THE RAILROAD WEEK IN REVIEW

March 7, 2014

"The BNSF plan to buy 5,000 tank cars sends a signal to the industry." - David Murawski, UTLX, at Railroad Equipment Finance 28

It is a truth universally acknowledged that railroads exist to haul *stuff*. Market share and operating ratios are about how stuff is moved, and finance is about how you pay for moving stuff and more importantly, what you move all that stuff *in*. That's why Tony Kruglinski's annual Railway Equipment Finance conference in Palm Springs, Calif., is so important.

It's the only conference anywhere that brings together the people who make, buy, finance, use and care for equipment and it's the only place one can talk about trends and outlooks in all four areas with the people who set the trends and make outlooks come true. Last week's conference, now in its 28th year, was no exception. There were more than 200 people in the room at Monday's opening gong, representing major players from GE, GATX, Union Tank Car, Georgia Pacific, The Andersons, and First Union Rail to Norfolk Southern, Union Pacific, Genesee & Wyoming and Watco.

The REF conference is unique because the agenda sequence never changes. What's presented does, and how. Day One covers an overview of trends and outlooks for the capital markets, railroad equipment, and commodities (this year we did frac sand, steel, intermodal, auto and coal). Day Two is markets and economics, this time featuring tank cars, boxcars, and covered hoppers. Day Three is power, power, power. This week: What's a used loco worth, how does GWR manage its fleet, how to tweak DC power so it acts like AC when you need it.

The Tony Kruglinski Show is rife with what I call Things You'll Never Hear Elsewhere But Ought To. A sampling: Why is the GP38-2 the most popular shortline power and why does a used SW1500 cost three times as much as a used SD40-2? Forty-foot ISO containers are popular in Europe; why not here, and, if here, would they replace tank cars and covered hoppers? (Channel checks since say not likely.) Norfolk Southern does close to 300,000 boxcar loads a year - what's in 'em? How does car hire work and who pays it? (This last very worthwhile because the tone of the Q&A says it's not well understood here.)

The most popular car for plastics is now a 6,245 cubic-foot covered hopper. Though new nat gas drill holes are down, frac sand and cement are up as each site goes deeper and wider. Standard & Poors predicts three-ish percent GDP growth and four-ish percent freight rate growth through 2015. Builders expect 11,000 new small cube covered hoppers will be built in 2014. The Big Three in forest products are GP, IP and RockTenn; why they still like the plug-door 50s. Why the BNSF decision to buy 5,000 tank cars is a "signal to the market," and why the prospect of nat-gas fueled locos is a "tsunami" to railroad economics.

If there were one thing I could wish for at the REF conference, it would be for more shortline participation. I counted just seven shortline names on the attendee list and two of these were presenters. I realize that most non-Class I roads are like Blanche in *Streetcar* when it comes to car supply: they depend on the kindness of strangers. But that's no excuse. They still have stuff to move and they need cars to move it in plus power to pull it. What are their options? REF has answers.

Kruglinski feels the same way about shortline participation and is prepared to do something about it. First, registration fees. The full ticket can run north of $1,000 per player, twice what short lines are used to paying for their convention outings. Thus, says Tony, he's planning a discount for non-Class I road attendees for the REF 29 session next March. Second, hotel fees. He's considering - just considering - a break here too. That'll depend on demand and what he can arrange with the La Quinta Resort. Let me know if you're interested so I can aggregate the numbers and advise Tony.

CSX Short Lines 25, also this past week, was another great success. I know of at least two guys who've been to all 25 gatherings and I guess I've missed three or four. Len Kellermann, the CSX short line host, says more than 240 souls showed, representing 184 shortline names, roughly three-quarters of all short lines connecting with CSX, and including a few non-CSX roads. As usual, the entire senior management team not only presented but stuck around to meet and greet at the evening events. CSX also conducted a first-ever Crisis Communications training seminar and nearly a third of the assembled multitude showed up.

Because Tony trumped CSX this year, I asked several shortliners who went what they thought. LAL's Gene Blabey writes, "CSX's relationships with its shortline connections are more than skin deep. What is most impressive is the fact that the entire Jacksonville executive suite turns out to talk with the smaller railroads. Michael Ward, Oscar Munoz, Fred Eliasson, Clarence Gooden, and operating types like Cindy Sanborn, Cressie Brown and Brian McDonald were all there. They were open and accessible and forthright in the presentations.

"One important addition to the program was an all-afternoon seminar on how to handle communications in a crisis… The seminar included role playing and analysis of video clips, TV and press interviews in various disaster scenarios. I think the other Class Is need to realize that helping us 'little guys' deal with crisis communications could mitigate some of the public wrath following a derailment (or God forbid) an explosion and I'd like to see more of this training. The effort CSX puts into this meeting bespeaks a real commitment to relationships with Class II and Class III interchange partners. I continue to be impressed with CSX. They have it together."

Susquehanna's Jim Howarth: "I was at the first one in 1989 and they have come a long way. There was a better than expected outlook on the economy. I believed – and still do – that 2%+ is the new normal. Clarence and other senior CSX folks spoke of much higher growth – albeit held down by horrible first quarter weather.

CSX did not sugarcoat the current operational difficulties. Cindy and others spoke to the problems and admitted it will take time to dig out. This cold weather has finally knocked down those vaunted – and seemingly permanent – coal stockpiles, yet it appears that the CSX combination of merchandise, intermodal, and oil will fill the coal void going forward."

And finally this, from Pinsley's Tom Owen: "The Trade Show was particularly robust this year and Pinsly, for one, made much progress, meeting a number of newly-reassigned Market Managers and Directors. The Tuesday breakout sessions were well-prepared and well-attended. As in prior years, I thought the Minerals Team stood out in that they emphasized constructive ideas for a short line to take-away and work on to create new opportunities. The other groups were quite good, too, but I prefer actionable presentations to ones that are mostly informational."

On a personal note, I understand that CSX Shortline Team Member David Martin will be taking his retirement shortly. Wish I could have been there to say thanks for all he's done as a shortline advocate at CSX over the years. Clearly CSX Shortlines v 25.0 was a great success. Congratulations and thanks to all those who helped make it so.

Last week's WIR note on short lines and crude oil needs some clarification. I had written, "It's quite possible the Rail Corridor Risk Management System will dictate Class I reroutes over shortlines to avoid metro centers."

My good friend John Gray at the AAR corrects me thus: "There are actually no shortlines participating in the RCRMS tool. RCRMS does not reroute between carriers, only within the carriers in the route of a movement. It does not seek out alternate carriers, looking only for the best routes for the carriers participating in a movement.

"Further, the terms of the Secretary's letter only apply to carriers who subscribe, in writing, to those terms regardless of whether they handle crude. To date, the list of subscribers only includes the seven Class I carriers." Thanks, John.