



People's Republic of China  
Poverty Reduction and  
Regional Cooperation Fund

**4th Railway Working  
Group Meeting**  
22–24 April 2019 | Tashkent, Uzbekistan

**4-е заседание Рабочей группы по  
железнодорожному транспорту**  
22–24 апреля 2019 г. | Ташкент, Узбекистан

## **TA–9641: Railway Sector Development in CAREC Countries**

# **What does the freight market want from railways?**

**Andy Sze, Consultant**

# Marketing Steps to Unlock the Potential of Railways

- Segment the market
  - Know your customers
  - Know your competitors
  - Discern key market drivers and trends
- Prioritize targeted segments
  - Profitability, size, growth, competition
  - Capital requirement, cash flow characteristics
- Craft marketing strategy
  - Service product design
  - Pricing
  - Sales channel

# What do potential users require from railways?

- Transport is an important part of supply chain management
- Rail must compete with other modes in service & price
- Rail service quality impacts revenue, inventory level and logistics cost of users
- Users share common set of expectations, but priorities vary
- Expectations are constantly evolving and increasingly impact by technological changes

# Expectations of Potential Rail User

- Frequent, punctual, scheduled service
- Decent transit time
- Reasonable rates
- Safe/secure transport, minimal loss & damage
- Sufficient equipment supply: good selection, well-maintained, clean

# Additional Potential Rail User Expectations

- Prompt cargo visibility, easy track & trace
- Accurate invoice
- Broad network coverage, connectivity with key logistics nodes
- Up to date technology
- Capability to provide integrated logistics services
- Easy to do business with

# Where to find growth opportunities?

- Economic development, trade expansion
- Position as key link in inter-regional transport
- Expand role of cross-border railway services with neighboring countries (e.g. Mexico)
- Diversion of road, sea, air traffic to rail (e.g. Chongqing-Duisburg Express Container Train attracts both sea and air traffic)
- Partner with strong operators who can contribute both capital and management skills (e.g. Mexican rail PPP)

## ***From Moribund to World Class***

# **The Success Story of Mexican Rail PPP**

Rail revitalization is a key driver of Mexico's robust economic growth

- PPP launched in 1995
- Now midway through 50 years concession period
- Concessionaires: *Ferromex* (subsidiary of GrupoMexico) & *Kansas City Southern de México* develop the most efficient rail system in the world



