Touchbase

January 2008

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Beginning in January 2008, the Union Pacific will implement an automated process for the billing of empty car movements

The CSXT HDF/mileage based fuel will change to 35 cents per mile for shipments having a bill of lading dated on or after January 1, 2008

Railroad Updates

Union Pacific is in the process of implementing systems enhancements that improve the billing and visibility of empty car movements received in interchange. These enhancements are being implemented to protect no-prior-loaded moves or empty back-to-back moves under Tariff UP 6004-C, Item 50.

Beginning in January 2008, the current manual process of billing these empty car movements will be automated. For your reference, examples of both chargeable and non-chargeable shipments are stated below.

Chargeable Back-to-Back Example: Union Pacific receives an empty car from a foreign carrier. This car had no prior loaded move on UP. Per the Tariff, this move is chargeable.

Non-chargeable Example: A loaded car originated on Union Pacific is interchanged with another carrier. At a later date, the empty car is received by Union Pacific and moves back to origin or to a point that does not incur out-of-route mileage. Per the Tariff, this move is non-chargeable.

Non-chargeable Example: A loaded car originated on Union Pacific reaches its destination on the Union Pacific. It is unloaded and returns as an empty car to origin or a point that does not incur out-of-route mileage. Per the Tariff, this move is non-chargeable.

In conjunction with the automated billing system and new system enhancements, Tariff UP 6004-C, Item 50 has been updated. In the tariff, UP has extended the amount of time a customer is allowed to provide written instructions to direct a car to an alternate destination. This timeframe has increased from 60 days to 150 days to provide customers more flexibility with their private fleets. The Tariff change will become effective January 1, 2008.

Read the entire article:
www.up.com

CSXT Fuel Surcharge Will Change January 1, 2008

Due to changing fuel cost, the CSX Transportation fuel surcharge will change January 1, 2008 as follows:

The CSXT HDF/mileage based fuel surcharge of 27 cents per mile, which became effective December 1, 2007, will change to 35 cents per mile for shipments having a bill of lading dated on or after January 1, 2008.

The 35 cents per mile fuel surcharge is based on the "HDF Average

Price" of 339.6 cents per gallon for the calendar month of November 2007. The "HDF Average Price" is on U.S. No. 2 Diesel Retail Sales by All Sellers, as determined and published by the U. S. Department of Energy, Energy Information Administration at www.eia.doe.gov.

The CSXT WTI fuel surcharge will change to 28.8% for shipments having a bill of lading dated on or after January 1, 2008.

CSXT WTI Fuel Surcharge
The CSXT WTI fuel surcharge is published in Tariffs CSXT 8100 and CSXT 8200 (Coal) and applies to all regulated common carrier linehaul freight rates and charges with respect to exempt, contract, private or other pricing documents that do not reference CSXT Fuel Surcharge Publication 8661.

The CSXT WTI fuel surcharge of 25.2%, which became effective December 1, 2007, will change to 28.8% for shipments having a bill of lading dated on or after January 1, 2008.

The 28.8% fuel surcharge is based on the West Texas Intermediate Fuel Oil (WTI) average price of $94.62 per barrel as published in The Wall Street Journal for the calendar month of November 2007.

Visit the CSX at:
www.csx.com

AAR Updates

The January 2008 Car Repair Facility Labor Rate to increase 8.7 percent since its last increase in October 2007

The AAR announced December 18 that effective January 1, 2008, the Car Repair Facility Labor Rate will be $94.68. This results in an 8.7% increase from the October 1, 2007 rate of $87.09.

The major changes resulted from a new national labor agreement for the TCU Carmen, which included retroactive wage increases effective July 1 of 2005, 2006 and 2007. Back pay amounts have been added for this new agreement and they will be amortized over four quarters and will be deleted from the labor rate effective January 1, 2009. In addition to the increase for carmen, machinists participating in the national IAM Agreement will receive an increase in their cost-of-living allowance effective January 1, 2008. Some independent agreements have wage increases scheduled for January 1, 2008 and two new independent agreements were also added. New rates for Health and Welfare, Railroad Retirement and Umemployment Insurance were all included into the Labor Rate. A new Overhead Study was also incorporated. The new TCU Carmen agreement also impacted Railroad Retirement and Overhead, since earnings were much higher.

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

Railroad Traffic

U.S. carload freight up in November, intermodal traffic off slightly

Carload freight was up on U.S. railroads during November, but intermodal volume was off slightly, the Association of American Railroads (AAR) reported December 6.

