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A Bridge to the Future

*Iowa Interstate, the Quad
Cities, and the U.S. Rail
Industry*

HENRY POSNER III • Chairman of Iowa Interstate Railroad and Railroad Development Corp.
Quad Cities Henry Farnam Dinner • March 11, 2011

PLAYING WITH RAILROADS

by Helen and Dick Stahl

*One of the railroads managed and partly owned
by Henry Posner III's Railroad Development
Corporation is the famed Ferrocarril Central
Andino. (Source: TRIB LIVE News Feb. 3, 2002)*

This old diesel's traveling
from Lima, Peru, to Huancayo, over
the highest standard gauge railroad on earth,
while Posner's British guests enjoy
the mountain canyons from the top of the Andes
in an open gondola. After rattling
a high trestle, the engine labors toward
another tunnel. He crouches
on the oil tender like a kid playing hide-
and-seek with his friends.

He chokes on smoke
and oil, his face taking a scalding bath
in the granite-squeezing dark.

With light,
he sees his fingerprints grease
his sprawl. No one finds him. Two miles up
on a noisy, jostling, bone-wrenching climb,
the boy lives again, stretching his full body out
on the carpet, his fingers turning
the knobs
as the transformer lights flash, highballing it
around his layout of mountain passes
and gorges with grease stains
over his face, shirt

and pants that will never wash out,
never get too small to wear
to a party like this one.

Inside a boy plays
with a Lionel Electric Train and switches
as he heads back.

It's been interesting spending some time today in Davenport. Rock Island is the location where we have our major operation on the Iowa Interstate, but tonight was the first time I've ever had time to spend on this side of the river. Davenport is a lot like Pittsburgh—very atmospheric and some of the settings look like Edward Hopper paintings. It's an interesting city and a pleasure to be here.

Some of my memories of the Rock Island are albino cockroaches, which had evolved in the abandoned boiler house at LaSalle Street station (I worked there the summer of 1976, toward the end), and riding the Peoria Rocket at 10 mph. Our freight trains now run on that same piece of railroad at 25 mph. So I entered the industry at the time when our job was to turn the lights off with dignity.

So on behalf of all people whose jobs were eliminated and all the people like my grandfather, James T. MacMurdo, whose time was spent trying to maintain undercapitalized, malfunctioning signal systems, I would like to make this speech, and also on behalf of my grandfather Henry Posner, Sr., a Polish immigrant whose business acumen allowed me to become a business person in the rail industry. And my father Henry Posner, Jr., who is 92 years old, imparted a lot of his wisdom in getting the Iowa Interstate to the point where it is today. My father's favorite expression is, "You don't know what you don't know," and when we got into this business we certainly had no idea about things like ethanol that were around the corner, nor were we sure this was all going to work. So it is an honor to be here tonight.

But before I begin, my poetic muse was stimulated by Mr. Stahl's poem and one of the things that I like to do in my spare time is to write Haiku. So in the last 10 minutes I wrote the following Haiku, which is a form of Japanese poetry

involving 5 syllables, 7 syllables, 5 syllables:

**So, Henry Farnam,
You were right after all, pal
Here we are tonight.**

(stunned silence, followed by thunderous applause)

Okay then. The title of tonight’s discussion is, “A Bridge to the Future.” Railroading has a rich history but not a lot of people talk about the future, mostly because they are afraid to predict it. I’m not going to predict it, but at least I’m going to talk about it.

This is a beautiful photo of the Government Bridge, but before you take what I’m about to say too seriously, just keep in mind that the expression “a bridge to the future” was also used by the Soviets. This being Diversity Night for the Farnam Dinner, I’m going to drop in a lot of multi-cultural references during the discussion since we are multi-cultural company.



This is the “October Revolution – A Bridge to a Glorious Future”. So beware of anyone who uses the expression “A Bridge to the Future” because sometimes it can be misused.



First I’ll briefly talk about RDC and the Iowa Interstate, and then I’ll drop 7 themes on you. I hope this will be controversial and interesting enough that you’ll have some pointed questions at the end.

Introduction of RDC

Railroad Development Corporation (RDC) is based in Pittsburgh and we describe ourselves as focusing on Emerging Corridors in Emerging Markets because in some cases we're not just into railroads but also port facilities, etc. And all of our businesses are Joint Ventures because it is never "The RDC Show". For example, when we got into the Iowa Interstate, it was in conjunction with Heartland Rail Corporation which was the original founder of the railroad and who had the vision and tenacity of taking this abandoned railroad and doing something with it for the future.

