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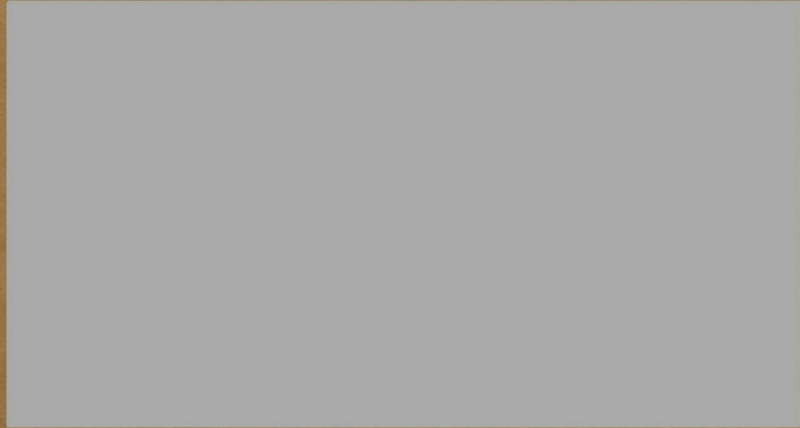
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Brazil - Project Management Records - General - Correspondence

OFFICE MEMORANDUM

D.F.
gmu
u/1

DATE: October 28, 1988

TO: Mr. Carlos E. Velez, Economist, LA1IE

FROM: Mohan Munasinghe, Chief, LA1IE *SD*

EXTENSION: 39320

SUBJECT: BRAZIL - Carajas Energy Options Study - Preparation Mission
Terms of Reference

1. While in Brazil for the preappraisal of the second water sector project for Sao Paulo and Parana, you will join Mr. J. U. Richter (IENEE), traveling under separate terms of reference for meetings with the Brazilian agencies involved in the preparation and implementation of the program for the above project.
2. Upon your return to Washington, you should brief me on the mission findings.

cc: Messrs. Choksi o/r, Weissman (LA1DR); Linder (LACVP); Nankani, Klaus (LA1CO); Moscote, Goodland (LAT); Collell, Abbott (LEGLA); Barahona (LOAEL); Larrieu, Vietti (LA1IE); Richter, McKechnie (IENEE); Papadopoulos (Res. Rep.)

CEV:csc

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REF : LA1IE
OINFO

*sub. notice
received*

-SUBJECT: CARAJAS ENERGY OPTIONS STUDY-BANK MISSION TO BRAZIL
-DRAFTED BY: C. E. VELEZ/CSC EXT: 39329
-AUTHORIZED BY: MOHAN MUNASINGHE, CHIEF, LA1IE
-CC: MESSRS. J. U. RICHTER, MCKECHNIE, IENEE

391 611146 =

-PLEASE DELIVER TO THE FOLLOWING:
-DR. CLODOALDO HUGUENEY FILHO
-SECRETARIA ESPECIAL DE ASSUNTOS INTERNACIONAIS-SEAIN
-DR. JOAO URBANO CAGNIN, DIRECTOR
-PROGRAMA GRANDE CARAJAS
-DR. FABIO RAMALBO DE CICCO, SUPERINTENDENTE
-IPEA/SEPLAN
-BRASILIA, D.F., BRAZIL

391 2123229 =

-DR. AGRIPINO ABRANCHES VIANA, PRESIDENTE
-COMPANHIA VALE DE RIO DOCE (CVRD)
-RIO DE JANEIRO, BRAZIL

391 611711 =

-DR. JOSE CARLOS CARVALLO, SECRETARIO GERAL
-INSTITUTE BRASILEIRO DE DESENVOLVIMENTO FLORESTAL (IBDF)
-BRASILIA, BRAZIL

IBRD/BRA

-MR. GEORGE PAPADOPOULOS, RESREP
-BRASILIA, D.F., BRAZIL

BT

WASHINGTON DC - 27-OCT-88

WE ARE PLEASED TO CONFIRM BANK MISSION IN CONNECTION WITH THE CARAJAS ENERGY-ENVIRONMENT STUDY, COMPOSED OF MESSRS. J.U. RICHTER AND C.E. VELEZ ARRIVING RIO OCTOBER 6 FOR A STAY OF TWO WEEKS. OBJECTIVES OF THE MISSION ARE TO: (AAA) SEEK AGREEMENT WITH RELEVANT GOVERNMENT AGENCIES ON TERMS OF REFERENCE AND SCHEDULE FOR MAIN MISSION; (BBB) SELECT BRAZILIAN CONSULTANTS FOR TASKS RELATED TO STUDY; (CCC) EVALUATE RECENT DEVELOPMENTS RELEVANT TO STUDY; AND (DDD) BRIEF AUTHORITIES ON THE OUTCOME OF MR. RICHTER'S RECENT DISCUSSIONS AT THE E.C. IN BRUSSELS AND BMZ/GTZ IN W. GERMANY. REGARDS, MOHAN MUNASINGHE, ACTING DIRECTOR, COUNTRY DEPARTMENT I - BRAZIL, INTBAFRAD

*November 6!
Paula*

=10281533

IN DROPCOPY OF:L1ER

NNNN

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THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

Washington, D.C. 20433

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FROM: JOERG-UWE RICHTER, IENEE Extension 33658 Dept/Div. Nos. 65734

TO: COMPANY/ORGANIZATION: ROYAL MONCEAU HOTEL
CITY AND COUNTRY: PARIS, FRANCE
FOR ATTENTION OF: MR. ALASTAIR MCKECHNIE, WORLD BANK STAFF

FACSIMILE/ TELEFAX NO.: 331 456 32893

SUBJECT: 1. TASK DESCRIPTION -- GUATEMALA
2. Draft ESMAP-EEC Agreement on Brazil -- Carajas Energy Options Study, for your clearance.

cc: IENEE Files

Transmission authorized by: JOERG-UWE RICHTER, ACTING CHIEF, IENEE

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JOERG-UWE RICHTER, ACTING CHIEF, IENEF

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DRAFT LETTER OF AGREEMENT

Mr. A. Churchill
Director, Industry and Energy Department
Senior Vice-Presidency for Policy, Planning & Research
1818 H Street, N.W.
Washington D.C. 20433
USA

Subject: Agreement between the Commission of the European Communities and the UNDP/World Bank Energy Sector Management Assistance Program (ESMAP) concerning the Study on Energy Options for the Greater Carajas Program in Brazil

I have the honour to inform you that the Commission of the European Communities has decided to provide support to the UNDP/World Bank Energy Sector Management Assistance Program (ESMAP) towards implementing the following project:

Title: Brazil : Technical Support for Carajas Energy Options Study

Project No.: _____

Commission Contribution: In kind -- Four Consultants

Please find below the terms and conditions which the Commission proposes for making the above specialists available. If you are in agreement with the text, we would appreciate your returning the original of this Letter of Agreement duly signed with the mention "read and approved".

1. COMMITMENT OF THE COMMISSION

The costs of making four consultants available for implementing the Study shall determine the limit for the commitment by the Commission. Any requirements over and above this contribution shall be borne by ESMAP or other donors.

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2. COMMITMENT OF ESMAP

ESMAP shall be responsible for task management, including the organization and implementation of the Study, and securing co-financing for the total effective cost of the Study covered by this Agreement. The contribution of the Commission is conditional upon ESMAP securing this co-financing. The Federal Republic of Germany has undertaken a commitment in principle to provide those resources needed for the study not covered by the contribution of the Commission.

3. BACKGROUND

The joint UNDP/World Bank Energy Sector Management Assistance Program (ESMAP) was started in 1983. The Program assists developing countries in evaluating the principal strategy, policy, and institutional issues in the energy sector and the options and requirements for strengthening energy sector management; and in improving the efficiency of energy production, transformation, and end-use. This program is a continuation of the UNDP/World Bank Energy Assessment Program under which during 1980-88, 68 energy sector reports have been prepared.

4. OBJECTIVE

The technical assistance of the Commission is to facilitate the implementation of the Carajas Energy Options Study which has been requested by the Federative Government of Brazil.

