THE RAILROAD WEEK IN REVIEW
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Continuing the Paper Barriers thread, Steve Eisenach, Director-Public Partnerships at NS writes, "Thanks for providing your readers some thoughtful insight on Paper Barriers. You hit the nail on the head exactly: without the barriers, abandonment was our next option in most cases. If you care to share this with your readers, I'd like to explain our decision process when we were leasing or selling a lot of lines for a nominal amount (we've discussed this before). I suspect other Class Is have a similar process.

"First, we knew most of these lines did not have a high enough (and sometimes had a negative) Going Concern Value. With that, we knew that there was no way potential shortline operators could get a loan to cover the acquisition, fix the track (if needed) and operate the line. In most instances, there might be enough money to do the latter; no more.

"When we analyzed certain NS branch lines as possible shortline candidates, we decided where the new interchange would be between us and the potential shortline. We then calculated our off-branch costs from that interchange (operating and car), subtracted that from our gross revenue, and with any luck, there was something left. If not, it went into the abandonment queue.

"If there was something left, the next test was to see if whatever was left would cover the shortline's revenue requirements *and* the opportunity cost of NS leaving that asset in place rather than salvaging it. If true in both cases, then we had a shortline candidate. We figured we were better off with the future revenue stream from the shortline operations than abandoning the line and taking cash out through salvage, the former course being to our customers' advantage.

"But the *only way* we could justify that decision to NS management would be with an assurance that the revenue stream would continue into the future. Hence the paper barrier protection. Of course, if after the sale there were new traffic we could not handle due to our inability to provide competitive rates, car supply or service, then that's were the provisions of the Railway Industry Agreement safeguard the shortline. Otherwise, if we stubbornly held fast to the terms of the barrier, the traffic would most likely go over the highway.

"But unquestionably, without the barriers, more lines would have been abandoned rather than leased (or sold for a nominal amount). This is a key point for those who signed the agreements (voluntarily) to remember and for the politicians and on-line customers to understand. Bottom line, it's our asset, at our risk, that we're allowing to be used for a nominal amount -- not theirs.

"Now, if the politicians or on-line customers want to infuse some cash into the mix to make us indifferent, then we can discuss paper barrier removal. It's a number that can easily be calculated. But the cash infusion would have to be justified outside of the line's economics. Perhaps that's an option to present to local communities and politicians in future branch line sales if they think they need two carriers, but I shudder at the thought because shortline transactions are tenuous enough with just two players involved. And I doubt they'd be able to justify the cost of no barrier (it would not be a small number).

"One last thought on a subject you've also raised--secondary shortline sales. Preserving the fragile economics of the nominal lease or sale is our rationale for not being receptive to having the leasing shortline sell the operation for an inflated amount, only to have the new operator knock on our door saying it needs higher handling line charges or divisions to pay for its debt load.

“We were careful *not* to saddle these lines with debt because we knew they couldn't handle it. The secondary shortline sales upset this balance if the new operators pay too much. By their very nature, these lines cannot support the extraction of cash. Unfortunately, these situations have already occurred (your readers know who they are), and we've heard a constant ‘knock, knock, knock’ ever since. Thanks again for bringing these issues to your readers' attention.” And thank you, Steve, for taking the time to share these vital insights.

As if to add an *amen* to the above, GWR President Charlie Marshall writes, “Legislative action against paper barriers would stop growth of shortlines in its tracks. No Class I wants to deal with connections that don't keep their word, especially the word that they have set forth in writing. Fear of action against paper barriers has already caused line sales to change to line leases and caused the term of line leases to get shorter and shorter. Moreover, limiting the ability of our shortline industry to cut costs for the Class Is would damage our collective effort to make rail merchandise business attractive. The Class Is have a great many service problems that we must help them solve. ‘Help’ doesn't mean piling on.” Right again.

Concerning hazmats (WIR 3/11) fellow pundit Larry Kaufman opines, “Thanks for presenting the hazmat issue as you did this week. I noticed a report in I think it was Traffic World in which someone commented that we don't even know what is in most intermodal shipments. It is my understanding that hazardous materials must be so indicated by placards, regardless of whether it is carried in a tank car, boxcar, double-stack well car or any other vehicle, including highway trailers. The only thing worse than know-nothing reporters who will take as gospel anything that anyone says to them is the ‘sayer’ who either knows better or should not be considered a legitimate source.”

