

## Case Study 2.2

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# State Grid's Localization Strategies in Belo Monte, Brazil

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### 1 Overview

This case study delves into the State Grid Corporation of China's (SGCC's) localization strategies within the Belo Monte hydroelectric project in Brazil, highlighting the challenges and learning experiences of Chinese state-owned enterprises (SOEs) in expanding their reach into Latin America. Over recent decades, Chinese SOEs have emerged as potential collaborators for Latin American countries in need of investment and technology for critical infrastructure projects. SGCC's role in constructing the Xingu-Estreito transmission line for the Belo Monte hydroelectric plant stands as a prime example. This line, among the world's largest and first to implement  $\pm 800\text{kV}$  ultra-high-voltage direct current (UHVDC) technology outside China, represents not only an engineering triumph for SGCC but also a significant business and legal accomplishment. The company adeptly navigated the complex Brazilian legal environment, addressing multifaceted regulatory, financial, and environmental challenges. While the Brazilian government has lauded the project for advancing energy security, it has also faced considerable criticism over socio-environmental issues. This case study, drawing on government and corporate documents as well as confidential interviews, examines SGCC's approach to procurement, financial structuring, environmental licensing, and operational management in the context of these grandiose transmission lines.

Our company is from China, works in Brazil and gives back to the whole world; hence, the better its localization strategies, the more international it becomes.

Cai Hongxian, Chairman of State Grid Brazil Holding (2010–2020)

The size of this project is the size of our people. It is grandiose. It is a grandiose power project. The best way to describe Belo Monte is this word: grandiose.

Dilma Rousseff, President of Brazil (2011–2016)

Our fish are gone, our village is gone, the blue of the lake we used to care for is gone. They violated our rights and threw us in the trash as if we were disposable.

Leonardo Batista, a riverside dweller affected by the  
Belo Monte hydroelectric project

## 2 Introduction

On 7 February 2014, executives at the SGCC headquarters in Beijing's Xicheng District celebrated their successful bid to construct the Xingu-Estreito transmission line with a toast and smiles. Ten thousand miles away, in Rio de Janeiro, Brazil, the celebration was a bit more boisterous. The victory in the Transmission Auction No. 011/2013 was a watershed moment for SGCC's operations in Latin America. It marked its largest venture in the region and positioned the company as one of the largest foreign players in Brazil's electricity sector. This achievement would be a triumph for any foreign company emerging in a market as competitive as Brazil's. However, this example is particularly remarkable as SGCC had been operating in the country for less than three years – a short time for such a complex economic sector and jurisdiction.

When Cai Hongxian, a 46-year-old senior executive at SGCC, arrived in Brazil in September 2010, he faced the daunting task of leading the company's most significant venture outside China. At that time, SGCC was already the world's largest electricity company, holding assets worth US\$3.9 trillion and providing power to more than 1.1 billion people in China (Figure 2.2.1 gives an overview of SGCC's global assets as of 2021). However, the company had little experience investing overseas, having only previously ventured into the nearby Philippine market. Brazil was certainly the company's biggest international challenge at the time – and its greatest economic opportunity. The country had a large consumer market, geographic characteristics similar to China's, and was building stronger political ties with the Chinese government. Furthermore, Brazil was experiencing an economic boom, with a corresponding energy demand increase.

Cai was tasked with a clear goal: to make Brazil a successful case in SGCC's emerging international portfolio, particularly since the board was interested in expanding into new markets. However, the means to achieve this goal were uncertain. When the executive arrived in Brazil, he exemplified SGCC's general lack of knowledge about the country. He did not speak Portuguese, had a limited understanding of the complex regulatory environment surrounding the electricity sector, and was not familiar with the country's business culture. Cai was accompanied by a small team of Chinese colleagues, SGCC's technical expertise, and a blank check from headquarters – the Chinese board pledged to provide financial support for SGCC's activities in Brazil as long as they were sound and profitable.<sup>1</sup> Nonetheless, Cai had to find a way to establish a successful company that could thrive in Brazil's highly complex, competitive, but lucrative electricity market.

<sup>1</sup> Cai Hongxian, 'Nove anos de trabalhos duros no Brasil: A história de crescimento da State Grid Corporation no Brasil' in Zhou Zhiwei and Wu Changsheng (eds), *Histórias de Amizade entre China e Brasil* (China Intercontinental Press 2021) 294.

| Category                            | Data              |
|-------------------------------------|-------------------|
| Position on Fortune Global 500 List | 2 <sup>nd</sup>   |
| Economic Value Added                | US\$0.72 billion  |
| Urban Power Supply Reliability      | 99.955%           |
| Rural Power Supply Reliability      | 99.815%           |
| National Territory Coverage         | 88%               |
| Population Served                   | 1.1 billion       |
| Total Assets                        | US\$637 billion   |
| Annual Revenue                      | US\$409 billion   |
| Line Loss                           | 6.25%             |
| Annual Electricity Sales            | 4,453.6 TWh       |
| Annual Profits                      | US\$11.85 billion |
| Length of Transmission Lines        | 1.093 million km  |
| Number of Employees                 | 1.556 million     |
| Fixed Asset Investment              | US\$70.77 billion |
| Conversion Capacity (TVA/TW)        | 4.94              |



SGCC Assets: Australia, Brazil, Chile, Greece, Italy, Oman, Pakistan, the Philippines, and Portugal.

SGCC Overseas Offices: Brazil, India, Hong Kong, Europe, the Philippines, Russia, and the United States.

**Figure 2.2.1** Overview of SGCC’s global assets, 2021  
Conversion rate: RMB to US\$ at 6.5 (Bloomberg, August 2021).  
Source: Based on Fortune Global 500 (2021 list); SGCC, ‘Corporate Social Responsibility Report 2020’ (2020) [bit.ly/3VSZJm3](https://bit.ly/3VSZJm3).

This case study explores SGCC’s foray into Brazil, drawing on a range of sources, including publicly available governmental, corporate, and regulatory documents, along with disclosed and undisclosed interviews with the company’s directors and legal advisors. The case study proceeds in five sections: the first provides an overview of the regulatory framework in Brazil that SGCC encountered in 2010; the second outlines the legal and corporate steps taken by SGCC upon entering the country; the third presents the Belo Monte hydro-electric project; the fourth examines the construction of the Xingu-Estreito transmission line; and the fifth evaluates the business aftermath of the line’s

construction. Finally, the study concludes by highlighting SGCC's successful localization strategies and discussing potential regulatory issues for the local government arising from the company's expanding influence in Brazil.<sup>2</sup>

### 3 The Case

#### 3.1 Background: The Regulatory Framework of Brazil's Electricity Market

Though SGCC made a swift entry into the Brazilian market, it was nevertheless a latecomer compared to other Western players. When Cai announced SGCC's first investment in Brazil in mid 2010, that country's electricity market was at the apex of a two-decade-long reform period. This era not only revolutionized electricity production and commerce but also led to the establishment of an interconnected grid system under a revamped regulatory structure, known as the National Interconnected System (Sistema Interligado Nacional).

This reform process can be traced back to the early 1990s. Facing a shortage of dollars stemming from a structural balance of payment crisis and an inability to meet foreign commitments, the Brazilian government embarked on a large-scale reform program under the neoliberal auspices of the Washington Consensus. Within the electricity market, the restructuring was grounded in the three principles of the British power grid model: promoting competition through staged segmentation; relinquishing the state's monopoly and encouraging foreign direct investment; and repositioning the government from an active economic participant to a supervisory entity. Accordingly, the Brazilian government first segmented the electricity production chain into four stages: generation, transmission, distribution, and commercialization. Each segment was to be governed by its own set of regulations, standards, and supervisory institutions. Additionally, the government established three platforms for electricity trading: a system of public auctions to allocate concessions for each segment, a wholesale market for facilitating bilateral contracts between agents operating at different stages, and a secondary market for negotiating previously auctioned concessions.

Public and private companies, whether domestic or foreign, were allowed to participate in each segment either by securing new auctions or by acquiring existing concessions in the secondary market. The resulting "4-stages, 3-markets" framework was designed to mitigate risks of market control and supply chain verticalization, while assigning the Brazilian government the responsibility of managing the energy supply in line with its policy objectives.<sup>3</sup>

<sup>2</sup> By "localization strategies," I refer to SGCC's specific efforts to indigenize its business decision-making processes within the Brazilian context, as opposed to merely tailoring market strategies to consumer behaviors. This involves SGCC's adaptation to and integration within the local operational and regulatory landscape.

