

STEEL MANUFACTURERS ASSOCIATION

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The Honorable W. Douglas Buttrey
Surface Transportation Board
1925 K Street, N.W.
Washington, DC 20423-0001

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Dear Mr. Chairman:

In recent years, rapidly escalating fuel prices have had a substantial impact on all of those who are dependent upon petroleum fuel. I am writing to you on behalf of the Steel Manufacturers Association (SMA)¹, whose membership accounts for over 70 percent of the steel produced in the United States. Steel makers rely heavily upon efficient transportation, both for the incoming supply of raw materials and the outbound shipment of finished product. SMA members fully understand the financial challenges faced by rail carriers as a result of the extensive increases in fuel prices due to forces beyond their control, and are willing to compensate rail carriers for these unanticipated costs. SMA supports the application of the STB-approved Rail Cost Adjustment Factor (RCAF) index as a means for measuring and recovering inflation in railroad inputs, including the cost of fuel. The application of fuel surcharges can also be considered an acceptable method of recovery, but only when surcharges issued to carriers are in concordance with actual costs incurred on a per-shipment basis. Surcharges should be used only to recover expenses, not as a mechanism to generate revenue. If surcharges are to be utilized, the SMA supports an alternative in the methodology employed to calculate rates, in order to ensure both that rail carriers are compensated for losses incurred, and that shippers are not subjected to surcharges that unjustifiably exceed actual costs.

As calculated by the Association of American Railroads (AAR) on a quarterly basis, fuel costs currently represent 12.1 percent of the content of the Rail Cost Adjustment Factor index; yet Class one railroads are currently charging their customers

¹ The SMA is the primary trade association for EAF steel makers, often referred to as "minimills". The SMA is the largest steel industry trade association in North America, whose members account for over 70 percent of total U.S. steel production. In addition, the SMA member companies are the nation's largest recyclers, having recycled more than 50 million tons of steel scrap last year that would otherwise have been deposited in landfills, or littered the countryside.

between 16 and 18 percent. If all of the Class ones were to shift to the STB-approved RCAF index value in lieu of fuel surcharges, then recovery would be reflective of actual fuel costs.

The application of rate-based surcharges places an additional burden on those commodity groups who are already paying the highest freight rates. In carrying the same size load between points A and B, fuel costs incurred by a carrier are identical; how then is it equitable that one shipper can be subjected to significantly higher fuel surcharges? If fuel surcharges are to be utilized to recover assets, they should be applied fairly and evenly to all shippers. Differential pricing puts some rail customers at a tremendous competitive disadvantage.

In addition to the rising cost of petroleum fuel, strained capacity on the rails has led to substantial increases in overall rail rates for shippers. These capacity constraints are not purely the result of demand and free market conditions; rather, railroads manipulate the marketplace through induced capacity reductions, and then command "market compelled rates" from their customers. When the U.S. Congress altered the fundamental rules of competition, they took from many shippers the ability to even negotiate their own rates, thus allowing these contrived market conditions. Under a rate-based methodology, shippers are double penalized for escalating rates, in that the surcharge is also applied to items of overhead and to mark-ups, completely unrelated to the increasing fuel prices. The SMA supports the movement to a cost-based rail fuel surcharge methodology, under which surcharges per carload would be calculated each month based upon a diesel fuel price index, coming from data provided by the Energy Information Administration of the U.S. Department of Energy. Surcharges would be based upon the total number of car-miles traveled, rather than as a flat percentage on top of overall freight rates. These calculations would much more accurately reflect the per-car charges incurred by carriers as a result of increasing fuel prices, and monthly adjustments would allow carriers to equitably distribute the charges to their customers.

Some rail customers should not be left subsidizing the fuel costs of those who are not currently subjected to fuel surcharges. Charges should be calculated using a cost-based methodology on a per-shipment basis, and should be applied evenly to all rail

customers, to accurately reflect costs incurred. Shippers who are not the beneficiaries of positive contract terms should not be left paying the legacy costs of those who are.

SMA members fully understand and appreciate the financial implications of unexpectedly high increases in fuel prices, and we are most willing to participate in a system that will compensate carriers for the costs they incur. After all, the success of steel producers is inextricably tied to the health and vitality of the North American railroads. SMA believes that fuel surcharges, properly employed, can be a useful mechanism for compensating carriers. However, railroads are currently recovering funds well beyond their actual expenses, and surcharges are serving as a revenue generator. SMA members compete in a global marketplace. Excessive fuel surcharges place an undue burden on domestic steel producers, and put the industry at a significant competitive disadvantage.

The SMA is very appreciative of this opportunity to submit comments to the Surface Transportation Board, and we are hopeful that the STB can be part of a solution that is fair for carriers and shippers alike.

Sincerely,



Thomas A. Danjezek

CC: SMA Board of Directors
SMA Transportation Committee