



Brazilian Airport Privatization – Second Round Concessions

Genard Burity
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Summary

In 2012, 101 million passengers took to the skies within Brazil. In 2020, analysts predict that over 195 million passengers are expected to fly within Brazil. In order to address the growing number of travelers serviced by airports that are already operating at or over capacity, the federal government has decided to share the burden of expansion and modernization with the private sector. In 2012, the Brazil federal government, which owns and operates the country's major airports, initiated plans to semi-privatize three of the nation's largest airports: Viracopos International Airport in Campinas in the State of Sao Paulo, Guarulhos International Airport in São Paulo, Brasilia International Airport in Brasilia have already been auctioned to a consortium of private sector firms that will soon be making improvements to these airports. This fall, the second round of airports will be partially privatized in a competitive auction, which includes the two airports of Galeão International Airport in Rio de Janeiro, and Confins International Airport in Belo Horizonte.

The passenger to population ratio has more than doubled in less than a decade in Brazil, where the international airports in the southeastern region, which includes Sao Paulo and Rio de Janeiro, represents more than 70 % of the airport operational passenger demand. With a passenger to population ratio less than a third of most developing nations, the Brazilian airport industry is in critical need of improvements and expansion, particularly in anticipation of the millions of tourist that will descend upon the country for the World Cup and Olympic Games. The Brazilian Government's goal is to attract private concessionaires incentivizing them to partner with top operators or hire globally recognized experts in master planning and airport operation to add additional capacity to the nation's major airports.

Considering the overall revenue ratio from the commercial airport industry in Brazil, the new concessionaries' plans will work to not only to make improvements such as new runways, aprons, baggage areas and security, but also to ensure maximum revenue generation by focusing on retail expansion opportunities. Initially, master concessionaires' plans include publicity activities for World Cup-related passenger terminals, studies for the optimization of the available space in those airports' parking lots, and the concession of areas for the construction of hotels in airport zones. In 2011, non-aeronautical income at Brazilian airports in Brazil amounted to US\$ 280 million, 32% of the total revenues. There clearly remains a lot of potential to be explored, especially catering to the needs of passengers in airport transit. Specialists believe that retail revenues at the most important airports could easily reach 40% of total revenue, which would bring Brazil closer to the global average share of non-aeronautical revenue for airports.

Aside from the concession efforts underway, Infraero, the Brazilian government's airport management entity, has already begun making substantial improvements to major airports throughout the country. Below is a summary of some of those improvements underway, independent of private sector investment or the future second round concessions, at Confins International Airport in Belo Horizonte and Galeão International Airport in Rio de Janeiro. These improvements also include projects that improve the facilities within the airport, such as replacement of elevators and escalators, and modernization of bathroom facilities and lighting technology within the passenger areas.

Planned and ongoing investment projects at Infraero-administered airports

AIRPORT	ACTION	INVESTMENT UNTIL 2014 (PAC2) – in millions of reais	START FORECAST	COMPLETION FORECAST
Belo Horizonte/Confins	Renewal of PST and road system	236.7	Sep 2011	Dec 2013
Belo Horizonte/Confins	Runway and apron	169.0	Jan 2013	Dec 2013
Belo Horizonte/Confins	PST 3	100.0	Mar 2013	Dec 2013
Rio de Janeiro/Galeão	PST 1 renewal	254.1	Aug 2012	Dec 2013
Rio de Janeiro/Galeão	PST 2 renewal	316.5	Aug 2012	Jul 2014
Rio de Janeiro/Galeão	Runways and apron improvements	103.4	Oct 2011	Oct 2013
Rio de Janeiro/Galeão	Export cargo terminal renewal	23.2	Jun 2013	Mar 2014

Source: Infraero 2012

Market Opportunity

The Brazilian Civil Aviation Agency (ANAC) is in charge of awarding the concessions of National Plan of Privatization (PND) of the airports. The first round of concessions yielded more than US\$ 14 billion and the following bid winners:

Viracopos International Airport concession was won by Aeroportos Brazil consortium, formed by the Brazilian toll road operator Triunfo Participações, the Brazilian engineering company UTC and the French airport operator Egis.

