

I German-Brazilian Initiative for Cooperation in the Infrastructure and Energy Sector

- Minutes of Meeting Working Session

Sunday, 3 July 2005 2:00 p.m. – 5:00 p.m. Venue: Hotel Gran Meliá Marquise, Fortaleza

1. Welcoming remarks After a lunch together with the participants of the German-Brazilian Initiative for Cooperation in Agribusiness, the official meeting started. Mr. Mello, Mr. Uriel Sharef and Mr. Knut Brünjes from the German side and Mr. Plöger on behalf of Mr. Osvaldo Douat welcomed the participants of the Commission.

2. Introduction and review of the Initiative's activities A short review of the Commission's activities was held by Mr. Sharef and Mr. Brünjes. Mr. Sharef pointed out the activities of the group since the last meeting in 2004. Mr. Brünjes stressed the importance of long term reliable framework conditions to attract foreign direct investments from Germany. He reminded the Brazilian side of additional investment chances on the basis of bilateral and multilateral commitments. He also raised his concerns on sustainability of measures, pending ratification on the "Investitionsschutzabkommen" by the Brazilian side and current level of taxes and duties.

3. Discussions on Investment Opportunities

a.) Energy Since the participants had received all the presentations in advance from the Brazilian side, the discussions were started from the German side. In respect to Energy and Proinfa Mr. Ralf Kynast from renergys GmbH took actively part from the German side. He reported their current activities, involving a new investment of 12 Million Euros in a new wind farm of approx. 10 MW in the northeast of Brazil. Among other issues, he pointed out the need of the second round of the PROINFA program, attraction of new suppliers of turbines, the exchange rate not favourable for imports and import restrictions of equipment. He also mentioned the need for a mechanism to reduce the exchange rate risks and its volatility.

The Brazilian side clarified that exchange rate volatility is a global phenomenon and that it is not healthy to have artificial interventions. Mr. Ricardo Homrich from the Ministry of Mines and Energy mentioned that the government is following up the implementation of the projects contracted but at this moment, there is no official indication of new PROINFA program. According to analysis, there are some projects already contracted that are facing some difficulties that may hamper their implementation. Therefore, it could bring new opportunities for potential investors.

Mr. Garlik from Deloitte pointed out that there are firm interests from German investors in small Hydro Power Plants.

They are working with their clients in order to close negotiations in this sector. He pointed out that the information provided need to encompass the details necessary for investors to assess the feasibility of the projects. In terms of the transmission lines Mr. El-Mahdi reported about the German trials to attract German investors.

The last trial, a letter sent to the large German Energy companies has not shown a positive signal so far. The German utilities are currently focusing on extension of their networking in Europe. He pointed out the need to change the strategy of approaching institutional investors in such as investment funds. Mr. Plöger agreed that the Initiative should shift its activities away

from the transmission lines.

Mr. Alcantara Macêdo mentioned 5 advantages of the Brazilian market (among others high rentability in comparison to Europe, tariffs, long experience of Banco do Nordeste and BNDES) .

Mr. Christian Kottlow from VA Tech Escher Wyss GmbH informed about their engagement in Brazil (presentation attached) . The topic Energy was continued with Gas and Oil opportunities.

Mr. Homrich mentioned about the 7th round of Gas and Oil that will occur in October of this year. There will be more than 1,000 lots in 14 different basins with higher probabilities for gas exploration.

Mr. Plöger rose the question for possible cooperation partnerships in this area. The German side will get back within two weeks on how to handle this opportunity.

Mr. Bohnhof reported about the third Biomass project that has been successfully completed last week . All three projects are located in the State of Paraná with capacity of 12 MW each, reaching a total investment amount of approx. 30 Million euros.

b.) Logistics Mr. Jose Eduardo B. Silva presented potential of the agribusiness sector. He stressed the importance of an improvement of the infrastructure sector to further develop the Agribusiness in Brazil (presentation attached) .

Mr. Harnisch recommended the outsourcing of service providers, which would create advantages in Brazil, among others, the creation of new jobs. Mr. Mugnaini mentioned the new law on port modernization which gives tax exemption for equipment acquisition. Another issue mentioned was the insurance on the intermodal transportation. This issue has been discussed within the sector for more than 2 years and has been recently solved out facilitating the services provided by operators in this segment. It was also mentioned the new possibilities of feeder port operators mainly in Santos, Rio Grande and Suape ports. This became possible due to the improvement of container handling capacity from 15 up to 45 container/hour. Regarding to airports, it was pointed out that Rio de Janeiro, Belo Horizonte and Petrolina airports were qualified as international industrial airports which will bring new opportunities for companies to establish new business operations with the benefits of tax incentives.

Mr. Julian Thomas presented the activities of Hamburg Süd in Brazil as well as an overview on Brazilian ports since the privatisation 10 years ago. He foresees a massive growth of container traffic what could bring some difficulties for the business in the near future such as land access, berth availability and shortage of retro areas. Based on this perspectives, Mr. Thomas presented his companies project of investing US\$ 200 Million in a new port in Santa Catarina State, called Itapoã, close to the São Francisco do Sul port (presentation attached) .

Mr. Harnisch also mentioned about the ThyssenKrupp project with CVRD. This project consists on a US\$ 2 Billion investment in a steel mill to be constructed in Rio de Janeiro State. He emphasized that US\$ 700 Million investment will be dedicated only to infrastructure needs.

4. Public Private Partnership projects Five Public Private Partnership projects were presented by Mr. Francisco Costa from the Ministry of Transportation of Brazil.

Special importance deserves the PPP Project that concerns the Railroad North South. Although the PPP model is under development, the Brazilian side will inform the time line of the events related to the projects as soon as they are available.

Dr. Sven Oleownik from Deloitte mentioned in this respect that the effort

required at the moment to fulfil the PPP initial documentation requirement is beyond a reasonable level. It was decided to exchange detailed remarks so that this issue can be better clarified.

5. Joint projects and Financing Both sides agreed in the necessity to motivate companies such as trading houses, investment banks, investments funds (ex. : private equity and pension funds) to participate in infrastructure projects. 6. Miscellaneous Next steps were discussed for the following 6 months. It was proposed to organize an event on logistics infrastructure in Frankfurt during the 2nd week of November. KfW premises was the location suggested by the group. The German side will check this possibility with KfW representatives.

Dr. Jose Augusto from CNI presented the Strategic Map which shows Brazilian industry's positioning in the global competitive

scenario, the strategic priorities and the bases required for the development of a strong and dynamic industry. Following the suggestion of Dr. Sharef both sides agreed to create a task force (2- 3 members on each side) that identifies new business opportunities for German investors in the infrastructure sector as well as persisting obstacles for new investment.

Mr. Ploeger summarized the success cases reached so far with the following projects:

- 3 biomass projects (30 Million euros) ;
- 1 wind farm (12 Million euros - under financial closing) ;
- 1 port construction (US\$ 200 Million - under development) ;
- 1 steel mill (US\$ 700 Million investment on infrastructure)

. Mr. Antônio Sérgio Mello emphasized that the efforts of this initiative need to continue with the target to close more of such projects. Then, he thanked all participants and closed the meeting.