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VIA EMAIL

Honorable Martin J. Oberman Chairman U.S. Surface Transportation Board 395 E Street, SW Washington, DC 20423

Dear Chairman Oberman,

In response to your letter of July 22, 2021, my team and I are providing on behalf of Canadian National Railway Company and its U.S. rail operating subsidiaries ("CN") the following detailed information regarding the international intermodal supply chain and the handling and storage of international containers at CN's U.S. intermodal terminals. Our key terminals are located at Chicago, Illinois; Memphis, Tennessee; and Detroit, Michigan; with smaller terminals located at Joliet, Illinois; Indianapolis, Indiana; New Orleans, Louisiana; Duluth, Minnesota; Jackson, Mississippi; Chippewa Falls, Wisconsin; and a newly-opened terminal at New Richmond, Wisconsin (east of Minneapolis/St. Paul).

CN acknowledges the concerns about disruptions in the global supply chain reflected in your letter. These circumstances, though seemingly aggravated in recent months, have been a consequence of a series of developments and disruptions over the last 15 months, leading to the present congestion, which has touched every aspect and mode of the supply chain. High-level macroeconomic and industry dislocations have included the following:

- COVID volatility impacting global manufacturing capability, demand and consumption.
- Ocean carriers that canceled sailings in the first half of 2020 (*i.e.*, "blank sailings"), and then began shipping additional vessels (*i.e.*, "extra loaders") beginning in the second half of 2020.
- Shortage of empty international containers globally.
- Rapidly rising ocean rates, a new wave of COVID fears globally, and container availability concerns are driving North American beneficial cargo owners (BCOs) to purchase in large quantities goods that may not be needed for months.
- Backed-up import-receiving warehouses due to shortage of space and labor.
- Shortage of truck capacity and chassis availability in North America.
- Suez Canal blockage and other vessel delays volumes backed up leading to congestion.
- COVID cases on board containerized vessels impacting crew and vessel operations.
- COVID impact on dock labor impacting vessel berthing and turn times, leading to port congestion.

- Closure of the Port of Yantian, China, leading to a huge backlog of North American import units.
- Spiking COVID rates, including in Malaysia, India, Vietnam, and recently again China.
- Wildfires in British Columbia, the western US, and elsewhere.
- Strikes at the Port of Montreal.
- On-going construction at waterfront terminals in Vancouver.
- Reduced port capacity resulting from return containers occupying dock space awaiting vessels to take them to Asia, which did not happen at the same pace and flow.

All stakeholders have been impacted by these factors – importers and exporters, ports and terminals, ocean carriers, inland intermodal terminals, and truck and rail operators. And the impacts on trade overall have included unpredictable lead times, unreliable forecasts, unmet minimum quantity commitments (MQCs) for importers with their ocean carriers and persistent delays leading to, among other things, accumulation of containers at destination ports and moving inland.

As shown below, the supply chain challenges have resulted in volatility to the flows in international container traffic through CN's inland intermodal terminals. In recent months, container dwell has increased as some containers have not been picked up as quickly. The situation remains extremely fluid, and subject to further exacerbation by external developments. And because of the interdependent nature of the supply chain, remedial actions in one part of the supply chain can have the effect of pushing the problem to another link in the chain. With the fall peak season approaching, while it is difficult to predict and depends on many factors, these present challenges may continue in the near-future.

Given the current environment, CN has been diligently pursuing various initiatives to ensure the pipeline and network remain fluid while mitigating congestion and disruptions to the extent possible. CN is committed to providing its customers with industry-leading choice, efficiency and safety, which aids our rail peers and the broader freight-shipping industry, and supports the global economic rebound from COVID. As described further below, CN has implemented practices and incentives that allow robust capacity management while providing options to parties to retrieve containers at our terminals in a manner that drives operational efficiencies in the rail system and cost savings for the receivers and importers. CN is committed to continuing these efforts, to working with its ocean carrier customers, intermediaries, and beneficial cargo owners to address their particular circumstances, and to cooperating with all stakeholders, including the Board, and participants in the supply chain to work through challenges facing the supply chain.

Responses to the specific questions posed in your July 22nd correspondence follow. We note that CN considers steamship line containers held at CN terminals awaiting pickup after the expiration of free time to be in storage.

1. The number of "free days" allowed for container storage before fees begin to accrue.

For all of its US intermodal terminals, CN provides 48 hours of free time excluding the day of deramping/notification. Deramping is the removal of an intermodal container unit from the railcar, and at CN's terminals in the U.S. that event triggers a concurrent notification to the steamship line customer which notifies the receivers or beneficial cargo owners that the container is ready to be picked up.

