

SURFACE TRANSPORTATION BOARD

Docket No. EP 711 (Sub-No. 1)

RECIPROCAL SWITCHING

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Summary of Ex Parte Meeting Between Solvay America, Inc. and
Member Deb Miller

June 28, 2017, 11:00-11:45 AM

Solvay Attendees: Mike Lacey, President; Frank DeCastro, Purchasing Director, Domestic Transportation; Arienne Brint, VP, Government and Public Affairs; Jeff Moreno, Outside Transportation Counsel

STB Attendees: Deb Miller, Board Member; Brian O'Boyle, Attorney Advisor

The meeting began with introductions. Solvay distributed a PowerPoint presentation to guide the discussion. Solvay provided background on the company and its world-wide operations, with a particular focus on its North American business which is the largest country in the Solvay portfolio by net sales.

The focus of the discussion turned to Solvay's soda ash and derivatives business, which is heavily rail dependent. Solvay is one of four soda ash producers in Green River, WY, which has 80% of the world's known deposits. Most other producers in the world produce synthetic soda ash, which is more costly to produce. Green River produces as much soda ash as all of Europe. Soda ash has numerous applications in the industrial, construction, healthcare, agriculture and energy industries and is best known as a critical material for producing glass. Solvay's two largest customers produce cell phones and airplanes.

Solvay explained that it depends upon rail for more than 95% of its soda ash shipments from Green River due to the volume transported and distances traversed. Only one railroad serves the area. Solvay exports 50-60% of its soda ash production, most of which moves to Gulf and West Coast ports for export. Most of Solvay's domestic customers are located in the East and receive rail shipments in manifest service. That business soon will be under threat from new production in Turkey. Although Solvay has more efficient production, the cost of rail transportation to the east is about three times more than the shipping cost from Turkey, which will erode Solvay's ability to compete with imports from halfway around the world. Similarly, rail costs on export shipments erode Solvay's efficiency advantage that has enabled it to sell soda ash in China and Southeast Asia in competition with local synthetic production in those regions. Rail freight costs are about 32% of Solvay's net sales of soda ash and derivatives in North America. As the rail industry attempts to capture Solvay's efficiency gains for itself, it discourages new investments by Solvay and threatens the competitiveness of Solvay's existing business.

Solvay explained that rail transportation also is a problem for its domestic glass producing customers, many of which pay the rail freight costs for soda ash. Although they are producing

glass at capacity, they find it more economical to import glass from China rather than expand their domestic production due to the high freight cost for the soda ash that is essential to glass production.

Solvay acknowledged that it will not benefit from reciprocal switching at Green River where most of its rail traffic originates because there is not an alternate railroad nearby. Solvay, however, presented some examples of how it could benefit from competition created by switching near east coast customer destinations, in an effort to remain competitive with foreign imports. Solvay also presented an example where reciprocal switching could encourage the use of a more efficient competitor. Solvay observed that its rail freight costs at competitive locations are 30-50% lower than captive locations and railroads are more responsive to Solvay's business needs at competitive locations, whereas railroads don't need to pay attention to such needs at captive locations because the business is not at risk. In addition to the foregoing competitive benefits that reciprocal switching provides, Solvay also explained that reciprocal switching provides shippers with an alternative service provider when the incumbent carrier is experiencing service problems on its lines, such as derailments, weather, and congestion.

In response to a question why shippers don't seem to be as involved as railroads before Congress and/or the STB, Solvay noted that rail transportation is just one of many issues that shippers face and they may have higher priorities. In contrast, railroading is the number one priority of a railroad. Solvay also noted that many companies may continue to be concerned with railroad retaliation.

Solvay expressed frustration over the general lack of responsiveness from railroads due to a lack of competition. Solvay noted the need for railroads to engage with their customers and listen to them. Although Solvay would like to partner with its rail carriers to develop new business opportunities, there is a general lack of interest from railroads in most cases. In the few instances when a railroad has listened to Solvay, they have been able to find solutions to problems and mutually beneficial opportunities. Railroads should be asking their customers how the railroad can support their business and help them expand, instead of taking captive business for granted. Solvay believes that reciprocal switching will engender greater railroad responsiveness when they must compete for business.

Solvay concluded by expressing its overall support for the Board's proposed rules, but stressed the need to avoid a process that resembles the complexity, length and cost of rate cases. Solvay also stressed the importance of a reasonable switch fee that does not include lost profits for the incumbent railroad. Solvay reiterated the importance of rail competition for the domestic economy and global competitiveness of American industry. Finally, Solvay expressed its support for the rail industry because of its importance to U.S. industry, but the rail industry must be efficient for U.S. industry to be competitive in international markets and reduce the threat of imports to domestic markets. Solvay desires a strong, efficient, and healthy rail industry which is best attained through competition.



