

A new President and her plans to improve the Brazilian airport system

Kluwer Construction Blog

January 4, 2011

Júlio César Bueno (Pinheiro Neto)

Please refer to his post as: Júlio César Bueno, 'A new President and her plans to improve the Brazilian airport system', Kluwer Construction Blog, January 4 2011, <http://kluwerconstructionblog.com/2011/01/04/brazilian-airport-system/>

A new President and her plans to improve the Brazilian airport system

As the ninth largest economy in the world - expected to reach fifth place in the next decade - and the largest of Latin America, Brazil is today one of the best markets for foreign investment and an increasingly important operator in the international geopolitical stage. Despite that, three recent reports have described the quality of Brazil's transport infrastructure - including the airport system - as ranking among some of the worst in the world, despite growing demand from international manufacturers for goods produced in the country.

a) The first report, by the Brazilian economic consultancy LCA Consultores - which analyzed results from a competitiveness poll conducted among attendees at the 2009/2010 World Economic Forum in Geneva - indicates that compared to another 20 countries with which it competes on a global scale, Brazil hangs on to the 17th slot in infrastructure quality in general. On a 1-7 rating scale, Brazil scored 3.4, below the world average of 4.1.

b) The second report, by Brazil's Applied Economics Research Institute (IPEA), indicates that a number of airports are on the edge of an operational collapse, meaning there is a considerable threat of a logistics blackout in the airport sector unless investment is initiated immediately. The IPEA report said demand for air travel is expected to triple in the next 20 years, especially with the World Cup and 2016 Olympics putting additional pressure on the country's transport infrastructure, making the situation all the more pressing.

c) The third report, by consultancy company McKinsey, indicates that investment of BRL25-34bn (US\$15-20bn) is needed to meet growing demand in the airport sector over the next 20 years. The study found that Brazil's 20 main airports need massive investments in upgrades to enable them cater for the growing passenger traffic demand up to 2030. The study further concludes that airports such as the Viracopos international airport in Sao Paulo may need up to BRL4-6bn (US\$2-3bn) reals to enhance its capacity to handle passenger traffic in its metropolitan area, the most congested in the country. On the other hand, the state's Congonhas airport was said to be in dire condition, with capacity levels already exceeded, revealed the study. Only two Brazilian airports were found to be in better condition, the Galeão airport in Rio de Janeiro, and the Curitiba airport in Paraná state.

With these findings in mind, President Dilma Rouseef wants to make a firm position that the country's airport system will indeed improve in a fast track model. In her 3rd day in Office the new President has decided to privatize the construction and operation of 2 new airport terminals in the State of São Paulo. President Dilma also decided to open up the capital of INFRAERO (the Brazilian Airport Infrastructure Company) and create an special Secretariat - directly attached to the the Presidency's Office - to oversight civil aviation business in Brazil.

President's Office has already started meeting with companies interested in the construction and operation of the 2 new terminals in the State of São Paulo. Those companies have been informed that concession agreements for the new terminals will be of at least 20 years and will have BNDES' (the Brazilian Development Bank) participation in the financing. The BNDES Credit Lines comprise long-term financing, at competitive interest rates, for the development of investment projects, the commercialization of machinery and equipment, and the growth of Brazilian exports. Credit lines and programs provided by the BNDES serve the investment needs of companies of any size and sector set up in Brazil.

Other investments recently announced shall be placed in the airports at Belo Horizonte, Brasília, Cuiabá, Curitiba, Fortaleza, Manaus, Natal, Porto Alegre, Recife, Rio de Janeiro and Salvador, the other 11 host cities of the 2014 World Cup. The Government expectation is that all work shall be completed between June 2013 and April 2014, so that the airports shall be ready to welcome the large number of tourists that should visit the country in this period.