

In This Issue

- Scholarship!
- Mechanical Brief
- Railroad Traffic
- Industrial Inside
- Financial Focus
- The Edge

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**Now accepting 2017
scholarship
applications**

**Running repair
agents versus class
I railroad repair
crews – what you
need to be aware of**

**Some of the
shortline/regionals
hired ex-class I
railroad carmen to**

Tealinc Scholarship**NOW ACCEPTING 2017 SCHOLARSHIP APPLICATIONS!**

Tealinc, Ltd. is now accepting applications for the 2017 scholarship program. The program will award two – \$1,000 scholarships to the best qualified candidates. The scholarship program is open to the child (or dependent) of a person working in an industry that raises, manufactures or produces goods or provides services or is involved in transporting them. Examples of industries supported are farming/ranching, coal mining and transport, scrap steel recycling, steel production, fertilizer, minerals (iron ore, potash ash, soda ash, etc.), commodity and finished goods transportation (rail, truck, barge), grain, grain products, food manufacturing, lumber, building materials, aggregates, stone, sand and gravel, etc. Candidates must be enrolled in or in the process of being enrolled in a two year technical school, two or four year college or a trade school by March 31, 2017 in order to receive the scholarship.

Candidates interested in applying for a scholarship can [follow the link for Tealinc Scholarship Application & Guidelines](#)

Mechanical Brief with Steve Christian

Let me begin with a little personal history as I believe it relates to this subject. Back in the late 1960's, I can vividly remember the daily road trips in the "Q" road truck to perform repairs on railcars set out of trains on mainline and branch line sidings. "Q" was short for CB&Q Railroad (Chicago, Burlington and Quincy Railroad, now part of BNSF). I was a young carman's helper and I was teamed up with a "Journeyman Carman" who had had been trained in and performed a wide variety of railcar repairs. The "Q" was outfitted with a crane, a 600 amp welder/generator, cutting and heating torch outfit, diesel powered air compressor, hand tools, AAR gages, chain hoists, winches, air jacks, re-railing frogs, car parts and miscellaneous parts. We usually always had two wheelsets loaded on the bed of the truck. We could handle just about any situation that came up. I learned a great deal from the senior member of the team. He was the brains and I was the youngster with a strong back. He imparted a lot of knowledge to me that I still draw on today.

Since that time, railroads have divested themselves of thousands of miles of light density traffic lines. Most of these lines became shortline and regional railroads. Some of the shortline/regionals hired ex-class I railroad carmen to perform the car repair work on their lines. Others used contract repair shops in close proximity to the railroad to come online and repair railcars as needed.

In the early 80's one of the contract shops that I managed was involved with the second scenario for railcar repairs. The short line would

perform the car repair work on their lines. Others used contract repair shops in close proximity to the railroad to come online and repair railcars as needed.

From what I have heard from car owners, these shortlines became a sort of “speed trap” for railcar repairs

I have had the ideal test case to compare Class I railroad running repairs versus “Running Repair Agent” repairs

accumulate bad orders at an old roundhouse’s storage tracks. They would contact me when there were several there and I would send our road truck with a two man crew to accomplish the repairs. Our road truck was not as well equipped as the “Q” road truck but it was not that far off. We would provide the shortline with a Billing Repair Card (“BRC”) with our contract shop pricing. We would also provide a BRC at full AAR rates from the price matrix which the shortline could present to the car owner, if warranted, for reimbursement.

A few years later, I was approached by another shortline to provide the same service on their line; however, they wanted us to find the bad orders, repair them and invoice the car owners on their behalf. Once we collected for the repairs, we would give the shortline a percentage of the proceeds. Because of the low traffic levels, I could not see how you make any profit off of the bad orders on that line without stretching or violating the AAR Interchange Rules. I passed on this opportunity and another one just like it later on. These shortlines were successful in finding others to fill this role. From what I have heard from car owners, these shortlines became a sort of “speed trap” for railcar repairs and to be honest, in some situations, it appears that the shortlines had found contractors who may be willing to stretch or even violate the AAR Interchange Rules.

