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AAR to Congress: STB is over-reaching

"Concerns over three primary issues that we see as STB overreach: Forced access, commodity re-regulation and rate caps."

"Any claim that competition for freight

Railroad & Policy Updates

On the offensive following the Surface Transportation Board's recent flurry of activity on multiple proposed regulations, the Association of American Railroads wrote to leaders of the Senate Commerce Committee and House Transportation and Infrastructure Committee.

AAR President and CEO Ed Hamberger's letter covers "concerns over three primary issues that we see as STB overreach: Forced access, commodity re-regulation and rate caps."

Following is the full text of the letter to Senate Commerce Committee Chair John Thune and Ranking Member Bill Nelson, and House T&I Committee Chair Bill Shuster and Ranking Member Peter DeFazio:

"The Association of American Railroads is writing to you to express the railroad industry's concerns with recent actions by the Surface Transportation Board. Last year, Congress reauthorized the agency for the first time since its inception in 1996 by passing the bipartisan STB Reauthorization Act focused on improving the agency's processes for rendering decisions. Despite a massive lobbying campaign to the contrary, Congress wisely declined to alter the regulatory framework that has governed the industry since the Staggers Rail Act of 1980.

"That stable regulatory environment has allowed railroads to spend [more than] $600 billion in private capital to make the nation's freight rail network the best in the world. Congress has charged the STB to recognize that where railroads face competition for their services—from other railroads, from other modes of transportation, or from market forces that allow customers to substitute products or obtain them from different sources—the market, not regulation, should govern. The regulatory framework provides that in the limited instances where railroads do not face effective competition for their services, economically based rate regulation should be available.

"Today, railroads continue to face fierce competition for their transportation services for shipments that can be directly loaded to or from trucks, barges or other railroads and also where those shipments can be transloaded to or from those competitive options. For example, according to the Department of Agriculture, railroads move about 24% of the nation's grain, with most grain shipments moving by truck or truck-and-barge combinations. Similarly, railroads account for only approximately 20% of chemical shipments. Those are hardly numbers that support the contention that railroads do not face competition for their services.

"Railroads also face competitive constraints on the demand for their service from shippers and receivers that can substitute products in end markets or obtain goods from different geographic locations around the world. Shippers, even those served by one railroad, can and do use all of these competitive forces as leverage in negotiating freight rates at competitive levels.

transportation has lessened as a result of consolidations in the rail industry is simply not true."

"Any claim that competition for freight transportation has lessened as a result of consolidations in the rail industry is simply not true. Due to conditions placed on those transactions by the Interstate Commerce Commission and the STB, shippers who had access to two or more rail carriers prior to mergers retained access to at least two rail carriers after consolidations. In several mergers, the number of customers served by multiple carriers increased, not decreased."

Learn more at:
http://www.railwayage.com/index.php/regulatory/aar-to-congress-stb-is-over-reaching.html?channel=40

Transport Canada Protective Direction 38 - Legacy DOT-111 Tank Car Phase Out

CSX notifies customer, accelerated phase-out of both jacketed and unjacketed legacy DOT-111 tank cars from being used for crude oil service in Canada effective November 1, 2016

In an email distributed by the CSX on September 14, 2016, the CSX notified customers to:

> "Please be advised, in accordance with the Transportation of Dangerous Goods Act, 1992, issued the Protective Direction (PD) 38 on July 13, 2016. This Protective Direction further accelerates the phase-out of both jacketed and unjacketed legacy DOT-111 tank cars from being used for crude oil service in Canada effective November 1, 2016. CSX Transportation (CSXT) is prohibited from accepting rail billing and moving both loaded and residue DOT-111 Petroleum Crude Oil tanks in and out of Canada after October 31, 2016. All other provisions of the Regulations (TC-117 tank cars) published in Canada Gazette Part II in May 2015 remains in effect.

