



# Public-Private Partnership Impact Stories

## Brazil: Suape Container Terminal



Photo © Michael Renner

As part of a major port sector reform program, the government of the northeastern Brazilian state of Pernambuco hired IFC as the principal advisor on the public-private partnership for the first dedicated container terminal (TECON) at the Port of Suape. International Container Terminal Services (ICTSI) of the Philippines won the public tender to build and operate the container terminal for 30-years. The agreement was signed on March 2001 and the container terminal began operations three months later.

ICTSI offered minimum lease payments of close to \$175 million or R\$340 million (NPV during the concession period) equivalent to a 244 percent premium over the minimum lease amount of \$51.5 million (R\$100 million). At the time, this was a record premium for Brazilian port concessions. Between 2001 and 2007, ICTSI invested approximately \$80 million in human resources, information technology, equipment, sheds and patios for storing general cargo and containers. The investments resulted in an increasing and continuous flow of container cargo.

*This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.*

IFC Advisory Services in  
Public-Private Partnerships  
2121 Pennsylvania Ave. NW  
Washington D.C. 20433  
[ifc.org/ppp](http://ifc.org/ppp)

*As of 2008, the port handled over 300,000 TEUs per year, up nearly 500 percent from before the terminal was commissioned.*

## BACKGROUND

Brazil's 1993 Port Modernization Law initiated major reforms to increase the competitiveness and efficiency of Brazilian ports. The government of Pernambuco sought to make Suape a container hub that would attract transshipment cargo. For years, northeast Brazil had experienced above average economic growth. Transshipments offered Suape an opportunity to leverage this economic development and capture a larger share of the containerized trade that originates in or is destined for locations within the region.

Suape is Pernambuco's most important port, strategically located at the intersection of the main commercial long-haul routes linking the eastern coast of South America to other continents, as well as routes connecting Brazil's north and south regions. The port was established in 1978 as an integral part of an industrial development zone. It comprises 13,500 hectares, and is located 40 km south of Recife, the state capital.

In 1997, the state and federal governments financed a major infrastructure investment program to build the infrastructure needed for a deep draft regional hub. In 2000, Suape decided to launch an international bid to award a concession to develop a container terminal.

## IFC'S ROLE

IFC's mandate included advising the port authority; reviewing institutional, legal aspects of the PPP; analyzing the different structuring options; preparing the transaction documents; and advising the government on the bidding process.

## TRANSACTION STRUCTURE

The transaction was structured as a 30-year non-renewable concession with clear requirements regarding the level of service quality and the transfer of assets back to the state at the end of the contract. The lessee was obliged to secure financing, procure and install equipment, and operate the terminal as a common user container terminal open to all carriers, operators and cargo consignees. Since transshipment tariffs are generally market driven, there were no limits on tariff rates.

## BIDDING

Of the nine groups that prequalified, three presented proposals: ICTSI of the Philippines, Consorcio Sotes (composed of Grupo Dragados, JCPM and Agunsa), and the Port of Barcelona. ICTSI presented the highest commercial proposal of \$175 million (R\$340 million), equivalent to a 244 percent premium over the minimum lease price of \$51.5 million (R\$100 million). The company's expected investments totaled \$282 million (R\$548.2 million), with an additional \$103 million (R\$200 million) for infrastructure. ICTSI indicated that it would develop the port as a transshipment hub for the northeastern region and expects to be shipping over half a million TEUs annually by the end of the

concession period in 2031.

## POST-TENDER RESULTS

- The concession has allowed TECON Suape to focus on the quality of the services and search for new markets, while freeing up the Port Authority's resources and transferring the risk of operation and investment from the Port to TECON.
- As of 2008, the port handled over 300,000 TEUs per year, up nearly 500 percent from before the terminal was commissioned.
- The port handles 5 percent of all container movements in Brazil.
- Between 2001 and 2008 there has been private investment of \$59 million.
- The port employs 417 full time staff, an increase from 172 employees the first year of the concession (2002).
- In 2008, the realized annual fiscal impact was \$14.8 million in concession fees and taxes.

*\* Unless otherwise stated, monetary values are presented in 2008 US dollars. Results are from a post-completion evaluation completed June 2009.*



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