Tealinc

Touchbase

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Boston Becomes Third Major City to Introduce Hazmat Ban Legislation

Contact Your State Railroad Association

Tealinc News

WEBSITE RECONFIGURED

We have recently reconfigured our website to be more user-friendly and to provide helpful insights. The new site features an overview of our railcar and locomotive offerings as well as projects we've worked on in our consulting business. We also have useful news and educational topics that may be beneficial to your business instructions on how to fill out OT5 forms as well as the important reasons you should. There is also a link of how to register your railcars in Universal Machine Language Equipment Register, UMLER for short.

Take a look at **www.tealinc.com**

Railroad Updates

The Boston city council recently introduced a bill that would ban "ultra-hazardous" rail cargoes within 2.5 miles of the city's Copley Square unless a railroad obtains a Boston Fire Department permit.

"In our day and age, when we're trying to make the city safe from terrorist activity, I think homeland security on our rail system has to be of paramount concern," said Boston City Councilor Stephen Murphy in a prepared statement.

Hazmat bans — which are opposed by the rail industry, Surface Transportation Board, and U.S. departments of Justice, Homeland Security and Transportation — already have been passed in Washington D.C., and proposed in Cleveland. The justice department and rail industry is challenging the D.C. ban, which is tied up in a federal district court. In addition, Baltimore, Cincinnati, Atlanta and the state of California, among others, are considering hazmat bans.

Read Entire Article:
http://www.progressiverailroading.com/freightnews/article.asp?id=6903

Impact The Railroad Industry in Your State

State railroad associations are coalitions of Class I, regional and short line railroads who are proactive in resolving issues with state governments. They also work in concert with state government to develop and expand programs to resolve problems which impact the railroad industry.

Contact your state railroad association:
http://www.aar.org/Government_Affairs/stateinfo.asp

Railroad Traffic

Total volume of an estimated 31.8 billion ton-miles was 1.2 percent below the comparable week last year. Carload freight totaled 341,509 cars, down 1.7 percent with loadings off 2.5 percent in the West and 0.7 percent in the East. At least part of the carloading decline was attributed to an accident that disrupted some coal traffic out of the Powder River Basin.

Coke, Farm Products, Crushed Stone Carloads on the Rise

May Intermodal volume increased by 6.3 percent from last year totaling 223,581 trailers or containers. Container volume was up 9.1 percent while trailer traffic was down 1.4 percent.

Eight of 19 carload commodities were up from last year, with coke gaining 23.5 percent; farm products other than grain up 10.8 percent; and crushed stone, sand and gravel rising 11.5 percent. Loadings of nonmetallic minerals were off 11.5 percent while coal was down 5.5 percent.

Cumulative volume for the first 19 weeks of 2005 totaled 6,491,776 carloads, up 2.4 percent from 2004; 4,112,794 trailers or containers, up 7.2 percent; and total volume of an estimated 604.1 billion ton-miles, up 3.2 percent from last year.

Read the entire article:
http://www.aar.org/ViewContent.asp?Content_ID=2973

Industrial Inside

USDA Estimates Slightly Larger Overall U.S. Wheat Crops

USDA is projecting a slightly larger U.S. wheat crop overall in 2005 even though there are fewer acres.

In its recent supply and demand report, USDA pegged overall U.S. wheat production at 2.185 billion bushels - up slightly from last year's production total of 2.158 billion bushels, according to Jim Peterson, marketing director for the North Dakota Wheat Commission.

"The estimate implies better crop growing conditions this year," Peterson said. "This is only one source of information, but analysts watch it closely."

USDA is projecting the hard red winter wheat crop to come in at one billion bushels in 2005 - a 17 percent increase over last year's 856 million bushel crop. White wheat is also expected to increase by eight percent this year - from 263 million bushels to 283 million. Soft red winter wheat, on the other hand, is expected to decline by 20 percent, falling from 380 million bushels last year to an anticipated 300 million bushels this year.

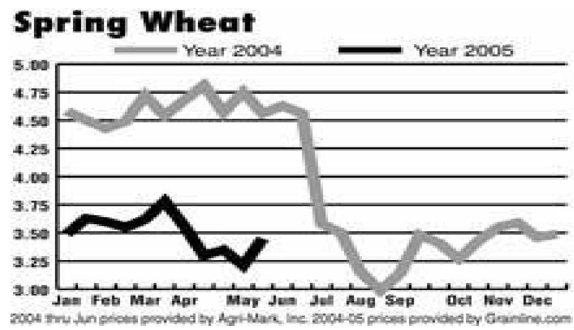
"Conversely, USDA is anticipating reduced demand - both on the domestic and export side," Peterson said. "USDA is projecting a cumulative total of 2.1 billion bushels compared to 2.2 billion bushels last year due to increased world competition."

"Even a return to rainy weather may not be enough to turn those crops around at this stage," Peterson said. "That could be a long-term positive if the hard red winter crop continues to get smaller."

Other issues that bear watching include the European Union wheat crop - which is very dry in the south, and the crop in The Ukraine and Russia which has had some adverse weather, thus lowering the crop production estimate. India has had some hail and heavy rains which could affect the potential production. Australia production estimates have already been cut by 10 percent from last year and producers are concerned it could be more due to drought and poor planting conditions.

Global Wheat Crops May Lead to Better U.S. Exports

"The world situation is looking better for the U.S.," Peterson said. "Hopefully this will lead to better exports to help offset USDA's bearish forecast." Local cash prices for 14 percent protein wheat were ranging from $3.25 to $3.55 with a $3.40 average. Fifteen percent protein wheat is seeing a premium of 75-80 cents above that while 13 percent protein wheat is 60-80 cents below the average.
New crop bids for harvest delivery have seen pressure recently as well due to the good crop prospects and were in the $2.90 to $3.15 range.



