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Railroad Updates

CN and BNSF Announce Agreement to Improve Rail Fluidity

CN, BNSF agreement to focus on improving rail network fluidity

CN and BNSF Railway Company have announced an agreement focused on improving rail network fluidity and infrastructure capacity, principally in Vancouver, B.C., Chicago, and between Memphis and southern Illinois.

The agreement includes track and rail infrastructure exchanges between the railroads, and CN's grant of trackage, haulage and other access rights to BNSF Railway.

Highlights of the agreement are:

- In Vancouver, B.C., CN will obtain operational, dispatching and maintenance control of 12 miles of joint track between the Fraser River Bridge in New Westminster, B.C., and ocean terminals on the south shore of Burrard Inlet near downtown Vancouver. This trackage also connects CN's network with its north shore terminals, customers and the former BC Rail.
- In Chicago, BNSF will obtain operational, dispatching and maintenance control of CN's Corwith Tower interlocker, and obtain trackage rights on CN for 30 miles between Corwith and Joliet, Ill., and on two miles of CN's 49th Street line.
- BNSF will obtain trackage rights on CN's main lines between Memphis and southern Illinois. CN will also transfer its Memphis interlocker to BNSF

Read the entire article:
www.aar.org

AAR Updates

FRA reports improvements in train accident rate

For the ninth consecutive year-to-date, Federal Railroad Administration (FRA) reports improvements in train accident rate for the railroad industry, which is already the safest way to move goods across the country. Key measures of rail safety continued to show improvements through the first ten months of 2005, according to preliminary January-October 2005 data released by the FRA.

Accident rate reflects industry's commitment to operating safety

"This is very good news," said Association of American Railroads President and CEO Edward R. Hamberger. "It reflects the industry's total commitment to operating as safely as we can."

He noted that railroads hired thousands of new employees and invested several billion dollars to improve infrastructure during 2005. "These investments in people, track and equipment are paying off in improvements to both safety and efficiency."

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Railroad Traffic

U.S. Freight Railroads handled more traffic in 2005 than ever before

Both intermodal traffic and total volume as measured in ton-miles set annual records for U.S. freight railroads during 2005, the Association of American Railroads (AAR) reported.

The industry capped off its record-breaking year by originating 1,240,174 carloads of freight in December 2005 and an additional 873,301 intermodal trailers and containers. Carload volume for the month was up 1.8 percent over December 2004, while intermodal loadings were up 9.6 percent. For the fourth quarter of 2005, U.S. rail carloadings were down 0.8 percent while intermodal traffic was up 6.6 percent.

2005 U.S. Carloads were up 0.9 percent from 2004

Full-year 2005 U.S. carloads totaled 17,213,376, up 0.9 percent from 2004. Full-year 2005 U.S. intermodal loadings were 11,693,512 units, up 6.4 percent over 2004, which had been the previous highest annual total ever.

Total volume for the year was estimated at 1.69 trillion ton-miles, up 2.4 percent from last year when the previous record was set. "U.S. freight railroads handled more traffic in 2005 than ever before and worked extremely hard throughout the year to keep their operations fluid, efficient, and responsive," noted AAR Vice President Craig F. Rockey. "Capacity will be a key issue for railroads going forward. They will continue to spend massive amounts to help ensure that adequate rail capacity exists, but policymakers can help too by taking steps to encourage investments in capacity expansion that will be required to handle the significantly expanding freight transportation needs of our nation."

Capacity will be a key issue for railroads going forward

In 2005, coal accounted for 41 percent of total non-intermodal U.S. rail carloadings. Crushed stone, sand, and gravel saw carloads rise 17.9 percent in December, 4.0 percent in the fourth quarter, and 7.8 percent for all of 2005. Carloads of chemicals fell 1.1 percent in December, fell 4.6 percent in the fourth quarter, and fell 1.4 percent for the full year. In 2005, total chemical carloads of 1,538,086 accounted for 9 percent of total non-intermodal U.S. rail carloadings, second only to coal.

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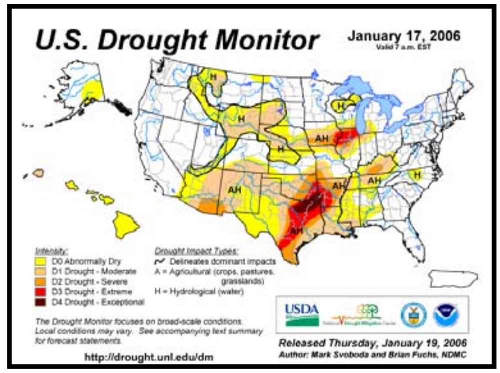
Industrial Inside

2006 expected to be another challenging year for farmers

According to a January 19 issue of Farm & Guide, 2006 is expected to be another difficult year for U.S. farmers. Fuel and fertilizer prices are expected to continue to rise while the cost of borrowing money and transportation costs continue to be a challenge for the industry.

