Partners in trade: The Port of Balboa and the Panama Canal Railway are adjacent to each other on the Pacific side of the canal. The Miraflores Locks are visible in the distance at upper right. inset: Mogul-type locomotives were the principal freight and passenger power from the days of the canal’s construction until the end of steam. Here, 2-8-0 No. 662 leaves Panama City in June 1930.

Steam-era image: James H. Harrison collection
Trucks are perpetually in motion, constantly cycling containers between the docks and the intermodal terminal on the Pacific side. F40 No. 1863 has just arrived with a train.

Some 3.5 million years ago, during the Pliocene Epoch, an isthmus rose up from the sea to separate the Atlantic and Pacific oceans. The implications of this accident of geology went unremarked until 1513, when Spanish explorer Vasco Nuñez de Balboa stood atop a hill in Panama and became the first European to glimpse the Pacific. In the ensuing centuries, the Spanish dreamed of a canal, the French tried to build one and failed, and finally the Americans succeeded. All of them were on to something: There is money to be made in uniting the world’s two great oceans. But the most reliably profitable way to do so may be with trains instead of ships. The Panama Railroad and its founder, William H. Aspinwall, were not exceptions. This “other PRR” was only 47 miles long, but once opened it charged $5 for a one-way passage across the isthmus, and that was for people who walked. It cost $10 to ride in second class, an astounding $25 in first class, and ten cents a pound for freight. (A dollar in 1855 had about the same spending power as $30 today.) Atlantic-bound traffic was just as profitable, since the railroad was the principal means of shipping gold to the eastern U.S. The railroad’s expenses were commensurately high, however: Its initial construction cost was $8 million, and Panamá’s jungle and rivers were forever threatening to swallow the tracks. Still, investors loved the railroad. It recouped its initial investment within seven years, the stock paid dividends as high as 44 percent in the early days, and at $295, its shares were once the most highly priced on the New York Stock Exchange.

The Panama Railroad was the first transcontinental railroad, but the world moved on when that other transcontinental, the Union Pacific-Central Pacific, was completed in 1869. Panama’s railroad was revived when the canal builders showed up, since it was the only feasible way to carry off the spoil from excavation of the big ditch. (The canal isn’t entirely a ditch; made Lake Gatún accounts for about half its length, though the 9-mile Culebra Cut was a truly gargantuan work of excavation.) The railroad remained active during the days of U.S. control, since it was the principal means of transporting goods and passengers within the Canal Zone. Carload freight was not a part of the modern railroad’s business model, but most industrial buildings in the former Canal Zone have remnants of their old spur tracks.

“I DON’T HAVE ROOM FOR YOU ON TUESDAY”

“This is not only the father of the railroad,” says Tom Kenny, Panama Canal Railway’s president and director general, “he was the most patient human being I’ve ever met.” That trait would serve Benedetti well as he methodically went about reviving the railroad. If conjuring empires wasn’t a part of his job description, neither was building railroads. But he did know two people who could pull it off, provided he could get them interested. The first was his boss, Mike Lanigan, founder and CEO of Mi-Jack. The second was Mike Haverty, who was running his own transportation investment firm in 1994 after stepping down as president and CEO of the Santa Fe Railway three years earlier. Haverty and Lanigan had known each other for years. Each in his own way, they were important players in the intermodal revolution, and the new Panama Canal Railway would be all about intermodalism.

“Had it not been for Benedetti and Lanigan twisting my arm,” Haverty recalls good-naturedly, “I never would have gone to Panama.” But the Mi-Jack men didn’t know railroad-ing like Haverty did, and they needed him to provide a reality check. The railroad was so dilapidated that it took 4 hours for Haverty and Benedetti to ride from Balboa to Colón, perched on the pilot deck of a locomotive. Still, Haverty saw potential. He was so impressed that he took the idea to his board of directors at Kansas City Southern Railway shortly after he became its president and CEO in 1995. That’s how the Panama Canal Railway became a partnership between KCS and Mi-Jack.

