



# J.M. LONGYEAR, LLC

210 N Front St 1st Floor • Marquette MI 49855 • Phone 906-228-7960 • Fax 906-228-9499

## RAIL FRIEGHT SERVICE REVIEW (Feb. 26, 2010)

The Great Lakes region is an area that is dependent on efficient truck and rail service for supporting key manufacturing sectors such as the forest products industry.

The optimization of truck and rail modes with an efficient intermodal linkage would result in the reduction of transportation costs, congestion, pavement and roadway degradation, and harmful air emissions. It would also significantly contribute to improvement of regional and global competitiveness, improvement of regional economics and promote growth.

Many of the products shipped in this region are heavy, bulk, and raw materials such as logs that benefit from economies of scale and bulk modes of transportation.

J.M. Longyear is a natural resources company based in Marquette, Michigan with offices in Sault Ste Marie, Ontario. Founded in the late 1800s in Michigan's Upper Peninsula, Longyear owns and manages more than 105,000 acres of forest land in the Upper Peninsula and Ontario Canada, following best management practices to ensure forest sustainability for generations to come. In addition, our procurement staff actively purchases forest products from landowners and suppliers to ensure products are available to meet our customers' needs.

Longyear is one of the largest suppliers of forest products in the region and rail service has been and will continue to be instrumental in our success. This is why we are excited to be involved in this review and applaud the efforts to facilitate constructive discussion on continuous improvement of our transportation systems.

The following key points will briefly outline various challenges we face and opportunities for improvement. However without understanding the rail transportation side of the business and its many challenges, some of the comments will just be observations without recommendations for improvement.

### RELIABILITY

Reliability of rail car delivery is very important in the hardwood industry due to fact that high value hardwood logs are perishable except for the winter months and there is a very short window of time (2-3 weeks) that the product needs to get to the customer before it loses significant value to stain. There have been times where we have had to wait for delivery of cars (availability issues), or cars were lost in the system for over 30 days. The risk of delivery delays forces the industry to rely on a higher percentage of truck transportation during the staining season.

Also, our customers rely on timely deliveries of our products to their processing facilities and we have based our business on reliable on-time deliveries of our products. When we can't deliver on time we eventually lose opportunity with our customer.

The reliability of on-time car delivery to various loading points is critical from a cost standpoint. Trucks that deliver and load logs on rail cars often have to wait on cars that are late and many times instead of direct loading the logs need to be unloaded on the ground and loaded at a later date when the cars arrive. Lost time and extra handling is very costly.

Many times a number of cars are ordered to be delivered to a loading point on a certain date and they don't get delivered. Then at a later date these late cars are delivered along with the cars that were ordered for that day and double the cars show up. This situation, at times, makes it physically impossible to load on time and demurrage charges are applied. We have been able to negotiate a dismissal of these fees, but this takes time to record and keep track and document these occurrences. This is time that could be used creating value as opposed to deflecting added costs.

Proposed solutions would be:

- Take or Pay program – A program where customers would guarantee the rail to use a certain number of cars per week over a period of time. If the customers didn't use that number of cars over that period they would be charged a fee. The Rail would pay a fee to the customer if they didn't get them their cars on time. Cars ordered that were part of the customers forecast would be dispatched with first priority, which would lead to a much higher reliability for on time delivery.
  - The program works when there are penalties for both sides not meeting their requirements.
  - Increased the percentage of on time cars for companies enrolled in program
  - Rail can plan ahead of time for car allocation.
  - Made car ordering and delivery system more reliable
    - This will lead to less demurrage and deflection costs
    - Increased hot loading opportunities (minimal re-handling)
  - Programs like this need to be win-win in order to be successful and to facilitate a strong customer supplier relationship
  - This program has been done and was successful.
  - Down side is both parties need to keep track of deliveries and fee balances.
- Pool Cars – (Initially this seems to be a better alternative than Take or Pay Program) The railroad would reserve a block of cars for use with one customer; this block would become the customer's pool cars. The customer would have control on directing the railroad where they wanted the cars to go, full as well as empty. In context to a mill, this means the empties could be dispatched to a siding to get wood, come back to the mill and be sent back out to the next siding. Currently problems exist because once cars are emptied at the mill they will often get sent somewhere else that needs the cars, making consistent service difficult. **THIS HAS BEEN DONE IN THE PAST**
  - Companies would like to see leased pool cars
  - A block of cars would sit at the mill and be sent to rail log sidings to pick up their wood
  - Would eliminate issues of starting stopping delivery of cars at various log rail sidings as logging operations moved around
  - This would also increase chances to increase loaded miles on these cars and help facilitate back haul opportunities.
- Spotting of Cars at rail log sidings
  - Cars not spotted correctly is a major issue for controlling transportation costs
    - Double to triple the loading time if cars not spotted correctly
    - Could use a sign system for where to spot cars
    - Either a movable one they would place or a series of little signs at the siding with incremental numbers. When ordering cars the shipper would pick which number they wanted the last car spotted back too.
- Demurrage System
  - Prevents large cuts of cars to be delivered as they can't be loaded in the 24 hours. Small cuts are ordered instead to avoid demurrage
  - Demurrage Clock
    - Example: Two cars are ordered per day for Mon-Thurs, 8 cars are delivered on Mon.
    - Six cars in this case would be early; demurrage clock doesn't start for each early car until its requested arrival date.
    - If rail delivers new cars, in front of previously delivered cars, all cars have demurrage clock reset to 24hrs from the new cars delivery.

## MULTIPLE LINE HAULS

Hauling products by rail over multi line ownerships is extremely cost prohibited. More favorable rates for these situations would create more opportunities for the customers and suppliers.

## CUSTOMER SUPPLIER RELATIONSHIPS

By fostering a more true collaborative two way relationship between the rail and customer there are many opportunities such as the above recommendations that would come to light.

On behalf of Longyear, I would like to applaud this effort and greatly appreciate the opportunity to comment. If you have any further questions feel free to call or e-mail.

Submitted by:

Jacob E. Hayrynen  
Forest Operations Manager  
JM Longyear, LLC  
Phone: 906-228-7960  
Cell: 906-250-5284  
Fax: 906-228-9499  
Email: [jakehayrynen@jmlongyear.com](mailto:jakehayrynen@jmlongyear.com)