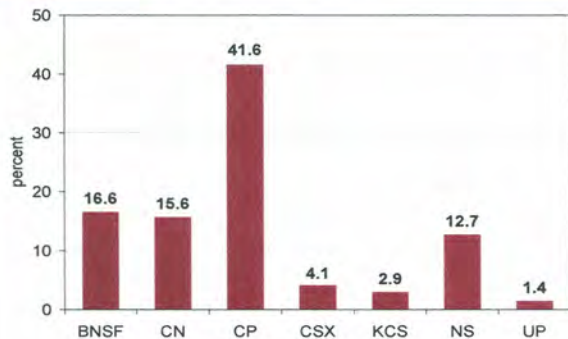


Change in primary metals products revenue/car



- Yield gains for carloads of metals moving by rail steadily decelerated over the last year before turning negative in the fourth quarter of 2010. The slight fourth quarter decline did not outpace the gains made earlier in the year.
- The increases in revenue per railcar were broad-based with every Class I railroad posting gains, indicating demand to move metal products by rail was strong.

Q4 revenue/car change over year



- Canadian Pacific had the strongest yield gains by a wide margin among US Class I railroads despite the smallest volume increase of any major railroad.
- At the other end of the spectrum, Union Pacific's revenue per car gains showed the slowest increase of any Class I railroad despite the largest volume gain, indicating that margins on the new business were weak.

Japan impact minimal

Widespread disruption from the disaster in Japan has not dented rail traffic gains in North America yet, but change is coming.

Year-to-date, international and domestic intermodal traffic rose 9.2pc on US railroads and 3.8pc on the Canadian railroads through the last week of April. Containerized import flows also rose in West Coast ports that do the most business with Japan.

The ports of Los Angeles, Long Beach, Seattle, and Tacoma handled nearly 80pc of U.S. imports from Japan in 2010, measured in 20-foot equivalent units (TEUs), according to [trade data provider Datamyne](#). BNSF and Union Pacific (UP) touch most of the Japanese traffic moving by rail from US gateways. Canadian Pacific (CP) and Canadian National (CN) do the same in Canada, mainly through the port of Metro Vancouver. The western US and Canadian carriers also interchange some of these inbound containers with their eastern counterparts.

Overall, the ports were unable to quantify any near-term effect of the March disaster. "Ships take about two weeks to cross the ocean, plus goods were already ready to go in Japan," Port of Long Beach spokesman Art Wong said. "So it would be April before we saw any impact."

Imports from Japan account for about 5pc of Long Beach container cargo by value, Wong added, not all of which would move via intermodal to inland destinations.

Phillip Sanfield of the Port of Los Angeles said it will be mid-summer before US Department of Commerce data on post-quake Japanese trade flows shows any anomalies. He pointed out that most of Japan's major container ports — Tokyo, Yokohama, Nagoya, Osaka and Kobe — were not directly

Continued on page 6

Executive briefing

Metals shippers experienced mixed service from railroads in the most recent quarter, but the sector may be facing a slowdown. Reduced automotive parts shipments in the wake of Japan's earthquake has cut production at some assembly plants that purchase steel, and those reductions may become more acute in the coming months. BNSF posted strong earnings for the first quarter of 2011.

Automotive shipments set to drop in second quarter

Continued from page 1

affected by the quake, and that service from those ports has continued uninterrupted. Only the port of Sendai, which accounts for 3pc of Japanese containerized imports through Los Angeles, suffered heavy damage.

But Japanese exporters, including major automakers, have felt the impact of lost suppliers, damaged infrastructure and electrical power shortages. Auto parts accounted for 44pc of the \$29.3bn of Japanese imports that moved through Los Angeles in 2010, but that was a relatively small percentage of the \$236bn of total imports and exports the port handled, Sanfield said. He estimated that containerized imports through Los Angeles are split fairly evenly between freight destined for local and regional receivers and traffic moving inland by rail and truck.

Japan accounts for about 18pc of the \$43bn in auto parts the US imports annually, according to a 29 March report by Scotia Capital.

