

SURFACE TRANSPORTATION BOARD**Docket No. EP 711 (Sub. No. 1)*****Reciprocal Switching***

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**Summary of Ex Parte Meeting Between CN
and Surface Transportation Board Member Robert Primus****April 21, 2022**

CN Attendees: Rob Reilly, Executive Vice-President and Chief Operating Officer; Bernd Beyer, Vice-President and Treasurer; Kathryn Gainey, Deputy General Counsel; David Woodruff, Assistant Vice President & Head of U.S. Public & Government Affairs; Andreas Aeppli, Cambridge Systematics; Matthew Warren, Sidley Austin LLP

STB Attendees: Robert Primus, Board Member; Elizabeth McGrath, Attorney Advisor

CN thanked Member Primus for the opportunity to meet. Because of time constraints on the last day of the hearing, CN explained that it wanted to provide Mr. Aeppli's modal market share presentation and allow an opportunity for any questions.

Mr. Aeppli provided an overview of his analysis using 2019 Transearch data, which showed truck having a larger market share than rail carload for all commodities except coal and metallic ores. Mr. Aeppli described his analysis by mileage bands and explained that, if coal is excluded from the analysis, there are no distance ranges where the mode share for rail carload exceeds highway.

Member Primus and CN then discussed factors impacting the rail network. CN and Member Primus discussed supply chain and other challenges, including port delays and congestion in Shanghai resulting from the most recent COVID lockdown, the war in Ukraine and its impacts on demand, and a shortage of truck drivers in the United States.

CN discussed its record of growth over the last ten years, including growing intermodal traffic. CN then explained the importance of advance planning, noting the lead times associated with adding locomotives, cars, crews, or track capacity to handle new or unexpected increases in traffic or changes in traffic mix. CN discussed the importance of accurate demand forecasts so that a railroad can plan for resources in advance.

Member Primus observed that service challenges on the network are not one size fits all, and that he wants to explore solutions to address shortcomings in service and amplify what is already working.

Member Primus asked what railroads can do in anticipation of a potential surge in intermodal containers from Shanghai that could occur in 2022 during harvest. CN discussed the capacity at ports in North America to help supplement LA/Long Beach. CN described its launch in 2021 of priority train service from the Port of Prince Rupert to Chicago. CN also described its efforts to incentivize beneficial cargo owners to pick up containers from intermodal terminals in the United States.

Member Primus asked whether the reciprocal switching proposal would help, and recognized that the Class I railroads are opposed to the 2016 proposal.

CN and Member Primus thanked each other for their time.



EP 711 (Sub-No. 1) Hearing

presented to

US Surface Transportation Board

March 16, 2022

3.10.22

presented by

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Purpose & Approach

High level examination of the freight marketplace, and the degree to which competition is inter- vs. intra-modal, and how this may affect consideration of the reciprocal switching scheme that is being debated in EP 711 (Sub-No. 1).

We examined modal market share across major commodities and by length of haul to assess the level of modal competition across the primary modes – highway, rail, and water – for freight shipments handled within the US.

Focus on originated tonnage, since shippers and markets are concerned with volumes shipped, not transportation system production that is most commonly measured through ton-miles.

Analysis utilized S & P Global Market Intelligence Transearch for the year 2019, an industry standard freight flow database that reports commodities consistent with STB and rail industry usage.

