The Railroad Week in Review
July 2, 2004
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Canadian Pacific and **Norfolk Southern** have reached an accord for an exchange of trackage rights, freight haulage and yard services. Recall that more than a year ago (June 2003) CP said it was restructuring its D&H operations and was seeking proposals for ways to increase freight volumes, reduce operating costs and improve earnings. Done. Under the agreement, CP will cease yard operations in Buffalo and use NS facilities; in Binghamton NS exits its own yard in favor of CP's East Binghamton yard.

Then there are three new agreements on trackage rights and haulage agreements. First, CP is to provide haulage for NS freight between Rouses Point and Saratoga Springs. NS will operate its own trains over CP's line between Saratoga Springs and Binghamton under trackage rights. CP gets an improved revenue stream and NS gets a substantially shorter route to Quebec and the Maritime provinces without having to go "around the horn" via Buffalo. During the call XP's Fred Green alluded to more bridge traffic between Montreal and the southern states, mentioning CN and further truck diversions more than once. CP's Harrisburg trains via Sunbury remain.

Second, CP's Buffalo-Binghamton cars will move in NS trains under a haulage arrangement, replacing a trackage rights agreement under which CP operated its own trains between the two cities. The changes will no doubt lower CP's operating costs on the Southern Tier and the former D&H, though probably not down to the barely-sub-80 range experienced for CY2003.

Third, CP will move its Detroit-Chicago operations to the NS route via Ann Arbor and Kalamazoo from the more northerly CSX route via Lansing and Grand Rapids. This is the same route Amtrak uses and is the shortest rail route between the two cities, though a new connection at Butler IN is in the works. Here again a faster, more direct route ought to translate into lower operating costs. These three shifts will require the STB's blessing so we ought not to expect much movement before 2005 and the full impact realized by oh-six.

The shortline implications are positive. On the NY Southern Tier shortlines took interchange from both CP and NS in various combinations of times and places. Having NS do it all under haulage ought to reduce the redundancy and improve asset turns. The MMA and Vermont Rail
If you're interested, a telephone replay of the June 30 conference call will be available through July 7 at 1-877-289-8525 or 416-640-1917, pass code 21056014 followed by the # key. The call will also archived on CP's website, www.cp.ca, through July 30.

RailAmerica, Canadian National and NS stock prices all reached new 52-week this week after having had nice run-ups in June. By week's end all three were taking a breather. Intra-day CN took the smallest dip. Meanwhile, UP nearly touched the $60 resistance point (WIR 6/25) on Wed but fell back Thurs and Fri. If Monday is another down day those who got in at the $56 support level may wish to book some profit.

Also this week RRA announced that the Australian Competition and Consumer Commission (ACCC) has approved the sale of the Company's Freight Australia operation to Pacific National, expected to be worth about US $200 mm. This was the first of two approvals needed; the State of Victoria is the second. RRA anticipates final closure in 3Q04.

Watco Companies continues to grow with the addition of an operating lease over 122 miles of BNSF-owned track between Silsbee and Dobbin, Texas with rights continuing over to Somerville. Watco begins operations on the line this Sunday, July 3 as an extension of its Timber Rock Railroad (TIBR). This is a most fortunate fit for both players. The TIBR was created in 1998 and with this expansion will operate 290 miles of track.

This addition is a straight-on extension of the present TIBR (and is already on the website, www.watcocompanies.com). This is all ex-Santa Fe now made partially redundant by BNSF's rights over the parallel ex-SP lines it uses thanks to the terms of the UP-SP merger. Best of all, it shows that what BNSF proposed to do in line rationalization as presented to the shortlines last fall is actually happening. The line meets all the qualifications in Pete Rickershauser's slides and the preferred buyer characteristics fit Watco to a tee. Well done, well done.

Trucking stocks continue to perform well vis a vis the rest of the market. Second quarter demand and pricing for both truckload and less-than-truckload have been strong. My market basket of five leading truckers from Arkansas Best (ABFS) to Yellow Freight (YELL) shows all to be double-digits ahead of the 52-week low. ABFS and JB Hunt (JBHT) are double-digits above their 50-day moving average. The WSJ shows the Dow Jones Trucking Index to be up 46% over TTM vs. 16% for the DJ Total Market Index. For three months, it's trucking 13%, market minus 1%.

That said, trucking stocks fell off their highs as did the rails as the week wound down. But the fact of the matter remains that for lots if businesses the truck is the mode of choice, and that non-rail users are likely to remain so. The various Wall Street reports I've seen this week seem to agree the LTL carriers have an edge over the truckload guys because they're not faced with many of the HOS and driver shortage challenges.

The Delaware Valley Regional Planning Commission (DVRPC) is the Philadelphia regions MPO and does a very good job of staying ahead of the curve. Ted Dahlburg, manager of the DVRPC Urban Goods Movement program, is running an invaluable survey that asks, "Which transportation improvement is most needed to spur growth of the local economy and maintain the region as a premiere international freight gateway?

The story this far is that a third of the respondents voted to "add more tracks and improve vertical clearances for railroads" and an equal number opted for dredging the Delaware River main channel to 45 feet. Only 22% asked for "more highways and some truck-only roads" while 6% each would like to see "increased security at airports, ports and pipelines" or "converting brownfields to modern distribution centers." I find this particularly encouraging in that DVRPC's constituency is planners, transportation company representatives, and transportation services users. Philadelphia is served by NS, CSX, and CP (via trackage rights over NS).

Jim McClellan, now retired as SVP for Strategic Planning at NS, has been making the rubber chicken circuit holding forth on some vitally important issues that concern us all. His most recent foray was to the June meeting of the Association for Transportation Law, Logistics and Policy and the topic was railroad mergers. Jim has graciously given me permission to post his slides at www.rblanchard.com . Watch for them next week.