

BRAZIL SURVEY

South – South trade links flourish

Brazil faces many of the same financial problems confronting Africa.

PETER HOWARD WERTHEIM reports from Rio de Janeiro

on economic relations between the two countries.

The growth and diversification of exports have been essential components of Brazilian development policy over the last two decades. An expansion in the sale of manufactured goods is gradually changing the profile of Brazilian foreign trade, which no longer relies exclusively on primary products but now benefits from manufactured and semi-manufactured exports.

At the same time, Brazil has also

promoted the geographical diversification of its export clients, strengthening trade partnerships in Asia, in the Middle East and in Africa.

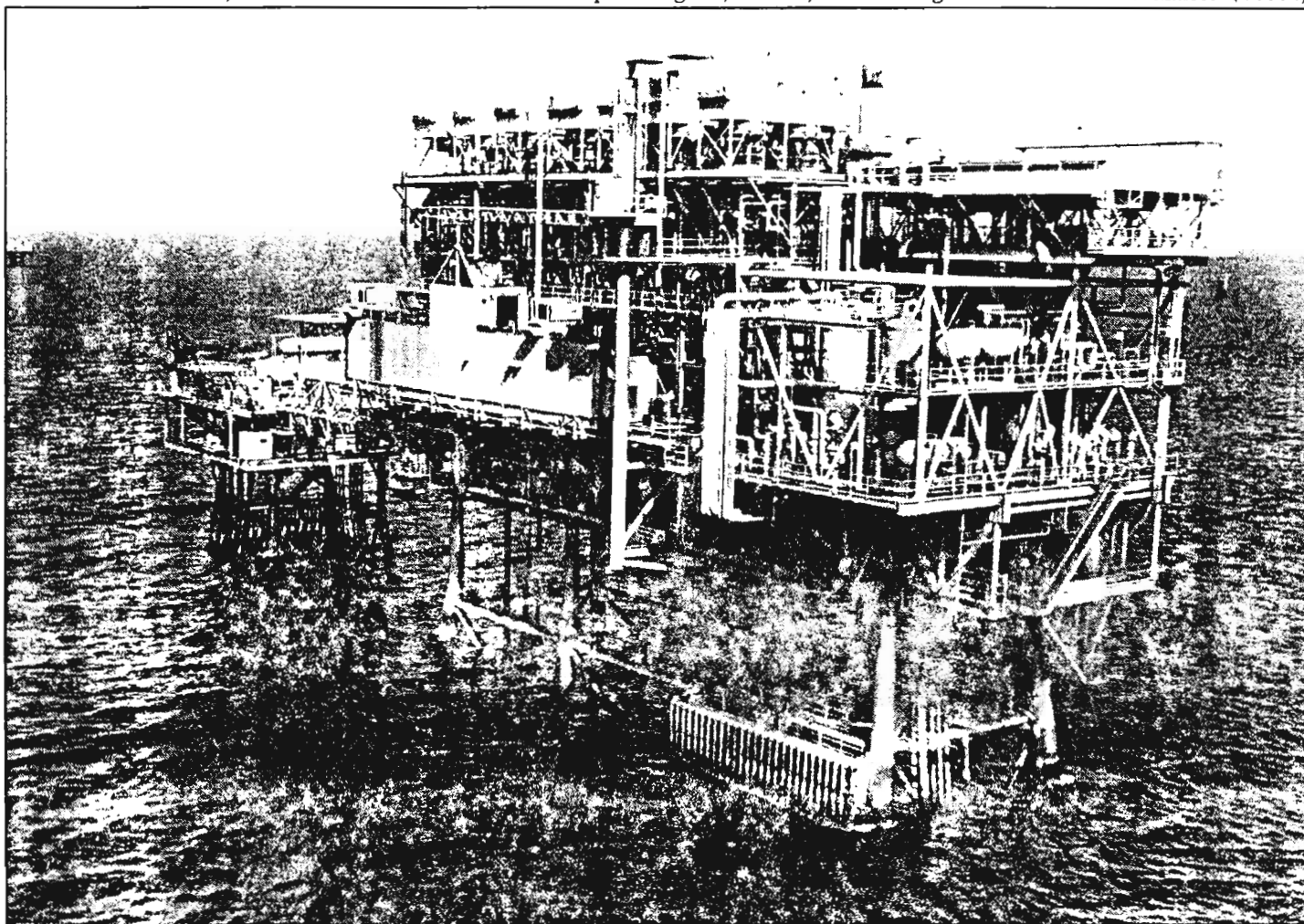
Nigeria, during 1985, was Brazil's principal commercial partner in Africa. The two countries concluded a countertrade deal worth \$16bn and a contract with Petrobras, Brazil's national oil company, to process about 50,000 bpd of Nigerian crude for re-export. Nigeria, in fact, was

