

Real by Douglas W. Polinder railroaders never quit

On April 15, 1999, a train consisting of one diesel locomotive, four 40-foot flatcars laden with bags of cement, and an elderly wooden caboose completed a trip of 33 miles from El Chile, Guatemala, to a terminal in Guatemala City, the country's capital and largest city.

What made this train most remarkable wasn't the motive power, the caboose, the 36-inch track gauge, or even the relatively short haul. Rather, the fact this move could be made at all was a triumph in itself.

This was the first revenue run of Ferrovías Guatemala (FVG). It marked the resurrection of a railroad system the nation gave up for dead in March 1996 when Ferrocarriles de Guatemala (FEGUA) ran its last train.

But before wheels could turn on the rails again, the right-of-way had to be reclaimed from the jungles and the squatters. Track and bridges had to be rebuilt. And there were never any guarantees the traffic would return.

In short, it was a huge gamble.

Enter Henry Posner III, whose Railroad Development Corporation has rolled the dice before in similar situations around the world.

The first revenue train arriving in the capital city on April 15, 1999, was greeted by the President of Guatemala and its U.S. Ambassador. In a country where promises are cheap, you can't get much more real than seeing the train actually roll into the city under its own power.



Floods, hurricanes,
mudslides, killer bees,
36 years of civil war,
and squatters on the
right-of-way.
So what?
Guatemala has
a railroad to run.



Today, one FVG train a day travels in each direction between Guatemala City, and Puerto Barrios on the Atlantic coast, hauling cement, imported coil and bar steel, sugar from Cuba, native coffee, and other goods. In addition, the railroad supports an active steam program and runs tours for international operators.

Still, it's a far cry from the way things once were. The Guatemalan railroad network was once the largest and most important in Central America, with more than 500 miles of track uniting the Atlantic and Pacific coasts, Mexico, and El Salvador.

Several companies built lines here in the late 19th and early 20th centuries. In 1912, the International Railways of Central America consolidated the various lines into a single network, adding El Salvador's system in 1921. In the 1950s, revenues started to shrink as

more highways and roads were built in Guatemala. Civil strife and debt crippled the railway, and in 1969 the Guatemalan government nationalized the portion of the system within its borders, giving birth to FEGUA (El Salvador followed suit with its portion).

