

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET No. 32760

UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD
COMPANY, AND MISSOURI PACIFIC RAILROAD COMPANY

----CONTROL AND MERGER----

SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN
PACIFIC TRANSPORTATION COMPANY, ST. LOUIS
SOUTHWESTERN RAILWAY COMPANY, SPCSL CORP.,
AND THE DENVER AND RIO GRANDE WESTERN
RAILROAD COMPANY

COMMENTS OF THE
UNITED STATES DEPARTMENT OF AGRICULTURE

Lon Hatamiya
Administrator

Agricultural Marketing Service

U.S. Department of Agriculture
Washington, D.C. 20250

Date: March 29, 1996

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These comments are filed on behalf of the United States Department of Agriculture (USDA) and are in response to the former Interstate Commerce Commission's (Commission) decision served December 27, 1995, setting forth the procedural schedule for this control and merger proceeding.

AUTHORITY AND INTEREST

Through the Agricultural Adjustment Act of 1938 (7 U.S.C. 1291) and the Agricultural Marketing Act of 1946 (7 U.S.C. 1622 (j)), Congress has directed and authorized the Secretary of Agriculture to participate in proceedings before the Commission to "assist in improving transportation services and facilities...for agricultural products and farm supplies"

and to make "complaint or petition to the Commission...with respect to rates, charges, tariffs, practices, and services..." In addition, USDA, through the operations of the Commodity Credit Corporation, is a major participant in the markets for agricultural products.

Rail service is critical to the economic well-being of this Nation's agricultural and rural economies. Reliable, cost-effective transportation of agricultural products is essential in order for U.S. agricultural products and shippers to maintain competitive viability in domestic and export markets. Nearly half of all grain produced in the U.S. moves to market by rail.¹ In 1995, grain, grain mill products, and other farm products accounted for more than 2,140,898 rail car loadings.² This amounts to an 8.8 percent increase over 1994 car loadings. These figures indicate that an adequate and efficient rail infrastructure is essential for the marketing of the huge volumes of U.S. agricultural products.

A Union Pacific (UP)-Southern Pacific (SP) Railroad merger would surpass the 1995 merger between the Burlington Northern (BN) and the Atchison, Topeka and Santa Fe Railroads (Santa Fe) as the largest ever consolidation of rail systems. Together a UP-SP system would operate over 31,000 miles of track extending from Canada to Mexico and from the Midwest to the Pacific Ocean. During calendar year 1995, the UP and its Chicago and North Western Railroad affiliate hauled 599,469 carloads of grain, grain mill and other farm products, ranking them among the top two Class I Railroads. The SP carried 84,000 carloads

¹Jerry D. Norton, Paul J. Bertels, and Freeman K. Buxton, *Transportation of U.S. Grain: A Modal Share Analysis*, (Washington, DC: U.S. Department of Agriculture, Agricultural Marketing Service), July 1992.

²Association of American Railroads, *Weekly Railroad Traffic: Revenue Freight Traffic Statistics of Major Railroads*, (Washington, DC: Association of American Railroads; Economics, Policy, and Statistics Department), 1996.

of grain, grain mill and farm products. Together, the UP and SP rail systems would have ranked number one among Class I railroads in carloadings of grain, grain mill and other farm products in 1995 with 683,469 carloads compared to 618,903 carloadings for the combined BNSF.

A significant amount of grain is transported by rail to Gulf Ports for export to other countries. Rail is also an important mode of transport for grain exported overland to Mexico. Mexico is expected to become the largest U.S. market for grain. A combining of the UP and SP systems would reduce the number of independent railroads available to transport grain and other agricultural products and commodities to this large and expanding market, thus affecting the rail service, carrier options, and rates or prices agricultural shippers must pay.

EFFECTS OF CONTINUING RAIL CONSOLIDATION AND CONCENTRATION

The continuing consolidation and concentration of major railroads is dramatically altering the U.S freight railroad network. Only 9 Class I railroads are operating today, compared to 33 in 1982. In April of 1995, the Commission approved the merger of two major grain hauling railroads, the UP and the Chicago and North Western. Also in 1995, the (BN) acquired the Santa Fe Railway. The BN consistently ranks as the number one railroad in grain transportation annually. In addition to creating the largest rail system in the U.S., the BN-Santa Fe merger reduced the number of Class I railroads operating in the western half of the United States to three. If the UP-SP merger is approved, there will be only two Class I or major freight railroads operating in the vast grain and oilseed production area between the Mississippi River and the Pacific Ocean.

As major railroads continue to restructure through mergers, consolidations and abandonments, rural rail service has been preserved in many instances by the formation of small or short line railroads. Throughout the 1980's and continuing today, local and regional railroads have become increasingly important to agricultural and rural communities by assuming service which had been discontinued, or which was about to be discontinued by Class I railroads. Today, over 500 small railroads play a vital role in supplying farm communities with raw materials and farm inputs and in facilitating the marketing of agricultural production. With estimates of 10,000 or more miles of track to be sold, leased, or abandoned within the next several years by Class I railroads, small railroads will become even more important to the viability of rural agricultural regions and communities.

