



**AS** AZEVEDO SETTE ADVOGADOS

**haynesboone**  
Setting precedent.



# INFRASTRUCTURE OPPORTUNITIES IN BRAZIL



July 2010



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# I. Background Information



## General

- Largest country in Latin America
- Area: 8,514,877 km<sup>2</sup> (world's fifth largest country)
- Population: approx. 200 million
- Language: Portuguese
- Largest cities (metro areas)
  - São Paulo (20 million)
  - Rio de Janeiro (11.5 million)

## Brazilian Economy

- Currency: Real (R\$)
- Real appreciated 32.7% vis-à-vis U.S. dollar in 2009 (156% between October 2002 and April 2010)
- Nominal GDP: US\$1.5 trillion in 2009 (world's eighth largest economy)
- Interest rate: 10.25% (SELIC) (Federal funds rate)
- Inflation rate: 5.4%
- Primary exports include sugar, coffee, beef, poultry, ethanol, tobacco, corn, soy, and orange juice
- Offshore oil deposits will likely turn country into one of world's major petroleum exporters

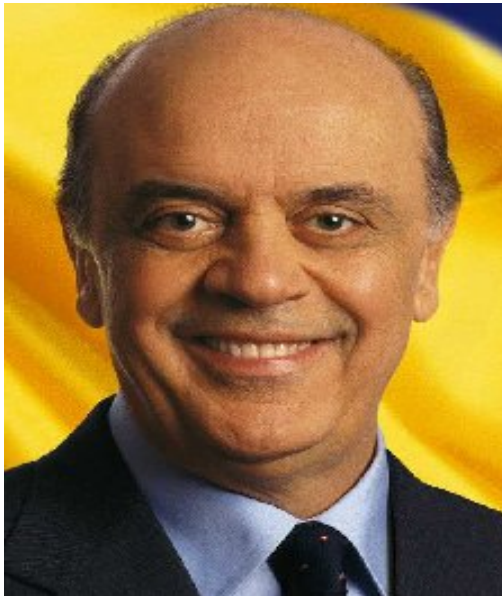


## Brazilian Politics

- Luiz Inácio Lula da Silva (Lula) has been president since January 2003
- Lula's support in opinion polls remains near 70% popularity level
- Brazilians will vote for new president in October 2010

## Brazilian Politics (cont.)

Frontrunners for presidency are José Serra and Dilma Rousseff. He was governor of São Paulo state and she was Lula's chief minister until both resigned in April to qualify as candidates



## II. Brazil in Next 5 Years

## Brazil in Next 5 Years

**Estimated Investment  
(US\$)**

**Project**

15 billion

Olympic Games

10-14 billion

World Cup

140 billion

Pre-salt Project (2009-2020)

8 billion

National Broadband Plan

880 billion

Growth Acceleration Program 2



**Brief Note: The Brazilian economy grew 9% in the 1st quarter. (BBC news)**

### III. Comparative Advantages vis-à-vis Other Emerging Markets

## Comparative Advantages vis-à-vis Other Emerging Markets

- Diversified economy
- Strong private sector
- Capacity to absorb impacts from global financial crisis
- Solid legal regime/juridical stability
- Social and religious stability



## Comparative Advantages vis-à-vis Other Emerging Markets (cont.)

- Abundant mineral resources
- Large capacity to produce food
- Stable political environment
- Favorable demographics

## Comparative Advantages vis-à-vis Other Emerging Markets (cont.)

- Rate of households with more than US \$10,000 yearly income – 40%
- 71% Internet Penetration – 6<sup>th</sup> largest PC market
- Sophisticated Banking System
- Global Competitiveness Index – 56th rank

***Brief Note: Brazil is the 4<sup>th</sup> largest automobile market in the world. (América Economia)***

## IV. Investment Grade Status

# Investment Grade Rating



Time	Rating Agencies	Reasons for Investment Grade
Pre-crisis	S&P – April 2008 Fitch – May 2008	Political and economical maturity + sound economic standards
During the crisis	Moody's September 2009	Same as above + capacity to absorb economic shocks

