Let me start by saying that I lived in Newark for five years. When I got engaged to my wife Anne, we had the choice of living in San Francisco or Newark. We chose Newark and it was one of the best decisions we ever made. We lived in the Ironbound section, and it was a great place to live, especially if you’re in the transportation industry. Anne was working at Maher Terminals and I was working in Philadelphia, and it was mobility—the ability to walk to Amtrak—that allowed us to live where we did.

Today I’ll provide some background about our company, Railroad Development Corporation (RDC); then discuss a couple of case studies—Guatemala and Estonia; discuss the risk vs. reward tradeoff that’s not just for investors but also for policymakers; draw some conclusions specific to the rail industry; and then try to translate and/or extrapolate them with the unique circumstances that we find here in the Garden State.

**Background on RDC**

RDC is a Pittsburgh-based railway investment and management company, and we’re typically involved in Joint Ventures with a focus on Emerging Corridors in Emerging Markets, which used to mean Third World countries. But now it is more about trying to reintegrate some of the passenger and freight markets in Europe.

Most of what RDC does is based on Joint Ventures, which is more about who your partner is in terms of success as opposed to how good of a railroader you are.

The following table is a list of countries in which we are currently operating, as well as where we were in the past. Right now RDC is in North America, South America and Europe; in the past we were in the Former Soviet Union and Africa. With the exception of one, these are all freight businesses and they are highly diverse in terms of size and scale.

**RDC Investments:**

<table>
<thead>
<tr>
<th>CURRENT:</th>
<th>Entity</th>
<th>Length (Km)</th>
<th>Employees</th>
<th>Avg. Annual Tons (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>Iowa Interstate</td>
<td>954 (592)</td>
<td>215</td>
<td>14.0</td>
</tr>
<tr>
<td>Peru</td>
<td>Ferrocarril Central Andino</td>
<td>535 (332)</td>
<td>588</td>
<td>1.8</td>
</tr>
<tr>
<td>Germany</td>
<td>Hamburg-Köln-Express</td>
<td>450 (280)</td>
<td>60</td>
<td>Passengers—start 7/2012</td>
</tr>
<tr>
<td>Colombia</td>
<td>Ferrocarril del Pacifico</td>
<td>196 (122)</td>
<td>135</td>
<td>Start 7/2012</td>
</tr>
<tr>
<td>France</td>
<td>RegioRail</td>
<td>Various</td>
<td>40</td>
<td>Start 12/2012</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAST:</td>
<td></td>
<td></td>
<td></td>
<td>Tons Last Yr of Investment</td>
</tr>
<tr>
<td>Malawi</td>
<td>Central East African Railways</td>
<td>797 (495)</td>
<td>417</td>
<td>0.22 (2008)</td>
</tr>
<tr>
<td>Mozambique</td>
<td>CDN-Nacala Corridor</td>
<td>873 (542)</td>
<td>404 Rail</td>
<td>0.2 Rail (2008)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>209 Port</td>
<td>0.9 Port (2008)</td>
</tr>
<tr>
<td>Estonia</td>
<td>Eesti Raudtee</td>
<td>693 (431)</td>
<td>2,345</td>
<td>44.4 (2006)</td>
</tr>
<tr>
<td>Argentina</td>
<td>ALL Central</td>
<td>5,690 (3,535)</td>
<td>1,200</td>
<td>2.3</td>
</tr>
<tr>
<td>Argentina</td>
<td>ALL Mesopotamica</td>
<td>2,704 (1,680)</td>
<td>300</td>
<td>1.0</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Ferrovías Guatemala</td>
<td>322 (200)</td>
<td>13</td>
<td>N/A</td>
</tr>
</tbody>
</table>
USA / Iowa Interstate Railroad

Our Flagship is the Iowa Interstate Railroad (IAIS)—the former Rock Island line, the main line from Chicago to Omaha. Interestingly that was where I worked the summer of 1976. It was the biggest liquidation in the history of the rail industry, and the shock value was one of the main drivers of deregulation, which saved the industry.

