Touchbase

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In This Issue

- Railroad Updates
- AAR Updates
- Railroad Traffic
- Industrial Inside
- Financial Focus
- The Edge

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The BNSF and CSX seamless intermodal doublestack corridor set to begin service February of 2007

The service is set to be the only single-line container service connecting California and the Southeast

Updates to Rule 91 define situations under which, if a car has to be set out due to specific mechanical causes, the repairing road can recover the associated repair costs of train delay, car set out and pick up and line of road jacking

Railroad Updates

The BNSF Railway Company and CSX Corporation's rail and intermodal companies are creating a rail corridor for seamless intermodal doublestack service connecting California with Atlanta and key markets within the fast-growing Southeast region. Intermodal service will initially be offered five days a week, and additional service will be added as the West Coast to Southeast intermodal market continues to grow.

Beginning February 26, 2007, the service will provide customers with single-line container service between Atlanta and California, with reduction in transit times of up to a day compared with existing alternate services. The new service also provides a single point of contact and the ability to ship with one bill of lading with BNSF. The new service will provide a sixth morning availability between Southern California and Atlanta. The companies also claim that they'll have enhanced interline service options between Southern California and the Memphis gateway to Charlotte, Charleston, Savannah and Florida points.

To support the new service, both BNSF and CSX are investing in line and facility expansions. Line capacity improvements, such as construction of additional double track, extension of sidings and upgrading of sidings to accommodate intermodal trains, are already underway and will continue through 2008. Also, facility improvements--such as additional lift capacity, strip tracks and more parking spaces--are currently being developed.

Read the entire article:
http://newdomino.bnsf.com/website/updates.nsf/updates-marketing-consumer/3A20B429C3BE778F862572490079FEA7?Open

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AAR Updates

In early December the American Association of Railroads (AAR) published Circular C-10416 announcing the implementation of a new Interchange Rule 91. The new Rule defines situations under which, if a car has to be set out due to specific mechanical causes, the repairing road can recover the associated repair costs of train delay, car set out and pick up and line of road jacking.

After receiving comments, the Committee met on November 15th and acted to approve the Rule for a January 1, 2007 implementation. Below are highlights of the new Rule.

Approved New Field Manual & Office Manual Rule 91
Rule 91 - Service Interruption

1. This Rule provides for a service interruption allowance to the

handling line railroad for costs associated with train delays caused by an AAR condemnable defect that causes a train delay on line of road. The AAR condemnable defect that causes the delay may be repaired at the delay location or a set out location. The repair set out location could be on line of road or at a terminal.

2. Train delay allowance Job Code is not allowed when:
a) A train is within the yard limits of the departure terminal.
b) Causing condition is a non-billable item.
c) Causing condition is a handling line defect.
d) Causing condition is an air hose failure.
e) Causing condition is an air hose separation.
f) Causing condition is a broken knuckle or knuckle pin.
g) The handling line slows the train speed to move it safely to terminal without stopping the train.
h) Causing condition had been identified at AAR condemnable level by an Early Warning, Maintenance Advisory or EHMS alert prior to the line of road failure

Setout/pick up allowance Job Code and jacking on line of road allowance Job Code can only be billed in connection with a train delay allowance

3. Setout/pick up allowance Job Code and jacking on line of road allowance Job Code can only be billed in connection with a train delay allowance.

4. Set out billing can not be charged for a set out at a facility where mechanical personnel are employed.

5. Records of service interruptions, involving billable defects, must be maintained and be printable.

6. The repair charge is as permitted in existing job codes.

Components of the service interruption job codes for railroads are based on industry averages including train delay, set out/pickup and jacking on line of road

7. Components of the service interruption job codes for railroads are based on industry averages as follows:
a. Train Delay – average train delay as measured on an hourly basis. This cost includes the train stop cost, the train crew cost, the locomotive cost and the freight car cost. This does not include the associated system train delay costs of any trains following that train which was stopped for the defined defect in this rule.
b. Set out/Pickup - the average cost to switch the car out and switch the car back into a train.
c. Jacking on line of road – the average cost to set up and raise car for repair.

Visit the AAR at:
http://www.aar.org

Railroad Traffic

Rail ton-mileage sets ninth consecutive annual record

For the ninth consecutive year, total freight volume on U.S. railroads as measured in ton-miles has set an annual record, the Association of American Railroads (AAR) reported December 28th.

Total volume for the first 51 weeks of 2006 reached 1.712 trillion ton-miles during the week ended December 23, breaking the 52-week record of 1.696 trillion set during 2005. This year's total was 2.6 percent above the total for the first 51 weeks of 2005.

