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NEWS CLIPS

April 24, 2009

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4/17/2009 Traffic

North American roads' traffic woes carry over into week No. 14, AAR data shows

Flooding in the Upper Midwest, the ongoing recession and the Good Friday holiday turned out to be a bad combination last week for U.S. railroads. Their carloads totaling 248,391 units plunged 24.5 percent and intermodal volume totaling 178,283 units plummeted 21.6 percent compared with data from the same week in 2008, according to the Association of American Railroads.

Weekly traffic totals were worse north and south of the U.S. border. During the week ending April 11, Canadian railroads originated 56,493 carloads and 37,544 intermodal loads, down 28.3 percent and 24.6 percent, respectively, vs. totals from the same week last year. Mexican railroads' originated carloads dropped 29.6 percent to 8,418 units and intermodal volume fell 39.3 percent to 3,705 units.

CSX: Great — and not-so-great — expectations

As I listened in on CSX Corp.'s first-quarter earnings teleconference this morning, a word that kept running through my mind was "expectations." The Class I's financial results exceeded expectations — both its own and Wall Street's — but the railroad's business expectations for the rest of 2009 aren't all that great.

EVP of Sales and Marketing Clarence Gooden and EVP/CFO Oscar Munoz reviewed the machinations behind a 17 percent drop in revenue, 17 percent decrease in traffic and 17 percent decline in operating expenses (no typos here — it was 17s all around). Gooden talked about a focus on yield management, which resulted in an average 6.5 percent "same-store sales" rate increase. And Munoz highlighted efforts to boost productivity, "right-size" resources by parking locomotives and reducing headcount, and control fuel and labor costs. For a run-down of CSX's first-quarter financial figures, follow this link and click on the "1st quarter 2009" pdf file.

I found Gooden's breakdown of the economic environment and its impact on traffic to be quite interesting. First-quarter chemical and metals traffic plummeted 31 percent because of declining industrial production; forest products and emerging market traffic tumbled 23 percent due to weak housing starts; automotive and intermodal traffic fell 20 percent because of reduced consumer spending; ag products, phosphates/fertilizers and food/consumer traffic dropped 15 percent due to a sluggish agricultural market; and coal traffic declined 7 percent because of lower energy production.

Yet, the first two sectors that fell the hardest only account for 22 percent of CSX's volume, he said. Automotive/intermodal accounts for 34 percent, ag-related carloads account for 14 percent and coal accounts for 30 percent.

Here's the not-so-great expectations part: Gooden said the railroad's second-quarter revenue outlook is “unfavorable,” with revenue projected to decline in nine of 10 markets (only ag products will hold its own). He also provided a less-than-stellar industrial production forecast. After dropping 11.5 percent in the first quarter, production is expected to tumble a similar 11.5 percent in the second quarter, 10.2 percent in the third quarter and 7.6 percent in the fourth quarter.

“Industrial production is not expected to turn until the second half of 2010,” said Gooden.

That means times will continue to be tough for at least five more quarters, although rail traffic demand might climb a tad later this year if federal stimulus dollars spur infrastructure projects.

For now, analysts gave CSX — the first Class I out of the financial-reporting gate — kudos for its cost-cutting and productivity efforts. In a note to clients, Deutsche Bank analyst Marcelo Choi said Wall Street might have underestimated the railroad’s ability to reduce expenses. In addition, CSX's results, which included earnings that beat the Street's expectations, bode well for the rest of the Class Is, Choi said.

Posted 04-15-2009 2:06 PM by Jeff Stagl
Filed under: Financials, Wall Street

4/16/2009 People

Amtrak tabs Gardner to serve as VP of policy and development

Amtrak recently appointed former Senate Commerce Committee staffer Stephen Gardner to the position of vice president, policy and development.

Gardner most recently served as lead surface transportation Democratic professional staffer for the U.S. Senate Committee on Commerce, Science and Transportation's Subcommittee on Surface Transportation and Merchant Marine Infrastructure, Safety and Security. During his five-year tenure, he served on behalf of current Commerce Committee Chairman John (Jay) D. Rockefeller IV and former chairmen Daniel Inouye and Ernest Hollings. Before his Commerce Committee work, Gardner was legislative assistant for transportation to both U.S. Sen. Tom Carper and U.S. Rep. Bob Clement.

Prior to his Hill work, Gardner held various operating positions for Guilford Rail Systems and the Buckingham Branch Railroad.

