THE RAILROAD WEEK IN REVIEW
December 2, 2011

"Short lines need to remember that so-called open access could be a mighty blow to some of their number." -- Henry Lampe

The rails won't be shut down December 6 after all. The Brotherhood of Locomotive Engineers & Trainmen (BLET) and the American Train Dispatchers Association (ATDA) have joined the Brotherhood of Maintenance of Way Employees (BMWE) in an agreement to extend labor negotiations into February. Looks like the industry push-back helped.

Among the Class I rails, BNSF has been the most outspoken publicly. Chief Commercial Officer John Lanigan in the latest of a series of e-mails to shippers writes Nov 30, "Without an extension of the cooling off period or tentative settlement agreements, a strike or other job actions could occur at that time. The deadline for the BLET and ATDA to join the cooling off period extension offer has been extended until the close of business tomorrow, December 1. Should the two unions fail to join the extension offer by tomorrow, the railroads will work toward a legislative solution.

"Your response to my request to contact your Congressional delegations has been very encouraging. To date, our customers have sent more than 700 letters to Washington expressing their concerns over the impact of a national rail shutdown. In response, House Speaker John Boehner (R-OH), Majority Leader Eric Cantor (R-VA) and Majority Whip Kevin McCarthy (R-CA) issued a statement yesterday that the House of Representatives is prepared to take action to avert a rail shutdown."

On the railroad customer side, the Retail Industry Leaders Association (RILA) called on Congress "to step in to avert a work stoppage that would disrupt retail supply chains during the holiday shopping season and well into 2012. A breakdown in negotiations between the National Railway Labor Conference and railroad negotiators could lead to a nationwide shutdown on December 6; estimates suggest that a national railroad work stoppage would cost the U.S. economy $2 billion per day."

The RILA goes on to urge Congress "to exercise their power to step in to keep the flow of goods moving and avert an avoidable economic catastrophe. Such a significant interruption of supply chains at this critical time would have a broad and dramatic effect, while interfering with retailers' ability to provide customers with the items they seek during the holidays and beyond,"

Any labor action -- now or later -- will hurt short lines' near-term cash flow more than anything else. Such customers as can will switch to truck for critical supplies and outbound moves but -- depending on the state of customers' supply chains and the duration of the strike -- goods not moving today may still move tomorrow. That being the case, a lull in train operations is a great chance to get caught up on maintenance and house-keeping.

GE Transportation will acquire Atlanta-based RMI, expanding the footprint of GE Transportation's Software and Optimization Solutions railroad business practice. Pending regulatory approval anticipated early next year, the transaction is expected to close in a matter of months. Terms of the deal were not disclosed.

Nearly 400 shortline railroads use RMI to track car and report movement events and RMI has a substantial following among railcar leasing companies and intermodal service providers. Annual revenues are reported to be in the $45 million range. Pete Kleifgen, RMI's chairman and CEO, says the GE relationship "will expand the reach of RMI's software solutions to railroad and transportation logistics customers around the globe."

RMI shortline Account Executive Joel Christianson tells me, "The GE deal is a good one. For two reasons. First, the scope of GE Transport's service portfolio adds value to the RMI product line. Second, there is a real need for technology such as RMI's in many parts of the world. GE will be able to provide some one-stop shopping." Well done, all.

Readers respond. *Regarding the New England Central* TIGER III application (WIR Nov 18), my brother Mark -- who's lived not far from the NECR main since the days it was the CV -- writes,

> Nice job on the NECR comments. If pipeline size expansion in B allows commerce between A & C (plus sometimes D&E) not only does B win but also everyone else. I also see an analogy to Larry Kaufman's redirect, to wit, we must think more broadly in time as well as geography when considering infrastructure investments. What many in Congress have forgotten in lampooning the long run in which we're all dead is that there is a long time to survive between short term and being dead, and government -- unlike private enterprise -- has better capacity to survive the short term pain, ergo its role in bridging the gaps.

Regarding the STB and open access (WIR Nov 11), Henry Lampe, recently retired South Shore president, writes,

> Short lines need to remember that so called open access could be a mighty blow to some of their numbers. Under open access it's conceivable they could very well wind up with a class I driving trains directly to customers whom they now serve exclusively. By and large I don't think so-called open access is even close to being a net positive for the shortline industry. Glad they punted."

And from former short line operator Brian Holtz:

> One thing that seems to be missing from the re-regulation discussion is the context of the times. In the 1970's, government, rail customers and the public were faced with the failure of the Rock Island, Milwaukee and Penn Central. Drastic changes in regulation were required to save an industry that was in decline since the 1950's. All involved parties wanted the problems solved and worked together for a solution.
>
> Clearly, the resultant legislation -- the Staggers Act -- helped restore the health and prosperity of the railroad industry. The greatest strides were made through mergers, internal investment in capacity and technology; improved management focused on the right things and rate increases were possible because the transportation product was worth more.
>
> The landscape is completely different in 2011. Railroads are now earning their cost of capital even at 11 percent and can refinance debt at much less than that. Railroad mergers have lessened or even eliminated railroad competition. And railroads have largely become freight wholesalers that -- without passenger trains -- are less visible to the public.
>
> Government's function has not changed - it takes from the most successful and gives to the less successful. Railroads are now big successful businesses with deep pockets and in many cases are more profitable than their customers and so it is that the STB has gone from helping defend railroad pricing freedoms to being under pressure to provide relief from "excessive" and a perceived lack of inter-railroad competition.

My good KCS friend Ginger Adamiak is being promoted out of Investor Relations and into carload sales and marketing, where she becomes Assistant Vice President reporting to vice president sales and marketing Natalie Putnam. Ginger has been a tireless WIR supporter, backing us up on figures behind the presentations and getting us to the right people. And with Spanish as a Second Language, she will be able bring her financial modeling and project management skills directly to the growing KCS franchise in Mexico.

Ginger has been with KCS since 2006, bringing a resume of experience in banking, treasury, investor relations, structured financing, leasing and market analysis. She holds a master of business administration from the Kellogg Graduate School of Business at Northwestern University and a bachelor of science in finance from the University of Illinois at Urbana-Champaign. Thanks, Ginger, for your IR support. I'm looking forward to keeping the conversation going on the carload side.