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Tealinc Touchbase Newsletter –June 2019

In This Issue

- Tealinc Equipment
- The Edge
- Mechanical Brief
- Railroad Traffic
- Industrial Inside
- Financial Focus
- Railroad Policy Updates

Consider [Tealinc](#) when it comes to leasing or purchasing your next railcars!

Will Precision Scheduled Railroading address the first and last mile challenge and bring more business to the railroads?

Tealinc Equipment – Flatcar Auction & Mill Gondolas for Sublease

We have (40) bulkhead flatcars available for sale, lease or trade. We want to get these cars into service fast and are offering the cars to the highest bidder. Bid details are available by contacting [Julie Mink](#).



We are also offering a group of mill gondolas with covers for sublease. Fifteen (15) cars are available now and another (40) cars will be available in 2020.

Interested in either of these groups of cars or have other rail transportation needs? Contact [Julie Mink](#) or [Kristen Kempson](#) direct or visit our [website](#).

The Edge with Darell Luther



Will Precision Scheduled Railroading address the first and last mile challenge and bring more business to the railroads?

By the first or last mile we're talking about the gathering network (first mile) and the final distribution network (last mile) that's in place to collect railcars in a manner that is economical and efficient in order to effectively place those railcars into the national rail transportation system. It's always been challenging for major railroads to provide service to shippers for the first mile or the last mile. Much of this effort requires the placement of empty or loaded railcars specifically in small groups or single railcars to a specific track on a siding, next to a loading dock or under an elevator or unloading device.

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When faced with the challenge of serving customers for the first or last mile, major railroads created or supported shortline railroads and third party industrial parks, helped and encouraged private shippers to invest in their own rail yards or created railroad owned team tracks

For the large quantity shippers it was paramount to have unit train capacity or rail rate differentials pushed significantly into profitability

Historically, when faced with the challenge of serving customers for the first or last mile, the major railroads didn't throw up their hands and give up. Instead they created and/or supported a significant number of shortline railroads, supported third party industrial parks, helped and encouraged private shippers to invest in their own rail yards or created railroad owned team tracks.

This adaptation to gather and distribute for the first and last mile seemed effective and ran parallel to the unit train system where major railroads moved several railcars of the same product from the same origin, or origin region, to the same destination, or destination region, repeatedly. For example, corn trains coming out of the Midwest headed to the west coast ports, or coal trains running out of the central Appalachia headed to east coast ports, or domestic auto trains running from manufacturers to distribution centers in major cities, etc. Railroads, during the 1980's just after the Staggers Act was implemented, pushed hard on setting up unit train loaders and unloaders to drive efficiencies in their distribution networks. For the large quantity shippers (coal, grain, aggregates, copper, etc.) it was paramount to have unit train capacity or rail rate differentials pushed significantly into profitability.

I remember back to my unit train operations days and coordinating with manifest (mixed carload) business operations and the common challenge that unit trains weren't scheduled events like the carload business. Because they ran on a load and unload upon arrival basis, they generally had priority; however, when delayed, the impact was immediate and had a larger effect. Consider 135 railcar coal train versus having 15 railcars specific to your business on a 135 railcar manifest train. Stop or delay one coal train and you've got 135 delayed shipments, stop or delay one 135 railcar manifest train and you've only got 15 delayed shipments.

Precision Scheduled Railroading is focused on trip plans for the manifest shipper.

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Shippers will need near real time visibility in their shipments so they can plan utilization of rail assets- it's paramount to track, schedule and manage your railcars

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As railroads become more efficient these efficiencies will translate into opportunities for those that work within the system

If I understand it correctly at a high level its' premise is to take a railcar from origin to destination with as few touch points as possible. When you consider there are over a million railcars in circulation, while several of them are in unit train status, that's a significant number of railcars to move more efficiently. While this efficiency will drive better operational performance for the railroads it will have an impact on the shipper or receiver.