SOLVAY

asking more from chemistry®

SOLVAY GROUP

**Dedicated to building
a model of sustainable
chemistry**

June 2017

WE ARE A Multi-Specialty Chemical company



27,000
employees¹



58
countries¹



139
industrial
sites¹



21
major
R&I centers¹



0.77
occupational accidents at
Group sites per million
hours worked²



€ 10.9
billion of
net sales¹



€ 2,284
million of
EBITDA¹



5.86
greenhouse gas
intensity
kg CO₂ eq. per € EBITDA

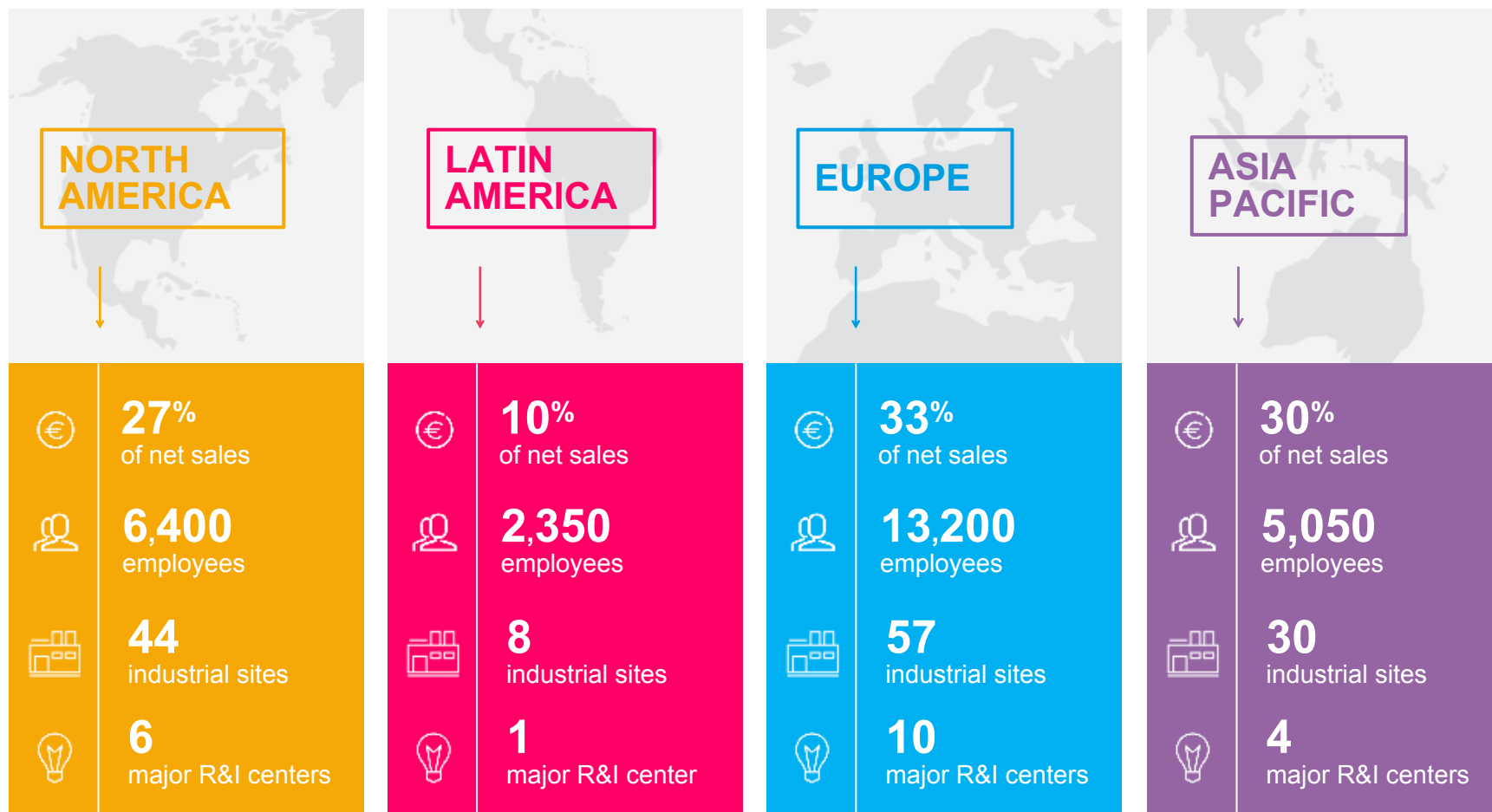


43%
sustainable
solutions
Group net sales

1. 2016 underlying
results

2. MTAR: Medical
Treatment Accident
Rate

A balanced presence in all growth regions



2016 underlying results

Our activities are structured along 3 megatrends



Evolving demography
and consumer behavior

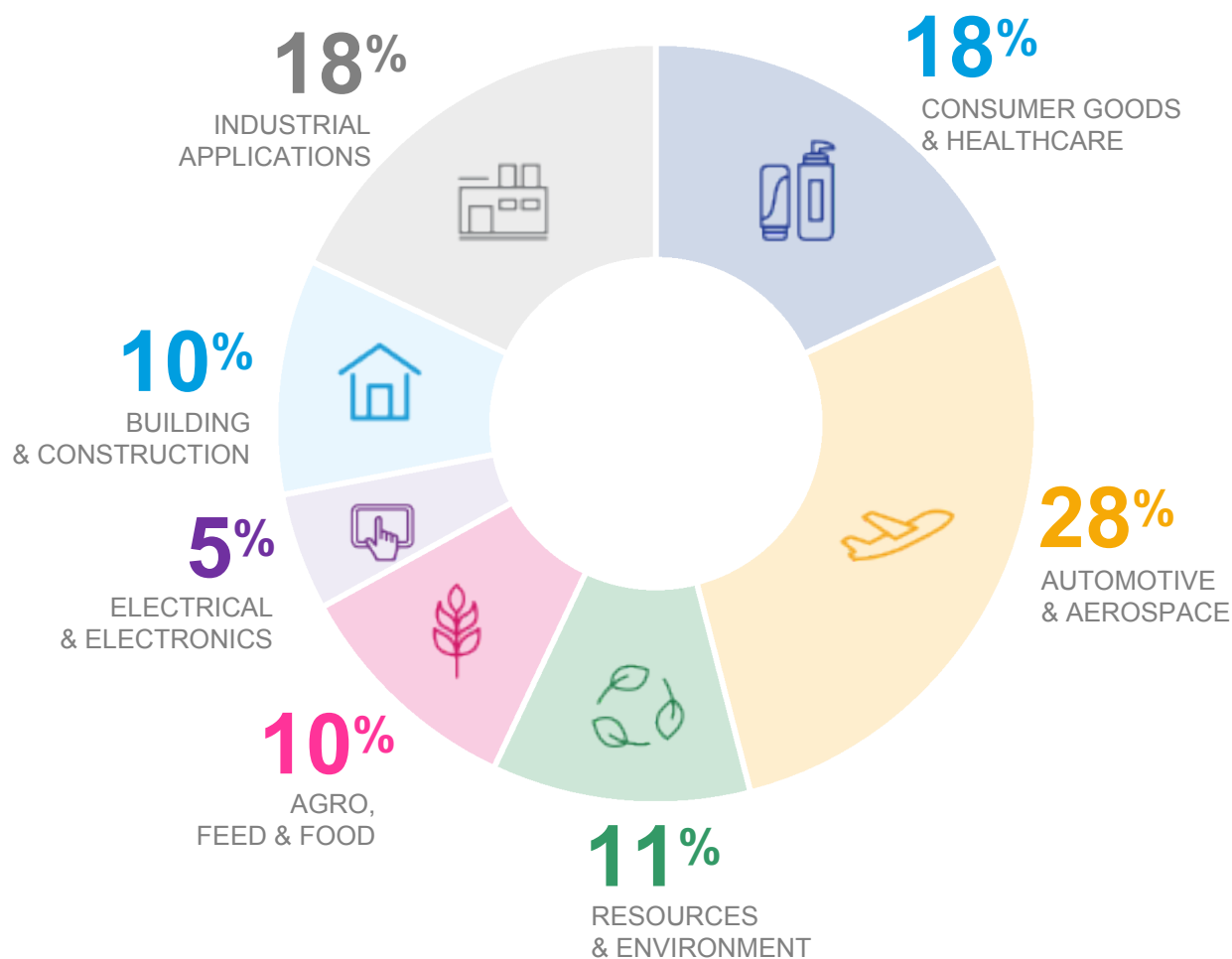


Innovation
acceleration



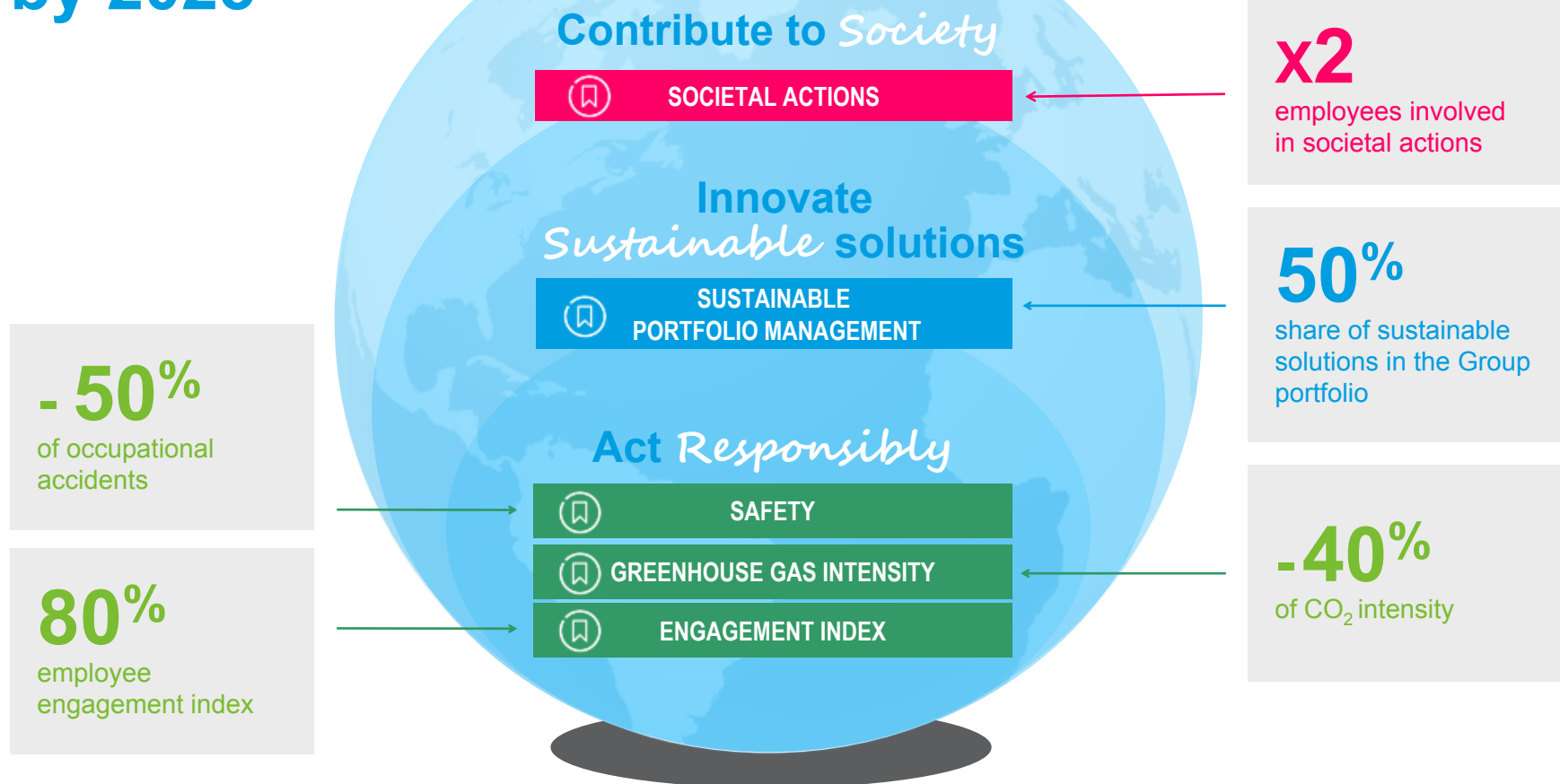
Resources constraints
and demand for sustainability

