



# Specializing in Rail Transportation Solutions

We are a railcar and locomotive operating lessor, broker, rail consultant and transportation manager with a tactical and boutique approach to providing rail transportation solutions.

## Tealinc Touchbase Newsletter – November 2017

### In This Issue

- Tealinc Update
- The Edge
- Mechanical Brief
- Railroad Traffic
- Industrial Inside
- Financial Focus
- Railroad & Policy

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**Companies are taking  
bulk truckload  
business and  
converting to rail  
shipments**

### Tealinc Update

Tealinc is pleased offer aggregate open top hopper railcars for business in 2017 or 2018. Don't need cars until 2018, no problem! With a long term commitment, we'll agree to hold rent until you can use the cars in 2018.



Act fast as we may be able to offer free or partially free into service freight!

Contact [Tealinc](http://www.tealinc.com) for complete details.

### The Edge with Darell Luther



For those of you who are avid Tealinc Touchbase Newsletter readers, allow me to thank you! We put a lot of time and effort into our newsletter and enjoy the feedback we get. For those of you who have been reading for a while, I bet you've noticed that we've changed our newsletter format around a bit. We've been told that my piece of the monthly newsletter reads much like a "Letter to the Editor" and as such, our marketing team found it more appropriate to put my article front and center. We're hoping you'll see value in reading "The Edge" first and then getting into the nitty gritty. As always, our team welcomes your feedback and comments at [webmail@tealinc.com](mailto:webmail@tealinc.com).

As we near the end of the year, we're starting to see a small resurgence in rail shipment inquiries where companies are taking a hard look at taking bulk truckload business and converting it to rail shipments. In many cases these are situations where trucks operating in congested cities or geographic regions are having a difficult time competing simply from an elapsed time viewpoint. In this situation can a truck move one truckload of product faster and possibly cheaper than a railcar? Yes, in most all cases; however, a truck can't move four or five



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**Business type and volume determines whether or not to ship by rail**

truckloads of product as fast as one railcar or a multiple of railcars on one train. As a point of fact, one railcar can hold between four and five truckloads of product. Couple this statistic with the newly introduced electronic logs and truck driver shortages and you have a perfect storm for leaning towards, at the very least, a review of rail.

The railroads should be extremely interested in this business – right?

Well that depends on what type of business it is and the volume movement it can generate. Generally, we’re seeing customers with volume growth from 1,000 to 10,000 tons a month and with companies relatively new to rail. Railroads can only charge so much per railcar or per ton and generally remain competitive with other railroads (the argument of monopolistic, duopolistic and competitive pricing aside). When you think about it at one to two trips a month per railcar that’s 10 to possibly 200 carloads a month. Assuming an exorbitant rail rate per railcar, there isn’t enough volume here to move the economic needle for the railroad. To give you some statistics, according to the Association of American Railroads (AAR) for the week ending November 4, 2017 all railroads combined originated 266,652 carloads. For the first 44 weeks of 2017 there were 11,439,689 carloads of originated traffic. See what I mean?

Railroad marketing, sales and operations personnel must work on what moves the needle! Consequently, if you fall into the “little (or even medium) guy” category you’re not going to get a lot of attention. There’s a process for figuring it out though that we’ll share with you. It goes something like this.

**Five steps defined in obtaining ‘ballpark’ rail rates**

### Obtaining “Ballpark” Rail Rates

1. Determine your origin and destination pair. Where are you shipping from and where are you shipping to? If it’s not clear that the rail sidings can accommodate your shipments, you’ll want to go on-site to look at them.
2. Look up the originating, intermediate and terminating railroads as appropriate.



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### Collect and analyze data received

- These are the railroads you’re going to connect to at origin and at destination. Intermediate railroads may or may not be involved.
3. Sign up for each railroads website and log in and look for a Standard Transportation Commodity Code (STCC) for your product.
  4. Look for tariff rates for your commodity by STCC. You may also need to identify a railcar type in which to ship your product. Rates are often segregated by railcar type, e.g. gondolas, open top hoppers, high cube boxcars etc. and by railcar carrying capacity. Also, be aware of any nuances about the rate, for instance it applies only in certain railcar shipment minimums or restricts interchange switch rates that may be lower than actual interchange switch rates, etc.
  5. Review the details of accessorial tariffs for various fees and demurrage charge structure.

When you’ve got all that data, you’ll want to accumulate it in one place for analysis. We suggest putting it in a spreadsheet for analytical purposes. The economic data will determine what you need to do operationally.

