THE RAILROAD WEEK IN REVIEW
May 11, 2012

"Let the data speak, It's telling you a story. When you hear the story, you can figure out what to do."-- Michael Partridge, Verso Paper

Genesee & Wyoming's North American total revenue units dropped 9.2 percent in April, to 59,509 units from 65,512 a year ago. Coal again was the biggest downer, off 21.9 percent and representing 22.9 percent of total revenue units (down from 26.7 percent of rev units a year ago). But the number, dour as it is, actually is an improvement over March when coal was off 42.7 percent year-over-year. The "other" commodity group -- mostly NS overhead coal in Ohio -- was down by more than half in both March and April and represents a bit more than five percent of loads, down from ten percent year over year. Just goes to show what can happen when one is reliant on bridge traffic. The D&H is a poster child for this phenomenon.

Ex-coal, GWR North American vols dipped 4.5 percent year-over-year; vols ex-coal and ex-other increased 4.5 percent. Commodity groups like metals (up 4.6 percent and 14.1 percent of vols), aggregates (up 6.9 percent and 10.8 percent of vols) and chemicals (up 11.1 percent and 9.3 percent of vols) are now beginning to take the edge off coal's dominant role in the commodity mix. In fact, units ex-coal and ex-other now comprise 71.8 percent of GWR total units, up from 62.4 percent a year ago.

Sequentially, it's been a mixed bag for GWR, with more downs than ups and down 10.0 percent year-to-date. But not to worry. As coal settles down month-over-month and year-over-year and as other commodity groups become larger parts of the commodity mix, I expect we'll see more consistent deltas month-to-month.

RailAmerica April 2012 carloads were essentially unchanged year-over-year --71,936 to 72,081, off 0.2 percent. Coal continues to be the elephant in the living room, down 17.9 percent, though carloads ex-coal in both years actually increased 2.2 percent this year as coal moved to second largest volume after ag products. The recent Alabama and Pennsylvania acquisitions added only 662 unit for the month, bringing the ex-coal same-store totals to within one percent of each other.

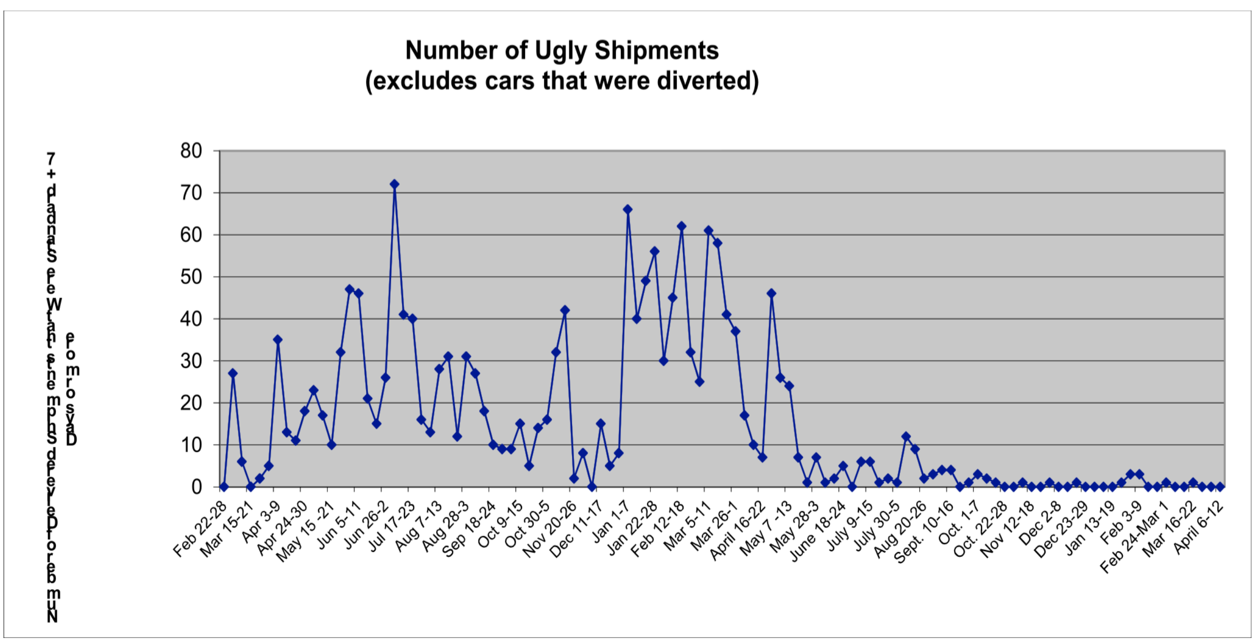
Commodities with carload gains included ag products (now the number one commodity in vols), non-metallic minerals, paper, lumber, petroleum and autos (more Hondas for export out of Indiana, according to other sources). Total carloads year-to-date are up 2.3 percent, though the month-to-month deltas have been small in three out of four cases, with March the exception, up 6.9 percent over February.

“Shippers: A Different Perspective” was the NEARS theme this week. Every spring, we of the North East Association of Rail Shippers converge on some scenic spot -- usually in New England -- to hold forth about what’s been going down and what’s coming up on the northeastern transport scene. This week we found Executive Director Joe Gearin’s skills at selecting The Right Spot well-honed once again as we descended on the Downtown Marriott in Providence. (I always like it when I can walk from my house to the train and without changing trains walk from the destination station to the destination venue. Philly to Providence works.)

