

The Railroad Week in Review

August 8, 2003

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Florida Central Railroad (FCEN), a member of the Pinsley shortline group, and CSX have gone into the transportation aspect of the auto auction business. The Winter Garden Auto Auction is one of the nation's largest auto auction businesses, transporting more than 300,000 vehicles a year to and from this resale facility. The two railroads won a \$1.2 mm grant from Florida DOT to help build the necessary mile-long spur, covering about 40% of the total cost.

FCEN will provide the local service between the Auction and the CSX Taft Yard in Orlando with service beyond provided by CSX to its own network and for interchange beyond with the western carriers. Service started August 6 and is intended to decrease truck traffic to and from the site as well as on Interstates 4, 10, 75, and 95 leading in and out of Florida.

All the players are to be congratulated. This is the kind of collaborative new thinking the industry desperately needs. We've written before that as the manufacturing process moves off-shore what was once shipped in boxcars within the US and Canada is now coming back at us in international containers. Ergo the classic carload business must find new niches if it is not to shrivel up entirely. Moreover, shortlines are mostly carload-dependent and have the most to gain by thinking outside the box. The Florida Auto Auction is a great example.

Chop Hardenbergh writes in his *Atlantic Northeast Rails and Ports* newsletter that New Jersey's Morristown & Erie, a 100 year-old shortline, has inked an agreement with Maine DOT for the former MEC Rockland Branch and "Lower Road" out of Augusta. Safe Handling, Inc., the current operator, had opted out of renewing its operating lease terminating Aug 31. Says Hardenbergh, the two parties have yet to negotiate an operating agreement. I'm also told that the M&E's passenger experience with both Amtrak and NJ Transit was a factor in its favor. Start date is targeted for early 3Q03 under the Maine Eastern banner.

Union Pacific put its Overnite trucking sub up for sale through an IPO. The rationale given is that UP does not consider Overnite a core asset, something CEO Dick Davidson alluded to during the April conference call (WIR 4/25). Moreover, the timing is right. The Teamsters' strike is now history, stock prices are ticking up, and the recent consolidations in the LTL arena are all positive.

The Waiting Game is over for KCS. There has been no formal Hart-Rodino request for additional NAFTA Rail information from the Justice Department. Thus KCS and TMM may consummate their transaction without further delay. Still ahead, the requisite approval of TMM bond holders to allow the KCS purchase of TFM, resolving the VAT case in the Mexican courts, and the Mexican Government's \$500 mm Oct 03 put option for its remaining 23.9% interest in Grupo TFM.

Dick Flynn of Railinc writes, "With regard to FRA Air Brake Test Date requirements (WIR 7/18/2003), I wanted to bring to your attention Railinc's web-based Air Brake Test (ABT) application. It has been available to all carriers (including short lines) by Railinc since January 2003." Dick, who is VP Marketing and Sales for the Raleigh-based group, adds that the rate of sign-ups is increasing - 241 subs since Jan with 77 in May alone.

With the Railinc application users can inquire on a single car or a car series to obtain the current and previous status of the ABT date on rail equipment and submit updates to the UMLER file after performing air brake tests to cars. Single or multiple cars can be updated with edits applied to eliminate errors. Dick may be reached at (919) 651-5264. Or you can go directly to the website at <http://www.railinc.com/view.cfm?cnid=148> for more details and to sign up.

Vermont Railway's Eric Moffett has sent some interesting stats as a continuation of our dialog on intermodal, truck conversions, and shortlines (WIR 7/11,18). According to IANA total intermodal volume grew by 4.4% yoy with ISO containers in the lead at 8.2% and all domestic off 0.1% yoy. Trailers were down 2.3% and domestic containers up 1.7%. Year-to-date total volumes were up 6.9% with ISO containers up 11% and total domestic up just 2.4%. However, 48- and 53-foot trailer loadings rose 5.1% in 2Q03, second only to international containers' 8.2% and representing a 2Q03 share of 12.6%. Moreover, IANA says 53-foot trailers and containers are 20% of all intermodal volume.

And in that regard, I was talking with one of my Wall Street friends about the 2Q03 results and the continuing intermodal growth trends. In a follow-up note, I wrote, "Back in January CN's Jim Foote remarked on the different service requirements of international and domestic intermodal. I think we ought to be more demanding of the railroads to break out yoy changes in revenue and units for domestic and international intermodal units.

"We also need more clarity on intermodal terminal efficiency. A friend who consults in this space tells me there is still room to grow productivity -- lifts per hour, per employee, per packer (the device that gets boxes on and off railcar platforms), etc. My friend also suggests the new terminals are being built more because of productivity-related capacity constraints at existing terminals than because of volume growth.

"Finally, intermodal RPU on a carload-equivalent basis runs less than what I call the merchandise carload. At BNSF in 2Q03 the intermodal RPU was \$755 and it was \$1608 for carload (ind prods, ag, other cons, auto). Figure an average of 1.7 boxes per platform (in any given train some boxes are double-stacked, some are not) or \$1283 carload-equivalent. True, you don't have the gathering and distribution of the pure carload business, but there is the huge terminal expense *and* the added capacity capex out on the road to handle all this. So *now* what's the intermodal operating ratio? I wish I knew." Anybody?

Shortline tidbits: How many shortlines can say what percent of foreign cars received as loads are returned to the owning road under load? I've heard numbers as high as 20%... Moves that begin and end on the shortline seem to be increasing due to (1) increase in local manufacturing using local resources and (2) difficulties getting competitive pricing for short haul moves from connecting Class Is... Finger Lakes in upstate NY has outfitted a former Conrail transfer caboos with a remote control system that can be MU-ed to any of its locomotives. The caboos is equipped with FRA-approved bells and whistles (literally), pilot, and so forth.

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