector with political vassals from the minister down to technical positions in most federally owned power companies. These minions are less versed in the technical aspects of electricity than in the lucrative art of milking these very same companies.

It is clear that the national power grid is egregiously vulnerable to accidents, either natural or by human agency, and that this is principally due to lack of investment in the system.

The government ascribes this particular incident to foul weather that caused the shut-down of every turbine at Itaipu (14,000 MW), but it is suspected that there is more to it than meets the eye. Indeed, federal investments in infrastructure are pitiful: over the past five years,

the government has failed to invest over R\$80 million that had been budgeted for the purpose.

This year, by the end of August, **Eletrobras** had invested only 38 per cent of its budget for infrastructure. The Ministry of Mines & Energy lost R\$6 billion of its resources earmarked for investment this year. The cost of transmission has risen 500 per cent over the last 10 years. R\$10.5 billion was invested (at current values, US\$6.17 billion) to expand the grid by 26,000 km, according to **ANEEL**.

Electric power in brief

Rebalancing supply and demand

The global financial crisis, resulting in a strong economic deceleration in Brazil in early 2009, had one positive effect: it reconciled supply of and demand for electric power. According to the

Operator of the National Electric System (ONS), the average demand in 2008 and 2009 has remained virtually stationary, at 51,897 MW, while supply has grown by 3,174 MW.

While there are huge hydropower projects planned or under construction (the Madeira River complex, and Belo Monte), until 2013 generation will grow increasingly in the form of thermo-electric power plants. By that year, the average offer of electric power will be 68,712 MW, with demand averaging 64,664 MW, leaving a positive margin of 4,048 MW.

However, there is lingering uncertainty about 19 new thermo-electric plants due to come on stream between 2010 and 2011. Most of those in the northeast are oil fired. Over 60 per cent of Brazil's hydro-electric potential is located in the Amazon region, which raises environmental licensing problems and resistance from local indigenous populations.

Quick stats

Thermo-electric plants account for 23.6 per cent of Brazil's current electricity generation (which stands at 105,900 MW). And diesel-powered plants produce about 3,900 MW. Hydro-electric plants account for 71 per cent, and 93 other plants, amounting to 11,500 MW generating capacity, are under construction. About 58.8 per cent of the electric power to be generated by these plants (3,900 MW) will come from fossil fuel-fired thermo-electric plants.

Belo Monte tender postponed

The tender for construction of the giant Belo Monte hydropower plant (11,000 MW), in the state of Pará, has been twice postponed, lately to January 2010, due to the difficulties of procuring an environmental licence from **IBAMA**.

Paraguayan power

President Lula submitted to Congress on 20 November a bill approving a three-fold >>>

increase, from US\$120 to 360 million per year, in payments for the electric power that Brazil purchases from Paraguay. This is generated by the Itaipu binational plant.

The weight of the state

In yet another demonstration of the growing weight of Brazilian state enterprises in the economy, at the auction of transmission lines conducted on 27 November by **ANEEL, Eletrobras** and its affiliates won six out of eight lots. Private enterprises had but a token participation in the tender.

Nuclear self-sufficiency

A parliamentary front for the defence of Brazil's nuclear programme was created in Brasília on 24 November, to secure budgetary allocations initially worth R\$125 million (about US\$73 million). The idea is that if the nuclear programme were sufficiently funded, Brazil could be self-sufficient in the entire uranium and nuclear enrichment production chain.

In addition to the Angra 3 thermo-nuclear plant, the government envisages building two others: one in the northeast, to come on stream in 2013, and another in the southeast, which could generate electric power as of 2023.

Environmental news

How green is green?

The Brazilian government was polarised in the formulation of its proposals for COP-15, between 'environmentalists' and 'developmentalists.' The former are represented

by Environment Minister **Carlos Minc**, the latter by **Dilma Rousseff**, with Lula acting as arbiter.

