



A publication of the Michigan Railroads Association

FREIGHT RAILROADS AND INTERNATIONAL TRADE

International trade plays a massive and growing role in Michigan's economy. For the U.S. economy as a whole, exports and imports combined are equivalent to around 27 percent of gross domestic product (GDP), up from around 17 percent 30 years ago.

For U.S. freight railroads, international trade plays an even greater role; at least 42 percent of the carloads and intermodal units railroads carry, and more than 35 percent of rail revenue, are directly associated with international trade.

There are important points to remember about trade:

- Trade is not a zero-sum game in which one side "wins" and the other "loses." Instead, it's a two-way street aimed at using specialization to make efficient use of resources to increase material welfare. In aggregate, both sides benefit.
- Because trade is almost always voluntary, people and firms gain from it, or else they wouldn't do it. The flip side is that increased barriers to trade prevent people from making exchanges they want to make and make people pay more for what they want.
- In the face of trade restrictions, U.S. exporters are sure to face retaliatory measures.

Railroads and International Trade

By linking businesses to each other here and abroad, freight railroads have played a crucial role

in America's economic development for more than 185 years. Without railroads, American firms and consumers would be unable to participate in the global economy anywhere near as fully as they do today. Without trade, America's freight railroads would be a fraction of what they are today.

- Based on an Association of American Railroad (AAR) analysis of data from the Surface Transportation Board (STB) Waybill Sample and other government and industry sources, in 2014



international trade accounted for an estimated 35 percent of U.S. rail revenue (\$26.4 billion out of \$75.1 billion in total revenue); 27 percent of U.S. rail tonnage (511 million tons out of a total of 1.88 billion tons); and 42 percent of the carloads and intermodal units U.S. railroads carried (13.4 million units out of 32.2 million total units carried).

- The 511 million in rail tons associated with international trade in 2014 included 329 million

tons of exports; 171 million tons of imports; and 11 million tons that pass through the United States but begin and end their journey elsewhere (e.g., Canada to Mexico, Mexico to Canada, or Canadian or Mexican goods imported or exported through U.S. ports).

- Of the \$26.4 billion in U.S. freight rail revenue associated with international trade in 2014, \$9.6 billion was from intermodal containers and trailers, and \$16.8 billion was from carload traffic – that is, freight carried by boxcars, hopper cars, tanks cars, or other types of rail cars. Rail revenue associated with exports (\$13.3 billion) exceeded rail revenue associated with imports (\$12.4 billion).
- Rail movements associated with international trade include virtually every type of commodity railroads carry and involve every region of the country – coal for export out of ports in Maryland, Virginia, the Gulf Coast, and the Great Lakes; paper and forest products imported from Canada to the Midwest; imports and exports of Canadian and Mexican automotive products to and from auto factories in dozens of U.S. states, reflecting the deep integration of the North American auto industry; containers of consumer goods from Asia coming ashore in Los Angeles, Long Beach, Savannah, Norfolk, and many other ports; iron ore mined in Michigan and shipped by rail to Great Lakes ports; grain

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Jon Cool,
President

@MI_FreightRail

FROM THE PRESIDENT

Trade and tariffs continue to be a hot topic of discussion in Washington and Michigan. How will changes at the federal level impact Michigan's auto sector, agricultural industry and other areas? The lead article in this newsletter discusses how these issues touch rail and our economy locally.

The Escanaba and Lake Superior (E&LS) short line railroad is our featured member in this issue. The E&LS is based in the Upper Peninsula and operates a nationally known railcar repair and maintenance shop in Escanaba. Please take a few moments to learn more about one of Michigan's UP railroads.

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grown in the Midwest and carried by rail to the Pacific Northwest and the Gulf Coast for export to Asia. The list goes on and on.

International Trade and Jobs

Trade has always been a sensitive political issue in American politics because of its real and perceived impact on jobs. To be sure, imports that displace domestic production can and do lead to job losses, but job losses due to trade are often exaggerated.

One representative study, by the Center for Business and Economic Research at Ball State University in June 2015, looked at the 5.6 million U.S. manufacturing jobs lost between 2000 and 2010, the largest decline in manufacturing employment in U.S. history.