The following table highlights our businesses of the past and present and demonstrates a lot of different environments where we have railroaded, some of which were quite scary, but all of them interesting. This also shows how we've taken the Iowa Interstate model and exported it to other environments.

RDC Freight Railways:

CURRENT:	Entity	Length		Employees	Tons Y. 2009 (in millions)
		Km	(Miles)		
USA	Iowa Interstate	954	(592)	206	11.7
Argentina	ALL Central	5,690	(3,535)	1,200	2.3
Argentina	ALL Mesopotamica	2,704	(1,680)	300	1.0
Guatemala	Ferrovías Guatemala	322	(200)	13	N/A
Peru	Ferrocarril Central Andino	535	(332)	431	1.8

PAST:					Tons Last Yr of Investment
Malawi	Central East African Railways	797	(495)	417	0.22 (2008)
Mozambique	CDN-Nacala Corridor	873	(542)	404 Rail 209 Port	0.2 Rail (2008) 0.9 Port (2008)
Estonia	Eesti Raudtee	693	(431)	2,345	44.4 (2006)

Iowa Interstate Railroad (IAIS)

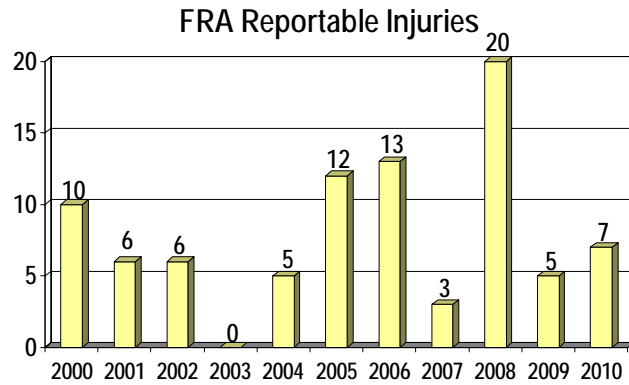
The history of the Iowa Interstate is largely about the history of the Rock Island, which is a history of failure. It's been described as a grotesquely overbuilt example of excess capacity that deserved to die. That may have been true in the Era of Regulation, but with the benefit of hindsight, that wasn't necessarily true. If you look at what is still operating of the Rock Island, roughly 75% is, and Fred Frailey of *TRAINS* magazine made that point in a recent issue ("*Behold the life after death of the Rock Island Lines,*" Feb. 2011). The fact is that the Rock Island in this part of the USA was one of six railroads running from Chicago to Omaha in an era of decline and an era of regulation; and in that environment one could draw the conclusion that you don't need six railroads running from Chicago to Omaha. Hence when the Rock Island went down, what is the now the Iowa Interstate was an abandoned railroad.

The story of how we came back is quite interesting and quite convoluted and I haven't got enough time to go into all of it in this context; but suffice it is to say, being a multi-cultural company, that we take inspiration from many sources including Che Guevara whose slogan was, "The only struggle that is lost is that which is abandoned." Technically speaking the Iowa Interstate was abandoned, but it came back and the people at Heartland Rail Corporation believed that there was a future for rail even though they were operating in an environment of regulation; we are the beneficiaries of that vision. So the fact that the Iowa Interstate stands today is because we stand on the shoulders of those who went before us.



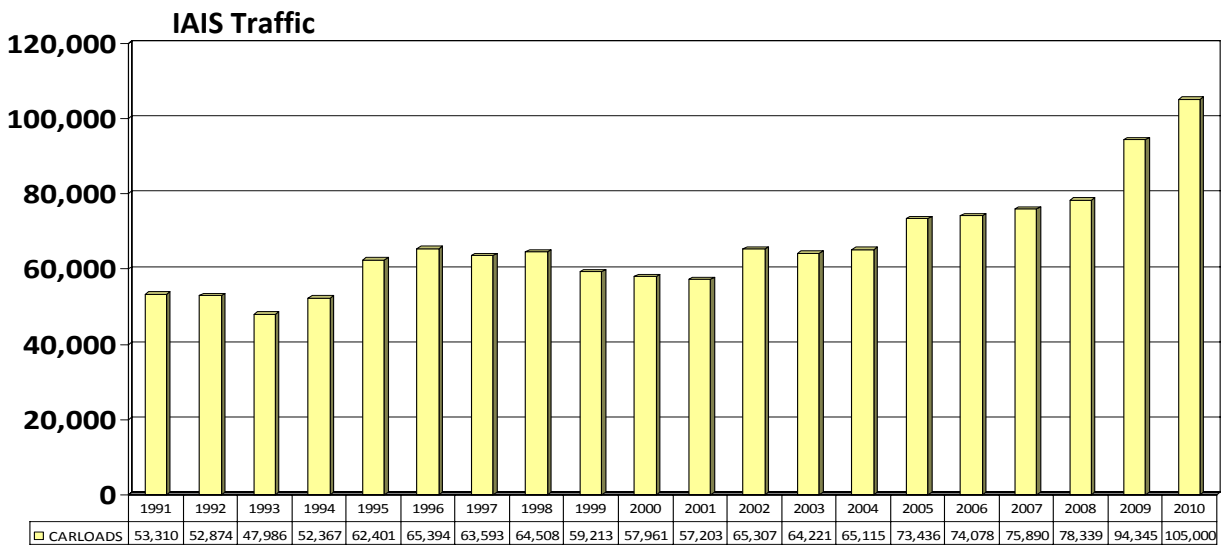
First, safety is the #1 objective of the Iowa Interstate Railroad. In fact, safety is more important than profitability for the following reasons:

- If you have a safe railroad, you're more likely to have good service; and
- if you have good service, you're more likely to have more business; and
- If you got more business, you're more likely to be profitable.



You'll note in the graph (above) that we haven't been perfect, but IAIS did win 2 Gold Harriman awards for safety performance in 2003 and 2007, which we are the most proud of at IAIS and it is a mantra for us.

The next graph speaks for itself – traffic. Notice in the lower right-hand corner that the graph starts at zero. If you really want to impress somebody, you should probably start higher up on the graph, but we in fact started at zero. No bad for a formerly abandoned railroad.



But photos are even better because photos don't lie. On the left is a double-stack intermodal train, and on the right are brand new GE locomotives, all on our formerly-abandoned railroad.





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And we do celebrate our history and culture; we are aware of where we've come from, which helps us to understand not only how far we've come but where we need to go, and for that and many other reasons we have a program of using our steam locomotives, among other things, to make people aware that there is a railroad running through their territory.

We are often described as a stealth industry. To offset this, there are two ways to bring people out: 1) run passenger trains, which is very complex, or 2) run a steam freight train, where the number of people standing by the track is probably as cost effective as running a TV commercial. This photo is of a double-headed, record-setting steam freight haul consisting of 66 cars, 6,252 tons, from Iowa City to Rock Island in October 2008.

Now let's talk about the future at the industry level.

THEMES FOR THE EVENING

1. Infrastructure and Life

Infrastructure was a word that most people had never heard before the interstate highway bridge collapse in Minneapolis in 2007. I think that really brought home to people the critical role that infrastructure plays in our daily lives. If your water system doesn't work; if the bridge falls into the river; or if the electricity goes off and you can't recharge your iPod, that's personal. I think we as a country are only beginning to confront that infrastructure is a long-term investment even though much of the responsibility comes from the public sector, which is primarily driven by politics. We've got a rough road ahead of us because infrastructure limits what you can do and what you can be, and we're just beginning to understand that. The focus began, in my opinion, with the Minneapolis bridge collapse.



2. The Once and Future Railroad

Now let's put the rail industry in context. We have a rich, complicated history; so rich and so complicated that I think it's become a distraction. When people think of railroads, the first thing they think about is passenger trains or history. And that takes so much time and so much distraction that they don't really focus on what railroads are doing right now in this country, which for the most part means freight.

In the Age of Regulation the industry almost died, and in fact, the Rock Island did die. It was a shock when "the Northeast Railroad Problem" arrived in Tucumcari, New Mexico. All of sudden it wasn't the liberal, elite northeast, it was the whole country. And the Rock Island was the ultimate sacrifice—the shock value of its liquidation helped to turn the industry around, and the end result was deregulation, which was what actually saved the industry. And Conrail, where I worked, was certainly the turning point for deregulation.

3. Better than the Europeans

It is important to note that while we talk about how much we in the USA would like to have passenger trains like in Europe, the Europeans are saying, “Why can’t we have trains like America?” The Europeans are asking why they can’t have freight trains like in the USA because they have the same problems of congested highways, high logistics costs, etc.

It’s a two-way street in terms of what we can do for the rest of the world, and I argue that the U.S. has already served well as a model for most of the restructuring of the railways in Latin America. Brazil’s railways are a great example because they have come back even more dramatically than the U.S. railways. Our example has also served in Australia and many parts of Africa. And ultimately, look at China: with all they are doing in terms of high-speed rail and laying down new lines, etc. they are building mostly to AAR standards and are basically standing on our shoulders and taking it from there.

