

What's next in Brazil: 5th Round of Brazilian Airport Concessions

José Eduardo de Melo

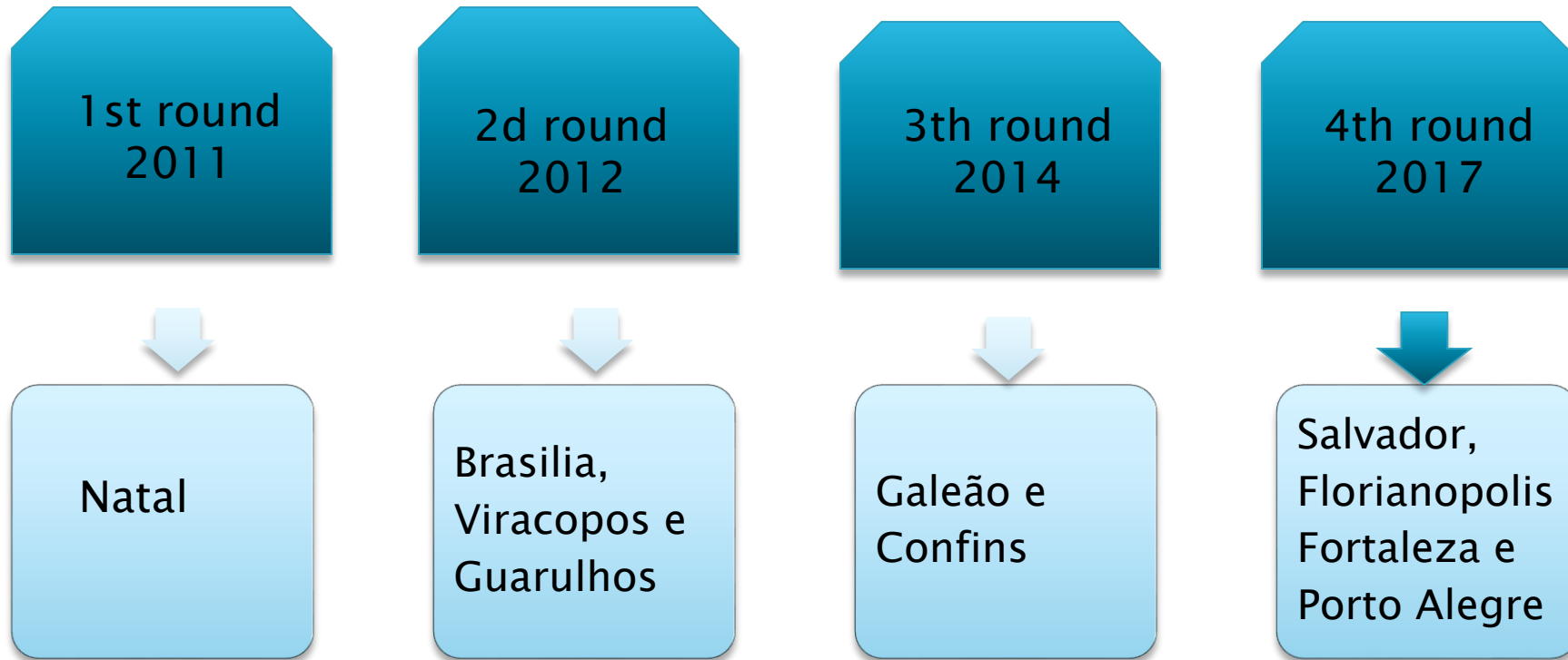
Inframerica Concessioner of the Airports of Brasilia and Natal
(Corporation America Group)

17/10/2018

Recent History of Brazilian Airport Concessions

- ▶ The Brazilian program of airport concessions was launched in 2011, when São Gonçalo do Amarante airport (Natal Airport) was auctioned (1st). In the following year, Guarulhos, Viracopos and Brasilia airports were granted (2nd) . In 2013, the auction of Galeão and Confins airports took place (3th) , and finally the last round took place in 2017 when the of the cities of Salvador, Fortaleza, Porto Alegre and Florianópolis were auctioned (4th).

