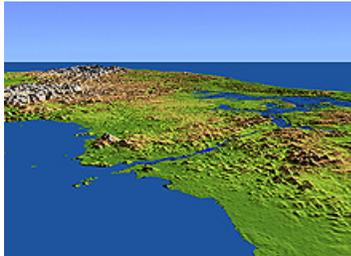


Colombia's Rail Alternative to the Panama Canal



The almost century-old Panama Canal is currently undergoing a \$5.25bn (£3.3bn) reconstruction to double its capacity.

Is China's offer to build a rail alternative to the Panama Canal mere fancy or a chance not to be missed?

Elisabeth Fischer spoke with South American rail specialist Henry Posner III to find out about the feasibility of the project, possible stumbling blocks and how South America could profit from a new link to Asia.

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When the news broke on 14 February 2011 that China had proposed building a 220km-long dry channel between the northern Atlantic and the Pacific coast in Colombia to rival the almost century-old Panama Canal, rail and shipping experts reacted with deterred hesitancy.

While Colombian President Juan Manuel Santos told the *Financial Times* that it was 'a real proposal' and the Chinese studies would 'all work out', skeptics referred to the fact that rail freight is more expensive and complex than the waterway, as well as that the canal itself is undergoing a \$5.25bn (£3.3bn) reconstruction to double its capacity.

Santos, however, believes that the alternative to the Panama Canal could be a great opportunity to boost business between the Asian and the South American continent. "I don't want to create exaggerated expectations, but it makes a lot of sense... Asia is the new motor of the world economy," he said.



Henry Posner III

Chairman and co-founder of the Railroad Development Corporation (RDC) and the Ferrovías Guatemala, as well as director of the América Latina Logística-Central & Mesopotámico in Argentina, Henry Posner III is one of the stern critics of the proposed railway as a possible alternative to the Panama Canal. Here, he talks about the feasibility of the project, Panama's already existing railway and China's increasing demand for railroads to transport coal.

Elisabeth Fischer: What is the logic behind building an alternative to the Panama Canal in Colombia?

Henry Posner: First of all, this is not a rail alternative to the Panama Canal. This is a coal railroad from Central Colombia to the Pacific Ocean and while it has been described as a transcontinental link, my understanding is that coal will be a big part of the rail traffic. So I would describe it more as a coal railroad disguised as a transcontinental link.

China is looking for raw materials everywhere in the world. The Chinese demand is driving expansion of coal industries in Australia, Mozambique and obviously also in Colombia. What is constraining the ability of coal to get to China is quite often missing rail capacity. In this case, it seems to me that China is proactively getting involved in rail transportation in anticipation of problems getting the coal to the market.



China proposed to build a rail alternative to the Panama Canal in Colombia

We have seen this elsewhere, for instance in our own involvement in the Nacala Corridor in Mozambique. Shortly after we sold our interest in the corridor in 2008, it was announced that Brazilian mining company Vale was taking an interest in the company. In conjunction with their own efforts to explore the coal mine near the railway, they were also involved in the construction of hundreds of kilometres of new track.

So, I would argue that's further evidence of the big picture, which is that in all these places the unifying theme is the Chinese demand for raw materials.

EF: How could Colombia benefit from the construction of this railway?

HP: Colombia would simply benefit by having an additional market for its coal. But I think it's highly questionable that Colombia could evolve as a competitor to the Panama Canal. As chairman of the railway in Guatemala, I've often been suggested that we should be in the transcontinental land bridge business, competing with the Panama Canal. But we have consistently found that it's simply not realistic to compete with a country where there are already well-established shipping lanes and ports.

If you really believe that the Panama Canal is somehow going to need an alternative than I think the best option would be to update and extend the existing Panama railroad, not building a brand new railroad across mountainous territory at an astronomical cost.



Rail is not seen as a competitor to the Panama Canal as rail freight is more expensive and complex than the waterway.

Once every six months for the last ten years, there have been suggestions for a scheme in Mexico, Guatemala, Nicaragua and Colombia to build a rail alternative to the Panama Canal. The real question is: have the projects got vision as well as funding? China at least seems to provide the latter.

EF: Critics suggest that China's plan is largely conceptual. How feasible is the construction of a railway in Colombia?

HP: I don't happen to know the exact specifics of the proposal but there are numerous projects around the world where demand for coal is driving substantial investment in railways and there is nothing inherently impractical with rebuilding an existing railway for coal business. I think what people may be looking at here, is what would it cost to build a new mountain railway of European standards and that probably wouldn't work.

Colombia with its steeply graded mountains, with the exception of the quarter to the Atlantic, would make it very expensive to operate a railway. I think this would be a shot in the arm for Colombia. The

advantage, however, is that they've got an existing right of way and an existing railway even if it's not functioning.

I must say, our own experience in Colombia suggests that it's not an easy country to do business with. We have been involved in past 'this time we're serious' initiatives and projects, and we were involved in one of the past rounds of calls for privatisation, which of course never went anywhere.

So the question becomes what do the Chinese know that we don't? Perhaps there is a link between the most recent round of calls for privatisation in this latest scheme where Colombia sees an opportunity to do it with the Chinese, as opposed to the last scheme, which was an international general tender process.

EF: What are stumbling blocks in the implementation of the Chinese railway?

HP: The decision whether or not to realise this project or not lies in China's and Colombia's hands. A stumbling block, however, could be Colombian greed. The Chinese are going to be seen as the golden goose and there will be a Colombian tendency that China pays as much as possible for the privilege of giving them a functioning railroad, which they themselves could not do on their own.

Any government seeing a big project like this, which involves a country like China with a huge demand for coal, is trying to figure out how much they can get for themselves before driving the project away. It's a natural human tendency and we've seen it everywhere we operate, including the US. Regulators and politicians survive on the value created by projects like this.

EF: Four years ago, a free-trade agreement was signed between Colombia and the US but has not been approved yet. Will this rail proposal encourage Washington to push for ratification of the agreement?

HP: I would say that the Colombia-US free trade agreement is irrelevant because this is between China and Colombia. The only thing I could think of is that US coal producers would want to be competitive once there is a stronger link between Colombia and China. Therefore the free-trade agreement might get more support in the US.

EF: Do you think that environmental groups will support the construction of a rail link for coal in Colombia?

HP: Environmental groups might be opposed to the mining of coal. However, they need to recognise that if it's not mined in Colombia then it will be mined some place else.

And more to the point: there has been interest in seeing Colombia diversify away from the drug trade and certainly this would be an important move to diversify the Colombian economy and from a policy perspective this is probably a good thing. I think the answer to most social problems is commerce and economic development. To the extent that coal could become a bigger part of the Colombian economy and to the extent that Colombia itself could participate in that as supposed to having most of the value occur outside of Colombia. I think it could strengthen the Colombian economy and that would be a good thing for the country as well as the region.

EF: Do you think the proposal is likely to go ahead?

HP: From what I've heard, it sounds like that the fundamentals of the project make sense, as long as it's understood that it's not a transcontinental land bridge for containers but rather a coal railway. It sounds like one of many coal railways being developed around the world to meet increasing demand.

The big question is: is this a long-term and sustainable market or is there something on the horizon like over-capacity that will see this project cut short? This is hardly the only place in the world where Chinese demand is driving investment in capacity of both the mining and transportation of coal. At some point there is the risk that projects in the pipeline are going to get cut short if there is a drop in projected demand.

So my advice to Colombia would be, if 'this time you are serious' make sure you get this done because it may be the last chance for you to have a railway on the Pacific side. ■

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