

## COFECE's Investigative Authority preliminarily determines the lack of effective competition in the rail transport of chemical and petrochemical products in the south of the state of Veracruz

- *The Investigative Authority's Preliminary Opinion stipulates that lack of competition affects the rail transport of chlorine, ethylene oxide, anhydrous ammonia and caustic soda, which are relevant inputs for several industries in the country.*
- *Grupo México, and its subsidiaries Ferrosur and Ferromex, as well as Kansas City Southern de México, have sufficient market power to fix prices of public rail transport services of these chemical and petrochemical products on the routes investigated, without the users being able to negotiate said prices.*
- *Should the sense of the Preliminary Opinion be confirmed, regulations and measures necessary to ensure competition conditions would be set by the Railway Transport Regulatory Agency.*

**Mexico City, March 21, 2019.-** The Federal Economic Competition Commission's (COFECE or Commission) Investigative Authority preliminarily concluded the inexistence of effective competition conditions on 31 route/product pairs of Public Rail Services for the transport of chlorine, ethylene oxide, anhydrous ammonia and caustic soda, that start at the industrial facilities located in the south of the state of Veracruz, mainly in the municipality of Coatzacoalcos, with destinations in the south-central region (48% of the analyzed routes), western region (26%) and northern region (26%) of the country.<sup>1</sup> From Coatzacoalcos, the first segment of rail transport service is operated by *Ferrosur*, from which an interconnection to another concessionaire's segment or route may be made.

The state of Veracruz is responsible for 11.1% of the national chemical industrial production and 47.9% of the Mexican petrochemical industry. The state houses four out of seven of

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<sup>1</sup> **Chlorine** routes: Ing. Agustín Lira- Acocotla; Ing. Agustín Lira- Tochac; Ing. Agustín Lira- Carmela; Ing. Agustín Lira- Melchor Ocampo; Ing. Agustín Lira- El Castillo; Ing. Agustín Lira- Miramar; Ing. Agustín Lira- Morelia; Ing. Agustín Lira- Nuevo Laredo; Ing. Agustín Lira y El Castillo- Rosita. **Ethelene oxide** routes: Ing. Agustín Lira- Coatzacoalcos; Ing. Agustín Lira- Ecatepec; Ing. Agustín Lira- Tochac; Ing. Agustín Lira- Xalostoc; Coatzacoalcos - La Junta; Ing. Agustín Lira- La Junta; Ing. Agustín Lira- Irapuato; Ing. Agustín Lira- Doña Rosa; Ing. Agustín Lira- Maclovio Herrera. **Anhydrous ammonia** routes: Guanomex- Univex; Guanomex- Victoria; Guanomex- Yevavito; Guanomex- Ciudad Obregón; Guanomex- Culiacán; Guanomex y Piedras Negras- Torreón; Guanomex- Tlacote. **Caustic soda** routes: Ing. Agustín Lira- Lechería; Ing. Agustín Lira- Pantaco; Ing. Agustín Lira- Tlalnepantla; Ing. Agustín Lira- Xalostoc; Ing. Agustín Lira- El Castillo; Ing. Agustín Lira- San José Iturbide.



Pemex' petrochemical complexes, three of which are located in the municipality of Coatzacoalcos. The inexistence of effective competition conditions was preliminarily determined for the rail transport of chemical and petrochemical products, which are noteworthy, as they are inputs for over 50% of pharmaceutical processes, fertilizers, food processing, hygiene and personal care products, automobile, and construction among many other manufacturing industries. As stipulated in the Preliminary Opinion, anhydrous ammonia, ethylene oxide, chlorine and caustic soda are dangerous substances which require specialized equipment, procedures and care in their handling and safe transport, which implies that rail freight and transport is the safest option regarding population.

The Investigative Authority concluded that *Grupo México* and its subsidiaries *Ferrosur* and *Ferrocarril Mexicano (Ferromex)*, and *Kansas City Southern de México (KCSM)* have sufficient market power to fix the prices of the public rail transport services of these chemical and petrochemical products on the probed routes, without users being able to negotiate said prices. The lack of competition conditions is explained by the exclusivity they have to operate on their railways under concession, by the absence of use of trackage rights by other concessionaires for the transport of this type of cargo and that other means of transport (air, maritime, ground or pipeline) are not viable alternatives for the products on the analyzed routes.

Faced with the market power the rail companies have, users (the producers of the chemical and petrochemical substances) are susceptible to unilateral service suspension, which could generate a production standstill of industrial consumers products, additional costs incurred from the use of alternative but inadequate means of transport and encumbrances along the logistics chain that would have repercussions on a large number of industries in the country.

The Investigative Authority's investigation (DC-003-2018), initiated in September 2018 and concluded on February 11, 2019. Today, the extract of the Preliminary Opinion was published. As of this moment, the economic agents interested in this procedure may present the statements and allegations relevant to the investigation. Subsequently, COFECE's Board of Commissioners will issue a final resolution on the case.

Should the findings on the Investigative Authority's Preliminary Opinion on the lack of effective competition conditions on the 31 route/product pairs of Public Rail Freight Transport Service be confirmed, it will fall upon the Railway Transport Regulatory Agency to establish the required regulations either to determine trackage rights among concessionaires or fee regulation to ensure competition conditions in the analyzed markets.

See the [extract of the Preliminary Opinion in Spanish DC-003-2018](#)



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*The Federal Economic Competition Commission is entrusted with safeguarding competition and free market access. This contributes to people’s well-being and the efficient functioning of markets. With its work, COFECE seeks better conditions for consumers, more services of higher quality and a “level playing field” for companies.*



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