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**BEFORE THE
SURFACE TRANSPORTATION BOARD**

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Ex Parte 704 (Sub-No. 1)

REVIEW OF COMMODITY, BOXCAR, AND TOFC/COFC EXEMPTIONS

MOTION FOR LEAVE TO SUPPLEMENT THE RECORD

Karyn A. Booth
David E. Benz
THOMPSON HINE LLP
1919 M Street, N.W., Suite 700
Washington, D.C. 20036
(202) 263-4108

*Counsel for
The American Forest & Paper Association and
The Paper and Forest Industry Transportation
Committee*

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MOTION FOR LEAVE TO SUPPLEMENT THE RECORD

The American Forest & Paper Association (“AF&PA”) and The Paper and Forest Industry Transportation Committee (“PFITC”) hereby submit this Motion for Leave to Supplement the Record (“Motion”) in the above-captioned rulemaking proceeding. With this Motion, AF&PA and PFITC are requesting that the Surface Transportation Board (“Board” or “STB”) accept into the record three verified statements from companies who are knowledgeable about the paper and forest products commercial and transportation markets. Specifically, AF&PA and PFITC are requesting leave to submit statements from International Paper (“IP”), Packaging Corporation of America (“PCA”), and Domtar Corporation (“Domtar”). As described in this Motion, these verified statements are being submitted for the sole and limited purpose of clarifying and correcting the record in this proceeding. AF&PA and PFITC submit that good cause exists for the Board to accept the statements as explained herein.

This rulemaking proceeding has its origins in a public hearing held in February 2011 regarding “the continued utility of, and the issues surrounding, the various commodity exemptions” in the Board’s regulations.¹ The Board later issued a Notice of Proposed Rulemaking (“NRPM”) on March 23, 2016, in which the Board proposed to revoke exemptions

¹ See EP 704 (Sub-No. 1), Review of Commodity, Boxcar, and TOFC/COFC Exemptions, Notice of Proposed Rulemaking at 3 (served March 23, 2016).

applicable to five groups of commodities, none of which were forest products. NPRM at 3.

However, the Board also invited parties “to file comments regarding the possible revocation of other commodity class exemptions.” NPRM at 4. Opening comments were due July 26, 2016 and reply comments were due August 26, 2016.

In its opening comments, AF&PA requested that the Board revoke the commodity exemptions for paper and forest products and the boxcar exemption to the extent it applies to rail shipments of paper and forest products.² In response to the AF&PA opening comments, various railroad parties have made factual assertions about “the realities of the forest products marketplace”³ and other issues specific to the forest products industry. Railroad parties have also made misleading transportation-related claims about the operations of paper companies who process forest products. For example, one railroad claimed that (1) forest products shippers can “readily transload their products to obtain service” from other railroads, thereby creating rail-to-rail competition, and (2) forest products shippers “can send forest products to a variety of destinations or “obtain forest products from a variety of sources,” thereby creating “geographic competition.”⁴ Moreover, the Association of American Railroads incorrectly asserted that product, geographic, intramodal, and intermodal competition all exist for paper products and thereby constrain rail rates.⁵

These factual assertions, and others like them, present an incorrect understanding of the forest products industry and the operations of paper companies. In order for the Board to have a complete and accurate record on which to decide the important issues in this proceeding,

² Comments of The American Forest & Paper Association at pages 1 and 25 (filed July 26, 2016).

³ CSXT Reply Comments at 5 (filed Aug. 26, 2016).

⁴ Union Pacific Railroad Company Reply Comments at 15 (filed Aug. 26, 2016).

⁵ Association of American Railroads Reply Comments at 23 (filed Aug. 26, 2016).

AF&PA and PFITC are requesting leave to submit the verified statements from IP, PCA, and Domtar who have first-hand knowledge of the workings of the paper and forest products industry. These three shippers understand the actual, day-to-day operation of paper companies and the forest products marketplace. The information in their verified statements is provided in response to inaccurate railroad statements and, thus, is needed to clarify the record and ensure that the Board has a correct understanding of the forest products industry, especially as it relates to the procurement of transportation.

The information provided by IP, PCA and Domtar will assist the Board in its decision-making process. Granting this Motion, and accepting the verified statements into the record, is warranted for several reasons. First, in the context of a rulemaking proceeding with potentially far-reaching impacts on the forest products industry it is appropriate for the Board to apply a more liberal policy towards a supplemental filing than may otherwise apply in an adjudicatory proceeding with a specific schedule for the Board's decision-making. Indeed, the Board's governing regulations state that comments filed late in a rulemaking proceeding "will be considered so far as possible without incurring undue expense, delay, or prejudice to other parties." 49 C.F.R. § 1110.5. These standards are clearly met here. Because there is no deadline for any Board action in this proceeding, consideration of these verified statements will not interfere with any existing schedule or timeline for the Board to issue its decision. Furthermore, these verified statements are being submitted slightly over one month after the deadline for reply comments, such that their acceptance will not unduly prolong this proceeding or prejudice another party. Similarly, no expenses will be incurred by any other party if the Board were to accept these verified statements.

Second, the verified statements are necessary to respond to the railroads' broad and misleading assertions, which presented a distorted view of the forest products marketplace. Since the railroads' statements about the paper and forest products industry were presented *solely* in reply comments there was no opportunity for AF&PA and PFITC to file a response to correct the record. Thus, the verified statements are needed to provide a "more complete record" and to assist the Board in its evaluation of the issues. Texas Central Railroad and Infrastructure, Inc. and Texas Central Railroad, LLC – Petition for Exemption – Passenger Rail Line Between Dallas and Houston, Tex., STB Docket No. 36025, slip op. at 3 (n. 5) (served July 18, 2016). See also Tongue River Railroad Company, Inc. – Construction and Operation – Western Alignment, STB Docket No. 30186 (Sub-No. 3), slip op. at 4 (served June 15, 2011) ("In the interest of compiling a more complete record in this case, we will accept into the record the surreplies."); Tri-City Railroad Company – Petition for Declaratory Order, STB Docket No. 35915, slip op. at 2 (served Sept. 14, 2016) ("While the record in this proceeding closed on September 30, 2015, the Board will accept these additional pleadings in the interest of a more complete record.").

