CONSULTATION ON THE ECONOMIC REGULATION OF AIRPORT CONCESSIONS

Curitiba | Foz do Iguaçu | Londrina | Bacacheri | Navegantes | Joinville | Pelotas | Uruguaiana | Bagé

Manaus | Tabatinga | Tefé | Rio Branco| Cruzeiro do Sul | Porto Velho | Boa Vista

Goiânia | Palmas | Teresina | Petrolina | São Luiz | Imperatriz

Summary

ANAC invites all interested parties to submit contributions on aspects of economic regulation relevant to the sixth round of airport concessions

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SIXTH ROUND OF AIRPORT CONCESSIONS IN BRAZIL

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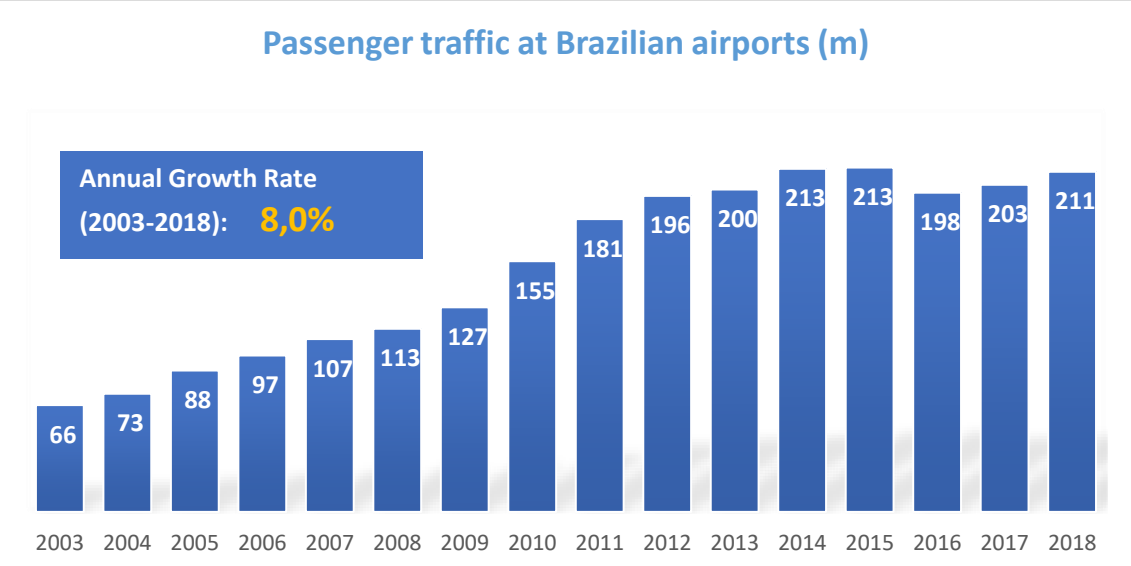
Brasília, May 2019

1. INTRODUCTION

The Brazilian program of airport concessions was launched in 2011, when the airport of the city of São Gonçalo do Amarante was auctioned. The following year, Guarulhos, Viracopos and Brasilia airports were granted, and in 2013, the auction of Galeão and Confins airports took place. In 2017, four more airports were privatized in the cities of Salvador, Fortaleza, Porto Alegre and Florianópolis. In 2019, twelve more airports were auctioned separated in three clusters: the northeast cluster, composed of Recife, Maceió, João Pessoa, Aracaju, Juazeiro do Norte and Campina Grande airports; the southeast cluster, composed of Vitória and Macaé aiports and the middle west cluster, composed of Cuiabá, Rondonópolis, Alta Floresta and Sinop airports.[1]

Airport concessions were mainly motivated by the need to expand and improve the Brazilian airport infrastructure, which was showing to be insufficient to properly meet the demand growth that took place in Brazil in the previous decade. Despite the drop in traffic that occurred in 2016 due to the Brazilian economic crisis, there is a clear trend towards the expansion of the air transport in the country when considering the average growth rate of about 8.1% per year since 2003, as illustrated in the chart below[2].



[1] Throughout this document, auctions refer to each group of airports. The first round took place in 2011, when the São Gonçalo do Amarante airport was auctioned, and the fifth round took place in 2019, involving 12 airports.