Read the Entire Article:
www.farmandranchguide.com/articles/2005/05/27/ag_news/markets/market05.txt

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Intermodal Interests

Driver shortage appears to be a long-term trucking issue

Truck Driver Shortage Guarantees an increase in Rail Freight Transportation

A truck driver shortage that's helped U.S. railroads grab a larger slice of the intermodal pie the past few years isn't going away any time soon. A current shortage of 20,000 long-haul truck drivers will grow to 111,000 by 2014 if demographic trends hold true, according to an American Trucking Associations (ATA) report.

Entitled "U.S. Truck Driver Shortage: Analysis and Forecasts," the report estimates the supply of new long-haul truck drivers will grow at an annual rate of 1.6 percent during the next decade, but the trucking industry will need a 2.2 percent annual increase — or 320,000 drivers — to meet demand. The industry also will need another 219,000 drivers to replace retiring truckers, increasing 10-year hiring needs to 539,000 drivers or an annual average of 54,000.

"The driver market is the tightest it has been in 20 years," said ATA President and Chief Executive Officer Bill Graves in a prepared statement. "It's a major limitation to the amount of freight that motor carriers can haul. It's critical that we find ways to tap a new labor pool, increase wages and recruit new people into the industry."

In 2000, thousands of drivers exited the trucking industry after average weekly earnings fell 9 percent below average construction earnings, the report states. Driver wages haven't returned to pre-2000 levels. In addition, drivers are quitting or difficult to recruit because of unpredictable schedules and the amount of time spent away from home, the report says.

Read Entire Article:
http://www.progressiverailroading.com/freightnews/article.asp?id=6910

Financial Focus

The global economies growth remains strong but is slowing somewhat in 2005. Strong 2004 growth put upward pressure on higher industrial commodity prices and interest rates pose a risk to continued robust global growth.

The Federal Reserve Board is expected to continue raising short-term interest rates throughout 2005 creating an increased world credit demand.

The Strong Canadian Dollar May Encourage Exports from the U.S.

U.S. leading trade partners, Canada, is expected to enjoy a GDP growth in excess of 3 percent in 2005 and with a boom in industrial commodity demand and good investment prospects the Canadian dollar is as strong as it has been since 1991- further encouraging exports from the U.S.

Japan's growth is expected to increase 2.4 percent in 2005, mostly driven by its exports to China and the U.S.

China's Increasing Imports Result in Rising Global Freight Rates

China's economic growth is critical to world economic growth. It is no great surprise that China's roaring economy prompted a surge in demand in late 2003 and 2004 that resulted in increasing prices of raw materials such as crude oil and intermediate goods such as steel and cement. China's increasing imports of raw materials also resulted in rising global freight rates.

Major forecasters predict China's total imports to be comparable to those of the United States in 2004 and 2005 making prospects for world growth very good for 2005 despite some drag from high industrial commodity prices. China's GDP growth could very well exceed 8 percent in 2005.

The Depreciation of the U.S. Dollar may Have Stimulating Effects on U.S. Exports; Dampening Effects on Imports

By December 2004, the agricultural trade-weighted dollar had depreciated almost 18 percent from its peak in February 2002. Over the same period, the depreciation compared with competitor agricultural exports is over 36 percent. While the dollar has already depreciated considerably, it is likely to depreciate further in 2005 due to the historically large current account deficit. This depreciation will have major stimulating effects on U.S. exports and dampening effects on imports over time. The dollar has been declining against the currencies of major OECD countries since February 2002. It is likely that this decline will continue and broaden to a larger group of currencies. The weaker dollar also translates into higher import prices.

Adapted from:
http://usda.mannlib.cornell.edu/reports/erssor/trade/aes-bb/2005/aes45.pdf

The Edge

The June version of Touchbase contains articles that lead one to believe that an overall transportation strategy that includes rail and truck should be in order. We're not going to question whether or not you have a macro strategy that governs your daily decisions. What we are going to do though is point out some areas that may help you formulate an overall strategy to keep your costs relative to your competition. Following are a few helpful hints.

Transportation Rates. The key to determining if your transportation rates are competitive is to first compare the truck versus rail alternative for your move. If you're trucking the move and can rail it but don't because of the inconvenience the trucker and the railroad both probably know this and are pricing accordingly. If you're moving your product via rail determine if you are captive to one carrier or if you have alternative carriers. If you have alternative carriers or one that's close see what it would take to use more than one carrier, competition is good. Even a Rule 11 rate to an interchange will relieve some of your captivity to one carrier.

Next take a look at the railroad costs to your destination(s) and to those of your competitors. Using the Uniform Rail Costing System ("URCS") provided for a fee by the Surface Transportation Board is a good way to measure railroad costs uniformly across multiple origin-destination pairs. You'll need a little knowledge on how the railroad operates between A and B but you can usually gather this information from public sources. Your point here is to benchmark your position in comparison to your competitors. Please be cautioned this will not give you a rate per se, it is only a measure of Long Range Variable Cost (LRVC). What's important is the LRVC for your lanes and for those of your competitors.

After you've obtained a measure of your captivity, and a LRVC for your movements and your competitors it's time to estimate railroad commodity revenue. A lot of commodity rates are published in tariff form, meaning they are public rates. If your rates are public you can estimate margin the railroads will make on the move with the combined LRVC mentioned earlier. If you don't have public rates in many cases one can extrapolate a reasonable contract rate from other factors that pertain to the commodity and its use.

If one analyzes the information you extrapolate from the data points mentioned above you should be able to formulate a basic transportation plan with key elements that guide your daily decisions.

We'll continue next month with other key transportation strategy elements.

We look forward to earning your business!