Shippers will need near real time visibility in their shipments and need to plan utilization of rail assets. It will become paramount to track, schedule and manage your railcars. Commodity planning from grain bin, factory floor, scrap pile, etc. to finished product will become the new base line. The ability to accommodate the number of railcars to meet your supply chain requirements will be a basic requirement. If you're using railroad supplied railcars, the penalties will be more costly. As an example, Union Pacific Railroad implemented a Not Prepared for Service fee last fall. This fee essentially is a charge that accounts for the railroad offering a customer rail service based on a set of criteria (e.g. if cars have been ordered in, billed not loaded, etc.) and that service cannot be performed because the customer is not ready for the service requested. Railroads are taking every step possible to speed up rail service even at the ire of shippers.

What impact will this have on business? As railroads become more efficient and drive the pieces of Precision Scheduled Railroading down the last mile these efficiencies will translate into opportunities for those that work within the system. Considering that the number one commodity shipped by railroads is coal followed by grain. Coal is down significantly due to political, environmental and alternatives pricing pressures and grain is down given weather events and trade wars yet the railroads have held up shipments of more rail carload type business than one would expect. This approach plays well into the strategies of many shippers that are prepared for railroad service parameters and which manage their

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Be sure to check out
Darell's article,
**"Evaluating a Rail
Location"**
in the June 2019
edition of Waste
Advantage Magazine

infrastructure and supply chain proactively. Subsequently if not proactively managed one can only expect costs to go up, service to suffer and the competitive landscape to get even tougher.

The decrease in touch points for a railcar will ultimately speed up the transit time of all railroads and in turn make rail more competitive, particularly on long hauls. I'd also expect rail to make inroads into the shorter haul truck market if the railroads want to offer rail rate pricing that is competitive for the business. Whether you like it or not if you're shipping or receiving product by rail, you're part of the national rail system. Be prepared to participate. We stand ready to assist you every step of the way.

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

**Mechanical Brief:
Trucks 101 & how they
function on a railcar**

**There are various
types of railcars,
however, they all three
similar components:
car body, safety
appliances and trucks**



Freight cars come in all shapes and sizes, but they all have three similar components:

1. Car Body
2. Safety Appliances
3. Trucks

This month I focus on a review of a set of trucks and how they function on a railcar. A railcar truck generally has five large pieces composed of two wheelsets (each with two wheels and roller bearings pressed onto the axle), two cast steel side frames and one cast steel bolster. The bolster "connects" the two side frames together, along with the wheelsets, and that's what forms the basic "3-piece truck" (counting the cast steel pieces). The presence of the 2 wheelsets work

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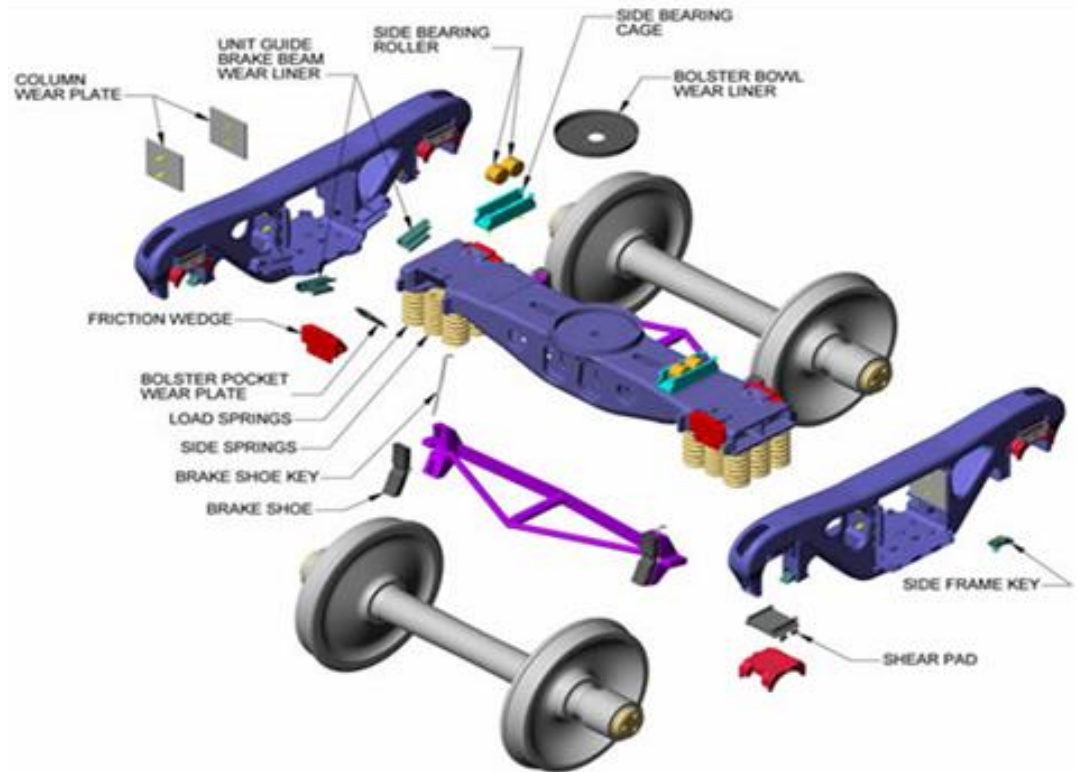
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A railcar truck generally has five large pieces composed of two wheelsets (each with two wheels and roller bearings pressed onto the axle), two cast steel side frames and one cast steel bolster