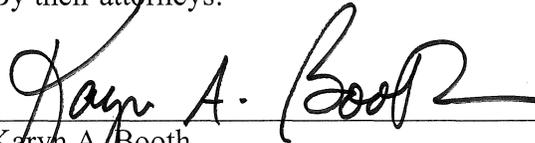
Finally, AF&PA and PFITC are not asking the Board to take action that is unusual or out of the ordinary since the Board has previously accepted late-filed comments in rulemaking proceedings, including those that were filed weeks after the deadline for comments. See, e.g., Major Rail Consolidation Procedures, STB Ex Parte No. 582 (Sub-No. 1), slip op. 1 (served Feb. 23, 2001) (stating that rebuttal comments were due January 11, 2001); Major Rail Consolidation Procedures, STB Ex Parte No. 582 (Sub-No. 1), Appendix C at 123 (n. 90) (served June 11, 2001) (accepting surrebuttal comments and an additional "notice of supplemental authority" made by Canadian National Railway on January 30, 2001 and February 15, 2001).

For the foregoing reasons, AF&PA and PFITC respectfully request that the Board accept into the record in this proceeding the three verified statements from IP, PCA, and Domtar which are attached as Exhibit A to this Motion.

Respectfully submitted,

*Counsel for
The American Forest & Paper Association and
The Paper and Forest Industry Transportation
Committee*

By their attorneys:

A handwritten signature in black ink, appearing to read "Karyn A. Booth", written over a horizontal line.

Karyn A. Booth
David E. Benz
THOMPSON HINE LLP
1919 M Street, N.W., Suite 700
Washington, D.C. 20036
(202) 263-4108

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Exhibit A

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Ex Parte 704 (Sub-No. 1)

REVIEW OF COMMODITY, BOXCAR, AND TOFC/COFC EXEMPTIONS

VERIFIED STATEMENT OF JEANNE SEBRING

I. Introduction.

1. My name is Jeanne Sebring and I am the Director, NA Logistics for International Paper (“IP”). In this position, I am responsible for IP’s North American transportation, distribution, and logistics strategies and execution across all transportation modes.

2. I have been with IP for eleven (11) years. Prior to joining IP, I worked in a variety of transportation and logistics positions for both shippers and carriers. My career in the logistics industry has spanned 29 years, included positions at two different railroads, and covered several different industries (paper and forest products, consumer goods, perishables, and government accounts). I also served nine years in the U.S. Air Force active duty and reserves.

3. I currently sit on the Executive Board of REACH Memphis and the Surface Transportation Board’s Rail Shipper Transportation Advisory Council.

4. IP is a global paper and packaging company, with 2015 sales revenue of \$22.4 billion and the majority of its operations based in North America. IP has 370 U.S. facilities, including 26 mills, approximately 21 converting facilities, well over 100 box plant facilities, and numerous distribution centers throughout the country; these facilities are used to manufacture and distribute paper and paper products. IP launches thousands of shipments weekly via various

modes of transportation in order to move product from its U.S. facilities to customers, converting facilities, distribution centers, and ports across the country.

5. All of IP's 26 paper mills are rail-served, but 13 of them are sole-served by a single Class I railroad. Each of the other 13 paper mills is served by multiple railroads or a single shortline.

6. IP shipped over 140,000 carloads via rail in 2015 and, therefore, rail is a critical mode for shipping IP's paper and packaging products. In fact, IP is the largest box car shipper in the U.S. IP deals with every Class I railroad and numerous shortline carriers. IP also owns and operates a shortline railroad in Orange, Texas.

II. Purpose of this Verified Statement.

7. I am submitting this Verified Statement ("V.S.") as part of the supplemental Comments filed by The American Forest & Paper Association ("AF&PA") and The Paper and Forest Industry Transportation Committee ("PFITC") in the above-captioned proceeding at the STB. IP is a member of both AF&PA and PFITC.

8. IP supports revocation of the forest and paper products commodity exemptions, as well as the boxcar exemption to the extent it applies to rail shipments of forest and paper products, as proposed by AF&PA and PFITC in this proceeding.

9. I understand that certain railroad parties in this proceeding have made a wide variety of assertions about the nature of the forest and paper products' marketplace and the use of various types of transportation by forest and paper products shippers. In particular, I understand that railroads have made specific assertions about intramodal, intermodal, geographic, and product competition to rail transportation of forest and paper products.

10. I am concerned that these assertions do not provide a complete and accurate representation of the forest and paper products market. Therefore, I am providing this statement to describe the forest and paper products industry and respond to various railroad assertions.

III. Overview of the Transportation Market for Forest and Paper Products.

11. The railroads' description of forest and paper products facilities is faulty because it fails to appreciate the need of large manufacturing mills to operate on a 24/7 basis. Most IP manufacturing mills are "integrated mills," meaning that they receive inbound shipments of wood fiber (i.e., logs and/or wood chips). These raw materials must be processed into pulp via "digesters" (large pressure cookers). Paper is then manufactured from the pulp. In addition to wood fiber, some integrated mills may consume as much as 50% recycled (scrap) fiber in their papermaking processes, depending on the intended application. In contrast to integrated mills, recycle mills create paper solely from recycled fiber or from pulp purchased from third parties.

12. Integrated mills are large, sprawling manufacturing facilities. The operations are complex, highly capital-intensive, and involve a significant amount of energy production. Mills such as these cannot be turned off-and-on with the flick of a switch; and as such, largely operate continuously 24 hours per day, seven days per week.

13. Due to 24/7 operations at integrated mills, paper is generally in continuous production (except for managed events such as maintenance or market outages). This continuous production means paper must be shipped outbound consistently to ensure smooth operations at the mill. Disruptions in the flow of finished products out of the mill can quickly create an unsafe work environment in the warehouse and could result in a paper machine shut-down. Cycling these large investments up and down stresses equipment and can pose other difficulties in our operating environment.

14. The paper produced by both integrated and recycle mills is typically shipped in large rolls to converting facilities for further processing into end-use products such as corrugated boxes, folding cartons, printing paper, envelopes, brown paper bags, gypsum wallboard facing, cups, plates, and hundreds of other products.

15. Another key characteristic of the forest and paper products industry is that there is a difference between containerboard mills, paper mills, pulp mills, and coated paperboard mills. Containerboard paper mills largely create types of pulpboard (typically, but not exclusively, characterized as “brown”) paper used generally for industrial packaging applications such as corrugated sheets, boxes, bins, and brown paper bags. In contrast, paper/pulp/coated paperboard paper mills manufacture paper rolls, bales, and grades generally seen in consumer applications such as office paper, food packaging, and sanitary products.