US Domestic Shipments Originated Tonnage by Mode, All Commodities, 2019

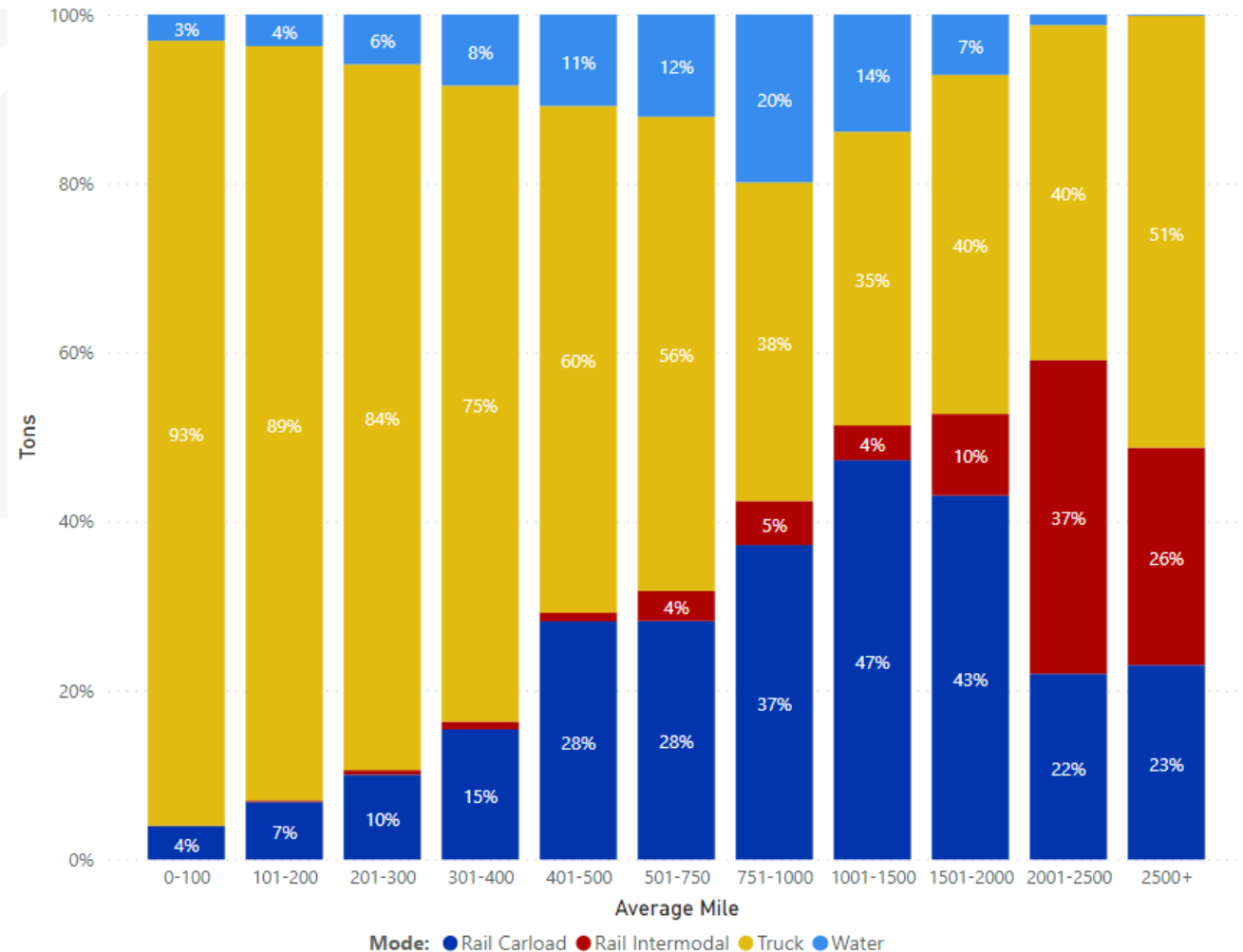
Mode ^a	Tons		Ton-Miles		Average Length of Haul (miles)
	Amount (billions)	% of modal total	Amount (trillions)	% of modal total	
Truck	8.8	78.5%	1.86	53%	211
Rail	1.63	14.5%	1.27	36%	784
Carload	1.45	13%	1.03	30%	712
Intermodal	0.18	1.5%	0.24	7%	1,380
Water	0.8	7%	0.35	10%	449
Total	11.0	100%	3.48	100%	311

^aExcludes air and pipeline. Air constitutes a negligible portion of domestic freight tonnage, and pipeline volumes are only partially reported in Transearch, and thus were not included in analysis.

