RAILROAD WEEK IN REVIEW

August 5, 2022

"What the railcar owners and the railcar manufacturers want today is to see a sustainable increase in total traffic volumes that will continue to support a need for investment in a newer railcar fleet and lease rates that support investment in a rising rate environment." – David Nahass, Railway Age, June, 2022

"Chairman Oberman has prioritized enhancing competition in the nation's rail industry where too many rail customers are captive to a single large railroad and for that reason often lack bargaining power to obtain better rail service and competitive pricing for their shipments." — STB Press Release, July 11, 2022

"The railroad industry has evolved to the point that approximately 73 percent of the railcars in service today in the North American rail network are private railcars for which shippers and other parties have spent tens of billions of dollars… The lack of financial incentives for the Class I railroads to operate private railcars efficiently has contributed greatly to the systemic deterioration of rail service nationwide. — Shipper coalition STB testimony June 30

"Considering the low number of known short line and regional railroad operations with fewer than two train crew members, few Class II and III freight railroads are expected to initiate use of fewer than two train crew members in the near future, and the proposed legacy option should permit the continuance of those operations with a good safety record." — FRA Notice of Proposed Rule Making (NPRM), July 28

Second quarter 2022 merchandise carloads were flat to down for all the Class Is. Yet revenue per unit increases approached double-digits or more, including fuel surcharges. It gets worse. Lease rates are on the increase, too. And so it is that higher freight rates plus higher lease rates increase the customer's cost-per-ton to a point where competitive advantage may be lost.

Take grain for example. A carload of grain on the UP was worth north of $4,000 last quarter, up 14 percent. David Nahass of Railroad Financial notes that a leasing a single jumbo 5,100 cubic foot covered hopper will set you back something in the high $600s per month for a five-year term.

Just for argument's case, say that car holds 100 tons of corn, so you're paying $40 a ton for the movement. If you got the car for $600 and you turn that car once a month, your total freight cost is $46 — 15 percent more. But turn that car twice a month and your total movement cost is $43 per ton. That's one reason why cycle times are so critical.

Another reason is fleet size. If you're getting two turns a month you need to lease X cars to handle your expected crop. But to move the same tonnage at one turn a month you need twice as many cars, doubling your total monthly payment to the leasing company and doubling the lease-cost per ton of corn moved. Add to that a double-digit freight increase over last year and you're not a happy camper.

Then then there's the customer. Trains taking twice as long to get between OD pairs can be harmful to receivers. Just last month Foster Farms, a California chicken grower and processor, had to request a Union Pacific emergency service order from the STB "to alleviate the harm to its business and the country, dairy, and feed yard livestock that depend on the distribution of corn meal supplied by Foster Farms."

Leasing costs are considerable, especially in a world where less and less tonnage moves in railroad-owned equipment and customers are shouldering the car-supply expense. Some more tidbits from Nahass: a 6,500-cubic foot covered hopper for plastics gets more than $700 a month; a PD hopper for dry bulk runs in the mid $600s; 286K high-side mill gons go for the high $600s.

Even the lowly boxcar of the 50- or 60-foot Plate F variety is in the high $600s and 286K open-top aggregates hoppers earn their owners something in the mid $600s a month. So with numbers like these you can see why turn times count and why short lines are providing multiple switches a day to keep customers' cars moving.

And don't even get me started on constructive placement. True that private cars on private track are demurrage-free, but park those cars on railroad-owned track and the demurrage clock starts to run. This can get expensive. Take the 100-grain train that has to be parked on a railroad-owned siding because the preceding train was late and is still being unloaded. No wonder customers are pissed.

The FRA proposed rule regarding locomotive crew members has caused a bit of an uproar among railroad operators. The AAR takes the position that "crew size mandates will harm the rail industry's ability to compete in a rapidly changing freight transportation sector."

The mandate will make it "especially hard for railroads to invest in new safety-enhancing technologies, adapt to changing customer needs, and compete with commercial trucking, which is rapidly automating operations to reduce costs and receiving significant support from policymakers in doing so." The AAR continues by reminding us that "railroads are the most fuel-efficient way to move freight over land, with trains being three to four times more fuel-efficient than trucks, on average."

ASLRRA President Chuck Baker's strongly-worded response calls the proposed rule an "ill-conceived, ill-timed, unnecessary crew size mandate. With no safety data to support its proposal, the FRA has proposed a rule that would hinder the efficient operations of some small business railroads, snarl the supply chain and stifle innovation well into the future."

Moreover, "The proposed rule remains a solution in search of a problem. The FRA itself, first in 2016 and again in 2019, acknowledged that no data exists to indicate that two-person crews are any safer than one-person crews. Short lines operate safely today with a variety of crew sizes, including single-person crews in some instances, that suit the work being performed. Broadly, safety in the freight rail industry has improved over the decades, even as crew sizes have dropped."

Independent railroad analyst Tony Hatch writes, "The FRA, as expected but against all logic (or modal fairness), essentially mandated two-man crews despite the obvious (and government-mandated) PTC development etc etc. Railroads are known to be *negotiating* for one-man crews (conductor on the ground) in the (US) national bargaining….Given the government (via the DOT, in which the FRA resides) subsidy of trucking technological advancement, it's painfully clear that the US rails have a big uphill fight to achieve the benefits from technology progress."

I have been through the entire FRA document, and though I am neither a scholar like *Railway Age's* Frank Wilner nor as close to the action as either the AAR or ASLRRA, I find the Proposed Rule at least has the virtue of being written with thought and attention to detail so as to make the FRA position clear. Unfortunately, the FRA glosses over the many safety enhancements since the days of Lac Megantic and other unfortunate events.

How the Proposed Rule finally works out is anybody's guess at this juncture. But its progress through the chairs is definitely worth keeping an eye on. The prudent railroad manager will start running worst-case operating scenarios to be prepared should the NPRM be approved in its present form.