



A Publication of the Railroad Model and Historical Society of Southeastern Ohio, Inc.

PO Box 1, Albany, Ohio, 45710

February 2016

Upcoming Events:

February 9, 2016

Club Meeting
7:00pm

Ohio State Highway Patrol Post
13600 Della Drive, Athens

Bring something for
show and tell!

February 27, 2016

Train Collectors Association -
Great Lakes Division
"Winter Train Show"
Parma, Ohio
Admission: \$6

Operating Layouts, New and
Old Trains, Buy/Sell/Trade, All
Gauges, 150+ Tables

March 6, 2016

Darke County Model RR Club
Flea Market
Greenville, Ohio

Admission: \$4
Swap Meet, Train Show and Sale,
All Scales

March 19-20, 2016

Railfest 2016 Model Train Show
Kirkland, Ohio
Admission: \$7

NMRA Division 5, Largest All
Gauge Train Show in Ohio, 13
Operating Layouts, New and
Used, Buy/Sell/Trade, 110+
Dealers

March 20, 2016

Greater Wayne County Train &
Toy Show

Dalton, Ohio
Admission: \$5
600+ Dealer Tables, 170+
Dealers, 10+ Operating Layouts,
All Scales

April 9, 2016

Bucyrus Model Railroad Assoc.
Train Show & Swap Meet
Bucyrus, Ohio

Admission: \$5
Swap Meet, Flea Market, Model
Train Parts, All Scales

Wick Speaks

By: Bill Stephens

Norfolk Southern will fend off Canadian Pacific's unwanted merger overtures, survive an expected proxy battle, and prosper despite the sever decline in coal traffic, former NS CEO Wick Moorman says.

Moorman - whose retirement as Norfolk Southern's executive chairman became effective on Dec. 31 - spoke with Trains NewsWire in a wide-ranging telephone interview last week while he was traveling aboard Amtrak's Acela Express. He was critical of CP's proposed hostile takeover and its plans to install E. Hunter Harrison as CEO in Norfolk. And he said it's highly unlikely that NS would pursue a white knight of swallow a poison pill to avoid being acquired by CP.

"It's not a merger partner that makes any sense whatsoever from a strategic standpoint," Moorman says.

The NS board has unanimously rejected all three of CP's merger offers, setting the stage for a potential proxy battle that would play out before or during the NS annual shareholder meeting in the spring. CP Director Bill Ackman, the activist investor who waged the successful proxy fight that ousted

CP CEO Fred Green and several CP board members in 2012, is using the same playbook against NS: Attack the railroad's management, criticize its operating and financial metrics, and tout Harrison as the handyman CEO who can fix everything.

CP's shareholders loved that message. Faced with an overwhelming defeat, seven CP directors and Green resigned the day before the railway's annual shareholder meeting. Based on the way NS has responded to CP — particularly by saying the CP operating plan wouldn't work on the NS network — Ackman has said he's "seen this movie before."

So how can NS CEO Jim Squires and the railroad's board avoid a similar fate?

"You only expect a similar outcome if the circumstances are similar," Moorman says. "It's not the same fight. It's not anything like the same fight."

For starters, NS is not an underperforming railroad, Moorman contends. "It's not like

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Wick Speaks

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things are broken. Yes, we have to change. But this is not a CP situation where the operating ratio was 80 and everyone else was at 70," he says, noting that CP was a laggard for years.

"CP stuck out like a sore thumb. That's not the case here," Moorman says.

Instead, Moorman says Norfolk Southern's problem is primarily coal, which traditionally has been the railroad's most important and highest-margin traffic segment. NS has lost \$1.5 billion worth of coal business in the past four years. Despite that, the railroad's operating ratio — or operating expenses as a percentage of revenue — has remained steady as overall revenue has hovered around \$11 billion.

Those results are a testament to NS's management, Moorman says. "We have a good management team, a respected management team," he says.

Second, Ackman is comparing CP and NS despite

the fact that they are very different railroads that operate in vastly different territories. "We operate in a different part of the world. There just aren't a lot of similarities between our franchises," Moorman says. "CP is primarily a Western Canada, commodities-based railroad. We have to scramble to make money due to our short hauls."

When Ackman was battling for control of CP, he showed how CP trailed Canadian National in every meaningful financial and operating statistic while noting how similar their systems are. A better comparison this time around would be between NS and CSX, Moorman says. NS and CSX financial and operating metrics are similar and both railroads are reducing costs in their hard-hit Appalachian coal networks.

Third, Moorman points out that the regulatory risks of a CP-NS merger were not a part of the CP proxy battle of 2012.

"My very strong belief is that the odds of this thing making

it through the regulatory process at all are limited," Moorman says. "If it does get through, you'd have to give up too much" in the form of onerous conditions, ranging from open access to mitigating the concerns of trackside communities.

And he says it's highly unlikely that the Surface Transportation Board would approve CP's plan of putting itself in trust while the merger is under review. Under this scenario, Harrison would sever his ties with CP and take the helm in Norfolk immediately.

"That flies in the face of the concept of a voting trust, which is there to ensure that the acquiring carrier can't exercise any form of control over the acquiree," Moorman says. "CP has also categorically refused to go to the STB and seek a declaratory order that in fact such an arrangement would be approved, something that is well within their right and power to do."