Brasilia's International Airport was won by the InfrAmerica consortium, formed by the Brazilian engineering company ENGEVIX and the Argentine Corporacion America holding company, with a 50% stake each.

Guarulhos International Airport, the largest auction, was won by the consortium formed by the Brazilian infrastructure company Invepar and Brazilian construction firm OAS, together a 90% stake, and Airports Company South Africa (ACSA) with a 10% stake.

The second round of concessions are planned to be held on October 30th, 2013 as stated by the Secretary of Civil Aviation, Moreira Franco, with specifics on the bid requirements to be released around August 2013. The winners of the previous concessions are ineligible to participate in this round of concessions. The second round concession's general rules for participation are as follows:

The Brazilian government, through Infrarero, will maintain 49% stake while the concessionaire will possess 51% stake.

Each company within the bidding consortium/concessionaire must have at least 25% equity.

The concessionaire must have experience operating terminals that serve at minimum 35 million passengers per year at least once in the last five (5) years. Currently, worldwide airports that meet this criterion include the following airports:

Passenger Traffic 2010 FINAL

Last update: August 1 2011

Rank	City (Airport)	Total Passengers	% Change
1	ATLANTA GA, US(ATL)	89 331 622	1.5
2	BEIJING, CN(PEK)	73 948 113	13.1
3	CHICAGO IL, US(ORD)	66 774 738	4.1
4	LONDON, GB(LHR)	65 884 143	(0.2)
5	TOKYO, JP(HND)	64 211 074	3.7
6	LOS ANGELES CA, US(LAX)	59 070 127	4.5
7	PARIS, FR(CDG)	58 167 062	0.5
8	DALLAS/FORT WORTH TX, US(DFW)	56 906 610	1.6
9	FRANKFURT, DE(FRA)	53 009 221	4.1
10	DENVER CO, US(DEN)	52 209 377	4.1
11	HONG KONG, HK(HKG)	50 348 960	10.5
12	MADRID, ES(MAD)	49 844 596	3.0
13	DUBAI, AE(DXB)	47 180 628	15.4
14	NEW YORK NY, US(JFK)	46 514 154	1.4
15	AMSTERDAM, NL(AMS)	45 211 749	3.8
16	JAKARTA, ID(CGK)	44 355 998	19.4
17	BANGKOK, TH(BKK)	42 784 967	5.6
18	SINGAPORE, SG(SIN)	42 038 777	13.0
19	GUANGZHOU, CN(CAN)	40 975 673	10.6
20	SHANGHAI, CN(PVG)	40 578 621	26.4
21	HOUSTON TX, US(IAH)	40 479 569	1.2
22	LAS VEGAS NV, US(LAS)	39 757 359	(1.8)
23	SAN FRANCISCO CA, US(SFO)	39 253 999	5.1
24	PHOENIX AZ, US(PHX)	38 554 215	1.9
25	CHARLOTTE NC, US(CLT)	38 254 207	10.8
26	ROME, IT(FCO)	36 227 778	7.4
27	SYDNEY, AU(SYD)	35 991 917	7.6
28	MIAMI FL, US(MIA)	35 698 025	5.4
29	ORLANDO FL, US(MCO)	34 877 899	3.5
30	MUNICH, DE(MUC)	34 721 605	6.2

Airports participating in the ACI annual traffic statistics collection.

Total Passengers: total passengers enplaned and deplaned, passengers in transit counted once.

Source: Airports Council International 2013

The concessionaire will transfer 5% of annual gross revenue to the Fundo Nacional de Aviação Civil (FNAC) to finance investments in other areas of the airport industry sector.

Participation in only one of the two concession auctions is permitted; note the auctions will take place simultaneously.