[2] Retrieved from: www.anac.gov.br/assuntos/setor-regulado/empresas/envio-de-informacoes/base-de-dados-estatisticos-do-transporte-aereo

The experience gained during the early years of the first concessions motivated changes in the economic regulation model applied to the contracts of the fifth round (the twelve airports of the northeast, southeast and middle east clusters). Notably the increase in flexibility of the economic regulation, where caps for each category of charges were replaced for a single average revenue cap per passenger, and the deregulation of charges, depending on the size of the airport or the number of users. It is important to mention the Supported Proposal, which is an instrument that allows airport operators, with the agreement of users, to propose amendments on various aspects of the Concession Agreement.

The Brazilian government has announced its intention to carry out the sixth round of concessions of twenty-two airports. This presents a new opportunity for reflection on the economic regulation model applicable to the airports granted, particularly on the need to increase flexibility and engage airport operators and users.

This prior consultation aims to collect reasoned contributions on the possible developments of the regulatory approach to airport concessions in Brazil and on the most suitable treatment for the specific issues regarding this new round of concessions, preferably based on the analyses of the development of current concessions and relevant international experiences.

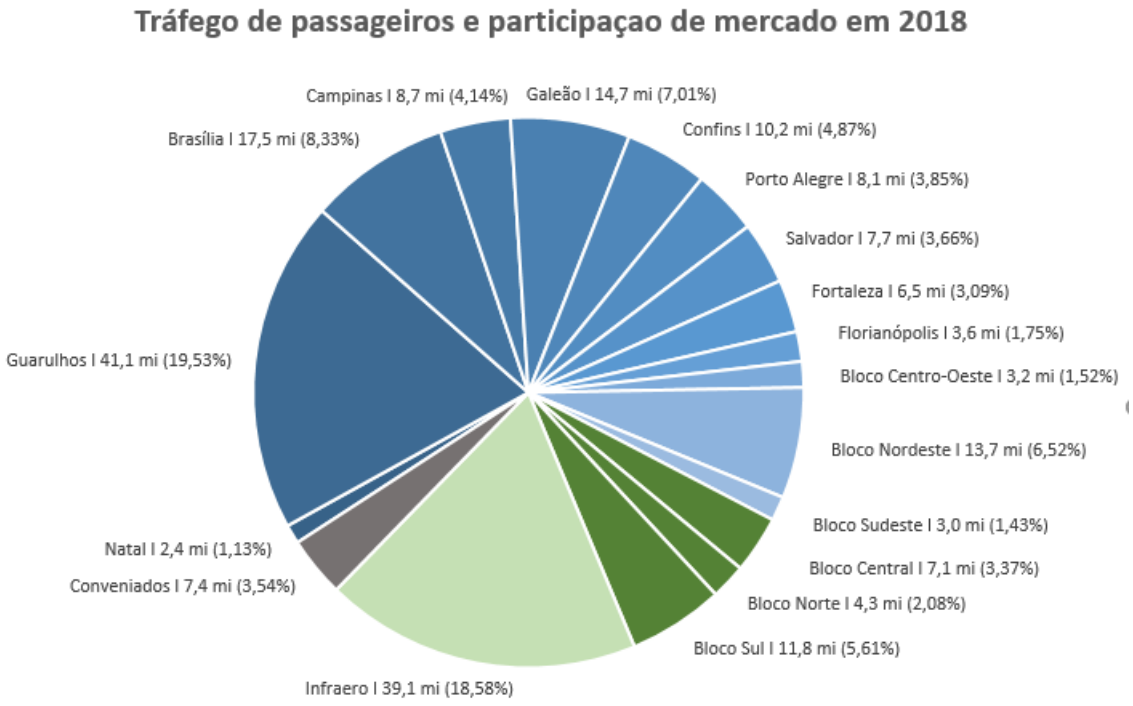
Section 2 of this document will give a brief overview of the twenty-two airports to be granted and their respective clusters, providing information on traffic volume, profile and growth, as well as a brief survey of some relevant features of each region. Section 3 of this document will present some of the identified regulatory objectives and challenges for the next concessions and will indicate some regulatory approaches that have been considered as possibilities to address these issues. Section 4 will invite all interested parties to send reasoned contributions regarding economic regulatory aspects which are relevant to the next round of concessions, making it clear that the scope of contributions should not necessarily be limited to the topics discussed in section 3.