<sup>3</sup> Vertical integration in the electricity supply chain can lead to market distortions. Companies with control over multiple segments might use this influence to sway market dynamics. Such

The liberalization scheme brought about by these reforms significantly reduced public assets and redirected the state's focus toward market regulation. The government created several new bodies to oversee economic activity across all stages, including the National Electric Energy Agency (Agência Nacional de Energia Elétrica, ANEEL), a quasi-independent regulatory agency responsible for supervising all stages and guaranteeing market competition. ANEEL also was tasked with coordinating public auctions for long-term energy concessions, where the bid is awarded to the company that offers the highest discount rate on the annual allowed revenue (*receita anual permitida*, RAP), that is, the lowest annual amount in fees.

The ensuing scenario marked a notable change in the nature of electricity production, transitioning from a predominantly state-owned economic activity to a decentralized, stringently regulated environment with a rising private sector. The market became fragmented, with successful privatizations resulting in the establishment of more than 280 companies in Brazil. Foreign participation became a cornerstone across all stages of the electricity production chain, surging from almost negligible to approximately 21% in the country's installed capacity, 23% in transmission lines, and 52% in energy distribution.<sup>4</sup> In contrast to other Latin American economies such as Mexico and Paraguay, which primarily depend on state-led activities, Brazil boasts one of the most liberalized electricity markets in the region.<sup>5</sup> The majority of these companies are from Europe, North America, and, most recently, China.

Overall, the three reform pillars – competition, regulation, and private/foreign participation – effectively bolstered energy supply and resilience in the country while fostering market competition. From 1990 and 2022, the installed capacity in the country increased markedly from 49,760 MW to 206,451 MW, with the length of transmission lines correspondingly expanding from about 56,000 km to 165,667 km.<sup>6</sup> Brazil now ranks as the sixth-largest electricity producer worldwide, contributing 49.8% to Latin America's total installed capacity.<sup>7</sup>

Despite its progress, Brazil's energy sector still faces critical challenges related to water availability and transmission distances. The heavy reliance on hydropower, accounting for 63% of Brazil's electricity, renders the country vulnerable to climate-induced stresses, as highlighted by the severe 2020

control can result in anti-competitive practices, such as favoring their own assets or affiliated companies, leading to distorted energy prices and restricted market access for other producers.

<sup>4</sup> Gesner Oliveira et al., *Análise do ambiente concorrencial do setor elétrico no Brasil* (FGV 2018); 'Centro de Estudos de Infraestrutura e Soluções Ambientais' (FGV EAESP, 2019) [https://gei-sa.fgv.br/sites/gei-sa.fgv.br/files/u49/go\\_estudo\\_concorrencial\\_energia\\_fgv.pdf](https://gei-sa.fgv.br/sites/gei-sa.fgv.br/files/u49/go_estudo_concorrencial_energia_fgv.pdf).

<sup>5</sup> Lenin Balza et al., 'Privatization, Institutional Reform, and Performance in the Latin American Electricity Sector', Inter-American Development Bank Technical Note No. 599 (2013) 1–39.

<sup>6</sup> Ministério de Minas e. Energia, 'Anuário Estatístico de Energia Elétrica 2023' <https://dashboard.epe.gov.br/apps/anuario-livro/>.

<sup>7</sup> US Energy Information Administration, 'International Electric Capacity' [www.eia.gov/international/data/world/electricity](http://www.eia.gov/international/data/world/electricity).

drought.<sup>8</sup> The majority of energy demand, around 48.6%, is in the southeast's urban centers, while approximately 70% of untapped hydropower resources are in the underdeveloped northern region – an area characterized by poor infrastructure, low population density, and a significant distance from consumer centers.<sup>9</sup> Developing projects in this region requires the construction of extensive transmission lines, which incurs efficiency costs and necessitates increased infrastructure investment.

### 3.2 The Company: SGCC Lands in Brazil

SGCC, a state-owned “profit-driven” utility company headquartered in Beijing, People's Republic of China (PRC), operates under the oversight of the State Council State-owned Assets Supervision and Administration Commission, the body tasked with supervising China's SOEs.<sup>10</sup> Established on 29 December 2002, SGCC emerged from an extensive reform within China's electricity sector, which dismantled the former all-purpose China State Power Corporation (CSPC). This restructuring was driven by the policy of “grasping the large and letting go of the small” (*zhua da fang xiao*), adopted by the 15th Communist Party Congress in September 1997, with the aim of enhancing market competitiveness and fostering innovation through equity segmentation. The subsequent “Plant-Grid” reform led to the fragmentation of CSPC into five smaller generation groups and two grid companies, SGCC – which retained about 80% of CSPC transmission assets and the responsibility for orchestrating the general operations of the grids across the country – and the smaller China Southern Power Grid Company.

In the following years post-reform, SGCC established itself as the dominant force in China's transmission sector, buoyed by public funding, easy credit access, market barriers for new entrants, and a vast consumer market. However, at the turn of the century, SGCC's operations were predominantly confined within China, and few foresaw its venture into overseas investments. This direction shifted with the PRC's “go out” (*zouchuqu*) policy in the early 2000s, encouraging outbound investment. Concurrently, SGCC's business strategy expanded to encompass foreign markets, initially focusing on three objectives: enhancing technology for improved domestic outcomes, securing higher profits compared to the more price-restricted Chinese market, and strengthening its position within China's political landscape.<sup>11</sup>

As a result, in 2007, SGCC embarked on its first international venture in the Philippines. The company secured the operation of the national power grid during a privatization auction of the state-owned National Transmission

<sup>8</sup> Sergio Chapa, Gerson Freitas Jr, and Anna Shiryayevskaya, ‘Worst Drought in 91 Years Turns Brazil into Hot Spot for LNG’ (*Bloomberg*, 3 June 2021) [www.bloomberg.com/news/articles/2021-06-02/worst-drought-in-91-years-turns-brazil-into-hot-spot-for-lng](https://www.bloomberg.com/news/articles/2021-06-02/worst-drought-in-91-years-turns-brazil-into-hot-spot-for-lng).

<sup>9</sup> Empresa de Pesquisa Energética, ‘Fontes Hidrelétrica’ <https://bit.ly/48m3FQy>.

<sup>10</sup> See generally, Xu Yi-chong, *Sinews of Power: Politics of the State Grid Corporation of China* (Oxford University Press 2016).

<sup>11</sup> *ibid* ch 8.

Corporation (TransCo).<sup>12</sup> A consortium comprising SGCC and two Philippine companies, Monte Oro Grid Resources Corporation and Calaca High Power Corporation, clinched the bid with an offer of US\$3.95 billion for a twenty-five-year license to operate TransCo. Within the newly formed National Grid Corporation of the Philippines, SGCC held a 40% stake and was able to appoint its chairman. SGCC hired Goldman Sachs to help with the deal.<sup>13</sup>

In the following months, SGCC swiftly enhanced its corporate structure to better manage its emerging international portfolio. The restructured framework included the establishment of various subsidiaries, each tailored to oversee distinct aspects of its global activity.<sup>14</sup> These entities were not limited to but included (1) State Grid International Development Co. Ltd. (SGID Co.), a limited liability company organized under the laws of the PRC; (2) State Grid International Development Limited (SGID), a private company limited by shares organized under the laws of Hong Kong SAR; (3) International Grid Holdings Limited (IGH), a corporation organized under the laws of the British Virgin Islands; and (4) Top View Grid Investment Limited (TVGI), a corporation organized under the laws of the British Virgin Islands (BVI). IGH and TVGI are each direct wholly owned subsidiaries of SGID. SGID is a direct subsidiary of SGID Co., which is a direct wholly owned subsidiary of SGCC.

The Philippines venture highlighted both profits and challenges for SGCC. Initially harmonious, the relationship deteriorated due to events including the 2010 Manila hostage crisis and the 2011 South China Sea dispute. In 2012, the Philippines denied visas to twenty-eight SGCC executives and employees. Diplomatic efforts failed, and SGCC ceased further investments, while Monte Oro sold their shares to a local holding, OneTaipan. By 2015, the Philippines claimed technical self-sufficiency, leading to the exit of remaining SGCC experts. Although SGCC continued to receive dividends, its operational influence ended. Currently, no SGCC executive serves on TransCo's board.

The Philippine experience highlighted the importance of political risk management and stability in international investments for SGCC. It provided valuable lessons that shaped SGCC's more strategic and locally attuned approach to entering the Brazilian market. This new foray into Latin America was also informed by dialogues with the Chinese government, which equipped SGCC's board with insights into global economic opportunities. This advice was crucial in light of the challenges other Chinese SOEs were encountering in their international ventures.<sup>15</sup>

Subsequently, on 28 April 2010, SGCC announced its entry into Brazil by confirming the creation of State Grid Brazil Holding (SGBH), a privately held

<sup>12</sup> Karen Lema, 'China State Grid Group Wins Philippine Power Auction' (*Reuters*, 12 December 2007) [www.reuters.com/article/us-philippines-privatisation-idUKMAN29202520071212](http://www.reuters.com/article/us-philippines-privatisation-idUKMAN29202520071212).

