

Will the public-private partnership work?

The government calls on private initiative to unlock and carry out investments in transport infrastructure. But it has yet to reform regulation of the transport sector.

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THE SECOND HALF of 2012 could mark a new phase for the transport sector in Brazil. With a program of concessions that seeks to attract the private sector to invest in construction and operation of roads, railways, ports, and airports, the Rousseff administration is giving a powerful boost to the economy. The program seeks to intensify the effort started with the Growth Acceleration Program (PAC) to eliminate bottlenecks in transportation infrastructure that undermine Brazil's competitiveness, but it can also help drive future growth. "The direct effect of these investments, divided over the next five years, represents 0.4% of GDP, but that does not count the indirect effects [on the economy]," said Transport Minister Paulo Sérgio Passos (see the interview on pp. 22). In late September in São Paulo a roundtable on "Transport Infrastructure, Logistics and Urban Mobility in Brazil," organized by the Brazilian Institute of Economics (IBRE) and *Conjuntura Econômica* magazine, attracted attention from both public and private partners.

The Global Competitiveness Index published by the World Economic Forum throws a harsh light on Brazil's infrastructure deficiencies. Paulo Resende, infrastructure consultant for the World Bank and professor of logistics and supply chains at the Dom Cabral Foundation, noted that among 144 countries "Brazil is ranked 135th in port facilities, 134th in the quality of its airports, and 123rd in roads. Investments in all transportation modes combined do not exceed 1.2% of GDP, while in other countries the average is 2.5%." Economist Claudio Frischtak of the InterB consultancy added, "We have seen that the capacity of the public sector to carry out investments in infrastructure is no more than 1%. When it tried to do more, the results were mismanagement and corruption. The PAC failed. Now it

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is the turn of the private sector." But Fritschak argued that the government needs to institute more reforms to make the program succeed, saying, "We need changes in both the political and the regulatory plan."

Is that possible? Marcelo Perrupato, secretary of national transport policy of the Ministry of Transport, is sure that the answer is yes, but he recognizes that there is no time to waste. "This is a window of opportunity that the international crisis has opened for Brazil to fix its infrastructure," he said. "The National Logistics and Transport Plan is expected to invest R$430 billion by 2023; we have invested perhaps R$130 billion. We have 10 years to invest another R$300 billion—R$30 billion a year."

But to reach the 4% of GDP needed to modernize the country's infrastructure, Brazil would need to add about R$100 billion a year to what is currently invested, for a total of R$2.5 trillion over the next 25 years, according to consultants at Inter B. But for some sectors, the need for more competitive infrastructure is urgent. Luiz Henrique Baldez Teixeira, president of the National Association of Users of Freight Transport (Anut), explained that "High commodity prices in recent years have made up for the fact that shipping costs are not competitive, but that will not last forever. The steel industry, for instance, is going through a difficult time because there is excess supply globally, so producers have to be aggressive in price and quality." He added that "According to a study made with the Federation of Industries of the State of São Paulo, Brazil loses R$17 billion a year due to poor infrastructure. Transport users pay the bill."

LONG-TERM VISION

These concerns, however, do not overshadow the general optimism of businesses about the R$133 billion program for roads and railways announced in August, with a similar program for ports and airports likely to follow. "The model of concessions to private enterprise is correct [since] the government does not have capacity to operate the [transport] system," said Carlos Alberto Wanderley Nóbrega, a partner at DUX Consulting Transportation. "And mistakes made in the past model of granting concessions seem to have been corrected."

For analysts, creation of the state-owned Planning and Logistics Corporation (EPL) was a positive sign. For one thing, the EPL could help plan investments in multimodal integration to better balance the various types of transport. Today 60% of cargo goes by road, which considerably elevates the shipping cost per ton. Also, throughout the country tax incentives

Brazil's investment in infrastructure has declined

(percent of GDP)

2007	1.9
2008	2.5
2009	2.5
2010	2.4
2011	2.1
2012*	2.0

Source: InterB. * Estimate.

to promote industry have created transportation problems. Companies site new plants based on tax incentives, and "this has resulted in no railroad where there was a port, no port where there was industry, industry where there were no raw materials, and often no markets," said Fernando Simões, president of logistics company JSL.

