Santa Fe-All the Way

The Lexington Group
Peoria, IL
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Jim McClellan/photos by the author
Ideas stolen from lots of folks
Why traffic goes the way it goes—and why Peoria and Maybrook and Omaha and Ogden, et al are no longer important gateways.
Agenda

This is about the evolution of the rail network

- Economics 101
- Where we were
- Where we are
- How we got to where we are
The best profits comes from running big trains
- And keeping them moving

And using track efficiently
- Matching traffic to infrastructure
- With some wiggle room (but not too much)

And, most importantly, minimize switching

Simplify, simplify, simplify
- A simpler network runs better and is more profitable

Bottom line: fewer interchange points are good for railroad economics

Bye, bye, Peoria
Then

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- Vertically integrated
  - Intercity passenger
  - Local/commuter passenger
  - Mail/express
  - Main line freight
  - Branch line freight
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Then: Big guys were dominant, BUT

It was a four tiered structure

- Really big guys (at least for those days)
  - PRR/NYC/ATSF/SP
- A lot of mid sized firms
  - SR/CB&Q
- Big regional carriers
  - DRGW/GM&O/WP
- Lots of small guys-
  - QA&P/TPW/G&F/RF&P
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Every railroad, large or small, wanted to protect its most profitable routes

- Rate bureaus colluded to set rates
  - After a night of alcohol and fine dining
  - Everybody pushed for their best route and insisted on their long haul
  - Lots of horse trading—my long haul in exchange for your long haul
  - “Santa Fe all the way” was not just a slogan on a boxcar

- And if railroad A lowered a rate on a commodity then other rates would have to follow—it was a house of cards

- The “Yak fat” case
  - A scam initiated by truckers but the railroads protested to the ICC
Every railroad, large or small, wanted to protect its most profitable routes

- All of this was imbedded in rate tariffs and routing and division sheets
  - Pretty much incomprehensible to most folks
  - It was all rigid and formula based
  - Commodity A, more valuable than Commodity B, had to have a higher rate
  - Divide money at the gateways, further divide it within the rate territories

- While the big guys had the most leverage, they were had pressed to act independently

- Because regulation mandated that the little guys got to play
The glue that held this inefficient network together was the ICC, which had the last word on rates and routes

- The goal of regulation was “fairness,” not efficiency
- Folks might bitch about the regulators, but they played the game if it suited them
  - After all, even the bigger guys had junctions they wanted to protect—SR to St. Louis; IC to Kansas City
- All railroads, except Southern under Brosnan, embraced their regulatory “chains,” whenever it benefited them
It was a convoluted, complex and inefficient system

- Too many railroads
- Too many routes
- **Too many junctions**
- It was hard to concentrate traffic flows
- And assured a lot of switching
  - Resulting costs in car days, man hours, engine hours, etc.
- In the end, the system was unsustainable
Change was coming: From mergers

- Mergers began to clean out the underbrush
- NW/NKP/Wabash established new routes, curtailed some junctions
- C&O did the same with B&O/WM
Change was coming: From mergers

- C&O/B&O led to NYC/PRR
- The merger from hell
  - Two drowning men clinging to each other
  - With the ICC throwing another drowning man (the New Haven) into the water with them
- Again, the regulatory system was based on “fairness,” not economics
- More junctions fell as PRR traffic could be rerouted directly to New England
  - Bye, bye Wilkes Barre
Change was coming: from mergers

- Burlington Northern streamlined the northern tier
- While the Chicago NorthWestern took a meat axe to small roads in the Midwest
  - Bye, bye Minneapolis and St. Louis (the Peoria Gateway Route)
Change was coming: from the DOT

- Penn Central went bankrupt, along with a lot of smaller carriers
- Government decided that lean was the way to go
- “Orange line report” said:
  - Too much track chasing too little traffic
  - 25% of gathering network “potentially excess” (color it orange)
  - Too much mainline capacity as well – good bye to much of the EL mainline
Change was coming: from the DOT

- "Orange line report" cast a long shadow
  - Two railroads are all you need for competition
    - And then only in the largest markets
      - Which did not include Peoria
- The norm today but radical at the time
- The concepts formed the intellectual framework for what was to follow, right up to the split of Conrail
Change was coming: from the US Railway Association