5. DESCRIPTION

The Commission will contribute up to four consulting experts from Community countries and/or Brazil to the team of specialists that is charged to carry out the Carajas energy options mission(s) and the

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subsequent report preparation. It is understood that this assistance will depend upon the identification of suitable experts from the Community or Brazil.

In addition, the following criteria will apply:

- (i) the willingness of the Federative Government of Brazil to cooperate in preparing the Study must be demonstrated;
- (ii) the main focus of the Study should be on the evaluation of environmentally acceptable energy alternatives to charcoal for pig iron and steel production in the Greater Carajas area, including the impact of alternative locations and alternative scopes of operations on the comparative position of the different energy options;
- (iii) experts from Brazil will participate in the Study to the feasible extent to improve the relevance of the Study and facilitate the future application of its recommendations.

6. DURATION OF AGREEMENT

The tentative schedule for implementation of the Study covered by this Agreement envisages that the substantive work will be completed by April 1989 and the report will be issued by September 1989. In view of the above, the duration of this agreement has been set at six months. However, the duration, as well as the other features, of this

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Agreement may be altered by mutual agreement during the course of implementation of the proposed work.

7. EXECUTION: TERMS AND CONDITIONS

- Selection and Approval of Experts

It is agreed that ESMAP, as task management agency for the Study, will identify and select suitable consultants from the Community or Brazil to participate in the Study as appropriate, and propose their recruitment by the Commission. For this purpose ESMAP will communicate to the Commission by telex the names, brief curricula vitae and terms of reference for the experts from the Community and or Brazil who would be recruited by the Commission. The Commission will respond by telex within two weeks in the event that it has any objection to bearing the cost of the proposed experts.

- Acknowledgement

The contribution of the Community will be acknowledged in the final (blue cover) report of the Study. The wording of the acknowledgement will be:

"This is one of a series of reports of the joint UNDP/World Bank Energy Sector Management Assistance Program (ESMAP) which has been responsible for preparing this Report. Support for

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this work has been provided, through funding of specialists, by the European Communities.

It is understood that the acknowledgement may also reflect the contributions of the other agencies that support the implementation of the Study.

- Consulting and Reporting Requirements

ESMAP will submit to the Commission appropriate information about the status of the Study and about any revisions in the proposed timetable for future work on the Study. The Commission will be given the opportunity to make comments before the Study is finalized.

ESMAP will send to the Commission 40 copies of the completed Study. Should the Study be provided in more than one language, the number of copies will be divided equally among these languages.

8. RENUNCIATION BY ESMAP

ESMAP may, with the agreement of the Commission, renounce in whole or in part the execution of the Study. An exchange of Letters shall set out the details of said renunciation.

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9. AMENDMENT

Any amendment to this letter of Agreement must be agreed between the parties hereto and shall only be adopted after an exchange of letters between the parties.

10. EFFECTIVENESS OF COMMITMENT

The commitment of the Commission shall become effective upon receipt of the confirmation that ESMAP has accepted the conditions as laid out in this Letter.

Signed on behalf of
World Bank

Director General, D.G. VIII
(Development)

Read and Approved

OFFICE MEMORANDUM

DATE April 21, 1987

TO Mr. Joseph Goldberg, Division Chief, INDD1

FROM Felix Remy, INDD1 *FR*

EXTENSION 75131

SUBJECT BRAZIL - Energy Strategy and Tin Policy Studies
Back-to-Office Report

| | |
|---|---------------------|
| ENERGY STRATEGY AND PREINVESTMENT DIV. I | |
| Dt. Recd. <u>4/23</u> | Log No. <u>4894</u> |
| For Action To: <u>B. Montfort</u> | |
| For Info. To: <u>Bates</u> | |
| Action Taken On: _____ | |
| Reference File: <u>Brazil - Gen</u> | |

- In accordance with the terms of reference of March 12, 1987, I remained in Brazil for three working days between April 6 and 8, after completing the supervision mission of the Carajas Iron Ore Project, and established contacts with (i) the Secretariat or Technical Office of the National Energy Commission (CNE), in Brasilia, to obtain information on the work now under way regarding the coal subsector, and (ii) the three most important tin producers in Brazil, to obtain information on their production and investment programs and their views on the future of the tin market and of their competitiveness vis-a-vis the tin producers elsewhere; these meetings were held in their main offices in Sao Paulo and Rio de Janeiro; an independent consultant who was formerly associated with the main producer, was also interviewed.
- The Secretariat of the National Energy Commission has submitted to the Minister of Mines and Energy, a report including a "coherent and global" proposal for the coal subsector. In the preparation of the said proposal, the Secretariat considered suggestions from diverse sources, such as a "Coal Promotion Group" appointed by the Minister and which includes the coal producers. The report is considered confidential until cleared by the Minister, (expected by May) and hence the mission was not given access to the document, although verbal information was given on some of the recommendations, which are mostly based on the principle that prices should reflect costs and that the policy of substituting fuel oil at any price has been discontinued; how far will the recommendations go along these lines, remains to be seen. As to the cost data on the coal mines, no information was given, and the mission was referred to the producing companies. Annex 2 includes a summary of the notes of the meeting. The next step would be to review the coal proposal, once it is cleared, and a future mission to Brazil should schedule visits to the coal producers, most of which are located in Rio Grande do Sul, in order to collect cost data.
- The Brazilian tin producers, having the lowest variable costs in the world and high investment costs, due to the remote location of their mines, are opposed to any cartel-like action that would regulate the market through quotas, as the Association of Tin Producing Countries (ATPC) has proposed, and feel that supply and demand should regulate the price of tin. Temporarily, however, they have agreed to limit their production at

the 1985 level, when the tin market collapsed, until the existing excess stocks are reabsorbed and reach a normal level of 20,000-30,000 tons, which is expected to happen in the second half of 1988. Annex 3 is a summary of the information received during the reported interviews.

cc: IND Director
IND Assistant Directors
IND Division Chiefs
Lead Advisor
Division Deputy Chief
Division Principal Mining Engineer
Messrs. Strongman, van der Veen,
von Klaudy
EISIC

Messrs. Hittmair (CTRVP)
Kopp (PPDDR)
Jennings (LCPDR)
Picciotto (LCPDR)
Gue (LC2DR)
Pfeffermann (LCNVP)
Jaspersen (LCNVP)
Schultz (CL2DR)
Langton (EPDCS)
Barker (EDTPD)
Lecuona (LC2BR)
Decaux (EGYPA)
Saunders (EGYPA)
Gonzalez-Cofino (LC2BR)
Thompson, Klaus (LC2BR)
Papadopoulos (LC2BR)
Byer (EGYPA)
Moscote, Larrieu (LCPEN)
Vietti (LCPEN)
Thadani (EGYS1)
Khelil (EGYD2)
Mulckhuyse (INDRE)
Gamba (INDRE)
Bourcier (EGYPP)
Iskander (EGYD2)
Montfort, Bates (EGYS1)
Gamba (INDRE)
Brown (INDD2)
Abbott (LEGLC)
Wijnand (LCPAB)
Santos (LC2D1)
Goodland (PPDES)
Beattie (LCPAB)
Ms. Koch-Weser (LCPAB)
Carr (OEDD3)
Barry, Parrilli (LCPPS)
LACIC

FRemy:vmd

BRAZIL - ENERGY STRATEGY AND TIN POLICY STUDIES

List of Persons Met

National Energy Commission (Brasilia)

| | |
|-----------------------|---------------------------|
| Lourival Carmo Monaco | Executive Under Secretary |
| Sidonio Cardoso Naves | |

Paranapanema S.A., Mineracao, Industria e Construcao (Sao Paulo)

| | |
|----------------------------|-----------------------|
| Octavio Cavalcanti Lacombe | Chairman of the Board |
|----------------------------|-----------------------|

Brumadinho S.A., Mineracao e Metais (Sao Paulo)

| | |
|-------------------------------|--------------------------------------|
| Antonio Luiz Sampaio Carvalho | Director |
| Arthur Pinto Chaves | Manager, Planning and Development |

