

Surface Transportation Board
Ex Parte 704—Review of Commodity, Boxcar, and TOFC/COFC Exemptions

Summary of Ex Parte Meeting held on June 6, 2019 between
Verso Corporation, American Forest & Paper Association
and Vice Chairman Fuchs

Verso Corporation (“Verso”) and American Forest & Paper Association (“AF&PA”)
Attendees:

- Brian Russell, Assistant General Counsel, Verso
- James Contino, Senior Director of Fiber Supply, Verso
- Brian Seitz, Director of Logistics and Distribution, Verso
- Aaron Haas, VP Supply Chain, Verso
- Julie Landry, Director – Government Affairs, AF&PA
- Karyn Booth, Thompson Hine LLP
- Kerem Bilge, Thompson Hine LLP

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Office of Proceedings
June 13, 2019
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STB Attendees:

- Vice Chairman Patrick Fuchs
- Lisa S. Novins, Attorney Advisor
- Douglas W. Pelsey, Economist

Meeting Summary:

The meeting began with introductions, and Verso thanked the STB Attendees for the opportunity to meet and discuss the Board’s proposed rule and the issues in this proceeding.

Verso explained that it is a manufacturer of specialty and graphic papers, and packaging and pulp products, with approximately \$2.7 billion in annual sales, and 3.1 million tons of annual paper production capacity. Verso also explained that it operates in 9 locations, including the states of Ohio, Maine, Maryland Michigan, Minnesota and Wisconsin. Verso also stated that its Maryland facility will be permanently closed by June 30, 2019.

Verso described its heavy dependence on rail service for its graphic and packaging paper production, and its pulp business, based on the configuration of both its facilities and the facilities of its customers. It described limitations on its use of truck for these product lines due to capacity constraints and a shortage of drivers especially for longer hauls, limitations on its use of intermodal due to longer distances between its mill locations and intermodal ramps, and limitations on product and geographic competition due to very specific product manufacturing requirements. However, Verso also explained that its sheeted products primarily move via truck. Verso also described its railroad challenges, including rising rates, insufficient box car availability, deteriorating rail service, demurrage, and one-sided contract negotiations. See Verso Presentation attached as **Exhibit 1**.

Vice Chairman Fuchs inquired about the rail service to Verso facilities. Verso explained that the Michigan and Wisconsin facilities are captive to a major Class I railroad and another Class I railroad serves its Maryland facility. Verso also explained that one of the major Class I railroads is Verso's largest rail service supplier.

Vice Chairman Fuchs asked Verso to talk him through its decision making process when choosing to ship between truck and rail. Verso explained that graphic papers and pulp products are heavily dependent on rail, both inbound and outbound with approximately 40 - 42% of outbound shipments moving via rail. Verso also explained that the sheeted paper products are shipped primarily via truck.

Vice Chairman Fuchs wanted to confirm that, although the rail dependency is overall 40-42%, specific products can be 80-90% dependent. Verso affirmed.

Vice Chairman Fuchs asked whether there are other factors, such as distance, that Verso considers when determining whether to choose to utilize rail. Verso explained that, while distance is a factor, more significant is the fact that its manufacturing facilities are more than 60 years old, and were built with rail infrastructure. Thus Verso requires heavy rail usage at those facilities for efficiency. Verso also stated that many of their customers are configured to receive shipments by rail which impacts the shipment method.

Vice Chairman Fuchs asked what it would mean for Verso, in terms of pricing, if its rail service ended. Verso explained that it would be devastating for its inbound supply of chemicals. Verso also stated that inbound bulk materials travel via rail for long distances and that they would have to shut down their facilities if they were forced to utilize truck shipments. Verso also explained that its outbound shipments would require a significant amount of trans-loading, which is much more costly and that it would not be able to remain competitive in the end.

Verso explained that its inbound wood supply is coming from the Lake States area, and the amount moving by rail has been steadily decreasing due to significant de-marketing. Verso also experienced enormous rate increases in outbound shipments in excess of 20% following the expiration of a legacy contract. The Class I railroad was unwilling to negotiate to permit a more measured increase over time and Verso explained that such increase has had significant adverse effects on its business.

Vice Chairman Fuchs asked about changes in the portion of Verso's traffic that ships by rail, and the extent to which the current portion indicates where Verso has limited to no alternative to rail. Verso explained that their rail shipments composed 60% of their transportation needs 20 years ago. Currently, this ratio is around 40-42% for outbound shipments, and that is a fair representation of their rail dependent traffic.

Vice Chairman Fuchs stated that by looking only at averages, it is challenging to capture the traffic that is strictly rail dependent. Verso explained that they cannot easily shift more traffic to other modes.

