THE RAILROAD WEEK IN REVIEW
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"Senator Jay Rockefeller ignored the reality that the cost of transportation had little or nothing to do with the failures of companies that were not large enough to compete, and had been overtaken by competitors that were technologically and financially stronger." -- Larry Kaufman, Argus Rail Business, on the STB testimony.

Kaufman continues, "As so frequently happens at hearings like this, body language and appearances said as much as the formal presentations. While several rail chief executives testified and others demonstrated their concern by their presence in the hearing room, shipper chiefs made it clear by their absence that greater rail competition was not their most pressing issue. Shippers were represented by traffic and logistics officials and lobbyists."

Not to put too fine a point on it, Kaufman adds, "In questioning, STB commissioners tried to determine whether captive shippers preferred lower rates or more competition. Shippers appeared divided in their answers, but it was clear that the shipper-carrier dispute ultimately is about money." *QED*.

The whole STB circus serves as a useful -- to the regulators, at least -- change of subject from the real challenge the railroad industry -- and everybody else -- is facing: uncertainty. The short lines are getting hit particularly hard because of who they are and whom they serve. Drive along any short line and look the customer facilities. Invariably, small businesses that are locally-owned predominate and Fortune-500 companies are scarce in comparison. Thus it is worth while to pay attention to how small business owners are coping with reduced customer traffic, rising costs and tight credit.

The National Federation of Independent Business does a monthly economic survey and the preliminary June numbers are not encouraging. Says NIFB Chief Economist Bill Dunkelberg, "New jobs are not to be found on Main Street. For small firms, there was a decline in the net percent of firms that increased employment over the last three months. "A seasonally adjusted net negative seven percent of owners increased employment, a four-point decrease from May. Seasonally adjusted, 75 percent of owners made no change in employment.

Manufacturing was the only winning sector to post average positive net growth; but job losses were posted by firms in financial, non-professional services, construction, negating any gains made." For short lines, the manufacturing trend is a positive; we all know construction is in the tank so nothing has changed in that sector. The NIFB report concludes with this cheery note: "Overall, the June employment numbers quashed any hope of establishing positive trend in job creation. It was a serious reversal."

Then there's the question of money. If sales are down and you want to use the lull to build for a better day, now's a good time to do it -- if you have the money. But if it's not in your piggy bank, your friendly banker may not be much help. The Small Business Administration's Office of

Advocacy says small business loans from the largest lenders ($50 billion of assets or more) were off five percent, though smaller lenders took smaller hits or were even up slightly. But the SBA says total small business loans outstanding in the 2011 first quarter decreased $15 billion, 2.4 percent, from December's $624 billion in December 2010 to $609 billion in March 2011.

On a macro level, Charles Schwab Chief Investment Strategist Liz Ann Sonders writes that the US debt situation "continues to add to uncertainty." While she doesn't think the government is about to default, she is concerned about the debt deal itself.

> "It appears highly likely that the agreement will involve at least an agreement to cut spending by approximately the amount of the boost to the debt ceiling—likely somewhere around $2 trillion. Spending needs to be cut, but details are important including the timing of the cuts and whether there's a bias toward budget gimmickry. If too much cutting is pushed out into future years, any short-term benefits to the recovery would be offset by longer-term continued uncertainty.
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> "Uncertainty and concern over the health care bill and resultant costs, regulation on interchange fees in the financial sector, environmental decrees that raise the cost of doing business, and an uncertain tax policy as we continue to deal with our debt all contribute to business uncertainty."

Continuing the Rule 11 thread, a friend who's been close the short line story from the beginning writes, "I can't believe short line Handling Carriers, and there are many, will willingly tolerate their revenue splits being outed, especially if Class 1 requirements to/from interchange points are same as nearby ton-mile rates from 'captive' Class 1 points.

"That goes double if said 'captive' points harbor mega-transloads. Watch for legal/regulatory action and the fathers of the handling carrier movement, all of whom are by now retired Class 1 execs, being trotted out to re-explain their vision(s). Could get ugly, as my recall of that vision did not include much Rule 11."

Another chap -- who's been around the same loop once or twice -- is convinced that if the Class Is aren't sharing rate divisions with each other, it will be all the more important for the Class Is to listen to their short lines. These are the guys with the local intelligence about area truck competition, why shippers and transportation buyers behave as they do, and even what it will cost to match the first-mile, last-mile service design to meet customer requirements.

Case in point: GWR's Michael Williams meets my WIR July 1 challenge -- "Let's see how Class I and short line readers alike react to the realities you present so eloquently" -- thus:

> G&W is carefully organized to ensure the personal touch of each of our short lines and to centralize only those functions that improve the customer experience. Rather than rely on perceptions or opinions of the quality of our service, we focus on facts. We survey our customers and ask them to rate our service and tell us where we need to improve. The resulting customer feedback has been crystal clear. G&W service levels score significantly better than Class Is and comfortably ahead of the trucking industry. Our top

three rated attributes (in rank order) are: i) operating personnel clearly committed to safety, ii) professionalism of personnel, and iii) understanding of customer transportation needs.

G&W has increased its revenue at a compound annual growth rate of 20% for 30 years, and we are confident that our organizational model will support a customer experience (new and existing) that drives this trend for decades to come.

Kansas City Southern has announced three strong leadership changes within the sales and marketing department. Natalie Putnam joins the firm as vice president sales and marketing for the Chemical/ Petroleum and Industrial/Consumer business units. VP sales and marketing Owen Zidar moves to national account development from the desk going to Putnam. And Darin Selby has been named assistant vice president energy markets. He's also in charge of short line relations, a good fit with his extra duties in business development for the emerging energy markets, including crude oil, biofuels, biomass, frack sand and wind. All three report to executive vice president sales and marketing Patrick M. Ottensmeyer.

Of particular note is Putnam's background in trucking. She has 29 years of transportation sales experience, 19 as an executive sales leader, coming to KCS from YRC Worldwide, where she has served as senior vice president transportation and logistics solutions since April 2010. She has also worked for YRC subsidiaries as group vice president and vice president corporate accounts. Ms. Putnam holds a bachelor of science in business administration and economics from Central Michigan University.

Zidar has 31 years of transportation sales experience. He started out on the Santa Fe, went to Pacer as a VP, and moved to KCS in 2005. Selby was tapped for his present gig in 2009, having hired out on KCS in 2001 as assistant trainmaster in Wylie, Texas and spent some time with OmniTrax (thus the shortline connection is a good fit) before returning to his home road.

Norfolk Southern short lines convene in Roanoke this Sunday for a day and a half. My spies tell me the Sand House Session will be lively and well-attended and that there will be good audience participation during the Monday Morning formal presentations. CEO Wick Moorman is the noontime speaker, and I have a good idea what's on his agenda.

Monday afternoon will once again feature the world's largest collection of one-on-one breakout sessions and of course the trade-show, where the commodity and service groups get to show off their wares and offer door prizes. Golfers tee off Tuesday morning while the rest of us take our leave. It'll be a grand two days. Hope to see you there.