For additional information concerning Protective Direction 38 or to obtain further details on which Hazardous Material identification numbers are involved and other approved tank cars for Crude Oil shipments, [customers are advised to please visit:
https://www.tc.gc.ca/eng/tdg/safety-menu-1272.html.

Mechanical Brief with Steve Christian

Inspect locomotive sanders daily

In September, I was at a customer's factory conducting a training session with their switching personnel on periodic locomotive inspection and routine maintenance for a locomotive Tealinc owns. One of the topics that I emphasized was the need to ensure that sanders are checked daily and any deficiencies handled promptly. One of the employees in the training group said that they didn't need the sanders until winter, so "why do we need to check the sanders every day?" Good question and I'm glad he asked.

Why is it so important to have sand and sanders available for the

Why is it so important to have sand and sanders available for the engineer to use every day, regardless of the season?

1. It can mean the difference between moving heavy loads or just spinning the wheels on the rail and creating rail burns. A smart locomotive operator will anticipate when you will couple into a heavy string of cars and sand the track for a few car lengths before you couple up.

engineer to use every day, regardless of the season?

2. In slick conditions (rain, sleet, snow, oil spills, product spills, etc.) it can mean the difference between moving even light loads. Again, sanding the rails on approach to the cut of cars will allow you to get some momentum build up when you begin the pull.
3. In emergency situations, it can mean the difference between stopping "just in time" or having an accident that causes personal injury and/or property damage.

This particular locomotive is an EMD SW1200 that has four sand boxes that provide sand to pneumatic sanders that provide traction sand to the rail for the front and rear wheels. All 4 wheel sets are driving wheels so the sand is applied to the rail in advance of just two of the driving wheels but there is still some sand on the rail when the other wheels pass over that rail.

There are many other switch locomotives that have other configurations of sanders and driving wheels. Regardless of what your switch locomotive is and how sand is delivered to the rail, it is a matter of safety and efficiency that the sanders are kept operational. Rail adhesion relies on the friction between a steel wheel and a steel rail. The weight of the locomotive on the driving wheels provides much of the adhesion for the steel on steel contact. However when the weight is not enough, sand provides the friction that makes movement possible.

Regardless of what your switch locomotive is and how sand is delivered to the rail, it is a matter of safety and efficiency that the sanders are kept operational.

Of course, your sand boxes can be full of sand but if the delivery system (the sanders) is not working, they will not have any benefit in any of these situations. Sanders that are defective must be repaired as soon as they are reported. Not doing so puts your personnel and equipment at unnecessary risk. Sanders are not complicated. The sand boxes drop sand (by gravity) into a sand trap. When the engineer applies the sander valve on the control stand, compressed air forces the sand out of the trap and down a hose so that a nozzle can deposit it onto the rail in front of the wheel. There are various variations of the equipment but all of it is fairly simple and the parts are readily available.

I can remember when I was a youngster on the Chicago, Burlington and Quincy Railroad when they were running large grain trains that were under powered because there were not enough locomotives available to handle the tonnage. The engineers would start the trains by pushing in the slack of the train while sanding the rails. With all the slack pushed in, the engineer would stop the train then begin pulling the train with the sanders still operating. He would slowly add weight to the pull as the slack ran out car by car until he had the whole train moving forward. The real key to making this work is sanding the rails as you push the slack in and sanding it as you pull the slack out. Without sand on the rail, you would slow down as you pull the slack. Once you get all the slack out, the locomotive would experience wheel slip and you would be stopped exactly where you started.

The other point that I would like to make is that sanders should be used year round. They are a benefit to your locomotive and your track. I don't care what season it is, you will experience wheel slip at one time or another when you pull cuts of cars when you don't sand the track. You will get a feel for when this will happen. In those occasions, preemptively use the

I don't care what season it is, you will experience wheel slip at one time or another when you pull cuts of cars when you don't sand the track. You will get a feel for when this will happen. In those occasions, preemptively use the sanders.

