

Business News

An uphill climb...

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Guatemala City — FOR the freight trains rolling through this Central American nation, every journey is a one-way trip to trouble.

Scrap-metal pirates plunder the tracks. Purloined spikes cause derailments. Seasonal rains bring washouts. Squatters build homes in the right of way. The track supervisor packs a 9-millimeter pistol. Just in case.

Engineers carry shovels to scoop garbage off the line in Sanarate, whose residents use it as a municipal dump. The tracks double as a parking lot in the narcotics hotbed of Morales. Locomotive drivers wait there patiently for the owners of shiny sport utility vehicles to move them off the rails.

"We don't bulldoze the cars because you never know which drug lord's car it might be," said Henry Posner III, a bow-tie-wearing, Ivy League-educated millionaire from Pittsburgh.

For nine years, the rail buff has been pouring time and money — \$15 million so far — into a quest to get Guatemala's railways back on track. Now, he's facing the biggest obstacle of all: Guatemala has soured on the deal it cut with him. It wants its trains back.

The feud may cost Posner his investment and get him run out of the country on the proverbial rail. He vows he won't go easily.

"My desire is to give Guatemala a railroad even if they don't appreciate it," Posner said. "Because in the long run, someone will appreciate it."

It's hard to imagine now, but Guatemala once boasted one of the world's finest rail systems. In the early 20th century, American banana magnate Minor Keith Cooper, founder of United Fruit Co., stitched together a coast-to-coast network that dominated freight and passenger transport for decades.

But by 1996, rail service had ground to a halt, a victim of competition from highways, a botched government takeover and civil war. Eager to jump-start its economy, Guatemala set about privatizing state-owned industries, including rail.

Enter Posner. The 51-year-old entrepreneur has made a career out of salvaging troubled railways in far-flung parts of the world. Where others saw a money pit, he saw opportunity.

Guatemala's highways are choked with traffic. Yet its economy depends on moving heavy exports such as fruit, sugar and textiles to ports on the Atlantic and the Pacific. His Pittsburgh-based company, Railroad Development Corp., was the only bidder for the concession. It won a 50-year contract in 1998 in exchange for giving the government 11.25% of revenue and taking care of most of the maintenance.

The engines and freight cars were battered. Stations were crumbling. Storms and thieves had ravaged the old narrow-gauge track. RDC decided to replace what it could and patch the rest until its freight business got rolling. In 1999, it reopened a 200-mile stretch from Guatemala City to the Atlantic port of Puerto Barrios.

"This was Lazarus," said RDC President Bob Pietrandrea. "We raised it from the dead."

But a feat that dazzled railroaders hasn't paid RDC's bills. The average speed on the rickety rails remains just 10 mph. Trains derail almost daily. The joke is that Guatemala has gotten itself a bullet train — so slow you want to shoot yourself.

To find out why, just ride a freight train east out of Guatemala City with Daniel Castaneda, Posner's operations chief.

A native Guatemalan who worked for a time as an auto mechanic in Modesto, Calif., the burly, amiable Castaneda can overhaul a Volkswagen Beetle or this 1971 General Electric locomotive with equal dexterity. He is also a worrier, which gives him plenty to do on the tracks.

On a recent afternoon, he and two engineers headed for Puerto Barrios hauling a load of aluminum and plastic scrap. The cab of the gunmetal gray "loco," as Castaneda calls the engine, was cramped and showing every day of its 36 years. The cracked windshield was reinforced with tape. The passenger seat tilted at a drunken angle.

As the train crept through the capital, engineer Joel Lopez kept a firm hand on the brake and a gimlet eye on the tracks. He blew the deafening horn with vigor. No one seemed to grasp that the locomotive was a 70-ton moving object. There were no crossing gates at intersections to keep motorists and pedestrians from wandering into the path of the approaching train, which they did with alarming regularity.

An open-air market did a brisk business over the tracks, the one place vendors don't have to pay rent. They languidly moved out of harm's way just moments before impact. The hawkers know precisely how high they can stack their merchandise between the rails so that locomotives don't flatten it.

Parallel streets run so close to the tracks that as little as six feet separates trains and motorists. Castaneda said a locomotive rammed a parked school bus full of kids last year. Miraculously no one was killed. He said municipal officials had ignored his pleas to honor the 50-foot right of way on each side of the tracks.

"This isn't a safety culture," he said with a sigh.

