RAILROAD WEEK IN REVIEW
August 26, 2022

"The Carriers maintain that capital investment and risk are the reasons for their profits, not any contributions by labor…. The Carriers assert that since employees have been fairly and adequately paid for their efforts and do not share in the downside risks if the operations are less profitable, then they have no claim to share in the upside either," Presidential Emergency Board, August 16

"I am privileged to spend a lot of time in the field with our hard-working craft employees and operations supervisors. I see firsthand and sincerely appreciate their daily dedication to serving our customers. We are eager to reach an agreement that recognizes their essential service to our customers, our company and the U.S. economy." — NS President Alan Shaw, Second Quarter Earnings Call, July 27

"Our responsibility in this matter is to act as honest brokers and to recommend terms for an Agreement that are fair and reasonable, both in the aggregate and to each significant term, given all of the relevant current circumstances. We believe that our proposed resolution mirrors outcomes that could have been reached through good faith, arms' length collective bargaining and that will prove to be acceptable to all Parties and their respective constituents." — PEB 250 Report, page 34

"Companies that ship by rail are increasingly reporting that railroad delays and service challenges are worse. Since 4th quarter of 2021, nearly all companies (93%) report conditions were either getting worse (46%) or were about the same (48%). A small number (7%) of companies reported that overall, rail transportation related delays/ service challenges have improved." — American Chemistry Council, July 2022 Members Survey Report

The Presidential Emergency Board (PEB) appointed last month issued its non-binding conclusions August 16 (WIR 8/22) and now the fun begins. Labor did not appreciate the PEB finding that they were being dissed by the Class Is, and, if this is so, what is one to make of the glowing words of labor appreciation we heard on all the second quarter earnings calls.

Labor was not amused. SMART-TD President Jeremy Ferguson told his members, "The recommendations are a vast improvement over the carriers' previous proposals, but they do not go far enough to provide our members with the quality of life that they have earned, and that both they and their families deserve. We are currently gathering and evaluating information, which includes input from the membership, as we weigh the PEB's recommendations and what our options may be."

The PEB Report goes into considerable detail regarding wages and other compensation. On the railroad side, the National Carriers Conference Committee represents all the Class Is and associated roads like the IHB and the Winston Salem Southbound as well as such short lines as the Central California Traction and the Union Railroad. Labor negotiations are under the aegis of the Coordinated Bargaining Commission, representing all the Class Is as well as smaller organizations such as those representing dispatchers, machinists, signal maintainers and so on.

The PEB finds that "The Parties are in agreement that: 1) the duration of the Agreement would be five years and cover the period January 1, 2020 through December 31, 2024; and 2) with the exception of any craft-specific proposals of monetary significance that might be recommended by the Board, the Organizations would all be treated the same in terms of percentage adjustments to straight-time wage rates and any cash payments.

"The Parties take opposing positions *on almost everything else* relevant to resolution of the wage dispute, as reflected by the wide divergence of proposals, both in percentage terms and in absolute dollar terms" (*emphasis added*). In other words, the devil is truly in the details. The question is now whether an agreement can be reached before it becomes a matter for Congressional resolution.

