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ORAL STATEMENT
OF
ALLIANCE OF AUTOMOBILE MANUFACTURERS

BEFORE THE:
SURFACE TRANSPORTATION BOARD

OCTOBER 11, 2017

PRESENTED BY:
David Schwietert
Executive Vice President
Federal Government Relations & Public Policy

Thank you, Chairman Begeman and Board Member Miller. My name is David Schwietert and I am the Executive Vice President for the Alliance of Automobile Manufacturers -- a trade association of twelve car and light-truck manufacturers comprised of BMW, FCA, Ford Motor Company, General Motors Company, Jaguar Land Rover, Mazda, Mercedes-Benz, Mitsubishi Motors, Porsche, Toyota, Volkswagen, and Volvo.

Together, Alliance members account for roughly seventy percent of all car and light-truck sales in the United States. Last year, over 17.5 million vehicles were sold in the United States setting an all-time record. Auto manufacturing is a cornerstone of the U.S. economy, supporting more than seven million private-sector jobs, \$500 billion in annual compensation, and \$70 billion in personal income-tax revenues. On behalf of the Alliance and our members, I appreciate the opportunity to comment on the significant rail service delays our members are experiencing on the CSX rail network and how that impacts the auto industry and the public.

Rail is an essential component of the automotive industry's national supply chain. Each day, auto manufacturers ship tens of thousands of vehicles. In fact, railroads transport about 70 percent of finished motor vehicles, and automotive traffic represents nearly \$5 billion in annual railroad freight charges.

Automakers utilize a combination of rail and trucking to transport finished vehicles from assembly plants to dealer lots and ports. Generally, shipping vehicles by rail is the more economical means of transporting vehicles over long distances. Specifically, the CSX rail network serves several auto manufacturing plants throughout the Midwest and Mid-Atlantic regions, ports along the Eastern seaboard, and services intermodal terminals across the Mid-Atlantic and East Coast regions.

Unfortunately, since late-Spring/early-Summer, automakers have encountered significant rail service issues on the CSX rail network. These service problems have caused disruptions throughout the industry, resulting in an inability to deliver finished vehicles to their customers in a timely manner. In preparation for this hearing, the Alliance surveyed our member companies

to gauge the level of delays they were experiencing and specifically requested examples of the problems they were encountering.

The following are a few examples of the issues that automakers have faced:

- Numerous shipments have experienced three to four times their scheduled transit time as a result of sudden yard closures.
- Another manufacturer indicated that on-time performance decreased throughout the summer from 83.6% in April to 60.1% in July.
- Between April and August, one automaker was forced to make 500 premium truck shipments to support the production at their facilities due to CSX missed connections, the reorganization of Memphis and Nashville terminals, the closing or consolidation of hump yards, or general shipment delays.
- One facility had to shut down their body and paint shop various times throughout the summer due to component shipment delays – which also caused costly overtime to restore the system due to the backlog.
- Another manufacturer stated that CSX had ceased blocking outbound trains. As a result, all railroads had to block trains upon receipt, adding transit to each lane and impacting inbound traffic.
- Numerous plan changes have been implemented without a replacement trip plan for time-sensitive shipments already on the CSX network.
- Several automakers noted a lack of railcar supply, forcing them to incur offsite storage costs or ship vehicles on alternative – more expensive – methods.
- Several automakers noted that delayed shipments have resulted in additional dealer floorplan costs.

Due to the frequent and rapid changes to CSX operating plan, rail customers have witnessed a reduction of resources, the closing of yards and switch operations, and changes to train schedules with little or zero notice. And it is evident that the CSX Operations teams are not able to keep up with the pace of change. This has had a cascading effect on receiving Class Is as delayed shipments are interchanged incorrectly and, at times, been delivered to the wrong destination.

In addition to these operational service delays, several Alliance members have expressed frustration with the poor customer service they've received from CSX while trying to address these issues. It is our understanding that the CSX Automotive Customer Service Managers at CSX HQ have been assigned to other duties, leaving CSX's already reduced sales team to manage customer service issues and all customer communication, for which they are not staffed to handle effectively. Additionally, CSX management has been unable to provide accurate estimates for delayed shipments. This has resulted in the potential loss of sale for vehicles delayed in transit for multiple weeks with no explanation or update. It should be noted that CSX has released service metrics to customers highlighting dwell improvements at key terminals; however, these metrics do not capture dozens of shipments routed away from terminals to new or unfamiliar locations to bypass main terminals that are heavily congested.

