

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
Acting Chairman Ann D. Begeman

June 28, 2017, 10:15-11:00 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: Ann Begeman, Acting Chairman; James B. Boles, Chief Legal and Policy Advisor; Amanda Gorski, Attorney-Advisor; Onika Williams, 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 has grown from 10% to 30% of global net sales over the last decade and which is a net exporter. North America is the fastest growing region for Solvay and exports are the largest contributor to profitability.

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. In fact, the last synthetic producers in the U.S. went out of business 30 years ago because they could not compete against natural soda ash from Green River. That competitive landscape is changing as recent rail rate increases are now making imported soda ash competitive with Green River production. 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 rail service is holding back expansion at its captive locations. While Solvay can survive in the current rail environment, it cannot expand because the rail industry attempts to capture Solvay's efficiency advantages for itself through very substantial rate increases. Solvay depends upon rail for more than 95% of its soda ash shipments from Green River which accounts for 88% of Solvay's North American rail shipments. The balance covers outbound shipments of other commodities at Solvay locations across the United States. Solvay is captive to a single railroad at its Green River site. Solvay exports 50-60% of its soda ash production, most of which moves by unit train 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 synthetic production in those regions. Rail freight costs are about 32% of Solvay's net sales of soda ash and derivatives in North America.

Solvay identified two locations where it receives competitive rail service. Although these locations do not ship large volumes by rail, their rail freight costs are 30-50% lower than captive locations. In addition, the Acting Chairman asked about the quality of Solvay's rail service. Solvay responded by describing the general unresponsiveness of its rail providers and lack of communication, which has been a negative for Solvay's business. For example, railroads cannot accurately track the location of rail cars and frequently engage in "bunching." They have been unresponsive to complaints and dictate rather than negotiate. When Solvay attempts to educate its rail carriers as to the soda ash industry and the global competitive threat, it is more often met with skepticism. There is an unwillingness to partner to develop business to the benefit of both Solvay and the rail carriers.

Solvay acknowledged that reciprocal switching will not benefit it 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 explained that reciprocal switching is a tool both to obtain competitive rates and service and to provide options in response to service emergencies or deficiencies. Solvay might contract with both railroads in a reciprocal switching situation and tender traffic based upon volume commitments and the ultimate destination.

The Acting Chairman noted that reciprocal switching is not an immediately available solution and asked what could be done now to assist Solvay. Solvay noted the need for rail carriers to engage with their customers and listen to them. There needs to be more communication and partnering. Railroads should be asking their customers how the railroad can support their business and help them expand, instead of taking captive business for granted. Railroad should treat shippers like customers.

Solvay concluded by reiterating the importance of rail competition for the domestic economy and global competitiveness of American industry. 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.