BEFORE THE
SURFACE TRANSPORTATION BOARD

Ex Parte 704 (Sub-No. 1)

REVIEW OF COMMODITY, BOXCAR, AND TOFC/COFC EXEMPTIONS

COMMENTS OF
THE AMERICAN FOREST & PAPER ASSOCIATION

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The American Forest & Paper Association submits these comments in response to the Notice of Proposed Rulemaking ("NPRM") issued by the Surface Transportation Board ("STB" or "Board") on March 23, 2016 in this proceeding. In the NPRM, the Board has proposed to revoke existing class exemptions for five commodities[1] and has requested comments regarding whether other class exemptions should also be revoked. AF&PA's comments respond to the Board's invitation regarding other class exemptions and explain why the exemptions applicable to forest and paper products (hereafter "forest products"), and the boxcar exemption as it applies to rail shipments of forest products, should be revoked.

AF&PA commends the Board for instituting this rulemaking proceeding which recognizes that dramatic changes have occurred in the rail industry since the commodity exemptions were adopted by its predecessor agency, the Interstate Commerce Commission ("ICC"), decades ago.[2] To determine the changes that have occurred with respect to rail

[1] Specifically, the Board has proposed to revoke the class exemptions for the following commodities: (1) crushed or broken stone or rip rap; (2) hydraulic cement; (3) coke produced from coal; (4) primary iron or steel products; and (5) iron or steel scrap, wastes or tailings.

[2] This rulemaking proceeding is an outgrowth of the Board's general inquiry and public hearing held in February 2011 to investigate the current utility of existing commodity exemptions. AF&PA provided written comments and testified at the hearing. *See* Notice of Intent to

shipments of forest products since the exemptions were granted, AF&PA engaged Escalation Consultants to perform an analysis of the STB's Costed Confidential Waybill Sample ("Waybill") and has obtained other relevant information from its members. As explained in the accompanying Verified Statement of Mr. Henry Julian Roman, President of Escalation Consultants ("Roman V.S." attached as Exhibit A), a comparison of the 1989 and 2014 Waybill data demonstrate that substantial changes in the volume and pricing of rail shipments of forest products have occurred since the exemptions were granted decades ago. These changes reveal a decrease in the carloads of forest products shipped by rail but an enormous—**more than 550%**—increase in the amount of forest products traffic that is priced at captive rate levels, i.e. above 180% revenue-to-variable cost ("RVC"). This dramatic shift to captive pricing levels on less traffic has resulted in a 940% increase in captive-based revenue for the serving railroads. This huge change in the pricing of forest products movements to captive levels over this twenty-five year period represents an obvious exercise of railroad market power and justifies the application of regulation to forest products shipments under the Interstate Commerce Act. As demonstrated herein, providing forest products shippers with access to the Board's regulatory oversight would be entirely consistent with the Rail Transportation Policy at 49 U.S.C. § 10101.

I. AF&PA STATEMENT OF INTEREST

AF&PA serves to advance a sustainable U.S. pulp, paper, packaging, tissue and wood products manufacturing industry through fact-based public policy and marketplace advocacy. AF&PA member companies make products essential for everyday life from renewable and recyclable resources. The forest products industry accounts for approximately 4 percent of the total U.S. manufacturing GDP, manufactures over $200 billion in products annually, and

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Participate and Written Testimony submitted by AF&PA and the Paper and Forest Industry Transportation Committee, Jan. 31, 2011.

employs approximately 900,000 men and women. The industry meets a payroll of approximately $50 billion annually and is among the top 10 manufacturing sector employers in 47 states.

The nation's shortage of transportation capacity affects the forest products industry. In addition to the difficulty of moving raw materials to mills, moving products to customers is increasingly difficult and costly. Rail customers are not receiving reliable rail service at reasonable rates. Nearly one-third of forest products facilities have access to only one rail carrier.

II. THE STB SHOULD REVOKE THE CLASS EXEMPTIONS FOR FOREST PRODUCTS

In response to statutory changes contained in the Staggers Rail Act, the ICC began exempting certain rail traffic from regulatory oversight in the early 1980s. Section 213 of the Staggers Rail Act gave the Commission the power to deregulate a person, a transaction, or a service upon finding (1) that regulation was unnecessary to carry out the Congressional rail transportation policy, and (2) either that the transaction or service was limited in scope or that regulation was not needed to protect shippers from abuse of market power.[3] Between 1989 and 1993, the ICC issued several decisions that resulted in the class exemptions that apply to rail transportation of forest products.[4] The primary exempt forest products are identified by the following Standard Transportation Commodity Codes ("STCC") 24—Lumber or wood products; STCC 26 Pulp, paper or allied products, and wallboard; STCC 40231—Wood scrap or waste,

[3] *See* 49 U.S.C. § 10505(a) (Supp. V. 1981) now codified at 49 U.S.C. § 10502(a).

[4] *Rail General Exemption Authority – Miscellaneous Manufactured Commodities*, 6 I.C.C.2d 186 (1989); *Rail Exemption – Lumber or Wood Products*, 7 I.C.C.2d 673 (1991) ("*Lumber or Wood Products*"); *Petition to Exempt from Regulation the Rail Transportation of Scrap Paper*, 9 I.C.C.2d 957 (1993); *Rail Exemption – Transportation of Selected Commodity Groups*, 9 I.C.C.2d 969 (1993) ("*Selected Commodity Groups*").

and STCC 40241—Paper waste or scrap.[5] Many forest products are also shipped in boxcars, which were exempted by the ICC in 1983, subject to certain exceptions.[6]

However, as explained in Section II.B below, the findings of the ICC that were used as the basis for granting the forest products exemptions either no longer exist or are not relevant today. Further, as established in Mr. Roman's Verified Statement and Section II.C below, the railroads do have market power over the portion of forest products shipments that is captive or otherwise rail-dependent and, thus, the application of regulation would be appropriate and consistent with the Rail Transportation Policy.

Specifically, the ICC determined that shipments of forest products were subject to ample intramodal and intermodal competition which alleviated any concern that such shipments would be subject to undue market power.[7] It is without question that rail competition has diminished substantially since 1989 and that other regulatory and market constraints have impacted the scope and utility of truck competition. The ICC granted the exemptions based on the need to assist the rail industry in earning adequate revenues, which was in a financially-fragile condition at that time.[8] However, today, the railroad industry is financially strong. Additionally, the ICC found that the exemptions would promote rail competition by removing certain regulatory pricing burdens that existed under the Staggers Rail Act, such as the filing of tariffs and contracts

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[5] 49 U.S.C. § 1039.11.

[6] 49 U.S.C. § 1039.14. *See also, Exemption from Regulation—Boxcar Traffic*, 367 ICC 425 (1983); *Exemption from Regulation—Boxcar Traffic*, 367 ICC 747 (1983); *Brae Corp. v. United States*, 740 F.2d 1023 (DC Cir. 1984).

[7] *Rail General Exemption Authority – Miscellaneous Manufactured Commodities*, 6 I.C.C.2d 186 (1989); *Rail Exemption – Lumber or Wood Products*, 7 I.C.C.2d 673 (1991) ("*Lumber or Wood Products*"); *Petition to Exempt from Regulation the Rail Transportation of Scrap Paper*, 9 I.C.C.2d 957 (1993); *Rail Exemption – Transportation of Selected Commodity Groups*, 9 I.C.C.2d 969 (1993) ("*Selected Commodity Groups*").

[8] *Id.*

with the agency, which would allow railroads to be more efficient and responsive to their customers.[9] But statutory changes brought about by the ICC Termination Act of 1995[10] ("ICCTA") eliminated these administrative burdens for *all* commodities, rendering this finding moot. Indeed, today, nearly one-third of forest products facilities are captive to a single railroad and these captive customers often find their railroad to be *less* responsive to their business needs.

Accordingly, today, there is no tangible benefit to the forest products industry based on its exempt status, and—even worse—there is only a detriment to such status, based on the lack of access to the Board's regulatory oversight for captive rail movements.

A. The STB's Authority to Revoke Class Exemptions

Under 49 U.S.C. § 10502(d), the Board may revoke an exemption when it finds that the application of regulation, in whole or in part, is necessary to carry out the Rail Transportation Policy at 49 U.S.C. § 10101. This straightforward statutory provision provides the STB with substantial discretion to determine the circumstances under which the application of regulation to particular commodities shipped by rail is necessary and appropriate, based on its evaluation of the fifteen elements of the Rail Transportation Policy. Notably, while the Board's authority to adopt an exemption requires both a finding of a lack of a need for regulation and either that the transaction or service was limited in scope or that regulation was not needed to protect shippers from abuse of market power, the Board's authority to revoke an exemption requires only a determination that regulation is needed to carry out the Rail Transportation Policy. Although the ICC or the Board has considered whether to revoke an exemption in the context of an individual shipper's request to apply regulation to its traffic, the agency has not previously addressed a proposal or request to revoke a class exemption for a particular commodity grouping.

[9] *Id.*

[10] P.L. No. 104-88, 109 Stat. 803 (Dec. 29, 1995).

In the NPRM, the STB has properly determined that where substantial changes in the dynamics of the particular transportation markets have occurred since the commodity exemptions were granted, coupled with an increased likelihood of the exercise of market power over the rail transportation of such commodities, the application of STB regulation is justified in order to carry out the Rail Transportation Policy.[11] In making its proposal to revoke certain class exemptions, the Board reviewed Waybill rate data for the period of 1992 through 2013 to better understand changes in the railroads' pricing behavior, along with other industry information and testimony and comments submitted by interested stakeholders. The evaluation of this information formed the basis of the Board's determination that application of regulation to rail movements of such commodities would carry out the Rail Transportation Policy. This is a sound approach that is entirely consistent with the broad discretion afforded to the Board under Section 10502(d) of the statute.

Applying this standard to the forest products industry, it is clear that the class exemptions for such commodities should also be revoked. There have been extensive changes to the dynamics of the transportation market, the statutory regime, and the pricing practices of the railroads with respect to forest products traffic since the exemptions were granted in the late 1980s and early 1990s. More importantly, as shown by Mr. Roman's analysis of the Waybill data, there has been a dramatic shift in the railroads' pricing behavior for these commodities which demonstrate not only the *likely* exercise of market power but an *actual* exercise of market power, which strongly supports revocation of the exemptions.

[11] *See* NPRM at 4.

B. Substantial Market and Regulatory Changes Have Occurred Since the Forest Products Exemptions Were Granted

1. *Consolidations in the rail market have substantially reduced rail competition and other regulatory changes and market conditions have restricted truck competition.*

It is without question that rail-to-rail competition has been reduced substantially and is far less robust today when compared to the time that the forest product exemptions were granted. There were over forty Class I railroads when the Staggers Act of 1980 was adopted and Congress encouraged the ICC to broadly use its exemption authority. By 1993, when the wave of class exemptions had largely occurred, the number of rail carriers was reduced but there were still a dozen large rail carriers competing against one another.[12] Thereafter, the rail market consolidated and shrunk even further and, today, there are only seven Class I rail carriers. Of these seven, **only four** dominate the industry. As of 2008, BNSF, UP, CSXT, and NS accounted for over 90% of Class I freight shipments and over 92% of Class I railroads $61 billion in revenues.[13] The dominance of these four carriers is multiplied by the fact that only two of them serve the eastern and two serve the western portions of the U.S. Moreover, the seven Class I railroads were responsible for nearly 95% of the rail industry's total revenue in 2013.[14]

The substantial consolidation of the rail industry has taken its toll on geographic competition, as today many paper mills across the country are captive to a single railroad. Indeed, in 1998, the Board itself found that these forms of competition are less relevant in light of the rapid consolidation of the rail industry, and decided to ignore them in determining market

[12] *Railroad Facts, 1994 Edition*, p. 4.