Coal, grain and chemicals carload traffic up; coke, pulp and paper products and metallic ores down

"November 2007 was the first month since December 2006 that U.S. railroads saw a year-over-year monthly increase in carloadings, and the most recent week (ending December 1) was the highest single week for U.S. rail carloadings since week 23 in June 2006"

U.S. railroads originated 1,322,861 carloads of freight during the month, up 2.9 percent from November 2006. Intermodal volume of 924,190 intermodal units was off 8,482 trailers and containers (0.9 percent) from November 2006.

Ten of the 19 major commodity categories tracked by the AAR saw U.S. carload increases in November 2007 compared to November 2006.

Commodities showing carload gains in November 2007 included coal (up 3.5 percent); grain (up 17.3 percent); and chemicals (up 7.3 percent).

Commodities showing carload declines in November 2007 included coke (down 20.2 percent); pulp and paper products (down 11.5 percent); and metallic ores (down 7.5 percent).

For the first 11 months of 2007, total U.S. rail carloads were down 394,455 carloads (2.4 percent) to 15,717,667 carloads, as year-over-year increases in chemicals (up 3.3 percent) and petroleum products (up 4.5 percent) were not enough to offset declines in most other commodity categories, including crushed stone, sand, and gravel (down 8.7 percent) and metals and metal products (down 8.4 percent). Year-to-date carloads of coal were down 0.8 percent, while year-to-date carloads of grain were virtually unchanged at 1,087,244 carloads.

"November 2007 was the first month since December 2006 that U.S. railroads saw a year-over-year monthly increase in carloadings, and the most recent week (ending December 1) was the highest single week for U.S. rail carloadings since week 23 in June 2006," noted AAR Vice President Craig F. Rockey. "Strong export coal and grain sales are a factor, but more important are the continuous improvements railroads have made in their operations. Our railroads are performing very efficiently."

U.S. intermodal traffic, which consists of trailers and containers on flat cars and is not included in carload figures, was down 2.1 percent for the first 11 months of 2007.

Total volume for the first 48 weeks of 2007 was estimated at 1.63 trillion ton-miles, down 1.0 percent from a year earlier.

Canadian rail carload traffic (including the U.S. operations of Canadian railroads) was up 9.8 percent in November 2007 0.4 percent for the year to date. In November, carload increases in metallic ores (up 56.6 percent) and coal (up 12.1 percent), among others, more than offset carload declines in lumber and wood products (down 18.1 percent) and primary forest products (down 16.4 percent), among other commodities.

Canadian intermodal traffic was up 9.8 percent in November 2007 compared to November 2006, and up 3.6 percent for the first 11 months of 2007.

Carloads carried on Kansas City Southern dé Mexico, a major Mexican railroad, were down 0.5 percent in November 2007 while intermodal units carried were up 20.0 percent. For the year to date, KCSM carloads carried were down 4.1 percent, while intermodal units carried were up 14.7 percent.

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

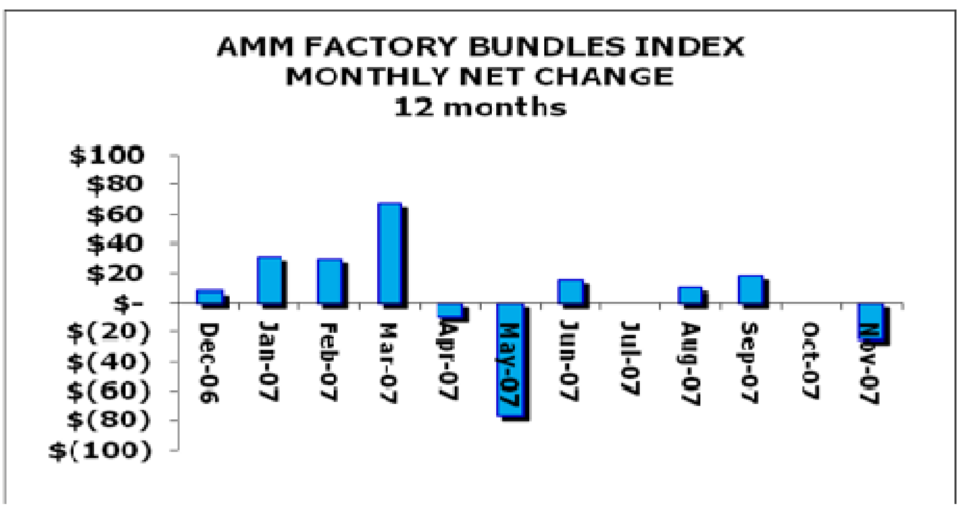
US Scrap prices weaken while the international steel demand will continue to drive scrap demand up

Prices for auto industry factory bundles fell $25-a-ton in November, $10-a-ton more than expected. The decline, the steepest in six months, was due in part to weak buying by integrated steel mills and mini-mills, neither of which needed much scrap inventory.

