The Railroad Industry at a Crossroads: The Wall Street Influence and the Call for Workforce Preservation.

Introduction:

The railroad industry is experiencing a dissonance between the investment strategies of Wall Street and the operational integrity necessary for its survival. The data extracted from the second supplemental filing in STB EP 770-1 reveals troubling trends: a decline in engineering department employment at major carriers such as BNSF, CSXT, NSR and UP. This period has seen the likes of Soroban Capital Partners and, most recently, Ancora Holdings exerting pressure for leadership changes with undeniable consequences for safety and service reliability.

Aggressive Corporate Restructuring and the Wall Street Approach:

Aggressive corporate restructurings, hallmarks of Wall Street's influence, have increasingly become part of the railroad industry's landscape. Investment firms target railroads for quick returns, often leading to decisions that prioritize immediate profitability over long-term investment in infrastructure and personnel.

DATA EXTRACTED FROM SECOND SUPPLEMENTAL FILING IN STB EP 770-1 RE: ENGINEERING DEPARTMENT EMPLOYMENT (see charts in filing for backup)

STB L300 (engineering department MOW + Signal + lower-level managers) carrier reporting on employment -% change by Big 4 Class I railroads since 2016

Carrier	8/16 vs 8/23	8/19 vs 8/23	8/22 vs 8/23
BNSF	↓17%	↓14%	↑6%
CSXT`	↓15%	↑1%	↑5%
NSR	↓21%	↓14%	↑4%
UP	↓27%	↓14%	↑.04%
Amtrak	↑25%	↑28%	↑21%

This chart indicates a decrease in engineering department employment from 2016 to 2023, with BNSF showing a seventeen percent (17%) drop, CSXT a fifteen percent (15%), NSR a twenty-one percent (21%) and UP a dramatic twenty-seven percent (27%)[1]. This drop in vital maintenance and engineering staff underpins the risks associated with Wall Street's influence.

Hunter Harrison and the PSR Legacy:

Hunter Harrison's legacy in the railroad industry, chiefly through the implementation of Precision Scheduled Railroading (PSR), has sparked considerable debate, particularly concerning its efficacy and impact on the sector. While PSR was designed to revolutionize operations within North America's railroad industry by enhancing operational efficiency, asset utilization, and cost reduction, the outcomes of Harrison's approach have raised serious concerns, particularly around workforce dynamics, safety standards, and each Carriers' obligation to fulfill its duties to the public.

The aggressive push towards operational efficiency under PSR has led to substantial workforce reductions, leaving fewer employees to manage an increasingly complex and demanding workload. This reduction not only strains existing personnel but also significantly compromises the ability of railroads to maintain safe and reliable operations. The emphasis on cost-cutting and asset utilization, trademarks of Harrison's tenure at major railroads such as Illinois Central Railroad, Canadian National Railway, Canadian Pacific Railway, and CSX Corporation, has inadvertently fostered an environment where the well-being of employees and the safety of operations are at risk of being sidelined.

[1] This chart does not reflect 2020 or 2021 because of the COVID-19 pandemic. Employment levels during 2020 and 2021 were an anomaly on the rail industry.

Moreover, the serious safety concerns that have emerged alongside PSR's implementation indicates a broader failure to balance efficiency gains with the essential need for robust safety measures. The philosophy's narrow focus on short-term financial performance has overlooked the critical importance of investing in safety protocols and workforce development, essential components for the sustainable growth and ethical operation of any railroad system.

In essence, while Harrison's approach to railroading sought to redefine the industry through PSR, the resulting challenges—especially in terms of workforce reductions and safety issues—underscore a significant departure from the principles of responsible and sustainable industry leadership. These outcomes suggest that the PSR model, as applied under Harrison's guidance, represents a failure to adequately prioritize the long-term health of the railroad industry, its workforce, and the communities it serves.