- Free time begins at 7:00 am on the day after deramping/notification.
- Free time generally ends at 6:59 am on the third day after deramping/notification.
- An additional day (24 hours) is added to the free time for any day the CN terminal is closed during the free time period.
- An additional day (24 hours) also is added to the free time for specified holidays that fall within the free-time period.
- An additional day (24 hours) is added to free time when certain damage is noted on a loaded container at the time of pick-up. As a result of a change CN made in April 2020 (discussed further below), if the damage is noted on a Friday afternoon at the time of pick-up, an additional two days (48 hours), rather than one day, is added to free time.

These provisions are specified in Item 6500 of Tariff CN 9100, Intermodal Optional Services. The running of the free time clock stops when a trucker ingates at CN's terminal to pick up a container.

2. The daily fee schedule after any free days expire.

	Day										
Chicago and Joliet, IL; Memphis TN; and											
Detroit, MI	1	2	3	4	5	6	7	8	9	10	11
CN	N/D	F	F	\$150	\$150	\$150	\$300	\$300	\$450	\$450	\$450
	Day										
Indianapolis, IN; New											
Orleans, LA; Duluth,											
MN; Jackson, MS;											
Chippewa Falls and											
New Richmond, WI	1	2	3	4	5	6	7	8	9	10	11
CN	N/D	F	F	\$100	\$100	\$100	\$100	\$200	\$200	\$200	\$200

Figure 1: Storage Charges at CN U.S. Intermodal Terminals*

*N/D – Day of notification or de-ramp *F – Free day

These daily storage charges are specified in Item 6500 of Tariff CN 9100. The new facility at New Richmond, WI will be added in the next issuance of the tariff.

For dwelling container units at CN's major terminals in Memphis and Chicago, CN has processes under which CN may transfer those containers to off-site storage locations at substantially reduced daily storage charges. At both locations, there is an initial charge of \$130 per unit, which includes the transfer to the off-site storage location and one additional free day of off-site storage (for a total of three free days). Further storage at the off-site location is \$75 per day per container. Certain containers (e.g., those still within the initial storage free time period, under customs hold, with existing reservations for a pick-up, or hazmat or reefer containers) are not subject to transfer. These off-site storage processes are contained in Item 6910 (Memphis) and Item 6920 (Chicago/Harvey) of Tariff CN 9100. In Chicago, CN is also currently extending the availability of off-site storage arrangements, as described in Paragraph 6.D below.

Finally, as is described further in Paragraph 6.B below, CN offers rebates on its standard container storage rates for container units that are picked up during off-peak hours at CN's terminals in Chicago, Memphis and Detroit.

3. Any increase or decrease in such fees and free time since January 2021.

None.

In April 2020, CN made a change in free time to address our customers' concerns with vendors not being available on weekends to conduct repairs should there be container equipment damage that impedes them from picking up the unit. At that time, the following underlined sentence was added to Item 6500 of Tariff CN 9100:

An additional 24 hours free time will be granted for loaded units (all sizes and types) found at time of pick up, with goose neck channel damage or corner pocket damage. <u>In the event</u> <u>that the damage is noted on a Friday afternoon at the time of pick up, CN will provide 48</u> <u>hours free time</u>.

The last time CN made any adjustment to its intermodal container storage fees was in October, 2019.

4. Any fee "caps" that are currently in place and how long those caps are expected to remain in place.

Terminal	Сар		
Chicago, Joliet, Memphis, and Detroit	\$13,200 per unit		
Indianapolis, New Orleans, Duluth, Jackson,	\$6,600 per unit		

Figure 2: Caps In Place at CN's International Intermodal Terminals in the U.S.

These are established caps that have existed at their present level for several years.

5. Whether receivers are being permitted to provide their own chassis to retrieve their containers.

Yes. At CN terminals, we will mount the container on any chassis brought to the terminal which reduces the dead miles by truckers. We do not require a designated pool chassis for a specific steamship line container.

Similarly, CN does not dictate which container unit needs to be picked up from the terminal and provides the trucker the unit they have come for. As a result, no trucker is rejected at CN terminals and our team puts its best effort toward providing the receiver with the right box even if it means there is re-handling (and associated operational inefficiency) involved.

6. A description of efforts made, if any, to reduce storage charges.

Chippewa Falls, and New Richmond

CN has been proactively and diligently working on various initiatives to ensure the pipeline and network remains fluid while providing options to pick up containers in a manner that drives operational efficiencies to the rail network and the broader supply chain as well as cost savings to the receivers and importers. Below are some examples of our efforts where CN has worked to help reduce storage costs and assist all stakeholders participating in the supply chain.