16. Mills are complex. Depending on the end product being produced, the type of paper manufactured by a mill must meet a variety of different specifications related not just to color, but also to thickness, texture, absorbency, among other distinctions. Many different grades of each type of paper exist. We are typically producing tens of thousands of unique SKUs (stock keeping units) each month that are directly tied to our customer needs. The scheduling of this production is complex and is dependent on our ability to safely move product out of the mill to our customers.

17. Rail transportation is used in several ways in the forest and paper products industry, including: (1) inbound shipments to paper mills, including logs, wood chips, pulp, or scrap paper; and (2) outbound shipments of bulk paper from mills to converting and finishing facilities. At IP, a significant portion of our outbound tons from paper mills are transported by rail.

18. I understand at least one railroad has stated that the need for rail transportation is lessened because box plant processing facilities are increasingly being co-located with pulpboard mills.¹ These remarks do not characterize IP's facility changes over time. In the last three years, there have been no changes in box plant locations relative to our mills. Broadly speaking, while we have had no pulpboard mill closures, our other mill and paper machine closures in recent years have in many cases led to longer average length of hauls.

IV. Truck Competition to Rail Transportation of Forest and Paper Products.

19. I am aware that the railroad parties have asserted that trucks provide significant and vibrant competition to rail transportation of forest and paper products.²

20. These assertions ignore the realities of 24/7 operations and the physical throughput needed to keep up with production across the mill system. Outbound truck transportation from our mills is often dictated by the delivery requirements of the mill's customer, including when delivery of the products can be accepted. Many of our receivers are constrained by number of truck docks and/or receiving hours that are less than 24/5. Meanwhile, motor carriers generally will not accept a truck shipment that cannot be delivered when the destination is reached, because then the driver would be stranded with a load, tying up a valuable asset (the truck), while also burning through the applicable hours-of-service. Hence, 100% truck competition is inherently undermined by its inability to ensure continuous undisrupted outbound shipment flow and the potential for volumes to overcome truck receiving capability at many of our customer operations.

¹ CSXT Reply, Rutherford V.S. at 3.

² For example, one railroad stated that the "market for transporting forest products is highly truck competitive." Union Pacific Reply Comments at 15 (filed Aug. 26, 2016). CSXT's witness Michael Rutherford similarly asserted that trucks provide significant competition to rail transportation of paper and forest products. See CSXT Reply, Rutherford V.S. at p. 2-4 (filed Aug. 26, 2016).

21. In contrast to the time limitations facing truck transportation, rail car loadings can occur 24/7 and are crucial to ensuring the ongoing smooth flow of operations at paper mills. Therefore, rail is often the preferred mode of transportation for outbound shipments from paper mills.

22. Many paper mills are designed for significant use of rail transportation and simply do not have the space or physical layout to completely replace rail with truck transportation. I know this is true for many IP mills, where truck docks and warehouse space constrain the number of trucks and kind of staging we can support. Also, the trailer yards are not sized to handle the number of trailers needed to replace rail transportation, even if sufficient truck capacity were to exist (which it does not).

23. It is also important to clarify that each rail car handles approximately three to four times as much product as one truck. Thus, rail docks and loadings simplify yard operations as compared to truck transportation.

24. There are several other situations in which truck transportation cannot provide effective competition to rail. Our mill production includes certain large paper rolls whose dimensions are not conducive for shipping by truck. It is not uncommon to for these paper rolls to weigh 3-4 tons each. Rail transportation is also preferred for long distance movements of approximately 500 miles or more and/or large, railcar-quantity movements.

25. IP makes use of trucks every day, especially for short-haul, expedited service; when customers are not rail-served; when customers request truck delivery; and for smaller, non-railcar quantity movements. However, a significant portion of IP's traffic is heavily dependent on rail transportation, and trucks could not be utilized for all of IP's traffic for the many reasons described above.

V. Geographic and Product Competition are Limited.

26. I understand that several railroad parties contend that forest and paper products shippers can use different origins and/or destinations for their inbound and outbound traffic, thereby creating competition between railroads or otherwise counteracting railroad market power.³ These contentions do not match my experience in the forest and paper products industry.

27. I also understand that several railroad parties assert that forest and paper products shippers can substitute products in order to create competition. Again, I find that this is an overly simplistic view that fails to appreciate the actual workings of paper mills, customer requirements and the complexities of our supply chain.

28. As I mentioned earlier, there are different types of paper mills. Some produce containerboard, some produce coated paperboard, some produce imaging and specialty paper, and some produce fluff pulp. Additionally, some mills use virgin fiber, meaning they are integrated mills that manufacture their own pulp from logs and wood chips, or they use virgin fiber pulp purchased from third parties. These mills may or may not incorporate up to 50% recycled fiber in their operations. Other paper mills mainly rely upon recycled fiber (scrap paper) as input. There are different types of fiber inputs possible, and the end-use product dictates which type of fiber can be used.

29. Paper mills produce a wide variety of different grades and types of paper. Every mill cannot and does not produce the same paper types as all other mills. Instead, there is

³ Union Pacific Railroad's witness asserted that products from the Pacific Northwest and Western Canada must compete with products from the Southeastern U.S. and Eastern Canada. UP Reply Comments, Butler V.S. at 4 (filed Aug. 26, 2015). Therefore, UP said that geographic competition is a "major factor." UP Reply Comments at 15. The AAR contended that geographic competition exists because the U.S. has hundreds of recycled paper plants, hundreds of lumber manufacturers, and hundreds of lumber distribution yards. AAR Reply Comments, Israel/Orszag V.S. 23 (filed Aug. 26, 2016). See also CSXT Reply, Rutherford V.S. at 2-4.

substantial specificity involved, depending on the end-use for the paper produced by a particular mill. At IP, no two mills are exactly the same.

30. Even those mill facilities that can produce similar grades of paper may not be “qualified” to fulfill orders to the same customers due to product specifications, trim size, and other factors. Machine capability, paper grade, caliper, trim, and content are among just a few characteristics that limit the ability to substitute product origins and destinations in practice. A simple example is a recycled paper mill whose production cannot be used to substitute for paper used in a poultry box or bulk bin production.

31. A paper mill running on recycled fiber will not be a viable destination for wood chips. The paper rolls produced by a paper mill cannot be sent to a converter or processing facility if they do not fit the exact specification needs of the end-use product being manufactured. Given the large number of SKUs that we produce, it is not practical or feasible to broadly assume substitutions could be made and still meet our customer requirements while operating our facilities in the most efficient manner.

