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Norfolk Southern ranks fourth after BNSF, UP and KCS in coal as a percent of all carloads. But NS ranks first in coal losses this year against last year. There are double-digit declines in Q1, Q2 to-date, YTD, four trailing weeks and Week 19 ending May 11. In terms of total traffic, coal represents 27.4% of total carloads including intermodal to BNSF's 33.3%. Yet the slowdown in BNSF's coal loading has only shown up in the last month, UP is off less than two percent in all periods, and KCS only went negative in Week 19.

At the other end of the scale, intermodal continues to set records. NS and UP are in the middle of the pack with 20.8% and 20.6% of their total carloads respectively. Yet the patterns are remarkably similar. NS is positive across the board; UP's only decline is a point in Q1 vs. NS up a point in Q1. Both saw double-digit gains in Q2 to-date, the 4-week trend, and Week 19. So what's with coal at NS?

To begin, NS averaged $901 per car of coal in 1Q02 vs. $895 in 1Q01, less than a point more. But there were 40,000 fewer carloads and $34 mm less revenue in the bargain. The total revenue shortfall yoy was $42 mm, so coal represented four-fifths of the total. What's more, the two-year trends for trends for both coal and non-intermodal traffic are down – not sharply, but surely neither flat nor up.

Comparing 1Q02 with 1Q00, total coal tonnage is off 4% with exports off a third and steel down 25% (see chart). Is any of it ever coming back? Doubtful. Australia and South Africa have become the gorillas of the export market. Houston and its petrochemical and plastics business has supplanted Pittsburgh steel in many quarters. And PRB coal is finding its way ever further east.

The coal trade itself is not enjoying the rosiest of times. Arch Coal (ACI), the #2 coal producer in the US after Peabody (BTU – no, really!) sees strong demand out 10 years. Coal fires about half the electric power generated each year in the US, meaning that warm winters, cool summers, and slowed industrial demand don't help near term.

So what does one do to replace it? Intermodal, like a certain bunny, just keeps going and going. But can it sustain the present pace? It doesn't pay all that well -- at $491 a box and an average 1.7 boxes per platform, that's $835 a car (platform) vs. $1319 per non-coal carload. The good news is that there are positive stirrings in general merchandise bolstered by auto and chemicals. And a lot of the credit has to go to improved service quality and the scheduled railroad. Replacing $800 platforms and $900 hoppers with $1300 manifest cars looks tempting. Just ask CN.

Speaking of PRB coal coming east, BNSF has been awarded a long-term contract to deliver coal to a Georgia Power generating station about 40 miles north of Macon. The contract term begins January 1, 2004, and provides BNSF the exclusive opportunity to deliver low-sulfur PRB coal from Wyoming and Montana to Memphis. NS, under a separate contract with Georgia Power, will move the coal to the power plant. At some point in 2004 the plant will be able to burn either Eastern or Western fuel on all four of its generating units, as much as 12 to 14 million tons of PRB coal annually.

The contract represents an important expansion of BNSF's coal franchise even as it changes the mix for NS. Assuming Georgia Power had been burning coal from NS-served mines, does NS make out better with this move (no origin expense, e.g.)? Maybe so. It takes more carloads to deliver the same BTUs as a carload of eastern coal.

Canadian Pacific CFO Mike Waite was one of the several presenters at this week's Bear Stearns Global Transport and Logistics Conference. His remarks and slides can be seen at www.cpr.ca, however a couple of high points are notable. First, the spin-off from the Mother Ship received broad support from both shareholders and employees. The new equity has enjoyed high retention of top institutional shareholders, a good retail market, and strong support in Canada and the USA. Not to mention the share price up 50% from the October 3 split.

Second, in the past six years CPR's operating income has nearly doubled to $C841 mm. The OR has shed ten points to a respectable 77 and counting. And ROIC has gained two points to 8.3%. Finally, in a look forward Waite said that by 2004 he expects CPR to be breaking 10% ROIC, a 73 OR, and $200 mm free cash flow before dividends. Moreover, they're "sticking to the plan." And though CPR may not saying much, my sources say CP is making nice progress in its scheduled railroad efforts. It ought to be a nifty roll-out.

Genesee & Wyoming (GNWR) was another Bear Stearns presenter. CEO Mort Fuller noted that GNWR diluted eps posted a 22.8% ACGR in the past 5 years on a doubling of net income to $19 mm. The "balanced portfolio" helps, with North American and Australian revenue streams just on either side of $200 mm. The company is building a regional US rail system (look at the J-shaped route structure in NY and Penna, e.g.) and the recent acquisitions have added more than $50 mm in revenue.

Fuller sees an attractive global acquisition landscape with many opportunities and few well-capitalized buyers. I'm not sure I fully agree with his assessment of the North American class 1's appetite for spin-offs (BNSF's Rose excepted), however the recent buys both here and at RailAmerica surely portend further consolidations in the shortline business. GNWR's regional approach to acquisitions will serve it well.

Canadian National stock won an upgrade from Morgan Stanley on Tuesday. The note highlights CN's lead spot in the most recent *Freight Pulse* shipper survey and the railroad's relative lack of coal exposure. The CN revenue base is only 5% coal, a fifth of the North American railroad average. Chief Marketing Office Jim Foote has long said you have to go see the people to ask for the order and now has 20% more sales people in the field. Moreover, COO hunter Harrison will no doubt find the increasingly fine-tuned railroad will run at even lower cost. Morgan Stanley has thus boosted its earnings estimates for 2002 and 2003 by 2% and 5% respectively.

This just in: "NS to Purchase Emu Fleet" – Headline in *International Railway Journal.* No, Norfolk Southern isn't going into flightless birds. Rather, Netherlands Railways (NS) is to buy electric multiple-unit cars to replace an aging fleet. Have a nice week.

Roy Blanchard

Disclosure: Blanchard may from time to time hold long, short, or debt positions in the companies mentioned here. A list of such holdings is available on request.

Norfolk Southern Coal Tonnage, First Quarter

	2000	% Total	2002	% Total	Change
Utility	29,111	67%	31,388	75%	8%
Export	5,549	13%	3,625	9%	-35%
Steel	6,232	14%	4,682	11%	-25%
Industrial	2,613	6%	2,276	5%	-13%
	43,505	100%	41,971	100%	-4%

Source: NS Quarterly Financial Review, 1Q02