The Railroad Week in Review
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Union Pacific on Monday morning warned that it may not meet the 57-cent per share target for 1Q04 for two reasons. First, service slow-downs due a combination of resource allocation and sever winter weather impacted operating costs and revenues disrupting supply chains and putting power and crews out of position. Second, the Arkansas Supreme Court upheld a $30 mm jury verdict against UP for a 1998 grade crossing accident. Including $5.4 mm in interest, the verdict will cost about eight cents a diluted share.

According to UP there is some question of the constitutionality of the $25 mm in punitive damages embedded in the award. It fits with a quote from a paper called "Suing Railroads" presented at a seminar for trial lawyers and cited in KCS' Jan 29 presentation. "Lawsuits against railroads are among the most rewarding endeavors with which a trial lawyer can be involved. Many [jurors] are willing to hold railroads liable and when they do the verdicts are often surprisingly large."

Meanwhile, the *Wall Street Journal* the same day noted that the increasingly global business base mandates supply chains that are supple and responsive to shifts in demand. And if doing business in Arkansas impedes UP's competitive posture in this regard it can always run around the ex-Cotton Belt and MoPac lines and use the ex-MKT through DFW. Think of the howls we'll hear when jobs are lost in Arkansas because the railroads can no longer afford to do business there.

Canadian National continues to grapple with the effects of the CAW strike. Negotiations were supposed to start again on Friday as the walkout of some 5,000 workers continues. Separately, Reuters reports that container traffic is off 26% last week from levels of the week prior to the strike. CN's strong carload franchise (75% of revenues, tops in the biz) partly offset the IM shortfall. Still, traffic for last week was off 9% yoy.

RailAmerica has tapped my good friend Tom Owen SVP Marketing and Sales – North American Rail Group. Armed with an MBA from Duke, Tom toiled for 16 years at CSX on a number or marketing desks. I've always regarded Tom a straight-shooter, an excellent student of the industry, and open to shortline initiatives. Excellent move.

Genesee & Wyoming (GWR) will move its three-for-two stock split forward three days to Monday Mar 15 "for administrative reasons." The record date for the stock split (2/27) remains unchanged. The number of shares of GWR's Convertible Preferred Stock will automatically adjust in accordance with anti-dilution provisions. As an aside, GWR is the clear leader in rail group stock price appreciation over the trailing six months, up 40%.

David Briginshaw, Editor of Britain's *International Railway Journal*, writes in the Feb 2004 issue that this year Spain will up its railway spending by about 25% to 6.4 bn euros, roughly $US 8 bn. That puts Spanish rail investment second only to China ($US 8.5 bn) and ahead of the US ($7.5 bn). Best of all, the Spanish government wants to fund the railway expansion out of *highway* tolls. The rail budget in Spain accounts about half the Ministry of Development's spending .

France wants to expand its high-speed rail network with an investment approaching $US 13 bn through the year 2012. The money is to extend or build new TGV lines and create five rail freight corridors. Briginshaw points out that the mood in France as in Spain is to use highway money "to fund railway, canal, port and airport projects to help reduce road congestion."

Germany is headed in the opposite direction. For fiscal 2004 the government will put about $US1.46 into highways for every dollar that goes into the DB. The rail money was to come from a truck toll that was supposed to be introduced in 2003 and now it looks like maybe 2005. Worse, the 2004 rail budget is a third less than it was last year. But even at that rail remains a lot more important to German federal planners than it is to ours.

Shortlines still lack unity where it comes to understanding rail economics. Take, for example, this shortline representative speaking at a recent state shortline association meeting. He opined that his connecting Class I "is more interested in growing intermodal business in [his state] at the expense of carload traffic."

It would not surprise me if the Class I were doing exactly that. The biggest shortline commodity groups in his state run toward the low-rated end of the merchandise carload spectrum: aggregates, grains in single-carload lots, LPG, light-loading manufactured products, etc. His connecting Class Is actual FY 2003 RPU in these commodities runs about 12% less than the merchandise carload average and just 20-30% more than the intermodal carload equivalent revenue (intermodal RPU times 1.7 average boxes per platform).

Back out a 20-25% shortline revenue allowance and net to the Class I gets uncomfortably close to the intermodal per-carload equivalent revenue. Remember that intermodal incurs no yarding or local freight costs, minuscule equipment rent, stays on one train vs. 4+ trains for your typical merchandise carload, and somebody else takes care of the dray.

A friend who's been in this business long enough to know the economics writes, "The Class Is are starting to see a significant and steady increase in intermodal margins. As the system loads up, all sorts of good things happen in terms of heavier trains, etc. Intermodal is a lot more profitable than many, but certainly not all of the carload groups. Intermodal profitability is driven first and foremost by the international trade; not as time sensitive and you can really run big trains."

The difference is contribution: revenue less long-term-variable costs, 75% of which goes to equipment, crews and fuel. The per-train LTV costs remain regardless of what's in the car, so the more RPU the greater the per-train contribution. The flip side is the more trains per unit the lower the contribution. (Granted multiple crews per train terminal-to-terminal pushes down contribution for every car on the train. But that only exacerbates the effect of multiple-train handlings.)

Better the shortlines at that state association meeting focus on how to increase Class I contribution per carload they originate or terminate. Watch this space and future issues of *Railway Age* for more on the question of revenue vs. contribution.

Benchmarks Updated. The free downloadable spreadsheet has been updated and made more user friendly. Go to http://www.rblanchard.com/resources/texts/benchmarks.html today and see.