THE RAILROAD WEEK IN REVIEW

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"What can the railroad salespeople do to get back the customer who left the railroad not because of price, but because of lousy service?" -- Chop Hardenbergh

The 337 short lines and regional railroads reporting carload volumes through RMI's *RailConnect Index* are not having a good three years. Using 2006 Week 48 as a base, loads for the current week are down 27 percent from where they were in 2006; year-to-date they are off 32 percent. Worse, there are ten percent more railroads reporting today than there were in 2006 -- 307. If anything, the count ought to be helped by more railroads, not harmed. But there it is.

So where are the losses? Intermodal, at 7 percent of total volume in 2009, is off 63 percent since 2006, but we have to discount that segment because not every short line that touches intermodal counts it the same way. Some follow the Class I lead and report boxes and trailers, others report platforms. But no big loss. Conventional carloads are 93 percent of the Class II and III railroad franchise and that's where I'm starting.

Coal, grain, aggregates and chemicals account for six out of every ten commodity carloads in the RMI report and these are down 22, 14,14 and 8 percent respectively, and represent the smallest of the losses across the entire commodity spectrum. Harder hit were waste (5 percent of total, down 29 percent), paper (6 percent of total, down 36 percent), metals (6 percent of total, down 53 percent) and lumber (all STCC 24, 4 percent of total, down 49%). All told, short lines and regionals handled four million loads including intermodal through 2009's Week 48 vs. six million loads in the same period for 2006.

True, the rate of decline has slowed to Week 48's minus two percent from the previous year compared to the 27 percent drop in 2008's Week 48 compared with 2007. Still, that puts the 2009 period 27 percent behind the 2006 number. In other words, a lot of business has flat gone away. All the king's tax credits and all the kings track grants aren't going to put this Humpty Dumpty together again any time soon. It's going to take customers: no customers, no transportation demand, no need to spend money on track upgrades.

A Monday note from Morgan Stanley on the rereg bill suggests that sponsoring shippers want a bill sooner rather than later lest it get pushed into the next Congress. Even if Rockefeller introduces the bill this month, "It has been our view since March that the probability of an onerous bill from Congress is low given opposition to such an outcome from rail management and labor and the lack of available floor time to debate controversial legislation."Any co-called "compromise" legislation will, says the M-S note, "by definition, [be] unsatisfactory to all parties (including rails). However, the starting point was even worse for rails." It is likely that the delays in moving the bill along have been positive for the railroads.

Elsewhere, support for at least extending the short line tax credit if not raising the per-mile credit has beem proposed. M-S writes that more than half the Members have signed on for a one-year extension of the existing program. Even if the bill simply extends the existing bill with its max $3,500 per mile, the $1,750 per-mile tax credit is better than letting the bill die completely. Moreover, the bill continues to allow assigning the tax credits to "any person who transports property using the rail facilities of a Class II or Class III railroad or who furnishes railroad-related property or services to a Class II or Class III railroad, but only with respect to miles of railroad track assigned to such person by such Class II or Class III railroad." And that's a good thing.

JPM's Tom Wadewitz adds this tidbit in his re-reg note: "The most significant changes are likely in the area of access, where shippers now have the ability to ask railroads to provide bottleneck rates that can then be challenged at STB. Terminal access will not be available simply on request, but shippers / cases that meet the right parameters would allow shippers to receive terminal access. Increased access could result in pressure on current captive shipper rates in some cases."

He warns, "While increased access is a source of some risk, we note that the bill sets up parameters that allow recovery of lost contribution toward track maintenance on the non-bottleneck section as well as maintenance, operational cost, and a return on the bottleneck section. Shippers will likely pay a significant cost in order to get service from a second railroad through bottleneck or terminal access."

In an accompanying PPT, Wadewitz lays out three elements of paper barrier resolution: (1) The STB will set parameters for *new* [emphasis added - rhb] paper barriers / interchange commitments, (2) existing paper barriers can be challenged at STB, however (3) elimination of existing paper barriers would take place at a price not less than fair market value.

Tony Hatch, who can always be depended on to provide the pithy mot, adds, "Assuming passage sometime next year (2009 is a remote possibility) this appears to be a relatively small price to pay (the devil, of course, being as always in the details) for removing this long-hanging sword of Damocles (the threat of full re-regulation) for some extended period of time, and also allowing rails back into the good graces of the overall government, which has been awaiting this event to welcome the rails as part of the long term solution to a series of public problems (infrastructure deficits, aversion to huge tax increases, fuel shortages, carbon, etc etc) joining its cousin, passenger (HSR, etc.) railways, as new "golden boys" of transport."