This year's total carloads was 2.6 percent above the total for the first 51 weeks of 2005

For just the week ended December 23, total volume was estimated at 34.8 billion ton-miles, up 8.1 percent from last year.

Both carload and intermodal volume were also up from last year during the week ended December 23. Carload volume of 338,013 cars was up 6.6 percent from a year ago, with loadings up 8.6 percent in the West and 4.2 percent in the East. Intermodal volume of 233,890 trailers or containers was up 5.5 percent from last year. Container volume was up 10.1 percent, while trailer volume was down 7.5 percent.

Carloads of coke, grain, coal up; lumber, wood products, pulp, paper down

Twelve out of 19 carload commodity groups were up from last year, with loadings of coke up 19.0 percent, grain up 17.0 percent and coal up 8.6 percent. On the downside, lumber and wood products were down 18.7 percent and pulp, paper and allied products were off 6.4 percent.

For the first 51 weeks of 2006, carload freight totaled 17,111,268 units, up 1.4 percent from last year, while intermodal volume totaled 12,109,230 trailers or containers, up 5.2 percent.

Combined cumulative volume for the first 51 weeks of 2006 on 13 reporting U.S. and Canadian railroads totaled 20,901,699 carloads, up 0.8 percent from last year and 14,435,490 trailers and containers, up 5.2 percent from last year.

The AAR also said that during the week ended December 23 Mexican railroad Kansas City Southern de Mexico (KCSM) reported total carload volume of 11,767 cars, up 10.0 percent from last year. KCSM reported total intermodal volume of 4,201 trailers or containers, up 30.5 percent from the 51st week of 2005.

For the first 51 weeks of 2006, KCSM reported total cumulative volume of 582,592 cars, down 2.5 percent from last year, and 210,351 trailers or containers, up 0.5 percent from last year.

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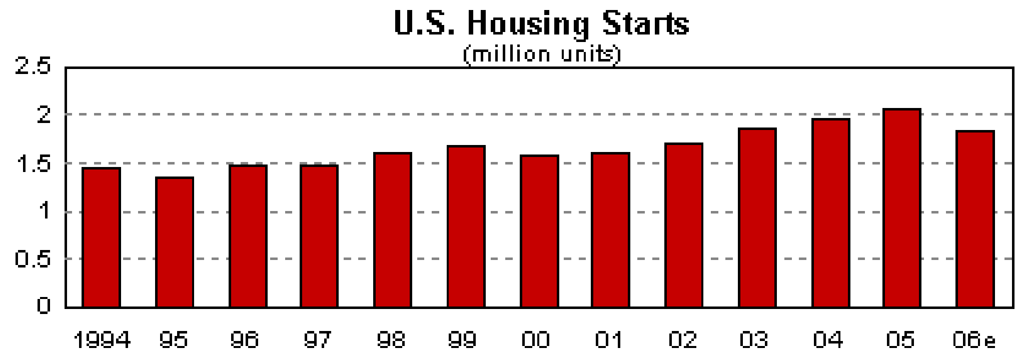
http://www.aar.org

Industrial Inside

After five years of court battles and disputes, the U.S. and Canada formed a new softwood lumber trade agreement on September 12, 2006 that is supposed to last for at least seven years. Roughly one-third of all U.S. lumber comes from Canada and so it is a relief to see the legal battle end.

Due to rising mortgage rates and slower housing demand, lumber prices have been falling for most of 2006

Lumber prices have been falling for most of 2006, hurt by rising mortgage rates and slower housing demand. Lately, the housing market has gotten some relief from a drop in gasoline prices and lower mortgage rates. In the big picture, the forest products industry has not been overly profitable and many traditional lumber companies have been selling their timber land and moving toward consumer products. In the first eleven months of 2006, housing starts were down 12.5% from a year ago compared to the first eleven months of 2006 where new home sales were down 17% from a year ago.



Through the first 10 months of 2006, total construction was up 0.5 percent compared to the same time last year

New construction starts in October fell 4 percent to a seasonally adjusted annual rate of $601.8 billion, according to McGraw-Hill Construction, a division of The McGraw-Hill Companies. Moderate declines compared to September were reported for each of the construction industry's three main sectors – nonresidential building, residential building and nonbuilding construction (public works and electric utilities). Through the first 10 months of 2006, total construction on an unadjusted basis came to $567.4 billion, up 0.5 percent relative to the same period a year ago.

