THE RAILROAD WEEK IN REVIEW

August 16, 2013

"We're here to make great products and if we do that really, really well, the financial metrics will also come, so we don't see those two things being mutually exclusive." -- Tim Cook, CEO, Apple

RMI's weekly RailConnect Index of Shortline Traffic is a useful tool for gauging how well the non-Class I railroad community is doing. However, I find that the number of shortlines participating in automotive, coal, crude oil and intermodal is a small percentage of the universe. Here's how I've sliced and diced the Week 31 (August 8) data based on 426 roads reporting:

Short Lines Commodity	YTD 2013	YTD 2012	Pct Delta	2013 Pct Tot	Units Delta
Total	4,336,273	4,007,952	8.2%	100.0%	328,321
intermodal	617,831	383,686	61.0%	14.2%	234,145
Net	3,718,442	3,624,266	2.6%	85.8%	94,176
auto	96,505	97,710	(1.2%)	2.2%	-1,205
Net	3,621,937	3,526,556	2.7%	83.5%	95,381
coal	450,614	421,137	7.0%	10.4%	29,477
Net	3,171,323	3,105,419	2.1%	73.1%	65,904
Petrol/coke	163,637	157,294	4.0%	3.8%	6,343
SL Commodities	3,007,686	2,948,125	2.0%	69.4%	59,561

So what looks at first blush like an eight percent gain gets cut quickly to a two percent gain. But not to give short shrift to the short lines that have plays in these area, I did some asking around and found, for example, that shortline coal plays touch all three market segments -- steam, export, met -- and do it mostly as first-mile or last-mile unit train moves, where, in some instances, that last mile could be 100 miles or more.

My suspicions re crude-by-rail trains on short lines turn out to be correct, where the number of short lines or regionals with line-haul moves is in the single digits. Ditto intermodal. RMI says the aggregates group is up nine percent, and that includes everything from frack sand to construction materials, though some Class Is -- CSX for sure -- put frack sand in the chemicals group. The fact remains, however, that at the end of the day we still see relatively small merch carload volume changes in the shortline community. And it may be even smaller than what we see here: moves that start on a short line and and end on a different short line with a Class I in the middle count as two units.

Genesee & Wyoming July North America carloads increased 7.8 percent year-over-year, counting RailAmerica's July, 2012 carloads as if the two were one at the time, reduced by 1,619 carloads that GWR and RA exchanged at the time. Also, starting in January 2013, G&W has reallocated certain products within the reported commodity groups. The carload information included in this release presents both 2013 and 2012 on a consistent basis for these changes.

Ag products, metals, chemicals ex-petroleum, pulp & paper, minerals & stone, lumber, petroleum and automotive all posted mid single-digit or better increases. Carloads ex-coal, intermodal and petroleum increased 9.9 percent. There are no more “new railroads” that have been on the books less than a year to exclude for same-store sales. Year-to-date revenue units are up 5.3 percent and July units were 6.4 percent ahead of June.

Whatever happened to Responsible Care initiative? I seem to recall some years ago the American Chemistry Council inaugurated a big push to get railroads to sign on as “Responsible Care Partners” to enhance safety and stewardship of chemicals in the supply chain. According to the ACC website, “The signatory chemical companies agree to commit themselves to improve their performances in the fields of environmental protection, occupational safety and health protection, plant safety, product stewardship and logistics.”

The ACC membership roster includes name-brand chemical companies, including the chemicals divisions of integrated oil companies such as Occidental, Chevron and Exxon, that actually manufacture and distribute chemical products. For the companies that support ACC members through “direct and substantial involvement in the distribution, transportation, storage, use, treatment, disposal or sales and marketing of chemicals, the ACC has the Responsible Care Partnership Program, requiring signatories to “adhere to the same Responsible Care requirements as ACC members.”

The Responsible Care Partner roster includes all seven North American Class I railroads, plus Trinity, GATX and Union Tank Car. As part of their “commitment to Responsible Care,” to use the ACC’s words, these firms must follow the Product Safety Code, a set of 11 Management Practices, which governs, among other things, “stewardship.”

Under the heading “Accountability and management,” the Product Safety Code establishes accountability for product safety and stewardship (“The act of taking care of or managing something, for example property. -- Oxford Dictionary). Further,

> Product safety and stewardship are core values that permeate each company’s operations and functional responsibilities. Product safety and stewardship responsibilities of employees are understood, including those roles that engage with suppliers, customers, contract manufacturers, carriers, distributors, contractors and third-party logistics providers. Employees assigned these roles are informed and held accountable for their performance.

In other words, everybody in the chemical goods supply chain, from manufacturer to end user, agrees to follow the same protocols and take Responsible Care for and stewardship of the commodity while in their charge. Thus it appears to me chemical company transportation buyers must exercise their stewardship responsibility by selecting carriers that will in turn discharge their stewardship responsibilities from receipt to hand-off.

We're certainly seeing it in the trucking industry. Tom Wadewitz, transportation analyst for J.P. Morgan, writes in a new study, "We believe some large shippers use CSA data to filter out carriers with persistently poor scores, which could have a negative effect on volume or pricing for these carriers." And though the Class I roads' extending Responsible Care Partnership obligations to their shortline partners is up to the individual players, I can see the day when ACC member transportation buyers will take a closer look at first-mile, last-mile carriers.

I'm not suggesting every switch carrier, Class II or Class III road sign on as a a Responsible Care Partner, but rather they establish a stewardship program of their own based on the ACC Product Safety Code, spelling out how they will handle hazmat moves. To get you started, consider this five-step protocol:

1. Requiring 24-hour advance notice ahead of the move, with car number and commodity.
2. Scheduling interchange date and time with penalties for misses.
3. Having loco and crew plus a car inspector at the interchange point for a headlight meet with the connecting train.
4. Moving hazmat cars promptly off and away from the interchange track with a direct move to the destination dock.
5. Scheduling outbound hazmat empties and loads for headlight meets so as to preclude hazmat cars from being left unattended at the interchange.

Perhaps in this way non-Class I carriers can meet the obligations of Responsible Care stewardship, minimizing the odds for a human or mechanical failure causing an incident. And -- who knows -- a side benefit might be lowered insurance rates, greater coverage and lower deductibles. It's certainly worth a try.

On a related note, the Canadian Transportation Agency has ordered the MMA to cease operations in Canada after having found MMA was not able to "secure adequate third-party insurance in the aftermath of the Lac-Mégantic disaster," nor does MMA have "the financial capacity to pay the self-insured portion." CTA said it plans to suspend the railway's certificate of fitness as of Aug. 20, allowing time for MMA to arrange for the "orderly cessation of their operations in Canada."