### Operational Considerations

There is an entire myriad of operational considerations and questions you’ll want review at a very in-depth level. At the risk of diving too deep we won’t go into those here. At a high level though these include:

### Questions to consider when shipping by rail

1. What type of service are you expecting or require supporting your shipment plans?
2. Do you have railcars, do you expect to own or lease railcars or are you expecting the railroad to provide you with railcars? What are the cost and reliability considerations of each option?
3. Do you have a track that is available whether it’s a private track, team track or trans-load facility? Does this track meet your needs? Does scheduling around others fit with your requirements?
4. Is the site a Greenfield site where you are starting with dirt and building up



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Shipping by rail can be overwhelming, contact [Tealinc](#) with any questions

- from there? What's the process to initiate a Greenfield site and tie it in with the serving rail line?
- 5. Do you require your own method of switching cars around your property or do you expect the railroad do switch for you?
- 6. Do you understand electronic billing so that you provide proper notification to the originating railroad to pick up your railcars and avoid demurrage charges?
- 7. Does the physical infrastructure for loading and unloading railcars support the overall logistics?

As you can tell there are a bunch of questions that need to be answered and analysis to be completed before engaging in a rail transportation option despite, in many cases, its' economic advantage. Compare this to a truck carrier where you can literally make a call and it's handled. It's no wonder despite cost and congestion disadvantages shippers stay with truck and we're here to help you understand the process and identify solutions.

If you're considering shipment by rail give us a call or [send an email](#). We'll work through the questions and issues to determine if rail is right for your situation.

Darell Luther is the founder and CEO of Tealinc, Ltd. You may contact Darell directly in his office at (406) 347-5237 or via email at [darell@tealinc.com](mailto:darell@tealinc.com).

### Mechanical Brief with Steve Christian



When I began working for the railroad (Chicago, Burlington & Quincy) back in the late 1960's, it took a lot of personnel in all departments to keep the railroad operating. Operating, signal, bridge and building, clerical, store, maintenance of way and mechanical departments were all on the frontline to keep the trains running. Over the years, personnel in all departments have been reduced by

The evolution of railcar maintenance



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**Personnel reduction in the rail industry has occurred due to advances in engineering and technology over the years**

**There are five elements to the mechanical department that experienced reduction over the years**

advances in engineering, technology and the slow but sure replacement of railroad personnel with contractors.

I could write a book on all the changes I have witnessed in these departments over the years. Since my roots are in the Mechanical Department and more specifically the “Car Department” I will limit this article to railcar maintenance.

To begin, here are my observations of how railcar maintenance was performed in the late 60’s. I have broken down railcar repairs at that time into five elements:

### 1. Back Shops

All Class I’s that I am aware of had multiple heavy shops referred to as Back Shops. Their mission included working system (railroad owned) wrecks, working system heavy bad orders, AAR Rule 88 system rebuild programs, system railcar conversions, system railcar program upgrades and even railcar building. These shops usually took on an identity to perform specific roles.

### 2. Rip Tracks

Rip Track or just “the Rip” is railroad slang for a railcar repair track. Rip Tracks were located at crew change points and 1,000-mile railcar inspection locations throughout the railroad. Rip Tracks, in those days, was basically a track out in the open that had compressed air present, homemade tool chests, torches, welders and usually fire barrels for hand and foot warming. The track would be locked out with blue locks and/or blue flags to indicate that personnel were working on, under and around railcars. They performed running repairs to foreign and system railcars within the parameters of AAR Rule 1.

### 3. Trainyard Inspection

Inspections took place on normally live tracks including yard tracks and mainlines under blue flag protection. Carmen would inspect for defects and work the cars in place whenever possible. This normally included brake shoes, brake shoe keys, air



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**Shift from railroads being the prime source of railcar maintenance to contract shop is basically a good thing; however, there are still issues to focus on**

hoses, air hose gaskets, bent handholds, closing and locking doors and gates and oiling friction bearing boxes. Any cars that could not be worked on the Inspection Track would be bad ordered, cut out and switched to the Rip Track.

#### 4. Road Truck Repairs

Road trucks were usually headquartered where Rip Tracks were located. When bad order railcars were set out of trains on sidings, Road Truck crews would travel to the siding and either take care of the defects or at least make the car capable for movement to the nearest Rip Track.

