Tealinc

Touchbase

March 2011

In This Issue

Visit us at:
www.tealinc.com

Coal dust a serious problem, regulators say, but BNSF's approach not reasonable

BSNF's tariff set limits on dust amounts blowing out of open-top railcars, as tracked by railroad monitors

Railroad Updates

The Surface Transportation Board says BNSF Railway's method for limiting a shipper's coal dust dispersion on its tracks is "not reasonable" but is leaving the door open for railroads to try other ways to fix this "serious problem."

The decision this week shuts down a May 2009 tariff BNSF imposed on Wyoming-mined coal hauled over the railroad's Black Hills subdivision in Wyoming and along the 102-mile Joint Line shared with Union Pacific Railroad, on its way to utilities across the country. Arkansas Electric Cooperative filed the case petition in October 2009.

BNSF and UP say coal dust had clogged their tracks and rock ballast so much it distorts the roadbed, required extensive and costly repairs and disrupted traffic. Railroads have been searching for ways to reduce the problem of coal coming out of railcars in transit and building up in the track infrastructure, but requiring shippers to keep their dust represents an historic change in freight handling.

In 2006, to ensure track integrity, UP employed three teams to determine ways to reduce the amount of coal dust deposited on the line's roadbed. In addition, UP, BNSF and the National Coal Transportation Association have developed a coal-loading chute designed to distribute coal more evenly and lower a load's profile above a rail car's side sills.

The STB agreed "the dispersion of coal dust along the lines poses a serious problem for operational integrity," and agreed with BNSF that dust containment efforts make sense. But the regulatory board said requirements BNSF put onto coal shippers in the tariff do not give customers a guarantee that any steps they take to reduce dust would comply with the tariff terms.

BSNF's tariff set limits on dust amounts blowing out of open-top railcars, as tracked by railroad monitors, and required the load's shape or profile to meet a specific template. Shippers maintain most dust filters down onto tracks through bottom-dump hoppers, but railroads say such cars have been repaired and at any rate make up a small part of the fleet. Some shipper interests think railroads are trying to push customers to invest in covered hoppers for coal shipments, or say that rail rates already cover track work.

For the STB, the decision came down to giving customers certainty that if they do what the railroad asks, they cannot later be penalized for the results. Under BNSF's tariff, though, the railroad would accept loaded cars and later tell shippers if its detectors showed that too much coal dust escaped. That approach, the board said, "creates too much uncertainty to be deemed a reasonable practice."

Learn more at: **http://www.joc.com/rail-intermodal/stb-rejects-**

bnsf%E2%80%99s-coal-dust-plan-too-cloudy

http://www.progressiverailroading.com/freightnews/article.asp?id=7302

UP Expects More Intermodal From Truckers

UP expects more intermodal traffic from truckers to move by rail

Trucking companies are telling Union Pacific Railroad they want to push a greater share of their freight onto trains for long-haul transport, says James R. Young, UP's chairman, president and CEO.

"Our discussions with many of our trucking partners indicate they have a very strong interest in improving the amount of business they move intermodally." Young told analysts on a conference call about UP's fourth quarter earnings.

CEO Young says rising diesel fuel prices push more freight to trains

He said rising diesel prices will help push more freight to trains in the year ahead, given the expected rise in highway fuel costs, and "that brings added pressure on the cost of moving on the highway."

UP's marketing chief, Executive Vice President Jack Koraleski, said UP and the intermodal industry can also benefit from tightening safety standards in the trucking industry. He said some estimates are that new federal rankings of trucking firms by highway violations of their drivers could drive up to 400,000 drivers out of the industry, and "that would be a real plus for us."

But Koraleski said the timing for that effect is not clear, whether it may take place in 2011 or later.

UP's intermodal revenue grew 30 percent in 2010 to $3.2 billion, rising faster than the 19 percent gain in intermodal loads. Average revenue per intermodal car rose 9 percent over 2009, including a 13 percent year-over-year gain in the fourth quarter.

Read the article at: **http://www.joc.com/rail-intermodal/sees-truck-partners-using-intermodal-more**

AAR Updates

Today's rail regulatory policies are the very reason freight railroads are such a critical part of the U.S. economy and vital to our nation's financial recovery

The Association of American Railroads (AAR) told the Surface Transportation Board (STB) on February 24, 2011 that the current rail economic regulatory framework is a success for both railroads and their customers. Testifying at a hearing to review regulatory exemptions for certain types of rail traffic, AAR President and CEO Edward R. Hamberger noted that today's rail regulatory policies are the very reason freight railroads are such a critical part of the U.S. economy and vital to our nation's financial recovery.