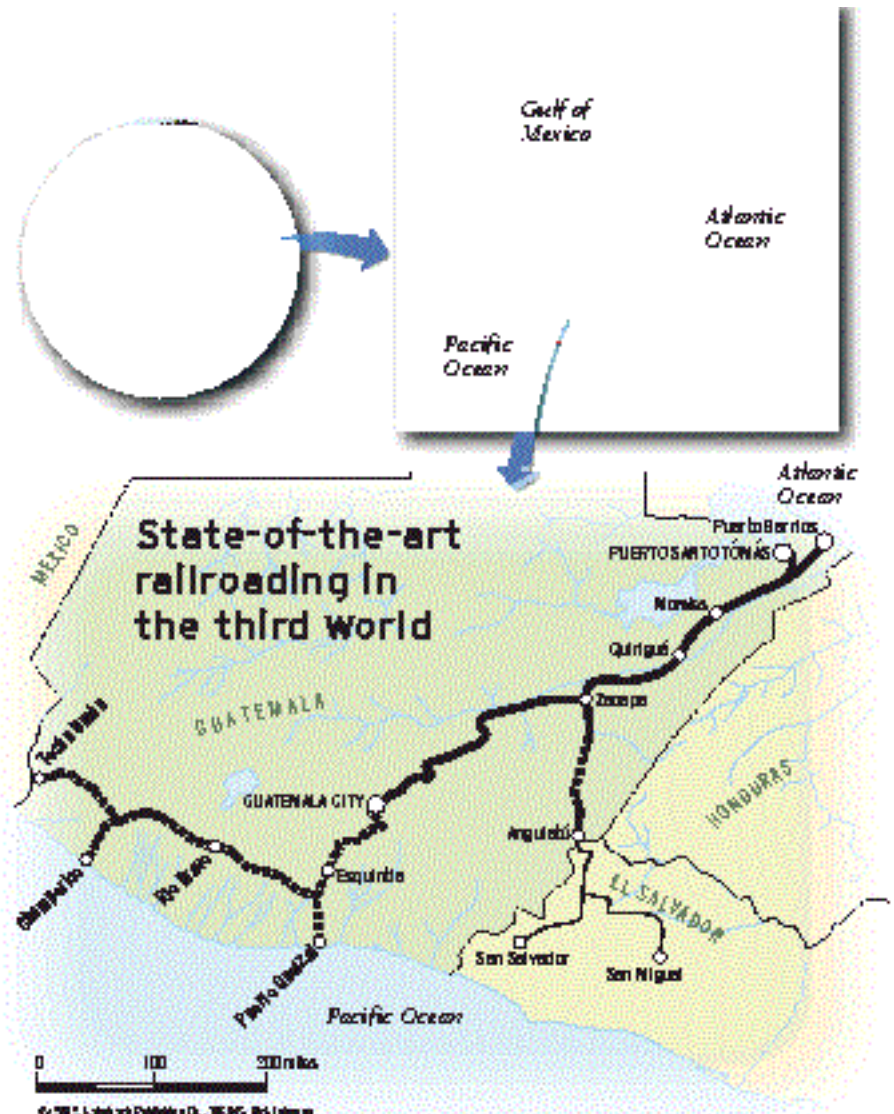
Woes common to state-owned railroads befell FEGUA in the next 30 years: motor carriers competing on government-constructed highways diverted freight and passenger traffic; lack of investment in motive power; rolling stock, and right-of-way made service unreliable; too many employees swelled the overhead. In 1996, the government called it quits.

Recently in the U.S., several rail routes figured to become bike paths have returned to service. But such projects stem from a demand for capacity, and offer a reasonable return on investment. What has taken place in Guat-

emala, however, carries considerably more risk; further, it's without precedent, and may not ever happen again.

Posner, the chairman of Railroad Development Corporation, has a propensity for taking on ventures like this. RDC, based in Pittsburgh, is a privately held railroad management and investment company. Its sole American venture is a 20% stake in Iowa Interstate, operator of Heartland Rail Corporation's 550-mile ex-Rock Island route, which, including trackage rights, extends from Chicago and Peoria, Ill., to Omaha, Nebr. RDC's other holdings lie overseas. In addition to Ferrovías Guatemala, it has ownership interest in the 5200-mile América Latina Logística in Argentina; the 370-mile Ferrocarril Central Andino of Peru (the world's highest railroad); the 500-mile Central East African Railways in Malawi; and the 430-mile Eesti Raudtee in Estonia.

Third-World railways used to be public-works projects.



Before Ferrovías Guatemala could even run a train, it had to rebuild track and bridges that had either washed out or burned since much of the railroad was abandoned in 1996. Almost all work was done with hand labor, local materials, and local talent. The paymaster's safe in the headquarters notwithstanding, money comes dear in this country.

Posner is quick to point out, with the exception of Guatemala, each of RDC's investments is a minority position in joint ventures with local and international partners. For example, RDC's presence in Estonia is in conjunction with Ed Burkhardt's Rail World Inc. and others.

Why did RDC assume the risk of resurrecting a defunct railroad? Posner cites several elements, which he uses as guidelines for every potential RDC project.

First, the seller—the national government—must be committed to the railroad's success. Second, the railroad must have local partners with knowl-

edge of the domestic political and economic climate, and understanding of the language and culture. Third, a market for rail transportation must exist. Last come the technical skills required to operate the railroad, since the primary requirement is to develop revenue and control costs.

Posner finds personal satisfaction in the job as well: "My partners and I had the opportunity [in Guatemala] to provide over 100 railroaders with jobs, basically because nobody else was interested."