In recent years the AAR addressed the use of contractors to perform railcar repairs on shortlines and regional railroads in the AAR Interchange Rules. To begin with, let’s note the definition of the relevant terms from APPENDIX A of the AAR Office Manual:

- **Running Repair**
“Any repair performed to an interchange freight car by a railroad subscriber to the AAR Interchange Rules and within the limitations of AAR Interchange Rules 1 and 108.”
- **Running Repair Agent**
“A railroad's running repair agent is a running repair contractor as listed in Appendix H or in FindUs.Rail performing the work of running repairs on freight cars. The running repair agent must be a signatory to the AAR Interchange Rules. Running repair agent is synonymous with various references in the AAR Interchange Rules where "repairing road," "repairing party," "repairing line," "billing company," and "billing road" are so noted. (Reference Rule 85 and Office Manual Rules 112.G.5 and H.3.)

While I don’t doubt that the AAR’s intentions were good, one of Tealinc’s monthly tasks includes the auditing of railroad BRC’s for Tealinc and our customers including those from Running Repair Agents. I have had the ideal test case to compare Class I railroad running repairs versus “Running Repair Agent” repairs and have found that, in some situations, the Running Repair Agents are less skilled and less experienced than the Class I teams, they often search for repairs that are labor intensive and require little material change-out and often times larger repairs can be overlooked. Additionally, repairs can often be beyond the scope of Rule 1. Case in point, Tealinc owns a group of railcars that were built by the same builder, in the same lot and ran together in aggregate service for many years. About 5 years ago, the cars were split up with one group going into

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**January 2017
carload traffic up**

**Nine of the 10
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coal and grain**

aggregate service on a class I railroad and the other cars going into aggregate service on a shortline railroad. In both cases, the cars travel at low speeds on short roundtrips in seasonal service.

The group that runs on the shortline is maintained by a Running Repair Agent and the group of cars that run on the Class I are maintained by the Class I railroad. When comparing the repair invoices, the cars that have been in Class I railroad service have brake shoes, brake work and the occasional wheelsets replaced. The cars that are maintained by the Running Repair Agent have some limited brake work, lots of labor intensive work (including welding repairs) and no wheels have been replaced. Additionally, air brake tests are often overlooked on the shortline as are recording in work in UMLER.

I bring this to your attention so that you will raise your awareness when dealing with these maintenance providers. While I am certain that most of these repair agents have the best intentions, it is important to understand that if regular maintenance is missed, once the cars are interchanged again with a Class I railroad, larger scale safety appliances, wheels and brake issues may stop your cars from moving and repair costs can skyrocket. The sooner you detect a problem, the easier it is to get it resolved. Of course, you can always count on Tealinc as a resource to aid you in the analysis and resolution of your dealings with Running Repair Agents.

As always, Tealinc stands ready to employ our many years of experience and varied talents in the railroad industry to work for you.

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Railroad Traffic

The Association of American Railroads has reported that total U.S. rail traffic for January 2017 was 2,017,641 carloads and intermodal units, up 0.5 percent or 9,788 carloads and intermodal units compared with January 2016.

January 2017 U.S. carload originations totaled 996,573, an increase of 2.9 percent, or 28,341 carloads, compared to January of last year. Excluding coal, carloads for the month were down 1.1 percent or 7,457 carloads compared to January 2016.

U.S. railroads also originated 1,021,068 containers and trailers in January 2017, down 1.8 percent or 18,553 units from the same month last year.

Nine of the 10 commodity categories tracked by the AAR each month saw increases compared with January of 2016. Commodities showing the largest increases included waste and nonferrous scrap, up 20.9 percent, or 2,546 carloads; coal, up 11.9 percent, or 35,798 carloads; and grain, up

"January rail traffic paints a mixed picture, with some commodities exceeding expectations, while others remained flat or down. For most of last year, coal carloads were down sharply, but for the past couple of months, including January, they've been the major force behind rail carload gains."

Scrap metal prices rise for first time in five years

"Scrap processors are really in the commodity business. The year 2015 was probably the worst year our industry had faced not just in decades, but in a generation. We had been downward trending for such a long period of time, exports slowed. Exports account for 30 percent of what we process in the U.S. In 2011,

5.2 percent, or 4,570 carloads.

Petroleum and petroleum products showed the largest decrease in the commodity groups, with a drop of 19.5 percent, or 9,751 carloads, and stone, clay and glass products declined 10.9 percent, or 2,904 carloads. Chemicals were down 3.6 percent, or 4,456 carloads.

