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U.S.-based Kansas City Southern Finally Gains Control of Mexican Railroad

by LADB Staff

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The US-based railroad Kansas City Southern Industries (KCS) consolidated its presence in Mexico by gaining a controlling share in Transportacion Ferroviaria Mexicana (TFM). In mid-December, KCS acquired a 51% share in TFM from Mexico's giant shipping company Transportes Maritimos Mexicanos (TMM) for a combination of cash, stocks, and other financial instruments.

The KCS acquisition of a controlling share in TFM resurrected the plan developed by the two rail companies in 2003 to unite their US and Mexican operations into a single binational unit that would serve an important North American rail route (see SourceMex, 2003-04-30).

The plan was abandoned when TMM shareholders voted against the deal, in part because of what they felt was an inadequate price offer by KCS (see SourceMex, 2003-08-27). The two companies were able to reach a new agreement by simply amending the previous deal signed in 2003, thereby appeasing opponents on the TMM board of directors. The amended agreement, which has the approval of the boards of the two companies, increases the amount KCS will pay for TFM from the original US\$412 million in cash and stock to around US\$660 million, depending on the price of KCS shares.

Foreign-investment regulator approves transaction

The transaction also had to overcome opposition from the Comision Nacional de Inversiones Extranjeras (CNIE), which regulates direct foreign investment in Mexico. The CNIE approval is needed anytime a foreign entity gains control of a Mexican company in a strategic industry. The CNIE initially turned down the merger, but later changed its position after KCS and TMM appealed the decision. "This is a very significant step," said Warren Erdman, Kansas City Southern's vice president of corporate affairs. "We couldn't go forward without the agency's approval."

In their appeals, the two companies said the rejection ran counter to the spirit of NAFTA and was inconsistent with other CNIE decisions where majority foreign ownership was allowed in a Mexican company, said the Mexico City daily newspaper La Jornada. In acquiring TFM, KCS will gain control of the operations of the Ferrocarril del Noreste, which accounts for about 40% of the rail shipments between the US and Mexico.

The railroad was originally part of the state-run Ferrocarriles Nacionales (FERRONALES), which was privatized in several phases by former President Ernesto Zedillo (1994-2000). The Ferrocarril del Noroeste was sold to TMM and other investors in 1996 (see SourceMex, 1996-12-11). US development officials say the KCS merger with TFM facilitates the creation of a transportation corridor that would compete with ports on the US West Coast for cargo from Asian countries. The corridor would connect Kansas City and St. Louis to ports in western Mexico like Lazaro Cardenas, Manzanillo, and Ensenada.

Lazaro Cardenas, in Michoacan state, increased its cargo capacity significantly after Hong Kong-based Hutchison Whampoa Ltd. assumed control of operations at container docks this year. The Hong Kong company also operates container docks at Manzanillo in Colima and Ensenada in Baja California Sur. "This corridor is a viable alternative to Los Angeles," said David Eaton, director of the state of Missouri's office for commerce and agriculture in Mexico City. (Sources: Dow Jones news service, 09/16/04; La Jornada, 10/07/04; The Kansas City Star, 10/07/04, 12/01/04, 12/15/04; Reuters, Bloomberg news service, 12/15/04; La Cronica de Hoy, 10/07/04, 12/16/04; The Herald-Mexico City, 10/29/04, 12/01/04, 12/16/04)

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