[13] Senate Financial Report, p. 3, citing the Association of American Railroads *Railroad Ten-Year Trends, 1999-2008* (Feb. 2010).

[14] *Freight Railroads Background*, p. 1, Federal Railroad Administration, Office of Rail Policy and Development (April 2015).

dominance.[15] The reduced rail competition and captive status of many paper mills has enabled the railroads to substantially increase their pricing to captive levels, i.e. above 180% RVC,[16] evidencing the exercise of market power over forest products shipments.

Although truck transportation is an option for shipping forest products in some cases, it is not always an option. Rail transportation is more efficient and cost-effective particularly for long-haul movements. Many paper mills were built to receive inbound fiber (logs, poles, chips, wood pulp) and ship outbound products via rail and, thus, have loading and unloading facilities that were not designed to handle substantial volumes of trucks. A number of customers of the paper mills also prefer or require rail deliveries, which dictates the method of transportation selected. Weight and size limitations of trucks are also a restricting factor for these commodities and, in some regional markets, there are truck capacity shortages. Other factors adversely affecting motor carrier costs and competitiveness include a long-term driver shortage,[17] as well as regulatory changes involving driver hours of service[18] and increased safety enforcement flowing from DOT's new CSA 2010 safety program.[19]

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[15] Ex Parte No. 627, *Market Dominance Determinations – Product and Geographic Competition,* decision served December 10, 1998.

[16] *See* Roman V.S. at 5-7 and Appendix C.

[17] "The U.S. Truck Driver Shortage: Analysis and Forecasts," report prepared by Global Insight, May 2005. *See also State of Logistics Report, Presentation by Rosalyn Wilson*, p. 10, Council of Supply Chain Management Professionals (Oct. 6, 2015) ("[d]river shortage remains the top issue"), available at http://www.rightplace.org/assets/img/uploads/resources/State-of-Logistics_Rosalyn-Wilson.pdf; Chao, Loretta, *Driver Shortage Ripples Across Trucking Industry*, THE WALL STREET JOURNAL (June 23, 2015), available at http://www.wsj.com/articles/driver-shortage-ripples-across-trucking-industry-1435057224; Cassidy, William B., *U.S. truck driver shortage getting worse, turnover figures show*, JOURNAL OF COMMERCE (April 1, 2015), available at http://www.joc.com/trucking-logistics/labor/us-truck-driver-shortage-getting-worse-turnover-figures-show_20150401.html.

[18] On December 23, 2010, the United States Department of Transportation released a notice of proposed rulemaking in RIN 2126-AB26, "Hours of Service of Drivers." This proposed rule would make significant amendments to the regulations for hours of service (HOS) for drivers of

Accordingly, the substantially changed competitive market for railroads, and regulatory changes and conditions involving the rail and trucking industries, which have occurred since adoption of the exemptions, strongly justifies the application of regulation to rail movements of forest products.

2. *The rail industry is financially strong.*

As noted above, the decisions to exempt forest products from regulation were based, in part, on the need to facilitate the earning of adequate revenues for the rail industry, which was struggling financially when the Staggers Act was adopted. However, that underlying purpose is inordinately less relevant today, since the railroad industry is financially strong. This is shown by the Board's own revenue adequacy findings, as well as independent analyses by other parties.

In 1981, the first year that the agency decided to measure revenue adequacy by a return on investment standard, the ICC found that only three of thirty-five Class I railroads were revenue adequate.[20] By 1994, the last year before the passage of ICCTA, the Board found that only one of the twelve Class I rail carriers in existence at that time was revenue adequate.[21]

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property-carrying motor vehicles. The American Trucking Associations have indicated that the proposed new rules is likely to "substantially reduce trucking's productivity." See, http://www.truckline.com/pages/article.aspx?id=828%2F{8E1C7279-ED27-4C03-B189-CEEEE26BBB12}

[19] For an analysis of the new CSA 2010 program on the industry, see Annette Sandberg, "CSA 2010 and What It Means For Commercial Motor Carriers," Journal of Transportation Law, Logistics and Policy, Vol. 77 No. 4 (2010), p. 257. Industry analysts have indicated that CSA 2010 may reduce the available number of drivers, thus exacerbating the driver shortage. See, *e.g.*, Wolfe/Trahan, "Comprehensive Safety Analysis (CSA 2010) – A Deeper Look," May 24, 2010; *Transport Topics*, "Special Report: CSA 2010," April 2010, p. A-16-18. One industry analyst indicated that the new HOS regulations, along with the CSA 2010 program and other government regulations, could cause about 300,000 drivers to be eliminated in the industry. Dahlman Rose & Co., "2011 Road and Rail Outlook," January 18, 2011, pp. 4-5.

[20] *Standards for Railroad Revenue Adequacy*, 364 I.C.C. 803 (1981).

[21] See, Ex Parte No. 524, *Railroad Revenue Adequacy–1994 Determination*, decision served August 18, 1995.

However, in the past several years, most railroads have achieved revenue adequacy under the Board's standards, and more importantly, the rates of return as calculated by the agency for all railroads have been above or close to the Board's standard.[22] Indeed, the two most recent years for which revenue adequacy results are available reveal the resounding financial success of the Class I railroads. In both years, three of the four major Class I railroads were revenue adequate, with CSXT knocking on the door both years.[23]

Independent analyses confirm the financial health of the industry. An independent study commissioned by Congress and published in 2015 by the Transportation Research Board ("TRB") found that "[t]he Staggers Rail Act was successful in enabling the development of an efficient, innovative, and financially strong freight railroad industry."[24] In support of this assessment, the TRB supplied a wide variety of data and analysis. For example, the TRB noted that revenue of the Class I railroads, in 2013 dollars, increased 59% between 1995 and 2013.[25] During the same time period, Class I railroads were able to increase capital expenditures (again

[22] *See Railroad Revenue Adequacy – 2014 Determination*, STB Ex Parte No. 552 (Sub-No. 19) (served Sept. 8, 2015); *Railroad Revenue Adequacy – 2013 Determination*, STB Ex Parte No. 552 (Sub-No. 18) (served Sept. 2, 2014). In 2013, five of the seven Class I carriers were revenue adequate, and the simple average return on investment ("ROI") for all seven carriers was 12.00%, which was above rail industry cost of capital (11.32%). Similarly, in 2014, four of the seven Class I railroads were revenue adequate. The ROI for Canadian Pacific Railway ("CP") was anomalous in 2014 due to a one-time charge associated with the sale of certain Dakota, Minnesota & Eastern Railroad rail lines. *See Railroad Revenue Adequacy – 2104*, slip op. at 3 (n. 4). Omitting the ROI figure for CP, the simple average ROI for the six remaining Class I railroads was 11.93% in 2014, well above the rail industry cost of capital for the year, which was 10.65%. See also, S. Rep. No. 111-380, 111th Cong. 2d Sess., p. 2 ("The average Class I railroad's return on investment increased from 1978 when it was 1.52 percent to 10.7 percent in 2008.").

[23] *Id*.

[24] *Modernizing Freight Rail Regulation*, Special Report No. 318, page 116, Transportation Research Board, National Academy of Sciences (2015).

[25] *Modernizing Freight Rail Regulation* at page 18.

in 2013 dollars) by 54%.[26] Given that "the railroad industry has been transformed," the TRB was surprised by the way existing "regulatory provisions serve purposes that are now expired" and are "outdated" because they were "introduced decades ago when the railroads and associated policy concerns were much different from those of today."[27] In short, the TRB found that the regulatory framework needed revision, with the remaining regulations "suited to the financially sound, modern railroad industry of today and not to the foundering one that required rescue 35 years ago."[28]

Other recent assessments of the freight rail industry have come to similar conclusions. In 2010, the Office of Oversight and Investigations of the Senate Committee on Commerce Science and Transportation issued a report titled "The Current Financial State of the Class I Railroad Industry," September 15, 2010 ("Senate Financial Report (2010)"), in which it concluded that "[a] review of the Class I railroads' recent financial result shows that the Staggers Act's goal of restoring financial stability to the U.S. rail system has been achieved."[29] The Senate Report noted that the four largest U.S. rail carriers had nearly doubled their collective profit margin in the ten year period prior to 2010.[30]

In late 2013, the Senate Financial Report was updated, and similar conclusions were reached. The Office of Oversight and Investigations found that Class I railroads were "prospering" and that "the financial performance of these [railroad] companies is at its strongest

[26] *Modernizing Freight Rail Regulation* at page 18.

[27] *Modernizing Freight Rail Regulation* at 2 and 7.

[28] *Modernizing Freight Rail Regulation* at 7.

[29] Senate Financial Report (2010), p. 1.

[30] *Id.*, p. 5.

since the passage of the Staggers Act."[31] The evidence supporting these conclusions was voluminous, including:

- at least one of the three largest Class I railroads[32] set an all-time company quarterly record for operating ratio, operating income, or earnings per stockholder share ("EPS") in every reporting period since 4Q2009;
- over the past four years, the three largest Class I railroads broke operating ratio records in 29 of the 48 quarters; and
- the three largest Class I railroads set new records for operating income in 30 of the past 48 calendar quarters.[33]

In short, the 2013 *Update* found that "[e]ach new quarter brings further evidence that the large freight railroad companies are highly profitable enterprises that have confidence that their financial success will continue."[34]

These recent findings by the TRB and the U.S. Senate Commerce Committee Office of Oversight and Investigations are merely a continuation of railroad financial successes that began over a decade ago. In 2008, the railroad companies' profit margin placed the industry fifth out of 53 industries on *Fortune's* list of "most profitable industries." Senate Financial Report (2010), p. 5. Between 2001 and 2008, the railroad industry was ranked in the top ten on *Fortune's* profitability list seven out of eight times, and its growth in profitability had outpaced almost all

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[31] *Update on the Financial State of the Class I Freight Rail Industry*, pages i and 21, Office of Oversight and Investigations (Majority Staff), Senate Committee on Commerce, Science, and Transportation (Nov. 21, 2013) ("*Update*").

[32] The *Update* from the Senate Office of Oversight and Investigations was unable to include BNSF financial results due to the acquisition of BNSF by Berkshire Hathaway in late 2009. *See Update* at 2 (n. 10).

[33] *See Update* at i.

[34] *See Update* at ii.

other large industries. *Id.* All of this is a far, far cry from the Congress' finding in 1980 that the railroad industry's profitability was the lowest of any transportation mode. In 2010, the Senate Financial Report concluded that freight railroads are "now some of the most highly profitable businesses in the U.S. economy." *Id.* at 14.[35] These findings have recently been confirmed by events on Wall Street. The 2013 Update found that the major Class I railroads have been able to increase dividends, engage in stock buy-backs, and otherwise provide benefits to shareholders.[36]

Accordingly, the railroads resounding financial success calls for a much reduced need to deny forest products companies access to the Board's regulatory processes and remedies in order to promote the policy of railroad revenue adequacy.