Recent History of Brazilian Airport Concessions



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ANAC, the Brazilian Aviation Agency, in October 2017 has launched a public consultation to obtain support for the concession of three blocks of airport concessions, comprising 13 airports into clusters formed by airports of different sizes (Anac wants to include small Airports in the concession).

5th Round of Brazilian Airport Concessions

5th round
2019

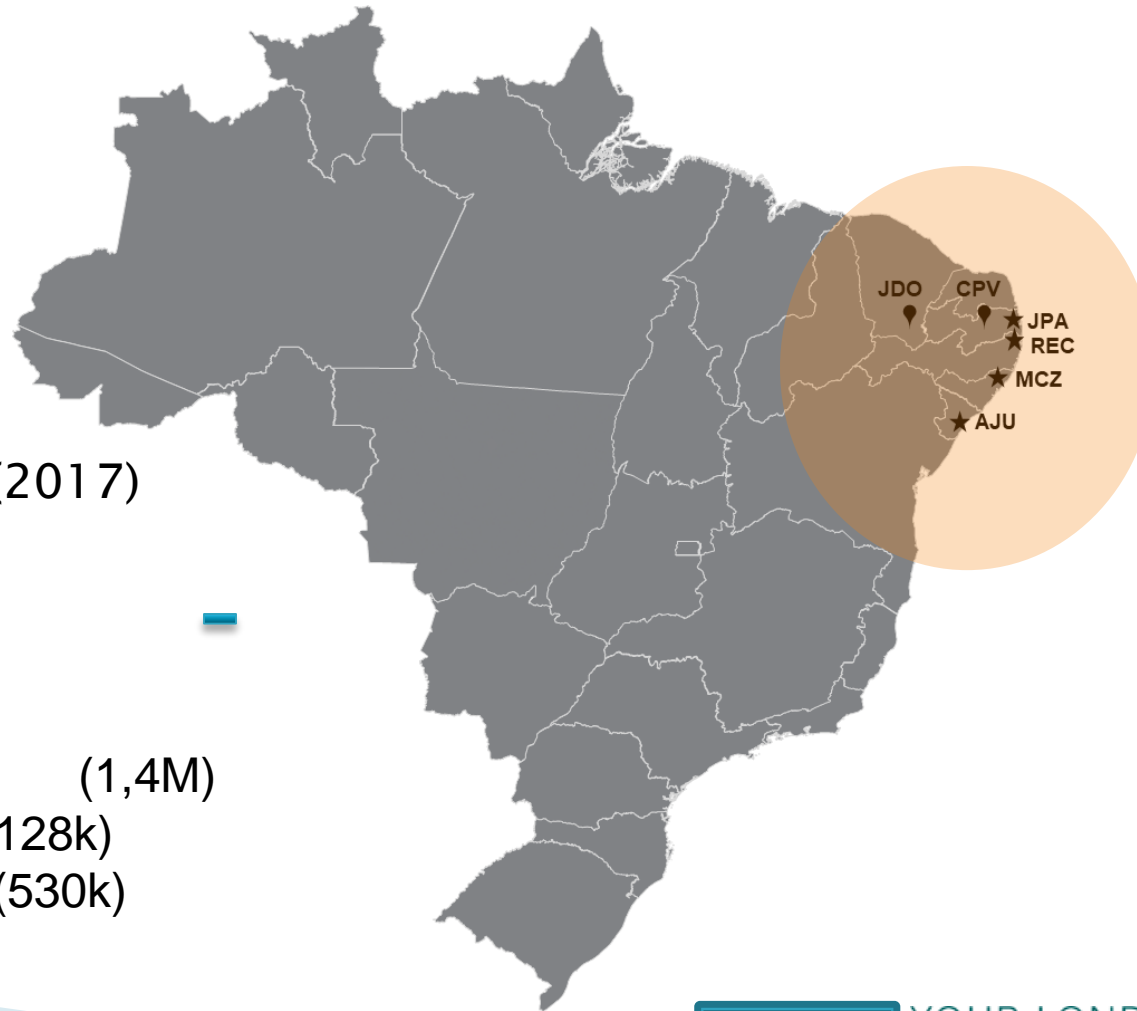
- Northeast Block: Recife, Maceió, Aracaju, João Pessoa, Campina Grande, Juazeiro do Norte
- Southeast Block: Vitória and Macaé
- Center-West Block: Cuiabá, Sinop, Barra das Garças, Rondonópolis, Alta Floresta

