

CEPA

EYES TO THE EAST



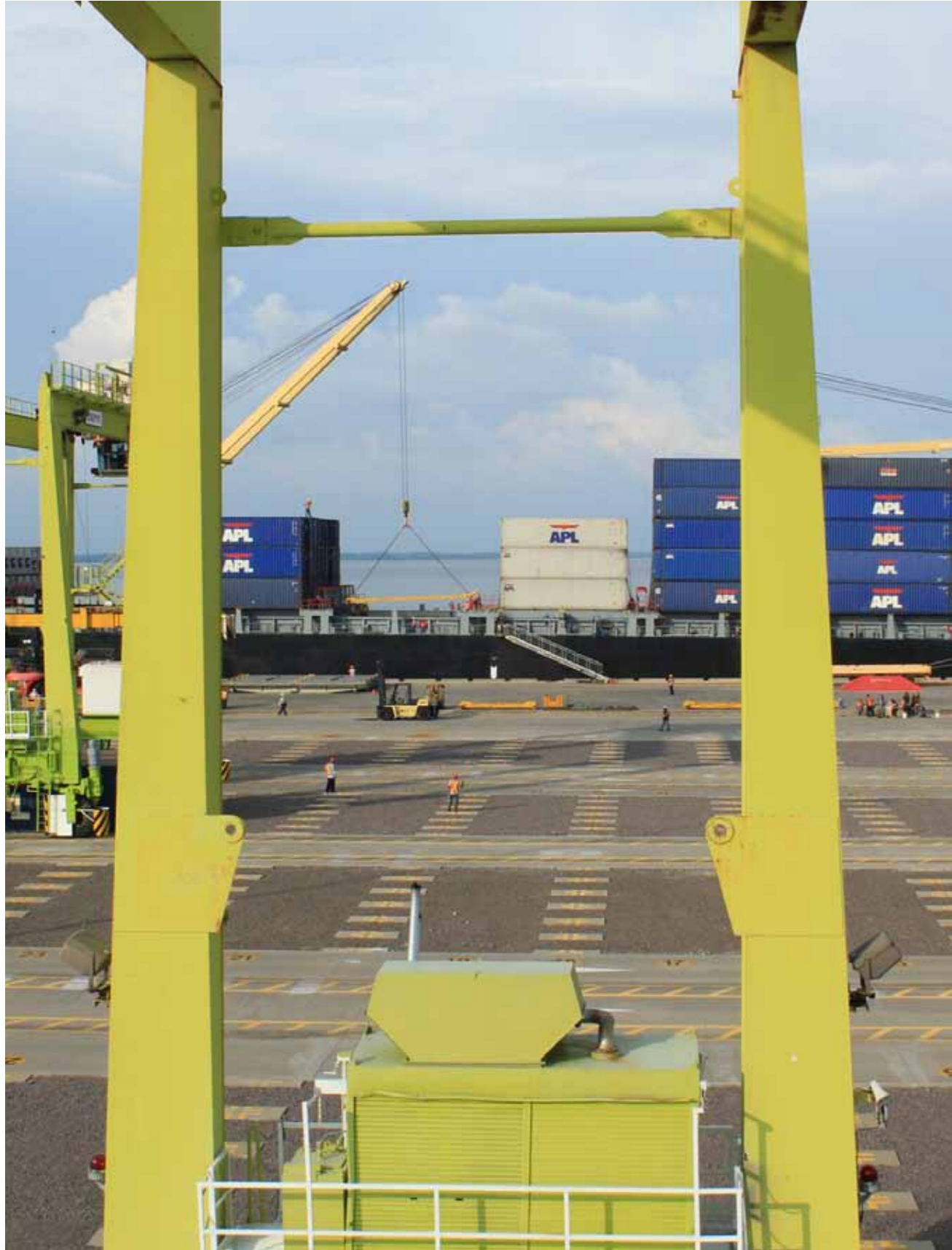


CEPA

EYES TO THE EAST

El Salvador is a small country but a fortunately placed one: its government-owned multimodal transportation enterprise CEPA has the job of seizing the opportunity to transform the new Port of La Unión Centroamericana into a Central American logistics and distribution hub

WORDS BY *John O'Hanlon* ► RESEARCH BY *Abi Abagun*



El Salvador's Executive Autonomous Port Commission (CEPA) is the organisation charged with managing the country's transportation infrastructure – its ports, airports and railways. Tracing its origin back to the 1950s it has accrued responsibility for a number of projects over the years in a piecemeal way. Over this period El Salvador has attracted international attention for some of the wrong reasons, taking attention away from the considerable strengths that derive from its strategic location at the heart of the Americas.

