

SAFETY

A GLOBAL PERSPECTIVE

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Safety at IAIS – History

(Mr. Miller's remarks) Iowa Interstate (“IAIS”) employees accomplished a milestone in 2003 by winning the Gold E. H. Harriman Safety Award with Zero FRA reportable injuries; this qualifies me to speak to you today about safety and how we accomplished this feat.

IAIS has had a very volatile history when it comes to safety; we have suffered our share of serious incidents such as deaths, amputation, and full disability injuries. My first serious involvement with the Transportation Department on safety came in 1988 when IAIS had a head-on collision under train order rules which resulted in death and serious derailment damage. We made the news on CNN. Shortly after that, we developed a computerized Track Warrant System for dispatching trains so that we could replace the old train order system which was part of the cause of this incident. This system was thoroughly tested for months before being implemented in 1989. It turned out to be so successful and safe that we have installed it on railroads all over the world. We have not had an incident with the software in 15 years. The implementation of Track Warrant control turned a dispatching system that was non-interactive into a system with lots of interaction between train crews, engineering forces and dispatchers.

Shortly after this, we implemented a quality process at IAIS in which I served as Chairman of the first Safety Committee in 1992. We involved members of labor and management to try to come up with improvements that would result in a reduction of personal injuries. We created a new Safety Rules manual that reflected today's conditions and wrote it in a manner that made it easy to understand. We started local safety committees in the field to report conditions that needed attention in relation to safety; however, our FRA reportable injuries still continued to be high no matter what program or process we implemented.

IAIS Safety History

1988	Fatal head-on collision
1998	Fatal bridge fall
1998	FRA SACP Process
2002	Harriman Improvement Award
2003	No Personal Injuries
2004	Harriman Gold Award



In 1998 we suffered another death; a Maintenance of Way employee got off of his machine on the Mississippi River Bridge and fell off the bridge into the water, and he could not swim. This incident caused us to become involved with the FRA SACP (Safety Awareness and Compliance Program) process. This process involved labor, management, and the FRA facilitators. Committees were formed at both the senior and local levels and met monthly. At about the same time the President started a Pro-formance program which involved all employees of the company. Training programs were also implemented by the Human Resources (HR) department as well as a new process to handle personnel injuries when they occurred. The serious injuries went down, but overall, still remained high for a company of our size.

In 2000, several top-level management people left the company and I found myself with some additional duties, such as representing the company in six legal cases that were headed to court over injuries that dated back to 1993. Through these court cases (which we won all but one), I saw a common denominator. It appeared that none of the injuries resulted in disciplinary action or was fully investigated by management at the time that they occurred. Documentation from investigating officers was non-existent. I found out later that we had implemented a process in our HR department of removing discipline from an employee's file after a period of months had elapsed, thus removing any work history incident information. We also had a history of major derailments on both the main line and in yards, again, with no documentation on file.

With the recession in place in mid-2000 and looking for ways to conserve cash, we decided to slow the railroad down. We lowered the maximum speed from 40 MPH to 25 MPH to conserve maintenance dollars and reduce train-handling incidents and derailments. As a result, we have not had a main line derailment in about three years, saving the company several millions of dollars which we were able to put into the track. Our average derailment cost had been about \$600,000-\$700,000 per year. The other reason to slow down was a tremendous amount of new Engineers who had little experience in handling large trains with 6 to 7 locomotives. When the Iowa Interstate was formed in 1984, all of the employees were former Rock Island employees; 15 to 16 years later all of those employees were retiring. We were going outside to hire new conductors, engineers and mechanical personnel. And so we found ourselves with a new problem—younger employees that we had to train who were not used to running a 10-12,000 ton train.

Safety at IAIS – New Plan

In 2002, I implemented a policy of “Railroading 101”—back to basics. This policy consisted of the following:

- Investigate all personal injuries and document it.
- Enforce the GCOR (General Code of Operating Rules) with efficiency tests of a minimum 30 per month, per supervisor.
- Enhance training for engineers; rides, train handling, train makeup, etc. (and hired 3 Road Foremen).
- Listen to issues brought forth and do something about it, such as:

- Customer sites; scrap yard footing, scrap over sides of car, banding, etc.
- Walking conditions; bridge railings, bad footing, culverts, etc.
- Equipment; bad order hand brakes, oil on engines, etc.
- Job briefings
- Elimination of outside consultants. (I will come back to this later.)
- Changed out supervision that were not on board with safety and reduced committees.