Safety is the #1 objective at IAIS and we measure it first and foremost by reportable injuries. Note on the graph that we had zero injuries in 2003, in fact, we won 2 Gold Harriman awards back in the day when the Harriman award program existed.

Note that the traffic statistics’ scale starts at zero. It’s easy to display a dramatic performance by starting the graph at 40,000 and showing an increase to 100,000 carloads. But this scale actually starts at zero and shows the growth in traffic between 1991, when RDC made its initial investment, and 2013. Most of that growth we had little to do with because it was due to the emergence of ethanol as a core commodity in our market; railroads are only as good as the countries or territories they’re in. But better to be lucky than good, and I would argue that we ended up being both.

We are the only Class 2 railroad that has purchased new locomotives. Continental Airlines talked about how they had the youngest fleet in the industry; well, if you look at the average age of our locomotives, IAIS currently has the youngest locomotive fleet in the U.S. rail industry, and we recently ordered three more GE locomotives, one of which will have a surprise color scheme.

Germany: Hamburg-Köln-Express (HKX)

RDC is also in the passenger business in Germany. Of course, “everyone knows” that you can’t make money on passenger service. HKX is intercity service we introduced 2 years ago between Hamburg and Cologne. It runs at 160 kph, so by U.S. standards, it is definitely a high speed service. We are struggling with many challenges, but the fact is, we’re a private sector intercity passenger rail business running with no subsidies in Germany. Interestingly, we are not out to take business away from the national operator DB, but rather to make the market bigger. We have attracted passengers through different marketing channels who otherwise wouldn’t be traveling by rail.
Lessons From Guatemala

The first case is the unusual one of Ferrovías Guatemala, which was a completely abandoned national rail network that ran from the Atlantic to the Pacific and from Mexico to El Salvador. It was abandoned by the Guatemalan Government in 1996; we put it back into operation in 1999 with no public funding; and we ran it for 9 years. Why did we do this? Part of the answer is the real estate value. The deal we negotiated included the use of the right of way for electricity, pipelines, etc. which is a big driver of value and is true for railways worldwide. (Please note that the real estate component will be a recurring theme throughout this discussion.)

We knew Guatemala was not Switzerland, but I would argue that it looks no worse than Conrail’s Bay Ridge line in New York City, at least as it was in the 1970s. The photo is of our main line in Guatemala City, and looks like what the Bay Ridge line looked like when Peter Cohen and I worked on it. Despite this environment, Ferrovías Guatemala won its own Safety awards for being accident-free for a year and a half. The awards involved the entire company operating accident-free; everyone got a chicken dinner for their family, which was a substantial motivation.

Of course, the problem with having valuable real estate is that it is an asset worth stealing. In this particular case, the photo illustrates our right of way, on the part that we were not able to reopen, being used for two parallel electricity lines; running down the middle were sugar trucks. The area with all of the vegetation is the track. Our right of way was literally seized by the electric and sugar industries.

Unfortunately in 2007 we were forced to shut down the railroad, which was a national tragedy. The result was track and bridges being stolen in broad daylight. To be clear, these were not our assets, but the government’s assets; the Guatemalan people were stealing from themselves, “empowerment” at its most graphic. People were literally cutting up 300' high steel bridges in broad daylight for scrap.

This is the result of Guatemala’s policies. In the center photo we are standing in the middle of what used to be the main line, and even the ties are gone.

Just to review the timeline:

- **1996** – abandoned by the public sector
- **1999** – restored to operation by the private sector with NO public funding
- **2005** – oligarch “offer” to become 50% shareholder without compensation in our own company
- **2006** – the government retroactively declared “Lesivo” which translates “against the interests of the country” and created a culture of impunity
• **2007** – (June) but there is justice; we were able to take the country to binding arbitration in the first-ever case of the Central American Free Trade Agreement (CAFTA)

• **2007** – (September) operations suspended

• **2008 – 2012** – infrastructure stolen

• **2012** – CAFTA arbitration award; we won against a country of 13 million people. But it was an extremely expensive victory and really everyone lost; what it took to prosecute this case was a significant amount of our investment. But it gave strength to our brand; people know that we are serious.