Track mobiles and other modes of switching railcars also use sanders. They depend on sander operation even more since they have less weight on the drivers.

AAR reports decreased August rail traffic

Commodities showing the largest increases included waste and nonferrous scrap, up 25.4 percent; grain, up 24.7 percent; and chemicals, up 1.1 percent.

"While August showed improvements in some categories, the big story in terms of rail traffic last month was the continuing surge in carloads of grain,"

sanders. I know you have heard the saying "use it or lose it!" That is especially true for sanders. Regular use means that they will work when you need them.

Don't risk your employees and equipment. Demand that sand boxes are filled, the sanders work and the sanders are used! By the way, track mobiles and other modes of switching railcars also use sanders. They depend on sander operation even more since they have less weight on the drivers. As always, Tealinc stands ready to employ our many years of experience and 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**.*

Railroad Traffic

The Association of American Railroads (AAR) has reported that total U.S. rail traffic for August 2016 was 2,675,263 carloads and intermodal units, down 5.7 percent or 162,230 carloads and intermodal units compared with August 2015.

August 2016 U.S. carload originations totaled 1,347,989, a drop of 6.6 percent, or 95,341 carloads, compared to August of last year. Excluding coal, carloads for the month were down 1 percent or 8,703 carloads compared to August 2015.

Intermodal traffic for August totaled 1,327,274 containers and trailers, down 66,889 units, or 4.8 percent, compared to last August.

Eight of the 20 commodity categories tracked by the AAR each month saw increases last month compared with August of 2015. Commodities showing the largest increases included waste and nonferrous scrap, up 25.4 percent, or 4,182 carloads; grain, up 24.7 percent, or 23,857 carloads; and chemicals, up 1.1 percent, or 1,699 carloads.

Petroleum and petroleum products showed the largest decrease in the commodity groups, with a drop of 25.1 percent, or 17,650 carloads, and coal declined 16.1 percent, or 86,638 carloads. Crushed stone, gravel and sand were down 6.9 percent, or 8,913 carloads.

"While August showed improvements in some categories, the big story in terms of rail traffic last month was the continuing surge in carloads of grain," said AAR Senior Vice President of Policy and Economics John T. Gray. "Railroads, along with barges and trucks, are a critical part of the grain logistical chain. The fact that this chain generally functions smoothly is a testament to the tremendous efforts that transportation providers, including railroads, put forth in support of their grain-related customers."

For the first eight months of 2016, total U.S. rail traffic was down 7.2 percent, or 1,369,877 carloads and intermodal units, from the same time period in 2015. U.S. carloads totaled 8,668,572, a drop of 11.1 percent or 1,081,450 carloads. Intermodal containers and trailers totaled 9,042,678

North American rail volume for the first 35 weeks of 2016 totaled 23,157,141 carloads and intermodal units, down 6.9 percent compared with 2015.

units, down 3.1 percent, or 288,427 units, compared to the same period in 2015.

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Read more at:
http://www.railresource.com/content/?p=34359

