Touchbase

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CP set for superior grain service

CP says it "is well positioned to provide best-in-

Railroad & Policy Updates

Canadian Pacific says it "is well positioned to provide best-in-class service to western Canadian grain shippers during the 2015-2016 crop-year."

CP's Dedicated Train Program (DTP), introduced in the 2014-2015 crop year, helped the railroad move a record 276,154 carloads (27,849,434 tons) of Canadian grain and grain products from western Canadian origins, up from the previous record crop year of 2013-2014. DTP, CP says, "provides customers with greater clarity and control of car supply to manage their supply chains. CP anticipates adding more trains to the program this crop year as it responds to greater demand to move grain and grain products from western Canada. Our service offering to grain customers is driven by efficiency and creating velocity in the rail portion of the complex grain supply chain."

DTP, designed for unit grain trains, serves approximately 70% of CP's grain operation, according to Vice President Sales and Marketing, Bulk John Brooks. "Customer feedback has been overwhelmingly positive," he said. "DTP is based on the fact that unit train shippers know their business the best, allowing them to determine origin and destination and to manage their supply chain velocity."

For non-unit train shippers, CP's Open Distribution service "is segmented to better fulfill the shipping needs to these end-markets," said Brooks. "Customers who do not qualify for DTP, or choose not to sign up for the program, can order cars in the Open Distribution program. Open Distribution allows shippers to input orders for four weeks, and as orders are filled, new orders can be placed. We continue to offer valuable and efficient service to our less than unit train customers via Open Distribution. This service is informed by ongoing and collaborative discussions with shippers and coordination through the Canadian Grain Commission for producer car loaders. We are constantly working to recognize and meet the differing needs of all the customers we serve."

DTP and Open Distribution, Brooks said, "are collaborative programs that

class service to western Canadian grain shippers during the 2015-2016 crop-year."

give flexible options to our customers both large and small. CP has stressed and will continue to stress that the complex Canadian grain supply chain must operate on a 24/7 basis to support balanced pipelines, reduce congestion and drive velocity."

"CP's Dedicated Train Program has created efficiencies for Viterra while allowing greater flexibility of train placement to ensure the right grain is moving to export position," said Kyle Jeworski, CEO of Viterra, one of Canada's largest grain producers. "The program is a positive step forward in the movement of Canadian grains, and we look forward to continuing to work with CP to support our overall focus on driving supply chain excellence for our farmers and destination customers."

CP said that in 2015, it will invest 21% of its revenue on capital expenditures, a percentage "higher than any other Class I railroad. Canadian rail rates remain among the lowest in the world, having risen just 6% since 2000 even as commodity prices have soared by 166%."

Viterra Inc. was a Canadian grain handling business, the nation's largest grain handler, with its formative roots in prairie grain-handling co-ops, among them the Saskatchewan Wheat Pool.Viterra Inc. grew into a global agri-business with operations in Canada, the U.S., Australia, New Zealand and China. The company operated three inter-related businesses: Grain Handling & Marketing, Agri-Products and Processing. Following its $6.1 billion acquisition by Glencore International in 2013, Viterra Inc. was merged with Glencore purchaser, 8115222 Canada Inc

Read the entire article:
http://www.railwayage.com/index.php/freight/class-i/cp-set-for-superior-grain-service.html?channel=50&utm_source=WhatCounts+Publicaster+Edition&utm_medium=email&utm_campaign=RGN+8.13.15&utm_content=CP+set+for+superior+grain+service

Mechanical Brief with Steve Christian

Good counsel: learn from the experiences of others

Several years ago, while I was still managing railcar repair shops, I had a customer who wanted us to replace the old "difficult to operate" outlet gates with new gates on a group of covered hoppers. The customer had provided all the application prints and procedures. He also provided all the material. The work procedure included:

1. Cutting off the weld-on outlet gates and a few inches of the hopper slope sheets
2. Grinding the lower portion of the hopper slope sheets that remained on the car
3. Welding on an outlet gate mounting frame with bolt holes to allow application of a bolt-on outlet gate
4. Application of the outlet gate gasket and outlet gate by bolting in place
5. Touch up paint to the slope sheets as needed.

