

Colombia Freight Transport Report Q1 2011

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Abstracts

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The third and final contract for Colombia's Ruta Del Sol toll road concession was in August awarded to Yuma Concesionaria. The US\$900mn project will involve rehabilitating, expanding and operating an existing 464km single-lane section of highway, with the concession period capped at 25 years. BMI notes that with a total investment of US\$2.7bn the Ruta del Sol highway is one of the largest infrastructure projects being undertaken in the country, with the road linking Colombia's main agricultural, industrial and urban centres. The contract win is positive news for Yuma Concesionaria, a consortium led by Italian construction company Impregilo and financial group Bancolombia, given the large international players that the tender had attracted bids from.

This competition for the contract reflects the opportunity seen by investors to establish a presence within Colombia's nascent toll road sector, as well as the broader investment appeal of Colombia's infrastructure market. Indeed, the concession announcement is in-line with our expectation that large highway tenders will continue to dominate the country's transport sector. BMI does highlight the risk, however, that too many major toll road projects will go to market at the same time (in approximately 2011), raising risks that a large number of projects will be going after a limited pool of capital. Colombia, nevertheless, remains one of our favourite infrastructure markets in the region, reflected in our bullish forecasts for the country's construction industry.

Following the 2010 election and inauguration of Colombia's new President, Juan Manuel Santos, BMI is taking a bullish view of the country's economic prospects, and of the operating environment for the freight transport sector. There are various reasons for this. The President won a strong business-friendly mandate and is supported by a centre-right dominated legislature; he also has a reformist agenda, with action promised

to improve labour markets, crack down on corruption, and raise educational standards. While a serious and continuing problem, the FARC guerrilla movement has been weakened by the tough security policies of his predecessor, which Santos has pledged to maintain.

Importantly, foreign investment inflows are returning and there is a possibility that the country will attain an investment-grade credit rating. All this supports BMI's view that GDP growth will reach 3.9% in 2010 and accelerate further to 4.7% in 2011. We see the rebound in activity being based on steady growth of consumer credit and industrial production. Over our 2011-2015 forecast period we expect annual GDP growth to average an impressive 4.8%.

BMI believes airfreight will be one of the fastest-growing transport modes in Colombia, with double-digit annual percentage gains. After growth of 8.7% in 2009 we estimate expansion accelerated to 16.2% in 2010, and are forecasting a relative fall-back to 10.9% growth in 2011, when total freight carried will reach 82.6mntkms.

At the Port of Buenaventura, Colombia's largest, we are predicting moderate, 4.0% growth in total tonnage handled to 12.80mn tonnes in 2011, which will be the third consecutive year of recovery after a contraction in 2008. In 2010 volume handled at the port had grown by 13.1%. At the port of Cartagena, BMI is forecasting 6.9% growth in total tonnage in 2011 to 9.98mn tonnes, which follows estimated 10.6% growth in 2010, coming after a contraction in the recession year of 2009.

There was a 10.4% contraction in rail cargo carried in recession-dominated 2009, followed by estimated 2010 growth of 8.9% and forecast 2011 growth of 6.4%. The available data are expressed in terms of freight carried (volume x distance, measured in billion tonne-kms), and we expect the 2011 total to reach 12.146bntkms.

Road remains Colombia's single most important freight transport mode, and freight carried correlates most closely to the country's overall GDP. In 2009, when the international recession slowed GDP growth to 0.8%, freight carried by road contracted by 2.4%. We estimate there was a recovery in 2010 with 7.1% growth, and we forecast marginally slower 5.2% growth in 2011 to 48.241bntkms.

In real terms, Colombia's foreign trade will expand by 7.4% in 2011, the second year of recovery following the slump of 2009, when trade levels fell by 6.9%. During the year, exports will grow faster than imports (11.0% vs. 5.0%, reversing the trend in 2010). In nominal terms, exports will rise by 23.4% to US\$62.56bn, while imports will grow 16.7%

to US\$77.94bn, with Colombia as a result running a trade deficit. Looking forward, the country's trade will expand quite vigorously at an average annual real terms rate of 5.5% over the five years to 2015. We see the possibility of an end to the Colombia-Venezuela trade embargo as an upside risk to this forecast.

Contents

- Executive Summary
- SWOT Analysis
- Colombia Freight Transport Industry SWOT
- Colombia Political SWOT
- Colombia Economic SWOT
- Colombia Business Environment SWOT
- Market Overview
- Multi-Modal
 - Road
 - Rail
 - Air
 - Water
 - Pipelines
- Industry Trends And Developments
- Multimodal/Logistics
 - Road
 - Rail
 - Air
 - Maritime
- Global Oil Products Price Outlook
 - Table: Oil Product Price Assumptions 2010 (US\$/bbl)
 - Table: Oil Product Price Forecasts (US\$/bbl)
- Industry Forecast
- Macro
- Air Freight
 - Table: Air Freight, 2007-2015
- Maritime Freight
 - Table: Maritime Freight, 2007-2015
- Rail Freight
 - Table: Rail Freight, 2007-2015
- Road Freight
 - Table: Road Freight, 2007-2015
- Trade
 - Table: Trade Overview, 2007-2015
 - Table: Key Trade Indicators, 2007-2015
 - Table: Main Import Partners, 2002-2008
 - Table: Main Export Partners, 2002-2008

Company Profiles

Avianca

Maersk Colombia

BMI Methodology

How We Generate Our Industry Forecasts

Transport Industry

Sources

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