We adapt our product offering to fast-evolving markets



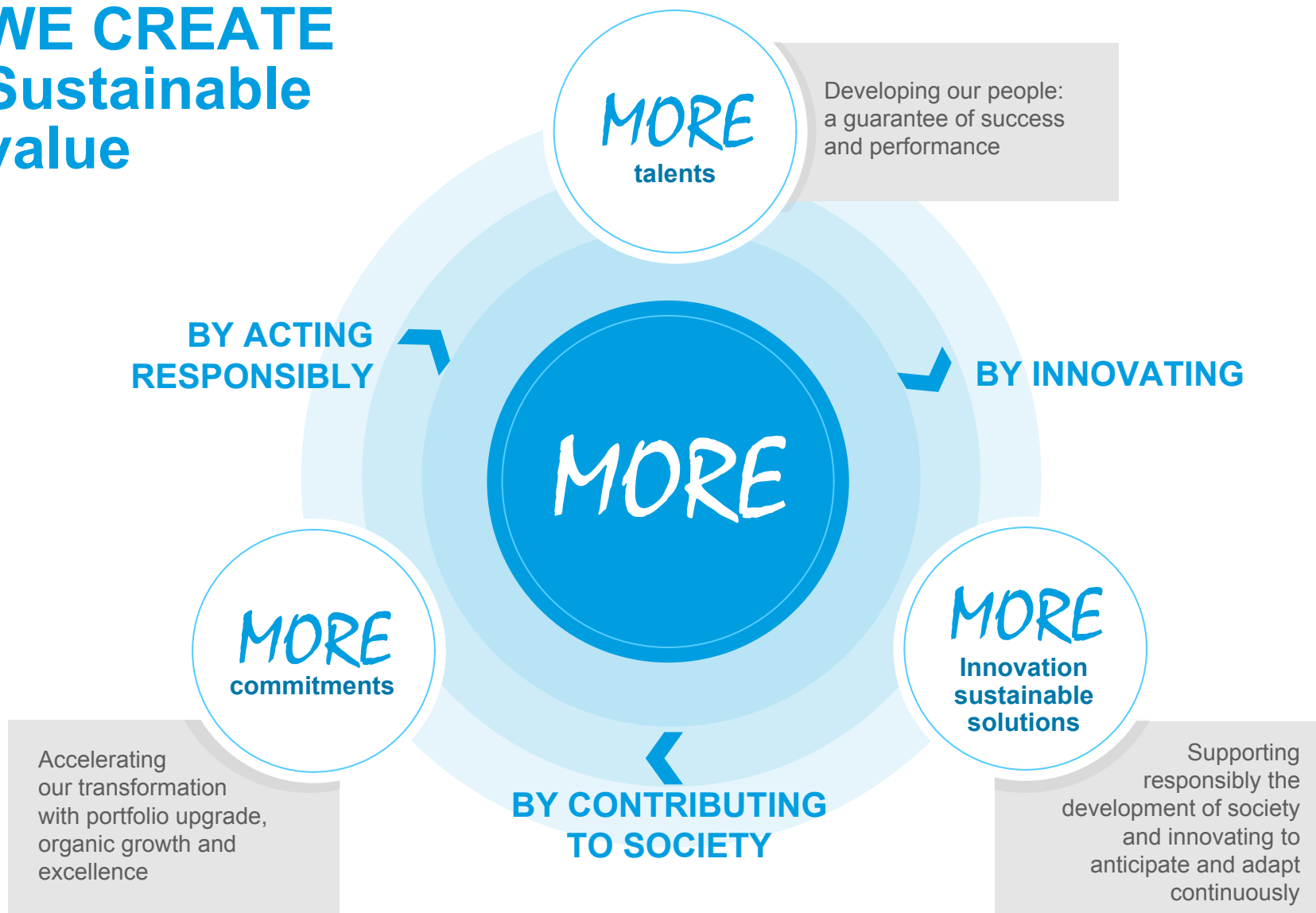
Distribution of net sales

Our five sustainable commitments by 2025



Baseline 2014

WE CREATE Sustainable value





SOLVAY

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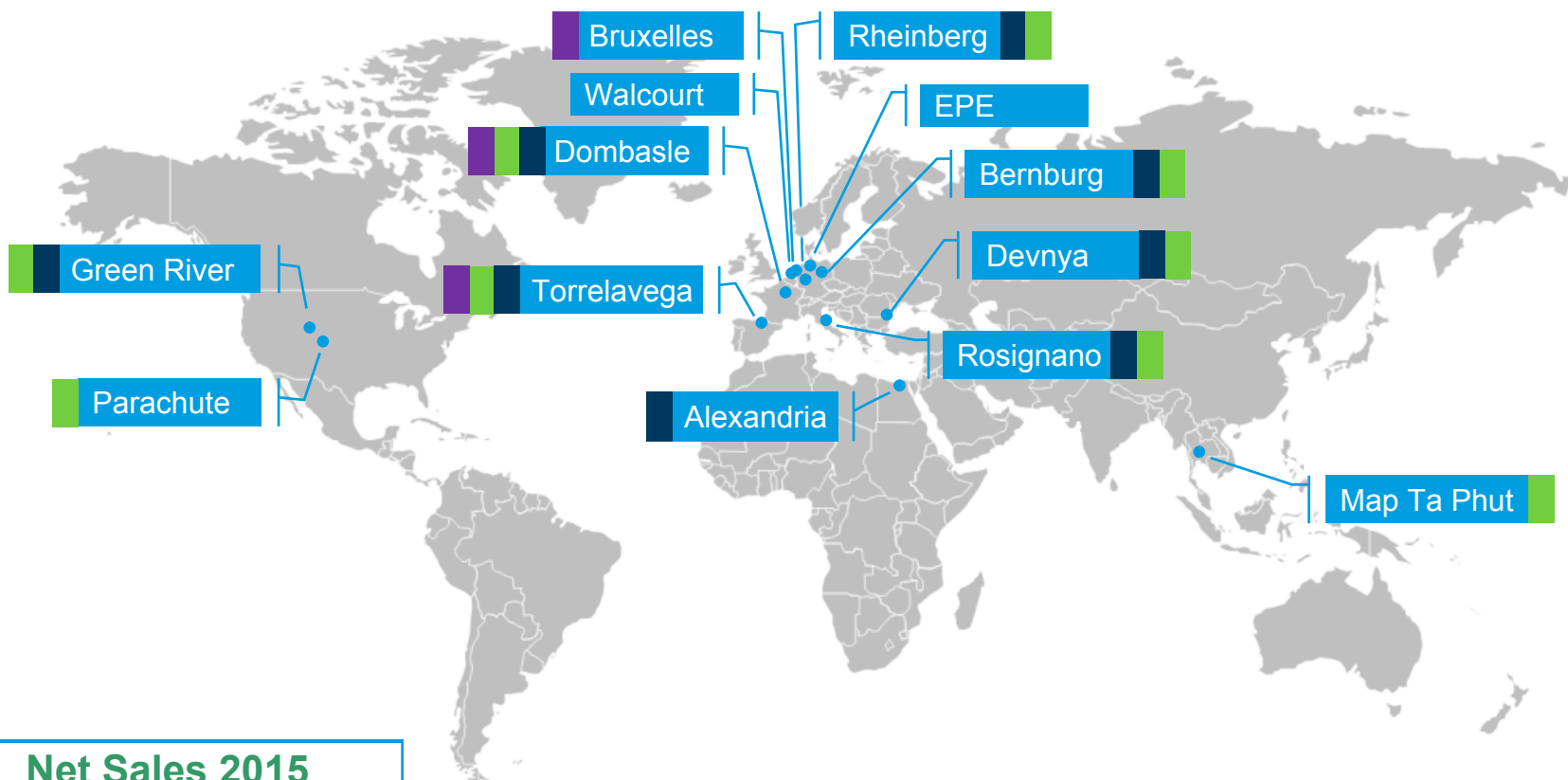
Soda Ash & Derivatives

