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Reports: The New Trade Routes: Latin America

Transport outlay: China demand drives road and rail traffic

By Robert Wright
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The paintshop at General in Erie, Pennsylvania, has recently seen a growing variety of work. Alongside the familiar colours of the large US railway companies, are the blue and yellow of MRS Logistica, the red and white of America Latina Logistica – both Brazilian companies – and the livery of other Latin American train operators.

The new locomotives, equipped with the latest electronics and fuel-saving technology, are one of the most obvious symbols of a surge of investment in Latin America's railways.

It is helping turn many rail groups from the battered, inefficient wrecks that limped into privatisation over the past 20 years into slick, modern logistics services providers.

ALL, the largest company, expects to invest $650m (£399m) this year alone, excluding the substantial sums going on construction of a 260km line between Alto Araguaia and Rondonopolis in Brazil.

Private-sector investment is also bringing improvements that should help the region's roads to cope with the demands imposed on them by growing trade volumes.

The challenge in both areas, however, may be to spread the benefits beyond a few favoured pockets, where investments are especially attractive – particularly Brazil, whose large size, strong growth and plentiful trade flows make it especially lucrative.

Giovanni Castellucci, chief executive of Atlantia, an Italian toll road operator, says Brazil and Chile – the two countries where it has so far invested – are unusual in their transparency, stability and strong legal framework. "This does not apply to Argentina, for example," he says.

The common factor for the investments expected to earn the best returns is that they are tied to the growing need to move goods – especially bulk goods – from countries' interiors to ports, from which they can be taken to Asia.

Henry Posner, a Pittsburgh-based railway investor who has a long record of investment in Latin America, says Chinese demand is driving growth in traffic ranging from coal to grains.

"Certainly, the railways, in select instances, are seeing that growth," Mr. Posner says.

Colombia, where Mr. Posner's **Railroad Development Corporation** applied to participate in a projected rail privatisation, is one of the countries most obviously affected by Asian demand.

The privatisation was cancelled when the Colombian government realised the importance of ensuring that rail privatisation provided a high-capacity route from the coalfields in the interior to the Pacific Ocean, to boost exports to China. The country is the world's fifth-largest coal exporter.

The restricted capacity of the existing rail links from the coalfields to Cartagena, on the Atlantic, is limiting Colombia's exports of its high-quality metallurgical coal.

"It's going to be a much bigger project if it's coal to China than a general railway line to serve the local market," Mr. Posner says of the potential privatisation. "Colombia's whole strategy for the railways has changed."

The trade boom has also transformed investors' and lenders' readiness to involve themselves in the region's infrastructure.

In Peru, where China has recently become the country's number-one trade partner, the Ferrocarril Central Andino has invested $150m since its 1999 privatisation in improvements.

It plans to spend a further $50m on track and $35m to $40m on rolling stock over the next three years to cope with extra traffic from the $2.2bn Toromocho copper mine that China's Chinalco is developing next to its line. Production is due to start in late 2012.

Juan de Dios Olaechea, Ferrocarril Central's president, says local banks have financed all the investments.

He says: "Bank finance is easily available in Peru, when you have a good product. With a good counterparty on the other side, financing infrastructure is not complicated."

The challenges for road investments, meanwhile, are far more complex, according to Mr. Castellucci, especially in Brazil.

While the region's railways almost exclusively serve the relatively predictable needs of large mineral and agricultural producers, roads see a less predictable mix.

Atlantia sees heavy truck traffic – much of it carrying goods such as sugar cane to ports for export to China – on its Triangulo do Sol toll road network in the Brazilian state of São Paulo.

"The Brazilian road network does not have sufficient capacity to serve both growing trade and increasing penetration of private cars," Mr. Castellucci says.

Yet the region is not only working on resolving immediate problems, such as congestion on Brazil's roads or the growing needs of Peru's copper mines. Many in the region would like to see a true regional rail network, in place of the largely isolated national systems.

The boldest plans would seek to minimise natural barriers such as the Andes.

Some more ambitious projects – including the many plans for railways and other alternatives to the Panama Canal between the Pacific and Atlantic – may never prove entirely viable.

But Mr. Castellucci believes that other projects – including planned road tunnels through the Andes to give western Argentina and Brazil access to Chile's Pacific ports – will one day be built.

"It's a this century project," Mr. Castellucci says of the cross-Andes plan. "But it's not one for the next five years."

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