BP Mineracao (Rio de Janeiro)

| | |
|------------------|--------------------|
| Thomas M. Cheney | President |
| Kevin Abbot | Commercial Manager |

W.R. Blackhurst Participacoes Ltda. (Rio de Janeiro)

| | |
|---------------------|------------|
| W. Robin Blackhurst | Consultant |
|---------------------|------------|

BRAZIL ENERGY STRATEGY STUDY: COAL SUBSECTOR INFORMATION

VISIT TO THE TECHNICAL OFFICE OF THE NATIONAL ENERGY COMMISSION

APRIL 6, 1987

A. Background

1. Present Situation

- The total consumption of coal in Brazil is 20 million tpy (13-14 Mtpy coking coal, 6-7 Mtpy thermal). The coking coal is 85% imported/15% Brazilian, while the steam coal is all local; in total, of the 20 Mtpy consumed, 8 Mtpy are of Brazilian origin and 12 mtpy imported coal.
- At present, there are 15 coal producers in Brazil; 13 of them, private, one owned by the Federal Government (Carbonifera Prospera SA, a subsidiary of SIDERBRAS through the CSN) and one owned by the State of Rio Grande do Sul (Companhia Riograndense de Mineracao - CRM); The latter company (CRM), has the greatest reserves; it holds the Candiota area, where most of the coal reserves of the country are located.
- Contribution of coal to the country energy matrix is 6% (coal consumption as a % of total energy consumption), which compares with 20% in Western Europe, 25% in the USA and 18% in Japan.
- Installed capacity in coal fired thermal generating plants is under 2% of total installed capacity for power generation.
- Prices of all energetic materials are administered.
- The power generating system is considered to be excessively dependent on its hydro-generating component, which makes it vulnerable to dry years.
- Most of the new hydro-projects in Brazil are located in the north; most of the reserves of coal are located in the SE, and most of the consumption of energy is in the SE.
- An analysis of the characteristics of Brazilian coal, (unsuitable for metallurgical uses, high ash content, large deposits near the main energy-consuming centers) indicates that the best use for this material is for thermal generation at the mine site.

2. Recent Developments

- Stated policy of the current administration is that prices should reflect costs. Hence, there is an end to the policy of substitution of oil at any price.^{1/}
- The above notwithstanding (i) the policy of having coal prices below oil prices will continue; (ii) oil prices will continue to be administered, as will the prices of metallurgical coal and thermal coal, because they have captive markets; the prices of coal for industrial purposes will be determined by market forces, but the oil prices should act as regulator.

The Minister of Mines and Energy appointed a "Coal Promotion Group", which includes representatives from the private sector, state-owned companies (including coal producers in both cases) and institutions of the energy sector, requesting them to present their recommendations about a coal policy. The group presented a report proposing a promotional policy for coal and action plans for the energy sector. The Minister submitted the report to the technical office of the National Energy Commission (CNE), instructing the said office to consider the report as a suggestion and requesting the preparation of a coherent and global coal proposal.

The Technical Office has submitted their proposal, which is being reviewed by the Minister, for later submission to the full CNE. The mission did not see the proposal under analysis, as it is considered confidential until cleared by the Minister, although information was given as to some of its recommendations. It is thought that the Minister should clear the document by May and that it will be discussed by the CNE till end of 1987.

B. Proposal

The mission was informed that the report now under consideration includes the following proposals:

- To seek a more balanced system for the generation of electricity, by increasing the relative importance of thermal generation, in order to reduce present dependency on hydro generation and the existing vulnerability to dry years.
- To increase the relative importance of coal as a fuel in the Brazilian economy as a whole and in the power subsector in particular. The objectives to be achieved during the 1990s would be:

^{1/} In the late 70s and early 80s, as the goal of substituting oil at any price was in effect, in order to increase the consumption of coal, a policy to subsidize the transportation of coal consumed in a state other than the producer state, was adopted.

- To double the contribution of coal to the Brazilian energy matrix from 6% to 12%.
- To triple the share of coal as a source for the generation of electrical energy from 2% to 6%.

To achieve these objectives, considering the relative costs and potential of the alternative energy sources, the proposal contemplates a 30% increase in the current level of fuel oil prices (from US\$100 to US\$130/MT or from US\$13 to US\$16/barrel) in order to keep coal as a more economic alternative than fuel oil.^{2/}

Given the dynamic nature of the reserves of fossil fuels, and consequently of their potential, periodic reviews will have to update the relative importance to be given to each source; the proposed actions constitute only a first phase.

^{2/} Only order of magnitude costs for coal were mentioned. For details, the mission was referred to the producers.

TIN POLICY STUDY

PRESENT SITUATION AND PRODUCTION AND INVESTMENT PROGRAM

OF THE BRAZILIAN TIN PRODUCERS

A. The Brazilian Tin Producers: Common and Divergent Characteristics

1. Common Characteristics

The great majority of the Brazilian tin production,^{1/} (in excess of 95%) is originated in the Amazonic jungle area of the states of Amazonas, Rondonia and Para. The remote location of the mines has forced the producers to invest heavily in access and infrastructure, in order to exploit these deposits, which are considerably richer (higher metal content) than those located in other parts of the world. Consequently, the cost structure of the Brazilian producers is one with very low variable costs and in which the fixed costs predominate. Such structure provides the Brazilian tin miners with a strong incentive to increase production levels as far as their reserves will allow.

This common characteristic explains (i) the speed with which the Brazilian mines raised their production as soon as operations were started; (ii) the lack of interest of the miners, before the collapse of the tin market in October of 85, in reaching agreements with the Association of Tin Producing Countries (ATPC), to place ceilings on production volumes; and (iii) the position of not becoming full members of ATPC after the collapse.

2. Divergent Characteristics

A significant number of producers are subsidiaries of important foreign corporations, such as British Petroleum, St. Joe, Rhone Poulenc, and thus have the financial backing of their owners, which provides them with help to withstand difficult moments. Among the Brazilian companies, Paranapanema is in a category by itself; it operates the Pitinga deposit, which is by far the country's largest and richest (2-3 kgr/m³ of Sn vs. 300-1,000 gr/m³ for the other Brazilian mines), where investment has been completed on a cash basis, without incurring into debt nor having to sell stock in the market. Paranapanema hence has the lowest production costs in

1/ Brazilian production for 1987 can be estimated as follows:

| | |
|--------------|---------------|
| Paranapanema | 19,000 tons |
| BP/Brascan | 3,000 |
| Brumadinho | 2,000 |
| Best | 1,100 |
| Rhodia | 1,000 |
| Others | 1,200 |
| | <u>27,300</u> |

the world and no pressure of debt repayment, their operating revenues in 1985 totaled US\$253 million, of which approximately 70% came from tin, and the net profit was US\$184 million. Other Brazilian companies in tin mining, however, are going through financial difficulties. The Brumadinho Group was investing heavily in a primary-ore, hard rock tin prospect in Goias, when the price of tin collapsed in October 1985; subsequently the project was stopped and the company has remained heavily in debt; their debt is short term and they have been unable to replace it with long term debt, so they have had to dilute ownership by selling equity in the market.

B. Brazilian View of the Tin Market and of ATPC

Until October 1985, Brazil ignored the invitations of the Association of Tin Producing Countries (ATPC) to join the organization or to agree on production ceilings. When the tin market collapsed in October of 1985, the Brazilian tin miners initiated an internal dialogue which arrived at the conclusion, in July 1986, that Brazil should have a position and should defend it in the different panels where tin was discussed. Since then, a Brazilian delegation, headed by a representative of the Ministry of Foreign Affairs and including members of the more important producers, has attended the ATPC meetings as an observer and not as a full member.

