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Note from the Editor Welcome to Q-2, 2022! Focused on the rail industry as a whole and designed for all of us who are impacted by the successes and challenges that transportation by rail presents, this informative newsletter is designed specifically to share insights, share advice and add value to your transportation success. The table of contents above will help you focus in on your article of interest. If you'd like us to engage with you on something not included here, just drop us a line. We'll certainly appreciate your feedback! As a company, Tealinc specializes in providing exceptional customer service and this newsletter helps our customers engage in the mission with us. As we can create value with you as a trusted rail partner, we'll appreciate engaging with you! Contact Us: **www.tealinc.com** | (720) 733-9922 | **webmail@tealinc.com**

Giving Back: Scholarship Applications Due April 30, 2022!

We have posted the 2022 scholarship application online here: **Tealinc Scholarship Application**. The deadline for application is April 30, 2022 so be sure to get your application in today! We look forward to being able to support youths plans for their bright future ahead.

Tealinc Is Growing: Join Our Team Today!

Are you looking for a rewarding career filled with new and exciting challenges? Would you like the opportunity to make a significant impact in a dynamic, results-driven company? Can you define and deliver on our marketing strategy to help us grow? If so, you are in the right place! **Apply today!**

Railing On…

Darell Luther, CEO

The Russian invasion of the Ukraine is all the news in today's environment. The Ukraine area is a significant natural resource provider of coal, oil and a group of minerals. A quick look at crude oil price movement over the past few weeks are telling in just how important oil exports are to the Europeans. While there could be true shortages of crude oil in Europe, the United States will likely feel the sting of price increases regardless of availability constraints. Minerals such as potash and other key ingredients in the fertilizer industry are also going to have an impact on the world fertilizer supply and demand balance.

The Ukraine along with the area that borders it in Russia is the bread basket of Europe with exports of wheat being 30% of the world wheat export, corn being 17% of the world corn exports, and barley being 31% of the world barley exports. These commodities are key in feeding people, animals and providing seeds to production agriculture. The food stuffs markets go significantly beyond Europe into China and other parts of the world, causing a ripple effect throughout any importing countries, which are most all of them.

So, what does this have to do with rail transportation on the North American continent?

The US and Canadian rail networks are currently trying to deal with a huge bubble in pent up demand, which was due to the COVID-19 pandemic, and was suddenly let loose on rail, truck, barge and ocean vessel-based shipments. The latest disruption to the supply chain is the Russian invasion of the Ukraine. This invasion certainly won't help North America work through this bubble anytime soon. The complexity of this multi-faceted transportation network makes it even more difficult to unwind the rail piece and address service issues therein. The bubble results in handling more railcars quicker so that the commodities and products can get from the supply region to the demand location. Rail networks are challenged with providing service at a level that's higher than has been required in quite some time to bring home goods to the last mile distribution networks. As a shipper or receiver, the focus on service also includes you and your operations. **Focus on turning rail equipment expeditiously**. It probably sounds like we're biased, and we are, but the reality has never been more evident: Private railcar lessees and/or private railcar owners should be one step closer to securing supply by taking out the railcar allocation part of moving commodities or finished products. When you're not waiting on the railroad for railcar equipment, you can load/unload your privately owned/leased railcars and get one step ahead. A shameless plug here for getting your own railcars is in order but we certainly find it imperative… we can help you with that! Prepare for the fact that freight transportation is going to get more complex regardless of the type of transportation method and don't get complacent. Step up your planning efforts!

When you'd like to plan, strategize or simply just rail-on with me, I can be reached at (406) 347-5237 office / (406) 853-3332 cell or at **darell@tealinc.com**.

Rail Strategy and Planning

Julie Mink, President

Last month (March 2022) I celebrated my 17th year anniversary at Tealinc and 26th year in rail. As I've grown in my logistics experience and rail equipment knowledge, I've spent a lot of time reflecting on the past and daydreaming about the future. Having a chair at the helm of Tealinc and focusing on aligning the Tealinc board long-term vision with our customer-centric strategy (i.e., align Tealinc strategy with the needs of Tealinc customers) allows me a certain privilege with our customers: creating new paths, new direction and custom-tailored programs that facilitate our customer's experience. When I look back to our history and where Tealinc has come from, I see the success of solutions implemented, railcars delivered, and logistics networks developed. I also see the failures of railcar shortages, poor railroad velocity, lack of customer planning and an overwhelming challenge of customer "analysis paralysis". Being a "solutions-based leader", this prompts me to believe that in the future, we'll be able to head of those "past challenges" and even better impact our customers rail transportation success.

