6-19-1996

Government Opens Bids for Opens Bids For Chihuahua-Pacific Railroad

LADB Staff

LADB Article Id: 55626
ISSN: 1054-8890

Government Opens Bids for Opens Bids For Chihuahua-Pacific Railroad

by LADB Staff
Category/Department: Mexico
Published: 1996-06-19

In early June, the Communications and Transportation Secretariat (SCT) opened the bidding process for the small Chihuahua-Pacific (CH-P) route, marking the first step toward privatization of the state-run railroad FERRONALES. The CH-P route, which comprises two separate lines connecting the Chihuahua-Texas border with the Pacific Ocean port of Topolobampo, Sinaloa state, is used primarily for shipment of agricultural products. Topolobampo is located just outside the city of Los Mochis, Sinaloa. The longest of the two CH-P sections, which spans 940 km, connects Ojinaga in northeastern Chihuahua with Topolobampo. A shorter route, which originates in Ciudad Juarez, Chihuahua, connects with the Ojinaga-Topolobampo route at La Junta, Chihuahua state.

According to Jorge Silberstein, the SCT's coordinator of privatizations, an average of 1.8 million metric tons of corn, beans, wheat and other agricultural products are shipped via the CH-P annually to Topolobampo. Silberstein said the CH-P also transports an average of 300,000 passengers per year, many of whom are tourists traveling to the Copper Canyon or to the Sinaloa coast. According to Silberstein, the SCT views the CH-P privatization as a trial balloon to gauge the interest of foreign investors for FERRONALES properties, which include three major routes. "This is one of the few short routes that does not depend heavily on just one customer," said Silberstein. Silberstein said the SCT set a deadline of July 25 for interested parties to formalize their bids, including making a good-faith deposit of 20 million pesos (US$2.64 million) in Banco Serfin, a private financial institution.

A special FERRONALES privatization committee will review and evaluate the bids, issuing a recommendation by mid-September. The government will then announce the winning bidder by Sept. 27. Successful bidders for any of the FERRONALES properties will receive concessions to operate the rail systems for 50 years. In addition to the CH-P, concessions for other short routes such as the route from Gomez Palacio in Durango state to Monterrey will be offered to the private sector. The government is also seeking private investors for a huge rail terminal near Mexico City. The SCT, however, has yet to decide on a timetable for privatization of the main FERRONALES properties, which have been divided into northeastern, northwestern, and southern routes (see SourceMex, 11/22/95).

Of all the properties, the northeastern route is expected to attract the strongest attention. That route which connects Nuevo Laredo, Tamaulipas state, with Monterrey and Mexico City is used most frequently to transport products between the US and Mexico. According to the SCT, US companies have expressed only mild interest in the southern route, which include the strategic rail line connecting the port of Coatzacoalcos in Veracruz state with Salina Cruz in Oaxaca state. But the SCT suggests this route could eventually be developed into an alternative shipping route to the Panama Canal. Meantime, SCT officials said that 10 of the 33 companies that have expressed interest in FERRONALES properties have already said they will enter bids for the CH-P line.

LADB Article Id: 55626
ISSN: 1054-8890

According to the SCT, the suitors for the CH-P include the US-based Southern Pacific Railroad, which has the largest number of interconnections with FERRONALES at points along the US-Mexico border. Southern Pacific, which is expected to bid in conjunction with a Mexican partner, is considered a strong candidate for at least one of the FERRONALES concessions, since the US railroad has extensive experience in multimodal transportation. Multimodal transport combines barge, truck, and rail shipping. The Illinois Central Corporation which has one of the largest rail-cargo transport networks in the US will also bid on the CH-P. SCT sources said an offer from Illinois Central would be particularly attractive because that company is interested in developing a north-south rail corridor to connect Canada, the US, and Mexico.

A third candidate for the CH-P is Japanese-based Sumitomo Corporation, which also has the capability of creating a strong multimodal network in the Chihuahua- Pacific corridor. Sumitomo is the parent company of the giant ocean shipping firms Dlichi Chuo Kisen Kaisha and Mitsui O.S.K. Lines Limited. The CH-P's general manager, Francisco Javier Zamarripa Mora, said the infrastructure of the two rail lines is in good enough condition to manage the current volume of usage. "Interested bidders will spend very little on tracks or bridges," said Zamarripa. In fact, according to a recent government study, the CH-P has "great potential" to increase passenger use of the line, with growth capacity of up to 800,000 users annually.

