RAILROAD WEEK IN REVIEW

April 15, 2022

"During my time on the Board, I have raised concerns about the primacy Class I railroads have placed on lowering their operating ratios and satisfying their shareholders even at the cost of their customers. Part of that strategy has involved cutting their work force to the bare bones in order to reduce costs… On too many parts of their networks, the railroads simply do not have a sufficient number of employees." — Martin Oberman, STB Chairman, on upcoming service hearings

The Northeast Association of Rail Shippers (NEARS) held its spring meeting in Baltimore last week. The program touched all the hot buttons: four Class Is, a shipper, the FRA and STB, plus the usual industry observers. CP's Keith Creel (who Zoomed in from afar) was the standout among the Class Is.

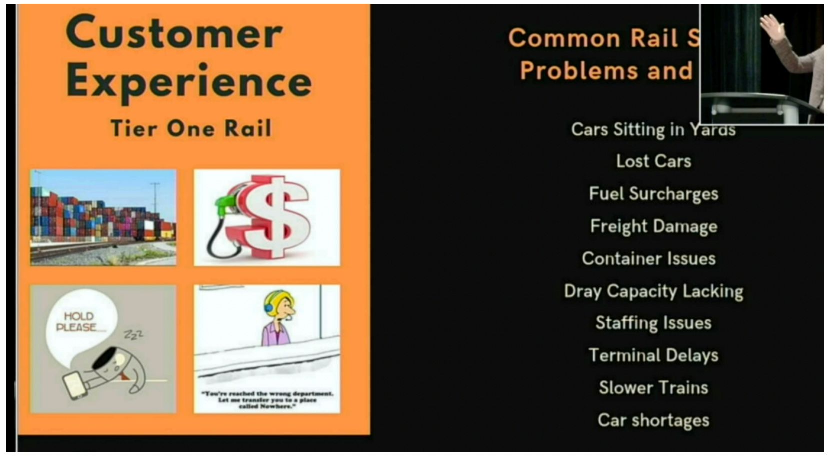
Whereas UP, NS and CSX gave generally vanilla presentations with few new insights and no measures of past performance or goals going forward, Creel went into great detail on the proposed CPKC merger, including service enhancements, new markets, and capex. After extolling the shipper benefits of single-line hauls over interline moves (blocking for the distant node, minimal class yard dwell, e.g.), he said the deeper they got into their analysis the more single-line OD pairs they discovered.

For overseas moves, customers get options from Vancouver to Saint John to New Orleans, Vera Cruz, and Lazaro Cardenas. Ease of doing business is critical, becoming "more UPS-like." They'll also get high ESG marks, now powering the entire Calgary office campus with solar panels, and identifying yet more places to do same on the combined railroad properties. And more — a straight-forward chat with no PR talk. Yay!!

The shipper *du jour* was Kenneth Sanchez, President of Chesapeake Specialty Products, a small specialty steel producer in Baltimore. His direct railroad server is Tradepoint Rail (TPR), a privately-owned 70-mile short line connecting with NS and CSX. (Until 2012 the property ran as Bethlehem Steel's Patapsco & Black River for the Sparrows Point plant.)

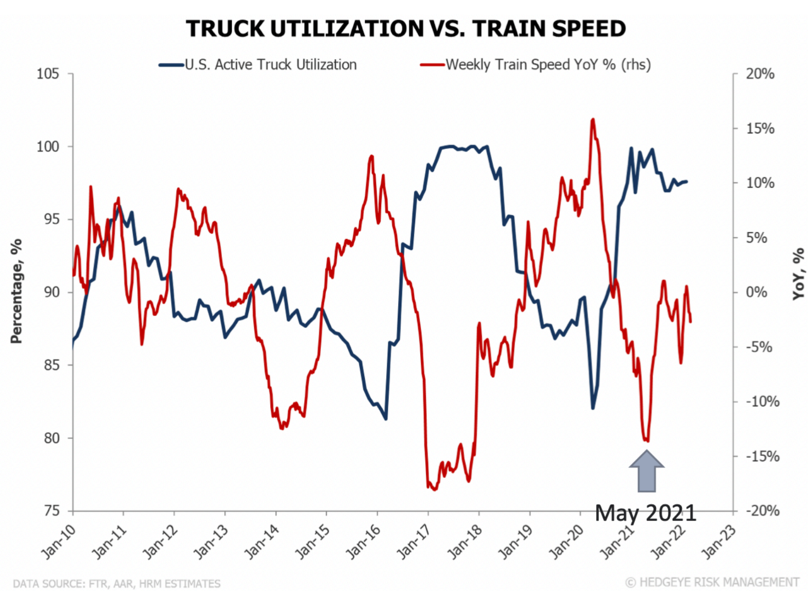
While lavishing praise on TPR's resilience and professionalism, Sanchez was less complimentary with respect to his Class I (he calls them Tier One) railroad service beyond. Here's his slide summarizing his experience.

Ken's talk came at the end of Day One and seemed to give the lie to all the nice things we heard from NS, CSX, and UP. Theirs were basically PR presentations on all the things they are doing to increase customer engagement and improve service. Unfortunately, nobody provided any measures of how much they've improved year-over-year (increased merchandise carloads by x%) or goals going forward (answer customer service calls within one minute).



The slide above touches on many of the areas the Class Is said they were addressing. Their success, at least in the eyes of this customer, has been muted. He no longer sends any outbound product by rail because customers are tired of seeing rates going up and service getting worse — more money, less work. Let this be a wake-up call.

As train speeds go down, truck utilization goes up. The Chesapeake Specialty Products example above is a case in point. Intermodal transit times to the west coast from Baltimore increased to three-plus weeks from less than two. Freight rates increased to the point the transportation bill was more than the product was worth.



The chart (courtesy hedgeye.com) shows train speeds haven't changed much in more than ten years whereas truck utilization has increased markedly. I touched on this matter here a few weeks ago and a reader who had had a career in Class I railroad operations/customer service offers this observation:

Back in the 90s I was a Division Customer Service Manager. I remember making a call on a good sized lumber receiver. The local Terminal Superintendent was accompanying me as we were trying to get closer to our customers. That included things that could possibly impact local service — track maintenance curfews or holiday shut-downs, e.g.

Much to our surprise, the customer said that he had no problem with such events. But his next comment was the proverbial second shoe - " If we needed the material that bad, we would have trucked it". Here we are, thirty years later, and I guess the real recipe for growth still eludes us.

As the price of corn goes, so goes the cost of diesel fuel. The common thread is the cost of natural gas (now north of $6) for everything from fertilizer to propane (and of course the cost of fuel for the farm machinery itself). The pundits are saying it'll get worse before it gets better. Let's see what happens to grain car supply and demand as well as unit-train starts, destinations, and transit times.