We appreciate the attention and focus the Surface Transportation Board (STB) is providing to this critical issue. Since the STB sent its initial communication in late July to CSX expressing growing concerns with these service issues, things have improved slightly. However, the overall level of service remains woefully inadequate and we are concerned that additional operational changes will be implemented – further impacting service on not just the CSX network, but the larger North American rail network.

The Alliance, and our fellow members of the Rail Customer Coalition, urge the Board to continue its oversight of CSX. Without the transparency that the Board is requiring, rail service won't improve and our members will be subject to continued delays, uncertainty, and inefficiencies that have a cascading impact on all rail shippers, the auto supply chain and ultimately to consumers.

We urge the Board to utilize all authorities it possesses to examine and help alleviate the ongoing CSX service failures. As the Board knows all too well, in many respects, the service delays and operational failures that auto manufacturers and others are experiencing are very reminiscent of the service delays and rail car shortages that occurred in late 2013 through 2014.

Thank you again for the opportunity to offer our views, and we stand ready to work with the Board on this important matter.

Jennifer Thomas

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OF
THE ALLIANCE OF AUTOMOBILE MANUFACTURERS

BEFORE THE:
SURFACE TRANSPORTATION BOARD

OCTOBER 11, 2017

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Executive Vice President
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Thank you, Chairman Begeman and Board Member Miller. The Alliance of Automobile Manufacturers (Alliance) is a trade association of twelve car and light-truck manufacturers comprised of BMW Group, FCA US LLC, Ford Motor Company, General Motors Company, Jaguar Land Rover, Mazda, Mercedes-Benz USA, Mitsubishi Motors, Porsche, Toyota, Volkswagen Group of America, and Volvo Cars North America. Together, Alliance members account for roughly seventy percent of all car and light-truck sales in the United States. Last year, over 17.5 million vehicles were sold in the United States setting an all-time record. Auto manufacturing is a cornerstone of the U.S. economy, supporting more than seven million private-sector jobs, \$500 billion in annual compensation, and \$70 billion in personal income-tax revenues. On behalf of the Alliance and our members, I appreciate the opportunity to comment on the significant rail service delays our members are experiencing on the CSX rail network and how that impacts the auto industry and the public.

Rail is an essential component of the automotive industry's national supply chain. Auto manufacturers ship tens of thousands of vehicles daily in North America, primarily on U.S. railroads. According to the Association of American Railroads, railroads transport about 70 percent of finished motor vehicles, and automotive traffic represents nearly \$5 billion in annual railroad freight charges.

Automakers utilize a combination of rail and trucking to transport finished vehicles from assembly plants to dealer lots and ports. Generally, shipping vehicles by rail is the more economical means of transporting vehicles over long distances, and in some instances, rail is the only feasible option to haul significant numbers of vehicles over long distances. Specifically, the CSX rail network serves several auto manufacturing plants throughout the Midwest and Mid-Atlantic regions, ports along the Eastern seaboard, and services intermodal terminals across the Mid-Atlantic and East Coast regions. Simply put, our nation's automakers rely heavily on CSX to transport finished vehicles from their plants, to their dealers or ports, and ultimately, to their customers.

Unfortunately, since late-Spring/early-Summer, automakers have encountered significant rail service issues on the CSX rail network. These service problems have caused disruptions throughout the industry, resulting in an inability to deliver finished vehicles to their customers in a timely manner which has a variety of other negative impacts. In preparation for this hearing,

the Alliance surveyed our member companies to gauge the level of delays they were experiencing and specifically requested examples of the problems they were encountering. The following are several examples of the issues that automakers have faced since the management changes at CSX were implemented– please note that many of these examples have been blinded for confidentiality purposes.

