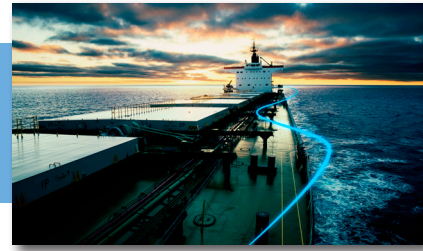


Chemical shippers see new era under Trump



Washington, 6 January (Argus) — Major chemical products shippers hope president-elect Donald Trump's plan to reduce federal regulations gets them better rail service and lower rail rates.

"Eliminating regulatory barriers to commerce and improving how the STB operates is in line with the Trump administration's pro-growth goals and promise to change how Washington operates," the American Chemistry Council (ACC), which represents major chemical manufacturers such as Dow and 3M, said.

Railroads have a different vision. They believe Trump will instead target what they see as overly restrictive rules that hamper their operations.

Both sides have been busy lobbying Trump transition officials in hopes of pairing their own agendas with the incoming president's expected anti-regulatory push.

ACC and other large shipping groups have been pushing for the Surface Transportation Board (STB) to issue a rule allowing customers to shift freight from one railroad to another if one is available, known as reciprocal switching. Railroads strongly oppose the measure, which it calls "forced access."

Opening the rail system to reciprocal switching represents less regulation, not a heavier regulatory burden as railroads contend, and is "preferable to regulatory oversight," ACC said. Shippers say that having limited choices in carriers is a significant problem that increases costs and reduces service.

Reciprocal switching is allowed in the US only if the shipper can prove market power or abuse by the railroad that serves it. Similar to STB's onerous and costly process to challenge a rail rate, the burden of proving market abuse often makes it not worth it, chemical shippers say.

Also, after expending time and resources to be allowed reciprocal switching, there is no guarantee that the second railroad will provide a reasonable rate, making the process more onerous, shippers say. They characterize this as a barrier to competition.

Chemical shippers' other main focus is to obtain a more reasonable process for challenging rates at STB. In September the board turned down Total Petrochemical's complaint over CSX rates, a proceeding that took six years and millions of dollars to resolve. Not only did Total lose the legal expenses, it still has to pay the higher rate.

The board said Total failed to make the required showing under

the guidelines. But Republican board member Ann Begeman said she was unsure any carload shipper could meet the bar.

Chemicals volume on US rails, excluding crude, has been fairly flat over the last decade, Association of American Railroads (AAR) data show. Class I carriers in the US hauled about 175mn short tons (159mn metric tonnes) of chemicals in 2014, compared with about 165mn st in 2005, a less

dramatic fluctuation than a number of other shipping categories. The most recent peak came in 2011, with a little more than 190mn st moved.

The chemicals category is broad, including thousands of varieties of industrial chemicals. Various industrial products make up more than half of rail chemical tonnage, with the balance coming from fertilizers and other agricultural chemicals. AAR also includes within chemicals the categories of plastics, synthetic fibers, drugs and soaps.

AAR says that the cost of shipping chemicals by rail was about 2pc of chemical industry revenue if pharmaceuticals are excluded. Railroads grossed \$10bn shipping chemicals in 2015, about 14pc of total revenue. Only coal and intermodal provide carriers more revenue.

The Gulf coast is heavy with rail chemical activity, making up 61pc of originated rail tons in Louisiana, 36pc in Texas and 29pc in Mississippi.

ACC says it expects shipments of plastic resin to increase significantly in the next few years. Materials to make plastics and synthetic resins account for about 25pc of rail tonnage.

Railroads carry more ethanol than any other chemical, not counting crude, which is sometimes classified as a chemical by railroads. Trump campaigned in favor of the Renewable Fuels Standard (RFS), a federal law passed in 2005 that greatly stimulated ethanol demand and increased rail loadings.

The law requires companies to mix increasing volumes of ethanol in with the gasoline and diesel fuel they refine, but fossil fuel interests are trying to get the regulation overturned.

As he campaigned in January, 2015, Trump told the Iowa Renewable Fuels Association that as president, he would encourage Congress to be cautious in changing "any part of the RFS."

STB was in the midst of a wave of new shipper-friendly initiatives mandated by Congress in a reauthorization act last year when Trump won his surprise victory. Chemicals shippers and railroads are making the case that their financial health is critical to the larger economy Trump hopes to invigorate.

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