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The Railroad Week in Review
12/6/2002

Regarding CP's Rob Ritchie and the Transport Ministers, we have this sad tale from a reader in Canada. He writes, "Rob makes a good point. In my province of Newfoundland and Labrador, we had a railroad that ran the whole length of the island form Port aux Basques to St. John's. The railway was linked to the main land by two ships the Sir Robert Bond and the Frederick Carter that sailed all year round.

"The provincial government in its infinite wisdom sold out the railroad in favour of roads. It was called the *Rail for Roads* and saw the Federal Government pull its subsidy for the rail service in favour of grants for roads. Today, what was once our railroad is now museum pieces and the steel that ran from Port aux Basques to St. John's is gone. The Frederick Carter was sold and the Sir Robert Bond sails only during the summer from Lewisporte to Goose Bay carrying containers."

In the US it seems the road network takes years to catch up to the car and truck volume. Why? If you build it they will come. And in some congested lanes like Wilmington to Harrisburg, even if you *don't* build it they will come. And it looks like that's what's happening in Nova Scotia.

CSX-dot-com has eliminated the browser barrier to entry (WIR 11/15). Starting with the "New to Rail" invitation on the opening screen one can navigate quickly and intuitively to the pricing screen. And the web wizards at CSX have made the copy even more inviting. It ought to get a good play at the upcoming shortline meeting.

Also at CSX, there's a useful lesson to be learned if you look at their 3Q02 fuel consumption in comparison to their peers. On a gallons-per-unit basis, it's about 10% higher. But on a GTM basis, it's lower. Asked to comment, Fred Eliaisson told me it's a function of mix and length of haul. Sounds reasonable enough. GTMs measure total tonnage everywhere, loaded or not.

It's always gratifying when some of your favorite people move up in the world. RailAmerica has promoted Mike Howe to SVP and CFO, replacing Bennett Marks who has departed. Larry Bush moves up to VP and Treasurer. My buddy Wayne August, always the man with the answers and with whom I can always agree to disagree, got tapped as VP Investor Relations. Pete Turrell takes over the International Rail Group as VP. Rounding out the leadership change list is Scott Williams, moving up to SVP and General Counsel from VP and GC for Real Estate. Congratulations, all. The moves have been well-earned and you will wear the new robes well.

A shortline operator who's been around a long time and knows this business as well as anybody takes exception to my RRIF program remarks (WIR 11/27). He writes, "You seem to think marginal carriers should go out and borrow money in government-guaranteed loans that they probably cannot and will not pay back! It doesn't make sense to borrow money to improve your facility so you can loose more money! The interest will exceed the savings."

In a similar vein another excellent student of the industry writes, "Interesting point you make about the concentration of shortline carloads in the lower-rated areas. I think there's another thread that runs through that data which is that short line traffic is concentrated in areas that are increasingly less important to the Class I community, from both a quantitative and qualitative standpoint.

"This may explain why some short lines have difficulty getting attention from their connections on certain opportunities, and why short lines and their customers frequently find Class Is to be slow in responding to their calls. As Class I carriers cut back their staffs they will tend to concentrate the remaining marketing effort on the core traffic areas: coal, grain, intermodal, chemicals, etc.

"Clearly none of the Class I carriers has found ***the*** answer to the merchandise carload paradox. It's too much business for any of them to write off, but cannot be serviced satisfactorily using the existing business model, at least from an ROIC standpoint. High-priced chemical traffic is the exception to this rule, and the proportion of such traffic in its carload base probably explains why UP has stuck so firmly to the traditional model. The search by the others for a new model presents both opportunity and peril to the nation's short lines."

Finally, as if to underline the state of affairs, this from a midwest shortline marketing VP: "I needed to price a new move for a [low-rated] commodity. I went to the connection's website and no prices are listed. I called the product manager. It took from Oct 30 until Nov 18 to get a very high price." The bad news is he's not alone; the good news is these events are becoming more the exception than the rule.

The fact remains that the carload business is *hard.* Hard to manage, expensive to equip, and tough to do the same way every day. Not so with unit trains and intermodal. On this last, another correspondent with some years running a regional network under his belt writes, "Intermodal is easier **-** somebody else sells it and you get to run nearly fixed consist trains from point A to point B. And it grows. Human nature inclines us toward the fun of growth and the intellectual ease of running trains like a model railroad so we invent rationales for dumping carload because its hard to do well."

Union Pacific held its annual investor conference in Omaha this week. It was gratifying and encouraging that the session began with a discussion of the UP approach to running the railroad. Marketing and economics came first; the financials were held for dessert. Carload shippers and shortlines will be pleased to know that for Q4 through Nov the critical industrial products group is up 3% yoy against total units off a percent.

What's particularly good news for the carload community is the level of thought UP has given to new business development and managing contribution. And that intermodal is down to 18% of revenue, second only to CSXT. As for how they do it, the slides and webcast are posted at www.up.com/investors. Pay particular attention to Eisele and King on yield and Koraleski on marketing. And watch for further commentary on this powerful set of presentations anon. Clue: new business revenues up 18% vs 3% overall; industrial products leads in growth potential.

Roy Blanchard writes and consults on railroad commercial, financial and operating best practices for shortlines and shippers. Disclosure: Blanchard may from time to time hold long, short, debt or derivative positions in the companies mentioned here. A list of such holdings is available on request.