A leading player and a very competitive supplier

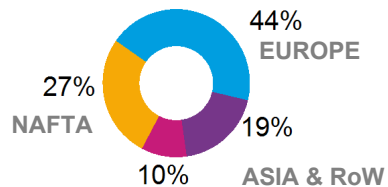
June 2017

Soda Ash & Derivatives

A global industrial network to better serve our customers



Net Sales 2015



€ 1.59 bn
Net sales 2015

3,550
employees

12 production sites
3 R&I centers

- Soda Ash production
- Bicarbonate production
- Research & Innovation center

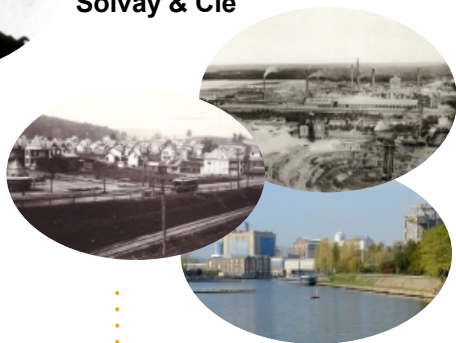
Soda Ash & Derivatives

150 years of innovation and many to come...



1863

**Creation of
Solvay & Cie**



1865-1916

1st Phase - Rapid expansion in Europe and USA by building factories

-Dombasle (1874), Berezniki & Donetz (1882), Syracuse (1884), Detroit (1897), Torrelavega (1908), Rosignano (1912)
-1916 – more than 20 Solvay soda ash production sites in Europe & USA



1958

**3rd phase –
Consolidation**



2015

**5th phase -
Expansion in Asia**
-2015: Map Ta Phut
(Thailand)



1864

**1st Solvay Soda
Ash factory
(Couillet – Belgium)**



1917-1946

**2nd phase - downturn
due to wars**

1917 – seizure of the
Russian sites
1946 – Yalta – Seizure of 7
sites (E-Eu)



1995

**4th phase - Expansion through
sites expansions and acquisitions**

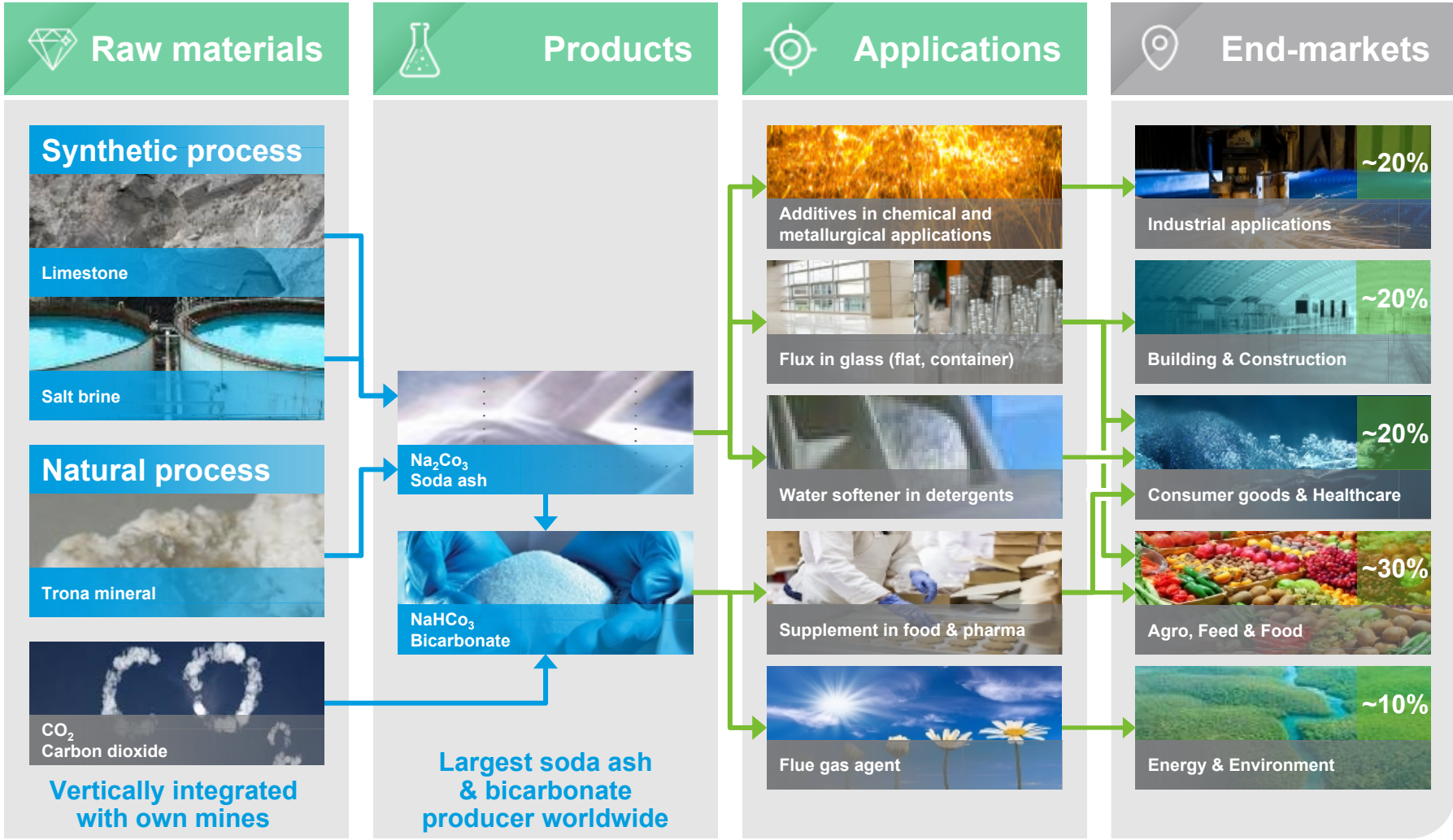
-1995: Acquisition of Green River (USA)
-1997: Acquisition of Sodi (Bulgaria)
-2003: Acquisition of American Soda (USA)