Brazil's second-largest crude oil supplier, at 100,000 bpd. At the peak of its trade with Nigeria, Brazil ranked low among the world's major trading nations as measured by the ratio of total merchandise trade to GDP. While in 1985 Nigeria traded 28.5% of its GDP, Brazil's ratio was 21.2%, according to the *World Development Report* of 1987.

Similar difficulties

In October 1987, the United Nations published a special report about Africa's future prospects. With the change of a few facts and figures, its main conclusions could have been written about Brazil, despite the fact that the country claims to have the eighth-largest economy in the Western world and has achieved amazing success in some industrial and technological sectors. For South America and Africa the economic crisis will deepen unless debt and foreign trade rules are changed.

The UN report estimated total African foreign debt in 1987 at almost \$200bn,



Brazilian expertise helps with offshore oil exploration in Angola. This rig is at Cabinda, where there is a Braspetro interest.

BRAZIL SURVEY

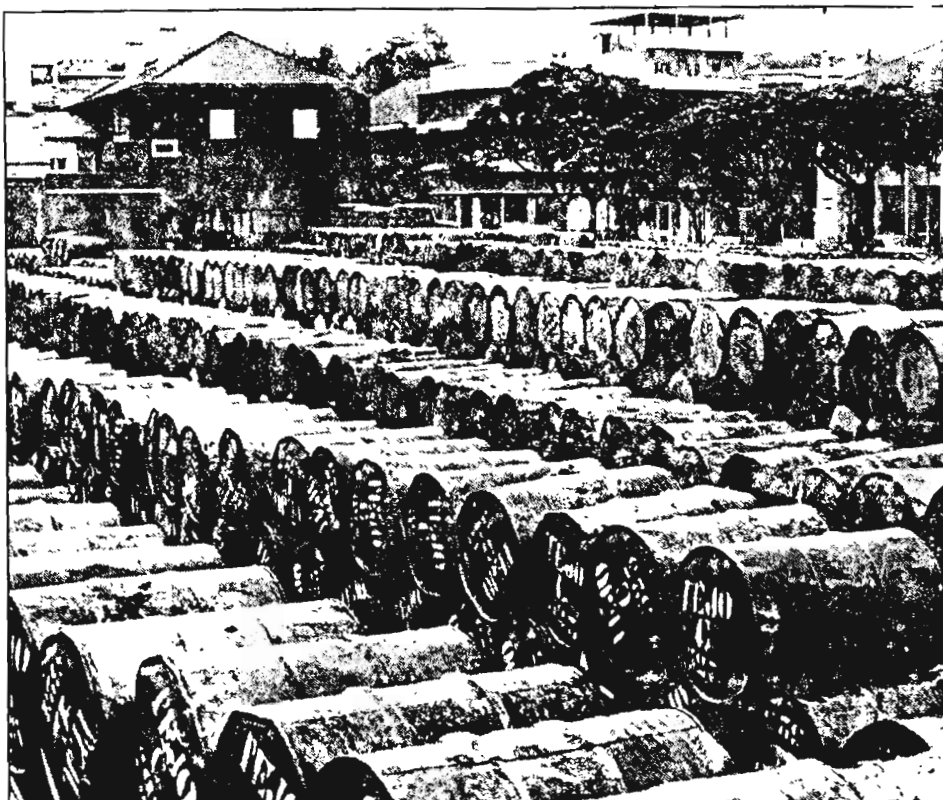
while Brazil is the world's largest debtor, owing around \$120bn at present.

The collapse in commodity prices, a dramatic growth in Africa's debt burden and insufficient development assistance have meant for Africans an unacceptable decline in living standards, points out UN Secretary-General Javier Perez de Cuéllar in the report. These factors are also having a deep impact upon Brazil's economy.