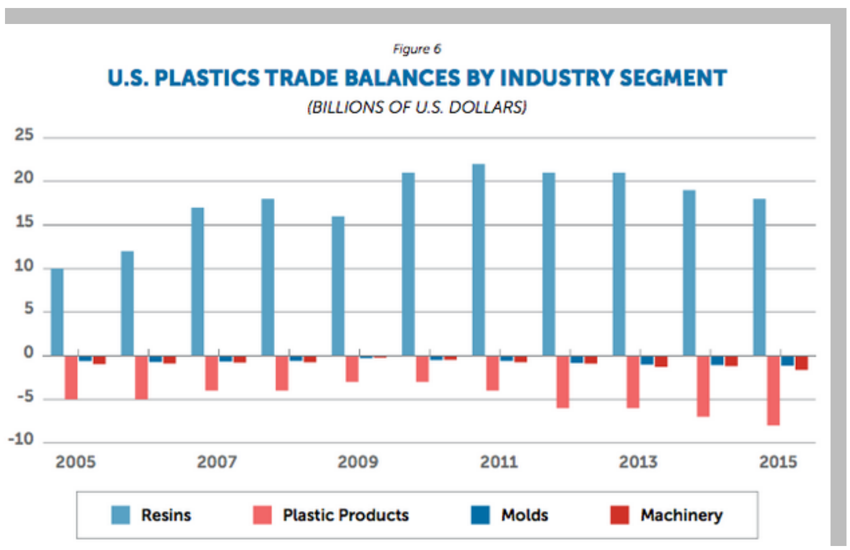
Industrial Inside

U.S. plastics industry maintains trade surplus

The U.S. plastics industry remains one of the few manufacturing sectors with a trade surplus, according to the latest edition of an annual report from the Society of the Plastics Industry Inc.

SPI officials said the report — which analyzes trade data from 2015 — "paints a complex, but ultimately positive and promising, portrait of the U.S. plastics industry."

The industry's trade surplus fell 32 percent to $7.1 billion in 2015, largely because of lower selling prices for plastic resin. As in previous years, all of the industry's surplus comes from resin, with trade deficits continuing in plastic products, molds and machinery.



In the 20 countries where the United States has free trade agreements, U.S. plastics firms have surpluses in plastic products and machinery, as well as in resin

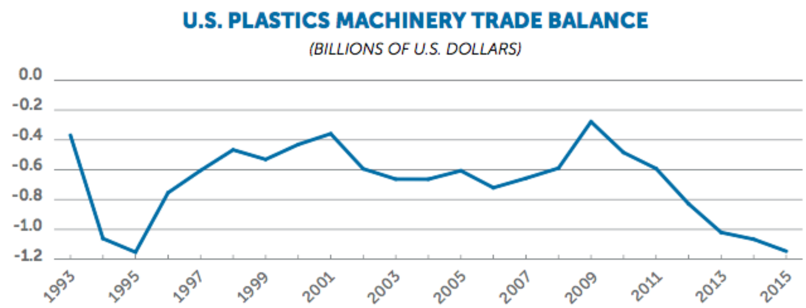
However, in the 20 countries where the United States has free trade agreements, U.S. plastics firms have surpluses in plastic products and machinery, as well as in resin, according Michael Taylor, SPI's international affairs and trade vice president.

"Free trade agreements are a good fit for U.S. plastics firms," he said.

Taylor added that ongoing use of shale gas as an affordable feedstock has been "a huge advantage" for U.S. resin makers. Overall economic growth is expected to remain around 2 percent in 2017 and has been "a bit anemic and sporadic," according to Taylor.

But he pointed out that U.S. plastics firms have seen growth in such key markets as packaging, automotive, health care and building and construction.

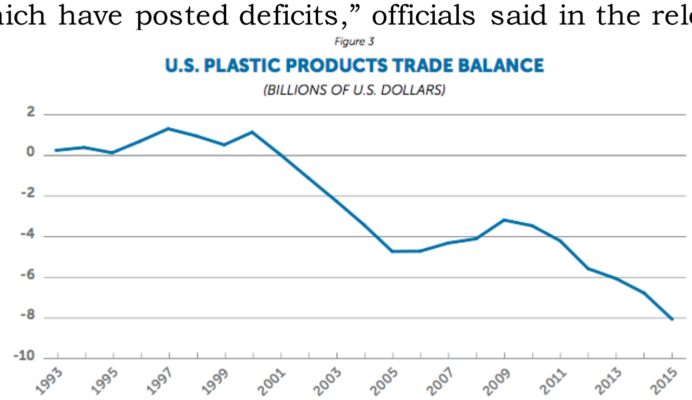
“A declining trade balance in this case is the sign of a growing U.S. economy,” SPI President and CEO Bill Carteaux said in a news release. “A stronger dollar makes sales more costly for buyers abroad, and a decline in natural gas and oil prices have put downward pressure on the price of plastic materials.”



