Interactive Table of Contents

Note from the Editor As we ring in the new year, our January 2022 marks the 17th year we've been publishing our rail industry newsletter. It's humbling to see where the rail industry is now versus where it was when our educational newsletter first started. As with years past, this issue holds some advice, forecasting and current events throughout the industry. The table of contents above should help you focus in on your article of interest. If you don't see something here that you'd like us to engage with you on, just drop us a line. We'll certainly appreciate your feedback! A new year and the same mission. 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 be your rail partner, we'll appreciate engaging with you!

Contact Us: www.tealinc.com | (720) 733-9922 | webmail@tealinc.com

Railing On, with Darell Luther, CEO

Darell Luther, CEO

Happy New Year! The economic differences between the greeting of a new year in 2022 versus 2021 lists is about 180 degrees. The view from a COVID-19 induced economy beginning roughly in March 2020 running throughout 2020 and going into 2021 was vague. Economic recovery was definitely on everyones mind but wasn't clear. Then the economy started to recover in a big way in early to mid year 2021 and in response the supply chain "broke"! Most news regarding logistics, be it rail, truck, barge or ship, in 2021 has been tied to the broken supply chain. The challenges to those of us who participate in the rail industry have been phenominal and will likely continue well in and beyond 2022.

However the one upside is that the challenges in 2022 appear to be in support of demand increases unlike what we've witnessed in earlier years where there simply wasn't much of a demand pattern at all. The search for railcars to support scrap metal, finished steel, grain, crushed stone, sand and gravel, crude oil, chemicals, and potentially auto's (when the chip issue gets straightened out) will continue to be extremely challenging. Cycle times at all railroads, and more importantly at Class 1 railroads, will hold the key to loosening rail equipment demand for shippers and receivers alike. At cost increases of 30-50-100% on new railcars, it looks like the cost to lease a railcar definitely has to go up. Do what you can to wring all the ineffecincies out of your own system. Those time and process savings are valuable! When you'd like to rail-on with me, I can be reached at (406) 347-5237 office / (406) 853-3332 cell or darell@tealinc.com.

Rail Strategy and Planning with Julie Mink, President

Julie Mink, President

Happy New Year! As we all focus on getting the new year started on the right foot, from a shipping-by-rail perspective, I cannot stress enough the importance of assembling a written strategic plan for your logistics network. Having a strategic plan written for your logistics network is as integral to your business success as any other strategic plan you have for 2022 and will absolutely effect your revenue success, quotas, volumes and objectives. From sourcing and identifying the railcars you need to most productively facilitate your rail logistics network to identifying routes and rates on nearby shortlines and Class I railroads, planning and fine-tuning your rail strategy is imperative. Plain and simple, here is a quick activity for you and your team. Grab a piece of paper and be sure you can answer the Five W's (+1 H) questions. If you find yourself scratching your head or wanting a little advice, our team here at Tealinc, Ltd. has over 115 cumulative years in the rail industry and look forward to helping you finalize your 2022 plan.

Exercise for 2022 logistics strategic planning:

1. **Who:** Who is involved in your rail network? From your companies internal team to external players (lessors, railroads, transloaders, consultants, legal, etc.) who is leading, managing, assisting, investigating, negotiating, directing, ordering and auditing your rail shipping process?
2. **What:** What product are you shipping? Have you identified the most accurate STCC code (a STCC code is a seven digit numeric code representing 38 commodity groupings)? Did you know that your loaded shipment pricing is partly based on your product type? If you ship multiple products, be sure you are sharing the correct STCC code with anyone in charge or waybilling your railcars. What rail equipment do you need? What can be improved to make 2022 the most productive year yet? What things have you overlooked?
3. **When:** When should you be loading/unloading, releasing, waybilling, paying, tracking, receiving and turning your railcars? If you have a "required delivery timeframe" are you properly planning for exactly when you need to have railcars at your origin point and accurately planning the estimated dates from there?
4. **Where:** Where is the origin/destination for your shipments? What route (or routes) shoud you be taking for the most cost effective and quickest turn times? Have you explored alternative routes and customers to effectively manage, grow and scale your business?
5. **Why:** Why are you or should you be shipping by rail? Have you considered other modes of transportation? Why should you ship in privately leased/owned railcars versus railroad supplied equipment? Why should you utilize one type of railcar versus another? Why should you buy, lease, sell or trade railcars? Why should you proactively manage the

utilization, repairs, tracking and monitoring of your rail fleet? Why should you ship railcars to one customer and not another?

