



Working on the railroad

Business, social ideals satisfied in third-world markets

Distinguished Alumni a continuing series

by Ann Haver-Allen

The thing that must survive you is not just the record of your practice, but the principles that are the basis of your practice. --Bernice J. Reagon, 1983

America's corporate philosophy of buying and slashing doesn't appeal much to **Henry Posner III** '77, who is chairman of the Railroad Development Corp. (RDC), based in Pittsburgh. Although working in the rail industry has been his objective since he was about 14 years old, his inauguration into that business left him somewhat disenchanted.

Mr. Posner said recently while taking a break at a railroad financing conference in New York City that he often does not "have the desire" to do a lot of the things necessary to be successful in the rail business in the United States and has, instead, turned his attention to developing countries.

"In developing countries, you can factor in the more idealistic objectives of saving railroads that would otherwise be abandoned," Mr. Posner said. "The energy comes from the desire to help put economies on their feet through more efficient and safe ground transportation. It's comforting, however, that we are making money at it."

RDC has concessions for freight lines in Argentina, Guatemala, and, most recently, South Africa.

The RDC story began much closer to home with the Iowa Interstate Railroad, a 600-mile regional carrier connecting Chicago and Omaha.

"In 1991 we actually saved a railroad that was truly going to be out of business because it was essentially bankrupt," Mr. Posner recalled. "They could not produce an audit. They had a shoebox with \$8 million worth of checks and that was their accounts payable system. So that's the way we got into the railroad business. We bought an interest in a railroad whose finances we did not completely know."

The successful rescue of Iowa Interstate caught the attention of government officials from Argentina when that country began privatizing freight railways.

"We got a call from Argentina," Mr. Posner said. "Nobody had ever privatized a railroad in South America before, so it was all quite new. We got involved not because we were the biggest and the best, but because we were the only people who agreed to do it."

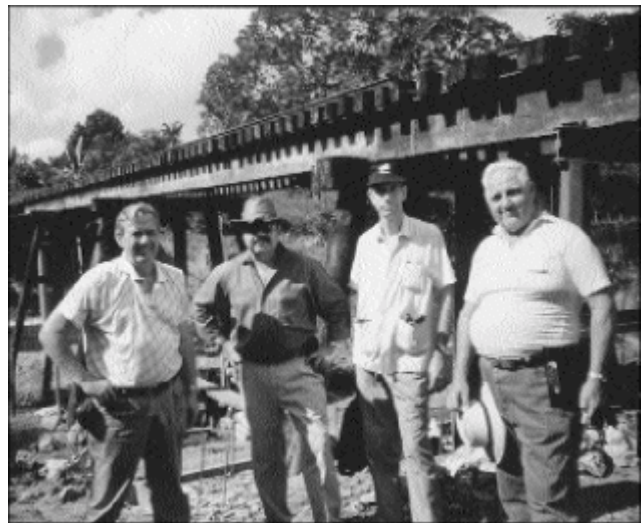
In 1993 RDC became the operator and a shareholder of Buenos Aires al Pacifico, linking Buenos Aires to the Chilean border at Mendoza, and Ferrocarril Mesopotamico connecting Buenos Aires to Uruguay, Brazil, and Paraguay. After years of investing in equipment and infrastructure, the lines are now profitable.

When the Guatemalan government expressed interest in privatizing its defunct railroad system, RDC stepped up to the plate. The deal was sealed in the fall of 1997. RDC is currently working to get its Guatemalan concession operational. That undertaking was dealt an enormous blow last fall when Hurricane Mitch devastated the region.

"We lost about five miles of embankments and two major bridges," Mr. Posner said. "We suffered about \$5 million worth of damage. The hurricane basically doubled the cost of putting the railroad back in service. We lost six to nine months from our timetable. Time is the enemy; we need to get the railroad open as soon as possible."

Hurricane Mitch was only the latest in a long string of hurdles that RDC has had to clear before that first train makes its way from Guatemala City to the Atlantic Ocean at Puerto Barrios and Puerto Santo Tomás.

When the Guatemalan government suspended the operation of its railroad in 1996, the rolling stock was left to deteriorate; the rails were pilfered for use as building materials; and the stations became home to numerous squatters.



ON LOCATION

Pictured from left at Puerto Barrios, Guatemala, are **Bill Duggan**, chief engineer for the Iowa Interstate Railroad; **Renato Fernandez**, general manager of Guatemalan Railways; **Henry Posner III**, chairman of the Railroad Development Corp.; and "**Mac**" **MacKay**, president, Millard and MacKay Engineers, the bridge contractor.

Photo by Hannah Posner

But things are slowly getting back on track, Mr. Posner said, emphasizing that RDC is not trying to "Americanize" the process, the work, or the workers.

"We are doing this the Guatemalan way," he said. "I am the chairman of Guatemalan Railways, but we have a general manager who is Guatemalan, and he has department heads who are all Guatemalan.

"We have found some engineering solutions that are a fraction of the cost of what North American solutions would be. Some are very clever, like using used rails and boxcar doors to build embankments back up."

The latest concession to join the RDC family is in Mozambique. Earlier this year, RDC signed a memorandum of understanding to operate the NACALA rail line and port in Northern Mozambique that connects the land-locked country of Malawi with the Indian Ocean.

"This is the first case of a private-sector company making a direct investment in a railroad in Africa," said Mr. Posner, who has been a train enthusiast most of his life. It was his passion for railroads that brought him to Princeton, where he earned his degree in civil engineering and operations research.

"I needed the credentials of a civil engineer to get an entry-level job with the railroad — a non-engineering position," he said. "I went into operations, which is more general management and people skills than civil engineering."

Mr. Posner said his attention became focused on Princeton when his father, **Henry Posner Jr.** '41, received an issue of the Princeton Alumni Weekly in which the new program in transportation was featured.

"When I saw that story, a light bulb went off and I realized I could actually work for a railroad," he recalled. "Otherwise it may have just stayed a hobby. The transportation program really sparked my interest in Princeton."

Mr. Posner credits three professors as having significantly influenced his career: **Alain Kornhauser** '69 '71, director of the Program in Transportation; **Michael Lion**, professor emeritus and former director of the Program in Transportation; and **Steve Slaby**, professor emeritus of civil engineering.

"The impact that Alain Kornhauser and Mike Lion had was direct and immediate because my objective was to use my civil engineering degree to get a job with the railroad, which I did," said Mr. Posner, who went to work for Conrail following his graduation.

He worked at Conrail for 10 years in operating, marketing, and sales before founding RDC.

"Steve Slaby wanted us to think about what technology means in a developing country. He planted a seed that was dormant for a long time--that being the social implications of technology," Mr. Posner added.

It was the social implications of the technology — the negative ones as related to the rail business — that Mr. Posner had difficulty with.

He had joined forces with some other investors and in 1987 they formed RDC, an investment and management company.

The concept, he said, was to restructure short-line railroads that would otherwise be abandoned. The plan was to save railroads and the associated jobs by operating those rails in a manner similar to commuter airlines--serving smaller markets and connecting to the larger terminals.

"We were never really successful in the branch line business because as it turns out, the key is both growing revenue and cutting costs, which includes cutting employment and wage levels," Mr. Posner said. "That's not what we thought we would be doing. We thought we would be saving jobs and railroad lines."

Mr. Posner said opting not to do business that way has been costly.

"We have stood on the side lines, and it cost us years and millions of dollars in lost opportunities," he said. "But we found something (in Latin America and Africa) that we can live with that's also economically sustainable. It's especially rewarding to see how far an investment can go in a developing country."

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