Zamarripa said that that statistic has been mentioned to potential bidders as an asset of the CH-P. Zamarripa says that the Copper Canyon compares favorably with the Grand Canyon, which receives an average of 7.5 million visitors per year. "There is no doubt about the potential for development of the tourism industry at the Copper Canyon," he said. At the same time, Zamarripa suggested that several support structures are needed to develop the tourism industry, such as highways, airports, and communications equipment. Much of the capital for these projects will have to come from the private sector.

Still, the development of the tourism industry in this region may not be a top priority for President Ernesto Zedillo's administration. In a press statement announcing the CH-P privatization, the SCT said the sale of lines from the Chihuahua-Texas border to the Pacific Ocean represented the first step in the creation of a rail system capable of offering multimodal services. The statement said that the Mexican railroad system requires immediate investments to develop a multimodal system. In addition, capital is needed to repair or reinforce nearly 100 tunnels and several bridges to increase the transit speed for trains. Indeed, the privatization of FERRONALES coincides with the Zedillo administration's move to privatize management of several seaports, providing another basis to expand the multimodal system.

Among the key Mexican bidders for FERRONALES are companies that have also participated in the privatization of port management agencies, including the giant ocean shipping company Transportes Maritimos Mexicanos (TMM) and engineering concerns Grupo ICA and Grupo Tribasa. The government is offering the port management unit at the Pacific Ocean port of Ensenada, Baja California state, simultaneously with the privatization of the short rail lines connecting Tijuana with nearby Ensenada and Tecate. Many of the partnerships or companies that will submit bids for FERRONALES properties have an extensive background in either multimodal transportation, railroad transportation, or engineering. Among the prominent partnerships are a consortium

LADB Article Id: 55626
ISSN: 1054-8890

formed by Mexican companies Grupo Tribasa, Impulsadora Tlaxcalteca de Industrias, and US-based RailTex Services.

For its part, the giant engineering firm Grupo ICA expects to submit a bid in conjunction with the US-based Union Pacific Railroad. The list of foreigners expected to bid on the CH-P also includes such prominent US and European companies as Burlington Northern Railroad; Santa Fe Corporation Railroad; South Orient Railroad Company Limited; Kansas City Southern Industry; and CSX Transportation. The Chilean rail company Cruz Blanca will also participate. The rules of the privatization stipulate that joint ventures bidding for the CH-P or any other FERRONALES property will have to be limited to a 49% foreign share. The Zedillo administration, which in 1995 embarked on an arduous process of reviewing all potential bidders for FERRONALES, continues to face opposition to the privatization from the railroad workers union Sindicato de Trabajadores Ferrocarrileros de la Republica Mexicana (STFRM).

The STFRM is concerned about the potential loss of thousands of jobs. In fact, according to an internal FERRONALES report, the privatization of the railroad could result in the elimination of more than 28,000 jobs. The report, obtained by the daily newspaper La Jornada, suggested that efficient operation of the three major routes, the CH-P railroad, and the huge rail terminal near Mexico City will require a total of only 18,700 employees, compared with the current work force of 47,000 workers. The report was published almost two months after an interview with FERRONALES director Luis Pablo Serna, in which he downplayed the possibility of massive job losses. According to Serna, the new owners of the railroad are expected to place more resources into expanding the railroad, which will result in the need to retain personnel. "The railroad workers do not represent a problem for the privatization, but should be considered as part of the solution to the problem of an inefficient railroad," he said.

Some STFRM members have also expressed concern that the privatization will nullify or weaken the collective bargaining contract the union currently has with FERRONALES. Serna and some other STFRM leaders, however, counter that the privatization actually creates an opportunity for the union to negotiate a stronger collective bargaining contract. Serna noted that the current contract was originally negotiated in 1944 and contains 3,700 clauses, some of which are duplicates, while others are irrelevant to the current situation of railroad workers. For his part, STFRM secretary-general Victor Flores Morales told La Jornada that a revised contract with the new owners could strengthen, not weaken, the rights of railroad employees. Despite the assurances by Morales and Flores, the Zedillo administration will have to make strong concessions to potential private investors. For example, to reduce operating costs, the Finance Secretariat (SHCP) will assume payment of pensions for more than 52,681 retired railroad workers. Additionally, the SHCP has agreed to pay FERRONALES's foreign debt of about US$900 million. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan 18, reported at 7.55 pesos per US $1.00] (Sources: Novedades, 05/22/96; Reforma, 06/06/96, 06/07/96; Agence France-Presse, 06/10/96; Excelsior, 03/14/96, 04/19/96, 04/26/96, 05/22/96; 06/08/96, 06/12/96, 06/17/96; La Jornada, 04/19/96, 04/26/96, 06/06/96) 06/18/96)

-- End --