

**Technical Subgroups - First Meeting**  
**based on the Memorandum of Cooperation between Japan and**  
**the Federative Republic of Brazil for the Promotion of Investments and**  
**Economic Cooperation in the Infrastructure Sector**

Date : 20th and 21st of June, 2018

Venue : Ministry of Planning, Development and Management, Block K, 9th floor, Noble Hall, Brasilia

### **1 Wrap-Up of the Plenary Session**

- (1) Brazilian side explained the back ground for this subgroup meeting as follows;
- Reconfirmed the modalities of the framework of infrastructure cooperation.
  - Reviewed the 1<sup>st</sup> meeting and other related activities after the 1<sup>st</sup> meeting.
  - Emphasized the importance of improvement of investment environment for the promotion of infrastructure investment.
  - Explained Brazilian advantages;
    - Historical relationship with Japan
    - Good track record of Japanese investment in Brazil
    - Lacking infrastructure and future opportunities
- (2) Japanese side pointed out and explained need for;
- Advantage of Japanese investments (technology transfer, creation of employment etc)
  - Challenges for Brazil (competition with other markets, lack of competitiveness)
  - AGIR (presentation of AGIR (see attached))
    - Allowing foreign currency use in infrastructure investment and need of reform in foreign currency restriction
    - Reducing delay in infrastructure project implementation. Need for Federal Government's engagement to avoid such delay, including the establishment of coordinating body at the federal level.
    - Discarding the side-effect of corruption cases. Protection of newly participating investors who are not engaged in non-compliant activities.
    - Enhancing modelling capacity of infrastructure projects. Consideration on maintenance cost etc is needed(life cycle cost etc. Consideration on purchase cost is not sufficient.)
    - assuring stable provision of electricity including the use of "smart grid". Possible Public-Private cooperation.
    - Possible cooperation for introducing new appropriate rules and regulations for new technologies.
    - Reviewing certification system. Energy saving performance should be reflected.

(In response to AGIR, Brazilian side mentioned the need to take into consideration possible negative effects of relaxation of foreign currency restriction on macro economy. Japanese side pointed out that now is the time for Brazil to create new measures to introduce foreign currency, while minimizing negative effects on macro economy, requesting Brazilian side to indicate appropriate Brazilian authority to deepen discussions.)

- (3) Brazilian side also explained the background of PPI;
- Need to boost infrastructure investment in the wake of economic crisis.
  - Infrastructures to enhance competitiveness by reducing transportation cost in Brazil etc.
  - Function of PPI
    - Facilitation within government
    - Assuring transparency of infrastructure projects
    - Coordination on environmental issue to accelerate project implementation
    - assuring appropriate pricing of public services
  - Expected effects of national planning of infrastructure projects (case of transportation).
  - Overview of on-going projects in different areas, almost 100 projects (railway, oil and gas, mining, airports) and up-coming bidding schedule in 2018.

(4) Japanese side reiterated the importance to address the following issues in order to promote Japanese investment in infrastructure;

- Delay of implementing projects
- Regulatory reform
- Financing, especially foreign currency restrictions
- Institutional and systemic stability, transparency and predictability
- Readiness to contribute to Brazilian development

## **2 Wrap-Up of the Session on the Sanitation Sector**

(1) Brazilian side explained;

- Structure to assist local government in infrastructure investment in sanitation sector
- Federal support in technical issues, financing, guarantee, to local governments, legal framework of concessions, regulatory framework
- Structure and management to create fund to PPP concession for local government
- Overview of sanitation administration in Brazil
- Characteristics and challenges of sanitation administration and current situation
- Possible improvements and solutions for the future

(2) Japanese side explained;

- History of sanitation system development in Japan
- Important factors relating to policy, planning and financing
- Technology options, institutional arrangement, and legal system
- Case of Kitakyushu
  - “My Town, My River Renovation Project”
  - Promotion of Sewerage System
  - Citizen’s Participation

(3) During the Q & A session, following points were raised;

- To facilitate further participation of Japanese companies, it is needed to consider more on quality elements in bidding such as maintenance cost. Further coordination between federal governments is expected.
- Swift application of new technology is expected. Need of after care services.
- Financing issue is also important in this sector. Sanitation sector specific issue is CAIXA financing and its improvement is expected.
- Promotion of new projects at the municipal government level is needed.