He added that the report “highlights growth in the U.S. plastics industry, and shows its continued leadership in helping to make America the world’s leading manufacturing market.”

Apparent consumption of plastics in the United States — defined as shipments minus export plus imports — increased to a historic high of $295.4 billion in 2015, according to the report.

“The U.S. plastics industry’s trade surplus stands in stark contrast to American manufacturing as a whole and many individual manufacturing segments, which have posted deficits,” officials said in the release.



“To maintain a surplus as long as we have is a huge accomplishment,” Taylor added in a Sept. 28 interview in Chicago. Washington-based SPI released 2016 Global Business Trends at Global Plastics Summit 2016, a conference co-hosted by SPI and the IHS Chemical consulting firm, Sept. 28-30 in Chicago.

The report also comments on the turbulent politics of the U.S. Presidential election.

“Six weeks after this report is released, voters in the United States will head to the polls to determine who will lead the nation for the next four years,” officials said in the report. “American trade policy and, indeed, the

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Other highlights:

• Mexico and Canada remain the U.S. plastics industry's largest export markets.

• The United States enjoyed its largest trade surplus in 2015 with Mexico — $11 billion.

• The dollar value of the industry's trade surplus in resins declined in 2015, but on a real tonnage basis, the resin surplus increased 2.7 percent over 2014.

very concept of international trade and its benefits to the U.S. economy, have been under attack throughout this campaign.

"But no matter which candidate wins the presidency, the U.S. plastics industry, which annually contributes $427 billion to the U.S. economy and employs nearly 1 million Americans, believes that opening up new markets and rejecting calls for the U.S. to isolate itself economically (particularly from its biggest trading partners) should be major priorities for the next president."

Other highlights from the report include:

• Mexico and Canada remain the U.S. plastics industry's largest export markets. $15.8 billion in exports went to Mexico in 2015, while exports worth $12.1 billion went to Canada in 2015. The NAFTA trade area represents 47.2 percent of the $59.1 billion of goods exported by the U.S. plastics industry in 2015.
• The United States enjoyed its largest trade surplus in 2015 with Mexico — $11 billion.
• The dollar value of the industry's trade surplus in resins declined in 2015, but on a real tonnage basis, the resin surplus increased 2.7 percent over 2014.

Read the entire article at:
http://www.plasticsnews.com/article/20160929/NEWS/160929756/spi-study-us-plastics-industry-maintains-trade-surplus-in-complex

Financial Focus

Divided fed holds fire, signals 2016 rate increase still likely

"Near-term risks to the economic outlook appear roughly balanced. The Committee judges that the case for an increase in the federal funds rate has strengthened but

A divided Federal Reserve left its policy interest rate unchanged to await more evidence of progress toward its goals, while projecting that an increase is still likely by year-end.

"Near-term risks to the economic outlook appear roughly balanced," the Federal Open Market Committee said in its statement [September 21, 2016) after a two-day meeting in Washington. "The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives."

The sixth straight hold extends U.S. central bankers' run of getting cold feet amid risks from abroad and inconsistent signs of economic strength.

Now the focus will shift to December as the Fed's likely last chance to raise interest rates in 2016 -- a move that depends on how the economy, inflation and markets fare in the months surrounding a contentious presidential election.

"The statement is much more hawkish than I thought it would be," said Stephen Stanley, chief economist at Amherst Pierpont Securities LLC in New York, who said he expects a rate increase in December. "That just tells you they are revving up the engines."

Three officials, the most since December 2014, dissented in favor of a

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quarter-point hike. Esther George, president of the Kansas City Fed, voted against the decision for a second straight meeting. She was joined by Cleveland Fed President Loretta Mester -- in her first dissent -- and Eric Rosengren, head of the Boston Fed, whose previous dissents called for easier policy.