French Workers Hold Bosses Captive to Force Negotiations

President Calls for Order, but Hostage-Taking Continues

By Edward Cody
Washington Post Foreign Staff
Saturday, April 18, 2009

GRENOBLE, France -- The striking workers had no battle plan, but their jobs were endangered by layoffs, and they were itching for a confrontation.

So when managers at the U.S.-owned Caterpillar factory here refused to negotiate under pressure, workers recalled, resentments that had built up during several years of increasingly sour labor relations suddenly boiled over. About 40 employees invaded the executive suite, locked five top bosses inside and said they would be released only after resuming talks on the strikers' demands.

"It was spontaneous. We just had it with them," said Benoit Nicolas, 38, a Caterpillar line supervisor and delegate from one of several striking unions, the General Labor Confederation. "They refused to talk, so we locked them up until they agreed to negotiate."

The takeover, at midday March 31 in a Grenoble suburb in the Alpine foothills 75 miles southeast of Lyon, ended without injuries 24 hours later. It was one of more than half a dozen "boss-nappings" over the past month in factories across France, a whiff of revolution by workers who are facing massive layoffs because of the global economic crisis.

The hostage-takings, a specifically French reaction to the worldwide crisis, have been denounced as illegal by President Nicolas Sarkozy. But they have been widely applauded among the French people -- and in some instances have brought results. Most of all, they have dramatized the extent to which, in France perhaps more than anywhere else, the perspective of class struggle remains lodged in many people's minds and shapes the way they view the economic crisis.

The latest detention took place Thursday, when workers facing layoffs at a printer plant near Strasbourg run by Faure et Machet, a Hewlett-Packard contractor, confined their bosses in a meeting room for about 12 hours and forced them to continue negotiating on a severance package. Previously, a 3M executive in Pithiviers was held overnight after announcing layoffs, as were the head of Sony France in Pontoux-sur-Ardour and three expatriate British bosses in a Scapa Group adhesive tape plant at Bellegarde-sur-Valserine.

Trying another tactic, workers facing layoffs at the Celanese-owned Acetex-Chimie plant in Pau started a rotating hunger strike, with Mayor Martine Lignières-Cassou taking a turn to show solidarity.

More spectacularly, François-Henri Pinault, a luxury-brand magnate who recently married actress Selma Hayek, was surrounded in a car in the middle of Paris by salesclerks upset at layoffs in his stores. Before police came to his rescue, television cameras captured the Gucci millionaire negotiating through the car window and snapping to his captors that their actions were altogether inappropriate.

The historic class-struggle reflex has been sharpened because, in the view of many French workers, the current crisis is the fault of rapacious Wall Street speculators and their French equivalents. Reports of fat bonuses and stock options, even in businesses that accepted anti-crisis subsidies, have exacerbated the popular outrage. In opinion polls, about half of those queried support the workers who carry out boss-nappings.

"There is no justice in France today, and even less in America, because the bosses went to the casino with our pension money," complained Rene Mirisola, 46, a machinist and 24-year Caterpillar veteran whose schedule has been reduced to part time.

Jérôme Pélisse, a sociologist at the University of Reims who specializes in labor conflicts, said the French labor union movement descended from a tradition of confrontation. The main Caterpillar plant here, for instance, sits next to Leon Blum Avenue, named for the socialist prime minister whose Popular Front government in the 1930s instituted paid vacations and the 40-hour workweek despite bitter opposition from French industrialists.

Moreover, Pélisse said, France's perennially high unemployment rate means laid-off workers will have difficulty finding new jobs. "When they leave, they have to leave with a lot," he said, drawing attention to the demand for severance packages that are at the core of many labor-management disputes, including Caterpillar's.

Capturing the mood in its own way, the satirical newspaper Le Canard Enchaine published a front-page cartoon Wednesday showing executives in a fancy restaurant, sharing tables with their mistresses and calling their wives on cellphones to explain that they would not be home for dinner because they had been abducted by workers. Another cartoon showed a bedraggled manager exiting his factory with strikers in the background and telling a companion, "I think I deserve a kidnapping bonus."

In that vein, Pierre Piccarreta, another delegate from the General Labor Confederation, said union negotiators have demanded that executives at Caterpillar's Grenoble factory give up their bonuses for 2008 and turn in their company cars to sweeten the pot for severance payments. The demand was rejected out of hand, he added.

"We live in a crazy world, and if things don't change, there is going to be a revolution," Piccarreta told a rally Tuesday, generating whoops from the workers. "We demand redistribution of the wealth that has been generated by Caterpillar. Today the workers are calling the tune."