Currently, lumber supplies are said to be plentiful while the market hopes for a change in demand

U.S. lumber production through September totaled 29.797 billion board feet, off 3.0% from the same period last year, according to the Western Wood Products Association. Production in the West was off 6.0% during that period, while southern production was unchanged. September production in the West totaled 1.367 billion feet, down 16.4% from the September 2005 total. Production in the South during September was off 14.5% vs. a year ago.

Currently, lumber supplies are said to be plentiful while the market hopes for a change in demand.

Read more at:
http://www.dailyfutures.com/livestock/ and
http://www.randomlengths.com/base.asp?s1=Daily_WoodWire&s2=Other_Industry_News&s3=Production&pub=list

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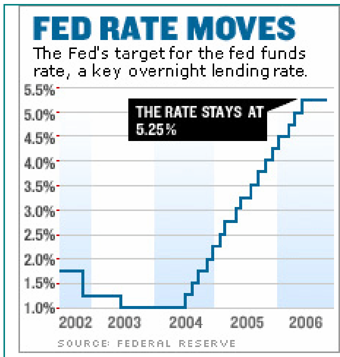
Financial Focus

The FOMC left the federal funds target rate at 5.25 percent

The Federal Reserve held interest rates steady for the fourth straight meeting December 11th - a widely expected move that comes as investors speculate about when the nation's central bank will begin to cut rates.

But the Fed also noted there had been a "substantial" cooling in the



Many economists say the central bank may cut rates in 2007

The odds of a recession during 2007 have risen

Next Fed meeting January 30-31

housing market, a possible sign the Fed may be concerned about the state of the economy. Stocks recovered some of their losses after the Fed's announcement while bonds moved higher.

Fed policy-makers decided to keep their target for the federal funds rate, an overnight bank lending rate that influences rates on many consumer and business loans, at 5.25 percent.

The Fed had raised rates seventeen consecutive times in a bid to keep inflation in check but paused in August and has been on hold since. Many economists say the central bank may start cutting rates in 2007 since economic growth has slowed, partly due to weakness in the housing market.

This tension has investors closely watching the Fed's pronouncements for clues about the Fed's next move on rates. Some have criticized the central bank for moving too slowly in the past to cut rates after a string of rate increases.

But the Fed indicated in its statement that it is still worried about inflation - echoing recent comments by Fed Chairman Ben Bernanke and other officials about the central bank's desire to make sure prices for goods and services remain under control.

The Fed used the same language to describe inflation as it did when it last met in October, noting that "readings on core inflation have been elevated" but that "inflation pressures seem likely to moderate over time" due to lower energy prices and the effect of the Fed's previous rate hikes.

The recent trend of slower growth is not expected to be reversed any time soon forcing some economists to anticipate that growth might not just slow next year but that the nation could tumble into a recession.

The recent trend of slower growth is not expected to be reversed any time soon. Home building and the broader real estate market are both already in a recession by most accounts and are expected to stay there well into next year. Manufacturing could soon follow, according to some recent readings.

While most economists are still expecting the economy to avoid a full-blown downturn next year, several say the odds of a recession have risen. Even the more optimistic analysts are looking for a slowdown in growth in gross domestic product (GDP), the broadest measure of the economy, to between 2 and 3 percent next year, from 3 percent or better this year.

Continue to watch the housing market and the manufacturing sector as they provide keys to the economy.

Learn more at:
http://money.cnn.com/2006/12/12/news/economy/fed_rates/index.htm?postversion=2006121216 and
http://www.industryweek.com/ReadArticle.aspx?ArticleID=13226&SectionID=3

The Edge

Happy New Year and welcome to the January 2007 edition of Tealinc Touchbase. We continue to see yet another exciting year ahead in the transportation and logistics arena.

Railroads spent much of 2006 perfecting signals and communicating them in various ways many of which where not always clear to the customer. Overall though I think we (as a transportation industry) got it!

Railroads are committed to providing point-to-point service and to doing it well. Rest assured they are also going to charge what the market will bear for that service and they will invest capital in those areas where the combination of point-to-point service, satisfactory near-term and future rates and capacity to haul the product prevails.

If you're not in the lanes described above you need to concentrate on how you can make your company as attractive to the railroads as possible. This means exploring all your transportation alternatives, increasing rail and track capacity if required, integrating electronically with your serving carrier and possibly supplying rail equipment to insure a steady supply of railcars.

If we may be of assistance in helping you sort this conundrum out please don't hesitate to call on us.

We look forward to earning your business!