32. Consequently, shippers in the forest and paper products industry cannot simply use substitute products whenever they want, or interchange origins and destinations at will.

VI. Intramodal Competition and Transload Options.

33. I am aware that several railroads have stated that abundant rail-to-rail competition exists for forest and paper products, and that transloads can be utilized to create even more competition.⁴

⁴ Union Pacific Railroad’s witness stated paper products “can be readily transloaded at one or even both ends of a movement,” and that competition with BNSF is “strong.” UP Reply Comments, Butler V.S. at 9. CSXT’s witness also mentioned rail-to-rail competition for forest and paper products. CSXT Reply, Rutherford V.S. at 2 and 4. The AAR stated that “intramodal competition for forest products has remained vibrant.” AAR Reply at 23.

34. Rail-to-rail competition does exist when there is a viable rail alternative, but such viable alternatives are not widespread. For example, approximately only 20% of IP's rail business has a viable competing rail option, considering both origin and destination.

35. Transloading at the destination is sometimes utilized, but numerous considerations limit the effectiveness of such an option for many movements. Transloads increase the risk of product damage, undermine the economics, add complexity to the load creation for each leg of the movement, and complicate inventory control processes.

36. Moreover, transloading is limited by the supplier's throughput capability for full conversion, as well as destination truck receiving constraints.

37. For similar reasons as cited above, double-transloads (transloading at both the origin and destination) are not appealing due to the implications for cost, time, resources, and product damage. The challenges would be difficult to overcome and sustain.

VII. Rail Rates, Service, and Car Supply.

38. I understand that the railroads asserted that they are subject to significant competition⁵, but the trend of railroad rates and service over the past 10-20 years does not reveal a broadly-competitive market.

39. In my experience, rail transportation rates in the forest and paper products industry jumped significantly about ten or so years ago, and have increased at a rate much faster than inflation since that time.

40. Box car cleanliness and quality have deteriorated, which should not be a surprise because the box car fleet continues to get older and railroads have closed many of their car

⁵ For example, see UP Reply, Butler V.S. at 8 (UP "faces intense competition for movements of paper products"); UP Reply at 15 (there is an "intensely competitive marketplace for transportation of forest products"); Norfolk Southern Reply Comments at 20 (The data is "completely unresponsive of any suggestion of railroad market power" over forest products.); AAR Reply at 23; AAR Reply, Israel/Orszag V.S. at 19-23; CSXT Reply at 5-6 (The "realities of the forest products marketplace" show that captive shippers are not at the mercy of the railroads.).

cleaning facilities. When faced with a subpar box car, shippers such as IP are in a quandary because rejecting a poor car means being left with no car.

41. Railroads' switching frequency and quality decreased many years ago, forcing many shippers to hire third-party switching operations.

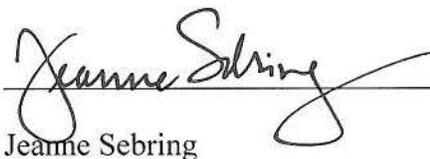
42. In my experience, car order fulfillment has declined in quality over the last 10-20 years. When demand for box cars is strong, railroads have used car supply in a strategic fashion to implement their business goals, seek extra rate increases, or otherwise influence the behavior of shippers or their receivers. As recently as 2014 and early 2015, box car supply was a problem area for shippers. I understand that at least one railroad has stated that it is investing a substantial amount into its boxcar fleet.⁶ Investment is sorely needed to address the aging fleet and its projected rate of retirement.

43. IP is pleased to submit this statement to clarify and correct the record in this proceeding as it pertains to the paper and forest products market. We also urge the Surface Transportation Board to revoke the exemptions for industry, including the boxcar exemption as it applies to shipments of paper and forest products.

⁶ CSXT Reply, Rutherford V.S. at 4.

VERIFICATION

I, Jeanne Sebring, verify under penalty of perjury that I have read the foregoing Verified Statement, that I know the contents thereof, and that the same are true and correct to the best of my knowledge. Further, I certify that I am qualified and authorized to file this statement.



Jeanne Sebring

September 28, 2016

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Ex Parte 704 (Sub-No. 1)

REVIEW OF COMMODITY, BOXCAR, AND TOFC/COFC EXEMPTIONS

VERIFIED STATEMENT OF BRUCE RIDLEY

I. Introduction.

1. My name is Bruce Ridley and I am Vice President, Environmental, Health & Safety and Operations for Packaging Corporation of America (“PCA”). In this position, I am responsible for the supply chain between PCA mills and the customers receiving products (generally, roll stock) from the mills. These customers consist of both PCA plants (internal customers) and third-parties (external customers).

2. I have 38 years of experience in the transportation and supply chain arena. I was previously a member of the Surface Transportation Board’s Railroad-Shipper Transportation Advisory Council. I am currently the Vice President for The Paper and Forest Industry Transportation Committee (“PFITC”), and I am on the Board of the Directors of the National Industrial Transportation League. PCA is also a member of the American Forest & Paper Association (“AF&PA”).

II. Purpose of this Verified Statement.

3. I am submitting this Verified Statement (“V.S.”) to supplement and clarify the record in the above-captioned proceeding at the Surface Transportation Board as it pertains to the paper and forest products industry.

4. I am aware that the railroad parties in this proceeding have made numerous assertions about the forest and paper products industry and the use of various types of transportation by paper producing companies. I understand that these assertions include the extent to which paper companies can use non-rail modes of transportation and whether such shippers can benefit from “geographic” and “product” competition.

5. The railroads’ assertions include a number of inaccurate statements and demonstrate a lack of understanding of the forest and paper products industry. I am submitting this statement to clarify and correct the information provided regarding the forest and paper products market and the use of transportation in this market.

6. PCA supports revocation of the forest and paper products commodity exemption, and the boxcar exemption to the extent it applies to shipments of forest and paper products, as proposed by AF&PA and PFITC in this proceeding. PCA previously submitted comments to the STB in Ex Parte 704 on February 1, 2011.

III. Description of PCA’s Operations and Use of Rail Transportation.

7. PCA is the fourth largest producer of containerboard in the United States, and is the third largest producer of uncoated freesheet paper in North America, based on production capacity. PCA’s white paper business operates under the trade name Boise Paper, a Division of Packaging Corporation of America. PCA is headquartered in Lake Forest, Illinois, has approximately 13,000 employees, and operates primarily in the United States.

