The Railroad Week in Review
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(215) 985-1110

Shortline carloads are in again. Both GWR and RRA reported Sep results, only this time I've got the current AAR numbers at hand. While in Washington this week (more on that below) I had the opportunity to visit Clyde Crimmer at the AAR. Clyde's title is Director, Statistical Information and he sure had a lot for me on Class I carload trends over the past 15 years or so.

Total NA carloads ex-intermodal, coal and auto 1988-2002 were down 11.5% on a strict unit basis. However, warns Crimmer, at various points in the 1990s CP and CN absorbed counts of the Soo, GTW, IC CN, though it's hard to say what the actual effect was on US loadings. However, since the 11.5% decline comes from the weekly traffic reports that include Canada, the North American story continues to hold water. Not good for carload-dependent shortlines.

Even so, GWR's total North American traffic in September 2003 was up 8.3% yoy. On a same-store basis excluding the December 2002 Oregon expansion loads were up 4.2% yoy. RRA total North American carloads for September 2003 rose 3.8% yoy. On a same-railroad basis loads were up 1% yoy. As expected, forest products and grain dominated. Sure would like to see more STCC 20 consumer package goods and STCC 28 chemical traffic.

Bill Burt, Chief Operating Officer of a number of upstate NY shortlines, including the start-up Western New York & Pennsylvania on the former Erie main west of Hornell, shared a number of insights with the Lexington Group at their annual clambake. Burt's remarks zeroed in on "big-picture forces that are converging to shape the future of the short line railroad industry. Specifically, trends that our [shortline] people encounter in marketing rail service for inbound freight traffic, which predominates in the territory we serve."

His concerns are that global forces leading to mergers and bigness take traffic management away from the shortline's direct customer, somewhat nullifying the shortline's locally-based service advantage. Burt also maintains "Logistics intermediaries working for their vendors may have a vested interest in maintaining the status quo." Moreover, the continual downward pressure on rates forces Class Is to find ways of lowering per-move carload costs, never mind exacerbating impacts elsewhere on its own system or the local highways.

Bill also takes Big Government to task for "irrational and archaic modal investment policies." Real rail rates have dropped by 60% since deregulation in 1980, largely as a result of truck competition which not only evades the high fixed cost of the rail system but gets a largely free ride on the interstates. Fortunately, the scales may be tilting back toward the rails as government begins to rethink the long-term effects of the way things are and have been for so long.

He concludes by saying that "Shortlines with significant inbound freight traffic must function as logistics providers, showing local industries potential savings and structuring deals [with their Class Is] to bring the benefits home. We must remind patrons that a freight car waiting in our yard nearby is *better* than a Just-in-Time truck struggling through a snowstorm on I-90 somewhere. We need to simplify the pricing process and automate at least some rates so the curious truck shipper can be empowered to try rail." There needs to be more shortline preblocking, intermodal participation, transloads, and educating local lawmakers re infrastructure funding support . Then, says Bill, “maybe we can recreate the ‘Hometown Partner’ image once touted by the Erie.

During my Washington day this week I had three uninterrupted hours with Rich Timmons, ASLRRA president. As a former Lieutenant General in the US Army, Rich brings a refreshing outlook to the industry, and one of his models that I particularly like is the “narrow telescope.” It’s a term borrowed from Napoleon, and it refers to the commander’s ability to look down and through the structural hierarchy to what’s really happening in the field.

Company commanders (shortline operators, class I trainmasters) are expected to know the details of their operations intimately and the best ones do. But senior staffs often don’t see critical details. This goes directly to Bill Burt’s observation above that shortlines have to educate their customers and that requires a robust Class I partner. Properly done, the shortline’s narrow telescope gives senior railroad management a view that may otherwise forever be obscured. Clearly the Class I-ASLRRA caucus groups are going far to accomplish this mission.

Bear Stearns rail analyst Tom Wadewitz hosted a most instructive conference call Thursday. STB Chair Roger Nober and Staff member of the Senate Commerce Committee Debbie Hersman responded to Tom’s exceptionally well-prepared questions on the central theme of eastern coal rate cases. More important to the readers of this Letter, however, are the clues to how the STB works and some of the dynamics of the relationship with Congress.

The STB uses a “stand-alone cost methodology” as a start in determining rate reasonableness. That model says if you had to build your own railroad to connect your mine to the market, could you do it for less than what the incumbent carrier wants to charge? Typically eastern rates are about double western rates – does this put eastern mines at a disadvantage?

Applying the stand-alone rule we find in the east geographically dispersed mines in mountainous terrain and in highly congested areas. Just the opposite in the west. Moreover, lines in the east were built 100 years ago; the cost of duplicating them today would be prohibitive. “Not a perfect test,” said Nober, “ but it's the best we have.” Not an easy process, the review process can run 700,000 pages of text and take nine months to complete. On Nober’s watch the oral argument will be the preferred format because it makes the review “more public, more understandable.”

Commenting on the reregulation bill Ms Hersman observed that even though the hearing on S. 919 is up for next week she doubts there’s the “political will to be tougher on the RRs.” Better to work it out between the interested parties and STB than in Congress. As for adding new members to the STB, it depends on when the White House sends up the names. Ms Hersman added that “many Members think it's high time we do something about freight rail infrastructure,” Chicago being an excellent case in point for direct public benefit derived from rail plant spending.

My intermodal carload equivalent model (WIR 10/10) drew this note from fellow railroad observer Larry Kaufman: “I think you may have done everyone a real service. I've been saying for quite some time that intermodal may be lower RPU, but it's also lower CPU. Say that and watch some people's eyes glaze over. Thanks for triggering some thinking at this end.”