Industrial Inside

Prices for auto industry factory bundles fell $25-a-ton in November, $10-a-ton more than expected. The decline, the steepest in six months, was due in part to weak buying by integrated steel mills and mini-mills, neither of which needed much scrap inventory. Prices for prime steel scrap grades such as No. 1 bundles and busheling subsequently fell as much as $30-a-ton while obsolete grades like No. 1 heavy melting steel and shredded declined by only $5 to $10-a-ton.

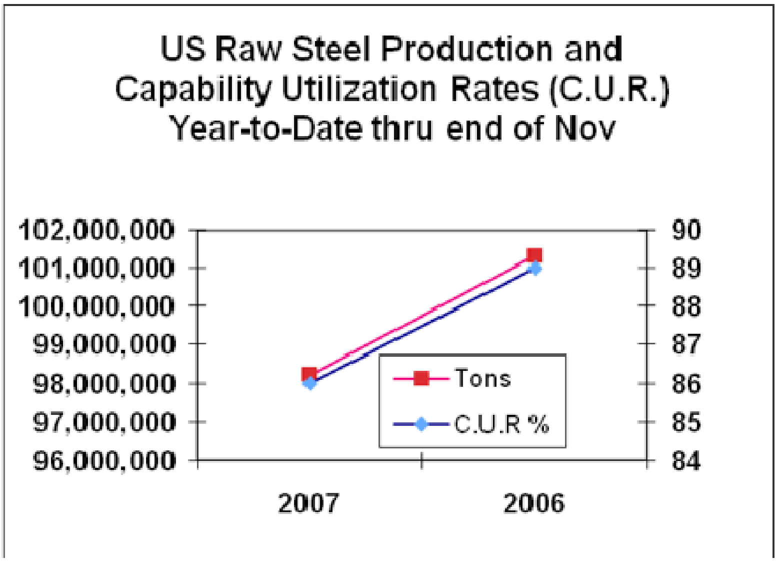
Most industry traders believe there will be little or no change in December as mills traditionally reconcile their inventory for the New Year. Nucor Corp. announced it will hold pricing on reinforcing bar, merchant bar and structural products for December shipments, cutting raw material surcharges by $15-a-ton and raising base prices by the same amount, leaving the net effect unchanged. The raw materials surcharge in December will be $118-a-ton, down 11.3 percent from November's $133-a-ton price.



Economic Trends

In its third consecutive drop, US raw steel production totaled 2,024,000 tons in the last week of November, as mills operated at an average capability utilization rate of 84.9 percent. Year to date, mills have produced 98,230,000 tons at an average capability utilization rate of 86 percent, down 3.1 percent from a year earlier, when mills produced 101,321,000 tons at an average capability utilization rate of 89 percent, according to the American Iron & Steel Institute.

2007 mill production down from 2006



Economic activity in the manufacturing sector expanded in October for the ninth consecutive month, while the overall economy grew for the 72nd consecutive month, according to the latest Manufacturing Report On Business, issued by the Institute for Supply Management. While still inching upward, manufacturing growth slowed to its lowest level since March 2007 as the New Orders Index and the Employment Index grew but the Production Index fell below 50 for the first time since last January.

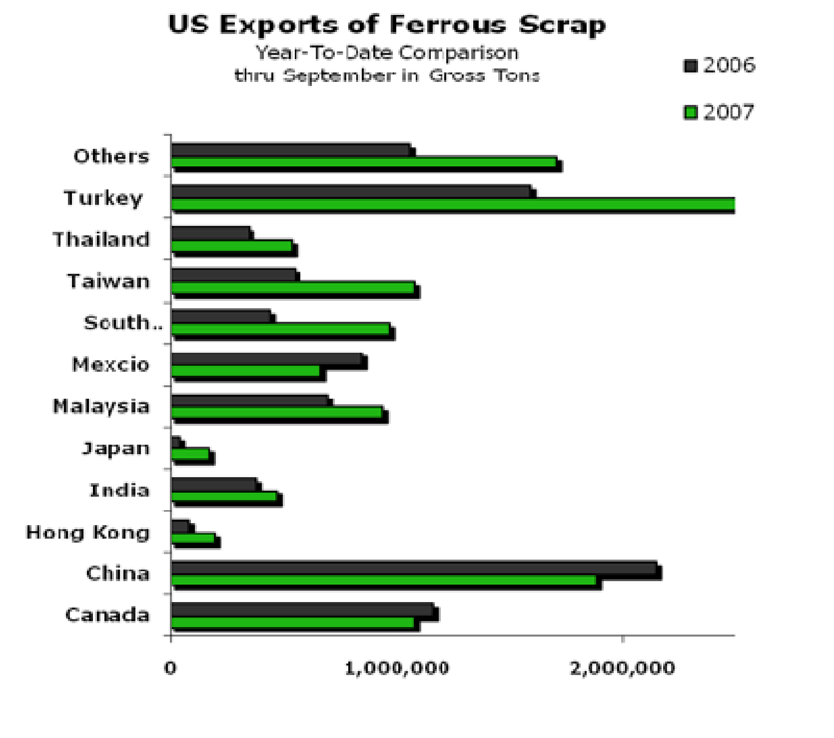
Year-to-date (through October) steel imports totaled 26.2 million tons, down 25.8 percent from the first 10 months of 2006 but still exceeding 2005 levels