AAR Senior Vice President of Policy and Economics John T. Gray remarked, "January rail traffic paints a mixed picture, with some commodities exceeding expectations, while others remained flat or down. For most of last year, coal carloads were down sharply, but for the past couple of months, including January, they've been the major force behind rail carload gains."

"We can probably expect continued uncertainty in energy markets going forward, but we're hopeful that improving macro-economic fundamentals will drive improvement in rail volumes for many commodity categories this year," added Gray.

Visit the AAR at:

<http://www.pocketlist.com/january-us-rail-traffic-sees-slight-increase-0>

Industrial Inside

For the first time in roughly five years, scrap metal prices are on the rise, and it's a much welcome bit of good news after trend that saw some scrap metal companies shutter their businesses.

"When facing continually downward trending prices, it makes it hard to do business," said Joe Pickard, chief economist and director of commodities of the Institute of Scrap Recycling Industries, Inc.

"Scrap processors are really in the commodity business. The year 2015 was probably the worst year our industry had faced not just in decades, but in a generation. We had been downward trending for such a long period of time, exports slowed. Exports account for 30 percent of what we process in the U.S. In 2011, exports sales were \$33 billion. In 2015, exports were \$17.5 billion."

Scrap metals are classified as either ferrous, including iron and steel, or non-ferrous, such as copper and aluminum.

"Copper are among the highest unit per value, but by tonnage, ferrous scrap is the largest commodity," Pickard said. "Typically in any year we are processing about 70 to 75 million ton just on ferrous. Ferrous tends to be a trendsetter for people in the industry. When ferrous prices go up, that tends to give a boost."

The recent downward trend occurred because of several factors. One, was the strengthening of the U.S. dollar, which makes it difficult to price the exported scrap metal competitively. Also contributing to the lower prices was the manufacturing sector.

"Because 70 percent of scrap metal stays in the U.S., the health of the

exports sales were \$33 billion. In 2015, exports were \$17.5 billion."

"Scrap metal is a pretty pure example of a free market... So, fast forward to 2016, especially the second half, and we saw prices come up significantly especially toward end of the year"

From October to December in 2016, the price of shredded scrap went up 37 percent. And they continued to rise into January.

The scrap metal industry is in a restructuring

scrap industry is closely connected to health of manufacturing industry," Pickard said. "The steel mills and other manufacturers buy our scrap. A car manufacturer stamping out car doors processes and recycles the left overs. It has been a really uneven manufacturing sector over the years. That translates into more difficult situation for scrap processors."

There are two sources of scrap metal. There is the new metal manufacturers generate, and old scrap, such as appliances, also called obsolete scrap. When prices come down, there is less incentive for people to collect and sell old scrap metal. That means the supply starts to dry up, which is actually a step toward a more robust market, Pickard said. When demand exceeds supply, prices start to go up.

"Scrap metal is a pretty pure example of a free market," he said. "So, fast forward to 2016, especially the second half, and we saw prices come up significantly especially toward end of the year. In the U.S., two-thirds of the steel we produce comes from scrap. The prices of other raw materials, such as iron ore and coking coal, really started to take off in 2016 and because they are substitutes for scrap, scrap prices tend to go up when other raw materials go up. Another factor was the very low inventory. There was less scrap being generated. That put upward pressure on prices as well. "On the steel side, there have been a number of trade cases in the U.S. that have sought to curb imported steel into the U.S. and that has had a big impact. Steel imports were down 15 percent last year. And so when less steel is being imported, there is better demand for domestically produced steel. Improving domestic demand, diminished imports into the U.S., rising raw material prices and low inventories of scrap. All those things contributed to the ramp up prices.

"Another part of that equation is that when import steel came down, U.S. steelmakers started raising their prices because they could. Steel prices are still going up and scrap tends to follow those. From October to December in 2016, the price of shredded scrap went up 37 percent. And they continued to rise into January. On any given month prices have been going up \$30, \$40, \$50 per ton per month."

Nonferrous prices vary by metal, Pickard said. Aluminum was up by about 11 percent in 2016, while zinc was up 60 percent and copper by about 14 percent. The price of copper stayed fairly flat for much of 2016 until just after the presidential election.