With respect to paper barriers, the Class I selling or leasing the branch to a short line by definition limits competitive access to local industry. It brings to mind an Aesop's-type fable I've used before in WIR and in various group presentations and bears repeating. A high-cost customer at the end of a branch complains about being a captive shipper. STB mandates 2d railroad get access. Splitting marginal traffic two ways creates two unprofitable rail routes. First railroad goes away leaving the shipper once again captive to one railroad. Moral of the story: be careful what you ask for.

The AAR has put its December "Rail Time Indicators" in a neat four-minute video. Presented by a member of the Association's Policy and Economics team, the video report highlights the impact that the U.S. domestic economy is having on commodities moved by freight rail. Click on the link on the lower right of the home page. And for the full-service version of the report itself, click on the link under the graph in the lower center of the page.

My ex-UP buddy John Gray, now VP for Policy and Economics at the AAR, is quoted thus in the accompanying press release: "November's traffic numbers, when considering the effect of the Thanksgiving week, are generally positive. Rail traffic is still down significantly in comparison to 2007 numbers, but the economic indicators in December's report lead us to believe that our nation's economy continues to improve." Both Gray and Shannon Stare, our presenter on the video, note that year-over-year comps are skewed because November 2008 was when the bottom fell out of rail volumes, so the November 2007 comp is more meaningful. Recall I said pretty much that in last week's screed on comps.

Chop Hardenbergh picks up Jim Giblin's thread about railroad sales (WIR 12-4-2009). "Thanks again for a nuanced view of the Big Picture. Jim Giblin wrote of selling rail service to the non-user, where the rail salespeople are 'woefully unprepared to sell to non-rail users.'

"I'd like to hear comments on a third category: former rail users. I just got off the phone with one of those, a smallish outfit in Connecticut that five years ago received cement by rail. The transportation honcho told me flat out: ‘The railroad sucks for getting cement. The cars never worked well.’ Now he’s all truck. I pointed out to him that New England has many receivers of cement by rail, wondering if he was just the odd customer for whom the railroad can never get anything right. He responded: “Just because they use rail, doesn’t mean it works good.”

“So to my question: What can the railroad salespeople do to get back the customer who left the railroad not because of price, but because of lousy service?” A question worthy of the WIR readership. Drop me a note and I’ll run the most constructive responses.

Why the Army-Navy special didn’t run this year. From the *Trains Newswire* comes this thoughful piece from Don Phillips: Rumors spread over the last few weeks that CSX was refusing to allow a special Washington-Philadelphia train to use several hundred yards of its track to get wounded veterans to the Philadelphia stadium for this weekend’s Army-Navy game.

Wrong. CSX was more than willing to allow the train to use its tracks and, in fact, was ready to have dozens of CSX employees clean up the area, hang banners and personally welcome the veterans. Likewise, Amtrak said it would have been happy to run the train from Washington to Philadelphia. What’s more, dozens of private car owners were, again, ready to send their cars to Washington to make up the special train.

So why didn’t the train run? The answer is an example of how, sometimes, unfortunate things can happen even when everyone involved wants to do the right thing. The real problem was that Bennett Levin, the Philadelphia rail equipment owner and railfan philanthropist who organizes the train, faced a family tragedy that made it impossible for his wife Vivian to do her usual back-breaking job of organizing the train, selecting which soldiers would ride in what car, and handling the hundreds of small but vital details. Her mother was terminally ill, and, in fact, died a week before the game.

Instead of running the train this year, Levin, the Jewish Chapel at West Point, and two individuals who wanted to remain anonymous spent thousands of dollars to charter buses to transport the veterans to the stadium.

“There should be no reflection on Amtrak or CSX,” said Levin, who said that he didn’t even approach CSX Chairman Mike Ward or Operating Vice President Tony Ingram, the only two people at CSX who can approve any passenger train movement off an established passenger route. The episode did shed light on an odd quirk in running any special train on CSX, even the veterans’ special. Although only Ward or Ingram can approve a special train, anyone who wants to run a special must first approach local CSX officials who are required to automatically say no. That automatic decision then can be appealed to Ward or Ingram, Levin said, adding that he has no problem with the policy even though it creates extra work.

Everyone involved said the train will run next year, assuming no other disasters strike.

“It is the best thing we have ever done in our lives,” Levin said.