

Brazil announces major infrastructure concession package worth R\$198.4 billion (US\$66 billion)

The Brazilian government has announced a new phase of its Logistics Investment Program (*Programa de Investimento em Logística*, or “PIL”) which aims to modernize Brazil’s infrastructure and stimulate economic growth. The PIL contemplates infrastructure investment totalling R\$198.4 billion (US\$66 billion), including R\$69.2 billion investment between 2015 and 2018.

The PIL, first created in 2012, has now been expanded in a moment of economic slowdown in Brazil and seeks to rekindle economic growth at the same time as improving Brazil's transportation and logistics infrastructure. The new program is designed to attract greater private investment and financing, although will continue to enjoy strong support from Brazil's development bank (BNDES), offering substantial funding at below-market rates. The PIL is expected to generate significant interest from foreign contractors and investors with resources to meet the substantial equity and debt financing and technical requirements for the underlying projects. Such support may be pivotal in light of the higher levels of participation expected from mid-sized Brazilian contractors in such projects. The largest project of the PIL, the R\$40 billion Bi-Oceanic Railway to connect the Atlantic and Pacific coasts of South America, has already attracted pledges of cooperation and funding from the Chinese government.

New Projects

Railroads

New railroad investments under the PIL include:

- the Brazilian portion of the Bi-Oceanic Railway (*Ferrovía Bioceánica*) (R\$40bn);
- a new railway from Lucas do Rio Verde, MT to Miritituba, PA (R\$9.9bn);
- the North-South Railway (*Ferrovía Norte-Sul*) from Palmas, TO to Anápolis, GO and Açailândia, MA to Barcarena, PA (R\$7.8bn);
- a new railway from Rio de Janeiro, RJ to Vitória, ES (R\$7.8bn); and
- investments in existing concessions, including increasing traffic capacity, reduction of urban interference, duplication of existing railways, construction of new branches and purchasing new rolling-stock.

Airports

The concessions will involve four major airports to be auctioned in Q1 of 2016:

- Salvador International Airport (9.2m current annual passengers/yr) (R\$3bn);
- Porto Alegre International Airport (8.4m current annual passengers/yr) (R\$2.5bn);
- Fortaleza International Airport (6.5m current annual passengers/yr) (R\$1.8bn);
- Florianopolis International Airport (3.6m current annual passengers/yr) (R\$1.1bn); and
- Seven regional airports in São Paulo State (Araras, Bragança Paulista, Campinas-Amarais, Itanhaém, Jundiá and Ubatuba) and Goiás (Caldas Novas) will be

Key issues

- R\$198bn (US\$66bn) total investment package, including R\$69bn by 2018
- Projects include airports, highways, ports and rail
- BNDES funding continues to be available at below market rates, but at reduced levels
- Infrastructure bonds and other private sector financing will be key

auctioned on an as of a yet undetermined timeline.

Highways

New highway investments to be auctioned in 2015 and 2016 include:

- BR-163 extending 976km in Mato Grosso and Pará (R\$6.6bn);

Highways, cont.

- BR-476/153/282/480 extending 460km in Santa Catarina and Paraná (R\$4.5bn);
- BR-64/060 extending 704km in Mato Grosso and Goiás (R\$4.1bn);
- BR-364 extending 439km in Goiás and Minas Gerais (R\$3.1bn);
- A further 11 new highway projects with a value of approximately R\$31.2bn; and
- Investments in existing concessions for highway expansion, improved signage.

Ports

Fifty port concessions will be auctioned in 2015 and 2016. The first round, estimated to require R\$4.7bn in investments, will include a total of 29 new terminals, nine in the city of Santos and twenty in Pará. The second round will include 21 new terminals in Amapá, Amazonas, Bahia, Maranhão, Paraná, Pernambuco, Rio de Janeiro, Santa Catarina and São Paulo, requiring investments of R\$7.2bn. The concessions will each be for a 25-year term.

Concession Award Regimes

Highway concessions will be granted to the bidder that presents the lowest tolls. Concessions for airports and the second round of ports auctions will be awarded to the bidders that will pay the greatest premium (*outorga onerosa*) to the Federal Government.

Criteria for awarding the railroads and first round of ports concessions have

not yet been determined.

Financing of Projects

The Brazilian government has emphasized the importance of private sector financing for this new stage of the PIL, including financing from the capital markets and infrastructure debentures. However, funding from Brazil's development bank, BNDES, will continue to be available at levels that vary for each sector.

BNDES financing

BNDES will provide funding at its lowest "TJLP" rate (*Taxa de Juros Longo Prazo*) for between 15% (the minimum for airport projects) and 70% (the maximum for railroad projects) of project costs. Total BNDES financing, including both TJLP and market-based interest rate financing, may be in an amount of up to 90% of project costs.

Infrastructure Debentures

The PIL financing structure also relies on Brazilian infrastructure debentures, domestic bonds offering reduced income tax on interest for individuals and foreign investors. Depending on the project and financing structure, this form of financing may finance up to 35% of project costs.

Equity Funding

Equity investment will be required in levels up to 30% of project costs, varying with the project/sector and type and structure of debt financing employed.

Contacts

Chris Willott
Partner, Energy and Infrastructure

T: +55 11 3019 6020

E: chris.willott@cliffordchance.com



Anthony Oldfield
Managing Partner,
Head of M&A/Corporate

T: +55 11 3019 6010

E: anthony.oldfield@cliffordchance.com



Anand Saha
Partner, Capital Markets

T: +55 11 3019 6025

E: anand.saha@cliffordchance.com



Clifford Chance São Paulo is the largest and longest established international firm in Brazil and is the only law firm that is ranked by Chambers & Partners in Tier 1 in each of Banking and Finance, M&A and Capital Markets for international lawyers in Brazil.

If you would like any further information on the PIL or to discuss ways in which we may assist you in respect of any of the concessions described herein, please contact Chris, Anthony or Anand or your usual Clifford Chance advisers.

This publication does not necessarily deal with every important topic or cover every aspect of the topics with which it deals. It is not designed to provide legal or other advice.

www.cliffordchance.com

Clifford Chance, Rua Funchal 418 15th Floor, 04551-060 São Paulo SP, Brazil

© Clifford Chance 2015

Clifford Chance Sociedade de Consultores em Direito Estrangeiro / Direito Inglês, do País de Gales e Norte Americano

Abu Dhabi ■ Amsterdam ■ Bangkok ■ Barcelona ■ Beijing ■ Brussels ■ Bucharest ■ Casablanca ■ Doha ■ Dubai ■ Düsseldorf ■ Frankfurt ■ Hong Kong ■ Istanbul ■ Jakarta* ■ Kyiv ■ London ■ Luxembourg ■ Madrid ■ Milan ■ Moscow ■ Munich ■ New York ■ Paris ■ Perth ■ Prague ■ Riyadh ■ Rome ■ São Paulo ■ Seoul ■ Shanghai ■ Singapore ■ Sydney ■ Tokyo ■ Warsaw ■ Washington, D.C.

*Linda Widyati & Partners in association with Clifford Chance.

750404-3-23-v0.5

95-40478743