The customer was correct about the legality. The Code

After the first gate was applied, I noticed that they seemed to be hanging pretty low. We checked the height above rail and found that it was 10 inches. I contacted the car owner and asked him what he wanted to do.

of Federal Regulations 49 CFR 215.121(A) says that the car body must be 2 ½" or more from top of rail. The 10" height easily satisfies that requirement; however, my real world experience made me worry about how well they would do at loading and unloading sites

He said that 10 inches was legal and told us to continue on.

The customer was correct about the legality. The Code of Federal Regulations 49 CFR 215.121(A) says that the car body must be 2 ½" or more from top of rail. The 10" height easily satisfies that requirement; however, my real world experience made me worry about how well they would do at loading and unloading sites. I have seen some pretty poor track at many locations. Despite my recommendation to mount the rest of the outlet gates higher on the slope sheets for the rest of the cars, he decided to continue on per the original instructions.

We continued on in this manner until we had several cars completed. The customer gave us disposition to send the cars to a grain elevator close by for loading. About a week later, I got a call from an angry car owner. He said that they had problems with the cars and wanted us to go over to the elevator and find out what was wrong.

As soon as we got there, the problem was easy to spot. The elevator employees had pushed the cars in line for loading. Once loaded the cars were pulled back, the lead outlet gate got stuck on some concrete between the tracks. Over the years the concrete had heaved up above the top of the rail. When the cars were empty, the 10" clearance was plenty high to clear the gates. After loading the cars, the springs compressed enough that the gates would not pass over the concrete.

I reported the problems that we found back to the car owner. To make a long story short, the car owner had us revise the procedure on these gates to increase the height above rail to 13". He also had the elevator unload those cars and ship them into us to raise the outlets. Of course, the car owner's customer was upset, the car owner had to pay for the return freight to the shop and we had to charge for the removal and reapplication so that the gates ended up being 13" above the rail.

Three weeks ago, I was on an inspection trip for a Tealinc customer at another shop. While there, I noticed some covered hoppers with new gates applied. I mentioned to the shop inspector that I was with that the gates seemed too low. He said that he agreed but that his customer would not listen. I recounted my experience to the inspector that I talked about earlier in this article. He said that he would approach his customer again.

We all need to learn from the experiences of each other. There is no need to repeat the mistakes of the past.

The lesson to be learned here is much more than outlet gate clearance. We all need to learn from the experiences of each other. There is no need to repeat the mistakes of the past. I have made plenty of mistakes in my professional career. I don't believe I have made any more than once. There are also many potential mistakes I could have made if not for the "good counsel" of many knowledgeable people in this industry.

Tealinc has a wide array of knowledge and experiences in the railroad industry. We are always available to provide that "good counsel" to you!

*Steve Christian is the Manager Value Creation-Railcar Performance Manager for Tealinc, Ltd. You may contact Steve directly out of our Nebraska office at (308) 675-0838 or via email at **steve@tealinc.com**.*

AAR reports slight drop in July rail traffic

Railroad Traffic

The Association of American Railroads (AAR) has reported that U.S. rail traffic for the month of July 2015 when compared with July of 2014 was down 1.8 percent or 49,757 carloads and intermodal units. Total U.S. rail traffic for the month was 2,708,299 carloads and intermodal units.

July 2015 U.S. carload originations totaled 1,376,411, a drop of 6.5 percent, or 95,295 carloads, compared to July of last year. Excluding coal, carloads for the month were down 2.8 percent or 25,776 carloads compared to July 2014.

Intermodal traffic for July reached a total of 1,331,888 containers and trailers, up 45,538 units, or 3.5 percent, compared to last July.

Commodities showing the largest increases included grain, coke, and crushed stone, sand, and gravel. Decreases were led by petroleum and petroleum products, primary metal products, and coal

Six of the 20 commodity categories tracked by the AAR each month saw increases last month compared to July of 2014. Commodities showing the largest increases included grain, up 6.2 percent, or 5,921 carloads; coke, up 6.1 percent, or 1,176 carloads; and crushed stone, sand, and gravel, up 1 percent, or 1,227 carloads.

Decreases in the commodities group in July 2015 compared to July of last year were led by petroleum and petroleum products, down 13.6 percent, or 10,691 carloads; primary metal products, down 13 percent, or 7,167 carloads; followed by coal, down 12.5 percent, or 69,519 carloads.

