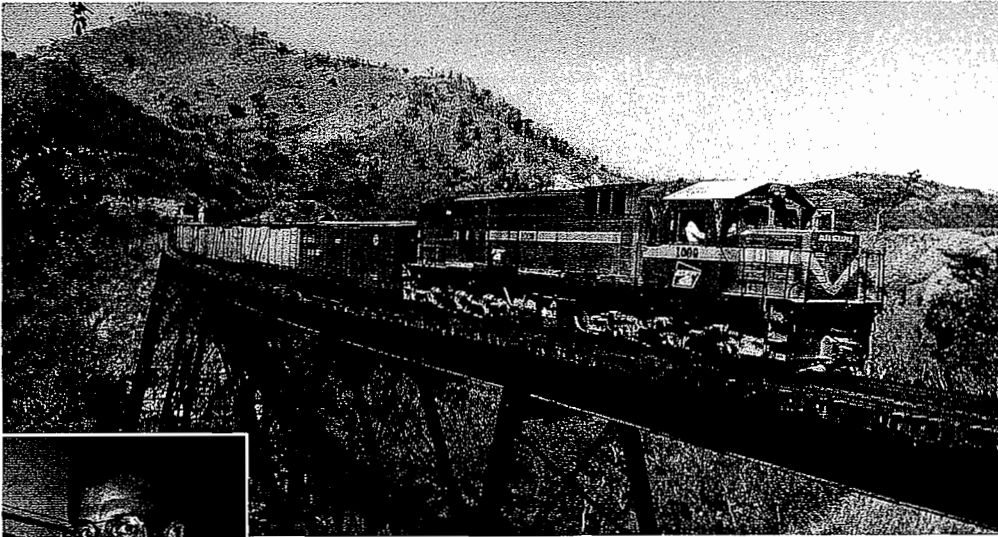


## Guatemala

## Last stand for rail in Central America



**Henry Posner III**  
Chairman, Railroad  
Development Corp

**O**N OCTOBER 23 1997 Vice President of Guatemala Luis Flores, Ferrocarriles de Guatemala Administrator Andrés Porras, Railroad Development Corp Chairman Henry Posner III, and Government Notary Byron Díaz formally signed the concession for the railways of Guatemala to be operated by Compañía

Desarrolladora Ferroviaria SA, a locally based company set up by US-based RDC. This latest example of private sector enterprise rescuing a moribund state-owned network bodes well for rail's prospects, even in the difficult economic climate of Central America.

FEGUA was in its heyday the most important railway in Central America. With its 784 km of 1 067 mm gauge lines, it linked Mexico's 1 435 mm gauge network with El Salvador's own 1 067 mm gauge system. Perhaps more

importantly, it linked Guatemala City with both the Atlantic and Pacific Oceans, reflecting the country's dependence on sea transport for exports of agricultural products (bananas, coffee and sugar).

FEGUA faced the problems of a state-owned enterprise competing with road transport in increasingly large lorries in an evolving economy - capital starvation, operating losses, physical deterioration and declining traffic. After a protracted decline, passenger service finally ceased in 1994. Despite privatisation already being on the agenda, the entire network was closed in March 1996.

RDC vehemently opposed the government's decision, citing the problems which occur when a system closes completely, but is then rescued. These include the increased difficulty of regaining lost traffic, the likelihood of theft and vandalism, and the social problem of squatters occupying railway facilities. Our predictions came true, and unfortunately 1997 found the system a railway manager's nightmare. The main line had been severed by washouts in numerous locations, entire stations were occupied by squatters,

and connecting sidings to many industrial customers had been severed by road construction. On the main line at Puerto Santo Tomás an entire train was found derailed, its bogies having been stripped of their bolts.

Against this background, RDC made one of the two bids to restore FEGUA to operation, with an initial investment of US\$10m. The concession was awarded on June 23 1997, and on October 23 the contract was signed in a public ceremony on the rear platform of the presidential coach *Michatoya*. Perhaps no group was more pleased than the employees, who had been idle for almost two years and whose participation in the ceremony included the enthusiastic blowing of locomotive horns.

The 50 year 'usufruct' (concession) covers 800 km, including the partially lifted line from Zacapa to the border of El Salvador. Rails are in situ on the rest of the network linking Guatemala City to Puerto Santo Tomás and Puerto Barrios on the Atlantic coast, Tecun Uman on the Mexican border and Champerico and Puerto Quetzal on the Pacific.

Why would a rational investor take on such a project? Because we believe that Guatemala's market will support a railway; because the right of way can be used to generate alternative sources of revenue; and because the staging of the project is structured to mitigate risk.