The issue came to the fore on 13 October when Minc, assuming a Brazilian GDP growth rate of 4 per cent, proposed an 80 per cent reduction in deforestation and the freezing of carbon dioxide emissions at the levels of 2005. Rousseff wanted recalculation on the assumption of a growth rate of 5 to 6 per cent, with deforestation limits as proposed but reduction of GHG emissions at lower levels. Science & Technology Minister **Sérgio Rezende** wants counterpart reductions from industrialised nations.

While this debate rages on in Brasília, the Legislative Assembly of the state of São Paulo (the most industrialised region of Brazil) on 13 October approved the proposal of the state government (headed by **José Serra**) that called for a 20 per cent linear reduction of GHG by the year 2020, in relation to the emissions recorded in 2005. Serra wants 'a green economy.'

Deforestation slows

At last, some good news: Brazil has registered the lowest level of deforestation in Amazonia over the last 21 years. The 7,008 km² represents a 45.7 per cent decline over the previous period (August 2008-June 2009).

Everybody in sight claimed responsibility for the positive result: Lula and **Dilma Rousseff**, Environment Minister **Carlos Minc**, his predecessor, **Marina Silva**, in whose tenure the Programme for a Sustainable Amazonia was adopted. But the fact remains that 7,000 km² of the Amazonian tropical forest were wilfully destroyed. No cause for glee.

Brazil's position on GHG emissions, to be submitted to the COP-15 Copenhagen conference, is that of a voluntary reduction of up to 38.9 per cent, by 2020, 80 per cent in the deforestation of Amazonia, and 40 per cent in the *cerrado* region that covers about one-third of Brazil. The state of São Paulo has adopted more ambitious goals.

Bio-fuels in brief

Ethanol distilleries

ETH Bioenergia, the bio-fuels arm of **Odebrecht** group, is in an advanced stage of negotiations aiming at a merger with **Brenco**, a firm in the same sector that is experiencing financial difficulties. Together, the two companies will constitute the largest company producing ethanol from sugar cane, with an annual output of 3 billion litres and generating from biomass 2,500 G€ hour of electricity per annum.

The two enterprises have a total of nine distilleries, of which four, belonging to Brenco, are being built.

BP and bio-fuel

British Petroleum will begin to produce cellulose-based bio-fuels in the United States in 2012 and cellulosic ethanol the following year in Brazil. The bio-fuels division of BP was created in 2006, and over US\$1.5 billion have been spent on second-generation bio-fuels. Cellulosic ethanol is not yet industrially produced, and BP intends to be the first company to undertake it.

ECONOMY & BUSINESS

Leading Latin American recovery

The 12 November issue of *The Economist* published a special report on Brazil under the revealing title 'Getting it together at last,' an allusion to the old anecdote about 'Brazil being the country of the eternal future.' The article purports to show that Brazil is on a roll, and looks forward to being, after 2014, the world's fifth largest economy, outclassing the other BRICs.

Brazil's GDP grew by 9 per cent per annum during the third quarter of 2009. But economic consultancies predict that this astounding rhythm of growth will drop to 3.7 to 5.6 per cent in 2010, without inflationary pressures.

The government forecasts GDP growth of 5 per cent next year. **Luciano Coutinho**, president of **BNDES**, is confident that 5.5 per cent growth can be attained. **Credit Suisse** says 6.5 per cent. Finance Minister **Guido Mantega** predicts 6 or 6.5 per cent.

All forecasts point to a robust resumption of Brazil's growth in 2010: GDP will expand at 5 per cent, there will be more output and greater demand, and an improvement in income levels for many families. But the trade surplus will shrink by nearly half, from US\$25.20 billion (estimated for 2009) to US\$13.40 billion. And the deficit in current account will double, from US\$17.25 billion to US\$35.50 billion.

The *Economist* article does not mince words >>>

in describing the country's woes, and red lights of alert flash intermittently on the control panel of the Brazilian economy. This year, the inflow of foreign direct investment (US\$25 billion) more than compensated for the deficit, but next year the projected inflow of US\$35 billion will barely suffice to match it.

