

BEFORE THE
SURFACE TRANSPORTATION BOARD

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STB Ex Parte No. 754

OVERSIGHT HEARING ON DEMURRAGE AND ACCESSORIAL CHARGES

WRITTEN SUBMISSION OF
ARMADA SUPPLY CHAIN SOLUTIONS, LLC

Armada Supply Chain Solutions, LLC (“Armada”) is pleased to provide its comments in response to the Surface Transportation Board’s (“Board”) Notice served on April 8, 2019, announcing a public hearing and inviting testimony or written submissions on railroad demurrage and accessorial charges and practices. Armada commends the Board for examining these issues in response to growing concerns by rail customers about the commercial fairness and adverse impacts that are occurring from these practices and changing rail operations.

Armada is a supply chain and logistics management company that creates innovative, fully integrated supply chain solutions that deliver competitive advantages and improve business performance for its clients. Armada’s clients range from Fortune 500 companies to privately held and family-owned businesses. Armada’s supply chain management process includes client-specific solutions that incorporate advanced analytics with a robust technology platform providing a foundation for data-driven decisions which serve to optimize networks, provide visibility, reduce costs and adjust to continuously changing supply and demand patterns.

Armada is one of the largest outsourced logistic providers to the U.S. foodservice industry and has operations and offices around the country. It operates three distribution centers located in Greencastle, PA, East Point, GA and Romeoville, IL. The Greencastle, PA distribution center is serviced by the Norfolk Southern Railway. This statement explains how the railroads' service reductions and demurrage practices are harmful not only to direct rail customers but also have adverse down-stream economic consequences.

For instance, the railroads' changing operations and practices are causing serious concerns for one of Armada's key customers, McDonald's, who ships its world renown French fries by rail. The McDonald's distribution system in the U.S. ("McDonald's System") is comprised of a network of approximately 14,000 restaurants, most of which are operated by small business franchise owners, as well as product manufacturing suppliers and distributors. The McDonald's System requires efficient and reliable rail service to ship its famous French fries across the nation from various suppliers' locations into distributor warehouses with rail sidings. It is important that the cost of transporting French fries remains competitive in order to keep the menu prices at McDonalds affordable for the small business restaurant owner and the millions of customers who are served at their restaurants every day.¹

The McDonald's System includes twelve rail served distribution centers or hubs across the country that receive French fry shipments via rail. These distribution centers are in the following locations:

- Atlanta, GA
- Dickson, TN
- Manassas, VA
- Conroe, TX

¹ The savings and efficiencies of French Fries distributed to restaurant operators who qualify as Small Business Owners and comprise almost 95% of the McDonald's restaurants in the U.S. equates to nearly \$7,000,000 annually with use of rail.

- Baton Rouge, LA
- Dallas-Fort Worth, TX
- Orlando, FL
- Pompano, FL
- Garner, NC
- Lexington, SC
- Lordstown, OH
- Greencastle, PA

On average, the annual demurrage/accessorial expense paid to the railroads is ~\$600,000 – 700,000 per DC per year which totals ~\$6,700,000 - \$7,700,000 for all distributors. These costs have increased substantially due to the average dwell time of 7 days at the supplier production facility, and the average dwell time at a distribution center of 6 days.

Additionally, as a result of Norfolk Southern Railway's shift to Precision Scheduled Railroading ("PSR"), Armada's redistribution center located in Greencastle, PA has recently experienced a significant reduction in rail service, railcar delivery schedule and operational hours with a negative cost impact. The result has been longer railcar delivery schedules and higher storage charges that ultimately will cascade down to the McDonald's System restaurant operators and their customers. Norfolk Southern has reduced its rail crews that serve the Greencastle Hub from two teams to one. This has adversely impacted operations by delaying delivery of railcars loaded with French fries. Currently, it often takes two days to deliver the railcar of fries to this hub when it used to be one day. As a result, rail cars that arrive in Hagerstown, MD today, might not be delivered to the Greencastle Hub until the next day. Armada operations are built to maximize the efficiency of the Greencastle Hub, including the work shifts and staffing. When Norfolk Southern stopped servicing this Hub on Friday mornings, it resulted in underutilization of the warehouse railcar unloading team. These changes in railroad operations raise commercial

fairness questions, especially when the railroads change their operations to maximize their efficiencies at the expense of their customers.

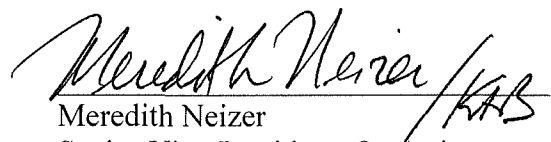
Additionally, in 2018, Armada experienced a substantial increase in storage charges, for shipments destined to the Greencastle Hub, mainly due to railroad service variabilities and the bunching of cars, with a corresponding increase in disputes about these charges. Specifically, Armada disputed certain storage and accessorial charges assessed to Armada, which ultimately resulted in Norfolk Southern dropping \$25,000 in charges due to billing discrepancies on reported detention time compared to actual recorded delivery times at this hub. In 2019, additional storage charges have been incurred as a result of service changes, and these bills are again being challenged. These disputes require Armada to divert its resources to address the railroads' errors causing additional inefficiencies. The Board should identify clear standards and processes for dispute resolution that would help to minimize the time and resources that companies must expend to resolve disputes over demurrage/storage and accessorial charges.

Finally, as another example of the harmful ripple effects that are likely to occur if rail costs increase substantially, Armada would note that there is significant risk that rail spur and siding investment of more than \$7,000,000 could be lost. During a new Distribution Center or Hub construction for a rail siding, the rail spur cost may be supported by loans or grants that are subject to certain conditions, including annual minimum volume requirements to the railroad or other utilization commitments to government entities. Additionally, for rail sidings constructed at McDonald's System distribution facilities, the capital investment costs are imbedded in the distributor's capital expense budget with multiple years of repayment on the books. Thus, if rail costs continue to rise substantially it may require a shift to truck transportation, a less desirable mode of transport for these shipments and reduce use of the rail sidings at the hubs. This would

place at risk some or all of the grant monies which would be required to be repaid due to the underutilization of the tracks, and the McDonalds System would be required to absorb the capital investment cost without the full anticipated benefit of the rail service, thereby increasing operational costs estimated to be +\$7,000,000.

Accordingly, Armada urges the Board to exercise its oversight to ensure commercial fairness and to help deter the substantially rising rail costs and other adverse impacts resulting from the railroads' new demurrage practices and reduced rail operations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Meredith Neizer', with a stylized flourish or set of initials to the right.

Meredith Neizer
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Dated: May 8, 2019