The overwhelming reality though is that I haven't yet found the magic wand that prevents "analysis paralysis". This really rides the line of what Darell mentioned above. In a word: COMPLACENCY. If you ship by truck (okay before COVID), you recall scheduling a pick-up and having your order picked up, shipped and arriving around the time it was forecast. If you've shipped by rail, you realized that it's not that simple. And yet time and time again, we see customers stalled waiting for internal approvals, final approvals, board approvals, customer approvals… the list goes on. It's the nature of business that cannot be changed; however, it is fundamentally taxing to your rail transportation success. Here is my advice. Plan your rail logistics schedule at least 12-months in advance if possible. Be sure you secure rates, contracts and schedules from the railroad at least 6-months before you anticipate your first shipment leaving or arriving. In today's market (see Kristen's note below regarding railcar equipment) be sure you've secured your required railcars at least 3 to 6 months before you need them for their first loading. No matter what you do, in all your logistics and supply chain endeavors, do not get complacent. Expect delays, expect weather (all seasons provide challenges!), and, in this market, plan for a lack of equipment.

Our commitment to you is this: If we don't have the rail equipment you need available, we will keep your needs on our internal "wish list" and let you know when we identify supply. Furthermore, if you want us to all-out scour the market for the exact equipment you need, pegged exactly to the schedule of when you need it, engage us in a consulting project. We'll turn over every rock for idle, existing and new built equipment until we identify a solution for you. If you lease equipment from Tealinc, we'll chock up the expedition to the cost of doing business and we'll apply your paid consulting dollars to your lease. Either way, we're laser focused on satisfying your rail equipment needs.

I am available to you for a no-commitment consultation. When you're ready to engage with us, we'll get you properly onboarded. Call me at (720) 733-9922 or email me at **julie@tealinc.com**.

Rail Fleet Management Brief

Shannon Rodgers, Director- Operations

The Car Repair Billing ("CRB") process is an important part of managing any railcar fleet. CRB management is one of my key focuses and duties as I assist in supporting as well as lead the management of railcar fleets with and for Tealinc customers. The process is just as important in the management of your rail fleet. Car repairs done by the railroad or a shop generally are processed through Railinc's Car Repair Billing System and rules can be found in the AAR Office & Field Manuals. Knowing, understanding and translating these rules is vitally important not only in insuring that your rail fleet is operating legally and in compliance with rules but also in auditing the railcar repair shops and railroads against excess, exorbitant and even sometimes false billing practices.

The process is so important that Tealinc as a company double checks our system with internal and external review. Our customer's car repair bills are run through an automatic audit system as well as a manual check for any errors in the bills from the railroads & shops. We handle the exception process to ensure our customers are not paying on invalid invoices and to eliminate excess invoices and overcharges.

In case you don't keep up with all the rule changes, I want to be sure you're aware that recently there has been an important change to note. The timeline to invoice for car repairs has been changed from (6) months to (3) months. Additionally, car owners (or lessees if your lease is structured as such) will have (7) months to take exception to errors or questionable charges.

Knowing & understanding the AAR Rules can help save money, as well as keep your fleet operating in compliance, in service and in top shape. When you need any assistance managing your fleet, we're here to partner with you. If you just want a little support or if you want me to manage most of or all of your railcar fleet, I'm ready to help you. Just give me a call at (814) 631-9277 or email me at **shannon@tealinc.com**

Kristen Kempson, Director - Railcar Leasing & Sales

Rail Fleet Equipment Focus

Market demand has definitely outpaced the supply of available railcars the past 12+ months. The rising fuel prices and on-going truck driver shortage has driven more freight to rail. It is no secret that there is a shortage of railcars in the market. Available railcars come and go just as quickly as they're made available and sourced. We've had a few groups of railcar types come available that we had not seen in a while. They of course did not stay on the market for long. Already this year we've placed these railcars into service:

- Small cube
- Plastic pellet covered hoppers
- Flatcars
- Open top hoppers
- Mill gondolas

- Etc.