Itaú Bank, Brazil's largest, predicts external deficits of US\$100 billion, i.e., 4.5 per cent of GDP, as early as the 2007-12 period. And that is worrisome.

The 18 November *Economic Survey of Latin America*, conducted by the **Getúlio Vargas Foundation** (FGV) in association with the **Institute of Economic Research** (IFO) of Munich, gave Brazil the best rating since 1989, 7.4 points (on a scale of 1 to 10) in the Index of Economic Climate (ICE). In January of this year, the rating had dropped to 3.9.

The overall conclusion is that Brazil led Latin America's recovery (whose ICE advanced from 4 to 5.2 over the last quarter) and indeed surpassed the other BRICs (China, India, and Russia).

Another classification, OECD's *Economic Prospects*, is less euphoric about Brazil, stating that its 4.8 per cent growth in 2010 and 4.5 in 2011 will be lower than that of the other BRICs: China, 10.2; India, 7.3; Russia, 4.9 per cent. OECD also sees a slight inflationary tendency, from 4.2 per cent projected for 2009 to 4.8 per cent in 2010.

Several analysts, including Nobel Prize winner **Paul Krugman**, while praising the performance

of the Brazilian economy, have cautioned against excessive optimism. In his words, 'Current capital inflows into Brazil are creating an asset bubble.'

Taxation of foreign capital

The government's resort to a 2 per cent IOF tax on speculative capital did not deter the appreciation of the *real vis-à-vis* the US dollar. In a further effort to stem the inflow of speculative dollars (which it taxed with an IOF of 2 per cent), the government decided to tax by 1.5 per cent the issue of ADRs of Brazilian enterprises negotiated abroad as of 18 November.

The first effect of the measure, other than a slight appreciation of the US dollar, was to favour the New York Stock Exchange, which received operations originally destined for Bovespa - an untoward consequence. A corollary was to harm Brazil's credibility, given the volatility of norms governing the financial markets.

However, the issue raises other concerns. Taxation of foreign capital, or, in the case of ADRs, of capital raised overseas (and overwhelmingly in the United States) by Brazilian enterprises, may

be viewed as an attempt to discourage foreign investment in Brazil. Yet the government needs no less than US\$1 trillion of it just to finance the ambitious infrastructure and related projects in which it is engaged: the unrequited PAC works; the bullet train, TAV; the capitalisation of **Petrobras** and other pre-salt projects; those of several public banks such as **BNDES**, the **Bank of Brazil**, **CEF**; works for the 2014 World Soccer Cup and the 2016 Olympics; giant hydropower plants; and so on.

Another aspect relates to the government's explicit support for the globalisation of Brazilian enterprises (**Embraer**, **AmBev**, **Gerdau**, **Braskem**, etc.) - for which they clearly need to raise capital abroad - and, in a glaring contradiction, pressure on **Vale** to invest more in Brazil, not in foreign countries.

Economy in brief

Job creation

Lula announced on 20 November that there would be 1.3 million new formal job opportunities created in Brazil this year, and 2 million in 2010. The actual employment figures bear this out: from January through to October, 1.163 million new jobs were made available in the formal economy.

Broadband services

Lula's government is about to create yet another state enterprise to manage Internet broadband on a mass scale. The service would be provided by the private sector, using the federal network of optical fibres, operated by such state enterprises as **Petrobras**, **Eletrobras**, and their subsidiaries.

A technical group within the government worked on the project for two months and presented its recommendations to Lula on 24 November. At present, three companies provide two-thirds of broadband services for the entire country.

Industry rebounds

Brazilian industry, which was probably the principal victim of the global financial crisis as it affected Brazil, has recovered, and plans to operate full steam ahead in 2010. A production increase of 16.5 per cent across the board is predicted for the first quarter, and sales of heavy machinery are expected to rise 24 per cent in the course of the year.