2. SIXTH ROUND OF CONCESSIONS[3]

In march 2019, the Brazilian Ministry of Infrastructure released the Public Call Notice nº 2/2019, asking for the presentation of projects and technical studies to support the modeling of the concession of 22 airports that will be granted in three regional clusters according to the following configuration:

- **Central cluster:** composed of Goiânia/GO, Palmas/TO, Teresina/PI, Petrolina/PE, São Luís/MA, and Imperatriz/MA airports;
- **North cluster:** composed of Manaus/AM, Tabatinga/AM, Tefé/AM, Rio Branco/AC, Cruzeiro do Sul/AC, Porto Velho/RN, and Boa Vista/RR airports; and
- **South cluster:** composed of Curitiba/PR, Foz do Iguaçu/PR, Londrina/PR, Bacacheri/PR, Navegantes/SC, Joinville/SC, Pelotas/RS, Uruguaiana/RS, and Bagé/RS airports.

As illustrated in the chart below, the three airport clusters combined received more than 23 million fare-paying passengers in 2018, representing a combined share of over 11% of the Brazilian air transport market, which in 2018 received a movement (boarding + disembarkation) of fare-paying passengers of more than 210 million.



[3] The passenger, cargo and mail data presented in this section were obtained from the statistical database of ANAC, which covers Brazilian and foreign scheduled and non-scheduled public air transport companies, except air taxi. Retrieved from: www.anac.gov.br/assuntos/setor-regulado/empresas/envio-de-informacoes/base-de-dados-estatisticos-do-transporte-aereo. Aircraft landing and take-off data were obtained from the statistical database of Infraero, which covers all movements, except military movements. Retrieved from: https://transparencia.infraero.gov.br/estatisticas/.

The south cluster, the largest one, handles 11.8 million passengers and has 5.61% of the Brazilian market share, followed by the central cluster, which handles 7.1 million passengers and 3.37% of the market, and the north cluster, constituing a traffic of 4.3 million passengers and 2.08% of market share.

Some basic information about the airports of each cluster,[4] as well as some characteristics of the respective regions, which can serve as a starting point for identifying the potentialities of each airport are presented in the following sections.

2.1. Central Cluster

The central cluster consists of six airports: two small airports located in upcountry medium-sized cities (Petrolina and Imperatriz), one small airport in a state capital (Palmas) and three medium-sized airports in state capitals (Goiânia, Teresina and São Luís), representing a passenger traffic of over 7 million and about 3.37% of market share in 2018. The highlight of this cluster is Goiânia airport, which is soon expected to become an international airport.

Due to its geographical position, the central cluster may function as a domestic and even international hub in the future. Its central position allows Goiânia airport to function as a domestic hub connecting major routes within the country. Although these airports do not operate international transport routes, in the future it will be possible to stablish routes to Europe and the United States from Teresina and Sao Luis airports due to the geographical location of these cities.

The tables below show the growth rates observed in recent years, as well as information on airport traffic volume and profile. In particular the Goiânia and Palmas airports which, despite the slowdown or reversal of growth that occurred in the last five years due to the economic crisis, followed the trend observed for the average of Brazilian airports and showed a good recovery in 2018. Annualized growth rates over the past ten years range from 5% to 12%. Both regional airports maintained a strong growth even during the economic crisis.

Traffic Volume
Movement and Market Share in 2018

Airport	Passengers (boarding and disembarkation)		Aircraft (landing and take-off)	Cargo and Mail (ton)	
Brazil	210,722,379			1,740,224	
Central cluster	7,107,396	3.37%	123,135	30,704	1.76%
Goiânia	3,063,467	1.45%	66,855	12,576	0.72%
São Luís	1,577,136	0.75%	18,736	6,921	0.40%
Teresina	1,057,322	0.50%	13,823	4,376	0.25%
Palmas	656,799	0.31%	12,914	2,879	0.17%
Petrolina	475,801	0.23%	5,945	3,228	0.19%
Imperatriz	276,871	0.13%	4,862	724	0.04%

[4] More detailed information on these airports can be found on the Ministry's website, which contains studies and documents about the new concessions: ftp://ftpaeroportos.transportes.gov.br/SEXTA_RODADA/.