A. Establishing quarterly tangible capacity commitments at all ports served by CN for ocean carriers based on forecast and demand:

An intermodal terminal is just like a high-velocity cross dock with volumes being received on one side and volumes going out for distribution from the other side. There is some flex within the system to absorb and accommodate limited spikes and volatility. But if the volume received at the high-velocity cross dock far exceeds the pace at which it exits for distribution, then it is critical that we meter the inbound volumes to protect the fluidity of the terminal. This is exactly what CN has done through a broader supply chain model that is

deep-rooted in CN's operations. It is important that the upstream pipeline is controlled to mitigate down stream impact at destination intermodal terminals.

Given the influx of import volumes and regular extra port calls due to high demand, CN implemented a capacity management process for all ocean carrier customers during the first quarter of 2021. This involved CN committing capacity and allocating space for all customers based on the quarterly forecasted volume while taking into account the ports' physical footprint capacity, rail production capacity, and CN's core train package. Once the commitment was agreed to, CN established a plan that was reflective of that volume commitment. This included deploying resources at all CN inland terminals targeting gate, lift, track, and in-terminal container movement capacity.

This process ensured that the import discharge pipeline to a large extent did not exceed the overall supply chain capacity, and ocean carriers were accountable for that. In exceptional situations where it did, CN was able to pre-plan and adjust the capacity to create enough flex to address those spikes without creating constraints across our network. As a result, we did not see long berthing delays or on dock congestion at CN-served ports due to volumes that exceeded the supply chain capacity. Some of the other initiatives included the following:

- Increased Prince Rupert train length by 20% during the first two quarters of 2021 to create capacity.
- Increased number of trains by 35% from the first quarter to the second quarter of 2021.
- Started trucking boxes from Port of Vancouver to CN's Vancouver domestic intermodal terminal to create on dock capacity at the ports.
- Accommodated diversions from the ports in southern British Columbia and the Pacific Northwest to Prince Rupert, and from Prince Rupert to Vancouver, to create port capacity.
- Added extra capacity to Port of Halifax and Port of Mobile to handle west coast diverted traffic.

Despite these successful efforts to manage the rail container pipeline and volumes, the average daily count of stored international containers has increased at most of CN's U.S. intermodal terminals, as shown below in Figure 4.

B. Off peak storage rebates:

During the second quarter of 2020, CN introduced a storage rebate of \$50 per chargeable storage day, up to a maximum of \$250 per unit, for any international container unit that is picked up during off-peak hours at CN's terminals in Chicago, Detroit and Memphis.

Terminal	Weekday	Weekend
Chicago (Harvey, IL)	20h00 to 0400	Friday 20h00 to Monday
		04h00
Detroit	17h00 to 21h00	Saturday and Sunday
		from 07h00 to 15h00
Memphis	20h00 to 4h00	Friday from 20h00 to
		Saturday 16h00
		Sunday from 06h00 to
		16h00

Figure 3: Off Peak Hours Eligible for Rebate Pick Up

This enables CN to optimize its assets during off peak hours while providing the trucking community quick truck turn time, or the amount of time a trucker spends within our terminals. It also incentivises beneficial cargo owners (BCOs) and receivers with cost savings on storage. We believe this has been a true win-win initiative for all parties within the supply chain.

This initiative can be found in our intermodal optional service tariff (CN 9100) under Item 6500.

C. Extended Incentives over and above off-peak rebates for long weekends and high ground count scenarios:

CN has for some time utilized incremental incentives for container pick ups during long weekends and as a preventive and proactive measure such as when the inbound pipeline to destination terminals was extraordinarily strong given vessel bunching at ports in British Columbia. Here a few recent examples.

On June 29, 2021, CN offered all customers in Chicago and Memphis a storage relief of \$150 per day for a maximum of 7 days (\$1,050) for any containers that got picked up between Thursday, July 1^{st} at 20:00 and Tuesday, July 6^{th} at 04:00. This incentive was put in place to leverage the long holiday weekend in the U.S. and optimize the downtime to evacuate and clear boxes while extending cost savings to the extended supply chain stakeholders.

Even more recently, we rolled out another round of extended incentives for Chicago and Memphis for the weekends of July 23rd, 30th and August 6th as we expected a significant volume of containers to arrive in Chicago and Memphis during that period. Assuming the BCOs/receivers choose to leverage these incentives, CN will be in a better position long term to protect operational fluidity within these terminals for future import surges arriving at the ports and moving on CN's network.

Customer feedback on the above initiatives has been encouraging, and we are seeing some good traction in the right direction.