Nevertheless, since 2001 when it adopted the US dollar, Central America's smallest country has grown to be the region's third largest economy. El Salvador is located at the centre of the Americas, giving easy access to the north and south as well as the Caribbean

Transparency International's 2013 Corruption Perception Index, this looks like a very attractive place to invest in. And that is before even mentioning its ports – but it does underscore the rationale for siting the Port of the Central American Union here, turning El Salvador into a platform for regional logistic services.

CEPA itself has had a bumpy ride over recent years, however, with successive government administrations failing to set a strategy for the organisation: it has been led by twelve leaders over the last 20 years, eight of them in the eight years leading up to the appointment of its current President, Alberto Arene. As an institution, CEPA has suffered from years of neglect. Low public and private investment during the last 15 years is reflected in the infrastructure and

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markets, offering a large market to investors. The country has good roads linking it with neighbouring Honduras and Guatemala. And El Salvador has the most modern international airport in Central America and the Caribbean, with 20 daily flights to nine cities in the United States, among other direct daily flights to cities in Central America, Italy, Canada, Mexico, Peru, Dominican Republic and the rest of the world. It has the capacity to move 2.5 million passengers and 30,000 tons of cargo on 25,000 commercial flights, a year.

Thanks to the investments made by the government in education, Salvadoran workers have been judged the most productive in the region. Add to that the fact that El Salvador is one of the most transparent countries in Latin America, taking the 83rd position among 177 countries worldwide, according to

management model of the enterprises administrated by CEPA, which pushed them into debt and reduced their value. Between 2003 and 2009, CEPA invested \$126.69 million in building and equipment for the Port of La Unión Centroamericana alone. As of the end of May 2013, the financial obligations that CEPA had accumulated were in the order of \$106 million, of which \$85.2 million represents an outstanding loan due to JICA (Japan's International Cooperation Agency) for the La Unión project.

But since Arene's appointment two years ago the task of creating a roadmap for the future of CEPA has at last been taken in hand. “The creation of a regional platform for logistic services that will transform the old model is essential,” he says. “Then we can create a new economy that is much more productive and

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“The ferry will be a breakthrough regionally, allowing us to establish a multi-modal transportation hub”

export oriented. CEPA must now connect El Salvador with the world and with the future! Now is the moment, as Central American countries wake up to the advantages of integration, hoping to create a Mesoamerican corridor that will extend down the long-neglected Pacific Coast with a view to spurring trade ties to Asian markets. The Central America Free Trade Agreement (CAFTA), between the United States of America, Guatemala, El Salvador, Honduras, Costa Rica and Nicaragua, and the Dominican Republic, encouraged these countries to increase the compatibility of their trade policies; and in response Mexico took the initiative of harmonising its free-trade

agreements (FTAs) with various Central American partners. Central American countries have signed an FTA with the European Union and are negotiating with the European Free Trade Association (EFTA). They also have FTAs in place with Chile and Mexico. El Salvador, Guatemala and Honduras have an FTA with Colombia. Recognising the importance of trade with the East, Costa Rica has signed an FTA with China and Singapore. The other four members of CAFTA-DR have FTAs with Taiwan. Don Alberto is an economist by training. His goal is to turn CEPA into a modern and profitable company which will make a major contribution to the economic development of

El Salvador and Central America. Currently, road transport carries for almost 40 percent of El Salvador's external trade. This is a high figure compared to Europe, for example, where other transport modes account for more than half of all goods movements. The principal reason for this dependence on the road links is the disrepair of alternative infrastructure. In Arene's own assessment: "The railroad has been abandoned for 30 or 40 years; the International Airport of El Salvador for 10 to 15; Ilopango Airport for at least 20 years and the port of Acajutla for a couple of decades." In

his estimation, CEPA itself was three decades behind where it should be.

That is beginning to change as he pursues a clear goal for CEPA, in line with El Salvador's vision 2020. A key part of this is the government's National Integrated Logistics Policy which aims to transform the country into a Central American logistics and distribution hub - a platform with a young, skilled work force, accelerated technological transfer, state-of-the-art logistics and industrial parks, an investment-friendly legal framework, and process specialisation in the

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global value chains. "We are setting our house in order after decades of abandonment, and now we are working towards very concrete goals," declares Arene. He wants El Salvador's airports to be the most modern in Central America, with excellent cargo facilities and an experience comparable with international airports anywhere in the world. He envisages a new railroad system carrying passenger and freight efficiently within and beyond the country's boundaries. But important as these aims are - vital even - the first task will be the revival of the ports. Acajutla should be developed as a specialised bulk cargo port with adequate storage and downstream business facilities - but the keystone project that will enable El Salvador to capture the potential of the rapidly growing trans-Pacific trade has already been completed.

