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The Railroad Week in Review 10/6/2001

Genesee & Wyoming (GNWR) has acquired the South Buffalo Railway, a Bethlehem Steel (BS) subsidiary railroad for $33.5 mm in cash and $3.3 mm in assumed liabilities. As you know, the BS stock price has been under the gun of late. In a press release, Bethlehem said this sale "is an important component of rebuilding Bethlehem's financial flexibility in the near-term."

For its part, the deal fits nicely with GNWR's Buffalo & Pittsburgh Railroad in its New York-Pennsylvania Region and will be operated as part of that region. South Buffalo operates over 52 miles of owned track in Buffalo, NY with connections to CSX, NS, CN, and CP. Primary products currently hauled by the South Buffalo include stamped auto parts, galvanized steel and other specialized bar steel products.

For the twelve months ended June 30, 2001, South Buffalo had $17.4 mm in revenue. On July 25th, Bethlehem Steel announced that it will be closing its coke-making operations in Lackawanna, NY, this month, and most likely was a consideration in the line's sale by BS. The operation is a current customer of South Buffalo and accounted for approximately $3.3 mm of the $17.4 mm in revenue, meaning GNWR paid about twice sales for this line. A tad rich, perhaps, however the potential synergies may outweigh.

Maine's venerable Bangor & Aroostook (BAR) has finally been sold to a consortium of rail operators led by Larry Parsons of the Wheeling & Lake Erie and Ed Burkhardt, founder of the Wisconsin Central. According to a press release, there's a letter of intent for purchase of BAR's rail properties for $62 mm. Under the agreement, the consortium will purchase the operating assets of the BAR, the Quebec Southern, the Canadian American Railroad, the Northern Vermont Railroad, and the Newport & Richford Railroad Company, except south of Newport, VT.

Throw in the Van Buren Bridge Company, and Iron Roads' Logistics Management Systems and that's pretty much it. The parties hope to conclude the transaction no later than December 31, 2001. BAR is currently negotiating for the sale of remaining assets not included in this transaction.

National Association of Purchasing Management's monthly non-manufacturing index reversed its course of the past two months in Sep, hitting 50.2 in September after a low of 45.5 in August. A reading above 50 indicates expanding activity in the services sector, which includes everything from transportation to legal and financial services. The index has shown expansion for only two of the past six months. NAPM's manufacturing index, which measures less than one-fifth of overall economic activity, has been mired below 50 for the past 14 months.

The broader purchasing managers' index lost yet more ground in Sep, dropping 90 basis points to 47.0. NAPM said that while the sector was stronger than Wall Street expected, it might not yet be feeling the full impact of the Sept. 11 terrorist attacks. Still, Wall Street economists had expected a much worse reading of 45.0. There are signs the inventory liquidation trend appears to be slowing, as both manufacturers and their customers are bringing inventory levels under control. Thus freight carriers may once again be called on to feed supply chains JIT.

Union Pacific and Canadian National will offer a new truck-competitive service for intermodal shipments moving between Central Canada, Michigan, Texas and Mexico City. This is the first in a series of CN-UP joint initiatives designed to improve transit times and rail service, expedite border crossings and provide truck-competitive service and starts Oct 8.

Here's what Detroit- and Toronto-area shippers will get: third-morning service to Houston, fourth-morning availability at UP's Port Laredo intermodal facility in Laredo, and sixth-morning delivery in Mexico City over TFM

Buried in the rhetoric about the Bush economic stimulus plans is a proposal from the Dems that deigns to mention…*railroads*. According to an AP story dated 10/6, "Democrats have gone far beyond tax cuts envisioning that $35 bn would go for spending on Amtrak, high-speed rail and highways." Comes now the American Shortline and Regional Railroad Assn (ASLRRA) to say, "Short line railroads could spend approximately $400 mm on infrastructure improvements in the next three months and approximately $1.2 bn in the next six months. These funds would be spent on infrastructure projects that are ready do go but lack company funding."

Ain't that the truth. A big reason the class exited many of the lines now operated by small, independent roads was capex exposure, and much of that before the 286's came along. Last year a Zeta-Tech study commissioned by ASLRRA found that that nation's short lines needed to spend $6.86 bn to upgrade their physical plant to accommodate the bigger 286,000 Lb GVW cars rapidly becoming the standard. If short lines cannot handle them, the thousands of shippers they serve will be cut off from the national rail network.

ASLRRA has been promoting infrastructure funding legislation (H.R. 1020 and S 1220) which would provide $350 mm per year for three years to address the short line industry's capital needs. The organization is urging Congress to include that legislation in the stimulus package -- a mere bagatelle in the scheme of things.

A friend writes, "It's sad how often Amtrak drops the ball. They cannot afford to have reserve rolling stock available to take care of opportunities like this. And at the same time, the usual problems persist just at a time when it would be nice to be able to put their best foot forward for a lot of potential new riders.

"On Wednesday, three successive WB trains through or stopping at Bridgeport were each about a half-hour late (including an Acela); an eastbound was about 10 minutes late. Not sure how much is car and how much track, but rides on a Metroliner and a regular train (55) at speed through interlockings between Newark and Philadelphia were about as rough as I've ever experienced." No wonder my European friends remain appalled when they ride what we call a passenger – oops, *guest* – train here.

Roy Blanchard

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