

CONVERGING DOWN THE

Grain and feed and railroad representatives voice their opinions on industry mergers and the outlook for railroads in the 21st century.

By Jeannine Wendorf

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Everywhere you look, one company is buying out or merging with another. While the rail industry began consolidating nearly 30 years ago, the trend is as strong as ever today. Representatives from the National Grain and Feed Association (NGFA) and the American Short Line and Regional Railroad Association (ASLRRA) met at the NGFA's Annual Country Elevator Council to state their proposals for future mergers and outlook on the role of railroads in 2001.

"The rail industry has completely restructured in a way that people from other countries come to see how the United States did it," said Alice

Saylor, vice president, general counsel, ASLRRA, Washington, DC. "We had more than 40 Class 1 railroads. There are six of them in the United States today. And the number of small railroads, or short lines, that picked up these branch lines has more than doubled."

Although in the past this consolidation has benefited the viability of the railroads, we are now reaching a point that the industry may consolidate to the point of being dominated by a "dualopoly" or a "dual monopoly" within the near future, as defined by John Bratten, vice president-transportation at Central Soya Co. Inc., Fort Wayne, IN, and chair of the NGFA Rail Shipper/Receiver Committee. According to Bratten, a "dualopoly" would be two large companies in competition with each other. But, depending on how alliances are drawn, it may be that the railroad industry will be run by two corporations that split the tracks and the revenue, eliminating competition, a "dual monopoly."

With this consolidation comes questions of fair competition, economic viability, and the role of short line railroads. Today's mergers will have a great impact on the face of the rail industry in the future.

Questioning Future Mergers

The Surface Transportation Board (STB) is currently

developing and reviewing new rules to govern future rail mergers. Several organizations, including the NGFA and the ASLRRA, have filed recommendations for how these rules should read.

"NGFA believes that future rail mergers must be scrutinized by the board with extreme care to ensure that efficiencies and other benefits claimed are realistically obtainable and not otherwise available through other activities," said Bratten.

In their rebuttal statement to the STB, it was made clear by NGFA that they support competition between the rail carriers, want minimum requirements of enhanced competition, and propose the development of problem resolution teams to handle issues of service disruption.

"NGFA said only if carriers know with a high degree of certainty that they will be held accountable and required to make innocent railroad users whole, will they exercise appropriate care in structuring and

implementing future merger transactions," said Bratten.

The ASLRRA has put its recommendations in the form of a "Short Line Bill of Rights," consisting of four bases as a floor, or a minimum, for mergers to be approved.

The first right is compensation to short lines for service failures by the Class 1 carriers.

"In the most recent merger, we have short line association members who can point to \$500,000 per year in reduced revenue because the Class 1 couldn't give them cars or service," said Saylor. "That is an awful big hit in the pocket book for a small business."

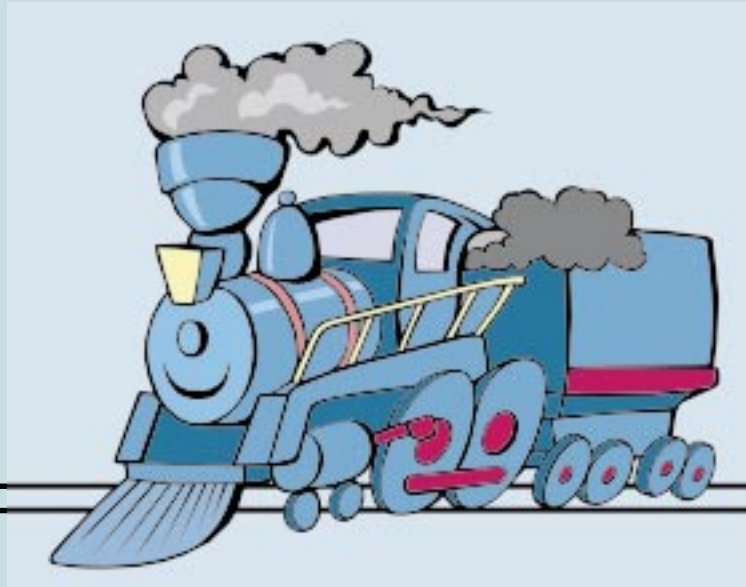
The other rights include: the right to interchange and routing freedom; the right to competitive and nondiscriminatory pricing; and the right to fair car supply.