Many analysts are concerned with the 2006 wheat market. Drought conditions in parts of the southwest wheat belt are of some concern amplified by a report the USDA released on December 1 that reported 41.4 million acres of winter wheat were planted, just under a million more acres than last year and about a million acres less than the average trade expectations.



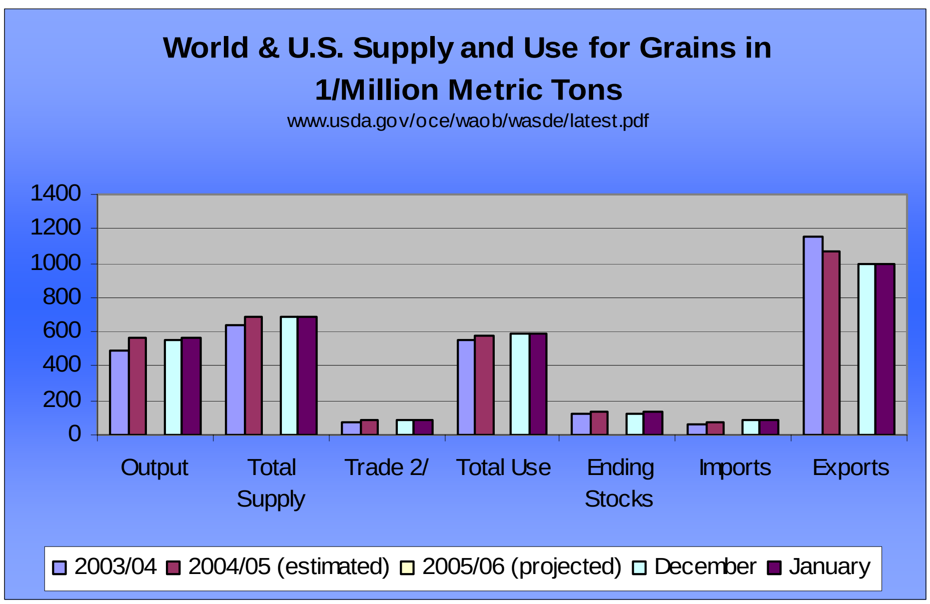
Remarkably stable balance for wheat supply and demand

The supply/demand wheat balance in the U.S. has been remarkably stable for the past three years with production just slightly below use and imports from Canada keeping carryover stocks stable. This modest U.S. wheat stock level of about 540 million bushels leaves prices open to some modest rally potential if the current winter wheat crop has problems. The situation for wheat is one of a very large world crop, the second largest ever.

Projected U.S. 2005-2006 wheat ending stocks are 542 million bushels, 12 million bushels more than last month. Estimated total wheat production is 2,105 million bushels, up 7 million bushels based on increased harvested area. The projected 2005/06 price range is $3.25 to $3.50 per bushel, unchanged from last month.

Estimated wheat productions is up 7 million bushels

Expected wheat imports for 2005-2006 were raised 5 million bushels. Between the two changes U.S. ending stocks were increased 12 million bushels, leaving the stocks-to-use ration at 24.8% of use.



The USDA also raised the 2005 China wheat production estimate 1 MMT, over 36 million bushels that was added to expected world ending stocks.

Spring rains expected to determine summer's winter wheat production

It is expected that Spring rains will be the determining factor in this coming summer's winter wheat production. Continue to watch the industry as drought conditions and changes in global economies will be reflected by grain price in the U.S.

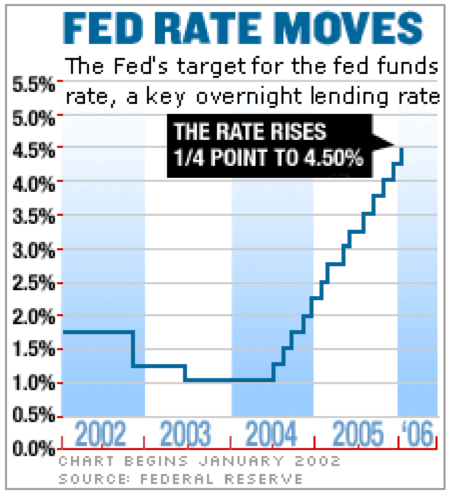
Learn more at:
http://www.msu.edu/user/hilker/outlook.htm#wheat
http://www.uky.edu/Ag/AgEcon/pubs/wkymkt/january.html

Federal funds rate now at 4.5 percent

Analysts believe Fed funds rate will increase to 4.75 percent in March

Financial Focus

The Federal Reserve raised the key interest rate January 31 for the fourteenth time since June 2004 to 4.5 percent, the highest the rate has been in nearly five years.



What's Next?

Many believe that the Fed has already slowed inflation with the government showing that economic growth slowed to 1.1 percent in the fourth quarter, the weakest pace in three years but with new Fed chairman Ben Bernanke running the show, analysts believe there is a 78% chance that the FOMC will increase the Fed Funds Rate by another 25 basis points when they meet on March 28, 2006.