Soda Ash & Derivatives

A large scope of applications serving our customers

Solvay products

approximate main end-market exposures





SOLVAY

asking more from chemistry®

Solvay Rail

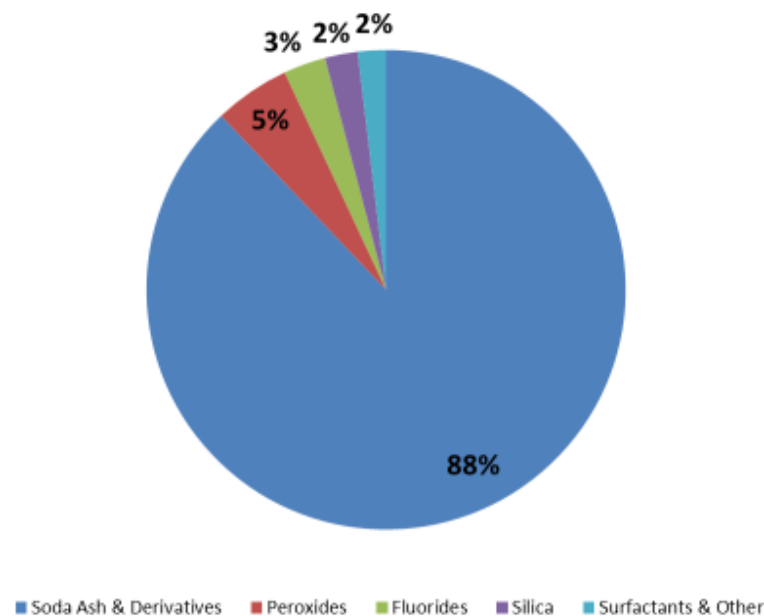
A Critical Component to our Global Supply Chain



Rail Service is a Critical Component of Solvay's Supply Chain

- Solvay ships by rail sodium products, peroxides, fluorides, surfactants and other very important chemicals.
- Solvay handles about 34,600 rail shipments annually moving approximately 3.6 million tons at a cost of around \$175 million with a fleet of 3,700 railcars.
- 88% of the total Solvay rail volume corresponds to Soda Ash & Derivatives products.
- For Soda Ash & Derivatives in North America, rail freight cost is about 32% of its net sales.

Rail Volume by Product



Rail Service is a Critical Component of Solvay's Global Supply Chain

- Solvay ships on 344 different rail routes (origin-destination pairs) across North America, of which 245 lanes (71%) are captive to a single railroad, either at origin, destination, or both.
- Solvay is captive to a single railroad at its major shipping location, Green River, WY., from where soda ash is shipped domestically and worldwide.
- Solvay relies heavily on rail transportation due to the high volumes shipped and long distances covered to serve its customers domestically and all over the World.
- For the export of soda ash, Solvay moves unit trains to export terminals in the Gulf and Pacific Northwest coasts.



Benefits of Rail Competition

- Solvay has two shipping locations that benefit from rail competition, which has contributed to improved service and reduced rail freight costs by 30% to 50% in average.
- Solvay believes that competition in rail service will make the railroads creative, innovative and customer focused.
- Rail competition will promote new export business opportunities by introducing competitive logistic costs and better service.
- Lack of rail competition will have a negative effect on business for all parties involved, including the railroads.
- In summary, at those shipping locations that enjoy competition, Solvay experiences better service at competitive costs, which helps in the development of new business opportunities, benefiting all parties involved in the supply chain.

Green River Site in Wyoming



Parachute Site in Colorado



Deer Park Site in Texas

Reciprocal Switching Opportunities

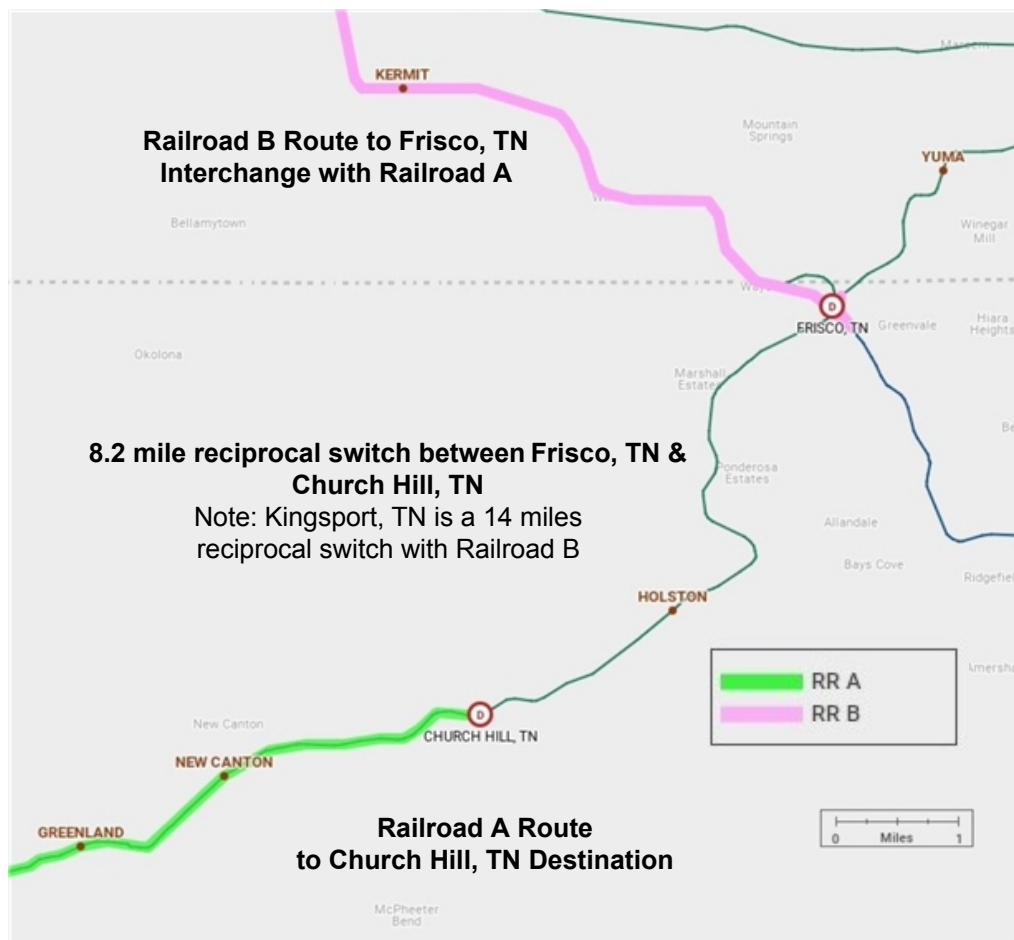
- The following are examples of locations where Solvay and its customers could potentially benefit from reciprocal switching:
 - ✓ Church Hill, TN (soda ash, destination)
 - ✓ Westover, GA (soda ash, destination)
 - ✓ Bayport, TX (surfactants, origin)
- In addition, Solvay has about 40 other routes where reciprocal switching could potentially improve cost and service.
- Reciprocal switching will introduce “some” competition in the rail industry which may potentially open more opportunities to develop new business growth and/or promote production expansions in the US.

