

BEFORE THE
SURFACE TRANSPORTATION BOARD

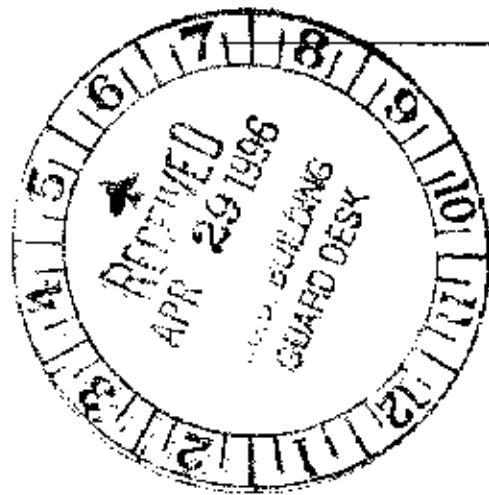
FINANCE DOCKET No. 32760

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

RESPONSIVE COMMENTS OF THE
UNITED STATES DEPARTMENT OF AGRICULTURE



Lon Hatamiya
Administrator

Agricultural Marketing Service

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

Date: April 29, 1996

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RESPONSIVE COMMENTS OF THE
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These responsive comments are filed on behalf of the United States Department of Agriculture (USDA) in the above proceeding in accordance with the former Interstate Commerce Commission's decision served December 27, 1995, setting forth the procedural schedule for this control and merger proceeding between the Union Pacific (UP) and the Southern Pacific (SP) Railroads.

USDA noted its authority and stated its interest in this control and merger proceeding in initial comments filed March 29, 1996. In those comments, USDA highlighted the importance of rail service to the economic well-being of this Nation's agricultural and rural economies. The tremendous amounts of grain and other agricultural products that move to market by rail from production areas that are frequently far removed from markets makes it imperative that agricultural shippers retain and acquire as many competitive transportation alternatives and

options as possible as major railroads continue to consolidate their systems.

In addition to suggesting trackage rights and line sales to ensure competition, USDA urged the Surface Transportation Board (STB) to consider requiring service by a third Class I or major railroad, as a condition of this proposed merger, in the Kansas City, Wichita, and Fort Worth, Texas corridor to Gulf Ports and Mexican markets to provide alternate service for agricultural traffic, especially the large volumes of wheat produced in the Lower Plains States.¹

The U.S. Department of Justice (DOJ), in comments filed April 12, pointed out the large number of markets in the West where rail competition would be reduced from three to two and from two to one with this proposed merger. USDA noted similar concerns in its comments reminding STB that the entire Western half of the country, between the Mississippi River and the Pacific Ocean would be dominated by just two Class I rail systems.

DOJ also pointed to current significant parallel lines in the UP and SP rail systems, including those in the so-called Central Corridor between Kansas City and the West Coast. The UP and SP currently compete over these lines. A merged UP-SP rail system will eliminate this competition. With the recent passage of the Federal Agriculture Improvement and Reform Act (FAIR), agricultural shippers and growers will have the opportunity to make production decisions as market conditions dictate. FAIR should influence the way grain is produced, marketed and transported in the future. The passage of FAIR raises USDA's concern about the future of rail competition for agricultural shippers along the Central Corridor. An analyst for DOJ has indicated the likelihood of price increases being in the interest of a merged UP-SP and

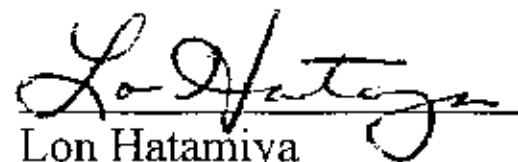
¹The Lower Plains States, for purposes of this discussion, include Kansas, Oklahoma, and Texas.

the other recently merged Western railroad, the Burlington Northern Santa Fe.

CONCLUSION

USDA agrees with DOJ that this proposed merger is likely to significantly reduce competition in various rail corridors, as it stated in its March 29, 1996 comments. In order to preserve and enhance competition in Kansas City, Wichita, and Fort Worth, Texas corridor to the Gulf Ports and to Mexico, USDA urged STB to consider requiring a third Class I railroad be allowed to operate. DOJ has pointed to the probable reduction of rail competition along the Central Corridor as a result of a combined UP-SP. Because of the potential growth in new agricultural shipping patterns as a result of FAIR, USDA believes a third major railroad operating in the Central Corridor will preserve necessary options and alternatives for present and future grain transportation.

Respectively submitted,


Lon Hatamiya
Administrator

Agricultural Marketing Service

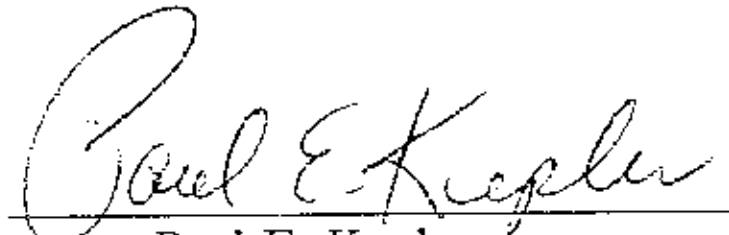
U.S. Department of Agriculture
Washington, D.C. 20250

CERTIFICATE OF SERVICE

I, Paul E. Kepler, certify that, on this 29th day of April, 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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Premarmer Notification Office
Bureau of Competition
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Paul E. Kepler