Changing today's regulations creates an air of uncertainty that could seriously jeopardize the country's path to recovery and the railroads' ability

Changing today's regulations creates an air of uncertainty

Since 1980, freight rail rates have declined to be the lowest in the world

57,000 older units sent to recyclers since freight recovery began in 2009

to sustain these vital capital infrastructure investments, Hamberger added. Since 1980, when the government partially deregulated the rail industry, freight railroads have invested $480 billion in private capital to build, maintain and grow the national rail network that serves both freight and passenger rail customers.

The hearing examined exemptions from regulation given by the STB and its predecessor the Interstate Commerce Commission to certain types of rail traffic where railroads face aggressive competition for customer business. These exemptions were directed by Congress in an effort to remove government regulation, stimulate industry growth and allow competition to work in the marketplace.

"These exemptions work for both railroads and the customers they serve," Hamberger added. "They allow railroads to be flexible to meet customer needs, and to compete with other modes of transportation in the marketplace – particularly trucks."

Prior to 1980, government regulations prohibited pricing flexibility, leaving the railroads unable to compete with other forms of freight transportation. Federal controls proved to be detrimental to rail industry financial stability and ultimately hampered their ability to adapt to new circumstances. As a result of this heavy-handed economic regulation, carriers went bankrupt, investments stagnated, and countless jobs were lost.

"Today's balanced, commonsense regulation works. Now is not the time to reverse this progress as the nation works toward economic recovery," said Hamberger.

Since 1980, freight rail rates have declined to be the lowest in the world. In 2009, for example, rates were 55 percent lower than in 1981, allowing the average rail shipper to move twice the freight today for the same price it paid nearly 30 years ago. As a result of that transformation, in large part because of an ability to set competitive prices, the freight rail industry has been called an American success story.

Read the entire article at: **http://www.aar.org/NewsAndEvents/Press-Releases/2011/02/24-Regulatory-Framework.aspx**

Railcar Owners Scrap Over 3 Percent of Fleet

North American railcar owners scrapped a net 3 to 4 percent of cars they operated or held in storage during the recession, sending about 57,000 aging units to recyclers since they began drawing down their fleet of stored railcars in mid-2009.

The Association of American Railroads said the railcar fleet in the U.S., Canada and Mexico totaled 1.522 million units as of Feb. 1, down from 1.579 million in July 2009. The AAR's Railinc subsidiary, which tracks car movements around the continent, says the North American fleet ended 2010 with about 1.54 million units, down 3 percent from a year earlier.

In the depths of the recession, car owners - equipment leasing firms, railroads and freight shippers - had parked more than 500,000 cars by July 1, 2009, as they waited for traffic to pick up, leaving 31.9 percent of the total fleet in storage.

In its latest Rail Time Indicators report, the AAR said 318,773 freight cars remained idled on Feb. 1, or 20.9 percent of the current fleet. That means 184,080 have been drawn out of storage since the end of the recession, and the trade group said owners activated a net 127,000 for revenue service while scrapping the rest.

AAR said 318,773 freight cars remained idled on Feb. 1, or 20.9% of the current fleet

The industry does not report specific details of when and how many railcars are scrapped, but derives the estimate from other information. In addition, the car fleet totals include some newly manufactured units that began coming into service in the past year. A net scrappage of 57,000 units would be 3.6 percent of the July 2009 fleet, but to offset incoming new cars the actual level of scrapped units would be somewhat higher.

Read the entire article at: **http://www.joc.com/rail-intermodal/railcar-owners-scrap-over-3-percent-fleet**

Railroad Traffic

The Association of American Railroads (AAR) reported February 8th 2011, that monthly carloads in January 2011 increased 8 percent compared with the same month last year, for a total of 1,142,293 carloads. According to AAR's monthly Rail Time Indicators report, intermodal traffic in January increased 7.4 percent for a total of 863,099 trailers and containers compared with January 2010. This growth marks the thirteenth straight month that combined carloads and intermodal traffic have increased year-over-year, showing the continued gradual upward trend in rail traffic.

Carloads in January 2011 increased 8% compared with the same month last year, for a total of 1,142,293 carloads

"Steady growth is good news for railroads and the economy, but there is still more ground to cover before we return to pre-recession levels," said AAR Senior Vice President John T. Gray. "Rail is vital to connecting business to the marketplace, and the gradual gain in intermodal traffic as well as carloads shows how broad U.S. economic recovery may be."

