



BRAZILIAN GOVERNMENT CONCESSIONS

**Q&A ON THE NEWLY ISSUED BID NOTICES
(FEDERAL GOVERNMENT)**

DECEMBER 2018

On November 30, 2018, the Brazilian Federal Government issued bid notices in order to transfer the operation of 12 airports, 4 port terminals and the “Norte-Sul” Railroad to the private sector. They are part of the Federal Government’s “Investment Partnerships Program” (PPI, in the Portuguese acronym), launched in 2016 to expand and accelerate private investments in the infrastructure sector.

Since the public auctions can only take place one hundred days after the publication date of the bid notices in the Official Federal Gazette, the upcoming Jair Bolsonaro Administration will be responsible for conducting them.

1

What are the infrastructure projects concerned?

- ▶ A 1,537 km section of the “Norte-Sul” Railroad, which connects Estrela d’Oeste, in the State of São Paulo, to Porto Nacional, in the State of Tocantins.



Source: Department of Transport, Ports and Civil Aviation of the Federal Government

- ▶ Four port terminals designed to store bulk liquid, three of which are in Cabedelo, in the State of Paraíba, and one in Vitória, in the State of Espírito Santo.
- ▶ 12 regional airports divided into three different sets:
 - ▶ **Northeastern set:**
Recife (Pernambuco), Maceió (Alagoas), Aracaju (Sergipe), João Pessoa (Paraíba), Juazeiro do Norte (Ceará) and Campina Grande (Paraíba).

- ▶ **Central Western set:**
Cuiabá, Rondonópolis, Alta Floresta and Sinop, all of them in Mato Grosso.
- ▶ **Southeastern set:**
Vitória (Espírito Santo) and Macaé (Rio de Janeiro).

2

When will the public auctions take place and what is the criterion for picking the winning bidders?

The public auctions will take place in March 2019 at the São Paulo Stock Exchange (B3). The winning bidder is the one who bids the largest cash offer for each infrastructure project.

3

What are the specifics of each concession agreement?

“Norte-Sul” Railroad

- ▶ It is a renewable agreement which is expected to expire in 30 years;
- ▶ The minimum bid is R\$ 1.353 billion;
- ▶ It provides for investments in the amount of R\$ 2.7 billion.

Port Terminals

- ▶ The agreement expires in 25 years;
- ▶ It requires a range of investments to increase the terminals’ static storage capacity.
 - ▶ **Port Terminals in Cabedelo (Paraíba)**
 - ▶ The agreement provides for investments of R\$ 36.5 million in Terminal AE-10 and of R\$ 35 million in Terminal AE-11. As for Terminal AI-01, it requires a minimum static storage capacity of 19 thousand tons.
 - ▶ **Port Terminal in Vitória (Espírito Santo)**
 - ▶ The agreement concerns a greenfield project at Terminal VIX-30;
 - ▶ It provides for investments in the amount of R\$ 128 million.

Regional Airports

- ▶ The agreement expires in 30 years;
- ▶ The annual fee to be paid by the holder of the concession is variable and corresponds to a percentage of its annual gross revenue;
- ▶ The Brazilian state-owned company Infraero will have no equity share in the company holding the concession;
- ▶ The airport operator must have 5 years of experience and certify its technical capability to handle, in the cases of the Central Western and the Southeastern sets of airports, at least 1 million passengers per annum and, in the Northeastern set, at least 5 million passengers per annum.



3 sets 12 airports		
	19,5 M	9,5%
	pax/year	of market share
NORTHEASTERN SET	13,2 M	6,4%
• Recife	7,8 M	
• Maceió	2,1 M	
• João Pessoa	1,4 M	
• Aracaju	1,2 M	
• Juazeiro do Norte	542 K	
• Campina Grande	150 K	
CENTRAL WESTERN SET	3,3 M	1,6%
• Cuiabá	2,9 M	
• Sinop	144 K	
• Rondonópolis	51 K	
• Alta Floresta	64 K	
SOUTHEASTERN SET	3,2 M	1,6%
• Vitória	3,0 M	
• Macaé	180 K	

Source: Department of Transport, Ports and Civil Aviation of the Federal Government

▶ **Northeastern set**

- ▶ The minimum bid is R\$ 171 million;
- ▶ The floating annual fee is expected to reach a value of R\$ 1.7 billion within 10 years;
- ▶ The estimated amount of investment required is R\$ 2.153 billion (for the whole set).

▶ **Southeastern set**

- ▶ The minimum bid is R\$ 47 million;
- ▶ The floating annual fee is expected to reach a value of R\$ 435 million within 10 years;
- ▶ The estimated amount of the investment required is R\$ 592 million (for the whole set).

▶ **Central Western set**

- ▶ The minimum bid is R\$ 0.8 million;
- ▶ The floating annual fee is expected to reach a value of R\$ 9 million within 10 years;
- ▶ The estimated amount of the investment required is R\$ 771 million (for the whole set).

4

Who is allowed to participate in the public auctions?

- ▶ Brazilian and foreign companies, pension funds and investment funds are allowed to participate in the public auctions either alone or as part of a consortium;

- ▶ There is no limit to the number of entities in each consortium;
- ▶ Participants in the public auction are allowed to take part in only one consortium per auction. When a company joins a consortium, it cannot bid individually. This restriction also applies to other companies in the same corporate group;
- ▶ In the case of the regional airports, an airport operator must have a 15% stake in the winning consortium. Moreover, airlines cannot participate in public auctions alone and cannot have more than a 2% stake in a consortium;
- ▶ The same company may win the concession agreement to any or all sets of airports and port terminals. In the case of the airports, there are no restrictions on participation in the public auctions of companies currently operating other airports in the country.

5

What are the restrictions for participation in the public auctions?

- ▶ Participation in public auctions is proscribed for:
 - ▶ Companies that are inept, or that are suspended or prohibited from participating in public auctions;
 - ▶ Companies with members who held any position in regulatory agencies or independent agencies responsible for the concerned sectors or in the Department of Transport, Ports and Civil Aviation of the Brazilian Federal Government or who held management positions or senior or intermediate advisory positions in the Brazilian Federal Public Administration during the last 180 days prior to the publication of the bid notices;
 - ▶ Any company undergoing judicial or extrajudicial reorganization, or which is the subject of bankruptcy proceedings, collective insolvency proceedings or winding up proceedings.

Would you like to learn more?

Consult the VMCA regulatory team by telephone (+55 11 39390708) or via email (contato@vmca.adv.br).



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