Transportation Equipment and Services

Mexico's challenging terrain and inadequate transportation infrastructure have been historical handicaps to the nation's productivity. The last two administrations have recognized this and have authorized sweeping privatization programs. Under the previous administration, new highways were built with private funds, providing a windfall for the construction industry and imposing a financial burden on highway concession operators.

Since 1996, the privatization of most of Mexico's federal transportation infrastructure has begun in earnest. In ports, Mexico is beginning to privatize the 21 Integral Port Administrations (IPAs) — chartered corporations that assume all the administrative functions of a port, including construction, planning and promotion — and is concessioning most port services, such as container terminals and dredging and towing services. The railway system has been divided into three major sections, two of which have already been successfully sold. Many short lines will also be sold. An announcement is expected before the end of 1997 on the proposed sale of approximately 35 of the nation's 58 airports. Restrictions on foreign investment vary from sector to sector.

Opportunities

Opportunities in Mexico's transportation sector have traditionally been concentrated in public transportation systems. The privatization process in the transportation sector, however, has resulted in many other opportunities for Canadian companies in transportation equipment and services, particularly in railways, ports and airports.

The privatization of Mexico's **railways** includes three major concessions, as well as the central terminal in Mexico City and several short lines. In December 1996, the government successfully sold the northeast line, the jewel in the crown, which handles 40 percent of the nation's cargo and covers most of the country's industrial corridor. That sale yielded US$1.4 billion from a Transportación Marítima Mexicana (TMM)-Kansas City Southern Industries (KCS) (USA) joint venture. The railway concession sales include 1400 locomotives and 31 000 rail cars. Most of this equipment is considered obsolete and will need replacing or renovating immediately. Furthermore, communication systems will need to be replaced to bring logistical efficiencies up to global standards. New investment in railway technology and construction services by the private concessionaires is expected to reach US$2.5 billion over the next four years. Such investment is needed to reverse declining cargo tonnage trends and boost annual traffic from its present 58 000 tons per year to 100 000 tons by the end of the century.

In July 1997, the Grupo Ferroviario Mexicano (GFM), a consortium of Grupo México, ICA and Union Pacific Southern, won the bid for the North Pacific line, a 6200-kilometre line accounting for 25 percent of all rail cargo and the second most important line in Mexico. Grupo México holds 73 percent of the new consortium, with Union Pacific and ICA each holding equal portions of the remaining stock. GFM's strategy to develop a program to operate on a level equivalent to that in the United States will involve an investment of over 5 billion pesos over the next 10 years, and GFM will have to acquire a minimum of 70 locomotives.

Two of the three short lines that had been tendered by the government were successfully sold in October. Grupo Acerero del Norte and Industrias Peñoles won the bid to operate the Coahuila-Durango (707 kilometres) short line, with an offer of 180 million pesos. The Tijuana-Tecate line (70 kilometres), important because of its connection to the *maquiladora* industry, went to Medios de Comunicación y Transporte de Tijuana. The tender for the Nacozari line (318 kilometres), however, was declared null and void, since the offer from Grupo México, the only bidder for the line, was considerably less than the reference price established by the government.

Still to be sold is the southeast line, which could go on the market before the end of 1997. There will be restrictions on the amount of foreign investment allowed in this sector because of its strategic importance in the Tehuantepec Isthmus.

In 1996, Mexico began the privatization of its **ports**. There are two aspects to the privatization process. The government is selling operational rights for the IPAs and is concessioning the various services offered by each port. To date, the only IPA to be fully transferred to private hands is Acapulco, which is managed by TMM. A decision on the sale of Puerto Vallarta is expected soon. Up to 49 percent foreign investment in IPAs is permitted, while up to 100 percent may be allowed in terminals, facilities and services. The private companies will inherit largely outdated, inefficient port facilities in need of modernization.

Port investment will attract more non-North American shipping activity, much of which now takes place in U.S. ports such as Houston and Galveston. This should spur new purchases in shipping and port technology, one of Canada's niche exports. The port of Veracruz is partly privatized and is managed by ICA (Ingenieros Civiles Asociados), Latin America's largest construction firm.

Mexico operates 58 federally owned **airports**, of which approximately 35 (the most profitable) will be sold off in regional packages. The government has announced that as part of its privatization strategy for the sector, the airport system will be divided into four regional companies. The first is the Pacific group, with its centre in Guadalajara; the second is the northern group, with the Monterrey Airport as its hub; the third is the southeast group with Cancún as its centre; and the fourth is the Mexico City International Airport. Once these groups have been created, the government will tender operating contracts for all four. The stock options for these companies will also be sold, with no one company permitted to retain more than 20 percent of the stock. As for the Mexico City Airport, the government has decided to postpone plans for an alternative airport, and has apparently chosen to expand the current facilities by adding an additional runway.

There will be opportunities for large Canadian companies to participate in the tenders for operational contracts for the airport systems that will be sold off. There will also be opportunities for equipment and service providers for the airports that are not sold but need to be upgraded by the government.

Constraints

Opportunities in the transportation sector are developing out of the privatization process; however, this is not yet clearly defined in some sectors and is incomplete in others. Close monitoring is required to identify new opportunities. For interested Canadian suppliers and investors, access to government contracts will require a Mexican partner who understands the government procurement process.

Strategy for Market Access

This sector is dominated by large companies, including some from Canada. Partnering with large Mexican and international firms to form consortia capable of bidding on major infrastructure projects is an essential strategy even for larger Canadian firms. Canada has a distinct advantage over European or other non-U.S. suppliers in the railway sector since Mexican and Canadian rail standards are the same. The railway companies are only just beginning to identify their needs, and this is an opportune time for Canada to become involved.