<sup>13</sup> Henry M. Paulson Jr, *Dealing with China* (Twelve 2015).

<sup>14</sup> United States Securities and Exchange Commission, SCHEDULE 13D, 2017, [www.sec.gov/Archives/edgar/data/1300482/000119312517026721/d337193dsc13d.htm](http://www.sec.gov/Archives/edgar/data/1300482/000119312517026721/d337193dsc13d.htm).

<sup>15</sup> Numerous Chinese firms, both state-owned and private, experienced a series of failed investments during the 2000s and early 2010s. See Peter J. Williamson and Anand P. Raman, 'How China Reset Its Global Acquisition Agenda' (2011) 89 *Harvard Business Review* 109.

company focused on managing local equity interests.<sup>16</sup> SGBH was incorporated in Rio de Janeiro as a subsidiary of TVGI and IGH with a 0.0001% and 99.9999% interest, respectively. The incorporation was soon followed by the announcement of SGBH's first investment in the country.

On 16 May 2010, the newly formed board confirmed the conclusion of negotiations to acquire seven transmission lines from the Spanish consortium Plena Transmissoras, led by Isolux, Cobra, and Elecnor, for US\$989 million plus debt assumption. This deal also included a thirty-year license to operate approximately 3,000 km of the consortium's transmission networks in Brazil. The deal involved Brazilian and Anglo-American law firms and was also supported by SGCC's expanding in-house global legal team.<sup>17</sup> While the external firms addressed corporate and transactional legal issues, the internal team spearheaded legal research and played a pivotal role in shaping the investment strategy.

SGBH's investment also coincided with a series of political agreements between Brazil and China. From 2002 to 2010, both governments signed various legal instruments, such as a Joint Plan of Auction and multiple Memoranda of Understanding (MOUs), highlighting economic opportunities and synergies. These documents frequently mentioned energy cooperation, with China expressing interest in Brazil's electricity market.<sup>18</sup>

Thus, when SGBH announced its entry into Brazil, it was celebrated by both presidents, Lula da Silva and Hu Jintao, for fulfilling the pledge of the Chinese government to invest in Brazil's infrastructure gap. For SGCC, the Brazilian market seemed to be the right choice to bolster the company's internationalization drive and it targeted Brazil for several reasons. The 1990s reforms in Brazil had gained international recognition, attracting an increasing number of foreign companies. Post-2008 financial crisis, European utilities, seeking capital, were keen to sell their local assets. Additionally, Brazil was anticipating a 4–5% annual growth in electricity demand from 2001 to 2021, further driven by Rio hosting the 2014 World Cup and the 2016 Olympics. As Cai stated in 2011: “Brazil is a politically stable country and has friendly relations with China ... We were attracted to the Brazilian market due to its mature market operations mechanism, transparent decision-making, and orderly sectoral supervision.”<sup>19</sup>

The 2010 acquisition proved to be just the beginning of SGCC's plans for Brazil. Over the next few years, SGBH expanded its operations by acquiring other operational Special Purpose Vehicles (SPVs) and participating in public

<sup>16</sup> State Grid Brazil SA, ‘Demonstrações Financeiras Individuais e Consolidadas em 31 de dezembro de 2022’ (1st edn, State Grid Brazil Holding SA 2022) <https://stategrid.com.br/wp-content/uploads/2023/05/DFs-State-Grid-Brazil-Holding-S.A.-31.12.2022.pdf>.

<sup>17</sup> Interview no. 4 with Former SGBH Director (7 December 2022).

<sup>18</sup> Michelle Sanchez-Badin and Fabio Morosini, ‘International Economic Law by Other Means: A Three-Level Matrix of Chinese Investment in Brazil's Electric Power Sector’ (2021) 62 (Special Issue) *Harvard International Law Journal* 105.

<sup>19</sup> República Popular da China, ‘Capital chinês no Brasil: oportunidade e não ameaça’ (Embaixada da República Popular da China no Brasil, 13 April 2011) [http://br.china-embassy.gov.cn/por/zbzx/201104/t20110413\\_4348974.htm](http://br.china-embassy.gov.cn/por/zbzx/201104/t20110413_4348974.htm).

auctions conducted by ANEEL. From 2011 to 2013, SGBH acquired five additional transmission lines (covering 1,960 km) from the Spanish group ACS for US\$940 million and won four public auctions (covering 1,700 km) to construct new transmission lines in the country.

Despite financial support from the parent company for these operations, the initial phase was challenging for SGCC, as it had no previous experience operating in Brazil. The management team sent to the country, though well-versed in the market's economic prospects, had minimal grasp of the complex regulatory landscape, the rigorous environmental licensing processes, and the robust labor protections involving a unionized workforce. As highlighted by a former SGBH director, the Chinese management, accustomed to a centralized political culture, "did not [initially] understand the regulatory, environmental, and labor intricacies of the country."<sup>20</sup> As a result, the Chinese group employed various strategies to overcome the initial informational asymmetry and cultural gaps.

First, SGBH participated in public auctions as part of consortiums with Brazilian SOEs, a method used in three of the four initial auctions. In Auction No. 006/2011, SGBH secured a 51% majority stake in the Luziânia-Niquelândia substations system concession by forming a consortium with the state-run Furnas, offering a discount rate of 5.2% below the reference value. Similarly, in Auction No. 002/2012, SGBH joined forces with another Brazilian SOE, Copel, to obtain a 51% share in the Tele Pires transmission lines concession, including the Matrinchã and Guaraciaba projects, with substantial discount rates of 43.01% and 28%, respectively. In Auction No. 007/2012, SGBH collaborated with both Furnas and Copel to win a 51% share in the Paranaíba transmission lines project. As the SGBH Investment Director emphasized in 2012, the company's strategy in Brazil at the time was centered on forming alliances with local companies, stating, "Our goal is to seek cooperation rather than competition."<sup>21</sup>

Second, through acquiring Plena Transmissoras and ACS, SGBH gained access to a skilled pool of professionals. Between 2010 and 2013, the company recruited several managers and workers from the acquired companies and the broader market, dramatically expanding its office in Brazil. One notable example was the hiring of Ramon Haddad, a former Plena Transmissoras professional widely recognized as a market expert, who later became the vice president of SGBH. As noted by a former SGBH director, "these acquisitions quickly provided operational infrastructure, but more importantly, valuable knowledge on how to navigate the Brazilian market in terms of regulations and professional networks with authorities."<sup>22</sup>

Over the next few years, the company consistently prioritized local expertise in its board and management roles. While the positions of chairman, CEO, and

<sup>20</sup> Interview (n 17).

<sup>21</sup> Rodrigo Polito, 'State Grid busca parceiros para linhas de Belo Monte' (*Instituto Humanitas Unisinos*, 26 October 2012) [www.ihu.unisinos.br/noticias/514929-state-grid-busca-parceiros-para-linhas-de-belo-monte](http://www.ihu.unisinos.br/noticias/514929-state-grid-busca-parceiros-para-linhas-de-belo-monte).

<sup>22</sup> Interview (n 17).

one vice president were held by long-standing SGCC employees, the other two vice presidents and senior directors were predominantly Brazilian. Of the initial 300 hires within the first three years, nearly all were locally sourced. By 2013, SGBH had also formed a dedicated in-house legal team, even incorporating Brazilian legal professionals who had assisted with the company's initial M&As and public auctions.<sup>23</sup> This team grew over time, taking on most of SGCC's in-house legal responsibilities in Brazil. Currently, they collaborate with local and, occasionally, foreign law firms for complex or specialized legal advice.<sup>24</sup>

This move to localize both the operational and business decisions was a conscious one as Cai explained in 2013:

Given that we are a Chinese company entering a foreign market, we knew we had to adapt to the local culture and operational environment. We decided right from the beginning to bring twenty Chinese employees to Brazil to give us support through the process of adapting our Chinese culture to the Brazilian way of business. Such first steps are always tentative but we are here to stay and we are ready to do what is necessary to accomplish our targets.<sup>25</sup>

Finally, during the initial period between 2010 and 2013, SGBH focused on strengthening its ties with local economic and political stakeholders, forging its own MOUs independently of the PRC government. A notable collaboration was formed with Brazilian SOE Eletrobras in 2011 during President Dilma Rousseff's visit to China. This MOU facilitated interactions and technical knowledge-sharing between both electricity giants. Shortly thereafter, SGBH and Eletrobras deepened their partnership beyond political engagement, collaborating economically on the Chinese company's most significant overseas investment at the time: constructing the first transmission line of the Belo Monte hydroelectric power plant, a grandiose dam marred by its socio-environmental impact.