Each wheelset is made up of five parts which include one axle, two wheel plates and two roller bearings

The axle is the main component on a wheelset

to keep the side frames "square". There are dozens of other parts as well including the steel springs, wear plates, side bearings (which mount between the bottom of the car body and the top of the bolster), center plate liners, brake beams, brake rigging, etc.



The wheels are the first thing you typically notice on a truck set. Each wheelset is made up of five parts which include one axle, two wheel plates and two roller bearings. The axle acts as the main component to create a wheelset. The mounting and assembly of a wheelset must be done by an AAR certified facility that has the certification to create a wheelset. Wheels plate are formed with contours on them

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The column wear plates provide a surface that allow the friction casting shoes to move within the side frame bolster without wearing out the side frame itself and assist in keeping the side frame square within the truck assembly

that are designed to keep the railcar trucks centered on the track and allows the wheels to stay within the gauge of the track. Wheel plates are pressed onto an axle and the wheels are in a fixed position. For a wheel to turn freely on the track, roller bearings are mounted onto the end of the axles, which are referred to as journals. Once the wheelsets are assembled the side frames are then mounted onto the bolster. The bolsters and side frames have several different designs and must be compatible with each by manufacture specification.



Each side frame has several different working parts that are associated to or mounted on to the side frame including column wear plates, pedestal roof liners, pedestal adapters, brake beam wear liners and side frame keys.

The column wear plates provide a surface that allow the friction casting shoes to move within the side frame bolster without wearing out the side frame itself and assist in keeping the side frame square within the truck assembly. Column wear plates are mounted to side frame column face using securements and/or welding them into place. Pedestal roof liners are mounted to the side frame pedestal roofs to allow a surface for the pedestal adapter to wear on without wearing out the side frame. The pedestal roof liners are snapped into place and held in place by the tension of the pedestal roof liner sides.

After the column wear plates and pedestal roof liners are on and the side frames are mounted to the bolster the bolster and side frames are set on to the wheel sets and pedestal adapters are positioned between the side frame thrust lugs and will rest on top of the wheel rollers bearings as described above. The pedestal adapters are designed to fit between the side frame thrust lugs and over the edges of the

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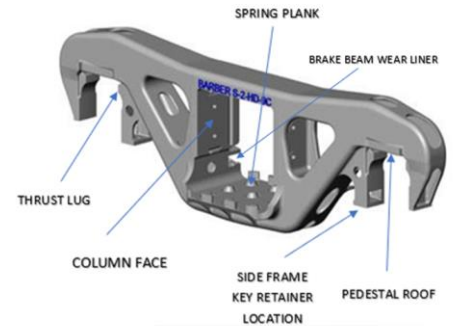
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Once trucks are in position on the wheel the side frame key retainers, designed to attach to the side frame pedestal to retain wheelsets in the truck assembly during truck repair operations or at derailments, are applied

