



# Mexico Rail Review

## Connectivity, competition and regulatory capacity

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## 1995 Law on Railway Services

- ▶ 1995 loss-making FNM transformed into profitable, exclusive freight concessions, with investment and growing traffic
  - ▶ Degree of competition in major markets from structure of concessions
  - ▶ Exceptions to exclusivity on specific links in concession titles to enhance connectivity and competition and suit specific shippers
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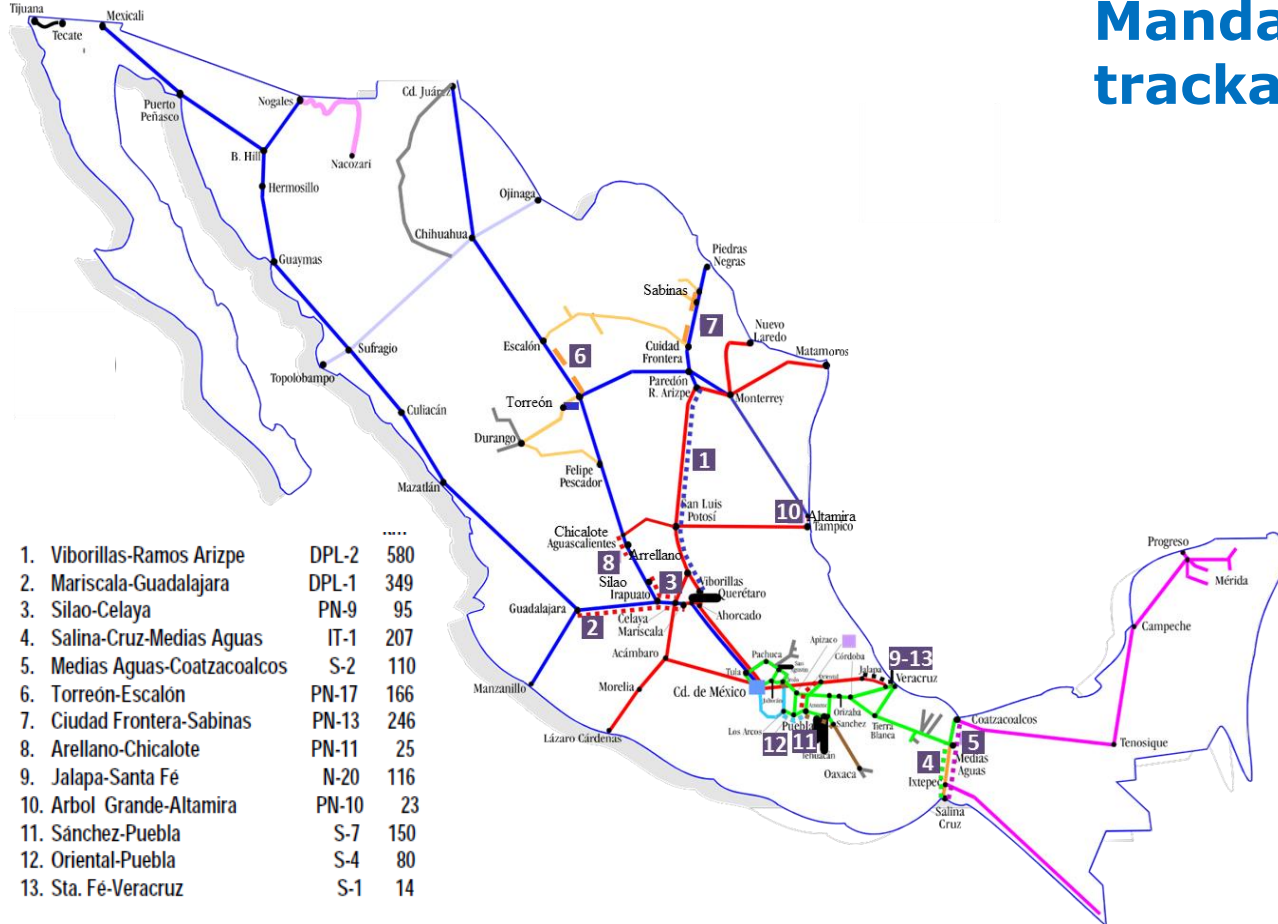
# Sistema Ferroviario de México