### 3.3 The Project: The Belo Monte Hydroelectric Power Plant

In March 2010, ANEEL released the construction notice for the Belo Monte hydroelectric dam, inviting bids under specific conditions. Accordingly, Brazil was set to build the third largest hydroelectric dam in the world, with an installed capacity of 11,233 MW across eighteen turbines. The proposed power plant, designed as a "diversion" or "run-of-river" facility, differed from traditional Brazilian hydroelectric plants that store river water. This design aimed to minimize the socio-environmental impact of the project.<sup>26</sup>

<sup>23</sup> Interview (n 17). <sup>24</sup> Interview (n 17).

<sup>25</sup> 'Interview with Cai Hongxian, State Grid Brazil Holding S.A.' (Energyboardroom, 17 September 2013) [www.energyboardroom.com/interviews/interview-with-cai-hongxian-state-grid-brazil-holding-s-a](http://www.energyboardroom.com/interviews/interview-with-cai-hongxian-state-grid-brazil-holding-s-a).

<sup>26</sup> 'Relatório de Impacto Ambiental: Aproveitamento Hidrelétrico Belo Monte' (Ministério de Minas e Energia 2009) [http://philip.inpa.gov.br/publ\\_livres/Dossie/BM/DocsOf/RIMA-09/Rima\\_AHE%20Belo%20Monte.pdf](http://philip.inpa.gov.br/publ_livres/Dossie/BM/DocsOf/RIMA-09/Rima_AHE%20Belo%20Monte.pdf).



**Figure 2.2.2** The Belo Monte dam and its location in Brazil

Source: Bruno Batista, licensed under CC BY 2.0 <https://bit.ly/3U6F6BD>; NordNordWest, licensed under CC BY-SA 3.0 <https://bit.ly/49u6ga6>.

The announcement of the Belo Monte dam project was greatly celebrated by then president Lula, whose administration revived the plan, originally conceived by Brazil's military government in 1975. Lula's administration advocated

for the dam as crucial for Brazil's energy security. However, civil society and environmental groups raised significant concerns. They criticized the project's potential environmental and social impacts, particularly on Indigenous communities. Despite the design with reduced impacts, issues like water management and economic viability remained contentious.

Additionally, the dam was to be built in the Xingu River in the state of Pará, far from the country's industrial region (Figure 2.2.2 provides an aerial view of the dam and its location). According to the transmission technology available in the country at the time, such long distances would result in significant losses during transmission to Brazil's southeast. The most advanced transmission line in Brazil at the time was the Rio Madeira high-voltage direct current (HVDC) system. It consisted of two bipolar  $\pm 600$  kV DC transmission lines, each with a capacity of 3,150 MW, and an approximate loss rate of 11%.

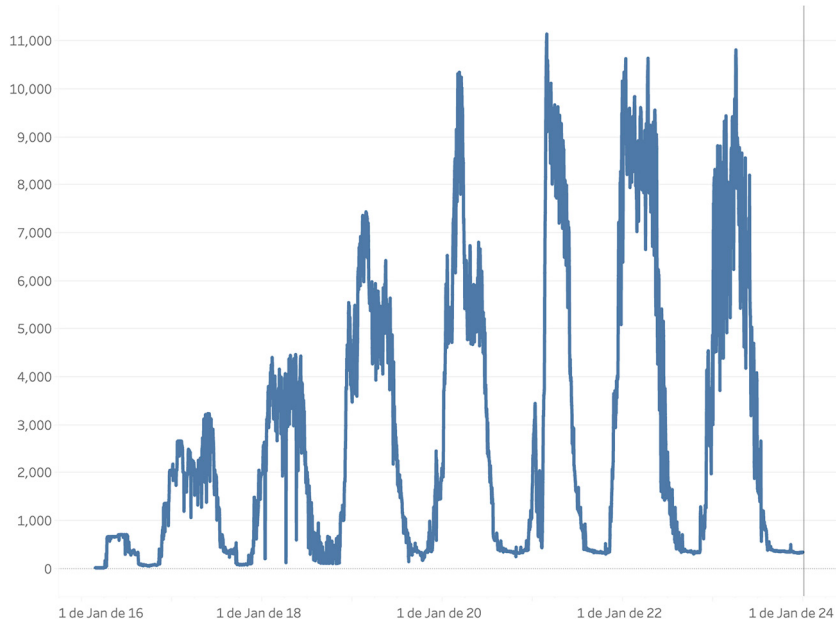
Some of the concerns surrounding the project proved to be valid. The dam led to the displacement of several communities and significantly altered the region's environmental conditions.<sup>27</sup> Fluctuations in river flow affected power production, with the dam's guaranteed minimum capacity set at 4,571 MW, approximately 39% of its maximum capacity (Figure 2.2.3 gives annual average production). Furthermore, the consortium that won the bid for the hydroelectric plant, comprising several prominent Brazilian companies, faced numerous corruption allegations and environmental disputes in federal courts. These challenges delayed the dam's completion by fourteen months and doubled its total cost from approximately US\$9 billion to US\$18 billion.<sup>28</sup> Despite these issues, the initial fears of energy loss did not materialize, as Brazil was on the brink of witnessing the construction of one of the world's largest UHVDC lines.

### 3.4 The Line: Xingu-Estreito

The construction of the Belo Monte dam started in 2011, but only two years later the auction notice for its transmission lines was made public – a short but crucial period for the lines' design. ANEEL produces feasibility studies before officially launching a project via its Energy Research Office (Empresa de Pesquisa Energética, EPE), which details the expected technicalities required in each project. In 2007, EPE published the first studies for a transmission line connecting the Belo Monte dam to the national grid. These studies proposed using an HVDC of  $\pm 600$  kV, similar to that seen in Rio Madeira.

<sup>27</sup> See Diego Magalhães et al., 'Electrification of Forest Biomes: Xingu-Rio Lines, Chinese Presence, and the Sociotechnological Impact of the Belo Monte Hydroelectric Dam' in Fernando Brancoli et al. (eds), *Tropical Silk Road: The Future of China in South America* (Stanford University Press 2022).

<sup>28</sup> 'Ibama "divulga" licença de Belo Monte' (*O Eco*, 27 January 2011) <https://oeco.org.br/salada-verde/24752-ibama-divulga-licenca-de-belo-monte/>; Valdo Cruz et al., 'Propina de Belo Monte foi de R\$ 150 milhões, diz Andrade Gutierrez' (Folha de São Paulo, 7 April 2016) [www1.folha.uol.com.br/poder/2016/04/1758468-propina-de-belo-monte-foi-de-r-150-milhoes-diz-andrade-gutierrez.shtml](http://www1.folha.uol.com.br/poder/2016/04/1758468-propina-de-belo-monte-foi-de-r-150-milhoes-diz-andrade-gutierrez.shtml).



**Figure 2.2.3** Belo Monte dam's daily average energy production, 26 February 2016 to 30 December 2023 (median megawatts, MWmed)

Source: Operador Nacional do Sistema Elétrico, 'Resultados da Operação: Geração de Energia' [www.ons.org.br/Paginas/resultados-da-operacao/historico-da-operacao/geracao\\_energia.aspx](http://www.ons.org.br/Paginas/resultados-da-operacao/historico-da-operacao/geracao_energia.aspx)

In 2011, EPE conducted new feasibility studies. This time it recommended using a UHVDC system consisting of two bipolar  $\pm 800$  kV DC transmission lines, each with a capacity of 4,000 MW. UHVDC technology offers lower transmission costs and higher efficiency for transmitting very high power over long distances. However, at the time, the technology for this voltage level was not only unavailable in Brazil but only used in one place in the world: China.

On 19 December 2013, the auction notice for the Xingu-Estreito line was then published, confirming the use of UHVDC. When the offers for the construction and thirty-year use concession were opened on 7 February 2014, a consortium composed of SGBH and two Eletrobras subsidiaries, Eletronorte and Furnas, won the bid to Auction No. 011/2013. The three companies offered US\$217 million of annual revenues to build and operate the lines, a 38% discount rate to the notice threshold. Chinese officials noted that SGCC's competitive bid was enabled by its ability to source significant equipment from China.<sup>29</sup>

In March 2014, the three companies then established an SPV named Belo Monte Transmissora de Energia (BMTE) in Rio de Janeiro, Brazil. SGBH held a majority stake of 51% in BMTE, with Eletronorte and Furnas splitting the rest equally. The company's governance structure balanced Brazilian and Chinese

<sup>29</sup> Xu Yi-chong (n 10) 282.

influences, featuring an evenly shared presidency and board with three members from each country. Senior management roles were jointly held, pairing a director and a deputy for each area, representing both nationalities.

