

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 7, 2019 between
the Domtar Corporation, American Forest & Paper Association
and Chairman Begeman

Domtar Corporation (“Domtar”) and American Forest & Paper Association (“AF&PA”)
Attendees:

- Thomas Howard, Vice President – Government Relations, Domtar
- Julie Landry, Director – Government Affairs, AF&PA 248028
- Karyn Booth, Thompson Hine LLP
- Kerem Bilge, Thompson Hine LLP

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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 Domtar thanked the STB Attendees for the opportunity to meet and discuss the Board’s proposed rule and the issues in this proceeding.

Domtar explained the historical background of the company. Domtar is the largest integrated manufacturer of uncoated freesheet paper in North America, and one of the largest manufacturers of pulp in the world. Domtar entered the U.S. market when it made its first large acquisition in 2001 by purchasing four paper mills in the United States. Currently, Domtar has 13 pulp and paper mills, 9 in the United States and 4 in Canada. Domtar explained its manufacturing operations and product lines, including paper and pulp operations. Domtar uses multiple Class I railroads.

Chairman Begeman asked why Domtar sells pulp overseas, instead of selling the final product. Domtar explained that it captures the majority of the value by selling pulp primarily to Asian countries. Chairman Begeman asked which ports Domtar utilizes to ship pulp products overseas. Domtar explained that it ships products from Long Beach, CA, Savannah, GA, Charleston, SC and Houston, TX.

Domtar also explained that its fluff pulp is required to be moved with clean box cars, since they are used in personal care products, and railroad supplied box cars are not always clean. Domtar explained that they reject box cars that are not clean for their standards, and as a result it causes significant delays (i.e., 5-7 days) before the replacement car is delivered. Domtar also explained that any damage to these products during transportation may cause temporary shutdowns in their manufacturing process.

Domtar stated that the transportation mode it chooses is often dictated by its customers. A number of its customers' facilities are designed to receive products by rail, and they would change suppliers if Domtar were to send these products by truck. This is particularly the case for shipments of large paper rolls and plank siding.

Domtar explained that certain of its paper products are manufactured in large rolls that can weigh up to 17 tons, and these products are sent to converting facilities to be cut into smaller pieces. The shipment between mills and converting facilities is by rail in 50-foot box cars. Due to the weight of the rolls it is impossible to move them by truck. Domtar stated that they need rail transport and 50-foot box cars. Domtar also explained that its facilities are designed to utilize 50-foot box cars based on siding and dock doors. The railroads' shift to 60-foot box cars creates significant challenges and lost efficiencies in loading.

AF&PA explained that from the association's perspective, their members have unique problems, depending on their business model and location of their customers, and these issues determine how they utilize the rail services. AF&PA also explained that service issues, demurrage, and rates are the main challenges their customers are facing.

Chairman Begeman asked how the demurrage bills changed recently. Domtar explained that bunching causes them to be assessed increasing demurrage bills. Bunched deliveries lead to too many cars on-site and result in demurrage assessed by the second railroad in a multi-railroad route. Domtar also explained that upstream bunching also creates significant challenges, and they have no recourse. Domtar explained that they work hard to manage the order of cars, however they cannot avoid the demurrage bills when they face with bunched deliveries. Domtar also explained that the implementation of PSR has been painful for them, however they have started seeing some improvements recently. Domtar stated that although PSR is a good concept for high volume shippers, it does not work well for them due to smaller volumes.

Domtar explained that its supply chain is more unique based on its ability to use barge for a small percentage of its inbound shipments and that it also uses truck for inbound materials in part due to de-marketing, especially for inbound wood chips. Domtar explained that it traditionally depended on rail to move raw materials inbound. However, inbound movements have largely been de-marketed due to increasing rail rates. Domtar explained that it has lost the ability to competitively move by rail in certain lanes, and that is the reason they have shifted certain movements to barge or truck.

Domtar stated that it will use barge to the extent that both the origin and destination have access to water which can be a limiting factor. Domtar explained that it invested \$15 million in a 1-mile conveyor belt system from the barge dock to its facility for inbound materials and eliminated 10,000 truck movements as a result, but this requires a facility to be located on the water.

Chairman Begeman asked how Domtar would benefit if the exemption was revoked. Domtar stated that having STB oversight of rail shipments would help with commercial contract negotiations and access to STB remedies could be used as a last resort for disputes.

Thompson Hine explained that since the ICC granted the exemptions in 1995, the railroad industry has undergone significant changes, including substantial consolidation and the carriers have become highly profitable and most of the major carriers are revenue adequate. Furthermore, it was explained that the ICC Termination Act of 1995 ("ICCTA") eliminated the benefits to ISRI members gained from the exemption since Congress eliminated tariff filing, contract summary filing and other pricing restrictions for all rail movements. It was asserted that the totality of the circumstances and evidence in the record justify revocation of the exemption.

Domtar explained that it still has personnel that were familiar with the time the exemption was granted, and they stated that it took 10 days to two weeks for the railroads to get back with a rate quote before the exemption.

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