Soda Ash Export Terminal in Galveston, TX



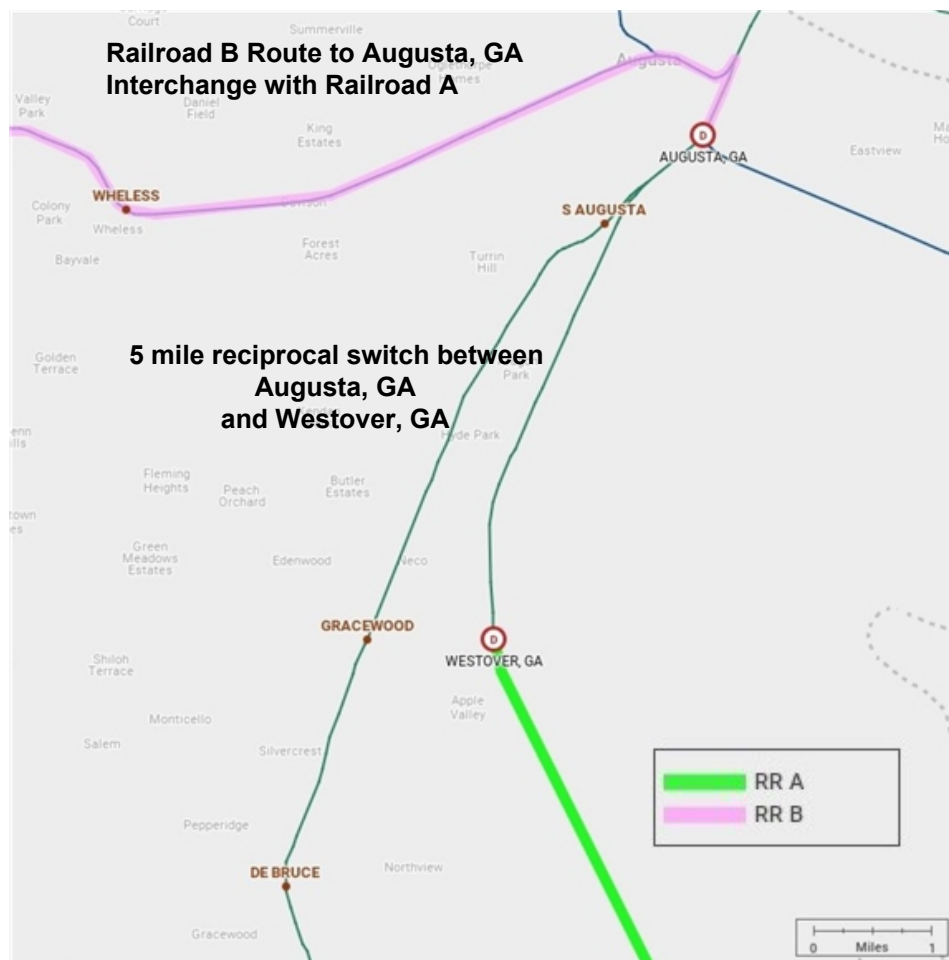
Case 1: Reciprocal Switching at Church Hill, TN

- Solvay currently ships soda ash to a customer located in Church Hill, TN.
- Solvay's customer is captive on railroad A (green).
- An interchange station is located 8 miles away in Frisco, TN, where railroad B (red) can switch with railroad A (green).
- Solvay ships approximately 660 carloads a year to this location.
- Solvay estimates savings of about ~48% based on current rail rate if reciprocal switching existed at Frisco.



Case 2: Reciprocal Switching at Westover, GA

- Solvay currently ships soda ash to a customer located in Westover, GA
- Solvay's customer is captive on railroad A (green)
- An interchange station is located 5 miles away in Augusta, GA, where railroad B (red) can switch with railroad A (green)
- Solvay ships approximately 232 carloads a year to this location
- Solvay estimates savings of about ~52% based on current rail rate if reciprocal switching existed in Augusta.

