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

BRIEF COMMENTS OF THE

SECRETARY OF AGRICULTURE

Dan Glickman
Secretary

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

Date: June 3, 1996

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SURFACE TRANSPORTATION BOARD

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These comments of the Secretary of the U.S. Department of Agriculture (USDA) are filed in the above proceeding in accordance with the 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. We have noted USDA's authority and interest in this proceeding in comments filed previously.

As Secretary of Agriculture, I am charged with the responsibility under the Agricultural Adjustment Act of 1938 (7 U.S.C. 1291) and the Agricultural Marketing Act of 1946 (7 U.S.C. 1622 (j)), as amended, to represent the interest of agricultural shippers and producers in improving transportation services and facilities, by among other things, initiating and participating in STB proceedings involving rates, charges, tariffs, practices, and services.

USDA filed comments in this proceeding on March 29, 1996, and April 29, 1996. We highlighted the importance of competitive rail service for agricultural producers and shippers and the entire rural economy as well as the adverse effects of continuing consolidation and concentration in the railroad industry. As a result, USDA recommended, among other things, that the STB require a third Class I railroad to operate in the corridor between the Lower Plains States and Gulf Coast and Mexico, as well as in the Central Corridor between Kansas City, Missouri, and the West Coast.

The UP has made attempts to alleviate competitive concerns of shippers in the Gulf Coast region. However, USDA's principal concerns regarding decreased competitiveness have not been resolved because no lines have been divested to additional Class I carriers. Accordingly, USDA opposes the proposed merger.

If approved, the proposed UP-SP merger would result in only two Class I railroads serving the vast grain and oilseed production area between the Mississippi River and the Pacific Ocean. This would reduce the number of competing railroads from two to one in a large number of transportation corridors, and it will remove one of only three competing railroads in many more corridors.

Statements entered in this proceeding provide strong evidence that rail rates are likely to increase as the number of competing railroads declines, and strongly suggest that the proposed merger will significantly increase rail rates for shippers. USDA is particularly concerned because much of the empirical evidence links the amount of competition to rail rates for carrying grain.

Moreover, in much of the geographic area that would be served by the proposed merger, there is no economically feasible alternative mode for shipping grains, oilseeds, and other bulk agricultural products. Similarly, agriculture depends on railroads for delivery of crucial agricultural inputs. Higher rates would reduce farm income because farmers would receive lower prices for their output and pay higher prices for their inputs. Persistently lower net returns to agriculture would reduce the value of farm assets, including land.

The proposed merger also has the potential to affect adversely U.S. competitiveness in foreign trade. Affordable service to export points on the Gulf, the Pacific, and gateways to Mexico is essential if the United States is to reap fully the benefits of trade liberalization. Furthermore, we believe that world agricultural markets are in a period of sustained growth characterized by strong demand. As our April 29, 1996 Responsive Comments indicated, the 1996 Farm Bill gave U.S. farmers the flexibility to respond to these market signals. However, farmers will not be able to take full advantage of that flexibility if increased shipping costs reduce their net returns, or if our National reputation as a reliable supplier is tainted as a result of undependable domestic transportation service.

CONCLUSION

Efficient, affordable transportation service is essential to the well being of U.S. agriculture and rural America. The proposed merger will reduce the already limited number of competing transport options for grain and food products shippers in the Southern and Central Plains, including the Central Corridor, the Lower Plains, and the north-south corridor between Kansas City, Wichita, and Forth Worth, Texas to Gulf Ports and Mexico. The proposed merger, with its inadequate mitigating measures, is likely to increase rates and could reduce the quality of service for many shippers in a large part of the United States. The proposed merger also has the potential to affect adversely U.S. competitiveness in foreign trade particularly to export points on the Gulf, Pacific Coast, and Mexican Gateways.

In the Burlington Northern Railroad and Atchison, Topeka, and Santa Fe Railway merger case USDA asked that the Interstate Commerce Commission make every effort to assure that an adequate level of competition was maintained in those markets and on those routes where competition would suffer as a result of that merger. With the approval of that merger, competition was reduced for many shippers in the Lower Plains. This latest merger proposal of the UP and SP would again reduce competitive options and alternatives for many shippers in the same region. For this reason and those already stated, USDA opposes the proposed merger of the UP and SP railroads.

Respectively submitted,

Dan Glickman

Dan Glickman
Secretary

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

CERTIFICATE OF SERVICE

I, Eileen S. Stommes, certify that, on this 3rd day of June, 1996, I caused a copy of the foregoing 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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Bureau of Competition
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