

Rail transport requires regulatory changes to increase the country's competitiveness: COFECE

- *There is low intensity of competition in the railway system: only in 35% of the routes two or more concessionaires participate; in addition, in barely 6% of the municipalities with railroads have two concessionaires.*
- *The network operates in a fragmented manner: over 80% of railway traffic starts and ends within the network of the same concessionaire.*
- *The Commission makes concrete proposals to amend the Railway Service Regulatory Law to improve the network's efficiency for the benefit of users and the country's competitiveness.*

Mexico City, August 31, 2021.- The Federal Economic Competition Commission (COFECE or Commission) publishes the final version of its *Estudio de competencia en el servicio público de transporte ferroviario de carga* [Study of competition in the public service of rail freight transport] (Study), in which it is concluded that competition in the Mexican Railway System (SFM, per its initials in Spanish or System) is scarce and that the railway network operates in a disarticulated manner, conditions that cause a low efficiency of the service to the detriment of the country's competitiveness.

Among the elements that indicate the low efficiency of the Public Service of Rail Freight Transport (SPTFC, per its initials in Spanish), the following stand out:

- **The network's original design does not favor competition:** *Ferromex and Kansas City Southern de México* operate the two largest networks (71% of the operated network), in addition they concentrate concessions to operate infrastructure and railway equipment in the busiest nodes and corridors of the country, such as Altamira, Mexico City and Monterrey, which allows them to move up to 82% of the system's cargo.
- **The network operates in a fragmented manner:** concessionaires provide the service almost exclusively in their own networks. Evidence of this is that 80% of the railway transport starts and ends within the network of the same concessionaire. Also, only 39% of the existing rights-of-way are in use and railway access to industrial facilities served by two or more concessionaires through interconnection services decreased from 29% to practically zero between 1999 and 2015.
- **The high tariffs in the "first and last mile":** in freight involving more than one concessionaire, tariffs charged on the first or last section are between 7.4 and 10.7



times more expensive than the rate per kilometer charged by the concessionaire that serves 95% of the route.

- **The network has not grown:** despite private participation in the System, between 2006 and 2019 laying of rails practically did not increase, on the contrary, the percentage of the operated rails decreased from 89% to 87%.
- **The participation of railroads in freight transport is low:** railway transports 23% of the equivalent to the cargo volume that land transportation mobilizes. In addition, intermodal cargo transfer at ports decreased from 25% to 12%, between 2007 and 2016. Likewise, the average freight distance decreased 13% between 2005 and 2019.
- **The intensity of competition among concessionaires in the market is low:** only in 35% of the routes two or more concessionaires providing the service in some of their sections. Barely 6% of the municipalities with railways have to concessionaires.

According to the analysis presented, the document suggests that when current concessions expire it will be necessary to reconfigure the network with a more equitable design to achieve that it operates in an articulated manner and promotes greater competition. Meanwhile, in the short-term, regulatory changes are required to promote a more efficient railway system. In this regard, COFECE offers 25 recommendations addressed at legislators and regulators in order to promote greater competition and efficiency in the sector, which are grouped in three areas:

1. **Eliminate obstacles to take advantage of existing rights-of-way and create new ones** through, among others, reforming the Law to establish that rights-of-way contained in concession titles are regulated by the Railway Transport Regulatory Agency (Agency) and that it designs the tariff regulation, on a case-by-case, to incentivize interlineal traffic.
2. **Eliminate bottlenecks in the railway system by promoting interlineal services**, for example, by empowering the Agency to regulate last and first mile tariffs, when certain conditions are met and on the basis of international best practices.
3. **Strengthen the Agency's institutional design**, among others, empowering it explicitly in the Law to sanction any non-compliance of the concessionaires in relation to the timely and complete delivery of information (according to the guidelines issued for such purpose) that will allow it to obtain the necessary elements to effectively carry out its regulatory task.

Within the framework of the legislative discussion aimed at reforming the Railroad Service Regulatory Law, which has already been approved in the Senate of the Republic and is



pending discussion at the Chamber of Deputies, the Commission makes available to the interested public this study, with concrete proposals for amending said Law

[Read the *Study of competition in the public service of rail freight transport \(in Spanish\)*](#)

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