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Opportunities in the Mining Industry in Minas Gerais

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Mining and mineral products are responsible for 2% of Brazil's GDP. In 2009, the total value of mineral production in Brazil reached US\$24 billion, generating exports totalling US\$15.0 billion.

Iron ore is the most important of Brazil's mineral exports. Brazil is also the world's largest exporter of primary mineral products, such as niobium, tin, lithium, tantalum Bauxite, gold and manganese.

Minas Gerais is the largest and most traditional mining state in Brazil and already accounts for approximately 45% of the value of Brazilian mineral production. Export of minerals (particularly iron ore) accounted for 48% of the total exports of Minas Gerais in 2009.

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According to DNPM, the application for licenses for mineral research in Brazil doubled in 2009. It is expected an increase in investments relating to mineral research of US\$500 million in 2010 in comparison with US\$350 million in 2009. In 2008 the investments in mineral research totalled US\$500 million

Investors will apply between US\$50 and US\$60 billion in mining projects in Brazil until 2013.

The prices of minerals in the international market are expected to return in the short run to the same levels before the world financial crisis.

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In 2009, Brazil was one of the main players in M&A transactions in the mineral sector. This trend will continue in 2010.

M&A transactions in the global market in the mineral sector are expected to reach the same levels of 2008. In that year the M&A transactions amounted to US\$126,9 billion, against US\$60 billion in 2009.

Brazil ranks in 5th place in the preference for new M&A transactions in the mineral sector.

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Among the 200 largest mines in operation in Brazil 70 are located in Minas Gerais, according to the magazine "Minérios & Minerales.

Minas Gerais provides a satisfactory infrastructure for industrial projects. It has the largest road system in Brazil with 24,000 kms, representing 16% of the total road system of the country.

These roads help to integrate the state and the largest Brazilian urban centers, as well as the countries of Mercosur.

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Minas Gerais has 5,080 km of railroads. Large logistics companies operate in the state, since it is where railroads and highways connecting the south to the north of Brazil come together.

The railroads link Minas Gerais and the states of Espírito Santo, Rio de Janeiro, Bahia, Goiás, Brasília, Mato Grosso do Sul, Mato Grosso, Tocantins and São Paulo, allowing a quick outlet for Minas Gerais products.

The railroad network assures access of products from the state to the main seaports

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The state has 70 paved airports. The main airport is the Tancredo Neves International Airport, on the north of the Metropolitan Area of Belo Horizonte. The Tancredo Neves International Airport has the first industrial airport in Brazil, providing space and special conditions for export, import and logistic companies.

Belo Horizonte has another 3 airports: Pampulha (in downtown, with roughly one million passengers per year), Carlos Prates (for small aircrafts) and PAMA (a military airport). Medium-size towns like Montes Claros, Uberlândia, Uberaba, Araxá, Patos de Minas, Poços de Caldas, Varginha, Alfenas, Juiz de Fora, Ipatinga, Governador Valadares and Diamantina have airports and regular flights.

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Minas Gerais has the largest energy company in South America. Companhia Energética de Minas Gerais S/A - CEMIG services over 18 million people in 774 Minas Gerais municipalities.

With some of the largest hydroelectric plants in the country, Minas Gerais produces 18.11% of the electricity in Brazil.

The enormous hydrographic basin and the eucalyptus and pine Forest reserves, which are available for charcoal production and other uses, guarantee that energy production is continuous and of high quality. The ongoing amplification of the gas program already implanted reinforces production to supply industry.

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The supply of natural gas to companies in the state of Minas Gerais is being widened through an agreement entered into in 2004 between Cemig and Petrobras.

This agreement allowed Petrobrás to contribute capital into Companhia de Gás de Minas Gerais (Gasmig), and this association enabled the increase the supply of natural gas, creating an alternative source of energy for industrial projects.

In the shortrun, Gasmig will increase the offer of natural gas to 4.5 million cubic meters daily, as a result of the investments currently under way.

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In Minas Gerais, domestic and international telecommunication companies maintain a structure offering 4.01 million fixed telephone lines and 13.67 million mobile lines, with the capacity and technology to increase supply according to changes in demand.

A partnership between the Government of Minas Gerais and telecom companies provided mobile phone coverage to 100% of Minas Gerais towns.

In Belo Horizonte, investments in fiber optic technology connect the main cities of the State and of the country, besides offering high speed internet use.

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Currently, there are excellent investment opportunities in mining projects in Brazil, and particularly in Minas Gerais.

Many small and mid-size companies need technology and funding to be able to complete geological research and start production. They have no access to the financial markets nor to the banking system.

Many holders of mineral rights are individuals with no knowledge in the industry and with no investment capacity. Such individuals are seeking strategic investors to develop their projects, and some are simply interested in selling their mineral rights.

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The new regulatory legislation of the mineral sector that is likely to be enacted shortly, will establish new rules for mineral research and exploitation and will be stricter in terms of compliance requirements.

It will open new opportunities for investment in this sector in Brazil, and will attract new investments.

However, new legislation brings along perplexity and concern until it is fully understood and absorbed. This creates valuable opportunity for investors that prepare themselves in advance for the new regulatory framework.

PINHEIRO, MOURÃO E RASO ADVOGADOS is a law firm based in Belo Horizonte, capital of Minas Gerais State, and keeps also an office in Brasilia. Currently the firm has 21 lawyers.

It holds significant expertise in structuring mining, energy, industrial and heavy construction projects, as well as public contracts, with an important portfolio of M&A transactions, and is fully prepared to assist local and foreign investors in the mining industry.

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