3. *Statutory changes have eliminated any exemption benefits.*

Another reason for granting the forest products exemptions was the ICC's finding that eliminating rate and contract regulatory burdens retained by the Staggers Rail Act would enable the railroads to be more responsive, efficient and competitive. However, in 1995, Congress further deregulated the rail industry by passing ICCTA[37] and removed burdensome rate and contract requirements for shippers of *all* commodities. Among other changes, ICCTA eliminated the requirements for rail carriers to file with the government tariffs, contracts, and contract

[35] A study by Christensen Associates concludes that in recent years the revenue of the freight railroad industry has exceeded industry costs, and thus the industry has thus achieved "revenue sufficiency." See, "An Update to the Study of Competition in the U.S. Freight Railroad Industry – Final Report," Laurits R. Christensen Associates, Inc., Madison, Wisconsin, January 2010 ('Updated Christensen Report"), p. 4-13. See also, an Presentation to the Association of Transportation Law Professionals, by Kelly Eakin of Christensen Associates, November 2010, p. 9.

[36] *See Update* at 14-20.

summaries except for agricultural contracts.[38] Carriers could also implement rate decreases immediately.[39]

Thus, ICCTA's passage voided the benefits of the regulatory exemptions as applied to forest products, since **all** shippers after ICCTA could avoid the burdens and inefficiencies of tariff and contract filings, and obtain timely rate responses to market changes. In the post-ICCTA environment, exempt status provides *no* regulatory benefits and only results in the detriment of the loss of access to regulatory protections, which have become increasingly more important given the consolidation of the industry. The later-adopted statutory changes, coupled with the lack of any regulatory benefit, cast serious doubt as to whether the forest products exemptions are still consistent with the Rail Transportation Policy. Any doubt over this consistency with the statute is confirmed based on the changed pricing practices of the railroads in general, and specifically with respect to forest products.

4. *The economics of rail shipments, in general, have changed dramatically.*

Attached to these comments as Exhibit A is the Verified Statement of Mr. Roman, President of Escalation Consultants, Inc., who has analyzed in detail the data from the STB's Waybill to determine if there has been a change in the economics of shipping by rail since forest product commodities first became exempt. Mr. Roman's analysis concludes that the economics of rail shipments have, in fact, changed dramatically. Mr. Roman shows that, in the period from 1989 to 2001, rail rates were essentially flat.[40] However, his analysis indicates that between 2001 and 2014, **rail rates increased more than 100%**.[41] Indeed, **in just the 10-year period**

[38] 49 U.S.C. § 10709 and § 10709(d)(1) (1996).

[39] 49 U.S.C. § 11101 (1996).

[40] Roman V.S. at 7.

[41] *Id.*

between 2004-2014, rail rates increased 91%.[42] As Mr. Roman notes, in 1989, there were 13 Class I carriers competing against one another, but by 2014, the number of Class I rail competitors had declined by nearly half, to just seven carriers.[43] Mr. Roman notes that this 91% increase in rail rates between 2004 and 2014 is particularly remarkable given the fact that the U.S. economy was in recession during much of this time frame.[44] This 91% increase in rail rates over this 10-year time frame is even **more** remarkable when compared against the overall rate of inflation and the increase in trucking rates: over this 10-year time frame, Mr. Roman notes that inflation as measured by the Consumer Price Index increased 25.3%, while the price charged for long haul trucking increased just 25.7%.[45] All of these figures indicate that the economics of shipping by rail have changed dramatically since the exemptions for forest products were granted between 1989 and 1993.

C. Railroads Are Exercising Substantial Market Power Over Forest Products Shipments

In addition to analyzing certain macro changes in the rail industry, Mr. Roman performed a number of tasks to specifically analyze the economic changes in rail pricing that have occurred with respect to the forest products industry. Mr. Roman:

- identified the forest product commodities which are exempt based on the applicable Standard Transportation Commodity Code ("STCC");
- determined the dates upon which the exemptions were granted by the ICC;

[42] *Id.*

[43] *Id.*at 8.

[44] *Id.*

[45] *Id.*

- selected 1989 as the start year for analyzing changes to these exempt forest product commodities, based on the earliest forest products exemption granted, and selected 2014 as the end year, as this is the latest year with available Waybill data;
- determined the change in rail volumes for these commodities;
- determined how the revenue-to-variable-cost ratios (RVCs) have changed over time for forest products; and
- determined the top ten exempt commodities by volume (the "Top Ten") under the agency's exemptions for forest product commodities, and performed additional analyses on these Top Ten commodities.[46]

The analyses conducted by Mr. Roman indicate clearly that there have been substantial changes in the dynamics of the rail transportation market for these commodities since the exemptions were granted about twenty-five years ago; and most importantly, that the railroads' pricing behavior is consistent with an actual exercise of market power over these commodities. As noted in Mr. Roman's Verified Statement and as discussed below, although the volume of carloads of exempt forest products shipped by rail has decreased, there has been a major increase in the amount of forest products traffic that is priced at captive rate levels when comparing RVCs for this traffic in 1989 versus 2014. Specifically, the increase in pricing to captive rate levels reflects a change in the RVCs for this traffic from levels below the statutory 180% percent RVC cutoff for market dominance determinations (i.e. evidence of "an absence of effective competition from other rail carriers or modes of transportation") in rail rate proceedings at the

[46] Roman V.S at 2-4.

Board,[47] to RVCs that are substantially in excess of that level today. These changes strongly indicate not only that the railroads have substantial market power over these commodities, but that they are actually exercising that market power to capture monopoly revenues over a significant portion of exempt forest product traffic.

1. *Fewer carloads of forest products are shipped by rail today but rail remains a critical mode of transportation.*

As previously noted, the commodity-specific exemptions from regulation for forest products were granted by the ICC in 1989, 1991, and 1993.[48] In order to capture the changes that have occurred in the dynamics of the transportation market for forest products since then, Mr. Roman analyzed data from the agency's Waybill for the years 1989 (the year that the first exemption was granted) and 2014 (the most recent year for which data is available).[49] As an overall matter, Mr. Roman determined that there has been a substantial decline in all exempt forest product commodity carloads during this period, with total exempt carloads decreasing from about 1.5 million carloads in 1989 to about 852,000 carloads in 2014, or a decline of 43.3%.[50] Mr. Roman also analyzed the number of carloads transported by rail in 1989 and 2014 for the Top Ten exempt forest products. While there was a decline in this category, the decline was not as large, with exempt rail shipments for the Top Ten decreasing from 835,326 in 1989 to 661,604 in 2014, or about 20.7%.[51] As discussed in these Comments, there appears to be no

[47] 49 U.S.C. §§ 10707(a) and 10707(d)(1)(A).

[48] *Rail General Exemption Authority – Miscellaneous Manufactured Commodities*, 6 I.C.C.2d 186 (1989); *Rail Exemption – Lumber or Wood Products*, 7 I.C.C.2d 673 (1991) ("*Lumber or Wood Products*"); *Petition to Exempt from Regulation the Rail Transportation of Scrap Paper*, 9 I.C.C.2d 957 (1993); *Rail Exemption – Transportation of Selected Commodity Groups*, 9 I.C.C.2d 969 (1993) ("*Selected Commodity Groups*").

[49] Roman V.S. at 3.

[50] Roman V.S., Appendix C.

[51] *Id*.

single reason for this decline in the volume of forest products carloads shipped by rail. Part of this decline appears to be related to changes in the overall demand for paper products in the "electronic age" and increased use of alternative transportation options for a portion of forest products traffic that can more easily move via truck.[52] However, beyond these more macro-level factors, it is also clear from the data that there is a specific pricing factor at work: railroad pricing practices—namely, substantial rail rate increases—that have driven some marginal forest product shipments off the rail system completely.

However, what is also clear from the data and information from AF&PA members is that, despite a decline in the volume of exempt forest product shipments via rail, there is still a very substantial amount of exempt forest products traffic that does and, indeed, must be transported via rail. Despite the substantial price increases that have occurred for these exempt commodities between 1989 and 2014 (as discussed below), over 852,000 carloads of exempt forest product commodities were shipped via rail in 2014. According to the Association of American Railroads (AAR), nearly 33 million tons of pulp, paper and converted products were shipped by rail in 2014.[53] The fact is that many forest product shipments are dependent on rail, depending on the length of haul, plant loading and unloading configuration, customer requirements, and limited truck capacity. Railroads, realizing this reality, have imposed substantial rate increases on the portion of exempt forest products that does and must ship by rail when comparing 1989 and 2014 pricing data.

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[52] U.S. paper and paperboard production peaked in 1999. According to the AAR, the tonnage volume of pulp and paper products shipped by rail declined from 38.2 million tons in 2005 to 28.5 million tons during the recession year of 2009, but subsequently began to rebound, reaching 33.0 million tons in 2013, receding to 32.9 million tons in 2014, still substantially below its 2005 high. However, since 2014, traffic has declined further, down 3.1 percent through December 2015. *See*, https://www.aar.org/pages/freight-rail-traffic-data.aspx.

[53] *See*, https://www.aar.org/pages/freight-rail-traffic-data.aspx.

2. *Railroads' pricing practices for forest products shipments changed dramatically between 1989 and 2014, with substantially more shipments being priced at captive rate levels.*

In his examination of the Waybill, Mr. Roman analyzed in detail changes in the RVC ratios for the Top Ten exempt forest product commodities between 1989 and 2014, as well as changes in the RVC ratios for all exempt forest products. The changes in the RVC ratios over this time period are dramatic. As his analysis indicates, **although the total volume of carloads for Top Ten volume commodities decreased by 20.7% (from 835,326 to 661,604), the number of carloads being charged captive rates (i.e., rates with an RVC ratio of 180% or above) for these commodities increased more than five-fold or 560.5%, from 18,272 carloads in 1989 to 120,668 carloads in 2014.**[54] Thus, over this time period, the percentage of movements for all exempt forest product commodities being charged rates in excess of 180% went from 2.2% to nearly 20% of the total number of exempt forest product movements.[55] Interestingly, the average RVC ratio for all exempt forest product commodities in excess of 180% stayed virtually the same in 1989 as in 2014: in 1989, exempt forest product commodities being charged a rate in excess of 180% had an average RVC of 214.1%; in 2014, exempt forest product commodities being charged a rate in excess of 180% had an average RVC of 212.3%.[56]

Between 1989 and 2014, as the rail systems filled, the railroads raised rates on more competitively-priced exempt forest product commodities, chasing tens of thousands—indeed, hundreds of thousands—of carloads off their system that had feasible transportation alternatives. However, they also increased prices substantially to captive rate levels on a significant portion of their exempt forest product traffic that was not subject to effective competitive alternatives, and

[54] Roman V.S. at 5 and Appendix C.

[55] Roman V.S., Appendix C.