The Brazilian position has been that the price of tin should be set by supply and demand and that only those who can produce profitably should survive and the inefficient producers should withdraw; they have opposed a cartel like solution in which members would be assigned quotas. However, because the present level of stocks in the market is excessive, the Brazilian tin producers have agreed with ATPC to limit their production temporarily, and only until the market reabsorbs the excess stock. The outlook for 1987 is thus that world production is on the level of 125,000 tons, world consumption is approximately 175,000, hence stocks now at 80,000-90,000 tons should come down to a "reasonable" or desired level of 20,000-30,000 tons sometime in 1988. Once the desired level of stocks has been arrived at, prices may move up to a level around US\$8,000/ton, while the more important producers in Brazil will increase their volumes, carefully watching the level of world stocks. It is unlikely that prices will raise substantially above the stated level of US\$8,000/ton for some time, because (i) the Brazilian producers have a unanimous position in favor of supply and demand setting the prices and away from assigned quotas, and thus are very much concerned about the possibility of high prices leading to the reopening of high cost mines and excess production, and (ii) Paranapanema, who governs the level of Brazilian output, will base its marketing strategy on long run considerations such as avoiding the replacement of tin with other materials and regaining for tin some of the markets it used to have; hence stable prices and levels of output would most likely be the main goals of the presence of Paranapanema in the market.

The Brazilian tin producers distrust ATPC unanimously and deeply, and because of their cost structure, they do not share common interests. The coordinated action of 1986-87 is one imposed by reason, in light of

current excessive stocks; once the stocks come down to the 20,000-30,000 ton level, the Brazilian producers will raise their production and will not accept quotas from ATPC. In fact, the level of US\$8,000/ton projected for late 1988 and into 1989, has been calculated as a level that should allow some profits for the existing producers and low enough to make it difficult to reopen mines, thus making quotas unnecessary.

C. Strategy for the Future: Diversification

The financial situation of the different companies is the factor governing this strategy; while those in financial difficulties have halted all projects and are waiting for better times to reactivate, those that operate profitably at the new level of prices, are seeking diversification. The cases of the two more important producers, follow:

- Paranapanema will have to diversify in the very near future, because of the nature of its deposit: the Pitinga deposit contains both alluvial and primary ore, and the latter presents itself in dirt and rock. The operation has so far extracted only alluvial ore, but in mid-1987, the exploitation of primary ore, in dirt^{2/} will begin; the primary ore, however, is associated with niobium, Zirconium and tantalum. Because Paranapanema feels technologically weak on these metals,^{3/} they are now looking for experienced partners, willing to purchase equity into these operations.
- Paranapanema is also in the process of a voluntary diversification; efforts are being centered in gold and the more successful ventures so far have been abroad; the following two projects are being advanced, for which explicit interest in the participation of IFC was manifested:
 - a. In Guyana, prospecting and exploration of a gold property in the North West of the country is being finalized and results defining the feasibility and the size of the operation should be ready in October 1987. Favorable conditions have been negotiated with the government of Guyana, including (i) Paranapanema takes 75% equity and the government 25%; the partners get paid in gold and not in local currency, hence giving them access to hard currencies; and (ii) reduced income tax during the first five years of operation.

^{2/} The exploitation of primary ore in rock is still 10-15 years ahead; the operation, however, will always remain an open pit.

^{3/} Initial tests are being run in a pilot plant.

- b. In Colombia agreements have been reached with private Colombian miners for Antioquia (Mr. Fernando Rico) to form a company that would exploit gold deposits located on the border of Brazil and Colombia; the area is being approached by infrastructure from the Brazilian side, and 600 kms away from the nearest road in Colombia; the project area appears to have large potential and investments of over US\$100 million are being talked about. Said agreement is subject to the approval by the Government of Colombia, which is now being requested.
- BP Mineracao, the operating partner of the BP Brascan venture is placing emphasis in medium sized, non ferrous metal operations into which BP enters with 48-49% and offers the 52-51% to Brazilian investors; two prospects are being advanced:
- a. A gold (15 gr/ton) hard rock property, with silver associated, in West Matto Grosso, an unknown area before British Petroleum explored it, where a 500 tons per day flotation plant is being finalized, and start-up is scheduled for June 1987.
 - b. A nickel deposit associated with some Au and Pt, (close to the surface but to be mined by underground methods), with 2.6% Ni but estimated to have 3.8% Ni equivalent, when considering the by-products and the sulphuric acid to be produced, located in Southern Minas Gerais, hence close to all infrastructure. Feasibility study is being completed and approval of the investment is estimated for mid-1988; investment of US\$180 million is estimated.
- In addition to the above projects BP Mineracao is in the preliminary stages of a polymetallic (Cu, Pb, Ag, Au) property and two gold properties.

OFFICE MEMORANDUM

DATE: April 14, 1987

TO: Mr. James H. Jennings, Assistant Director, LCPDR

FROM: Bernard ^{BD} Decaux, Senior Energy Economist, EGYPA

SUBJECT: BRAZIL: ENERGY STRATEGY STUDY - BACK TO OFFICE REPORT

ENERGY STRATEGY AND
PREINVESTMENT *Mar. Montfort*

Dt. Recd. 4/16/87 No. 4804

For Approval: _____

For Review: ~~Montfort~~
Bales

Actual Taken On: _____

Reference File: Brazil - Gen

1. In accordance with my terms of reference dated March 13, 1987, I visited Brazil to discuss with the Secretariat of the National Energy Commission and SEPLAN, the Brazilian request for Bank assistance to prepare an integrated energy strategy Study and development plan. Specifically discussions focussed on (i) administrative steps to be taken prior to implementation of the study and (ii) objectives and scope of the Study as well as preparation of terms of reference to be submitted to the Bank for comment and approval.

2. The Energy Strategy Study will consist of two phases. Phase I, to be completed in about 18 months, includes the preparation of the Study itself which would consist in a program of studies aimed at the development of an integrated strategy planning system for the energy sector including (i) an assessment of the macro-economic impact of past and proposed energy sector policies, (ii) studies on energy pricing, energy conservation, institutional, legal, technological, regional and environmental aspects; (iii) studies on the status and developmental policies for all the major supply subsectors i.e. electricity, petroleum, gas, alcohol, coal and biomass. Phase II would follow immediately thereafter and would consist in effectively implementing the recommendations of Phase I. The Study would be financed by the Public Sector Management Loan (2721-BR). The National Energy Commission (CNE) would be responsible for the overall monitoring and coordination of the energy plan. Close cooperation between the Bank and CNE is expected during Phase I and also during Phase II since the latter phase may involve conditions associated with future operations in the energy sector.

3. As regards administrative arrangements, the main issues are as follows:

a) Confirmation of Brazilian request for Bank assistance to prepare an integrated energy study under the Public Sector Management Loan. A telex was sent by the Bank to SEPLAN requesting confirmation by the Brazilian authorities of their request to the Bank and agreement to undertake the Energy Strategy to be financed under the Public Sector Management Loan. Since no reply has been received in the

Bank, another telex should be sent to obtain confirmation of agreement (such telex was sent on April 14, 1987)

b) Amendment to the Public Sector Management Loan Agreement. SEPLAN has received a draft amendment prepared by the Bank Legal Department referring to a number of technical changes which had been introduced to the original loan Agreement as well as to the inclusion of the proposed Energy Study to be financed under the Public Sector Management Loan. The Seplan coordinator of the project, Mr. Jose Brakarz, has indicated that signature of the proposed amendment might be delayed by deep institutional changes in SEPLAN, including the transfer of one key Department (SEST) to the Ministry of Finance. SEST was to benefit from the Loan as part of SEPLAN and not of Finance. Such a change may lead to significant procedural delays. After discussing the matter with the CNE Secretariat, Mr. Brakarz said he would favor an Amendment of the Loan Agreement limited to the inclusion of the Energy Study, so that the latter could be undertaken as soon as possible. The Amendment would provide a brief description of the scope and cost of the Study. Approval of the Amendment would enable immediate preparation of terms of reference of the study and subsequent implementation of the work. It is to be recalled that an Amendment to the Loan must be approved by the time of negotiations of the Second Power Sector Loan which are scheduled to start by May 11. Terms of reference of the study will be discussed during negotiations of the Loan.

c) Coordination and monitoring of the Study on the Brazilian side. Mr. Monaco of CNE and Mr. Brakarz have agreed in principle that CNE will be responsible for the management of the study and the executing agency, in cooperation with IPLAN. However the exact extent of SEPLAN's intended involvement in the Study remains to be clarified. (The telex sent to the Brazilian authorities on April 14 requests confirmation that CNE is responsible for the Study.

d) Respective role of CNE and IPLAN in carrying out the Energy Study. The CNE Secretariat (Mr. Monaco) and the IPLAN Energy Division (Mr. Livio) have reached an agreement regarding the division of labor between CNE and IPLAN. The latter will be responsible for the energy pricing and the macroeconomic/energy modelling aspects of the study. Such aspects will be incorporated in the Terms of Reference now being drafted by CNE. Another item may be the setting up of an energy data bank prior to the development of a permanent information system within IPLAN. Part of this may be of use in the preparation of the overall energy Study but there may be problems arising from the time needed to set up such an energy data bank. Total amount allocated by SEPLAN to IPLAN Energy Division under the Public Sector Management Loan is around \$300,000 for the period 1987-1989 of which a part (to be defined) would be used for the two or three studies mentioned above. The fact that CNE and IPLAN have reached an

agreement on the scope of IPLAN participation in the Study is extremely positive and has been well received by all parties; including Mr. Brakarz.