The partnership between SGBH and Eletrobras proved effective for handling the complexities of the Xingu-Estreito project. Despite SGBH's growing familiarity with Brazil, this project posed larger technical, environmental, economic, and political risks. The planned transmission line, traversing sixty-five municipalities, four states, and three biomes in Brazil, presented a challenging terrestrial landscape. The legal complexities were even more daunting, requiring billion-dollar funding, negotiations with numerous landowners, and adherence to strict environmental standards. Collaborating with Eletrobras, Brazil's largest energy player, presented an advantageous opportunity. SGCC brought state-of-the-art technical expertise, while Eletrobras contributed extensive local knowledge of Brazilian regulations and authorities. As an SGBH former director aptly put it, "This was a successful business strategy from SGCC to adapt to Brazil, mitigate risk, and accelerate learning."<sup>30</sup>

Although the companies collaborated, each had a specific role in particular aspects of the venture. SGBH managed the financial side and appointed the Financial Director to BMTE. Eletronorte was in charge of obtaining environmental licenses and naming the Environmental Director. Furnas handled the technical design and appointed the Technical Manager. Furthermore, Eletrobras engaged in shaping public opinion through a media campaign to address ongoing criticisms of the Belo Monte project.

A distinctive feature of this management structure was the implementation of a "shadow management" system. In this arrangement, whenever a Brazilian professional held a managerial role, a Chinese deputy was assigned to work alongside them. This Chinese deputy closely collaborated with the Brazilian manager, providing insights and relaying important information back to the Chinese headquarters. As explained by a former director: "Every senior executive at SGBH had a Chinese shadow at his side. And this Chinese shadow made reports to the Chinese headquarters on the matters dealt with. It was a way that the Chinese found to learn about the Brazilian operation in practice."<sup>31</sup>

In legal matters, the SGBH in-house team led operations for BMTE in conjunction with teams from Eletronorte and Furnas, maintaining close collaboration with the Chinese management, the global SGCC legal team, and external law firms, especially for intricate tasks such as debenture issuance, audits, and labor- and tax-related issues. While ultimate decision-making authority rested with the Chinese management, the Brazilian legal team enjoyed significant autonomy in handling local affairs. As one SGBH lawyer noted, "Brazilians were at the forefront of all legal operations, reporting to Chinese managers. Direct interactions with Chinese executives were rare." A former director further explained, "Cai

<sup>30</sup> Interview no. 1 with Former SGBH Director (28 November 2022).

<sup>31</sup> Interview (n 17).

had the final say, but our legal team had substantial independence in determining the best strategies for matters involving concessions, public bids, or land-owner negotiations to achieve the company's economic goals.”<sup>32</sup>

To finance its investment, BMTE used a combination of loans, private debt, and equity, totaling an estimated US\$1.8 billion. The consortium secured 46% of this amount, approximately US\$818 million, in loans from Brazil's Development Bank (Banco Nacional de Desenvolvimento Econômico e Social, BNDES). Benefiting from BNDES's special subsidized credit line, BMTE accessed the long-term interest rate (*taxa de juros de longo prazo*, TJLP), enjoying interest rates between 2.98% and 4.10%, notably lower than typical market rates. Additionally, BMTE raised US\$600 million in private debt through a debenture issuance, facilitated by local law firms.<sup>33</sup> The consortium also received an equity infusion from its shareholders to support construction costs. Over time, BMTE further diversified its financing by issuing a second debenture and obtaining additional loans from BNDES, thereby spreading out operational costs and risks.

Upon securing local financing, BMTE then faced a significant challenge in acquiring environmental licenses, due to Brazil's extensive and complex regulatory landscape featuring more than 20,000 environmental standards. This framework poses considerable hurdles for foreign entities, as exemplified by China Railway Eryuan Engineering Group's failed attempt to construct the Brazil–Peru Transcontinental Railway.<sup>34</sup> To navigate these complexities, BMTE employed a locally focused approach, engaging an interdisciplinary team of Brazilian experts for conducting Environmental Impact Assessment (EIA) studies.<sup>35</sup> Furthering its strategy to local expertise, BMTE engaged Tracbel, a subsidiary of the French multinational utility company Engie, renowned for its extensive experience in Brazil.

BMTE's EIA outlined eighteen initiatives to mitigate environmental concerns, including route optimization, implementation of forest replenishment programs, and provision of support to affected communities. The final line design stretched over approximately 2,089 km, surpassing the direct distance between stations (about 1,990 km), to navigate around sensitive environmental areas (Figure 2.2.4 gives the line design). On 20 May 2015, Brazilian authorities granted approval to the studies, marking a crucial milestone in the project's progression.

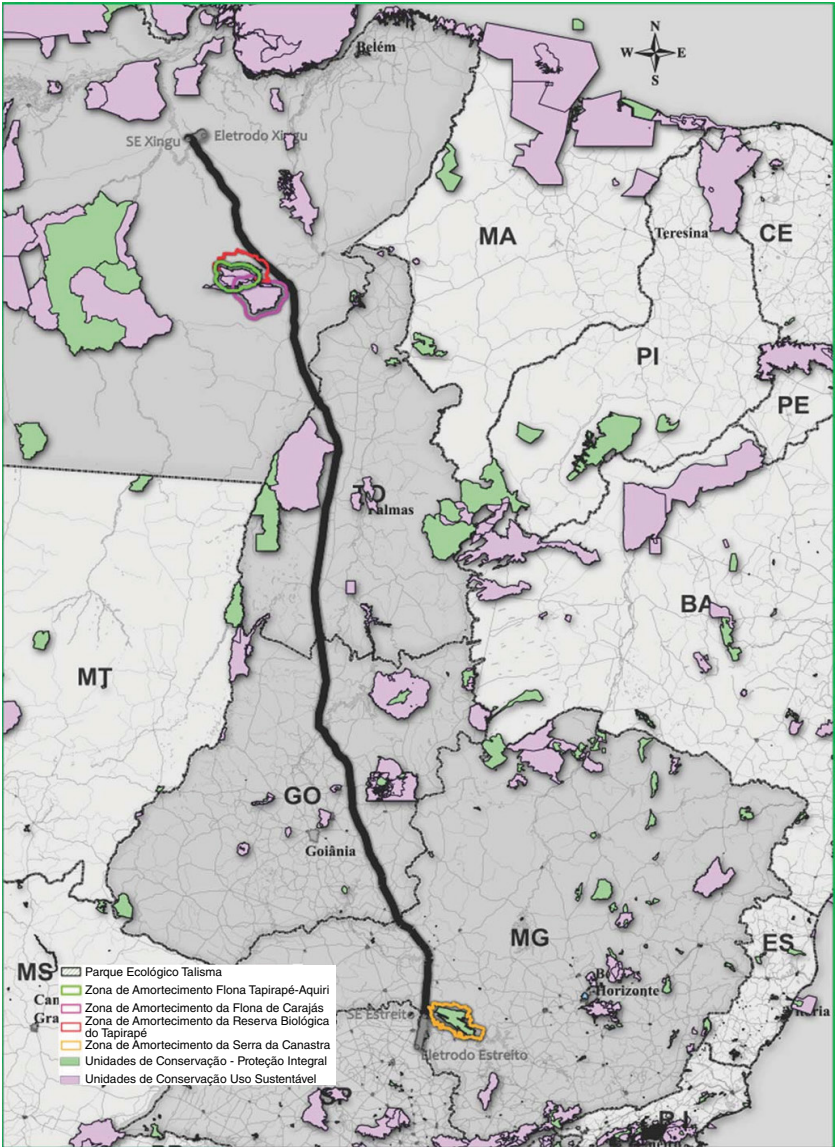
BMTE then enlisted a mix of Brazilian, European, and Chinese contractors. The line was segmented into eight stretches, each around 260 km in length, and corresponding engineering, procurement, and construction (EPC) contracts

<sup>32</sup> Interview (n 17).

<sup>33</sup> Interview no. 3 with Local Lawyer Representing SGBH (7 December 2022).

<sup>34</sup> Prioritized by Xi Jinping for Latin America in 2014, the project was eventually abandoned by Brazilian and Peruvian authorities due to unsatisfactory environmental and feasibility assessments. See Leolino Dourado, 'China-Backed Infrastructure in the Global South: Lessons from the Case of the Brazil–Peru Transcontinental Railway Project' (2022) 44 *Third World Quarterly* <http://dx.doi.org/10.1080/01436597.2022.2154204>.

<sup>35</sup> JGP Consultoria e Participações Ltda, 'Linha de Transmissão CC ±800 kV Xingu/Estreito e Instalações Associada' (*Belo Monte Transmissora de Energia*, 2014) [www.bmte.com.br/wp-content/uploads/2016/06/RIMA.pdf](http://www.bmte.com.br/wp-content/uploads/2016/06/RIMA.pdf).