- July YTD Performance Metrics for CSX were the following for one automaker: 7th place (last) in empty railcar supply to loading forecast; 6th place in on time performance; and 5th place in quality.
- Another manufacturer indicated that on-time performance decreased throughout the summer. In the month of April, CSX came in at 83.6% and significantly decreased each month to 60.1% in July. CSX did not update trip plans for those four months and, as a result, the automaker has inaccurate baseline standards.
- One automaker noted that, between April and August they were forced to make 500 premium truck shipments to support the production at their facilities due to CSX missed connections, the reorganization of Memphis and Nashville terminals, the closing or consolidation of hump yards, or general shipment delays.
- One facility had to shut down their body and paint shop various times throughout the summer due to component shipment delays. This later resulted in several hours of costly overtime incurred to restore the system.
- Another manufacturer stated that CSX had ceased blocking outbound trains. Thus, all railroads had to block trains upon receipt, adding transit to each lane and impacting inbound traffic.
- Numerous shipments have experienced three to four times their scheduled transit time, as a result of sudden yard closures.
- Numerous plan changes have been implemented without a replacement trip plan for time-sensitive shipments already on the CSX network.
- Several automakers noted a lack of railcar supply, forcing them to incur offsite storage costs or ship vehicles on alternative – more expensive – methods.

- Several automakers noted that delayed shipments have resulted in additional dealer floorplan costs.

Due to the frequent and rapid changes to CSX operating plan, rail customers have witnessed a reduction of resources, the closing of yards and switch operations, and changes to train schedules with little or zero notice. Numerous shipments have experienced three to four times their scheduled transit time due to sudden yard closures. Hundreds of time-sensitive shipments have been delayed without advance notice and customers have had to wait several days before new routing is communicated. And it is evident that the CSX Operations teams are not able to keep up with the pace of change. In some instances, numerous plan changes have been implemented without a replacement trip plan in place for time-sensitive shipments already on the CSX network. This has had a cascading effect on receiving Class Is as delayed shipments are interchanged incorrectly and, at times, been delivered to the wrong destination.

In addition to these operational service delays, several Alliance members have expressed frustration with the poor customer service they've received from CSX while trying to address these issues. It is our understanding that the CSX Automotive Customer Service Managers at CSX HQ have been assigned to other duties, leaving CSX's already reduced sales team to manage customer service issues and all customer communication, for which they are not staffed to handle effectively and a managing multiple shipping customers. Additionally, CSX management has been unable to provide accurate estimates for delayed shipments. This has resulted in the potential loss of sale for vehicles delayed in transit for multiple weeks with no explanation or update. It should be noted that CSX has released service metrics to customers highlighting dwell improvements at key terminals; however, these metrics do not capture dozens of shipments routed away from terminals to new/unfamiliar locations to bi-pass main terminals that are heavily congested.

We appreciate the attention and focus the Surface Transportation Board (STB) is providing to this critical issue. Since the STB sent its initial communication in late July to CSX expressing growing concerns with these service issues, things have improved slightly. However, the overall level of service remains woefully inadequate and we are concerned that additional operational changes will be implemented – further impacting service on not just the CSX network, but the entire North American rail network.

The Alliance, and our fellow members of the Rail Customer Coalition, urge the Board to continue its oversight of CSX. Without the transparency that the Board is requiring, rail service won't improve and our members will be subject to continued delays, uncertainty, and inefficiencies that have a cascading impact on the auto supply chain and ultimately to consumers. We urge the Board to utilize all authorities it possesses to examine and help alleviate the ongoing CSX service failures. As the Board knows all too well, in many respects, the service delays and operational failures that auto manufacturers and others are experiencing are very reminiscent of the service delays and rail car shortages that occurred in late 2013 through 2014.

Thank you again for the opportunity to offer our views on the rail service delays that automakers and other rail customers have been experiencing on the CSX rail network. We stand ready to work with the Board on this important matter.

August 14, 2017

The Honorable John Thune
Chairman
Committee on Commerce, Science,
and Transportation
United States Senate
Washington, DC 20510

The Honorable Bill Nelson
Ranking Member
Committee on Commerce, Science,
and Transportation
United States Senate
Washington, DC 20510

The Honorable Bill Shuster
Chairman
Committee on Transportation and Infrastructure
United States House of Representatives
Washington, DC 20515

The Honorable Peter DeFazio
Ranking Member
Committee on Transportation and Infrastructure
United States House of Representatives
Washington, DC 20515

Dear Chairman Thune, Ranking Member Nelson, Chairman Shuster, and
Ranking Member DeFazio:

The undersigned groups are writing to you on behalf of the Rail Customer Coalition (RCC) to express our strong concerns regarding the serious and disruptive rail service problems our members are experiencing due to major changes that have upended the CSX network.

The RCC is a large collection of trade associations representing a broad range of manufacturing, agricultural, and energy industries that depend on the railroads to deliver reliable service to support our operations and customers across the country.

