The Railroad Week in Review
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Growing the carload business was the main theme of this week's Union Pacific shortline conference in Omaha. Most of the shortlines have solid success stories with carload volumes increasing at twice the annual run rate of the class 1s. The difference is the shortlines' willingness and capacity for drilling down to specific customer transport needs. And it was clear from the tone of the meeting that UP wants to encourage exactly that.

The timing couldn't be better. There's a massive shift in supply chain emphasis – from vendor push to customer pull, especially in the retail trade, and that entails everything from lumber to liquor, from canned soup to cantaloupe. Moving merchandise is a major Cost of Goods Sold component on the income statement, and inventory is part of Working Capital. The less of each the better, and the successful transport vendor is the one that can work both sides of that equation.

The rail industry as a whole has not told the improved consistency and reliability story well at all. They tend to forget that the transportation product is, when you come down to it, no different than bath soap or frozen entrees when it comes to brand recognition, and nobody's going to buy your product unless they know what it is and what it does.

Enter Brand Management at Union Pacific. Woody Sutton has been charged with corridor development and he's building on the success they've had with the 5-7-9 program. As Vice President for Manifest Products in the Network Design group Woody wants to roll out 5-7-9's success to other branded products: The Overland Route (Bay Area to St. Louis and Chicago), The Oregon Trail (PNW), and the Heartland (North Central grain states).

Woody also leads the UP teams developing alliances with the eastern and Canadian Class Is and through them their shortline connections. Underlining that point, both Len Kellermann (CSX shortlines) and Dutch Tubman (NS shortlines) were at this meeting, as well as representatives from half a dozen eastern shortlines doing business with UP through NS and CSX. Here again, UP is looking to build on success. Express Lane (UP+CSX perishables) carloads are up 42% from California and 22% from the PNW, with more than half from shortline origins.

A key benefit of alliances is the efficiency of shorter routes through fewer gateways and the resultant decrease in car handlings, something the shortline-Class I model must emulate. If there was one bone of contention it had to do with service reliability at interchange. It appears that although UP has done well at getting shortline ISAs in place they have not done well in compliance. One shortline owner writes, "ISAs are meaningless unless they include enforceable penalties. We find that discipline over branch line train crews leaves much to be desired." This is unfortunate.

Doug Glass, Senior ASST VP for business development, neatly summarized the importance of shortlines to the UP Core System. In his presentation Doug noted that shortlines touch about 15% of UP's total revenue units. That works out to more than $1.6 *billion* in revenue divvied up among fewer than 200 shortline brands. Moreover, nearly a quarter of the unit growth YTD has been with the 42 shortlines in the north Central and Intermountain regions.

Jennifer Hamann, VP for Investor Relations, told me that many service problems can be traced to crew starts and power availablity, and that both are being addressed. There is nothing “systemic” that is wrong, she said. I’d have to agree with her. Both of my forays out on the property – on the shortline train ride Sunday and on my Omaha-Dennison drive Tuesday – told me the railroad’s core system is running well.

Such slowdowns as I saw were normal events – a track out of service for re-railing Sunday afternoon (back in service before 7 PM), or bunching at Denison where trains switch to left-hand operation on the old CNW. The plant is in excellent shape, crew changes were prompt and there’s a fresh coat of paint on everything. So if there’s a shortline having interchange problems, I’d suggest they take it up with the local guy, and document deviation from the Transportation Plan. As Woody Sutton says in his 5-7-9 presentation, it works because “The T-Plan is Sacred.” And woe betides the manager who loses sight of that.

KCS will close its downtown Kansas City, Mo. TransLoad Center (TLC) effective Sep 1 and relocate to a new 10-acre TLC at Coburg Yard, off I-435 just south of the River. The new facility will have 80 unloading spots with capacity to store 90 more cars, up from 65 cars downtown. Coburg features a truck scale, filtered drainage system, and switching 5x a week.

Also beginning September 1st, KCS' Petal Street TLC in Dallas goes to Warehouse Specialists, the same outfit that opened another KCS warehouse in Dallas on Garland Road in January. The Petal Street location offers 245,000 square feet of space, 14 rail and 24 truck doors, and is switched five times a week.

Elsewhere, KCS took legal steps to solve the TMM impasse. The latest development was the Mexican Foreign Investment Commission’s decision to defer KCS' application to acquire control of TFM until after the parties resolve their dispute about whether the Acquisition Agreement remains in effect. Recall that KCS believes the Acquisition Agreement between KCS and TMM is still valid and effective, and that both parties are still bound by that agreement. KCS also believes that TMM's recent actions may have caused concern among current and prospective foreign lenders and investors in Mexico, and thus affected its own interests. As KCS has noted previously, it will take steps to enforce its rights.

Maine’s St. Lawrence & Atlantic (SLR), a Genesee & Wyoming property, is now an official “Port of Entry,” allowing customs officials to perform on-site inspections of containers from international origins arriving at its Auburn intermodal facility. Doing so required having the Port of Portland limits to be expanded to include the City of Auburn.

Now as a federal customs inspection facility the SLR can build on its seamless connection with Canadian National’s double-stack network and the five deepwater ports served by CN to promote Auburn, Maine as a competitive gateway for the New England import and export community. Moreover, this elevated status adds value to the SLR as an economic development partner with the city and state. Well done, all.