4. As regards Terms of Reference and timetable for the study, the main points are as follows:

a) Terms of Reference. The mission discussed with CNE staff the topics to be included in the Terms of Reference of the Study. The main objective is to identify, and study major energy issues in the Brazilian Energy sector at the macroeconomic, subsectoral and regional levels as well as across-the-board problems such as energy pricing, conservation and environment. The Study will make specific recommendations on such issues and will propose a reorganization of the existing institutional set up to follow on implementation of such recommendations and make overall energy policy coordination more effective. The CNE staff agreed to prepare detailed terms of reference for the Study and to submit draft TORS to the Bank for approval. CNE is working in close coordination with IPLAN but also with other organizations with particular expertise in energy sector studies, such as the Universities of Rio De Janeiro and Sao Paulo and the Joa Pineiro Foundation in Bello Horizonte which the mission visited. After the TORS have been prepared by CNE together with IPLAN, they would be sent in draft form to the Bank on May 1st. They will then be reviewed within the Bank and discussed during negotiations of the Power Sector Loan. This will involve effective support by various departments in the Bank and CAM resources will be needed. The CNE Secretariat has requested that a Bank mission visit Brazil starting May 20 to participate in final discussions regarding TORS and indicate Bank approval to the proposed TORS. Mr. Monaco's intention is to obtain CNE's initial approval of the Study early May and inform CNE early June that the Bank has agreed on the proposed TORS. It is to be recalled that CNE is composed of six Ministers (Finance, Planning, Industry, Energy, Transport, Agriculture) and the Presidents of Eletrobras and Petrobras. CNE's approval of TORS will indicate that all entities involved will participate in and contribute to the Study.

b) Time table. The CNE Secretariat is proposing the following timetable for the study:

| | |
|------------------|--|
| June 1, 1987 | = CNE's final approval of the Study |
| January 31, 1988 | = Presentation of first Progress Report to the Bank |
| March 31, 1988 | = Presentation of second Progress Report to the Bank |

June 31, 1988 = Submission of first findings of the study in an Interim Report.

July 15, 1988 = Comments by the Bank

October 1, 1988 = Submission of Draft Final Report to Bank

November 1, 1988 = Final Report

February 1, 1989 = Initiate Implementation of Plan of Actions recommended by the Study.

The above official timetable does not show the full extent of Bank involvement. Mr. Monaco has requested that during the whole duration of the study Bank missions come to Brasilia to discuss progress of the Study and make specific inputs. He welcomed the fact that CAM resources will be allocated in FY88 for that purpose. The proposed timetable may be modified after detailed TORS and plan of work have been approved by CNE and the Bank, taking into account also that CNE and IPLAN will have to work with a large number of consultants from all parts of Brazil which means that some time will be needed to identify consultants, receive proposals, approve and sign contracts, etc. before work can be effectively started. However to the extent that consultants are likely to be largely individuals rather than firms, administrative delays may be shortened. The CNE Secretariat will follow Bank guidelines on the use of Consultants.

c) Working groups. CNE Executive Secretary, Minister Aureliano Chavez, has appointed a few months ago three technical working groups to deal with energy planning (mainly data gathering and methodology aspects), institutions (including legal and pricing management aspects) and technology issues. These groups are useful to the extent that participants include representatives of most entities to be involved in the preparation of the Energy Strategy Study. However there is the potential danger that CNE staff may be diverted to these working groups rather than devoting time to the Energy Study. Mr. Monaco, Chief, CNE staff, has informed the mission that such groups would continue to exist but mainly as a forum to inform various energy entities on developments regarding the Energy Study and ensure their participation, for instance in supplying vital information eg. from Petrobras, Eletrobras, etc. Mr. Monaco clearly understood that proceeds from the Bank Loan would not be used to finance other studies to be eventually carried out by the three working groups.

d) Project Management. Mr. Monaco will be the Project Manager assisted by Mr. Oskar Kling as the Administrative Manager. The question was raised of the need for a Technical Manager or Director of Studies to assist Mr. Monaco in carrying out the Study. Mr. Monaco indicated that the draft TORS to be sent to the Bank will propose a detailed project management scheme describing the role of individual CNE/IPLAN staff as well

of core, permanent high level consultants to be hired for the Study. Mr. Monaco indicated to the mission that until detailed TORS have been prepared it was not possible to provide yet firm cost estimates for the Study but estimated the cost of components of the study to be financed by the Bank should be below \$2 million.

e) Other items. It was agreed that all major studies to be sent to the Bank for comment would be translated into English. In addition to Mr. Monaco who will be the Bank main contact, a staff member is also to be appointed by CNE who would be available to answer detailed questions from Bank staff and undertake substantive work if requested. A time table of regular Bank missions to Brasilia to discuss progress and provide detailed comments on all studies would be worked out jointly by the Bank and CNE. Several seminars would be organized involving international and Brazilian experts who would provide inputs on methodology, sectoral aspects and the general direction of the Study.

5. CNE and IPLAN representatives appeared extremely eager to undertake the Energy Strategy Study as soon as possible. CNE seems to have received the backing of most energy entities to push ahead with the study (Eletrobras, Nuclearbras, Petroleum Pricing Council, Petrobras, CENAL for alcohol, the charcoal Association, CEPEX in Bello Horizonte, the Environment Secretariat in Brasilia, etc.). There is a wide consensus on the need for full Bank support not only to finance the study but also to pursue a continuous and extremely close dialogue with Bank staff during the duration of the whole study. They are also eager to eliminate all pending administrative issues as soon as possible in order to start work. In that respect the main issue to be solved is the proposed Amendment to the Public Sector Management Loan on which action should be taken by SEPLAN without further delay.

Distribution

Messrs. Moscote, Larrieu, Vietti LCPEN, Thompson, Klaus, Papadopoulos LC2BR, Byer EGYPA, Thadani EGYSI, Khelil EGYD2, Beattie LCPAB, Mulckhuyse INDRE, Abbott LEGLC, Remy INDD1, Brown INDD2, Raizen (Consultant),
Mesdames Koch - Weser LCPAB, Barry, Parrilli LCPPS,

cc:

Messrs. Picciotto LCPDR, Gue LC2DR, Pfeffermann, Jaspersen LCNVP, Gonzalez Cofino, LC2BR, Bourcier, Saunders, Iskander EGY, Montfort, Bates EGYS1, Sood, Gamba INDRE, Goldberg INDD1, Raghavan INDD2.

BDecaux:rb/sk

OFFICE MEMORANDUM

Mr. Montfort

Dt. Recd. 3/31

4711 D629

DATE: March 24, 1987

TO: Distribution

FROM: James H. Jennings, Assistant Director, LCPDR

EXTENSION: 76796

SUBJECT: Brazil: Energy Strategy Study - Minutes of Meeting

Action Taken On:

Reference File: Brazil - Gen.