Traffic profile

Share of total passengers in 2018

Airport	Domestic	International
Brazil	88.9%	11.1%
Central cluster	99.97%	0.03%
Goiânia	100.00%	0.00%
São Luís	99.86%	0.14%
Teresina	100.0%	0.0%
Palmas	100.0%	0.0%
Petrolina	100.0%	0.0%
Imperatriz	100.0%	0.0%

Traffic growth

Annualized growth of passengers

Airport	2017-2018	2013-2018	2008-2018	2003-2018
Brazil	3.99%	1.08%	6.39%	8.03%
Central cluster	0.90%	0.73%	8.36%	11.44%
Goiânia	3.41%	1.96%	8.39%	9.78%
São Luís	-1.42%	-1.66%	6.54%	10.16%
Teresina	-1.04%	0.42%	9.06%	12.83%
Palmas	4.05%	3.53%	11.24%	30.55%
Petrolina	-4.28%	0.88%	12.28%	16.33%
Imperatriz	-2.86%	-2.59%	5.62%	13.74%

2.2. North cluster

The north cluster stands out because of Manaus International Airport, which represents a movement close to 3 million fare-paying passengers, about 2.08% of the Brazilian market, and about 7.33% of the Brazilian air cargo and mail market in 2018. In addition to Manaus, the north cluster consists of three more airports in capital cities: Porto Velho, Rio Branco and Boa Vista.

Due to the distance and relative difficulty of access to reach some cities in the northern region of the country, the cluster has a high air traffic potential. It is located in the region of the Amazon Rainforest, the largest rainforest in the world, and is an important Brazilian tourism hub. Manaus also houses the Manaus Free Trade Zone, one of the most important industrial centers of the country.

The growth of more than 6% in 2018, driven by the airports of the capitals, shows that the north cluster has overcome the economic crisis. The annualized growth rate of the last ten years was about 3.4%.

Traffic Volume

Movement and Market Share in 2018

Airport	Passengers (boarding and disembarkation)		Aircraft (landing and take-off)	Cargo and Mail (ton)	
Brazil	210,722,379			1,740,224	
North cluster	4,381,179	2.08%	76,307	134,841	7.75%
Manaus	2,751,608	1.31%	39,199	127,503	7.33%
Porto Velho	805,746	0.38%	13,973	3,771	0.22%
Rio Branco	361,014	0.17%	6,923	1,856	0.11%
Boa Vista	306,675	0.15%	5,229	1,357	0.08%
Cruzeiro do Sul	69,488	0.03%	5,139	258	0.01%
Tabatinga	56,638	0.03%	2,684	76	0.00%
Tefé	30,010	0.01%	3,160	20	0.00%

Traffic profile

Share of total passengers in 2018

Airport	Domestic	International
Brazil	88.9%	11.1%
North cluster	96.93%	3.07%
Manaus	95.12%	4.88%
Porto Velho*	100.00%	0.00%
Rio Branco	100.00%	0.00%
Boa Vista	99.91%	0.09%
Cruzeiro do Sul*	100.00%	0.00%
Tabatinga*	100.00%	0.00%
Tefé	100.00%	0.00%

***** Porto Velho, Cruzeiro do Sul and Tabatinga international airports did not register international movement of scheduled and non-scheduled air transport companies (except air taxi) in 2018. The statistical base of Infraero registers international movement concerning other operations in these airports.

Traffic growth

Annualized growth of passengers

Airport	2017-2018	2014-2018	2009-2018	2003-2018
Brazil	3.99%	1.08%	6.39%	8.03%
North cluster	6.06%	-2.38%	3.44%	7.06%
Manaus	7.07%	-2.58%	2.93%	6.14%
Porto Velho	4.94%	-2.73%	6.64%	10.75%
Rio Branco	6.02%	0,22%	2.51%	7.50%
Boa Vista	9.34%	-2.61%	4.04%	10.07%
Cruzeiro do Sul	-10.92%	5.37%	-0.49%	5.05%
Tabatinga	-5.99%	0.70%	5.42%	5.93%
Tefé	-11.55%	-14.00%	-3.96%	1.44%

2.3. South cluster

The south cluster is the largest cluster of this round of concessions, considering both the number of fare-paying passengers per year (almost 12 million) and the number of airports to be granted (9 airports), which represents about 5.61% of the Brazilian market.

The most important airport in the south cluster is the Curitiba airport, a large airport that receives more than 6 million passengers a year. The cluster also has two medium-sized airports, Foz do Iguaçu and Navegantes, and nine small airports: Londrina, Joinville, Pelotas, Uruguaiana, Bacacheri and Bagé.