As has been widely reported, there are chronic service failures occurring across the CSX network which are impacting the entire North American rail network. Major service changes have been imposed with little advance notice, and CSX's response to customer complaints has been woefully inadequate. Rail customers have had to take extraordinary steps at great cost to meet the needs of their customers because CSX has repeatedly failed to pick up and deliver cars. This has put rail dependent business operations throughout the U.S. at risk of shutting down, caused severe bottlenecks in the delivery of key goods and services, and has put the health of our nation's economy in jeopardy.

RCC members are concerned that the severe deterioration of service will continue for the foreseeable future, and that changes imposed by CSX may fundamentally degrade the long-term resiliency of the national rail network. While we were pleased that the STB recently sent a letter to CSX and has requested calls with CSX on a weekly basis, additional action is urgently needed.

The RCC worked closely with Congress to pass common-sense reforms to help make the Surface Transportation Board (STB) a more viable and effective intermediary between railroads and their customers when service issues exist. The STB Reauthorization Act of 2015 gives the Board clear authority to investigate on its own initiative rail issues of national or regional significance. Congress should now urge the STB to utilize this important authority (as defined in 49 USC

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11701) to formally open an investigation of recent CSX service problems, addressing the underlying causes as well as the short and long-term impacts, including whether CSX is meeting its common carrier obligations.

Additionally, the RCC requests that Congress encourage the STB to expedite its work in pending proceedings related to reciprocal switching. This long-delayed action could provide captive shippers with access to alternative railroad options, which could help address service failures like those our member companies are currently experiencing with CSX.

Finally, we respectfully ask Congress to examine the ramifications of the CSX service breakdown, and whether there are adequate means available to the STB to mitigate the adverse impacts to the rail network. The fact that many businesses have no choice when it comes to their rail provider has greatly exacerbated CSX service failures. Unfortunately, rail service is dictating the fate of many shippers and their customers who have no effective transportation option to alleviate this failure in the marketplace.

With service disruptions continuing to mount and no solution in sight, our members need decisive action from Congress and the STB.

Agricultural Retailers Association

Alliance for Rail Competition

Alliance of Automobile Manufacturers

American Chemistry Council

American Forest & Paper Association

American Fuel & Petrochemical Manufacturers Association

American Malting Barley Association, Inc.

American Petroleum Institute

Association of Global Automakers

Beer Institute

Chemical Industry Council of Delaware

Chemical Industry Council of Illinois

Chemistry Council of Missouri

Chemistry Council of New Jersey

The Chlorine Institute

Corn Refiners Association

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The Fertilizer Institute

Georgia Chemistry Council

Glass Packaging Institute

Global Automakers

Grocery Manufacturers Association

Institute of Scrap Recycling Industries, Inc.

International Warehouse Logistics Association

Louisiana Chemical Association

Manufacture Alabama

Manufacturers Association of Florida

Massachusetts Chemistry & Technology Alliance, Inc.

Michigan Chemistry Council

National Association of Chemical Distributors

National Barley Growers Association

National Farmers Union

National Industrial Transportation League

New York State Chemistry Council

North Carolina Manufacturers Alliance

Ohio Chemistry Technology Council

Pennsylvania Chemical Industry Council

Private Railcar Food and Beverage Association

South Carolina Manufacturers Alliance

Southeastern Lumber Manufacturers Association, Inc.

Steel Manufacturers Association

The Sulphur Institute

Texas Chemical Council

Vinyl Institute

Virginia Chemistry Council

August 14, 2017

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Virginia Forestry Association

West Virginia Manufacturers Association

cc: The Honorable Ann Begeman, Acting Chairman, Surface Transportation Board
The Honorable Daniel Elliott, Vice Chairman, Surface Transportation Board
The Honorable Deb Miller, Surface Transportation Board
The Honorable Deb Fischer, Chairman, Subcommittee on Surface Transportation and
Merchant Marine Infrastructure, Safety and Security, Committee on Commerce, Science,
and Transportation
The Honorable Cory Booker, Ranking Member, Subcommittee on Surface Transportation
and Merchant Marine Infrastructure, Safety and Security, Committee on Commerce,
Science, and Transportation
The Honorable Jeff Denham, Chairman, Subcommittee on Railroads, Pipelines, and
Hazardous Materials, Committee on Transportation and Infrastructure
The Honorable Michael Capuano, Ranking Member, Subcommittee on Railroads, Pipelines,
and Hazardous Materials, Committee on Transportation and Infrastructure