For its part, the government is committed to the targets set in 2008 for its industrial policy (PDP): increase in investments (to 21 per cent of GDP), improvement of foreign trade performance, expansion of technological research and development. >>>

FORTNIGHTLY

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Ford Brazil expands

Ford Brazil announced on 20 November the expansion of its automotive plant at Camaçari, in Bahia, which will require an investment of R\$4 billion (about US\$2.35 billion). This is in addition to the 2007-12 investment programme of R\$3.4 billion (US\$2 billion).

Volkswagen splashes out

Volkswagen, which has been in Brazil for 90 years, announced on 24 November its largest ever investment in the country: R\$4 billion over the period 2011-15, in addition to an ongoing R\$3.2 billion investment programme for 2007-11. In the aggregate, the company's capital outlay would amount to approximately US\$4.23 billion.

Mexican polyethylene plant

Braskem, the petrochemical arm of **Odebrecht** group, is about to invest US\$2.5 billion to build a polyethylene plant in Mexico, to come on stream in 2015, with a view to exports to the US market. (Mexico is a member of NAFTA.)

Vale in Indonesia

Vale announced on 30 November a US\$300 million investment, with capital raised in Japan, to build the Karebbe hydro-electric plant in Indonesia. The plant come on stream in 2011 and will generate electricity for Vale's nickel refineries in that country (72.3 million tonnes in 2008). Vale intends to invest US\$3.5 billion in infrastructure, logistics, and energy projects in Brazil in 2010

Chinese trade and investment

A Chinese mission consisting of some 350 entrepreneurs from various sectors arrived in

Brazil on 27 November to research opportunities for trade and investment. Brazil has so far received only US\$238.7 million in Chinese direct capital outlays, but trade has grown. Brazilian exports to China were US\$16.4 billion in 2008 and grew 4.2 per cent in the first nine months of this year. In October, **Petrobras** received a US\$10 billion loan from the **China Development Bank** for petroleum production.

China gets share of MMX

Wisco, China's third largest steel mill, is paying US\$400 million for a 21.52 per cent share in **MMX**. MMX is the mining arm of **Eike Batista's** conglomerate **EBX**.

Finance in brief

IDB loan

On 20 November, the **Inter-American Development Bank** (IDB) approved a US\$3 billion loan for Brazilian small and medium enterprises, with matching funds from **BNDES**.

BRICs get IMF veto

At a meeting held in Washington on 23-24 November, Brazil increased by US\$4 billion its previous US\$10 billion contribution to the reserve fund of the IMF (New Arrangements to Borrow), thereby acquiring, along with the other BRICs, veto rights over the Fund's policy decisions. The BRICs will thus join the United States, Japan, and the European Union in the right to exercise a veto.

Central Bank shuffle

A director of the Central Bank in charge of

monetary policy, **Mário Torós**, gave an indiscreet interview criticising the Bank's performance at the height of the global financial crisis. He was allowed to resign on 16 November 'for personal reasons,' and was promptly replaced by **Aldo Luiz Mendes**, who in 2005-06 was a director of the **Bank of Brazil**.

Mendes is close to Finance Minister **Guido Mantega**. The latter's inroads into the management of the Central Bank, irrespective of the personal merits of Mr. Mendes, is an unwelcome development, as it tends to bring the technical decision making of the Bank in a very sensitive area under the highly politicised aegis of the Finance Ministry.

Capital markets

Foreign investment in Brazil's capital markets in October was the largest in history (US\$14.45 billion). The majority of that went to acquire equity in **Banco Santander's** IPO.

Stocks, mergers, acquisitions

Ibovespa attained 67,405.98 points on 17 November, its highest level in 17 months. Mergers and acquisitions in Brazil rose 33 per cent this year up to September, and operations so far have amounted to R\$116.7 billion, against R\$87.5 billion in 2008.



INTERNATIONAL AFFAIRS

Agricultural development aid

On 15 November on the eve of his speech at the FAO, President Lula met in Rome with representatives of 25 African countries to discuss prospects for Brazilian technical co-operation in agriculture and agribusiness.

