

Railcar Builders Wake Up from the Dead in Brazil into a Booming Business

Contributed by Marina Sarruf
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Brazil's railway industry believes that sales are going to continue rising in coming years. After producing a record total of 7,500 railcars in 2005, the sector hopes to deliver between 20,000 and 21,000 units from 2006 to 2008.

"The industry is perfectly capable of supplying demand," stated the president of the Brazilian Association of Railway Industries (Abifer), Luís Cesário Amaro da Silveira.

This forecast reflects the expectation of demand by railway concession holders, who plan to invest heavily in the system until the end of the decade.

The installed capacity in the sector now, according to the Abifer, permits the production of up to 12,000 railcars per year. "From now on railways will be used more and more for transport of bulk cargo over great distances," stated Silveira.

With such optimistic forecasts, it does not seem that the sector almost vanished in Brazil. With railways in decadence, the industry reached the end of the 1990's as just a shade of what it had once been.

"In the 1970's the average production was 3,000 railcars a year, this fell to 1,000 in the 1980's and in the 1990's the total fell to less than 200," said the Abifer president. Various companies closed their doors or started producing other products, and many work posts were closed.

National Plan

This started to change with the privatization of the railway grid, in 1996, and gained further strength in 2003, when the Plan for Revitalization of Railways was launched by the Federal Government. From then on, sales of railcars boomed.

New companies have entered the sector, like Randon, a producer of truck trailers, Usiminas, an ironworks, and Santa Fé, a joint venture between logistics company ALL and Millennium; former companies have been reactivated, even attracting foreign capital; and the sector has also won the foreign market, creating new work posts.

Nowadays the railway industry generates around 30,000 direct and indirect jobs and has growing revenues: R\$ 1.4 billion (US\$ 654 million at current exchange rates) in 2004 and R\$ 2.4 billion (US\$ 1.12 billion) last year.

"Production of railcars is a thermometer showing that there has been expansion in the dynamics of the railway sector," stated the director of the Transport Planning and Policy Evaluation Department at the Ministry of Transportation, Francisco Luiz Baptista Costa.

"With greater and greater efficiency at holders of concessions, the industry has grown and broken records," observed Vicente Abate, director of sales and marketing at Amsted Maxion, a joint venture between North American Amsted Industries and the Brazilian lochpe Maxion, which purchased the National Railcar Factory (FNV) and Cobrasma.

Trust

Trust is the word many people connected to the sector use to justify the growth forecasts. It is demonstrated, for example, in the licensee forecast of investment of over R\$ 10 billion (US\$ 4.6 billion, all dollar values at current exchange rates) in the sector by 2010 and in the success in finding financing for the projects.

"Investment is based on contracts with customers and on trust in railways," stated the executive director of the National Association of Railway Transport (ANTF), Rodrigo Vilaça.

Trust in cargo being delivered on time and at the right destination and in the fact that the industry supplying the demand for railcars and equipment. This has even resulted in the organization of new kinds of contracts.

"There are now railcars rental and leasing companies. This did not exist in the past, as there was no trust. Now there is," declared Silveira. "The sector has already adopted more modern negotiating practices, with long term leasing contracts. User trust has grown so much that they are ready to make long term contracts," added Costa.

New in the Sector

There are also new players in the industry, like América Latina Logística (ALL), which operates the South railway grid

and established Santa Fé, a joint venture with Millinium Investimentos, which is made up of Citra and Indian group Besco, makers of railway equipment.

"The demand for railcars started growing in 2003 and there was just one producer and no competition. We saw the need for making the market a little more competitive," stated Carlos Augusto Moreira, the financial manager at ALL.

With this the logistics operator earns on both ends, as it has adopted a strategy of partnership with customers in which the company invests in maintenance of the grid and in locomotives and its customers purchase the railcars.

Investment in the business totaled 5 million reais (US\$ 2.3 million) in January this year. The target is to produce 600 railcars for bulk transport up to the end of 2006.

The company forecasts revenues of 100 million reais (US\$ 46.7 million) in the first year and to generate a 5% increase in the Gross Domestic Product (GDP) of Santa Maria, the city where the factory is based, in the southernmost Brazilian state of Rio Grande do Sul. The plant has already generated 123 direct jobs, which may rise to 400 with the increase of demand.

From Truck Trailers to Railcars

Still in Rio Grande do Sul, Randon, a traditional maker of truck trailers, has also decided to enter the field. With their eye on orders from railroad licensees, the company started producing railcars in 2004.

"Railcar production is similar to the production of truck trailers, and we have 57 years of experience in the sector," stated the coordinator of the railway sector at the company, Claude Domingues.

According to him, using their own technology, the company delivered 96 units in 2004, 494 last year and hopes to reach 1,000 in 2006. Initial investment in the factory in Caxias do Sul was 4 million reais (US\$ 1.9 million), but this year the company intends to invest over R\$ 8.5 million (US\$ 4 million) in expansion of the production capacity from 5 to 10 railcars per day. The production line employs 250 people.

Randon had already attempted to enter the railway sector in 1998, when they started producing, with technology supplied by the Spanish Tafesa, a bimodal semi-trailer called "transtrailer", which may be used both on trains and on trucks.

"Our vision was a little advanced for the time and due to the lack of logistics agents that used integrated transport modes, the business did not provide the return we had forecasted," stated Domingues.

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