Steel imports totaled 2.4 million tons in October, according to preliminary data from the US Census Bureau, up 13.1 percent from September but down 30.4 percent from 3.5 million tons in October last year. Year-to-date steel imports totaled 26.2 million tons, down 25.8 percent from 35.2 million tons in the first 10 months of last year. The largest commodity decreases were posted for blooms, billets and slabs; hot-rolled and cold-rolled sheet; and hot-dipped sheet and strip. Industry sources say that although overall imports are down from 2006, they are still high by historical averages, exceeding 2005 levels by around 8 percent

Ferrous scrap exports are expected to top 15 million tons this year—an annual record and more than 2.5 million tons higher than sales in 2005 and 2006

Ferrous scrap exports are expected to top 15 million tons this year—an annual record and more than 2.5 million tons higher than sales in 2005 and 2006. Turkey, Canada and Mexico were the major scrap-importing nations that posted increases in September, the Commerce figures indicated. Shipments to Turkey, still the leading offshore market for US scrap exporters, inched up 0.2 percent to 227,286 tons from 226,845 tons in August. Shipments to Mexico jumped to 54,963 tons in September from a three-year low of 21,072 tons the previous month, while Canada's intake rose 4.8 percent to 114,838 tons from 109,574 tons. Shipments to many of the major scrap-importing countries declined in September.

Turkey still the leading offshore market for US scrap exports

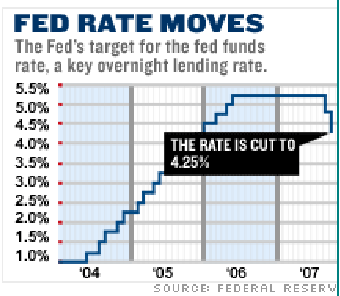


Pricing for raw material associated with steel production is expected to rise sharply in 2008 outperforming most estimates and suggesting that demand for scrap and scrap substitutes will continue to rise

Deliveries to Korean steel mills and foundries fell 64.2 percent August, while China cut its intake by 16.2 percent. Hong Kong registered a modest increase of slightly less than 800 tons, but the decline in shipments to mainland China more than offset that gain.

Pricing for raw material associated with steel production is expected to rise sharply in 2008 as electric furnaces are producing 425 million tons of steel annually, outperforming most estimates, and suggesting that demand for scrap and scrap substitutes will continue to rise. Russia's build-out of electric arc furnaces has made it one of the largest scrap importers in the world. Iron ore suppliers also will benefit from higher input costs with estimates showing iron ore prices rising by more than 30 percent in 2008 vs. this year. No one is sure how far prices may rise but the steel and scrap industry seem to agree that 2008 will see both scrap and scrap substitute pricing on an upward momentum.

The federal funds rate now stands at 4.25 percent. The central bank also cut its discount rate, which is what banks pay to borrow directly from the Fed, by a quarter-point to 4.75 percent



Local scrap pricing slid $10-a-ton in November, faring better than other regions which saw drops of up to $30-a-ton. The export market off the west coast remains steady and we don't see December ringing in the New Year with any huge price swings.

http://www.advancedsteel.com/news/50

Financial Focus

The Federal Reserve lowered an important short-term rate by a quarter of a percentage point on December 11, the latest in a series of rate cuts that the central bank hopes will stimulate an economy some fear is on the brink of a recession.

"The Fed needed to cut more now in order to fend off the credit crisis that has intensified in the past month," said John Derrick, director of research at U.S. Global Investors, a money management firm in San Antonio with more than $5.5 billion in assets.

This was the third straight time that Fed Chairman Ben Bernanke and fellow policy makers decided to cut its federal funds rate, an overnight bank lending rate that affects how much interest consumers pay on credit cards, home equity lines of credit and auto loans.

