

New Report: Inefficiencies in transportation infrastructure are obstacle for Brazilian agriculture

Climate Policy Initiative study suggests improvements in roads, railways and ports sectors to increase agricultural productivity in Brazil

Rio de Janeiro – Despite being one of the most prominent agricultural producers in the world and an important exporter of agricultural commodities, Brazil suffers from poor transport infrastructure. This inefficiency costs the nation time, reduces returns on agricultural production, and slows overall growth.

A new study from Climate Policy Initiative (CPI) and PUC-Rio, under the Land Use Initiative (INPUT - *Iniciativa Para o Uso da Terra*), points out the main limitations in the highways, railways and ports sectors in Brazil and makes recommendations to increase their efficiency. The researchers argue that **constant changes in the regulatory environment, a shifting mix of incentives for private investors, and hidden subsidies create inefficiencies and erode the overall quality of transportation infrastructure.**

"Brazil needs to change its existing regulation framework. Only then will better cooperation between the public and private sectors be possible. This kind of cooperation is fundamental to the infrastructure sector, and for restoring market incentives," says Juliano Assunção, director of CPI and professor in the Department of Economics at PUC-Rio.

The study indicates that the **highway sector's** main problem is complex regulation that combines hidden subsidies with limits on long-term profitability. It reduces investor interest, worsens the quality of roads, and erodes the effectiveness of concession auctions. CPI/ PUC-Rio researchers recommend policymakers change the existing regulation to eliminate hidden subsidies funded by taxpayers and replace them with conditions that allow concessionaires to make fair returns on their investments to better select projects and to improve the quality of service delivery.

The recommendation for the **railway sector** is to return to the vertical integration framework, where concessionaires manage the tracks and operate the trains, which allowed for greater efficiency than the current, de-bundled regulatory approach. The current regulation suppresses necessary monopolies in the sector and adopts a fragile concession model that creates legal uncertainty and could lead to the unbundling of the operational framework of the trains.

As for the **port sector**, while the current deregulation of independent port facilities is a step forward, it is only a second-best solution for the inefficiencies present in public ports. The best solution would be to deregulate public ports, too. This will help increase public access, reduce redundant facilities, and promote competition.

"Investment in transport infrastructure is essential to facilitate the integration of rural areas with the national and international economies, attract private financial institutions to these

regions, and increase the farmers' access to markets. But in order to achieve that we need an appropriate set of rules," says Assunção.

Climate Policy Initiative (CPI) works to improve the most important energy and land use policies around the world, with a particular focus on finance. We support decision makers through in-depth analysis on what works and what does not. CPI's Brazil program - Núcleo de Avaliação de Políticas Climáticas - partners with the Pontifical Catholic University of Rio de Janeiro and focuses on a Production and Protection approach to land use.

The Land Use Initiative (INPUT) is a partnership between Climate Policy Initiative and Agroicone, and is funded by the Children's Investment Fund Foundation (CIFF). It brings together a team of specialists who work at the forefront of how to increase environmental protection and food production.

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