• **2013** – six years later we were paid for our investment plus what the tribunal decided what our profit should have been.

### Lessons From Estonia

Now let’s discuss Estonia—the westward facing, internet-driven Baltic Tiger member of the EU. Surely you’ve all heard about Estonia and Skype and their post-Soviet economy. But in Estonia, the railways are nothing more than an enclave of Russian railways in an EU country. It is Soviet gauge, and the business of Estonian Railways was and is the movement of Russian exports. So it is really more like a port railroad, a slightly larger—and wider—version of Little Conrail. So what happened here?

Let’s review the timeline:

• **2001** – privatized and shortly thereafter, traffic increased; personal injuries were reduced 75%; and we completely replaced the locomotive fleet.

• **2003** – Railways Act = Indirect Expropriation of Franchise Value
  There was a complete change in the regulatory environment to a punitive open-access environment in which we were being forced to hand over our main line to our competitors at below cost. Like Guatemala, a Culture of Impunity because it was one of our customers who paid for the legislation.

• **2005** – just like Guatemala, arbitration was initiated; we were not stupid; we had an arbitration clause. And by “we”, I mean we were 5% of the private sector majority shareholder of Estonian Railways. The lead railroad company was in fact Ed Burkhardt’s company Rail World.

• **2007** – (January) ultimately, the government realized it was going to lose, so we settled and sold it back to them. I describe it as a win for the politicians; a draw for the investors (we tripled our investment but we felt that in 5 years we should have done better); and a loss for the Estonian people.

• **2007** – (April) Literally 4 months after the railway was renationalized, it lost half of its business because Estonia got into a political conflict with Russia. So how can a “monopoly” lose half of its business virtually overnight? At any rate, we sold the company back to the Estonian government just in time. As in the case of the Iowa Interstate, it’s better to be lucky than good, and of course we try to be both.

• **2014** – The “monopoly” went from handling 45 million tons in private hands, to now handling 16 million tons in public hands.
Risk vs. Reward

This graphic shows the tradeoff of risk versus reward. If you compare Estonia and Guatemala, what we thought the risk was going to be was actually quite different than what it turned out to be.

<table>
<thead>
<tr>
<th>RISK</th>
<th>REWARD</th>
<th>MITIGATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>ANTICIPATED</td>
<td>ACTUAL</td>
</tr>
<tr>
<td>Traffic</td>
<td>Expropriation</td>
<td>Sale</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Traffic, Financing</td>
<td>Expropriation</td>
</tr>
</tbody>
</table>

In both cases, we thought it would be more commercial risk—would we get enough business to justify our investment, etc.? In Guatemala’s case, the risk was that we couldn’t get traffic or financing. But in both cases the actual risk was expropriation. Why? Because of the value. What was the reward? In Estonia’s case, the reward was the sale of the company back to the government; in Guatemala’s case, the reward was that we took them to arbitration and we won.

How did this happen? There were mechanisms in place—in Estonia’s case, the privatization agreement; in Guatemala’s case, CAFTA. The main point is that the primary source of risk is not business risk; it’s political risk. This is true in the Third World, Europe, and I’m guessing that it’s also true in the USA.

Industry Conclusions

We see the public sector as the biggest source of risk. But also, as Guatemala’s case proved and in other examples, railways are worth more dead than alive. The real estate is usually worth more than a functioning railroad; I’m guessing you could buy the Union Pacific on the New York Stock Exchange, shut it down, sell the track for scrap, sell the urban land, and make a fat profit indeed. But the U.S. has national transportation policies to prevent that from happening because the overall economic benefit of railways to the national economy is in fact quite substantial. So there is a huge multiplier effect of having transportation options. Just looking out the window, what is the biggest creator of value in North Jersey? Transportation. Imagine if all of this was converted to a shopping mall and you took out the rail component. I don’t think that’s likely to happen.

The other interesting aspect is that expropriation is not limited to the Third World, as Estonia is a member of the EU. There is a consistent theme: the combination of Value and Regulation is a Petri dish for Corruption.

