

BEFORE THE
SURFACE TRANSPORTATION BOARD

ENTERED
Office of Proceedings
April 27, 2022
Part of
Public Record

STB Ex Parte No. 770

URGENT ISSUES IN FREIGHT RAIL SERVICE

TESTIMONY OF

**CONSOLIDATED SCRAP RESOURCES, INC. ON BEHALF OF
THE INSTITUTE OF SCRAP RECYCLING INDUSTRIES**

Good morning. My name is Ben Abrams and I am the President and the CEO of Consolidated Scrap Resources, Inc. (“CSR”). CSR is a member of the Institute of Scrap and Recycling Industries, Inc. (“ISRI”). I also serve as a member of the Surface Transportation Board’s (“STB” or the “Board”) Railroad-Shipper Transportation Advisory Council (“RSTAC”).

On behalf of ISRI, we appreciate that the Board is holding this hearing to allow us the opportunity to explain our concerns with rail service, as well as the impacts that unreliable service has on shippers of ferrous scrap. Ferrous scrap is an essential raw material used for more than 70% of U.S. steel production. US steel mills consume more than 60 million tons of ferrous scrap per year, and according to the AAR, more than 40 million tons of that amount travel via rail. We expect that volume to increase significantly over the next 5 – 10 years with the expansion of steelmaking capacity in the U.S.. Steel made from recycled ferrous scrap also saves approximately 68% of the energy needed to produce virgin steel, thereby reducing Greenhouse Gasses (“GHGs”). Rail transportation is absolutely critical for ferrous scrap transportation to steel mill consumers, especially at distances greater than 150 miles between scrap yards and steel mills. Because of the unique characteristics of bulk ferrous scrap, including

its heavy weight and volume, there are many situations where rail is the only feasible shipping mode for this material. I must also mention here that ferrous is an exempt commodity, which of course makes challenging service or any other rail-related issue before the Board more time-consuming, expensive, and uncertain.

Our company, CSR, is a regular user of rail service to ship ferrous scrap to our widespread customer base across the Eastern United States. Our Harrisburg, PA location is located on a Norfolk Southern (NS) line, and our York, PA facility is located on a short line operated by the York Railway Company (a division of the Genesee & Wyoming Railroad) from which we can access NS and CSX. Railroad service performance is central to our success as an industry. We have continued to see, unfortunately, a deterioration of reliable rail service across the board for scrap companies during the last several years.

As background, prior to 2012, our industry primarily relied on gondolas furnished by the railroads to ship ferrous scrap. After 2014, however, obtaining a sufficient or timely supply of railcar gondolas from the railroads became increasingly difficult. The lack of an adequate car supply materially affected our ability to satisfy our shipment volumes and the delivery needs of the steel mills. Scrap shippers were forced to invest in private railcars at a significant expense, one they had generally not had to support in the past, to obtain more reliable and consistent railcar capacity. Despite the significant investments made by our industry over the past decade, poor rail service continues to negatively affect railcar cycle times and creates serious challenges in managing our railcar fleets.

Around 2017, the U.S. class I railroads began implementing Precision Scheduled Railroading (“PSR”) as their operating model. Although PSR was marketed as a mechanism to improve rail service, the expansive cost-cutting in labor and equipment assets that came as part

of PSR did not improve service efficiency and reliability. On top of these issues, recent pandemic-related supply chain disruptions exacerbated existing rail service challenges, without a clear end-date to resolve these challenges.

To provide the Board with up-to-date information on rail service, ISRI surveyed its ferrous shippers with a focus on service provided during the last 90 days. The responses showed that scrap metal shippers generally rate their recent rail service as poor. On a scale of 1-5, with 1 being the worst and 5 being exceptional, the average rail service rating was 2, and no member rated their rail service higher than 3.

The survey respondents expressed concern that poor rail service is preventing them from meeting the delivery requirements of their steel mill customers, and leads to substantially higher costs (for replacement trucking and/or the need to lease or buy additional railcars), as well as lost sales that cannot be recouped. There is an extremely high-level of frustration because scrap companies are not able to timely or effectively address these concerns with their rail carriers in a way that would create a better platform for reliable communication and follow-through.

