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Surface Transportation Board
Ex Parte 704 (Sub-No. 1)—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 Chairman Begeman

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:

- Chairman Ann D. Begeman
- Valerie Quinn, Attorney-Advisor
- Frank O’Connor, Deputy Director, Office of Economics

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.

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**.

Verso explained that the class-I railroads are de-marketing certain lanes by raising rates, essentially refusing to compete with trucks. This is particularly true for Verso's inbound wood supply which has experienced a steady decline in rail. 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.

Chairman Begeman asked whether Verso produces a certain type of product that has to go by rail. Verso confirmed, and explained that very large paper rolls must ship via rail. Additionally, approximately 40-42% of their outbound volume is dependent on rail and 50 foot box cars, again, due to the configuration of its facilities built over 50 years ago with heavy rail infrastructures. Verso stated that even where it has the ability to ship via truck out of its origin facilities, it is difficult for them to recruit drivers, as the drivers are driving hundreds of empty miles to get to its facilities, and that it is not efficient.

Chairman Begeman inquired about car supply concerns. Verso explained that they generally do not receive the number of cars that they order from the railroads.

Chairman Begeman inquired about rate and service issues. Verso explained that substantial rate increases are a challenge, as it is hard to negotiate with the railroads who offer take it or leave it contracts. Verso stated that one class-I railroad increased pricing by 28% in 2018, after the expiration of a long-term contract. Verso also explained a dispute regarding nearly \$1 million in disputed outstanding demurrage bills impacting Verso's logistics operations, and the class-I railroad has refused to negotiate to find an amicable solution. Instead, it has threatened to embargo a third party warehouse facility which Verso relies upon heavily.

Chairman Begeman stated that they can contact the customer public assistance office at the STB.

Chairman Begeman asked what Verso thinks would happen if the STB revokes the exemptions and how would it benefit. Verso explained that revocation would likely improve their leverage to negotiate with the railroads, since the railroads know there is no STB oversight today. With the revocation, Verso stated that they would have recourse against the railroads and would bring a case at the STB if necessary.

Chairman Begeman stated that the challenges Verso is facing are similar to non-exempt shippers. Verso and AF&PA explained that the paper and forest products industry is facing very similar problems and should have the same benefit of regulatory oversight. AF&PA thanked the board for the exciting things the Board is doing, and mentioned that exempt shippers want to benefit from what may be coming in the future. AF&PA also explained that the current exemption policy is pulling their industry back, and that is why AF&PA is involved in this proceeding.

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