Workers at the rally, numbering about 600, shouted and whistled when Piccarreta urged more defiance. They booed and sent up catcalls when he brought up Sarkozy's condemnation of their tactics. The refusal of Caterpillar executives to forgo company cars elicited cries of "scandal" and "shame."

"They say we're a bunch of hotheads," screamed a bearded worker, seizing a microphone and addressing his colleagues. "We're not hotheads. The problem is that they are jerks."

Union organizers said they were convinced that the hostage-taking was a success, forcing management to take them seriously. Only after the executives in Grenoble were held captive during the night, the organizers said, did they call U.S. headquarters, get authorization to pay workers for several strike days and resume negotiations.

The chief executive of Caterpillar in Grenoble, Nicolas Polutnik, told employees in February that the factory would lay off 733 of its approximately 2,500 employees, citing a drastic decline in orders for Caterpillar's earth-moving and construction equipment. Many workers already had been put on part-time schedules. Reducing the number of layoffs is the unions' main goal, organizers said, but they are also seeking increases in the severance package.

Polutnik was one of the five senior executives taken hostage. The human resources director, Maurice Petit, was released at the end of the day because of a heart problem. But Polutnik and the other three spent the night in the executive suite with a rotating team of workers acting as jailers.

Since then, talks have been held in government offices with involvement by the central government's regional representative and telephone discussions between the representative and senior Caterpillar executives in the United States, union officials said. The Grenoble management team now moves about town with bodyguards, they added.

Despite Sarkozy's call for respect of law, French authorities have brought no charges against the Caterpillar workers or others who have taken executives hostage. But a Grenoble court on Friday ordered the removal of 19 workers who were camping at the factory entrance and harassing employees who tried to enter.

FDOT files exemption request for CSX right-of-way
April 20, 2009

The Surface Transportation Board Friday noted Florida's Department of Transportation has filed a "verified notice of exception" to acquire 61.5 miles of rail right-of-way owned by CSX Transportation located in five central Florida counties. FDOT seeks to acquire the route to establish "SunRail" regional rail service on the line centered in Orlando; CSX would remain active as a freight operator on the route.

The filing comes even as Florida legislators continue to debate the merits of FDOT's intent, with many expressing concerns over liability issues and some still convinced central Florida does not require regional or commuter rail service. A key state legislative committee hearing was delayed until this weekend, one industry source tells *Railway Age*; rail proponents fear the delay threaten legislative approval.

Despite such uncertainty, FDOT's submission asserts, "The transaction is scheduled to take place on June 30, 2009 (after the May 3, 2009 effective date of the exemption)."

Besides FDOT and CSX, Amtrak and a short line, Florida Central Railroad Co., operate over portions of the route to be purchased; FDOT's submission to STB affirms that those tenants will continue to operate on the route.

4/20/2009 Labor

Long-proposed UTU/sheet metal workers' union merger still in limbo

A meeting last week among United Transportation Union (UTU) and Sheet Metal Workers' International Association (SMWIA) leaders didn't change the status of a long-planned and legally ensnarled merger between the unions. The marriage remains on hold.

UTU International President Mike Futhey and the union's entire board met with General President Mike Sullivan and other SMWIA leaders in an attempt to convince SMWIA officials that a constitution governing the proposed International Association of Sheet Metal, Air, Rail and Transportation Workers (SMART) — the new organization that would result from the merger — must be negotiated and presented to UTU's membership for ratification.

A federal district court, which last year halted the merger's implementation because of concerns over an agreed-upon constitution, had urged the unions to negotiate terms for a SMART constitution.

“We remain awaiting any positive development that would permit a democratic vote by our membership,” said Futhey in a prepared statement.

April 21, 2009

Obama Doesn’t Plan to Reopen Nafta Talks

By BRIAN KNOWLTON

WASHINGTON — The administration has no present plans to reopen negotiations on the North American Free Trade Agreement to add labor and environmental protections, as President Obama vowed to do during his campaign, the top trade official said on Monday.

“The president has said we will look at all of our options, but I think they can be addressed without having to reopen the agreement,” said the official, Ronald Kirk, the United States trade representative. It was perhaps the clearest indication yet of the administration’s thinking on whether to reopen the core agreement to add labor and environmental rules.

Mr. Kirk spoke in a conference call with reporters after returning from a regional summit meeting that Mr. Obama attended over the weekend in Trinidad. He said that Mr. Obama had conferred with the leaders of Mexico and Canada — the other parties to the trade agreement — and that “they are all of the mind we should look for opportunities to strengthen Nafta.”

But while he said that a formal review of the 1992 pact had yet to be completed, Mr. Kirk noted that both Mr. Obama and President Felipe Calderon of Mexico had said that “they don’t believe we have to reopen the agreement now.”

