

Surface Transportation Board
Ex Parte 704 (Sub-No. 1)—Review of Commodity, Boxcar, and TOFC/COFC Exemptions

248005

Summary of Ex Parte Meeting held on June 11, 2019 between
the International Paper Company, American Forest and Paper Association
and Vice Chairman Fuchs

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June 21, 2019
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International Paper Company (“IP”) and American Forest and Paper Association (“AF&PA”) Attendees:

- Linda Bramblett, Director-North American Transportation, IP
- Julie Alsup, Manager of Government Affairs, IP
- Jeanne Sebring, Strategy Consulting Resource, and Retired Director of North American Transportation, IP
- Julie Landry, American Forest & Paper Association
- Karyn Booth, Thompson Hine LLP
- Kerem Bilge, Thompson Hine LLP

STB Attendees:

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

Meeting Summary:

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

IP explained that its business is highly integrated and it is highly dependent on rail for the movement of paper products from their mills to converting facilities and box plants. IP stated that in excess of 60% of all mill production is transported by rail; however, in IP’s mainstay Industrial Packaging business (*i.e.*, “brown paper” business), closer to two-thirds of mill production moves by rail. IP explained that it does not have any alternative to rail for the transportation of these products due to the product size (*e.g.*, paper rolls can be as large as 110 to 130 inches) and the design of their facilities which are configured mainly for rail shipments. IP explained that trucks are primarily used for the outbound shipments of finished paper products from box plants to end-customers.

IP explained that car supply is essential for the rail movements between mills and box plants because the mills have a 24/7/365 operating schedule (except for planned maintenance outages and extreme events such as a weather disaster) and the products need to flow to the box plants daily due to safety limits for warehouse storage at their facilities. IP has 96 box plants that receive more than 50% of their volume by rail; many of these same box plants have as little as 1 truck receiving dock. A vast majority of IP’s 137 rail-served box plants are served by a single carrier. IP also explained that approximately 80% of its rail traffic is captive at the origin or destination or both.

Vice-Chairman Fuchs asked the typical geographical distances between the mills and the box plants. IP explained that the distances of the movements between paper mills and the box plants vary highly, and can be well over 1,000 miles. IP further explained that mills were originally constructed to be closer to the forest, i.e. its primary source for raw fiber materials, and that the box plants are typically located closer to the local markets for finished paper end-customers.

Vice-Chairman Fuchs asked whether IP has any mills that are 100% served by rail. IP explained that approximately 2/3 of the movements between mills and box plants are transported by rail and that the paper mills could not convert to be substantially truck without significant planning, redesign, time and investment.

Vice-Chairman Fuchs asked what proportion of IP's rail movements are intra-company versus to outside customers. IP explained that most of the receiving box plants are IP locations, but they do ship some paper to outside customers. Also, the final receivers (i.e., end-customers) of finished paper are typically not affiliated with IP.

Vice-Chairman Fuchs asked whether IP would have to shut down some of their facilities if they did not have rail service at all. IP confirmed.

IP explained that it has significant concerns with rail rates and service. In 2018, a Class-I railroad who was having major service problems imposed substantial rate increases above 7%. In 2019, the same railroad is looking to increase its rates again by more than 9%. Negotiations are on-going, but the railroad thus far has been willing to negotiate only a single lane out of hundreds of O-D pairs. IP also stated that car supply is another problem, as one Class-I railroad's rate of empty car supply (i.e., car deliveries divided by car orders) dropped from 95% to 60% during the implementation of PSR. IP also explained that it is dependent on 50-foot cars due to its rail infrastructure and product dimensions, and the railroads' shift to 60-foot cars is creating inefficiencies for their operations.

Vice-Chairman Fuchs asked why IP has not brought an individual case for revocation of the exemption. IP explained that the added litigation is too costly, uncertain, and time consuming.

IP explained that they need STB oversight and an avenue for recourse against the railroads for unreasonable rates, practices and service problems. IP stated that revoking the exemption will be an important motivator for rail carriers and IP to resolve these critical issues when rail carriers are being unreasonable. IP also explained that there has been significant changes in the industry since the grant of the exemption as the railroads have undergone significant consolidations, increasing their market power.

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