Overall, 15 of 20 commodity categories saw carload gains on U.S. railroads in January 2011 compared with January 2010. Traffic gains in January were led by metallic ores up 63 percent; primary metal products, up 21 percent, and crushed stone, sand and gravel up 16.2 percent.

15 of 20 commodity categories saw carload gains on U.S. railroads in January 2011 compared with January 2010

Railroads in January also saw growth in the transportation of chemicals and grain. U.S. railroads originated 120,734 carloads of chemicals in January 2011, averaging 30,184 carloads per week, up 5.9 percent compared with January 2010 and the highest monthly average for chemicals in any January since AAR began tracking commodity traffic. Grain averaged 24,514 weekly carloads in January 2011, up 10 percent compared with January 2010.

The five commodity categories seeing declines for the month — grain mill products, primary forest products, coke, nonmetallic minerals, and waste and non-ferrous scrap— together accounted for less than 8 percent of total carloads for the month.

Read the entire article at:
http://www.aar.org/NewsAndEvents/Press-Releases/2011/02/08-rti.aspx

Industrial Inside

Queensland Australia spurs U.S. coal exports to 15-year high

The biggest floods in Queensland, Australia, in half a century are turning into a windfall for U.S. coal mining companies anticipating record profits and the highest exports in 15 years.

Shipments from the U.S. are poised to rise 8.8 percent this year to about 86.5 million tons, the most since 1996, the Energy Department in Washington said Feb. 8. Demand for American coal is increasing after floods devastated an area of Australia twice the size of Texas. Queensland's combined output of steelmaking and thermal coal may be reduced by 23 million metric tons, Bank of America Merrill Lynch said in a Jan. 25 report. That's about 13 percent of the state's exports in the year ended in June.

Disruptions will drive the average price of U.S. Eastern coal used to make steel up 13% to $254 a ton and the fuel used in power plants to $74 a ton, 20 percent higher than a year ago

Disruptions will drive the average price of U.S. Eastern coal used to make steel up 13 percent to $254 a ton and the fuel used in power plants to $74 a ton, 20 percent higher than a year ago, according to the median of 11 analysts in a Bloomberg News survey. That may spur a fivefold profit gain for Alpha Natural Resources Inc. and 75 percent for Walter Energy Inc., while boosting President Barack Obama's goal of doubling exports by 2014.

"Are we pushing the price? You're damn straight we are," said Bob Pusateri, executive vice president of sales and marketing at Canonsburg, Pennsylvania-based Consol Energy Inc., which operates 18 mines across six U.S. states. "If there is a short-term phenomenon because of weather-related issues, the coal companies are going to take advantage of it."

Shipping Abroad

Producers across the U.S. are looking to ship coal abroad as economic growth in Asia outpaces the rest of the world while domestic use declines

Producers across the U.S. are looking to ship coal abroad as economic growth in Asia outpaces the rest of the world while domestic use declines. Asian demand for steelmaking coal shipped by sea will rise 3.6 percent this year to 171 million tons, Arlington, Virginia-based FBR Capital Markets Inc. forecast on Jan. 14. U.S. coal use is expected to drop 0.8 percent this year, according to the Energy Department.

Production shortfalls in Asia are providing U.S. companies with an advantage. Coking coal from Australia used to forge steel sold for an average of $325 a metric ton in the week to Feb. 4, exceeding the record $300 a ton set in 2008 when there was also flooding, according to IHS McCloskey, a Petersfield, England-based researcher.

Power station coal at the country's Newcastle port, a benchmark for Asia, has soared 44 percent since Jan. 1, according to data from IHS McCloskey and Bloomberg.

Transport Bottlenecks

The biggest challenge for U.S. mining companies may be getting coal from the mine to the train and moving it to the port as railroads struggle to meet increased demand after they furloughed employees and idled units because of the recession.

Norfolk Southern Corp. said it had 11,212 train and engine employees in the fourth quarter, down about 7 percent from the end of 2008. The railroad said it plans to boost headcount this year. CSX Corp., the second-largest publicly traded U.S. railroad, cut 1,882 employees, or 6.3 percent of its workforce, since December 2007, according to Bloomberg data.

U.S. exports sank 29 percent to 80 million tons in 2010 from a record 112.5 million tons in 1981 as Australia dominated world markets and prices slumped, according to U.S. Energy Department data.