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Northeast Block

Northeast Block
13,2M pax/year (2017)

Recife (6,8M)
Maceió (1,9M)
Aracaju (1,2M)
João Pessoa (1,4M)
Campina Grande (128k)
Juazeiro do Norte (530k)



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▶ Center-West Block

Center-West Block
3,2M pax/year (2017)

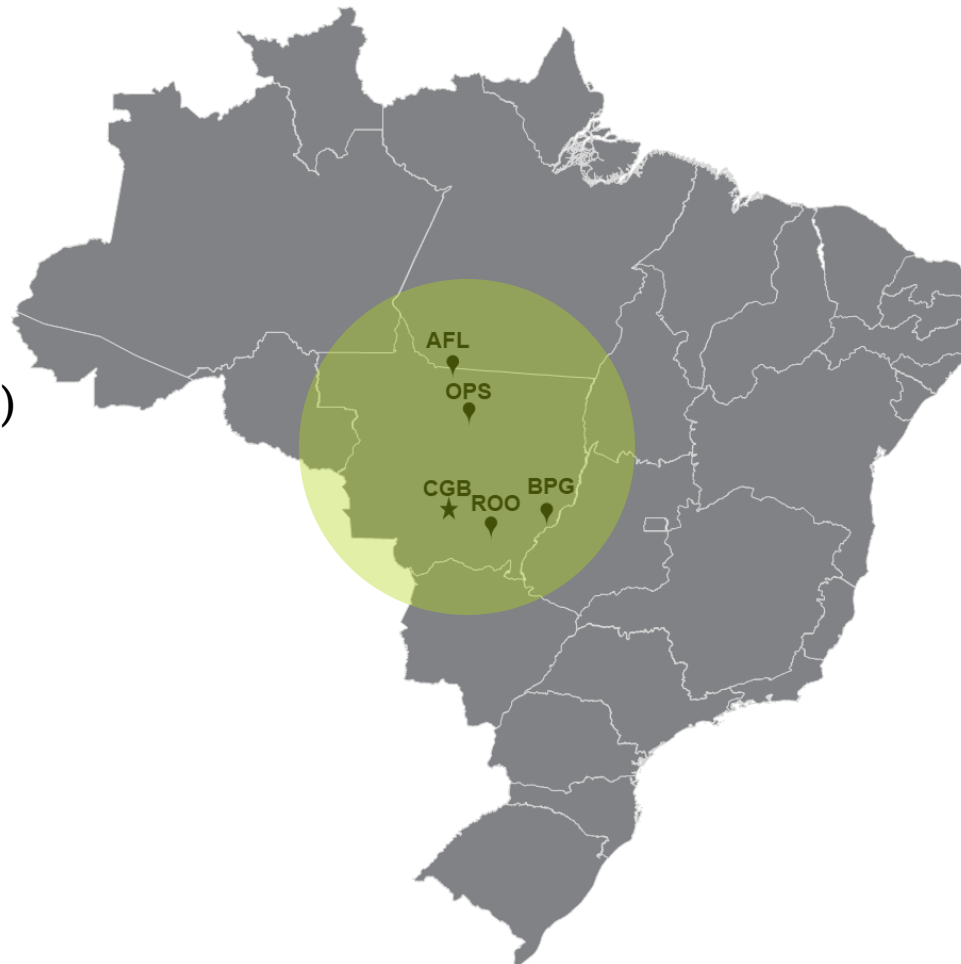
Cuiabá (2,8M)

Sinop (223k)

Barra das Garças (4k)

Rondonópolis (73k)

Alta Floresta (69k)



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▶ Southeast Block

Southeast Block
3,4M pax/year (2017)