As junkyards and shanties gave way to green countryside, Castaneda acknowledged that he rarely enjoyed the view. He is too busy scanning for trouble spots on the tracks. He fretted about wheels that are wearing out too fast and crowded over ingenious fixes, such as substituting pistons and rings from a car engine for locomotive air compressor parts that are no longer available.

Wear and tear isn't as maddening as theft. At Milepost 187, the train stopped and Castaneda clambered down to talk to Richard Cooper, the lean, grizzled track supervisor who was already on the scene. Cooper, a former Beverly Hills divorce lawyer who arrived in Guatemala 14 years ago after his marriage cracked up, was wearing his customary 9mm and a resigned expression.

The ends of several wooden railroad ties were smoldering. That's the calling card of bandits who set fire to the ties to loosen the steel spikes and plates anchored in the wood. Cooper's men used shovels and dirt to stop the burning. Experience told Cooper that the thieves were here two hours earlier and planned to return to claim their prize. Scrap dealers pay about \$1.20 for two plates and four spikes. It costs Posner's company about \$30 to replace the hardware and one tie. They lose hundreds of ties monthly.

The continuing thefts and other problems frustrate Posner.

He says he has lived up to his end of the bargain to restart freight service to the Atlantic, but the key to profitability is reviving trains to the Pacific, which sugar growers use to export most of their cargo. For that, he needs the government's help.

Thousands of squatters have built homes, businesses and even churches over the rail bed, determined to control a patch of turf in a nation where a wealthy minority own most of the land.

The government, Posner contends, hasn't honored its obligation to relocate them and has failed to turn over about \$3 million in lease money from tenants on railroad property — money that was supposed to go toward track improvements.

In 2005 his firm invoked a clause in its contract to force officials into binding arbitration to settle the beefs. The government claimed arbitration wasn't warranted and moved to block it.

Now, the dispute has escalated into an all-out brawl.

A betting man might not put his money on the rail-thin, bespectacled Posner. With his Orville Redenbacher looks and cerebral manner, he could be mistaken for just another swell with an expensive hobby. But he's a hard-core rail guy.

He can't say for sure how he caught the bug. Maybe it's the genes he inherited from his maternal grandfather, who was a signalman on the Pennsylvania Railroad. Or perhaps it was the British rail vacation when he was 8.

Posner studied engineering at Princeton because it had a transportation program — not to mention a commuter train known as the "Dinky" that stops at Princeton Station. He sold Amtrak tickets out of his dorm room. He proofread train schedules for the "The Official Railway Guide." He interned at the now-defunct Rock Island Line.

While his classmates found jobs on Wall Street or Madison Avenue, Posner headed for a South Bronx train yard, spending nearly a decade at Conrail in operations, marketing and sales.

Helped by his family's money — they made their fortune in outdoor advertising — Posner formed Railroad Development Corp. in 1987. At the time, American railroads were restructuring, selling off their short-line routes. RDC's first investment was a Midwestern railroad.

A fluke phone call in the early 1990s got Posner looking farther afield. Some Argentines were seeking partners to help them take a former government railroad private. Posner, who speaks Spanish and had traveled in Latin America, jumped in.

That profitable deal led him to invest in half a dozen privatized lines in some tough neighborhoods around the globe. His operators have battled HIV in Malawi, cyclones in Mozambique and landslides in Peru to keep the cargo moving.

Friends and employees say Posner is never more at home than when he's steering one of his locomotives through the frigid Andes or riding a freight train through the African bush.

They say he also knows the value of a buck. Posner drives a subcompact Chevy, buys his work boots at a discount den and composts coffee grounds because he can't abide waste.

"Henry knows how to make money in this business," said RDC's Pietrandrea. "He's tough, he's smart and he's nobody's fool."

BUT in Guatemala, Posner might have met his match. In a rare and powerful legal maneuver, Guatemala last year declared the lease of its rolling stock to RDC to be *lesivo*: against the interest of the state. If a court grants the government's request to recover its engines and rail cars, RDC would be out of business.

The government claims that RDC is paying too little and that the lease contains no safeguards to protect its "historic" equipment, which is of "incalculable value" to the people of Guatemala, according to the order.

"It's cultural patrimony," said Mario Estuardo Gordillo Galindo, Guatemala's prosecutor general.