Because of their heavy dependence on Class I carriers for car supply and service, small railroads and the small agricultural businesses they serve are concerned over mergers and consolidations between large railroads. Common concerns with increased consolidation include a growing number of captive shippers who are only served by one railroad, reduced service, noncompetitive rates, and car ordering systems that cannot be used effectively by small businesses, most of which are country grain elevators. For example, USDA is aware of complaints from some shippers who have waited two months and longer for rail cars. Not having the resources or marketing power to purchase rail transportation far in advance of their sales, small grain elevators are unable to participate in the advanced car ordering systems offered by major railroads which guarantee car service. The inability to load and ship grain in a timely manner can be economically ruinous to these small rural businesses.

RAIL MOVEMENTS OF SOUTHERN PLAINS STATES WHEAT TO GULF PORTS FOR EXPORT

The limited access to feasible alternative transportation renders wheat shipments from Lower Plains States to the Gulf very dependent on rail. Because two of the Nation's largest wheat hauling railroads were to be consolidated, USDA told the Commission during the BN-Santa Fe merger proceedings last year that our greatest concern with the merger was the further reduction in the level of competition that existed between the two carriers in the transportation of wheat. The Lower Plains States of Kansas, Oklahoma, and Texas, combined with Colorado, produce more than three-fourths of all U.S. Hard Red Winter wheat. The combined BNSF is a major carrier in the movement of wheat to Gulf Ports for export from the Lower Plains States.³

The UP is the other major railroad transporting large volumes of Lower Plains States wheat to Gulf Ports and Mexican Gateways. While the SP is not currently a significant carrier in this market, it does have routes to major Gulf Port cities. A combined UP-SP would result in the control of this important rail-dependent market by the only two major railroads operating in the Western half of the U.S.

THE NEED FOR A THIRD CLASS ONE RAILROAD ALTERNATIVE

The absence of a feasible alternative transportation mode requires movement by rail for the tremendous volumes of wheat produced in the Plains States. This wheat must move

³The Lower Plains, for the purpose of this discussion, include Kansas, Oklahoma, and Texas.

long distances to reach domestic markets, coastal ports and Mexican Gateways for export.

USDA believes a third Class I Railroad alternative in the important corridor between the Lower Plains States and the Gulf and Mexican wheat markets would enhance competition and provide a measure of assurance to grain and other agricultural shippers concerned over the dominance in this market by two giant rail systems. A third Class I Railroad operating in this corridor may be needed to satisfy the service concerns and provide a competitive balance for shippers in the Nation's main winter wheat region which includes Kansas, Oklahoma, and Texas.

USDA also believes that gains in trade, expected as a result of the North American Free Trade Agreement, largely depend on maintaining competitive transportation options and gateway access into Mexico. A third Class I Railroad serving strategic gateways to Mexico would be beneficial for American wheat and other agricultural shippers, as well as for the Nation.

CONCLUSIONS

USDA does not oppose this proposed merger between the UP and SP railroads. However, continuing consolidation and concentration of the Nation's Class I railroads concerns USDA and agriculture in general because much of agricultural production moves to market by rail. A UP-SP combination, along with the recently merged BNSF, would result in control of movements of wheat from the Lower Plains States to Gulf Ports and Mexican Gateways for export by two huge rail systems. USDA believes a third Class I rail carrier operating between the wheat producing Lower Plains States and the Gulf and Mexican

markets would enhance competition and provide rate and service alternatives for agricultural shippers.

The UP-SP merger request is the largest major railroad consolidation proposal to date. Approval of this merger will result in only two rail systems controlling the entire Western half of the Nation. This merger could have substantial impacts on grain production and marketing in the Midwest and West, particularly the Lower Plains States where a majority of the wheat grown is destined to Gulf Ports and Mexican Gateways for export. In its analysis and decision in this merger proposal, USDA urges the STB to consider the far-reaching competitive implications of a combined UP-SP rail system.

USDA believes STB should require, as a condition of the merger, that trackage rights and or line sales be used to ensure competition, and that alternative service by a third Class I Railroad be considered in the Kansas City, Wichita, and Fort Worth, Texas corridor to Gulf Ports and to Mexico. USDA believes the transportation interests of agriculture and the Nation would be best served by retaining as many transportation options as possible in the vast areas that would be served by a consolidated UP-SP rail system.

Respectively submitted,


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CERTIFICATE OF SERVICE

I, Paul E. Kepler, certify that, on this 29th day of March, 1996, I caused a copy of the forgoing document to be served by first-class mail, postage prepaid, or by a more expeditious manner of delivery on all parties of record in Finance Docket No. 32760, and on

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