# Central Railway heads for the heights

**Three years after privatisation, new locos and more efficient operating practices have raised freight traffic on Peru's Central Railway by 57%. Limited passenger services have returned, and further freight growth is in prospect**

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THE EUPHORIA which greeted the wave of privatisation in Latin America has diminished in recent years. Liquidity problems in the financial markets, coupled with a general disillusionment over the results of privatisation, have caused a rethinking of policy in many countries in the light of both economic and political realities. Peru has not been isolated from this, as demonstrated by recent setbacks in the planned privatisation of its electricity sector.

Nevertheless, the privatisation of Peru's rail network has gone largely without controversy. In part this is due to the low profile that railways occupy when compared to more substantial public services such as telecommunications and electricity. But perhaps more importantly, the Central Railway privatisation has avoided controversy because it has delivered against the expectations of both government and its customers, with resulting benefits to all.

The Central, South and Southeast rail networks were privatised in September 1999, through a sealed-bid process. The winning bidder was determined on the basis of who offered the highest payment per tonne of traffic moved. Our successful bid for the Central was presented in conjunction with another consortium's offer for the South and Southeast. Our investors took great comfort from the discovery that our bid was only 1% higher than the sole competitor. This confirmed that our economic offer was realistic and that no surplus money had been left on the table.

A newly-arrived GE diesel heads a westbound train into the sunset at Saltucana

All photos: Railroad Development Corp

The Central Railway investment group consists of six equal partners: Peruvian investors Juan Olaechea & Co, Cemento Andino and Minas Buenaventura, plus Mitsui & Co of Japan, Commonwealth Development Corp of the UK; and the US-based operator Railroad Development Corp.

Because of the way the privatisation was structured – a blend of the traditional Latin American models of concessioning, mixed with a European-influenced desire to separate infrastructure from operations – two parallel companies were formed. Ferrovias Central Andina (FVCA) is responsible for the maintenance and provision of assets, primarily infrastructure and rolling stock. The operating company, Ferrocarril Central Andino (FCCA), is responsible for the running of trains and provision of services to the customers. Thus FCCA provides the commercial 'identity' for the concession.

## Investment strategy

Since privatisation, investment in assets has closely followed the programme developed as part of the original bid – improvements to infrastructure and the introduction of more modern rolling stock.

In the infrastructure sector, the first three years of the concession have seen the installation of 60 km of new rail and 250 000 concrete sleepers. To support this work, FVCA has also purchased modern track maintenance machinery in the form of ballast regulators and sleeper-handling equipment.

Dispatching is now handled using

A GE diesel loco dives into the summit tunnel at Galera, 4 816 m above sea level, with a westbound train


The five rebuilt GE C30-7 diesels offer increased haulage capacity and better fuel efficiency

the Rail Traffic Control track warrant system. This is a low-cost solution developed by RDC affiliate Iowa Interstate, and has proved ideal for our operation. Its requirements are very basic – an AS400 computer and voice communication links.

The FCCA rolling stock fleet has been strengthened through the purchase of 33 rebuilt open-top hopper wagons from the USA to handle mineral traffic. More high profile has been the purchase of five rebuilt C30-7 diesel locomotives from GE Transportation Systems, offering both better fuel efficiency and increased haulage capacity. These have allowed us to place most of our inherited Alco fleet into 'stored serviceable' status.

Thanks in part to this increased capacity from the new locos, FCCA has been able to restore passenger services for the tourist market. These trains were initially discontinued after privatisation so that we could focus on meeting the demands of our freight customers. The resumption of passenger service has been financially rewarding in two sectors. For domestic tourism we operate a weekend train from Lima to San Bartolomé and back each Sunday during the winter. The international tourist market sees a monthly service to the Andean destinations of Huancayo and Cerro de Pasco. We also tried to initiate a suburban service in Lima, but this was not successful.

An additional benefit of the passenger service is that it generates economic benefits to the tourist sector of the national economy which are far greater than the direct benefits we receive. In this way we believe FCCA is helping the country, while showing that privatisation does in fact produce benefits.

### Future opportunities

FCCA's immediate challenge is to continue the consistent growth experienced in the first years after privatisation. Between 1999 and 2002 annual tonnage increased from 1 332 000 to 2 092 000. This was driven by a combination of favourable conditions in the metals markets, FCCA's freedom to price competitively and our ability to offer increased capacity.

Capacity is an important consideration given that our main line is the world's highest, crossing the Andes at an altitude of 4 816 m at Galera. Gradients are as steep as 4·2%, and the line has 79 tunnels and 65 bridges which are subject to landslides and washouts during the rainy season.

That FCCA has been able to operate successfully in this environment is a tribute to the new culture of the company, whose motto may be seen literally cast in concrete at our modest headquarters in Chosica: 'My Pride and Passion is to be a Railwayman from the Sea to the Andes'.

Looking ahead, FCCA is constrained by its zone of influence, based on its main lines into and across the Andes. Sustained growth can therefore only be achieved by focusing on increasing our market share with our on-line customers. In turn, this depends on helping them to become more competitive in their world markets. So our strategy is based on sharing with our customers the benefits flowing from the improved capacity and operating efficiency that we have developed.

Other opportunities for growth are being explored, the most promising being rail's entry into the port business at Callao. This will create more value for our customers by extending our services all the way to the ship – as opposed to our current limitation at the end of track.

Looking back over the first three years, we believe that our achievements are noteworthy. Not because we operate the world's highest railway, as the public sector did before us, nor because we are generating profits. Rather, because we are fulfilling the expectations that we set initially among our customers and the country as to what could be achieved.

Given that so many privatisations have fallen short in this regard, perhaps our greatest success has been the result of basing the initial business case on realistic expectations. As a result, no-one in the public sector has been required to help finance our vision. ■


Right: FCCA's slogan 'My Pride and Passion is to be a Railwayman from the Sea to the Andes' is cast in concrete along the wall at Chosica yard


Below: A passenger service waits to leave Lima's Desamparados station


Below right: FCCA's commitment to safety is emphasised by this lineside reminder of correct operating procedures at Arapa