8. PCA has five containerboard (brown paper) mills, one containerboard machine (located at one of our white paper mills), and three white paper mills. PCA also has 95 converting operations. On a revenue basis, PCA’s business is approximately 85% brown paper

and 15% white paper. Each business type has a distinctly different supply chain, but rail transportation is essential to both.

9. Five of the eight paper mills are served by a single Class I railroad, while the other three are accessible by two Class I railroads.

10. Rail transportation is utilized by PCA's brown paper mills to transport large paper rolls from the mills to converting and processing facilities (e.g., box plants and sheet plants), some of which are PCA locations and some of which are third parties. Approximately 60% of these paper rolls are transported via rail, and the other 40% are moved by truck.

11. PCA's white paper business utilizes rail transportation for the shipment of palletized and paper roll product from PCA's white paper mills to PCA's distribution centers. These shipments are moved primarily by rail transportation; only a small portion of them move via truck transportation.

12. Transportation from the PCA brown paper box plants to PCA's customers generally occurs via truck largely due to less-than-truckload volumes or multi-stop loads, as does transportation from PCA's white paper distribution centers. For these shipments, the seller almost always arranges and pays for transportation of the products.

IV. Whether Truck Transportation is a Competitive Alternative to Rail Transportation.

13. I am aware that railroads in this proceeding have contended that there is substantial competition from trucks for the rail movement of forest and paper products.¹

14. It is true that truck transportation is an important part of the PCA supply chain, and PCA uses trucks every day. Trucks are best for short-haul shipments, expedited shipments where time sensitivity is an issue, and when a loaded back-haul can be arranged.

¹ See, for example, UP Reply Comments at 15; CSXT Reply Comments, Rutherford Verified Statement at 2-4.

15. However, there is a portion of forest products traffic that is dependent on rail transportation. PCA relies heavily on rail transportation and could not shift all of its traffic to trucks.

16. Product size is one issue that requires PCA to ship by rail. Brown paper rolls used for corrugated box production are becoming wider. The maximum size was once approximately 98 inches, which fits fine into trucks. Now, however, some brown paper rolls are 110 inches, which will only fit in special high cube trailers, and PCA serves one box plant which receives 130-inch rolls, which must be shipped by rail.

17. Facility design is another consideration that limits the ability to use truck transportation. Many receivers of shipments from PCA mills operate facilities that were constructed to rely upon rail transportation using 50-foot boxcars. These facilities often do not have sufficient truck dock space to convert to truck transportation for all of their shipping needs.

18. In fact, PCA sells to one customer that operates at a rail-served facility with no potential for any truck shipments. There are no truck docks at the facility, and due to the small, land-locked location, it would be impossible to add any truck docks to the facility.

19. As mentioned above, the vast majority of PCA's white paper shipments are transported by rail to distribution centers. This traffic could not be shifted to truck because the PCA facilities are not designed to handle such a large number of trucks. Further, to convert these PCA facilities to use only trucks would require enormous and cost prohibitive capital expenditures to add the necessary warehouses, truck docks, and handling space.

20. A wholesale switch to use of trucks would also be foreclosed by other factors. As mentioned above, some customers request or even require rail shipments. There also is insufficient truck capacity to support all of the paper products traffic that currently moves by rail.

V. **Whether Transloads, Water Transportation, or Intermodal Transportation Can Be Used as Competition to Rail Transportation.**

21. I understand that several railroads have asserted that transloads, intermodal transportation, and other non-truck modes of transportation can be utilized to create competition for rail transportation of forest and paper products.² This is an overly simplistic view that ignores several key factors.

22. In comparison to a simple rail movement, a truck-to-rail transload involves additional costs and extra handling which increases the risk for product damage. A transload also involves extra planning, the possibility of warehouse fees, and both a truck fee and a rail fee.

23. An existing rail movement would have to be priced at an extremely high level in order for a transload shipment to be a viable alternative.

24. It is important to note that each rail car can carry approximately the same amount of product as three trucks. Therefore, replacing a rail movement with a truck-to-rail transload means that one rail car movement is replaced by six truck trips (three loaded to the transload site, and then three empty returns) combined with a rail movement too. These heavy truck trips can be very damaging to local roads; and many paper mills are located in remote areas on two-lane roads that were not necessarily designed for repeated heavy truck traffic.

25. PCA has transloaded in the past and currently transloads for two movements. This is a small proportion of our overall transportation requirements and, as I mentioned above,

² For example, Union Pacific Railroad's witness stated paper products "can be readily transloaded at one or even both ends of a movement," and that competition with BNSF is "strong." UP Reply Comments, Butler V.S. at 9. The AAR stated that rail rates for paper products are constrained by intermodal and other types of competition. AAR Reply at 23. Union Pacific Railroad stated that paper products are increasingly moving in intermodal service. UP Reply Comments at 8.

transloading is only viable in very limited circumstances where the serving railroad rates are extremely high.

26. Water transportation is rarely a feasible option in the forest and paper products market segment in which PCA operates. The origin and destination would both need to have easy water access for water transportation to be viable. PCA makes no use of water transportation.

27. For intermodal transportation to be a workable alternative, the origin facility would need to be near an intermodal ramp. Only a very small percentage (less than 2%) of PCA's shipments are transported using intermodal.

28. I understand at least one railroad says that the need for rail transportation is now lessened in the forest products market because box plant processing facilities are increasingly being co-located with pulpboard mills.³ In my experience, this is not a widespread phenomenon. PCA has almost 100 box plants, and only one is located on a paper mill site. Moreover, this mill only manufactures the medium paper, meaning that the other brown paper needed for a corrugated box (the "liner" paper, which is two-thirds of the box) still must be shipped to the box plant from off-site.

VI. Geographic and Product Competition in the Forest Products Industry.

29. I understand that several railroad parties have contended that paper companies can use different origins and/or destinations for their inbound and outbound traffic, thereby creating "geographic" competition, or can substitute products to create "product" competition.⁴

³ CSXT Reply, Rutherford V.S. at 3.

⁴ The AAR asserted that geographic competition exists because the U.S. has hundreds of recycled paper plants, hundreds of lumber manufacturers, and hundreds of lumber distribution yards. AAR Reply Comments, Israel/Orszag V.S. 23 (filed Aug. 26, 2016). Union Pacific Railroad's witness stated that products from the Pacific Northwest and Western Canada must

30. Paper companies such as PCA cannot substitute different products in an effort to restrain railroad market power through so-called “product competition.” Customers come to PCA for particular products with particular specifications, and PCA cannot ship products other than what was ordered.