Immediately available, we have a set of (100+) steel bodied open top hoppers and a group of small cube covered hoppers. Please note, other railcars are available at your request. We can discuss pricing options when you contact me. We are here to partner with you to help you find what railcars you are in need of. We have a database that houses your railcar requirements so that when equipment does come available, we'll notify you. If you have a specific railcar type you are looking for, let's connect. I'll update your profile to include this information so we can act quick to secure the railcars you need in order to run your business successfully!

As always, I encourage you to visit our website and explore railcar types and how they align with commodities. Contact me with all your questions (big or small) and I'll get to work focused on exactly what you need. You can call me at (708) 854-6307 or email me at **kristen@tealinc.com**.

***Seeking Railcars for Safety Train**

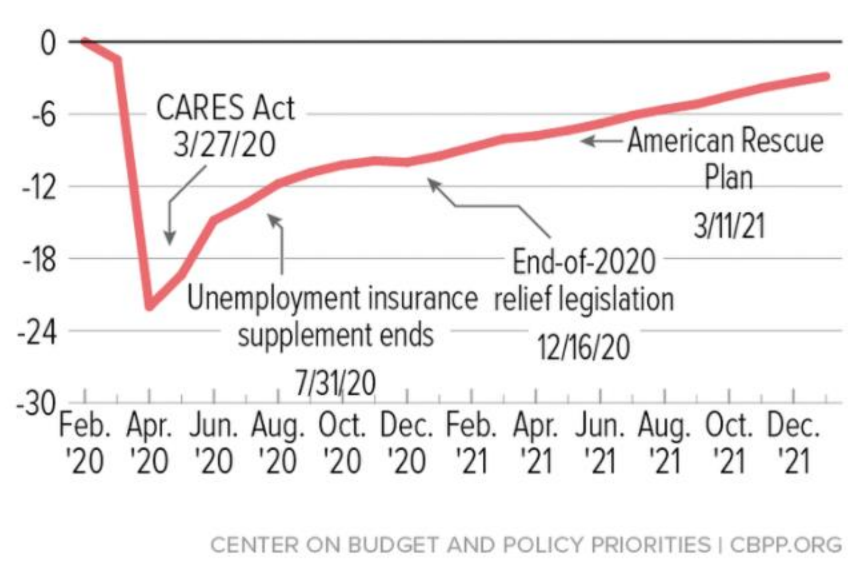
Safety Train, The Firefighters Education and Training Foundation, is a non-for-profit corporation dedicated to providing the necessary equipment and training programs to teach emergency responders, railroad personal and government officials on how to deal with railroad emergencies. **Safety Train** is currently looking for two (2) tank cars for fire and hazmat training. The request is for interchangeable railcars as the fleet is aging out. Have railcars to donate? Contact Dave Buccolo, **davidbuccolo1@gmail.com** | (209) 405-4884.

Q2 Planning Update - An Industry Outlook

Q2 is here and it's time for our quarterly industry outlook. This outlook is strictly from Tealinc perspective, extrapolated from a lot of interaction between our team and various persons in the industry. We cover a wide swath of industries (coal, coke, fertilizer, grains, wheat, corn, oats, barley, minerals, potash, soda ash, boiler ash, aggregates, rock, sand and gravel, scrap metal, steel, etc.) so we do hear a lot of differing opinions which lead us to derive different sets of conclusions. This article is comprised of industrial projections and those differing opinions obtained first hand or through other print media on how specific supply chain impacts of 2021 will unfold in 2022.

The overriding concerns in Q1 were many but seemed to be led by "what's the availability of skilled labor going to be?" This concern continues to hold the number one spot in Q2 as well. Labor availability has taken an approach never before seen in the USA. The pandemic re-grounded many people to search their souls in consideration of their current jobs. It seems a lot of these folks aren't going back to work where they left from as many are evaluating their life-work balance and not liking where they came from. Many are now looking to change careers or remain at home focused on having a better quality of life overall. This concern hasn't changed as we move into Q2 2022 and remains either a key focus for employers or an underlying focus for other strategic initiatives.

Human Resources. Human resources continue to be a challenge for all employers that we've visited with in Q2 and obtaining skilled personnel is even more challenging. The start of the pandemic in roughly March 2020 drove a huge number of employees out of their jobs. At first this was centered around the service industry (restaurants, bars, theaters, clerks, front desk attendants, concierges and others). It then made its way to skilled labor that was no longer required since production and manufacture ring took such a hit that keeping skilled staff on payroll wasn't a good corporate strategy when the shift was simply to economically survive as a company.