The study found that just 13 percent, or around 750,000 of the 5.6 million job loss over 10 years, was due to direct imports and import substitution. By contrast, the study found that productivity growth due to automation and other technologies accounted for more than 85 percent of the manufacturing job losses, dwarfing the trade impact.

Robust international trade means more jobs for railroaders as well. The rail trade data discussed above implies that approximately 50,000 rail jobs, worth over \$5.5 billion in annual wages and

benefits, depend directly on international trade.

This does not include other significant job-related impacts including employees at ports who handle shipments moving by rail, jobs at firms



that supply goods and services to railroads and others in support of trade-related rail movements, and secondary and tertiary job impacts derived from the expenditures of railroad employees, port employees, and their suppliers. These job

related impacts help explain why focusing solely on workers at firms that compete with imports is shortsighted.

NAFTA in Particular Has Been an Economic and Foreign Policy Success

Since the North American Free Trade Agreement (NAFTA) entered into force in 1994, bilateral trade between the United States and Mexico has surged and today exceeds \$500 billion per year. NAFTA has furthered the long-term U.S. political, diplomatic, and economic interest in a flourishing, democratic Mexico.

Moreover, around 40 percent of the value of U.S. imports from Mexico consists of content originally made in the United States – for example, auto parts made in the United States but assembled in Mexico. This kind of trade in component parts makes standard measures of bilateral trade balances misleading.

Ripping up NAFTA would do immense damage. It would show the U.S. to be an unreliable partner in its foreign relations. It would also disrupt production chains across North America, grievously harming both Mexico and the United States. It would add to border tensions while shifting trade to Asia without bringing back meaningful numbers of U.S. manufacturing jobs.

Source: AAR



Jocelyn Hill, Conrail

JOCELYN HILL NAMED 2018 RAIL INDUSTRY "RISING STAR"

Conrail's Jocelyn Hill will be named a 2018 rail industry rising star at this summer's recognition dinner. Jocelyn is Director, Public Affairs & Assistant General Counsel for Conrail and has been with the company since 2015. She is the public face of Conrail.

Ms. Hill led a long-term effort in Philadelphia to improve and clean up an historic drug area near Conrail right of way. She worked closely with community groups, law enforcement, local officials, economic leaders in

the city and many others to not just rehabilitate this area, but to obtain help and housing for impacted individuals. In Detroit, she has played an instrumental part in the Detroit Intermodal Freight Terminal "DIFT" Del Ray project upgrade which will make an extremely busy rail intersection run more efficiently.

She is also the attorney and government relations representative for the Detroit Inner Circle Greenway trail project. Congratulations Jocelyn on winning this prestigious award!

The state legislature continues to work on drone legislation based on recommendations from the Unmanned Aerial System 2017 Task Force. We advocate for strong protections of key facilities from unauthorized drone use. Rail yards are included in the Michigan Penal Code as a key facility.

We'll also be closely engaged in the possible re-writing of Public Act 51 - the state funding formula

for every dollar that flows through the MDOT budget. There are many viewpoints and positions on this topic and the MRA will continue to communicate with legislators what MDOT railroad funding benefits safety, crossing and economic development programs.

We note the Great Lakes Central crew members who helped to apprehend the Central Michigan University shooting suspect in March. These

observant and dedicated team members acted quickly around midnight the day of the shooting to alert authorities of the location of the shooter.