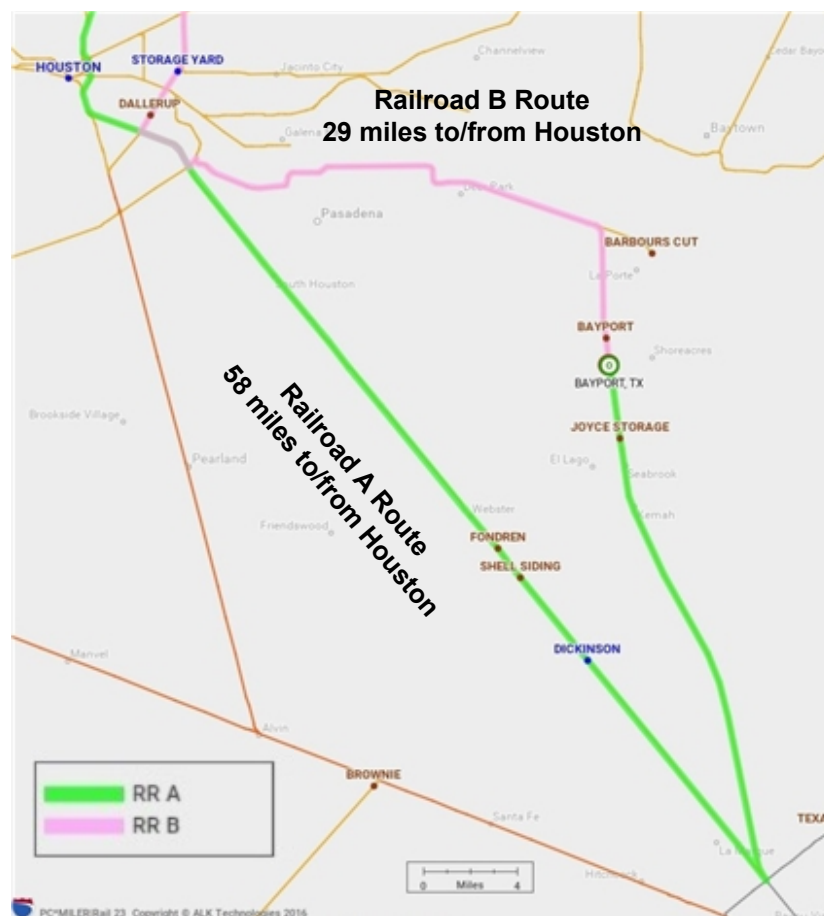


Case 3: Reciprocal Switching and Operational Efficiency at Bayport, TX

- Solvay has a plant in Bayport, TX that ships surfactants, among other chemicals, to several customers in the US.
- The area of Bayport, TX is served by both railroads A and B, but railroad B is not allowed access to the Solvay site at Bayport.
- Railroad A limitation increases transit times to/from Bayport, TX.
- Railroad B provides lower cost of service into/out of Bayport and is trying to gain access to Solvay.



Bayport Site in Texas



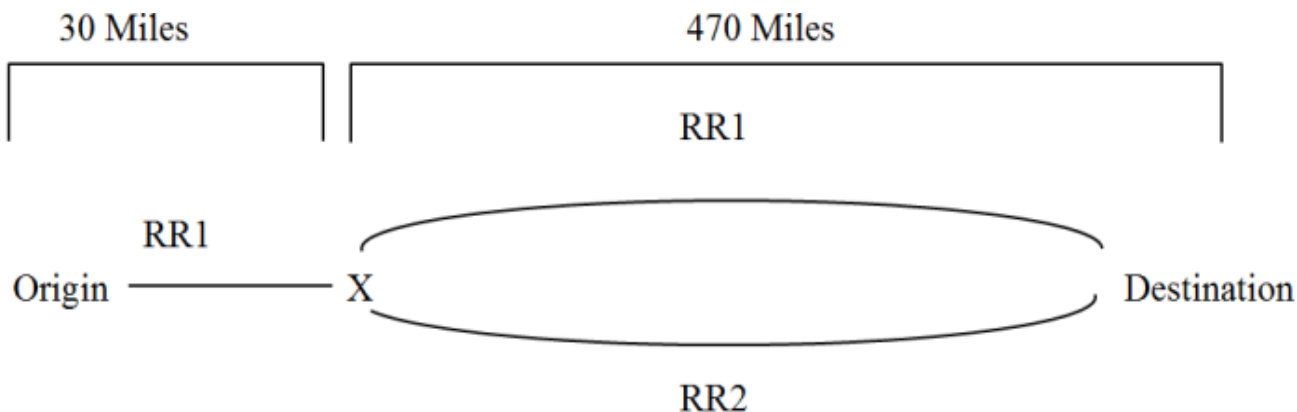
STB's Reciprocal Switching Proposal

- Solvay strongly supports STB's reciprocal switching proposal.
- The STB's reciprocal switching proposal has the potential to promote competition for captive shippers, driving improved performance for all parties involved, including the railroads.
- Reciprocal switching is working well in Canada, where it is automatically available to any shipper within a specified distance of an interchange. In fact, there are initiatives to increase this distance even further, a testament that this program works well with the right set of rules and mindset.
- Reciprocal switching has the potential to create operational efficiencies through competition by reducing shipment lengths and transit times, with net benefits to all parties.



Reciprocal Switching is Deregulatory

- Captive rail segments, even very short ones, allow a railroad its long-haul, despite the presence of a competitive railroad over most of that distance.
 - ✓ Shippers currently must invoke STB regulatory remedies for the entire distance.
 - ✓ Reciprocal switching reduces dependence upon STB regulation to just the bottleneck segment.
 - ✓ Reciprocal switching reduces cost and complexity of invoking regulatory remedies.



Railroads Overstate Operational Impacts

- Railroads forecast operational problems based upon hypothetical worst case scenarios.
 - ✓ STB's case-by-case approach can address such scenarios if and when they arise.
 - ✓ Railroads ignore reciprocal switching scenarios that do not increase interchanges.
 - ✓ Railroads understate their ability to adjust operations to fit changing traffic patterns.
- Solvay has no incentive to use reciprocal switching when it will be less efficient.
 - ✓ The incumbent railroad's efficiency loss is the alternate railroad's efficiency gain.
 - ✓ The railroad with the most to gain will win the traffic in a competitive setting.
- Solvay will continue to commit switched traffic through contracts that provide both it and railroads with predictable and stable volumes.
 - ✓ Solvay will treat switched traffic the same as it does other competitive traffic.

Reciprocal Switching Must Be Accessible

- Solvay supports the procedural proposals of the Shipper Coalition.
 - ✓ Do not permit reciprocal switching to take on the complexity, length or cost of rate cases.
 - ✓ Establish a process with clear standards and a fixed timeline.
- STB must ensure a reasonable access fee.
 - ✓ If access fee includes lost profits, reciprocal switching will be meaningless.
 - ✓ Shippers need the ability to challenge access fee even if railroads agree, because competition in a duopoly market is not assured even with reciprocal switching.

Conclusion

- The rail industry is critically important to shippers, and to the US economy, and should enhance business growth rather than becoming a road block.
- Rail shippers and the railroad industry in general will benefit from the efficiencies that reciprocal switching will bring.
- Rail service and cost will dictate where reciprocal switching is used.
- Reciprocal switching may stimulate shippers to invest more in production assets and expansions in the US, which will have a net benefit to all parties.
- Reciprocal switching reduces uncertainty in the rail service and cost, which helps build confidence in current and future business development.
- Reciprocal switching will help make the US more competitive in external markets and will reduce the potential of threats from imports.
- Reciprocal switching is proven to work, as is the case in Canada.
- Must look at reciprocal switching as a net gain for all and not as a gain/loss for an individual party.

Solvay fully supports STB's Reciprocal Switching Proposal

Thank You!

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