

BEFORE THE
SURFACE TRANSPORTATION BOARD



STB FINANCE DOCKET NO. 32760 (SUB-No. 26)

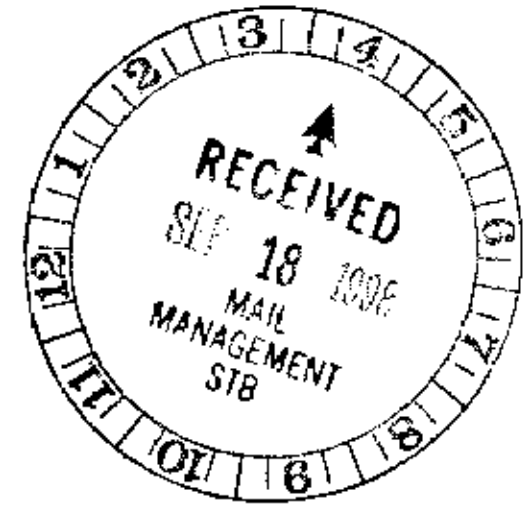
UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY,
AND MISSOURI PACIFIC RAILROAD COMPANY—CONTROL AND MERGER—
SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC
TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY
COMPANY, SPCSL CORPORATION, AND THE DENVER AND RIO GRANDE
WESTERN RAILROAD COMPANY
[HOUSTON/GULF COAST OVERSIGHT]

COMMENTS OF THE
U.S. DEPARTMENT OF AGRICULTURE

Michael V. Dunn
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Washington, D.C. 20250

Date: September 18, 1998

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AUTHORITY AND INTEREST

These comments are filed on behalf of the Secretary of Agriculture. Under the Agricultural Adjustment Act of 1938 and the Agricultural Marketing Act of 1946, the Secretary is charged with the responsibility to represent the interests of agricultural shippers and producers in improving transportation services and facilities by, among other things, initiating and participating in Surface Transportation Board (STB) proceedings involving rates, charges, tariffs, practices, and services. In addition, the U.S. Department of Agriculture (USDA) is a participant in the markets for agricultural products through the operations of the Commodity Credit Corporation and foreign commodity

donation programs.

Pursuant to the oversight authority it retained upon its approval of the UP/SP merger, the Board has requested comments on additional conditions to the merger for the Houston, Texas and Gulf Coast area. As an active participant in the UP/SP merger proceeding, USDA submitted comments to the Board on March 29, April 29, and June 3, 1996. In addition, we submitted comments on August 15, 1997 in STB Finance Docket No. 32760 (Sub-No. 21), the original oversight proceeding. In those comments we pointed out that rail service is critical to the economic well-being of this nation's rural and agricultural economies. Many agricultural products are produced in areas located great distances from export and domestic markets. Moreover, agricultural shippers generally have limited access to cost-efficient, alternative providers of transportation services because many are located beyond effective trucking distances from these markets and far from available waterway transportation. We highlighted the importance of competitive rail service for agricultural producers and shippers and the entire rural economy and expressed concern over the increased concentration in the U.S. rail industry and its adverse effects on U.S. agriculture.

While USDA opposed the UP/SP merger, we were heartened by the STB's determination to mitigate any potential competitive harm to agricultural shippers caused by the merger. In preparation for last year's oversight filings,

USDA held a series of "listening sessions" in major grain-producing states. At that time, agricultural shippers were generally frustrated by the service levels provided by UP/SP and by the apparent lack of vigorous competition provided by BNSF over the 4,000 miles of trackage rights it had received in order to replace service formerly provided by SP. In retrospect, it seems likely that these concerns were early indications of the service failures that would eventually force the Board to initiate STB Ex Parte 573.

RAILROAD SERVICE TO MEXICO

In our comments in the UP/SP oversight proceeding on August 15, 1997, we urged the Board "to begin a careful and public examination of the competitive situation in rail movements from the lower plains to the Gulf and Mexico." In light of Houston's role as the epicenter of the service failures, this proceeding seems to be responsive to that call. Houston is critical to the transportation of U.S. agricultural products. Not only is Houston a port of significant importance, but Houston lies astride a key corridor linking the United States and Mexico. Indeed, USDA's interest in this proceeding stems from our desire to facilitate the export of agricultural products in general, and exports to Mexico in particular.

