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## **Calderon Administration to Reprivatize 23 Highways "Rescued" in 1997**

by LADB Staff

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In a decision that brought some protests from opposition parties, President Felipe Calderon announced plans in early March to reprivatize several toll highways that the government took over 10 years ago. The government assumed control of the highways during the administration of former President Ernesto Zedillo (1994-2000) just a few years after they were opened. At that time, critics attacked the Zedillo administration for using taxpayer money to save three private engineering companies that had received the concessions to construct and operate the roads (see SourceMex, 1997-09-03).

Now, critics question whether the Calderon administration should risk turning over the highways, which are no longer losing money, to private companies. "We are not in agreement with the decision to return the highways to private contractors," said Javier Gonzalez Garza, the floor leader of the center-left Partido de la Revolucion Democratica (PRD) in the Chamber of Deputies. "Our reason is very clear: the government highway department, Caminos y Puentes Federales (CAPUFE), is a healthy and competent company that employs Mexican workers and is making a profit."

### ***Move part of ambitious highway-expansion program***

The Calderon administration has made privatizing the 23 highways part of its ambitious plan to greatly expand Mexico's highway system. The construction program could nearly double the number of major national highways in Mexico during the next several years. Part of the reason for expanding Mexico's highway network is to take advantage of Mexico's commercial ties to the US through the North American Free Trade Agreement (NAFTA). The administration has said, however, that the highway expansion would require a great deal of private capital because the federal government does not have the resources to carry out the plan on its own. "No matter how much we may wish it did, the truth is that the budget doesn't stretch far enough," Calderon told reporters. "But we're going to take advantage of other investment schemes."

The Mexican president cited the recent economic stability and accompanying low-interest rates in Mexico as an important factor for attracting private investors to long-term infrastructure projects. Communications and Transportation Secretary Luis Tellez Kuenzler said that the Congress had allocated 30 billion pesos (US\$2.74 billion) for highway-construction projects in the budget for the current fiscal year but noted this amount was insufficient to meet Mexico's needs. "The funds allocated by the Congress are the most generous in history, but they are not sufficient to develop the infrastructure our country requires," said Tellez. "This is why we are looking for alternative methods of financing, whether public or private."

The administration also believes private companies could maintain and upgrade the rescued highways more efficiently than cash-strapped CAPUFE. The highways were constructed during the 1980s and the 1990s. The administration said reprivatizing the 23 rescued highways and awarding

concessions for the new projects could bring the Mexican government about 275 billion pesos (US\$25.2 billion). Roughly 160 billion pesos (US\$14.6 billion) of the total would be used to pay outstanding debts incurred by the special agency created to rescue the 23 highways (Fideicomiso de Apoyo al Rescate de Autopistas Concesionadas, FARAC), and the other 115 billion pesos (US\$10.52 billion) would be devoted to new projects. "This provides highway investment money without any cost to the taxpayer," Calderon said.

The plan would allow private companies to retain all tolls on some new highways for a 30-year period. "This scheme provides the government with no cash, but the highway gets built and operates at no cost to the taxpayers," said the Mexico City English-language newspaper The Herald.

The Calderon plan also envisions some public-private partnerships, especially on projects that involve constructing highways through difficult terrain. The administration had to counter criticism that a large amount of taxpayer money was used to rescue the failed highways through the FARAC. Tellez said that toll fees collected thus far have more than paid for the cost of the rescue. "We have raised the money through the fees that we have collected from highway users," said Tellez.

Still, some legislators have requested a full audit of the FARAC. PRD Sen. Ricardo Monreal, a main proponent of the audit, accused the Calderon administration of using highway concessions as rewards to companies that supported his presidential candidacy. "This is the equivalent of a holdup," said Monreal, who said the PRD delegation in Congress would oppose Calderon's plan.

### *Critics concerned about possible costs to taxpayers*

Other critics raised the concern that reprivatizing the highways could create a new round of taxpayer-funded rescues. Syndicated columnist Miguel Angel Granados Chapa noted that recent governments not only rescued the highway system from financially troubled private contractors but also the banking system (See SourceMex, 1995-03-08 and 1995-04-12) and the sugar industry (see SourceMex, 2001-09-05 and 2006-01-25). "Private companies will participate in the bids knowing that the government will assume the cost of their inefficiencies," said Granados Chapa.