Posner, a connoisseur of antique trains, hoots at the idea that the jury-rigged machinery is a national treasure. Top officials simply aren't interested in a railroad deal negotiated by a previous administration and are furious at his efforts to force them to fulfill contract obligations, he said.

He said they wanted to hand over the railroad's real estate to cronies without compensating him. A private utility has already erected transmission lines along the tracks without paying RDC for the rights. Sugar barons have built roads on railroad land.

"The railroad is worth more to them dead than alive," Posner said of the government.

For now the trains are still rolling. But the threat of closure has scared off customers and investors, he said.

Castaneda said the theft had gotten considerably worse since the *lesivo* order. He said scrap-metal bandits took it to mean that the railroad was a goner and they could help themselves to the spoils.

He recalled how "Mr. Henry" — as Posner is known to the 75-member workforce here — flew down from Pittsburgh to reassure employees personally, in their own language, that he was going to fight to save the railroad and their jobs.

Posner is spending \$100,000 a month out of his own pocket to keep the operation afloat.

"Our biggest fear is when Henry Posner is going to say 'No more,' " Castaneda said.

Posner has one potent weapon in his arsenal. RDC is suing Guatemala for damages, invoking an investor protection clause in the Central American Free Trade Agreement, which includes the U.S. and Guatemala. That pact forbids governments from expropriating assets of foreign investors.

If the gambit works, Posner stands to win as much as \$65 million — his investment plus \$50 million he is claiming in lost revenue. Failure to pay could subject Guatemala to U.S. trade sanctions. RDC is expected to file its claim today in Washington before a special international dispute panel. A decision could take two years.

Some say the Americans were naive, arrogant and never came up with a workable business plan. And now they're seizing on CAFTA to score a fat payday. "I think they just want out," said Freddie Perez, director general of Expogranel, a sugar exporter.

Others are quietly cheering Posner's grit. Guatemala has a history of crony capitalism and backroom dealing, said Carolina Castellanos, executive director of the American Chamber of Commerce in Guatemala. She said Posner's refusal to roll over and his willingness to escalate the fight into an international trade dispute might help the business climate over the long haul.

Posner says all he wants to do is run a railroad. Others think it's something more.

"If you look at it from a business standpoint, he probably should have cut his losses a long time ago," Castaneda said. "But for Henry, it's not just about the money.... It's principle."

Guatemala's Rough Road — Photo Gallery



A Ferrovias Guatemala train enters the yard on the outskirts of Guatemala City. The country once had one of the finest rail systems in the world. (Sarah Meghan Lee / For The Times)



Engineer Jorge Victor Diaz Marroquin drives through the train yard outside Guatemala City, where another cargo car will be added before the train begins the 24-hour journey from the capital to the Atlantic Coast. (Sarah Meghan Lee / For The Times)



A worker puts out a fire on the tracks en route to the coast. Bandits set fire to the railroad ties to loosen the metal of the tracks, which they sell for scrap. (Sarah Meghan Lee / For The Times)



A Ferrovias Guatemala cargo train passes through slums on the outskirts of Guatemala City. (Sarah Meghan Lee / For The Times)



Vendors set up shop on the tracks, where they don't have to pay rent, and move out of harm's way at the last moment. They know just how high they can stack their merchandise so the locomotive doesn't flatten it. (Sarah Meghan Lee / For The Times)



A market on the tracks outside Guatemala City. The railroad's operations manager says municipal officials have ignored his pleas to honor the 50-foot right of way on both sides of the tracks. (Sarah Meghan Lee / For The Times)



A shoe repair hut and worker traffic make the railroad unusable in Puerto San Jose, on the line to the Pacific Coast. Thousands of squatters build homes, businesses, even churches over the rail bed, determined to control a patch of turf in a nation where a small group of wealthy people own most of the land.

(Sarah Meghan Lee / For The Times)



A couple kiss next to the tracks in Puerto San Jose, on the now unusable line to the Pacific. The man who wants to salvage the railroad says the key to profitability is reviving trains to the Pacific, where the nation's sugar growers export their cargo. (Sarah Meghan Lee / For The Times)



People in Puerto San Jose often use the old tracks as a fishing spot.
(Sarah Meghan Lee / For The Times)



Henry Posner III, center, rides atop an old Ferrovias Guatemala steam engine as he leads a 2005 trip in the country. The Pittsburgh millionaire has made a career out of salvaging troubled railways in far-flung parts of the world. (Steve Adams / For The Times)