## Investment Grade Rating (cont.)

- Halo effect on Foreign Direct Investment
- Strengthens capital markets as speculative capital is gradually replaced by portfolio investment
- Important step to create fertile environment for long-term investment (but not there yet)
- Trust, reputation, and good track record are essential for consumers and companies
- Areas in need of further reform include tax and labor

**But not a panacea and challenges remain.**

## V. Challenges

## Challenges

- Need to increase long-term financing sources, as BNDES alone is insufficient source, given needs
- Develop domestic financing sources
- Regulatory obstacles in certain sectors such as ports, airports, and sanitation (although some recent progress seen)
- Environmental issues are one of biggest causes of delay in implementation and financing of infrastructure projects / excessive regulation and many agencies with overlapping jurisdiction
- Tax and labor reforms

## Challenges (cont.)

- Infrastructure bottlenecks are source of opportunity due to repressed demand
- How to decrease country's high interest rate:
  - long-term annual interest rate (without inflation) of 6% vs. 2.5% of competing economies
  - possible increase of SELIC interest rate and withdrawal of some tax breaks to prevent economic overheating:
    - increases governmental debt
    - countermeasure: fiscal austerity and investment cut (is it feasible?)

***Brief Note: Brazil is 4th preferred destiny for Foreign Direct Investment in 2011.***

*(UNCTAD estimate)*

## VI. Investment – Key Variable in Growth

## Investment – Key Variable in Growth

Growth Acceleration Program 2 - forecasted investments of R\$ 1.59 trillion between 2011 and 2014 in high socially sensitive areas

Project Nickname	Scope	Investment (R\$ billion)	Objective
Better City	Sanitation, urban mobility, paving and risk prevention	57.1	Improve functioning and quality of life in cities
Citizens Community	Hospitals, schools, kindergartens, public sports spaces	23	Increase public services coverage in poorer neighborhoods
My house, My Life	Housing and urbanization of slums	278.2	Reduction of housing deficit
Water and Light for All	Universalization of light in urban and rural areas, water distribution in urban centers	30.6	Provide universal light and water services
Transportation	Roads, railways, ports, airports, waterways	104.5 (2011-2014) 4.5 (post 2014)	Consolidate and amplify logistics, interconnecting several modals, ensuring quality and efficiency
Energy	Power generation and transmission, oil & gas, naval industry, renewable sources of energy, mineral research, energy efficiency	465.5 (2011-2014) 627.1 (post 2015)	Assure energy supply based on renewable and clean energy; Pre-salt development

**Brief Note: Brazil's economy grew at its fastest rate in 14 years in the first three months of 2010 (BBC news)**

## Investment – a Key Variable in Growth (cont.)

PAC 2 represents a continuous increase in the “investment rate vs. GDP” ratio:

- 18.5% - 2010
  - 19.3% - 2011
  - 20.0% - 2012
  - 20.9% - 2013
  - 21.5% - 2014
- ➔ Average GDP expansion of 5.5% in infrastructure period

BNDES estimates that infrastructure-related loan requests in 2010 will reach R\$ 47 billion (20% above 2009)

BNDES has identified infrastructure investment plans of R\$ 310 billion for the period between 2010-2013, as opposed to R\$ 273 billion prior to Global Financial Crisis (2008)



## VII. Key Projects

## Pre-salt Area

### Effects on Brazil

- guarantees oil supply
- potential to become oil exporter
- Brazil likely to have one of 10 largest oil reserves in world



New refinery in Maranhão State (northern Brazil) – 600,000 barrels/Day – US\$20 billion – pre-salt oriented (50%)

New refinery in Ceará State (northern Brazil) – delayed for social and environmental reasons

Boom in naval industry with 17 new shipyards being built / 5th largest order backlog in world for oil tankers

