THE RAILROAD WEEK IN REVIEW

APRIL 8, 2005

The American Shortline and Regional Railroad Assn has selected BNSF as the provider of choice for technical training for all short line railroad employees whose railroads are members of the ASLRRA. Training will be administered through the National Academy of Railroad Sciences (NARS), a part of BNSF's Technical Training Center in Overland Park, Kansas, and will include classroom instruction, simulated practice, computer-based training, web-based training and distance learning.

The program has the potential for training more than 20,000 employees annually from more than 400 shortline and regional railroads in the various crafts including locomotive engineer, conductor, yard crew, mechanical, maintenance, engineering, signal systems and telecommunications. When I visited the TTC last November it was nice to see the logos of so many shortlines on the walls and to hear the staff speak so proudly about their contributions to shortline safety and training. The web site's pretty good, too: www.RailroadTraining.com .

For his part, BNSF Chairman, President and CEO Matt Rose said, "We are pleased to provide the ASLRRA and its member shortline and regional railroads with the highest level of academic and technical training excellence. The railroad industry has made a concerted effort to adopt similar best practices and rule requirements in an effort to operate safely. BNSF is proud to have taken a leadership role in these developments and to share them with the rest of the industry."

Commenting for shortline community, ASLRRA President Rich Timmons said, "Shortline and regional railroads are held to the same regulatory requirements as Class I railroads. Partnership with NARS provides our members with easy access to training modules that cover regulatory requirements for virtually every craft. The benefits from a safety and professional skills standpoint are enormous. Short line and regional railroads are an important and growing component of the railroad industry. Today, they operate and maintain 29% of the American railroad industry's route mileage, and account for 9% of the rail industry's freight revenue and 11% of railroad employment."

The ASLRRA concluded its Annual Meeting this week in Anaheim (the stop before Azuza and KOOK-amonga, as Jack Benny fans will recall). By all accounts it was a great success. I was particularly pleased to read that they scheduled a two-day Railroad Marketing Trade Fair to support shortline-to-shortline marketing. The blurb was well done: "We all know that you can't solely rely on your Class I partners to tell your railroad's marketing story or be looking out for opportunities for you, so knowing your marketing counterparts at other origin or destination short lines should be a central theme in your marketing strategies. This trade fair is a golden opportunity."

Done right, shortlines could play the role of highway dray operators, funneling FAK boxes to and from the Class Is. No Class I marketing or pricing, no STCC codes, just whatever the market will bear to carry 100 tons of widgets from A to B. And if the shortlines provide the equipment, so much the better. I'd love to know if anybody at Anaheim had a discussion in this direction.

On Friday CSX Transportation announced the lease of a 32-mile line segment from Yulee to Fernandina, Fla., and from Yulee north to Seals, Ga., to First Coast Railroad (FCRD), a subsidiary of Rail Link, Inc., the Jacksonville-based switching services subsidiary of Genesee & Wyoming Inc. The lease starts tomorrow, April 9, at which time FCRD will take over operations. The rail lines will handle approximately 15,000 carloads annually, including pulp and paper, chemicals and agricultural products; freight cars will be interchanged with CSXT.

“This portion of our network consists mainly of paper products customers and is unique in that the majority of the traffic comes from three customers,” said Les Passa, CSXT vice president-strategic planning. “Often, segments of railroad with such specific needs are more efficiently operated by short line railroads. Larger railroads, like CSXT, are better at long-haul moves. So the larger railroads and their relationship with the short lines is an effective means of providing the most efficient service to rail customers.” CSXT interchanges with more than 230 shortlines across its 23-state system.

FCRD President Jim Benz said his railroad looks forward to operating the line, adding that “paper products are an important commodity to the rail industry, and we are pleased to have the opportunity to operate in one of the most important freight locations in the state of Florida.” CSXT and FCRD have visited most of the rail customers along this route to answer any questions and to ensure that their service will not be interrupted by the change of control.

A friend writes, “Why is it rail stocks got socked Friday? Why should NS be down 5% and BNSF off 2% when these are two of the best-performing names?” A couple of reasons. As we noted in Table 2, WIR 3/25/2005, on a full valuation basis some of these names are getting close to if not beyond that point. Looking at the charts, we see prices falling on modest volumes and shrinking volumes. Meaning supply is outrunning demand.

Out on the railroad one sees several Class Is with deteriorating train speeds, dwell times and car counts. Yeah, dwell times and car counts may be not totally dependable as a measure of health, but to the extent that cars are sitting still and inventories are building, cycle times are getting hurt. Worse, customers see impeded supply chains, giving further incentive to use the highway.

But all is not lost. Wall Street expects to see decent Q1 gains, though IMOH the comps are pretty easy given last year’s dismal state of affairs. UP is the only likely negative yoy change, though from what my shipper clients see the worst is probably behind us. My good friend Tony Hatch was quoted in a recent Reuters dispatch thus: “He expects most U.S. railroads to meet, if not beat, first-quarter profit estimates due to strong volume growth, rate increases and fuel cost recovery.”