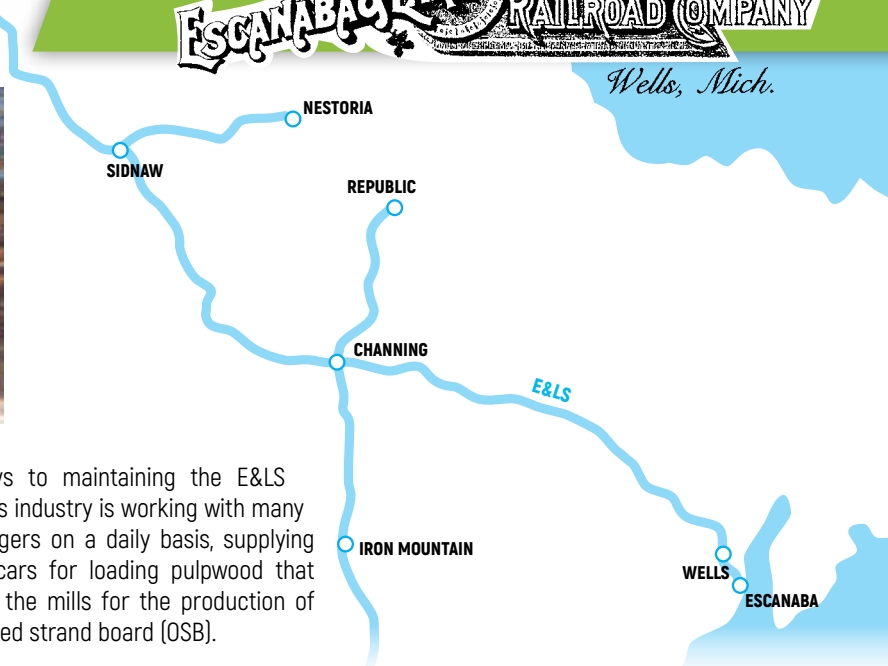
We also want to recognize the Lake State Railway Company for being awarded the 2018 Railway Age shortline of the year. This is an exceptional honor for the Saginaw headquartered railroad. Hats off to LSRC president John Rickoff and his entire team.

MOVING MICHIGAN

FEATURING



ROCKLAND



In 2018, the Escanaba & Lake Superior Railroad Company (E&S) will celebrate its 120th birthday. Created in 1898, the E&S began operating in the Upper Peninsula of Michigan and Northeastern Wisconsin. Over many decades, extensive change has occurred reshaping its railroad profile and business model. Freight transportation of forest products, providing rail car storage, and performing contract rail car repairs for the largest car owners in North America comprise the core business for the E&S today.

In October this year, it will mark 40 years that John Larkin has owned the E&S. His original purchase from Hanna Mining was the 63.5-mile line between Escanaba, MI to Channing, MI. His vision to expand happened rapidly in the early 1980's by acquiring primarily Milwaukee Road lines that became available as a result of its bankruptcy proceedings.

His branch line acquisitions that spanned the 1980's through 1995, preserved rail freight service for communities both in Michigan and Wisconsin while fostering economic development in this region.

The E&S has not been immune to economic downturns over these past 40 years. It has survived 3 paper mill closures, 2 pulp mill closings, and a major mine shutdown. Strong leadership and perseverance, in concert with aggressive cost saving measures, innovative freight service delivery, and expansion into rail car storage and rail car contract repairs set a long-term foundation for the E&S.

Forest products comprise over 82% of the freight that originates and terminates on the E&S system. The commodities include pulpwood, lumber, saw logs, and woodpulp. Key forest products customers served in this region include Louisiana Pacific Corporation, Verso Paper, Kimberly-Clark Corporation, Sappi Paper, Expera Paper and Wisconsin Building Supply.

One of the keys to maintaining the E&S stronghold in this industry is working with many independent loggers on a daily basis, supplying them with rail cars for loading pulpwood that is consumed by the mills for the production of paper and oriented strand board (OSB).

Other commodities transported include grains, fertilizers, ore, aggregates, cement, propane gas, canned goods, scrap metal, plastic pellets, and chemicals.

A major milestone was achieved by the E&S in late 2014 with the execution of a switching agreement with Canadian National (CN) to serve CN customers in Menominee, MI and Marinette, WI. This operating partnership provides for CN to interchange their traffic to the E&S at Marinette, with E&S moving loads and empties to all rail customers in both communities. This arrangement benefits both rail carriers in terms of operating savings and increased revenue while providing seamless service to CN customers.

For 2018, nearly 8,000 freight carloads were transported by the E&S system wide.

Rail car storage continues to be a major component of the E&S business model. Since 1999, the E&S has stored nearly 35,000 rail cars for the largest private owners in North America. The E&S has storage capacity for 7,000 rail cars on 4 branch lines and a number of sidings located in both Michigan and Wisconsin.