“Railroads are overexposed, relative to the economy in general, to the energy sector,” said John T. Gray, AAR’s senior vice president policy and economics. “Put another way, changes in the energy sector are having a bigger effect on rail traffic than they are on the economy as a whole. For that reason, we don’t think declines in overall rail carloads in recent months are necessarily reflective of fundamental weakness in the broader economy.”

Read the entire article:
http://www.railresource.com/content/?p=24178

Industrial Inside

Canada’s largest crude oil refinery, has stopped importing crude oil sourced from the Bakken shale formation “reflecting a shift in crude costs affecting East Coast refiners during a global slump in oil prices,”

Irving Oil Ltd., operator of Canada’s largest crude oil refinery, has stopped importing crude oil sourced from the Bakken shale formation in North Dakota and shipped by rail in favor of cheaper crudes from such producers as OPEC, “reflecting a shift in crude costs affecting East Coast refiners during a global slump in oil prices,” the Wall Street Journal recently reported.

The 320,000-barrel-a-day refinery in Saint John, N.B., one of the biggest by volume in North America, had been receiving 100,000 barrels a day by rail, a high reached two years ago that was only temporarily affected by the Lac Mégantic disaster. (The Montreal, Maine & Atlantic crude oil train that derailed on July 6, 2013, claiming 47 lives, was bound for the refinery). Today, CBR shipments the refinery are zero, a move “that reflects shifting economics in the energy industry even as the price of oil—including

Bakken crude—has slumped to six-year lows," said the WSJ. "About 90% of the crude oil Irving currently buys is shipped by sea from such producers as Saudi Arabia and those in western Africa, with the remainder coming by rail from such western Canadian oil-sands operators as Syncrude Canada Ltd. and Royal Dutch Shell PLC.

A year ago, Bakken crude made up about 25% of Irving's feedstock and in 2013 it supplied nearly one-third of its procurement volume, or about 100,000 barrels a day. 'The Bakken price has gone up' relative to other crudes when CBR costs are factored in,' [an Irving Oil executive] said."

"A once-yawning gap, between the cost of oil produced in North America and overseas crudes priced at the Brent global benchmark, has narrowed since 2013," the WSJ noted. "Refiners on North America's east coast can now import crude shipped by sea for less than the cost of shipping it by rail from shale oil producers in North Dakota and elsewhere in the U.S."

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Production of U.S. shale oil especially that from the Bakken, led to CBR shipments increasing exponentially due to a lack of pipelines. CBR is more expensive than by shipping by pipeline and even by ship, and fewer refiners are willing to pay a premium for CBR.

Whether Irving Oil's decision to abandon Bakken crude for a single refinery reflects a broader trend that will affect CBR movements remains to be seen. Two other refiners have followed suit, but the situation may not be permanent.

"Refiners PBF Energy Inc. and Phillips 66 both said they increased procurement of overseas crudes at the expense of CBR in the second quarter, though they signaled it is unclear if that will continue throughout the rest of the year," the WSJ reported. "'Our ability to source sovereign waterborne crudes was far more economic to the East Coast facilities, and that's what we did,' PBF Energy CEO Tom Nimbley said in late July.

Phillips 66 CEO and Chairman Greg Garland told investors, 'We actually set [crude-by-rail] cars on the siding. We brought imported crudes in the system.' But, he added, 'I'd say given where our expectations are for the third quarter, I'd say cars are coming off the sidings, and we're going to import less crude.'"

CBR traffic has dropped substantially compared to last year, "reflecting both the worsening economics of CBR and better pipeline access to refineries on the Gulf of Mexico," the WSJ noted. According to Association of American Railroads figures, U.S. Class I railroads originated 111,068 carloads of crude oil in the second quarter of 2015, down 2,201 carloads from the first quarter and some 21,000 fewer carloads than the peak in 2014's third quarter.

CBR traffic has dropped substantially compared to last year, "reflecting both the worsening economics of CBR and better pipeline access to refineries on the Gulf of Mexico"

Read more:
http://www.railwayage.com/index.php/management/does-zero-bakken-crude-for-irving-oil-indicate-a-trend.html

Financial Focus

The Federal Reserve could be hitting the brakes on a rate hike in September.

After fears that China's economic slowdown has worsened and global stock markets have nosedived, a rate hike appears "less compelling," said New York Fed President William Dudley on August 26, 2015.

"The decision to begin the normalization process at the September [Fed committee] meeting seems less compelling to me than it was a few weeks ago," Dudley said at a press conference in New York.