ISRI members reported that during the last 90 days they have experienced missed switches, reduced service days, inconsistent car order deliveries, and extended dwell at local facilities, all limiting their ability to fill orders for customers in highly volatile scrap markets. In addition, empty car deliveries for loading during the past 90 days were, on an average, only 65-75% of what was actually needed, and some members even reported receiving only 10 or 30% of their demand. Many of the empties that were delivered were not received on time. Similarly, the percentage of loaded or released cars that were not picked up on time ranged from 25% to 50%. When railroads perform inconsistently, not on schedule and/or change established practices like service days, scrap shippers are forced to change their plans and schedules, and then chase down

their railroad customer representatives to try and address these problems. Sometimes those customer service representatives can help, which is certainly appreciated. But sometimes there is not much they are able to do because too much staff is involved and not necessarily attentive to customers' challenges. Trying to weave through many Class 1 organizations to find the right people who will promptly and effectively address service issues in a timely manner can be extremely challenging, and often to no avail.

Many survey respondents reported that most of their shipments were made from facilities served by a single railroad. Consequently, they do not have an alternate carrier to rely on when the incumbent carrier experiences significant service problems. Trucking is not a feasible long-term option for most ferrous scrap shippers for the reasons noted above. However, one ISRI member who operates a smaller family scrap yard business reported that, during the month of April, they had to pay four times more than rail for trucking to ship their scrap to a steel mill because of the unavailability of adequate empty rail cars. When scrap companies are forced to convert to trucking, despite being set up for and planning to ship by rail, the massive rate increases are in addition to the logistical nightmare of handling and coordinating the large number of trucks needed to ship the same amount of scrap that should have been shipped by rail.

All survey respondents reported that service problems impacted their operations, labor, and costs. They caused a significant loss of revenues, and harm to relationships with their steel mill customers due to the failure to honor contractual supply commitments. In down scrap markets, scrap shippers bear the burden of lost orders because they cannot ship scrap before those orders are cancelled. While that is a risk scrap shippers assume, they should also be able to assume that poor railroad service won't prevent them from timely completing those orders.

It does not happen all the time, but on numerous occasions in the last six months, we have gone days without a car spot as our empty, leased cars pile up in switch yards waiting to be delivered to us. When we have asked for updated delivery schedules, we have received limited or no information to rely on. Our staff does not know when cars will be available to load, and consequently when they will need to work. As a company, we lose precious time and opportunity to fill orders. What is most frustrating is that we cannot seem to get accurate information about how many cars will be placed for us and when that will happen so that we can plan our operations accordingly. I run a business too, and I understand that things outside of our control happen. But it is not too much to ask for reliable information to be communicated to us and initiated by the railroad about their delivery and pick-up plans. The bottom line is that railroads are critical partners of the scrap industry – we want to have that relationship. We depend on their safe, reliable, and cost-effective delivery of our materials which is essential to U.S. steel production, and which, in turn, plays an essential role in U.S. manufacturing and renewing the nation's infrastructure.

To be clear, I am not here to dictate how a railroad should be run. I also recognize that pandemic-related issues have created labor issues across the board for most industries, including for certain, the scrap industry. But we need to get to a better place than where we are today. I greatly appreciate when railroad customer service representatives visit us to learn more about CSR, and are attentive when we have problems. As mentioned, though there is only so much that they can do. We need better and much more reliable service on the ground, every day if our business is to operate in the way the railroads want their businesses to operate, which is to say with a high degree of efficiency and productivity. We need better, more consistent, and easier communication with and from railroads that results in effective and prompt measures to address

problems that arise. And we, as shippers, cannot simply shoulder the burden of all the cost to do this. We have incurred numerous and significant rate increases over the last two years without much change in service standards. Railroads need to reprioritize allocations of capital and human resources to elevate the status of shippers in the hierarchy of constituencies that the railroads serve.

While it is great to have financially healthy railroads, the revenue and shareholder value increases should not be made at the expense of the shippers and other stakeholders of the rail industry, and to the economy as a whole.

We strongly believe that railroads need to increase their investments in labor and equipment to help alleviate current service problems. Railroads need to live up to their own schedules and service promises, and be accountable when they fail to do so. Communication and customer service also needs to improvement, as rail customers should not be forced to chase rail representatives to address their problems.

I want to thank you again for holding this hearing and would be able to answer any questions you may have.

Respectfully submitted,

/s/ Ben Abrams
Ben Abrams
President & CEO
Consolidated Scrap Resources, Inc.
120 Hokes Mill Road
York, PA 17404

Dated: April 27, 2022