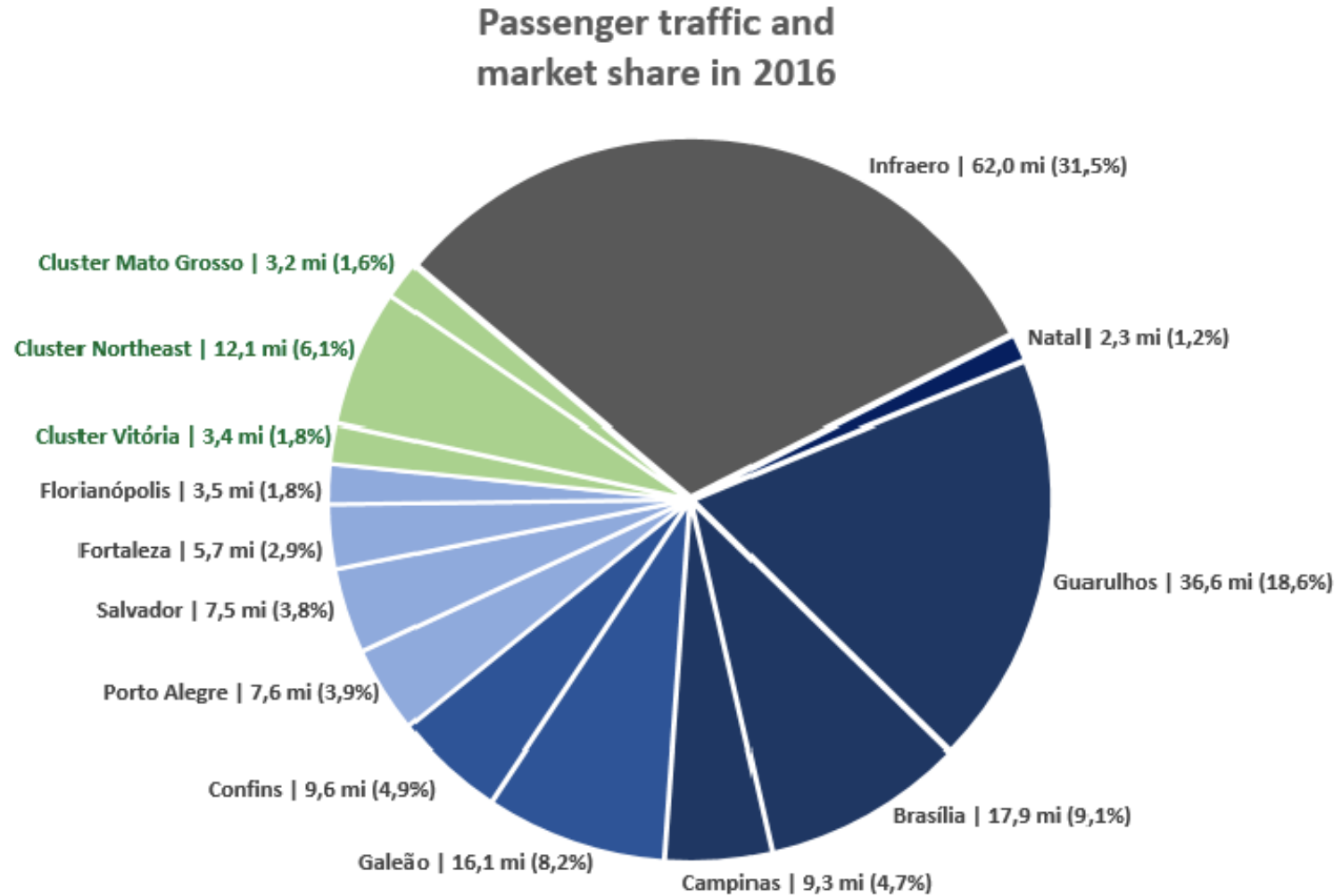
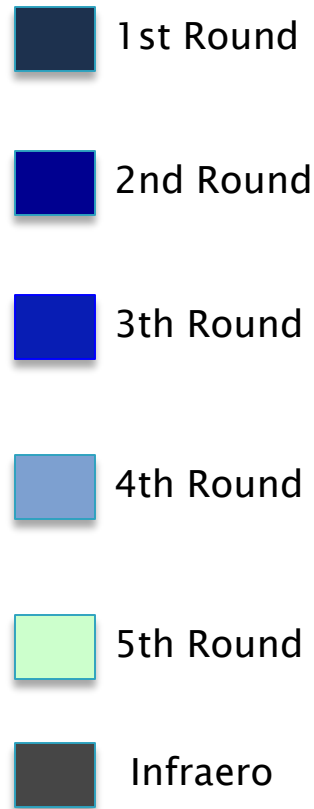
Vitória (3,1M)
Macaé (318k)



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5th Round of Brazilian Airport Concessions



Source: ANAC

5th Round of Brazilian Airport Concessions

General Provisions for the 5th Round of Brazilian Airport Concessions

:

Participation:

Brazilian and foreign companies, private pension entities and investment funds may participate in the concession, alone or in a consortium.

