Rail Carriers’ Fight Over KCS Raises Deeper Questions

The rail news throughout this spring has been dominated by the question of rail mergers. Specifically, what railroad – if any – should be granted the right to acquire the Kansas City Southern (KCS), the smallest of the Class One railroads. Starting back on March 21st, Canadian Pacific (CP) announced its intention to acquire the KSC in what amounted to an “end-to-end” merger of the two smallest Class One railroads, joined at Kansas City. The new railroad would provide seamless service between the three nations of North America. Predictably, the larger and wealthier railroad – Canadian National - stepped in and offered the stock holders more money for the KCS, and the war was in full swing.

As we go to press, the Surface Transportation Board (STB), successor to the Interstate Commerce Commission (ICC) – must rule on the terms of what – if any – the merger terms look like. From the stockholder’s point of view, the CN offer is far superior, and therefore CN should naturally be awarded the prize. However, the CP-KCS combination would appear to be a far more logical choice. For their part, the rail unions generally have sided with the CP, expecting that such an end-to-end merger might result in fewer redundancies and pink slips.

The inherent efficiencies to be gained by mergers are many. Interchange between railroads is time consuming and costly. Billing is streamlined when there is single line service. Carloads move faster from origin to destination, resulting in better asset utilization of locomotives, rail cars, train crews, etc. But just as with Precision Scheduled Railroading (PSR) (see article Page 1), railroad workers and their unions must always ask the question: Efficiencies for what purpose? Efficiencies for who?

With PSR we have seen where those efficiencies go. They go to lowering the operating ratio, beefing up stock prices, paying out big dividends to investors, and buying back billions in stock. Meantime, car and locomotive shops are shuttered, maintenance is deferred, workers are furloughed, safety is compromised, union contracts are torn up, and railroad mainlines and terminals are jammed up.

So even if CP is selected (obviously the lesser of the two evils), there is no guarantee at all that the newfound efficiencies to be gained will result in boosted rail traffic. The evidence in recent years has shown that the “trickle down” to workers that is always promised never seems to develop. The last decade of PSR has seen a decline in market share, and in absolute terms, the railroads are carrying less freight than they did in 2006!

Merger and its resulting inherent efficiencies are a great idea, but not in an unregulated environment where all the benefits accrue to stockholders and Wall Street. We need mergers - including a fully transcontinental railroad - to achieve these efficiencies that rail merger can provide. BUT only if that means that railroad industry then capitalizes on these efficiencies, moving trucks/automobiles off the highways and planes out of the skies, returning freight and passengers to the railroad where it belongs. If this is not the result – and there is plenty of reason to believe that neither a CP-KCS or a CN-KCS merger will do this - then the merger is a failure, for shippers, workers, the environment, and the nation. Could it be time to confront the question: Is it in the best interests of society for the nation’s railroads to operate solely on the basis of maximum profits for their investors?
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Meantime, the railroads have continued to rake in record profits. CEO pay has increased dramatically, while the “Operating Ratio” (a statistic fetishized by hedge funds, Wall Street, and shareholders) continues to drop to record lows. Stock prices are at an all-time high. And rather than seek new traffic, two of the Class One railroads are now engaged in a battle to purchase the smallest one (see Article, Page 1).

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Greg Regan, president of the Transportation Trades Department, AFL-CIO (TTD), issued a statement applauding the Congressmen for calling on the GAO to study the impacts of PSR on workers, safety, and shippers: “For years, freight rail workers and their unions have been sounding the alarm about the dangers of PSR, a destructive business model dominating the freight rail industry. Today, we applaud Chairs DeFazio and Payne for taking seriously the concerns of our freight rail workforce and the customers they serve, and requesting that the GAO examine the alarming practices and conditions rail employees experience on a daily basis. TTD calls on the GAO to complete the requested study expeditiously and in consultation with the freight rail workforce.”

“The ramifications of PSR are almost too many to count, and the implementation of this business model has made the freight rail industry nearly unrecognizable. The goal of PSR is to line the pockets of wealthy shareholders by prioritizing cost cutting and profits over safety and service. As a result, freight rail workers across all crafts and classes have been systematically laid off as employment at Class I railroads has been slashed by approximately 25% in just a few years. Those left are forced to take on more responsibilities, and report being pressured to meet unattainable standards and arbitrary deadlines while combating debilitating fatigue. Railroads are also evading federally mandated inspections, neglecting maintenance, and operating fewer but significantly longer trains – a move that impacts the safety not only of rail workers, but of the communities through which these trains travel.”

“Freight rail workers and their unions fear that the combination of a less-than-bare bones workforce, endemic fatigue, dangerous equipment, longer trains, and an overall disregard for safety threatens both rail workers and the long-term viability of the industry. A study by the GAO elevating these concerns is a good first step in reining in this out-of-control business model and returning safety to the freight rail industry.”

In this context it is easy to see why Congress may want to investigate this fraud known as PSR. The nation’s railroads – together with her waterways, lakes and rivers, highways, electrical grid, roads and bridges, airports and air traffic control system and more are indispensable to the health and vitality of the nation and its people. None of these – least of all the railroads – can be squandered for the sake of the short-term profits of a handful of super wealthy investors.

RWU urges all rail workers to engage in this fight. It is time to step up the opposition to PSR. Demand your union fight back! We need to confront the carriers and their Wall Street masters, and their farcical operating plan known as PSR. The job – and the life – you save just might be your own!

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As CN and CP compete for the right to acquire the KCS, who stands to benefit from this mega-transcontinental merger? Who will ultimately pay the price?