Revitalizing Brazil’s Ports Infrastructure

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For the second time in just five months, Brazil has taken another major leap forward in an all-out effort to modernize and improve the country’s infrastructure.

This is good news, indeed. Having enjoyed some of the world’s most impressive economic growth rates over the past decade or so, Brazil’s economy is increasingly showing signs of an economic slowdown, due in large part to the country’s inefficient, outdated and insufficient infrastructure.

And so President Dilma’s announcement on 6 December 2012 of a major shakeup in the ports sector has been broadly and warmly welcomed by Brazil’s businesses, investors and trading partners.

A lynchpin of growth
Brazil’s ports are the lifeblood of the country’s economy. More than 90 percent of Brazilian exports and imports pass through the country’s 34 public ports and 129 port terminals each year. In 2011, that translated into more than 886 million tons of cargo, the bulk of which is made up of iron ore and petroleum.

Over the past decade, while the country’s foreign trade has increased substantially, capacity within the ports has fallen woefully behind. In part, this is due to a series of regulations that – while well intentioned – ultimately stymied growth and investment into the ports sector.

In the Brazilian Constitution of 1988, for example, all ports became the sole responsibility of the government. A further nine regulatory updates and decree laws related to ports were enacted between 1993 and 2011. Some, such as Decree Law 6,620 established strict rules limiting private ports to handling only their own cargo, further dis-incentivizing investment into the sector from private parties.

Full steam ahead
The recent announcement of Provisional Measure #595 is widely expected to bring a much-needed reorganization to the sector and catalyze significant investment. The plan seeks to eliminate many of the barriers that have slowed investment and speed up the leasing and environmental licensing processes. Interestingly, the Provisional Measure has also been designed to improve the logistical integration of the ports in particular and the wider logistics infrastructure in general.
A total of 18 ports are expected to benefit from the announced investment, with new ports planned for development in Manaus, Ilhéus and Espirito Santo. However, the Provisional Measure must still wind its way through the legislative process, meaning that it will likely be six months or more before the Measure is enacted into law.

**Brazil’s new investment plan for ports**

**Investment:** As part of the Logistics Investment Program, first launched in August 2012 for the roads and rail sectors, this announcement envisions the investment of USD26.1 billion into the ports sector from private and public sources. An additional USD1 billion will be invested into improving access to ports.

**Regulatory framework:** Provisional Measure #595 supersedes the Port Modernization Law 8,630/93. The Secretariat of Ports (SEP) will lead an integrated strategy aimed at modernizing the public ports administration, while ANTAQ will be placed in charge of all procedures for port bidding.

**Bidding and awards process:** All public authority concessions and terminal leasing within public ports will be conducted through public bidding with awards going to parties that demonstrate an ability to manage the highest volumes at the lowest tariff.

**Financing conditions:** BNDES, the Brazilian Development Bank, will provide financing with Long-term Interest Rate (TJLP) plus a spread of up to 2.5 percent, amortization terms of up to 20 years, grace periods of up to 3 years, and the ability to leverage up to 65 percent.

**Opportunities, ahoy!**

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Those that hope to participate in this massive investment program – whether as private investors, contractors, developers or engineers – will likely need this time to prepare their approach, marshal their resources and take stock of their capabilities within this market. Once the Measure is passed into law, investments should start flowing fast and furiously.

Taken as a whole, the Logistics Investment Program – which will eventually include announcements in other sectors such as airports – is viewed as a potential roadmap for developing countries around the world, and represents Brazil’s best opportunity to return to the heady growth that propelled the country into the ranks of the high-growth markets.