It is much cheaper to replace a pocket wear plate then it is a bolster

wheel roller bearing to hold them in place which allows the wheels to be centered within the side frame legs and does allow for some movement of the roller bearing outer portions. Brake beam wear liners which allows the break beam head to move freely without unnecessary friction are snapped into the brake beam wear liner pocket.

Once the side frames are placed onto the truck bolster and the springs and friction casting shoes of been put into place within the side frame nest area the trucks are lowered onto the wheelsets and the side frame key retainers, designed to attach to the side frame pedestal to retain wheelsets in the truck assembly during truck repair operations or at derailments, are applied.



Trucks bolsters are made up of 11 different parts which include four bolster pocket shims, two truck side bearing cages, two truck side bearing (Rollers, friction block or constant contacts), one bolster vertical wear ring, one bolster bowl liner and one center pin.

Bolster pocket wear plates are uses to reduce wear on the bolster itself and prevent premature bolster replacement. It is much cheaper to replace a pocket wear plate then it is a bolster. The vertical wear liner is a ring that is welded into the bolster bowl to help reduce wear on the bolster and it is cheaper to renew a wear ring then a bolster. The bolster bowl liner sits freely in the bolster bowl. The liner helps reduce friction between the body center plate and the truck bolster itself. Some trucks may not have a bolster bowl liner but will have a bolster bowl lubrication on the bowl to reduce friction between the body center plate and truck bolster. The

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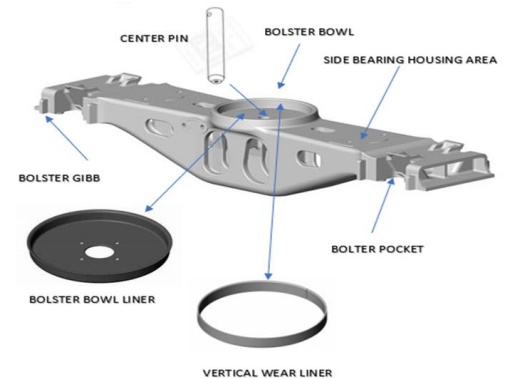
Once the car body is lowered into the bowl the body center plate will rest in the bolster bowl which be held in place by gravity

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center pin really acts as more of a guide to guide the car body onto the bolster.

Once the car body is lowered into the bowl the body center plate will rest in the bolster bowl which be held in place by gravity. The center plates are connected to the car body underframe and act as a centering device to keep the trucks centered under the car.

Truck side bearing housing are mounted to the surface of the trucks bolster. The housing will be equipped with the truck side bearing which come in a wide variety type, but their main purpose is to stabilize the car and reduce how much a rail car will roll from one side to the other. Depending on the type of side bearing used they can also help in reducing what is called trucks hunting. To put it simply trucks hunting is the unnecessary movement of the truck during operations.



While this article is intended to present a high level description of how a set of freight car trucks work and detail their parts and pieces, properly inspecting, maintaining and repairing or replacing them is important for safe and efficient rail service. If you need help understanding how all of these parts work or need help inspecting, analyzing and maintaining your rail fleet, we are ready to help you and will welcome your call!

You may contact Dan directly in his office at (541) 653-8074 or via email at dan@tealinc.com.

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May 2019 carloads down 2.1% compared to the same period last year

Commodities that experienced a year over year gain were petroleum & petroleum products, chemicals and nonmetallic minerals

Current weakness in the rail traffic numbers is due to a combination of factors including flooding in the Midwest,

Railroad Traffic

The Association of American Railroads (AAR) today [June 5, 2019] reported U.S. rail traffic for the week ending June 1, 2019, as well as volumes for May 2019. U.S. railroads originated 1,291,671 carloads in May 2019, down 2.1 percent, or 28,065 carloads, from May 2018. U.S. railroads also originated 1,315,684 containers and trailers in May 2019, down 5.9 percent, or 82,521 units, from the same month last year. Combined U.S. carload and intermodal originations in May 2019 were 2,607,355, down 4.1 percent, or 110,586 carloads and intermodal units from May 2018.

