

STATEMENT OF BERNARD J. VAUGHAN

My name is Bernard Joseph Vaughan. I am the Chief Legal Officer and Executive Vice President of Administration at Flexi-Van Leasing Inc, headquartered in Kenilworth, New Jersey. I joined Flexi-Van in 1986 as Vice President, General Counsel and Corporate Secretary. In addition to my other functions, I have direct responsibility for the Procurement and Technical Services Departments, as well as all maintenance and repair functions (both at facilities owned by Flexi-Van and operated by third-party vendors). I appreciate the opportunity to present testimony before the International Trade Commission staff on behalf of Flexi-Van and the chassis leasing industry at large.

A marine intermodal chassis is a wheeled frame designed to move marine containers overland between ocean-going vessels, railroad terminals, warehouses and other delivery points served by trucks. The U.S. marine intermodal chassis business is unique in the global maritime transportation system and the intermodal bias ply tube tire, mounted on a two-piece rim, is unique to our industry. To the best of my knowledge, no one other than chassis owners use this type of tire in the United States. There has not been any production of this type of tire in the United States since the early 1990s. Tubeless radial tires produced by the domestic industry require once piece rims and, therefore, they cannot be placed on marine intermodal chassis which have two-piece rims.

Flexi-Van is the second largest chassis lessor in the United States. Together with Trac Intermodal (which is the largest marine intermodal chassis lessor headquartered in Princeton, New Jersey), DCLI (third largest chassis lessor headquartered in Charlotte, North Carolina), and TAL (headquartered in Purchase, New York), we own collectively more than 90% of the intermodal marine chassis in the United States. The chassis leasing business is a rate sensitive,

cyclical business that is impacted by economic and political events affecting world and regional trade.

Flexi-Van currently have chassis available for lease at over 38 depots located in North America's principal commercial centers and marine ports. We lease chassis to shipping lines, railroads, freight forwarders, trucking companies, retailers, manufacturers and exporters.

Flexi-Van, and the other leasing companies, provide equipment to their customers through long-term, short-term and per diem lease agreements. In addition, the leasing companies participate in chassis pools, where chassis are shared among many users.

Chassis are vital to the nation's transportation system and benefit from years of infrastructure investment that will require the use of chassis in the transportation of freight for years to come. Intermodal transportation is generally more efficient and safer than traditional bulk loading and unloading transportation methods.

A marine intermodal chassis is a specialized rectangular-wheeled steel frame, generally 20', 40' or 45' in length ("marine chassis") built specifically for the purpose of transporting containers. Once mounted, the chassis and container are the functional equivalent of a trailer, which can be trucked to its final destination or to a railroad terminal or port for loading onto a rail car or ship. Chassis have long economic lives, typically lasting for forty years or more if remanufactured mid-life. If the chassis is remanufactured, every part of the chassis is replaced with new parts except for the axle. Prices for new and remanufactured chassis vary depending on the location of manufacturer and market demand. Demand for U.S. based intermodal equipment in general, and containers and chassis specifically, are driven by the volume of North American trade, both domestic and international.

From the early 1960s until the early 1990s, Flexi-Van, and the other leasing companies, purchased tires and rims for their chassis from various vendors which were, in turn, sourced tires and rims from both domestic and foreign manufacturers. However, beginning in the early 1990s, U.S. manufacturers ceased production of bias ply tube tires for use in the marine intermodal chassis industry. Since then Flexi-Van and the other leasing companies have had to purchase bias ply tube tires sourced from foreign manufactures located principally in China (and to a limited extent, Flexi-Van has also purchased bias ply tube tires sourced from India).

As described above, a chassis, while specialized, is a pretty simple piece of equipment. A new chassis costs between \$10,000 and \$11,000 with the rims and tires constituting more than 10% of this cost. While a chassis is on term lease to a customer, the lessee/customer has complete responsibility for maintenance and repair for the chassis, including the replacement of worn or damaged tires. At the end of the term lease, the lease agreement requires that the chassis be returned to the lessor in good working order, less ordinary wear and tear. It is my understanding that our customers (historically, principally ocean carriers) sourced replacement tires from the same vendors that the leasing companies used. It is common for tires to be changed on a chassis often; not because they are worn out, but rather, because they have been subject to impact damage or abuse while in service (e.g., terminal impact damage, run "skid flat", curb damage or excessive wear due to underinflation). Therefore, it is highly likely that a chassis will require numerous tire changes during its lease term and it is uncommon for a chassis to be returned after a term lease expired with all eight original tires still intact on the chassis. The level of tire replacement, of course, varies by chassis and the operating environment in which the chassis are subject to.

In the chassis pool environment, the equipment owner and not the user is responsible for chassis maintenance and repair (including tire damage). Maintenance and repair is by far the largest expense for an equipment pool and tire cost is by far the largest component of the pool M&R expenditure. By way of example, chassis in the LA / Long Beach pool area have, on average, five tires replaced a year. In addition to the tire cost, tire work is often done at marine terminals with a labor rate approaching \$150 per hour.

The intermodal bias ply tube tire mounted on a two-piece rim remains the standard for the entire U.S. marine intermodal chassis fleet. This has been the case since the beginning of this industry in the 1960s. Chinese manufacturers are virtually the sole suppliers of these tires in the world since the U.S. manufacturers completely exited the business in the 1990s. It is our full expectation that the current bias ply tube tire mounted on a two piece rim will continue to be the tire of choice for many years to come. The next panelist, Mr. Dan Jackson, will discuss the operating benefits of the bias ply tire compared to a tubeless radial tire, particularly in the marine terminal environment.

If circumstances forced the chassis leasing industry to immediately switch over to tubeless radial tires, this would have dire financial consequences for us (and the shipping public). It could result in a material disruption to chassis availability and the efficient flow of container cargo in the United States. In order to switch over to radial tires, all eight existing tires would have to be removed from the chassis. In addition, all two piece rims would also have to be replaced with single piece rims since tubeless radial tires cannot be used with two piece rims. Based on the existing chassis fleet equipped with tube bias ply tires, this “unnecessary” change-out using marine terminal union labor would cost the industry in excess of \$1.1 billion. This would not only be a huge financial expenditure but would force the industry to discard valuable functioning

assets. Such a wholesale change-out would require many thousands of chassis to be taken out of service. This would cause an operational nightmare for repair vendors at marine and rail terminals as well as for the terminal operators, where most chassis now reside while not in active service.

The tube bias ply intermodal tire has demonstrated its efficacy for more than five decades in the U.S. intermodal marine chassis industry. This tire is a very specialized segment of the Chinese tire manufacturing industry. There is no existing domestic manufacturing capability and we do not expect that any of the U.S. manufacturers intend (or would even want) to reenter this market.

For the above reasons, we request that intermodal bias ply tube tires of the 1000-20 size, mounted on a two piece rim, be designated a separate like product distinct from the current scope of this case and found not to be injuring the domestic industry.

Thank you again for the opportunity to present these comments. I am happy to answer any questions the staff may have.