# Mexico's Rail System Map

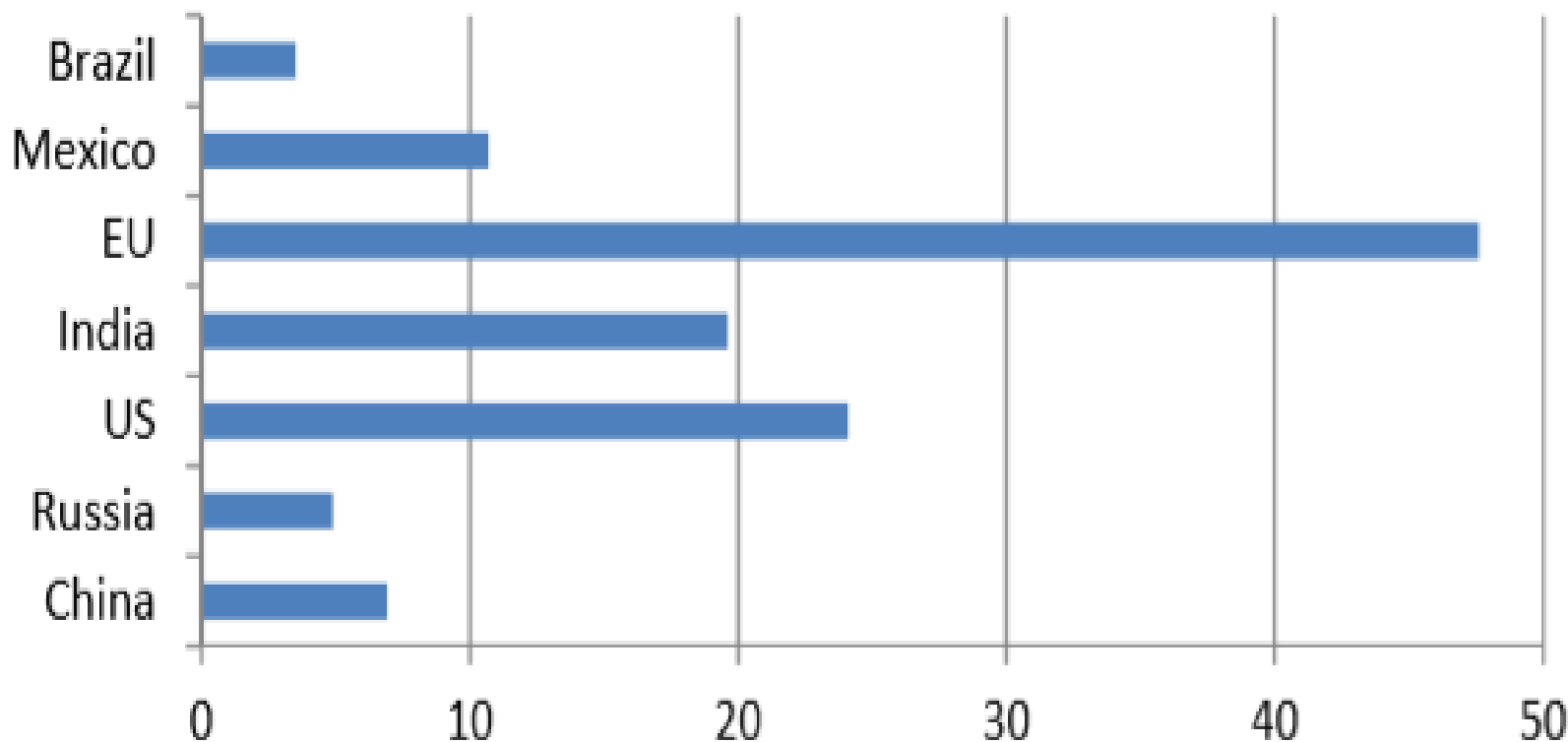
## Network length 17,170 km (18<sup>th</sup> rank)





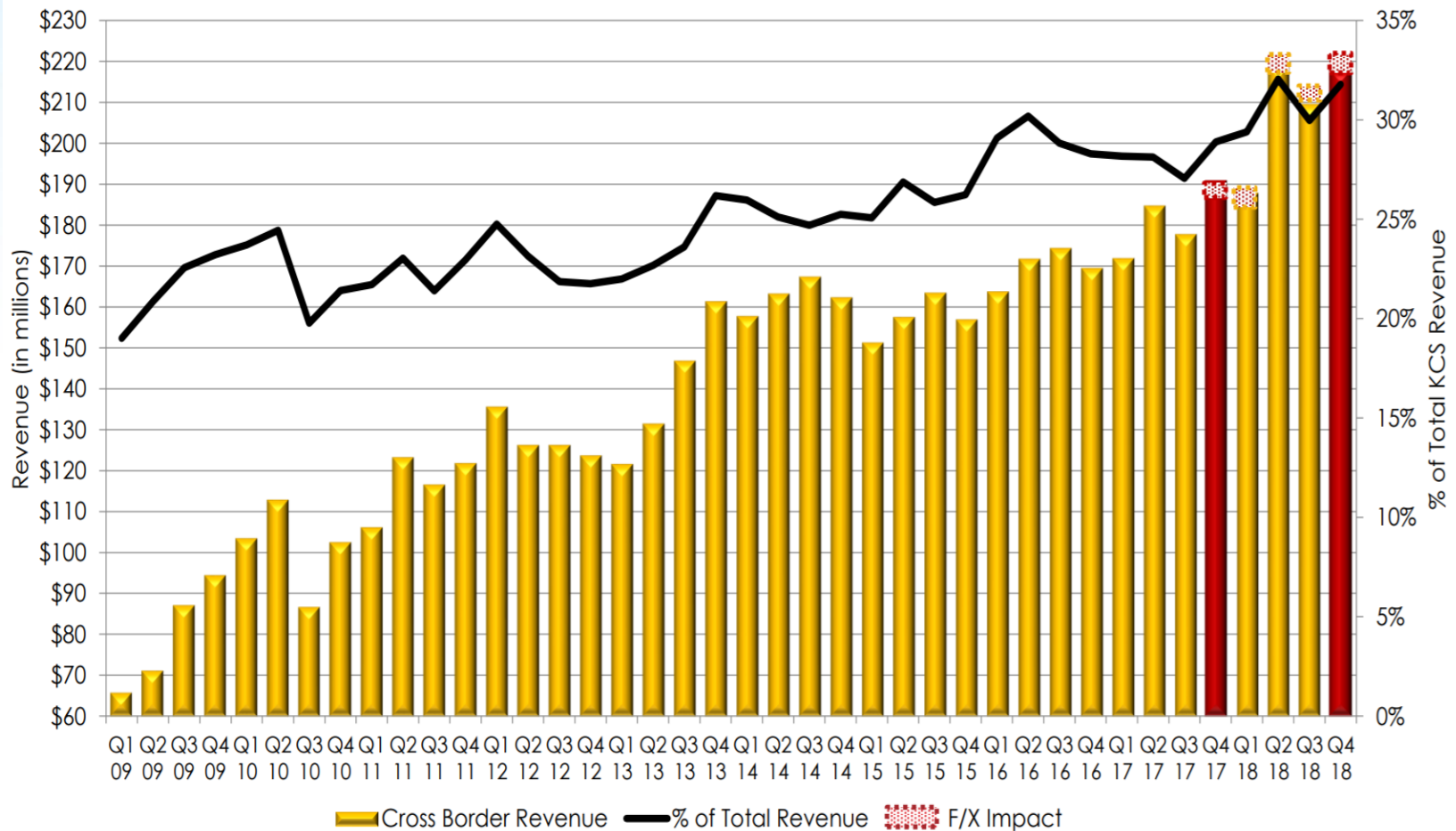
# Mexico's Route Density is 4th Highest Worldwide