In May 2019, six of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with May 2018. These included: petroleum & petroleum products, up 13,513 carloads or 25.9 percent; chemicals, up 2,630 carloads or 1.6 percent; and nonmetallic minerals, up 2,534 carloads or 12.4 percent. Commodities that saw declines in May 2019 from May 2018 included: crushed stone, sand & gravel, down 20,358 carloads or 14.6 percent; grain, down 6,830 carloads or 5.7 percent; and primary metal products, down 3,117 carloads or 6.4 percent.

“The current weakness in the rail traffic numbers is due to a combination of factors,” said AAR Senior Vice President of Policy and Economics, John T. Gray. “These include flooding in the Midwest that’s been hindering the operations of railroads and many of their customers. More important is heightened economic uncertainty that’s being made worse by increased trade-related tensions; higher tariffs leading to reductions or disruptions of international trade, and lower industrial output. In addition, some rail markets are undergoing rapid change. For example, locally sourced frac sand in Texas is displacing sand that used to be shipped in by rail. Just by themselves, these reduced sand movements are having a

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heightened economic uncertainty, higher tariffs leading to reductions or disruptions of international trade and lower industrial output

US drops steel and aluminum tariffs on Canada and Mexico

The US had imposed tariffs of 25% on imported steel and 10% on imported aluminum

material negative impact on total rail carloads.”

Excluding coal, carloads were down 26,417 carloads, or 2.9 percent, in May 2019 from May 2018. Excluding coal and grain, carloads were down 19,587 carloads, or 2.4 percent. Total U.S. carload traffic for the first five months of 2019 was 5,528,824 carloads, down 2.4 percent, or 137,995 carloads, from the same period last year; and 5,848,287 intermodal units, down 2.4 percent, or 145,245 containers and trailers, from last year.

Visit the AAR at: <https://www.aar.org>

Industrial Inside

The US has dropped steel and aluminum tariffs on Canada and Mexico. The tariffs had stood for just under a year and were part of a bitter trade dispute between the North American trading partners. The United States, Canada and Mexico on Friday [May 17, 2019] announced that they would be scrapping tariffs on each other's steel and aluminum products, effective in 48 hours.

US President Donald Trump said the US "will be selling our product into those countries, without the imposition of tariffs" during a speech to the National Association of Realtors. The US had imposed tariffs of 25% on imported steel and 10% on imported aluminum.

Mexico described the move as "very satisfactory," while Canadian Prime Minister Justin Trudeau hailed the decision as a watershed moment in a bitter trade dispute between members of the North American Free Trade Agreement (NAFTA). "Obviously these continued tariffs on steel and aluminum and our countermeasures represented significant barriers to moving forward with the new NAFTA agreement," Trudeau told a press conference.

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In a joint statement, the US and Canada said they would work to prevent cheap imports of steel and aluminum from entering North America