## **3 Wrap-Up of the Session on Energy**

(1) Brazilian side explained;

- Current situation of the energy matrix and CO2 emission in Brazil
- Current power system, generation distribution
- Future perspective of power matrix with the overall increase of demand share of renewables will also increase. Need for expansion of transmission system
- Current situation of Brazilian oil markets including refining sector.
- Presentations of specific projects on refineries
- Activities of APEX

(2) Japanese side explained;

- Refining Sector in Japan
  - Demand and supply situation and organizational restructuring of Japanese petroleum industry
  - Legal framework to promote plant integration
- Challenge and solutions toward massive integration of renewables in Japan
  - Change in generation mix
  - Introduction of Feed in Tariff (FIT) / Electricity market reform
  - Mechanism of FIT
  - Renewables introduction toward 2030 target
  - Challenge in grid and “Connect & Manage”

(3) During the Q & A session following points were raised;

- Thermal generation, including the use of natural gas in Brazil.
- Promising renewable energy technology in Japan > smart grid and electricity reserve

technology

- Need to consider cost allocation when introducing new technologies such as Lithium battery etc.
- Future perspective of petrochemical industry with a view to shale gas revolution.

#### **4 Wrap-Up of the Session on Railway System and Urban Mobility**

(1) Brazilian side explained;

- Regulatory framework and institutional guidelines
- Public and private arrangement for the management and operation of urban mobility system
- Investment modalities in the sector
- Investment opportunities in railway passenger transport
- Tasks such as lack of infrastructure of urban mobility system, financing, collaboration between Federal government and local governments, pricing etc)
- History and current situation of the urban mobility sector in Brazil

(2) Japanese side explained;

- History of Japanese railway & Legal system
- Overview of Urban Railway
- Tsukuba Express
- Japanese railway system in the world

(3) During the Q & A session, following points were raised;

- Japanese side pointed out that current bidding system in Brazil tends to evaluate disproportionately construction cost. Dividing construction part and operational parts(vehicles and its related facilities) in bidding will lead to enhance utility for the passenger.
- Although Brazilian side responded negatively (issue of local governments and federal government), Japanese side reiterated need and willingness to continue discussion with Brazilian side.

#### **5 Wrap-Up of the Session on the Information and Communication Technology**

(1) Brazilian side explained;

- Current situation of start-up in Brazil and Brazilian start-up program
- Importance of use of ICT technology to create future society
  - Society with networks
  - Issue of public cloud and private cloud
  - Digital platform

(2) Japanese side explained;

- Cooperation between Japan and Brazil in ICT sector
- Overview of Japan's ICT policy
- Concepts of the Ideal future in 2030s
- Strategy derived from the desirable futures in the 2030s
- IoT Security in Japan
  - Framework of Cybersecurity Policy
  - Cybersecurity Strategy
  - Comprehensive Package of IoT Security Measures

Some of the private sector people explained the some cases of ICT application in different areas such as healthcare, service providing, digital terrestrial broadcasting etc.

Both Brazilian authorities and Japanese private sector expressed their interest in cooperation in such areas as capacity building and knowledge sharing as well as start-ups.

#### **6 Wrap-Up of the Session on Financing Guarantees and Funding for Infrastructure**

(1) Brazilian side explained;

- Infrastructure financing with emerging capital market in Brazil. Infrastructure bonds with guarantee of Banco do Brazil
- Financing mechanism of BNDES especially in the renewable energy area
- Proposal of devaluation risk hedge arrangement with FGIE provided by ABGF.  
(At the request of Japanese side, Brazilian side provided some details of FGIE)

(2) Japanese side explained;

- Export Loan and Overseas Investment Loan + Guarantee provided by JBIC
- Major risks of investing in Brazil; Currency devaluation risk, demand risk and others
- Requirement for bankable projects; Consideration on Life Cycle Cost (LCC)