



WORLDWIDE AIR TRANSPORT CONFERENCE (ATCONF)

SIXTH MEETING

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Agenda Item 2: Examination of key issues and related regulatory framework

Agenda Item 2.7: Economics of airports and air navigation services

PUBLIC-PRIVATE PARTNERSHIPS OF GUARULHOS, VIRACOPOS AND BRASILIA INTERNATIONAL AIRPORTS

(Presented by Brazil)

1. INTRODUCTION

1.1 In February 2012, the Brazilian government transferred the control and ownership of Guarulhos, Viracopos and Brasilia international airports to private partners. Infraero, a public company that manages the majority of the airports in Brazil, kept a 49 per cent stake of the granted airports. Those three airports, together, are currently accountable for 30 per cent of all passengers traffic and 57 per cent of all cargo transported in Brazil.

1.2 This move toward public-private partnerships is mainly due to the need for a large increase in airport capacity in order to meet the high demand growth, in particular to attend the heavy passenger traffic related to the 2014 International Federation of Association Football (FIFA) World Cup in Brazil. Another point taken into consideration is the need to increase operational efficiency and improve the level of service of major Brazilian airports.

1.3 The airports were granted to bidders who offered the highest concession fee. The total amount collected will compose the national civil aviation fund, whose main goal is to foster civil aviation, particularly through investments in the airports operated by Infraero and regional airports.

2. BACKGROUND

2.1 Demand for air transport in Brazil has grown at an average annual rate of 11.8 per cent between 2003 and 2012. The total number of passengers handled by Brazilian airports increased from 71 million to over 190 million in the same period, while airport infrastructure capacity has not followed this pace.

2.2 As a result, Brazil's main airports currently present operational restrictions that limit the growth of demand and competition among airlines. Levels of service and facilities conditions may no longer be suitable to international standards.

2.3 Furthermore, Brazilian airports must be adequate to host major international events (more and more common in Brazil) as the 2014 FIFA World Cup and the 2016 Olympic Games.

2.4 Under these state of affairs, an aggressive program has been developed to increase airport infrastructure, which began with the concession of Brasilia, Guarulhos and Viracopos international airports. The criteria for selecting these airports are summed up by their importance in terms of passenger and cargo demand traffic, and the need for high investment levels. The Brazilian government also announced that Galeão and Confins international airports will be granted in the second half of 2013.

3. THE CONCESSION AGREEMENT

3.1 The contract terms of Guarulhos, Viracopos and Brasilia international airports are 20, 30 and 25 years, respectively. These periods were defined based on each airport's demand and investment forecasts. The National Civil Aviation Agency (ANAC) is the entity responsible for the management and oversight of the concession agreements and remains the entity responsible for ensuring full compliance with the standards and recommended practices (SARPs) established in the Convention on International Civil Aviation (Chicago Convention), despite the transfer of control of airports to private partners..

3.2 The contractual requirements related to airport capacity expansion can be divided into two phases:

- a) Investments scheduled in the concession agreement to be performed in the first 22 months of the granting period:
 - 1) new passenger terminals;
 - 2) access road and car parking; and
 - 3) runway and apron.
- b) Airport expansion and infrastructure adequacy to fully comply with level of service requirements until the end of the concession period.

3.3 To ensure that investments are carried out as set forth in the contract, the concessionaire is obliged to provide and maintain a Performance Security Guarantee, which may be withheld by ANAC. Moreover, high fines will be levied in case of non-compliance of investments.

3.4 The risk allocation specified in the concession agreement is defined by the agent capability to manage each risk. This process acts as a powerful incentive to the private sector as their capital is exposed to performance risk. However, it does not fail to consider that some risks cannot be supported by the private partner. The table below presents some examples:

Public sector	Private partner
Service changes caused by new security requirements	Demand risks, including new airports
Operational constraints due to government decision or omission	Input price increases
Occurrence of events of force majeure or of unforeseeable circumstances, unless timely insured	Incorrect estimate of Concessionaire investment costs

3.5 To prevent the risk that a service provider could abuse its dominant position, a price cap regulation was set up in which the initial charges are consistent with the “single-till” approach. In this regulatory framework, charges were set in advance for the entire concession period and can change only according to a consumer price index and a productivity factor (X Factor).

4. THE BIDDING PROCESS

4.1 The auction took place on 6 February 2012, and was attended by eleven bidders. It was a simultaneous auction in which every participant could present economic proposals for all three airports, but each one could only be granted one airport. This procedure was intended to increase the number of players in the Brazilian airport market, enabling the reduction of information asymmetries and promoting competition and benchmarking.

4.2 As previously stated, the airports were granted to bidders who offered the highest concession fee. The minimum bid set by government studies to Guarulhos, Viracopos and Brasília airports were R\$ 3.4 billion, R\$ 1.5 billion and R\$ 0.6 billion, respectively. The final bids to each airport were R\$ 16.3 billion, R\$ 3.8 billion and R\$ 4.5 billion, generating a premium rate of 373 per cent, approximately. The total amount collected will compose the national civil aviation fund, whose main goal is to foster civil aviation, particularly through investments in airports operated by Infraero.

5. CONCLUSIONS

5.1 Brazilian authorities have relied on best international experiences to establish the contractual rules in order to ensure the objectives of the concessions. Furthermore, the differences between the incentives of the public sector and the private partner were considered when developing contractual rules with the intention of preventing problems found in other public-private partnerships experiences.

5.2 In light of the satisfactory results obtained in the auction of Guarulhos, Viracopos and Brasilia international airports in 2012, recent years high demand growth in Brazilian airports and the existence of room to keep expanding demand (this statement is based on the low rates of air travel per capita in Brazil), it can be stated that Brazil has a promising airport market, which will receive a large amount of investments in the coming years.