

# RAILROAD WEEK IN REVIEW

August 16, 2024

*“Throughout the first half of 2024, we have executed on initiatives aimed at delivering a high-quality service product for our customers, increasing productivity, and improving our operating margins. We have enhanced our leadership team to accelerate operational improvements and restructured our management workforce to become a more productive organization. We remain committed to being a more productive, resilient, and efficient railroad while achieving industry-competitive margins.” — NS 10-Q, June 30*

*“It was taking us over a year to give them a decision on whether we could accommodate a customer. We needed to change that. We did, and we were able to make the decision in four days. To be sure, we can’t make decisions in four days all the time, but we sure can make them in a few weeks instead of months. That’s real important. That’s a change in the way we want to do business.” — UP CEO Jim Vena, October, 2023*

*“Canada’s rail operations face the risk of shutdown later this month after the country’s labor-relations board effectively opened the door to a strike by unionized workers, or a lockout. The Canada Industrial Relations Board in a ruling Friday determined a work stoppage at Canadian Pacific Kansas City and Canadian National Railway wouldn’t pose an immediate or serious danger to safety or public health.” — WSJ, August 13*

**As I see it**, the first order of business for any company’s management is to protect the interest of the company’s owners, and that is best done by keeping the company competitive and devoted to creating and keeping customers. That requires proper allocation of capital. See the Norfolk Southern 10-Q quote above.

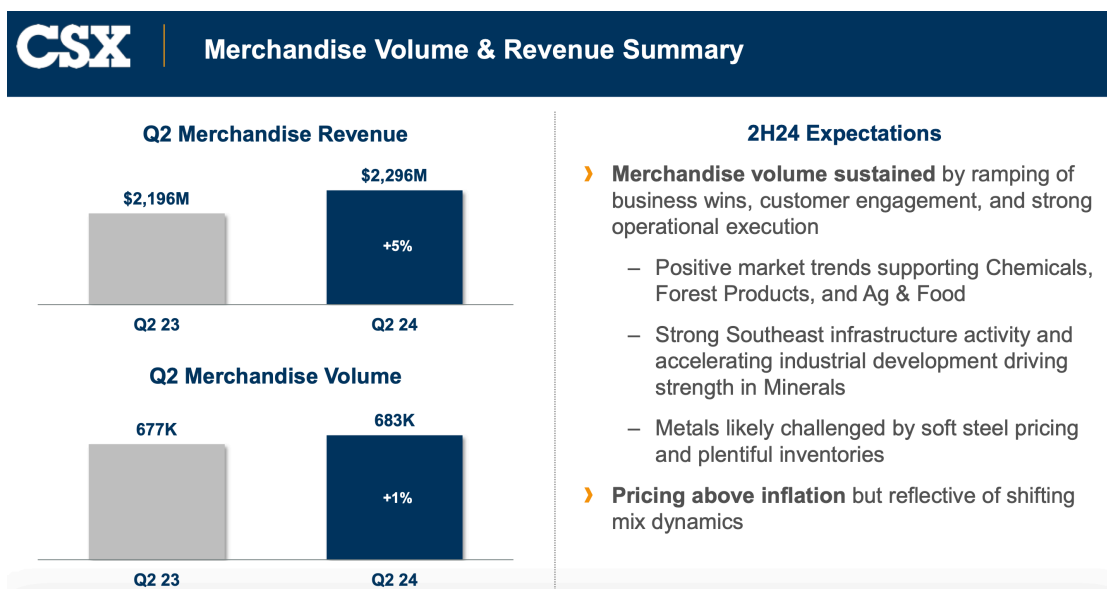
Another prime example of railroads allocating capital to keep customers comes from the UP. Last year a major customer was expanding and needed to be sure UP could expand with him by adding more yard capacity, which they did, increasing the customer’s car loadings by more than half.

More recently, CSX on its August 5 second quarter earnings call showed how they’re creating customers by designing transportation service products to meet specific customer needs. CEO Joe Hinrichs said on the call, “We are developing initiatives to take an excellent scheduled railroading model and make it safer, leaner and more cost effective while providing the consistency and flexibility that our growing customer base demands.”

To which Chief Commercial Officer Kevin Boone added, “Driving network efficiencies allows us to deliver a more competitive service product and expand the opportunity for

growth. We are continuing to be very aggressive in pushing forward on our truck conversions, new industrial development projects, and creative solutions with the growing number of shippers who want to maximize their use of CSX rail.”

The common thread between both is a goal of creating new customers and increasing business levels with present customers by finding out what the customers’ transportation needs really are and then creating shoes that fit.



I see all of this as follow through on previous commitments. Recall that on the 1Q2024 call Boone talked about industrial development: “Our project pipeline remains strong with hundreds of companies eager to partner with us to find attractive ways to expand their production capacity on rail-served sites. Based on potential carload volume or the approximately 100 facilities that have come online over the last 12 months, these new sites and expansions represent \$4.2 billion in total capital investment and have added new capacity in many of our key markets such as chemicals, minerals and forest products.”

In short, CSX is out there creating customers out of prospects. And that’s what this business is all about.

**Railroad operations on CN and CP could cease August 22** absent any agreement between CPKC and CN and their respective unionized work forces, roughly 10,000 strong. Both roads have begun embargoing hazmats and other commodities that would be at risk if loads were left standing. The Canadian government has issued a 13-day cooling off period which expires Aug 22.

Though the government blithely says there's "no danger to safety or public health," a work stoppage could affect chlorine delivery to drinking water plants, certainly a public health matter. And putting 10,000 workers on the street with severely reduced incomes is bound to affect discretionary spending on everything from rugs to refrigerators.

My friend Tony Hatch writes in a note to investors, "Both rails have asked for binding arbitration, which seems unlikely; a work stoppage should begin on or about August 22. Also, unlike the US, Canadian rail management can operate trains (in the US other industrial unions would strike, rendering that moot). Interestingly, this is the first time in memory that both carriers are facing this simultaneously."

As for the railroads, CN has posted this on its "bargaining updates" website page: "Railroads issue embargoes when, in the judgement of the railroad, an actual or threatened physical or operational impairment, of a temporary nature, warrants restrictions against such movements."

CPKC says flatly, "We will issue notice to the Teamsters Canada Rail Conference (TCRC) – Train and Engine (T&E) division and Rail Traffic Controller (RCTC) division — of our plan to lock out employees at 00:01 ET on Aug. 22 if union leadership and the company are unable to come to a negotiated settlement." The lock-out decision grew out of the notice from the Canada Industrial Relations Board that "no services need to be maintained during a railway strike or lockout in order to protect Canadian public health and safety."

Both railroads have said they expect a strong grain harvest this season. If the grain can't get to market, think of the impact on the ag community from farmers to feed mills. Having to cull herds to make the feed supply last will hurt grocery store sales of meat and poultry, possibly pushing up the prices of both. No lasting impact?

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