4. A Network of Surprises

The word *network* is a word which information technology people normally use, not railroad people, but it has been pointed out to me by people in Internet businesses that railroads are really the ultimate, as well as the original, network business. The interesting thing about the Internet is that the uses for it continue to evolve; for example, the Internet recently helped to promote democracy in the Middle East. The future is extremely difficult to predict but the more we look upon it as a network business that has possibilities that we can’t predict, that will help us to stay open-minded. No one knows what the next new role for railroads is going to be, but fortunately we as an industry have all survived so we can collectively find out.

5. The Network Wants to Be Free

However, there are things to be aware of. There is an emerging thought that because railroads have survived and are generating profits, that they may have done something illegal or unethical in becoming profitable. There is serious discussion about re-regulating the railroads and I think that is very, very unhealthy and is going to limit railroads’ ability to do what we do best. If there is punitive regulation imposed, we will of course obey the law but we’re not going to be able to do for our country what we might otherwise do.

The word *monopoly* pops in every so often and as somebody who spent most of his time on the marketing side of the business, I have not seen a single monopoly out there. Customers are very creative in using intermodal transportation or in some cases even building new lines to make sure there is plenty of competition, not only just between railroads and trucks, but also between railroads and railroads.

6. Putting Passengers in the Mix

So let’s talk about what is most on people’s minds these days, which is President Obama’s vision for high-speed rail. I think it is a great thing that the President of the United States has used the word *railroad* in a State of the Union address. I think it’s important that all of sudden railroads are being recognized as a solution for this country. But in addition to vision there needs to be integration with reality. I think there are things going on that people aren’t noticing, among other things, private sector companies running passenger trains. If you go to Chicago, you’ll see the Burlington Northern Santa Fe

and the Union Pacific—private sector companies—running passenger trains. So the big question is: why couldn't private sector companies run intercity passenger trains if they're already running commuter trains? That's how it works in Europe and other places. So the challenge is to match the vision with the reality; and keep in mind that where we have been successful in the industry is through evolution. Deregulation took decades to work its way through the system and a Big Bang where you have radical change coming from above is a volatile mix. I'm not going to say that it's impossible, but it makes life much more difficult.

7. Conclusions

To conclude, the cliché is that the future is not what it used to be, but I would like to argue that it is increasingly hard to predict or even control the future. In the era of regulation you could be pretty assured what the transportation network would look like 10 years from now and who the carriers would be, but not anymore. Because of globalization and because of deregulation (without which there wouldn't be a rail industry), you're going to see a lot more potential for radical change out there and at a faster pace than before. That can be good or bad. There is also the potential for interesting new things to evolve, like passenger service. The good news is that the rail industry, if allowed to do its job, does have the tools; there are very few things that railroads could do that have not been tried someplace, though not necessarily in this country. There are plenty of models of how to do things elsewhere that we might consider importing. For example, there is the idea of a national infrastructure bank, and Brazil has had one of those for the last 10-20 years that has worked pretty well for them. So why aren't we talking to them?

Another example is transportation security; the day after 9/11 the Europeans offered to help the USA and they were turned down. What we need to acknowledge is that there are other ideas beyond our shores that might be useful in this country, just as we've had the opportunity to export some of what we've learned in the USA and even specifically from the Iowa Interstate.

Just keep in mind that long-term solutions are solutions that have at least one foot in economic reality in addition to political vision.

The Future



To keep with the theme of the Future, shown is a Soviet poster which reads, "Come with us to the New Lands!" This is about the transformation of Kazakhstan to an agricultural bread basket in the 1950s.

There are all kinds of interesting opportunities out there and not just in the USA but overseas. One of them is that we are starting a non-subsidized intercity passenger service in Europe; later this year we'll be running passenger trains from Hamburg to Cologne in competition with the German national railway, and with no public funding. Yes, we took the abandoned national railway in Guatemala and put it back into operation with no public funding, but here we will be competing with one of the world's best railway companies and with no recourse to public funding. So stay tuned; no doubt there will be bumps along the way, but it is an interesting business opportunity and nobody else has tried this in quite the same manner.

The other interesting thing we're doing is trying to convince France that they are making a terrible mistake in getting rid of their carload freight business. We have been working on this for 4 years and have no idea what the outcome will be.

To conclude, to be successful (at least in our line of work) requires flexibility, commitment, and a multi-cultural approach. This photo was taken in Mozambique and to quote Samora Machel, who was the first president of Mozambique under independence, "A luta continua!" or "The struggle continues!" That pretty much summarizes everything we do at RDC.



Thank you.

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