Hyperinflation risk

After decades of exceptional growth rates Brazil is now plunged into a recession and is facing the possibility of hyperinflation. The inflation rate for the month of July may climb to 30% or more. Brazil is also making little progress in debt renegotiation talks with the international financial community. There are rumours of an impending moratorium on foreign debt servicing, and hard currency reserves are dangerously low.

Austerity measures recommended by the UN for African nations, including cutting the public deficit, strengthening the private sector through the privatisation of state companies and less restrictive investment codes, are similar to the economic changes which the IMF advises Brazil to undertake. Obviously, all these factors have affected Brazil's trade with Africa and vice-versa,



Thousands of barrels of crude oil roll out at Cabinda in Angola with Brazilian help.

Petrobrás explores for Angolan oil

The Director of Petrobrás Exploration and Production, Wagner Freire, who was a member of President José Sarney's delegation in his visit to Angola last January, considers that a new phase of co-operation is getting under way between Brazilians and Angolans.

Wagner Freire, who is also President of Braspetro, said Angola is now concentrating on reconstruction after several years of war with South Africa. The Brazilian presence will be important for various projects. Besides construction of the big Kapanda hydroelectric plant on which both Brazil and the Soviet Union are working, new horizons are opening for exploration and production of oil, Angola's prime asset.

Angola, a country with vast natural resources, is undergoing a transition because of the recent peace treaty signed at the United Nations, according to Wagner Freire. An overall demobilisation is taking place, including withdrawal of Cuban troops who had supported the government.

Luanda will now be able to better manage its petroleum revenues and implement projects such as the Kapanda plant. During construction, this project will utilise the services of the Brazilian firm Norberto Odebrecht while the Soviets will supply equipment. The project is estimated to cost \$800m of which \$600m is to be provided by Brazil. Consulting and plant management will be provided by Furnas Centrais Elétricas.

Angola is currently producing 460,000 b/d of crude while

domestic consumption is only 30,000 b/d. This makes the country an oil exporter. Oil revenues should trend upward there because prospects for new oil discoveries are good.

Braspetro has been in Angola since 1980 and some \$150m have been invested there so far. At the moment, Braspetro is operating at block II in a consortium with Texaco (US), Total (France) and Sonangol, Angola's national oil company. Output from this block is 40,000 b/d and 10,000 b/d pertains to Petrobrás. At block IV, Braspetro, in association with other companies, made two oil strikes which were considered subcommercial. Depending on oil prices, these fields may come to be activated.

Wagner Freire said the company seeks to participate in other areas with the intention of assessing oil potential in deep water. It has built three platforms for block III operated by France's Elf Aquitaine and is bidding for the construction of other platforms. In drilling, Braspetro participates with the Petrobrás VI and XI jackups which are under contract to Texaco and Elf Aquitaine.

In human resources, the Petrobrás director noted that Braspetro has been rendering an outstanding service, including offering assistance to university graduates at Luanda University.

This year alone, some 100 professionals will be certified in the fields of Production and Drilling Engineering, Geology and Geophysics. All courses are given by highly experienced specialists from Petrobrás, Wagner Freire said.

BRAZIL SURVEY

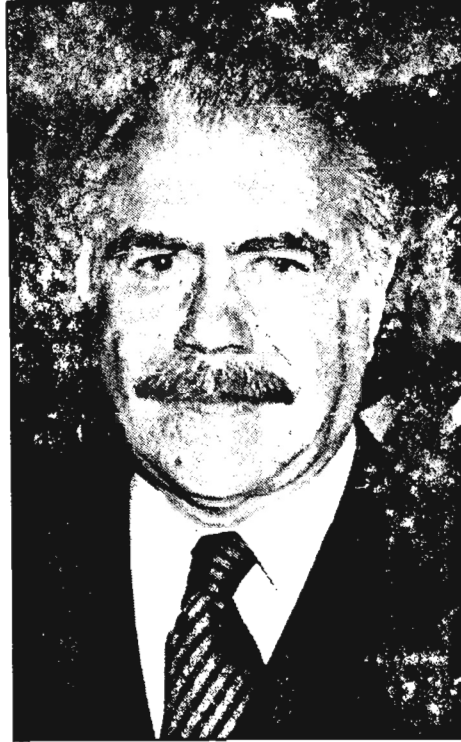
with both regions needing to concentrate their sales to industrialised countries so as to earn badly-needed foreign currency.