Granados said that the Calderon plan could lead to the same missteps and corrupt practices that dogged the earlier plan implemented by Salinas. He cited major mistakes in the construction and operation of the Autopista del Sol, which connects Mexico City and Acapulco, and the Mexico City-Toluca highway, which were both characterized by cost overruns and low usage because of high tolls. Concessionaires were allowed to charge high tolls to recover their investments. "The highways were constructed using a series of assumptions that did not become reality," said the columnist.

Legislators for the opposition Partido Revolucionario Institucional (PRI) said they were open to the administration's highway-construction plan but placed conditions on the government. "We want transparency and legality in the approval of concessions," said Deputy Emilio Gamboa Patron. He said the engineering companies that failed in the first privatization effort should not be allowed to participate in this round of concessions. Those companies were Mexican engineering firms Grupo Tribasa, Grupo ICA, and Grupo Mexicano de Desarrollo (GMD). The Calderon administration reassured Congress that this would not be the case. "These highways are not going to be simply returned to the original operators," Tellez said in testimony before the Senate.

PRI Deputy Gustavo Cardenas Monroy, who chairs the communications and transportation committee (Comision de Comunicaciones y Transporte) in the lower house, said the government must require any company that wishes to participate in the concessions to demonstrate its "financial, technical, and moral" qualifications. These companies, he said, must open their books for analysis by the Congress and transportation experts.

Others said the administration should be given the benefit of the doubt. "Before concluding that this is another disaster-in-the-making, it's useful to remember that privatizing a public service needn't be a disaster, even when it involves a monopoly," said Kenneth Emmond, a columnist for the Mexico City English-language newspaper The Herald. "However, it must be done carefully, to respond to political opposition and to make sure the system is viable and that it enables all stakeholders concessionaires and their bankers, users, and the government to gain something."

Emmond said the three engineering companies that participated in the concessions 10 years ago faced problems that were partly their fault and partly beyond their control. The major problem, he said, was that the tolls were so high that traffic was lower than expected. "Many motorists chose to travel on slow, bumpy, and crowded but toll-free alternative roads, so revenues were disappointing right from the start," Emmond said. "The 1994-95 peso crisis gave the highways program its coup de grace. It was followed by defaults, inadequate maintenance, and finally a takeover by Mexico's National Bank of Public Works and Services (BANOBRAS), which has administered the toll ways and the unpaid loans ever since."

Many private analysts endorsed the administration's highway plan but also warned of inherent risks. "If the government lacks the resources to expand highways, then this is a good idea," said Jose Luis Flores, an analyst for the financial rating company Moody's. The analyst noted, however, that the cost of the projects could keep many Mexican companies from participating. "The risk is that an investment fund and not a construction company could end up winning the concession," said Flores. If something goes wrong down the road, he said, the fund would simply try to recover its investment and abandon the highway project. "The government must establish the criteria that require the winner to stick with the project for a set amount of time."

### *Government to begin accepting bids in May*

The SCT is planning to launch the highway project in May and June, with several potentially profitable concessions in central and western Mexico. The first concessions will include four highways in Jalisco, Guanajuato, and Aguascalientes states, spanning about 556 km. The concessions, now operated by CAPUFE, have attracted interest from 36 companies, including Promotora del Desarrollo de America Latina (Ideal), owned by Mexican billionaire Carlos Slim. Other companies on the list are Mexico's Banco Interacciones, Spain's Abertis Infraestructura, US-based Goldman Sachs Infrastructure Partners, and Australia's Macquarie Securities.

Tribasa, ICA, and GMD are also on the list, but given their experience with the first round of privatizations 10 years ago, their chances of obtaining concessions for the reprivatized highways are almost nonexistent. However, because of the pressure to involve Mexican companies in the highway-construction projects, the three companies may be allowed some participation in new projects, especially if they form a partnership with a foreign company with experience in managing

toll roads. Reprivatizing these highways would be combined with launching the new projects. "We have identified and are preparing 11 concessions that combine constructing new highways with existing roads," said Oscar de Buen, the SCT's deputy secretary for infrastructure. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 25, reported at 10.92 pesos per US\$1.00]

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