6. **How:** How should you effectively load, unload, transload your railcars? How should you best communicate with and negotiate with all your rail partners to get the best results and implement a win-win strategy for all involved? Are there laws, rules, regulations or other requirements in place that limit how you can do or must do some parts of your logistics puzzle?

I am confident that by running through this exercise, you and your team will get proactively engaged in ensuring a successful shipping year for 2022. When you run into road blocks along the way, we're here to help. From answering a few questions to engaging in a confidential review of your strategic plan, to sourcing railcars for lease, purchase or trade to buying your idle railcars… what do you want from Tealinc in order to ensure that your strategic plan is ready for 2022 implementation? Call on us with questions. We're happy to engage with you. Call me at (720) 733-9922 or email me at **julie@tealinc.com**.

Rail Fleet Management Brief with Shannon Rodgers - Operations

Shannon Rodgers, Director Operations

The past year has brought on another set of challenges in our day-to-day operations. Delays in the manufacturing & shipping railcars parts, as well as staffing issues, have created longer than normal delays for cars being shopped. Although it is important that we remain patient with the shops, it is more important than ever that your fleet is closely monitored. It's also a great time to remind you how important preventative maintance is on your rail fleet. It is important to check Railinc's Equipment Health Manamgent System (EHMS) and Equipment Advisory (EA) for alerts on your railcars. If you're not doing this, you're rolling the dice and taking chances with the health, safety and fleet utilization time. It is my honor to manage railcars for and with Tealinc customers through Tealinc's Rolling Stock Management Agreement (RSMA). Through this program, we comminicate daily with shops to get updates on our customers idle railcars. With accesss to different contacts across the industry, we are able to work with shops to get specific parts for our customers railcars. By taking time to inspect or have a mobile repair unit inspect your fleet, we proactively plan for, manage, repair and maintain your rail fleet which saves you time OUT of the shop! When you need any assistance managing your fleet, I'm here to partner with you. If you just want a little support or if you want me to manage most of or the entire fleet, I'm ready to help you. Just give me a call at (814) 631-9277 or email me at **shannon@tealinc.com**

Rail Fleet Equipment Focus with Kristen Kempson, Sales & Marketing

Kristen Kempson
Director Railcar Lesasing & Sales

The new year is always an exciting time for me as new goals are set, both professionally and personally. One of my professional goals is to engage in a phone call with each of our contacts. We pride ourselves on our relationships with our present and future customers so don't be surprised when you get an email from me asking for a quick call. You just never know what opportunities we'll discover during a brief conversation. I assume one of your company goals has to do with the delivering and/or receiving of your product. Let's partner together to make sure your goals are met. Whether you are leasing, buying or selling railcars, my goal is to make it a positive experience. On a personal note, one of my top personal goals in 2022 is to travel to somewhere new and exciting. I like the thrill of a new adventure. What suggestions do you have for me?

As always, I encourage you to visit our website and explore railcars offerings and available services. If you don't find what you're looking for, let me know and I'll focus on finding it for you. You can call me at (708) 854-6307 or email me at **kristen@tealinc.com**.

Planning for 2022. An Industry Outlook with Darell Luther

This article is comprised of industrial projections and those differing opinions on how specific supply chain impacts of 2021 will unfold in 2022. There is one overriding theme that carries across all industries: "what's the availability of skilled labor going to be?" The carryover from COVID-19, government programs, rapid unemployment, government mandates on vaccinating and a strong resistance / reluctance by labor unions and non-unions alike are stressing an already stressed logistics system. It will be more prevalent in some industries but will affect all shippers in some fashion. Read on to see what specific industries are saying.

Human Resources. The apparent largest challenge to fixing supply chain disruptions will be the increase in effective deployment of skilled human resources. All across the world, and more specifically in the United States, availability of skilled workers for specific industrial and service jobs is getting less due to retirements, training, the great resignation, and a paradigm shift in the thought process of those who lost their jobs early on. Rethinking what they were doing and what they want to be doing is a reoccurring theme from those out of work during COVID-19. Many don't want to come back to their same old position. Not helping this supply issue is the government mandate that many in the labor force are required to have their COVID-19 vaccination to be eligible for work. That labor force extends from rail union labor (trainmen, engineers, maintenance of way, etc.) to industrial labor (AFL-CIO, BLET, SMART-TD, UAW, IBT, UEW, etc.) as well. That about covers the entire logistics industry! A good source of current labor statistics can be found at Center on Budget and Policy Priorities. If you want a dose of labor statistics, this is for you.