Mexico in particular, whose exports have exploded under Nafta, has little interest in such a renegotiation.

Not only Mr. Obama but also one of his rivals for the presidency, Hillary Rodham Clinton, had promised during their campaigns to renegotiate the accord — a politically popular position in some electorally important Midwestern states that have lost thousands of manufacturing jobs.

Thea Lee, the A.F.L.-C.I.O. policy director, said that the workers federation would have preferred “more definitive” language on addressing key labor concerns, but that it was understandable for a new administration to start its review with a less confrontational approach.

“We were obviously very encouraged by what Obama the candidate was saying on the campaign trail in terms of needing to recognize the deficiencies of Nafta and to strengthen it," said Margrete Strand Rangnes, a labor and trade specialist with the Sierra Club.

Her group opposed Nafta from the start as lacking adequate environmental provisions, and contends that the side agreements added later have proved inadequate. "You have an environmental side agreement that doesn't have as many teeth as the commercial provisions of the agreement," she said. "You have an investment chapter that allows companies to basically file suit against common-sense environmental and public health measures."

But she said the Sierra Club recognized that change would not come easily, and added, "We're eager to work with the administration in having that conversation."

Since the election, neither the president nor Mrs. Clinton, now secretary of state, has said much about trying to move side agreements on labor and the environment — which are subject to limited enforcement — into the main part of the trade pact, a potentially tangled and protracted process. As candidates in the Democratic presidential primaries last year, both said they would renegotiate or even opt out of Nafta, citing flaws in its labor and environmental provisions, while trading accusations over past support for the agreement.

Mr. Kirk, who as mayor of Dallas was known as a strong advocate of free trade, also said the administration planned expeditious reviews of pending trade agreements with Colombia and Panama.

He said that Colombia had made "remarkable progress" in reducing violence — attacks against labor activists have been a key sticking point — but that other issues remained, and he vowed intensive consultation with Congress on the matter.

The Bush administration signed the agreement with Colombia in November 2006. But Congressional Democrats and United States labor groups have said the Uribe government must do more to stop the antilabor violence and hold perpetrators accountable, a position Mr. Obama supported during his campaign.

Regarding Panama, Mr. Kirk said that differences on labor standards, and the question of the country "possibly being a tax haven," needed resolution.

Mr. Obama and Mr. Kirk met with leaders of both countries during the Trinidad meeting.

OVR stuck in middle

April 21, 2009

Ottawa Valley Railway employees in Canada are caught in the middle of a dispute between two multi-national corporations, said the general chairman for Teamsters Rail Conference Line East, which represents more than 50 Ottawa Valley Railway workers in the North Bay area, according to local newspapers.

Rene Leclerc said the dispute between Canadian Pacific Railway and RailAmerica is about who will pay for rail maintenance and much-needed upgrades to the tracks from Smiths Falls to North Bay. Canadian Pacific owns the rail line, however RailAmerica, which operates Ottawa Valley Railway, uses the tracks to transport forest products and cargo.

Leclerc said he has heard rumors CP is considering shutting down the Smiths Falls to North Bay line because it doesn't want to invest in track maintenance.

"Canadian Pacific isn't interested in investing. They'll just claw back traffic on their line," Leclerc said. "I think this is a drastic attack from CP on a short, little railway. In order to restore the track, each railway has to invest. Our members are worried and concerned, but at this moment there's nothing we can do. It's a fight between the two carriers."

Several calls to media relations personnel at Canadian Pacific were not returned.

Ottawa Valley Railroad and RailAmerica also didn't answer requests for an interview. Rail-America is a subsidiary of Fortress.

Leclerc said this isn't the first time track repairs have had to be made.
In the past, speed reductions were in place because of the condition of the tracks, he said.

Some improvements have been made. However, Leclerc said the tracks have to be constantly maintained and repaired.

3 Nominees Confirmed at Justice Dept.

Associated Press
Tuesday, April 21, 2009

The Senate confirmed three Justice Department nominees last night, including the man who represented President Bill Clinton during his impeachment and pitcher Roger Clemens in a steroid investigation.

Lanny Breuer was confirmed as chief of the department's criminal division on an 88 to 0 vote.

Senators also confirmed Tony West, an attorney for American Taliban fighter John Walker Lindh, to lead the civil division and Christine Varney, a former Federal Trade Commission member, to head the antitrust division. Varney was confirmed 87 to 1, and West, 82 to 4.