The government established the CARES Act in March 2020, provided unemployment insurance supplemental benefits that ended July 2020 and relief legislation that ended December 2020. The **American Rescue Plan** didn't start wrapping up until March 2021. The chart above shows the impact on unemployment during the height of the pandemic. We're now in Q2 2022, some two years after the inception of the pandemic, and we continue to face the dilemma of having the right person and numbers of people available for the right job.

Aggregates Industry. The aggregates industry should be joyous. The 2021 **Infrastructure Investment and Jobs Act (IIJA)** was passed by congress and at its core is a five-year, $304 billion reauthorization of USA surface transportation programs. The bill also includes an additional $550 billion in new funding for building hard infrastructure with the portion set aside for roads and bridges at $110 billion.

More recently in **March 2022** though, the Associated Builders and Contractors issued the following statement from its president, Michael Bellaman, in reaction to President Biden's State of the Union address.

> "The construction industry is currently up against historic global supply chain disruptions, rising materials prices, a workforce shortage of 650,000 and regulatory chokeholds. To make matters worse, ABC's 21,000 members have faced a barrage of anti-growth regulatory actions and policies from the Biden administration that have driven up construction costs, created barriers to job creation and damaged the American economy."

Q1 provided a high point to aggregates producers based on a **IIJA** that seemed to support record amounts of infrastructure investment to support the work that needs to be done on the USA roads, bridges, tunnels and other infrastructure. This type of support is direly needed to bring America's infrastructure to a level that makes our roads, bridges and other infrastructure safe and mobile. Q2 seems to throw a **cold towel** on the hope of bright days ahead for aggregate producers by shackling these producers with a series of obstacles to overcome material price increases, worker shortages and anti-growth initiatives. Aggregate producers are a resilient group and will weather the storm. Unfortunately, easy money isn't going to be coming any time soon.

Agriculture Industry. In the last ten days things have changed dramatically for the international agriculture industry. With Russia invading the **Ukraine, world grain trading** will take on a new meaning. The Ukraine region and Russian region that borders the Ukraine is responsible for 30% of the world wheat, 17% of the world corn and 31% of the world barley export trade. This disruption of commodity flow will have effects that ripple across grain trading everywhere. Wheat is exported primarily to the European Union and China. Corn has the same customer list plus a few. If the Russia – Ukrainian war results in a 25% decrease in the amount of corn exported, that reduction will give the US and South America a shot at exporting an additional 400 million bushels. While it could be a great problem to have, that scenario will put additional strain on the US rail transportation industry.

As mentioned in the ***January Tealinc Touchbase Newsletter*** and worth repeating, the variability in this market can cause one to rethink railcar supply. If you're a unit train shipper and require large numbers of railcars in a consistent train operation, acquiring private railcars can result in more trains moved. The same applies if you're a manifest shipper shipping one to twenty cars at a time. Either way, do you have the railcars you need? See Julie's column above regarding timeline guidelines.

Scrap Industry. The scrap industry continues to gain momentum. The automotive industry hasn't begun to fill the demand for new autos and pickups, large construction equipment needs are far behind demand and drilling for oil and related movement of that oil through railcars, pipelines and trucks are going up with the potential embargo of Russian oil. That should bode well for scrap dealers for the foreseeable future, although the demand piece of the pie is very good the supply of transportation continues to be a challenge. Barges, railcars, and ship capacity for export will remain a challenge through 2022 into 2023. Look to the industry to ship as much as it can in the next quarter.

In our world, railcars continue to be in very short supply for scrap steel with new railcar builds out until early Q2 2023 or, now more likely, Q3/Q4 2023.

Energy Industry. Gas, diesel, bunker fuel, oil-based commodities and pipelines are going up in price. The move to ban Russian supplied crude has the ripple effect all across the world and the US is no exception. **RBN Energy** has a good blog on these commodities and the anticipated run up of price, qualification of supply and a hint at demand.

Railroads. In preparing this newsletter, it quickly becomes evident that there are significant challenges to the transportation of US products that are in high demand worldwide. This excess demand is trying in that the railroads have many the same problems as does any company in todays' environment. The first is lack of man power and input resources that keep the railroads running. The second is regulation potential on the horizon that would be detrimental to the rail system we see today.

