

**WALA XI Annual
Conference**



BMA

BARBOSA MÜSSNICH ARAGÃO

AIRPORT CONCESSIONS

**Brazil, the Giant Keeps Making Noise:
The New Rounds**

Bogota, October 11, 2019



BMA

BARBOSA MÜSSNICH ARAGÃO

Airport Concessions in Brazil

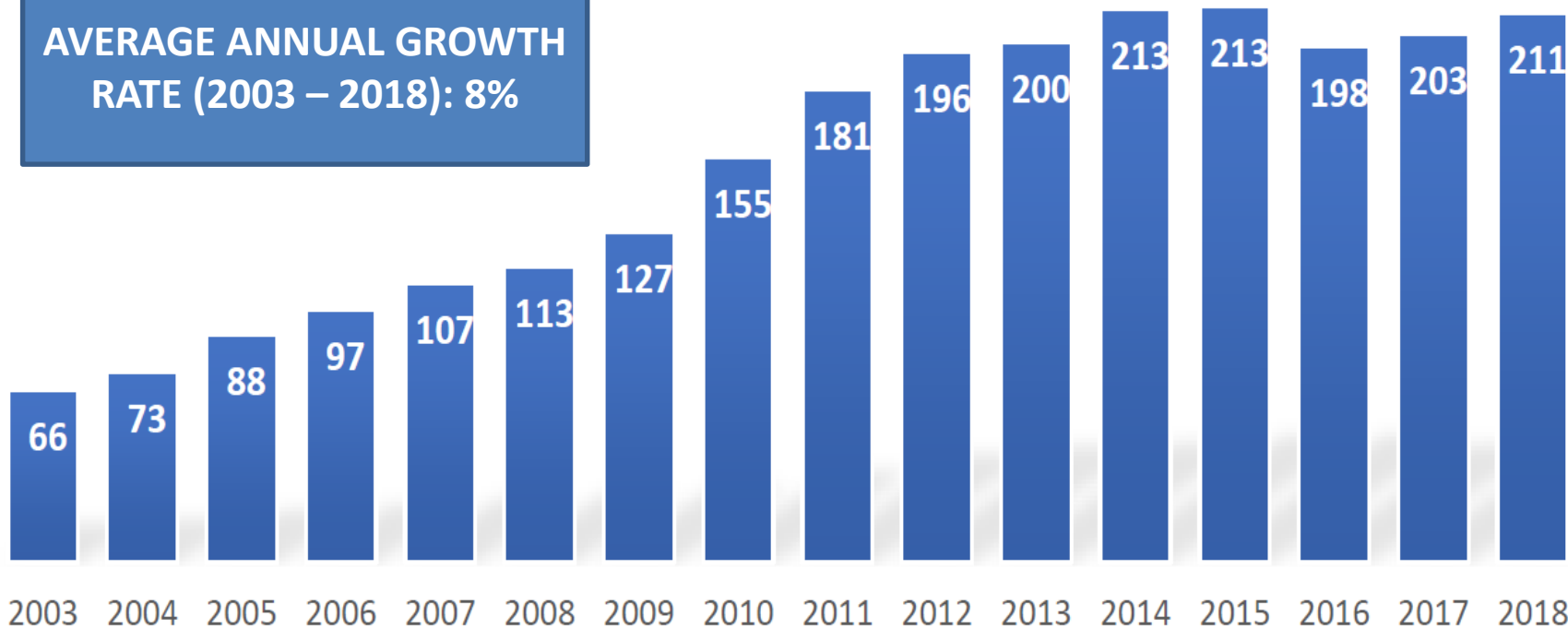
HISTORICAL BACKGROUND

- **Brazilian airports are mainly attributed to the Federal Union, although there are specific cases of State and Municipal Airports.**
- **2011 (“round 0” or 1):** pilot Project to create the first model.
- **2012 (round 2):** Guarulhos, Viracopos and Brasília (first model: 49% INFRAERO with SHA, date+demand trigger, fixed + variable granting fee) - São Gonçalo do Amarante (Natal).
- **2013 (round 3):** Galeão and Confins.
- **2017 (round 4):** new model (no INFRAERO, demand trigger) - Salvador, Fortaleza, Porto Alegre and Florianópolis.
- **2019 (round 5):** revised model (fixed granting fee, group of 12 airports gathered in 3 clusters) - Northeast (Recife, Maceió, João Pessoa, Aracaju, Juazeiro do Norte and Campina Grande), Southeast (Vitória and Macaé) and Center (Cuiabá, Rondonópolis, Alta Floresta and Sinop).