The Senate also voted 73 to 17 to end a filibuster -- and allow a vote this week -- on the nomination of Christopher R. Hill to be ambassador to Iraq.

Justice officials said Breuer will remove himself from the Clemens investigation. The baseball star is accused of lying to a congressional committee about using illegal performance-enhancing substances.

In his new job, Breuer will oversee prosecutions in many sensitive areas, including public corruption.

His confirmation comes two weeks after a federal judge dismissed the conviction of ex-senator Ted Stevens (R-Alaska) on corruption charges and ordered a criminal investigation into the prosecutors.

From 1997 to 1999, Breuer served as special counsel to Clinton, whom he defended in impeachment hearings and in the investigation by independent counsel Kenneth Starr into ties with a White House intern.

CN board selects Claude Mongeau to succeed E. Hunter Harrison as president and chief executive officer effective Jan. 1, 2010

CALGARY, April 21, 2009 — David G. A. McLean, chairman of the board of directors of CN (TSX: CNR)(NYSE: CNI), announced today the board's selection of Claude Mongeau to succeed E. Hunter Harrison as president and chief executive officer of the company at the end of 2009.

Mongeau, 47, currently CN's executive vice-president and chief financial officer, has held successively senior positions since joining the company in 1994.

McLean said: "CN's board of directors is delighted to announce the selection of Claude Mongeau. The board thoroughly reviewed the company's future strategic priorities and the skills and attributes required of our new CEO. We are confident that Claude is the best candidate to build on the successes achieved to date.

"Claude is an exceptional executive and leader. He is one of the architects of CN's industry-leading financial performance and the key strategist behind the highly successful rail acquisitions that have grown CN's reach throughout North America and made it a key industry player. He has a keen appreciation of the power of CN's unique business model – Precision Railroading – and will be supported by an outstanding team of railroaders."

Mongeau said: "I deeply appreciate the board's confidence and I look forward to leading CN. I am excited about the company's future and firmly believe market trends strongly favour the growth of rail transportation. CN is superbly positioned for the future, thanks to the work of Hunter Harrison and our executive team, and I am committed to fulfilling that potential by continuing to drive innovation, greater efficiency and better service for our customers."

Harrison, 64, became CN's president and chief executive on Jan. 1, 2003. Prior to that he served as CN's executive vice-president and chief operating officer. Harrison has received numerous accolades, including Railroader of the Year by *Railway Age* magazine and Canada's CEO of the Year by *Report on Business* magazine.

McLean said: "Hunter is a seminal figure in the railroad business, with his ground-breaking Precision Railroading operating model that's driven significant efficiency gains and shareholder value at CN. He has provided outstanding leadership and service at CN, leading to the creation of a great North American railroad and grooming an excellent successor. Hunter also devoted countless hours to training the next generation of great railroaders at CN. Today's announcement begins an orderly period of leadership transition at CN that will maintain CN's position as an industry leader in creating value for customers and shareholders."

Harrison said: "Claude is a key member of my management team at CN, and I have the greatest confidence in his abilities. I've worked very closely with him on every aspect of the business. Over the next few months Claude and I will work very closely together to ensure a seamless transition at year-end."

As executive vice-president and chief financial officer, Mongeau has led CN's strategic planning process and is responsible for the overall financial management of CN, as well as the information technology function.

In 1997, the Financial Post Magazine named Mongeau one of Canada's top 40 executives under 40 years of age. In 2005, he was selected Canada's CFO of the Year by an independent committee of prominent Canadian business leaders.

CN first-quarter net income rises, beats Street

April 22, 2009

Canadian National late Monday reported its first-quarter results, with net income of C$424 million, or 90 Canadian cents per diluted share, compared with C$311 million, or 64 Canadian cents per diluted share, reported in the first quarter of 2008.

Excluding one-time items, CN recorded earnings of C$302 million, or 64 Canadian cents per share, but even those results beat Wall Street analyst expectations of 60 Canadian cents per share.

CN revenue fell 4% for the quarter compared with the 2008 quarter, while freightcar loadings fell 16%. Operating expenses fell 2%, assisted in part by falling fuel prices. Operating income declined 8%, and the railroad's operating ratio rose 1.2 points to 74.1%.

The railroad noted special circumstances included a gain of C$157 million, or C$135 million after-tax (C$0.29 per diluted share), from the sale of a railway route to Toronto's GO Transit, and the C$46 million expense related to CN's acquisition of the Elgin, Joliet and Eastern Railway Co. in the U.S. in late January, among other items.

The strengthening of the U.S. dollar affected the conversion of the CN's U.S. dollardenominated revenue and expenses, increasing first-quarter 2009 net income by approximately C$30 million, or C$0.06 per diluted share.

