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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 Member Oberman

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

STB Attendees:

- Member Martin J. Oberman
- Katherine C. Bourdon, Attorney Advisor

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, 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.

Member Oberman asked why Verso is closing the Maryland facility. Verso explained that it is a result of decreasing demand on coated freesheet products. Member Oberman inquired about the driving force behind the decrease. Verso explained that the printing sector is shrinking due to digital trends.

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. See Verso Presentation attached as **Exhibit 1**.

Verso explained that its three biggest mills are located in the Lake States region (i.e., one in central Wisconsin, and two in Michigan), and that its inbound supply of wood transported by rail has been steadily decreasing. These movements range in distance from 170 to 400 miles and Verso is very concerned that the railroads may ultimately attempt to eliminate all inbound wood shipments with high pricing.

Member Oberman asked about the 400 mile radius for Verso's supply. Verso described the supply points referring to the map attached as **Exhibit 2**. Verso stated that due to PSR, railroads are more interested in long hauls. Verso also explained that the class-I railroads do not allow short-lines to utilize unused rail tracks in the vicinity of its WI mill.

Member Oberman inquired about Verso's experience with the railroads. Verso explained that recently, they have experienced significant increases in rail rates. This increase is a result of the expiration of a long-term contract that a major class-I railroad entered into in connection with an acquisition. During the term of the contract, the rate adjustments were based on a formula. After the expiration, the major class-I railroad increased the rates by 28% in 2018. Member Oberman and Verso discussed the possibility of short lines operating over tracks that Class I railroads no longer found profitable.

Member Oberman asked about the outbound traffic of Verso. Verso explained that approximately 42% of their total outbound volume travels by rail. Verso also stated that 20% of the outbound volume has to go by truck due to product specifications, such as specialty paper, and that Verso could shift 10-15% more to rail if the rates were better.

Member Oberman asked about the other factors that have a role in deciding to utilize rail transport. Verso explained that certain products are so large and heavy that they can only be shipped via rail. Additionally, their facilities and their customers' receiving facilities were built with heavy rail infrastructure and rail is the most efficient mode of transportation.

Member Oberman asked about the other railroads serving Wisconsin. Verso explained that there are other railroads, however none of them originate within the radius of 100 miles of the class-I railroad that serves the area. Furthermore, Verso is captive at all of its mills.

Member Oberman asked whether Verso attributes the whole problem to the implementation of PSR. Verso confirmed, and explained that they have experienced congestion due to a major class-I railroad's service issues. As a result, the class-I railroad issued demurrage bills due to this congestion, and threatened to impose embargo if demurrage invoices totaling about \$1 million are not paid.

Member Oberman stated that these issues are also experienced by non-exempt shippers, and asked Verso's perspective on the benefits to be gained from revoking the exemptions. Verso explained that they need an avenue for recourse against the railroads. Verso stated that they currently do not have any tool but negotiating with the railroads. Verso also stated that they would consider preparing a rate case and demurrage case if the exemption is revoked and they could not resolve their differences.

AF&PA explained that they have been pursuing some of the initiatives of the STB for many years, and they are excited what STB is doing right now. However, AF&PA sees the exemption as a barrier to what may be coming in the future.

Member Oberman asked whether it would provide relief to Verso if they did nothing else but revoke the exemptions. Verso explained that if the exemptions were revoked, it would make it easier for them to negotiate with the railroads.

Member Oberman inquired about the box car availability. Verso explained that its products and facilities are designed to utilize the 50 foot cars. However, the railroads are shifting towards 60 foot cars, and it creates significant challenges and inefficiencies for Verso.

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.



Graphic Papers

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



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.



