

RAILROAD WEEK IN REVIEW

April 2, 2021

“The railroad transactions encompassed by the above-docketed proceedings involve the operation of 1,200 miles of railroad in New England. They are, separately and collectively, regionally significant transportation matters.” — MBTA and MassDOT filing

“May soybean futures were 25½¢ lower at \$13.67½. July soybean futures fell 27¢ to \$13.58¼ a bushel. New-crop November soybean futures were 18¢ lower at \$11.86½.” Beans dropped ahead of tomorrow’s grain stocks and prospective plantings reports.— Successful Farming, March 30

“The CP-KCS transaction is the one and only transaction among large U.S. railroads that is unquestionably beneficial for automotive and other customers. It involves the two smallest railroads. They connect only in Kansas City, with no competitive overlap so that no customer loses access to its existing rail service providers. In fact, by providing new single line services, it enhances competition against existing rail and truck options.” — Dennis Manns, EVP, North Motors Group, in freightwaves.com

One key to creating and keeping customers is knowing how their commodities are running. Take soy beans in general and soy oil in particular. The former is in the “grains” commodity group at the AAR and the latter is in “grain mill products.” We also know the broad grain category is about 11 percent of total revenue units and peak months are in the fourth quarter. BNSF and UP dominate in North American carloads of beans.

A note from Charles Schwab tells us, “May soy oil futures have more than doubled in price as strong demand for both soybean oil as well as soybean meal has led to strong crush margins which is encouraging soybean processors to ramp up production which is keeping soybean demand robust.” So much so that per-bushel bean futures for May are in the high \$13 range and in Nov running around \$11. Which means farmers are going to want to sell beans now rather than holding on a bet that future prices will be higher.

Soybean crushers are being kept busy. January 2021 export soy oil hit 328 million pounds, the highest monthly export total in eight months and more than double what it was a year ago. Moreover, the demand for soybean oil for use in biodiesel production has been increasing steadily the past several months with first quarter production for the 2020/21 year up 32 percent year over year.

In the global vegetable oil market, soybean oil competes with canola and palm oil. Tight supplies of Canadian canola paired with the USDA’s prediction of lower Malaysian palm oil production due to heavy rains should provide added support for old-crop soybean oil prices during the first half of 2021. That’s why near-month futures are highest and why one should be getting commitments for cars now rather than later.

Another shoe has dropped in the CSX-Pan Am Rail saga. The Massachusetts DOT has filed notice, on behalf of itself and the MBTA, to participate in the proceedings, opposes the request to make this a “minor” transaction, and make other adjustments. MassDOT argues that the transaction “will reshape railroad transportation throughout New England,” CSX hasn’t engaged the MBTA concerning freight operations on its lines, and a host of other complaints.

MassDOT pulls no punches. The applicants were “ill prepared for and dismissive of” the Massachusetts Water Resources Authority (MWRA) concerns about accident *prevention* (italics theirs), “emphasizing instead accident *response*,” showing an “alarming disregard for the health and safety” of the public. As for the “minor” transaction, MassDOT calls the transaction “anti-competitive” and goes to great lengths to show why.

MassDOT concludes, “The transaction is so facially deficient, and so out-of-place, that it must be rejected,” noting that the applicants “lack of due diligence with MassDOT and MBTA must not be rewarded.” Worse, if the STB accepts the application as filed, it would, in the view of MassDOT, “render the Board’s significant transaction standards meaningless.” Wow.¹

Watco is acquiring roughly 900 miles of CN’s “non-core” mileage north and west of Sault Ste. Marie, marking the conclusion of the sale process that CN announced and launched in July,



¹ The STB decided this is a “significant” transaction March 25. See also WIR 3/26.

2020. In Ontario, Watco will get the line north to Oba, Ontario, as well as continuing freight operations for the Agawa Canyon Train Tour. Watco has also signed a Memorandum of Understanding with the Cree First Nation regarding partnership opportunities on the Algoma Central.

In the United States, CN's former Wisconsin Central lines connect with Watco's 600-mile Wisconsin Southern (WSOR) at Slinger, Wis, northwest of Milwaukee (on the map, "Slinger" is all caps, CN is the N-S blue line) and in Chicago, so it's a good fit geographically. It's also a good fit commodity-wise as WSOR handles primarily forest products, fertilizers, grain (corn, soybeans, and wheat), plastics, consumer foods, paper, aggregates, chemicals, frac sand, ethanol, and liquid petroleum. Terms of the sale have not been announced.

Grain, paper/pulp, and aggregates continue to dominate the shortline commodity mix, accounting for 52 percent of merch/ag units ex coal, intermodal, and "other" (mainly empty returns). The *Railinc Shortline and Regional Traffic Index* for January has total units up just a point in Jan, but I look to this resource to flag the relative importance of each carload commodity in the non-Class traffic mix.

I'm excluding coal because only a handful of short lines handle any, and intermodal is out because all the units come from names like FEC and Iowa Interstate. I omit "all other" because it's mostly empty returns that incur car hire expense for the total hours on the property and contribute nothing to the top line.

Merch/ag carloads were down a point in Jan. Grain, stone/clay/glass (cement is in here), and STCC 24 lumber/panel were the only positives vs Jan a year ago. Grain mill products, which include soy meal and soy oil, represent just four percent of the merch/ag group, were down nearly five percent year-over year. The aggregates group including frac sand (seven percent of merch/ag) fell nearly 30 percent vs Jan a year ago.

Happily, the chemicals group, probably the most profitable of all traffic, represents 26 percent of shortline/regional merch/ag carloads, followed by grain at 16 percent. Throw in STCC 26 and there you have more than half the total number of carloads in merch/ag. That ought to pay for a few ties and the odd tankful of diesel fuel.

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