

RAILROAD WEEK IN REVIEW

June 9, 2017

“Those who don't know history are doomed to repeat it.” — Edmund Burke

A reader with more than 30 years in this business writes to say he's seen the false economy of shutting too many hump yards. “I agree that entire trains shouldn't have to be humped at each yard, but the idea of running freight past closed yards so it can be switched elsewhere has downsides.” He notes the added transit time not only costs the railroad whatever edge it has but also adds cost in terms of car hire, crew availability, and wreaks havoc with car availability.

He recalls a time some 20 years ago when one Class I started taking out hump operations and “our car hire budget exploded. Everyone (except top management) knew what the problem was, but didn't want to rock the boat.” When the CFO started railing about how the car hire budget was going through the roof, those who should have spoken up didn't.

Would that they had. Perhaps the trucks wouldn't rule the roads the way they do. Driving over to Northumberland for the North Shore festivities (see below), it was a wall of trucks. Long lane closures really slowed things down. Interestingly enough, private haulers and shipper-owned trailers dominated, while the publicly-traded, name-brand trucks (Old Dominion, Schneider, JB Hunt) were comparatively few in number.

I think the railroads lose share because the focus is more on ways to speed up old processes through technology than it is to making the rails better supply-chain enhancers. The number of trucks out there suggest transport buyers want stuff delivered NOW and on their terms rather than then on somebody else's.

But there is hope. Norfolk Southern gave out a large number of awards to short lines that increased carload volumes by several levels of percentages as well as sheer numbers. I'm hopeful the Class Is can do their part to keep these customers competitive.

Here's the challenge: First, the sheer number of sidings has dropped precipitously over time (certainly post-Staggers) and the slide is ever-continuing. Think of how many formerly rail-served businesses you see on any ride anywhere on a passenger train, causing a huge drop in customer numbers in the last 20 years.

Second, once the siding or switch is gone, it is almost impossible to attract the customers back. You can spend years building a relationship and lose it in minutes by being hard to deal with. Then infrastructure disappears and the railroads charge an enormous amount of money to turn it back on (\$250,000 for a mainline switch, e.g.)

Third, we're seeing a diminishing Class I sales force calling not only on National Accounts but also cooperatives (Tru-Value, e.g.) and trade associations beyond NARS and its regional chapters. This is on top of the growing disinterest in onesie-twsie business. The lack of local focus and resources because of Wall Street and the obsession with OR and long trains and closing humps etc. make it a tough slog. That's one reason shortlines are much more effective in creating customers.

That said, it could be structural changes may be needed. More shortlines, more contract-operated terminals, and so forth. Let the Class 1s worry about over-the-road and terminal-to-terminal moves and spin off more light-density lines to local operators with incentives to grow business. But get the Class Is out of it. They're not in that business anymore. They are the "express" trains. The local network needs to be disconnected from the express network except to the extent that connections and transfers are needed to feed the over-the-road systems.

Genesee & Wyoming has completed its acquisition of the shares of Atlantic Western Transportation, parent company of Heart of Georgia Railroad (HOG). The line dates from 1999 and operates on 219 miles of track leased from the Georgia DOT, connecting with GWR's Georgia Southwestern Railroad at Americus and with GWR's Georgia Central Railway at Vidalia.

HOG transports approximately 10,000 annual carloads of agricultural products, feed, fertilizer, and lumber and forest products, of which approximately 2,000 carloads are interchanged with the Georgia Central. In addition, HOG is unique for a short line in that it serves an inland intermodal terminal at Cordele, opened in 2004, and providing five-day/week, direct rail service via the Georgia Central Railway to the Port of Savannah for auto, agricultural products and other merchandise customers. HOG has Class I railroad connections with CSX at Cordele and with Norfolk Southern at Americus and Helena.

The acquisition is a perfect contiguous fit for GWR's several properties in southwest Georgia and southeast Alabama. Kudos to HOG's Brad Lafevers for growing the property to the extent that it became an acquisition candidate. I'm hopeful that its short-haul intermodal concept can be extended to other regional railroads.

Re moving to the "standard" 60-foot, 100-ton, Plate F boxcar (WIR May 26) , I'm finding a number of readers take exception, citing "still-significant demand for the 50-foot, plate C, 70 ton car," particularly in paper service. The fact of the matter is that the 50-foot car easily accommodates three-plus truckloads and with proper pricing can offer customers significant competitive advantage.

Moreover, many of the older boxboard plants "don't have the clearances for plate F cars or will lose siding space with the 60 footers." Safety is a factor, too, meaning shippers won't stack their rolls or utilize "T" loading. The capacity of the car is thus limited to the floor space; a 100-ton hi-cube car in that environment offers no advantages, just a higher capital cost for the car.

My correspondent concludes, “Current rail rates, versus the competitive truck rates in the under 500-mile market where most freight resides, offer no significant advantage for receivers to invest in their facilities to handle these newer cars. They will, as a result, invest in new truck doors.” And once that investment is made, the rail shipment opportunity is gone forever.

The reasons trucks are preferred are several, starting with the fact that the “universal container” is the 40x48-inch shrink-wrapped grocery pallet, designed and sized to fit tightly into a container or trailer. Industry pallet loading patterns are often designed to weigh out or cube out, so the pallet at times can’t be stacked in a boxcar, nullifying any high-cube advantage.

Yes, the standardized boxcar is a cost-saver for the railroads, but, to the extent it forces customers who prefer the smaller cars into intermodal containers or over-the-road trailers, it’s a revenue loser and another arrow in the quiver of those who say the merchandise railroad is in going-out-of-business mode.

Pennsylvania’s North Shore Railroad has literally won the Triple Crown of shortlines: The ASLRRRA 2017 Marketing Award, the NS Short Line of the Year, and the *Railway Age* Short Line of the Year. Last Friday more than 150 legislators, local government representatives, association members, suppliers, the press, and friends descended on Northumberland’s Front Street Station Restaurant for presentations by the three award sponsors, proclamations from five area Chambers of Commerce, and citations from the Pennsylvania House of Representatives and Senate.

I think ASLRRRA’s Amy Krouse summed up the afternoon succinctly. Speaking about the North Shore’s involvement in some 60 high-and-wide loads last year — a 31-year record — she said, “Their program was so unique that it encompassed a whole new type of move for them. These high-and-wide loads came, they developed a process, became experts at it, and now they know they have many more of these loads to come.”

NSHR President Gary Shields attributed the railroad’s trifecta success to the employees. “We’re all local people and we care about the customers. Everybody — train crews, MOW staff, the mechanical shop forces, the back-office staff — provides a quality job for the customers day in and day out. They are interested in growing the business, and they create a great group of employees.” Well done, all.

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