The railroads have implemented several employee work and retention plans, one of which attempts to keep crew calling responses positive so employees scheduled to work the trains are actually available to work the trains. The program is difficult for the reliable personnel since they don't mark off very much. It's designed to encourage those that mark off frequently to the determinant of their jobs to either be reliable for your shift or have your employment self-terminated.

Railroad performance is an area that ebbs and flows. During these times it seems as though there is a continual barrage of barriers placed in front of Class 1 Railroads. The list of continuous struggles is people / human resource availability, increased fuel costs, increased demand couched by a lot of uncertainty and regulation oversight and physical rail capacity in the right location.

See each railroads performance metrics on their websites or at the Surface Transportation Board. These performance measures are important indicators of the railroad's adherence to their operating plans which customers depend on to schedule and ship their freight. Lack of consistency is problematic to all, especially the railroads themselves.

Industry Update: Surface Transportation Board

The Surface Transportation Board (STB) is primarily designated to have legal oversight of the economic regulation of the rail industry. The agency has jurisdiction over railroad rate, practice, and service issues and rail restructuring transactions, including mergers, line sales, line construction, and line abandonment. Promotion of good service and fair prices are two of its mainstays.

The most important railroad item on the STB docket today is the hearings focused on **Reciprocal Switching**. This is EP711 (sub-No. 1) et. al. (STB served July 27, 2016), the STB proposed new regulations under which the STB would exercise its statutory authority to require rail carriers to establish switching arrangement in certain circumstances.

Excerpts are:

> Background Competitive access generally refers to the ability of a shipper or a competitor railroad to use the facilities or services of an incumbent railroad to extend the reach of the services provided by the competitor railroad. The provisions of 49 U.S.C. §§ 11102 and 10705 make three competitive access remedies available to shippers and carriers: the prescription of through routes, terminal trackage rights, and, as relevant here, reciprocal switching. Under reciprocal switching, an incumbent carrier transports a shipper's traffic to an interchange point, where it switches the rail cars over to the competing carrier. The competing carrier pays the incumbent carrier a switching fee for bringing or taking the cars from the shipper's facility to the interchange point, or vice versa. The switching fee is incorporated in some manner into the competing carrier's total rate to the shipper. Reciprocal switching thus enables a competing carrier

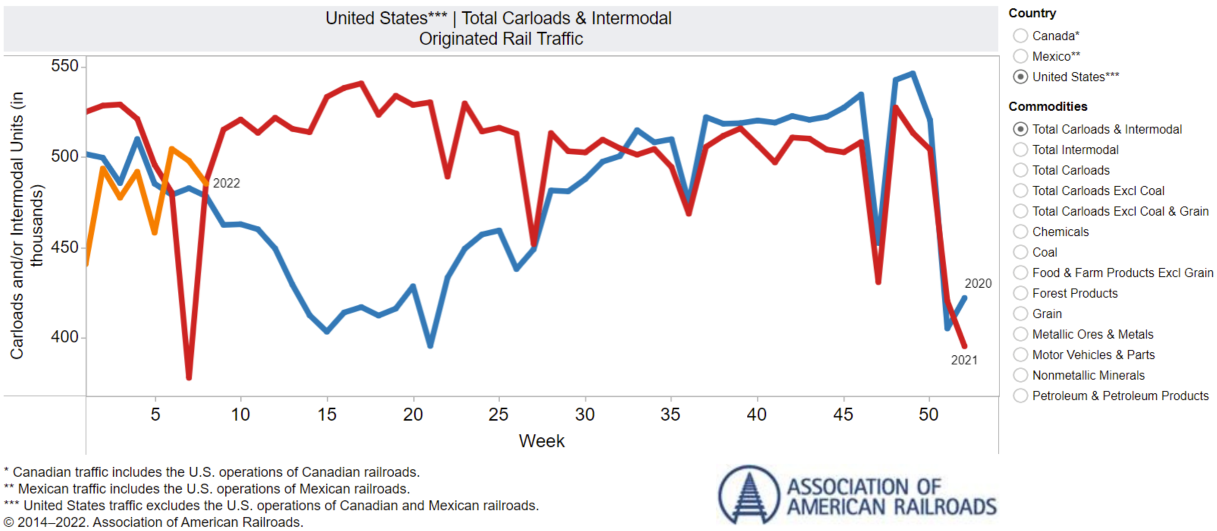
> to offer its own single-line rate to compete with the incumbent carrier's single-line rate, even if the competing carrier's lines do not physically reach a shipper's facility. NPRM, EP 711 (Sub-No. 1) et al., slip op. at 2. Reciprocal switching can occur as part of a voluntary arrangement between carriers, or it may be ordered by the Board. Under § 11102, the Board may require the establishment of a switching arrangement when it finds that the arrangement either (1) is practicable and in the public interest, or (2) is necessary to provide competitive rail service. 49 U.S.C. § 11102(c)(1). Section 11102(c)(1) authorizes the Board to establish the conditions of and compensation for switching service if the affected carriers cannot reach agreement on those matters within a reasonable period. The Board's implementation of § 11102 is guided by the rail transportation policy set forth in 49 U.S.C. § 10101. S……