[56] *Id.*

that had to move via rail, thus generating hundreds of millions in additional income in the process. As Mr. Roman notes, the large increase in carloads with captive rates just for the Top Ten exempt forest products **resulted in a 940% increase in rail revenue from these captive movements, which represents a $465 million increase in captive rail revenue.**[57]

Moreover, Mr. Roman's analysis indicates that what is true for the Top Ten commodities was true of all exempt forest product commodities: although carloads for all exempt commodities decreased by 43.3% between 1989 and 2014, the carloads with RVCs above 180% more than doubled, increasing by 115,323 carloads over this time period.[58]

This railroad pricing behavior clearly shows that there has been a substantial change in the dynamics of the rail transportation market for forest products since the commodity exemptions were granted in 1989-1993, coupled with an apparent—indeed, obvious—exercise of railroad market power. Lower-margin traffic that is subject to effective truck competition was and is being priced off the rail system. However, the remaining more rail-dependent traffic is not only more likely to face an exercise of railroad market power: the railroads are actually exercising their market power by imposing rates well in excess of the Board's jurisdictional threshold for a significant portion of that traffic. For example, in 1989, only 10.8% of the approximately 31,000 carloads of exempt STCC 2411545, Wood Chips, transported by rail were being charged rates in excess of an RVC of 180%. But; in 2014, **more than 93% of the approximately 8600 carloads still moving by rail were being charged rates in excess of 180%.**[59] In the same vein, just 6.7% of the approximately 3600 carloads of telegraph poles (STCC 2491128) were being charged rates with an RVC in excess of 180%; whereas, in 2014,

[57] Roman V.S. at 5 and Appendix D.

[58] Roman V.S. at 6-7.

[59] Roman V.S. at 6 and Appendix C.

the railroads had chased half this traffic off the system, and then imposed rates with an RVC in excess of 180% on nearly half the remaining traffic.[60] Similarly, STCC 2631117, Pulpboard and Fibreboard, the largest exempt forest product carload commodity on the rail system, showed a decline in carloads from 372,860 carloads in 1989 to 276,100 carloads in 2014, a decrease of about 25%. However, the percentage of carloads of this commodity being priced at RVCs above 180% percent went from a miniscule 2.2% in 1989 to about 20% in 2014, a nearly **tenfold** increase.[61]

All of this is classic monopolist behavior: figure out which of your customers has no other option, and then price the services to that customer at supra-competitive levels.

D. STB Oversight of Forest Products Shipments is Consistent With the Rail Transportation Policy

As noted above, under 49 U.S.C. § 10502(d), the Board may revoke an exemption when it finds that regulation is necessary to carry out the Rail Transportation Policy at 49 U.S.C. § 10101. In this proceeding, the Board has properly determined that substantial changes in the dynamics of the particular transportation markets since the exemptions were granted, coupled with an increased likelihood of the exercise of railroad market power, justifies the application of the Interstate Commerce Act in order to carry out the Rail Transportation Policy.[62] As already established, there have been substantial changes in the rail market, rail finances, rail regulation, and in rail pricing behavior that demonstrates the exercise of market power over exempt forest products shipments. Moreover, it is clear that re-establishing the STB's regulatory oversight for these commodities would be entirely consistent with the Rail Transportation Policy.

[60] Roman V.S., Appendix C.

[61] Roman V.S., Appendix C.

[62] NPRM at 4.

Specifically, such oversight would foster sound economic conditions in transportation, maintain reasonable rates where there is an absence of effective competition, encourage honest and efficient management of railroads, and avoid predatory pricing and undue concentrations of market power.[63] The Waybill analysis conducted by Mr. Roman shows that potential truck competition has not prevented major rail price increases on a significant portion of exempt forest products traffic, and it is without question that existing truck capacity is simply not adequate to handle all or even most of the traffic currently transported via rail. Indeed, trends in the transportation industry suggest that truck capacity and resultant truck competition will be even more limited in the future than it is now: the trucking industry is only now beginning to see the restrictions on supply required under the new hours of service rules.[64] These restrictions, coupled with the ongoing and increasing driver shortages and increasing safety regulation, will likely make truck competition even more limited than it is today.

E. Forest Products Shipments Should Have Access To the Board's Procedures Like Other Commodities, and the Right To Access to the Board's Regulatory Oversight Will Not Harm the Railroads

It is important to note the limited nature of the AF&PA's request: AF&PA members simply desire to have the same access to the Board's procedures and protections that many other non-exempt shippers possess. Removal of the class exemptions for forest products would do nothing more than allow forest products companies the opportunity to pursue rate, service or other regulatory remedies to address a potentially unlawful exercise of railroad market power, but it does not guarantee success. For example, an individual forest product shipper would need to be able to show in a rate case that the defendant railroad possesses market dominance; that the

[63] 49 U.S.C. §§ 10101(5),(6), (9) and (12).

[64] Hours of Service of Drivers, 76 Fed. Reg. 81133 (Dec. 27, 2011); *American Trucking Ass'n v. Federal Motor Carrier Safety Admin.*, 724 F.3d 243 (D.C. Cir. 2013).

rates that they are being charged exceed the 180% threshold; and that they meet all of the substantive requirements of the Board's small, medium or large rate case procedures. In a proceeding regarding common carrier service or practices, a forest products shipper would need to prove that a defendant railroad's conduct was unreasonable. Removal of the class exemptions would simply place forest products shippers on equal footing with many other shippers who have the right to access Board remedies in their dealings with the railroads.

In this connection, it is important to note that, in order to remove the class exemptions, it should **not** be necessary for forest product shippers to show that all, or even most, of their traffic has revenue to variable cost ratios that exceed 180%. Not all coal shippers, for example, can meet the market dominance requirement for a rate case, and a significant portion of coal movements are not charged rates that exceed 180% of variable cost. Petitioners have shown that a significant portion of their movements have RVCs that exceed the Board's jurisdictional threshold, and that this portion has increased dramatically since the commodity exemptions were granted twenty-five years ago. There have clearly been changes in the rail marketplace for these commodities, and there has clearly been an increased likelihood of the exercise of rail market power. Movements of these exempt commodities with RVCs over 180% should at least have the same access to the Board's protections as other similar movements of other commodities, without the necessity for individual shippers of exempt forest products to have to jump through the additional hoop of seeking an individual revocation of an exemption before they can access the Board's protections.

III. THE STB SHOULD REVOKE THE BOXCAR EXEMPTION TO THE EXTENT IT APPLIES TO FOREST PRODUCTS SHIPMENTS

As noted at the outset, there are two categories of class exemptions that apply to many shipments of forest products. The first category is the class exemptions that were issued for

specific forest product commodities between 1989 and 1993, identified in footnote 4. The second category is the boxcar exemption, adopted by the ICC in 1983, which also governs the movement of many forest products rail shipments.[65] In 1983, the agency issued the boxcar exemption because it believed that movements in boxcars are particularly susceptible to competition from trucks. See, *Exemption from Regulation – Boxcar Traffic*, 367 I.C.C. at 433 ("truck competition for the transportation of boxcar commodities is pervasive . . .") and 437-38 (forest products transported in boxcars are subject to "severe market constraints in pricing").

However true that was in 1983, an analysis of the Waybill by Mr. Roman clearly reveals that this is not now the case for forest products transported by boxcar. Specifically, Mr. Roman analyzed the Top Ten commodities with RVCs exceeding 180% to determine the percentage of those movements that were transported in boxcars. His analysis shows that more than 60% of exempt forest product carload shipments with RVCs over 180% were transported in boxcars.[66] Three commodities out of the Top Ten had **96%** of their high-RVC movements in boxcars, and one commodity out of the Top Ten shipped **79%** of its high-RVC movements in boxcars. These results are completely inconsistent with the notion that boxcar shipments are particularly susceptible to truck competition: if that were true in the case of these exempt forest product commodities transported in boxcars, it would be expected that few if any shippers would pay rates well in excess of the Board's jurisdictional threshold for boxcar shipments.[67]

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[65] See, *Exemption from Regulation – Boxcar Traffic*, 367 I.C.C. 425 (1983) and 367 I.C.C. 747 (1983,), *aff'd, Brae Corp. v. United States*, 740 F.2d 1023 (D.C. Cir. 1984).

[66] Roman V.S. at 10.

[67] Boxcar retirements have significantly exceeded new car purchases for several years, causing the number of boxcars operating in North America to decline by about 40% over the past decade. The paper industry accounts for about half of all North American boxcar loadings. *See*, "Shortage of Railcars Has Shippers Fuming," Market Watch, June 21, 2015: www.marketwatch.com/story/shortage-of-railroad-boxcars-has-shippers-fuming-2015-06-21.

The fact of the matter is that boxcars cannot be easily replaced by trucks or alternative equipment types in the case of the movement of many forest products. Many forest product shippers or receivers' facilities are configured to send or receive shipments via boxcars, and it is economically infeasible to shift to truck transportation. Certain paper commodities, such as large paper rolls, are most efficiently and most safely transported in boxcars. Boxcars have inherent advantages in loading and unloading certain paper products. And, while up to approximately 20-30 paper rolls may be transported in a single boxcar (depending on roll and car sizes), that same single boxcar shipment would require perhaps four times as many trucks. Accordingly, revocation of the boxcar exemption as applied to forest products shipments is also appropriate and consistent with the statute.

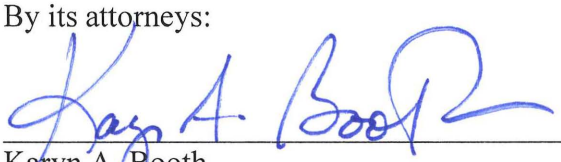
IV. CONCLUSION

For the foregoing reasons, and based on the attached Verified Statement of Mr. Roman, AF&PA respectfully requests that the Board revoke the existing class exemptions for forest products, as well as the boxcar exemption as it applies to rail shipments of forest products.

Respectfully submitted,

THE AMERICAN FOREST & PAPER ASSOCIATION

By its attorneys:



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Dated: July 26, 2016

EXHIBIT A

BEFORE THE
SURFACE TRANSPORTATION BOARD

Ex Parte No. 704 (Sub-No. 1)

REVIEW OF COMMODITY, BOXCAR, AND TOFC/COFC EXEMPTIONS

VERIFIED STATEMENT

of

HENRY JULIAN ROMAN

July 21, 2016

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BEFORE THE
SURFACE TRANSPORTATION BOARD

Ex Parte No. 704 (Sub-No. 1)

REVIEW OF COMMODITY, BOXCAR, AND TOFC/COFC EXEMPTIONS

VERIFIED STATEMENT

of

HENRY JULIAN ROMAN

I. INTRODUCTION

My name is Henry Julian Roman ("Jay Roman"). I am President of Escalation Consultants, Inc., which is located at 4 Professional Drive Suite 129, Gaithersburg, MD 20879. Escalation Consultants is a consulting firm engaged in economic analysis and consultation related to prices and price movement for shipping products by rail. Since founding Escalation Consultants in 1979, I have assisted a large number of companies in analyzing the best options for their rail traffic and in controlling the cost of rail transportation.

I regularly perform studies of rail rates for companies with movements in the U.S. and Canada. Some of the industries I work with are: Coal, Chemicals, Petroleum, Automobile, Grain, Steel, Fertilizer, Farm and Food Products, Paper Products and Forest Products. I am knowledgeable about the current cost of rail transportation in the marketplace as I annually assist companies in rail negotiations and bid evaluations totaling more than a billion dollars in rail spend. I am the owner and developer of the Rail Rate Checker internet database program, which

is a very large database that contains information on rail rates, rate changes, costs, volumes and rail profit by commodity group. A large number of companies subscribe to Rail Rate Checker to determine what rates are reasonable for their rail movements and to help obtain better rates for their rail traffic. I am also the owner and developer of the Optimized Rail Bid Evaluation ("ORBE") program, which is a macro processing program which optimizes the rail spend of shippers with a large number of rail movements. ORBE is used to analyze tens of thousands of movements and ORBE was used to analyze STB's Costed Confidential Waybill Sample ("Waybill") to determine the change in economics of shipping Forest and Paper Products ("F&P Products") by rail in my analysis.

