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The Railroad Week in Review 3/9/2002

***Quote of the Week**: "Customers increasingly are selecting rail-served sites because rail is an economical, efficient and integral part of their logistics chains." Larry Collingwood, Norfolk Southern AVP Industrial Development*

Rail stocks sold off sharply at the open on Friday after posting some nice gains intraweek. Among the Big Six class 1s only CP emerged above the line for the week and that by 5%. The catalyst may have been Warburg's new target price of $39, a $4 bump. UP, NS, and BNSF had all been up smartly only to close on Friday about where they started Monday.

Contributing to the midweek stock price run-up was a comment in CBS Market Watch wherein one analyst said he recommends "an overweight position in railroad stocks" because the group performs well in advance of and in the early stages of an economic recovery. Fair enough. Yet on Friday other analysts said any economic benefit had already been priced into the group. What all this means is do your own homework.

Elsewhere FEC posted a nice gain up 10% followed by GNWR (+7%) and KCS (+4%). It's quite possible FEC was helped by the upturn in techs and telecoms with the DJ Communications Index being up 10% since mid-Feb. KCS sold off at Friday's open but then got back to Thursday's close by the end of the day. GNWR just kept going up. Perhaps being in the Number Four spot in First Call's list of "highest ranked" stocks was a help. RailAmerica alas skidded 5% on the week.

Carloadings for Week 8 (2/23/2002) were up 2.7% yoy and the second week in a row. Could be we're seeing transportation stocks performing their classic role as harbinger of better times. Intermodal was the big gainer, up nearly 8% while carload business was up a couple of points yoy. Union Pacific leads the pack in YTD traffic trends, up less than a percent. Not much maybe except when you consider everybody else is still in the doldrums.

Getting the carloads up is partly a function of making them move faster and more consistently. Norfolk Southern has taken yet another step in that direction having completed network improvements for its Thoroughbred Operating Plan (TOP) for merchandise traffic. The last piece to fall into place is the rebuilt Enola Yard across the Susquehanna River from Harrisburg, Pa.

The yard was built in 1905 by the Pennsylvania Railroad. Legend has it that the place was named Enola, "alone" spelled backwards, because it stood alone from the city and the mainline (feedback to the contrary is invited). Conrail closed the yard in 1993 as it no longer fit the network design. In this latest incarnation switching capacity has been quadrupled to 600 cars a day with 22 miles of new and rebuilt track, ten miles of new ties, 12 new light towers, and the expenditure of $9.8 mm. Thus what was at one time the country's largest rail freight classification yard is back in business.

Apropos of making trains run better, CN will buy 60 new Dash 9 - 44CWs from GE with delivery completed by the end of 2004. Looks like a good move. The new power is advertised as using18% less fuel and cutting per-unit maintenance costs by another 35%. Every three of the new 4,400-HP Dash-9s will replace five older 3,000 HP units. Do the math: you swap 15,000 old horses (too many oats) for 13,200 new ones.

The new locomotives will be dedicated to mainline service across the CN system, while the older mainline units will be available for cascading to less demanding service. Since embarking on a major program in 1995 to upgrade its mainline locomotive fleet by replacing aging locomotives, CN has acquired 384 new locomotives, bringing the average age of CN's locomotive mainline fleet to about 13 years - compared with close to 18 years in early 1995.

This week CN will hold its annual shortline meeting in Chicago. This is a great opportunity to rub shoulders with the senior management team and to flesh out opportunities. On the program is a workshop on service integration and making shortlines part of the scheduled railroad network. W

Commenting on the recent STB decision (WIR 2/2/2002) allowing BNSF a build-in to a Texas plastics plant, the NIT League reminds shippers that there was a dispute between BNSF and UP. The question concerned the standards that should be imposed on BNSF when BNSF wanted to build-in to the trackage rights lines. UP was insisting that "any interference" with its operations because of a BNSF build-in would trigger an obligation by BNSF to remedy the interference.

The STB demurred. Its position may be seen in its entirety at www.stb.dot.gov under Finance Docket No. 32760, Decision No. 95 re UP/MP merger with SP. The bottom line is that “UP should recognize that it cannot successfully assert entitlement to a remedy or compensation whenever new BNSF service to a build-in/build-out line via the trackage rights lines leads to any interference with its operations.” The Board then adds, “UP agreed to this potential interference when it accepted the conditions imposed with the UP/SP merger.” Sounds like the old Chinese proverb: be careful what you ask for – you might get it.

KCS announced this week that it will recognize 59 chemical shippers with the Hazardous Accidental Release Prevention (HARP) award for their contributions to the safe transportation of hazardous materials on KCS in 2001. This is the first year for the HARP award, which was designed to recognize excellence in safety, environmental protection and regulatory compliance.

The timing couldn’t be better. Post-September 11 the major rails and the AAR have a mandate to ensure that the railroads would become more secure each day. There are as a result five Critical Action Teams comprised of some 150 railroad, industry, security and intelligence personnel. Using CIA and national intelligence community best practices, the teams will scrutinize different aspects of the railroad system including hazmat handling, railroad operations, and infrastructure.

The AAR (www.aar.org) says the initial analysis “examined and prioritized all railroad assets, vulnerabilities and threats, and then identified countermeasures.” Yet reports from the field are that shortlines have been oddly untouched by any of this. One lobbyist tells me the AAR process is “closely guarded and there are no shortlines in the planning loop.” This will come as a rude surprise the states like Pennsylvania where shortlines provide a significant amount of rail freight service. The state’s 60 class 2 and class 3 roads handle some 700,000 carloads a year over more than 2,300 route-miles of track.

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