The Fed hasn't increased its benchmark interest rate in nearly a decade. A rate hike would be considered a signal that the U.S. economy is healthy and is on its way to recovery from the recession.

But China's slowdown is weighing on economies across the world. It's limiting growth in many countries and has led to turmoil in global stock markets and sent currencies plunging. It all could eventually curb economic growth in the U.S., which is what concerns the Fed.

"What we're seeing is not about us...this is about developments abroad," says Dudley.

Dudley did not clarify if he was looking to future Fed meetings in October through December to raise rates for the first time, often called "liftoff." He only indicated that a September rate hike appeared less likely in his view.

Learn more at:
http://money.cnn.com/2015/08/26/news/economy/fed-september-rate-hike/index.html?iid=SF_LN

The Federal Reserve could be hitting the brakes on a rate hike in September

"What we're seeing is not about us...this is about developments abroad"

The Edge

We Trade Freight!

I was once told by the president of a major grain company, "we don't trade grain and grain products; we trade freight." That's an interesting concept and one to which I've always paid particular attention. That executive had a view of his company's world picture and a good understanding of trading freight on a global basis via water and its impact on rail, barge, and truck business in the U.S.

The Baltic Dry Index (BDI), an indexed measure of ocean going freight rates. Simply put, the BDI is an index of moving bulk commodities (coal, ore, grain, scrap, etc.) by sea across 23 shipping routes which represents the majority of the international bulk trade routes. BDI is the best indicator of world freight and ocean going rates.

It's interesting to note that the BDI is seasonally at a point lower than it's been for many years (see chart below). That's a good indicator that the movement of the majority of bulk freight has slowed to the point of an imbalance of supply and demand where there are more vessels competing for the same bulk products. The world coal, ore, grain and scrap trading reflects that decrease when one looks at the U,S, Rail network rail car loadings. Coal in July was down some 69,519 carloads from July 2014, around 6.5%, hovering about 10,000 carloads better than recessionary times of 2009. Metal products and ores were down some 10% or approximately 9,638 carloads during the same time period.

The BDI (replaces the Baltic Freight Index): A composite of the Baltic Capesize, Panamax, Handysize and Supramax indices. The index is designed as the successor to the Baltic Freight Index and was first published on January 4 1985 at 1000 points.

Taking this concept of trading freight to task, I took a look at a pretty menial yet important commodity called aggregates. Aggregates, generally classified (I know rock is not rock!) as sand, stone or gravel is an important yet often overlooked commodity. Its use is a great indication of the economic health of our country, e.g. roads, houses, construction projects, etc. I then looked at the west coast simply because I've spent a lot of time from southern California to the state of Washington working on aggregate projects and am inherently familiar with the rail and water networks (inland and ocean) in and around those states. What I found was another company which also trades freight on aggregates via ocean going barge and self-unloader ships originating in western Canada with destinations in central and southern California. What I could never figure out was this company would trade freight and haul aggregates via vessel around 690 nautical miles (to 940 nautical miles in another instance) and make it financially feasible (they're a publicly traded company and their financial reported indicated positive economics) on a relatively low value (maybe rock is rock) commodity and in contrast it was an extreme challenge to make it work via rail for 10-15% of that distance and be competitive with local pricing. In fact our rate of success with rail shipments of aggregates wasn't great – just sayin'!

So back to the BDI and concept of trading freight. As noted above, rail carloadings are down for bulk commodities in general and down overall year to date thru July 31, 2015 versus 2014 some 367,000 carloads (AAR Statistics are readily available thru the AAR website at www.aar.org). Long haul bulk commodity transport pays a lot of rail operations and maintenance bills. With the world economy stagnation and the significant decrease in coal and other energy related carloadings maybe it's time for the railroads to reconsider trading freight on shorter haul commodities, such as aggregates.

A very smart gentlemen that I once worked with at a Class I railroad (he headed up the costing department and is now at the AAR) told me at that time railroads could make money on short haul traffic that ran like clockwork and fit within tight resource parameters. I'm not sure if the demographic has changed enough to invalidate this concept or not. We're all concerned that railroads stay financially and operationally healthy. It's simply good for business for all of us in the freight industry. Maybe a reconsideration of the railroads "trading freight" time has come?

We look forward to earning your business!