HISTORICAL DEMAND GROWTH

MILLION PAX IN BRAZILIAN AIRPORTS

AVERAGE ANNUAL GROWTH RATE (2003 – 2018): 8%

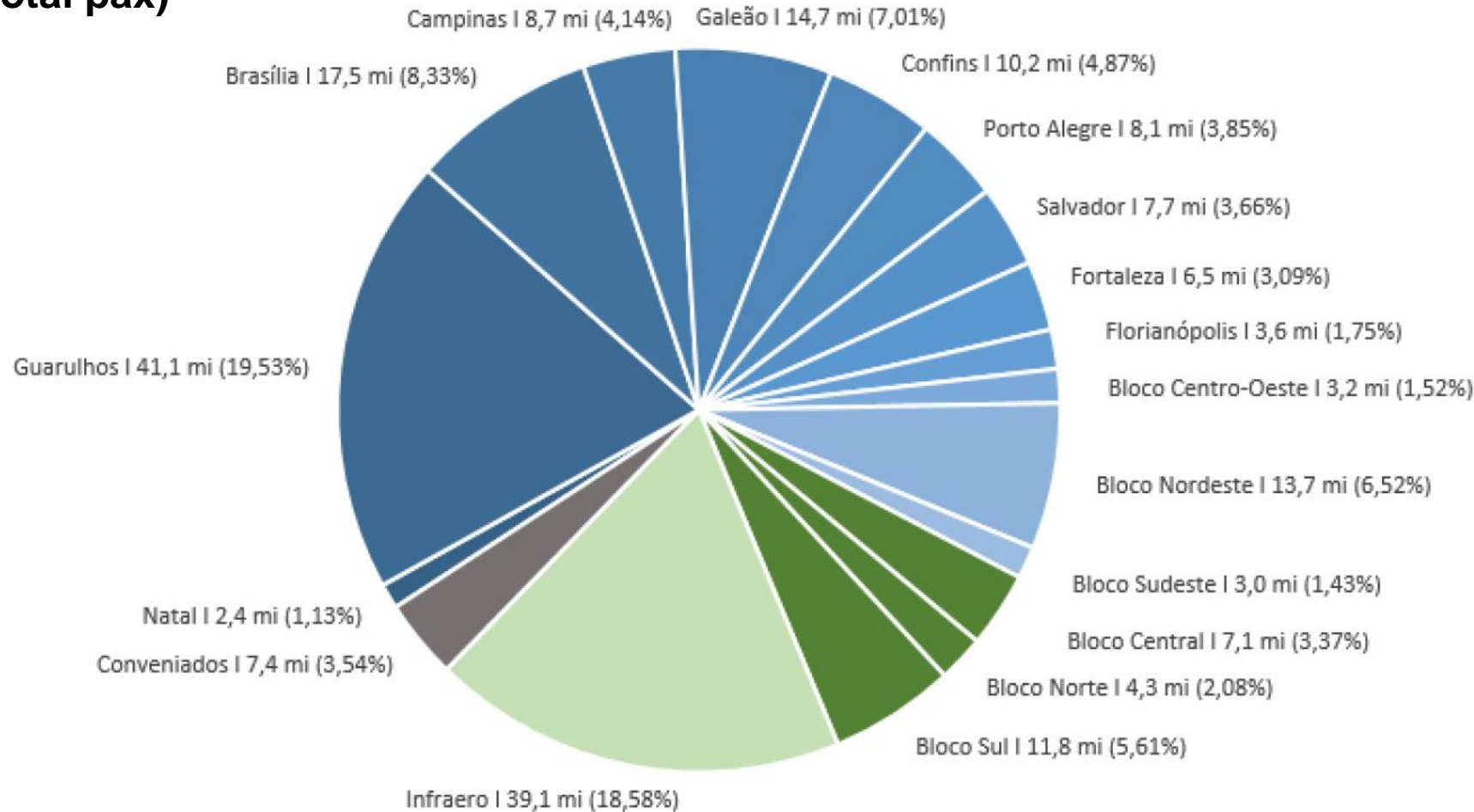


Source: ANAC (www.anac.gov.br/assuntos/setor-regulado/empresas/envio-de-informacoes/base-de-dados-estatisticos-do-transporte-aereo)

MARKET SHARE