In addition to the investment requirements, Brazilian government stipulates 32 indicators of Quality of Service (IQS) to be provided at the airport i.e. seats available, elevators and escalators, bathroom quality, free internet access, etc. A short term forecast of improvements is an imperative aspect and consideration during the bidding process.

More detailed requirements exist for each of the airports to be concessioned; they are as follows:

Internacionais Antônio Carlos Jobim (Galeão), Rio de Janeiro

Galeão's current maximum passenger capacity is 17.4 million passengers per year, the second busiest airport in the country. In 2011, 14.9 million passengers travelled through Galeão, 85.63% of its maximum capacity. With a forecasted 44 million passengers by 2014 for the World Cup, without any additional infrastructure enhancements, Galeão will be 153% over capacity. Moreover, it is forecasted that the annual volume of passengers by 2038, the end of the 25 year concessionary period, will be 60 million passengers per year. The bidding requirements for Galeão concessions are as follows:

- Concession Period: 25 years (2013 - 2038)
- Minimal bid contribution: R\$ 4.645 billion (US\$ 2.1635 billion)
- Estimated needed investment: R\$ 5.2 billion (US\$ 2.422 billion)
- Construction of 26 additional passenger boarding gates (by April 30th, 2016)
- Construction for at least 1850 vehicles (by end of 2015)
- Adequate installation of cargo storage facilities (for the 2016 Olympic Games)
- Enlargement of aprons (by April 30th, 2016)
- Construction of an independent runway (by 2021)

Tancredo Neves (Confins), Belo Horizonte

Confins presently has a maximum passenger capacity of 10.3 million passengers per year. In 2011, 9.5 million passengers travelled through this airport, 92% of capacity. It is forecasted 43 million passengers per year by 2043, the end of the 30 year concessionary period, will travel through Confins International Airport. The bidding requirements for Confins' concessions are as follows:

- Concession Period: 30 years (2013 – 2043)
- Minimal bid contribution: R\$ 1.561 billion (US\$ 0.7271 billion)
- Estimated needed investment: R\$ 3.5 billion (US\$ 1.6302 billion)
- New terminal construction with minimum of 14 passenger gates (by April 30th, 2016)
- Additional vehicle parking adequate for increased passengers (by April 30th, 2016)
- Enlargement of aprons (by April 30th, 2016)
- Construction of 2nd independent runway (by 2020)

Note: USD amount is based on USD 1/BRL 2.147 exchange rate on June 13th, 2013

To be successful in bidding for public sector procurement opportunities in Brazil, U.S. firms must either be established in the country, or, particularly in the case of airport concessions, partner with a large well established prime contractor that is known in the market. The next Brazilian airport auction bidding documents should be published in August on the ANAC website,

<http://www.anac.gov.br/SalaImprensa.aspx>.

Prospective Buyers

Aside from [INFRAERO](#), current and future winners of the airport concessions in Brazil will need to work with worldwide suppliers of products and services that are needed to improve Brazil's airports. This will include, but is not limited to, U.S. firms that supply products and services such as airport management services, passenger terminal equipment, cargo and luggage handling equipment, maintenance equipment, X-ray equipment, air traffic control equipment, radar systems and passenger bridges.

For further information about the Airport industry and opportunities in this sector, please contact:

U.S. Commercial Service - Rio de Janeiro

Genard Burity

Business Development Specialist

Avenida Presidente Wilson, 147

20030-020 Rio de Janeiro, Brazil

Phone: 011 55 21 3823- 2401

Fax: 011 55 21 3823-2424

E-mail: genard.burity@trade.gov

U.S. Commercial Service - Brasilia

Daniele Andrews

Aerospace, Airport, Aviation and Defense Team Leader

U.S. Embassy Brasilia

Phone: (55 61) 3312-7458

Fax: (55 61) 3312-7656

E-mail: daniele.andrews@trade.gov

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