The business model was unique in all the world. Think of a giant “X” with ships converging from Atlantic and Pacific, north and south, with the crux at Panama. A ship originating in Hong Kong might carry containers bound for several destinations in...
 FIELD OF DREAMS

It's remarkable that Benedetti, Haverty, and Lanigan all saw the potential immediately, because over the next several years, almost everyone else was either skeptical or didn't grasp the model. First came the Panamanian government, which was prepared to grant a concession, but without terminal properties on either end. The terminals were indispensable to the business model, and the two Mikes didn't want the railroad without them, but the land had already been given to port operator Hutchison Whampoa, Ltd. An arduous 18-month negotiation ensued, involving the government, the port operator, and the Mi Jack. Kansas City Southern team. Benedetti philosophically describes the period as "an educational process, convincing Hutchison Whampoa and the highest levels of the Panamanian government that this was in their interests." Finally, they saw the light, and the investors received a 50-year concession to operate the line, with terminals included. The property was renamed the Panama Canal Railway to better suggest where it ran within the country.

Later skeptics would include the ocean shipping companies, who thought the fledgling Panama Canal Railway was targeting. Kenana, who came to the railroad from rail operations at CSX, cautions that he didn't get it at first. "In my world, the rule of thumb was that it didn't make sense to put a container on a train for less than 500 miles." Other shipping firms were puzzled, too. "They thought the railroad would never get off the ground," Haverty recalls. "We saw some economies of scale that five, six, seven trains could work, because rail didn't fit their traditional business model for Panama. Service and economics ultimately prevailed."

One shipping guy who did get it was Tom Kenna. He was a vice president in Hong Kong with container line APL when Benedetti came to town with Panama Canal Railway's global dog-and-pony show. Starling was taken in by what he saw. "I was a.Membership was indispensable to the business model, and in the following two years, the railroad was re-invented. "We removed the rail, the ties, everything," he recalls, "and started over." We had 18 inches of sub-ballast, 24 inches across the entire 136-pound rail was laid on concrete ties, a necessity in light of the moister climate. Now, after 12 years of operation, the railroad has grown exactly. The initial cost was $35 million (with another $75 million for rolling stock and terminals), but the railroad was built to last for the for the entire 50-year term of the concession agreement. The financing came from KCS and Mi-Jack in equal 45 percent shares, with 10 percent support from the International Finance Corp. (The finance corporation was bought out in 2006, and now KCS and Mi-Jack are 50/50 partners.) It was a gutsy investment, especially given the skepticism of the ocean carriers. It comes as no surprise when Lanigan says, "It was pretty scary, and there were a lot of sleepless nights. We invested over $100 million without a single customer. But Mike Haverty's expertise confirmed everything we thought we had. It was a field of dreams: If you build it, they will come."

WHAT’S GOOD FOR THE CANAL IS GOOD FOR THE RAILROAD

"Whenever people talk about Dave Starling, they mention the rail experience, the terminal experience," Kenana observes. "That's nothing. His real talent is people. I had 15 years in shipping, happy as a bee, but somehow he charmed me into coming to that railroad," Kenana, too, had indispensible qualities. He knew shipping, of course, but he also holds dual citizenship in Panama and the U.S., which comes in handy. "There's no railroad mentality." Starling continues, "So everything to build the railroad had to come by ship, even the ballast, which came by Mi Jack's endless welding 136-pound rail was laid on concrete ties, a necessity in light of the most climate. Now, after 12 years of operation, the railroad has grown exactly. The initial cost was $35 million (with another $75 million for rolling stock and terminals), but the railroad was built to last for the entire 50-year term of the concession agreement. The financing came from KCS and Mi-Jack in equal 45 percent shares, with 10 percent support from the International Finance Corp. (The finance corporation was bought out in 2006, and now KCS and Mi-Jack are 50/50 partners.) It was a gutsy investment, especially given the skepticism of the ocean carriers. It comes as no surprise when Lanigan says, "It was pretty scary, and there were a lot of sleepless nights. We invested over $100 million without a single customer. But Mike Haverty's expertise confirmed everything we thought we had. It was a field of dreams: If you build it, they will come."
We’d high-rail from one end of the rail- road to the other, and Hooper recounts the adventures and challenges of railroading in the jungle, like the time he ran over a huge box-constructor on the tracks. There was no way it could have survived getting run over by four flanged wheels, so Hooper stopped his high-railer and got down to remove the snake, only to find it slithering off the tracks under its own power. Another high-rail truck wasn’t so fortunate. It hit a crocodile and went flying into the ditch. The jungle is teeming with life, and critters are always on the right-of-way, though they usually scatter when confronted by locomotives. At another location, Hooper removes a large turtle from the tracks: It was probably dropped there by waterfowl, who know it can crack its shell on the rails.