The results of this Plan were as follows:

- We eliminated 2 layers of safety committees.
- Complaints were minimal; in some cases employees could not come up with a complaint as we handled issues very quickly.
- Discipline issued went down substantially, as employees complied with rules.
- Yard incidents subsided (\$84,000 in total derailments expense for 2003).
- Zero FRA reportable injuries in 2003. And this was after a substantial reduction in 2002, making IAIS the “Most Improved” railroad two years in a row.

Today our employees know we are serious about safety; we respond to their issues; and our supervision is on the lookout for unsafe conditions. Our customers are also doing better with their properties and are understanding when it comes to safety.

Safety at IAIS – Summary

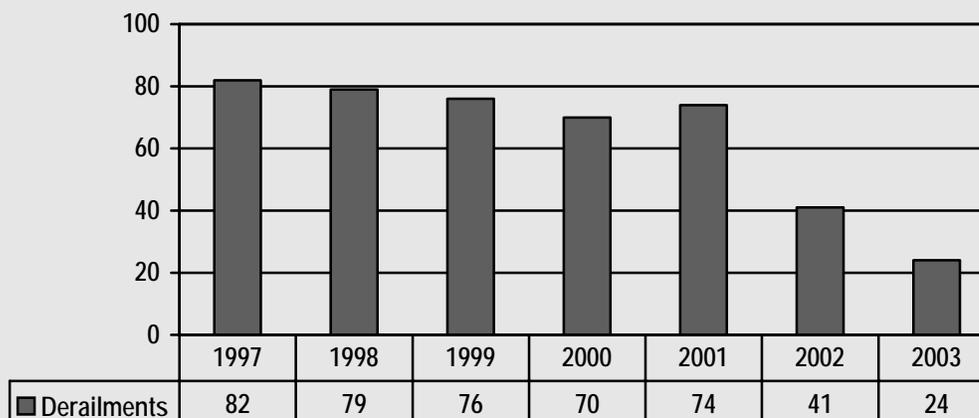
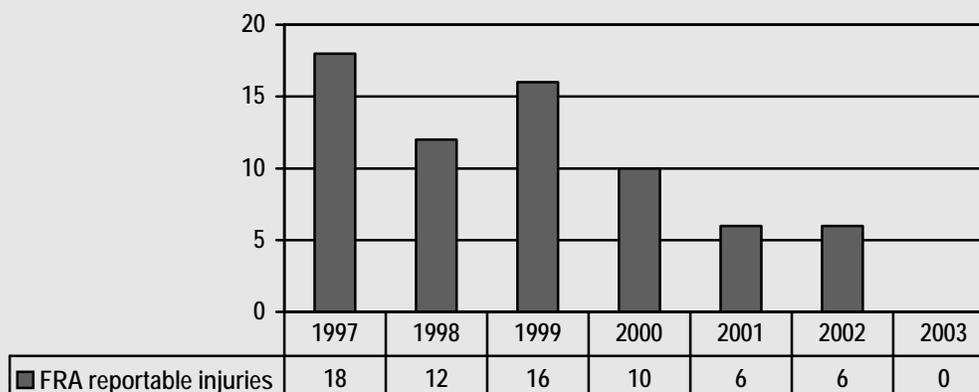
It has been said that there is an element of “luck” when it comes to injuries, and whether they are reportable or not. Anyone who tells you that all injuries are avoidable has never been:

- Stung by a bee and had an allergic reaction requiring a prescription.
- Bitten by a spider and required by the doctor to have a prescription due to swelling and possible infection. (Even though he did not fill the prescription.)
- Obtained bursitis in an elbow and lost 3 weeks of work over “something” that definitely happened while working.
- Obtained arthritis at age 64 and “knows” that it happened exactly at a certain date and time while at work.

These incidents all happened at IAIS, two of them this year, and they were both reportable. So, yes, there is some luck involved, but also a lot of hard work. We have gone from 71 reportable injuries in the years 1996–2000 to 17 from 2001–2004 with Zero in 2003 (Table A).

Table A

IAIS Safety History – Results



Earlier I had mentioned eliminating outside consultants. Most of these have programs or processes that do work; however, unless you and your employees “believe” in safety and live it every day at work, none of the so-called programs, processes, or gimmicks is going to work. If you and your employees truly believe in safety, then you probably are operating a safe company and don’t have a need for outside help. Too often over the years I have heard someone say that they hired a firm to come in and teach safety to their employees. I do not believe you can have an outside party come in, give you a lecture, read some literature, and somehow you become automatically safe.