Nevertheless, some sporadic commercial activity has occurred. A \$13m contract signed in May 1988 between **Interbras** (the Petrobras trading subsidiary) and the **Naval Projects Management Enterprise** of the Brazilian Navy Ministry (**Engpron**) with the Nigeria navy calls for the supply of equipment, installation services and training of personnel, aimed at modernising the dock facilities at the navy's maintenance yard at Wilmont Point in Lagos.

Presidential mission

At the end of January of this year, President José Sarney, the first Brazilian head of state to visit Angola, met with President José Eduardo dos Santos and other top leaders to strengthen economic and cultural ties between the two nations. Brazil already enjoys Angola's goodwill because it was the first country to recognise the MPLA government, even though Brazil was at the time ruled by a right-wing military regime.

Brazil already has a strong foothold in Angola, through **Braspetro** (the Petrobras



President José Sarney, the first Brazilian head of state to visit Angola.

oversea exploration arm), which is exploring for oil in the Cabinda enclave.

Braspetro's president, Wagner Freire, a member of the delegation to Luanda, confirms that the company is negotiating its participation in deep-sea oil exploration as well as in natural gas extraction.

Braspetro also wants a share in the Luanda oil refinery, owned by the Angolan oil corporation **Sonangol** and Belgium's **Petrofina**. Angola is considering an expansion and modernisation of the refinery, a project which could become feasible with third-party investment, notes Freire.

Oil discoveries

The Petrobras subsidiary has been rather successful in discovering oil off Angola, together with its partners there – **Texaco**, France's **Total** and Angola's **Sonangol** – in the last five years of prospecting work.

Engesa, a privately-owned arms-maker, has been selling to Angola since 1986, when a \$200m contract was signed to supply 2,000 military all-terrain trucks and jeeps, most of which have been delivered. **Engesa** also set up a repair shop in the country for the maintenance of the vehicles.

The company has expressed an interest in

Continental goes worldwide

CONTINENTAL 2001, established in 1926, is a reputed name both in Brazil and abroad and its line of products is the result of years of research.

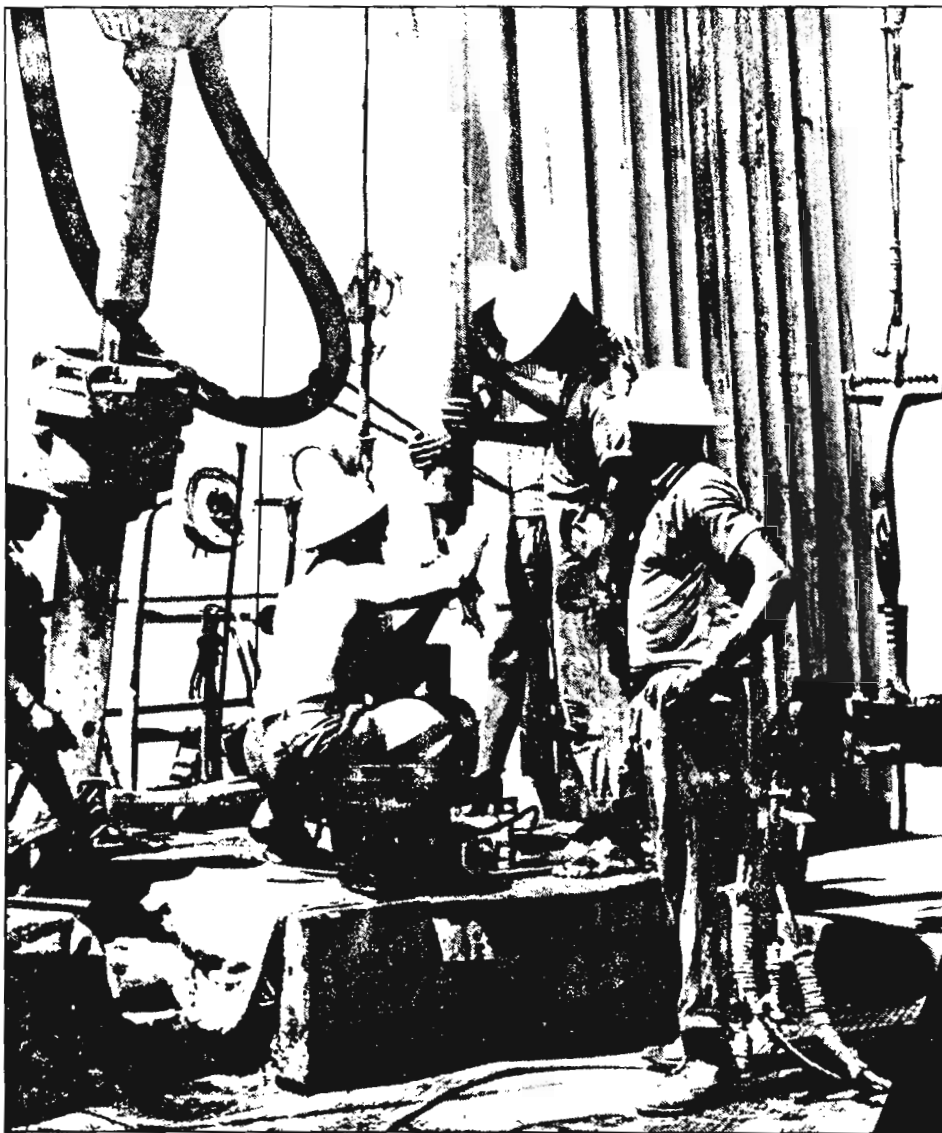
With 3,000 people working under strict quality control procedures, **Continental 2001** manufactures around 1m cookers per year, exporting directly to Latin America, Caribbean islands, Africa, The Middle East and The Far East. In Brazil we have 20 branches and 245 authorised service posts.

