

CONGONHAS AND SANTOS DUMONT SHOULD DRIVE DISPUTE IN NEW ROUND OF FEDERAL AIRPORT CONCESSIONS EVEN AMID UNCERTAINTY CAUSED BY PANDEMIC

19 OCTOBER 2021

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With the progress of vaccination and gradual reopening of borders, the aviation sector is beginning to show signs of recovery. In Brazil, the federal government's plan to grant the operation of federal airports to the private sector is following the originally planned schedule. The National Civil Aviation Agency (Anac) approved on September 21 the drafts of the notice and concession contract for the 7th round of airport concessions. The documents will be available for public consultation between September 23 and November 8, 2021, during which time the company and regulated agents may send contributions through a specific electronic form, available on Anac's official website. The date for the public hearing has not yet been released.

Following the same model adopted in the 5th and 6th rounds, the government opted to grant the airports in blocks. This division aims to group together loss-making and surplus-generating airports, improving the attractiveness of the assets to maximize revenue and prevent airports with low traffic and profitability from being left without bidders. Sixteen airports located in the North, Southeast, and Center-West regions will be part of the 7th round. The division will be in three blocks, headed by the airports of Congonhas/SP, Santos Dumont/RJ, and Belém/PA.

The SP/MS/PA block will be composed of the airports of Congonhas/SP, Campo de Marte/SP, Campo Grande/MS, Ponta Porã/MS, Santarém/PA, Marabá/PA, Parauapebas/PA, and Altamira/PA. The minimum initial contribution provided for in the current draft is R\$ 487 million. The RJ/MG block will be composed of the airports of Santos Dumont/RJ, Jacarepaguá/RJ, Montes Claros/MG, Uberlândia/MG, and Uberaba/MG, and the minimum initial contribution is R\$ 355.2 million. The North block will be composed of the airports of Belém/PA and Macapá/AP, and the minimum contribution currently stipulated is R\$ 55.5 million. It is expected that approximately R\$ 8.8 billion will be invested over the 30-year concession period.

In addition to the initial contribution to be paid within 15 calendar days from the signing of the concession contract, the winning bidders will also pay variable contributions. These amounts will correspond to the annual amount in Brazilian Reals resulting from the application of a tax rate on the total gross revenue of the concessionaire (and any wholly owned subsidiaries) earned in the year prior to the payment. The first variable contribution will be due as of the fifth full year of the concession, with the following percentages being applied:

RJ/MG Block

Period	rate
From the effective date of the contract up to the fourth full calendar year	Zero
Fifth year	3.11%
Sixth year	6.22%
Seventh year	9.33%
Eighth year	12.44%
Up to the end of the concession	15.54%

North Block

PERIOD	rate
Sixth year	2.75%
Seventh year	4.13%
Eighth year	5.51%
Up to the end of the concession	6.89%

PERIOD	rate
From the effective date of the contract up to the fourth full calendar year	Zero
Fifth year	1.38%
Sixth year	2.75%
Seventh year	4.13%
Eighth year	5.51%
Up to the end of the concession	6.89%

SP/MS/PA Block

period	rate
From the effective date of the contract up to the fourth full calendar year	Zero
Fifth year	2.11%
Sixth year	4.22%
Seventh year	6.33%
Eighth year	8.44%
Up to the end of the concession	10.55%

Brazilian or foreign legal entities, supplementary pension entities, and investment funds, alone or in a consortium, may participate in the bidding. It is forbidden for a legal entity (or its subsidiaries and parent companies) to participate in more than one consortium to submit a bid for the same block.

The possibility of hiring an expert witness, a new feature introduced during Round 6, was retained. Thus, the bidder that does not have the technical experience required by the call notice shall submit a commitment to hire an expert witness confirming that, if declared the winner, it will demonstrate its qualification through an expert witness contract to be signed with an airport operator that meets the requirements of the call notice. For technical qualification purposes, evidence will be required that the airport operator has processed, in at least one of the last five years:

- 5 million passengers for the RJ/MG and SP/MS/PA blocks; and
- 1 million passengers for the North block.

Congonhas and Santos Dumont airports are among the main Brazilian airports. The location of both in the country's two largest economic hubs raises the federal government's expectation of tax revenue.

Although the pandemic has drastically affected aviation and boosted the use of videoconferencing platforms to avoid travel, Congonhas and Santos Dumont remain attractive assets with the potential to generate intense competition among investors.