THE RAILROAD WEEK IN REVIEW
June 18, 2010

"Total Big Six Class I carloads were up 18 percent year-over-year in Week 23 and up 18 percent quarter-to-date. Absolute carload volumes hit a new high for the year in Week 23, largely due to continued gains in intermodal traffic." -- Cherilyn Radbourne, TD Securities

Short Lines are variable costs to the Class Is because they are all return and no investment. And in this day and age of the Class Is working hard to make fixed costs variable, that's a good thing. Moreover, the short line is one of the best customers any Class I can have: Loads are invariably counted in the thousands, there is no local switching, open or closed gate concerns, and no car hire. There is no demurrage to assess and collect, no track maintenance expense nor any branchline locomotives to own, maintain or fuel. If there are cars to interchange, you go there; if not you don't.

If this is the ultimate ROIC, it's a wonder there aren't more shortline transactions. It appears to be a question of where industrial development projects are likely to happen and is there a local operator whom we know and can trust to step in? I think we've seen the last of outright line sales and leases will come with take-back clauses. But they *will* happen.

Over the course of this past week I drove more than 1,000 miles covering parts of New Jersey, Maryland, Delaware, Virginia and Pennsylvania. I started off the week spending most of Monday talking with NS' Deb Butler and her Strategic Planning staff in Norfolk and then visited seven shortline locations, interviewing principals at some of them and getting the scope of the others.

Not surprisingly, the common thread among the successful lines is one of constant business replacement. "Heat and eat" thrives with LPG and corn replacing manufactured products and aggregates. Total carloads are up year-over-year with improving carload mix and yields, making possible loco upgrades, with EMD GPs and SDs replacing mixed bags of power including Alcos and first-generation GEs.

Since the short line is often the best customer on a given Class I branch line, might it not enhance free cash flow to lease the branch, at least back to the nearest terminal, to the short line? Then all the fixed costs that go with the branch go away, the short line gets the fixed costs, and the Class I taps into the short line's business development skills. Looks like a win-win to me.

RailAmerica total freight carloads for May came in at 70,293 units, up 9.1 percent from 64,418 in May 2009, excluding the discontinued Ottawa Valley Railway operation. Eight out of twelve commodity groups posted year-over-year gains with particular strength in Metallic Ores and Metals, Chemicals, and Waste and Scrap Materials. The largest decline was in Coal, which represents nearly one car out of five moving on RA rails; lower shipments in the Central U.S. contributed to the shortfall.

Year-to-date revenue units are up 6.9 percent; however, May was down 3.9 percent from April, April was down 2.9 percent from March and both Feb and Jan were off sequentially. March saw a nice boost, up 13.4 percent from Feb and the highest monthly number -- 75,295 units -- we've seen since the 87,610 number posted in Oct 2008. Still, I am not concerned because, as CEO John Giles keeps reminding me, RA us still a Work in Progress, sloughing off the non-performing units and bringing back higher yields on lower volumes.

Genesee & Wyoming May carloads increased 19.0 percent year-over-year to 71,659 units thanks to gains in nine out of ten commodity groups. Metals traffic increased 66.8 percent primarily due to increased steel shipments in its New York/Ohio/Pennsylvania and Southern Regions. Farm & food products traffic was up 37.1 percent thanks mainly to grain shipments in the Australia and Canada Regions.

Only the aggregates group was off and that by just 6.0 percent. The "other" commodity group is where GWR logs its overhead coal business in Ohio, up 3,275 carloads or 78.6 percent. However, this overhead business should be reckoned as pure gravy because as the connecting roads give they can surely take away. Just ask the D&H, once billed as "The Bridge Line."

May carloads were off half a percent from April, and April was off 3.9% from Mar -- which, like RA, was the banner month for the year this far. Year-to-date carloads come to 346,050 units, nearly back to where they were in 2008, off a mere 1.1 percent. By comparison, year-to-date May 2009 was off 4.9 percent from May 2008.