One place RDC has hasn't really spread its roots, save for Iowa Interstate, is in the U.S. branch-line railroad arena. The reasons are economic, pure



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and simple. "We need to be extremely aggressive in terms of both assuming revenue growth and implementing cost reductions," Posner says. That means that to be a success, RDC has to reduce a railroad's workforce and wages as much as possible. "This is inconsistent with what we thought was the indus-

Now they must compete with trucks or be abandoned.



Car men at Puerto Barrios work outdoors in the mud and rain to rebuild a water-car truck. Rolling stock is mainly 35- to 50- ton box- and flatcars, almost all with friction bearings.

try's prime directive—preserving rail lines that would otherwise be abandoned,” Posner says.

A personal goal of his in Guatemala is the transformation of FVG's shop complex in Guatemala City into a working museum. This is a unique facility, according to the Smithsonian Institution's Bill Withuhn: “The shops should be considered for designation as a treasure of Guatemala and indeed a cultural treasure for the world, due to its authentic and fully intact state.”

Although FVG's president, Bill Duggan, and general manager, Gerry Brunelle, are American, and operations manager Eduardo Fragata is Argentine, the rest of the management and staff are Guatemalan.

The railway's operating employees are a remarkable story. Even after the railway closed, a number of them continued vigil over the property in the hopes the line would reopen. One employee fired up each of the diesels at the Puerto Barrios roundhouse every 10 days for two years to keep them operational. Another employee, Ismael Cano, now in his 80s, has been with the railway since 1937, when it employed 5000 and operated doubleheaded, steam-powered passenger trains.

For RDC to purchase the railway, it and the Guatemalan government came to an unusual arrangement: RDC and a group of local investors would put \$10 million into the network and pay the government 10% of the gross revenues. In October 1997, government representatives and Posner signed a contract on the rear platform of the presidential coach *Michatoya*.

Vice Minister of Communications, Transportation, Public Works and Housing Jorge Franco sees privatization of the railroad as a practical move. “The government came to the realization that not all freight could move by road. So we have two goals: to see the railroad start to function; and to open the ports and borders to the railroad,” he said. What about government regu-

Housewives in Puerto Barrios wait for a train switching loads of import coil steel in Puerto Barrios. In a good week the FVG moves 2600 tons of freight—and has no derailments.



American money and local ingenuity saved this railway.



Two photos: Henry Posner III



FVG's Bill Duggan (left above) and Gerry Brunelle inspect riverbank erosion at Los Robles. Heavy tropical rains and the occasional hurricane make erosion control an ongoing battle. Hurricane Mitch in 1998 devastated Central America and washed out much of the FVG right-of-way. With the railway open, traffic such as coil steel (left) moves inland to the capital from Puerto Barrios.

lation of rates? Franco says, "Let the market make the decisions." In a 1998 speech, Posner agreed: "I think that given that the railway currently has no traffic is the best evidence that we are not going to be a monopoly."

Work began to reopen the line in May 1998. Equipment was not a major

problem to rehabilitate. About half of the locomotive fleet—10 Alco (Bombardier) MX620s built in 1982 and 15 General Electric U10s and other types—was in relatively good condition, as declining traffic hadn't put much wear on them. Those in need of heavy work were refurbished at a Guatemala City machine shop. Rolling stock, mainly 35- to 50-ton box- and flatcars, were in passable shape, though most have friction bearings.

Posner characterized the track condition as "desperate." The line lacked ballast in many places and was out of alignment. A tropical country, Guatemala has a May–November rainy season (rain is seldom heavy, but falls

nearly every day), so many of the ties had disintegrated. The main line was full of washouts, especially on the 61 miles between Guatemala City and El Rancho. Here, the line climbs steadily from 900 feet at El Rancho to 4910 feet at the capital on a 3.3% grade, clinging to narrow ledges on precipitous hillsides. Runoff had carved away large chunks of the right-of-way, and several large timber trestles had been destroyed by fire.