"Then for better or worse, copper prices shot up 20 percent just in one week," Pickard said. "I think a lot of the reason for that was expectations for increased infrastructure in U.S., and some of the other policy ideas debated during the election."

The scrap metal industry is in a restructuring phase, and that makes predicting the future a little more difficult, but generally the picture looks good.

"Within the scrap industry there has been a lot of consolidation — some companies selling their assets to other companies for not operating at anywhere near maximum capacity or in some cases, closing their doors. The year 2017 is still a pretty big question mark, but I think the longer-

phase, and that makes predicting the future a little more difficult, but generally the picture looks good

The Federal Reserve isn't rocking the boat yet in the Trump era

The Fed "expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace"

term prospects are really good when you consider the global demand for raw material and also the increased emphasis on sustainability and the place recycling plays in the sustainable development."— CEG

Read the entire article at:

<http://www.constructionequipmentguide.com/scrap-metal-prices-rise-for-first-time-in-five-years/32621>

Financial Focus

America's central bank didn't raise its key interest rate February 1, 2017 at the end of its two-day meeting. The decision was widely expected by investors and economists.

Fed officials are committed to raising interest rates slowly.

The Fed said in a statement that it "expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace."

But President Trump's policies may force the Fed to move faster.

Trump's plan for a major infrastructure bill could ramp up demand for U.S. goods. That could quickly push up inflation, which has been sleepy in recent years. Faster inflation means a faster pace of rate hikes.

Right now the Fed is forecasting three rate hikes in 2017. It raised rates once each in 2015 and 2016 -- the first rate increases in a decade.

Related: Will Fed rate hikes come back to haunt Trump

If the Fed starts raising rates faster, that would affect millions of Americans seeking home mortgages, auto loans and paying off credit card debt. It could also trigger volatility in global financial markets -- investors expected "slow and steady" for years. Any surprise from the Fed likely would not go over well.

Trump and Republicans may force the Fed's hand in other ways.

Trump is mulling a 20% tax on Mexican imports to pay for the border wall. Trade experts say goods imported from Mexico -- from cars to avocados -- would become significantly more expensive, triggering inflation.

House Republicans are pushing for something called a border adjustment tax. Supporters say it wouldn't make imports more expensive but critics are wary this tax will work as perfectly as that.

Some experts believe Trump's impact on the Fed will more likely come through executive actions than legislation, which has to be pushed through gridlock in Congress.

"Anything he can do by executive order has the potential to move the Fed faster than they're currently forecasting," says Michael Arone, chief investment strategist at State Street Global Advisors.

Fed leaders haven't spoken much about tariffs and border adjustment. But one did note that if Trump's fiscal plan to rebuild America's roads and bridges sparks inflation that the Fed will need to step on the pedal.

"If the economy ends up for whatever reason — fiscal policy or other things — growing faster, if we have more job growth and inflationary pressures

Investors only see about a 30% chance of a rate hike in March

pick up, then we will have to raise rates faster," San Francisco Fed President John Williams told the Financial Times on Jan. 9.

The Fed next meets March 14-15. Investors only see about a 30% chance of a rate hike in March, according to CME Group.

Learn more at:

<http://money.cnn.com/2017/02/01/news/economy/federal-reserve-january-meeting/>

The Edge

... with Darell Luther

Railroad "Think"

Creating value in transportation and logistics is often tricky. To truly translate transportation and logistics needs to reality is even more complex. Then to optimize these needs to benefit economics and efficient transportation becomes the challenge.

I remember vividly the first rail transportation and logistics consulting company I started back in the early 1990's. I was visiting with a customer one day in a restaurant in Vancouver, WA and he asked me, "Why did you leave the railroad to start this business?" At the time I was doing operational and rail rate consulting.

At the time, my background comprised of an almost ten year stint at two Class I railroads where I spent a varied amount of time in marketing, integrated network management (my boss worked for Hunter Harrison), rail fleet management, rail operations, a special finance group, tariff and contracting, unit train operations and railcar acquisitions and disposal. (As an aside, since that time I've spent the last 25 years on the private shipper and car owner side as well as starting two companies that focus on rail transportation at all levels).

My answer to my customer was something along the lines of the following: "I've seen just about every angle of a rail carriers requirements. I thought there was a business in translating those requirements to shippers and receivers first hand while helping shippers and receivers realize an economic benefit in utilization of this information." Almost thirty-five years later the model continues to work across a host of disciplines and my company remains dedicated to this same mission.