The Aggregates Industry outlook looks extremely favorable for this industry. In 2021 the

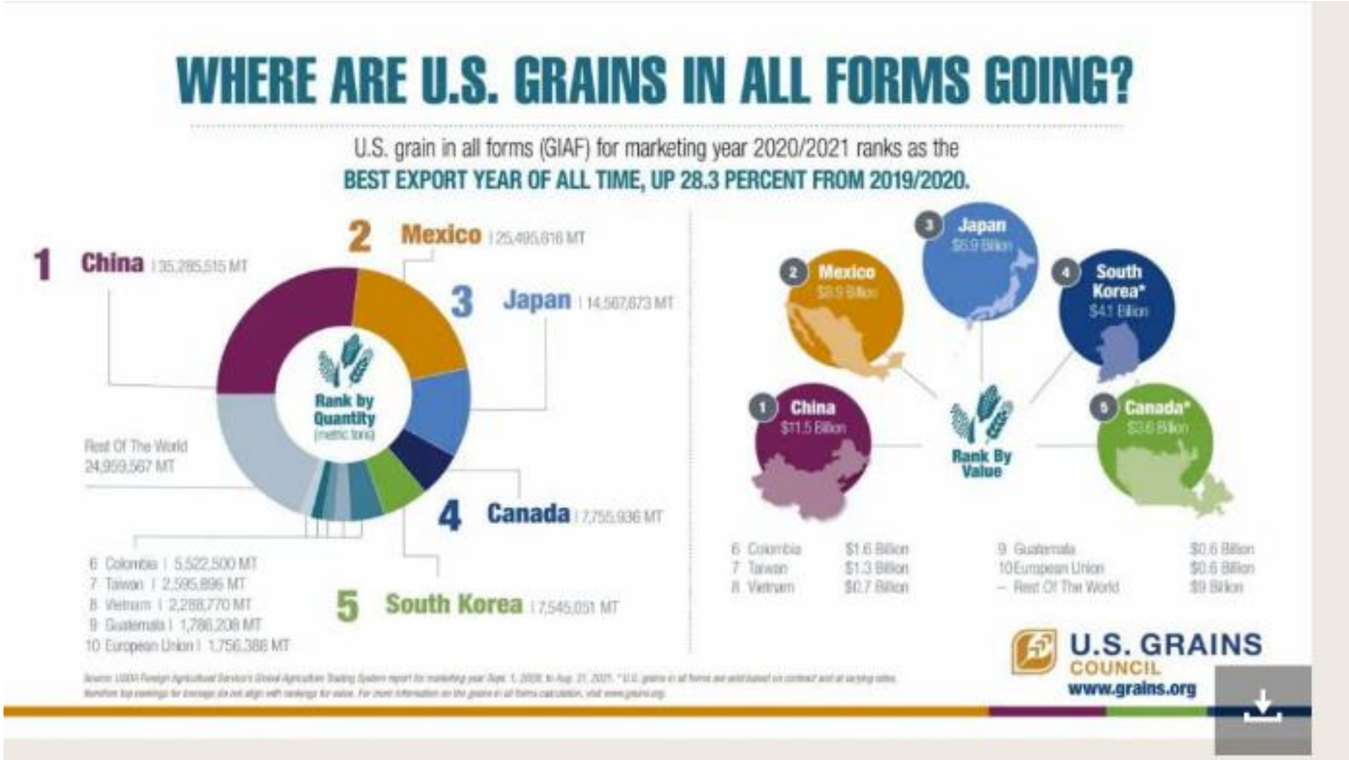
Infrastructure Investment and Jobs Act (IIJA) was passed by Congress. It is thought to be the most important piece of legislation since the Federal Aid Highway Act in 1956. The benefits of this legislation begin in full force in 2022. In Rock Products online, "Michele Stanley, the National Stone, Sand & Gravel Association's (NSSGA) vice president of government and regulatory affairs, put it succinctly, 'At the core of the legislation is a five-year, $304 billion reauthorization of our surface transportation programs. Next, the bill includes an additional $550 billion in new funding that is disbursed for building hard infrastructure.' The portion set aside for roads and bridges is $110 billion. That is more than $70 billion per year for surface transportation. The previous funding mechanism, The FAST Act, by contrast, averaged $45-50 billion per year."

