

Brazilian merger plan hit by fresh clash

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A planned merger of two of Brazil's biggest telecoms companies is being threatened by a long-running legal battle between Citigroup and its former investment manager in the country.

Brasil Telecom and Oi (formerly known as Telemar) have been in talks for several months over a proposed deal in which Oi would buy BrT for an estimated R\$4.85bn (\$2.8bn).

However, the deal depends on the settlement of a legal dispute between BrT's controlling shareholders: Citigroup; a group of Brazilian pension funds; and Opportunity, a Brazilian investment manager that formerly represented them in BrT and retains a share of control over BrT.

And the Financial Times learnt this week that a Brazilian investor is threatening to sue Citigroup if it settles its dispute with Opportunity.

The pension funds had fired Opportunity in 2003 and Citigroup did the same in 2005 after a series of revelations implicating the company and Daniel Dantas, its founder and manager, in alleged illegal activities.

Mr Dantas is being prosecuted in Brazil for corruption, espionage and formation of a criminal organisation. Mr Dantas denies any wrongdoing. Citigroup is suing Opportunity in New York for at least \$300m for alleged negligence and fraud. Last Thursday it entered a further action against Mr Dantas, Opportunity and others in New York.

Nevertheless, reports began circulating last week that the pension funds, Citigroup and Opportunity were close to settling their disputes. In a statement to markets on Friday, Oi said: "We have become aware that significant obstacles to negotiation existing between the controlling shareholders of BrT are close to resolution and, if this is confirmed, negotiations should intensify and take on a new dynamic to bring the intended acquisition to a conclusion."

An official at Opportunity confirmed that negotiations with Citigroup and the pension funds were taking place but declined to comment further. Citigroup declined to comment.

However, if BrT's shareholders are indeed close to agreement, that deal has been put in jeopardy this week after Luís Roberto Demarco, a former partner in Opportunity who has been involved in a series of legal battles with the company, threatened to sue Citigroup if it dropped actions against Opportunity.

In an e-mail to Sir Win Bischoff, chairman of Citigroup, he said: "I am advised that you and the Citi executives have fiduciary duties and legal responsibilities that cannot be negotiated in a commercial agreement at all."

Mr Demarco told the FT that, as a shareholder in both Citigroup and BrT, he would take legal action in the US, the UK and Brazil to ensure that Citigroup pursued its claims against Opportunity. Citigroup yesterday declined to comment.

The deal cannot go ahead under current legislation but government officials are planning regulatory changes to make it possible. The government supports the deal because it would create a national champion capable of challenging the dominance of Spain's Telefónica.

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