The nodding heads in DC that would limit hazmat shipments got their heads handed to them this week when the STB ruled that interstate commerce trumps local interests. You’ve undoubtedly learned that on Feb 15 the DC Mayor signed an act that would, in the words of the STB, “ban transportation of certain classes of hazardous commodities (including explosives, flammable gasses, poisonous gasses and other poisonous materials) within a 2.2-mile radius of the United States Capitol Building without a permit from the District of Columbia DOT.” The act further prohibits “the movement within that area of any rail car that is ‘capable of containing’ such materials,” meaning of course any empty hazmat cars.

CSXT is the carrier most directly affected because its Baltimore-Richmond freight tracks run between the Capitol and the Potomac River. And so it was that CSXT petitioned the STB for an order declaring that the so-called “Terrorism Prevention in Hazardous Materials Transportation Emergency Act of 2005” is federally preempted pursuant to 49 U.S.C. 10501(b).

The railroad’s position is that “the Act could encourage other local jurisdictions to enact similar measures, and that the more extensive rerouting that would be needed to comply with the DC Act would merely transfer the risks associated with the transportation of hazardous materials to other cities and communities.”

Needless to say, this will not do. The STB decision (www.stb.dot.gov) is a most educational read, and is highly recommended to any shortline handling hazmats through activist communities that might try the same thing. The STB concludes, “Although the Board does not have the power to invalidate the DC Act, the Board has discretion to grant a request for a declaratory order to terminate a controversy or remove uncertainty in a case that relates to the subject matter jurisdiction of the Board. In this case, the Board will grant CSXT’s petition and issue a declaratory order concluding that the DC Act is preempted by section 10501(b).” And thus that bullet has been dodged. For now.

The Fort Worth & Western, a 276-mile shortline operating toward the southwest out of Fort Worth, has opened a new Mexican gateway with Texas Pacifico Transportation Ltd., a subsidiary of Gruppo Mexico. The FWWR meets Trans Pacifico at San Angelo for the 382-mile run to the U. S. Mexican border at

Presidio. This rail line is owned by Texas Department of Transportation and leased to Gruppo Mexico. FWWR is working with area developers to establish industrial parks in order in support of new railroad customers. Included in the project are plans to establish Foreign Trade Zones, enterprise zones, an intermodal facility, and other incentives to promote this gateway. The new connection will let shippers avoid the higher-cost Panama Canal-Gulf of Mexico water route plus trucking to the DFW area. Freight from Mexico not terminating in the area will be interchanged with KCS, UP or BNSF.

RailAmerica held its annual suppliers' conference (see WIR 10/22/2004, page 3) in Boca last week. Though invited to attend I had to send regrets owing to prior commitments. Independent analyst Tony Hatch *was* there, however. He writes, "The session gave added credibility to the management team's renewed focus on improving North American operations. Look for improvements in the safety area, a cost drag in '04. Expect vastly improved its real time data reporting, closing black holes with Class I carriers and sharply lowering G&A expense. And watch fuel costs go down through a combination of hedging and sharing in Class I fuel surcharges.

"The short line model is changing, and RailAmerica is ahead of the curve. For example, the labor exposure difference between shortlines and Class Is has narrowed as Class Is went to smaller crews [and fewer train starts] and both now use remote control in yards. So what is a SL to do? Use the holding company to generate procurement savings; negotiate a cut of fuel surcharges; maintain the best portfolio (another line is in the process of being divested this spring) while looking for strategic acquisitions, and in a related manner, maintain good Class I relations (linked by technology); and finally, market locally and intensively."

Weekly Rant Dept. Shortlines and terminal railroads that get five days car hire relief ought to have that relief revoked on any system or free-running car that remains in its account more than ten days. Just this month I've seen as many as a dozen or more empties sitting idle for between 54 and 166 hours even as the shipper was crying for cars to load. Worse, there are right now 14 loads waiting for interchange back to the Class Is from the same customer. Thus far they have amassed 138 car-days of dwell and there is still no interchange ETA.

There's precedent for a fix. CN's Guaranteed Car Order program penalizes shortlines, S&Ts and customers for ordering cars and not using them promptly. It's entirely the right thing to do. Perpend: dock-to-dock trip plan times for the 14 loads above average seven days each way. Thus 138 car days is enough for ten round trips in this lane. And the longer the cars sit the less likely the customer will remain a customer for long.

Jim McClellan said in a recent speech, "Low cost but unreliable is not going to be of much interest despite the high costs of trucking. Rail service performance in 2004 was not very encouraging. Some carriers simply failed to deliver. And even BNSF and NS, both of whom performed relatively well, were struggling by the end of the year. If 2004 is the best that the industry can do, there will be no renaissance." From the looks of things 2005 may not be much better, at least in some quarters.

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