Leading up to the December meeting, several economists indicated that the Fed may need to lower rates several more times in early 2008 in order to keep the economy from slipping into a prolonged slump.

But the Fed's statement reflected a less dire view of the economy than what many on Wall Street believe - a possible sign that the central bank might not cut rates at its next meeting in January, acknowledging that "economic growth is slowing, reflecting the intensification of the housing correction and some softening in business and consumer spending." It also said that "strains in financial markets have increased in recent weeks."

The Fed added that "some inflation risks remain" and the Fed "will continue to monitor inflation developments carefully."

That tone disappointed investors, who had been hoping the Fed would take more decisive action to clean up the mortgage mess that's plaguing Wall Street and is starting to take its toll on Main Street.

"This was a big mistake. They should have at least cut the discount rate by 50 points. I think that was a big disappointment to Wall Street," said William Rutherford, president of Rutherford Investment Management, a money manager based in Portland, Ore. "The Fed must contain the housing problem. If it doesn't, we are definitely heading into a recession."

Concerns that the impact of the subprime mortgage crisis is spreading sparked President George W. Bush and Treasury Secretary Henry Paulson to unveil a plan that would freeze interest rates for some subprime borrowers whose adjustable-rate mortgages are scheduled to reset in 2008.But one market expert said investors were wrong to think that the Fed would keep cutting rates drastically just to save banks and troubled borrowers.

"The Fed is not going to bail out the market. Time will heal these wounds. People don't want to hear that but it's the real world," said Rich Berg, chief executive officer of Performance Trust Capital Partners, a Chicago-based bond trading firm.

Carver said one reason the Fed may have decided to not cut rates by a half-point is because it is still waiting to see how consumer spending holds up during the holidays. He argues that the Fed won't want to cut rates too drastically if the economy doesn't really need it.

To that end, Carver pointed out that the labor report for November, released last Friday, showed no major ill effects of the mortgage crisis since employers added more jobs than expected and the unemployment rate held steady.

"The Fed is looking two to three months out and doesn't want to cut too much if there is some decent strength in the economy," Carver said.."The Fed doesn't want to overstimulate the economy since that could cause bigger problems down the road."

Learn more at:
http://money.cnn.com/2007/12/11/news/economy/fed_rates/index.htm?postversion=2007121114

The Edge

Welcome to 2008! We hope your 2007 was prosperous and we hope that you've developed plans for a successful 2008.

It's at this time of year that we generally get to express our views and take a guess at what 2008 will look like. What we find in the rail industry is that trends tend to last until they're worn out and then shippers, receivers, railroads and the political community make enough noise that changes occur and courses are altered to the point of being back on track. The rail shipping community then gets along for a period of time and works on the next set of improvements.

A trend we've seen and one that is expressed by the articles in this newsletter is the ever increasing price trend. It's amazing what you can get charged for in the transportation arena besides the loaded move. Some examples are demurrage, private railcar repositioning in a variety of ways, empty mileage even though you may not control the route, storage of private cars (and in some cases railroad assigned cars), ordering cars in to a facility after stopping them short, maintenance of railcars at exorbitant rates, not using the carriers electronic billing system and a variety of other charges that tend to crop up from time to time. On the rate side we're seeing some shipments move back to truck in shorter haul situations. It would be interesting to know where the truck rail rate break is for specific geographic areas – this is a question you should ask yourself as well.

In general, as one would expect, we continue to see anything related to lumber and housing slow down; therefore, there are 100's of center-beam flat cars in storage. We see segregation of other railcar types occurring on a capacity basis for specific commodities and I'm beginning to wonder if the intermodal container world isn't making the general service boxcar an endangered species.

The financial arena should prove interesting as well this year. It appears the Federal Reserve continues to keep a close eye on the economy, recession possibilities and inflationary risks. Not an easy task.

If we had to sum up our outlook for 2008 it would be this:
Railroads will continue to price transportation and transportation services to the point that some business either shift to an alternative transportation mode or go out of business. At some point there will be a leveling off of transportation prices and in certain instances reductions (no this isn't a typo). Accessorial and maintenance charges will become the next wave of money making strategies for railroads which will fly under the radar screen until it gets the attention fuel surcharges did in late 2007. Shippers and users of rail transportation will either get more efficient with operational strategies that are in step with the railroads or they will have to pass on significant transportation cost increases to their customers. In all cases, we believe managing the details will become more important as the year progresses and get's more tumultuous.

It should be a fun year! We look forward to all the prospects and opportunities available in the industry and hope to be part of the evolution right along side you.

We look forward to earning your business!