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LADB Staff

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In early February, the Communications and Transportation Secretariat (SCT) announced changes in the terms of the privatization of the strategic northeast rail route to allow the government to increase its participation in the rail line. Under original terms of the privatization, the government retained a 20% share and awarded a concession for the remaining 80% stake to Transportes Ferroviarios Mexicanos (TFM), a consortium formed by Mexican transportation company Transportes Maritimos Mexicanos (TMM) and US railroad Kansas City Southern Industries (KCSI).

The government's decision to increase its share in the northeast route still leaves TFM with a majority share, but it reduces the amount of money the consortium will have to pay the government for the 50-year operating concession. Under the agreement reached in December, TFM agreed to pay the government 11.07 billion pesos (US$1.42 billion) for the right to operate the northeast rail line (see SourceMex, 12/11/96).

In an interview with the daily business newspaper El Economista, transportation industry analysts said the government's decision to assume a greater share of the line will increase its expenditures. Therefore, the analysts said, the government may seek other investors to join the partnership. According to Jorge Silberstein, the SCT official in charge of privatizing the state-run railroad (Ferrocarriles Nacionales, FERRONALES), the government expanded its participation in the route to ensure that enough resources are spent to expand and upgrade that line.

Move seeks to ensure infrastructure investments

Silberstein reiterated that the northeast corridor, which connects Mexico City and Nuevo Laredo via Monterrey, is one of Mexico's most strategic railroad routes. "TFM had enough resources to pay for the concession," said Silberstein. "But the company was apparently facing difficulties in finding the money to pay for the promised infrastructure investments scheduled for the first year of the concession." Indeed, TMM director Juan Carlos Merodio told reporters that the government's participation will allow TFM to spend enough money to upgrade connecting highways and port facilities. According to Silberstein, the government plans to eventually sell its 24.5% share on the northeast route in the Mexican Stock Exchange (BMV) and on foreign stock markets.

Transportation analyst Santiago Pique of Bear Stearns in Mexico City said the government's participation in the venture is a "positive development," since it reduces TFM's financial risk. On the other hand, the government's decision to intervene in the privatization of the northeast route has sparked concerns that a similar move is planned for the Pacific-North route, which is also considered strategic for US-Mexico trade. This route currently ships 30% of Mexico's total rail cargo and 10% of its international cargo.

Privatization of Pacific-North route also set to begin The Pacific-North railroad, which spans 6,500 km, connects four points along the Mexico-US border with Monterrey, Guadalajara, Mexico City

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and the key ports of Manzanillo on the Pacific Coast and Tampico on the Gulf Coast. According to the SCT's Silberstein, the privatization of this route is expected to begin sometime in February. The list of potential bidders includes the engineering companies Grupo ICA, Grupo Tribasa, and Grupo Mexico. This last consortium includes mining companies that have joined together to bid on the CH-P. Silberstein said he expects a US railroad perhaps Burlington Northern & Santa Fe to form a partnership with either Tribasa or ICA to bid for the route.

Silberstein also said the SCT has not yet decided whether to include the short Chihuahua-Pacific route in this package. The route had originally been offered for privatization as a separate unit, but was withdrawn from the market when the top bidders withdrew and the remaining bidder offered a price that was considered too low (see SourceMex, 10/09/96 and 12/11/96). The SCT official said President Ernesto Zedillo's administration also plans to open bids for the privatization of four short routes in the northern states of Durango, Coahuila, Sonora, and Baja California sometime in the first quarter of the year.

Labor leaders renew concerns about layoffs

The Zedillo administration's railroad privatization has divided union members. The railroad workers union (Sindicato de Trabajadores Ferrocarrileros de la Republica Mexicana, STFRM), which is the main union representing railroad employees, has agreed to work with the government to find ways to reduce the labor force to make the privatization more palatable to potential foreign investors. In fact, FERRONALES had already initiated reductions in the number of workers employed in the northeast route before the concession was awarded to TFM. Many of these reductions took the form of early retirement incentives.

According to some estimates, about 5,000 employees of the northeast route are facing layoffs this year. But some critics have charged that workers are sacrificed unnecessarily to attract private investors, with some employees being pressured by union leaders to retire early. Salvador Zarco Flores, a former member of the railroad workers movement (Movimiento Sindical Ferrocarrilero), accused STFRM leaders of accepting the loss of almost 37,000 jobs in FERRONALES "without offering even the smallest resistance." Zarco Flores also accused STFRM leader Victor Flores Morales of renegotiating a collective-bargaining contract with management without first consulting union members.

Similarly, Norberto Vargas, leader of the democratic railroad workers movement (Movimiento Ferrocarrilero Democratico, MFD), said the Zedillo administration's efforts to push workers into voluntary retirement was a flagrant violation of Article 41 of Mexico's federal employment law (Ley Federal del Trabajo). In an interview with the weekly magazine Proceso, Vargas expressed concern that the administration's strategies to reduce the FERRONALES work force are setting a precedent for future privatizations in the petrochemical and electrical sectors.

Vargas acknowledged that Mexico's railroad system is in dire need of new equipment and other capital improvements, but suggested this goal could have been accomplished without resorting to privatizations. Rather, he said, the administration should have invested more money on the rail system instead of devoting as much money to highway construction. (Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb. 12, reported at 7.78 pesos per US$1.00)

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[Sources: Proceso, 01/05/97; Siglo XXI, 01/22/97; The News, 01/24/97; La Jornada, 01/24/97, 01/31/97; El Universal, El Nacional, 01/31/97; Excelsior, 02/05/97; Reuter, 01/31/97, 02/06/97; El Economista, 02/03/97, 02/06/97]

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