Auto maker Honda said "for global efficiency, a few critical parts continue to be supplied from Japan." Honda, Toyota, Nissan and other Japanese carmakers said their home production of these parts and finished vehicles was drastically curtailed after the earthquake. For their part, Toyota and Honda do not expect to restore full production in Japan until late in the year. The resulting parts shortage is causing Toyota's

US and Canadian plants to operate at only 30pc of capacity, and the company does not expect them to begin ramping up production until August.

Major Japanese shipping companies such as NYK, MOL and K-Line have said their container business has been relatively unscathed by the disaster, but that will not be the case with their car-carrying vessel business. Similarly, spokesman Josh Thomas of the BNSF- and UP-served Port of Portland, Oregon, told *Argus* that "we are starting to see some reductions in vessel calls and in volumes of imported vehicles. Ships carrying post-quake vehicle inventory from Japan continue to arrive, but in lower numbers."

Portland handles imports of Toyota, Honda and Hyundai vehicles, while the nearby Port of Vancouver, Washington, receives Subaru imports.

Disruption in finished vehicle imports and reduced production by the Japanese manufacturers' North American plants has generated concern among the Class I railroads, at least in the short term. UP executive vice president Jack Koraleski told analysts in April, "There's still a lot of uncertainty as to the full impact on the auto industry, but our current take is that the second quarter is going to bear the brunt of the disruption, with overall upside potential in the second half as managers work hard to fill the market void."

CP executive vice president Jane O'Hagan said in April that the railroad expects "minimal impact to the majority of our commodity lines" from the Japanese quake, but added that "the automotive sector will be one area impacted by the recent Toyota and Honda-announced reduction in North American production."

The eastern rail carriers were more sanguine about the situation during their first quarter earnings calls, noting that the production losses in Japanese-owned plants may be counterbalanced by strong year-to-date growth among US domestic automakers. Norfolk Southern chief marketing officer Don Seale said, "...our sense is that the auto market is rising at a fairly rapid pace and that if one manufacturer does not supply the product, the consumer will probably buy the product" from someone else.

Toyota containerized imports to US by port of entry

Ports	2010			
	Metric tonnes	Percent	TEUs	Percent
Los Angeles, California	80,814	36.9	11,401	41.3
Long Beach, California	53,146	24.2	9,265	33.5
Tacoma, Washington	56,200	25.6	5,714	20.7
Oakland, California	4,445	2.0	537	1.9
Norfolk, Virginia	4,997	2.3	310	1.1
Seattle, Washington	1,132	0.5	141	0.5
Savannah, Georgia	1,032	0.5	65	0.2
Charleston, South Carolina	600	0.3	51	0.2
Baltimore, Maryland	537	0.3	25	0.1
Port Authority of NY-NJ	276	0.1	24	0.1
New York, New York	234	0.1	24	0.1
Houston, Texas	1,275	0.6	17	0.1
Miami, Florida	281	0.1	15	0.1
Port Everglades, Florida	25	0.0	12	0.0
San Juan Puerto Rico	7,954	3.6	8	0.0
Chicago, Illinois	17	0.0	4	0.0
Philadelphia, Pennsylvania	1,268	0.6	2	0.0
Mobile, Alabama	5	0.0	1	0.0
Portland, Oregon	17	0.0	1	0.0
Baton Rouge, Louisiana	5,000	2.3	0	0.0
General total:	219,256		27,616	

Source: **Datamyne**

Port of entry for containerized imports from Japan, 2010

Ports	TEUs	Percent
Los Angeles, California	250,998	40.7
Long Beach, California	121,358	19.7
Seattle, Washington	62,502	10.1
Tacoma, Washington	51,531	8.4
Port Authority of NY-NJ	30,638	5.0
Savannah, Georgia	28,663	4.7
Oakland, California	25,467	4.1
Charleston, South Carolina	18,328	3.0
Norfolk, Virginia	10,967	1.8

Source: **Datamyne**