Although Curitiba airport has been badly affected by the economic crisis in recent years, the other airports in the cluster showed expressive growth in 2018, especially two medium-sized airports, Foz do Iguaçu and Navegantes.

Traffic Volume

Movement and Market Share in 2018

Airport	Passengers (boarding and disembarkation)		Aircraft (landing and take-off)	Cargo and Mail (ton)	
Brazil	210,722,379			1,740,224	
South cluster	11,823,688	5.61%	170,073	36,029	2.07%
Curitiba	6,188,725	2.94%	64,683	28,159	1.62%
Foz do Iguaçu	2,293,995	1.09%	21,636	727	0.04%
Navegantes	1,857,930	0.88%	22,897	3,744	0,22%
Londrina	953,634	0.45%	22,979	1,888	0.11%
Joinville	478,535	0.23%	7,220	1,450	0,08%
Pelotas	30,130	0.01%	1,574	10	0.00%
Uruguaiana	20,739	0.01%	638	50	0.00%
Bacacheri	31,656*	*	28,108	*	*
Bagé	1,446*	*	338	*	*

* Bacacheri and Bagé airports did not register movement of scheduled and non-scheduled air transport companies (except air taxi) in 2018, so passenger data comes from the statistical base of Infraero and represents other operations. These values were not considered in the sum of movement of the cluster and Brazil.

Traffic profile

Share of total passengers in 2018

Airport	Domestic	International
Brazil	88.9%	11.1%
South cluster	97.92%	2,08%
Curitiba	98.77%	1.23%
Foz do Iguaçu	94.63%	5.37%
Navegantes	97.44%	2.56%
Londrina	100.00%	0.00%
Joinville	100.00%	0.00%
Pelotas*	100.00%	0.00%
Uruguaiana*	100.00%	0.00%
Bacacheri	100.00%	0.00%
Bagé**	93.4%	6.6%

***** Pelotas and Uruguaiana airports did not register international movement of scheduled and non-scheduled air transport companies (except air taxi) in 2018. The statistical base of Infraero registers international movement concerning other operations in these airports.

** Bagé airport did not register movement of scheduled and non-scheduled air transport companies (except air taxi) in 2018, so data about the nature of operations comes from the statistical base of Infraero and represents other operations.

Traffic growth

Annualized growth of passengers

Airport	2017-2018	2013-2018	2008-2018	2003-2018
Brazil	3.99%	1.08%	6.39%	8.03%
South cluster	2.51%	1.74%	6.93%	8.32%
Curitiba	-5.34%	1.44%	3.97%	6.60%
Foz do Iguaçu	8.77%	7.39%	12.14%	11.39%
Navegantes	21.78%	10.12%	17.75%	13.21%
Londrina	12.33%	-1.32%	6.49%	8.44%
Joinville	2.84%	4.35%	7.06%	7.33%
Pelotas	8.99%	-1.86%	8.03%	*
Uruguaiana	1.73%	95.62%	18.46%	*
Bacacheri	*	*	*	*
Bagé	*	*	*	*

* Pelotas, Uruguaiana, Bacacheri and Bagé airports did not register movement of scheduled and non-scheduled air transport companies (except air taxi) in the years that are not presented.

3. PROPOSED DISCUSSION

This section will present some topics of particular interest for contributions. It is important to inform that the purpose of this section is to contextualize discussions to encourage contributions rather than to define an exhaustive list of topics within consultation.

3.1. Flexibility

The main reason to regulate prices charged by airports is to prevent the exercise of market power. On the other hand, prices set by the regulator may not adequately reflect infrastructure and services costs (including opportunity costs) due to information asymmetry between operators and regulators, thus generating inefficiencies.

If these inefficiencies impose a social cost greater than the benefit from preventing exercise of market power, the rational and right decision to be taken is not to intervene. Based on this perception, ANAC opted to extinguish the ex ante regulation of prices for the concession of areas to airlines and ground handlers, limiting its intervention to ex post conflict resolution. Prices are freely negotiated, but the regulator retains the prerogative to intervene to prevent abusive or discriminatory practices. This decision was applied to Infraero before the first round of concessions and incorporated by the concession agreements to privatized airports.

Alternatively, the regulator might attempt to mitigate price regulation distortions by collecting a great amount of information in order to establish prices that adequately reflect costs. However, the cost of obtaining such kind of information is considerably high.

