Brazil’s Petrobrás sells off Peruvian stake to China

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As part of a strategy to concentrate its activities in the domestic arena, Brazil’s national oil company, Petrobrás, decided to sell its entire stake in three Peruvian oil and gas fields to PetroChina for the amount of US$2,600 million, according to the Hong Kong Exchange.

For Petrobrás, the deal is part of an initiative to bolster a company that is highly leveraged. The plan includes freeing up US$9.9 billion in assets from Perú, the Gulf of México, and Africa to invest them in the exploitation of offshore oil fields, along Brazil’s Atlantic Coast—including the Libra field, with estimated deposits of between 8 and 12 billion barrels, the largest submarine site in Brazil, located in the rock underground three miles below the Atlantic Ocean. This strategy dovetails with plans enunciated earlier this year by Petrobrás CEO Maria da Graça Foster for this energy firm, in response to dramatic drops in share values.

According to the Bloomberg news agency, Petrobrás, one of the 15 largest oil companies in the world, is “the most indebted, publicly traded oil company.” Bloomberg analysts confirmed that Petrobrás “has been selling assets to help finance projects in Brazil’s deep waters.”

This is only part of the story. Petrobrás is the most indebted oil company in a country with an abysmal level of social inequality. For the government of President Dilma Rousseff, it means being under strong pressure to postpone social programs and prioritize debt payment. Financial investment assurance companies already treat Petrobrás debt as junk bonds, placing on it a high-risk premium. An attempt to transform some of that debt into equity took place in 2010 under conditions of global liquidity, with Petrobrás issuing US$70 billion worth of stock (mostly preferred stock with a guaranteed rate of return). This placed global capitalists at the head of the debt line and did not eliminate the problem.

When Rousseff and the ruling Workers Party (PT) make phony promises that 85 percent of the profits from the Libra site will fund Brazilian social programs, one would have to see what is meant by “profits.” An insurmountable barrier limiting the money available is that the oil giant operates like any other transnational company; consequently, its aims are to pay its bondholders, increase shareholder value and provide fat salaries to management (Graça Foster, one of the world’s richest women, is paid US$500,000 a year, not counting her stock options). Little or no “profit” is left after all that is siphoned out.

Last June, Brazil was convulsed by marches of millions of people who came out to protest against poverty and the enormous amounts being spent on football stadiums for the 2014 World Cup instead of education, health care and basic infrastructure. Aside from empty assurances from President Rousseff, the biggest demonstrations in decades have had little or no impact on government policy.

Reporting on Latin America as a whole, the Economic Commission for Latin America and the Caribbean (ECLAC) has noted that the region continues to show the highest socio-economic inequality in the world, with Brazil leading the pack. To the extent that they are dependent on Petrobrás revenues, palliative measures, such as cheap fuel, better educational opportunities, housing and food programs, are constrained by the demands from shareholders and debt holders for the lion’s share.

The Libra auction was also preceded by revelations that United States and Canada conducted industrial espionage on the Brazilian Ministry of Mines through the NSA and the Canadian CSEC. Possibly on the basis of that information and unhappy with the terms of the auction, Exxon-Mobile, Chevron and BP declined to bid.

Out of 40 that were originally expected, only 1 bidder showed up at the Libra auction: the consortium composed of Royal Dutch Shell and Total from France, plus Beijing-based CNPC and CNOOC.

While Petrobrás is forced to make a retreat from its investments, PetroChina expands its influence in a region rich in oil, gas, metals, and food.

Like Petrobrás, the China National Petroleum Corporation (CNPC,) owner of PetroChina, is partially state-controlled, and obligated to its shareholders; in South America, it and its subsidiaries own oil properties in Venezuela, Peru and elsewhere. Globally, it is expected that by next March, PetroChina will buy a stake in the Eni SpA (ENI) natural gas field in Mozambique for US$4,200 million. And last September, it agreed to invest US$5,000 million in the Kashagan Oil project, located in Kazakhstan.

Under constant pressure to recycle their dollar balances left over from the Chinese current account surplus, the surge in direct investments by Chinese investors and Chinese-owned companies in part replaces the drying up of investment opportunities in the United States and Europe, due to the 2008 financial collapse. Agreements have been made with Latin American nations on the Pacific Rim, including Chile, Peru, Mexico, Costa Rica and Nicaragua.

In Peru, for example, the national newspaper *La República* recently indicated that China continues to acquire assets. A Chinese firm invested “in the local mining project Bambas Glencore-Xstrata, an operation that could total US$6 billion.” In fact, “Chinese companies could become the largest copper producers in Peru, the world’s third largest producer of copper.” Among fisheries, “China Fishery achieved this year an agreement to acquire a majority stake in the firm COPEINCA, the second largest exporter of fish products in the country,” said *La República* .