## 1995 Railway Law: Concession Sales

Concession	Length of rights of way (km)	Amount (Pesos, year of sale)
		<b>\$1.4 billion</b>
<b>Noreste</b>	<b>4 251</b>	<b>11 669 161 355</b>
<b>Pacificó-Norte</b>	<b>6 858</b>	<b>5 075 918 879</b>
<b>Sureste and Via Corta del Sur (Ferro-sur)</b>	<b>1 479</b>	<b>3 573 305 106</b>
<b>Ferrovale</b>	<b>-</b>	<b>177 349 971</b>
<b>Coahuila y Durango</b>	<b>974</b>	<b>180 000 000</b>
<b>Istmus de Tehuantepec</b>	<b>207</b>	<b>627</b>

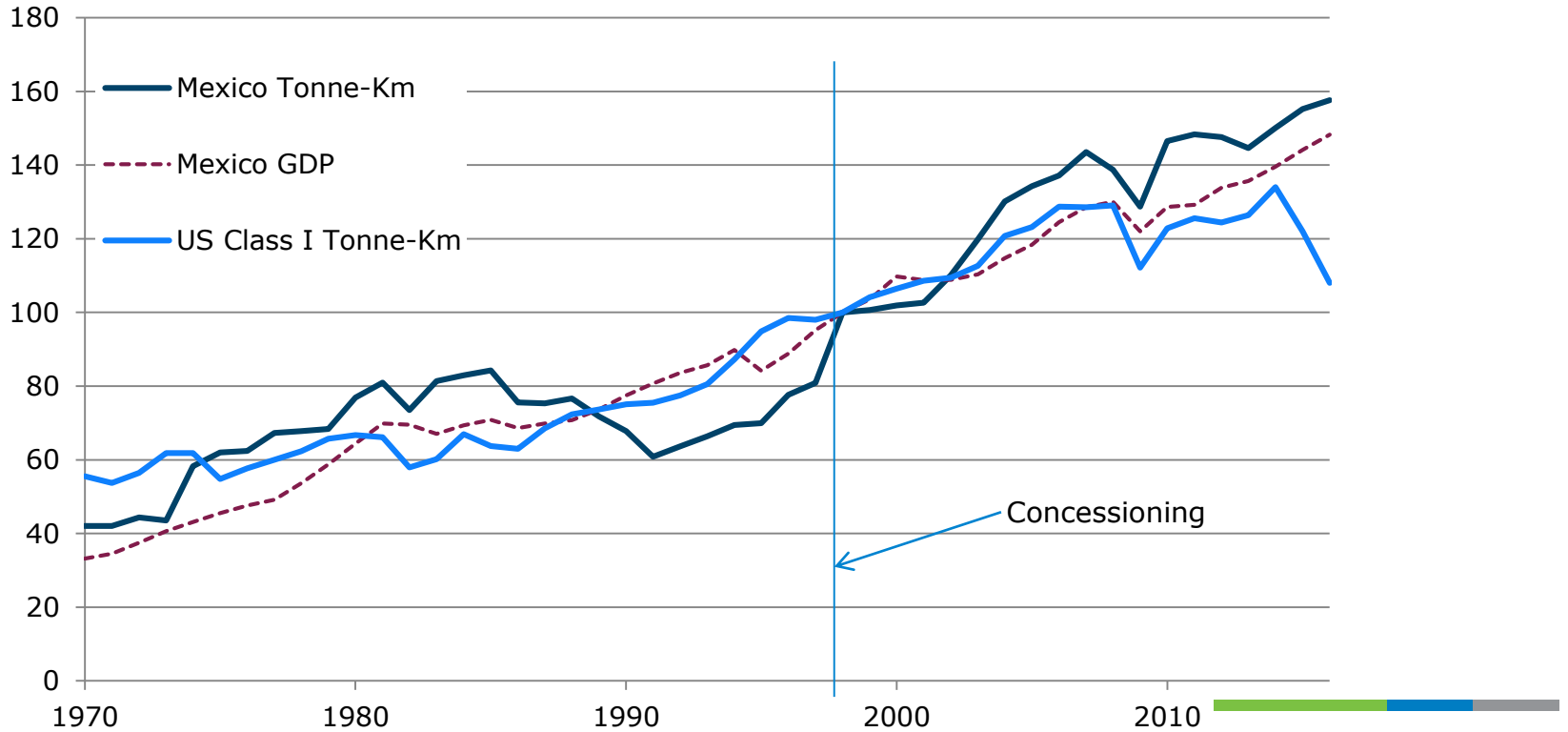
