What's it like to run a foreign line?

Q&A with Railroad Development Corp. Chairman Henry Posner III

Henry Posner III, chairman of Pittsburgh, Pa.-based Railroad Development Corp., oversees an operation that includes the Iowa Interstate and railroads worldwide. David Lester interviewed Posner.

Q What motivates RDC to invest in international rail properties?

A When North American rail properties are for sale, typically there will be numerous companies interested and the prices that they are likely to pay are aggressive, because there are so many potential buyers. These companies either have a low cost of capital or they are making promises they have no intention of keeping, either by making a high offer with the expectation that they will renegotiate or by somehow getting the premium partly paid for by the public. We have never really figured out a way to be competitive in the domestic market, simply because of the sheer quantity of operators out there. Moreover, they were opportunities that nobody else saw as such. We found that we did not have a competitive advantage in North America, but we did in other countries, precisely because virtually nobody else was interested. As most of these deals evolved, there have been at the most a handful of bidders.

Q How about the success of your investment in the Iowa Interstate?

A This is a combination of being both good and lucky. We did not invent ethanol. We do, however, have a management team, led by Denny Miller, which was in position and able to take full advantage of the opportunity that ethanol and other new types of business have presented, as well as taking advantage of the efficiencies that our new locomotives brought us. Our ability to capitalize on the Railroad Rehabilitation & Improvement Financing loans from the Federal Railroad Administration has been key. Negotiating the loan process requires a certain amount of expertise, which we have developed.

Q Going into underdeveloped countries and trying to make a success of a troubled railroad takes a lot of guts. What exposed you to international operations?

A I was a Spanish speaker, thanks to having done some traveling in Latin America in the 1980s, including Argentina in 1986. In July of 1991, when we were working on the closing documentation for the Iowa Interstate, we were called by an Argentine company looking for a partner. We became a pioneer in what was to become the global privatization movement as it is now known. Most of the time, countries interested in privatizing their railroads approach us. Therefore, when the phone rings, pick it up and answer it. That's a strategy that has served us quite well over the years.

Q What are your criteria for investing in railroads outside of the U.S.?

A In descending order of priority, they are as follows: First, is the country serious? Second, can you find local partners? And, third, what are the economic prospects for a railroad? Usually, if you have the first two, you come up with number three because if you've got a country that's interested in having a railroad, and you've got local partners to understand the culture, then there are enough fundamentals available to enable you to come up with some sort of a restructuring of a railway, regardless of the environment. Freight railroads worldwide are fundamentally profitable businesses, and passenger railroads worldwide are fundamentally unprofitable businesses. However, the United Kingdom and other countries have demonstrated that you can get the private sector involved in passenger operations by finding an organization that will run these operations for the lowest subsidy.

Q How is being the chairman of a domestic railroad different from that of an international railroad?

A I think managing a domestic railroad is quite different than managing an international railroad. Railroads outside of the U.S. and Canada are mostly not network businesses. There are very few railroads in Latin America or Africa, for example, that connect with each other, and when they do, the network is isolated, as it usually serves the nearest port, so you don't have the issues of interchange that you do in North America. You also have a different type of competition: world commodity prices. So, you've got product competition as well as world transportation competition. In other words, there wouldn't be a coal business in Mozambique if it wasn't for the world price of coal as opposed to anything that Mozambique would be doing to make their coal competitive. There are also operating environments that are quite different than North America. In Peru, our railroad is the world's second highest, as we cross the Andes at 15,000 feet and have 17 switchbacks. There's nothing like that in the United States. While the operating environment is much different, a surprisingly common thread among the international railroads is that the rolling stock is familiar, a good example being General Electric locomotives. We have them in Peru and Argentina, and had them in Estonia and Mozambique and Guatemala. I don't believe there is any place where we did not have GE locomotives.