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Before the Surface Transportation Board

**Ex Parte 742 – Public Listening Session
Regarding CSX Transportation, Inc.’s Rail Service Issues**

October 11, 2017

**Statement of Julie Landry, Director of Government Affairs,
The American Forest & Paper Association**

Good morning. Acting Chairman Begeman and Commissioner Miller, my name is Julie Landry and I am the Director of Government Affairs for the American Forest & Paper Association (AF&PA). On behalf of AF&PA, I want to thank the Board for holding this Listening Session and inviting rail shippers and other members of the public to testify regarding CSX Transportation’s (CSX) rail service problems and recovery efforts. A number of AF&PA members have been seriously affected by CSX’s poor rail service, as I will describe today.

AF&PA’s mission is to promote a sustainable U.S. pulp, paper, packaging, tissue, and wood products manufacturing industry through fact-based public policy and marketplace advocacy. AF&PA member companies make products essential for everyday life from renewable and recyclable resources. The forest products industry accounts for approximately 4 percent of the total U.S. manufacturing GDP, manufactures over \$200 billion in products annually, and employs approximately 900,000 men and women.

Efficient and reliable rail service is critical to AF&PA member companies that receive raw materials and/or ship finished paper and forest products via rail. Although some of our members’ shipments can be transported by truck, for most of our members, some portion of inbound raw materials or outbound finished products shipped to customers **must** move by rail.

American forest products companies operate in a fiercely competitive commercial environment, and their productivity and success requires timely and consistent rail transportation. When essential rail transportation services are disrupted, our members' supply chains are thrown into disarray, resulting in unanticipated costs and business harms. Unfortunately, this is exactly what has been happening to our members due to CSX's recent service failures.

Due to these service failures, our affected members have spent many days engaging in damage control. Instead of focusing on their core manufacturing businesses, they have had to shift resources to track down delayed shipments and address the lack of a sufficient car supply and/or reduced switching services. To keep their own and their customers' facilities running, a number of members have been required to use expensive alternative transportation on an emergency basis.

In speaking with our members, I have heard many stories about CSX's service failures and their effects on the forest and paper products industry. For the remainder of my testimony, I will describe the specific types of CSX service problems experienced by AF&PA members.

The types of service problems experienced most commonly by AF&PA members fall into four separate categories:

1. Inadequate car supply
2. Delayed transit times
3. Reduced switching services
4. Lack of information and communications

Inadequate Car Supply

In the area of car supply, CSX's inability to provide the requisite number of cars ordered has been a severe problem for our members over the past several months. In the first eight months of 2017, one of our members has only once received all cars ordered from CSX. However, more concerning, is the dramatic decline in order fulfillment since April. Since then, the percentage of cars provided to this

member compared to those ordered has declined each month, from 95% in May to 63% in June, 53% in July, and only 44% in August.

This precipitous decline does not take into account those situations where CSX did deliver requested cars, but the cars were not provided on the requested day, which also has adverse effects on our members' planning and production. The car supply shortage has resulted in the following adverse effects at significant additional expense:

- For one company some traffic had to be moved to alternative transportation (mostly truck), at an additional cost of approximately \$150,000 per month.
- Additional warehousing costs have been incurred for use of external warehouses to store manufactured products until requested rail cars are provided.
- Production schedules have been altered at manufacturing facilities.
- One company decided to invest in more leased private cars, at an additional cost of \$400,000.
- Some companies have moved traffic to Norfolk Southern (NS) where possible, putting added pressure on the NS car supply.

Another AF&PA member has also provided me with specific details regarding its severe car supply problems. For this member company, CSX has provided only:

- 25% of requested cars to a facility in the Southeast over the past four months, and
- 67% of requested cars to a facility in the Mid-Atlantic region over the past four months.

This company is incurring increased costs of \$3200 per day to address CSX's failure to provide requested cars to these two facilities.

And yet another member company has complained about CSX's failure to provide the requested number of cars needed for their production. In fact, CSX has since placed caps on the total number of cars this company is permitted to order. Even

with these caps, during a recent nine-week period, CSX only provided 70% of the requested rail cars, resulting in disruptions to the company's production.

Based on the shortfall and delayed delivery of cars, this company has been forced to spend significant employee resources to track its car supply on a daily basis. This company has repeatedly attempted to reach CSX for assistance and potential resolution of the shortfalls with minimal results. Escalation of issues with senior CSX management has been required to avoid shutdown of manufacturing facilities due to a lack of car supply. Additional costs are being incurred to use emergency alternative transportation and address reduced car supply. Needless to say, CSX's poor service has interjected substantial costs and inefficiencies into this company's supply chain, and the railroad has been delinquent in efforts to address these problems.