1. A meeting was held on March 9 at 3 p.m. to discuss the above subject. Participants included representatives of the Region's Energy and Agriculture Divisions as well as the Brazil Division. Other participants came from the Energy Department (EGYPA, EGYS1 and EGYD2), the Industry Department (INDRE, INDD1 and INDD2) and the Legal Department. All agreed on the high priority of the proposed study and the need for the Bank to support it financially and through top quality inputs from all the relevant Departments. Brazil's National Energy Commission's specific request for very close cooperation and dialogue with Bank staff during the elaboration phase of the study deserved to be met and would also require close coordination within the Bank.

2. It was agreed that the Energy Strategy Study should be financed through the Public Sector Management Project (2721-BR) if approved by the government and would be carried out by the National Energy Commission (CNE) in conjunction with SEPLAN. An Amendment to the Loan Agreement for the above project would be immediately drafted to include the proposed study and sent to the Brazilian authorities for approval. At the same time, a telex would be sent to SEPLAN in connection with the current appraisal of the Second Power Sector Loan underlining that the Bank expects to receive, prior to negotiations, government confirmation of the agreement for implementing the integrated energy study, to be financed with the public sector management loan

3. It was agreed to meet the CNE Secretariat's request for Bank assistance in preparing the detailed terms of reference. Mr. Decaux will visit Brasilia for that purpose and will also discuss with SEPLAN the draft Amendment to the above mentioned Loan Agreement.

4. CAM resources will be budgeted so Bank staff from various departments can provide necessary support and advice to CNE during the study's preparation, which is expected to last about 18 months. Coordination and monitoring will start in March-June 1987, and resources will be provided for that period. However, the task to be performed should take place mainly in FY88, and adequate resources will be made available for that period. Mr. Jennings will be responsible for the overall coordination of the project, assisted by Messrs. Decaux and Thompson. Monitoring of the study's preparation will be Mr. Decaux's responsibility.

5. The consensus of the meeting was that priority should be given to assessing the macroeconomic impact of energy sector strategy and to

covering key aspects such as energy pricing, energy conservation, and institutional, legal and environmental issues. The study will obviously investigate subsectoral issues in petroleum, power, coal, alcohol and biomass. However, care should be taken not to conduct extensive, separate investigations of subsectors such as power and petroleum for which substantial information is already available. On the other hand, in subsectors such as coal and wood fuel, more work may have to be undertaken. CNE's desire to closely coordinate its work with SEPLAN, Petrobras and Electrobras was emphasized. The "indicative" nature of energy planning in the Brazilian context was also underlined. One of the main objectives of the study is to define an energy strategy consistent with overall economic, social and environmental policies, much more than to enforce centralized planning and increased control of energy producers. In that respect, considerable attention will have to be devoted to regional aspects so important in a large country such as Brazil. The role of some states (e.g. Sao Paulo) in the decision making process will have to be realistically considered when devising a national energy strategy.

6. The energy strategy study should pay attention to short term issues which may have a direct impact on the medium/long term evolution of the energy sector. Examples of issues soon to be decided range from the future of the alcohol program, and the expanded use of charcoal for the iron and steel industry, to large industrial investments, some of which will have substantial consequences on the type and volume of fuels to be used.

7. Finally, it was stressed that the preparation of the energy strategy for Brazil was the responsibility of the Brazilian authorities (the National Energy Commission and SEPLAN). However, CNE's request for Bank assistance and continuous dialogue was a unique opportunity and called for maximum coordinated support from all interested parts of the Bank.

Cleared with and cc: Messrs. Moscote (LCPEN), Thompson (LC2BR)
Distribution

Messrs. Larrieu, Vietti (LCPEN), Papadopoulos, Klaus (LC2BR), Byer, Decaux (EGYPA), Thadani (EGYS1), Khelil (EGYD2), Beattie (LCPAB), Mulckhuyse (INDRE), Abbott (LEGLC), Remy (INDD1), Brown (INDD2), Raizen (Consultant),
Mesdames Koch-Weser (LCPAB), Barry, Parrilli (LCPSS)

cc:

Messrs. Picciotto (LCPDR), Gue (LC2DR), Pfeffermann, Jaspersen (LCNVP), Gonzalez Cofino (LC2BR), Bourcier (EGYPP), Saunders (EGYPA), Iskander (EGYD2), Montfort, Bates (EGYS1), Sood, Gamba (INDRE), Goldberg (INDD1), Raghavan (INDD2)

BDecaux:csc

The World Bank/International Finance Corporation
OFFICE MEMORANDUM

log 4711

Mr THASANI
D636

DATE: March 24, 1987

TO: Distribution

FROM: James H. Jennings, Assistant Director, LCPDR

EXTENSION: 76796

SUBJECT: Brazil: Energy Strategy Study - Minutes of Meeting

Free To answer
Mr. Decaux's BTO Report
3.31

1. A meeting was held on March 9 at 3 p.m. to discuss the above subject. Participants included representatives of the Region's Energy and Agriculture Divisions as well as the Brazil Division. Other participants came from the Energy Department (EGYPA, EGYS1 and EGYD2), the Industry Department (INDRE, INDD1 and INDD2) and the Legal Department. All agreed on the high priority of the proposed study and the need for the Bank to support it financially and through top quality inputs from all the relevant Departments. Brazil's National Energy Commission's specific request for very close cooperation and dialogue with Bank staff during the elaboration phase of the study deserved to be met and would also require close coordination within the Bank.

2. It was agreed that the Energy Strategy Study should be financed through the Public Sector Management Project (2721-BR) if approved by the government and would be carried out by the National Energy Commission (CNE) in conjunction with SEPLAN. An Amendment to the Loan Agreement for the above project would be immediately drafted to include the proposed study and sent to the Brazilian authorities for approval. At the same time, a telex would be sent to SEPLAN in connection with the current appraisal of the Second Power Sector Loan underlining that the Bank expects to receive, prior to negotiations, government confirmation of the agreement for implementing the integrated energy study, to be financed with the public sector management loan

3. It was agreed to meet the CNE Secretariat's request for Bank assistance in preparing the detailed terms of reference. Mr. Decaux will visit Brasilia for that purpose and will also discuss with SEPLAN the draft Amendment to the above mentioned Loan Agreement.

4. CAM resources will be budgeted so Bank staff from various departments can provide necessary support and advice to CNE during the study's preparation, which is expected to last about 18 months. Coordination and monitoring will start in March-June 1987, and resources will be provided for that period. However, the task to be performed should take place mainly in FY88, and adequate resources will be made available for that period. Mr. Jennings will be responsible for the overall coordination of the project, assisted by Messrs. Decaux and Thompson. Monitoring of the study's preparation will be Mr. Decaux's responsibility.

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covering key aspects such as energy pricing, energy conservation, and institutional, legal and environmental issues. The study will obviously investigate subsectoral issues in petroleum, power, coal, alcohol and biomass. However, care should be taken not to conduct extensive, separate investigations of subsectors such as power and petroleum for which substantial information is already available. On the other hand, in subsectors such as coal and wood fuel, more work may have to be undertaken. CNE's desire to closely coordinate its work with SEPLAN, Petrobras and Electrobras was emphasized. The "indicative" nature of energy planning in the Brazilian context was also underlined. One of the main objectives of the study is to define an energy strategy consistent with overall economic, social and environmental policies, much more than to enforce centralized planning and increased control of energy producers. In that respect, considerable attention will have to be devoted to regional aspects so important in a large country such as Brazil. The role of some states (e.g. Sao Paulo) in the decision making process will have to be realistically considered when devising a national energy strategy.

6. The energy strategy study should pay attention to short term issues which may have a direct impact on the medium/long term evolution of the energy sector. Examples of issues soon to be decided range from the future of the alcohol program, and the expanded use of charcoal for the iron and steel industry, to large industrial investments, some of which will have substantial consequences on the type and volume of fuels to be used.

7. Finally, it was stressed that the preparation of the energy strategy for Brazil was the responsibility of the Brazilian authorities (the National Energy Commission and SEPLAN). However, CNE's request for Bank assistance and continuous dialogue was a unique opportunity and called for maximum coordinated support from all interested parts of the Bank.

