The Railroad Week in Review
March 12, 2004
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RailAmerica (RRA) Feb 2004 consolidated carloads were up 14% overall and 9% on a same-railroad basis – total carloads less carloads associated with railroads or portions of railroads sold or acquired after 1/1/2003. YTD loads increased 12% all-in and 8% same-railroad. North American properties (US and Canada) pulled in 12% more Feb total carloads yoy; same-railroad traffic rose 6%. Traffic growth in ag products (STCC 01 and 20) and metals was partially offset by lower lumber & forest products and intermodal carloads. YTD Feb 2004 NA carloads increased 9% yoy; the same-railroad gain was 4%.

The corner has been turned in Australia with Feb 2004 total loads up 28% for the month and 31% YTD as ag and farm loadings more than doubled. This is good news for RRA and the would-be purchasers of RRA's Australian interests (see also WIR 2/20/2004). The increase in Australian coal loadings reported in Thursday's WSJ aren't much help to RRA. The coal export activity is in Newcastle, several hundred Ks to the northeast, above Sydney, whereas the RRA operation is confined to Victoria on the southeastern tip of the continent.

Feb carloads for **Genesee & Wyoming** (GWR) North American operations (USA, Canada, Mexico) were up 23% yoy. Coal, coke, minerals, metals and forest products accounted for about 60% of total loads. Excluding 3,951 carloads from three railroads acquired from Georgia-Pacific effective January 1, 2004, the NA Feb traffic increase was 13%. Half the same-railroad increase came from Canadian forest products and eastern coal loadings.

Australian traffic in February 2004 increased or 33.3%, primarily the result of a 50% increase in grain traffic versus the drought affected carload traffic of the prior year and a 19% increase in iron ore traffic. Last Feb grain accounted for 14% of the total and ore was 21%. Now it's 26% and 21% respectively.

BNSF has made some front-office changes in marketing and sales. Fritz Draper is now VP Business Development, succeeding Kathleen Kummant who has left the company. His purview will be Economic Development, eBusiness, the Mexico Business Unit, Supply Chain Solutions, Customer Solutions and corporate support for BNSF Logistics. Kevin Kaufman joins BNSF March 22 as Group VP, Agricultural Products, succeeding Steve Bobb. Kaufman is currently SVP of the Louis Dreyfus Corporation (LDC), one of the world's premier commodities trading organizations and a significant BNSF customer.

Bobb will succeed Draper as VP Business Unit Operations and Support, responsible for Intermodal and Automotive Hub Operations and Planning; Freight Car Planning and Distribution; and the Demurrage, Storage and Extended Services Team, and will coordinate Marketing capital and expenses. He will have a dual reporting relationship to John Lanigan, EVP Marketing and Carl Ice, EVP and Operations Officer.

Strikers at **Canadian National** want to see 25% more on the table than what CN offered three weeks ago. For its part the railroad offered the Canadian Auto Workers union (CAW) three options to resolve the current labor. One is to enter a "good faith" cooling-off period in which striking CAW employees would return to work while the company and union resume bargaining to resolve the dispute. A second is binding arbitration, under which a mutually acceptable third party would select the company's or union's settlement offer. Third is the option of CAW agreeing to submit a final, enhanced CN offer for a vote.

Meanwhile, many grain shippers have turned to trucks to move a mounting backlog at freight costs of up to 50% more. Rail volumes of some grains and legumes are off 40%. In Saskatchewan a backlog of 75 containers holding C$1 mm (US$752,000) of peas and lentils could not be shipped because of the strike, along with C$3 million more in bins. The federal government meanwhile remains deaf to calls for back-to-work legislation and the CN stands to see 1Q04 yoy profit off by 10%.

Wednesday's sudden stock downdraft was led by cyclicals like Alcoa, Caterpillar and DuPont. At the end of the day the DJIA was off a point and a half. And even though the industrials group, which includes the rails, was off 2% YTD, some of the rails emerged not so bad off (see table). BNSF, FEC, KCS, NS, RRA and UP stayed the course. Less fortunate were both the Canadians, probably due as much to exchange rates as anything else. CSX, though performance reports from the field are mixed and the Q estimates are improving, was off 2.4% and got tagged by Zacks on Tuesday as a possible short, as was CP. GWR got hammered for 2.9% to lead the downside.

But to some, the rail's problems run deeper. There are those students of the industry who reflect a growing sense that things are not running well at all. Every week the STB website reports another round of downsizings and abandonments. Aside from the occasional new Transportation Hub (BNSF in Peoria, UP's Global III in Rochelle Park), writes one observer, "There's not been much done for capacity or terminals and maintenance for maybe thirty years and in the railroad business things do catch up with you."

In no place is that more evident than in the carload business. Service reliability and consistency are the biggest challenges. IMHO the only way to manage that product line profitably is to lay the merchandise network over the existing coal, grain, auto and intermodal networks and exit everything else. Or let somebody else handle the dray.

How bad is it? I know a six-mile branch line of FRA excepted track used by two class Is to access one shortline for a dozen loads an day. Another shortline is in the middle of a 200-mile downgraded main line, once a core route of a now-fallen flag. A third party logistics provider is two branch line locals away from the main serving yard yet is trying to do 2,000 loads a year. A 1,000 car a year manufactured goods shipper sees his industrial lead blocked by a work train when his local crew is supposed to come out. The rail share in every case is a pittance.

Meanwhile, as these intramural games are played out, intermodal is going great guns. There's enough for everyone, though the premium routes will go to the premium service provider. And since we know that 10% of any business base will change every year the key to success will be in conversions, not Railroad A poaching on Railroad B's customers. The last bastion of conversions will always be the premium guys so service really counts. Want great carload and intermodal results? Run both the same way.

March 10, 2004 Closing prices and percent change for the day.

Symbol Security	Close	Chg. %Chg.	Day High Day Low	Vol. (00s)
BNI **Burlington Nrthern SF**	**30.06**	**-0.18** **-0.6%**	**30.24** **29.80**	**15895**
CSX CSX Corp	30.05	-0.75 -2.4%	30.68 30.05	11955
CNI* Canadian National	38.29	-0.68 -1.7%	39.05 38.26	3348
CP Canadian Pacific Rail	23.80	-0.39 -1.6%	24.30 23.65	870
FLA **Florida East Coast**	**34.85**	**+0.12** **+0.4%**	**35.14** **34.73**	**389**
GWR Genesee and Wyoming	35.55	-1.08 -2.9%	36.63 35.43	877
KSU **Kansas City Southern**	**13.97**	**+0.07** **+0.5%**	**14.00** **13.81**	**4089**
NSC **Norfolk Southern Corp**	**21.14**	**-0.20** **-0.9%**	**21.34** **20.98**	**29624**
RRA **RailAmerica Inc**	**11.51**	**-0.02** **-0.2%**	**11.68** **11.50**	**1133**
UNP **Union Pacific Corp**	**61.23**	**-0.36** **-0.6%**	**61.68** **61.20**	**19399**