I have been on the receiving end of the Gold Harriman twice, Bronze once, and Most Improved once. Safety takes a proactive application of training, monitoring, and discipline and I know this works.

Thank you.

(Mr. Posner's remarks) They say you should judge people by the company they keep and I am proud to be a colleague of Denny Miller. Denny is truly reflective of what we are trying to do at Railroad Development Corporation (RDC). The best thing that happened in 2004 was not that RDC ended up owning 100% of the Iowa Interstate Railroad, but that we won the Harriman.

Safety at IAIS – Post 9/11

First I have been asked to talk about what life is like at the Iowa Interstate after September 11th and how we have changed our priorities given the world that we now live in.

Therefore I took the liberty of putting our priorities in this

Exhibit 1: IAIS Priorities (descending order)	
PRE-9/11	POST-9/11
1. Safety Culture	1. Safety Culture
2. Operating Discipline	2. Operating Discipline
3. Liaison with Local Authorities	3. Liaison with Local Authorities
- Grade Crossings	- Grade Crossings
- Hazmat	- Hazmat
- Trespassing Incidents	- Trespassing Incidents
	- Terrorism

exhibit (Exhibit 1) so you can see how things have changed in this new environment. Basically things have not changed at all. We are still focused on what we believe to be the biggest risks, which are the day-to-day Railroading 101 challenges that we all face. This means: rules compliance, safety culture, operating discipline, etc. Just as in the past, we work with local authorities on things like grade crossings incidents, hazardous materials, etc. We've added terrorism to the bottom of the mix but Railroading 101 was the priority and it remains the priority.

Safety Overseas – Local Conditions

Now I would like to get into the overseas side of our business. To give you an overview of how safety fits in the international arena, I would like to make 4 major points:

1. There is a relatively short history of safety regulations in most countries.
2. If you go from country to country, there is an inconsistent definition of incidents.
3. There is a varied definition of what needs to be accomplished.
4. The operating environments are very diverse, meaning highly varying operating hazards in each of the countries we operate.

Safety Overseas – Short History of Safety Regulation

Most of the railways of the world, at least in the early 1990s, were government railways; in North America we have one of the few environments in which private sector railways flourished. As a consequence, when national railways which had historically regulated themselves were privatized, there was a need to create a regulatory body to replace what state railways used to do in regulating themselves. On a country-by-country basis there have been regulatory agencies set up; some are more sophisticated than others. Two examples are OSITRAN which was formed in Peru to regulate the three privatized

railways, and in Estonia the ERA, the Estonian Railway Administration which is the Estonian version of the FRA.

Safety Overseas – Definition of Incidents

When you are comparing North American railways with foreign railways, how do you benchmark how well the foreign railways are doing safety wise versus the North American railways? I think the answer is that you can't. (We'll get into that later.)

One factor to think about is that incidents have been inconsistently defined; for example, in many environments reporting is either non-existent or poor. On the opposite end of the spectrum, in Estonia there was a very disciplined system. In fact, if you got hurt on the way to work, that was a reportable injury. The logic was, 'if you had not employed this person, you would not have exposed them to the danger of slipping on the sidewalk.' That is the way the reporting works and that is the environment that we stepped into. Again I would like to make the point that that makes benchmarking impossible and so it is truly an "apples-to-oranges" comparison.

Safety Overseas – Varied Needs

There is also a varied definition of safety culture; for example, as you go from place to place in different countries the safety culture and operating discipline is very high. One example of that is Estonia which is a former Soviet country and so was subject to an extremely high operating discipline that was the tradition of Soviet Railways. On the other hand in Guatemala, where the railway that was literally a walking zombie until it was finally closed, there was very little in the way of operating discipline, safety culture, pride or any of the things that drive us in the USA.

And in parallel with the wide variety of operating conditions that different railways face, sometimes there are conflicting cultures. For example, in the Andes the macho culture is: "we are railroaders and we will get through despite landslides or other natural disasters," which is a very important and positive aspect of railway culture, but sometimes it does conflict with safety culture. That is one of the things we get into when we go into a new country. These are examples of why benchmarking against North American practice is impossible. I am choosing my words carefully; I'm not saying difficult, I'm saying impossible. This is truly an apples-to-oranges comparison.

Safety Overseas – Operating Environments are Diverse

Finally, local conditions are very varied depending on where you are operating. For example, in Guatemala our biggest problems are theft, squatters, and other urban-type problems. In Peru the many problems are Mother Nature, landslides, 4.2% mountain grades, etc. In Estonia, the biggest problem is now that the country has become a European country; people are becoming wealthier and they are starting

to be able to afford more automobiles and so we have a steadily increasing risk of grade crossing accidents. These are other examples of why benchmarking is impossible versus North America.