"Our decision does not reflect a lack of confidence in the economy," Fed Chair Janet Yellen said at the start of her press conference. "Since monetary policy is only modestly accommodative, there appears little risk of falling behind the curve in the near future."

Stocks climbed with Treasuries after the decision, while the dollar declined and gold rallied. The Standard & Poor's 500 Index extended gains after the Fed's statement, while a gauge of the U.S. yield curve flattened as the shortest-maturity debt underperformed. The greenback lost ground against all but two of its major peers.

"Our decision does not reflect a lack of confidence in the economy"

The central bank's so-called "dot plot", which it uses to signal its outlook for the path of interest rates, showed that officials expected one quarter-point rate increase this year. Three policy makers projected that keeping rates unchanged this year would be most appropriate. Officials scaled back expectations for hikes in 2017 and over the longer run.

Policy makers see two rate hikes next year, down from their June median projection of three.

The Fed said that the labor market will "strengthen somewhat further," adding the qualifier "somewhat further" to similar language from the July statement.

"Although the unemployment rate is little changed in recent months, job gains have been solid, on average," the Fed said in its statement. "Household spending has been growing strongly but business fixed investment has remained soft."

"Although the unemployment rate is little changed in recent months, job gains have been solid, on average. Household spending has been growing strongly but business fixed investment has remained soft."

The target range for the benchmark federal funds rate remains at 0.25 percent to 0.5 percent, where it's been since a quarter-point increase in December 2015 that ended seven years of near-zero rates.
The Fed repeated that it "continues to closely monitor inflation indicators and global economic and financial developments."
Gradual Pace

The FOMC reiterated that borrowing costs will probably rise at an "only gradual" pace. Policy makers also reiterated that they expect inflation to rise to their 2 percent goal over the medium term.

Because November's FOMC meeting comes within a week of the U.S. presidential election and isn't followed by a press conference with Yellen, economists have viewed the Fed's December meeting as a more likely candidate for an increase.

The latest decision could embolden Republican presidential nominee Donald Trump to unleash additional attacks on Yellen. The billionaire businessman said last week that the Fed "is being totally controlled politically" and might stand pat on rates for the rest of year.

Yellen, a former economics professor at the University of California at Berkeley, was appointed Fed chair by President Barack Obama and served as President Bill Clinton's top economic adviser.

The decision comes as Fed officials become more convinced that the economy is experiencing a new normal.

Long-Term Rate

Policy makers scaled back their median projection of the long-term interest rate to 2.9 percent from 3 percent in June. The estimate shows how high officials think rates can climb, so its downgrade suggests a shallower hiking cycle.

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Fed officials also cut their median growth projection for 2016 to 1.8 percent from 2 percent, mirroring the drop in the longer-run forecast, based on median estimates. Inflation is projected at 1.3 percent in the fourth quarter, down from a forecast of 1.4 percent in June. Policy makers again projected that inflation will reach the 2 percent target in 2018. Most economists in a Bloomberg survey had expected the committee to stay on hold, assigning just a 15 percent chance of a hike this month. Fed watchers saw a 54 percent probability that the Fed will raise rates at its December 13-14 meeting.

Yellen is scheduled to hold a press conference at 2:30 p.m. in Washington. It will be her first public remarks since a speech last month, when she said that the case for an interest-rate increase "has strengthened in recent months."

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Payroll Gains

Nonfarm payrolls have climbed by 182,000 jobs on average so far this year, although the most recent report showed a cooling to 151,000 job gains along with moderating wage increases. Other figures have shown declines in August retail sales and industrial production, as well as drops in sentiment at service companies and manufacturers.

Inflation is still running below the Fed's 2 percent goal. After picking up earlier in the year, annual gains in the headline personal consumption expenditures price index slowed to 0.8 percent in July. Core inflation, which excludes food and fuel costs, is firmer though still undershooting at 1.6 percent.

Meanwhile, inflation expectations have stayed relatively low. A gauge of market-based expectations watched by the Fed is projecting a pace of price gains of about 1.5 percent in the period five to 10 years out.