Escalation Consultants regularly performs extensive analyses of the freight rail system, including issues affecting rail rates and competition in the rail industry. Escalation Consultants also analyzes rail movements for many commodities over time to determine the impact of rate changes and the change in traffic flows in markets.

I conduct one of the most widely attended and recommended rate negotiation seminars for rail shippers. Our negotiation seminars are attended by representatives from hundreds of companies in the U.S. and Canada; virtually all industries that ship by rail have participated in these seminars. I have testified as an expert on pricing issues involving coal and rail transportation issues before the U.S. Federal Energy Regulatory Commission, in federal courts, in state courts, before the National Energy Board of Canada, and in arbitration proceedings in the U.S. and Canada as well as before the U.S. Surface Transportation Board ("STB" or "Board"). My curriculum vitae are attached to this testimony in Appendix A.

II. DESCRIPTION OF TASKS ASSIGNED

I have been asked by the American Forest & Paper Products Association ("AF&PA") to use the Waybill to determine if there has been a change in the economics of shipping F&P Products by rail since these commodities became exempt, and in particular to determine if there are facts to support a revocation of the agency's exemption.

III. PROCESS USED TO DETERMINE WHETHER THE ECONOMICS OF SHIPPING F&P PRODUCTS BY RAIL HAS CHANGED

The Code of Federal Regulations ("CFR") was reviewed to determine the F&P Products commodity codes that are exempt from the provisions of 49 U.S.C. subtitle IV and I also worked with AF&PA's legal counsel to determine the dates the commodity exemptions took effect. The Standard Transportation Commodity Codes ("STCCs") that are exempt and included in my analysis are listed in Appendix B to my testimony. Appendix B shows that there are 177 commodity codes included on the Waybill for exempt F&P Products. These 177 commodity codes form the basis of my analysis.

The 177 STCCs were first analyzed for the year 2014, as 2014 is the most current Waybill data available. The commodities with the largest number of carloads moved in 2014 were determined. My analysis primarily focused on the ten largest commodity movements ("the Top Ten") as these are the commodities most significantly impacted by the exemption. The year of 1989 was selected as the base year as this was the year that the first commodity exemptions went into effect for commodities included in the Top Ten.

To determine the economic change in shipping exempt F&P Products by rail, I analyzed the following between 1989 and 2014:

a. The change in the number of rail carloads for all F&P Products exempt commodities;

b. The change in the number of rail carloads for the top ten high volume F&P Products exempt commodities;

c. The change in the number of carloads of F&P Products exempt commodities with RVCs above 180% for all commodities;

d. The change in the number of carloads of F&P Products exempt commodities with RVCs above 180% for the Top Ten high volume commodities; and,

e. How economic changes in the Top Ten high volume commodities compare to the change in all F&P Products exempt commodities.

IV. SUMMARY OF ECONOMIC CHANGES IN F&P PRODUCTS BETWEEN 1989 AND 2014

The table in Appendix C supports the following results of my analysis of F&P Products exempt commodities.

a. Carloads for the Top Ten high volume commodities in 2014 decreased by 20.7% (-173,722 carloads) between 1989 and 2014.

b. Though carloads for the Top Ten volume commodities decreased by 20.7%, the carloads with captive rates (carloads with more than a 180% RVC) for these commodities increased more than five-fold (560.5%).

c. The large increase in captive carloads for the Top Ten volume commodities indicates that rates for a large number of moves with low RVC levels in 1989 increased to high captive RVC levels by 2014.

d. The large increase in carloads with captive rates for the Top Ten volume commodities resulted in a 940% increase in rail revenue, which represents a $465 million increase in captive rail revenue from these commodities (see Appendix D).

e. Increasing rates to higher railroad profit levels appears to be impacting the volumes AF&PA members ship by rail.

The results of the analysis of the Top Ten high volume commodities indicate that there has been a dramatic change in the economics of shipping by rail. Rail carloads have decreased by 20.7%, while moves with monopoly profits (i.e., moves with RVCs above 180%) have increased 560%. This indicates that railroads now believe that they can price a much larger number of exempt commodities at much higher profit levels than they could in the past.

The increased market power of railroads is demonstrated by the following result shown in Appendix C.

IN 2014 18.2% OF THE TOP TEN COMMODITY SHIPMENTS HAD RVCs GREATER THAN 180%, WHILE IN 1989 ONLY 2.2% OF SHIPMENTS HAD RVCs GREATER THAN 180%

Appendix C shows that the increase in carloads with RVCs greater than 180% for specific commodities is extremely large. For example, five commodities out of the top ten had more than a 900% increase in carloads with RVCs greater than 180%. The five commodities are shown in Table 1 below.

Table 1

Commodities with More than a 900% increase in Carloads with RVCs Above 180%

STCC	Description	Percent Increase in Carloads >180%
2421184	Lumber/Timber, Rough/Dressed, Dried	953.9%
2411580	Pulpwood Chips, Pine	1175.5%
2499610	Particleboard, Wood, Consisting of Flat Boards/Sheets, Bonded Wood Chips Compressed	980.0%
2411560	Pulpwood Chips, Hardwood	1739.1%
2411411	Pulpwood/Pulpwood Logs, Exceeding 5', 6" in Length	1031.6%

To demonstrate the significance of the change that has taken place in railroad's pricing power in 2014, 93.3% of all STCC 2411545-Wood Chips carloads had more than a 180% RVC, while only 10.8% of Wood Chips carloads had captive profit levels in 1989.

The results of my analysis included in Appendix C indicate that there has been a dramatic change in the economics of shipping by rail for the Top Ten high volume F&P Products commodities. In addition, the large drop in carloads indicates that the higher profit margins that railroads are obtaining from the Top Ten high volume movements are at least partly contributing to the 173,722 decrease in rail carloads for high volume commodities (835,326 carloads in 1989 versus 661,604 carloads in 2014).

V. THE ECONOMICS OF SHIPPING ALL F&P PRODUCTS EXEMPT COMMODITIES BY RAIL DETERIORATED SIMILAR TO THE TOP TEN HIGH VOLUME COMMODITIES

The table in Appendix C shows that when all F&P Products exempt commodities are considered, carloads decreased 43.3% (-652,032 carloads) between 1989 and 2014. A 43.3% decrease in rail carloads demonstrates that the F&P Products industry has changed dramatically for most commodities.

Even though the carloads for all F&P Products exempt commodities decreased by 652,032 cars between 1989 and 2014, the number of carloads with RVCs greater than 180% increased by 213% (+115,323 carloads). This data demonstrates that the economics of shipping all F&P Products commodities by rail has changed dramatically as moves with monopoly profits increased by 213% while total carloads shipped by rail plummeted 43%.

My analysis shows that the economic changes for the Top Ten high volume F&P Products exempt commodities are similar to the economic changes in all F&P Products exempt

commodities: the carloads for both groups decreased substantially, while the carloads with RVCs above 180% increased substantially for both groups.

VI. MACRO CHANGES IN THE RAIL INDUSTRY

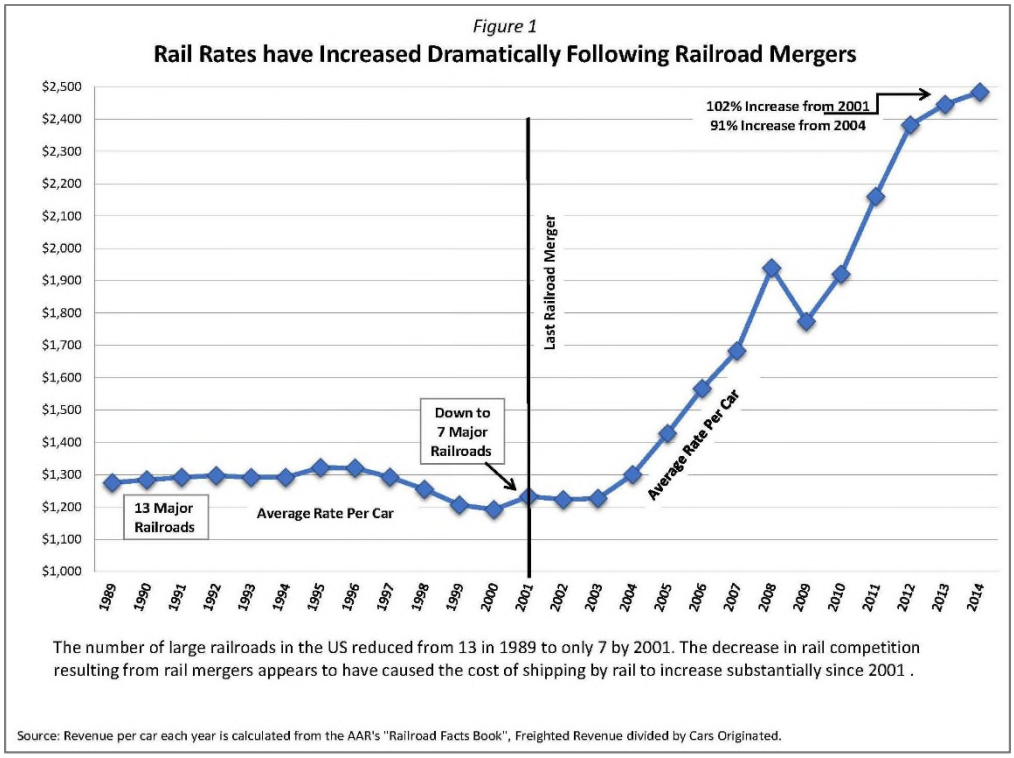


Figure 1 shows that rates for rail freight have increased dramatically after the last round of railroad mergers in 2001 (102% increase). Figure 1 shows the large increase in rail rates between 2004 and 2014 (91% increase over 10 years), as well as how different rate changes were for the 1989 to 2004 time frame (2% increase over 15 years). It should be noted that the rates in Figure 1[1,2] are the actual rates for each year as shown by the AAR and are not adjusted for inflation. These rates show that the average revenue per car essentially did not change for Class

[1] The average revenue per car is taken from the Association of American Railroads' (AAR) Railroad Facts Book. Freight revenue is divided by carloads originating to calculate the average revenue per car.

[2] 2014 is the most current data available from the AAR.

I railroads between 1989 and 2003. Rates then started increasing slowly in 2004 and then had an entirely different trajectory as the railroads average revenue per car then shot straight up.

There are a number of different reasons for a dramatic shift in how rail rates change, but when rates increase by 91% over a ten year time frame (2004-2014), this indicates that there has been a decrease in competition for rail traffic. Figure 1 provides insight as to why this happened as it shows that the number of Class I railroads competing for traffic decreased substantially between 1989 and 2001. In 1989 there were 13 Class I railroads in the U.S., but by 2001 there were only seven Class I railroads left. After the last round of rail mergers concluded, rail rates increased dramatically.

During much of the ten year time period between 2004 and 2014, the economy was in a recession. A 91% increase in revenue per car (i.e. rates) over ten years is substantial during any time frame, but it is especially large for a recessionary time frame.

In order to benchmark the reasonableness of this 91% increase in rail rates, I compared the change in rail rates against inflation and the cost of long haul trucking. Inflation as measured by the Consumer Price Index ("CPIU") increased 25.3%. The price charged for long haul trucking according to Bureau of Labor Statistic index ("BLS") Code 4841214841212 for "General Freight Trucking Long Distance" increased 25.7% over this time frame.