22 privatized airports
(70% total pax)

PAX AND MARKET SHARE (2018):



Source: ANAC (Fonte: www.anac.gov.br/assuntos/setor-regulado/empresas/envio-de-informacoes/base-de-dados-estatisticos-do-transporte-aereo)

HISTORICAL BACKGROUND

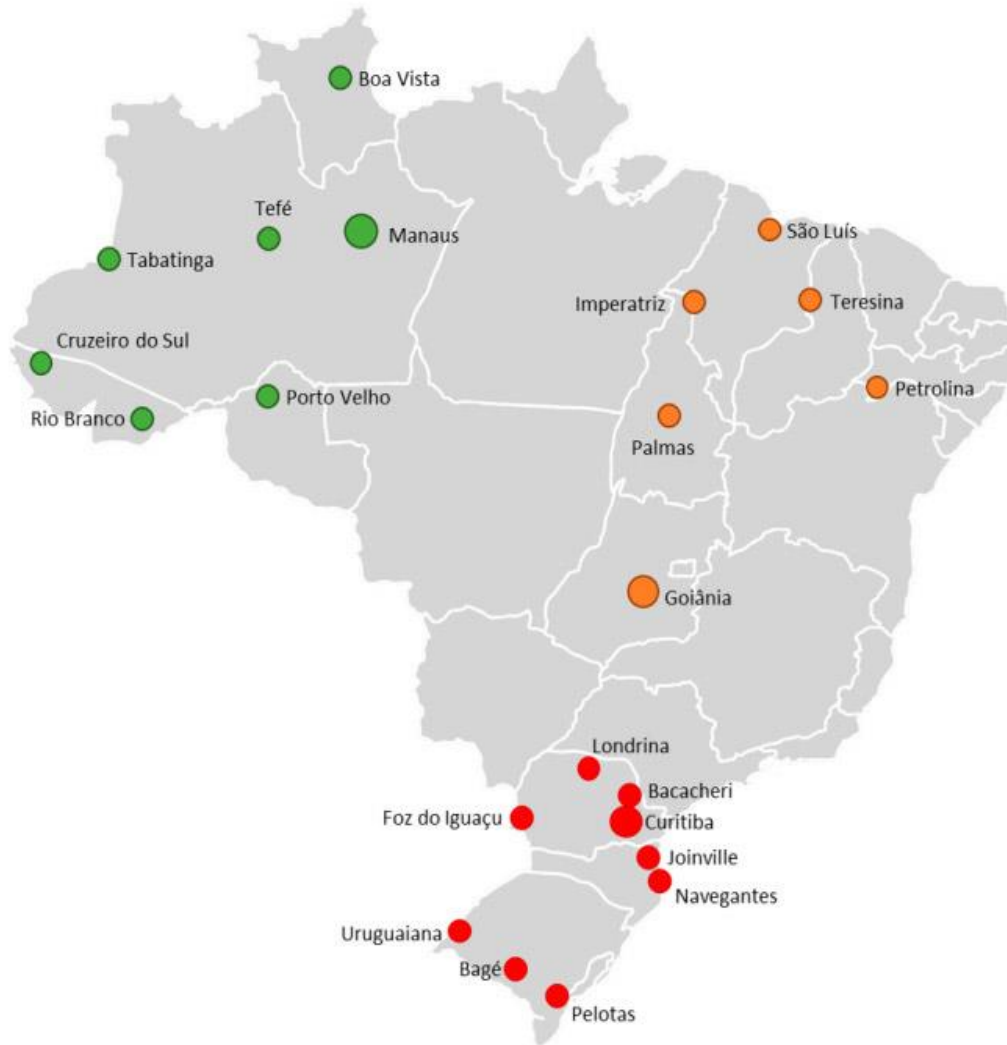
MAIN CHANGES THROUGHOUT THE ROUNDS:

- INFRAERO (Federal SOE) as mandatory shareholder with 49% and SHA;
- Infrastructure expansion (CAPEX) trigger (the latest of demand or date or demand only);
- Creation of clusters;
- Minimum threshold for economic rebalance;
- Granting fee (fixed for variable);
- Funding alternatives.

6th Round (auction expected end of 2020)

- ✓ **Central Cluster:** Goiânia/GO, Palmas/TO, Teresina/PI, Petrolina/PE, São Luís/MA, Imperatriz/MA (7.1 million pax/3.37% market share);
- ✓ **North Cluster:** Manaus/AM, Tabatinga/AM, Tefé/AM, Rio Branco/AC, Cruzeiro do Sul/AC, Porto Velho/RN, Boa Vista/RR (4.3 million pax/2.08% Market share); and
- ✓ **South Cluster:** Curitiba/PR, Foz do Iguaçu/PR, Londrina/PR, Bacacheri/PR, Navegantes/SC, Joinville/SC, Pelotas/RS, Uruguaiana/RS, Bagé/RS (11.8 million pax/5.61% market share).
- ✓ **Total:** 23 million pax/ >11% Market share (total Market ~211 million pax embark-disembark).

6th Round – Overview:



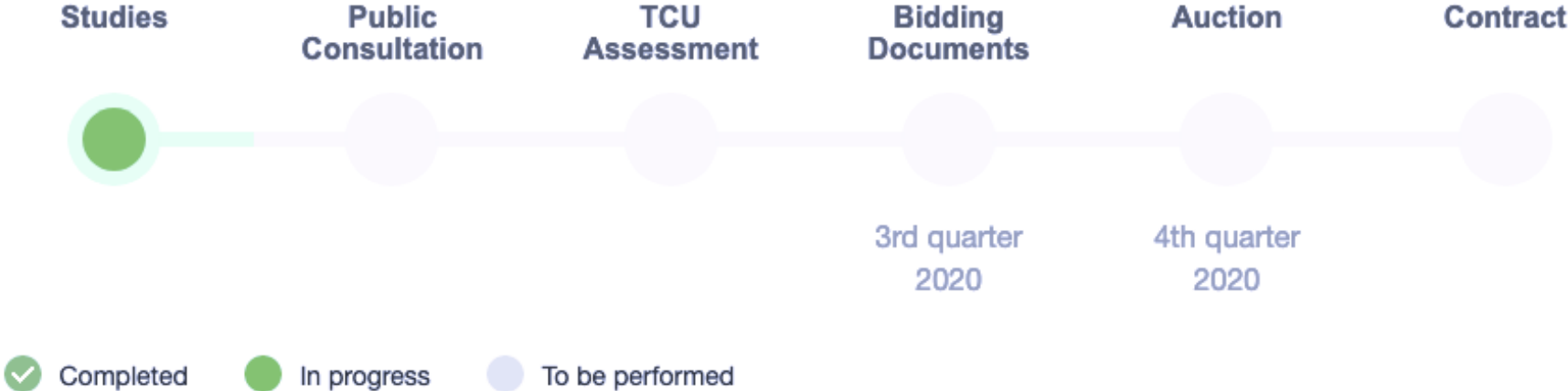
	3 blocos 22 aeroportos	23,7 M pax/ano	11% Participação
6ª RODADA	Bloco Sul	12,1 M	5,6%
	Curitiba	6,3 M	2,6%
	Foz do Iguaçu	2,3 M	1,1%
	Navegantes	1,9 M	0,9%
	Londrina	1,0 M	0,5%
	Joinville	0,5 M	0,2%
	Bacacheri	31,7 K	0,0%
	Pelotas	33,5 K	0,0%
	Uruguaiana	21,1 K	0,0%
	Bagé	1,4 K	0,0%
	Bloco Norte I	4,4 M	2,0%
	Manaus	2,8 M	1,3%
	Porto Velho	0,8 M	0,4%
	Rio Branco	0,3 M	0,1%
	Boa Vista	0,3 M	0,1%
	Cruzeiro do Sul	84,2 K	0,0%
	Tabatinga	64,5 K	0,0%
	Tefé	33,3 K	0,0%
	Bloco Central	7,2 M	3,4%
	Goiânia	3,2 M	1,5%
	São Luís	1,6 M	0,7%
	Teresina	1,0 M	0,5%
Palmas	0,7 M	0,3%	
Petrolina	0,5 M	0,2%	
Imperatriz	0,3 M	0,1%	