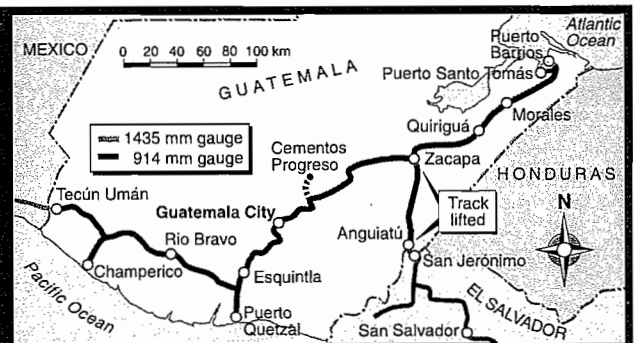
Phase 1 of our programme calls for the reopening of the 320 km Atlantic corridor. Between Guatemala City and Puerto Barrios/Puerto Santo Tomás, 25% of the sleepers will be replaced; washouts will be repaired; 80 to 100 employees will be hired and sufficient locomotives and freight cars will be restored to service to handle the initial traffic on offer which is containers, imported coal and bananas for export. Our commitment was to begin service six months after Congressional approval of the concession contract, which was expected in January 1998.

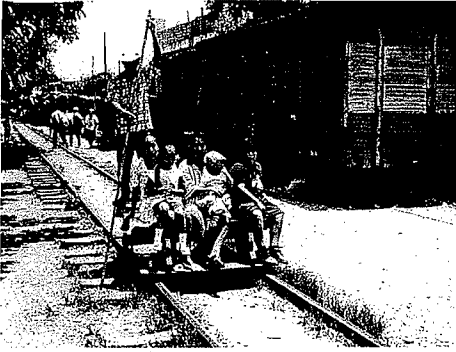
Subsequently we hope to reopen the rest of the network as market conditions dictate. Our next aim is to reopen the 200 km Pacific Corridor from the Mexican border at Tecun Uman to Puerto Quetzal and Esquintla, where

Seven of Fegua's 1982-built MLW diesels (top) will pass to the concessionaires in operational condition, following ratification of the contract signed in the Presidential coach *Michatoya* at Guatemala City Central Station on October 23 (right and below)



First corridor to be reopened will be the 320 km from Guatemala City to the Atlantic ports of Puerto Barrios and Puerto Santo Tomás

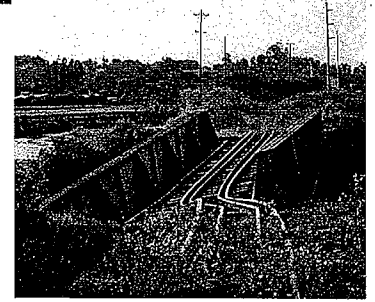




*During the closure period, the only rail activity in Guatemala consisted of 'pushcar' services such as this one in Bananero run by resilient private-sector entrepreneurs*



*The four operational GE diesel locos based at Escuintla will help restore Pacific coast services in Phase 2, but reconnecting this route to the capital in Phase 4 will require repairs to the damaged bridge at Villa Canales*



traffic will be transhipped to lorries for the short journey to Guatemala City. We are looking at the feasibility of converting this route to standard gauge given the prospect of through traffic to and from Mexico. Phase 3 would see construction of a branch line to serve Cementos Progreso, currently off the rail network, and Phase 4 will see the Pacific and Atlantic corridors reunited by restoration of the Esquintla – Guatemala City line. Looking further ahead, Phase 5 would reopen the long-closed link with El Salvador.

#### **Serviceable rolling stock**

FEGUA's physical condition is a mixed bag. Seven of the original 10 Alco M620s diesel locos delivered in 1982 and four of the 15 GE U10s from 1971

are in relatively good condition, having been used sparingly as traffic declined. Freight cars – mostly friction bearing, low-capacity box and flat cars – are in fair condition but cannot be loaded to take full advantage of FEGUA's 20-ton axle loading. The track can only be described as 'desperate', given the washouts, sleeper conditions and absence of ballast. For this reason, most of the investment will go into the track.

Significant spending will also be required to reconnect FEGUA to its potential customers. In addition to restoring links to private sidings, a new terminal will be built to handle containers and transhipment traffic as part of our plan to relocate operations from Central Station to the industrial zone.

Heartening examples of employee dedication have emerged. Locomotives have been started up weekly at Puerto Barrios. At Zacapa, historic steam locomotive parts have been safeguarded and at Guatemala City, key diesel loco-

motive components were removed for safe-keeping. The employees have thus facilitated the system's revival.

RDC's program for Guatemala is probably the most risky and difficult railway investment in recent decades, but we believe the rewards justify the risk. And on a personal level, we are committed to proving that a railway can survive in such an environment. □