Ricardo Molitzas, director of Logistics Operations Santos Brazil, agreed that the lack of planning results in both economic and environmental losses. He gave the example of the locks at Tucuruí dam, which took 30 years to complete and cost R$1.6 billion because a small supplementary project was not completed that would make 600 km of the river navigable. "How many trucks could that replace?" Molitzas asked.

The EPL can also help to put in place a long-term strategy. At the seminar Bernardo Figueiredo, EPL president and formerly on the technical staff of the National Transportation Agency, stressed the need to create a new dynamic in the transport sector with planning and continuous contracting of projects and works. He pointed out that it takes two years to do project design, licensing, and bidding before construction can begin. Tarcisio de Freitas Gomes, executive director, National Department of Transport Infrastructure (DNIT), said that municipalities have to change their practice of contracting works, which can be reduced from about 240 days to about 60 or even 45 days.

CONCERNS FOR THE BIDDERS

In a more stable economic environment, with Brazil's interest rates and country risk far below what they were 15 years ago, candidates for concessions now must charge less for their services than was possible for concessions granted in the 1990s, so gains in productivity and scale become more important. "The internal rate of return of projects in the transport sector has declined from 20% in 1995 to 1997 to 7% to 8% today," economist Fernando Camargo, partner of LCA Consultores, pointed out.

The new program of concessions

R$133 billion in 30 years

ROADS	RAILWAYS
7,500 Km	10,000 Km
R$42 billion	R$91 billion
R$23.5 billion in the first 5 years	R$56 billion in the first 5 years

Source: Federal government.

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Luiz Henrique Baldez Teixeira

So far, companies concerned with logistics have used a number of strategies to grow, such as acquiring other companies or diversifying. For instance, in 2013 Odebrecht Transport, which owns concessions for Bandeiras road in São Paulo state, and the North Coast in Bahia state, expects to open the Embraport, a multipurpose terminal in Santos, which should surpass all other Latin American ports in movement of containers. But Paulo Cesena, Odebrecht chief executive, said of the government's new initiative that "What strikes me in this program is the complexity and urgency that the partnership calls for. There are projects that need to be detailed in technical and financial terms, taking into account contractual and legal aspects. You cannot do this without dialogue." His opinion was shared by Ricardo Castanheira, vice chairman of CCR, which manages both the President Dutra Highway, which connects São Paulo and Rio de Janeiro cities, and airports in Quito, Ecuador, and San José, Costa Rica,. "We must seek improvements to what is already in place without trying to invent the wheel. If we are unsuccessful, we will all lose."

Gustavo Nunes da Silva Rocha, president of Invepar, which won the bid to manage and operate Guarulhos Airport in São Paulo city in consortium with the South African company Acsa, believes that government programs will only get good results if there are changes in how the licenses needed are issued. The current system creates obstacles and raises the risks for private investors from lengthy deliberations at the Court of Audit, delays in environmental permits, and problems with expropriation of land.

REGULATORY RATIONALITY?

Traders and analysts are anxious to know whether the dose of rationality promised by the government will be equivalent for each mode. Carlos Alberto Nóbrega of DUX Consulting said, "For railroads, the separation between provision and operation of infrastructure will undoubtedly stimulate much needed investment and a more competitive business operation." But the big question is whether it will be possible to reorganize Valec, the state-owned enterprise that operates the railways, which last year was subject to allegations of corruption and which will responsible for selling rail freight capacity. Figueiredo of the EPL says, "The work that we want Valec to do is simple: sell railway shipping at a set price, providing free access to the market. A guarantee to purchase all freight capacity creates the best price for use." Manoel de Andrade e Silva Reis, coordinator of the FGV Center of Excellence in Logistics and Supply Chains, has some concerns

because "the history of the government managing railways has not been good." But he believes Brazil "will be different five years from now."