Brazil has developed technology in a number of areas through its federal **Brazilian Enterprise for Agricultural Research** (Embrapa), which has an office in Ghana and nine ongoing projects (with partial Japanese financing) in 16 countries, plus 16 other projects under evaluation. Brazil has its own development aid agency, **Agência Brasileira de Cooperação** (ABC), part of the Ministry of External Relations. For the past 20 years, ABC has had a robust programme of technical co-operation in Latin America.

The meeting in Rome was both a political statement - Brazil is assiduously courting Africa with a view to landing a permanent seat on the UN Security Council - and the development of a business opportunity for Brazilian exporters of agricultural machinery.

Bilateral relations

Brazil-Argentina

Argentine President **Cristina Fernández de Kirchner** called on Lula in Brasília on 18 November with a loaded agenda of trade issues >>>



CRISTINA KIRCHNER

– the two governments remain poles apart on Argentina's trade restrictions to Brazilian exports – and energy.

Bilateral co-operation is sought in the construction and operation of the hydro-electric plants of Garabi and Roncador, both on the Uruguay River, yielding in the aggregate 8,000 MW. Brazil's **BNDES** would finance 70 per cent of the works, with the two governments sharing equally the remaining 30 per cent.

A number of other co-operative projects were discussed, as well as foreign policy issues such as the Honduras crisis.

Fernández's visit did not resolve anything on trade, however, as the Argentine president was firm in maintaining all of her country's restrictions against Brazilian exports of 411 products, notwithstanding the rules of **Mercosul** and the **WTO**. The Argentine restrictions against Brazilian manufactured products affect 14 per cent of Brazil's exports to the country. Brazil has retaliated by requiring licences for the importation of 35 Argentine products.

The two presidents exchanged rhetorical

generalities, but the meeting added nothing to the status quo. And Mercosul has been further weakened as a customs union.

Brazil-Czech Republic

The president of the Czech Republic, **Vaclav Klaus**, visited Brazil on 24–26 November, calling on Lula in Brasília and also visiting São Paulo and Recife. Klaus is an economist à la von Hayek, who must be the last of the liberals. It is difficult to imagine him and Lula agreeing on anything at all.

Brazil-Honduras

Brazil's (and Argentina's) refusal to recognise the Honduran presidential election of 29 November – until and unless ousted president **Manuel Zelaya** is restored to his duties – is predictably causing tensions between the Brazilian and American governments. (An ally of **Hugo Chávez**, Zelaya has since 21 September taken refuge in the Brazilian embassy.)

Before the elections, influential US Senator **Richard Lugar**, chair of the Senate Foreign Relations Committee, went on record on 18 November to exhort Brazilian authorities to reconsider and acknowledge the results of the election. They were democratic and transparent, over 60 per cent of registered voters cast their ballot, and **Porfirio Lobo** was elected president with 56 per cent of the vote. Congress voted overwhelmingly against Zelaya's return power.

However, following the election, Brazil remains adamant and finds itself in an increasingly isolated position vis-à-vis the United States, the Organization of American States, and the European Union. And yet, on 4 December, Dilma Rousseff diverged from Lula's intransigent

position and advocated recognition of the election and its outcome. This is the first time that Rousseff publicly disagreed with Lula.

Brazil-Germany

Following a brief visit to Ukraine, Lula travelled to Germany on 3–4 December in an attempt to revive the flagging German interest in the development of Brazil's infrastructure and industry. German firms had been the principal investors (after the United States) in the 1970s and '80s, but not so in the '90s, when they were absent from the great privatisations under the Cardoso government.

Even so, São Paulo is to this day the largest 'German' manufacturing city outside Germany itself. Lula met the leaders of German industry in Berlin on 3 December, and the following day in Hamburg with some 75 entrepreneurs. Germany, at least in the private sector, wishes to emulate the assiduous courtship that **Nicolas Sarkozy's** France is paying to Brazil.

Brazil-Peru

Lula is due to visit Peru on 10 December. In his talks with President **Alan García** he is expected to inaugurate an integrated border zone in the Amazon region of both countries, including conclusion of a highway (scheduled for 2010), the final link by road between the Atlantic and Pacific Ocean.