31. Geographic competition is extremely limited. Each mill manufactures different products, and the mills are not interchangeable, thereby lessening the ability of paper companies to make use of geographic competition. As I mentioned above, there are both brown paper machines and white paper machines, and the two cannot be used interchangeably.

32. Moreover, there are also differences *within* the market for each type of paper. I will provide just a simple example from the brown paper industry. A common corrugated cardboard box is constructed out of two different types of brown paper – the medium (this is the brown paper that is corrugated in a zig-zag fashion) and the liner (this is the brown paper that is glued to both sides of the corrugated medium). Medium is typically manufactured by hardwood mills, while liner is manufactured by softwood mills. Thus, a hardwood mill is not typically suited to produce liner, and vice versa, thereby limiting the ability to use geographic competition.

33. This distinction is very evident at PCA. Our northern mills produce most of the hardwood-based medium, and our southern mills produce most of the softwood-based liner. It is very difficult to replace one type of mill origin with the other type of mill to try to create geographic competition. It also must be stated that geographic competition only works if there is a sufficient rate differential. If railroads serving both origins (or both destinations) both raise their rates, then geographic competition simply does not provide viable alternatives.

compete with products from the Southeastern U.S. and Eastern Canada. UP Reply Comments, Butler V.S. at 4 (filed Aug. 26, 2015). Therefore, UP said that geographic competition is a “major factor.” UP Reply Comments at 15. See also CSXT Reply, Rutherford V.S. at 2-4.

VII. Car Supply.

34. Car supply in the forest products market is often inconsistent and unreliable. For example, whenever the economy is strong or a weather event occurs, tightness arises and paper companies are faced with an insufficient amount of cars for their products.

35. To help address this problem, PCA leases some of our own cars. Car supply was a significant issue three years ago. PCA would order cars, and only a small percentage would be delivered. The problem became so acute that PCA began reassigning leased cars from the white paper fleet to the brown paper mills to help with the shortfall.

36. The paper market is particularly dependent on 50-foot boxcars for two main reasons: (1) receiver facilities were designed based on 50-foot railcar lengths and (2) paper rolls tend to be so heavy that a box car reaches its maximum weight before the interior car volume is filled. Despite these considerations, any new box cars acquired by railroads have tended to be 60-foot cars in recent years. This is problematic for shippers of paper rolls because the receiver locations are designed around 50-foot lengths. When a 60-foot car is sent to a receiver location designed for 50-foot cars, the 60-foot car effectively takes up two railcar unloading spots, thereby limiting the efficiency of rail unloading operations.

VIII. Railroad Rates and Service.

37. The railroad industry has effectively de-marketed a portion of the forest products transportation market by raising rates to unsustainable levels. One example is a couple of lanes from our mill in central Michigan which is trucking to facilities in Georgia and Florida because of the more favorable trucking rate. This does not mean that truck transportation is not very expensive; it is simply less than the rail rate.

38. Rates on all remaining rail movements continue to rise consistently every year, and there is no real negotiation of contracts. The contracts are offered on a “take it or leave it” basis. The railroads simply tell paper companies such as PCA the extent of the rate increase that will be imposed for the following year. To the extent there is any conversation with the railroads about rates, truck competition is not part of it. Since at least the year 2000, we have seen no examples of trucking operating as a constraint on PCA’s rail rate increases.

39. Rail rates have continued to steadily increase for forest products transportation in the past two years despite the overall decline in rail network demand across the entire country. Rather than respond to this slow-down by seeking forest products shippers’ business, railroads have tended to park their locomotives and lay-off employees.

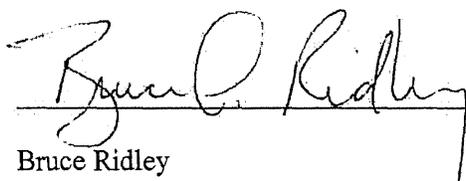
40. Service from the larger railroads has gotten noticeably worse over the past 15-20 years, with marked service problems at the receiving end of our shipments. Shortline railroad service is generally good and, therefore, I have found that it is better to have a mill be served by a shortline railroad. Our biggest issue is the inconsistent service on the receivers’ end of the shipment. The industry would just like consistent service. As an example, a receiver brings a crew in to unload today’s rail receipts and either the switch occurs late and the receiver must pay overtime, or it is so late the receiver must send them home to unload the next day in which case the receiver probably misses that next day’s switch.

41. Despite the high rates and declining service quality, there remains a large portion of traffic that is rail dependent. For example, PCA has a sole-served captive mill that has seen significant rate increases over the past 15 years, yet the proportion of outbound shipments that occur via rail has declined only from 80% to about 50%.

42. The exempt status of forest products and box car transportation hinders the ability of paper companies to seek remedies for poor service and restricted car supply. It also adds an elusive quality to conditions imposed by the Surface Transportation Board on rail acquisitions, such as those imposed in 2001 on control of Wisconsin Central by the Canadian National Railway in STB Docket No. 34000. Thus, PCA strongly supports revocation of the paper and forest products exemptions, and the boxcar exemption as applied to our industry.

VERIFICATION

I, Bruce Ridley, verify under penalty of perjury that I have read the foregoing Verified Statement, that I know the contents thereof, and that the same are true and correct to the best of my knowledge. Further, I certify that I am qualified and authorized to file this statement.


Bruce Ridley

September 30, 2016

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Ex Parte 704 (Sub-No. 1)

REVIEW OF COMMODITY, BOXCAR, AND TOFC/COFC EXEMPTIONS

VERIFIED STATEMENT OF DAVID WHITE

I. Introduction.

1. My name is David White and I am the Senior Director of Transportation and Logistics for Domtar Corporation (“Domtar”). Domtar is a Fortune 500 company headquartered in Fort Mill, South Carolina, which is where I work. Domtar also has a sizable office complex in Montreal, Quebec. Domtar is publically held, trading on both the New York and Toronto Stock Exchanges.

