

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 Vice-Chairman Fuchs

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
- 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 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.

Domtar explained that its use of rail typically depends on its customers’ demands and that its customers whose facilities are configured for rail would change suppliers if they do not receive the products by rail. Many of Domtar’s customer facilities are set up for 50 foot box cars, and the railroads’ shift to 60 foot cars creates significant inefficiencies. Domtar explained that it ships paper products that are manufactured in large rolls that can weigh up to 17 tons, and these products are shipped most efficiently by rail in 50 foot box cars. Due to the weight of the rolls it is impossible to move them by truck.

Domtar explained that the paper rolls are then converted to a final product of white paper that is found in large office stores. The outbound movement of the finished office paper is by truck.

Vice-Chairman Fuchs asked about Domtar’s customers’ response if Domtar shifted completely away from rail. Domtar explained that it would likely lose any such customer since the capital

expenditures needed to reconfigure the customers' facilities, which are designed to receive rail shipments, would not be economical.

Regarding its pulp operations, Domtar explained that it has pulp and personal care product lines and has recently repurposed two paper mills into market pulp and fluff pulp manufacturing facilities. Domtar explained that both market pulp and fluff pulp are intermediary products. Market pulp is shipped in bales that move by rail to seaports and is often exported overseas in containers, primarily to Asia. Fluff pulp can be shipped by rail in rolls and is used in the manufacture of personal care products.

Domtar explained that it has experienced significant de-marketing of certain lanes that historically moved by rail due to increasing rail rates. AF&PA explained that its industry faces specific challenges with de-marketing because certain paper and forest products movements do not fit into the PSR model. Also, because the industry is exempt from STB oversight, it is easy for the railroads to engage in de-marketing. AF&PA also explained that although short-line railroads may be willing to provide service for de-marketed lanes, there is no incentive for Class I railroads to facilitate competitive service provided by the short-lines.

Domtar explained that its supply chain is 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 if the service and rates were better, they would shift up to 10-20% of inbound traffic to rail.

Vice-Chairman Fuchs inquired about Domtar's use of 50 foot box cars. Domtar explained that both Domtar and customer facilities are set up for 50 foot cars, and the railroads' shift to 60 foot cars impedes efficiencies in loading, unloading and productivity. Domtar reiterated their need to utilize 50 foot cars for large paper rolls, and their need for rail transport for this product line which cannot move by truck.

Domtar also explained that fluff pulp products have unique characteristics and can be susceptible to contamination because they are personal care products. Therefore, Domtar cannot utilize railroad supplied cars that are not clean or in poor condition, and often must reject dirty cars, resulting in delays. Domtar also explained that any damage to the product during transportation may result in temporary but significant delays in the manufacturing process causing lost productivity.

Vice-Chairman Fuchs inquired about recent railroad practices and service. Domtar explained that they have experienced issues with bunching of cars which can lead to too many cars on-site resulting in demurrage. Domtar stated that it is especially troublesome when bunching occurs on the originating railroad for which they have no recourse.

Vice-Chairman Fuchs asked the extent to which Domtar has experienced any missed switches. Domtar stated that they have experienced significant issues with a major class-I railroad at the early stages of PSR implementation.

Thompson Hine stated that it is hard to formulate a hard and fast rule to define the need for regulatory oversight based on a certain percentage of products (e.g., greater than 50%) that

moves by rail, because it would not capture certain shipments that are absolutely dependent on rail due to the design of facilities or the nature and size of the product.

Vice-Chairman Fuchs asked Domtar's perspective on the largest benefits of a revocation of exemption. Domtar stated that it would likely improve its negotiations with the railroads and it would like to have the opportunity to use STB remedies as a last resort if necessary to resolve a dispute.

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