**Figure 2.2.4** Design of the Xingu-Estremo transmission line highlighting ecological parks, buffer zones, and conservation units  
Source: JGP Consultoria (n 40) 29.

were awarded for these sections. Brazilian firms Tabocas (for sections 3 and 4), São Simão (sections 6 and 7), and Incomisa (section 8) were engaged, while the Chinese company SEPCO 1, a subsidiary of PowerChina, took on sections 1, 2, and 5. In addition, infrastructure components like towers and substations were contracted to other companies, including Brametal, Electrovidro, SAE Towers, and Siemens. While BMTE oversaw the EPC contractors' operations, it did not directly involve itself in the construction process. SGCC's affiliates – such as

NARI, CET Brazil, and Xuji – also played a pivotal role by providing specialized automation and smart metering technologies. Notably, NARI established a manufacturing plant in São Paulo at the time, aiming to emerge as a key supplier for Brazil’s grid construction efforts.

The construction of the transmission line involved approximately 8,000 workers, predominantly Brazilian. As Cai noted in 2012, SGCC’s approach in Brazil did not rely on importing Chinese labor: “Our strategy involves bringing Chinese executives to Brazil while also employing local workers. We aim to blend the best aspects of Chinese and Brazilian work cultures.”<sup>36</sup> To bridge cultural gaps, SGBH even engaged a firm specializing in cultural integration to facilitate interactions between Brazilian workers and Chinese managers. A former SGBH executive reflected, “from their arrival in Brazil, there was a focused effort to enhance company performance by integrating Chinese and Brazilian cultural elements.”<sup>37</sup> Nonetheless, linguistic barriers remained a persistent challenge, even during the operational phase of the project, as highlighted by another director: “Language has always remained a challenge, even today with an operational line.”<sup>38</sup>

Construction of the line began in June 2016 and finished by December 2017, two months ahead of schedule. Upon completion, SGBH solidified its presence in Brazil, establishing significant operations in Rio de Janeiro with a local workforce of 800 and investing US\$60 million in five floors of a 16-story building, which also accommodates other Chinese companies. The project not only deepened SGBH’s understanding of the Brazilian market but also strengthened its local team and its relationship with Brazilian partners. This experience would soon prove valuable for the construction of the Belo Monte hydroelectric plant’s second line – currently the world’s largest transmission line. However, this time, SGBH embarked on the new project alone.

### 3.5 Aftermath: SGBH Accessing Other Stages of the Production Chain

The successful completion of the Xingu-Estreito transmission line significantly elevated Brazil’s status within SGCC’s global operations, positioning it as the corporation’s second most crucial market after China. The construction and overall operation of the Xingu-Estreito line was also a testing ground for the Chinese in both exploring new markets and experimenting with their UHVDC technology outside of China. These achievements sparked heightened interest from SGCC’s headquarters, and over the following years SGCC aimed to broaden its portfolio in Brazil. The aftermath saw two distinct strategies: securing a more robust position in the transmission market through ANEEL auctions and shifting the initial emphasis from transmission lines to other segments of Brazil’s electricity production chain.

<sup>36</sup> Marcos Todeschini and Carlos Rydlewski, ‘A invasão chines’ (*Época Negócios*, 2014) <https://epocanegocios.globo.com/Informacao/Acao/noticia/2012/04/invasao-chinesa.html>.

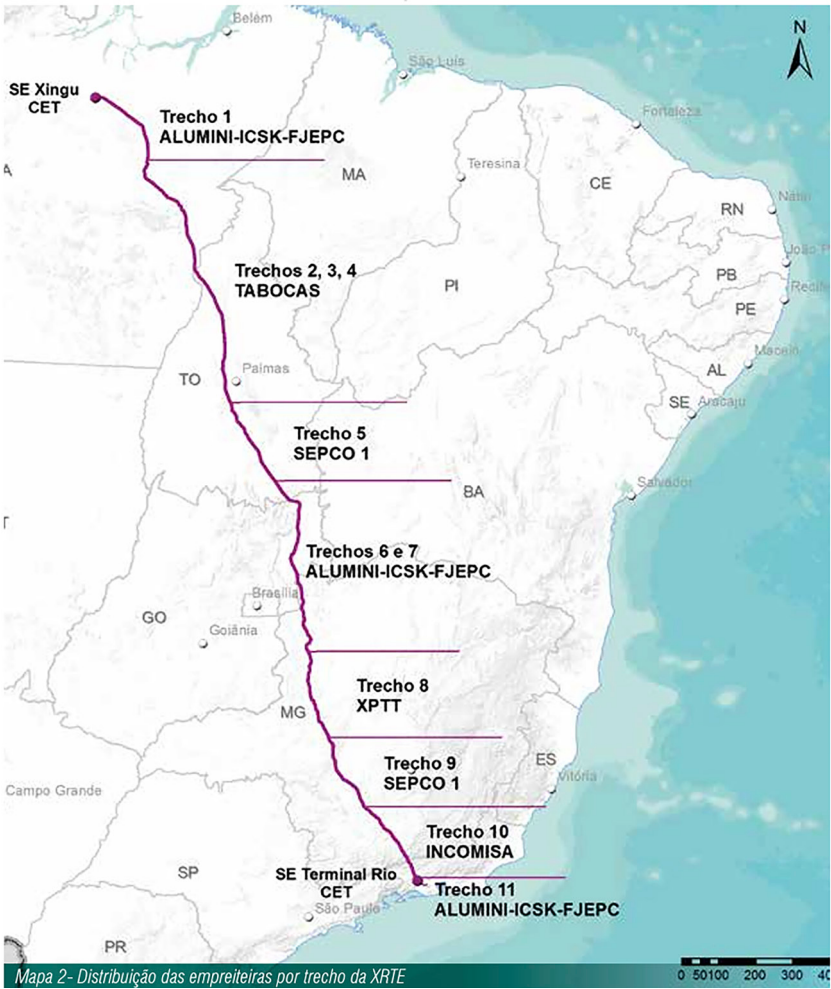
<sup>37</sup> Interview (n 30). <sup>38</sup> Interview no. 2 with SGBH Director (1 December 2022).

First, SGBH made significant investments in new public auctions, thereby extending its control over more than 16,000 km of transmission lines, which currently accounts for approximately 10% of Brazil's total high-voltage network. Notably, in 2015, the company won the auction to build and operate the second line of the Belo Monte project, the 2,543 km Xingu-Rio UHVDC transmission line (Figure 2.2.5 showcases the second line's design, detailing the sections handled by EPC contractors).<sup>39</sup> The strategies used in this second venture were inspired by the successes and mistakes of the first operation. In areas such as financing, the same approaches were used, while environmental strategies were refined. In 2023, SGBH secured another major project, constructing 1,463 km of HVDC lines, offering a 40% RAP discount rate, and committing to invest an additional US\$3.6 billion. In both instances, SGBH submitted bids independently, marking a departure from its previous strategy of collaborating with local SOEs. The company managed construction on its own, subcontracting for equipment and line construction, while engaging a larger number of Chinese companies in the projects.

Second, SGBH broadened its scope within Brazil's electricity chain, moving beyond transmission to acquire operational assets in other stages. A significant development occurred in August 2016, when SGCC's subsidiary, SGID, invested US\$1.8 billion to acquire a 23% stake in Companhia Paulista de Força e Luz (CPFL), the largest private player in the Brazilian electricity sector and a publicly traded company on São Paulo's B3 stock exchange. To manage CPFL's assets, SGID incorporated State Grid Brazil Power (SGBP) as a new holding company based in Campinas, São Paulo. This acquisition was further reinforced by a Public Offer for Acquisition (PAO) in November 2017, valued at US\$3.5 billion, which aimed to purchase shares from CPFL's minority shareholders. The successful PAO led to SGCC acquiring a controlling interest of 83.7% in CPFL, along with complete ownership of CPFL Renováveis, a subsidiary specializing in renewable energy. While CPFL's remaining shares continued to be traded freely, its American Depositary Shares were delisted from the New York Stock Exchange, and CPFL Renováveis was fully withdrawn from B3.

The acquisition of CPFL positioned SGCC as Brazil's second largest electricity utility, only behind Eletrobras. By 2021, SGCC had a significant presence in the Brazilian electricity sector, both directly and via its subsidiaries. The company controlled 4.4 GW, or the equivalent to 2.1% of the country's generation capacity, and owned 22,000 km of transmission lines, representing 11% of Brazil's network. Additionally, it managed the electricity distribution for 10 million clients, accounting for 13% of Brazilian consumer units (Figure 2.2.6 provides a comprehensive view of SGCC's assets in Brazil via SGBH and

<sup>39</sup> SGBH established a new SPV called Xingu-Rio Transmissora de Energia (XRTE) to facilitate the construction process. Given the requirement in the Brazilian legislation of having two partners for an SPV, SGBH leveraged the broader SGCC corporate structure. XRTE was incorporated in Rio de Janeiro, Brazil, with SGBH holding 99.999% of the shares and TVGI, SGCC's BVI subsidiary, holding the remaining 0.001%.



