Brazil's ports are up for grabs

By Mauricio Endo, KPMG in Brazil

From October this year, licenses to operate Brazil's publicly-owned port terminals will be open to all bidders. In a change of policy, the winners will be those that can either offer the lowest prices to customers or raise more capacity.

Brazil's 34 public and 129 private ports handle hundreds of millions of tons of cargo each year. As the economy continues to grow, the volumes passing through these terminals is rapidly rising at a rate of 7 percent a year, putting a considerable strain on an aging infrastructure.

In an effort to increase capacity and efficiency in a sector starved of investment, the government has decided to put terminals in 27 public ports up for tender (divided in 4 blocks of concessions), alerting the interest of local and foreign operators seeking a bigger foothold in this South American powerhouse.

The first round of tenders – expected in October 2013 – covers 31 terminals in the strategically important regions of Santos in the south-east and Pará in the north of the country. Santos alone is responsible for 10 percent of all Brazil's cargo, due to its proximity to the larger consumer markets and the mega-city of São Paulo. Pará, which contains the ports of Vila do Conde, Santarém, Belém, Miramar and Outeiro, serves the heartland of the expanding agricultural industry and is a gateway to Europe and North America.

These developments are part of the Port Logistics Investment Program, a US$26 billion dollar government initiative to increase ports efficiency and capacity. Improvements include more sophisticated operational technology to increase efficiency, and a separate investment package, created to address questions related to access to ports: 3.8 billion Brazil Real (BRL) for the dredging program (PND – National Dredging Plan), to enable a wider range of vessels to pass through, and BRL 2.6 billion directed to land access.

Rewriting the rules on bidding

In the initial round, the 31 terminals will be grouped into 10 lots, with each lot specializing in different types of cargo, namely bulk liquid, bulk

Bids will be judged on two criteria:

- in terminals where operators handle their own cargo only, the license will go to operators offering the highest capacity
- for terminals that handle cargo from third parties, the winners will be those promising the lowest tariffs to customers.

> **Fuelled by a fast-growing economy and expanding foreign trade, cargo handling in Brazil has risen by an average of more than 7 percent a year between 2009 and 2013.**

vegetables, bulk minerals, general cargo and containers. Every terminal has specific requirements such as mandatory investments, productivity and minimum static capacity.

Traditionally, those operators providing the highest grant price bid – payment to the port authority – were awarded the license, but the criteria have now changed radically. In terminals where operators handle their own cargo only, the license will be given to the operator offering the highest capacity. For terminals that handle cargo from third parties, the winners will be those able to offer the lowest tariffs to customers.

This is a tremendous opportunity for incumbents and new entrants alike to gain a larger market share, especially when the expected investments of US$1.3 billion from the Port Logistics Investment Program are thrown into the mix, helping to increase capacity in Santos and Pará by around 48 million tons. Interest in the tender is expected to come from local commodity exporters, container service providers and construction companies, as well as from international port operators.

Sizing up the risks

Greater competition awaits public port operators in the form of private port operators, who under new laws that reformed ports legislation, are now permitted to take on cargo from third parties. With pressure to increase public ports capacity and efficiency, the federal government created several programs to address ports related issues, and optimize ports and ports authorities management and procedures.

Along with competition of private ports, other factors influencing the attractiveness of terminals concessions are demand forecasts, along with existing transport links, although the latter should be eased as a result of the government's infrastructure plans. Bidders may also need to become accustomed to the new selection criteria, which have to be costed and built into their financial projections.

These issues notwithstanding, the sheer volume of Brazil's exports and imports, and the current under-capacity of ports should ensure that there is enough business to keep most if not all ports working to near or full capacity, with exports of minerals, commodities and grain supplemented by modern industries such as automotive.

The deadline for submitting bids for the first block of concessions is expected to be sometime in November 2013, with the subsequent rounds (three further rounds are anticipated) for the remaining regions scheduled to take place over the next 2 years.

Spotlight on Santos port

- investments forecast: US$0.6 billion.
- licenses for 11 terminals in the first round of bidding.
- capacity should increase by more than 27 million tons per year by 2018.

Spotlight on Pará ports

- investments: US$0.7 billion.
- licenses for 20 terminals, four of which are greenfield.
- capacity should increase by more than 21 million tons per year by 2018.

Contact us

Laura Jablonski
Sr. Marketing Manager
Global Infrastructure
KPMG International
T: +1 416 777 8849
E: ljablonski@kpmg.ca

Dane Wolfe
Marketing Manager
Global Infrastructure
KPMG International
T: +1 416 777 3740
E: dmwolfe@kpmg.ca

kpmg.com

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