That's a great start to 2022 for the entire aggregates industry. Rail will play a big role in the delivery of these rock products. **Do you have enough railcars?** If not, call on **Tealinc**, send us **an email** or **visit our website**. The only item left for you to get done… hire enough employees to effectively run the equipment.

The Agriculture Industry is comprised of a number of feed and whole grain commodities that somewhat move in sync with each other depending on world production and pricing and how well we're politically getting along with other countries (think trade deals and tariffs). China and the US were just in the throes of a trade / tariff spat in late 2020 that carried into 2021. This trade spat seemed to loosen up with the new political leaders in the U.S. and grain commodities began flowing to China in 2021 and looks positive in 2022 as well. Grain is difficult in that there are individual countries that also have a strong presence in growing and shipping crops. An example is soybeans from South America (Brazil), wheat from Australia and the European Union and flaxseed, wheat, oats, barley from Canada all competing to feed the world. The weather (yes, this supersedes labor) is the key indicator of whether or not there will be a crop to harvest. The health and volume of the crop and then labor and trade assistance or impairments will determine final world-wide movements.

A good source of supply numbers is the **USDA** Feed Grains Reports. Pay particular attention to the source and use tables. There appears to be a consistent upward movement in demand for domestic uses approximately every three to five years. This reflects a growing domestic population and increased use for animal feed.

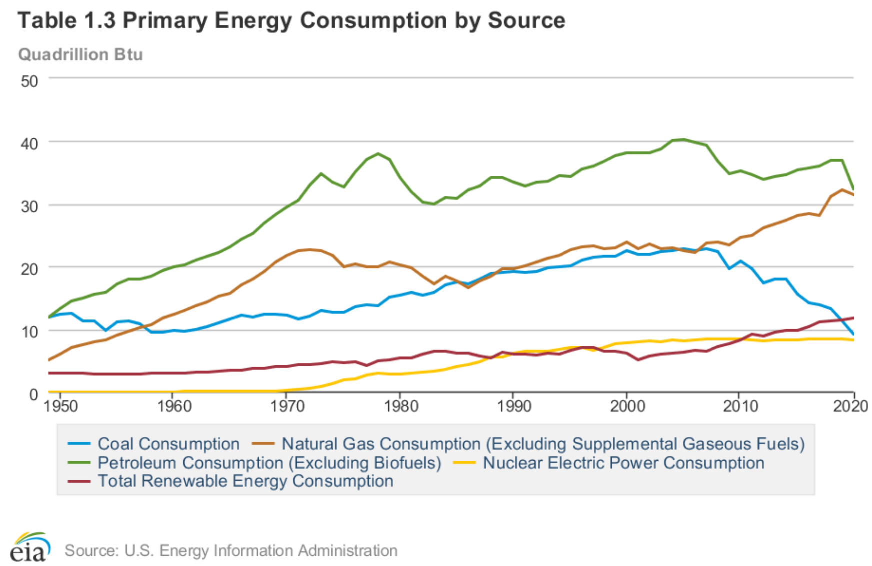
The variability in this market can cause one to rethink railcar supply. If you're a unit train shipper and require large numbers of railcars in a consistent train operation getting private railcars can result in more trains moved. The same applies if you're a manifest shipper shipping one to twenty cars at a time. Either way, do you have the railcars you need? If not, call on **Tealinc**, send us **an email** or **visit our website**. In most cases manifest shippers require higher quality of a railcar to protect product integrity. A recap of the US Grain distribution for this marketing year is the chart below.



<u>The Scrap Industry</u> is driven by the steel industry. The demand by the steel industry drives the ferrous and non-ferrous scrap industries. If the **fourth quarter of 2021** is any indication of growth in the ferrous market the price change from approximately $295 / mt to approximately $468 / mt over this quarter shows real strength. The demand for railcars followed this price change showing a little strength in lease rates but mostly an absorption of the prior surplus of mill gondola railcars in the market. This has quickly changed as demand for mill gondolas has completely blown through supply. **Do you have idle gondola railcars or other railcars to sell or trade?** Call on **Tealinc**, send us **an email** or **visit our website**.