Here are some graphic examples. In Peru, there are actually different names for different types of landslides. Pictured to the right is a Huayco; a Huayco is different than a Derumbe. A Huayco is a big landslide where the rocks are bigger than a house, as opposed to a Derumbe where the rocks are only the size of basketballs; this is kind of like Alaska where they have 26 words for different types of snow. In dealing with this we have several things we do in addition to having a full time dynamite guy on staff during the landslide season. We run a track motorcar ahead of the train (pictured Left).



American practice that would be a no-no because you would be worried about the train running over the motorcar. We haven't had any incidents with this, in part to the discipline. More importantly, the risk of coming around a curve and hitting a rock slide is greater than running over the track motor car so there are Solomonic tradeoffs that we need to make in this environment.

In Guatemala, pictured to the right is our main line; this is an open-air railroad that was abandoned. When the train comes along people take their stalls and come through.



Pictured to the left is a garbage dump which we operate through. In both cases, this is our main line and these are the conditions that we operate in on a daily basis; this was a national railway which was completely abandoned and so we started from



less than zero on this one.

You have just seen running through squatter colonies chances in running trains in this environment? One of indeed making the country a safer place. In 2001 a container people (pictured Right). At that time we had zero percent Atlantic. Well, now we have 10%; little by little, that lost traffic by 10% on the highway, then we will have saved Guatemala a safer place just by being what we are, which

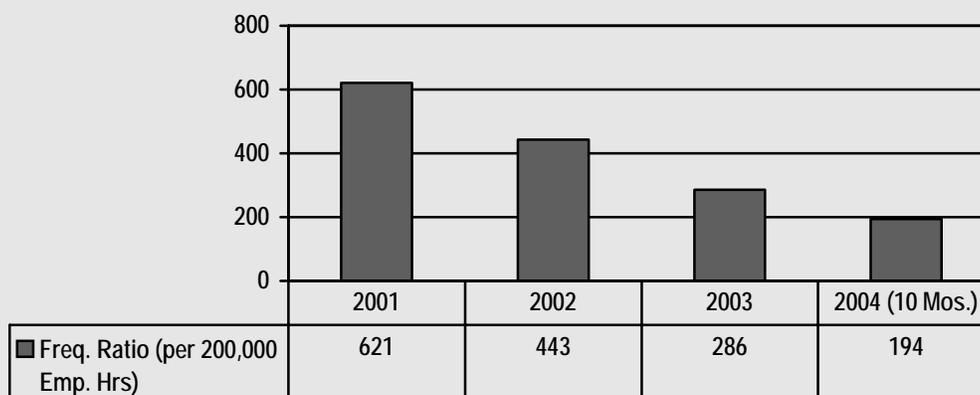
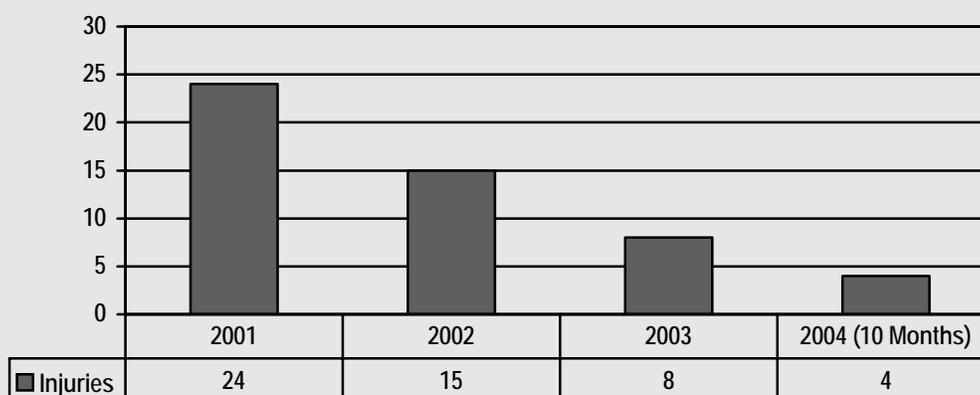


Safety Overseas – Results

If you look at the results on Eesti Raudtee (Table B) since it has been privatized we are particularly proud of the accomplishments to date. Safety is consistently improving from an already good level. Relatively speaking, this was a company with 4,000 employees in 2001 and in that year only had 24 injuries. There has been a steady decline since, but even better is the Frequency/Severity ratio; despite reduced employment, the number of injuries per employee hour has also been reduced. This is better than North American practice. This is a safe railroad and it is getting safer.

