RAILROAD WEEK IN REVIEW

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“The future of the AAR is working closely with our Class II and Class III railroad partners. We’re all really joined at the hip. The overarching issue is not re-regulation — it’s figuring out what we must do to be competitive and grow our business..” — Ed Hamberger, Railway Age, July 2018

“The OR is an important measure for railroads, but it’s become over time the be-all and end-all. It’s become, in my opinion, the Cult of the Operating Ratio.” — Tony Hatch

Canadian Pacific has finished the 2017-2018 grain movement season, with September 2017 alone being a record month. CP handled 25.8 million metric-tons (28.4 million US tons) of western Canadian grain and grain products, soybeans and other non-regulated principal field crops, up one percent year-over-year and up the same amount over its three-year average. September 2017 was CP’s biggest-ever month for moving Canadian grain.

Joan Hardy, CP Vice President Sales and Marketing – Grain and Fertilizers, estimates the 2018-2019 crop year, based on Statistics Canada data, is 70.8 million metric-tons. When adding potential carry-in into next year’s crop year production, the total available tonnage jumps to 83.4 million metric-tons, five percent more than the previous five-year average. Based on these forecasts, CP is planning to place 5,500 cars for loading every week through the fall.

Like everybody else, CP is adding capacity. The railroad now has more than 700 new employees in training and by the end of summer will have added more than 100 remanufactured locos to its fleet. CP plans to spend more than $1.55 billion in capital investments in 2018, replacing depleted track assets and upgrading its network.

The plan includes investing C$500 million for new high-capacity grain hoppers that not only carry ten percent more tonnage per unit, but also are five feet shorter, resulting in resulting in 15 percent more grain per train. CP will add more than 500 of these cars by the end of the calendar year, and 1,000 by the end of the first quarter of 2019 as part of its plan to purchase 5,900 new grain hoppers over the next four years.

Moreover, CP is developing an 8,500-foot train model in collaboration with the origin elevators and destination terminals that will take these trains. With them, CP will be able to haul up to 20 percent more grain per train than the current 7,000-foot model, and up to 44 percent more grain per train when combined with new high-capacity hoppers. A power-on model, where locos stay at a grain elevator while a train is loaded, will be used where appropriate.

These innovations take advantage of the Dedicated Train Program (DTP), which allows customers to lock-in dedicated unit trains to serve their facilities for the entire crop year. The

DTP provides incentives for both CP and grain shippers to keep trains cycling with minimal delay. Moreover, CP's Open Distribution Program is designed to meet the needs of less-than-unit-train customers and their specific end-markets. Customers who are not part of the DTP can order cars in the Open Distribution Program.

This good news is particularly well-timed, coming as it does on the eve of CP's first shortline and regional railroad gathering in some years.With the Open Distribution program allowing customers to order cars well-ahead of the desired spot-date, the railroads can plan to have the right stuff in the right place at the right time. Says Hardy, "Even as we pursue supply chain innovation, we are focused on the fundamentals of meeting farmers' needs this crop year."

CP and GWR have begun their direct service into southeastern Ohio from Vancouver, BC. First announced in the fall (WIR October 17, 2017), the service will operate six days a week. The GWR handles the traffic east of Chicago on its Chicago, Fort Wayne & Eastern's former Pennsylvania Railroad main line to Lima. From there it runs south on the Indiana & Ohio's onetime Detroit, Toledo & Ironton main line to Jeffersonville. Both short lines were acquired as part of the RailAmerica transaction in 2012.

CP spokesman Andy Cummings (formerly of *Trains* magazine, and with whom I wrote a feature on Dan Sabin's Iowa Northern) says the new collaboration "enables easy access to the Columbus, Cincinnati, and Dayton markets. The new service is an ideal end-to-end supply-chain offering for auto parts shippers, as it bypasses Chicago interchanges, offers flexible destinations, and creates compelling round-trip economics, including opportunities for the backhaul of agricultural products." This is, I'm sure, the sort of market extension short lines will hear more about in Calgary in a few weeks

Now that we're well past the first half results and all the commentary appertaining thereto, the time is right to compare June carloads for short lines and regionals for last year and this. Using the *Railinc Index of Shortline carloads* by commodity, we find a generally encouraging picture. To be sure, there are the usual suspects falling short — grain, STCC 24 lumber, met ores, aggregates, waste — but ex-coal and intermodal, merch carloads still are up three percent.

As an aside, the WSJ says paper mills are going full blast for Amazon boxes and they can't find enough trucks. AAR paper is up three percent. The biggest customer complaint seems to be a lack of railroad reliability. The paper-handling non-Class Is that I know of do very well placing and switching cars; it's what happens to these cars beyond the short line, and that's what colors the customers' view of railroad performance. I have never heard of service beyond the interchange being discussed the so-called shortline caucus meetings. Maybe it should be.

I also compared AAR June 2018 carloads with June six years ago. Carloads ex-intermodal and coal increased three percent, while the GDP grew to $18 trillion from $16 trillion, some 12 percent. The AAR total US revenue units year-to-date through June were 6.8 million this year vs. 7.2 million in June 2012, down six percent. (Loads hit a trough of 6.3 million year-to-date

through June 2016, making 2018 up three percent, so perhaps there's hope.) Intermodal units were up 16 percent 2012-2018, beating the GDP delta, BTW.

My take: Industrial chemicals and NGLs, aggregates, grain and food, and paper look good for the shortline community, assuming the Class Is can hold up their end of the service bargain. I think trucks are benefitting most from GDP growth, and a lot of that has to be international drays and short-haul (under 500 mile) moves. As long as railroad service is perceived as expensive and unreliable, such will continue to be the case.

New York & Atlantic has tapped four-year veteran Chuck Samul to be Director of Sales and Marketing effective September 1. He works out of the NYA home office at Fresh Pond Jct. in deepest Queens and reports to Eric Jakubowski, vice president and chief commercial officer of Anacostia Rail Holdings, NY&A's owner. Samul joined the New York & Atlantic Railroad in 2014 as a marketing project manager, advancing to manager of sales and marketing in 2015.

Samul began his railroad career in 1978 with Conrail, subsequently holding management posts in risk management, real estate, marketing and economic development with Conrail and Norfolk Southern. He left the rail industry and for five years worked for Winebow, an importer and wholesaler of premium wines and spirits. He followed that with four years at the Dormitory Authority of the State of New York, while completing graduate studies at Columbia University. I've known Chuck for many years and am delighted to learn of his promotion. He is a solid citizen, a dedicated railroader, and a good friend. He'll do well.

End note. Last week I wrote about the "financialization of companies," where management teams replace owners. It goes deeper. That process creates big, vertically-integrated, very efficient structures where economies of scale are the focus — the simpler you make any given task, the cheaper it is to do. And so you get a huge divergence in wealth -- the owners who own these structures and the former entrepreneurs who are now employees with little stake in the capital aspects of the business.

Your family doctor is now Universal Health; your corner pharmacist is now CVS; your county bank is now Wells Fargo; and your former locally-owned Class I railroad is now part of the Union Pacific. But as one takes away the sense of ownership, one also takes away the creativity that goes with running a business. The local entrepreneur exists to create customers; the distant owner exists to get share prices up. I'm not sure where it will end — even today's short lines rely on the financialized Class Is to support the customers the short lines create.

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