The Investment Partnerships Program (PPI) is expected to find it difficult to attract investment because of the economy. What you consider important for the program to succeed?

The consensus, even in the previous Rousseff government, is that increasing investment in infrastructure requires partnerships with the private sector. What is missing in order for public private partnerships (PPPs) to take off is detailed execution plans of infrastructure projects, as Moreira Franco, Executive Secretary of the PPI has noted. Many investments in infrastructure have been launched in the past that were little more than a wish. We did not have the confidence and respect contracts.”

Renato Alves Vale
President of the CCR Group

Solanze Monteiro

The CCR GROUP, operator of Brazil’s most coveted highway concessions, which carried 400 million vehicles in 2015, now wants to expand its airport operations. It already manages the Confins airport in Minas Gerais state and others and is moving into the U.S. market. Renato Alves Vale, president since CCR was founded in 1998, says that although Brazil’s concession program is good, it suffers from a lack of government respect for contracts. “Where a government does not respect contracts, investors prefer not to invest, or require higher rates of return,” he says. Vale, an engineer who graduated from the Federal University of Minas Gerais, believes that the success of new concessions—with which the Finance Minister Henrique Meirelles aims to raise up to US$9 billion in 2017—depends critically on a better business environment, which in turn depends on good government management of contracts. “The lack of confidence that we are experiencing throughout Brazil must be overcome,” he says.
Many investments in infrastructure have been launched in the past that were little more than a wish. We did not have the studies to show that the investment was viable. It was mainly based on ideas and queries by the ministries themselves to potential investors about their interest in a particular area. There is a need for long-term planning with feasibility studies and executive projects, so that we can properly assess whether the investment makes sense. Moreira Franco has said the PPI intends to accelerate project studies. That will take one to two years, but from there we will have a project portfolio that will allow us to make decisions in the best way possible.

The second point that it is critically important is to have a stable business environment. There is a regulatory framework to ensure legal certainty that has been tested and it works. What we do not have is predictable behavior among participants of the contract. Sometimes you have a contract, and there occur changes that directly nullify that contract.

Can you give an example?
Two years ago there was a strike of truck drivers, who asked for the end of the highway toll based on number of truck axles. The federal government ended the toll without assessing the impact [on the revenue of highway concessionaries]. That engenders uncertainty among those who invest. In fact, the National Transportation Agency acted very fairly. It stopped charging trucks by the number of axles, but made up the revenue loss by raising tolls for everybody. As a result, investors were not affected, but as some road users began to pay less, others paid more, which makes no sense.

Another example: sometimes when inflation was high, governments came up with arguments for not adjusting prices as the concession contracts called for. That also heightens legal uncertainty. Where a government does not comply with a contract, investors prefer not to put in their money or they ask for a higher return. This create difficulties for future infrastructure projects.

Nevertheless, I believe we are at an opportune time, and projects will go ahead. In terms of infrastructure, we have to do everything: improve roads, build railways, upgrade ports, build up power transmission lines, and construct more dams, metrorail, and airports. And the solution is public-private partnerships like PPP or concession contracts.

What part of 1993 and 2012 concession programs failed, and can the PPI fix the problems?
This is characteristic of Brazilian governments: Instead of taking a program that has worked and improving it, because there are always things to improve, governments throw them away and start all over. We lose time and [the lessons from] successful experiences. The program of Brazilian concessions, in general, at least with respect to highways and airports, is successful. Today we have 54 concessionary operators and a very high number of successful concessions—the number of planned investments that failed and contract noncompliance account for less than 10%. … We have a very interesting example. The concession of the Rio-Niterói Bridge was perhaps the first in Brazil. We fulfilled the contract (initially with the Bridge consortium, which the CCR group joined in 2000, and which ended in May 2015). In 20 years
we made all the required investments. After that concession ended, a new tender was won by another group. One might ask, are you not sad because you lost? No, I am happy because the concession framework worked. A concession was granted, the contract was fulfilled, and everything was delivered without any dispute.

CCR has begun operating airports outside Brazil. Is it consolidating a new area of operation?
CCR first started operating airports in Ecuador, Costa Rica, and Curacao; from there we increased our stake in Ecuador, at the same airport with 50% of an airport operations company. … We then set up a company in the United States, CCR USA, a holding company to which we assign all the assets we have abroad. To enter the U.S. market, we bought a small operator (70% of Total Airport Service, TAS, in November 2015) to learn more about the airport operations market in the U.S. We intend to develop investment opportunities in airport terminal concessions in the U.S. and more generally in America.

Currently about 80% of CCR group revenue comes from highway tolls. How much is this revenue composition likely to change?
We expect that by 2020 60–65% of CCR’s revenue will still come from highway concessions; the change has started.

What has been CCR’s experience of operating the Confins airport in Belo Horizonte city, Minas Gerais state?
I think the Belo Horizonte airport is going very well. In November we will open the Terminal 2 on time, a year from the approval of environmental licenses, which were not our responsibility. It is a huge terminal. We will add 16 boarding points to an airport that has now 9. What did not work well? The government determined that the Brazilian Airport Infrastructure Company (Infraero) would renovate Terminal 1 for the 2014 World Cup, but it failed to do so. Infraero renovated only half of the terminal and the quality of construction was very poor. CCR invested more than R$130 million in redoing Terminal 1, which was not our obligation. Our concession contract clearly needs to be amended, and we will have to discuss this with National Civil Aviation Agency (ANAC) and the Department of Civil Aviation, so that we can resolve the Terminal 1 investment that still needs to be done, for the benefit of the users.