Cleared with and cc: Messrs. Moscote (LCPEN), Thompson (LC2BR)
Distribution

Messrs. Larrieu, Vietti (LCPEN), Papadopoulos, Klaus (LC2BR), Byer, Decaux (EGYPA), Thadani (EGYS1), Khelil (EGYD2), Beattie (LCPAB), Mulckhuyse (INDRE), Abbott (LEGLC), Remy (INDD1), Brown (INDD2), Raizen (Consultant),
Mesdames Koch-Weser (LCPAB), Barry, Parrilli (LCPSS)

cc:


Messrs. Picciotto (LCPDR), Gue (LC2DR), Pfeffermann, Jaspersen (LCNVP), Gonzalez Cofino (LC2BR), Bourcier (EGYPP), Saunders (EGYPA), Iskander (EGYD2), Montfort, Bates (EGYS1), Sood, Gamba (INDRE), Goldberg (INDD1), Raghavan (INDD2)

BDecaux:csc

OFFICE MEMORANDUM

DATE: March 11, 1987

TO: Mr. Robin Bates, Deputy Division Chief, EGYS1

FROM: Jivat N. Thadani, EGYS1 

SUBJECT: BRAZIL: Energy Strategy Study

1. In your absence I attended the meeting convened by Mr. J. Jennings on Monday, March 9 at 3:00 p.m. It was very well attended - by over twenty persons - reflecting the widely shared interest in the proposed study as well as the keenness of management to get it off to a quick start.

2. The strategy outlined in Mr. Jennings' memo of March 6 was endorsed without any changes. It was agreed that the costs, up to US\$2 million, should be met from the provisions under the Public Sector Management loan. Amendment of the loan document would also define the tasks, procedures and agreements regarding consultation.

3. It was also agreed that the main emphasis should be on issues of national policy, institutional relations and management. Project level issues should be examined separately as appropriate.

4. Mr. Decaux will, during his forthcoming visit, obtain detailed information on Terms of Reference for tasks and coordinate the Bank's role in this study. Upon return, he will propose specific tasks for the various Divisions involved and a work program (to be approved under the CAM process for FY88) indicating the staff weeks to be contributed by each Division. I understand from him that he would probably seek support from EGYS1 to the extent of 5 or 6 staff weeks, to be focussed on issues of interfuel substitution, pricing, etc.

cc: Mr. Montfort (EGYS1)

JThadani:bre

OFFICE MEMORANDUM

DATE: March 6, 1987

TO: Distribution

FROM: James H. Jennings, Assistant Director, LCPDR

EXTENSION: 7-6796

SUBJECT: Brazil - Energy Strategy Study

1. The Bank has recently achieved a breakthrough in our relations with Brazil in the energy sector - the Government, Ministry of Planning (SEPLAN), Ministry of Mines and Energy, Petrobras, and Eletrobras-have requested Bank assistance to prepare an integrated energy strategy and development plan which would: (i) assess the macro economic impact of past and proposed energy sector strategies; (ii) cover energy pricing, energy conservation, institutional and environmental aspects; (iii) focus on the status and developmental policies of all the major supply subsectors, power, petroleum, gas, alcohol, coal, biomass.

2. The study would be financed through the Public Sector Management Project (2721-BA). It would be carried out by the National Energy Commission (CNE), the executive secretary of which is the Minister of Mines and Energy and the president of which is the President of Brazil. Members of the Commission are six Ministers (Planning, Finance, Agriculture, Transport, Industry and Energy), the Secretary General of the National Security Council and the Presidents of Eletrobras, Petrobras and the National Petroleum Council.

3. Terms of reference of the study (Phase I) together with detailed cost estimates are being prepared by the Secretariat of the National Energy Commission. The CNE Secretariat has requested Bank assistance to help them prepare the detailed Terms of Reference. Mr. Decaux will shortly go to Brasilia to meet this request and pursue the dialogue recently initiated on the energy strategy issues. Phase I of the study should be completed in about 18 months. It would be followed by a Phase II consisting of implementation of the recommendations of the study by energy producers and interested ministries, CNE being in charge of the overall monitoring and coordination of the energy Plan. During appraisal of the proposed Second Electric Power Sector Loan and subsequent processing stages of the loan, agreement will be sought with CNE and SEPLAN on the final terms of reference, short list of consultants, draft contractual conditions for hiring consultants, implementation timetable, and sources of financing for the Energy Study. At negotiation of the Power Sector Loan, such agreement should be confirmed. Conditionality associated with the preparation of the energy strategy would be embodied in an Amendment to the Loan Agreement for the Public Sector Management Project. Such an Amendment should be agreed upon with SEPLAN as early as possible and at

any rate not later than at the time of negotiation of the Second Electric Power Sector Loan. Phase II may involve conditions associated with future operations in the energy sector.

4. The results of the integrated Energy Strategy Study would be discussed with the Bank, and action programs dealing with each subsector would be agreed upon as part of specific Bank - assisted operations dealing with those subsectors and our macro dialogue. Discussions would take place with the CNE Secretariat and other interested bodies during the preparation and implementation of Phase I of the study, thus meeting CNE's specific request for very close cooperation and dialogue with Bank staff during the elaboration phase of the energy study. CNE is also interested in organizing seminars to be attended by internationally recognized experts to discuss and comment on the various specific components of the study (pricing, energy conservation, linkage with macroeconomic aspects, subsectoral aspects, etc.) Financing of such seminars is intended to be covered under the proposed Public Sector Management Project. Close cooperation between the Bank and CNE is also expected during Phase II when recommendations of the study will have to be implemented.

5. Coordination within the Bank will be ensured by myself together with Mr. Decaux, EGYPA (for Projects) and Mr. Thompson, LC2BR (for Program). Monitoring of the preparation of the energy strategy will be Mr. Decaux's responsibility. A number of aspects will have to be covered by the proposed Energy Study (linkage with general economic and social development issues, environment, energy pricing, energy conservation in particular in the industrial sector, institutions, subsectoral issues in power, nuclear, oil and gas, coal, alcohol, biomass, etc.). All interested parts of the Bank should be closely involved. In order to ensure coordination and monitoring of the energy strategy, CAM resources would immediately be allocated within the framework of the economic and sector work for Brazil. I would like to invite you to attend a meeting on March 9, at 3 p.m., Room A-830 to discuss the above subjects and make sure that we put ourselves in a position to meet the Brazilian request for Bank assistance and continuing dialogue in preparing an integrated energy strategy in the most efficient manner. This is a unique opportunity which calls for effective coordination in the Bank, and top quality inputs from all the relevant Departments.

Distribution

Messrs. Moscote, Larrieu, Vietti LCPEN, Thompson, Klaus,
Papadopoulos LC2BR, Byer, Decaux EGYPA, Thadani EGYS1,
Khelil EGYD2, Beattie LCPAB, Mulckhuyse INDRE, Abbott LEGLC,
Remy INDD1, Brown INDD2, Raizen (Consultant),
Mesdames Koch-Weser LCPAB, Barry, Parrilli LCPPS,

cc:

Messrs. Picciotto LCPDR, Gue LC2DR, Pfeffermann, Jaspersen LCNVP,
Gonzalez Cofino, LC2BR, Bourcier, Saunders, Iskander EGY,
Montfort, Bates EGYS1, Sood, Gamba INDRE, Goldberg INDD1,
Raghavan INDD2.

BDecaux:sk

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

*Mrs. Bales P/R
for information*
J. Thadani
3.18
File

DATE: March 13, 1987

TO: Mr. Bernard Decaux, Senior Energy Economist, EGYPA

THROUGH: Mr. Jose L. Vietti, Senior Financial Analyst, LCPEN

FROM: Rafael A. Moscote, Division Chief, LCPEN *R. Moscote*

EXTENSION: 78002

SUBJECT: BRAZIL - Second Electric Power Sector Loan
- Appraisal Mission - Terms of Reference

On or about March 16, 1987 you should arrive in Brazil for a stay of two weeks in order to assist and discuss with the Secretariat of the National Energy Commission (CNE) draft Terms of Reference of an integrated energy strategy study which the Government has requested the Bank to finance. During your discussions, you will agree on a timetable regarding presentation to the Bank of acceptable Terms of Reference, implementation of the study, presentation of the recommendations of the study, comments of the Bank, final report and Plan of Action regarding implementation of recommendations of the study. You will discuss procedural Bank requirements to carry out the proposed study: selection of consultants, short lists, training, seminars, travel, submission of cost estimates for the study, etc.