The Fed repeated on [September 21, 2016] that "market-based measures of inflation compensation remain low."

Learn more at:
http://www.bloomberg.com/news/articles/2016-09-21/fed-leaves-rates-unchanged-signals-2016-hike-still-likely

… with Darell Luther

I've spent almost thirty years working in the rail transportation industry and although I haven't seen it all, I've seen lots of economic and political cycles that have driven operations, pricing and management of rail transportation. I started my rail transportation career a few years after the Staggers Act of 1980 was signed into law. There were only stories remaining from that pre-Staggers era, and a few hold outs from the good old days, when I went to work for a Class I in grain marketing in Texas. We were just in the early stages of implementing public tariffs and letting contracts expire to allow market based adjustments to occur in a timely manner. Keep in mind the Staggers Act allowed contracts to replace negotiated but regulated rates and routes.

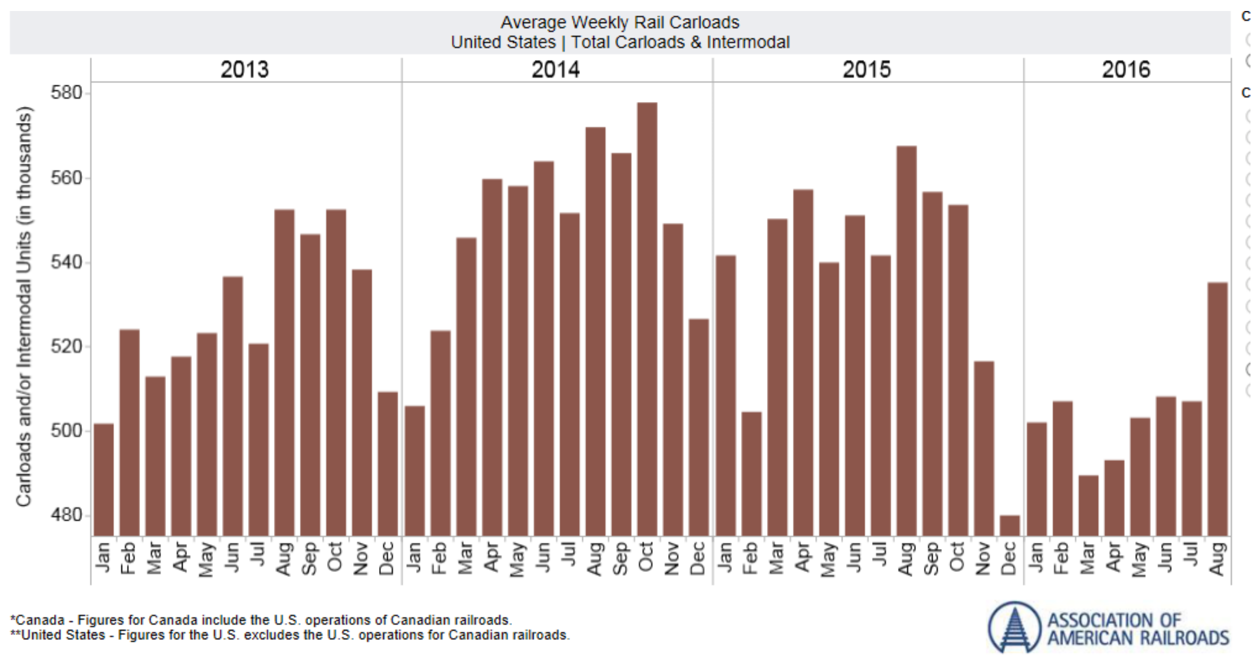
Railroads embraced contracts whole heartedly in the early 1980's and signed up to move a lot of tonnage (primarily coal and grain) for rates that weren't market based or had no upside adjustments. Tariffs were a new deal and had a two-fold purpose, one you could move freight rates with the market up or down on just a few days' notice, and two you could see, particularly for tariffs in public form, what your competition was doing. Railroad operations were getting more efficient because routes were optimized for the type of traffic being hauled and this consolidation led to better use of resources. In addition sub-optimal routes were either scrapped or sold off to short line operators, many of which were just learning the ropes of this new ear in rail transportation.

