## Highlights

- Two new projects - one training
- Strategic teaming arrangement in the Middle East
- SPECIAL REPORT on BRAZIL

TAYLOR-DEJONGH, INC.

*The experienced team in international project development and finance*

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# News'*n*Views

## NEW PROJECTS

### CRICIUMA COAL POWER PROJECT, BRAZIL

Taylor-DeJongh is launching a feasibility study for a 400 MW coal-fired power project located in Santa Catarina, Brazil. The project is called *Criciuma*.

Taylor-DeJongh views this project as a viable alternative to gas-fired generation projects in Brazil due to the ready availability of the local fuel supply.

This engagement will help Taylor-DeJongh leverage its ongoing experience with the Seival project, another coal-fired power project in Brazil currently on the Taylor-DeJongh project development schedule. Both projects feature Brazilian lead sponsors, available fuel priced in local currency, and environmental permitting in process. Constructive PPA negotiations with Electrobras are currently underway. ■

*Read this issue's Brazil Special Report to learn about our outlook on the country's energy developments.*

### ENERGY PRIVATIZATION TRAINING - BOSNIA

Taylor-DeJongh was selected by *Elektroprivreda*, the state power company of Bosnia and Herzegovina, to provide technical assistance for the development of a model power purchase agreement for its power privatization program. Three Taylor-DeJongh professionals travelled to Sarajevo as part of the project, and led an extensive eight - day seminar on project finance, independent power production, and power purchase agreements. The course included the development of several generalized power purchase agreements, and training in their negotiation. Taylor-DeJongh also provided *Elektroprivreda* with a proprietary financial model, which will assist the company in evaluating power pricing for their system.

Bosnia and Herzegovina are located in a region rich in hydro power resources. During the Taylor-DeJongh meetings, Elektroprivreda announced its plans to further develop power from this sector. This will include the possibility to establish over 20 new small hydro facilities. During the conflict, power production in Bosnia dropped by over 90%, and it is now actively moving to reconstitute the power production industry. Taylor-DeJongh is very pleased to be helping the region with this important effort.

This project marks a growing involvement with Bosnia by Taylor-DeJongh, as we are also advising locally on the repowering and financing of two large coal-fired projects. ■

### TEAMING WITH THE ARAB BANK

Taylor-DeJongh has agreed on a teaming arrangement with the Arab Bank to work together on project finance mandates throughout the Middle East. Arab Bank is one of the pre-eminent banks in the Middle East, having operating branches in virtually every country in the region. This arrangement will allow the parties to bid on and arrange financing for privatizations throughout the region. Special emphasis will be placed on power, water, telecoms, and oil & gas (including pipelines) in Egypt, United Arab Emirates, as well as Kuwait and Jordan. ■

## UPCOMING CONFERENCES

**Dec. 13-14 -** "US-African Energy Ministers Conference," in Tucson, AZ. Christopher Lundstrom, Managing Director, will moderate and speak at the "Ministers and Industry Panel on Finance and Investment."
**Jan. 24-26** - The Inaugural "Middle East Project Finance & Privatization ," conference in Abu Dhabi. Terry Newendorp, CEO leads a panel discussion.
**Jan. 26-28** - "Oil & Gas Offshore West Africa," Houston, TX. Christopher Lundstrom, Managing Director is speaking on "Financial Aspects of the West African Gas Pipeline Project."
**Feb. 15-17** - "ICBI - Projects International 2000," Paris. TDJ is a sponsor. Terry Newendorp speaks on "The Latest Credit Enhancement Techniques and Products."

# BRAZIL

In this issue we continue to publish analysis and opinions of our team members on hot topics and economic trends in global markets. Today, Jonas Campino, one of our Washington-based associates, addresses some recent economic and financial developments in Brazil.

