RAILROAD WEEK IN REVIEW

October 13, 2017

"The export market is driving growth in the plastic pellets business, but that's shipping primarily in containers, not covered hoppers. If a railroad can operate a facility and reconsolidate plastics in containers, that's growth for rail." — Robert Pickel, National Steel Car, in Railway Age Sep 2017

One of the most rewarding things about doing Week in Review every week is its interactive nature. Responding to my recent screed about railroad managers understanding supply chains (Oct 6), a good friend, now retired from a Class I but active in short lines, writes :

> You will recall that decades ago when we first met I was working for a Class I, and at the time was in a study group exploring how much additional revenue we could capture if service reliability were improved by successive intervals of 10 percentage points. It was a truly significant number. When we presented the results to the Chief Marketing Officer, he effectively ran us out of the room and more-or-less black-listed those of us working on the project.
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> As a senior member of a present-day shortline ownership group, I can confidently say that over that past 25 years not much has changed in the Class Is' understanding of what motivates customers. Yes, the operating physical plant is much better: track, equipment, technology, locomotive reliability, and so on. Everything, in fact, except the service, and yet, as you say, this is supposed to be a service industry. Ouch.
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> One element of unreliability that you don't mention, but that is very real, is the early arrival — the car the customer needs on Tuesday that shows up the previous Thursday. That car gets parked, sometimes CP-ed, and runs up per diem and demurrage through no one's fault except the Class I carrier that reaps a reward for its own incompetence!
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> Consider the customer active in the spot market for his commodity. He can't afford to have empty storage bins, and keeps the plant full. So, when he gets a big slug of inventory delivered too early, it stays in the cars because there's no room in the bins. Of course, the railroad charges him storage, demurrage on railroad-owned equipment (and on privates if CP-ed), and switching charges, and there's not much he can do about it. That kills turn-times and I have to wonder whether, when time comes for reinvestment, there will be any money left. If none, then no cars and no car supply problems for the railroads. And truck rates rise.

As if in a post script, a reader who's relatively new to the shortline scene, but who's well-versed in railroad history, muses, "I grew up reading John Kneiling ["The Professional Iconoclast" in *Trains* in the 1970s], and at this point, I keep thinking 'Boy, was he ever on target.' Adding my own two cents, I say that's why marketing should run the railroad!"

The same email thread that triggered the preceding also brought forth some critical thinking on asset management. Another reader with considerable experience in Class I planning writes,

> Supporting the customer suggests the customer has a need for certain data or at least has an idea what he wants. So the railroad calls in the IT guys to develop measurements or support systems. But too many times the system from IT, while meeting internal requirements, is such that the customer either has to adapt his business processes to match the technology, or to ignore it.

Some years ago I co-authored an opinion piece called, "*Manage Information, not Trains*." Our argument was that, "When you get right down to it, the customer's focus is more on goods movement information than it is on the goods themselves. They want to be able to tell carriers how many loads are available on what dates and where to have the appropriate vehicles in place at the appointed time. And they want to know when the goods will arrive at destination. Tracing is an anachronism; reliable arrival times win."

A huge piece of the data warehouse has to be where every asset is RIGHT NOW and how much of it is available to fill a specific supply chain need. My sense is most of the Class Is are still woefully inadequate here, CN being the only possible exception. Says my co-author in a recent email exchange:

> I am frustrated that our industry has been slow to adopt improvements in information technology. What keeps me motivated and hopeful is the potential upside of integrated IT. Our industry is the coolest linear programming problem of all time; maximizing throughput and minimizing cost given the constraints of network, power, rolling stock, and crews.
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> Our assets are incredibly expensive. Our success is made by utilizing those assets to move lading (or people) through space within a specified time, to the satisfaction of customers and stakeholders. I can't think of any industry better suited to benefit from harnessing the latent information embedded in its processes. And the tools are getting better and better all the time.

He adds that he is now on a project zeroed in on coaxing maximum benefit out of the assets, using data as a resource to challenge preconceived notions and to support fact-based decision-making. I will keep you posted and continue to solicit your input.

Canadian Pacific and Genesee & Wyoming have teamed up to offer a new through service between Chicago and Jeffersonville, Ohio, where the former has an exclusive partnership with Bluegrass Farms of Ohio to use its 90-acre intermodal facility. Located about halfway between Columbus and Cincinnati on the I-71 corridor, the new arrangement gives CP access to the near midwest to compete with the CN-Indiana Rail Road partnership in Indianapolis.

Though the press release is light on operating details, it appears CP will use its Chicago interchange to hand cars over to the GWR's Chicago, Fort Wayne & Eastern (CFE), operating over the former PRR Valpo line used by the Broadway Limited and others. At Lima, the cars turn south on the Indiana & Ohio Railroad (IORY) — former DT&E — for beyond to Jeffersonville.

It's a natural fit. GWR has been a CP partner with a pair of short lines in Ontario for many years, and, more recently, acquired the west end of the former DM&E, which went to CP through a series of mergers and acquisitions. Moreover, getting on the CFE is a straight shot, progressive move for CP; ditto the move from the CFE to the IORY. Congratulations to both.

The PFL Storage Report advises that more cars are coming out of storage than going in, freeing up more storage slots daily. Grain cars, loaded LPG tankers, and even coal hoppers are hitting the active rails. As a result, some short lines and facilities once full now have room. And they're taking reservations for 2018 LPG storage between the heating seasons.

In a related note, crude oil tank cars could be in demand again. Reuters reports that TransCanada Corp will scrap its $12 billion Energy East pipeline and delay other export pipeline projects, returning oil suppliers to crude-by-rail. "Oil industry participants say regulatory requirements for major energy projects in Canada are now so stringent it is unlikely any company will try to build a new export pipeline. A global oil market slump has also diminished appetite for building multibillion-dollar pipelines." Stay tuned.

RailTrends Correction. Last week I wrote the FEC is now owned by Ferromex. Wrong! I should have said FEC is owned by Grupo Mexico Transportation (GMTX). The organization owns three railroad outright — Ferrosur, Texas Presidio, and FEC — and a 74% interest in Ferromex, with UP the 26% partner.

No Week in Review October 20. I'm out most of the week for the 2017 BNSF Shortline Conference in Fort Worth followed by client visits in the vicinity.