500 Water Street
Jacksonville, Florida 32202
(904) 359-1070
(904) 359-1216 (Fax)

Hunter Harrison
President and CEO

August 16, 2017

Rail Customer Coalition
C/O Mr. Cal Dooley, President and CEO
American Chemistry Council
700 2nd Street NE
Washington, DC 20002

To the Members of the Rail Customer Coalition:

CSX was greatly disappointed with your many unfounded and grossly exaggerated statements in your letter of August 14th related to the service experienced by some customers as we implement Precision Scheduled Railroading, which has a proven history and long track record of delivering superior transportation services for customers. Though you did not extend us the courtesy of discussing those concerns with us first, most likely because your statements were made to advance your longstanding attack on the balanced approaches of the Staggers Act, we wanted to respond to you directly, and set the record straight.

Let me first be clear on what CSX is working aggressively to accomplish, and the results those efforts are already producing. The overriding objective of CSX's new operating plan is to provide superior and reliable service to our customers that provides them with a competitive advantage and contributes to American business success. The changes we are implementing today will deliver measurable improvements in key service metrics, resulting in our customers' freight moving more consistently, reliably and cost efficiently across the CSX network.

We are already seeing improvements, and we are intensely focused on delivering on that stated goal.

These transformational changes in many cases are profound. They require significant investment in our network and training for our employees, as well as adjustments on how we move freight for our customers. In the midst of our efforts, there have been some unfortunate disruptions to our service, which we are addressing aggressively.

The entire CSX team is in real-time dialogue with our customers, industry officials and regulators. We are working 24/7 to make the changes necessary to improve our ability to address customer concerns and to improve the flow of information. We are quickly optimizing our operating plan, asset utilization and increased deployment of resources in ways that will deliver direct benefits to customers.

Since coalitions do not have service issues, we do not intend to continue a discussion with you about the service we provide to our customers. We are also aware that not all members of your coalition were informed of your letter in advance and some do not agree with your position.

We will continue to work directly with our customers to address their concerns as we move forward, and encourage them to continue bringing issues to our attention as we accelerate our new operating plan. However, should your coalition wish to discuss the other completely unrelated topics like reciprocal switching which are more central to your agenda, we always welcome the opportunity to meet or talk with you at any time.

We welcome the continued engagement of the expert Surface Transportation Board staff and respect their authority. We will continue to work with them as they monitor our ongoing improvement. We are confident our customers will benefit greatly as we expand these operational improvements across our network, and we are focused on delivering even more reliable service and improved asset utilization.

CSX appreciates the trust that customers place in us and our dedication to them is unwavering. We remain committed to continue meeting customers' business needs as we move forward.

Sincerely,

A handwritten signature in blue ink, appearing to read 'E. Hunter Harrison', with a long, sweeping horizontal line extending to the right.

E. Hunter Harrison
President and Chief Executive Officer
CSX

cc: Agricultural Retailers Association
 Alliance for Retail Competition
 Alliance of Automobile Manufacturers
 American Chemistry Council
 American Forest & Paper Association
 American Fuel & Petrochemical Manufacturers Association
 American Malting Barley Association, Inc.
 American Petroleum Institute
 Association of Global Automakers
 Beer Institute
 Chemical Industry Council of Delaware
 Chemistry Council of Missouri
 Chemistry Council of New Jersey
 The Chlorine Institute
 Corn Refiners Association

The Fertilizer Institute
Georgia Chemistry Council
Glass Packaging Institute
Global Automakers
Grocery Manufacturers Association
Institute of Scrap Recycling Industries, Inc.
International Warehouse Logistics Association
Louisiana Chemical Association
Manufacture Alabama
Manufacturers Association of Florida
Massachusetts Chemistry & Technology Alliance, Inc.
Michigan Chemistry Council
National Association of Chemical Distributors
National Farmers Union
National Industrial Transportation League
New York State Chemistry Council
North Carolina Manufacturers Alliance
Ohio Chemistry Technology Council
Pennsylvania Chemical Industry Council
Private Railcar Food and Beverage Association
South Carolina Manufacturers Alliance
Southeastern Lumber Manufacturers Association, Inc.
Steel Manufacturers Association
The Sulphur Institute
Texas Chemical Council
The Vinyl Institute
Virginia Chemistry Council
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