D. Extended off-site storage locations to be open for BCOs to be pre-booked at a lower rate:

CN is extending its current off-site locations in Chicago for importers to subscribe and prebook prolonged storage for their imports that BCOs anticipate needing extended dwell. CN is also engaging directly with BCOs currently experiencing extended dwell in Chicago with this option as an alternative to reduce storage while also ensuring better fluidity at the terminal as these boxes are shuttled to off-site locations. Customers that have been contacted include large importers.

In order to make this option work, CN has leased off-site storage sites and moved a crane to one such location in order to facilitate a grounded operation. We have been discussing this with selected BCOs and our ocean carrier customers for some time, and the first set of import containers moved to this location on July 30, 2021.

E. Leveraging CNTL where possible to offer last mile delivery:

CN has offered some customers an option of using CNTL, a CN-trucking services subsidiary, for the last mile delivery with CNTL-owned chassis in order to provide additional capacity if available and customers have constrained truck capacity. One of the key customers that has been provided with this option is an importer in Memphis. Similar capacity has also been offered to several ocean carriers in Chicago.

F. Additional investments and enhancements in terminal operations at Chicago, Memphis and Detroit:

Chicago:

- Crane fleet increased by 30% in 2021 (includes one crane enroute currently).
- Staff increased 25% in 2021.
- Move to fully grounded international container operation to **increase terminal capacity by 20%.**
- Establish onsite chassis depot with full repair facilities and booking system and chassis inspection portal at gate.
- \$18M US investment in equipment and facility upgrade last two years.
- <u>24/7 gate</u> with all containers available for pick up.
- Modal Pass deployed 2021.
- Storage cap in place for individual containers.
- Dedicated CNTL and chassis fleet at Harvey.
- 3x roundtables 2021 to hear the concerns of truckers and work together to improve collective performance. Positive feedback from trucking community.
- Establish off-site depot for imports.
- Do not require appointments for imports.

Memphis:

- Moved terminal to grounded operation in March 2019 to proactively address chassis shortages and **increase capacity by 50%.**
- CN's move to grounded model resulted in **900 chassis freed up** and moved into the street and thus available for BCOs.
- \$15M US investment in new equipment including cranes, facility, and gate from 2019 to2021.
- **24/7 gate -** with all containers available for pick up.
- Dedicated CNTL chassis fleet at Memphis.
- As with all terminals, CN will mount any chassis brought to the terminal which reduces dead miles by truckers.
- Storage cap in place for individual containers

Detroit:

- \$26M investment in terminal capacity expansion, including new cranes and hostlerscrane **fleet increased by 50%** featuring Tier 4 engines in the last 5 years.
- Modal Pass deployed.
- Automatic Gate System
- CNTL chassis fleet
- Storage cap in place for individual containers

G. Customised reports and multiple touchpoints with ocean carriers and BCOs through our Customer Experience team:

CN's approach to customer experience is proactive and communicative in engaging customers and receivers about containers that have not been picked up. CN, through its Customer Experience team, has established customised reports for all our ocean carriers which go out three times per week highlighting the list of containers that are dwelling beyond 7 days. CN also actively seeks to engage with BCOs directly in situations when there is no feedback from the ocean carriers. As CN's customer is the ocean carrier, however, CN may not have visibility into the identify of the BCO for a particular container and will need to manually develop such information. CN's dedicated IMX Import team is responsible to send those follow ups.

H. Border crossing

CN has worked to develop seamless border crossing, including our customs examination facility in Ranier, Minnesota. It includes border patrol officers stationed on-site to compliment CN's "Live-Lift" operations for faster turnaround of inspected cargo and train release. There is also increased staff and cargo handling equipment as well as expanded Centralized Examination Station facility supports. Every train and every container on each train is VACIS-screened before entry into the United States.

I. Investment in technology enabling better connectivity of data on "Last Free Day" with partners and customers through API :

Real-time updates on the last free day of storage for import containers within CN's intermodal terminals was rolled out under CN's Shipment Status and third-party application programming interfaces (APIs) since the beginning of the second quarter of 2021. CN's APIs enable system-to-system transmission of the last free day of storage, driving incremental visibility within customer's planning systems through real-time digital connectivity. This data assists customers and third-party stakeholders (such as draymen) in optimizing their workload by focusing on first-in-first-out, potentially reducing dwell and supply chain costs. We believe this is a critical step in driving information exchange in a manner that enables automation for our customers and partners.

7. The average daily volume of stored containers, broken out by month from July 2020 to the most recent month for which data is available.

The average daily count of loaded import containers in storage at CN's U.S. intermodal terminals per month since July of 2020 is shown below.