At the beginning of 2011, before the first airport concession round, ANAC has applied a cost-based regulation to set up Infraero's charges. However, for privatized airports the decision was to apply a simpler price regulation. Thus, a non cost-based model based on standard CPI-X price caps was adopted.[5] This decision was made largely due to the high costs involved in the process of obtaining suitable information.

In order to increase flexibility, the possibility of revenue management[6] was also introduced for both Infraero and the airports granted in the fourth round. While it does not guarantee that prices will strictly reflect costs, this option allows prices to fluctuate depending on the use of the infrastructure, mitigating possible regulation distortions. It also maintains a cap on the general price levels for each group of users. At the same time, although it imposes a higher inspection cost, if compared to the cost of rigid price caps, it is still a much lower cost, if compared to the cost recovery regulation.

The fifth round of concessions brought further developments in price regulation. The aim was to reverse the logic of direct intervention in charges as a general rule. It was decided to impose restrictions on freedom of pricing only where the cost-benefit analysis of the intervention suggested that it was desirable. To this end, different regulatory objectives were considered such

[5] In addition to the inflation adjustment, a factor X is also applied, which seeks to share with the users the expected variations in airport productivity. The calculation of this factor may also involve obtaining information on airport costs, but in a less detailed way.

[6] Charges can be increased by up to 100% above the cap depending on the context of use of the airport infrastructure (peak times, for example), provided that discounts are given in order to keep the average charge below the cap.

as preventing the exercise of market power, minimizing distortions and rigidity that may result from regulation and rationalizing regulatory costs.[7]

It was decided that only in Recife, Maceió, João Pessoa, Aracaju, Vitória and Cuiabá airports charges should be directly regulated, with an revenue cap model.[8] Thus, in addition to the fluctuation of each price, it also allows the fluctuation of the relative prices of the different activities, maintaining the general price level on the set of users.

For airports that handle less than 1 million passengers per year, as well as for general aviation users, the flexibilization was even more intense regarding the deregulation of price caps. As these airports are small, their ability to exercise market power is reduced, and a smaller group of users would benefit from a possible regulation.

The operator with freedom to charge is subject to the following guidelines: (i) charging should follow good pricing practices for infrastructure and airport services — in particular, it should be based on objective and non-discriminatory criteria such as time, day, season, available facilities and level of service; and (ii) the airport operator shall consult with relevant interested parties regarding proposed charge increases, submit to ANAC a consultation report as required, and publish the new charge values at least 30 days prior to the change.

Nevertheless, in all cases, ANAC will continue to have the prerogative to intervene to prevent inappropriate conduct. The draft contract provides that if any disagreement of the charge proposal with respect to the guidelines established in the contract is identified, ANAC may suspend the implementation of the proposed charges, and the values prior to the suspended proposal shall be in force. It is worth mentioning that this innovation was extended to Infraero airports by Resolution nº 508, of March 14, 2019.

Therefore, based on the model used in the fifth round, it is worth discussing if any improvement is necessary for the next one. For instance, the following may be reevaluated:

a. if the airport size cut-off line to fit a model for deregulating prices or an average revenue cap regulation model will remain at 1 million passengers per year, or if another criterion would be more appropriate;
b. in the case of airports subject to average revenue caps, if the cap for the initial period will be the average revenue obtained by Infraero in the previous year or if it would be more appropriate to use some other reference for charges.

[7] Benefits of establishing charges that are more efficient will be greater the greater the importance of charge revenues for an airport is. Benefits will also be more successful in airports with infrastructure shortage, where the cost of a strict regulation is high since the impossibility of adequately pricing this shortage hampers the optimum use of the scarce infrastructure. In addition, benefits will be more comprehensive the greater the number of users taking advantages from the efficiencies they promote.
Costs of flexibility, on the other hand, will depend on the decision between increasing flexibility by reducing regulation – deregulating prices – or improving regulation so that it increases the capacity of covering particular features. In the first case, costs derive from the probability of an extreme dominant position determined by the capacity to exercise market power and its resulting impact – a function of the number of affected users, among others. In the second case, costs derive from regulation modeling and inspection and from the associated regulatory risks.

[8] Instead of a set of average price caps there would be an average revenue cap per passenger. In such a case, a charge increase in a given circumstance could be compensated for not only by a reduction of the charge itself in another circumstance, but also by a reduction of another charge.