Track Miles per employee- % change by Big 4 Class I railroads (based on carrier STB reporting on track miles and L300 employment-and BMWED membership reports) 2016- 2022 (track miles for all essentially constant)

Carrier	2016	2019	2022
BNSF (BMWED)	7.16	8.34	9.45
BNSF (L300)	5.37	6.30	6.73
BNSF (BRS)	23.5	25.1	28.7
CSXT (BMWED)	8.18	9.19	9.19
CSXT (L300)	6.09	7.09	7.34
CSXT (BRS)	19	22.8	25.5
NSR (BMWED)	9.68	10.4	12.1
NSR (L300)	6.36	7.09	7.34
NSR (BRS)	23.7	26.8	34.2
UP (BMWED)	6.45	7.42	8.61
UP (L300)	4.63	5.45	6.43
UP (BRS)	20.1	24.3	27.1

The chart above supports this, showing an increase in track miles per employee for these major rail carriers, with BNSF's track miles per employee in the BMWED (Brotherhood of Maintenance of Way Employes Division) rising from 7.16 in 2016 to 9.45 in 2022. Such increases in workloads without corresponding growth in workforce signal a troubling trend towards understaffing, potentially compromising safety and efficiency. At this time, there is no indication that this trend will change. In fact, Jim Vena, the Chief Executive Officer (CEO) of Union Pacific (UP) and a prodigy of Hunter Harrison recently proclaimed, "I'm [Vena] very comfortable that we have the programs, the processes in place to be able to correct that and have the way which is **<u>less people handling the same amount of business</u>**[2]." This is a major concern for the BMWED, considering the chart above shows that UP's track miles per BMWED employee rose from 6.45 miles of track in 2016 to 8.61 miles of track in 2022.

<u>The Push for Change: Soroban Capital and Ancora Holdings</u>:

The push for leadership change at Union Pacific by Soroban Capital Partners and at Norfolk Southern by Ancora Holdings exemplifies the pressure from investment firms to prioritize operational efficiency over workforce stability. In February of 2023, Eric Mandelblatt of Soroban Capital Partners advocated for Jim Vena to become the CEO of Union Pacific after taking a $1.6 billion stake in the railroad.

In 2023, Eric Mandelblatt of Soroban Capital Partners claimed that Union Pacific repeatedly and significantly failed to reach its potential under the leadership of former CEO Lance Fritz's leadership. Mandelblatt asserted that Union Pacific, "ranked the worst in safety, volume

[2] Jim Vena: Union Pacific Corporation (UNP) Q4 2023 Earnings Call Transcript -January 25, 2024 (https://seekingalpha.com/article/4665058-union-pacific-corporation-unp-q4-2023-earnings-call-transcript)

growth, revenue growth, cost management, EBIT growth and total shareholder return." Mandelblatt not only urged for a change in leadership, but he also publicly campaigned for Jim Vena to take the lead under the assumption that Jim would rely on cost cutting measures to increase shareholder return. Needless to say, in August of 2023, Jim Vena was appointed as the CEO of Union Pacific and thus far, he has advanced the calls set forth by Eric Mandelblatt.

Unfortunately, this unquenchable thirst for profits is a trend that will influence all of the Class I's in the United States. As recently as January 31, 2024, Ancora Holdings, another investment firm, has taken a $1 billion stake in Norfolk Southern and have nominated a majority slate of directors to the railroad operator's board, specifically in a bid to oust CEO Alan Shaw. According to U.S. News & World Report, Ancora Holdings' director slate includes former Ohio Governor John Kasich and former Kansas City Southern executive Sameh Fahmy (another champion of PSR). This group has focused their disappointment on Alan Shaw's handling of the devastating train derailment in East Palestine, Ohio in February of 2023. The Norfolk Southern (NS) derailment, involving a train with three (3) locomotives and one hundred fifty (150) freight cars, resulted in a significant evacuation and raised serious questions about the company's operational and safety protocols. In fact, according to a Bloomberg publication as recently as February 20, 2024, the investor group is proposing former UPS Chief Operating Officer Jim Barber take the lead and replace Alan Shaw.

This move by Ancora and its allies reflects a broader trend of activist <u>investors influencing the management and strategic direction of major corporations</u>, including those in the railroad industry. As pointed out above, activist investors have successfully instigated leadership changes in the railroad industry in recent years, underscoring the potential impact of such campaigns on corporate governance and strategy.

CEO Churn at the Bequest of Investment Firms:

CEO churn driven by investment firms disrupts the operational continuity of the railroad industry. This churn creates an environment where shareholders win, and stakeholders lose. It is rare when shippers' and organized labor's goals align. However, the constant confusion of who is leading the helm makes it nearly impossible for safety to improve and for the workforce to stabilize, creating massive uncertainty in the industry. Each new CEO will come with a different vision, priorities, and strategies. Constantly changing direction makes it challenging for stakeholders to anticipate and adapt to a railroading culture. This lack of stability deters confidence in an operation's long-term commitment to its interest.