The graph in Figure 2 shows the historical change in rail rates versus inflation and long haul truck pricing between 2004 and 2014. Figure 2 shows that rail rates increased 3.5 times more than inflation and the cost of long haul trucking. Support for the calculations in Figures 1 and 2 are contained in Appendix E.

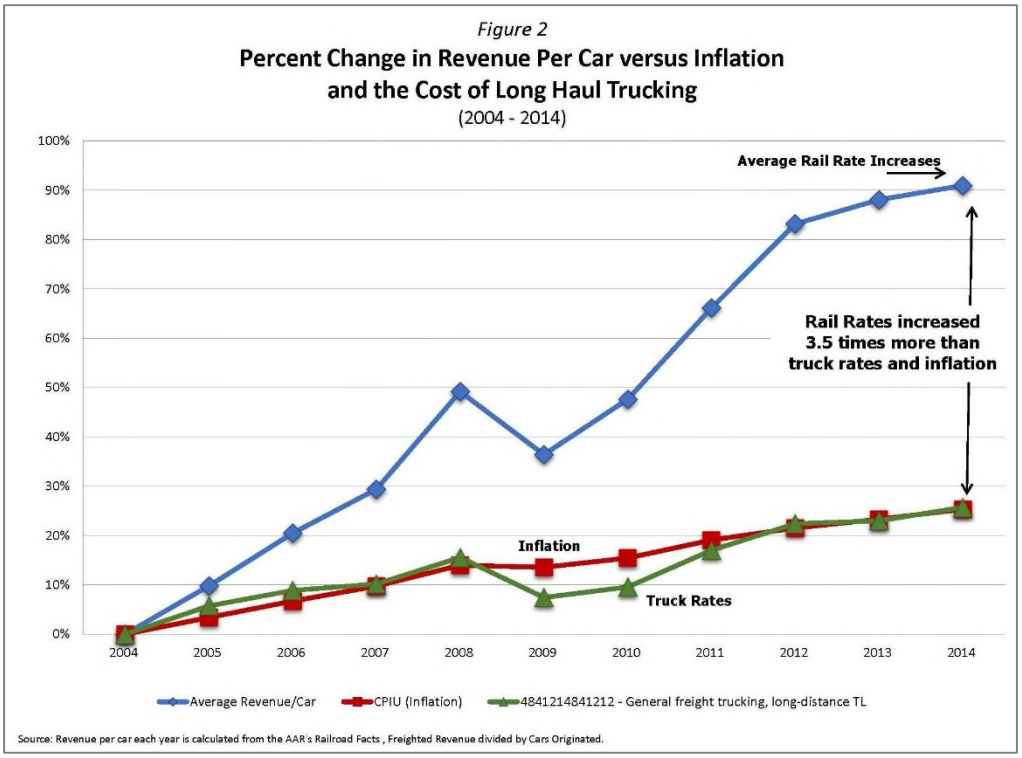


Figure 2 shows that the economics of shipping by rail changed for many rail shippers, including F&P Product shippers. If rail rate increases are three times greater than the increase in the cost of long-haul trucking, then trucking becomes more competitive with rail and railroads lose business. This results in a large amount of traffic moving off of rail and on to the highway. This is likely a major reason F&P Products rail carloads decreased between 1989 and 2014. In my experience, traffic that remains on rail when rail becomes significantly more expensive than other logistic options is frequently captive to the railroads. This is likely the cause of the higher rates and higher profits railroads are making from F&P Products shipments.

VII. BOXCAR'S REPRESENT A SIGNIFICANT PORTION OF THE CARS USED TO MOVE MANY F&P PRODUCTS COMMODITIES

Table 2 shows that three commodities out of the Top Ten high volume commodities use boxcars for more than 96% of their movements. In addition, STCC 2499610-Particleboard

shippers use boxcars for 79% of their moves. The large number of boxcar movements for these commodities make it very difficult to replace boxcars with alternate types of equipment.

Table 2

2014 Boxcar Movements for the Top Ten High Volume Commodities with RVCs Above 180%

STCC	Description	All Carloads	Boxcars[(1)]	% of Total Cars that are Boxcars
2631117	**Pulpboard or Fibreboard, Paper/Pulp Lined or not Lined**	**54,492**	**54,492**	**100.0%**
2421184	Lumber/Timber, Rough/Dressed, Dried	26,980	120	0.4%
2411545	Wood Chips, not Charred, other than Pulpwood			
2432158	**Plywood, made from Faced with Birch, Pine/Spruce, Native/Foreign**	**7,880**	**7,640**	**97.0%**
4024115	**Scrap/Waste Paper, Not Sensitized/Fibreboard/Pulpboard Scrap/Waste**	**6,400**	**6,400**	**100.0%**
2411580	Pulpwood Chips, Pine	5,612		
2499610	**Particleboard, Wood, Consisting of Flat Boards/Sheets, Bonded Wood Chips Compressed**	**4,320**	**3,400**	**78.7%**
2411560	Pulpwood Chips, Hardwood	3,384		
2491128	Poles, Telegraph/Telephone, Wooden, Creosoted/Treated	1,904		
2411411	Pulpwood/Pulpwood Logs, Exceeding 5', 6" in Length	1,720		
		112,692	**72,052**	**63.9%**

VIII. THE WAYBILL HAS PROBLEMS WHICH PREVENT AN ACCURATE CALCULATION OF AVERAGE RVCs FOR F&P PRODUCT MOVES WITH RVCs LESS THAN 180%

Many F&P Products moves on the Waybill have very low RVCs due to problems with the Waybill. It appears that many of these problems are due to issues with source data provided to the STB by railroads. Several examples of this are provided in Table 3 below which shows that:

- There are thousands of carloads that have rates for long distance moves that are less than $100 in both the 1989 and 2014 Waybills.
- Thousands of carloads have a $1 rate on the 2014 Waybill and hundreds of cars have a $1 rate on the 1989 Waybill. Many of these moves are going 300 to 800 miles.

- In 1989 more than three hundred thousand moves had an RVC below 80% and forty-one thousand moves were below an 80% RVC on the 2014 Waybill.

Table 3

Problems with 1989 and 2014 Waybill Moves with RVCs Below 180%

Year	Carloads Below 180% RVC	Carloads Below 100% RVC	Carloads Below 80% RVC	Carload Rates $100 or Less	Carload with $1 Rate
1989	1,450,407	624,926	333,342	19,649	716
2014	682,932	99,124	41,248	4,308	4,060
Difference	**767,475**	**525,802**	**292,094**	**15,341**	**-3,344**

There are many problems with low RVC moves, but there appear to be few source problems with moves that have RVCs greater than 180%. Based upon the problem with low RVC moves, a consistent change in average RVC can only be calculated for moves with RVCs greater than 180% and that is what my analysis is based on. Average RVC values for moves with less than 180% RVCs do not appear to be reliable.

IX. CONCLUSION

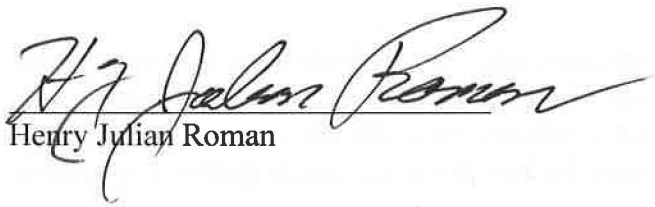
Dramatic changes have occurred in the economics of shipping by rail since the exemptions of F&P Products were granted. Carloads have decreased substantially, while the moves with monopoly profits for railroads have increased hundreds of percentage points. This caused the ten largest high volume commodities on which railroads make monopoly profits to increase from 2.2% of carloads in 1989 to 18.2% of carloads in 2014. This resulted in a 560% increase in the number of carloads with RVCs above 180% for the high volume F&P Products exempt commodities.

When the profits that railroads are making from shipping F&P Products increase this dramatically, one can only conclude that this is a very different industry for railroads and forest

and paper product companies now than it was in 1989, and that today railroads appear to be exercising market power that they did not have in 1989.

VERIFICATION

I, Henry Julian Roman, verify under penalty of perjury that I have read this Verified Statement, that I know the contents thereof, and that the same are true and correct based on my knowledge, information and belief. Further, I certify that I am qualified and authorized to file this Statement.



Henry Julian Roman

Executed on 7/25/16

Curriculum Vitae

Henry Julian Roman (Jay Roman)

Jay Roman is the President of Escalation Consultants, Inc. A consulting firm engaged in economic analysis and consultation related to prices and price movement in rail transportation contracts. His business address is 4 Professional Drive, Suite 129, Gaithersburg, MD 20879. Since founding Escalation Consultants in 1979, Mr. Roman has assisted a large number of companies in controlling prices in rail transportation agreements and on an annual basis he is involved with more than a billion dollars in rail spend.

Rail Rate Analysis - Mr. Roman regularly performs studies of rail rates for companies with movements in the U.S. and Canada. Some of the industries he works with are: coal, chemical, petroleum, automobile, grain, steel, fertilizer, farm products and forest product industries. The studies provide rate information for key products, which enables companies to better structure their negotiations with railroads.

Rail Databases - Mr. Roman is the owner and developer of Rail Rate Checker which is a very large database that contains data on rail rates, rate changes, rail costs, volumes and rail profit by commodity group. A large number of companies subscribe to this database to assist in determining what reasonable rates are for their rail movements and to determine opportunities for controlling rail expenses.

Rail Bid Evaluations - Mr. Roman is the owner and developer of the Optimized Rail Bid Evaluation (ORBE) program. The ORBE program is the only computer program that automatically determines shipper's least spend from rail bids, while uncovering win/win opportunities between shippers and railroads.

Seminars on Rail Contracting - Mr. Roman conducts the most attended and recommended rail negotiation seminar, which is held twice a year. His seminars have been attended by thousands of people in the U.S. and Canada and virtually all industries that ship by rail have participated in his rail contracting seminars.

Expert Witness Testimony - Mr. Roman has testified as an expert on pricing issues involving coal and rail transportation before the Federal Energy Regulatory Commission, in federal and state courts, before the National Energy Board of Canada, as well as in arbitration cases in the U.S. and Canada. He has also testified before the Surface Transportation Board.

Strategic Planning and Rail Negotiations – Escalation Consultants is actively involved in bid evaluations, strategic planning and rail negotiations totaling several billion dollars a year in rail spend with rail shippers.

Rail Fuel Surcharge Analysis – Mr. Roman performed the economic analysis of railroad fuel surcharges jointly for the National Industrial Transportation League and the National Grain and Feed associations when the railroad fuel surcharge programs first started. He testified twice in the 2006 STB Fuel Surcharge Hearing.

Escalation Consultants Represents the Rail Community in Many Projects. A few examples of recent projects Mr. Roman has been involved with are as follows:

- Escalation Consultants determined the cost of rail as an alternative to pipeline Crude Oil. The results were the only rail rate benchmarks presented to the National Energy Board of Canada

- Escalation Consultants analyzed all rates and volumes on the entire U.S. rail system to determine the impact of increased competitive access on railroads and shippers. The results were submitted to the Surface Transportation Board to support the National Industrial Transportation League's (NITL) competitive switching proposal

- Escalation Consultants costed the Public Use Waybill to determine the cost of non-competitive rates for all commodities shipped by rail. Results were summarized in total, as well as, for sub-categories down to the five-digit commodity code level.