The **World Steel Association** (Worldsteel), Brussels indicates that steel demand will grow by 4.5% in 2021 and an additional 2.2% in 2022. This makes the steel output at 1.89 billion tons of steel next year. Worldsteel projections do not include China in this forecast. The demand for scrap and steel is directly impacted by rail. The number one driver in rail today is service followed closely by railcar availability. Often times, those without private railcars find themselves competing for railroad system railcars. **Want more reliability of supply and consistency of size and quality?** This might be a good time to look into getting your own private fleet of railcars. Call on **Tealinc**, send us **an email** or **visit our website**.

The Coal Industry continues to steadily decline although the rate of decline has slowed somewhat. Coal shipments continue to be subject to natural gas prices, costs to scrub units to meet clean air requirements, compliance with clean air mandates and an ever-growing presence of wind and solar energy. The chart shows the peak and decline of coal usage in providing British Thermal Units (BTUs) for power. Coal is now only ahead of nuclear power in supplying power. Coal shipments began their decent in the 2006 – 2008 timeframe. Railcar availability for coal is mostly steady with exception to recent shortages. There has been a noteworthy amount of these aluminum and steel railcars scrapped or put into alternative service. Significant numbers of steam coal users have switched to gas to power their generators. Service issues on Class 1 railroads are contributing to recent coal and coal railcar shortages. Overall, the bloodletting in the coal railcar fleet is coming to an end. **Have excess railcars or do you need to get rid of some?** Call on Tealinc, send us an email or visit our website.



The Railroads are optimistic that the economic indicators for 2022 are telling of a strong recovery. Railroads today are having the tough challenge of working out of COVID-19 related issues. In particular human capital, people who are trained to do the work. Labor unions are starting to push back on the COVID-19 vaccination requirements making this skilled labor issue even more stressed. This is consistent with most industries we've seen. The lack of people to plan, schedule and move trains is causing many customers to ship their railcars consistently late. **Progressive Railroading** has updated news for all things rail and provide good coverage of Class I Railroad thoughts.

Class 1 Railroads continue to struggle with meeting performance measures due to the lack of deployed resources and natural causes. See each railroads performance 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 STB has advanced a couple of its rulemakings that will take the sometimes arduous and costly negotiation of a railroads rail rates for rail rate disputes and make it somewhat reasonable for small rate disputes. This is a big step forward in segregating large, costly to administer cases, and small rates that need a bit of governance. The notification information is below, follow the links within to see the details behind this summary.

*The **Surface Transportation Board (STB)** has advanced two rulemakings to establish rate reasonableness processes for small rate disputes: a Notice of Proposed Rulemaking (NPRM) to establish a voluntary arbitration program for small rate disputes, and a supplemental Notice of Proposed Rulemaking (SNPRM) for the Final Offer Rate Review (FORR) procedure.*

Both the NPRM for voluntary arbitration and the FORR SNPRM continue the efforts of the Board's Rate Reform Task Force to determine, among other things, how best to provide a rate review process for small cases.

In response to a joint petition filed by five Class I rail carriers, the Board proposes to modify its existing arbitration rules and establish a new voluntary arbitration program for small rate disputes, which would function alongside its existing arbitration program. Simultaneously, the Board is issuing the FORR SNPRM to invite comment on certain modifications to the new rate case procedure proposed in the NPRM issued on September 12, 2019.

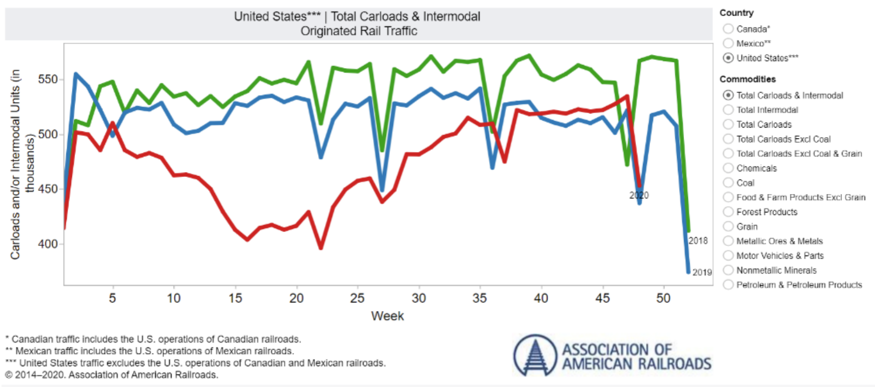
Today's issuance of the arbitration NPRM and the FORR SNPRM will ensure parallel consideration of both rulemakings by the Board and stakeholders before final action is taken on either. The Board emphasizes that through the concurrent consideration of both rulemakings, it is continuing to prioritize the goal of enhancing accessibility to the Board's rate reasonableness processes.