Total track space dedicated for storage approaches 115 miles. The rail car storage business is, in many cases, turnkey to the E&S contract car repair shop, with cars moving from storage to the Escanaba, MI shop for repairs and/



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or paint and then back to storage until a customer home is found.

The last foundational piece of the E&LS business model is its contract car repair business. Opened in 1991, the E&LS shop's infrastructure includes 52,000 sq. ft. of production space, 2 50-ton overhead cranes, 2 inside tracks that can accommodate 14 rail cars, multiple outdoor staging tracks, a separate blast-paint-cure booth, and a leased production building with 2 smaller inside tracks. Some shop highlights and trending car developments include:

- Repaired over 1,700 cars in 2017
- Painted 500 cars in 2017
- Full blast & paint for one locomotive

HEADQUARTERS WELLS, MI

EMPLOYEES

114

(includes F. T. subcontractors)

SYSTEM MILES

335

MILES OPERATED

235

MAJOR COMMODITIES

**AGRICULTURAL
CEMENT
OSB/LUMBER
ORE
PULPWOOD
SAW LOGS
WOODPULP**

PRESIDENT: **JOHN LARKIN** P 906.786.0693

VP, MARKETING: **TOM KLIMEK** P 920.841.5062

VP, MECHANICAL: **MIKE LOGAN** P 906.280.2505

WEB SITE **www.elsrr.com**

- Due to high demand for small cube hoppers, converted over 500 cement cars for frac sand use in 2017
- Demand for center beams and boxcars has yielded projects totaling 470 cars in 2017 into 2018
- Higher demand by car owners for Increased Life Status (ILS) on various car types

Looking ahead, the E&LS will maintain and grow its position as one of the elite contract car repair shops in all of North America. New ore business, trans-loading opportunities, and infrastructure upgrades both in Michigan and Wisconsin will insure long term freight sustainability for the E&LS and its customer base.

GLC CREW HELPS CAPTURE CMU SHOOTING SUSPECT



GLC Conductor Gregory Deneen (L) and GLC Engineer Justin Ellis (R).
Photo courtesy of GLC

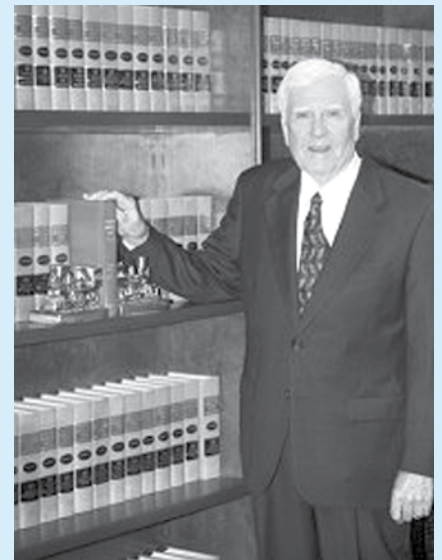
Three Great Lakes Central Railroad crew members helped in the apprehension of the Central Michigan University shooting suspect in March. Engineer Justin Ellis, Conductor Gregory Deneen and Co-conductor Dave Konency (not in above picture) notified law enforcement in Mt. Pleasant when they spotted the suspect attempting to jump the southbound train leaving campus.

Great Lakes Central President Chris Bagwell commented in the Argus Press newspaper, "I'm extremely proud of them. We're a family here, and when our employees get a chance to do something like this and help the communities we operate through, it gives me and the rest of the GLC Railroad team a great deal of pride."

PATRICK E. HACKETT 1926-2017

It is with great sadness we share that Patrick Ernest Hackett, age 91, of Brighton Michigan and Venice Florida, passed away December 2, 2017. For those in the railroad industry in Michigan, he came to be known as "The Legend."

Pat was an outstanding attorney, practicing railroad law for over 50 years. He began his career as Assistant General Attorney in Detroit for the New York Central Railroad Company (1952-1968), and its successor, Penn Central Transportation Company (1968-1970). He became General Attorney for Penn Central's Northern Region in 1970, then General Attorney for Conrail in Detroit in 1976. He entered private practice, still specializing in railroad law, in 1978.