3.2. Supported proposal

In the fifth round of concessions, additional instruments were created to allow greater involvement of airport operators and key users in airport planning and utilization decisions. Under the Supported Proposal mechanism, it will be possible for airport operators, through negotiation and in agreement with other affected parties, to submit proposals to change parameters set directly by the regulator, such as the charge model, service quality indicators, the methodology to calculate factors Q and X, the marginal cash flow discount rate and the infrastructure and airport service offer commitments.

As an example, a Supported Proposal could increase the price caps (or price revenue caps) – possibly temporarily – due to a need to expand or reconfigure the infrastructure, or based on a service level agreement, or even in a definition of prices based on cost recovery, an option difficult to be directly implemented by the regulator due to information asymmetry.

The proposal submitted by the airport operator is subject to the approval of ANAC and is effective for five years. It is always associated with the Revision of the Concession Parameters.

The Supported Proposal mechanism is based on what is commonly called constructive engagement, a principle recommended by the International Civil Aviation Organization (ICAO) and used for airport regulation by other countries. This principle applies because market participants (infrastructure providers and users) have more information than the regulator about the infrastructure and airport operation characteristics and their own costs and preferences. Therefore, they can achieve better arrangements than regulation, considering the parameters of supply and remuneration of airport services.

Thus, it is worth discussing if the validity period of the supported proposals should be maintained rigid. The model used in the fifth round, which links proposals to a revision of the parameters every five years, provides predictability and favors the coordination of discussions between the various stakeholders. On the other hand, if proposals can be submitted for any validity period, the instrument may become more effective.

3.3. Increase in flexibility of contracted investments

In the first airport concessions, a set of mandatory investments were to be made by the concessionaire throughout the concession, particularly during the initial phase of the contract, between 22 and 36 months from its effective date.

This decision was based on the consideration of the short-term improvements that would be necessary in the airport to meet the demand that had grown significantly in the years before the concessions, to prepare for the major events the country would host, or to increase the level of service offered to passengers.

However, the situation of the country and the reality of the airports that make up the sixth round of concessions may not match these assumptions, providing for the possibility of less prescriptive contracts regarding investments.

In addition, it was assessed that the granting authority's choices of investment priorities may not result in the most efficient resource allocation, specially given the particularities of each airport, the evolution of technology, and changes in the end-user preferences.

For example, for an airport with shorter passenger waiting time, a more modest terminal associated with lower costs may be preferable to a high standard terminal.

Similarly, the evolution of air navigation technology may make investments in certain ground instruments unnecessary, and the use of new passenger processing resources may change specifications for terminal operating areas.

For example, the requirements for the percentage of passengers being processed in boarding bridges eventually tighten the capacity supply of the airport, hampering any temporary or seasonal operations or even the entry of airlines interested in testing the market. It may be preferable for passengers to board remotely than not to have certain operations available.

These elements are so complex and dynamic that the concessionaire (after taking over the airport) and the airlines may be better suited to identify and prioritize investments than the granting authority is capable of during the bidding process.

Thus, the possibility of allowing the concessionaire, in agreement with the airlines, to submit proposals regarding the investments to be made at the beginning of the concession (in the initial phase of the contract, named Phase I-B) is evaluated.

The idea that the concessionaire may, at any time during the contract after the initial phase of investments, present a proposal supported by the users with alternatives to the investment triggers and service level parameters established in the contract is also considered. Until the 5th round, however, this proposal is restricted exclusively to a five-year term, associated with the Revision of the Concession Parameters.

By allowing the submission of a supported proposal about service level parameters at any time, the contract should become more flexible and better respond to the different scenarios that the industry will experience throughout the concession. For example, in case of future changes in technology that would make a certain minimum sizing parameter (regarding the required level of service) out of date, the possibility of submitting a supported proposal at any time will allow these advances to be addressed more quickly.

In order to be implemented, the proposal must always be approved by ANAC, which will take into account the interests of the end users of the airport. During its effectiveness, the supported proposal approved by ANAC would prevail over the contractual provisions that govern the matters within the scope of the proposal.

Therefore, the following should be discussed:

a. the possibility of providing greater flexibility so that the concessionaires and airlines may submitt supported proposals at the beginning of the concession to define the investments and the required level of service; and
b. the extension of the beginning and the end of the initial investment phase, in order to allow its better evaluation and prioritization, as well as the submission of supported proposals by the concessionaire and airlines.