When investment firms demand and install a change of leadership, it is an unquestionable sign that they are focused on short-term financial gains over the long-term interest of stakeholders. Such demands make it impossible for CEOs to establish long-term relationships and run a reliable operation. Jim Vena's installment at Union Pacific is a perfect example of a CEO being incentivized to boost immediate profits and streamline operations. The men and women who perform the day-to-day work on the railroad arguably have a vested interest to secure the long-term sustainability and welfare of the railroad, compared to the CEO. In any other industry this concept would not survive. No one should care more about the long-term success of an operation than a CEO. However, history before our very eyes is proving that CEOs in the railroad industry are easier to replace than the employees who work for them.

It is important to note that none of the current American Rail CEOs have long tenure in their roles. For example, BNSF's CEO, Katie Farmer was named President and CEO in January of 2021; Allen Shaw was named CEO of Norfolk Southern in May of 2022; CSX's CEO, Joseph Hinrichs was appointed to his position in September of 2022 and as pointed out, in August of 2023 Jim Vena became the CEO of Union Pacific.

CEO churn in the railroad industry creates a challenging environment for shippers and organized labor to make and maintain relationships. Shippers rely on the railroad to provide consistent and reliable service, while labor unions need stable partners for negotiations and implementing labor agreements. Turnover at the highest level of a company disrupts the development of trust and collaborative relationships. To summarize, CEO churn in the railroad industry is detrimental to stakeholders like shippers and organized labor because it disrupts leadership, undermines long-term commitments, and creates uncertainty. Stakeholders depend on stable and trustworthy partners to achieve their goals. Current railroad CEOs are nothing more than placeholders whose sole purpose is to extract as much wealth as possible in the near term for Wall Street investment firms.

The Importance of the Workforce- Maintenance of Way Forces:

The reduction in the Maintenance of Way forces throughout the industry is particularly concerning. Despite the increasing demands on the existing railroad infrastructure, there has not been a corresponding increase in the workforce to manage operations. This raises safety concerns, as the Maintenance of Way forces are crucial for the regular maintenance and emergency repairs that are vital to safe railroad operations. In the above charts we established the ratio of miles of track per BMWED represented employed through the year 2022 using the Carrier's own reported data. In 2023, the BMWED was notified by Union Pacific that it intended to furlough its Maintenance of Way force. Using dues data collected by the BMWED, between November 1, 2023 and December 1, 2023, the number of BMWED members employed by Union Pacific reduced from 6,005 BMWED represented employees to 5,802 BMWED represented employees. For reference, Union Pacific BMWED December Employment Levels since 2015 are as follows:

December 2015	8552
December 2016	7946
December 2017	7528
December 2018	7453
December 2019	7005
December 2020	6043
December 2021	6083
December 2022	6111
December 2023	5802

It is important to note that in December of 2023 the BMWED experienced it lowest level of Union Pacific employees in nearly a decade. Therefore, using the same formula to calculate track miles per employee based on BMWED dues collection data and under the premise that Union Pacific has 51,954 miles of track infrastructure (as reported on Union Pacific's R-1 form), a single BMWE member employed on Union Pacific was responsible for 8.95 miles of track in December of 2023. As of January 1, 2024, the BMWED membership employed on Union Pacific was reduced to 5,552. In the period of one (1) month, the responsibility of a single BMWED employee has increased to 9.35 miles of track.

This destabilization of Maintenance of Way employees is not fair to the BMWED represented employees who are expected to maintain the safety of our nation's railroad network, while Wall Street investors reap the benefits of their labor. Additionally, it is unfair to the American public and the rail customers who expect their goods to travel the nation's rails safely.

Conclusion: Reconciling Investment Strategies with Industry Health

In conclusion, it is imperative for the railroad industry to navigate the complex interplay between Wall Street's investment strategies and the critical need to sustain a robust workforce alongside dependable infrastructure. The analysis provided within this paper has illuminated a troubling trend: workforce reductions are unfolding in parallel with an increase in individual workload, underscoring a prevailing preference for financial efficiency that risks overshadowing the paramount importance of operational safety and integrity. This essay ardently advocates for a paradigm shift away from the narrow-minded pursuit of short-term financial gains towards a more strategic, long-term investment in the very foundation of the railroad industry—the railroader. Such a reorientation is not only vital for ensuring the safety of our nation's infrastructure but is also indispensable for fostering the sustainable growth of the railroad industry. This call to action is not merely about preserving the legacy of the railroad sector but about charting a course towards a future where financial prosperity and safety coalesce, ensuring the industry's resilience and its capacity to serve as a backbone of the national economy.

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