Source: S & P Global Transearch

Domestic Tonnage by Distance All Commodities, 2019

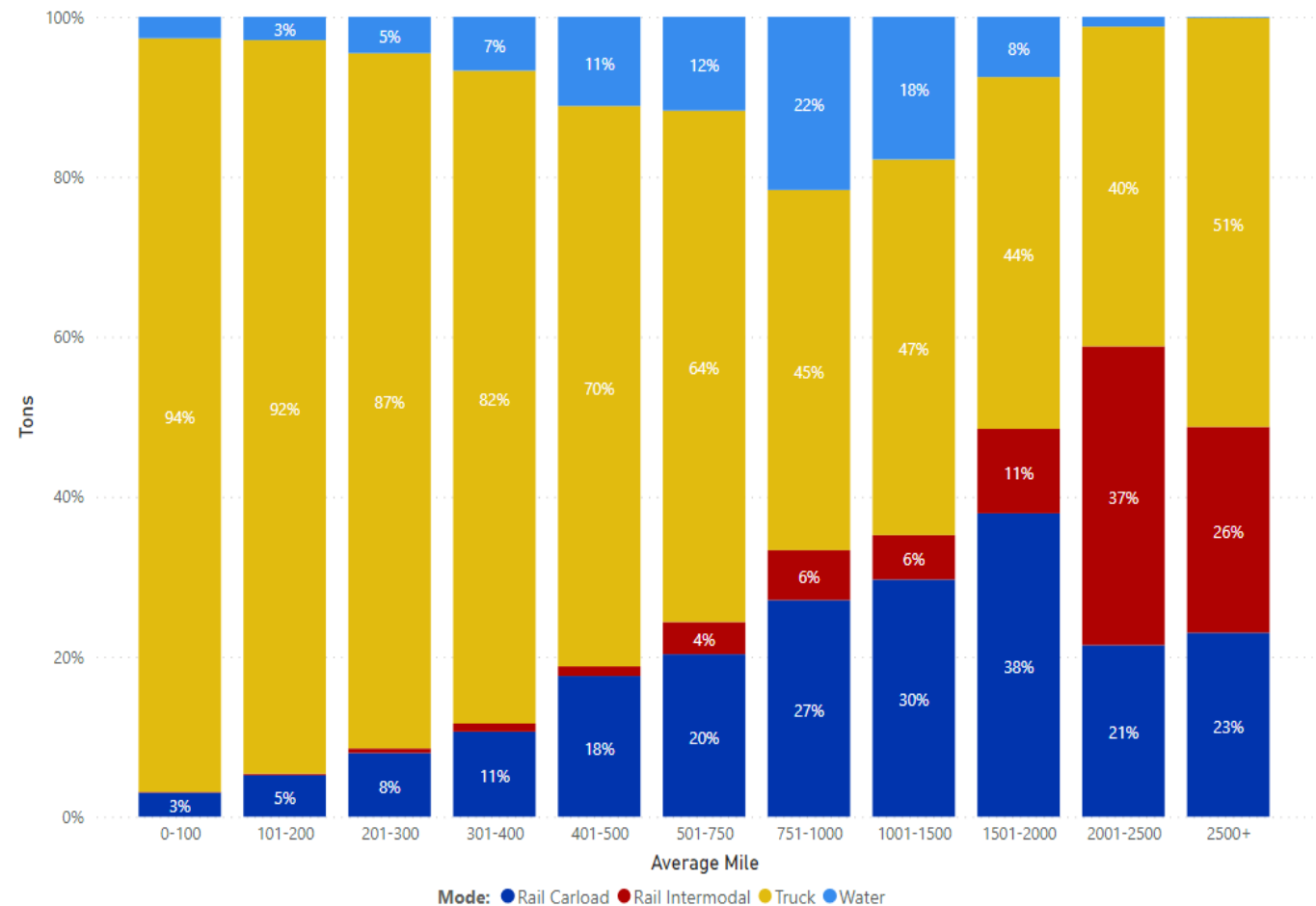
- *Modal share for rail carload service exceeds highway only in the 1,001-1,500 and 1,501-2,000 mile bands.*
- *Rail carload and highway share are roughly equal for the 751-1,000 mile bands.*
- *This is directly related to the high volumes of coal coming out of the Powder River Basin headed to destinations in the south and east.*
- *For all other distance bands, highway mode share exceeds carload rail significantly.*



Note: Excludes crude petroleum, shipping containers and hazmat products due to incomplete reporting
Source: S&P Global Transearch