Mexico is an important and growing market for U.S. agricultural products, including grains and oilseeds. The volumes of U.S. grain being exported

to Mexico have increased thanks to the trade liberalization which occurred as a result of the North American Free Trade Agreement (NAFTA) and the reduction in domestic producer subsidies for basic grains in Mexico which have accompanied trade liberalization. To allow U.S. grain producers to continue to share the benefits of NAFTA by exporting U.S. grain to Mexico, overland railroad services from the U.S. to Mexico must be competitive. As the competitiveness of railroad transportation to the border declines, our ability to export into Mexico also declines. Rail service is particularly important to the many small Mexican feed grain importers because these importers typically cannot handle or afford the ship-size lots of feed grain available by maritime transportation. USDA has a special interest in the availability of low-cost, competitive railroad service to Mexico because it helps underwrite the exports of U.S. grain to Mexico through the GSM-102 credit guarantee program.

USDA COMMENTS ON THE "CONSENSUS PLAN"

USDA believes that adequate competition in the cross-border rail traffic is important for U.S. agricultural exports. After studying the various proposals offered in this proceeding, including the "consensus plan," USDA believes that when evaluating proposals aimed at improving the operations of the Houston rail complex, the Board should be guided by individuals with appropriate railroad operating experience. USDA's specific comments will focus on those

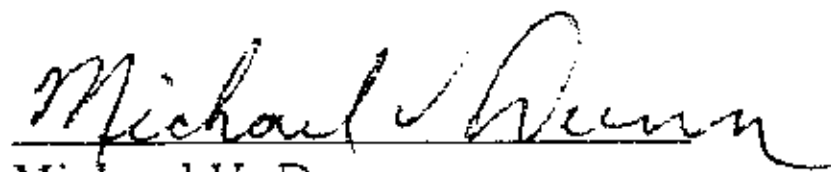
proposals that will expand rail capacity and facilitate agricultural trade with Mexico. We suggest the following provisions be adopted:

- (1) The Board should require the Union Pacific Railroad (UP) to sell its rights to the former Southern Pacific line between Rosenberg and Victoria, Texas to the Texas Mexican Railway Company (Tex Mex).
- (2) To ensure that the trackage rights granted Tex Mex in STB Decision No. 44 can be adequately exercised, the Board should establish a neutral dispatching authority over the Houston/Gulf Coast region. This is needed to ensure that dispatching decisions are made in a fair and equitable manner.
- (3) USDA is concerned that lack of infrastructure may have contributed to the service failures of 1997 and 1998. Therefore, we believe the Board should consider any proposal that promises to create additional infrastructure in the Gulf Coast region. In particular, we believe that the Board should examine the proposal put forth in the consensus plan that would require the UP to allow the Tex Mex and Kansas City Southern Railway (KCS) to construct a new mainline linking Houston and Beaumont.

CONCLUSION

USDA appreciates the opportunity to submit comments in this proceeding. The conditions endorsed by USDA should add capacity to the U.S. rail network and smooth the path through Houston. This would enable the KCS and Tex Mex to fulfill the promise of creating a NAFTA railroad, increasing competition in the border region and promoting U.S. agricultural exports.

Sincerely,

A handwritten signature in cursive script, reading "Michael V. Dunn". The signature is written in dark ink and is positioned above the printed name.

Michael V. Dunn

Assistant Secretary

Marketing and Regulatory Programs

U.S. Department of Agriculture

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on September 18, 1998, he caused a copy of the Department of Agriculture's comments to be served by first-class mail, postage prepaid, on all parties of record in STB Finance Docket No. 32760 (Sub No. 26).

A handwritten signature in dark ink, appearing to read "Keith A. Klindworth", is written over a horizontal line.

Keith A. Klindworth
Program Manager
Marketing and Transportation Analysis
Agricultural Marketing Service