RAILROAD WEEK IN REVIEW
February 14, 2020

"Speculation is an effort, probably unsuccessful, to turn a little money into a lot. Investment is an effort, which should be successful, to prevent a lot of money from becoming a little." –Fred Schwed, Junior, Where Are the Customers Yachts, page 135

"We are currently parking trains across our network, but due to limited available space for such, CN will have no choice but to temporarily discontinue service in key corridors unless the blockades come to an end." — JJ Ruest, President and CEO, Canadian National

"MIND THE GAAP. Recently we explored the quality of earnings and the growing gap between S&P 500 actual 'as reported' earnings (GAAP basis) and the adjusted 'operating' profits, which excludes extraordinary items. As of Q3 2019 (latest full quarter of data), the spread between the two was $6 per share, or nearly $200 billion on a level basis." — Rosenberg Research, Feb 11

Canadian National is shutting down significant parts of its Canadian network due to the blockades stemming from what the *NY Times* calls "an Indigenous group." The group is protesting the building of a natural gas pipeline to Canada's West Coast. The first blockade appeared on Thursday February 6 and led to the shutdown of all passenger trains between Toronto, Montreal and Ottawa, as well as some freight trains.

The blockade occurred in the vicinity of Belleville, Ontario, roughly in the middle of the core Toronto-Montreal main line. Another blockade was set up on the CN main between Prince George and Prince Rupert. As of Tuesday CN was saying there were no trains running at either location.

CN adds that "hundreds of trains have been canceled since the blockades began five days ago. The impact is also being felt beyond Canada's borders and is harming the country's reputation as a stable and viable supply chain partner.

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The list of goods stopped literally in their tracks is impressive — carloads of Canadian grain, deicing fluid at airports, construction materials, propane to Quebec and Atlantic Canada, lumber, aluminum, coal and propane. As a result, we could see closures of factories and mines; the Port of Prince Rupert is effectively already shut down; and the Ports of Montreal and Halifax are also already feeling the impact.

Adding insult to injury, Canada's Transport Minister, Marc Garneau, announced via Twitter new speed restrictions for trains carrying 20 or more cars of hazardous cargo in the wake of the derailment and subsequent fire of a Canadian Pacific crude oil train in Saskatchewan. Loosely translated from the French on Twitter, @MarcGarneau Feb 6: "I have asked the ministers to examine all similar incidents to determine whether additional safety measures are needed. I can't put safety in danger and I will not hesitate to take measures as needed quickly."

Later the same day, Garneau tweeted *en francais*, "On Feb 7 at midnight we will impose a hazardous goods speed limit of 20 mph in cities and 25 mph elsewhere." In response to Canada's new speed restrictions on trains carrying hazardous material, Canadian National has issued an embargo on crude oil, propane, and TIH (toxic inhalation hazard) materials.

In a notice to customers, the railroad says it will "continue to move these commodities, but manage the flow through a permit process from our centralized operations center." The railroad said it was taking the move to "protect network fluidity." [end]

I can't find anything about this on the CN website, but I can imagine the speed restriction slowing down the entire railroad, endangering the supply chain reliability and consistency CN has worked so hard to create. Looking at the CN map, I'd say the impact will be felt mainly along the busy Edmonton-Winnipeg core route. My guess is "the permit system" slots the hazmat trains in such a way that their slower speeds will have minimal effect on scheduled commitments.

The Mexican Federal Competition Commission (COFECE) has published an extract of its final report (Final Report) regarding its view of "effective competition" for a number of chemical and petrochemical products -- anhydrous ammonia, chlorine, ethylene oxide, and caustic soda -- to or from the southern region of the State of Veracruz.

In the Final Report, COFECE found that 20 of 31 routes under analysis lacked effective competition. Kansas City Southern de Mexico (KCSM) is only involved in 5 out of the 20 routes, and there handles only chlorine and ethylene oxide. During 2019, KCSM's revenue associated with these five routes was less than $1.5 million out of its total rev of $1.2 billion (one-tenth of one percent). As you can see from the map, it's not a huge market.

KCS says the Final Report "has no impact on KCSM's current business, operations, or rights under the concession and the findings "were largely in line with KCS's expectations for this proceeding." On the other hand, "KCSM respectfully disagrees with the reasoning and conclusions of COFECE since they are contrary to the rule of law, contravene the rules of procedure, and rely upon faulty economic analysis.

KCSM is currently analyzing "all available legal options to challenge the Final Report." In other words, it ain't over till it's over. But it's such small potatoes I'm not losing any sleep over it. KCS always has the option of walking away, leaving the affected customers to find alternative transportation. Stay tuned.

The AAR Freight Cars in Storage report shows twice as many tank cars as coal hoppers in storage. There are even more covered hoppers. The percent of cars in storage and percent of stored cars are particularly helpful.

North American Freight Cars in Storage by Major Car Type
(as of February 1, 2020)

Car Type	Primary Commodities	Total Cars In Service	In Storage	Percent In Storage	Percent of Stored Cars
Box	Paper products, wood products, food prod.	105,443	21,686	21%	5%
Covered Hoppers	Grain, chemicals, nonmetallic minerals	572,388	142,129	25%	36%
Flats	Containers, trailers, lumber, steel, autos	75,265	21,597	29%	5%
Gondolas	Coal, nonmetallic minerals, metals, scrap	206,935	48,089	23%	12%
Hoppers	Coal, metalic ores, nonmetallic minerals	128,705	37,522	29%	9%
Intermodal	Containers, trailers	73,511	12,314	17%	3%
Refrigerator	Food products, farm products, chemicals	10,811	3,059	28%	1%
Tanks	Chemicals, petroleum, food products	433,450	107,109	25%	27%
Vehicle Flat	Autos	66,406	6,710	10%	2%
Grand Total		1,672,914	400,215	24%	100%

Source: Association of American Railroads

I suspect part of it comes from the double-whammy of cars turning faster under PSR and a general economic slowdown. It's got to be a windfall for non-Class I roads with storage capacity.