The Fed Funds Rate is the primary tool that the Federal Open Market Committee uses to influence interest rates and the economy. Changes in the Fed Funds rate have far-reaching effects by influencing the borrowing cost of banks in the overnight lending market, and subsequently the returns offered on bank deposit products such as certificates of deposit, savings accounts, and money market accounts. Changes in the Fed Funds rate and the Discount Rate also dictate changes in the Wall Street Journal Prime Rate, which is of interest to borrowers.

Learn more at:
http://beginnersinvest.about.com

The Edge

I remember a time many years ago when I worked in the marketing department at a Class I Railroad stating to a customer that I agreed with him that the rail industry was a monopoly simply because we were the cheapest land transportation alternative available.

I almost got fired when my boss heard that bit of news. I was right then and am ("generally") right today. U.S. freight railroads handled more traffic in 2005 than any previous year. In a press release dated January 6, 2006, the Association of American Railroads (AAR) released the following statistics:

- Full-year 2005 U.S. carloads totaled 17,213,376, up 0.9 percent (151,665 carloads) over 2004.
- Full-year 2005 U.S. intermodal loadings were 11,693,512 units, up 6.4 percent (699,850 trailers and containers) over 2004's 10,993,662 units, which had been the previous highest annual total ever.
- Total volume for the year was estimated at 1.69 trillion ton-miles, up 2.4 percent from last year when the previous record was set.

From a commodity perspective the year looked as follows:

- Carloads of coal rose 1.6 percent (110,596 carloads) to 6,981,153 carloads for 2005 as a whole. In 2005, coal accounted for 41 percent of total non-intermodal U.S. rail carloadings.
- Crushed stone, sand, and gravel saw carloads rise 7.8 percent (83,682 carloads) for all of 2005.
- Carloads of chemicals fell 1.4 percent (21,936 carloads) for the full year. In 2005, total chemical carloads of 1,538,086 accounted for 9 percent of total non-intermodal U.S. rail carloadings, second only to coal.

Despite all this growth, railroads continue to struggle to be "revenue adequate". The Surface Transportation Board defines a revenue adequate railroad as *"a railroad is determined to be revenue adequate or inadequate based on comparing its rate of return on net investment to the cost of capital determined by the Board in its annual cost of capital determination, the most recent one being Ex Parte 558 Sub 7, which found the 2003 cost of capital to be 9.4%."*
In 2004 only the Norfolk Southern was revenue adequate and only one Class I made the hurdle in 2005. Class I railroads aren't earning enough to continue to promote their investment needs.

Where does that lead the shipping community?

Let's take a step way up the food chain to the political factions that significantly influence this country's transportation infrastructure. Our first look has to be at the airline industry; it's a bad, poorly run industry with high capitalization costs, high compensation costs and high fixed (yes "fixed") operating costs. What happens? Bankruptcy and reorganization abound. The politicians aren't about to let that happen to our rail infrastructure (remember the Penn Central?).

Next we have to look one step down the food chain at Wall Street (I'm not sure they'd appreciate my characterization of them being down in the food chain). They see an opportunity for the rail industry to get on its feet and firmly financially grounded. They're helping push, pull, call and significantly influence the shots at the major railroads through their ability to push railroad stocks to the investor community. Rightfully so, who wants to invest in a mediocre horse?

Next come the railroad operators themselves in the form of evaluation of the mix of top line revenue, costs, and growth potential. All these organizations have a say at how the railroads "should" operate on behalf of its shipping community.

I'm going to skip ahead here a few steps to shorten the length of this article. When you as a shipper look up at your rail transportation plan the railroads are or will be telling you if your business is profitable, if so how profitable and what the competitive nature of the business is or will be. They are doing this by converting major commodity lines to tariff versus contract (grain is mostly converted and coal has had tariffs in place for about two years) pricing so that they can raise and lower rates in a more expeditious manner to react to the market. They are requiring more capital investment of the shipper for railcars, sidings, load out facilities and other infrastructure that will expedite the gather and distribution end of the supply chain they are operating (see revenue adequacy above).

Is this all bad? No. Overall the rail industry needs to get healthy and only a good market will allow that. We as the shipping community need a healthy transportation community to deliver goods and make an adequate return ourselves. How do we adjust to this new found rail pricing and operations strength? I'd suggest figure out what makes your rail carrier(s) tick. Where are there service bottlenecks, in what lanes are they investing, how has pricing changed, how has service changed and what can you do to help make it easier for the railroad to haul your business versus your competitors? Most of this information can be garnered from the railroads or other public and private sources.

It seems ridiculous to think that you as a shipper have to sell your business to the railroads, but you do. If we can be of assistance please don't hesitate to call on us.

We look forward to earning your business!