Brazil's Airports Take Off

By Mauricio Endo, KPMG in Brazil

FORESIGHT

A Global Infrastructure Perspective

Late December saw the latest in a series of ambitious announcements by Brazil's President Dilma Rousseff regarding private investment opportunities in her country's infrastructure sector.

This time it's Brazil's airport network that is in play as the country races to refresh its transportation hubs ahead of the 2014 FIFA World Cup Final and the 2016 Summer Olympics, and address a profusion of commercial and public infrastructure challenges facing Latin America's largest economy.

Waves of new development

The announcement will see the country invest about USD3.7 billion in 270 regional airports nationwide, and launch upgrades to Galeão in Rio de Janeiro and Confins in Belo Horizonte, Brazil's third-largest city. The two international airport projects are expected to attract nearly USD6 billion in bids from private companies, with two-thirds of the funding coming from BNDES, the

Brazilian economic development bank. Tenders are planned for August 2013.

Bidders for the two new concessions must meet strict criteria however, including experience managing airports that handle over 35 million passengers per year. That narrows down the field of potential bidders to just 14 of the world's largest airport operators. Foreign operators must have at least a 25 percent shareholding in the consortium, and companies with majority ownership interest in other airports may not participate.

Infraero, the state-owned company that manages nearly 70 airports across the country and is responsible for 97 percent of the Brazilian commercial aviation

market, will be a 49 percent shareholder in the concessionaires. Infraero will also receive dividends from its participation and funds from the National Civil Aviation Fund for investments in other airports.

The government also announced the creation of Infraero Serviços. In partnership with an international operator – still to be determined – the new entity will offer planning, consulting and administration services, operation support, personnel training, and other services related to airport operation in Brazil and abroad.

Keeping up with the economy

Brazil's airports handled 180 million passengers and 1.5 million tons of cargo in 2011. And they're choked by capacity

constraints – just ask anyone who has flown in or out of São Paulo's bustling Congonhas airport during a holiday weekend.

Together, the 20 major hubs managed by Infraero operated with an estimated deficit capacity of 73 million passengers in 2011, representing 40.5 percent of the traffic recorded in the year. Seventeen of those airports are already operating at full capacity and preliminary estimates indicate a need for up to USD17 billion in investments by 2030, with a primary focus on expanding passenger terminals.

On the one hand, busy airports are an encouraging sign of Brazil's economic vibrancy. Belo Horizonte, for example, is a key gateway to the country's booming natural resources sector, and the growing middle class is vacationing in record numbers, jetting off to locations both domestic and international.

But there's a very real danger that airport capacity, which should be planned in a way that integrates with other modes of transportation, could slow that growth unnecessarily. Besides

the concessions for Rio de Janeiro and Belo Horizonte, the regional aviation plan aims to improve access to air services. The government has set a goal for 96 percent of the population to be within 100 kilometers of an airport that can receive scheduled flights.

Brazil takes flight
The strong demand for concessions reflects healthy investor sentiment for one of the world's fastest growing commercial aviation markets. And that's good for Brazil. If these challenges aren't tackled head-on, there exists real potential for an awkward and well-publicized scenario in which airports may be unable to comfortably handle the millions of visitors that are anticipated to flock to Brazil for the 2014 World Cup and the 2016 Olympics.

Airports are most travelers' first impression of a country, and Brazil is taking very real steps to roll out a warm welcome for its visitors, while planning to meet the long-term needs of its thriving economy.

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