So how do you deal with risk? In many countries, it depends on your partners. In RDC’s case we have been able to stay out of trouble through our local partners’ ability to navigate the political and economic climate. Equally important is the Rule of Law. In the case of Guatemala, we actually brought the Rule of Law from outside the country into Guatemala, because when the President of Guatemala pushed the button on us, he forgot that he had signed the Central American Free Trade Agreement several months earlier. If the situation would have been reversed, we would have been out of luck. Thanks to CAFTA, we were able to take the country to justice.

One of Che Guevara’s best quotes is, “The only struggle that is lost is that which is abandoned.” My father was a very wise man, and his favorite saying was, “You don’t know what you don’t know.” If you think you’ve lost, you might actually outsmart yourself because you never know what might be coming around the next corner. The easiest answer is always to give up; but usually we don’t.

Princeton—Facts

Now let’s focus on the developing story of Princeton, my alma mater. The Princeton shuttle train is the so-called Dinky with daily ridership of about 2,000 people. Along comes this proposal to move the station just a teeny tiny little bit. On the map it looks trivial, but let’s look at the numbers.
As a result of the donation of the station footprint by New Jersey Transit (NJT) to the University, and the exile of the station to the southern end of town, daily ridership is down 13% as of 3rd quarter 2013. But just to be fair, this is a conservative number because ridership on the Northeast Corridor was actually up. So if you combine the fact that ridership on that corridor was up 10% and yet Princeton shuttle ridership is down 13%, it suggests that the impact is even worse. Clearly, it hurt ridership.

Part of the answer is that in constructing this new station location, it was done in conjunction with the creation of the “Governor Chris Christie Personal Fitness Trail”. If you want to catch the train from Princeton, it is quite the obstacle course and a case of ‘follow the yellow brick road.’ And to quote the Governor himself, “Everybody would want to walk the extra distance to catch the train.” Yesterday I was in Princeton for an event, and I got off the train with a mobility-impaired person; walking to the event was very difficult for him; and as a Princeton grad, embarrassing. But since this is a Transportation Research Forum event, I am not going to get too personal.

So why was this done? It’s been described by the University as an Arts and Transit Project, but it’s really an “Arts, Parking and Transit Removal Project”. One of the key reasons for this move is to make it easier to drive to the campus, to make it easier to get to a parking garage.

These slides will be posted on our website (http://www.rrdc.com/speech_nwk_TRF_06_2014_slides_print.pdf) to reference the details, so I’m just going to summarize the Princeton timeline, starting in the 1970s when I was an undergrad and the railroads were a dying industry; Steve Goodman was writing about the Disappearing Railroad Blues and it was a downward spiral. Going into the industry when I did, we were there to turn the lights off with dignity; the railroads were bankrupt and the airlines were the transportation mode of the future. But now that thinking has changed. The airlines are an often-bankrupt, almost hopeless business, but it’s never been a better time for railroads.

So at that time, when things were desperate, Princeton U. bought the station and the deal was that this action was taken to preserve the station. There were some details of the transfer which allowed the University to move the boarding point, which they did in the 1980s. Then with the passage of several decades, the University received its largest-ever gift from Peter Lewis (RIP), a major donor, and at the same time talked about how it would really, really, really be helpful to make it easier to drive to the campus.
So discussions began with the state of New Jersey, and then Gov. Chris Christie is elected and becomes a Trustee at Princeton. And all of sudden there are discussions about how funding for the Dinky might be at risk if there is not some serious cooperation. That reminds me of the “offer” that was made to us by the Guatemalan oligarch.

Communications started happening as if they had been written by the University itself. For example, NJT itself argues that the University has the right to move the station, etc. The Governor writes letters of support. And one of my favorites is that ‘the relocating of the station will increase ridership’. Well, nobody who knows anything about transportation is going to argue that moving a station away from the market will increase ridership. But NJT itself claims that moving the station will increase ridership. No surprise—ridership is down—but there is no need for the Board to discuss it because it’s already agreed.