MONTH	CHICAGO	DETROIT	MEMPHIS	CHIPPEWA FALLS	JOLIET	INDIANA- POLIS	NEW ORLEANS	DULUTH
Jul-20	87.4	12.9	17.1	4.2	5.4	8.2	-	3.8
Aug-20	111.2	34.7	41.3	3.4	11.9	4.5	0.1	0.6
Sep-20	240.4	45.9	150.5	5.5	14.9	5.9	-	2.4
Oct-20	363.5	100.0	276.3	5.3	7.5	11.6	0.1	0.0
Nov-20	358.7	58.4	163.6	8.9	13.0	28.0	0.3	1.6
Dec-20	532.0	52.1	284.3	8.1	28.3	25.5	-	0.2
Jan-21	535.8	70.4	172.4	19.3	35.5	24.5	0.0	-
Feb-21	363.3	58.4	285.8	1.4	84.5	26.0	-	-
Mar-21	371.4	59.7	273.7	11.3	64.7	26.4	-	-
Apr-21	704.5	112.6	236.3	7.7	88.0	38.4	0.0	-
May-21	688.2	176.3	322.8	3.5	86.3	36.9	1.0	0.8
Jun-21	1,047.5	175.4	513.8	3.2	116.9	93.1	0.5	0.4
Jul-21	1,284.0	206.0	510.1	2.7	77.7	54.7	-	-

Figure 4: Average Daily Loaded International Import Containers Stored at CN's U.S. Terminals*

*Container counts include units present in the terminal that have been de-ramped at least 3 days prior and not out-gated. The terminals in Jackson, MS and New Richmond, WI did not have loaded import containers during this period.

8. Please describe your policies and practices of assessing storage charges, including the circumstances under which relief can be granted or charges can be excused.

As noted above, CN has a variety of approaches to incentivize receivers to arrange for timely pick up of containers to maximize fluidity and minimize congestion. These include providing rebates for picking up during off-peak hours, allowing receivers to indicate which container to pick up, arranging for off-site storage at other locations if containers cannot be timely picked up, allowing truckers to bring any chassis to pick up a container, working with receivers to develop pipeline management plans when they anticipate receiving more containers than they can unload, and capping storage per container. When CN becomes aware of long-dwelling units, CN seeks to work with receivers so they can flag and expedite pick up of those units. We note that this can be a time-consuming and labor-intensive process because CN often does not have visibility into the actual intended receiver or beneficial cargo owner of the shipment and must initiate its coordination efforts through the ocean carrier.

In instances where individual relief is requested, CN conducts a complete assessment. While it depends on the circumstances, some of the cases in the past where relief was provided included the following:

- Delay in receiving bill of lading as a result of COVID closure at origin.
- Human error or oversight of arrival notices for the first time.
- Small importer with limited volumes.
- Unforeseen circumstances like bankruptcy.
- Commercial issues with customs delays.

Conclusion

Extended import container dwell within CN's U.S. intermodal terminals has serious consequences to overall fluidity of rail operations that is not just limited to the terminal alone. It impacts the ability of trains to timely depart, slot utilization, train length, safety concerns, and export vessel cutoff over and above the local truck turn time. All this creates a ripple effect across the network, which can seriously impact our ability to reliably deliver goods to our broader customers.

Despite the challenges in other parts of the supply chain, CN has been investing, collaborating, communicating and driving creative initiatives that have enabled beneficial solutions to all participants within the supply chain, and to support the global economic recovery. As you can see above, CN is doing our part to help all of those supply chain stakeholders; CN succeeds when our customers and partners thrive. It is important for the BCOs, third-party logistics providers and ocean carriers to play their part as well. Third-party logistics providers in particular must play an important part within the supply chain by acting to minimize and avoid supply chain constraints and helping importers with alternative solutions. It is difficult for a railroad to devise solutions for congestion after it arises where the railroad has zero visibility to the forecast, pipeline and actual importer on record.

CN's role is necessarily determined by the function and capacity of our terminals, which perform ramping and de-ramping for our departing and incoming trains. We do not operate as a typical container yard that would provide long-term storage given how we must use our footprint to ensure the terminal and thus our rail network remains fluid. The longer a container is stored in a CN terminal, the more time, effort, and expense CN uses in repositioning that container within the terminal while handling other containers that are continuously arriving at and getting picked up from the terminal.

For CN, our intermodal terminals are all about throughput. The success of our ocean carrier customers, importers and receivers depend on the velocity at which we process that throughput. Anything that threatens velocity adds cost and operational inefficiencies for all participants in the supply chain. Our committed objective is to ensure we limit those impediments to the extent feasible.

Very truly yours,

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Jean-Jacques Ruest President and Chief Executive Officer