**Figure 2.2.5** Design of the Xingu-Rio transmission line detailing sections handled by EPC contractors  
Source: Ricardo Abranches Felix Cardoso Júnior and others, ‘A XRTE e o Meio Ambiente’ (Rio de Janeiro 2020) 12.

CPFL as of 2021). SGCC’s operations in Brazil are organized under a holding model, managing more than sixty SPV companies through SGBH, SGBP, and CPFL. As of 2021, SGCC held US\$6 billion in Brazilian assets, and its reported revenues and net profit in the country were US\$8.4 billion and US\$2.2 billion, respectively.<sup>40</sup>

Cai served as the chairman of SGBH until 2020, after which he returned home upon completing his mission in Brazil. In China, he assumed the role of General Manager of State Grid Fujian Electric Power Co., an SGCC subsidiary

<sup>40</sup> State Grid Brazil Holding, ‘Relatório de Responsabilidade Social Corporativa da SGCC (Brasil) 2021’ [www.grupocpfl.com.br/sites/default/files/2021-12/CPFL\\_RelatorioAnual2019\\_0.pdf](https://www.grupocpfl.com.br/sites/default/files/2021-12/CPFL_RelatorioAnual2019_0.pdf).

focused on providing electricity to the province of Fujian. He also became a frequent spokesperson of SGCC success in Brazil. Meanwhile, SGCC went abroad, expanding its activities internationally and becoming the world's fifth largest company by total assets. As of 2023, it has investments in nine countries – Australia, Brazil, Chile, Greece, Italy, Oman, Pakistan, the Philippines, and Portugal – and activities in more than forty countries. Its overseas investments surpass US\$21 billion, with approximately 60% of these funds allocated to Brazil. The Belo Monte transmission lines, along with CPFL, are among the crown jewels of SGCC's global portfolio.

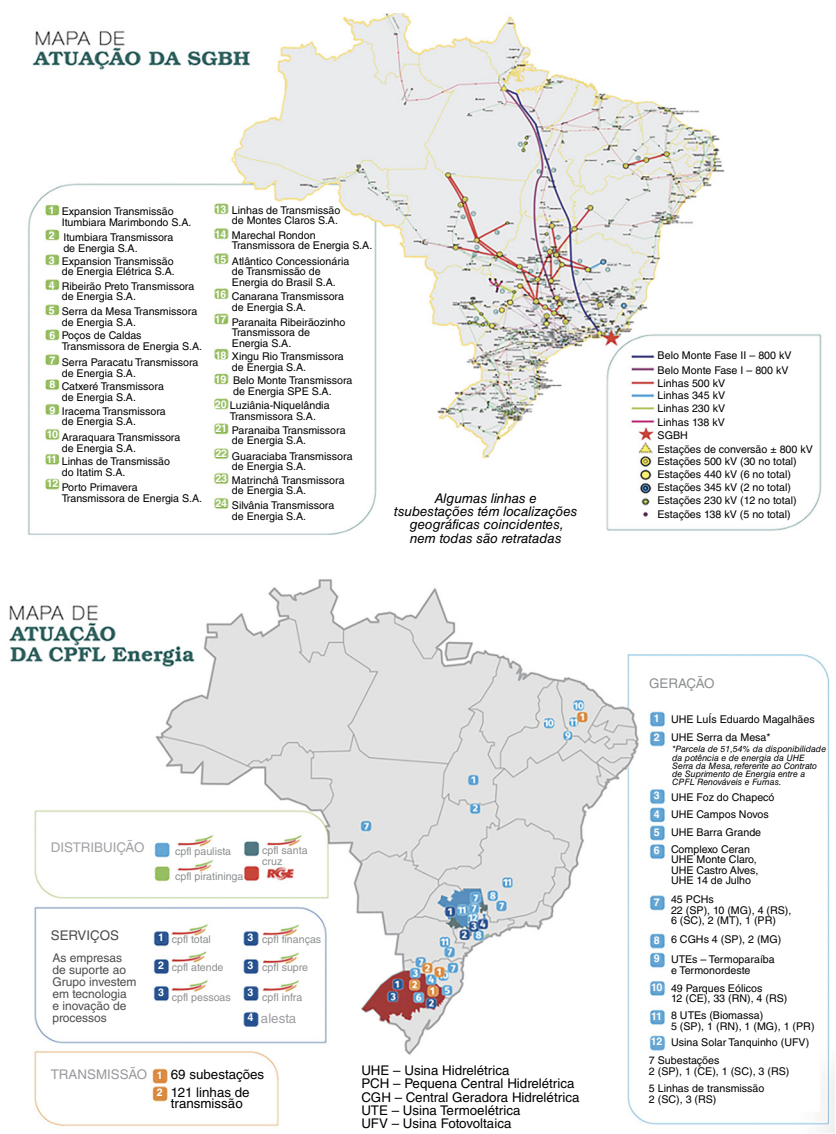


Figure 2.2.6 SGCC's assets in Brazil via SGBH and CPFL, 2021

## 4 Conclusion

This case study explores SGCC's strategic foray into Brazil, highlighting its effective approach compared to its earlier challenges in the Philippines. Yet it also points to concerns about SGCC's increasing influence in Brazil's electricity sector, especially after diversifying its operations post the Xingu-Estreiro transmission line project. Key issues involve potential impacts on market competition and the necessity for regulatory oversight to prevent market dominance (Figure 2.2.7 details market share by nationality in Brazil's generation, transmission, and distribution sectors from 2010 to 2019).

Evaluating the impact of Chinese investments in Brazil's electrical sector requires a nuanced analysis that considers diverse perspectives. While these investments typically comply with Brazilian corporate legislation, their alignment with national policy objectives and the market's design remain a matter of debate. This issue is critical not only for Brazil but also for other developing nations grappling with inadequate infrastructure, economic instability, and reliance on foreign capital. Moreover, despite having regulatory bodies like the Administrative Council for Economic Defense (Conselho Administrativo de Defesa Econômica, CADE) to monitor market concentration, Brazil lacks specific measures for national security considerations, unlike mechanisms such as the Committee on Foreign Investment in the United States.

Reflecting this complexity, two former SGBH directors present differing views. One states, "Regardless of market concentration, a company in the Brazilian market does not have much power such as to dictate prices or take control of an asset. Everything is a concession under a robust regulatory framework."<sup>41</sup> Another counters, "Chinese investments raise many issues, including market concentration. It is not just a matter restricted to Chinese investors, but it is clear that their financial capacity and interest in new investments in Brazil are now relevant. ... We need to think seriously about this."<sup>42</sup>