People were an equally tough adversary. Thieves had pilfered rails and ties for building construction. Guatemala City had severed sidings where they interfered with a highway project. Squatters had moved onto the right-of-

But there's no question this is a high-risk project.



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Henry Posner III

FVG's annual steam train for Trains Unlimited Tours in January 2002 traverses hillsides between El Rancho and Agua Caliente. FVG hopes to attract more rail tourists.

way, induced by developers who sold them utilities and cable television. Removing them became a political problem that delayed track rehabilitation for several months, and to this day has made the company ineligible for financing by international agencies that have classified the FVG as a Category A environmental problem.

RDC plans to reopen the rest of the network in phases. Phase 1 rehabilitated the 200-mile line between Guat-

emala City and the ports of Santo Tomás and Barrios on the Atlantic. Phase 2 will reopen the Pacific section between Tecún Umán/Ciudad Hidalgo on the Mexican border and Escuintla, an industrial town south of Guatemala City. RDC is studying whether there's enough traffic to support reconstruction of the Pacific line, which is in even worse shape than the Atlantic. Preliminary results indicate strong shipper interest. If so, in the third phase Ferrovías will reconnect the Atlantic and Pacific coasts, opening the line between Guatemala City and the Pacific port of Puerto Quetzal; a junction at Santa María will connect this line to Mexico. Although Mexico's railroads are standard-gauge and Guatemala's narrow, railcar trucks could be swapped at the border, or lading could be containerized, as RDC is already doing in Argentina. The fourth and

final phase, if demand warrants, will rebuild the Zacapa-El Salvador line, which closed in 1983. El Salvador is also considering privatization. RDC is interested, of course, since under Ferrovías the operations of the two networks could be integrated, as they were during IRCA days.

For rehabilitation FVG has relied almost entirely on manual labor, because it's cheap, generates employment, and most of the heavy construction equipment in Guatemala is too expensive and engaged in highway work. It's not unlike 19th-century railroad construction: workmen use hand tools to replace ties, align rail, build cribbing, remove boulders and landslides fouling the right-of-way, pour concrete, and construct culverts. They fill gabions—cages made of galvanized steel mesh filled with rocks that

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Read Karl Zimmermann's account of steam excursions on the FVG, plus more background on Guatemala's railway, this month at www.trainsmag.com

Despite initial success, politics are always a factor.



Merchants in Bananera pull back their wares and scowl as an FVG train squeezes through. Squatters moved onto the right-of-way after its abandonment, retreated under government pressure when the FVG reopened, but recently have become more aggressive in their encroachment. At far right, Henry Posner III. Seated next to him is FVG's then-general manager, Renato Fernandez.

armor the right-of-way against stream erosion—one boulder at a time.

Recovering the railway was not for the faint-hearted. Several of the old bridge caps were found to house nests of killer bees, and large scorpions also had taken up residence in the derelict right-of-way.

Rehabilitation was progressing on Phase 1 when Hurricane Mitch devastated Central America in October 1998. Although Guatemala didn't suffer as badly as neighboring Honduras, parts of which received 55 inches of rain in four days, 18 inches fell in central Guatemala, washing out several miles of track, numerous bridges, and obliterating the right-of-way in a narrow

canyon about 30 miles northeast of the capital. The hurricane set completion of Phase 1 back 8-10 months and cost the FVG about \$4 million.

The first revenue train arrived in Guatemala City amidst ceremony. Railroad employees present, many of whom had never expected to see the railway operate again, were not the only ones with cause to celebrate. The nation celebrated too, for attending that day were its President and other government officials, the U.S. Ambassador to Guatemala, and various railroad executives.

Don Ismael Cano, who had seen the railroad go from private hands into



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those of the government and then shut down, was there too. The circle was complete; his railroad was again in private hands. And it was running. **I**

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Ultimately, the nation has to want a railway.