Regardless of where you set with reciprocal switching, in our opinion, regulation commonly disrupts natural market flows. Consolidation of pricing power is a real challenge to deal with and is largely created by mergers and acquisitions. We're not sure of the answer but it's not healthy for an economy to make such wide class distinctions.

Industry Update: Rail Traffic Data

Most recent rail traffic data is tracking well with 15 of the 20 commodity groups that the Association of American Railroads (AAR) tracks showing gains in carloads. The total carloads for the February 2022 were 915,329. Coal increased 21.3% with an average of 67,295 carloads per week, chemicals had 34,463 carloads per week, crushed stone had a 7.3% increase and grain a 7.3% increase in carloads. Petroleum products feel 8% in February but they'll certainly rebound in our current situation. Primary metal products rose 2.5% and iron and steel scrap rose 4.8% in February 2022.

The railroads are stepping up to meet demand as we work through the pandemic demand bubble and set themselves up for the anticipated demand fallout from the Russian – Ukraine war.



Industry Update: Financial Focus

Inflation is first and foremost on most people's minds these days. Pay more and get less effectively decreasing your take home wages and purchasing power of the dollar. According to the **Federal Reserve Board**, inflation is currently running at 7.5%. That's the highest year rate gain in 40 years and it needs to be reined in. The FOMC is pointing to one or two interest rate increases in 2022 to combat inflation. The FOMC uses a target of 2% inflation as being indicative of a healthy economy. Look for rate advances in the near future along with other monetary policy actions.

In the rail industry we're seeing rail rates increases, railcar lease rate increases, railcar purchase increases all to varying degrees from reasonable to astronomical. A portion of these increases are passed along to the consumer in the form of higher purchase prices for goods and services.

Industry Update: Railroad & Policy Updates

From the FRA: Join the Federal Railroad Administration (FRA) for a basic overview of the **National Historic Preservation Act Section 106** review process (Section 106).

Section 106 is one of many federal environmental review requirements that are triggered by federally funded transportation projects. Before obligating a grant, FRA must go through a four-step decision-making process to consider a project's potential effects to historic properties. The Section 106 review process can include consultation with State Historic Preservation Officers, tribes, local governments, historical societies, and other community stakeholders. This webinar will help grant applicants make sense of the Section 106 review process and understand whether Section 106 streamlining procedures are applicable to their railroad project.

With the passage of the Bipartisan Infrastructure Law, which will provide $66 billion in new funding over the next five years to freight and passenger railroad projects, this webinar will be particularly useful for new grant applicants. The webinar will also be a timely Section 106 refresher for any FRA grantee.

About Tealinc, Ltd.

We solve rail transportation challenges. We Specialize in Rail Transportation Solutions. We participate in nearly every industry supported by rail; lease, sell, trade and purchase nearly every type of freight railcar; and provide management and consulting services for both novice and experienced rail shippers. We specialize in exceptional customer service. We focus on rail equipment and consulting services to assist the novice, mid-level and expert shipper to plan, modify and adjust short-term and long-term rail shipping and receiving needs.

Our team is made up of a diverse group of individuals with complementary rail backgrounds. Together, we have over 115 years of experience in the rail industry. We have the expertise, knowledge and ability to create value for our clients.

We look forward to earning your business!

Contact us:
www.tealinc.com | *Webmail@tealinc.com* | *(720) 733-9922*
