

RAILROAD WEEK IN REVIEW

September 16, 2022

“The president has made supporting unions one of the top priorities throughout his administration. Many Biden aides are sympathetic to workers’ complaints of poor working conditions and unjust treatment by management, and are reluctant to lean too aggressively on labor leaders to end the strike.” — Washington Post, September 12

“A single loaded railcar of plastic pellets can make around two million two-liter soda bottles, while a railcar of fertilizer is enough to treat around 4,500 acres of farmland. Chemicals are essential to public health, clean water, our domestic food supply stability and reliable electricity generation. A single loaded railcar contains enough wheat for 260,000 loaves of bread. Rail also transports one-third of U.S. grain exports, which are especially important today considering global grain disruptions caused by the war in Ukraine.” — AAR, September 8

“While trucking and rail companies compete for ground freight, trucking is also the largest customer of the rail industry, and both industries rely on one another to keep our supply chains healthy and efficient. We deliver the last mile of virtually every product that rail transports...Any rail service disruption will create havoc in the supply chain and fuel inflationary pressures across the board.” — ATA CEO Chris Spear, September 10

“While the Biden Administration does all it can to restrict U.S. fossil fuels, no matter the economic harm, Beijing is charging ahead with coal imports, coal mining and coal power to become the world’s leading economy. They must marvel at their good fortune in having rivals who are so self-destructive.” — Wall Street Journal, September 13

Today marks the end of the 30-day “cooling off period” following the issuance of the Presidential Emergency Board (PEB) recommendations. The Railway Labor Act prohibits strikes or lock-outs during this time and after that parties are at liberty to do as they chose. Happily, a tentative agreement was reached so no immediate action.

As of Tuesday the Class Is were annulling further moves of hazmats or other sensitive material and cutting back intermodal and bulk train operations. Amtrak was cancelling long-distance trains where a strike could leave passengers stranded. The unions said sick days remained a sticking point. Says a labor spokesperson, “Members want movement on attendance policies so as not be afraid to take a sick day or vacation day without the fear of termination. There will be no ratification unless this is addressed.”

Any work stoppage will really hammer the carload franchise, as noted by the AAR in the above quote. Non-Class I railroads are almost exclusively in the merchandise carload sector and the ripple effects of a Class I action could be devastating. Chuck Baker, ASLRRA President: “A rail system shutdown would be catastrophic for the U.S. economy, tens of thousands of businesses, and tens of millions of consumers. It would spike inflation, cause industrial chaos, and be a terrible result for everyone involved.”

In his September 10 letter to Congress he notes that “short lines are 100 percent committed to doing our part and more to provide excellent freight rail service, enable the success of our customers, and get the American freight transportation network back to peak reliability and efficiency. Any rail work stoppage in the U.S. or any further delay in getting a labor agreement completed helps no one.”

It looks like a railroad strike has been averted— at least for now. After a 20-hour session starting Wednesday and running into Thursday’s wee hours, the parties emerged to announce they had tentatively agreed on matters from pay to attendance policies. I say tentatively because the members have to agree to the terms as well.

Thursday’s agreement means there will be no nationwide rail work stoppage beginning Friday, Sept. 16, or for the next few weeks, but the threat of a management lockout or labor strike is not over as memberships of only two of the 12 unions have so far ratified tentative agreements. There was no specific timeline given for member ratification of the terms, though the feeling is it could be a matter of several weeks.

As noted above, the railroads had begun a preemptive slowdown of select commodities and trains in the event of a strike. In response, the BLET tried to get the STB to issue a Directed Service Order halting such rail embargoes leading up to Friday’s potential work stoppage. That failed, and for good reason.

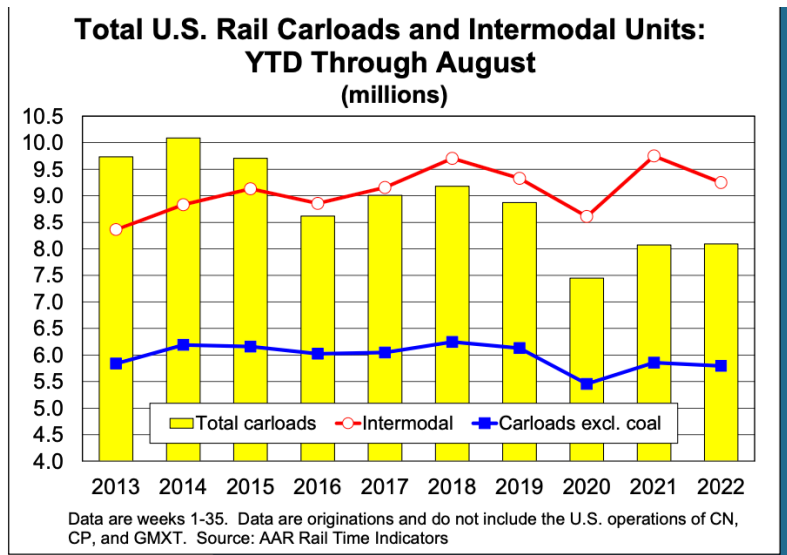
Had the BLET request been heeded, the Board’s General Counsel likely would have warned Board members that railroads have a due diligence obligation to protect assets and cargo in advance of a threatened work stoppage, and STB action to block such efforts would likely be enjoined by a federal court.

Let us give thanks for institutional knowledge. A friend who was with the USRA in 1973 wonders whether the railroads are as essential today as they were in 1973 when the Penn Central bankruptcy case was on the table. His take today: a short strike won’t present any real problems, however, a long strike may be a big surprise to the unions and the shippers if most people found a way around it.

Hovering in the background is the fact that the business of the railroads has changed and is going to change more in the future. In a nutshell, the billion tons of coal they used to move every year aren't moving any more and the coal tonnage long term is going down, down, down. Other traffic that is really “captive” to the railroads may include unit trains of grain — and maybe some chemicals.

He adds that in the case of chemicals it's probably more a PR question than a real transportation issue. The public might get a bit upset if they see trucks with all sorts of interesting chemicals on board. Right now they are kept out of the public's gaze by putting them on the railroads.

And with the continued slide in merchandise carload volumes, one might well ask (as have shippers at NEARS) whether the railroads have lost their relevance. AAR merchandise carloads have hardly budged in ten years, even as the economy and the population have expanded.



A case in point is the 1979 Rock Island bankruptcy. That was a property whose real usefulness was always in question. Every place they went, somebody else went better. A friend who was intimately involved in the decision to nationalize the Rock Island says there was a plan that addressed any lack of service by having adjacent railroads taking over the respective pieces. The Rock Island unions were as shocked as management. But the plan prevailed and the RI was toast.

Today the truckers largely provide the same roles as RI's “adjacent railroads.” Suppose the Class Is decided running their extensive merchandise carload networks ceased to be profitable, and they started shedding properties. Then headcount would really shrink.

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. © 2022 Roy Blanchard