# Mandatory trackage rights



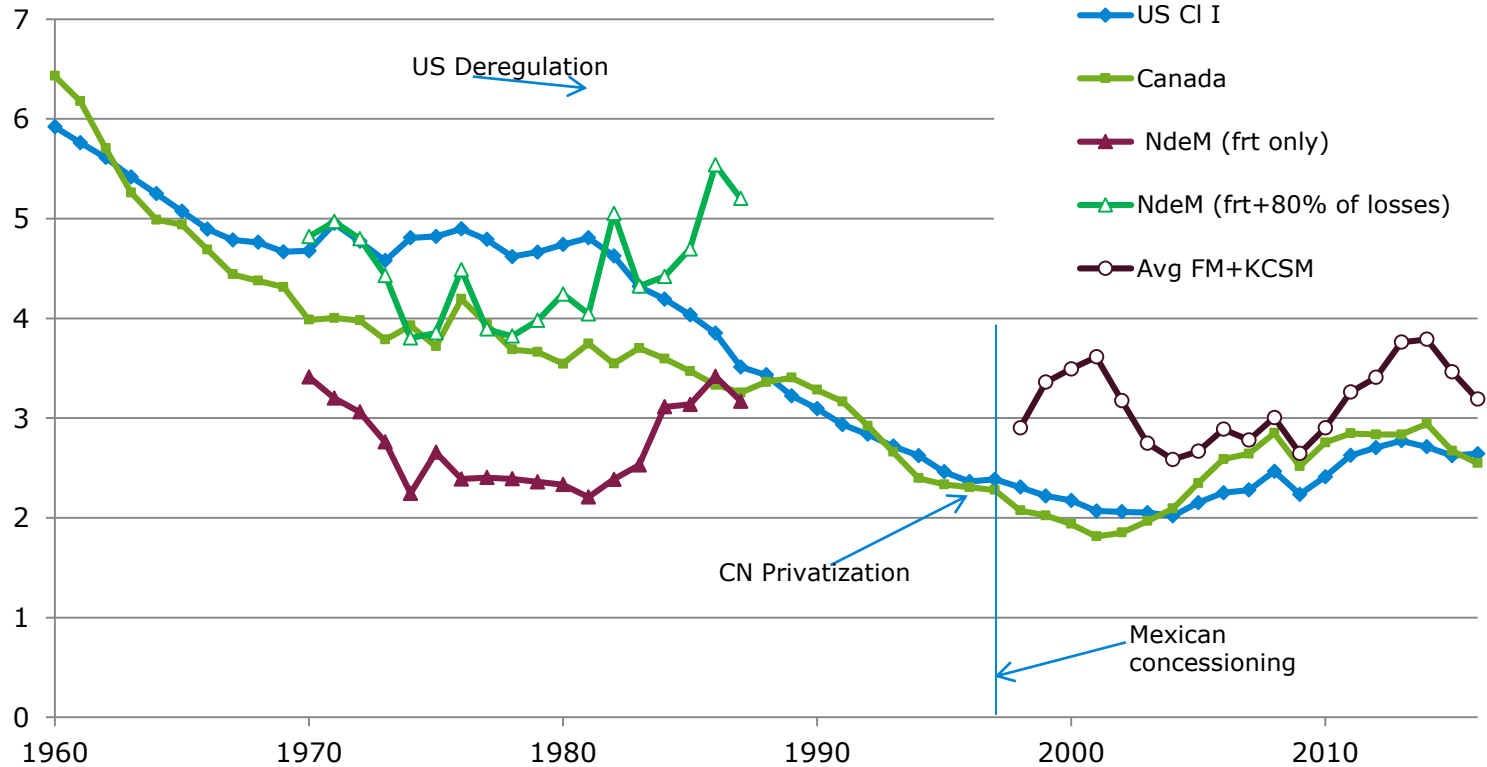
1. Viborillas-Ramos Arizpe	DPL-2	580
2. Mariscala-Guadalajara	DPL-1	349
3. Silao-Celaya	PN-9	95
4. Salina-Cruz-Medias Aguas	IT-1	207
5. Medias Aguas-Coatzacoalcos	S-2	110
6. Torreón-Escalón	PN-17	166
7. Ciudad Frontera-Sabinas	PN-13	246
8. Arellano-Chicalote	PN-11	25
9. Jalapa-Santa Fé	N-20	116
10. Arbol Grande-Altamira	PN-10	23
11. Sánchez-Puebla	S-7	150
12. Oriental-Puebla	S-4	80
13. Sta. Fé-Veracruz	S-1	14