Comments to both rulemakings are due by January 14, 2022, and reply comments are due by March 15, 2022. Ex parte communications regarding matters related to both rulemakings are allowed between November 15, 2021 and February 23, 2022.

The Board's decision in Joint Petition for Rulemaking to Establish a Voluntary Arbitration Program for Small Rate Disputes, Docket No. EP 765, may be viewed and downloaded here. The Board's decision in Expanding Access to Rate Relief, Docket No. EP 665 (Sub-No. 2), and Final Offer Rate Review, Docket No. EP 755, may be viewed and downloaded here.

Industry Update: Rail Traffic Data

We continue to see the seasonality of originated rail traffic carloads. There has been some gain in railcar loadings in the past few weeks. These railcar loadings we hope will show additional strength as we head into 2021. The uncertainty in 2020 is evident in the graph provided here as the pandemic started gaining stride in mid-March and the ensuing economic collapse took hold shortly thereafter. Further magnified by a contentious election year at all levels it's no wonder most people I talk with don't want to wish their life away but certainly don't want a repeat of 2020. To see additional graphs, visit [AAR.org.](AAR.org)



Industry Update: Financial Focus

The Federal Reserve Board Federal Open Market Committee (FOMC) met on November 2nd and 3rd 2021. They ran the gauntlet of money market policy from inflation to strength of the banking system to outside economist opinions on the economic recovery.

One item that generally effects the rail industry and those industries it serves is the interest rate mechanism used to price loans and lines of credit. The primary mechanism was the LIBOR (London Interbank Offered Rate) for large loans throughout the world. LIBOR is being replaced by the Secured Overnight Financing Rate (SOFR) derivatives. The FOMC recognized that much remained to be done to complete the LIBOR transition.

Market participants were attentive to some temporary downward pressure on the SOFR over the period. This softness appeared to be the result of technical factors and was observed primarily in centrally cleared repurchase agreement markets. The Federal Reserve's administered rates—the interest on reserve balances rate and the overnight reverse repurchase agreement (ON RRP) rate—continued to support effective interest rate control and, outside of month- and quarter-end, the federal funds rate remained stable over the period.

This conversion is being carefully watched by many a Chief Financial Officer. Transitions of minute proportion can cause significant headaches in refinancing, bonding and utilizing other financial tools to reduce interest rates. The **FOMC** publishes its meeting minutes shortly after each meeting concludes they make for an interesting read to keep up with the economic wellbeing of our industry and economy.

Industry Update: Railroad & Policy Updates

Railroads are suffering from the same issues most industries find challenging today.

The first issue is service. Have you looked at the increase in demand lately? There are news flashes almost daily on the number of container ships waiting at Long Beach and LAX Terminal on the west coast overshadowing similar situations at other west coast and east coast ports. The intermodal world is in a world of hurt! This consumer driven industry takes the stage from those background industries that are similarly impacted. It's hard to bring excitement to "your concrete's going to be late", "the wood for your house, still in Washington", "need steel to make appliances and automobiles, working thru the delivery of the base scrap to be melted". Coming off a Covid ravaged 2021 where the demand for service fell sharply to current demand profiles is a sea-change in providing the required resources to keep up. This increase in demand has caused wild swings in the demand for rail transportation and is a challenge not for the weak of heart.

The second issue is hiring. It takes a bit of time to train a locomotive engineer or conductor, switch crew or specialty maintenance of way crews. The focus on safety remains in the fore front and the railroads have a specified training regime for new hires and rehires. The view varies but it can take between 6 months on an expedited schedule and a year to fully train someone to be a safe operator. That's a real challenge in that it takes the time it takes. If rushed we could see injuries increase, something no one willingly signs up for. This challenge to get people hired and working in the right area isn't just a railroad problem. It cuts across most industries today. **Freightwaves** did a good review of a few analyst summaries of Class 1 third quarter earnings call which gives a bit more detail about these challenges.

About Tealinc, Ltd.

We solve rail transportation challenges. We Specialize in Rail Transportation Solutions. 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 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:
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