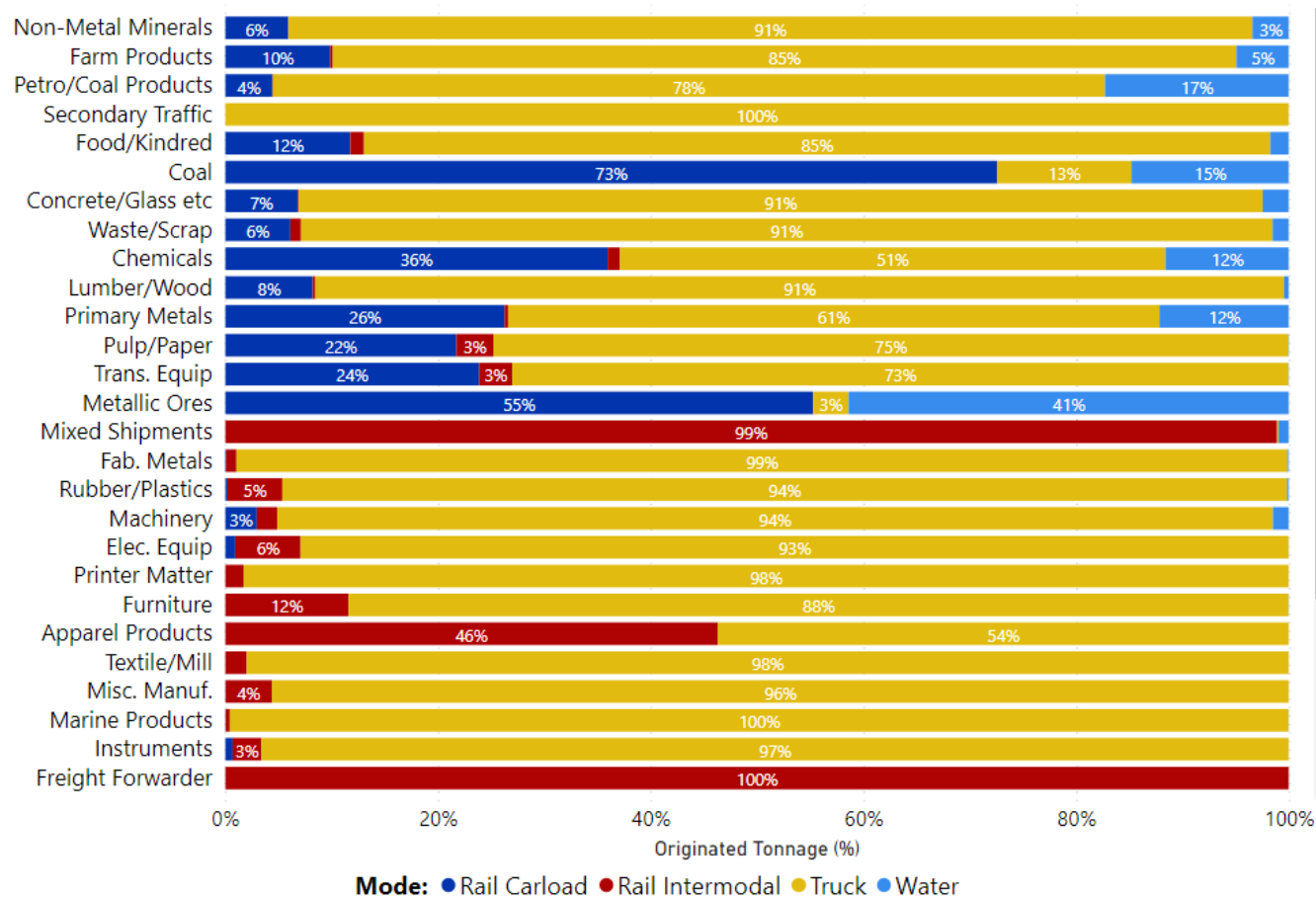
- A clearer picture of modal competitiveness across distance emerges when coal, with its particular characteristics that are not representative of most rail-competitive markets, is excluded.
- Excluding coal, there are no distance ranges where mode share for carload rail exceeds highway. The closest is in the 1,501-2,000 mile range, where carload rail tonnage accounted for 38% vs. 44% for highway.
- Even in distances exceeding 750 miles where carload rail tends to be most competitive, highway still outperforms rail.

Domestic Tonnage by Distance Excluding Coal, 2019



Note: Excludes crude petroleum, shipping containers and hazmat products due to incomplete reporting
Source: S&P Global Transearch

Domestic Originated Tonnage by Mode



- *Commodities with carload rail mode share exceeding 25%: coal, chemicals, primary metals, and metallic ores.*
- *Commodities with carload rail mode share exceeding 50%: coal and metallic ores.*

Note: Excludes crude petroleum, shipping containers and hazmat products due to incomplete reporting

Source: S&P Global Transearch