So to those who are new to rail shipping or who are looking at better adjusting and understanding the rail network, there are a series of items that rise quickly to the top of the list on understanding railroads requirements and competitive position so that you can economically participate in the railroads distribution network.

- 1. Rail Rates.** As a shipper, receiver or general freight payer, its best to understand the negotiating position of the railroad(s) that you require to meet your shipment requirements. First, there are seven Class I Railroads in the United States and Canada. In the United States there are five Class I Railroads, of which two are in the east, two in the west and one that runs from Canada to Mexico down the center of the country. If you take a moment and picture this (or Google it) you'll soon realize that with some discipline, railroads have a lot of pricing autonomy for their freight services. Railroads have gone through some difficult financial times and have learned from them.

Post Staggers (deregulation) railroads rushed to sign up shippers under long term contracts to protect their revenue streams. This was a competitive time with significantly more Class I

Railroads hauling freight. Railroads soon learned as commodity and processing value chains rose in profits that they weren't realizing any of this growth because price indexes wouldn't keep up with value changes so as soon as possible thereafter, railroads shifted as much pricing as possible to public tariffs.

Public tariffs allow price discovery. To look up prices, simply go to a railroads website, sign up for a log in, and pull up prices for your particular commodity. It's in the railroads best interest to obtain as much business on a competitive playing field as possible while optimally pricing your shipment.

So how do you obtain "decent" rates?

That depends on what options you have available. If you're participating in a Greenfield site you have all sorts of options - the most important of which is to obtain access to at least two Class I carriers. This may be accomplished by setting up your site on a Shortline railroad or industrial site that has dual access or setting up your site near two Class I railroads where it economically feasible to build out tracks to the interchange.

If you're stuck with one carrier, you may want to review a build out of track capacity to a nearby location that has dual access to two Class I railroads. Other options may be to shift carloads of business to other plants that have competing railroads for rate adjustments on that railroad. A further consideration is to co-op shipments with locations that have competing origin railroads where there is a similar transportation disadvantage.

Straight up education of your business to the railroads is another option. If they realize that their rate actions are impeding your business and rate adjustments can increase volumes in an advantageous corridor, then they should be considered; however at this stage, don't kid yourself. If a rate concession won't move the needle for the railroad they certainly won't concede their rates. Additionally don't expect them to put you at a competitive advantage because they won't.

A last resort is petitioning the Surface Transportation Board for a rate concession. To obtain a rate concession you need to prove that the railroad is putting your shipments at a competitive disadvantage, you have no alternative transportation modes and the railroad is charging egregious rail rates.

Regardless of where you're at in you shipment scenario rail rates are often at the head of the list when it comes to accounting for transportation costs. We've found dual access is worth anywhere between a five and twenty five percent rail rate savings so it's worth looking into.

- 2. Operating Requirements.** Class I railroads have reduced their railway track footprint over the course of time pulling up most any track not required for immediate use and selling a great deal of track and rail access into the secondary market. There are some 500 plus Regional and Shortline Railroads today all created from Class I secondary line sales. Class I Railroads have all put billions of dollars into rail sidings and yards to support major commodity groups such as coal, grain, crude oil, frac sand, chemicals, intermodal, etc. The whole intent of these investments are to make the railroad networks more efficient for the transportation of commodities from an origin area (Powder River Basin, eastern corn belt, Gulf Coast chemical complex, Long Beach, etc.) to a destination area or specific customer or commodity destination area.

The message is railroads will move railcars as quickly as possible while maintaining fluidity on their network. They expect the same out of their customers. They'll give their customers a set amount of time to load, present the railcars for shipment and unload and present the

empties back to them. After the set amount of time the customer pays for the delay in most cases regardless of who is truly at fault (as a side note, we quickly delve into the world of timing e.g. when railcar(s) offered for pickup by the shipper as a load or receiver as an empty versus when electronic billing was presented versus what the railroad system has in their system). The message we're being sent by the railroads is that it is necessary to have sufficient track capacity at each origin and destination to accommodate the potential surge in railcars if the fluid system gets out of balance.

