March 7, 2006

SURFACE TRANSPORTATION BOARD

DECISION

STB Ex Parte No. 575

REVIEW OF RAIL ACCESS AND COMPETITION ISSUES – RENEWED PETITION OF THE WESTERN COAL TRAFFIC LEAGUE

To Whom It May Concern:

My name is Andrew E. Jeffers, I am Traffic Manager – Rail for Roseburg Forest Products Company. In my current position, I am in charge of all rail shipments. I am responsible for all outbound and inbound rail shipments averaging 15,000 railcars per year. My duties include freight rate negotiation, quoting freight rates and auditing rail freight bills and filing freight claims. I am also in charge of monitoring rail car loading procedures to ensure we are in compliance with AAR regulations. I also monitor transit times and all of Roseburg's outbound rail shipments. I provide liaison between the railroad's and Roseburg's customers as well as Roseburg's Sales people. I am also involved with various local switching issues involving our mills. Finally, I am responsible for monitoring inbound empty car supply. Roseburg Forest Products is a manufacturer of lumber, plywood, particleboard, and engineered wood products. We have eight mills located in Southern Oregon; Northern California and Missoula, MT and we ship over 15,000 rail cars per year. I have been Traffic Manager with Roseburg for ten years. Prior to that, I worked for the Denver & Rio Grande Western Railroad and the Southern Pacific Railroad for 20 years. I started on the railroad in 1977 as an operating clerk. In 1979 I moved into the traffic department and worked as a Steno Clerk and a short time as a Tariff Compiler. In 1986, I became a Customer Service Representative for the D&RGW servicing primarily forest product accounts. After the SP/DRGW merger, I moved into Marketing and served as a Market Manager in both Lumber and Plywood.

I am writing today in regards to the paper barrier issue the WCTL requested the STB review.

Roseburg Forest Products is a significant manufacturer of plywood, particleboard, engineered wood, and lumber. We have 7 locations located on Central Oregon & Pacific and ship approximately 50 to 60 railcars per day from these facilities. We also operate a particleboard mill in Missoula, MT that is served by Montana Rail Link. On average, we ship 5-7 carloads per day from our Missoula mill. In addition, we bring carloads of logs and other intermediate products inbound to our facilities for use in production of finished goods. Inbound carloads are presently averaging 10-15 cars per day. Roseburg employs approximately 3500 people and the majority of these people work in Oregon.

Roseburg's situation is unique because each and every one of our mills are served by a shortline that was spun off by a Class 1 rail carrier.

From a geographical standpoint, our mills are in a very remote location. Also, our customers are at a great distance from our manufacturing facilities. We are not located near a major metropolitan consuming area so access to trucks is restricted. We need to get our product to market quickly and competitively priced, our long-term survival depends upon this ability. We recognize the need for a good strong rail partner to help us get our products to market.

Roseburg Forest Products ships to Destinations throughout the United States but our primary markets are in the Eastern and Midwestern United States as well as California. Virtually all of our mills are in remote locations and a considerable distance from our primary markets. We depend on rail to access our markets in the most cost effective manner.

When the Class 1 carriers first spun their branch line operations off to short line operators, they were facing a much different competitive situation. In the West, there were 4 Class 1 carriers operating and they would aggressively compete against each other for a share of the others business. There was tremendous downward pressure on the Class 1 rail rates and carriers were forced to do everything within their control to lower their operating costs. Spinning off marginally profitable branch line operations to short lines made sense. A short line could offer a customer better service at a lower cost and in turn, allow the Class 1 carrier to better contain it's costs. The only alternative to spinning off branch line operations is to abandon the line and further erode their base of customers.

It also made sense to construct paper barriers that would restrict the short lines from freely interchanging traffic to competing Class 1 carriers. As stated earlier, the Class 1's aggressively competed with one another for a share of each other's business. Without paper barriers, the carrier that spun off the operations would not be able to depend on keeping the business that was once theirs exclusively. This would have put further downward pressure on the rates.

Customers served exclusively by a single Class 1 carrier were typically not hampered or restricted from accessing customers served exclusively by another Class 1 carrier. In many cases, a shipper could select a destination and have comparable rates via Carrier A or B. These rates were either thru rates or Rule 11.

Today, we have two Class 1 carriers in the West and both of these carriers are at or exceeding 100% capacity on their lines of operation. In the past two to three years, the carriers have taken unprecedented double digit rate increases. Fuel surcharges that were once in the 2 to 3 percentile range are now in double digit numbers and have gone as high as 20%. Class 1 carriers have taken aggressive steps toward de-marketing less profitable business. Instead of going after new business, the Class 1 carriers are focusing on the most profitable core of business and taking aggressive steps toward not handling anything but the most profitable.

The Class 1 carriers have been very successful in keeping their lines filled with business that is good for them and very profitable. As a result, nether carrier is particularly interested in gaining market share from the other carrier. If a shipper gets squeezed out of a market by a Class 1 carrier, it is almost impossible to get the other carrier interested in handling this business. Roseburg Forest Products has seen our once diverse market base being continually eroded and shrinking as a result of these pricing actions.

While the Class 1 carriers are at capacity and very happy with the business they are handling, the picture on the shortlines is another story. Much of the business de-marketed by the Class 1 carriers either originates or terminates on a Short Line. For the past two to three years, shortlines have continually lost volumes to these de-marketing efforts and have not been able to replace the business. Many of the short-lines in the West have excess capacity and are willing to do almost anything to fill this capacity. A few of the weaker shortlines have had to cease or extremely curtail operations in order to stay within budget.

Equipment shortages are common place today and it makes sense for the Class 1 railroads to keep control of their equipment and move it only on their lines as much as possible. In so doing, a carrier can maintain control of the equipment speeding up cycle times and ensuring their customers will be the ones reusing the equipment and not someone served by another Class 1.

The parity that was once in place for customers served by a different Class 1 carrier no longer exists. It’s not uncommon for a shipper to pay several thousand more in freight when switching to a different Class 1. This differential is not usually something you can pass along to the customer so one must usually choose between shrinking your profit margin or losing the sale completely.

Roseburg Forest Products believes that restructuring or eliminating the paper barriers would immensely help the situation we are in today.

This step would inject some much needed competition into the equation. We do not believe this would bring severe downward pressure on the rates but rather hold things a bit more in check.

Removal of paper barriers would allow Western shippers single line access to both Class 1 carriers. This would reopen markets and customers that were recently closed to shippers. This would also restore some of the parity when comparing rates to one Class 1 destination versus another.

Allowing short lines access to both Western Class 1 carriers would enable them new opportunities to gain more business. This would also help address the excess capacity issues running rampant among short line carriers. This would also allow the short lines to boost their bottom line earnings and allow them to focus on some much needed maintenance issues and potentially allow them to expand capacity and seek out new business.

As stated earlier, the majority of the business the Class 1 carriers handle now originate and terminate on their own line. We do not see the elimination of the paper barrier as hampering their abilities to retain this business. This is business that is not easily taken by another carrier and somewhat immune to downward price pressure.