2. In my role as Senior Director of Transportation and Logistics, I am responsible for developing our global strategy and ensuring execution of Transportation and Logistics functions across our Pulp & Paper Business segments. Within each of these business segments, we service customers in geographically distributed markets across multiple distribution channels with very different supply chain needs. I manage a budget of approximately \$450 million per year including warehouse, rail, truck, intermodal, and ocean spend. My professional career in logistics management spans 31 years; during the last 27 years, I have worked at several Fortune 500 Forest Product companies. My professional experience has placed me on the Pacific, Atlantic, and Gulf Coasts. I am a graduate of the University of Tennessee. I am a veteran who was honorably discharged from the United States Coast Guard.

II. Overview of Domtar.

3. Domtar has two divisions. Our Pulp and Paper Division is responsible for the manufacture of pulps (both market pulp and fluff pulp), commodity grade paper, and specialty papers. The Pulp and Paper division also is responsible for manufacturing chemicals, most of which are by-products of our pulp manufacturing process. The Pulp and Paper Division is headquartered in Fort Mill, South Carolina. Domtar also has a Personal Care Division that is headquartered in Raleigh, North Carolina. The Personal Care Division manufactures and distributes baby diapers, adult incontinence products, absorbent pads, and feminine hygiene products.

4. Domtar has 13 paper mills spread across North America. Nine of Domtar's 13 North American mills are in the United States. Seven of the U.S. mills are integrated, meaning they bring wood fiber in, cook the wood fiber to turn it into pulp, and convert the pulp into paper, paper products, market pulp, or fluff pulp. One U.S. paper mill is non-integrated. This non-integrated facility purchases market pulp, often through internal transfer from pulp producing facilities at Domtar. Domtar also has a mill that produces only fluff pulp. Fluff pulp is used as the absorbent material in baby diapers, adult incontinence products, and feminine hygiene products.

5. All nine of Domtar's U.S. mills are currently rail served. Six of Domtar's nine U.S. mills are only served by a single railroad. Domtar uses rail service, truck transportation, and water transportation.

6. Inbound wood fiber to Domtar mills comes in two forms. Inbound fiber to the mills can be either (1) tree-length or round wood which is chipped at the mill or (2) wood chips

that have been chipped in remote locations and transported to the mill in bulk by barge, rail or truck.

7. Inbound products for Domtar include: wood fiber (as either tree length, round wood or chips) and chemicals. Inbound products include, ethylated starch, calcium carbonate, sodium chlorate, sulfuric and other acids, and sodium hydroxide. Outbound products include bales of market pulp, rolls of fluff pulp, cases of paper on pallets, rolls of paper, and a limited amount of chemicals.

8. Outbound shipments of paper from Domtar mills are shipped to converting facilities, warehouses, printers, or direct to customers; some is also exported. Some outbound shipments of pulp stay within the Domtar system, however, we service an extensive network of domestic and international customers.

9. We operate a sophisticated, efficient distribution network moving in excess of seven (7) millions of tons of pulp, paper, and personal care products across the United States and to 50 countries using third-party truck, rail, intermodal, and vessel transport providers. Our top priorities are to serve customers, manage costs, and reduce environmental emissions.

III. Purpose and Overview of this Verified Statement.

10. I am submitting this Verified Statement in support of the request of The American Forest and Paper Association (“AF&PA”) and The Paper and Forest Industry Transportation Committee (“PFITC”) for revocation of the paper and forest products exemption and the boxcar exemption as it applies to paper and forest products shipments in the above-captioned proceeding. Domtar, and predecessor companies, is a longstanding member of the AF&PA.

11. I understand that railroad parties have used their Reply Comments to describe the operations of paper mills and other facilities that process forest products and the extent to which

forest and paper products shippers use various modes of transportation.¹ I will use this Verified Statement to respond to those railroad statements.

12. In this Verified Statement I will focus on Domtar's pulp and paper business. This segment of Domtar, which is responsible for more than 75% of Domtar's EBITDA, relies on several modes of transportation, including rail, truck, as well as both inland and high sea shipping.

IV. Overview of the Forest Products, Paper, and Pulp Industry.

13. Pulp and paper has been made from wood fiber in the United States for hundreds of years. Some segments of the industry are currently facing particular challenges because markets for certain grades of paper are declining, while offshore production is growing. At the same time, markets for other grades of paper in the United States are growing.

14. The U.S. pulp and paper industry produces a wide variety of paper products, including tissue products, cardboard and cardboard containers, pulps, and other paper products. Paper produced in the U.S. falls into two main categories, "brown paper" – meaning the paper used for cardboard boxes, paper bags, and many industrial packaging applications, and "white paper" – meaning office paper, specialty paper, and paper used for printing and publishing. The domestic industry is essentially able to produce any grade of paper that is used in this country.

15. Domtar manufactures many different grades of white paper. The predominant paper product produced by Domtar is "uncoated freesheet" paper, the type of paper one would use in an office or home printer or copier. In fact, Domtar is the largest manufacturer of uncoated freesheet paper in the U.S. Specialty papers produced by Domtar include food wrap,

¹ For example, CSXT said it was using its Reply Comments to describe the "realities of the forest products marketplace." CSXT Reply at 5.

paper for surgical gowns, thermal paper, and many additional grades. Domtar also manufactures pulp and fluff pulp for use in personal care products.

V. **Transportation in the Forest Products, Paper, and Pulp Industry.**

16. Any consideration of transportation issues in the forest products industry must take into account the great diversity of paper, pulp, and forest products that are manufactured at facilities like the Domtar mills. There are hundreds of different grades of paper, as well as variations within particular grades, thereby necessitating precise and careful orchestration to ensure that the correct products are moved from production sites to customers.

17. Mill owners such as Domtar customarily pay the transportation costs for inbound wood fiber and outbound products. The transportation of inbound chemicals is usually handled by the chemicals' sellers.

18. Different modes of transportation are utilized in the paper and pulp industry depending on the specific requirements of the movement at issue. Perhaps the most important consideration is the customer's preference. If a Domtar customer requests rail delivery, or otherwise can only receive product via rail, then the decision to make that shipment by rail is obvious. Another significant factor that often dictates the selected mode of transportation is the design of the shipping and receiving facilities. The dimensions and weight of a shipment, the length of the movement, availability of equipment, and cost are other key considerations.

19. Capacity constraints on the nation's rail system limit our access to the full potential of the economic and environmental benefits of rail, forcing us to increase our reliance on trucking. Experience has shown that the rail industry can be slow to respond to improving economic conditions, weather events, and natural disasters – all of which can result in constraints. Despite the softening of the rail market over the past year and a half, we still see

localized boxcar shortages at the plant level. Whatever the cause, rail constraints force shippers to look to truck transportation, but the trucking industry has struggled to recruit and retain qualified drivers, leading to trucking capacity constraints that we fully expect will become more acute as the United States economy continues its recovery.

