RAILROAD WEEK IN REVIEW
January 12, 2024

"If allowed to proceed, this CN acquisition of IANR would serve to further consolidate the already monopolized rail industry, leading to increased risks to public safety, cuts in jobs and rail service, and higher prices on everything from food to farm implements – all facilitated with the help of our own tax dollars." — Scott Syroka, Former City Council member, Johnston, Iowa, filed with STB Jan 8

"As we kick off 2024, we should all feel very thankful for the position that the Watco team is in. We serve more customers than we ever have before, we provide more services than we ever have before, and we do it more safely than we ever have before. To continue our success, and to reach even greater heights, we're going to have to keep things simple and Do What Matters." Watco CEO Dan Smith, Watco Dispatch, January, 2024

"Stock Plans and Share-Based Compensation — Performance Units. Payouts will be made in CSX common stock with a payout range for most participants between zero and 200 percent of the target awards depending on Company performance against predetermined goals." — CSX 10-Q for the quarter ended September 30, 2023

There's another angle to the matter of shortline contributions to Class I car counts (WIR 1/5/2024.) My assumption is that every carload in the shortline count touches a Class I someplace between OD pairs. But how does one count it when a carload originates on Shortline A, does a line haul on a Class I, and terminates on Shortline B?

A reader who has had considerable experience in this area writes, "The Class I ought to be running an algorithm that backs out the effects of short line double-counts (cases where carloads both originate and terminate on short lines). Without doing so the Class I's shortline single-count percentage carload growth can easily eclipse the CIass I's carload (non-intermodal) percentage growth."

He adds, "Simply put, I think what probably is being calculated and reported at industry levels today does not strip out the effects of double-counts. And if that's the case, that could be why short line growth (as reported by the entire short line industry) could be greater than what the Class Is report on a single-count basis. It's conceivable that there could be two or three short lines reporting the same carload(s) that the overhead Class I counts only once."

I'm doing my annual update of my shortline database and finding more and more individual lines that are parts of holding companies like Genesee & Wyoming or Watco. Because of the extent of their holdings it's entirely possible for a Watco shortline in the southwest to send a carload to another Watco short line in the northwest with BNSF or UP in the middle. Does the Class I report this as one shortline car or two?

As sidebar to this thread, should NS, for example, bill a carload of steel in leased equipment off the IHB going to the Lancaster & Chester in South Carolina as STCC 33 metals or FAK as is the practice with intermodal boxes? The line haul railroad probably has no marketing relationship with the shipper, does not own the equipment, has no idea what STCC is in it, and bills by distance.

In the IHB steel example, NS has nothing to do with creating the move, does not own the equipment, has no first mile/last mile commitment, and the fact that the commodity is steel has nothing to do with any move-specific operating expense save for fuel. And that's already in the fuel surcharge assigned to the load.

As the Class Is have become increasingly financialized, I think valuable "institutional knowledge" has walked out the door as the money changers have taken over. We've lost sight of Peter Drucker's first charge to management: "The primary goal of any business is to create customers." The best prospect for repeat business is the present or past customer, but without that institutional knowledge you don't know who these customers are or their economic value added to the core business by the railroad.

Customers don't really care about lower operating ratios, sustainability, artificial intelligence, or advanced technologies. They care about finding transportation providers that are easy to do business with, add value to their supply chain initiatives, and are consistent, reliable, and dependable. Not a tall order.

The way I see it, the railroads began to lose their relevance when management's focus moved from providing a service with a durable competitive advantage to enhancing financial results. See CSX 10-Q excerpt above. It's typical.

The term "financialization" comes to mind. As I wrote in *Week in Review* for November 30, 2018, there are dangers to putting market-based investors ahead of everybody else. The incentive for the manager rewarded partly on share price increases differs from the entrepreneur's incentive.

The corporate manager doesn't have three generations invested into his factory. He needs to make his stock options work over the next three to five years. The ownership of business becomes financialized and you end up with a company that's run by people who are more interested in the next two months than they are in the next two years. The former operating-owner who used to have something that was robust and potentially multi-generational becomes a speculator.

Happily the non-Class I railroad community has dodged this bullet. From the large holding companies like Watco through the four-mile short line operators like the Minnesota, Dakota & Western, the focus remains on creating customers. And institutional knowledge plays big part knowing who did what when and who can do what today.

For example, the Anacostia Rail Holding Company's Northern Lines Railways (NLR), formed in 2005 to operate over BNSF trackage in central Minnesota, has used its institutional knowledge to build upon its success with the St. Cloud Martin Marietta quarry. This customer has been producing aggregate materials for nearly 80 years and— in the opinion of the local management team — NLR is the best provider of rail services the facility has had: a locally-focused, service based shortline railroad.

NLR receives empty trains from BNSF at St. Cloud, often having them on the move to the quarry's aggregate plant within the hour. The same crew handles the slow-load movement under a tipple that produces a steady stream of rock. The NLR crew immediately takes the train back to the interchange for BNSF. This process occurs at least once most days, though at times two, three, or even as many as four trains can circulate through the load process in a single day.

Elsewhere on NRL, Tamarack Materials, whose main facility lies a few miles from the railroad, solved the rail service challenge by acquiring property along the NLR right-of-way. There, a spur was installed and transloading operations started six years ago. The service has worked well, according to Tamarack.

NLR delivers drywall to the transload location aboard center beam flat cars which can handle the equivalent of three or four truckloads. Last-mile delivery is provided by Tamarack's trucks or those of a local trucker. Tamarack's success is another example of how transloading can bring rail benefits within reach of "landlocked" shippers. Institutional knowledge wins once again.