With continued consolidation, short lines have become limited in their choice of carriers. Because of this, all carriers must provide certain fundamental services.

"The number of different connecting carriers that any small railroad has to deal with has continued to shrink. Having two Class 1 connecting carriers is nirvana for a short line," said Saylor.

Over the last 20-plus years, the rail industry has closed gateways, eliminated many alternative routings, and canceled joint rates in a blanket fashion.

TRACKS



Economic Streamlining

Mergers are only part of the outlook for the future of railroads. According to Saylor, "This system can have more vibrant competition than it does today, and short lines can play a role. The best thing short lines can do is open up markets on more than one Class 1 for its shippers."

Over the last 20-plus years, the rail industry has closed gateways, eliminated many alternative routings, and canceled joint rates in a blanket fashion. These actions have streamlined the industry, but cut Class 1 carriers off of rural routes. Short lines have picked up this track and acted as an intermediary between rural rail users and Class 1 carriers. Even with this streamlining, though, there is still room for improvement.

"We have to continue to be more productive — cut costs and increase our productivity," said Saylor. "We have to make these systems connect. We have to make it seamless."

Much of this streamlining needs to take place because of the possible recession and federal aid cuts. Economically, it could be a bleak time for railroads in the near future.

"Everything I see points to a softening in the economy," said Bratten. "It's a really bad time to tell the railroads that you are not going to help them get out of this era."

Saylor agreed saying, "We tend to think the safety net is a good thing. We need a grant program at the federal level."

But, if the money doesn't come from the government, it will come from railroad users in the form of new fees and the unbundling of services.

"I believe rail carriers are going to come to us for increases, and assuming they treat us fairly, I think you're going to have little grounds and basis for which to resist," said Bratten. "Because they only charge those that use the service, and the rest of us then are not subsidizing the operation, I believe there will be little confrontation."

Time is Money

Already, Class 1 rail carriers are offering monetary incentives for fast loading and unloading times. The questions then become: How low will these loading and unloading times go to ensure monetary benefits? Do those who can meet loading and unloading times have rights to benefits different than those who can't? Will this sink the operations that don't have the capital to invest?

"We can maintain the status quo, but I don't know if that disenfranchises those that want to be more efficient or if conversely we support that position if it disenfranchises those who say, 'I don't have the money. I'd love to, but I don't have the money,'" said Bratten.

Rail users are also seeing a trend in the rate structure with the Western railroads, in particular, shifting toward bigger train units.

"Consider a short line with small elevators on its line. If that short line is willing to do the extra switching and gathering work of collecting 26-car trains from four small elevators and present that train, with more than 100 cars of identical looking grain, assembled at interchange to the Class 1, why would that train not be able to get the same rate as 100 cars in a train loaded in less than 12 hours at a larger facility?" questioned Saylor.

"From the point of view of small railroads, we have gone a long way down the road to making it difficult to remain economically viable if you are a small railroad or a small elevator."

Ultimately, the dialog and the possible battle are still approaching, and rail users need to be ready.

Railroads Meet Superhighway

As the railroads move into the 21st century, they not only face economic questions, but also customer service questions.

Communication about the arrival time of trains is still many times strained between carriers and users. Saylor suggested that the Internet should play a larger role in the merchandising and tracking of trains, much as it has already done for the sale and tracking of grain.

"We need to get our rates online. We need to put car tracing online, and I hope we will see that," said Saylor. "We can't expect our customers to put up with 19th century performance in the 21st century."

The ASLRRRA is already working with a number of industry initiatives, including www.steelroads.com, to accomplish these goals. Steelroads.com is an online rail brokerage site. On this site, bids can be placed, trains can be tracked and complete shipping profiles can be displayed to help rail representatives and shippers find the best options.

"I think we're asking all the right questions, and I think we will continue to make progress," said Saylor. ❖