Summiteering all over

Failure in Manaus

Lula convened a summit in Manaus on 26

November for the members of the Amazonian Co-operation Treaty (TCA 1978), plus France. In fact, only two heads of state attended the Amazonian summit, besides Lula: **Nicolas Sarkozy** (because of French Guyana) and **Bharrat Jagdeo** of Guyana. Even **Hugo Chávez** of Venezuela was absent, as were the presidents of Bolivia, Colombia, Ecuador, Peru, and Suriname, all of whom sent representatives.

The Brazilian proposal was to defend the importance of the tropical forest in curbing GHG emissions – with a view to Copenhagen – and to ensure an adequate and reliable flow of financing to sustain the forests.

The disappointing result, a loss of face for Lula, can be explained in several ways: the lack of interest of most Latin American leaders in climate change issues; their neglect of Amazonian issues and TCA in particular; a surfeit of regional summits; and, last but not least, a certain fatigue with Lula's too obvious attempts at a regional leadership.

The Quito conclave

The 12 member countries of **Unasul** were represented by their ministers of foreign affairs and/or defence at a meeting held in Quito, Ecuador, on 27 November. There they adopted 'a new security doctrine' that prohibits the installation of foreign military bases on their soil.

Brazil sent both ministers, as did Ecuador, which holds the rotating presidency of the group. No other country did. **Celso Amorim** emerged from the meeting happy 'that the United States will not launch military operations from its bases in Colombia' (which was never intended). >>>

Not a word was said about the Russian military presence in Bolivia and Venezuela.

Another issue on the agenda was a proposal by Peru, supported by Argentina and Brazil, to create a permanent Unasul peace force and the adoption of an agreement on peace and non-aggression, coupled with a programmed reduction in weapons procurement over the next five years.

The governments of Chile and Peru were at loggerheads pursuant to an alleged case of Chilean espionage in Peru.

The Estoril summit

The 19th Ibero-American Summit took place on 30 November–1 December in Estoril, Portugal, primarily to try and adopt a common position vis-à-vis the Honduran crisis. In this objective, the summit failed, largely due to the intransigence of Brazil, represented by Lula himself.

At the summit, President **Michelle Bachelet** announced that Chile is joining the OECD – yet another opportunity missed by Brazil.

Diplomatic briefs

Lula in London

President Lula was in London on 4–5 November, primarily to receive a Chatham House prize for his ‘significant contributions to the improvement of international relations in 2008’ and for ‘his national, regional and international leadership, and for the enhanced influence he has obtained for Brazil.’ Lula also had a working

breakfast with the editors of the *Financial Times*, a seminar to attract foreign investors to Brazil, and an audience with the Queen.

Quite a record for two days in London.

Rejecting non-aggression

A non-aggression pact proposed by Brazil to pacify the tense situation between Colombia and Venezuela was flatly rejected by **Hugo Chávez**, who said he did not want any international detachment (part of the proposal) on his borders.

Good intentions on climate change

Presidents **Nicolas Sarkozy** and Lula met in Paris on 14 November when the Brazilian stopped in the French capital en route to an FAO conference against hunger, held in Rome. In a joint statement, the two presidents announced a common plan of action for the climate change conference beginning in Copenhagen on 7 December.

The plan of action, coming on the heel of Brazil’s announcement of its targets for reduction of GHG emissions and deforestation, is really a statement of good intentions but also contains a frontal, strongly worded demand that China and the United States desist from a G-2 of their own and advocating their full participation in the global multilateral framework on climate change.

Action on hunger?

President Lula was one of the heads of state in attendance at the FAO Summit against Hunger, held in Rome on 16–17 November. Brazil’s proposal, echoed by other emerging economies,

is to eliminate hunger world wide by 2025, but this aspiration was not reflected in the final document. At the G-8 summit held in Italy in mid-2009, global leaders pledged US\$20 billion to fight hunger, but so far contributions were not forthcoming. Hunger now affects 1 billion people globally.