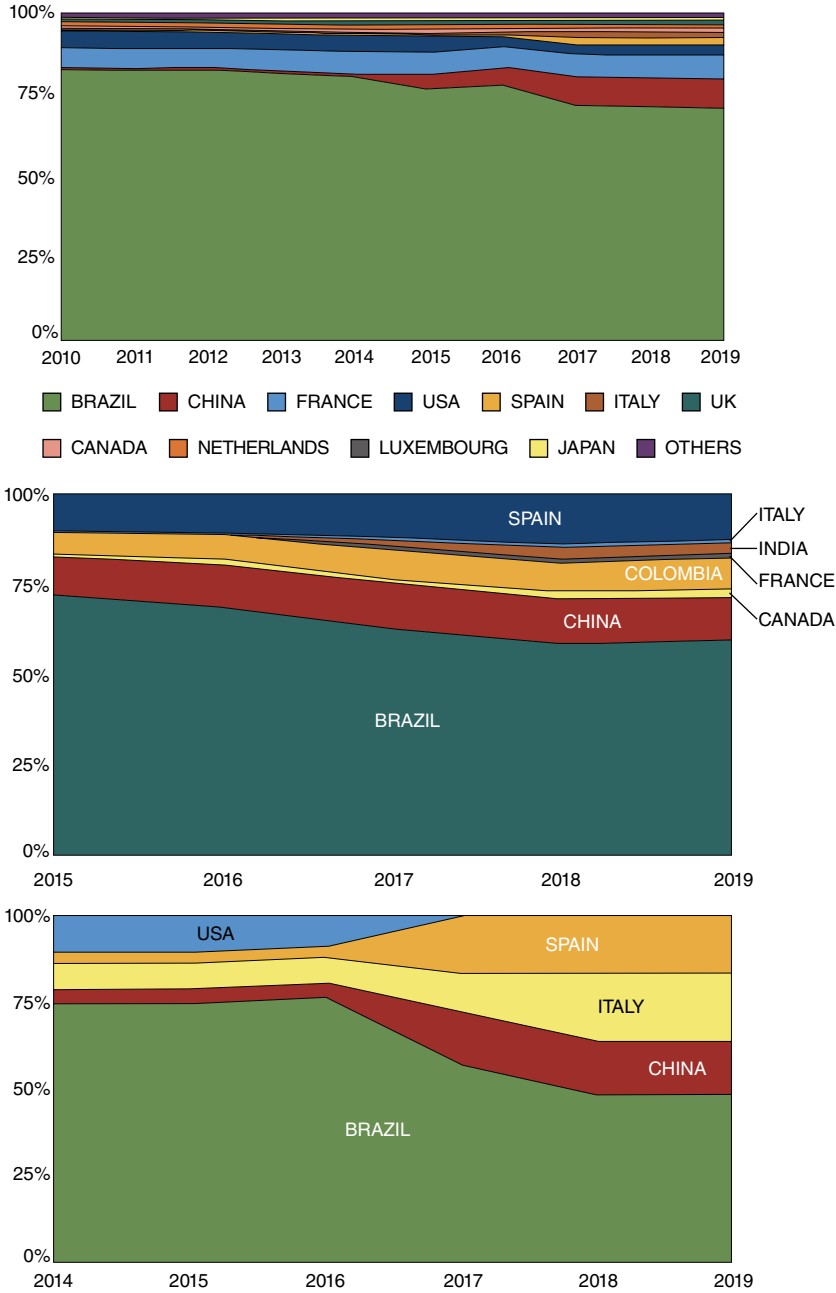
## 5 Discussion Questions and Comments

### 5.1 For Law School Audiences

SGCC's venture in Brazil's Belo Monte project introduces several intricate legal challenges of foreign companies emerging in new jurisdictions. These may include navigating a complex regulatory environment, addressing socio-environmental concerns, and ensuring compliance with both local and international legal frameworks. Given the information provided in the case, discuss the following questions:

1. Regulatory Navigation: How did SGCC successfully navigate the complex regulatory framework in Brazil, particularly in contrast to its Philippine

<sup>41</sup> Interview (n 30). <sup>42</sup> Interview (n 17).



**Figure 2.2.7** Market share by nationality in Brazil's generation, transmission, and distribution sectors, 2010–2019 respectively

Source: Pedro Henrique Batista Barbosa, 'New Kids on the Block: China's Arrival in Brazil's Electric Sector' Global Development Policy Center GCI Working Paper No. 012 (December 2020) [www.bu.edu/gdp/files/2020/12/GCI\\_WP\\_012\\_Pedro\\_Henrique\\_Batista\\_Barbosa.pdf](https://www.bu.edu/gdp/files/2020/12/GCI_WP_012_Pedro_Henrique_Batista_Barbosa.pdf).

experience? Analyze the specific legal strategies employed by SGCC in Brazil, evaluating their effectiveness in adapting to this market. Further, consider which of these strategies could be feasibly replicated by other multinational companies in similar contexts, and discuss any factors that might limit their viability.

2. **Financial Design:** Analyze SGCC's legal strategies that supported the financial design for the Xingu-Estreito transmission line project in Brazil. Discuss how these strategies facilitated effective risk management and consider their adaptability to similar projects in other countries. Evaluate the availability of funding options domestically in China or in other countries, locally in Brazil, or transnationally, and assess which approach might be most advantageous for other multinational companies venturing into developing countries.
3. **Corporate Governance:** Explore the legal consequences of SGCC's decision to delist CPFL from the NYSE and CPFL Renováveis from B3. How does this decision reflect SGCC's corporate governance and market strategy in an international context? If you were part of SGCC's legal team, would you have advised in favor of this move? Discuss the potential benefits and drawbacks of such a decision from a legal and corporate strategy standpoint.
4. **Legal Team Localization in Multinational Corporations:** To what extent does the localization of a legal team within a multinational corporation, such as SGCC in Brazil, enhance the company's capacity to effectively navigate intricate local regulatory and legal landscapes? Delve into the advantages and potential obstacles associated with this strategy, particularly in regions where legal norms and practices diverge significantly from the corporation's home country.
5. **Market Integration and Competition Law:** With SGCC's rapid expansion and integration into the Brazilian market, questions regarding competition law and national security have come to the forefront. Delve into the legal implications of SGCC's increasing market influence, including the challenges it poses to the Brazilian market design and potential national security concerns. Consider whether these concerns would be the same if the case involved a company from a different nation and how regulatory bodies should oversee such complex issues.

## 5.2 For Policy School Audiences

SGCC's involvement in the Belo Monte hydroelectric project in Brazil presents a compelling case for exploring policy implications in international energy projects for developing countries. This case study offers an opportunity to analyze policy decisions related to energy security, environmental sustainability, international cooperation, and developmental policies. The case also aims to scrutinize the interplay between business interests, governmental regulations,

and public policy, highlighting the complex dynamics that shape such projects. Given the information provided in the case, discuss the following questions:

1. **Regulatory Frameworks, Market Concentration, and Investment Attraction:** Discuss the specific regulatory measures in Brazil aimed at preventing market concentration in critical infrastructure sectors. Assess the impact of these regulations on the competitive environment and the flow of foreign investments. Examine if the current design is under constraint by the activity of SGCC. If so, how could regulatory oversight be improved to maintain competition and still be attractive to foreign investment.
2. **Energy Security and Environmental Concerns:** Policymakers often grapple with complex decisions when dealing with projects like Belo Monte, balancing energy security needs with environmental considerations. Explore Brazil's energy security imperatives and the role of projects like Belo Monte in meeting these requirements. Analyze the environmental consequences of large-scale hydroelectric projects and Brazil's policy choices in mitigating them while pursuing energy security goals. Gain insights from international experiences and compare how other nations have addressed similar policy dilemmas, providing a comprehensive perspective on the topic.
3. **Sustainable Energy Transition:** Large-scale hydroelectric projects offer a shorter path for countries to align with their sustainable energy transition goals. However, these projects also have significant socio-environmental impacts. Explore strategies and policy options that could reconcile the energy potential of projects like Belo Monte with socio-environmental considerations. Analyze how countries can enhance sustainability in energy projects, ensuring minimal harm to local communities and ecosystems. Additionally, discuss the role of technology and innovation in mitigating environmental impacts while meeting energy security needs.
4. **International Cooperation in Collaborative Infrastructure Projects:** Analyze the significance of international cooperation in advancing development through collaborative infrastructure initiatives. Delve into the advantages and obstacles associated with global collaboration in achieving development goals, including technology transfer benefits and the potential financial burdens on host nations. Additionally, explore the potential roles of international agencies in facilitating and supporting such collaborative endeavors.

### 5.3 For Business School Audiences

SGCC's involvement in Brazil's Belo Monte hydroelectric project represents a successful case in international business strategy and operations. As one of the world's largest utility companies, SGCC's expansion into the Brazilian market poses a range of challenges and opportunities. This case study delves into the strategic decision-making processes, risk management techniques, and

stakeholder relations in SGCC's venture. Given the information provided in the case, discuss the following questions:

1. **International Expansion Strategy:** Assess SGCC's approach to entering and expanding in the Brazilian market. Examine the critical factors that shaped their decision-making and the risk management strategies they employed in executing this extensive international project. Explore the limitations and shortcomings of SGCC's strategies. Compare and contrast SGCC's international expansion strategy with those of other multinational companies entering global markets, drawing insights from other relevant case studies.
2. **Overcoming Information Asymmetry in a New Market:** Delve into the specific strategies that SGCC implemented to tackle the complex issue of information asymmetry when entering the Brazilian market. Explore the intricacies of information gaps, including differences in local knowledge, business practices, and regulatory nuances. Assess the effectiveness of SGCC's chosen strategies in not only facilitating a successful market entry but also sustaining ongoing operations. Additionally, analyze the potential applicability of these strategies for other multinational corporations seeking to enter markets characterized by information asymmetry.
3. **Navigating Financial and Operational Challenges:** Discuss the landscape of financial and operational challenges that SGCC encountered during its involvement in the Belo Monte project, such as funding constraints, logistical complexities, and regulatory issues. Investigate the strategies and solutions that SGCC employed to effectively address these challenges, whether through innovative financing, project management techniques, or regulatory negotiations. Assess the outcomes and lessons learned, highlighting both successful approaches and areas that presented difficulties. Identify transferable insights and best practices that can serve as valuable guidance for companies venturing into large-scale international projects in the future.
4. **Localization Strategies:** Explore how SGCC's localization strategies influenced its success in Brazil. Assess whether a more globally centralized approach could have achieved similar results and analyze SGCC's unique decision not to centralize all management decisions, such as funding and financial risk activities. Discuss the implications for multinational corporations operating internationally.