Physical route density, Mexican and large freight carrying railways (route-km/million km<sup>2</sup>)



Source: UIC

# Kansas City Southern de México Revenue Growth



Source: Kansas City Southern Jan 2019 Investor Presentation

# GrupoMéxico Transport Revenue Growth (2018)

▲ % Revenue  
Growth

High	30%	148%	<b>Intermodal:</b> Higher domestic intermodal volume in Mexico and consolidation of volumen from Florida operations.
		46%	<b>Minerals:</b> Increased frac sand volume. Growth in movements of mineral fines and briquette to Ciudad Frontera.
		29%	<b>Cement:</b> New traffic gains from: Truck conversion on various routes; Construction of new airport; and reconstruction activities in Southeast Mexico after the September 2017 earthquake.
Medium	57%	12%	<b>Energy:</b> New imports of refined product and LPG; Increased movement of US Coal to the Port of Guaymas for export.
		12%	<b>Industrial:</b> Growth in beer export volume; Increased movement of new railcars manufactured in Mexico to the US.
		12%	<b>Chemical:</b> Recovery of imported plastic resin volumes.
		8%	<b>Agricultural:</b> Record grain imports from US via shuttle and unit trains in May; Start of harvest in Northwest Mexico in June.
Decrease	13%	-2%	<b>Automotive:</b> Lack of car supply due to service US railroad service interruptions; Maintenance shutdowns of some automakers plants in Mexico.
		-2%	<b>Metals:</b> Reductions in exports to the USA due to tariffs imposed on steel; Completion of Mexico natural gas projects.





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# Modern Automobile Wagons



Source: Ferromex

# State of the Art Automobile Terminals



Source: Ferromex



# High Growth Intermodal Traffic



Source: Ferromex



# Success Factors for Mexico's Rail System Revitalization

- Fast, reliable, safe & secure service, with much less cross-border delay than trucks
- Focus on high value-added market segments (e.g. automotive traffic, container traffic)
- Infrastructure upgrade to accommodate large volume movements
- Excellent management & capital allocation
- Strong partnership with Mexican government

# Next Steps

- Obtain relevant rail sector information
- Conduct country visits to prepare 2 pilot assessments
  - Interview/survey shippers, receivers, freight forwarders, customs brokers, logistics operators & road carriers to deepen understanding of freight market
  - Work with government to identify rail development priorities & necessary actions