- Escalation Consultants determined the competitive status of all rail stations in the U.S. and summarized the degree of captivity by state and Congressional District. The results of the rail study were sent to the President by a sitting member of Congress.

Education - B.S. Major in Accounting, University of Maryland, 1973.

177 Exempt Standard Transportation Commodity Codes (STCC) Used in Escalation Consultants' Analyses of the Confidential Waybill

STCC	Description
2411110	Logs, Foreign Wood
2411115	Logs, Native Wood, Canadian Wood or Mexican Pine
2411152	Logs/Apitong/Ash/Aspen/Basswood/Beech/Birch/Buckeye/Butternut/Cativa/Cedar/Cherry/Chestnut/Cypress
2411165	Long Logs, Exceeding 8' 5" in Length
2411210	Ties, Railroad, Wooden, not Creosoted/Preservatively Treated
2411315	Bolts, Wood
2411410	Pulpwood/Pulpwood Logs, not Exceeding 5" 6" in Length
2411411	Pulpwood/Pulpwood Logs, Exceeding 5', 6" in Length
2411515	Pulpwood Chips
2411540	Wood Chips, Charred
2411545	Wood Chips, not Charred, other than Pulpwood
2411550	Pulpwood Chips, Brown woods (Douglas Fir/Larch)
2411555	Pulpwood Chips, Cedar
2411560	Pulpwood Chips, Hardwood
2411570	Pulpwood Chips, Mixed Species
2411580	Pulpwood Chips, Pine
2411590	Pulpwood Chips, Spruce or Fir other than Douglas Fir
2411615	Poles, Wooden in the Rough/Rough Turned, Not Preservatively Treated
2411620	Plant Poles, Wooden, in the Rough/Rough Turned, not Creosoted or Otherwise Preservatively Treated
2411635	Poles, Telegraph/Telephone, Wooden, not Creosoted or Preservatively Treated
2411701	Fuel/Logs or Pellets/Bark/Sawdust/Shavings/Fieldstraw or other Fibrous Mill Waste Material/Compressed
2411715	Fuel Wood or Firewood
2411717	Hogged Fuel Wood
2411923	Bark, Softwood, Ground or Powdered, other than Medicinal
2411970	Cores, Log
2411985	Resinous Wood Waste, of Pine Knots/Roots/Stumps/Tree Boughs/Butts, Waste Resinous Short Sections of Pine Trees
2421110	Flitches, Foreign Wood
2421115	Flitches, Canadian, Native Wood or Mexican Pine
2421120	Butternut or Tulipwood Lumber, Native, not More than 1/4" Thickness
2421125	Boxwood, Dogwood, Iron- Wood, Holly/Lancewood Lumber, Native/Foreign, No More than 1/4" Thick
2421127	Lumber, Foreign Wood, not more than 1/4" Thickness
2421128	Lumber, Foreign Wood, more than 1/4" Thickness
2421130	Birch, Spruce or Pine Lumber, Native, not More than 1/4" Thickness
2421131	Birch, Spruce/Pine Lumber, Native, More than1/4" Thick
2421136	Birch, Spruce or Pine Lumber, Foreign, More than 1/4" in Thickness

STCC	Description
2421150	Lumber, Native Wood, Canadian Wood, Brazilian-European-Honduras-Mexican & Nicaraguan Pine, Spruce or Birch, Exceeding 1/16"
2421151	Lumber, Obeche/Sajo/Sande/Virola
2421159	Lumber, Canadian Wood, or Lumber, Native Wood, not more than 1/4" Thickness
2421160	Lumber, Canadian Wood or Lumber, Native Wood More than 1/4" Thick
2421170	Lumber, Green, Native Wood
2421175	Lumber, Cedar/Native Wood
2421180	Lumber/Boards/Native or Foreign Wood Less than 2" in Nomi-Nal Thickness & 1" or More in Width
2421181	Lumber, Long Lengths, Native/Foreign Wood 18' or Longer in Length
2421184	Lumber/Timber, Rough/Dressed, Dried
2421186	Timber, Hewed, Round or Sawed
2421190	Kiln Dried Lumber in Widths Less than Ten Inches
2421195	Kiln Dried Lumber Measuring 2" by 10" or 2" by 12"
2421210	Ties, Railroad, Wood Sawed not Creosoted not Otherwise Preservatively Treated
2421215	Mine Ties, Wood, Sawed
2421450	Handles, Wooden in the Rough or Rough Turned
2421491	Agricultural Implement Parts, other than Hand, Wooden, in the Rough
2421518	Flooring Plank, not Mechanically Stained or Waxed, Reinforced with Wooden Ribs or Splines
2421590	Flooring, Wooden
2421920	Dowels, Wooden, in the Rough or Rough Turned
2421955	Lumber, Foreign Wood, more than 1/4" Thickness
2429310	Brewers or Vinegar Shavings
2429320	Sawdust, Wood Shavings, Chips or Refuse, as from the Saw/Knife, Rough/Ground
2429335	Cedar wood Sawdust and Shavings Mixed
2429390	Shavings, Wood
2429415	Wood Excelsior
2429934	Wood, Sanding Machine, or Wood Pieces, Ground
2429948	Boards/Panels/Sheets/Flat/Consisting of Wood Flour/Wood Particles w/Resin Binder
2429950	Lumber, Cigar Box, Cedar or Foreign Woods
2429970	Landscape Timbers made from Peeler Cores (refuse veneer mills)/not Creosoted nor Otherwise Treated
2429984	Bark, Fir, Hemlock, Larch, Pine or Spruce, Ground, Powdered or Shredded
2431442	Doors, Glazed, with other than Leaded/Plate Glass, Native Wood/Canadian Wood/Foreign Birch/Nutmeg
2431448	Birch, Nutmeg, Pine, Spruce, Virola or Lauan, not Further Finished than Primed
2431625	Moldings, Native Wood/Canadian Wood/Foreign Birch/Nutmeg/Pine/Spruce/Virola/Lauan, not Further Finished
2431650	Molding and Mounting Strips, Rubber Stamp, Wooden, Unfinished
2431670	Molding, Common Building or Carpenter, in the White
2431923	Building Woodwork, or Ships Joiner Work, Further Finished than Primed
2431924	Building or Ships Joiner Work, Native Wood/Canadian Wood/Foreign Birch/Nutmeg/Pine/Spruce/Virola/Lauan, Not Furth
2432113	Built-Up Wood or Plywood, Faced w/Figured Veneer

STCC	Description
2432122	Veneer, Foreign Wood, not more than 1/4" Thickness
2432136	Veneer, Native Wood, Paper Covered, more than 1/8" Thickness
2432141	Veneer, Native Wood or Veneer, Canadian Wood, 1/4" or Less Thick
2432142	Veneer, Native Wood or Veneer, Canadian Wood, Exceeding 1/4" Thick
2432143	Veneer, Birch, Pine/Spruce, Native/Foreign, 1/4" or Less in Thickness
2432144	Veneer/Birch/Pine/Spruce, Native/Foreign, Exceeding 1/4" Thickness
2432152	Plywood, Faced w/Aluminum on One or Both Sides
2432156	Wood, Built-Up/Combined, made from or Faced with Birch/Pine/Spruce, Native/Foreign Wood/Canadian Wood
2432158	Plywood, Made from/Faced with Birch, Pine/Spruce, Native/Foreign
2432159	Plywood, Faced with Boxwood/Butternut/Dogwood/Holly/Ironwood/Lancewood/Tulipwood, Native or Foreign Wood
2432162	Plywood/Built-Up Wood, Rough/Dressed, Consisting of Laminated Flat pieces, Edges Glued/not Glued Together
2432172	Wood, Built-Up/Combined or Plywood/Backed or Faced w/Cloth/Plastic/Resin Coated or Impregnated Paper
2433310	Panels, Siding (Wood Shingles, Backed with Fiberboard Wallboard, Insulation Board or Plasterboard)
2439120	Structural Beams, Girders, Joists, Purlins/Rafters Other than Treated
2439130	Joists/Fabricated/Wood and Steel Combined
2439150	Treated Structural Beams/Girders/Joists/Purlins/Rafters/Laminated or Built-Up Wood
2441113	Crates, Wooden/Wood and Metal
2441421	Clothes Hampers, Fibre, Reed or Wood, Separate or Combined with Fibre, Reed, Steel or Wood
2441443	Baskets/Hampers, Bamboo/Grass/Rattan/Reed/Straw/Twisted Paper Fibre/Willow/Wood
2441935	Automobile Packing Box or Crate Material, Wooden
2441948	Box or Crate Material, Wood and Wire
2441969	Box, Crate or Shipping Drum Material, Wooden, or Wooden, Fibreboard or Paper Covered
2491125	Poles/Stakes, Plant, Wooden, in the Rough/Rough Turned, Creosoted or Preservatively Treated
2491127	Poles, Wooden in the Rough/Rough Turned, Creosoted/Treated
2491128	Poles, Telegraph/Telephone, Wooden, Creosoted/Treated
2491130	Posts, Wooden, Creosoted or Treated
2491182	Mine Props/Timbers/Blocks/Boards/Caps/Lagging/Stulls/Wedges/Wooden/Creosoted or Otherwise Treated
2491185	Piling, Wooden, Creosoted or Treated
2491210	Railroad Ties, Wooden, Creosoted/Treated
2491215	Railroad Crossing Sections/Wooden/Viz. 2 or more pieces of Lumber/Ties/Timbers, Bolted/Doweled Together, Flat
2491310	Lumber, Rough/Dressed, Creosoted Chemically/Preservatively Treated
2491410	Cork Products
2491913	Cross Arms or Arm Braces, or Pole Bracers
2497122	Bungs or Plugs, Wooden
2497240	Crosses, Wooden, in the White
2499110	Oriented Strand Board
2499210	Pallets, Platforms or Skids, for Lift Trucks, Wood or Iron and Wood, New
2499222	Bodies or Enclosures, Pallet, Platform or Skid, Steel or Wood, Separate or Combined

