RAILROAD WEEK IN REVIEW

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"Hump yards attract freight cars." — Keith Creel, President & CEO, Canadian Pacific

At the Railway Age *Insights* program in Chicago June 7-8 Creel talked about the role of customer service in creating new markets. Not only is the in-house sales and marketing team creating new revenue opportunities, but Creel sees short lines as key to extending the franchise. He's not pushing any particular commodity lanes, but he sees easily $200 million in new revenue just by improving merch carload access and dependability.

I think CP's operating model is now in a position to deliver on a promise of identifying and implementing supply chain solutions for customers new and old. He's looking to adding RTMs without adding train miles (20,000 tons on 14,000-foot trains), meaning better carload trip plan compliance, faster turns on customers' leased equipment, and more reliance on T&E crews' ideas on what customers want to see at the dock.

Says he, "Hump yards attract cars," and the fewer hump yards between OD pairs the better. Responding to a question from the audience, he said not only would he welcome short lines pre-blocking outbound consists, but would be willing to pre-block their inbounds as a return of the favor. (My shortline panel members were mixed as to benefits either way.)

In a separate press release, CP cites its Dedicated Train program's success in the grain sector as a tool that enables "leveraging the total transportation product." I'll say. Clearly CP is at a point where it can use the strategic operating gains (greater fuel efficiency in gallons/KGTM, shorter average terminal dwell, more car-miles per day, e.g.) to build "sticky" customer relationships. And short lines are definitely in a position to contribute.

Kentucky shortline operator R. J. Corman Railroad Co. celebrates its 30th anniversary this year. The company that the late Rick Corman founded in January 1987 with the acquisition of a former L&N branch line ("The Bardstown Line") has evolved into a holding company that operates some 1,100 route-miles over 11 short lines in nine states and employing more than 1,500 people. They did 60,000 cars in 2016 and own more than 100 locomotives and approximately 475 railcars.

The largest railroad is the Pennsylvania Lines, consisting of 243 miles of ex-B&O, PRR and NYC in north central Pennsylvania. The Central Kentucky Lines consist of nearly 150 miles of former L&N track running from Lexington to Louisville. And most recently, Corman acquired 96 miles of former ACL trackage just inland from the North and South Carolina coast.

Severe flooding and washout conditions have caused OmniTRAX to suspend operations on the northern segment of its Hudson Bay Railway (HBR) between Amery and Churchill, Manitoba. HBR has been unable to operate to Churchill since May 23 when high water made the track impassable. OmniTRAX does not expect to be able to resume operations before the winter season.

Preliminary assessments reveal that the trackbed has been washed away in 19 locations. Five bridges are visibly damaged and an additional 30 bridges and 600 culverts will need to be assessed for structural integrity. "The damage is unprecedented and catastrophic," according to Peter Touesnard, Chief Commercial Officer at OmniTRAX. "The extent of the damage created by flooding this year is by far the worst we have ever seen. Though water levels have by now receded to near normal levels, we do not expect to be operational before the winter, and are concerned that the future of the track could be in jeopardy."

HBR is a vital transportation link in northern Manitoba, hauling food, fuel, agricultural products, kraft paper, concentrates and other goods and materials required in the north. VIA Rail has suspended service due to flooding and says it will resume services between Gillam and Churchill once inspections of the railway have been completed and the track is back in operation.

Genesee & Wyoming May North America carloads are up 1.8%; without P&W for clear year-over-year same-railroad comps, down 1.1%. Starting soon they'll be including the HOG -- I wonder how much that'll add, whether same-railroad units are up or down or remain the same, and how they'll count intermodal containers — boxes as revenue units or carloads of boxes.

Compared with last month, coal has dropped to fifth place from third in the 80% of carloads group; minerals/stone is first, displacing ag products. Specifically:

• Coal & coke traffic decreased 13.6%, on fewer Central Region utility coal moves thanks to a planned maintenance outage at a customer facility, partially offset by increased shipments in the Midwest Region;

• Metals traffic slipped 10.8% on lower vols to the Southern, Coastal and Canada Regions, partially offset by increases in the Northeast Region;

• Petroleum products traffic dropped 13.9% on NGLs and propane in the Mountain West and Northeast Regions.

• Minerals/stone increased 9.3%, on construction aggregates to the Central Region and more frac sand in the Northeast Region, probably the northwest corner of the Marcellus.

• Agricultural products gained 8.7% on grain moving out of the Mountain West, Central and Midwest Regions.

With 80% of vols in bulk, essentially non-cyclical heat and eat commodities, GWR seems set for the long haul and 2% vol growth will stand them in good stead, regardless of monthly variations.

John Mauldin is one of the more astute observers of the scene and his annual *Strategic Investment Conference* is always a sell-out. Last week at SIC Morgan Creek Management's Mark Yusko had this cheery prediction:

> We are going to have a crash and it is going to be terrific. I don't know when it is going to be. I think maybe in September or October, but it is going to happen. And if we do what they did in the 1930s, if they impose tariffs to try to help our jobs, if they export foreigners, we are going to turn a recession into a depression. We are going to have a deflationary bust.
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> When you put up tariffs, do you think that other countries just sit back and take it? No. Our exports went down 35% in the 30s because they put up higher tariffs than we did. Because they fight back. We act like we are just going to do this to the rest of the world.
> U.S. markets have never been calmer. It is when we usually have crashes.

The quote comes courtesy of Art Cashin, who correctly advises, "Stick with the drill – stay wary, alert and be very, very nimble."

On the folly of closing too many yards too fast (WIR June 9), a now-retired senior marketing office for a Class I railroad writes:

> The classic "Around Robin Hood's Barn" move was when we closed the eastbound hump at a major classification yard. As a result, cars that were to go to a connecting road 100 miles to the south went instead to a bigger class yard 100 miles west, got sorted into a bigger train that came back east by us to a third yard 100 miles beyond, there to be classified into yet another train destined for the point of interchange with the foreign road.
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> As a result, a car that should have been off our system in one day now took up to four or five days to get off line. And the CFO couldn't figure out why car hire expense was suddenly out of line.

So what goes around, comes around. And the definition of insanity remains: doing the same thing over and over, expecting different results.

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