Base: 2018



6th Round - status

Project's progress



6th Round (auction expected end of 2020)

- ✓ **Changes expected** (public consultation on economic regulation of airport concessions): focus on supported propositions (constructive engagement ICAO), 1% threshold for economic rebalance of the concession agreement and concession term.
- ✓ ANAC admits the possibility of:
 - (a) Providing greater flexibility for the airports and airlines to propose changes based on supported propositions to define investments to be made and the necessary service level;
 - (b) The extension of the initial term and deadline for the initial investments phase, in order to foster a more useful and efficient evaluation and prioritization;
 - (c) Flexibilization of tariff regulation and evaluation of the criteria to submit the activities performed by the airport operator to an average tariff cap; and
 - (d) Adopting significantly longer concession terms.

Perspectives for Future Rounds

- ✓ **Expectation of another 20 airports to be privatized in round 7** (not including specific regional and general aviation airports with States and Municipalities), to be launched right after end of round 6 – goal to finish up to the end of 2022;
- ✓ **Challenges:** size of airports; profile (small-size *vs.* CGH and SDU); INFRAERO future as an SOE; competition within the same city or region (São Paulo, Rio de Janeiro and Belo Horizonte); competition amongst local governments with tax benefits (e.g. State VAT tax/ICMS for aviation fuel; property and service tax), regulator's complaints on the cost and difficulty of obtaining accurate information from the airports.

DOUBTS FOR DISCUSSION

- ❑ The model has been improving: is there room for a coexistence of an asymmetric and heterogeneous model or at some point levelling of the concessions will be required?
- ❑ Is there competition amongst airports in the Brazilian system? Model adopted uses as assumption that there is not, however, regulator assumes there is possibility of significant market power and establishes tariff cap model.
- ❑ What is the fair risk matrix and the right balance between government and private investor?
- ❑ Can the government contractually limit the ability of the private investor to seek economic rebalance of the concession?
- ❑ How should the main risks be addressed? To name a few: normative change (e.g. slot allocation rules); the risk of demand; the imminent tax change; and the currency risk.

Thank you! Gracias!

Eduardo Hayden Carvalhaes Neto

ehc@bmalaw.com.br

edcarvalhaes@usp.br

Tel.: +55 11 993177655

Brasília

Rio de Janeiro

São Paulo



BMA

BARBOSA MÜSSNICH ARAGÃO

www.bmalaw.com.br – www.bmapi.com.br