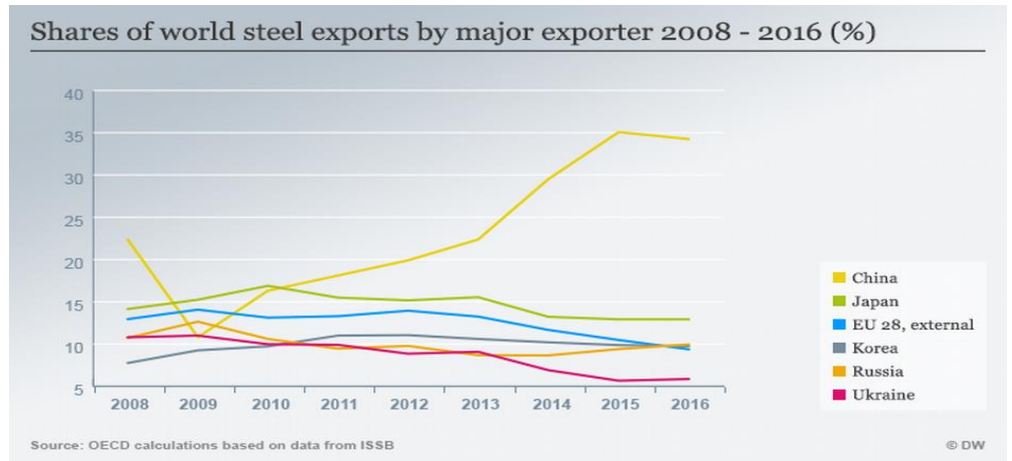
In light of the agreement, Vice President Pence tweeted that he would be traveling to Canada to work on the revamped trade agreement, calling the deal "a WIN for all three nations."

In a joint statement, the US and Canada said they would work to prevent cheap imports of steel and aluminum from entering North America. China has long been accused of flooding world markets with subsidized metal products, driving down world prices and hurting US producers.

The countries will take steps to prevent dumping and the importation of aluminum and steel that is unfairly subsidized, the statement says. The US will reserve the right to reimpose the tariffs if there is a surge in imports "beyond historic volumes." The US, Mexico and Canada are part of the NAFTA free trade bloc. The terms of that alliance were renegotiated somewhat under Trump, though the renewed deal is still pending approval in Congress.

The US will reserve the right to reimpose the tariffs if there is a surge in imports "beyond historic volumes."

Shares of world steel exports by major exporter 2008 - 2016 (%)



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While the tariffs helped many US steel and aluminum makers, the retaliatory tariffs hurt other sectors of the US economy, such as agriculture

By imposing the tariffs on steel and aluminum and threatening ones on autos, Trump was relying on a rarely-used weapon in the US trade war arsenal – Section 232 of the Trade Expansion Act of 1962 – which lets the president impose tariffs on imports if the Commerce Department deems them a threat to national security.

However, the steel and aluminum tariffs were also designed to coerce Canada and Mexico into agreeing to a rewrite of North American free trade pact. The Mexicans and the Canadians went along last year with a revamped regional trade deal that was to Trump's liking. But the administration had refused to lift the import taxes until Friday.

While the tariffs helped many US steel and aluminum makers, the retaliatory tariffs hurt other sectors of the US economy, such as agriculture. At the time, Mexico and Canada imposed retaliatory tariffs on US metals, pork legs, apples, grapes, cheese and bourbon whisky, among other products.

Read the entire article at: <https://www.dw.com/en/us-drops-steel-and-aluminum-tariffs-on-canada-and-mexico/a-48781256?maca=en-EMail-sharing>

Financial Focus

It's no longer a question of whether the Fed will cut interest rates, but when

Now that the long resilient job market is showing signs of strain, economists and investors now firmly believe the Federal Reserve will move to cut rates this year, possibly as early as July.

The economy added 75,000 jobs in May, about 100,000 less than expected, a sign that the slowing that is showing up in other parts of the economy is now affecting

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Stocks initially sold off on the report but then moved higher as the market took the news as a sign the Fed would cut interest rates

the job market.

"I think that this is a true slowdown in hiring right now. Sometimes you can be a little bit dismissive of monthly volatility, but I think we have enough indication," said Luke Tilley, chief economist at Wilmington Trust. He said the slowing in hiring fits with the slowdown in ISM manufacturing and other data and appears to be a result of trade tariffs and uncertainty about the trade war.

Stocks initially sold off on the report but then moved higher as the market took the news as a sign the Fed would cut interest rates. In the Treasury market, yields, already in steep decline this week, fell further. The 2-year yield closely reflects expectations for Fed policy, and it fell to 1.77% from an intraday high of 1.89%. The 10-year yield, which influences mortgages and other loans, fell to a low of 2.059%. Yields move opposite price.