#### 5. Contract Shop Repairs

Back in those days, many of the large private fleets, both tank car freight car, had their own shops to furnish maintenance for their own fleet of cars. Other than these shops, independent contract shops were few and far between. Smaller private car owners used these shops for AAR Rule 1 Home Shop repairs, wreck repair, railcar modifications and various other work. The railroads used contract shops for specialty work after receiving a waiver from the Carman’s union. Airslide railcars are a good example of cars that the unions would grant a waiver to outshop. Most Contract Shops didn’t like working them either.

From the good old days to modern times there has been a lot of changes. Back Shops, Rip Tracks and Road Trucks have been gradually closed with a huge reduction in railroad Carmen. There are many reasons for this including mergers, deregulation, advances in railcar component engineering, unions losing power and the railroads desire to get out of railcar maintenance. At the same time, Contract Shops have increased in numbers and employment.

I think the shift from Railroads being the primary source of railcar maintenance to Contract Shops is basically a good thing; however, I think that it has gone too far. Here are three (3) of my main complaints:

1. Many of the Class I railroads are using the DDCT system to “Home Shop” cars for repairs that I believe the railroads should be performing. Here are a couple



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### Class I railroads using DDCT

### Railroads using more “running repair agents”

### Class I railroad bypassing their own rip track to send a car to a contract shop for quick repairs

from recent memory:

- a. A Class I asked us via DDCT to Home Shop a car for an inoperative handbrake. Really!! This car moved hundreds of miles to a contract shop. I believe this was an FRA violation.
  - b. We had another DDCT for a car with a condemnable THD (Truck Hunting Detector) reading. This car was sent across the county to have some constant contact side bearing elements changed. What a waste of time for an easy fix.
2. Railroads are using more and more “Running Repair Agents” in place of railroad mechanical forces to perform railcar repair work.
    - a. Initially these were used for railcar pools that served a manufacturing plant or loading site. Automotive manufacturing plants are a good example. The railcars, in that case autoracks, are very specialized. Having trained personnel that work consistently on those cars makes good sense.
    - b. Shortline and regional railroads are now using Running Repair Agents to generate profits from private cars on their line. I think of these Running Repair Agents, in many cases, as speed traps to catch these railcars to perform either unnecessary or even “Paper” repairs to make a buck and provide a kickback to the sponsoring railroad. As you can probably detect, I don’t like this and would like to see it stop.
  3. There is a Class I railroad, I am aware of, that is using Contract Shops for running repairs for their system railcars. They bypass their own Rip Tracks to send a car to a contract shop on their line for broken truck springs, broken friction castings and other similar low man hour repairs.

Contract shops have been the big winner over these many years. The unit train concept along with the railroads decision to prod shippers to provide their own railcars has really opened the door for them. While unit coal train traffic has declined in recent years, I believe the future is still promising for contract shops.



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Tealinc has many years of mechanical knowledge, contact [Steve Christian](#) with any questions or visit our website for an explanation of [market terminology](#)

October 2017 was the best month for intermodal rail traffic in history

U.S. carloads down 0.1 percent October 2017 compared to October 2016

In conclusion, the shift in railcar maintenance away from the railroads and to contract shops is inevitable and in general a good thing. I expect that railroad Back Shops will eventually disappear completely. To me, Rip Tracks, Trainyard Inspections, railroad Road Trucks and Trainyard Inspections should be solely railroad functions. This is and should continue to be as much of an element of daily operations of a railroad as are providing engineers and conductors. In my view, contractors should not be providing this. Instead of sending railcars to Contract Shops for ordinary repairs via DDCT, they should make the repairs themselves and get the cars back in service.

As always, Tealinc stands ready to employ our many years of experience and our varied talents in the railroad industry to work for you.

*Steve Christian is the Manager Value Creation-Operations for Tealinc, Ltd. You may contact Steve directly in his Colorado office at (719) 358-9212 or via email at [steve@tealinc.com](mailto:steve@tealinc.com).*

### Railroad Traffic

The Association of American Railroads (AAR) today [November 1, 2017] reported U.S. rail traffic for the week ending October 28, 2017, as well as volumes for October 2017, which was the best month for intermodal rail traffic in history.

U.S. railroads originated 1,065,777 carloads in October 2017, down 0.1 percent, or 1,220 carloads, from October 2016. U.S. railroads also originated 1,144,157 containers and trailers in October 2017, up 6.4 percent, or 68,328 units, from the same month last year. Combined U.S. carload and intermodal originations in October 2017 were 2,209,934, up 3.1 percent, or 67,108 carloads and intermodal units from October 2016.

