Portugal blocks Telefonica bid for Vivo

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(AP) -- The Portuguese government used its special voting rights Wednesday to block Telefonica's euro7.15 billion ($8.72 billion) bid to buy Portugal Telecom's stake in Brazil's leading cell phone company Vivo.

PT shareholders had voted in favor of the sale of the 50 percent stake in Brasilcel, a holding company which in turn owns 60 percent of Vivo. Spain's Telefonica owns the other 50 percent of Brasilcel.

However, the Portuguese state then stopped the sale by using rights attached its so-called "golden share" in PT which grants it the final say in strategic decisions.

Prime Minister Jose Socrates said the government was acting "in the national interest."

"The government's view was that this is a fundamental strategic issue for the development of Portugal Telecom," Socrates told reporters.

The center-left Socialist government's decision is likely to bring legal challenges.

The European Commission has previously expressed opposition to the golden share, saying it can be used to prevent the free movement of capital across the European Union.

The Spanish company hiked its offer for Portugal Telecom's stake in

Vivo from euro6.5 billion just hours ahead of the shareholder meeting in an attempt to ensure success.

Telefonica wants to add momentum to its expansion in the fast-growing Latin American market, one of its main growth areas, and the Brazilian wireless market is the largest on the continent.

Brazil's economy is booming despite a shaky global recovery, whereas financial gloom in Telefonica's home territory of Spain is choking the company's growth there.

Vivo's revenue grew 4.1 percent last year to euro3.24 billion.

Telefonica is expected to integrate Vivo wireless operations with its Telesp fixed-line services in Brazil, saving costs and broadening its appeal to customers.

Telesp and Vivo already represent the largest telecom force in Brazil's fast-growing market, having together more than 62 million clients and 85,000 employees.

Last November, Telefonica lost its battle to take control of Brazilian telecommunications operator GVT SA after it was outbid by France's Vivendi SA.

PT's board rejected Telefonica's overture, saying Brazil is at the heart of its growth strategy.

PT's chief executive, Zeinal Bava, had said that selling off Vivo "would amputate PT's future" by stunting its prospects for long-term growth.

Telefonica originally offered euro5.7 billion for Vivo in May. It then raised the offer to euro6.5 billion before hiking it further to euro7.15

billion - more than PT's market capitalization at the time of the original bid.

Telefonica also has investments in Mexico, Argentina and Chile, as well as in Britain and the Netherlands.

PT also has interests in three of Portugal's former African colonies - Angola, Cape Verde, and Sao Tome and Principe - and in Macau and East Timor, the country's tiny former territories in Asia.

The domestic earnings of PT and Telefonica are hurting from the European economic downturn.

PT reported last month a first-quarter profit of euro100 million - down almost 40 percent from the same quarter last year.

Telefonica's first quarter sales in Spain were down by 5.7 percent to euro4.6 billion but its income in Latin America rose 4.2 percent to euro5.62 billion.

Telefonica is a much larger company than Portugal Telecom, employing some 237,000 people compared with the around 32,000 staff at its Portuguese counterpart.