

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 11, 2019 between
the International Paper Company, American Forest and Paper Association
and Member Oberman

International Paper Company (“IP”) and American Forest and Paper Association (“AF&PA”) Attendees:

- Linda Bramblett, Director-North American Transportation, IP
- Julie Alsup, Manager of Government Affairs, IP
- Jeanne Sebring, Strategy Consulting Resource, and Retired Director of North American Transportation, IP
- Julie Landry, American Forest & Paper Association
- Karyn Booth, Thompson Hine LLP
- Kerem Bilge, Thompson Hine LLP

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STB Attendees:

- Member Martin J. Oberman (by phone)
- Katherine C. Bourdon, Attorney Advisor

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Meeting Summary:

The meeting began with introductions, and IP thanked the STB Attendees for the opportunity to meet and discuss the Board’s proposed rule and the issues in this proceeding.

IP explained that its business is highly integrated and it is highly dependent on rail for the movement of paper products from their mills to converting facilities and box plants. IP stated that in excess of 60% of all mill production is transported by rail; however in IP’s mainstay Industrial Packaging business (*i.e.*, “brown paper” business), closer to two-thirds of mill production moves by rail. IP explained that it does not have any alternative to rail for the transportation of these products due to their size (*e.g.*, paper rolls can be as large as 110 to 130 inches) and the design of their facilities which are configured mainly for rail shipments. IP explained that trucks are primarily used for the outbound shipments of finished paper products from box plants to end-customers.

IP explained that car supply is essential for rail movements between mills and box plants because the mills have a 24/7/365 operating schedule (except for planned maintenance outages and extreme events such as a weather disaster) and the products need to flow to the box plants daily due to safety limits for warehouse storage at their facilities. IP has 96 box plants that receive more than 50% of their volume by rail; many of these same box plants have as little as 1 truck receiving dock. A vast majority of IP’s 137 rail-served box plants are served by a single carrier. IP also explained that approximately 80% of its rail traffic is captive at the origin or destination or both.

Member Oberman asked what factors determine an outbound truck movement from a paper mill to a box plant. IP responded that proximity of a box plant to a mill, the receiving plant's infrastructure, and the need to expedite a shipment are relevant considerations.

Member Oberman asked whether any of the outbound shipments from the box plants are made by rail. IP explained that those movements are predominantly by truck, and rare cases like the specialty wallboard product, are conducive to rail due to its weight and distance.

Member Oberman asked which railroads IP is serviced by. IP explained that they deal with all Class-I railroads and many short-line railroads.

Member Oberman asked whether IP experienced any issues with de-marketing. IP explained that the railroads have de-marketed certain lanes they have historically used to move wood chips to supply raw materials for their mills.

IP explained that it has significant concerns with rail rates and service. In 2018, a Class-I railroad who was having major service problems imposed substantial rate increases above 7%. In 2019, the same railroad is looking to increase its rates again by more than 9%. Negotiations are on-going, but the railroad thus far has been willing to negotiate only a single lane out of hundreds of O-D pairs. IP also stated that car supply is another problem, as one Class-I railroad's car supply dropped from 95% to 60% during the implementation of PSR. IP also explained that they are dependent on 50-foot cars due to their rail infrastructure and product dimensions, and the railroads' shift to 60-foot cars is creating inefficiencies for their operations.

IP explained that they have tried to resolve some of their issues with a class-I railroad through Rail Customer and Public Assistance, however the Class-I railroad was not receptive to their concerns.

IP explained that they need STB oversight and an avenue for recourse against the railroads for unreasonable rates, practices and service problems. IP stated that revoking the exemption will be an important motivator for rail carriers and IP to resolve these critical issues when rail carriers are being unreasonable. IP also explained that there has been significant changes in the industry since the grant of the exemption as the railroads have undergone significant consolidations, increasing their market power.

Thompson Hine stated that in balancing the competing policy interests, the Board should provide less weight to revenue adequacy than was afforded in the past, as it is clear that railroads are far more profitable compared to when the exemption was granted and most Class I railroads have been determined by the Board to be revenue adequate.

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