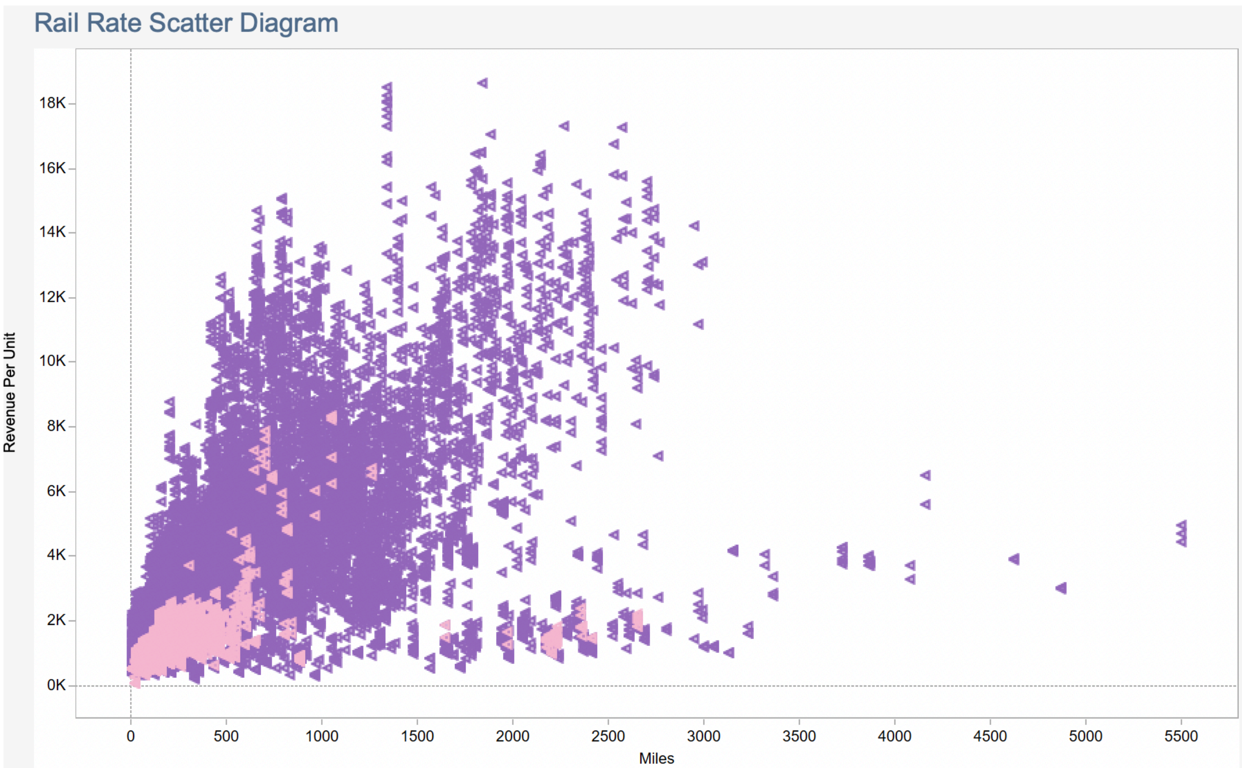
The American Chemistry Council filed its July Member Survey with the STB last week. The Council acknowledges that though US chemical production is concentrated in about a dozen states, its customers in the US and beyond depend on consistent and reliable transportation services to stay in business.

Council members continue to report freight transportation disruptions that have "negatively impacted" supply chains. As a result, members have seen modified operations, increased inventories, curtailed production, cancelled orders, and the need to "dedicate significant additional resources to work through freight transportation challenges." In other words, they're seeing worse service at higher costs.

How bad is it for railroad customers? Nearly all (97 percent) report worsening or unchanged railroad service trends. Specifically cited are longer transit times, missed switches, increased demurrage charges, reduced service days, and higher rates. Nearly half of all ACC companies have added cars to their lease fleets to keep the same volume of product moving given the longer transit times.

Survey participants cite the rails' "insufficient trained labor," the need to use trucks or barges to fill in for railroad service lapses, and even having to shift the customer base. Worst of all for the railroads, business once lost for service reasons can stay lost. Which is a pity because STCC 28 chemicals deliver some of the highest margins of all loads.

For example, compare plastics with aggregates. This usrailimpact.com scatter diagram of rates for mileage and RPU shows the latter (pink) falling mostly under 500 miles and under $3,000 a car. Plastics (purple), however, are concentrated under 1,500 miles with rates in the $4,000 to $6,000 range. Clearly, plastics have a much higher RVC multiple.



Factor in the fact that aggregates mostly move in system cars whereas plastics move mainly in privates, so no car hire expense. As for fuel and other railroad infrastructure wear and tear, 100 tons of aggregates and 100 tons of plastic are about equal. Even at that, year-to-date AAR chemical carloads in US are up nearly four percent.

The Railroad Week in Review, a compendium of railroad industry news, analysis, and comment, is sent as a PDF via e-mail 50 weeks a year. Individual subscriptions and subs for short lines with less than $12 million annual revenue are $175. Subscriptions for Class I railroads and short line/regional operators with more than $12 million annual revenue are $599 per year. To subscribe, click on the Week in Review tab at www.rblanchard.com.