Term:

The new concessions will have a term of 30 years

Modality, criterion of judgement, minimum grant:

The bidding will take place in the auction mode, being the criterion of judgement the highest initial contribution offered.

Corporate

100%

private

Structure:

Investor



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General Provisions for the 5th Round of Brazilian Airport Concessions:

Restriction:

As the blocks of airports are located in different geographical regions, there are no restrictions for the same consortium to be awarded more than one block.

Companies holding concessions to operate other privatized airports may bid for any of these blocks.

The restriction for participation of airlines – maximum of 2% of the consortium - is maintained at the same level of the previous rounds.



5th Round of Brazilian Airport Concessions

Innovations in the 5th Round of Brazilian Airport Concessions:

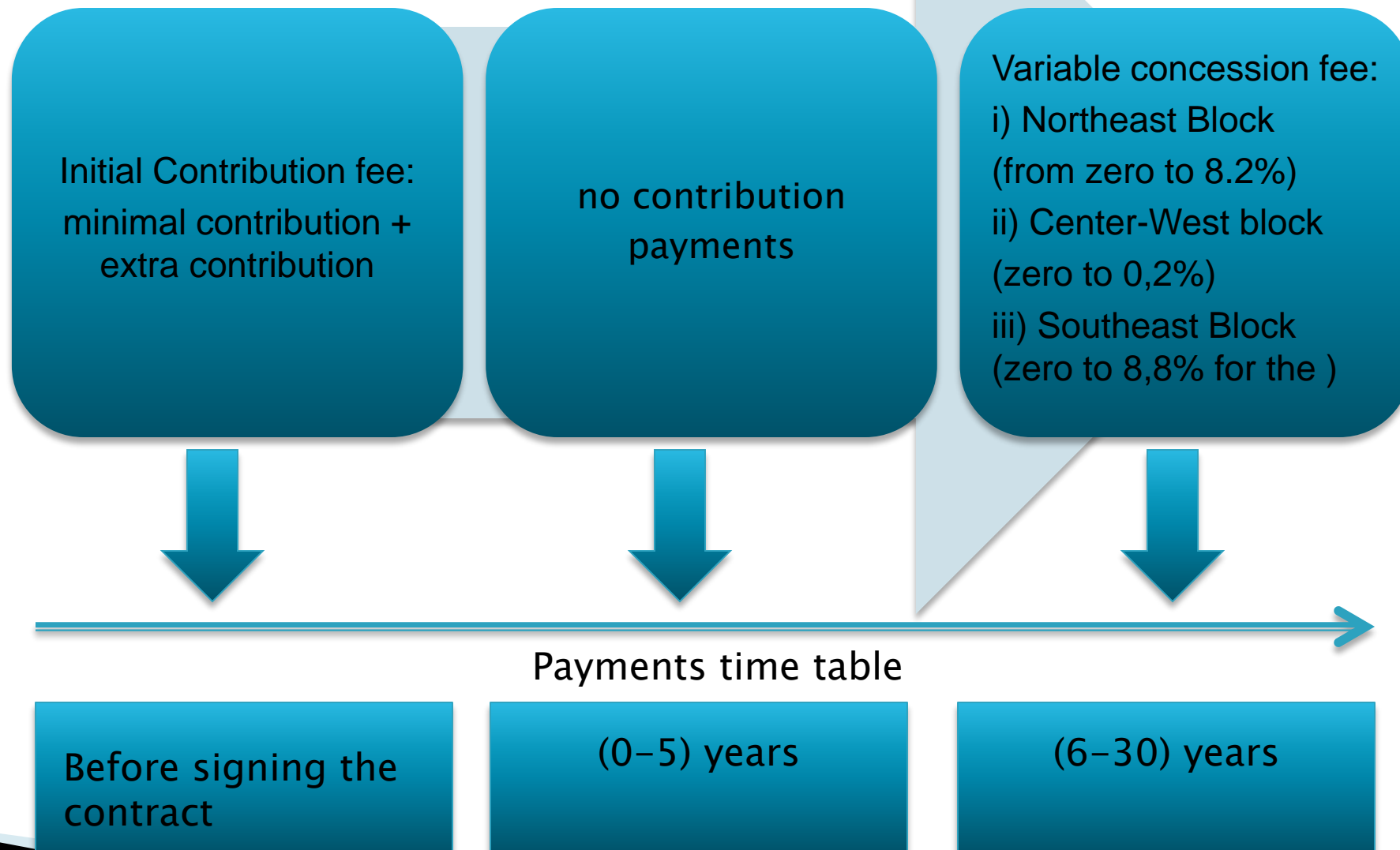
1. Concession fees:

