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The Railroad Week in Review 4/21/2001

Credit Suisse First Boston (CSFB) gave investors a most insightful commentary on the recent STB merger hearings, sort of the last Hurrah! before the final rules are written. As you know, the carriers were pretty much united in saying no to enhanced railroad competition. They already have their hands full with the trucks.

Everybody agrees opening up points served by a single road to a second road would be going too far. Recall the guiding principal in the Conrail transaction was to preserve rail competition, not add competition where there had been none. Says CSFB, “We believe that the railroads make a fair point and would not be surprised to see the STB back off.”

Here’s where it gets interesting. CSFB continues, “This is the point that shippers fought for keeping just as adamantly. In the end some form of enhanced competition will exist, but it is unlikely [the proposed rule] will stand in its current form. Further, Kansas City Southern presented itself as the railroad that could come in and be a competitive solution (as it has done many times in the past) to any disputed area or region where shippers believed competition would be eliminated.”

Of course, the whole argument boils down to railroads comparing themselves with other railroads. Not smart. As we noted last week, there’s a reason The Best Companies create the most shareholder value. They execute their core competency extremely well. Now comes CN’s Paul Tellier telling his shareholders, “To create [more] shareholder value our benchmark can no longer be the rail industry. We must become one of the best-run, best-managed, best-performing companies in North America.”

A recent mailing from this desk to more than a hundred non-class 1 railroads asked whether YTD carloads were up or down and why. I also asked the class 1s what trends they see in non-class 1 railroad carload interchange. Going in, the assumption has to be that since all Class 1's are pretty hungry for incremental business these days, shortline-generated opportunities are getting plenty of big railroad attention and action. Such appears to be the case. As one of my class 1 correspondents put it, "Same store short line numbers continue to outpace broader industry performance for the loose carload industrial products sector.”

The common thread among the small railroads is that where value-added services are offered, results are improving. The operator of several contiguous lines in the Southwest writes, “Just like most railroads, we too are experiencing a slight decline YTD vs. 2000 thanks to a combination of bad weather, a slowing economy and the impact that has had on the class 1 connections.”

He continues, “Most of our new business initiatives are centered on sharpening our basic business practices. We reload every car we possibly can and inspect them for cleanliness and suitability before placing them for the customers. We also are turning cars faster to reduce car hire costs and reduce empty miles. Finally, we are building up a portfolio of cross-dock operators who have located on our lines. They handle freight to/from points in excess of 300 miles for our railroad. Products include steel, lumber, minerals/ores, plastics, and building materials.”

Further east, a metro-area shortline railroad operator says he “is not experiencing any downturn in business, so far, in 2001. At the present time we are up over last year by 14%, and in fact we have just had our best month since 1980, up some 38%!

“We are using a two-prong approach. First, we are working with our shippers on reducing car hire expense, and trying to capture some incremental business through cost-control. For example, we want to convince shippers that with the downturn in the economy, they should use additional rail to offset truck costs...in other words "blend" rail into truck dominant movements to lower overall cost and maintain service levels.

“Second, we added customer service programs at added cost to the customer. One is [a proprietary name] program that proactively monitors and expedites shipments to and from a customer, and we have a "Guaranteed Clean Car Program" that promises that every car (mostly boxcars and gons) are clean and mechanically fit when placed.”

Shortline holding company Genesee & Wyoming (GNWR) said its March YTY North American carloads more closely mirrored the class 1s, being up in coal, down in forest products, and no real change anyplace else. The quarter was off a bit more than 5%, with coal again a major driver and being related to power plant stockpiling in Illinois.

Competitor RailAmerica (RAIL) said North American “same store”carloads were up 3% for March and 4% for the quarter. What this means is that now we are past the “bulge in the python” were we were faced YTY comparisons of two vastly-different sized properties.

Union Pacific and GNWR have expanded the relationship we touched on here last month (WIR 3/3/2001). Speedlink, a GNWR subsidiary, and UP have teamed up to provide a unique boxcar "shuttle train" that gives shippers truck-like speed and delivery with boxcar economics between the Pacific Northwest and Southern California. It’s a “one-call, door-to-door, multiple-stop service with inventory control, and direct store delivery.” It can accommodate shipment sizes as small as a single pallet and offers expedited third-day door-to-door delivery. Warehouses and DCs need not apply.

BNSF and NS announced a new non-stop intermodal run-through program, something we knew was brewing as far back as last September, when the fans were all a-dither over BNSF and NS officials spied together in places like Harrisburg, PA. Recall Robert Young’s quip in 50s – “ A pig can cross the country without changing trains, but you can’t,” referring to the inevitable train-change in Chicago. Well, according to the two railroads piggybacks couldn’t either, at least via Chicago.

By offering a run-through service that eliminates Chicago cross-town truck transfers, this new integrated rail service is designed to improve service between major markets in the Northeast and Southern California. The railroads say transit time will be reduced by a day or more to be directly competitive with the all-highway mode.

All that, and the stock market started to move, too. What next? Earnings, in a word. Stick around.

Roy Blanchard

Disclosure: Blanchard may from time to time hold long, short, or debt positions in the companies mentioned here. A list of such holdings is available on request.