He was elected president of the National Association of Railroad Trial Counsel in 1973 and was chair of its Executive Committee. He also served as President of the Michigan Railroad Lawyers Association. Pat was recognized in Michigan State Senate Resolution No. 134, adopted on March 1, 2000, as the "undisputed dean" of Michigan Railroad Counsel, having also authored a complete revision of the Michigan Railroad Code in 1993.

In 2006, Pat was inducted into the Michigan Transportation Hall of Honor, in recognition of his remarkable career.

In addition to his beloved wife Barbara, Pat Hackett is survived by his 7 daughters, Sue Delonis, Carol Hackett Garagiola, Lynn Hackett, Meg Hackett, Patricia Hackett, Elizabeth Hackett and Sarah Hackett.

LSRC NAMED 2018 NATIONAL SHORT LINE RAILROAD OF THE YEAR

The Michigan Railroads Association congratulates the Lake State Railway Company for being named the 2018 Short Line Railroad of the year. This prestigious annual industry award goes to the country's leading short line railroad.

Lake State Railway Company (LSRC) is a Saginaw, Michigan - based short line railroad that has been providing "excellence in transportation" since 1992. LSRC's approximate 300 miles of track run from Flint through its headquarters in Saginaw, up to Gaylord and Alpena. Lines also run to Midland, Bay City, and Paines.

LSRC, a privately-owned railroad, places a strong commitment to customer service and has experienced consistent business growth. Lake State's capital program has invested over \$32 million over the last 5 years in its network, including more than 20 miles of new or relay rail and approximately 5 miles of newly constructed industrial tracks. Current projects under way will represent a near-50% increase annualized by the end of 2018, and projections are to double 2017 volume by 2020.

Congratulations to the Lake State Railway Company on this significant award. Well done!



John Rickoff - President & CEO, Lake State Railway.
Photo courtesy of LSRC



Sam Crowl (L) OL thanks Rep. Tom Barrett for speaking at the November OL meeting in Lansing.
Photo Courtesy of Rahn Stokes.



L-R: Kevin Klepser - LSRC Engineer, Trooper Guzikowski - MSP, Sam Crowl - MI-OL, Chuck McPherson - DNR.
Photo Courtesy of Mike O'Sullivan.

MICHIGAN OPERATION LIFESAVER UPDATE

Rail Safety week this year will be September 24 - 30. This date will coincide with the effort in Canada to make this year's event an international program. A committee has been formed to have another successful RSW in 2018. The events will include a kickoff and several special events using social media, displays at Amtrak Stations, signs, radio ads and presentations.

Federal Railroad Administration (FRA) reports show an increase nationally in crashes up from 2041 to 2105 in 2017 a 3% increase. Michigan data shows an improvement - down from 69 to 54 in 2017 a 22% improvement. FRA records nationwide show an alarming increase in trespasser fatalities up from 470 in 2016 to 575 in 2017, while Michigan reports have also had an increase from 7 up to 13 fatalities in 2017. OLI attributes most the increase to be because of the use of headphones and other distractions while trespassing.

MI-OL volunteers made 345 presentations in 2017 to various groups including new drivers training classes, truck drivers, school bus drivers, students and general adults reaching 13,500 people.

Classes were held by MI-OL coaches in 2017 for 12 new Operation Lifesaver Authorized Volunteers (OLAV). A class for new OLAV's was held in Durand on April 3, 2018 for an additional 7 OLAV's.

Some of the special events MI-OL attended in Michigan recently include

- Event booth at Michigan Association of Chiefs of Police convention in Grand Rapids over two days.

- Officer On The Train (OOTT) event in Grayling and Gaylord area for enforcement of Snowmobile drivers. The law enforcement participants included Michigan State Police (MSP) Dept. of Natural Resources (DNR) on board the locomotive with the local Sheriff, and DNR and local police used as chase cars and on sleds.
- Special presentations were given at the General Motors Headquarters in Warren and the Ford Motor Company in Dearborn for the management of the Traffic and Logistics departments.
- Detroit Smart Bus Drivers - Education Department now invites MI-OL to make a presentation to its new bus drivers monthly.