Rail carloads for coal rebounded 22 percent to 109,651 in 2010 from 89,465 in 2009, the lowest level in at least 16 years, according to data from the Association of American Railroads. A typical train car can hold 100 tons of coal.

Rail carloads for coal rebounded 22% to 109,651 in 2010 from 89,465 in 2009

Export Opportunities

“Rail, ports and producers need to get in sync and there’s plenty of incentive for them to do so given where prices are,” said Mike Dudas, an analyst at Jefferies & Co. Inc. in New York, whose ratings on 21 commodity companies earned investors a 39 percent return in a year. “Additional exports north of 10 million tons seem like a reasonable expectation right now.”

In his State of the Union address on Jan. 25, Obama reiterated his goal of doubling U.S. exports in the next three years to promote job growth as the country recovers from the worst recession since the Great Depression. Unemployment has been at least 9 percent for seven months, the longest stretch in six decades.

Abingdon, Virginia-based Alpha may earn $4.32 a share this year, up from the record $2.36 in 2008, and 80 cents last year, according to the median of 11 analyst estimates compiled by Bloomberg. Walter’s profit may increase to $13.37, the data show. Consol may earn $2.85 a share, a 78 percent increase from a year earlier, and International Coal Group Inc., may have a fourfold increase to a record 64 cents.

Alpha gained 26 percent in the past year to $55.34 a share. Walter soared 66 percent to $127.09. Consol dropped 4 percent to $47.41. International Coal more than doubled to $9.57.

Massey Takeover

The world’s appetite for coal is so great that Massey Energy Co., the largest U.S. Central Appalachian producer, has had trouble finding skilled workers.

The world’s appetite for coal is so great that Massey Energy Co., the largest U.S. Central Appalachian producer, has had trouble finding skilled workers

Coal on the New York Mercantile Exchange has gained 43% in the past year to $70.68 a ton as of Feb. 11, according to data compiled by Bloomberg

What's going on in Australia impacts what's going on in Central Appalachia and Northern Appalachia

"Qualified and experienced underground miners are in increasingly high demand as prices for metallurgical coal continue to rise," the company said Feb. 1, noting that it added two Saturday shifts until it can expand its workforce of 7,359 in December.

Alpha agreed on Jan. 29 to buy Massey for $8.5 billion, including debt, 21 percent more than the share price at the time, to create the world's third-largest producer of steelmaking coal.

Eager Customers

Scott Pack, president of coal sales at Alpha, said customers are flying to visit him rather than the other way around.

"We're seeing this phenomena with all the producers to work with the railroads and barge companies to get it to the coast so that we can serve this growing need worldwide," Pack said in a telephone interview last month.

Coal on the New York Mercantile Exchange has gained 43 percent in the past year to $70.68 a ton as of Feb. 11, according to data compiled by Bloomberg.

The U.S. produced about 1.08 billion tons of coal in 2010, according to Energy Department data. That's set to climb 0.5 percent in 2011 to about 1.09 billion tons, the department said in its Short-Term Energy Outlook on Feb. 8.

About 15 million to 20 million tons of coal may be lost from Australia because of the flooding and that's exacerbated by inclement weather in South Africa, Colombia and Indonesia, Peabody Energy Corp. Chief Executive Officer Gregory Boyce said on a Jan. 26 conference call. That's about 0.3 percent of 2009's global coal production, according to Energy Department data. Peabody is the largest U.S. coal producer.

Queensland's Shortfall

The Queensland Resources Council estimates lost coal output of at least 15 million tons. The floods covered an area the size of France and Germany at their peak, swamping mines, railways and damaging bridges.

Queensland's coal exports rose 15 percent to a record 183.1 million tons in the 12 months ended June 30, underpinned by demand from Asia, Andrew Fraser, the state's treasurer, said in August. This compares with 159.3 million tons the previous 12 months.

The BHP Billiton-Mitsubishi Alliance, known as BMA, the world's biggest exporter of coking coal, said on Jan. 20 that it expects "an ongoing impact on production, sales and unit costs for the remainder of the 2011 financial year," ending in March because of the flooding.

Demand for the fuel is part of a wider trend, said David Khani, an analyst at FBR, whose ratings on eight coal companies earned investors a 52 percent return in a year.

"We like to call it 'coalbilization,'" Khani said. "All of these things that are out of the norm are just exacerbating the underlying trend, which is supply can't keep up with demand. What's going on in Australia impacts what's going on in Central Appalachia and Northern Appalachia."

