

## Brazilian government lifts cap on foreign ownership of Brazilian airlines

19 December 2018

On 13 December 2018 the Brazilian federal government issued *Medida Provisória* No. 863/2018 (MP 863/18), a new rule amending Law No. 7,565/86 of 19 December 1986, the Brazilian Aeronautical Code, that removes longstanding limitations on foreign ownership of shares in Brazilian airlines. This amendment now allows foreign shareholders to hold up to 100 percent of the voting stock of Brazilian airline companies and lifts the restriction on foreign management of domestic carriers. Thus, regardless of the company's capital origin, as long as the legal entity is incorporated under Brazilian law, there are no restrictions on the foreign capital interest in such entities.

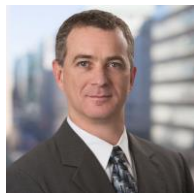
MP 863/18 also streamlines the process for transferring shares in Brazilian airline companies by removing the requirement that the Brazilian National Civil Aviation Agency review and approve share transfer transactions as well as any amendments to the carriers' incorporation documents.

This new rule is designed to enhance the competitiveness of the Brazilian national airline industry by attracting foreign investment to increase available funding and by opening up the market to new airline companies. According to Eliseu Padilha, minister chief of staff of the presidency, the new rule was not implemented to help domestic airlines, but rather to attract foreign investors. It is widely recognized that this new rule has been adopted to facilitate the proposed Boeing-Embraer merger, and will also have an effect on Avianca's recent declaration of bankruptcy. Even so, this new rule creates a favorable business opportunity for foreign companies looking for investments in the Brazilian air transport industry.

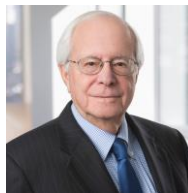
While MP 863/18 is effective immediately, it is only a temporary measure that will expire after 120 days. It must still be approved by the Brazilian House of Representatives and the Brazilian Senate, as well as signed by the president before it becomes permanent law. Approval of this measure is expected to occur in 2019 since the end of the current legislative year is approaching (on 22 December) and the 120-day expiration period is suspended during congressional recess (which ends on 2 February). During this legislative process, amendments to the text of the rule may be proposed and subsequently adopted, thus the final draft of the rule is potentially subject to change.

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