I should hope so. My friends at usraildeskptop.com have a costing program that suggests on some moves the fuel surcharge is greater than the fuel component of the rate. And we can see where rates have been cut below cost to win business. Not good, but fixable. For example, a shortline client has, with the help of usraildesktop.com, identified losing lanes and is moving smartly to exit them.

This is the sort of “deficit traffic” CSX warned about at their Feb 2005 shortline meeting (WIR 2/18). It’s what happens when one prices on the margin. When the full-price traffic goes away all you’ve got left is the marginal stuff. One needs only to look at the legacy airlines to see the result.

As we approach Earnings Week I’m reminded once again that clean reporting is paramount. And not just for companies that are traded on the major exchanges and have millions of stockholders. I’m talking about the mom and pops running a couple thousand cars a year and where RRIF loans or state grants pay the track rehab bills. There can be no doubt about how much was received from whom and for what. Shareholders want to know as do the lenders or grantors.

Yet there are some shortlines still using an old “force accounting” method that takes the subsidies as credits against the expense, thus masking both the amount expensed and the stipend received. The Income Statement has to show what was spent as operating expense and the subsidy as other income *below the line*. The reasoning goes like this: operating income less operating expense yields operating income, or what the railroad can do by itself.

Expense analysis – what percent of revenue went to comp and benefits, fuel, loco maintenance, etc. – points directly to remedial action. Mask the true expense with grants and you hide the warts. That's why I insist that shortlines put any line item that has nothing to do with freight revenue or revenue generating activities below the line as other income or expense. To do otherwise misleads management, customers, employees, and the agency giving out the grants.

We follow commodity stocks here because as commodities go so go the rails. This week the agricultural community caught our attention as high fuel prices and depressed commodity prices are affecting such rail customers as ADM, Coca Cola, Corn Products, Del Monte, Sara Lee and Kellogg. Corn prices spiked in March 2004 and have been falling ever since. Yet freight rates are increasing across the board as WIR readers well know.

Several shortlines I follow saw grain shipments fall off late in the summer season as farmers held back on shipments waiting for the price to bottom. We also saw farmers trucking further to the larger elevators for the few cents' premium offered by shuttle operators. The shortlines that are deep in the grain business know this well, but these three – higher freight rates, lower commodity prices, and higher fuel costs – may well conspire to make this an uninspiring year. That's why my ag-based clients are watching near-term price stock performance of companies like ADM, CPC and Bunge.

Canadian National's 2005 shortline meetings get top billing at www.cn.ca. No need to go digging for the shortline page. Breaking from tradition, CN will be holding three short line conferences this year—one in each Region. With this new format, participants will get a better chance to meet with CN regional personnel who are key to the short lines' day to day operation. Participants who interact with more than one Region or have conflicts on the dates selected for their Region are invited to attend any, or as many, of the meetings as desired. See below for specific locations and dates. Get the agenda PDF with the link on the home page.

It's Annual Report time again and so far I've gotten four. The trend is away from multiple glossy pages and toward a minimalist wrap for the 10-K yet the President's Letter is always enlightening. The theme is network fluidity and improved asset utilization and perhaps CP's Rob Ritchie says it best: "Across CPR we are concentrating on execution, ensuring that all assets are being utilized to their fullest extent. This means maximizing train throughput on every corridor, maximizing capacity on every train, keeping assets flowing with greater velocity, and giving our people the tools and training to maximize their productivity." That shoe fits every shortline foot I know.

The Railroad Week in Review, a weekly compendium of railroad industry news, analysis and comment, is sent via-mail 50 weeks a year. Individual subscriptions and shortlines with less than $12 mm annual revenues $125. Corporate subscriptions $500 per year. The Quarterly Review, a statistical analysis of the ten largest publicly traded railroad operating companies is $50 per copy to subscribers, $100 per copy to non-subscribers. Both are publications of the Blanchard Company, © 2004. Subscriptions are available at www.rblanchard.com/week_in_review/index.html ***or by writing*** rblanchard@rblanchard.com **.**

First Quarter 2005 Earnings Release Schedule. See Individual websites for call-in numbers.

Railroad	Date	Time
BNSF	4/28	0900
CN	4/20	1500
CP	4/28	1300
CSX	4/28	1100
NS	4/27 (in NYC)	0900
RRA	4/28	1000
UP	4/21	0845

CN 2005 Regional Short Line Conferences.

U.S. Region:	May 4-5 in Chicago - Eagle Woods Resort in Itasca (For reservations call 630-773-1400)
Eastern Canada Region:	May 17-18 in Montreal - Marriott Château Champlain (For reservations call 514-878-9000)
Western Canada Region:	June 1-2 in Edmonton – Westin (For reservations call 780-426-3636)