Learn the article at: **http://www.businessweek.com/news/2011-02-14/queensland-spurs-u-s-coal-exports-to-15-year-high.html**

Fed raises growth forecast for 2011

The Fed estimates that the nation's gross domestic product will rise between 3.4% to 3.9% in 2011

Consumer spending doubts suggest that while consumer spending, especially on automobiles, was strong in the fourth quarter, those levels may not be sustainable

Financial Focus

Minutes from the most recent meeting of the Federal Reserve released Wednesday February 16, 2011 show that policymakers anticipate a bigger bump in economic growth for 2011 than they thought just a few months ago.

The Fed estimates that the nation's gross domestic product will rise between 3.4% to 3.9% in 2011, up from its November estimate of an increase of 3.0% to 3.6%.

The minutes attribute the change to stronger than expected data on production and spending. But the Fed said the acceleration in growth will mainly be limited to the short-term, as growth estimates for 2012 and 2013 were only slightly adjusted.

The projections are largely in line with language used by the Fed to describe the economy at large. Fed members said the economic recovery is "on a firmer footing" and they expressed greater confidence that the recovery would be "sustained" and "gradually strengthen over coming quarters."

The Fed also revised its unemployment estimates for 2011 as well as the next two years. But its new forecast of a jobless rate between 8.8% and 9% at year's end is only slightly lower than the current unemployment rate of 9% in January.

Fed members did express some doubts about consumer spending though. According to the minutes, some policymakers noted that while consumer spending, especially on automobiles, was strong in the fourth quarter, those levels may not be sustainable.

Read the entire article at:
http://money.cnn.com/2011/02/16/news/economy/fed_minutes/index.htm

The Edge

The current market for whatever you sell, buy or use seems to be like a sparkler at a fourth of July celebration! Constantly sputtering but no big bangs or fascinating light shows.

The current US market, for the most part is being driven, by two primary factors: 1. Weather, and 2. International financial strife.

It's the Weather!

The two largest gross ton mile commodities US Rail carriers transport are coal and grain. There increased transport requirements have been most significantly affected by the weather.

Starting in or around July 2010 a significant heat wave hit Russia. This was then followed by wildfires through-out major grain growing regions of Russia thus creating an upcoming food and feed shortage in that country. In August 2010 Northern China and Pakistan were hit by flooding. Russian continued to suffer heat and fires. In late 2010 and early 2011 the flooding moved farther south into Australia and the Philippines. In the meantime the US small grains and whole grains growing regions were racking up booming harvests. In addition the US coal mining network was suffering from lagging domestic demand with surplus capacity ready to go to work.

These two separate events had similar effects on the US transportation system.

First the wildfires and drought in Russia and flooding in Asian countries caused a potential food shortage in those countries. At the same time the US was coming off booming small grains and whole grains crops and these commodities were in want of a home. Viola! The export transportation movement was in full swing requiring a few thousand extra covered hoppers to be pressed into service to meet demand.

Second with the flooding in Australia it was difficult to meet the coal transportation demand (and production) required by the Chinese consumption behemoth. Another alignment of the stars, strategic positioning or just plain luck occurred and the US is making exponential gains in the coal export market. Further winter weather in Canada restricted trans-Canadian coal transportation routes placing even more demands on timely delivery US coal.

International Financial Strife!

Egypt is probably the most visible player in causing international financial strife. Egypt's impact will be measured on the volatility of the world price of oil. Following in suit are North African and Middle East countries which will contribute to oil price volatility. The resulting impact will be to drive US oil, gas and diesel prices higher.

Other areas that have or are contributing to international financial strife are currency valuations and indebtedness of several countries around the world, including the United States. Having money available to pay government workers, create private jobs and reduce debt is paramount to the financial health of a country.

What does it all mean?

From our perspective we've seen the economic sparkler effect for the past 26 months, constantly sputtering but no big bangs or fascinating light shows. Despite the rewards we're seeing for a strong export market in the two largest gross ton mile commodities transported by the US rail network we don't see a balanced long lived economy recovery for some time to come.

As a shipper, receiver or rail user (or any transportation user - truck, barge or ship) continue to evaluate your options and be cautious counting on a big bang and fascinating light show.

Our advice is to review all your transportation options and attempt to determine the economic mix and impact of transportation modes across all your shipments.

If we may be of assistance please don't hesitate to contact us.

We look forward to earning your business!