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SIPDIS

SENSITIVE
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TREASURY FOR KLINGENSMITH AND NGRANT
COMMERCE FOR 4431/MAC/WH/MCAMERON
NSC FOR DTOMLINSON
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: N/A
TAGS: ECON *[Economic Conditions]* , ETRD *[Foreign Trade]* , VE *[Venezuela]*
SUBJECT: BRAZILIAN FIRMS SAMBA ALL THE WAY TO THE BANK

REF: CARACAS 3413

¶1. (SBU) SUMMARY: Venezuelan-Brazilian trade is expected to
reach USD 4 billion this year, representing a 60 percent
increase over 2005. This increase is consistent with
Venezuela's import boom and with the growing relationship

between the two countries. Brazilian firms also seem to be winning more than their share of large infrastructure contracts. In concert with deepening political ties represented, inter alia, by Venezuela joining Mercosur, President Lula da Silva's public endorsement of Chavez and Chavez's post election victory lap to Brazil and beyond; Brazilian firms and exporters, for now at least, are sitting in the sweet spot. END SUMMARY.

¶2. (U) Venezuelan-Brazilian trade reached USD 3.5 billion (USD 3 billion in imports from Brazil and USD 500 million in exports to Brazil) as of October 2006, and is expected to close the year near the USD 4 billion mark. This would represent a USD 1.5 billion (60 percent) increase over bilateral trade in 2005 and over a 100 percent increase since 2000. In addition, the balance of trade has shifted dramatically from a Venezuelan surplus in 2000 of USD 576 million to an expected USD 3.2 billion Brazilian surplus by the end of 2006. Venezuelan exports to Brazil consist primarily of petroleum derivatives (fuel, plastics, fertilizer, etc.) whereas the array of Brazilian goods imported to Venezuela continues to grow, from agricultural products to arms. Brazilian state-owned arms manufacturer Imbel recently announced the sale of 5,350 9mm pistols to Venezuela. Brazil's largest export to Venezuela so far in 2006 has been cell phone equipment, followed by automobile parts and chicken.

¶3. (SBU) Brazilian President Lula da Silva's endorsement of Chavez's re-election bid (reftel A) at the opening celebration for the second bridge over the Orinoco river (connecting the Brazil-Venezuela highway) seemed a diplomatic faux pas, but really it was simply good business. The bridge was built by the Brazilian construction firm Odebrecht and financed by Brazil's development bank (BNDES). It reportedly cost Venezuela between USD 1.1 and 1.2 billion (reportedly 40 percent over budget) and plans are already underway for bridge number 3. (Note: While Odebrecht also "won" the contract for the 3rd bridge, so far as we can tell there was no bidding process. End Note.) Brazilian firms have also been very successful in winning other major infrastructure projects in Venezuela, including the replacement for the collapsed bridge on the highway from the airport in La Guaira to Caracas. (Note: The BRV initially tried to rebuild the bridge itself and only turned to an outside contractor in mid-2006. The BRV claims the bridge will be open for business in Spring of 2007. End Note). Odebrecht is also the main contractor for Lines 3 and 4 of the Caracas metro.

¶4. (U) The Brazilian state-owned oil company, Petrobras, has increased cooperation with PDVSA and a joint project is underway to build a refinery in Pernambuco, Brazil, that is expected to cost between USD 2.5 and 2.8 billion. When completed, the refinery will be the first in Brazil capable of refining Venezuela's brand of heavy crude, with a capacity of 200,000 barrels a day. Petrobras is also certifying extra-heavy crude reserves in the Orinoco belt in eastern Venezuela and may well take part in any tender for future extraction.

¶5. (U) Venezuela's entrance to Mercosur and departure from CAN and the G-3 group (Mexico, Colombia, and Venezuela) will give the Brazilians additional advantages by lowering tariffs

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and trade barriers, while increasing them for competitors in other countries in the region. This will not occur overnight, however as Andean Community trade preferences are set to continue for another 4-plus years, and Venezuela has yet to even negotiate the specific product line market access terms for its Mercosur accession. (Note: It remains to be seen the effect on actual companies that export to Venezuela, as many are large multinational firms which have branches in Mercosur countries and will be able to shift their production for the Venezuelan market. End Note.)

¶6. (SBU) At a recent meeting with a representative of the Venezuelan-Brazilian Chamber of Commerce (CAVENBRA), the representative insisted that many of the recent successes of Brazilian firms were actually years in the making and the result of sustained effort rather than political favoritism. He observed, for example, that Odebrecht had been in Venezuela for 10 years before it received its first major contract and that many Brazilian firms successes come from their ability to approach the BRV with package deals that include financing from Brazil's development bank. (Comment: Our contact was very sensitive to the perception that they were taking business away from other countries and repeatedly stressed that in recent years they had become better competitors and were not succeeding as a result of political favoritism. While Brazilian companies in general have become more pronounced overseas in recent years, the rate of increase for trade and the startling success in winning major infrastructure projects since Chavez took office make it seem unlikely that they became so competitive overnight. End Comment.)

¶7. (SBU) While Brazilian contractors are garnering major projects, few Brazilian businesses are investing in Venezuela long term. In a trend seen throughout the private sector, firms are delaying investment and reducing capital spending. (Note: Foreign Direct Investment (FDI) to Venezuela has amounted to a paltry USD 75 million through August of 2006, as compared to USD 900 million for all of 2005. End Note.) In addition, Brazilian firms seem to have similar complaints as the business community in general, including an incompetent bureaucracy and oppressive regulations. As an example, the representative of CAVENBRA noted that Brazil's attempts to import soy beans to Venezuela have been stymied by a slow import approval process at the Ministry of Agriculture, which has left trucks sitting at the border with rotting produce.

¶8. (SBU) COMMENT: Fueled by the oil windfall, Venezuelan government spending and imports are at all-time highs and many companies are reaping the benefits of this massive spending. The creation (both existing and planned/imagined) of regional entities and mega-projects such as Telesur, a Bank of the South, the gas pipeline of the south, the train of the south, etc. are political decisions by Chavez to project himself regionally. Brazilian firms probably represent some of the few regional firms with the breadth and depth of experience to complete many of the planned massive infrastructure projects. At the same time, the opening up of Brazil's north west, home to 40 million people, gives Brazil a geographical advantage over many competitors in the Venezuelan marketplace. It seems very likely that Brazilian-Venezuelan commercial ties will continue to grow in the near term, as Brazilian firms ride the economic gravy train and that the Brazilians will continue to make significant economic inroads, thanks to Chavez's focus on deepening south-south ties. END COMMENT.

WHITAKER