Delayed Transit Time

Next, I would like to talk about transit time. AF&PA members have been suffering significant adverse effects from CSX's failure to provide timely rail service.

For one member delivery times on CSX are now about 10 to 20 days longer since the CSX operational changes were adopted, meaning that the required lead time for arranging transportation has effectively doubled. CSX implemented its operational changes without sufficient notice to this company, which made seeking alternative transportation and supply options all the more challenging in a "fire drill" scenario.

For another company CSX's service problems have resulted in several instances where critical raw materials were in short supply at manufacturing facilities, meaning that the company was required to use emergency truck shipments to keep the facilities operational. The total financial effect to this company from CSX's poor service was approximately \$1.2 million and growing as of the beginning of September.

Poor CSX rail service has had far-reaching effects on AF&PA members. For example, one company with a large facility in the Southeast that normally ships over 40 rail cars per day via CSX intermodal service to customers in the

Northeastern states. CSX's service has been so poor that this company has been shifting traffic from intermodal to pure truckloads, at an increased cost of \$9,000 per day.

CSX's service to the customers of our members has also been poor, forcing one customer that desires rail service to switch to truck deliveries. One AF&PA member was required to store product in an external warehouse, at additional expense, in order to be able to supply the product to its customer when needed. Use of intermodal shipments temporarily has ceased to some customers altogether due to CSX's poor service.

Other companies have experienced missed deliveries resulting in suboptimal product substitutions. Members have to expend significant human capital to track late cars and address these problems with CSX.

Reduced Switching Services

CSX's reduced or inconsistent switching services also are causing problems for our members.

CSX is responsible for internal switching at several facilities of one company, but the poor quality of such switching has led this company to begin taking steps to replace CSX switching with a third party, again forcing the company to endure inefficiencies, reduced productivity, and higher costs.

CSX's system-wide problems also affect rail operations at the facilities of our members. For example, congestion elsewhere on the CSX system in July caused CSX to leave loaded and released outbound cars at some facilities for a week or more.

Additionally, at one customer's facility, CSX's service problems have been addressed by providing replacement "special" switches on off-service days, causing additional switch charges for the member.

Lack of Information and Communications

Finally, AF&PA members have suffered from CSX's inability to provide accurate and timely information so that these members can track shipments and plan operations.

For instance, one member is very concerned about the reliability and accuracy of data available from CSX through the ShipCSX feature. ShipCSX is intended to allow shippers to "plan, ship, and trace shipments quickly and efficiently." However, this information has been incorrect at times. As an example, one mill recently had empty cars at the site according to ShipCSX, yet a time-intensive, one-by-one car review revealed that this was not the case. ShipCSX was incorrect.

Our members need to have confidence in the ShipCSX data to effectively manage their expansive networks of manufacturing sites. Member companies rely on this data daily to understand their rail pipelines and plan operations based on expected car arrival times. Without reliable data regarding car location and movement, transportation and logistics efficiencies are severely compromised.

We understand that our companies and CSX have expended significant effort to address immediate problems, which has led to some improvements. But we have not seen any demonstration of comprehensive and sustained improvement to get CSX service back to where it used to be and where it should be.

Conclusion

In conclusion, AF&PA and its member companies believe that the Board should continue its oversight over CSX's rail service and increase the reporting requirements imposed on CSX. Specifically, AF&PA requests that CSX be required to provide the Board with weekly data on the supply of cars provided to paper and forest products companies, including the total number of cars ordered versus the total number of cars supplied. The Board also should require CSX to report on the number of missed switches at paper and forest products facilities, and immediately improve its communications to companies that have service complaints, with a report to the Board that tracks its responses to complaints. As

part of the latter requirement, CSX should ensure its ShipCSX and other systems are accurate and up-to-date to help our members with planning their own operations and deliveries. The need for stronger oversight is clear given current circumstances, where self-imposed operational changes at a single railroad have caused harmful disruptions to forest products and paper companies, as well as many other companies, with operations in the Eastern and Midwest regions of the country. These disruptions, in turn, create adverse ripple effects throughout the entire U.S. economy.

I respectfully request that my statement be included in the Ex Parte 742 docket and we will submit a copy to the Board later today. Again, AF&PA greatly appreciates the efforts of the Board in holding this Listening Session on this critically important topic.

Thank you.

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