- Took the DOT concepts and designed a network around them
- Cut the branches
- Merged the companies
- Creation of Conrail eliminated some junctions
- But access to CR markets for the solvent railroads was protected
- Ultimately, Conrail focused on the NYC route to Chicago—bye bye PRR mainline through Ft. Wayne, and Logansport and the connection with the Toledo, Peoria and Western
Change was coming: from DOT, again

- Government money for the Midwest came with very tight strings
- “Corridors of excess” capacity
  - Money went to the highest density lines
- Liquidate the Rock Island
- Government was a very mean spirited banker
- Fewer routes meant fewer interchange point
Change was coming: Blame Jim Hagen (and Ed Jordan and Dick Steiner and Billy Newman)

- While many junctions were closed with the creation of Conrail
- Many junctions between CR and other carriers remained
- CR was used as a terminal company by NW and SR and Chessie
- “Staggers Act” set the stage for closing routes and junctions
- A lot of railroads bitched and moaned about that
  - Including the Southern and the Norfolk and Western
- Staggers was all about the ability to align prices with costs
Change was coming: More mergers were brewing

- If the government backed a massive merger in the Northeast, perhaps it was time to act
- SR took a run at MP, failed over who would be in charge
- And SP took a run at Family Lines and failed
  - But scared Prime Osborne into the arms of Hays Watkins of Chessie
Change was coming: More and bigger mergers

- In 1980, Chessie and Family Lines linked up
- The merger was hotly contested by NW and SR, which requested many conditions
  - mainly divestiture of lines and markets
- The ICC said “We are protecting competition, not competitors”
  - New sheriff in town, protecting railroads was over
- Now, the territorial gateways were going away (Cincinnati, Pot Yard)
Change was coming: And that forced Southern to act

- SR first thought about IC, again
- Good fit, lousy economics
- Reluctantly, Crane cut a deal with Fishwick
- Having started the cross border merger movement (with SR-MP) SR forced to go with a partner it did not much like
- With the formation of NS, Chicago became the northern gateway for SR’s considerable traffic volume
- Concurrently, UP/MP/WP consolidated in the West and Ogden lost some of its importance
Change was coming: More mergers followed

- Santa Fe/SP was killed by a memo--(always delete your files in a merger case!!!)
- BN and ATSF both took a look at KCS
- Decided not to go to war over the KCS and merge instead
- UP tried a hostile move on ATSF but failed
- BNSF was created
- Forcing UP to act-again
  - It had already absorbed CNW; good bye Omaha Gateway
Change was coming: More mergers followed

- So UP acquires SP, despite the large overlap of trackage in the Gulf Coast markets.
- But SP was clearly failing, and the STB did not want to have another failed railroad on its watch.
- A proposed Conrail acquisition of parts of SP never gained traction.
  - Putting Conrail in a box and leading to the next fall of the dominoes.
- Meanwhile, Canadian National acquired IC and CP acquired D&H.
Change was coming: More mergers followed

- Which left the Northeast
- CSX and NS had been sparring for years
- With CSX doing a great job of stopping NS
- Conrail, after failing to expand to the west, made a deal with CSX
- The CSX/CR deal shocked NS into playing the “money card” (it had the strongest balance sheet in the business)
- And Conrail was split, with more to NS than CSX
- With the split, their were no more north/south junctions at the River Crossings
Change was coming: from technology

- Heavy cars destroyed light density lines and much of the rail network was doomed
- Traffic control, automated trackside monitory, improved track structure allowed more to be done with less track
- Unit trains concentrated traffic on main routes
Change was coming: from intermodal

- To make money in intermodal you need efficient, high volume terminals
- That are well positioned to reach a maximum number of customers with a minimum of dray cost
  - Hint: Chicago is bigger than Peoria
- Intermodal helped drive the consolidation of many main line routes-focus, focus, focus
Change was coming: Innovative interline arrangements

- Railroads systematically eliminated interchanges
- Used run through trains
- Used trackage rights and haulage to extend market reach, improve operations
- Formed joint ventures for through, seamless service (Pan Am Southern, Meridian Speedway)
Now—an “all star” freight system 1/

- Seven major systems
- A large number of local/regional railroads
- An army of draymen (a key part of the current network)

1/ thanks to Jim Dietz for this one
Now-an “all star” freight system

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All’s well that ends well

- The business is far more efficient
- But a lot less colorful
- All the places where could go see a multitude of railroads are mostly gone
- **Efficiency has trumped esthetics**
The end
Thank you for your time and attention

I can be contacted at: beachtrainman.com
These slides will be up there shortly