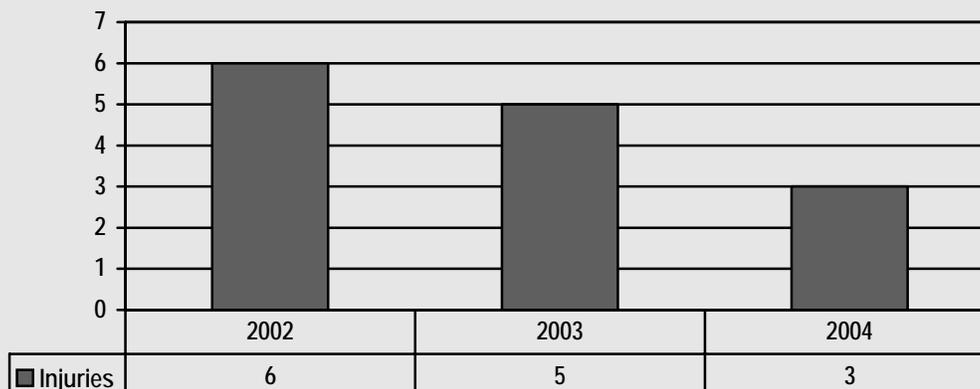
Table B

Estonian Railways Safety History — Results



But even in Guatemala where we have 114 employees running through garbage dumps, squatter camps, etc. we are consistently reducing the number of injuries (Table C). The reason is simple: because we have made Safety a priority.

Table C

Ferrovias Guatemala Safety History — Results**RDC – Safety Philosophy Overseas**

What is RDC's safety philosophy overseas? It is exactly the same philosophy emphasized earlier in relation to the Iowa Interstate, at least in some respects. Just like on the Iowa Interstate we like to take an even-handed approach toward discipline, meaning you are not trying to catch, trap, or punish people. You are there to guide them and to make sure the rules are understood and enforced. Safety is a top-down priority. It is the first thing we talk about at Board meetings, and it is the first thing we ask about. We are personally invested in safety.

Management compensation is tied to safety. People's bonuses have a big safety component; that way everyone is on the same page. When people understand that you are serious and committed, that makes it a lot easier. In line with Denny's comments, we have not outsourced or contained safety; we do not have a full-time safety professional because each of us are full-time safety professionals. It is part of the central objectives at the top of our organizations.

However, in the overseas environment there are things that are different. One thing I need to point out is that RDC is focused on Continuous Improvement; this means that for each country, based on its local conditions, we want to see it constantly get better. Whatever those conditions are, we are looking for continuous improvement as opposed to holding them to a standard that would apply in a place like the USA or even Estonia.

The other thing that we have done is to offer the FRA as the International Best Practice. In many cases countries, as I pointed out earlier, have felt the need to create their own regulatory agency. We have therefore gone out of our way to recommend the FRA International Department as a gateway to what we feel to be the best practice and the FRA has been very good about offering their cooperation on a

government-to-government basis. The government agency asks for help, then the FRA as a U.S. Government entity, can then respond. It has been very helpful.

Conclusion

Let me close with an anecdote which I think you will find very interesting.



You have seen this picture before; the Iowa Interstate crew receiving the Harriman award in Washington in May — but there was a spin-off effect, in that the folks in Guatemala saw that and incorporated it into their attitude towards safety.



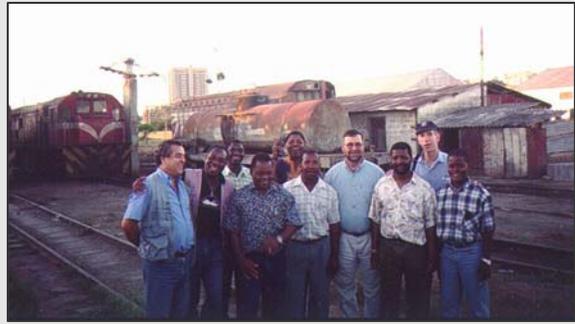
Un Casco Me Salvo!
(translated: *a hardhat saved me!*)

One of the results was that one of our folks was coming back from a derailment site; he was standing next to the road when a truck kicked up a stone and hit the back of his head. Because he was wearing his hardhat, he lived. You can see, in the picture where the circle is, that the hard hat was cracked as a result of the stone being thrown against it. “Un Casco Me Salvo” means “a hardhat saved me”. This was inspired by the Iowa Interstate winning the Gold Harriman award in May. This incident occurred in August. I thought this was great; he was wearing his hardhat where he didn’t need to be wearing his hardhat.