3.4. Assessment of concession duration

The contractual terms of previous airport concessions vary between 20 and 30 years, with the possibility of extension for up to 5 years.

Deciding on the term of a contract involves several elements, such as the time required for amortizing investments and remunerating the operator and the expectation of reverting the airport in the future and transfering it to another operator.

An adverse effect, especially in the final years of concession, is the disincentive to new investments that would not be adequately remunerated until the reversion of the airport, which could lead to stagnation of capacity supply or reduction of service level. Longer concession periods reduce the frequency of such effects.

Short concession terms also inhibit third party investments, not only in activities directly linked to the aviation business, such as hangars and maintenance centers, but also in commercial activities that have the potential to increase the value of the concession.

In an international context, for instance, La Serena Airport in Chile was granted for 10 years and Sydney Airport in Australia was granted for 50 years, extendable for another 49 years.

Thus, it is appropriate to discuss the concession terms for the airports of the next round.

3.5. Decentralization

As previously discussed, information asymmetry between operators and regulators difficult the establishment of an efficient price regulation, as the regulatory authority is unable to assess thoroughly specific infrastructure and operation features of each airport under its jurisdiction. In addition to increasing regulation flexibility, another way to address this issue is to decentralize regulatory decision-making, giving more power of decision to agents closer to the airport operation – in particular those who are actually part of it – or, at least, to enhance their influence by engaging them in discussions.

One good example of decentralization is the delegation from ANAC to local public authorities of the prerogative to establish price regulation of small regional aerodromes managed by states and cities. Previously, price regulation applied to these airports was centralized and standardized regardless the differences among them, which have resulted in clear distortions.

It is also helpful to discuss the trade off between the concessions being made by the states and by ANAC as a federal authority. In recent years, some states have taken the initiative to grantairports delegated by the federal government, making it possible to consider strategic economic aspects of their region of influence that the federal government could hardly consider or supervise.

States have great advantage over ANAC because they know better the externalities generated by the airport, thus being more capable of establishing an adequate incentive structure. Indeed, states are in a privileged position to strike a balance between the interests of airport administrators and the local public interest, as they know the reality of the airports under their responsibility, as well as the profile of the users.

Aligning incentives between airport administrators and states can yield major benefits for the regions of influence of the airports, as can be seen in the United States. In general, the airports in

the United States are owned by local governments (states or cities) and are operated by the government, independent public organizations linked to local government, or private organizations through public-private partnerships. This arrangement makes the airports generate large positive externalities for the localities that are within the influence area of that airport.

In addition, the north american model creates a much more competitive environment as local governments assess the impact of providing discounts and other incentives to airlines considering the benefits generated across the region.

On the other hand, it is argued that not all Brazilian states are currently able to elaborate public notices and airport concession contracts, as well as to manage and oversee such contracts. However, given the experience accumulated after granting 22 airports, ANAC is willing to collaborate with and support, upon request, all states interested in granting airports to the private sector.

4. INVITATION TO CONTRIBUTION

Taking into account the context described in the previous section of this document (but not necessarily limiting the scope of contributions to the topics discussed in section 2) and the experience of agents involved with current airport concessions in Brazil, international airport concessions or concessions implemented by other sectors, **ANAC invites all interested parties to contribute with the modeling of economic regulation that will be applicable to the next airport concessions sending substantiated contributions about the following subjects:**

- Flexibility of price regulation and the evaluation of criteria to subject the activities of an airport to the average revenue cap;
- Increase the engagement of the parties directly involved in airport planning and utilization decisions through the supported proposal;
- Flexibility of mandatory investments, providing more freedom for the operator to define the investments to be made and the level of service to be maintained in consultation with airport users;
- Assessment of the terms of the concessions;
- Decentralization of regulation.

It should be noted that, while all contributions will be analyzed and considered by ANAC when making its decisions, **ANAC will not necessarily respond to each contribution individually** as occurs during the formal public hearing process, which will follow its regular procedures as in previous concessions. The purpose of this consultation is to broaden social participation.

Contributions can be submitted by October 4, 2019 to the address gere@anac.gov.br. This document is available at ANAC website[9].

[9] https://www.anac.gov.br/assuntos/paginas-tematicas/concessoes.