# Performance



# Average rail freight tariffs (US cents/t-km)




## Regulatory Agency for Rail Transport - ARTF

- ▶ Trackage rights used less than expected
  - ▶ 2013 Congress proposals for open access
  - ▶ Senate concluded that regulator – SCT - lacked capacity to make decisions on access conditions that could be defended in court
  - ▶ 2016 ARTF established to provide the regulatory capacity to determine access rights and rate protection for captive shippers
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## Progress

- ▶ ARTF has made good progress despite budget constraints that created delays in establishment and recruitment
  - ▶ Credible authority has been established
  - ▶ Three analytical priorities
    - Financial reporting
    - Network modelling of traffic flows and O/D matrices
    - Sampling of waybill data
  - ▶ US and Canadian analytical tools effective but characteristics of Mexican system means they need customising
  - ▶ US methodologies might be improved on
  - ▶ Excessive US regulatory costs can also be avoided
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## ARTF purpose

- Balance:
    - Connectivity
    - Competition
    - Efficiency
    - Cost recovery
  - High sunk costs modify standard competition regulation – capped Ramsey-Boiteux pricing
  - Contractual rights in concessions must also be respected or compensated
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## **COFECE, the Independent Competition Authority**

- 2017 investigated lack of effective competition network-wide; its Board of Commissioners rejected findings
- September 2018 to February 2019 investigation found lack of effective competition in petrochemical transport from Coatzacoalcos
- If Board upholds, ARTF must consider regulating tariffs or setting access rights and conditions



## Coatzacoalcos

50% of petrochemical industry  
3 Pemex plants

Veracruz

- Kansas City Southern de México S.A. de C.V. [KCSM]
- Ferrocarril Mexicano S.A. de C.V. [FXE]
- Ferrosur S.A. de C.V. [FSRR]
- Ferrocarril y Terminal del Valle de México S.A. de C.V. [FTVM]
- Línea Coahuila Durango S.A. de C.V. [LFCD]
- Ferrocarril del Istmo de Tehuantepec S.A. de C.V. [FIT]
- Vías Chiapas y Mayab [FIT]
- Administradora de la Vía Corta Tijuana-Tecate [ADMICARGA]



## Potential ARTF intervention in petrochemicals

- No intervention – if judged counterproductive.
- Additional trackage rights under prescribed conditions and prices, to enable competition from second carrier, under Article 36 of the Law.
- Rate ceilings imposed under Article 47 of the Law.
- Task in both approaches is to set fair and efficient prices.

## Governance issues

- Dependent on Minister of Transport for budget, hiring decisions
- 1.5% of revenues of concessions paid in annual fee to ministry of transport might fund ARTF?
- Diversion of time and resources to investment projects – Toluca railway, Mayan TGV – should be Ministry's DG Rail responsibility

