

IMI: Opportunities in Brazilian Infrastructure Sectors

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Summary

In order to support its commodities sector, especially its agribusinesses, the Brazilian government is seeking to attract foreign investment to meet its current and future infrastructural needs. Currently, Brazil is pushing infrastructure investment, trying to make up for past neglect of the sector, which is now severely limiting Brazil's agribusiness sector. Consequently, the government has opened up infrastructure projects to private companies and foreign investors. Brazilian President, Dilma Rousseff, and her administration have introduced a number of measures designed to give incentives to foreign direct investment in infrastructure by tax breaks, concession contracts, pension fund financing, and BNDES Liquidity Enhancement Fund financing to lure investors into this sector. Everything from roads, railways, waterways, ports, and airports are included in the infrastructure improvement package. The need for Brazil to further develop its infrastructure to support its agribusiness sector, and other sectors, represents a huge opportunity for U.S. companies with infrastructure planning/design and concession management expertise.

Infrastructure Overview

According to the McKinsey Global Institute (MGI) Infrastructure Report, only 1.5% of Brazil's total GDP goes toward infrastructure investment. That percentage does not compare favorably to the global average of 3.8% of GDP. The result of this long running underinvestment in Brazil's infrastructure is that Brazil's existing infrastructure is valued at only 16% of its GDP, while economies of comparable size have infrastructure valued at well over 50% of GDP. Brazil currently ranks 114th out of 148 countries for infrastructure investments according to the World Economic forum. The Brazilian agribusiness sector has been fiercely campaigning for the government to realize the extent to which poor infrastructure can damage their logistical operations. The Economist reports that farmers in the northern part of the country have to transport their products 2,000 kilometers south to the ports in the State of São Paulo to ship their products. This inefficiency in transport makes Brazilian agriculture producers at least 20% less profitable than their international competitors according to Brazilian National Confederation of Agriculture.

Agribusiness in Brazil uses three main modes of transporting goods in the country: roads; rail; and waterways. The Brazilian road system, the 3rd largest in the world, accounts for 58% of all transport in Brazil and roads in Brazil is the most expensive form of transport in the country and it is twice as expensive as rail transport and four times more expensive than water transport. The country has barely maintained these roads and their deteriorating conditions raise transportation costs by 28% on average according to the PriceWaterhouseCooper's (PwC) Brazilian Infrastructure Report. Moreover, the Economist reports that soya farmers spend at least 25% of the value of their produce to bring it to port, compared with spending just 9% of their produce's value in Iowa. With roads being the main mode of transportation, and roughly only 12% of these

roads being paved, the country desperately needs to develop a national roads system. After roads, rail accounts for 25% of all transport in the Brazil but despite accounting for one-quarter of all transport, the length of Brazil's railway network has actually decreased by approximately 30% over the last thirty years. The biggest rail projects in Brazil are the trans-northeastern railway and the east-west railway. However, both projects remain uncompleted and both are over-budget due to structural inefficiencies of the projects.

Finally, the most cost-efficient way of transporting goods in Brazil is by waterways. However, waterways are also the least utilized mode of transportation with only 17% of all transportation within Brazil. The volume of transportation via waterways in Brazilian is severely limited because there are many under-developed sections of waterways in the north and regulations and disparate political interests prevent further waterway development. There is a pressing need to dredge waterways and develop ports as Brazil is expected to handle 1 billion tons of cargo in 2013 according to ANTAQ, Brazil's national agency for water transport.

Potential Opportunities

The great need for infrastructure investment in Brazil presents an enormous opportunity for U.S. companies to invest and win concessions. Dilma's administration has introduced incentives and concessions to spur infrastructure investment in the country. The administration announced that 7,500 kilometers of toll roads and 10,000 kilometers of railways are to be conceded to private sector investors. Along with railways and roads, the President approved 3 concessions to renovate and operate 3 airports with at least 6 more concessions anticipated. Her administration has also been relaxing rigid labor laws and regulations in order to attract more investment. Traditionally, the tax burden and regulation has discouraged investment in Brazil, but recently the government has been offering tax breaks such as the Special Incentive for the Development of Infrastructure (REIDI) that suspends several taxes for 5 years if a company rents machinery and other equipment used for infrastructure projects. Also, REPORTO is an incentive, which reduces taxes on companies that purchase equipment to improve shipping logistics and facilities in ports. Other incentives to help financing projects include pension fund financing (fairly new in Brazil) with Moody predicting R\$124 billion available to finance 42% of the infrastructure projects projected between 2012 and 2014. BNDES Liquidity Enhancement Fund also makes financing available for infrastructure projects.

With the Brazilian government's infrastructure initiatives and available financing, it appears that now is the time for U.S. companies with expertise in infrastructure development and/or concession management, should review the opportunities in Brazil.

Current Concessions and Contact Information

Privatization efforts are coordinated by the National Council of Privatization ("Council"), which is part of the Ministry of Development, Industry, and Foreign Commerce located in Brasilia. Currently, the Council is offering concessions for major infrastructure projects around the country for roads, rail, ports, and airports. In October 2013, concessions have been announced for Galeão International Airport in Rio de Janeiro and Confins International Airport in Belo

Horizonte. Also 3,260 kilometers of rail concessions and numerous road and highways concession projects throughout Brazil will soon be offered.

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