

Before the Surface Transportation Board

304465

**Ex Parte 770 – Public Hearing
Urgent Issues in Freight Rail Service**

April 27, 2022

ENTERED
Office of Proceedings
April 28, 2022
Part of
Public Record

**Statement of Julie Landry, Director of Government Affairs,
The American Forest & Paper Association**

Good morning. My name is Julie Landry, and I am the Director of Government Affairs for the American Forest & Paper Association (AF&PA). On behalf of AF&PA, I want to thank the Board for holding this Public Hearing and inviting freight rail stakeholders to testify regarding current service issues and potential avenues to address disruptions. Many AF&PA members have been seriously affected by poor rail service, as I will describe today.

AF&PA serves to advance U.S. paper and wood products manufacturers through fact-based public policy and marketplace advocacy. The forest products industry is circular by nature. AF&PA member companies make essential products from renewable and recycle resources, generate renewable bioenergy and are committed to continuous improvement through the industry's sustainability initiative — [*Better Practices, Better Planet 2030: Sustainable Products for a Sustainable Future*](#). The forest products industry accounts for approximately four percent of the total U.S. manufacturing GDP, manufactures nearly \$300 billion in products annually and employs approximately 950,000 people. The industry meets a payroll of approximately \$60 billion annually and is among the top 10 manufacturing sector employers in 45 states.

Efficient and reliable rail service is critical for AF&PA member companies to receive raw materials and/or ship finished paper and forest products via rail. Although some of our members' shipments can be transported by truck, for most of our members, some portion of inbound raw materials or outbound finished products shipped to customers must move by rail.

American forest products companies operate in a fiercely competitive commercial environment, and their productivity and success require timely and consistent rail transportation. When essential rail transportation services are disrupted, our members' supply chains are thrown into disarray, resulting in unanticipated costs and business harms. Unfortunately, this is exactly what has been happening to our members due to recent service failures.

Due to these service failures, our affected members have spent many days engaging in damage control. Instead of focusing on their core manufacturing businesses, they have had to shift resources to track down delayed shipments and address the lack of a sufficient car supply and/or reduced switching services. To keep their own and their customers' facilities running, several members have been required to use expensive alternative transportation on an emergency basis.

In speaking with our members, I have heard many stories about recent service failures and their effects on the forest and paper products industry. The types of service problems experienced most by AF&PA members fall into three separate categories:

- Inadequate car supply
- Delayed transit times
- Reduced switching services

In a survey this month, we asked our members a series of questions about their rail service.

1. Using a scale of 1-5, with 5 being very high and 1 being very poor - our members rated their satisfaction with their rail providers as a 2.
2. On that same scale when asked how critical rail service is to our members business model – every respondent said a 5.
3. When asked to compare their current car order fill to pre-pandemic experience, answers ranged from a 35-50% lower fill rate.
4. When asked which rail service provider consistently performed the worst - CSX was mentioned by all survey participants.
5. When asked on a scale of 1-5 how material the effect of current service disruptions are to their business - the average answer was 4.5.

I would like to mention a few examples of the issues our members have been facing with current inadequate rail service.

One of our member companies experienced significant deterioration in rail service starting in Q4 of 2020. Since that time, average transit times increased 6 days due to significant handling delays during transit. The variability of this transit is even worse, making it impossible for shippers to plan their business. At the same time, missed switches at destination have increased 45%, causing railcars to build up at destination, yet the railroads continue to charge demurrage and then eventually embargo a location, even when the railroads own missed switches were a cause of the back-up.

Another member company saw significant financial impact (greater than \$30MM) from lost production because of poor service. This location is dependent on rail service and a consistent supply of empty rail cars to meet their customers' needs. There has been no incremental production or increased rail demand, yet the railroad is no longer meeting the historic car order. The car order fill was 95% or better in January 2020, and in early 2022, the car order fill is now around 40%.

Another company reports one rail service provider's car order fill decreased from 94% in Q4 of 2020 to 66% in Q1 of 2022. The same provider also significantly increased their missed switches from a total of 233 in 2019 to 339 in 2021, and already in 2022 has 129 missed switches. And finally, this provider increased their transit time from 2019 to 2021 from on average 12 days to 19. For 2021, this member company lost over 45,000 tons of production due to mill downtime because of rail car shortages.

Another company reports during the end of Q3 through the beginning of Q1 of 2022 they experienced weeks of multiple consecutive days without service, resulting in mill downtime or shutdown during a time when customer demand was high. The rail provider did not have enough crew or rail cars to resolve the situation for over 60 days.

Finally, another member company facility which is supposed to receive service 7 days a week was recently served only 3 days in a 14-day period.

This poor rail service has resulted in the following adverse effects at significant additional expense:

- Some companies must shift traffic to alternative transportation even though they and their customers are configured to ship and receive products by rail (mostly truck).
- Additional warehousing costs have been incurred for use of external warehouses to store manufactured products until requested rail cars are provided.
- Production schedules have been altered at manufacturing facilities; and
- Some companies have moved traffic to other providers but that is rarely possible due to the captive nature of our members' facilities.

More than 30 years have passed since the STB first classified the forest products industry's shipments as exempt from its oversight. At the outset, it was deemed there was plenty of competition for the industry's business. The exemption was created to ensure railroads did not

face bankruptcy at a time in our nation when rails were struggling to stay in business. The arrangement worked for both parties because certain pricing and administrative burdens were no longer applicable if our shipments were not under the STB's purview. The intent was for this exemption to foster competition.

Rail markets have significantly changed since these exemptions were granted in the late 1980's, and the concentration of Class 1 rail service providers leaves more than two-thirds of our facilities captive to just one railroad. This captivity and lack of oversight for our rail shipments from the STB disincentivizes railroads from providing adequate service and negotiating reasonable rates with our members. As an exempt and captive commodity, when the industry encounters poor service or exorbitant rates, our companies have no recourse for negotiating with the railroads.

We face the same unreasonable demurrage practices, poor service, car supply issues and rising rates as the commodities which are under the STB's purview. If our exemption were revoked, forest products shippers would have the STB's regulatory remedies at our disposal when negotiating with our rail providers. Updating the STB's policies, specifically the forest products industry's commodity exemption, would help level the playing field for our industry and give us the same tools other shippers already have at their disposal. For our industry, this must occur as a first step.

The need for stronger oversight is clear given the current disruptions which create adverse ripple effects throughout the entire U.S. economy.

I respectfully request my statement be included in the ex parte 770 docket. Again, AF&PA appreciates the efforts of the Board in holding this Public Hearing on this critically important topic.

Thank you.