STCC	Description
2499238	Sections, Railroad Crossing, Wood, not Creosoted, Consisting of 2 or More Pieces of Lumber
2499250	Platforms, Wooden
2499325	Forms or Shapes, Hardboard, other than Square or Rectangular, not Bent
2499330	Board, Building, Building Insulation/Wallboard, Hardboard, Solid
2499510	Conduits or Conduit Connections, Wooden, for Underground Work
2499610	Particleboard, Wood, Consisting of Flat Boards or Sheets, Bonded Wood Chips Compressed
2499615	Wood Particleboard, Consisting of Boards/Sheets, Sawdust/Ground wood, Compressed, Backed/Faced
2499620	Waferboard, Wood, Consisting of Structural-use Panels or Compressed Wafer-like Wood Particles
2499635	Oriented Strand Board
2499720	Fencing, Wooden, in Sections
2499725	Fence Gates, Wooden
2499735	Fence Pickets/Wooden
2499755	Fence Posts and Rails, Wood, not Treated
2499820	Reels, Shipping/Cordage/Electric Cable/Lead Pipe/Wire/Wire Braid/Wire Rope/Wooden or Wooden with Steel Tires
2499878	Reels/Shipping/Cordage/Electric Cable/Lead Pipe/Tubing/Wire/Wire Braid or Wire Rope, in Mixed Loads
2499906	Siding, Exterior 3/8" or More in Thickness made from Wood Chips and/or Ground Wood/Wood Fibres
2499981	Bricks, Fuel, Logs/Pellets, Forest Slash, Wood/Agricultural Waste, Compressed with/without Wax
2499988	Wood Flour (Pulverized Wood/Woodpulp)
2499990	Paper Roll Plugs, Molded/Ground Wood or Sawdust w/Added Resin Binder
2621708	Absorbent Base Paper
2621745	Gypsum Board Paper
2621943	Paper, Pulpboard or Fibreboard, other than Corrugated/Laminated, Wire Reinforced
2621990	Paper, not Printed
2631114	Pulpboard, Paper/Pulp Lined, Laminated/Combined with Foil, Aluminum Steel/Tin, not Corrugated Nor Indented
2631117	Pulpboard or Fibreboard, Paper/Pulp Lined or not Lined
2631119	Pulpboard/Fibreboard, Paper/Pulp Lined or not Lined, Corrugated/Indented
2631125	Pulpboard, Corrugated, Glued into Rolls
2643117	Bags, Paper-Insulated or Padded/not Double-Wall Insulated Paper Bags
2643190	Paper Bags, or Multiple Wall Paper Bags Containing Plastic Liners or having Plastic Coatings
2646210	Cartons, Egg Carrier or Case, Molded Pulp or Molded Pulp with Paper or Paperboard Covers or Tops
2647210	Sanitary Pads (Diapers or Napkins), External Type
2647211	Sanitary Pads (Diapers or Napkins), Internal Type (Tampons)
2649270	Wrapping Paper/Rolled/Decorative, not Faced nor backed with Foil/Aluminum/Tin, with Paper Back/Rolled, in Mixed Pkgs
2649272	Paper, Decorative, Wrapping, Rolled on Cores or Tubes, with Ribbon Bows or Rosettes Packaged
2649511	Autographic Register, Cash Register or Computing Machine Paper, Plain or Ruled
2649715	Packing Covers, Discs/Fillers/Partitions/Platforms/Wrappers, Fibreboard/Paper, Corrugated
2649716	Forms, Interior Packing, Fibreboard, Pulpboard or Paper, Corrugated, Fluted or Indented

STCC	Description
2649721	Packing Covers, Discs, Fillers, Partitions, Platforms or Wrappers, Fibreboard, Paper or Woodpulp, not Corrugated
2649990	Paper Goods
2651128	Boxes, Fibreboard, Paper, Paperboard or Pulpboard, Taper Sided, or Fibreboard, Wood Veneer Lined
2651137	Boxes, Fibreboard/Paper/Paperboard/Pulpboard, with Wood Frames
2651141	Boxes, Fibreboard, without Wooden Frames (Paper Boxes), Corrugated
2651142	Boxes/Fibreboard, without Wooden Frames, other than Corrugated
2651150	Boxes/Fibreboard/Paper/Pulpboard, with Tops/Bottoms of same or other Materials
2651157	Boxes, Paper or Paper- Board and Cellulose Film, Foil or Plastic
2651158	Boxes/Fibreboard/Paper/Pulpboard, with Tops/Bottoms made of same or other Materials
2651160	Boxes/Fibreboard/Paper/Pulpboard, with/without Metal Tops or Bottoms
2651188	Containers, Ammunition, Fibreboard, with Metal Tops and Bottoms, with or without Internal Fittings
2651511	Pallets, Platforms/Skids, Paper/Pulpboard, Separate/Combined with other than Expanded Plastic/Wood
2654920	Boxes, Fibreboard, Pulpboard or Strawboard (Paper Boxes), Waxed or Paraffined, Corrugated
2655115	Shipping Drums/Pails/Tubs/Fibreboard/Pulpboard with/without Wood or Metal, Straight Sided
2655119	Cans or Drums, Fibreboard/Paper/Pulpboard, other than Corrugated, with/without Tops/Bottoms
2655125	Shipping Drums/Pails/Tubs/Fibreboard/Pulpboard with/without Wood or Metal, Tapered Sided
2661345	Wallboard, Fibreboard, Pulpboard, Woodpulp Board/Strawboard, not Painted, Enameled/Lacquered
2661350	Wallboard, Fibreboard, Pulpboard or Strawboard Made of Mineral, Vegetable or Wood Fibres
2661351	Wallboard, Mineral or Mineral & Wood or Mineral & Vegetable Fibres Combined
4023115	Reject Woodpulp/Scrap or Waste (Woodpulp which has become Damaged)
4024110	Clippings/Scrap, Sensitized Paper
4024115	Scrap/Waste Paper, Notsensitized/Fibreboard or Pulpboard Scrap/Waste
4024116	Corrugated Containers, Used, Consisting of Baledcorrugated Pulpboard
4024117	Corrugated Cuttings or Clippings/New
4024120	Waste Paper, Ground
4024125	Agricultural Mulch, Consisting of Shredded or Chopped Waste and Scrap Paper, or Plant or Garden mulch
4024130	Government Pulp (Macerated Paper Currencypulp)
4024150	Old Newspapers
4024181	Paper Stock

Top 10 STCC's Above 180% RVC With the Highest Volume in 2014

			(a)	(b)	(c)		(d)	(e)	(f)	(d-a)		(f-c)
STCC	Description	1989 Carloads ALL	1989 Carloads >180	1989 % of Total Carloads >180	1989 RVC >180	2014 Carloads ALL	2014 Carloads >180	2014 % of Total Carloads >180	2014 RVC >180	Carloads >180 Difference	Percent Change in Carloads >180	RVC >180 Difference
2631117	Pulpboard/Fibreboard, Paper/Pulp Lined/not Lined	372,860	8,100	2.2%		276,100	54,492	19.7%		46,392	572.7%	
2421184	Lumber/Timber, Rough/Dressed, Dried	163,156	2,560	1.6%		175,820	26,980	15.3%		24,420	953.9%	
2411545	Wood Chips, not Charred, other than Pulpwood	31,014	3,356	10.8%		8,572	7,996	93.3%		4,640	138.3%	
2432158	Plywood, Made from/Faced with Birch, Pine/Spruce, Native/Foreign	97,812	1,660	1.7%		31,200	7,880	25.3%		6,220	374.7%	
4024115	Scrap/Waste Paper, Notsensitized/Fibreboardor Pulpboard Scrap/Waste	80,036	1,180	1.5%		64,056	6,400	10.0%		5,220	442.4%	
2411580	Pulpwood Chips, Pine	10,296	440	4.3%		31,852	5,612	17.6%		5,172	1175.5%	
2499610	Particleboard, Wood, Consisting of Flat Boards or Sheets, Bonded Wood Chips Compressed	64,120	400	0.6%		20,240	4,320	21.3%		3,920	980.0%	
2411560	Pulpwood Chips, Hardwood	1,328	184	13.9%		32,512	3,384	10.4%		3,200	1739.1%	
2491128	Poles, Telegraph/Telephone, Wooden, Creosoted/Treated	3,608	240	6.7%		4,240	1,904	44.9%		1,664	693.3%	
2411411	Pulpwood/Pulpwood Logs, Exceeding 5' 6" in Length	11,096	152	1.4%		17,012	1,720	10.1%		1,568	1031.6%	
	Average			**2.2%**	**214.1%**			**18.2%**	**212.3%**			**-1.9%**
	Total Top 10	**835,326**				**661,604**						
	Total All Exempt	**1,504,404**				**852,372**						
	Top 10 Captive Carloads		**18,272**				**120,688**			**102,416**	**560.5%**	

1989 to 2014 Change in Carloads

Percent decrease in total exempt carloads **-43.3% (1,504,404 [1989] vs 852,372 [2014])**

Percent Decrease in Top Ten high volume commodities **-20.7% (835,326 [1989] vs 661,604 [2014])**

Percent Increase in Top Ten high volume commodities with RVCs >180% **560.5% (18,272 [1989] vs 120,688 [2014])**

Change in Carloads and Revenue for Top Ten Commodities with RVC's Greater than 180%

(1989 - 2014)

	1989	2014	Difference	% Change
Total Carloads	18,272	120,688	102,416	560.5%
Average RVC	214.1%	212.3%	-1.9%	-1.9%
Revenue	49,421,236	514,134,624	464,713,388	940.3%

	AAR Freight Revenue	AAR Cars Originating	Average Revenue/Car	CPIU (Inflation)	4841214841212 - General freight trucking, long-distance TL
1989	$27,058,765,000	21,226,015	$1,275		
1990	$27,470,520,000	21,401,246	$1,284		
1991	$26,949,280,000	20,868,297	$1,291		
1992	$27,507,607,000	21,205,530	$1,297		
1993	$27,990,562,000	21,682,894	$1,291		
1994	$29,930,893,000	23,178,565	$1,291		
1995	$31,355,593,000	23,726,164	$1,322		
1996	$31,888,529,000	24,158,570	$1,320		
1997	$32,322,291,000	25,016,471	$1,292		
1998	$32,247,277,000	25,704,975	$1,255		
1999	$32,680,081,000	27,096,202	$1,206		
2000	$33,082,907,000	27,762,747	$1,192		
2001	$33,532,508,000	27,205,415	$1,233		
2002	$34,110,420,000	27,901,367	$1,223		
2003	$35,412,613,000	28,870,049	$1,227		
2004	$39,131,243,000	30,094,796	$1,300	188.9	117.0
2005	$44,456,580,000	31,142,217	$1,428	195.3	123.7
2006	$50,315,070,000	32,114,399	$1,567	201.6	127.4
2007	$52,931,987,000	31,458,931	$1,683	207.3	128.9
2008	$59,408,971,000	30,624,773	$1,940	215.3	135.2
2009	$46,127,311,000	26,005,348	$1,774	214.5	125.7
2010	$56,069,316,000	29,209,122	$1,920	218.1	128.2
2011	$64,814,666,000	29,996,959	$2,161	224.9	136.9
2012	$67,588,594,000	28,374,746	$2,382	229.6	143.2
2013	$70,513,798,000	28,830,139	$2,446	233.0	143.9
2014	$75,055,490,000	30,221,358	$2,484	236.7	147.1

	Average Revenue/Car
1989	0.0%
1990	0.7%
1991	1.3%
1992	1.8%
1993	1.3%
1994	1.3%
1995	3.7%
1996	3.5%
1997	1.4%
1998	-1.6%
1999	-5.4%
2000	-6.5%
2001	-3.3%
2002	-4.1%
2003	-3.8%
2004	2.0%
2005	12.0%
2006	22.9%
2007	32.0%
2008	52.2%
2009	39.1%
2010	50.6%
2011	69.5%
2012	86.9%
2013	91.9%
2014	94.8%
Chg. 2004-2014	91.0%
Chg. 2001-2014	101.5%

	Average Revenue/Car	CPIU (Inflation)	4841214841212 - General freight trucking, long-distance TL
2004	0.0%	0.0%	0.0%
2005	9.8%	3.4%	5.7%
2006	20.5%	6.7%	8.9%
2007	29.4%	9.8%	10.2%
2008	49.2%	14.0%	15.6%
2009	36.4%	13.6%	7.4%
2010	47.6%	15.4%	9.6%
2011	66.2%	19.1%	17.0%
2012	83.2%	21.5%	22.4%
2013	88.1%	23.3%	23.0%
2014	91.0%	25.3%	25.7%