i) **Initial Contribution fee:** the amount offered by the bidder for the concession will be a one-off event, paid at the beginning of the concession (minimal contribution + extra contribution). In the previous rounds there were annual payments.

ii) **variable concession fee:** it will be a percentage over the gross revenues of the concessionaire (varying from zero to 8.2% for the Northeast Block, zero to 0,2% for the Center-West block and zero to 8,8% for the Southeast Block) . The Variable fee will be paid after 5 years of a no-payment. This new mechanism will be also functioning as a risk-sharing mechanism (government is taking part of the risk together with the private investor).



5th Round of Brazilian Airport Concessions



5th Round of Brazilian Airport Concessions

Innovations in the 5th Round of Brazilian Airport Concessions:

2. Rebidding of the Concession:

Rebidding of the Concession, if agreed upon between the Concessionaire and ANAC. The Concessionaire may request for re-bidding if it demonstrates it is incapable of complying with the contractual or financing obligations.

The re-bidding process shall follow the Law 13,448/17, which provides for the possibility of re-bidding of existing toll road, railway and airport concessions.

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Innovations in the 5th Round of Brazilian Airport Concessions

3. Arbitration:

The drafts under discussion expressly provide that conflicts arising from the Concession Agreement related to:

- i) reestablishment of the economic balance;
- ii) calculation of indemnification for the termination of the concession; and
- iii) default by any of the parties.

Arbitration also shall as per the Law 13,448/17.

Before the law Law 13,448/17 Arbitration only apply discussion indemnification for the termination of the concession

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4. Penalties:

The amounts of the fines will be based on a percentage of the Concessionaire's gross revenue (including all the airports of the block) and any eventual wholly owned subsidiaries with revenue), and calculated by ANAC in the calendar year prior to the practice of the infraction that caused the application of the penalty.

For this concession in blocks the revenue of the SPV above all the airports of the block will be considered for eventual penalties, even if a particular penalty is imposed to the smallest revenue airport of the block.



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4. Penalties:

example:

3. Reference Tables

COMMON TO ALL BLOCKS

Table A - General Infractions

REF.	DESCRIPTION	VALUES	INCIDENCE
A-01	Fail to keep the inventories of the Concession's reversible assets up to date.	0,500%	Monthly
A-02	Fail to send the Internal Report of Goods - RIB within the periods provided for in the Contract.	0,075%	Monthly
A-03	Fail to send the External Report of Assets - REB within the terms set forth in the Contract.	0,125%	Monthly
A-04	Fail to send the Goods Movement Report - RMB within the terms of the Contract.	0,025%	Monthly

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5. Regulator deregulation: Tariff Flexibility x Consultation mechanism

The ANAC's purpose with this deregulation proposal was to interfere less and bringing more incentive to the airport stakeholder to control each other, as a result promote a balanced relationship among them.

First of all, the new concession round have already incorporated the flexible price caps from the last round that allows for revenue management further actions to increase the flexibility of economic regulation.

Secondly, in order to increase regulation flexibility and decentralize regulatory decision-making, the new contract is giving more power of decision to agents closer to airport operation– in particular those who are actually part of it –or, at least, enhancing their capacity to influence decisions by engaging them in discussions.