At Paraíso (Paradise), he radios the dispatcher for permission to stop. There’s a pineapple juice vendor parked in a grassy strip between the tracks and a parallel roadway; and Hooper wants his guest to partake of a tropical pleasure. It’s cold and uncommonly delicious.

The Panama Canal Railway is like that, a small railroad with a homespun quality to it. But it runs like a big railroad, from its maintenance standards to its operational discipline, and even to its positive train control system, which was adopted in 2006. Of necessity, the railroad has learned to be self-sufficient. With a payroll of about 800, all business on the road is Panama-based, the railroad does all of its own maintenance. One of the road’s F40 locomotives, bought secondhand from Amtrak, has just received a new prime mover, which was lifted into place by a Mi-174 crane. Daniel Chanis supervised the job. He ran his own machine shop and did contract work for the Panama Canal Railway until the railroad offered to buy his firm and take his employees onto the payroll. He now reports to Colin Corrigan, an American who has lived most of his life in the Canal Zone and started with his fellow “Zonians” when he opened it. Corrigan retired from a career with the canal and became the railroads chief mechanical officer.

Their job is mission-critical because this is a scheduled railroad that has to be kept moving. Every 60 to 90 minutes, around the clock, a train leaves one terminal, bound for the other. (There are two sidings along the route.) The railroad is a conveyor belt, and just like coal trains or commuter operations, the idea is to keep the trains shutting back and forth. In 2012, the rail- road hauled 400,000 containers, all of them in 20-foot-long “Two Stack” cars, 100 boxes to a train. These cars are now rare in the U.S., but their bulkheads are an advantage for the railroad since they make it imposs- ible to open the containers in transit, thus ensuring in-bond transport.

Whereas larger railroads would face greater challenges in getting a train from Point A to Point B, our challenges are at the terminals, says Hooper. Every freight train has the same consist, and there aren’t any connecting tracks, so getting a train over the road is a comparatively simple exercise. In contrast, Hooper adds, “We live or die by the terminals. When they’re running well, everything else falls into place.”

What if they’re not running well? That’s when the railroad does a cut and run. “Let’s say a brake broke down at the port,” Hooper explains. “The ship is supposed to execute 405 moves during its berthing win- dow: 200 boxes on and 200 off. If the crane breaks down, what do they do? They have to make their transit, because [the Canal Authority] will charge a big penalty if they miss it.” So the ship leaves the breaks behind, and the railroad just hooks up to the other side. “But generally, it’s first-in, first-out. We’re offering the same high standard of service to everyone.”

RESUMES AND RESULTS

The Panama Canal Railway is profitable by any standard, a result of its efficiency of its operations, but also to its pricing power. The company is the only railroad in town, and as long as it keeps maintaining a savings compared with the canal, it’ll have all the traffic it can handle. The picture promises to stay bright because of the canal’s expansion, but also because of the canal’s expansion, and also because the Panama Canal Railway received primary development land as part of its con- cession, the potential of which is still most- ly untapped. “We spent several years build- ing the railroad,” Kenna says, “but now you’ll really see real estate taking off.” Future capital improvements will be fi- nanced out of cash flow, not from debt, and the Panama Canal Railway can well afford to do so. Top-line revenue for 2012 was $65 million, and the railroad paid healthy divi- dends to the two owners. Just as startling, the railroad’s operating ratio hovers in the low 40-percent range, a figure that North American railroads can only dream of. Indeed, there’s a dreamlike quality to so much of Panama. It’s maddingly and charming, ugly and beautiful, backward and modern, all at the same time. Standing in the jungle, amid the monkeys and in the huge blue morpho butterflies, a person could be forgiven for thinking that the place was just made yesterday.

Turn around, though, and you’ll see the railroad and the canal both running through it, forces of nature in themselves with their unending and mesmerizing riv- ers of commerce. The country has cast a spell on visitors for 500 years, and that in- cludes the people who came in search of riches. If it’s possible to be a romantic and a hard-headed railroadier at the same time, the folks at Panama Canal Railway have mastered the art.

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