In a statement, E. Hunter Harrison, president and chief executive officer, said, "Economic conditions during the first quarter of 2009 were challenging. Our traffic declined sharply as production cuts and reduced imports and exports coursed through the North American and global economies. But we responded quickly to the downturn, using the discipline of our Precision Railroading model to reduce expenses while maintaining quality service. Among other measures, we reduced train starts and cut discretionary expenditures.

"Amid these challenges, the weakening of the Canadian dollar vis a vis the U.S. dollar was a shock absorber, and we remained focused on generating increased shareholder value through the sale of our Weston subdivision in Toronto," Harrison said.

Harrison also noted, "I am particularly proud that we completed the acquisition of the EJ&E during the quarter. The route-around-Chicago represented by the EJ&E, and the upgrades we plan for the line in the next three years, will pay dividends to CN in the years ahead through faster transit times, improved productivity, and better service to customers."

4/22/2009 Q1 Financials

NS reins in costs to offset lower revenue, income

To say Norfolk Southern Corp.'s first-quarter financial results were impacted by the recession is an understatement. The Class I's net income tumbled 39 percent to $177 million, or 47 cents per diluted share, compared with first-quarter 2008's $291 million, or 76 cents per diluted share.

Quarterly railway operating revenue plunged 22 percent to $1.9 billion primarily because traffic volume plummeted 20 percent to 1.5 million units compared with first-quarter 2008. In addition, NS generated less fuel-related revenue, which represented about 41 percent of the overall revenue decline. Analysts polled by Thomson Reuters expected earnings of 54 cents per share on revenue of $2.04 billion.

General merchandise revenue fell 28 percent to $975 million as volume plunged 29 percent, coal revenue declined 9 percent to $602 million as volume dropped 11 percent and intermodal revenue decreased 25 percent to $366 million as volume fell 18 percent. In addition, the railroad's operating ratio climbed 3.4 points to 80.3 compared with first-quarter 2008, primarily because of declining revenue.

"'Unprecedented' is used a lot these days, but for good cause," said NS Chairman, President and Chief Executive Officer Wick Moorman during the Class I's earnings conference held this morning, describing tough economic conditions in the quarter.

As in the worst U.S. housing market since World War II and lowest low-tech industrial production since third-quarter 1994.

"Reduced consumer spending, plant closures, production curtailments, falling international volumes and increased truck competition were major contributors" to the traffic volume and revenue declines, said Executive Vice President and Chief Marketing Officer Donald Seale.

On the plus side, NS achieved overall yield improvement of 7 percent from a combination of price and traffic mix, and a reflection of NS' service, he said. In addition, quarterly railway operating expenses dropped 19 percent to $1.6 billion as fuel costs fell 61 percent from $404 million to $159 million, compensation/benefit costs dipped 9 percent from $705 million to $639 million and materials/other costs dropped 17 percent from $240 million to $200 million.

The fuel cost reduction resulted from "a combination of lower usage and lower prices," said EVP and Chief Financial Officer James Squires.

NS was able to mitigate most of the recession's effects via "effective cost control," said Moorman.

"We are aggressively controlling costs, while enhancing our service and continuing to invest in projects that will drive future growth," he said. "This approach will position us to participate in the economy's eventual recovery as we tightly manage the company in the face of an ongoing reduction in railway traffic volumes."

— Jeff Stagl

DM&E to rebuild track through Rochester, Minn., this summer April 22, 2009

By mid-July or early August, Rochester's section of the Dakota, Minnesota & Eastern Railroad will have all-new rail -- and faster trains, according to the *Rochester Post-Bulletin*.

Officials of the DM&E, now a subsidiary of Canadian Pacific Railway, detailed plans to spend more than $12 million in southeastern Minnesota this summer on a project that calls not only for replacing rail, but more than half a dozen switches and perhaps a dozen crossings. Plans also call for upgrading the Zumbro River bridge and installing new hot box detectors on either side of Rochester that are intended to spot defects that might otherwise cause derailments.

The improvements will enable the railroad to operate faster trains -- potentially up to 49 mph, the planned maximum speed over the whole line, said Randy Henke, the railroad's vice president of engineering.

Through Rochester, though, "I don't think we'll go there exactly," Henke said. "The plan is to go to at least 30 (mph), which is what our timetable was when we started this project."

Faster-moving trains will mean that Rochester drivers will have to take extra caution at crossings. The southbound crossing on North Broadway, at Civic Center Drive is one spot drivers frequently are seen stopping on the tracks or under the crossing gates.