In August 2011, we made an offer to partner with the borough to condemn the station through eminent domain in order to keep the footprint in place, which was not accepted by Princeton Borough. There were steps taken with the NJ State Office of Historic Preservation seeking approval to prematurely abandon its easement, which is a pedestrian easement to allow people to walk to the station. Not surprisingly, the various New Jersey agencies involved including the Historic Sites Council (HSC) all agreed. Another favorite of mine is that the NJT states that the station location is being slightly adjusted. So a double-digit ridership drop is a slight adjustment? I don’t think so.

Keeping in mind the Guatemala analogy, it is interesting that a non-New Jersey forum has been in place thanks to the National Association of Railroad Passengers’ New Jersey affiliate (NJARP), and there was and is a filing at the national level before the Surface Transportation Board (STB). Just like Guatemala, if you really believe that the only way out is to take it to international justice, this is an interesting development. And perhaps the most important development is that the University claims that it will indemnify NJT to put the station back if there is an unfavorable legal development.

And who could have predicted that “Bridgegate” would come along? Now all of sudden the entire process by which decisions are made in New Jersey is brought into question. With the benefit of hindsight, I encourage you to go back and look at all of the facts I presented in the new light of “Bridgegate”.

**Princeton—Options**

I don’t presume to suggest any options for what might happen here except that the American way to solve problems is to wear colored wristbands. Ironically enough, the national anti-bullying organization’s colors are orange and black, which just happen to be the colors of Princeton U. So if you want to feel good, get yourself an orange and black anti-bullying wristband ([www.pacer.org/bullying](http://www.pacer.org/bullying) | [www.stopbullying.gov](http://www.stopbullying.gov)) that has something to do with the Dinky. That would be one solution.
But this table illustrates some other ideas, taking note of what happened in Guatemala and Estonia, that might be relevant in the case of Princeton. In each of these cases there was value that was confiscated in an environment that I would describe as a Culture of Impunity. The culture of impunity in Guatemala and in Estonia is not dissimilar to the culture of impunity in New Jersey because if you look at how the state agencies have acted so far, it is clear that “the fix is in”.

<table>
<thead>
<tr>
<th></th>
<th>ROOT CAUSE</th>
<th>CONTRIBUTING CAUSE</th>
<th>PRIMARY DEFENSE</th>
<th>SECONDARY DEFENSE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Culture of Impunity</td>
<td>Rule of Law</td>
<td>Reputation</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Real Estate</td>
<td>“Lesivo”</td>
<td>CAFTA</td>
<td>“Replacement Investors”</td>
</tr>
<tr>
<td>Estonia</td>
<td>Access Charges</td>
<td>Railways Act</td>
<td>Privatization Agreement</td>
<td>EU Accession</td>
</tr>
<tr>
<td>Princeton</td>
<td>Real Estate</td>
<td>“The Fix Is In”</td>
<td>Selected NJ Venues, National Venues such STB</td>
<td>NY Venues, Press, Princeton Univ., Alums, Brand, Allies</td>
</tr>
<tr>
<td>Station</td>
<td></td>
<td></td>
<td></td>
<td>Community Groups, Transportation Groups, Environmental Groups</td>
</tr>
</tbody>
</table>

So what do you do in a place like Guatemala? You take it out of the country to international arbitration. In the case of New Jersey, it is interesting that NJARP took it to the STB. More importantly, one might also, for example, follow the money and see what the alums think about how Princeton’s relationship with the Governor interacts with its own creed of ethics. Also, there might be some interesting developments in terms of allies that might find this an interesting case. The first one was NJARP but there could be environmental groups and others that might find it interesting.

**Conclusion**

To conclude, these are the facts on the ground as they stand today:

- The station has been relocated; but …
- NJT will be indemnified by the University, which has a $20 billion endowment;
- There have been some leadership changes at the University and NJT; and …
- Who knows, there may even be some leadership changes in the state of New Jersey.

Now I will take your questions. Thank you. Newark audiences are the greatest audiences in the world!