To put this in perspective imagine a scaled down version of the human nervous system. Instead of millions of neurons, receptors and signals to specific areas of the body and brain each railroad has tens of thousands of miles of track connecting millions of customers with each other across additional railroads with tens of thousands of miles of track and hundreds of shortline and regional railroads supporting the transport of over a million and a half empty and loaded railcars. Its complex and someone has to provide the buffer to accommodate these railcars or shipments.

Operating requirements play a key role in a customer's ability to fit into the railroad template. Take stock of your track capacity, local interchange capacity and ability to take a surge of railcars.

- 3. Rail Equipment.** Views on rail equipment have migrated over the past two to three decades from one in which the majority of railcars were controlled (owned, leased, financed) by the railroads and provided to the customer for their use to a more even mix of railcars being controlled by private lessors, shippers and receivers and railroads.

Why the transformation?

The three factors that lead to the change are financial requirements of the railroads, liability risks and utilization rates for rail equipment. Every Class I Railroad has gone through a rationalization phase. During these phases assets are reviewed as to the amount of return they can provide, the risk associated with owning them and what utilization rates they can support. Phase I goes way back to the pre-Staggers (deregulation) stage where railroads were virtually required to invest in railcars to provide transportation to customer. A large majority of the rail fleet was controlled by railroads at this point. Phase II is what I call the asset-financial balancing stage (immediately after Staggers Act) where railroads were deregulated and had more latitude on what they invested in. The fundamental change in rail equipment ownership began in this phase.

In the west, opportunities were abundant with the increased use of coal out of the Powder River Basin of Wyoming, in the south Gulf Coast chemical plants needed additional rail options and in the southwest ports needed infrastructure development to support intermodal. These all required significant track and infrastructure investments leaving the railroads with little left over funds to invest in railcars. In the east, similar decisions were being made with the breakup/sale of Conrail to CSX and NS pushing invested capital to infrastructure first, changing the fleet mix between railroad and private ownership significantly over time. Railroads still have a significant amount of railcars under their control even after the shift away from controlling the vast majority of the railcars to customers.

Liability risk is another key area considered by railroads in the railcar world. Railcars that carry commodities such as chemicals, hazardous materials, radioactive materials, etc. will almost always require a private railcar. Additionally, railroads have not invested thus far in tank cars outside of a handful of fuel and water tanks utilized internally.

Utilization of railcars is very important to railroads. That's how they generate the majority of their income, moving railcars quickly and consistently. If a railcar has low utilization rates railroads generally require the shipper to obtain their own rail equipment. A general definition of low utilization is less than ten loaded trips per year. Plastic pellet railcars are a good example of this situation where the railcar itself is often used as a storage vessels. Railroads have no interest in rolling storage.

Private shippers/receivers and lessors of railcars must go through an approval process to run private railcars on railroad lines. This process is called OT-5. Part of the OT-5 approval is documenting to the railroads that there is sufficient space available (see operating requirements above) to accommodate all of your railcars should you need to park them. This doesn't necessarily need to be at the facility registering the OT-5 but it should be within a reasonable distance. Without OT-5 the railroad isn't required to let a private railcar owner run their equipment on its rail lines.

The dilemma in working with the railroads when it comes to providing railcars is that on a micro basis it isn't static. During recessionary periods or when traffic flows are off, if the railroads have surplus equipment that can be substituted for private equipment, they will become insistent private shippers forgo the use of their own railcars in lieu of the railroads equipment. One can't blame them for their efforts. It's a frustrating dilemma though for shippers who have taken the extra step to obtain railcars to support their traffic flow expectations when the railroad didn't have railcars available. Generally the business case wins out and railroads back off allowing those railcars properly registered in OT-5 to continue in service. Time and time again we see that planning for and utilizing a privately owned or leased fleet of railcars allows the majority of shippers to control their destiny and ensure that when times are prosperous and the railroad doesn't have equipment to offer, shippers still have access to the equipment they need to support their businesses product transportation success.

Companies that are trying to fine tune their logistics and lower transportation costs find that rail rates, operating requirements and rail equipment are key cost drivers that should be proactively managed. By understanding how a railroad views your business from these perspectives is a key step in finding opportunities to save money through better processes, timeliness and integration.

Also of importance to understand are Logistics Management, Railcar Maintenance and Accessorial costs. These items will be addressed at a later time.

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We look forward to earning your business!