In October 2017, 12 of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with October 2016. These included: crushed stone, sand & gravel, up 15,873 carloads or 16.5 percent; chemicals, up



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**Crushed stone, sand & gravel, chemicals, and metallic ores experienced a gain from October 2016 to October 2017**

**“Year-over-year U.S. rail carloads in October were held back by declines in carloads of grain and coal”- John T. Gray**

**Lofty lumber prices could rise even more after Canada mill fire**

7,390 carloads or 6.4 percent; and metallic ores, up 4,076 carloads or 20.6 percent. Commodities that saw declines in October 2017 from October 2016 included: coal, down 17,764 carloads or 4.9 percent; grain, down 12,528 carloads or 11.8 percent; and motor vehicles & parts, down 5,190 carloads or 7 percent.

"Year-over-year U.S. rail carloads in October were held back by declines in carloads of grain and coal," said AAR Senior Vice President John T. Gray. "However, carloads of these commodities tend to rise or fall for reasons that have little to do with the state of the economy. Excluding them, carloads were up 4.8% in October, their best monthly gain in almost three years. As such, rail carloads, as well as record intermodal volume in October, support the view that the economy is doing somewhat better now than it has been in the past two years."

Excluding coal, carloads were up 16,544 carloads, or 2.3 percent, in October 2017 from October 2016. Excluding coal and grain, carloads were up 29,072 carloads, or 4.8 percent.

Total U.S. carload traffic for the first 10 months of 2017 was 11,172,437 carloads, up 3.4 percent, or 368,102 carloads, from the same period last year; and 11,576,709 intermodal units, up 3.7 percent, or 417,112 containers and trailers, from last year.

Total combined U.S. traffic for the first 43 weeks of 2017 was 22,749,146 carloads and intermodal units, an increase of 3.6 percent compared to last year.

Visit the AAR at:

<https://www.aar.org/newsandevents/Press-Releases/Pages/2017-11-01-railtraffic.aspx>

### Industrial Inside

Lumber prices that have soared amid a Canada-U.S. trade dispute could rise even higher after a fire at a British Columbia sawmill cuts supplies.



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Canada is the world's largest softwood lumber exporter and the U.S. is the biggest market

Canadian sawmills raising prices in efforts to offset countervailing duties

Futures are trading at a 23-year high amid rising demand for housing and after the U.S. imposed tariffs on softwood imports from Canada. The rally could extend after a major fire at Tolko Industries' Lakeview mill, which accounts for about 2 percent of production in British Columbia's interior, CIBC analyst Hamir Patel said Monday [November 6, 2017] in a note.



Canada is the world's largest softwood lumber exporter and the U.S. is its biggest market. Lumber futures have gained as much as 40 percent this year to \$459.60 per 1,000 board feet, the second-best performing commodity, according to data tracked by Bloomberg. Some Canadian sawmills are raising prices above \$500 in an effort to offset countervailing duties of 14.25 percent and anti-dumping duties of 6.58 percent, according to Kevin Mason, managing director of Vancouver-based ERA Forest Products Research.

They are "hoping to jack up prices at the Canadian mills to offset final duties," Mason said in an email.



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**Republican tax plans gain speed; Fitch warns on deficit**

**Republicans expected to unveil their own tax bill, early indications suggest it could differ significantly from the House legislation**

Read the entire article at: <https://www.bloomberg.com/news/articles/2017-11-07/lofty-lumber-prices-could-rise-even-more-after-canada-mill-fire>

### Financial Focus

Republicans in the U.S. House of Representatives forged ahead on Tuesday [November 7, 2017] with legislation to reshape the federal tax code, while a top credit-ratings agency said the bill would balloon the budget deficit and give only a temporary boost to the economy.

As the House tax committee weighed amendments to a bill that Democrats have blasted as a give-away to corporations and the rich, the Washington tax reform debate was fast shifting to the Senate, where Republicans hold only a slim majority.

Senate Republicans are expected to unveil their own tax bill at the end of the week, and early indications suggest it could differ significantly from the House legislation.

The House is aiming to vote on its bill next week [week of November 13, 2017], a senior Republican said.

Tax reform has been a priority for President Donald Trump, who says it will stimulate economic growth. But Republicans have yet to score a major legislative accomplishment since Trump took office in January, even though the party controls both chambers of Congress as well as the White House.

Trump made another pitch for Democratic support on Capitol Hill, where his top aides met with about a dozen Senate Democrats and Trump himself phoned in from his Asia trip.

