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Next airport auctions will be grouped into lots

By **Daniel Rittner** | Brasília

The government is already working on the design for the next airport privatizations and studies a new format to continue offering the assets to private-sector operators. The model is still in the early stages but one aspect is practically certain: the privatizations will not end with the upcoming auction of four terminals – Salvador, Fortaleza, Porto Alegre and Florianópolis – slated for March 16.

After this wave, officials want to privatize airports gathered in lots, mixing lucrative terminals with those receiving less than 1 million passengers a year and dedicated exclusively to regional flights. The airport of Cuiabá (Mato Grosso) should be privatized along with three other small terminals in the state: Alta Floresta, Sinop and Rondonópolis.

An invitation for letters of interest, calling on companies to develop technical and economic viability studies for the assets, will be published in the upcoming weeks.

The idea is to group assets by regional lots and create a synergetic logic for terminal operation. In the Northeast, for instance, one design would have Recife's airport leading the concession and at least eight other airports today managed by Infraero as "feeders" of flights in the same lot: Aracaju, Maceió, João Pessoa, Teresina, São Luís, Campina Grande, Petrolina, and Juazeiro do Norte. Recife is the second largest Northeast airport after Salvador, with 6.7 million domestic and international passengers last year.

"This lot format, with cross subsidies, is very common in other parts of the world," says Ana Cândida de Mello Carvalho, a public bidding and concession contract specialist with law firm Tozzini Freire. Mexico is one example of a country that splits its airport network into regions and privatized it in groups. "What's lucrative ends up subsidizing small-scale infrastructure."



Even the Airport of Congonhas could join

the next privatization wave

Officials say six maps have already been designed with alternative terminal groupings. They include designs with and without Congonhas (São Paulo) and Santos Dumont (Rio de Janeiro), the two “jewels” still controlled by Infraero, the state-owned operator, but most technocrats prefer a model in which both the central airports remain under government control.

One idea that is starting to be developed would gather a handful of lucrative terminals – Congonhas, Santos Dumont, Manaus and Curitiba – in an Infraero subsidiary that would go public with a private-sector partner holding up to 49%. Recife also could be kept with this “good” part of Infraero. The problem would be how to figure out the math for the Northeast lot.

“It still is in the very early stage but airport concessions will hardly end in the next auction,” says an official who has been participating in talks. The discussions so far have been purely technical and without ministry-level meetings to advance proposals.

The government is also willing to privatize piece by piece a small group of airports drawing specific interest from some companies. Investors expressed willingness to take over three terminals: Ilhéus (Bahia), São José dos Campos (São Paulo) e Campos (Rio de Janeiro). All have less than 1 million passengers a year and are not profitable for Infraero. Officials believe they could become lucrative under private-sector management. São José stands out for the potential to attract cargo and business flights. Ilhéus is a tourist hub and Campos sits close to oil exploration areas.

Ms. Carvalho, with Tozzini Freire Advogados, believes that despite the biggest Brazilian airports having already been privatized, foreign investors are still interested in Brazil. “If we look into the commercial map of airports around the world, there’s a visible scarcity of available assets for the private sector. The number of operators interested in the Brazilian market mirrors this lack of opportunities,” she says.

The future of Infraero is one concern of officials since the company is overstaffed after losing six airports during the administration of former president Dilma Rousseff. The company has 13,000 workers and a buyout program aiming to lower that by nearly 3,000.

MP 752, the provisional measure postponing and re-auctioning concessions, included a mechanism foreseeing direct payment to Infraero from future winners of airport auctions, to make up for the compensation payment of employee terminations.

This rule will be in effect for the new auctions in March 2017. The airports will be auctioned off individually, with a minimum concession payment of R\$2.5 billion. They are expected to receive R\$6.6 billion in investments.

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