Vice Chairman Fuchs inquired about 50 foot box cars. Verso explained that they have struggled with the supply of 50 foot box cars. Verso stated that its facilities are designed for 50 foot box cars, and the lack of supply creates significant inefficiencies for them.

In addition to excessive rate increases and car supply concerns, Verso has experienced excessive demurrage due to events originating from the railroads' service inconsistencies, including bunching of cars and missed switches. Verso explained that one of their facilities is served 2 days a week, and one missed switch creates a significant multiplier effect resulting in congestion. Verso stated that they have been impacted by a demurrage dispute involving outstanding bills of \$1 million. Verso stated that they have contested and provided relevant proof showing that the car detention was caused by the railroad, however the railroad did not issue any credit, and threatened to embargo the facility. Verso also explained that its ability to comply with the demurrage rules has been impeded after the railroads reduced free time for unloading from 48 hours to 24 hours. Vice Chairman Fuchs asked whether their demurrage credits expire. Verso stated that they do not.

Verso also explained that the current exemptions create an unnecessary additional hurdle should they choose to pursue recourse against the railroads at the STB, and they do not believe that in today's highly concentrated rail market that its shipments should be treated differently from regulated commodities. Verso asserted that there is no benefit to the exemption for paper and forest products shippers and it strongly supports revocation of the exemptions. See **Exhibit 1**.

The meeting concluded with each side thanking the other for participating in the meeting.

EXHIBIT-1



Verso Corporation



Introduction to Verso



- Brian Russell (Assistant General Counsel)
- James Contino (Sr. Director of Fiber Supply)
- Brian Seitz (Director of Logistics and Distribution)
- Aaron Haas (VP Supply Chain)

Verso At-A-Glance



ABOUT VERSO

A leading North American producer of specialty and graphic papers, packaging and pulp, Verso provides insightful solutions that help drive improved customer efficiency, productivity, brand awareness and business results.



2.7

billion in sales

Verso's net sales are \$2.7 billion.

3.1*

million tons

Verso mills have a total annual paper production capacity of approximately 3.1 million tons.

4,400

employees

Verso employs more than 4,400 people nationwide.

9

locations

Verso is headquartered in Miamisburg, Ohio with a Technical Center in Biron, Wisconsin; seven paper mills in Maine, Maryland, Michigan, Minnesota and Wisconsin; and a network of distribution centers and warehouses strategically located across the country.

Verso's mission is to create value for our stakeholders by providing business solutions and developing innovative products and services that exceed expectations.

Verso's Products

Specialty Papers

Label and Converting Papers are used to make food and beverage labels.

Technical Papers are used to make pressure sensitive face stock and release liners, credit card receipts and packaging tapes.

Flexible Packaging Papers are used in foodservice bags, pouches, wraps and tray liners.



Packaging Papers

Coated Bleached Board is used to make cosmetic, prescription packaging and point-of-purchase displays.

Kraft Linerboard is used to make the inner and outer layers of corrugated shipping boxes.

Kraft Papers are used in grocery sacks, shopping bags and fast food bags.



Graphic Papers

Graphic Papers are used in printed communications, including direct mail, brochures, catalogs, magazines, books, coupons, and retail inserts.



Pulp

Pulp is made into bales for use in making paper, including specialty, technical and tissue papers.



Verso's Operations and Use of Rail Transportation



- Verso ships over 117,000 carloads of outbound pulp and paper annually and rail shipments make up 42% of Verso's total outbound volume
- Verso paper mills are each sole-served by a single railroad
- Verso mills are in remote geographic locations

Truck and IM Competitively vs Rail

- Verso's manufacturing facilities are designed to have heavy dependence on rail
- Many of our customer's facilities and our distribution facilities are designed with a heavy dependence on rail
- Shortage in long haul trucking
- Verso has challenges with dray capacity and the distance of an IM ramp from our mills
- Geographic and Product Competition
 - Verso has limited flexibility to move products around its system to compete with rail

Car Fleet

- Verso is challenged with getting supply of cars we need
- Challenges using 60' boxcars
- Many cars are in questionable condition
- Private fleet not a viable option for Verso

Railroad Rates and Service

- Rail rates rising faster than other modes of transportation for Verso
- Negotiations with railroads have been one sided
- Steady deterioration of service with the advent of precision railroading
 - Verso is being invoiced for higher accessorial and demurrage charges

Verso believes the STB Should Revoke the Paper/Forest Products Exemptions



- In today's highly concentrated rail market, paper and forest products rail shipments should not be disadvantaged or treated differently from other regulated commodities
- Regulatory oversight by the STB is needed and justified by the substantial changes in the rail industry and increases in rail market power
- There is no benefit to our industry in remaining exempt