# RAILROAD WEEK IN REVIEW

## December 15, 2017

*"Total November job openings a record 1,000,000+. Employers report a lack of skilled workers; in this type of labor market those with requisite skills and training have an advantage." — Greg Weldon, RealVision.com*

**Hunter Hunter Harrison has taken medical leave** from the CSX Chairmanship "due to unexpected complications from a recent illness" for an unspecified period of time. The board has named Jim Foote, COO, as Acting CEO. On the conference call Friday morning, Foote said Hunter has already done the "heavy lifting," restructuring the operating plan and getting the right people in the right places. Now it's a matter of execution.

Foote defers more detailed conversation for the Investors Day now scheduled for early March. I think that's fair and our mission as non-Class I railroad operators is to watch developments at CSX closely and to find ways to improve the process of creating mutual customers. I was encouraged to hear Foote's dedication to Hunter's plan to bring together the now-separate IM and merchandise franchises under one roof. That, plus Hunter's penchant for running mixed freights including IM, Auto, and merch carloads, suggests there may be IM openings for short lines. In two ways.

One, where a regional railroad has a regular interchange train with CSX that would have room for an intermodal block on the head end, the receiving road could set out the block as it does any other car — and do the reverse for the outbounds. Two, where a regional road goes into a CSX yard (or where CSX comes into a shortline terminal), CSX could combine IM and merch trains in and out, pre-blocked as needed. Pre-blocking has always been at the top of Hunter's list. Given what Oliver Wyman's Rod Case says about "trains within trains," it's a perfect fit.

**Now that the dust has settled and RailTrends 2017** is safely in the history books, one can draw some conclusions. In a few words, the event addressed key aspects of the future of railroading with technology the driver. Presenters included five Class I railroads, Amtrak, and three shortline and regional railroad operators, as well as other industry thought leaders. More than 200 souls attended, setting a new record. To set the scene, here's what RailTrends Co-Founder Tony Hatch writes in review:

> Presenters brought several key themes. One is that the economy is humming. In this environment, the rails can show growth over the near and intermediate terms despite facing slightly tougher comparisons, the ongoing secular issues in coal, and a mounting technology threat. Remember, after all that spending helping to generate improved returns over the course of this century (the "railroad renaissance"), the rails are in great financial and operating condition – fighting trim.

> A second theme called for a Brave New World. We cannot underestimate the changes happening in logistics (even if some over-estimate them). The railroads' ability to take on the coming challenges requires first to acknowledge those challenges. That is to reduce the impact of the "cult of the OR" and invest in capacity and technology.
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> The third over-arching theme had to do with service degradation as an impediment to further volume growth. It is no secret that 2017 will not be a banner year for rail service – and not just at CSX, and not just because of the hurricanes.  Metrics declined all year (velocity hindered a tad by the relative growth of coal volumes, to be sure, as well as the weather incidents and the CSX issues installing PSR – but still….).

My own take — from a shortline viewpoint — is that ASLRRA's Linda Darr set the scene, saying the shortlines face three challenges: "Meeting our capital investment needs, a more rational regulatory regime, and winning back carload traffic." This last is the most important because without traffic there is no need for capital and you can't regulate something that doesn't exist. Yet it can be done. GWR's Jack Hellman (RT *Railroad Innovator of the Year),* Watco's Rick Webb, and FEC's Jim Hertwig all highlighted their companies' success rates in creating new customers.

Class I Railroad presenters were JJ Ruest (CN Chief Commercial Officer), Beth Whited (ditto for UP), John Brooks (ditto for CP), Jeff Songer (Chief Operating Officer, KCS), and Michael Rutherford (VP Industrial Products, CSX). They all converged on the service improvement theme. Whited cited seven-day IP carloads up 7%, the petrochemical boom in the Gulf, "Cold-Connect" perishables (formerly RailEx — see my Feb, 2010 *Trains* story), and LOUP — Loup Logistics (LOgistics UP) — the result of merging of four UP logistics subsidiaries.

CN's Jean-Jacques Ruest said their goals are to "outpace" both the economy and the industrial average growth rates with a service product covering a broad commodity base, earning the right to price at a level just ahead of railroad inflation.  Delving more deeply into CP's John Brooks' remarks (WIR 12/8), I should add that he sees CP's enhanced marketing organization as "essentially a strategic inflection driven by cultural change," and as a means to rebalance their portfolio and their share of the Canadian market.

Songer of KCS presented a great case for their capex-inspired operating improvements and the case for NAFTA-rail trade opportunities in refined products after the Pemex reforms (including that neat JV with Watco). In the US, there's rapid growth in gulf coast plastics (especially the massive SASOL expansion) and the old standbys, autos and intermodal. Rounding out the Class I comments, CSX' Rutherford zeroed in on improved service, saying that service mis-steps are becoming less frequent and that the majority of them arose while learning to execute the model, and, as such, are not the product of Hunter's *Precision Railroading* model.

In retrospect, RailTrends 2017 exceeded all my expectations. Not only did one have the chance to hear what the various players are thinking about, but also being able to share a meal or a cocktail with one's industry peers to find out what's working and what isn't. And why.

**Tidbits from Short Lines:** I'm starting this new and occasional section of WIR because I think class Is need to know what their connections are up to, and other short lines need to know what their peers are up to. For example…

Paul Treangen's *Texas Northwestern* has opened Panhandle Logistics Park (PLS), a bulk transload facility near Sunray, Texas, some 50 miles north of Amarillo. PLS serves as a regional hub for car storage, transloading, and transportation services. The facility can store more than 10,000 cars and targets companies in the Texas panhandle who are not currently rail-served.

Crop Production Services (CPS), is the first tenant. A subsidiary of the global agricultural giant Agrium, Inc., CPS is an international fertilizer company developing a multi-million-dollar facility that will function as a retail location offering agricultural products and services. Construction on the facility has already begun and completion should occur in early 2018.

OmniTRAX has teamed up with Louisville-based Charah, LLC, the nation's largest privately-held ash management company, to open a new transload terminal in Kelim, Colorado for supplying fly ash (a byproduct of coal combustion in power plants) to area concrete producers. *The Great Western Railway of Colorado* is the serving short line and will provide the necessary transload services for moving the rail-delivered product to Charah's area customers.

*Farmrail* is the BNSF Short Line of the Year and was recognized at the recent BNSF shortline conference in Fort Worth. The 346-mile railroad operates principally in western Oklahoma on track formerly owned by Frisco, Rock Island, and Santa Fe. "In less than one month Farmrail was able to replace 8,400 ties and put down more than 10,000 tons of ballast to revitalize its track structure and attract new business," says BNSF short line development AVP Merril Leib. "Farmrail's commitment to growth and teamwork with BNSF were the deciding factors."

*Minnesota Northern* garnered special BNSF recognition for consistently providing quality service to customers along its 125-mile line in north western Minnesota. Of particular note, MNR increased unit train origins by more than 60% and played a key role in developing a new shuttle facility in Beltrami, Minnesota.

So, you see, the carload business is there. And short lines excel at finding it.

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