Industry welcomes rail reform prospects

Concerns over fees, shift to precision railroading weigh on shippers

SWITCH IN THE MAKING: STB rate reform proposals have been welcomed by chemical shippers.

Robert Westervelt

Chemical shippers in the US have waged a long fight to improve rail affordability and reliability and say they are encouraged by rate reform proposals announced earlier this month by the Surface Transportation Board (Washington). Chemical and other shippers have long pushed for reforms to improve access to competitive freight rail and help STB operate more efficiently and effectively.

Rail-related inefficiency costs for industry are enormous, according to estimates. A 2017 study by PricewaterhouseCoopers (PwC) for ACC estimates the cumulative extra inventory requirement driven by rail delays will reach $14 billion by 2025.

STB's recent proposals are based on the agency's rate reform task force, launched in January 2018. STB's proposals provide a streamlined market dominance determination process to reduce the cost and time of rate review proceedings. The cost to pursue such complaints typically exceed $5 million, according to one chemical maker. STB is also proposing a streamlined rate review option to settle cases for smaller shippers, STB says.

Industry also continues to urge competitive switching, which would allow a rail customer that is served by a single railroad to request to have its traffic switched to a different carrier at a nearby interchange. The impact of precision scheduled railroading (PSR), which railroads have adopted to improve efficiencies, and escalating demurrage and other fees are also challenges for industry.

STB's proposed reforms are a positive step toward improving how the agency addresses freight rail problems, says Jeff Sloan, ACC's senior director of regulatory and technical affairs. "It's encouraging to see STB seriously looking at revisiting those rules in light of all the consolidation," he says.

STB's proposal will make it easier to establish a finding of market dominance when the complainant has demonstrated certain factors, including those related to cost, length of shipment, lack of intramodal competition, and an absence of a practical build-out alternative.

Costs mount

The PwC study for ACC found that industry will need significant numbers of new rail cars to mitigate against increased delays, as well as other infrastructure investment such as onsite storage track and new rail spurs. PwC estimates the total potential capital spending will be $20 billion to manage increasing delays and lower turns on railcars. Chemical makers also often ship product by suboptimal modes, including truck, because rail delays can result in uncertain delivery times. Shipping via suboptimal modes will cost chemical companies up to $12 billion by 2025, PWC estimates.

"Right now, I'm sorry to say rail is probably the most problematic mode of transport," Mike Lacey, president of Solvay's North American operations said before a House Transportation and Infrastructure subcommittee roundtable on railroad shippers held 25 July. "Rail seems to be providing the biggest issues for us right now."

Lacey noted that closer collaboration and partnership with rail was needed given increased volumes from enormous US shale-related investment in the chemical industry. "There is no place in the world right now better suited for chemical investments than the United States," Lacey said. Much of that will be shipped by rail, which requires a stronger partnership with railroads. "The railroads operate in the frame they're allowed to operate in and they'd be foolish not to," Lacey said. "Right now, that frame tends to be a bit monopolistic. They've been allowed to aggressively combine. We've been left with four major Class 1 railroads that control over 90% of the freight in the country. Unless conflict resolution changes within STB, the system is not going to change."

The current framework is driven by the Staggers Rail Act passed in 1980 that deregulated the rail industry, when railroads were in severe distress. Lacey stressed that shippers were not seeking a return to pre-Staggers policy or to unfairly burden railroads. "We want to see a very strong, a very active, and an innovative rail industry," Lacey said. "I'm afraid the structure in place now does not promote that."

Precision railroading gains traction

Railroads are also making significant operational changes in areas such as PSR that is putting additional burdens on shippers, Sloan says. "Chemical shippers do have ongoing concerns about resiliency," Sloan says. "There's not a lot of slack if there's an uptick in volumes or an unforeseen event."

Demurrage and other fees are also a concern. "It gets back to lack of competition," Sloan says. “We, of course, have no problems with efforts to make things more efficient.” Much of the burden and the cost for that, however, is placed on shippers. “Railroads have such market power over customers and the ability to make changes in a way that doesn’t leave any recourse.”

Dow says it continues to monitor and assess the impacts of precision railroading. “Dow is constantly assessing all aspects of our supply chain to ensure safe, reliable, and efficient transport of our products to customers,” a spokesman says.

Producers continue to work with rail to address service problems but face lack of viable alternatives in some cases. “While alternative modes of transport are an important element in maintaining competitiveness, this is not always a viable option, particularly in rural areas of our country,” Lacey says.

Leaner approach needed

Analysts say that there are steps that can be taken to mitigate rail impacts, including the embracing of the lean concepts with PSR. “While PSR is viewed as a barrier, if understood and exploited, it can be advantageous to the shippers who learn to change operational thinking,” says Chuck Deise, senior vice president, chemical process industries with Argo Consulting (Chicago). “Rail will continue to be the most cost-effective freight mode for long-haul logistics, however, the push toward precision railroading is exceeding shipper’s willingness to transition to leaner asset management strategies.”

LACEY: Rate conflict resolution policy needs to change.

Better asset utilization is critical, Deise adds. “While only certain portions of the total cycle time are controlled by the shipper, data shows that the bulk of the time is within shippers control,” Deise says. “The top consumer of rail car cycle time is typically the end customer. Customers use excessive days to offload cars and often use rail cars as storage containers.” Shippers must also press the railroads to “practice what they preach. While Class I railroads expect shippers to reduce volumes of cars through increased utilization, railroads need to back off primary policy of maximizing train lengths,” Deise says.

Chemical shippers need to move toward smaller inventories of rail cars, higher turn rates, and less dwell at both loading and unloading locations, Deise adds. “Chemical shippers who do not evolve to maximizing asset utilization and reduced inventories will find themselves storing high numbers of cars because the Class I railroads under PSR will no longer allow their railyards to store the under-utilized assets.” PSR limiting inbound car volumes to no more than three days’ supply. Shippers exceeding the limit risk embargo in congested areas or assets pushed to shipper storage yards. “The Class I railroads will push asset costs to shippers if asset management isn’t improved.” ■