During this time frame I changed jobs internally from grain marketing to a coal group that worked on the economic side of figuring out equitable financial incentives to offer customers to convert to private aluminum railcars versus using railroad equipment or private steel equipment. The investments of track and infrastructure took precedence over the investments in equipment and given the size and nature of those investment requirements, the railroad made a strategic decision to limit equipment investment (which is a relative term). This decision of limiting equipment investment cut across many commodity lines and the more specialized the commodity requirements for transport the more likely the railroad would steer a customer to provide their own railcars. For instance railroads for the most part don't own or lease tank cars, covered hoppers that carry chemicals or hazardous materials, aggregate, rock, sand or gravel open top hoppers, flour, sugar covered hoppers, etc. Most railroads invested in base load coal cars, iron ore equipment, box cars (predecessor to intermodal), and grain covered hoppers. By base load I mean steady ongoing repetitive business that appeared to be sustainable over long periods of time, e.g. supplying railroad equipment to haul a portion of a billion tons of coal or several million bushels of grain transported by rail each year seemed like a good bet.

Over the course of my career I moved to another Class I and ran a portion of the fleet group from cradle to grave and was also responsible for all unit train operations with the exception of intermodal. The same philosophy held true there as well, invest in infrastructure and a base fleet and let the customer supply railcars for the specialty products and outliers.

From there I went to private industry and ended up running two subsidiaries of a major Utility. We ran approximately 9,000 private railcars and repaired about 30,000 third party railcars per year at three major repair shops and a few mobile and mini shop locations. The philosophy held, private industry for the most part and where it makes economic sense to the railroad invests in their own railcars and takes care of the major repairs and provides preventative maintenance (not to be confused with AAR/FRA running repairs) for their own rail equipment. Now I'm part of a team that supplies railcars to private industry and provides maintenance management and operations consulting advice to progressive clients. There's a reason for this as well. Railroads continue to promote private railcar supply and are leaving a niche in the market for management and operations consulting for clients that don't want to be at the whim of railroad decision making process and can extract value from this supply and services.

Despite the strategic decision over the past 30 years to promote private railcars we've seeing pushback in this area during the last three recessions. The first in 2001 (the internet bust / 9-11 attack) the second in 2008/2009 (mortgage / banking crisis) and the third 2015/2016 during current times. Carloads are off significantly over the past few years and 2016 is setting new lows (see chart below). This is being led by the energy sector (coal and oil) but isn't without effect of other commodities as well.



If you're a Class I railroad and you've told your customers to invest in rail equipment for the past 30 years and they make the investment usually requiring a major capital purchase or a long term operating cost investment then it's hard to imagine that they're going to be cooperative in replacing those investments without significant contributions in either service enhancements, rate concessions or both. We're seeing a lot of pushback currently with delayed OT-5 registrations, limits of OT-5 approvals, using mechanical requirements as an excuse to not take equipment that was fine during the "good" times and a myriad of other pressures. Face it, the railroads in some commodity sectors have significant amounts of surplus equipment that they no more want on their books as being underutilized any more than a private shipper does.

As private shippers you need to assess the reasons you have private equipment. In our experience the number one reason shippers get their own equipment is to help insure the movement of their commodity. During normal or good economic times the timeliness of a shipment has significant value, either as a direct sale to a customer or an input commodity for value added processing. During “bad” times it’s an assurance that you can move commodities at lower costs beating out competition. The reasons you elected to get your own equipment haven’t changed just because the situation has changed. You still need the railcar quality and quantity requirements you’ve always had to insure your product gets to market timely.

We look forward to earning your business!