MI-OL applied for and received over \$20,000 in grants for special projects over the last year from OLI, FRA, and Federal Highway Administration. The projects included large billboards, social media ads, radio ads and cell phone banners. Most of the social media ads were directed towards efforts to improve the trespasser problem and OLI will continue to apply for grants that are directed toward those in the problem age group of 18 - 30 years old.

Michigan Operation Lifesaver will hold the next regular meeting in Ann Arbor on October 19, 2018 at the Washtenaw County Sheriffs Complex. If you would like more information or want to volunteer for Operation Lifesaver, contact state coordinator Sam Crowl at 248-823-7037 or samcrowl@comcast.net

MRA

MICHIGAN
RAILROADS
ASSOCIATION

120 N. Washington Square
Suite 701
Lansing, Michigan 48933

Ph 517.482.9413
mra@michiganrailroadsassociation.com
michiganrailroadsassociation.com
@MI_FreightRail



Michigan Rail Update is a publication of the Michigan Railroads Association, 120 N. Washington Square, Suite 701, Lansing, Michigan 48933. President: Jon Cool. (P) 517482.9413. Members of the Michigan Railroads Association are: Adrian & Blissfield Rail Road Co., Ann Arbor Railroad, Canadian Pacific Railway, Charlotte Southern Railroad, CN, Consolidated Rail Corp. (Conrail), CSX Transportation, Detroit Connecting Railroad, Escanaba & Lake Superior Railroad Co., Grand Elk Railroad, Grand Rapids Eastern Railroad, Great Lakes Central Railroad, Huron & Eastern Railway, Jackson & Lansing Line, Lake State Railway Co., Lake Superior & Ishpeming Railroad, Lapeer Industrial Railroad, Marquette Rail, Michigan Shore Railroad, Mid-Michigan Railroad, Norfolk Southern Corp.

RAIL INSIDER SPOTLIGHT

Q: PLEASE INTRODUCE YOURSELF.

A: I have two sons, Ben (5) and Joe (6). I was born, raised and reside in Marshall. Graduated from UM, and worked in the construction industry through college and after. In 2004, I switched over to working in politics. I need to take on more hobbies but canoeing and fishing are fun. I really enjoy a good road trip to see strange places and meet people that are not all that different from the people I already know.

Q: TELL US ABOUT YOUR CURRENT POSITION WITH THE SENATE.

A: I am Sen. Dale Zorn's chief of staff. I work with a great team of people helping him navigate the Capitol, making sure the people of Lenawee and Monroe counties have a voice in their state government. I have a deep respect for this institution, the upper chamber, since interning two semesters in '97 and '98 and the privilege of being able to assist Senator Zorn while helping his staff grow and develop skills is a rare opportunity I enjoy.

Q: SENATOR ZORN REPRESENTS MONROE COUNTY, WHERE THERE IS A GREAT DEAL OF RAIL. SHARE SOME OF THE RAIL ISSUES THAT COME UP IN YOUR WORK.

A: Rail has a huge footprint in the 17th Senate district, being so close to Detroit and Toledo. The majority of the rail issues we deal with are usually pretty simple day-to-day issues, frictions between rail infrastructure and the rest of the world. No one notices a train running on time but whenever there is progress, new customers or new lines of business, it takes a while to work it all out. The other major side of rail is keeping an eye out toward the future. As business looks to locate, rail access can be critical and we are always looking for opportunities to support it.

Q: YOU WORKED WITH FORMER STATE SENATOR & CONGRESSMAN JOE SCHWARZ. SHARE A RAIL RELATED STORY DEALING WITH MR. SCHWARZ.

A: I used to drive Joe around his district a lot and it was always interesting when he had an extra 10 or 20 minutes between stops. He'd reach into the back seat for his old, well-worn road atlas and start tracing rail lines, calling



Paul Egnatuk, Chief of Staff - Senator Zorn.
Photo Courtesy of Pattrick Yockey

out where I needed to turn. He'd load me up with the full history of the track and the companies that had owned it over the years. We'd come to a crossing, I'm sure he was making some mental notes on it, conduct our amateur inspection, and then we'd resume the day.