The “different perspective” took many forms. Joe Estrella, currently a supply chain professor at the University of Rhode Island (who earned his props running supply chains for such small outfits as the CVS drugstore chain and Staples), set the scene saying the biggest supply challenge today is congestion and the resultant cost of goods not moving. As a result, manufacturing and distribution are shifting to lanes less challenging. Still, the North American rail network can be part of the solution: better shipper/railroad communication, sharper RR ops -- eliminating intermediate yards, blocking for the distant mode at origin -- the usual suspects.

Michael Partridge, Verso Paper’s Supply Director, picked up on the professor’s thread saying that “the collaborative process” they began with their Pan Am Rail counterparts has largely removed the rail-related variables from their printing paper supply chain, giving Verso a powerful competitive advantage vis-a-vis other domestic suppliers, both in the global arena for paper and even among advertisers using print over broadcast or even the internet.

Rail dominates Verso’s finished paper outbounds, even for markets as close as New York, Pennsylvania and New Jersey. Consistency is key: in selecting outbound modes Partridge gives consistency a 60-percent weight with speed and damage-free 20 percent each. His chart of “ugly cars” -- those that took seven days or more to interchange -- flatlining (below) is most revealing.



Moreover, Partridge showed that 95 percent of outbound cars are arriving at interchange according to plan as of Jan 2012. Talk about a "different perspective" compared to what it was a year ago.

The "Shippers Speak Out!" Panel was a highly successful departure from the usual succession of PowerPoint presentations followed by some hurried Q&A at the end. Moderator Jim Brashares used a "Town Hall" format that was more of a conversation than a presentation. One got the distinct sense that he and his four panelists had decided on the Qs and As beforehand, so there were no surprises or gotchas.

The panelists came from CSX Intermodal, APL, TJX, Formosa Plastics and Owens Corning; topics ranged from the market for flatbed vs van trucks, the competitive advantage of the new CSX Northwest Ohio intermodal terminal, owning assets vs not owning assets, when door-to-door service models work best, why cost and sustainability are behind many over-the-road to intermodal conversions and the growth of intermodal in under-500 mile markets. The common thread across the entire 75-minute discussion was the efficient interactive supply-chain perspective, and how each element must use its own competitive advantage to gain share for the given supply chain.

After lunch the perspective changed from a view in a room to one through a train window and then a bus window. We boarded the Providence & Worcester Office Train on Track 6 of the Providence Amtrak station for a ride down the P&W's dedicated freight main along the Amtrak right-of way -- the "FRIP" (Freight Rail Improvement Project) track. This 17-mile freight-only rail line was built as part of the Amtrak electrification and high-speed program east of New Haven. It gets the P&W to the Davisville Industrial park and its sea of imported autos coming in from off-shore makers, the Motiva ethanol terminal and the Port of Providence itself.

We visited 'em all: train to Quonset Point (where they first made quonset huts, ergo the name) and bus to the Port and Motiva and back to the hotel. What I liked particularly is how it's all a Work in Progress. There's a lot more there there than there was when I first visited two-plus year ago and the commodity mix changes constantly. And out on the railroad, P&W has taken over the old Cranston Yard to support operations in and around Motiva and the port itself. (My Amtrak timetable puts Cranston at MP 181.2, Davisville at MP 168.0 and Providence at MP 185.1, if you care to know how things fit.)

Day Two's highlights were the multimodal and financial panels. The first had presenters from the Port of New York & New Jersey, Hapag-Lloyd, and Pacer. Here again the common thread was speeding up port processes, shorter-haul intermodal lanes, and kudos for the rails' commitment to building capacity in terms of track capex and sharper ops practices.

The financial panel was a reprise of previous NEARS years with the Tony (Hatch) and Jason (Seidl) show. Panelists represented shippers (Formosa Plastics, Hillebrand), intermodal service providers (Hub Group) and supply-chain support (Chainalytics). Jason and Tony took the Town Hall approach, peppering the panelists with a broad range of topics while inviting audience input during the conversation. Generally speaking, the 2012 outlook was guarded, though the absence of any spectacular changes did not damp their collective enthusiasm for signs of sharper supply-chain management across the board.

Among their concerns: near-sourcing to Mexico that's putting a squeeze on outbound COFC capacity (KCS, are you listening?), the tendency of dry-van rates to go up and down in inverse proportion to available capacity (limited economies of scale across the truckload industry, fall-out among marginal operators), and how long the consumer can afford higher prices on nearly everything when wages are not increasing as fast. Game-changers include new patterns in global grain market patterns, the crude-by-rail phenomenon, the diminishing supply of long-haul truck drivers from among the i-Everything Gen-Xers and Washington's failure to stay ahead of the decaying highway infrastructure.

All of which play to the rails' ability to fund their own capex, find new talent, and enjoy increased pricing power as they match service design to supply-chain needs. I asked each panelist to say a few words on the topic and every one was able to say service design is an ongoing collaboration and that "more receptive attitudes" among their railroad contacts are greatly appreciated.

Looks to me like the NEARS theme, "Shippers: a different perspective" really worked. And we get to do it all over again on Cape Cod in October.