*The trend of rapidly growing consumption in oil, natural gas, and electricity markets that Brazil has experienced in the past few years should regain momentum as the economy is expected to come out of recession and resume growth. Foreign direct investment in Brazil has been robust in 1999 and is expected to surpass US$25 billion by the end of the year; the country is now home to more US investment than Mexico. However, most of the economic recovery will rest on the government's ability to solve structural problems contributing to the large fiscal deficit (9.4% of GDP for the non-financial sector in 1999).*

- **Electricity, Oil, and Natural Gas**
- **Demand Growth Picks Up in Y2K.**
- **Electricity Sector: Opportunities Abound & Foreign Investors are Welcome!**
- **More Privatizations & Private Investments: the Recipe for 96 GW Capacity by 2007.**
- **Continuous Commitment of Foreign Investors to the Country.**

*Brazil's pressing need for extra electrical generating capacity in the short-term is creating several business opportunities for foreign investors as annual investments in the sector are expected to reach US$8 billion over the next five years. The government is taking extraordinary steps to facilitate capacity expansion and foreign investment involvement. For instance, Eletrobras has been authorized to sign PPAs with dozens of priority plants to expedite new project financings. Likewise, Banco Nacional de Desenvolvimento (BNDES) is creating a fund to assist in the economic viability of priority plants. The fund's basic cost is the BNDES' TJLP rate, the basic and the risk spreads are each 2.5%, and BNDES will cover 100% of the local costs, not to exceed 80% of total project costs. The program will benefit new plant construction and expansion projects including hydroelectric, thermoelectric and cogeneration plants that were labeled priority projects by the government. The Ministry of Mines and Energy has identified several thermoelectric projects for a total of 7,500 MW that it considers priority projects to be executed between now and 2003. Also, a new Central Bank resolution allows companies involved in oil, gas and power projects to open foreign currency accounts in authorized Brazilian banks.*

*Price adjustments, however, have not kept pace with currency movements. Hence, in the case of consumer electricity rates, prices have dropped from US$80/ MWh to US$56/MWh. Industry executives have indicated that the minimum rate needed to guarantee continuous investment in the expansion of the electrical system is US$67/MWh, which is comparable to US$70/MWh and US$80/MWh in the U.S. and Europe respectively. Price developments during the next few years will be the critical factor for Brazil's goal of achieving a 96,200 MW generating capacity by 2007 (1999=60,756 MW). The government sees private investment as a critical component in the expansion process, and it will continue to motivate private investors' participation in the sector. Large privatizations will occur next year including the sale of Furnas (I 5,570 MW & II 4,633 MW), Eletronorte (4,356 MW), and Chesf (I 6,420 MW, II 4,574 MW & III 1,500 MW) generating companies. Also, pursuing its plans to increase the pace of privatization, the government will auction 23 blocks for oil and gas exploration rights scheduled for the second quarter of 2000. Electrobras has announced expansion plans for eight thermoelectric plants alongside the Bolivia-to-Brazil gas pipeline totaling 5,030MW in capacity. It is anticipated that the level of investment in these projects would reach US$5.8 billion. Several other similar projects, including the development of new gas pipelines, are currently in the planning stage.*

**Key Economic Indicators**

The forecasted Y2K *Real* GDP growth: 4%

Current foreign reserves: US 42 billion

Inflation (estimated, IPCA 1999): 8%

*Despite the adverse economic and financial conditions throughout 1999, foreign investors such as AES, Duke, and British Gas continue to invest in Brazilian energy ventures, demonstrating their commitment to the region. In 2000, a substantial volume of newly emerging investment opportunities and a positive economic and financial climate in the region should accelerate the pace of infrastructure investment in this ninth largest economy of the world.* ■

Taylor-DeJongh Inc. is an international project development and finance company with over 20 years of experience and over $20 Bn of projects financed. Power, oil & gas, infrastructure development and privatisations, telecommunications and industrial projects are the focus of company's financing activities. The company is headquartered in Washington DC with branch offices in London, Cairo, Istanbul and partnership arrangements in Johannesburg and Bahrain.
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