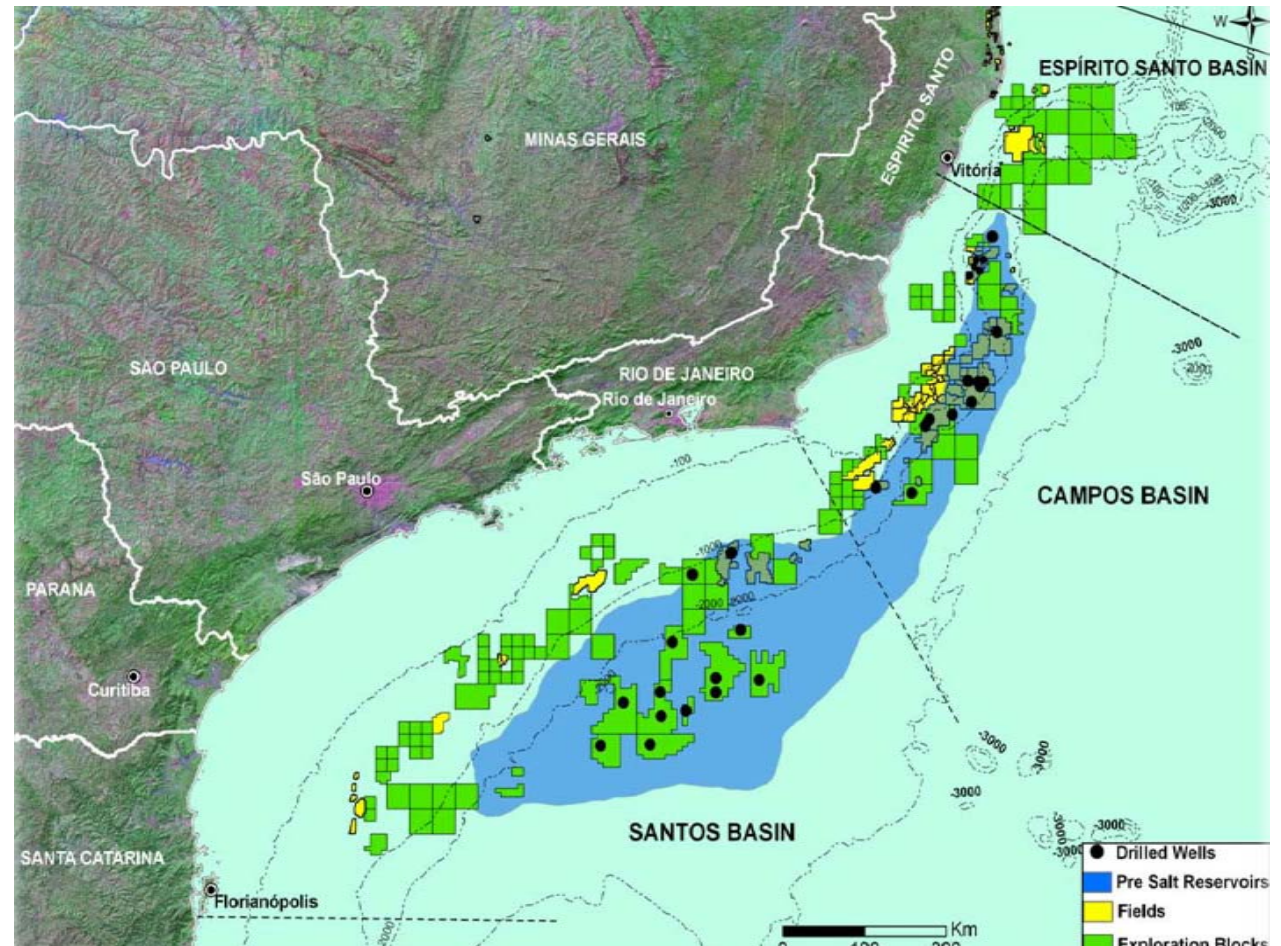
BUT certain pre-salt regulations will only be considered after October elections

## Pre-salt Area (con't)

Total area 57.529 mi<sup>2</sup>

Areas already  
granted: 16.128 mi<sup>2</sup>  
(28%)

Areas not yet granted  
41.400 mi<sup>2</sup> (72%)



