



Brazil's Regional Airport Modernization Program

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by Joel Reynoso

Introduction

It is recognized among Brazilian business leaders that infrastructure is one of Brazil's biggest impediments to growth. Compared to the other BRICs countries, Brazil has traditionally underinvested in infrastructure projects. As a result, Brazil's current government is ramping up investments in infrastructure, including in areas such as power generation, railroads, highways, seaports and airports. One of the government's principle infrastructure projects announced in 2012 is the modernization of the country's airports. With an annual increase in passenger traffic of approximately 11% throughout all airports, Brazil airports are overcrowded and in need of repair.

Since 2012, five of the country's largest airports have been successfully privatized. The concession rounds were seen as positive overall, with the first round of concessions of the country's three largest airports: São Paulo-Guarulhos, Brasilia and Campinas-Viracopos, awarding contracts to three private-sector international consortia. The auction generated over US\$ 14 billion for the federal government. The second round of airport concessions for the Belo Horizonte and Rio de Janeiro main airports raised approximately US\$ 8 billion for the federal government. A new green field airport in the state of Rio Grande do Norte was concessioned to the private sector generating an additional US\$ 250 million.

The Government has now turned its attention to the modernization of the country's regional airports. The goal is to make sure at least 96% of all Brazilian citizens are within a 100-kilometer range from an airport. During the first phase of the program, the Government of Brazil (GOB) will target 270 airports spread out all Brazilian regions. This is an ambitious goal with numerous challenges. Nevertheless, the financial resources the GOB is committing is impressive. The Regional Airport Modernization program will be primarily funded by the funds generated by the auctioning of the country's airports. The U.S. Commercial Service believes that U.S. companies have a tremendous opportunity to take part in the modernization of Brazil's regional airports in the form of providing expertise, technology and services.

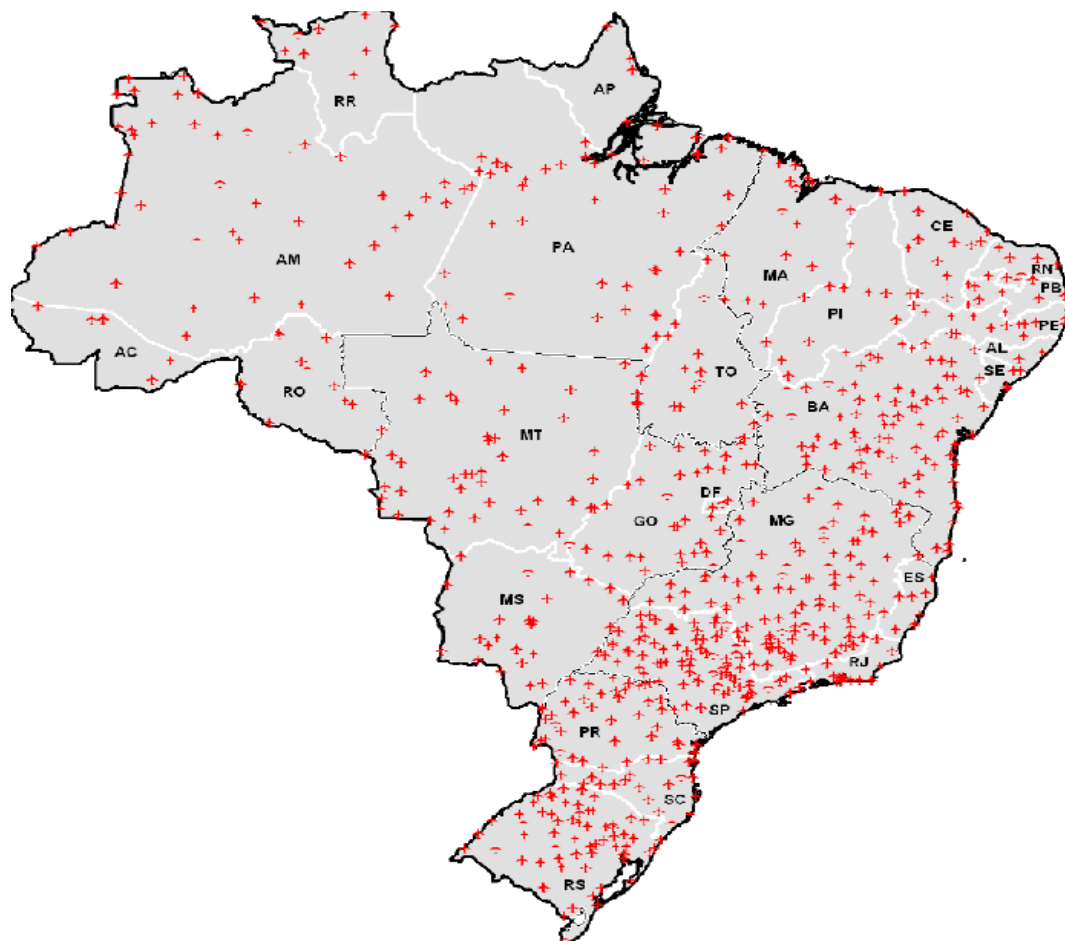
Current Status

In 2012, the GOB launched its plan to invest in 270 regional airports throughout the country through a new Regional Aviation Plan. The goal is to restructure Brazil's regional aviation network, expanding air cargo transport supply and passenger routes, improving the quality of airport services for Brazilians residing outside of the largest cities.

