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The Railroad Week in Review
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RailAmerica's January 2003 North American commodity carloads were even with Jan 2003 vs. AAR commodity carloads off a point and a half. US loads dipped by 2% but the Canadian lines suffered an 8.8% falloff. Table 1 compares RRA's Jan numbers with the AAR Week 5 (through Feb 1). Not surprisingly RRA is more than 80% carload and just under 70% without coal. There is precious little low-margin intermodal business however the bridge (overhead) traffic more than makes up for it.

Used to be bridge business was nice, but that was when there were more than a hundred class 1s and myriad choices of trunk line routes between O-D pairs. Nowadays, if a class 1 wants to run between A and B via C, even if it is two sides of a triangle, it will. And the bridge carrier with the direct A-B route can whistle for its dinner. Seeing overhead carloads down yoy isn't really that bad. Commodity carloads including coal were even with Jan 2002 and without coal the merchandise business was actually up a bit. That's the core business to my mind and that's good.

Which leads me to another, personal, point. In preparing this note I was dismayed to read headlines like, "RailAmerica Carloads Down Four Percent!" Well, maybe they are *en toto* but it's not the story. The story is that RRA's core business – the merchandise carload business with decent margins -- was actually up. Then today I pick up the WSJ and see the ranks of Wall Street analysts are shrinking and small company coverage may diminish. Maybe then we'll see headlines like "RRA Commodity Traffic Flat for Jan; Class 1s Off 2%" as the headline-writers seek other opportunities.

I have to point out that the Jan 2002 carload base was adjusted upward to 95,999 from the 95,344 reported a year ago. In an e-mail RRA's Investor Relations VP Wayne August writes, "When we sell a railroad in order to compare 'same railroad' in the next year we remove the carloads of those railroads sold during the year for the whole year. During 2002 we sold four properties and have removed them from our 'same store' comps."

Recall it was in Jan 2002 that the benefits from two large transactions first kicked in boosting NA carloads by double-digits every month but June. As we wrote earlier (WIR 12/13/2002), "The easy comps of course are due to the StatesRail and Park Sierra acquisitions earlier this year. Once we get past those anniversaries the comps will be more meaningful."

Three small news items converged this week in what could be a positive sign for the carload business. First, US citizens visiting Europe report encountering a more virulent brand of anti-americanism than has been seen in years. The number of visitors from the US is off by double-digits thanks to the double-whammy of war fears and simply not feeling welcome. These stay-at-homes will spend their money here, meaning more goods moving in domestic markets.

Second, supply disruptions from the recent West Coast port follies and potential war-related events are sending buyers scrambling for alternative sources, many of them at home. The scheduled railroad and guaranteed transit times have already shown their value in taking back share from the trucks. What a great opportunity to do still more.

Third, a growing shortage in natural gas supply is pressuring availability and price, making coal that much attractive to dual-fired utilities. We've been reading about coal inventories going down as much due to more reliable rail transport as weather. The trend could then be to smaller, more frequent unit coal trains. CN and BNSF are already putting merchandise cars on the light coal and intermodal trains. More trains handling the merchandise trade means even better transit times.

That's not to say we're reverting to Mixed Train Daily (no, that's not a bush league pitcher in the 1940s) but surely there's a movement to get the cars out of town by whatever trains are going to the distant node.

US Steel (USX) has put a hold on the planned sale of its rail properties to Apollo Management of NYC. The $500 mm deal announced in October is being suspended as part of the negotiations relative to a possible USX purchase of National Steel. Recall the USX rail properties until last March operated as part of the joint USX-Blackstone Group Transtar holding company. See www.tstarinc.com for railroad links.

To review, Transtar was reorganized in October 2000 and the Bessemer, DMIR, the Conneaut docks and the USX Great Lakes Fleet all went to Great Lakes Transportation (www.gltx.com) with transaction being completed in March 2001. See also press releases at www.blackstone.com for further detail. The remaining rails and Transtar itself reverted to USX ownership. And that's how we got where we are.

CSX reports that after a full year of experience with remote control operations accidents are down compared with traditional operations and the severity of those train accidents is down when comparing the average cost per derailment, according to data complied by CSX. Adds COO Al Crown, "In addition to the safety benefits, we are seeing virtually 100% reliability of this proven technology" when measured using the FRA's index of incidents per million train miles.

The data show that FRA-reportables were reduced by 60% in remote control operations in 2002. Also, human factor-caused accidents were reduced 30% when comparing remote control with conventional operations. Average cost per train accident in yards where both remote control and conventional operations are used is 34% less with remote control.

This is entirely understandable. CSX says remote control operators on the ground are better positioned to see and avoid possible accidents, and are able to take quicker action and minimize damage when a derailment does occur. WIR reported on this following our Feb 2002 visit to CN's Taschereau Yard in Montreal. Moreover, CSX finds, as has CN, that remote control is invaluable in improving communication in yard switching operations.

Since implementation began early in 2002, CSX has certified more than 1,300 employees as remote control operators. The technology is now in place in more than 60 locations across the railroad's 23-state network. It's certainly due. The FRA has studied the technology for nearly a decade, holding a series of public meetings to examine its safety. In 2001, FRA issued a Safety Advisory on remote control that CSXT follows when implementing remote control operations. Says Crown, "Remote control technology promotes safety in our yards and thus drives key economic benefits." Can't ask for more than that.

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Table 1. AAR vs. RRA Carloads by Commodity.

AAR Commod Group	STCC	%AAR Carloads	AAR Change YTD*	RRA Cars	%RRA Carloads*	RRA Change YTD*
Grain	0113, 01144	5.6%	-2.8%			
Other Farm Products	All other 01	0.4%	8.6%			
All STCC 01		6.0%	5.8%	7,510	8.1%	-11.9%
Metallic Ores	10	1.2%	13.1%	4,524	4.9%	-16.8%
Coal	11	32.6%	-3.6%	11,642	12.6%	-4.20%
Crushed Stone, Sand	142, 144	3.3%	0.9%		0.0%	
Nonmetallic Minerals	other 14	1.7%	6.5%	3,924	4.2%	21.9%
Grain Mill Products	204, 20923	2.4%	3.2%		0.0%	
Food & Kindred Prods	other 20	2.1%	-1.2%	5,456	5.9%	-5.4%
Primary Forest Prods	241	0.9%	-10.7%			
Lumber & Wood	other 24	1.4%	4.1%			
All STCC 24		2.3%	-6.6%	10,312	11.1%	3.2%
Pulp & Paper	26	2.2%	-2.0%	7,893	8.5%	-5.6%
Chemicals	28, 49	7.4%	2.0%	7,637	8.2%	9.1%
Petroleum	291	1.4%	-0.1%	4,354	4.7%	16.9%
Stone, Clay, Glass	32	2.2%	1.4%		0.0%	
Coke	29911,3,4	1.0%	-12.9%		0.0%	
Metals	33, 34	3.1%	-0.2%	6,985	7.5%	-2.5%
Motor Vehicles	371, 41118	5.3%	3.9%	3,754	4.1%	8.6%
Waste & Scrap	40, 48	2.1%	0.0%		0.0%	
All Other		1.2%	-10.2%	2,122	2.3%	50.6%
Total Commodity		77.5%	-1.5%	76,113	82.2%	0.0%
Bridge Traffic		0.0%	0.0%	12,874	13.9%	-21.8%
Intermodal		22.5%	5.6%	3,617	3.9%	8.9%
Total Volume		100.0%	1.1%	92,604	100.0%	-3.5%

*AAR through Feb 1, 2003; RRA through 1/31/2003