# Transportation

## Airports

- Number of passengers has increased 80% in 6 years, following increase in wealth and credit and decrease of tariffs
  - Airlines expect domestic market to double through 2016. Only 10% of the population uses this transport mode
  - Airport bottlenecks must be solved quickly by Government in order to meet World Cup and Olympic Games deadlines
  - Brazilian airports are expected to receive investments of R\$6 billion in next 4 years
  - New legal framework authorizing concession of airports to companies is expected after October elections
- Start of Airports Concessions – Natal Airport



***Brief Note: In 2009, the demand for national flights grew by 17% and international flights by 14% (ANAC)***

## Transportation (cont.)

### Ports

Ports are major infrastructure challenge in Brazil that Government intends to solve with public and private investments



- IPEA, a governmental think tank, has recently identified 265 port projects that need to be completed in Brazil
- BNDES foresees investments of more than R\$4 billion in upcoming years

### Railways and Highways

- PAC 2 foresees investments for next 5 years of R\$46 billion in railways (concession, renovation, and maintenance) and R\$50 billion in highways (concession, renovation, and maintenance)
- Public Notice for Brazilian High Speed Train (TAV), a R\$34 billion project, is expected to be published before end of 2010

# Power



Power demand in Brazil expected to grow 5.1% per year through 2019

Federal Government's Energy Decennial Plan released in May estimates:

- investments of US\$97 billion in power generation and of US\$22 billion in power transmission between 2010 and 2019
- 35,245 MW to be installed in the next 10 years, of which 2/3 represent projects already in progress
- 39 new hydro power projects totaling 20,000 MW of which Jirau, Santo Antônio, and Belo Monte (all in northern Brazil) represent 10,400 MW

Alternatives to hydro power likely to grow including gas, wind energy, and sugar cane biomass

Potential for nuclear power generation as Brazil has one of 10 largest uranium reserves in world

# Sanitation

Federal Government estimates R\$120 billion in investments to make sanitation services universally available. Currently, only 53% of Brazilian population has access to water services.

- PPP agreements are excellent opportunity in this area
- Sanitation infrastructure and services are priority in Growth Acceleration Program 2

However:

- The Federal Government has not yet enacted the Federal Sanitation Plan
- Brazilian Supreme Court still has to decide major issue concerning ownership (States or Municipalities) of right to grant concessions of sanitation services in metropolitan areas



# Tourism

Investments in tourism infrastructure has increased from R\$53 million in 2003 to R\$1.7 billion in 2009. For this year, R\$2.72 billion are expected to be invested.

This market has large potential (e.g. Austria, a much smaller country, receives five times more tourists than Brazil during year)

World Cup and Olympic Games will boost tourism investments in host cities

- BNDES' ProCopa Turismo line of credit may grant approximately R\$1 billion in loans for investments in construction and renovation of hotels
- According to Brazilian Soccer Federation (CBF), World Cup may bring more than 600,000 tourists to Brazil



**Brief Note: Robust domestic demand will drive economic growth.** (Bank Santander)

# Project Timeline

#	Activity	Duration (Days)	Accumul.	Comments
1	Project is announced in the media	0	0	Informal interaction with government
2	Government works on final details to issue Request for Proposal (RFP)	30	30	
3	Public Consultation	30	60	Time to formally present structural questions, comments, and suggestions
4	RFP is issued	15	75	Time to formally present questions regarding the RFP and/or to challenge it
5	Submission of commercial proposals and qualification documents (technical component)	30	105	Period of intensive work on preparing documents and making a proposal
6	Review of qualification documents	20	125	Heavy scrutiny by competitors of technical and economical aspects
7	Period for appeals	16	141	Possible expansion of administrative appeals to the Judiciary
8	Review of commercial proposals	20	161	
9	Period for appeals	16	177	
10	Adjudication and homologation	5	182	Conclusion of bidding process
11	Contract is signed	30	212	Incorporation of SPV

Other variables: Government to obtain environmental licenses prior to bid (e.g. ports), General Accounting Office's approval (e.g. toll roads), political delays (e.g. public opinion on large hydro power plants), electoral years, etc.

# Conclusion/Q&A

# THANK YOU

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