I thought that it was indeed a splendid idea. So when I was in Peru a couple of weeks later in September and our car flipped over in a hairpin turn 3 miles up in the Andes and I wound upside down inside the vehicle, because I was wearing my hardhat (in addition to insisting that everyone wear their seatbelts), nobody was injured! In the photo, there is a circle where I was sitting in the car. So if that isn’t a Virtuous Circle of safety achievement, I don’t know what is.

Finally, I would like to offer some perspective. The world in which we operate is an imperfect world and in many cases truly a struggle. This slogan is one we use a lot and is about struggle: it comes from Samora Machel, the first President of independent Mozambique. Translated from the Portuguese, it says “The Struggle Continues.” We are committed to taking on difficult railways in difficult countries and making them safer—and one of the ways we do it is by associating ourselves with professionals like Denny Miller and by taking the best of each country and putting it together with what we bring to the table in a way that works. And with that I would like to thank you for the opportunity for the two of us to be here and talk to you about our accomplishments. I hope we have time for questions; I think we have six minutes. If there are questions for either of us we would be more than happy to answer them.



A Luta Continua!
(translated: *The Struggle Continues!*)

Question-and-Answer Session

[Q] What are you doing to change the overall culture?

[A] *(Mr. Posner’s response)* In foreign countries we try to do it up to the point where we wind up trying to convert people into Americans; that doesn’t work in any country. There are usually local managers who are capable of effecting change and so within the context of a foreign culture the challenge is to come up with a safety program that works—as opposed to trying to do it the American Way. It is very complex, very intense and requires a lot of creativity. We have not found a synergistic model of how to consistently do it, except that if the owners ask about it all the time and can measure it and if the management is compensated for safety that they will figure it out to do it their way. That will give you the maximum likelihood that it will work. Denny has been to many of these countries and has actually implemented the Track Warrant system in many places.

(Mr. Miller’s response) All the railroads that we went to where we implemented the dispatching system, in some cases there wasn’t a dispatching system installed, but just consulting on rules training and safety manuals. The most important change that we made is that we got rid of the volumes and volumes of government regulations that were issued over the years, and the old British dispatching-type systems that were very rigid, very rule oriented. All of that went out the window when we put in the GCOR. Now, if you go to Brazil, Argentina, Chile, Bolivia, Peru, Mexico, etc. and pick up their rulebook, you will see that it is the GCOR. You’ll see the same rule and probably the same number that you see here on the UP, IAIS or BN. That was a cultural change for them. We actually had to write white papers to submit to their governments to get approval to implement this; so we know it works.

[Q] Mr. Miller, this question concerns reporting. If an employee were to come to you or to their supervisor and report that they possibly sustained an injury, for example, slipped and fell and hit their knee, but it feels okay now because they walked it out; what is your policy for seeking medical attention, or what do you do at that point?

[A] *(Mr. Miller's response)* The first thing we do is complete a Personal Injury Report for the documentation and we ask the employee if they want to be seen by a doctor. In some cases, the employee declines medical attention, and in other cases, we had to insist they go to a doctor. In the case of a fall incident, an employee may have pulled a muscle, experienced a sprain, or broken a bone. We don't know, but we're on the same side, so we check it out. We have had cases like your perfect example where an employee slips and falls down; it hurts a little bit; he doesn't say anything; ends his tour of duty and goes home. The next day he calls in and immediately goes to the doctor. Based on what happens at the doctor's office determines whether or not it is FRA reportable or not.

Concluding comments by Mr. Posner

If there are no further questions, then I can make a plug. I don't know how many of you are familiar with the book *Commitment to Safety* by Earl J. Currie. It is the only book that I've ever come across that is dedicated to rail safety. By way of background, Earl was the first Managing Director of Estonian Railways, in addition to having served at CSX, etc.

This is an excellent book and the only other one I've seen on the subject of rail safety overseas. Even as far as rail management goes, there is not really a lot available in the form of a textbook. So it is especially gratifying to see that someone actually took the time to write a book, and a good one at that, about rail safety.

If interested in ordering a copy of *Commitment to Safety*, please submit inquiries directly to Mr. Currie via E-mail: ejcurrie@hotmail.com.

Again, thank you for your time, and Mr. Miller and I are honored by your invitation to speak at this rail industry safety conference.

[END]