RAILROAD WEEK IN REVIEW

September 6, 2019

"The Morgan Stanley Composite Capex Plans Index for August fell by 3.4 points and now sits at its lowest level since Nov 2016... We continue to track a decline in equipment spending in 3Q19 while capex plans suggest no growth in 2H19." — Carl Quintella, CNBC, retweeted by Schwab's Liz Ann Sonders, September 3

"I've harped on the recession subject to debunk mainstream media's hyperfocus on consumers being strong, ergo MSM's All Clear signal for the economy. Yet 63% of postwar recessions have featured expanding consumption. It's the ultimate reflection of the most lagging of all economic indicators: the job market." — Danielle DiMartino Booth, the Daily Feather, September 3

"The legacy of today's events will be changing the supply chains for manufacturing in North America. I think it's hard for people that are interested in the economy — investors — to understand or even believe that Washington is the epicenter of worldwide risk." — David Metzner, Managing Partner, ACG Analytics, September 2 on RealVision

Patriot Rail, a 13-railroad shortline holding company, has been sold by its owner, SteelRiver Infrastructure Partners, to First State Investments, an Australia-based holding company with "more than US$8 billion in unlisted infrastructure equity investments." [*FSI press release.*]

The firm manages infrastructure investments across the United Kingdom, Europe, Australia, New Zealand and North America, with a focus on mid-market asset-rich companies. Patriot Rail represents FSI's initial unlisted infrastructure investment in the United States. Terms of the present transaction were not disclosed.

SteelRiver, formed by a management buyout after Babcock & Brown LP's 2009 shuttering, has been shedding companies from its portfolio and in February, 2019, started looking for a buyer for Patriot Rail, then valued at more than $600 million. SteelRiver had bought Patriot in 2012.

Patriot Rail's railroads operate nearly 600 route-miles in 14 states and have a commodity base that includes grain, crude oil, both forest products STCCs, plastic pellets, and steel. In addition, Patriot's support operations include rail-car storage; transloading; rail-car cleaning, scrapping, repair and maintenance; and contract switching.

As part of the acquisition strategy, FSI has partnered with MidRail LLC, a firm focused on originating, acquiring and developing rail assets and operations in North America. MidRail is led by Gilbert Lamphere, who previously served as chairman of Illinois Central Railway, and was on the CN board after CN bought the IC.

MidRail spokesman Raj Gupta writes in an email to me, “FSI and MidRail have partnered to acquire Patriot Rail. Current management of Patriot led by John Fenton will continue to manage the company. The MidRail team will join the Board and will work with current management to execute a very aggressive acquisition and investment program. MidRail team continues to seek investments across short line, transload and terminal/yard segments.”

OmniTRAX will buy Cleveland Commercial Railroad (CCRL) and its wholly owned subsidiary, Cleveland Harbor Belt Railroad (CHB) for an undisclosed price. The short line has some 38 route-miles in Northern Ohio, interchanging with NS and the Wheeling. The primary commodities shipped include steel, scrap metals, grain and chemicals. Wholly-owned subsidiary CHB manages the Port of Cleveland’s rail switching service, interchanging with NS and CSX.

As part of the acquisition, the CCRL will be renamed Cleveland & Cuyahoga Railway, LLC, and the CHB will be renamed Cleveland Port Railway, LLC. It’s a good fit with the current OmniTRAX presence in Ohio. OmniTRAX has operated the Newburgh & South Shore Railroad in Cleveland and the Northern Ohio & Western Railway in Toledo for more than 20 years.

Canadian National and CSX have inked an agreement for the former to acquire the Massena rail line from the latter. This is a 220-mile railroad between Valleyfield in Quebec and Woodard, NY, just north of Syracuse at the point where the CSX line to Oswego diverges. At Philadelphia (!), the Carthage branch peels off, reaching the interchange with the Mohawk, Adirondack & Northern, a Genesee Valley Transportation short line.

By making Woodard the south end of the line being transferred to CN, CSX keeps CN out of the Syracuse terminal and its direct connections with the Finger Lakes and the Susquehnna regional railroads. I would dearly like to see this an adult transaction whereby these roads get access to CN for a consideration nowhere near as onerous as the fees NS charges over the former D&H for letting Pennsylvania short lines access CP.

The Massena line acquisition is a further move by CN to extend its supply-chain approach to the carload product. CN already has transloads in places like Dubois, Pennsylvania on GWR to extend its reach beyond its own rails via the highway. But carload direct takes one more player out of the supply chain and is vastly to be preferred.

JJ Ruest, CN President & CEO, puts it this way: “With this acquisition from CSX, we are opening up new opportunities for our existing customers and local businesses who will be able to access new markets through CN’s unique three coasts network, expanding the network and fostering additional supply chain solutions.”

CSX has tapped Adam Longson as VP Energy, effective Sept. 9. He will be responsible for CSX's newly consolidated energy portfolio, including export and domestic utility coal, as well as the company's liquefied petroleum gas and crude oil businesses.

New to the railroad community, Longson served as director of commodity research and hedging at Continental Resources and before that was global head of energy commodity research at Morgan Stanley. His resume also includes a stint as senior strategy analyst at British Petroleum.

The Canadian Pacific 2019 Shortline Workshop will, as last year, be held at the CP campus in Calgary. The dates are October 27, 28, kicking off with a reception Sunday evening. The Royal Canadian Pacific heavyweight business cars on display will again be open for small individual meetings. Not the same as going down the spiral tunnels, perhaps, but better than an anonymous hotel conference room looking exactly like any other anonymous hotel conference room anywhere in the world.

This will be my fourth or fifth visit to Calgary and this time I'm going a day early to ride the extensive light rail system and visit the new library, featured recently in the *New York Times*. But what I'm really hoping to see and hear is a renewed emphasis shortline opportunities in the east. CP's original access goes back to the D&H and the USRA Final System Plan for the Northeast, extending the D&H to northern NJ, Philadelphia, and even down to Potomac Yard.

As I recall, NS and CSX agreed to transfer that line to CP as part of the Conrail split in 1999. CP even ran it as the St Lawrence & Hudson subsidiary for a time, providing area short lines direct single-line service to/from CP stations. And it worked. But then in 2014, CP sold the entire D&H and its extensions from Schenectady, NY to Binghamton and south to Sunbury, Pa. through Scranton, Pa., and Oneonta, N.Y.

Short lines such as the North Shore, Reading & Northern, Delaware Lackawanna, and Susquehanna added the entire CP network to single-line service and won several thousand carloads of business that would not exist otherwise.That business opportunity still exists, but it's no longer competitive rail-direct thank to NS being in the route. The trucks got it.

CP has said numerous times it would like to resume its former position as a serious contender for the northeastern carload franchise, and last year's short line meeting helped get the conversation going. But it's a long way to Calgary from say, Connecticut, so it would be extremely useful for CP to schedule a spring meeting in some central location like Saratoga Springs. It worked wonders for the StL&H. No reason it can't do as well or better today.