After the employment report, fed funds futures moved higher, signaling market expectations for a full quarter point Fed rate cut by July

"I think the Fed has been signaling that they're ready to step in and lower rates, if the economy continues to be sluggish, if the trade wars continue to have no outcome. I think today's report is going to support the idea the Fed will be cutting rates. I'm not sure if it will be June, but I don't think we're too far away from a Fed rate cut," said Michael Arone, chief investment strategist at State Street Global Advisors.

After the employment report, fed funds futures moved higher, signaling market expectations for a full quarter point Fed rate cut by July, and a half percentage point by September, and a third by December, according to BMO.

"You would think the market is gravitating toward one cut in July, one cut in September and another in December. We have 2.9, 25 basis point rate cuts priced in for 2019," said BMO rate strategist Jon Hill. That would be 0.75 percentage point

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"What you have is the slowest growth we've had since two years ago. A lot of that is coming, we believe, from the impact of tariffs on the manufacturing sector,"

"What you have is the slowest growth we've had since two years ago. A lot of that is coming, we believe, from the impact of tariffs on the manufacturing sector"

UP announces "Not Prepared for Service" tariff adjustments

reduction in the fed funds target rate range, which is now between 2.25 and 2.50%.

The market is now pricing in 95 percent chance of a quarter point hike in July, Hill said. The Fed next meets June 18 and 19, then again July 30 and 31.

"The market signals are obviously screaming for the Fed to reduce rates...we don't think the Fed is going to cut at this [June] meeting," said Tilley. "I don't think the Fed has done enough to message that. On the margin, today's report, especially with the weaker average hourly earnings would push them in the direction of cuts later this year. We think they'll take this June meeting and press conference as an opportunity to message that."

Beside May's weak hiring, the government report Friday revised job growth lower in March and April by 75,000, bringing the three-month average to 151,000. Average hourly earnings were up 3.1%, a tenth of a percent less than expected.

"What you have is the slowest growth we've had since two years ago. A lot of that is coming, we believe, from the impact of tariffs on the manufacturing sector," said Tilley, referring to the three-month average. Manufacturing added just 3,000 jobs.

Read the full article at: <https://www.msn.com/en-us/money/markets/its-no-longer-a-question-of-whether-the-fed-will-cut-interest-rates-but-when/arcAACxF1S>

Railroad & Policy Updates

The Union Pacific Railroad Announced an update on May 8, 2019 regarding it's implementation of Unified Plan 2020. Dialogue from that announcement is below.

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Since the inception of the tariff January 1, Union Pacific has been charging on a per occurrence, rather than a per car fee

Union Pacific will not bill for charges accrued under this tariff if the customer has fewer than three occurrences during a calendar month

Union Pacific has been focused on implementing Unified Plan 2020 in order to provide more reliable service to our customers. Our customers play a critical role by being prepared for service so that our crews can deliver and pick-up rail cars within customer facilities in a timely manner. Union Pacific took steps to encourage this behavior by sharing the Be Prepared for Service reference material with our customers on November 5, 2018. We also notified customers of our new "Not Prepared for Service" tariff (UP 6004 Item 9055) that became effective on January 1, 2019. This tariff initially stated that a charge of **\$400 per car, per occurrence**, would apply if the railroad is unable to deliver or pick-up rail cars due to a customer's actions.

Since the inception of the tariff January 1, Union Pacific has been charging on a per occurrence, rather than a per car fee. The application of the per occurrence billing is generating a positive trend toward aligning behaviors that produce a more reliable service product, with a greater percentage of cars being accessible and ready to pick-up from (and deliver into) industry. Therefore, we are formally modifying the tariff language as follows: a charge of **\$400 per occurrence** (not per car) will apply if the railroad is unable to deliver or pick-up rail cars due to a customer's actions. Also, Union Pacific will not bill for charges accrued under this tariff if the customer has fewer than three occurrences during a calendar month.

Read the full update:

<https://www.up.com/customers/announcements/customernews/generalannouncements/CN2019-30.html>

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