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Innovations in the 5th Round of Brazilian Airport Concessions

5.1. Tariff Flexibility:
Contract :

I - The values of the Tariffs will be defined by the Grantee, respecting, when applicable, the restrictions contained in the contract, observing the guidelines below:

I.I. Tariffs should follow good pricing practices for airport infrastructure and services, such as those described in manuals of international organizations such as ICAO, IATA and ACI.

I.II. Tariffs should be based on objective and non-discriminatory criteria such as time, day, season, available facilities and service level.

I.III. Tariff proposals involving tariff increases shall be preceded by consultation of the relevant stakeholders in accordance with Chapter XV (concession contract)

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Innovations in the 5th Round of Brazilian Airport Concessions

5.1

Consultation

mechanism:

- i) applies to some of the main aspects of the airport economic and operational management;
- ii) primarily designed to make the concessionaire's decisions more transparent and to encourage the exchange of information between parties;
- iii) One possibility is to allow the concessionaire, after negotiation and agreement with stakeholders, to present proposals for altering or increasing flexibility of any parameter directly defined by the regulator

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Innovations in the 5th Round of Brazilian Airport Concessions

Expected date for the new round takes place?

1. Previous Public Hearing for the documents of the 5th round N° 11/2018 – ok;
2. Approval by the Brazilian Court of Audit (the whole process must be approved by the Brazilian Court of Audit (TCU), [?]) as far as we know it is about to happen;
3. Formal public hearing for the documents of the 5th round [?];
4. Auction: 100 days after the Formal public consultation is close the auction takes place [?].

Thanks!

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5th Round of Brazilian Airport Concessions

	1o Round:	2o Round:	3th Round	4th Round	5th Round
1. Corporate structure:	Private investor 100% (without infraero)	Private investor 51% and Infraero 49%	Private investor 51% and Infraero 49%	Private investor 100% (without infraero)	Private investor 100% (without infraero)
2. Fees:	<p>Fixed Contribution: Total Fixed Contribution Value offered for the airport concession to be paid flat during the concession period:</p> <ul style="list-style-type: none"> •Annual Payments •Adjusted annually by IPCA (price index) <p>Variable Contribution: none</p>	<p>Fixed Contribution: Total Fixed Contribution Value offered for the airport concession to be paid flat during the concession period:</p> <ul style="list-style-type: none"> •Annual Payments •Adjusted annually by IPCA (price index) <p>Variable Contribution: 2% - 5% over non airport revenues</p>	<p>Fixed Contribution: Total Fixed Contribution Value offered for airport concession to be paid flat during the concession period:</p> <ul style="list-style-type: none"> •Annual Payments •Adjusted annually by IPCA (price index) <p>Variable Contribution: 2% - 5% over non airport revenues</p>	<p>Initial Contribution fee: 25% of the minimal price + extra contribution upfront and the balance of the minimal price will be paid flat during the concession period, after a 5 years of non-payment;</p> <p>Adjusted annually by IPCA (price index)</p> <p>Variable Contribution: 2% - 5% over non airport revenues</p>	<p>Initial Contribution fee: the amount offered by the bidder for the concession will be a upfront;</p> <p>Variable contribution fee: percentage over the gross revenues of the concessionaire. The Variable fee will be paid after 5 years of a no-payment.</p>
3. Penalties	Fixed penalties calculated base on the tariff	Fixed penalties calculated base on the tariff	Fixed penalties calculated base on the tariff	Penalties are calculated base on the revenue	Penalties are calculated base on the revenue
4. BID	Bid for single airport	Bid for single airport	Bid for single airport	Bid for single airport	Bid for block of airports
5. Bid Restriction	no bid restrictions	no bid restrictions	groups winners in the previous rounds are no allowed to have more than 15% of the shares in the airports	bid restrictions: same group are not allowed to have 2 airports in the same geographic area	no bid restrictions
6. Arbitration	Only indemnification for the termination of the concession	Only indemnification for the termination of the concession	Only indemnification for the termination of the concession	Only indemnification for the termination of the concession	Indemnification for the termination of the concession, reestablishment of the economic balance, default by any of the parties
7. Regulation	More regulated	More regulated	More regulated	less regulated	less regulated
8. Airport Tariff	Fixed price	Fixed price	Fixed price	Flexible price	Flexible price



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