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

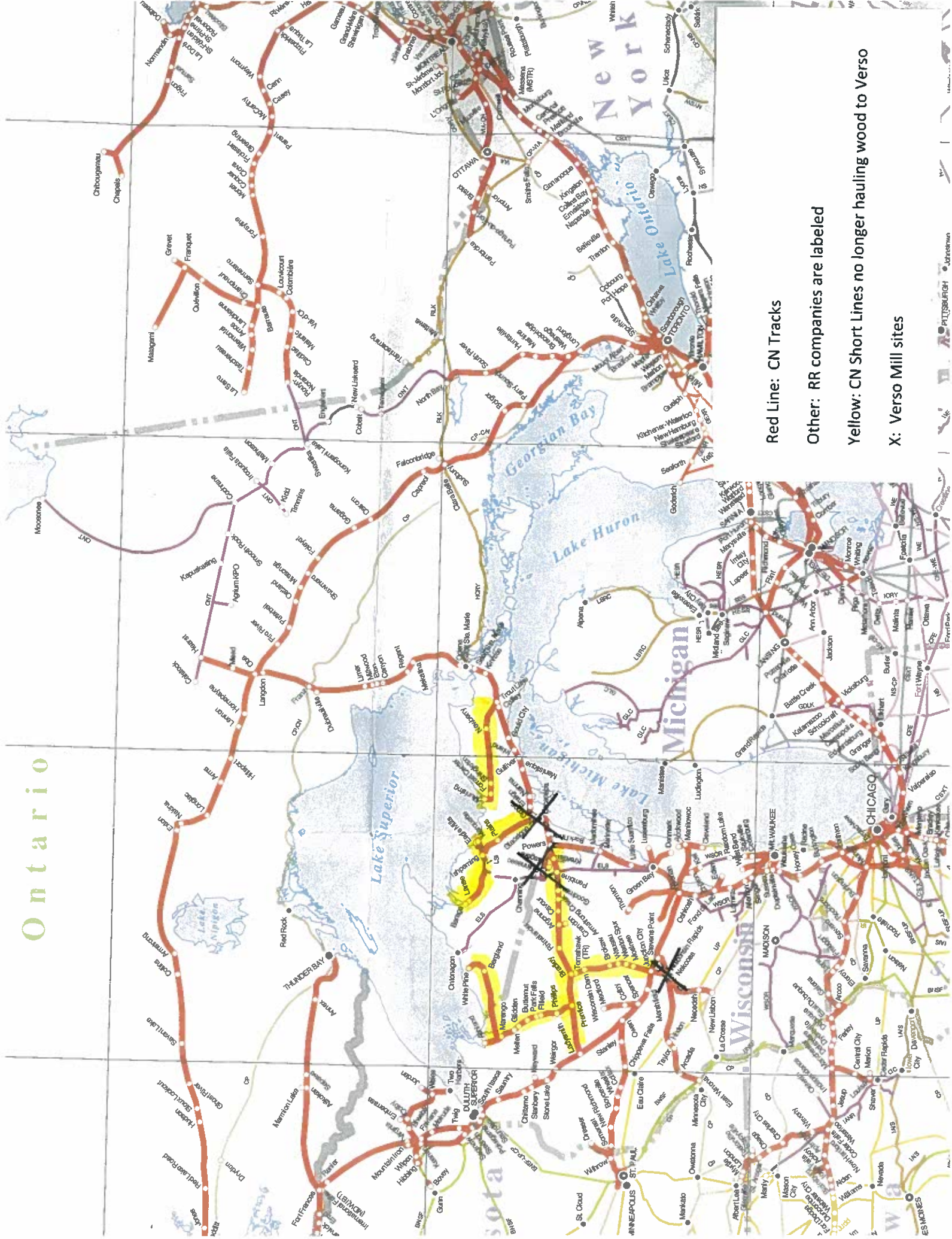
Verso believes the STB Should Revoke the Paper/Forest Products Exemptions



- 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

EXHIBIT-2

Ontario



Red Line: CN Tracks

Other: RR companies are labeled

Yellow: CN Short Lines no longer hauling wood to Verso

X: Verso Mill sites