Rocket short of funds

Lula spent 1–3 December in Ukraine, with which Brazil has an agreement to launch a space rocket (jointly developed by both countries) from a launching base at Alcântara, in the northern Brazilian state of Maranhão. However, the project is short of funds.

UN Office on Drugs and Crime

The Brazilian government, which has suffered numerous defeats in putting forward candidates to head international organisations, now craves another position, that of executive director of the UN Office on Drugs and Crime. The candidate is **Pedro Abramovay**, current secretary for legislative affairs in the Ministry of Justice.

International trade

Tariff reductions and exemptions

The south-south comprehensive trade agreement, negotiations on which began in São Paulo in 2004, is finally getting off the drawing board. It will reduce by 20 per cent tariffs on imports from the 20 participating countries, including India (but not China).

In addition, on 29 November Brazil announced an import tariff exemption across the board



CELSON AMORIM

for 30 developing countries, to enter into force in 2010. This is largely perceived as a political manoeuvre, designed to ensure support from the poorest countries for a permanent seat for Brazil on the UN Security Council.

Doha Round, again

Brazilian Foreign Minister **Celso Amorim** announced in Geneva on 29 November that Brazil would seek to negotiate a trade agreement with the United States in 2010, but criticised American ‘greed’ in the Doha Round talks, as the United States insists on a further liberalisation of Brazilian markets as a prerequisite for conclusion of the round.

Amorim further confronted USTR **Ron Kirk**, and labelled ‘irrational’ the American demand for a further liberalisation on the part of the emerging economies.

However, the United States may insist, as a pre-condition for renewal of SGP, that large emerging countries like Brazil (which in 2008 benefited from SGP to the tune of US\$30.1 billion worth of exports to the United States) open their markets further to exports from the poorer countries. Amorim also proposed that trade >>>

among the BRICs be conducted in a new common currency, the 'bric,' replacing the US dollar.

Trade ministers representing 153 countries convened in Geneva on 30 November-1 December in an attempt to revive and conclude the Doha Round by 2010. It has been dragging on for eight years. Brazil was represented by Foreign Minister **Celso Amorim**. The country exercises a disproportionate influence on these negotiations, as Brazil has only 1.25 per cent of world exports and 1.1 per cent of imports. However, since 2000, Brazil expanded its exports by 17 per cent.

At Geneva, racked by demonstrations against the round by anti-globalisation movements, Brazil is proposing a grand south-south co-operation strategy, with a focus on IBAS (the India-Brazil-South Africa scheme). Trade among emerging economies already amounts to US\$2.7 trillion, enough to allow them, under Brazilian leadership, to flex their collective muscle in the Doha talks.

Trade briefs

Imports growing

Between March and October, Brazilian imports grew by over 60 per cent, slower only than China's and India's. Brazilian industries, availing themselves of the cheap dollar, have opted to import inputs instead of buying them locally.

Exporters look inward

A new phenomenon is taking place in Brazil. Given the global crisis and the consequent >>>

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retraction in foreign markets, traditional Brazilian exporters such as automotive and aircraft manufacturers are redirecting their output towards domestic markets. These are thriving.

By-passing the dollar

Since November, Brazil and China have already begun to use their respective currencies in their

bilateral trade, by-passing the US dollar, albeit on a small scale. **Pascal Lamy**, director-general of WTO, cautious against the practice, saying it may the end make exports cost more.

Retaliating on cotton subsidies

On 18 November the WTO granted Brazil the right to retaliate against the United States for its disregard of an appellate decision compelling

it to eliminate cotton subsidies. Should Brazil's retaliation take the form of breaking US pharmaceutical patents, as has been rumoured, a major confrontation would loom on the horizon.

The government readied a bill on 20 November, to be submitted to Congress, and if approved enter into force in 2010, authorising immediate

retaliation of US\$350 million in the area of intellectual property. Another portion, amounting to US\$450 million, will apply to imports of goods, to be penalised with a 100 per cent import surtax. A list of 222 products, capital goods excluded, has been prepared and is open for consultation on the Internet.

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