This is the Port of the Central American Union, La Unión Centroamericana or simply La Unión, which is sited in the natural harbour formed by the Gulf of Fonseca in the south east of the country, in an area that has been starved of investment but is ideally placed for this key infrastructure project. The port was started in 2004 and completed in 2008, using debt funding from Japan. The plan was to then hand the port over to an operator who would provide the further investment needed to equip it and develop the adjacent land as a logistics hub and industrial centre. In the absence of any satisfactory legal and regulatory framework, the government financed the purchase of container handling equipment and built a 1,700 square metre cargo shed and the port was opened in 2010, directly managed by CEPA.

The process by which an operator, or concessionaire, will be appointed has been progressing ever since, the 'Law for the Concession of the Multi-Purpose Port Terminal of Phase I of the Port of the Central American Union' was approved on September 8, 2012. This statute, drawn up with the help of the IFC, allows CEPA to grant a 30-year concession to operate, maintain and develop the 346,578



square metre container port, including docks, yards and wharves. Bidding has taken place over the summer, and the result will be declared before the end of 2013, bringing to an end the uncertainty surrounding the project. Whoever wins will be expected to invest an amount of at least \$30 million in the first ten years and to purchase both the specialised equipment currently installed and to install whatever new equipment will be necessary, such as post-panamax gantry cranes.

The appointment of a PPP operator is aimed to coincide with the opening of a ferry service between the port of Corinto in neighbouring Nicaragua, and indeed the first sailing between La Unión and Corinto took place at the beginning of February 2014. The ferry will transport trucks and containers from Nicaragua to El Salvador and Guatemala. Eventually CEPA would like to reach a transshipment agreement with Honduras, which also shares the Gulf of Fonseca.

Granting the concession and launching



“The commitment of a country towards the progress of its people can be measured by the transformation and modernisation of its logistic services platform”

the ferry will be the first big wins in Alberto Arene’s grand plan to integrate logistics platforms in Central America in a way that will finally give El Salvador the economy of scale that it needs to establish it as a destination for trans-Pacific freight. “It will be a breakthrough regionally, allowing us to establish a multimodal transportation hub here, cutting cost and time for the shippers.” At the same time, CEPA will be working on cutting the amount of red tape involved in customs clearance. Multimodal supply chains are not something that Central American countries have had much experience in, so it will be a learning curve for all stakeholders.

In October 2013 four companies from South America, Europe and Asia presented documents to CEPA in the pre-qualification process for the concession of La Union port. These were SAAM from Chile, the Spanish Grup Maritim TCB, Bolloré based in France and Philippines-based International Container Terminal Services (ICTSI), presented their experience in port management and financial capacity. A special committee has examined the documents, and in February 2014 CEPA invited the selected firms to present technical and financial bids.

Hand in hand with the port development and the ferry is the plan to create a land route that could be cheaper and quicker than the Panama Canal to bridge the Central American isthmus. The proposed Logistic Corridor, also known as El Canal Seco (the dry canal), is a 371 kilometre road between Puerto Cortés on the Atlantic coast and Puerto La Unión on the Pacific. The Logistic Corridor could turn

Central America into the most important logistic and distribution centre in the Americas, immensely benefiting El Salvador and attracting millions of dollars in revenue for both countries, as well as encouraging further development along the Logistic Corridor - particularly in the hinterland of Puerto La Unión Centroamericana.

That is another important upside to the Port. The project will revitalise the east side of the country, bringing in much needed jobs and investment. Large tracts of land adjacent to the port but not included in the concession will be available for development, encouraging entrepreneurship and further job creation. Above all, it will provide a much needed hub to facilitate transpacific trade into Central America at a time when the expansion of the Panama Canal has enhanced the strategic importance of the entire region. As Alberto Arene puts it: “The commitment of a country towards the progress of its people can be measured by the transformation and modernisation of its logistic services platform. This is true for any country but particularly for a small one like El Salvador, which needs to become organised and internally strong in order to be in a better condition to participate in regional and international competition.” **BE**

CEPA

☎ (503) 2249-1212

✉ info@cepa.gob.sv

www.cepa.gob.sv



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☎ (503) 2249-1212

✉ info@cepa.gob.sv

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