Resources are provided by the National Civil Aviation Fund (Fnac), with project and investment management by Banco do Brasil. Estimated funding for the first phase is as follows:

- US\$820 million to 67 airports in the north;
- US\$1 billion to 64 airports in the northeast;
- US\$446 million to 31 airports in the mid-west;
- US\$772 million to 65 airports in the southeast;
- US\$479.5 million to 43 airports in the south.

The distribution of funds across the region of Brazil generally corresponds to the location of airports and public aerodromes with landing runways throughout Brazil, as pictured below.



President Rousseff contracted Banco do Brasil to manage the first round of studies to determine by state, which of the existing airports, aerodromes and heliports would be scheduled to be modernized in the first of two rounds of modernization. Although cargo airports are part of the study, it is expected that regional airports that benefit passengers will be prioritized.

While the results of the studies are still pending as of this publication, a number of announcements on regional airport improvements are already underway. Brazil's Civil Aviation Secretary (SAC) recently authorized the construction of the Vitoria de Conquista airport, a city approximately 500 kilometers from the capital of Salvador. The project includes the construction of a runway and ramp with the ability to receive Boeing 737s, power stations, lighting, security and fire-fighting stations.

No specific timeline has been given for the completion of the first round of airport improvements. It is expected that the upgrades happen in waves throughout the country. For example, in the state of Bahia, out of eight airports currently being studied, it is expected that four regional airports will move forward, including regional airports in the cities of Barreiras, Lençóis, Teixeira de Freitas, and Irecê.

Opportunities

The U.S. Commercial Service is expecting procurements to be announced for regional airports in 2015. In addition to providing design and consultancy services, products such as passenger bridges, docking systems, baggage handling systems, handling equipment, check-in conveyors, x-ray integration, baggage claim carousels, X-ray machines and other safety and security equipment are expected to be announced. U.S. firms interested in procurement opportunities managed by Banco do Brasil can check their website (in Portuguese only) for updates: <http://www.licitacoes-e.com.br/aop/index.jsp>

Some Brazilian state transportation agencies have been conducting their own studies in preparation for regional airport upgrades and may also play a role in the decision-making process. In meeting with several state transportation agencies, it appears that some states will move forward more quickly than others. This is due to a number of factors, including increased air passenger traffic creating demand, strong political party alliances with the GOB and previously set aside state funding.

The U.S. Trade & Development Agency has played a key role in helping Brazilian states prepare for modernizing their airports by funding reverse trade missions to the United States, workshops in both Brazil and the U.S. for Brazilian public and private aviation and airport sector representatives. The agency has also funded technical assistances and feasibility studies for local airports in the states of Rio Grande do Sul, Ceará, Minas Gerais, Rio de Janeiro and Bahia.

Challenges

The delays in publishing the regional airport studies are causing some concern among the industry. Despite the lack of information or timeline, some Brazilian airlines hoping to take advantage of new routes are getting ready for the expansion. Azul, for example, has confirmed interest in 11 possible routes.

The economic outlook for 2015 in Brazil is also a cause for concern. A year ago, analysts predicting a GDP grow rate of 2.5% in 2015 have recently revised that figure to 0.8%. Meanwhile, the President's new economic team has promised to slash public spending across the federal government. State government budgets are also in similar distress. Nevertheless, when the new Minister for Civil Aviation, Eliseu Padilha was asked by a reporter whether the federal government would have funds for the Regional Airport program given expected budget cuts, he stated that "the funds generated in the sector will remain within the sector".

Brazil is currently undergoing one of the largest corruption scandals in its history. Although the origin of the scandal is in the oil and gas sector, many of the engineering and construction firms that are being investigated have contracts across multiple sectors, and some of them have a stake in the country's existing airport consortia.

Conclusion

U.S. companies with products and services in the airport sector should look at Brazil's Regional Airport Program as a possible opportunity for export sales, despite a number of uncertainties in the market. U.S. firms expecting to bid on possible procurement tenders should prepare by having a local agent, distributor or joint-venture partner already in country. Firms that are interested in better understanding the complexities of the market in preparation for possible sales, or finding a local partner, should contact the U.S. Commercial Service.

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