The GWR FreightLink item (WIR June 11) drew a number of anecdotes from readers who have been there and who have first-hand knowledge of the operation. One chap who was with GWR earlier in his career writes, "I was over there when the 800-plus mile Darwin to Alice Springs line was being built, but never was able to visit the line.

"G&W was in on the ground floor operating the work trains. The project was interesting in that they started at both ends and in the middle and built out toward two meeting points. That allowed for the time needed to build two large viaducts at those meeting points. Work trains and track construction machines were trucked to the Darwin end and to the midpoint section.

"Although brand new, I recall being disappointed that the line's track was constructed to lighter standards; all concrete ties but on wide spacing and CWR rail of max 115#. The design capacity was for under 100-ton maximum car capacities. But most of all, I remember Darwin being renowned as one of the most dangerous places on earth in terms of having the greatest number of species of dangerous and poisonous creatures – spiders, tarantulas, crocodiles, jellyfish, snakes, bugs, bees and even platypuses!"

Another reader adds, "Australia's North-South transcontinental has had a bumpy ride. The idea for a north-south transcontinental in Australia had its genesis in 1891 when the South Australian state built a 3'6" gauge line from Port Augusta 478 miles north to Oodnadatta. In 1929, the rail line was extended to Alice Springs - a total of 757 miles and approximately halfway across the continent.

“In the north, a second segment of the proposed transcontinental started out at Darwin, a deep water port on the Timor Sea. By 1929, this isolated 3’6” line had been extended 316 miles to a spot on the map called Birdum. There was a 600-mile gap between the two segments. Then in 1956, the Australian Federal Government rebuilt the Port Augusta - Alice Springs line as a standard-gauge line over a shorter 516-mile route from Taricoola. The old 3’6” alignment was abandoned, except for a segment in the Flinders Range which survives today as the Pichi-Richi steam tourist railway. Twenty years later, the decision was made to tear up the little-used and isolated Darwin-Birdum line, served by a weekly mixed train known as “Leaping Lena”.

“After a century of these fits and starts, prospects for a railroad to Darwin took on new life in 2000. With A$1.3 billion from private sources, the federal government, South Australia and the Northern Territory, construction of the transcontinental resumed. G&W had a relatively modest role in the consortium that was building the line.

“The track from Alice to Darwin is now owned by FreightLink, which also leases and maintains the Alice Springs-Taracoola segment under a 50-year concession. FreightLink is currently running six double-stack intermodal trains a week. In addition, approximately 70,000 tons of bulk liquids are handled, along with bulk shipments of manganese and copper ore. While the freight business has grown, it was not sufficient to keep FreightLink from entering receivership at the end of 2008. The business was put on the auction block, and G&W picked it up for a virtual song - US$277.2 million. Thirteen fairly-new GM locomotives and 530 freight cars came in the deal.” [*And it fits the GWR “natural resources” model.-- rhb*]

“Now G&W must build the business and that won’t be easy. The competition for the freight market is the notorious “Australian Road Train”. Australia’s Northern Territory, which the Alice-Darwin line traverses, permits the world’s largest and heaviest road-legal vehicles. Since there are no hills, “triples” and “quads” grossing up to 440,000 lbs. can roll along at speeds of 75 mph. pulled by a single 450 hp tractor. The City of Darwin even allows road trains to operate within 1 km of its central business district.

“Finally, South Australia was somewhat different from other Australian states in that its railroads followed American practice. That’s a result of Mr. W.A. Webb, the state’s Railway Commissioner in the 1920s and 30s, who was brought in from the Missouri-Kansas-Texas RR to revitalize South Australia’s run-down system, and he was quite a success. G&W, which currently operates local freight services in the state - including the isolated 480 mile grain-hauling 3’6” gauge system on the Eyre Peninsula, comes as the latest player in a long tradition of American railroad management.” Thanks, dear reader, for this history.

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