Our company also supplies a full line of custom-made optional products and features designed for specific markets, in compliance with the regulations and standards of each country where we sell an ever-expanding line of products.

Continental 2001 has a wide experience of assembly lines, providing full technical support and training to new customers. We also manufacture electric ovens, cooker-hoods, dishwashers and camping table top stoves.

The company also produces a full range of horizontal and vertical freezers, as well as refrigerators and watercoolers. The group has professionals travelling around the world providing marketing and service training.

BRAZIL SURVEY



Brazilians join in the Angolan effort to produce oil.

building an assembly line for military trucks in Angola and sees the possibility of building an additional factory for the maintenance of 17,000 military trucks made by the Soviet Union and acquired by Angola during the 14-year civil war.

According to Engesa sources, the company could convert the engines of the Soviet trucks, which consume vast amounts of petrol, into diesel-fuelled ones. These proposals are linked to Angolan oil sales to Brazil and credit lines from Cacex.

West German-owned Volkswagen do Brasil has also said it wants to expand operations in Angola.

Like other African countries, Angola welcomes Brazilian construction companies such as Norberto Odebrecht, which is working on the giant \$1.23bn Kapanda hydroelectric dam.

Construction industry sources told AB

that a Brazilian export drive may also involve smaller companies in the future, with the formation of pools to enable their participation in projects abroad, particularly in the Third World. Market research points to companies that produce tropicalised technology – easy to install, durable, economical and adaptable to all types of constructions from a private house to large industrial projects. Sedacryl, from São Paulo, produces a synthetic-based acrylic compound and Sedaquartz, a mineral grain compound, designed as a substitute for conventional paint for coating walls, ceilings, columns, partitions etc.

Engineers point out that the company provides a remarkably inexpensive coating option since the product can be applied directly on rough mortared masonry or cement blocks, without expensive surface preparation ■

Rio hosts Africa– Latin America seminar

DR. PAULO PROTASIO, Chairman of the Latin American Trading Association (ALAT), told AB that Rio de Janeiro is to host an African-Latin American seminar this month on the expansion of interregional trade through countertrade and other non-conventional methods.

The seminar was organised by the United Nations Conference on Trade and Development (Unctad), the United Nations Development Programme (UNDP), the International Association of State Trading Organisations of Developing Countries (Astro) in Ljubljana and the Latin American Association of International Marketing Enterprises (ALAT) of Rio de Janeiro. It is sponsored by the World Trade Centers Association (WTCA), based in New York.

Participating in the event will be African executives such as Babacar N'Diaye, President of the African Development Bank. Brazil's Finance Minister is also expected to attend.

Peter Howard Wertheim
in Rio de Janeiro