In terms of roads, investments in improvements should be accompanied by new regulations that diminish distortions in the freight market. Recent legislation establishing the workload of drivers and requiring payment by check or freight-card are advances that, analysts say, will increase the costs of freight and will balance demand. "Today, this industry is poorly regulated. The average age of the national fleet exceeds 17 years and drivers do excessively long journeys. The ease of entering this market has caused excess supply, which encourages the use of trucks over large distances," says Neuto G. Reis, executive technical director, NTC & Logistics. Trucks are more cost-effective for distances of less than 300 km; railways and water are better for longer distances.

While regulation of road transport is too weak, for airports and port facilities the weight of regulation inhibits competition. "To invest in new terminals applicants must prove that their own cargo makes the project viable, which dissuades private investors from taking the initiative to build a new terminal and sell space in it," Carlos Campos Neto, coordinator of the Infrastructure Economic Institute of Applied Economic Research (IPEA), said, adding, "Another thing that strangles investment is the legal uncertainty regarding the 98 port terminals with concession contracts due or ending in 2013. These are terminals through which more than 50% of all cargoes are handled. It is estimated that the uncertainty about the future of these terminals has frozen about R$10 billion in investments."

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"We also hope that the government programs are not limited to ports," added FGV's Neuto Reis. "Waterways are more important for transporting commodities." Molitzas of Santos Brazil also advocates the creation of a competitive environment for coastal navigation. "Most of Brazil's economic activity happens at a range of 200 km from the coastline," he said. Noting that only ships under Brazil's flag can do coastal navigation, he pointed out that the national coastal fleet is very small.

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FINANCING

The EPL's Figueiredo admitted that "We have an aggressive schedule for an aggressive investment program. But let's create a control process, launch a website to give transparency to actions taken, and that will help make the program more efficient." But, he said, one essential step has already been taken: "In 2003, when we began to discuss the railway issue, the Ministry had only a R$2.5 billion budget . . . . The PAC changed all that."

However, many experts question how the government has chosen to fund this new transport program. Armando Castelar, IBRE / FGV coordinator of applied economics, pointed out a problem with the government offer to fund up to 80% of road and railway projects at low interest. The private sector, he said, "will not be interested in funding [projects] at the same rates." He also thinks the National Bank for Economic and Social Development (BNDES) will find it difficult to securitize and sell the loans for these projects.

The president of BNDES, Luciano Coutinho, declared the bank wants to help issue infrastructure bonds, which were created in 2010, but the prevailing view is to rely on BNDES loans to finance the road and railway program, even if it means more contributions from the Treasury. Zurli Roberto Machado, BNDES director of Infrastructure, Basic Petrochemicals and Project Structuring, conceded that BNDES funding of infrastructure projects inhibits funding by private capital, but he believes that the bank's presence was necessary to ensure that investments were made even in an adverse economic environment, with interest rates high and domestic financial institutions reluctant to provide long-term financing.

Machado pointed out that, although the energy sector leads in BNDES disbursements, the areas of transport and logistics have grown most rapidly: from R$4.7 billion in 2011 to R$6.6 billion in 2012, of which R$2.4 billion went to railways. He said that in future the BNDES will evolve: "In addition to being the provider of long-term financing to the infrastructure sector, the bank will become the catalyst of private sector resources. The BNDES share in financing will certainly decrease."

The entrepreneurs who invest in the transport sector advocate less reliance on the BNDES and further development of capital markets. Gustavo Rocha pointed out that "Invepar was granted a concession in Peru for which it issued US$500 million 15-year bonds in the private market to finance the project. Brazil needs to look into that." Perhaps, as Castelar suggested, "The best alternative is to give these projects return rates and financing terms compatible with the Brazilian reality." ■