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# What Strategies Are Guiding Chinese Investments in Brazil?

Inter-American Dialogue's Latin American Energy Advisor

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***Q and A: What Strategies Are Guiding Chinese Investments in Brazil?***

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China's Sinopec announced last week that has agreed to buy a 30 percent stake in the Brazilian unit of Portugal's Galp for almost \$5.2 billion, the latest in a series of Chinese companies' ventures into the Brazilian energy sector, Dow Jones reported. What role is the Asian country playing in the Brazilian energy sector, and how is it likely to develop? What strategies are guiding Chinese companies' investments? Is Brazil benefitting from these acquisitions? Will there likely to be pushback against such investments?

**A: Dani Nedal, researcher at Aberystwyth University in the United Kingdom and a member of the Inter-American Dialogue's China and Latin America Working Group:**

"China is still new and relatively minor in Brazil's oil sector, but it's growing quickly and consistently. A booming oil sector in Brazil and oil prices that won't come down—due in part to growing Chinese demand—mean that this trend will persist. Chinese investment in foreign oil may well be part of China's quest for 'energy security,' but it's also good business. I would also venture another prediction. We'll soon see a different group of Chinese companies (or subsidiaries) coming in, not only directly involved in exploration but also service providers, machinery and equipment suppliers and other complementary industries (like shipbuilding). Conservative estimates indicate that over \$500 billion in equipment and services will be spent in the next six to seven years as the new oil reserves are tapped. Those interested in benefiting from major oilfield developments in Brazil will have to invest in production (and assembly) in Brazil, as 'local content' rules and regulations demand that a significant part of the material for exploration and related activities be produced or assembled locally. These investments are sorely needed. The Brazilian National Development Bank (BNDES) has said that over \$300 billion would go into the oil and gas sector by 2013, half of which is expected to come from foreign investors. Brazil, with its high capital costs and paltry savings rate, can't possibly finance a capital expansion of this sort on its own. Chinese companies—and banks—will surely play a large role, along with traditional oil majors. There's one clearly discernible strategy so far: they are entering Brazil's oil sector by acquiring non-controlling stakes in foreign (European, so far) oil companies with existing operations. The reasons for this are legion, but one that most people seem to ignore or underestimate is that this saves them from having to deal with Brazil's byzantine regulations and reduces political backlash, of which there has already been plenty. It's much harder to accuse the Chinese of neo-colonialism when all they are doing is purchasing

assets that already belong to foreigners. But that won't stop the inveterate China-bashers from trying their best."

**A: Zhou Zhiwei, general secretary of the Center for Brazilian Studies at the Institute of Latin American Studies, CASS:**

"Sinopec's purchase reflects two factors. First among them is Sinopec's strategy of internationalization. Brazil is one of the potentially major producers of petroleum in the near future, so increasing investment in the Brazilian energy sector is becoming an important option for the development strategy of most international energy companies. For Sinopec, the energy potential of Brazil also means opportunity to enhance its internationalization strategy. And the second factor is the great demand for investment in the Brazilian energy sector. Brazil has good energy prospects, in particular after a series of discoveries in deep water, but it also needs plentiful investments to reach its goal of being a principal producer of oil in the world. This also makes it possible for Chinese investments to enter the Brazilian energy sector. In fact, Chinese presence in that sector is very small, if compared with other countries. In my opinion, China plays a role as a partner for Brazil to develop its energy industry, not only in the oil area, but also in the new energy sector. For the Chinese investors' intentions, I think two points may be most important. The first is whether investments meet the company's development strategy or not; the second is the investment profits. As a state-owned enterprise, Sinopec also sees 'profit' as a priority of its investment intention. Foreign investment can be realized only when two sides (investor and recipient) agree to the investment conditions, so undoubtedly, Brazil could benefit from these investments, not only for its energy sector's development, but also for macroeconomic growth. But the most important thing that Brazil should do is use Chinese investments as efficiently as possible to advance its own strategic aims of economic and social development, in other words, to achieve a win-win result."

**A: J. Gregory Arthur, a China-Latin America analyst based in Shanghai:**

"China's role in the Brazilian energy sector has become increasingly prominent since President Hu's visit to Brazil in 2004. At present, Chinese companies are buyers, investors and, more recently, producers in Brazil's oil market. China's imports of Brazilian oil have increased steadily in the past six years, reaching over 8 million tons in 2010, representing an increase of 98 percent from 2009. Brazil has now surpassed Venezuela as Latin America's largest exporter of oil to China. With the advent of pre-salt oil production and the recent oil discoveries in Brazil, China increasingly considers Brazil a key ally in securing its energy needs. In 2010, two of China's largest investments in Latin America were located in Brazil. Sinochem's acquisition of 40 percent of Statoil's Peregrino field for \$3 billion and Sinopec's acquisition of 40 percent of Repsol Brasil for \$7.1 billion, consolidated the entrance of Chinese energy companies into the Brazilian oil production market. These events reflect the importance of Brazil in the framework of China's multi-polar energy strategy to secure oil resources around the world. On the other hand, Brazil has sent a clear message to China: the country welcomes investments in oil and other natural resources, but it seeks to diversify its relationship into more high value-added industries. Brazil expects to benefit from China's technology, cheaper machinery, and financing to facilitate the development of its oil industry. However, as Chinese acquisitions of Brazilian oil

assets are relatively new, we have yet to see whether the expected benefits to Brazil materialize fully."

*The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*