

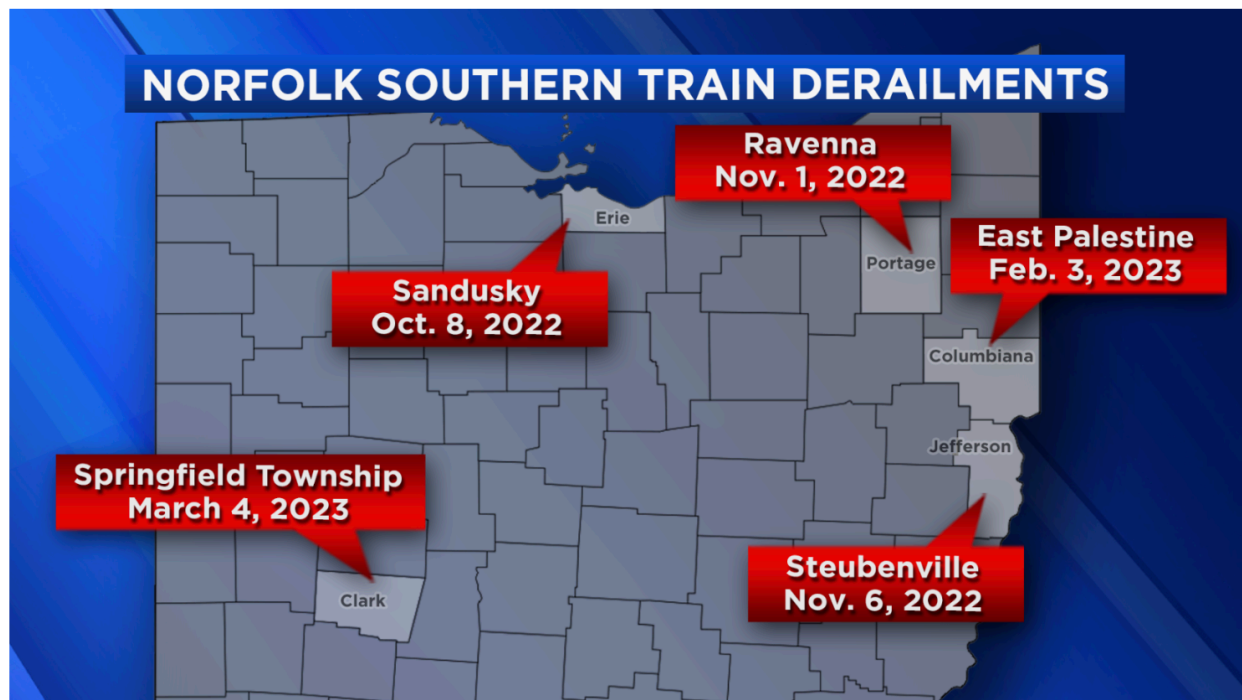
# RAILROAD WEEK IN REVIEW

March 10, 2023

*Union Tank Car has been around a long time, having been owned by the Standard Oil Trust until that empire was broken up in 1911. Look for its UTLX logo on tank cars when you watch trains roll by. As a Berkshire shareholder, you own the cars with that insignia. When you spot a UTLX car, puff out your chest a bit and enjoy the same satisfaction that John D. Rockefeller undoubtedly experienced as he viewed his fleet a century ago.” — Warren Buffett, Letter to Shareholders, March 1, 2013*

*“We won’t shy away from the operating ratio, but it can’t be the end game. The end game is to provide a solution and provide a service to the customer that they’re willing to pay for that allows you to make an attractive margin.” — CSX CEO Joe Hinrichs*

**NS has had the misfortune** of derailing nearly a train a month in Ohio, according to Fox 8 News in Cleveland. Here’s their graphic:



Specifics:

- Springfield: Approximately 20 of 212 cars derailed, including four tankers that officials say were carrying “non-hazardous materials.”

- East Palestine: 150-car train derails causing a massive fire. Twenty of the cars were listed as carrying hazardous materials and about 50 cars were affected.
- Steubenville: A train hauling trash derails. A number of the containers ended up dumping off the train and then into and near the Ohio River.
- Ravenna: Rock salt train derails.
- Sandusky: Ten cars carrying wax in a 100-car train derail breaking down utility poles and power lines and knocking out power for more than 1,000 residents in the area.

Then, to cap it all off and create more news fodder for the “if-it-bleeds-it-leads” media, an incident inside the eponymous Cleveland Works steel plant got a conductor killed. In a press release the company said, “At this time, officials are reporting that the conductor was struck by a dump truck as a Norfolk Southern train was moving through a crossing at the facility.”

Looks to me like the conductor was on the ground protecting the crossing when the truck drove into him. But the news writer saw fit to say, “train and dump truck

collided,” implying that the railroad was somehow at fault. And, as if to make a point about that evil railroad, the same article provides the above derailment map and links to the related articles.



If you’ve been following the East Palestine notes and comments, you’ve probably seen fingers posted at the railroad in general, the car owners, roller bearing maintenance, braking systems, equipment inspections, and wayside default detectors. But nobody’s asking questions about lengths and train handling. I think — based in my own cab time and running trains, albeit much shorter ones — the discussion should start there.

A unit train of 70-100 nearly identical cars is going to behave a lot differently than a train of the same size with a mixed consist of loads and empties, many different commodities

and load features (corn actually sloshes around inside a covered hopper), car ownership, and where the car had been before it was put on the train in question.

The way I see it, senior management makes all the right noises at the investors conferences and to the press. The ops and commercial EVPs relay the Company story and appropriate instructions to the SVPs. And so on down the chain of command.

The farther you go down the food chain the less incentive to change The Way We Do Things. No leaders are saying, “This is the behavior we expect. Behave accordingly and you have a job. If that behavior is unacceptable you’re free to find other employment.”

Try this on: Word comes down to the Yard Master saying don’t run trains longer than X. But he’s penalized for any dwell time longer than Y. Which is the right behavior? The root cause of extra long trains may be excessive dwell. What’s the root cause of that? Drill back through the process all the way to customer release looking for root causes of inappropriate behavior and fix them. But that takes strong leadership at every level. It’s not there.

**Class I railroad shares** have trended flat to slightly down for the past year. CN has been mostly below the SMA 200; CP mostly above. CSX, NS, and UP see the 200 largely as upside resistance. Tells me there is little consensus among the institutional buyers whether to go long or short any of the rails.

The chart trends reaffirm the lack of any conviction about the railroads’ long-term business prospects. Revenue units and RPU — absent fuel surcharges — increases remain in the low single digit range, operating income gains are unexciting, and per-share gains are a function of below-the-line items and share buybacks.

A long-time reader and dear friend writes, “So, people with experience and common sense retire, the retreads show up to collect a salary, the law department and the finance department run the show, and customers use trucks. The collective management of the big 6 should all be sacked, without severance or pension or bonus stock, and we long-time retirees should all return to service.” He may have a point.

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