"They are taking a terrible risk when they do that," said CPR spokesman Mike LoVecchio. "They've got to stop before the crossing, and not impede the crossing. A train coming through is not going to have time to stop."

DM&E has spent heavily on rail replacement over the last five years, Henke said, and the project through Rochester is part of Canadian Pacific's pledge to invest at least $300 million upgrading the DM&E line over its first five years of ownership. Rochester will be part of a 30-mile project stretching from about one mile east of East Circle Drive to near Claremont.

"Starting about the first week of May through about the middle of July, we're going to be doing something in town almost every week," Henke said.

The new rail -- 136-pound, continuous-welded segments -- will be delivered aboard a 2,000-foot-long train starting around May 10, he said.

"You unload the rail like you're unloading long strings of spaghetti," Henke said. "You shove the train out from underneath it."

The rail delivery will cause road traffic delays over two days, he said. Actually laying the rail will have comparatively little effect on traffic. It will only take two days to get through Rochester, and only affect traffic where two segments meet at a crossing, and must be welded.

DM&E is trying to accommodate the city's plans for Rochesterfest and the July 4 celebration by accelerating plans to replace the crossing on Second Avenue Northeast, near the Silver Lake Power Plant. That crossing lies near both community celebrations.

Crossings are complicated to replace, Henke said, and the Second Avenue crossing is especially complicated, because a switch from the main line to the power plant also lies in the crossing.

Work will shut down Second Avenue for about two weeks. The railroad company hopes to have the work done before the start of Rochesterfest on June 20.

Canadian Pacific is keeping its project costs private, but Henke said a rule of thumb is that rail costs $400,000 per mile to replace. Over 30 miles, that adds up to $12 million. In addition to that, he said, the railroad is spending more than $500,000 to upgrade the Zumbro River bridge with new railroad ties and steel bracing.

On top of that, the railroad is spending still more money on the hot box detectors, as well as switches and crossings. DM&E has 17 crossings in this area, but already replaced several of those in recent years.

4/23/2009 Q1 Financials

UP sets operating ratio record in 'most challenging' business environment

Despite lower revenue and income, Union Pacific Corp. produced what it terms "solid" first-quarter results in a tough business environment because expenses dropped substantially and the Class I's operating ratio fell slightly to a record level.

Net income declined 18 percent to $362 million, or 72 cents per diluted share, compared with $443 million, or 85 cents per diluted share, in first-quarter 2008. Operating income dropped 15 percent to $672 million.

Freight revenue decreased 20 percent to $3.2 billion as total revenue carloads dropped 21 percent to 1.85 million units. Operating revenue fell 20 percent from $4.3 billion in first-quarter 2008 to $3.4 billion.

Automotive revenue plunged 55 percent to $162 million, industrial products revenue plummeted 29 percent to $546 million, intermodal revenue fell 22 percent to $551 million, chemical revenue dropped 15 percent to $513 million, agricultural revenue declined 13 percent to $661 million and energy revenue decreased 6 percent to $807 million.

"We faced one of the most challenging business environments we've ever seen," said UP Chairman, President and Chief Executive Officer Jim Young during the Class I's earnings conference held this morning. "We took decisive steps to improve our safety performance, operating productivity and customer service. We're taking advantage of lower volumes to increase fluidity and efficiency."

UP's operating ratio improved 1.2 points to a record 80.3 percent compared with first-quarter 2008 primarily because of lower fuel prices, rate increase and improved productivity, said Executive Vice President and Chief Financial Officer Rob Knight.

Quarterly operating expenses totaled $2.7 billion, down 21 percent year over year. Fuel costs dropped 60 percent to $386 million as quarterly diesel prices decreased 47 percent to an average price of $1.51 per gallon and the railroad reduced fuel consumption by 78 million gallons, said Knight. Purchased services/material costs fell 15 percent to $399 million and compensation/benefits expenses dropped 5 percent to $1 billion as UP's workforce decreased 8 percent.

There were faint signs of improving business conditions during the quarter, said EVP of Marketing and Sales Jack Koraleski.

"Even a seasonal upturn is encouraging to us," he said.

— Jeff Stagl

4/23/2009 Industrial Development

CSXT lands 63 new facilities, attracts 42 plant expansions in '08

Last year, CSX Transportation played a role in attracting more than 100 industrial development projects totaling about $3 billion along its lines, including 63 new facilities and 42 plant expansions.