During the course of your mission, you will also meet with and gather all necessary information from various interested Ministries, energy producers and other relevant organizations to enable you, on your return to Washington, to complete the chapter on overall energy sector aspects of the Staff Appraisal Report for the Second Electric Power sector loan as well as Annexes on the energy sector and on the above mentioned Energy Study.

cc: Messrs. Jennings (LCPDR); Gue (LC2DR); Pfeffermann, Jaspersen (LCNVP); Kopp (PPDDR)(3); Saunders (EGYPA); Gonzalez-Cofino, Papadopoulos, Klaus, Thompson (LC2BR); Halperin, Larrieu, Waldrop (LCPEN); Abbott (LEG); Khelil (EGYD2); Thadani (EGYS1); Beattie (LC1AB); Mulckhuysse (INDRE); Remi (INDD1); Brown (INDD2)

Mesdames: Koch-Weser (LCPAB); Parrilli (LCPPS)

BDecaux:sk/jb

sk

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|---|-------------------|
| ENERGY STRATEGY AND PREINVESTMENT DIV. I | |
| Dt. Recd. | 3/17 Log No. 4585 |
| For Action To: | J. Thadani |
| For Info. To: | |
| Action Taken On: | |
| Reference File: | |

OFFICE MEMORANDUM

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|---|
| ENERGY DIVISION AND PUBLIC SECTOR DIV. |
| Mr. Bates |
| Mr. Bates |
| Reference File: <u>Brazil-Gen</u> |

DATE: March 11, 1987

TO: Mr. Robin Bates, Deputy Division Chief, EGYS1

FROM: Jivat N. Thadani, EGYS1

SUBJECT: BRAZIL: Energy Strategy Study

1. In your absence I attended the meeting convened by Mr. J. Jennings on Monday, March 9 at 3:00 p.m. It was very well attended - by over twenty persons - reflecting the widely shared interest in the proposed study as well as the keenness of management to get it off to a quick start.

2. The strategy outlined in Mr. Jennings' memo of March 6 was endorsed without any changes. It was agreed that the costs, up to US\$2 million, should be met from the provisions under the Public Sector Management loan. Amendment of the loan document would also define the tasks, procedures and agreements regarding consultation.

3. It was also agreed that the main emphasis should be on issues of national policy, institutional relations and management. Project level issues should be examined separately as appropriate.

4. Mr. Decaux will, during his forthcoming visit, obtain detailed information on Terms of Reference for tasks and coordinate the Bank's role in this study. Upon return, he will propose specific tasks for the various Divisions involved and a work program (to be approved under the CAM process for FY88) indicating the staff weeks to be contributed by each Division. I understand from him that he would probably seek support from EGYS1 to the extent of 5 or 6 staff weeks, to be focussed on issues of interfuel substitution, pricing, etc.

cc: Mr. Montfort (EGYS1)

JThadani:bre

Let's discuss this together, so that we have a common position upon Decaux' return from Brazil.



3-13-87

OFFICE MEMORANDUM

DATE: March 6, 1987

TO: Distribution

FROM: James H. Jennings, Assistant Director, LCPDR

EXTENSION: 7-6796

SUBJECT: Brazil - Energy Strategy Study

1. The Bank has recently achieved a breakthrough in our relations with Brazil in the energy sector - the Government, Ministry of Planning (SEPLAN), Ministry of Mines and Energy, Petrobras, and Eletrobras-have requested Bank assistance to prepare an integrated energy strategy and development plan which would: (i) assess the macro economic impact of past and proposed energy sector strategies; (ii) cover energy pricing, energy conservation, institutional and environmental aspects; (iii) focus on the status and developmental policies of all the major supply subsectors, power, petroleum, gas, alcohol, coal, biomass.

2. The study would be financed through the Public Sector Management Project (2721-BA). It would be carried out by the National Energy Commission (CNE), the executive secretary of which is the Minister of Mines and Energy and the president of which is the President of Brazil. Members of the Commission are six Ministers (Planning, Finance, Agriculture, Transport, Industry and Energy), the Secretary General of the National Security Council and the Presidents of Eletrobras, Petrobras and the National Petroleum Council.

3. Terms of reference of the study (Phase I) together with detailed cost estimates are being prepared by the Secretariat of the National Energy Commission. The CNE Secretariat has requested Bank assistance to help them prepare the detailed Terms of Reference. Mr. Decaux will shortly go to Brasilia to meet this request and pursue the dialogue recently initiated on the energy strategy issues. Phase I of the study should be completed in about 18 months. It would be followed by a Phase II consisting of implementation of the recommendations of the study by energy producers and interested ministries, CNE being in charge of the overall monitoring and coordination of the energy Plan. During appraisal of the proposed Second Electric Power Sector Loan and subsequent processing stages of the loan, agreement will be sought with CNE and SEPLAN on the final terms of reference, short list of consultants, draft contractual conditions for hiring consultants, implementation timetable, and sources of financing for the Energy Study. At negotiation of the Power Sector Loan, such agreement should be confirmed. Conditionality associated with the preparation of the energy strategy would be embodied in an Amendment to the Loan Agreement for the Public Sector Management Project. Such an Amendment should be agreed upon with SEPLAN as early as possible and at

any rate not later than at the time of negotiation of the Second Electric Power Sector Loan. Phase II may involve conditions associated with future operations in the energy sector.

4. The results of the integrated Energy Strategy Study would be discussed with the Bank, and action programs dealing with each subsector would be agreed upon as part of specific Bank - assisted operations dealing with those subsectors and our macro dialogue. Discussions would take place with the CNE Secretariat and other interested bodies during the preparation and implementation of Phase I of the study, thus meeting CNE's specific request for very close cooperation and dialogue with Bank staff during the elaboration phase of the energy study. CNE is also interested in organizing seminars to be attended by internationally recognized experts to discuss and comment on the various specific components of the study (pricing, energy conservation, linkage with macroeconomic aspects, subsectoral aspects, etc.) Financing of such seminars is intended to be covered under the proposed Public Sector Management Project. Close cooperation between the Bank and CNE is also expected during Phase II when recommendations of the study will have to be implemented.

5. Coordination within the Bank will be ensured by myself together with Mr. Decaux, EGYPA (for Projects) and Mr. Thompson, LC2BR (for Program). Monitoring of the preparation of the energy strategy will be Mr. Decaux's responsibility. A number of aspects will have to be covered by the proposed Energy Study (linkage with general economic and social development issues, environment, energy pricing, energy conservation in particular in the industrial sector, institutions, subsectoral issues in power, nuclear, oil and gas, coal, alcohol, biomass, etc.). All interested parts of the Bank should be closely involved. In order to ensure coordination and monitoring of the energy strategy, CAM resources would immediately be allocated within the framework of the economic and sector work for Brazil. I would like to invite you to attend a meeting on March 9, at 3 p.m., Room A-830 to discuss the above subjects and make sure that we put ourselves in a position to meet the Brazilian request for Bank assistance and continuing dialogue in preparing an integrated energy strategy in the most efficient manner. This is a unique opportunity which calls for effective coordination in the Bank, and top quality inputs from all the relevant Departments.

Distribution

Messrs. Moscote, Larrieu, Vietti LCPEN, Thompson, Klaus,
Papadopoulos LC2BR, Byer, Decaux EGYPA, Thadani EGYS1,
Khelil EGYD2, Beattie LCPAB, Mulckhuysse INDRE, Abbott LEGLC,
Remy INDD1, Brown INDD2, Raizen (Consultant),
Mesdames Koch-Weser LCPAB, Barry, Parrilli LCPPS,

cc:

Messrs. Picciotto LCPDR, Gue LC2DR, Pfeffermann, Jaspersen LCNVP,
Gonzalez Cofino, LC2BR, Bourcier, Saunders, Iskander EGY,
Montfort, Bates EGYS1, Sood, Gamba INDRE, Goldberg INDD1,
Raghavan INDD2.

BDecaux:sk