VI. Truck and Barge Transportation.

20. I understand that railroads assert there is extensive competition from trucks and other modes of transportation for movement of forest and paper products.²

21. Although Domtar does make extensive use of trucks, there are certain shipments where rail is critical. As mentioned above, customers sometimes request rail delivery. Some shipments are simply too heavy for safe and legal truck transportation; Domtar ships some paper rolls that weigh approximately 17,000 pounds. A “lift truck” is used for loading and unloading these large paper rolls, and the lift trucks themselves usually weigh as much as a paper roll. The combined, concentrated weight of the paper roll and lift truck is simply too much for many truck trailer floors. Additionally, the movement of market pulp as bales is well suited to boxcars. Larger average order sizes, fewer “just-in-time” requirements from our customers, coupled with the ability to take advantage of the cubic capacity of the boxcar to gain greater efficiency from that conveyance are some of the reasons.

22. Rail is also essential for many of Domtar’s internal material movements. While we utilize rail services in several dozen internal origin and destination pairs, they fall into 2 broad categories: (1) boxcars of pulp that move from a Domtar pulp mill to a Domtar paper mill and, (2) boxcars of paper rolls that move from a Domtar paper mill to a Domtar converting facility. Rail transportation, when operating as designed within any of our origin/destination pairs, allows rolling inventory efficiencies enabling Domtar to sustain a fluid supply chain.

² See, for example, UP Reply Comments at 15; CSXT Reply Comments, Rutherford Verified Statement at 2-4.

These points demonstrate our dependence on rail in high volume lanes where trucks cannot keep up with demand. However, trucks do provide important flex capacity to handle our plant and customers' need as warranted.

23. In many cases, our mill and customer facilities were designed and engineered to maximize rail transportation and have many rail loading "spots" and a limited number of truck docks. In those situations, rail is more efficient for loading and unloading and thus is the preferred method of transportation.

24. Particularly during periods of rising or strong national economic activity there is insufficient truck capacity to handle all required movements of paper products and the use of trucks becomes less economical. Trucking costs are reflective of fuel costs.

25. Barge transportation for paper products is a very limited option for the paper and forest products industry, because it is only viable where the relevant origin and destination have feasible water access and few paper mills in the U.S. have direct access to navigable waterways.

26. Domtar is one of the relatively few who utilize barges for transportation of wood chips from a barge-served wood chipping facility to an unloading station where the wood chips are moved via a one-mile long conveyor directly to the Domtar mill.

VII. Geographic Competition.

27. I am aware that railroads have claimed that forest and paper products companies can use different origins and/or destinations for their inbound and outbound traffic, thereby creating competition between railroads or otherwise negating railroad market power.³

³ Union Pacific Railroad's witness asserted that products from the Pacific Northwest and Western Canada must compete with products from the Southeastern U.S. and Eastern Canada. UP Reply Comments, Butler V.S. at 4 (filed Aug. 26, 2015). Therefore, UP said that geographic competition is a "major factor." UP Reply Comments at 15. The AAR contended that geographic competition exists because the U.S. has hundreds of recycled paper plants, hundreds of lumber manufacturers, and hundreds of lumber distribution yards. AAR Reply Comments, Israel/Orszag V.S. 23 (filed Aug. 26, 2016). See also CSXT Reply, Rutherford V.S. at 2-4.

28. It is not conceivable that Domtar could utilize different origin and/or destinations within our mill and converting system to create competition or negate railroad market power for many of our products. As I have already mentioned, there are a great variety of paper and fluff grades in the market, each of which is formulated for the end-use products that will be manufactured from it. One grade cannot be substituted for a different grade. Particular machines are qualified for manufacturing a specific portfolio of products.

29. Even where two facilities ostensibly manufacture the exact same product, customers will often specify the particular machine they want utilized to manufacture their products. This further complicates the possibility of substitutability.

VIII. Rail Rates and Service.

30. I understand that several railroad parties have asserted that the forest and paper products industry benefits from significant railroad competition with truck and other modes of transportation, and that the railroads are committed to their forest and paper products' shippers.⁴

31. While we are not unaccustomed to rate increases, since 2005, rail rates have increased dramatically in the forest products, paper, and pulp marketplace. Between 2005 and 2016 in a typical highly utilized lane, rates have increased as high as 161% while truck increases during the same period within the same lane increased 42.5%.

32. Rail service has also declined. Transit times have become more unreliable over the past ten years, and railroads seem largely uninterested in the forest products business. In addition, we face more claims from our customers for in-transit damage. Paper rolls and pallets of crated paper will move inside the boxcar during transit, often rubbing, chafing, and ultimately damaging the product being shipped.

⁴ Union Pacific Railroad Reply Comments, Butler V.S. at 8 (“Union Pacific is continually trying to recapture business that was lost to truck and win new business that otherwise would move by truck.”); CSXT Reply Comments, Rutherford V.S. at 4 (“CSXT is committed to our forest products customers”).

33. In the late 90's, Domtar worked hand-in-hand with railroads on site selection to develop production facilities that could facilitate increased rail transportation via boxcar. After Domtar invested capital and effort in building these facilities, tens of thousands of boxcars moved, but then the "de-marketing" of forest products traffic began about nine years ago.

34. This de-marketing has been characterized by non-competitive rates, poor service, and a general lack of interest. Domtar's use of rail transportation within the paper segment decreased in excess of 60% in this time frame.

35. The condition of boxcars remains poor as many boxcars leak, causing water damage to the contents. We have been reluctant to use boxcars for shipments of fluff pulp for this reason. Every week across our footprint, the lack of available boxcars impact our mode selection and precludes Domtar from selecting rail as a shipping option.

36. Domtar is a sustainability leader in its market space and wants to use more rail transportation. Domtar would use more rail transportation if rates were at a more reasonable level, and if transit times were better and more consistent. Moreover, given our dependence on rail service, we believe that we should have access to the STB's regulatory oversight like all of the other non-exempt shippers to address railroad service and rates when necessary.

VERIFICATION

I, David White, verify under penalty of perjury that I have read the foregoing Verified Statement, that I know the contents thereof, and that the same are true and correct to the best of my knowledge. Further, I certify that I am qualified and authorized to file this statement.



David White

September 30, 2016