The projects are expected to create 3,400 new jobs and generate about 150,000 new carloads for CSXT. The railroad worked with economic development officials in 18 states to attract customers to new sites or to expand existing operations. The Class I offers assistance with site layout services, such as industrial park planning, track design and logistics.

New projects included 19 ethanol and biodiesel plants, and eight recycling or environmental remediation facilities. Some of the traffic generated by the facilities originates or terminates on the more than 230 regionals and short lines that interchange with CSXT.

"The connectivity we provide to ports, natural resources and manufacturing facilities enables companies to leverage the efficiency and environmental benefits of rail," said Derrick Smith, CSXT vice president of emerging markets, in a prepared statement.

During the past 10 years, CSXT has helped locate or expand 1,347 facilities along its lines, representing an investment of $24 billion and the creation of more than 48,500 jobs.

U.S. freight carload traffic falls 24.3%

April 24, 2009

U.S. freight carload traffic for the week ended April 18 plummeted 24.3% from the comparable week one year ago, the Association of American Railroads reported. Traffic declined 20.6% in the West and 28.6% in the East ,and fell in all 19 carload commodity groups charted by the AAR.

U.S. intermodal volume fell even more sharply, down 28.3%. Total volume of 27.2 billion ton-miles was down 23.2% from the comparable week in 2008.

Canadian freight carload traffic declined 25.2% for the week compared with one year ago, while intermodal fell less precipitously, down 17.0%. Mexico's two major railroads saw freight carload traffic decline 9.8%, while intermodal dropped 21.9%.

Combined North American rail volume for the first 15 weeks of 2009 on U.S., Canadian, and Mexican railroads was down 18.1% from the first 15 weeks of 2008; intermodal was off 15.7% for the same comparable period.

4/24/2009 Q1 Financials

Despite lower revenue and earnings, BNSF 'weathers a difficult economic environment' by controlling costs

Yesterday, Burlington Northern Santa Fe Corp. reported first-quarter profits of $293 million, down 35.6 percent compared with first-quarter 2008 income as the sluggish economy took a large bite out of traffic volumes and the Class I incurred several one-time charges.

The railroad earned 86 cents per diluted share vs. $1.30 per diluted share in the year-earlier period. Excluding a 19-cent-per-share charge related to an unfavorable coal rate decision and an 8-cent-per-share loss to unwind interest rate hedges on debt BNSF no longer expects to be issued, the Class I earned $1.13 per diluted share.

Freight revenue fell 20 percent to $3.31 billion. A 14 percent decrease in volumes, which totaled 2.1 million units, accounted for nearly half of the $831 million difference in revenue vs. last year, while a decrease in fuel surcharges accounted for about $325 million. Analysts polled by Thomson Reuters had expected earnings of 96 cents per share on revenue of $3.68 billion, excluding one-time charges.

With the exception of coal, BNSF’s commodity revenues declined across the board. Not surprisingly, automotive revenue took the biggest hit on a percentage basis, falling 42.6 percent to $74 million. Excluding the charge related to the unfavorable coal rate decision, coal revenue increased half of one percentage point.

Quarterly operating expenses decreased 18.6 percent to $2.76 billion compared with first-quarter 2008. The railroad attributed the drop to cost controls, lower unit volumes and lower fuel expenses, which dropped from $1 billion a year ago to $614 million.

However, BNSF’s operating ratio climbed slightly from 78.9 in first-quarter 2008 to 79.8.

“During the first quarter, BNSF’s focus on cost control and a variable cost structure enabled us to weather a difficult economic environment,” said Chairman, President and Chief Executive Officer Matt Rose in a prepared statement. “BNSF continues to manage through the recession and is well positioned to take advantage of the eventual economic recovery.”

CP first-quarter earnings fall

April 24, 2009

Lower freight volume depressed Canadian Pacific’s first-quarter net earnings of C$62.5 million (US$51 million), or 39 Canadian cents per share, falling short of Wall Street analyst expectations of 48 Canadian cents per share and also down from C$90.8 million, or 59 Canadian cents per share, logged during the first quarter of 2008.

Revenue of C$1.07 billion (US$872 million) was down 6.6% for the quarter compared with one year ago. CP’s operating ratio rose to 87.0% from 82.4% in the year-ago quarter.

Chief Executive Fred Green pointed to an "unprecedented decline" in some business lines, such as potash, which is off 70%, Canadian coal, off 30%, and automotive shipments, down 43%.

CP officials said the company will cut back on its 2009 capital program; CP now plans to invest between C$720 million and C$740 million, instead of its original target of C$800 million to C$820 million.

Shares of CP were up 1.27% in morning trading Thursday on the New York Stock Exchange.