"You know you're a Railfan if..."

http://www.mswphoto.com/IdiotRailfan/you_know.html

Great moments in your personal history: Learning to ride a bike, graduating from high school, and your first photograph of foreign motive power.

"Hobo Speak"

<http://www.hobonickels.org/terms.htm>

Angel - A person who gives more than you expect. One who takes an interest without trying to reform you.

Angel food - A mission house sermon. A mission preaching about the Bread of Life.

North American Rail Congestion Causes and Effects

By Chris Blumberg From Merchants Fleet Management

The Great Recession affected Class I railroads just like it did all other companies. Total carloads dropped about 20



percent, layoffs occurred, and the railroads reduced their fleets by about 10 percent from a high of 1.57 million freight cars. Now numbering only 1.43 million vehicles, railroad fleets still have yet to recover.

The box car fleet, which is responsible for moving auto equipment and vehicles, is the smallest and oldest sub fleet, and it keeps getting smaller by the year.

The box car fleet suffered the most during the recession of 2008-2009 due to it being the oldest fleet. In 2006, the plain box fleet was 20,136 and the equipment box car fleet was 112,009 for a total of 132,145 box cars. The current fleet at

the beginning of 2014 has reached slightly less than 99,000 — a reduction of 25 percent — reducing the availability of

box cars to both deliver parts and finished vehicles in North America.

While this is the largest contribution of congestion for the auto industry, this is not true for the other industries because not all rail cars are built the same.

Understanding Gross Rail Load

Each rail car is built to be a specific weight fully loaded, referred to as the gross rail load (GRL). Currently, the fleet weights range from 222,000 pounds to 286,000 pounds. After a study done on

the effects of heavy axle loads in the early 1990s, GRL 286 cars became the standard.

Currently, a GRL 286 grain hopper can carry 11 metric tons more than a GRL 268, and the same tonnage of a 100-unit GRL 268 could be carried in a 90-unit GRL 286 train. This means the fleet reduction doesn't necessarily come at

reduced fleet tonnage capacity, as upgrading from GRL 220 to GRL 286 can bring almost a 40-percent tonnage improvement.

Box Cars	Railroad	Private	TOTAL	Avg. AGE	1-9	10-19	20-29	30-39	40-49	50+
			YEARS	YEARS	YEARS	YEARS	YEARS	YEARS		
Coal Hoppers	Railroad	Private	115,575	22.5	33,511	27,454	9,671	42,791	4,322	9,846
Gondolas	Railroad	Private	105,308	23.6	24,861	28,821	10,371	30,682	12,371	13,271
Flat Cars	Railroad	Private	48,538	18.0	15,695	18,287	5,413	7,691	2,452	13,479
Refrigerator	Railroad	Private	11,941	27.4	1,894	2,229	1,092	3,098	2,344	2,344
Tank Cars	Railroad	Private	911	35.8	0	1	24	841	45	0
All Others	Railroad	Private	2,564	25.5	68	856	562	875	203	203
Total	Railroad	Private	1,006,189	17.7	346,153	346,153	139,464	137,135	29,425	29,425

Today, the box car fleet is the oldest at more than 20 years old, on average, and this fleet is mainly GRL 263 or GRL 220, greatly reducing the total

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- Voting
- Several great trips throughout the year
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North American Rail Congestion Causes and Effects

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maximum carrying capacity that could be carried by upgrading the fleet.

While it's not clear why the box car fleet is the oldest sub fleet, it has been dropping for more than two decades and owners may not see the need to buy new rail cars due to decreased demand. The GRL might be a good thing, though, as not all rail lines can handle the higher GRL cars.

Challenging Rail Line Weight Limits

Just as rail cars are not all equal, rail lines are not built all the same either. This is actually a huge problem when you start to look at North America, and not just the United States.

The automotive industry has been building car parts and cars in Mexico for years and has been increasing the amount of car and equipment factories in our southern neighbor for a variety of reasons.

Mexico is becoming the new

China. Over the past decade, industries in China have been facing large increases in wages, fuel costs, and cyber attacks. This has increased the competitiveness of Mexico as an industrial hub. Mexico has become a huge manufacturing hub for many industries as they face increasing costs from manufacturing in China, of which the largest element of the last decade has been fuel costs.

Lately, this has increasingly become a bigger issue with port strikes all across California reducing the total amount of traffic that ports can handle, and increasing the cost of transportation across the U.S. as traffic backs up.

According to the Mexico rail weight map, nearly all rail traffic has to go through Texas, due to GRL 286 being the standard rail car in the U.S. This is causing huge rail congestion in Mexico, with trains traveling on average at low as 7 mph across the

country.

The problem is that trade between the U.S. and Mexico is booming (Mexico is our largest trading partner at nearly \$500 billion and growing fast); however, nearly 50 percent of Mexico's rail lines are below GRL 286 — meaning the new U.S. standard rail car cannot travel to Mexico except through Texas, causing congestion on Texas rail lines.

Improvements are being made, including the new Union Pacific Santa Teresa intermodal facility and Mexico rail companies that are investing significant amounts of money in upgrading rail lines; however, even with these upgrades, nearly 85 percent of the trade done with Mexico is done by trucks — not by rail — with Texas highways suffering the most from this, as Texas handles more than 80 percent of the trade with Mexico.

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Those who want to learn the history.

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