“He said, ‘Look ... I want to do it in a bipartisan way,’” Senator Joe Donnelly told



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**Fitch Ratings predicted that a Republican tax plan would win passage in both chambers**

**U.S. national debt now exceeds \$20 trillion**

**Trump and congressional Republicans say proposed tax cuts would boost economic growth enough to generate new revenues**

reporters.

Fitch Ratings predicted that a Republican tax plan would win passage in both chambers, but did not see it offering long-term benefits.

“Such reform would deliver a modest and temporary spur to growth. ... However, it will lead to wider fiscal deficits and add significantly to U.S. government debt,” Fitch said, revising up its medium-term U.S. government debt forecast.

The U.S. national debt now exceeds \$20 trillion. Republicans once firmly opposed adding to the debt, but their emphasis has changed. Congress’ Joint Committee on Taxation (JCT) said the House bill would add nearly \$1.5 trillion to the national debt from 2018 through 2027.

Trump and congressional Republicans say the proposed tax cuts would boost economic growth enough to generate new revenues that would offset the tax cuts. Few economists agree.

The House bill slashes tax rates for large corporations, small businesses and wealthy Americans, while sharply reducing or eliminating tax breaks that benefit many middle-class Americans such as deductions for state and local taxes, college tuition and home mortgage interest.

JCT estimates that the House bill could raise taxes on as many as 38 million people who earn between \$20,000 and \$40,000 per year, beginning in 2023.

House Republicans, who have an overwhelming majority, drafted their bill in secret, ignoring Democrats.

But the House bill is unlikely to be taken up in the Senate, where Republicans have a 52-48 seat majority and they need to pay heed to moderates within their own



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**Two Republican senators have voiced concern that the House tax bill could raise taxes on some middle-class Americans**

ranks as well as Democrats, lobbyists and analysts said.

Two conservative Republican senators, Ted Cruz and Rand Paul, have already voiced concern that the House tax bill could raise taxes on some middle-class Americans.

The Senate bill could delay the proposed corporate tax cut by one year, may not allow any deductions for local property taxes, and may not collapse the current seven individual brackets to the four proposed by the House, according to the Washington Post.

Learn more at:

<http://www.reuters.com/article/us-usa-tax/republican-tax-plans-gain-speed-fitch-warns-on-deficit-idUSKBN1D72IN>

### Railroad & Policy Updates

**CN, NS quicken the manifest pace**

CN's and Norfolk Southern's recently launched joint interline service initiative for carload traffic is reducing transit times by one to two days between Western Canada and NS destinations in the Eastern U.S., chiefly through bypassing Chicago.

**CN's and Norfolk Southern's recently launched joint interline service initiative for carload traffic is reducing transit times by one to two days between Western Canada and NS destinations in the Eastern U.S.,**

CN and NS are interchanging two eastbound and two westbound manifest trains daily through greater Chicago, connecting CN's network in Western Canada and NS' network in the Eastern U.S. Traffic is interchanging at NS' major rail yard in Elkhart, Ind., avoiding extra handlings in the Chicago terminal.

"This seamless interline service, established in August, allows freight to bypass traditional interchange points in Chicago, in favor of using the most efficient existing CN and NS routes," the railroads said in a joint statement. "The service has reduced transit times by up to 48 hours, providing customers more efficient delivery to final destinations."



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chiefly through  
bypassing Chicago

CN and the NS said  
they “continue to  
explore adding traffic  
to the new interline  
service”

“Together, CN and NS have re-engineered our Chicago connections to provide shippers with a new superior-service shipping option,” said Norfolk Southern Chairman, President and CEO Jim Squires. “Customers on both railways are seeing faster and more reliable service, benefitting their supply chains.”

“Through collaboration, CN and NS are bringing more efficiencies to the supply chain as we deliver higher and more reliable levels of service to our customers,” said CN President and CEO Luc Jobin.

CN and NS said they “continue to explore adding traffic to the new interline service.”

Read the entire article:

<http://www.railwayage.com/index.php/freight/class-i/cn-ns-quicken-the-manifest-pace.html>

**Tealinc, Ltd.** is dedicated to creating value for our customers. We specialize in Rail Transportation Solutions by buying, selling, leasing, consulting and managing rolling stock fleets and locomotive assets with our customers’ long term and short-term requirements in mind. We participate in nearly every industry supported by rail; sell, lease and purchase nearly every type of freight railcar, and provide management and consulting services to both novice and experienced rail shippers.

*We look forward to earning your business!*



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