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CCR has shown interest in concessions for Salvador and Fortaleza airports. What changes in the business environment do you expect if you are to realize this interest in new concessions?
It takes action. We are working on what we call the CCR understanding agenda: what needs to be addressed in Brazil, the business environment, and our business plan. And one item we consider important for Brazil is governance. At the end of the day, it comes down to this:
This is characteristic of Brazilian governments: Instead of taking a program that has worked and improving it, because there are always things to improve, governments throw them away and start all over. We lose time and [the lessons from] successful experiences.

Those who are responsible for the regulatory agency or who work at the Ministry are very concerned that the Attorney General or the Court of Accounts will question their decisions being. Even though an official may be convinced that the decision is right, he feels that pressure. Then, how the government manages the business environment is under pressure. … That goes for private institutions as well. Today it is very difficult to obtain financing for investment. A private bank’s credit committee has the same difficulty in approving loans, because of the bank’s non-performing loans and there will be a question about who can approve the loan. The lack of confidence that we are experiencing throughout Brazil must be overcome. What will restore that confidence?

From the users’ point of view, I would say our concessions program is a success. The Brasilia airport was very good, also Terminal 3 of the Guarulhos airport, and Belo Horizonte’s Terminal 2 is becoming sensational. We just did a survey and found that U.S. agencies and airport operators see Brazil’s concession framework as very successful. There is room for improvement, but in general the results are good.

In this sector, the CCR also has another huge project. We just acquired land in Caieiras (37 km from São Paulo city), 3,000 acres to build an airport to move 50 to 60 million passengers a year. We have the feasibility study ready, and we are working for the government to allow the airport operation. … If this happens, it will mean an investment of R$10 billion over eight years—with zero public participation and CCR taking all the risk.

Are roads out of favor with CCR?

No, there are many opportunities in highways. However, investment opportunities are moving from high-volume to lower-volume roads. The equation is always simple: If I have a lot of investment and cost, I need a lot of revenue to break even; and if there is little road traffic, the toll has to be high. An R$20 toll to go 100 kilometers in the Northeast region, where purchasing power is very low, will not work. In this case a PPP works better. Government support is not the best solution, but it is an alternative for making investments that can be development vectors. The issue the government must address is how to reassure private investors that the subsidy will be paid. The government has to focus on guaranteeing funds for these investments. Would it be better for the government to borrow money and invest in infrastructure through government agencies—which clearly have the management and governance problems I just mentioned? Does that make sense? The situation has to be studied case by case; there is no magic formula that will solve all the problems.

In 2012, concessions were stimulated by the guarantee of cheap financing through the Brazilian Development Bank (BNDES). Today,
with the fiscal situation constrained, how do you see the funding for infrastructure?
Here in the CCR, we think it is meaningless to cap the rate of return through subsidized funding. … The project itself has to generate profits. If the design is good, you can fund it through the BNDES, the World Bank, or another development institution outside Brazil. If the project is bad, cheap financing will not fix it, but that was the concession framework designed in 2012. What has happened? Well, everyone came on board, because the concession was subsidized. But now the BNDES will not finance at the agreed low-interest rates and those concessions will be very troubled or will break down.

For the past two years the Brazilian concessions market has undergone a profound crisis of confidence. This has also affected infrastructure bonds … because now concessionaires are breaking down, because BNDES did not do its part, because Brazil’s fiscal imbalance was too large. Investors will ask: Should I buy an infrastructure bond from a company that may go bankrupt? No, I won’t. Until we restore an environment of trust and credibility, [infrastructure bonds] will be hard to sell.

The current fiscal framework has sparked many debates about increasing firm productivity. How has CCR addressed that?
Some economists, like Raul Velloso, say clearly that Brazil’s way out of the current predicament is infrastructure and exports. Infrastructure is the only investment that can increase Brazil’s productivity. If you have adequate infrastructure, agribusiness, for example, will able to export at lower costs. Within our own group, we look all the time for best practices. Because we have several companies, we seek to identify which is best in what and then try to disseminate best practices throughout all our companies.

For a company like ours that deals with service, productivity is in even the smallest things. How many cars can a cashier in the toll booth serve per minute? It takes training and setting standards. Today we have a very strong team within the company, supported by a number of consultants, working on a project called Rethink. We seek to identify what we can do better to make our company more agile and facilitate decisions to allow new investment cycles. We are preparing to grow.

What are CCR’s expectations for this year of negative economic growth?
This year we start various operations: Rio Light Rail is in pilot operation, we will begin the ViaRio [an express transport corridor] in July, Terminal 2 at Belo Horizonte airport opens in November, we are now fully operating metro line 1 in Salvador, and TAS is fully operational. We expect that though revenue will not be as good, it will be stable. But our purpose is to continue growing, with feasible investments. And for this we expect an improvement in the business environment. We must restore confidence and respect contracts.