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Public Record

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 36873

UNION PACIFIC CORPORATION AND
UNION PACIFIC RAILROAD COMPANY
—CONTROL—
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY

Comment

Surface Transportation Board:

The railroad industry is what economists refer to as a natural monopoly. That is, left to itself, individual companies within the industry will consolidate over time until only one company remains—thus, forming a monopoly. The resultant economic efficiency of a natural monopoly, however, is accompanied by the market power to control the price of the product—in this case, railroad rates. If society does not want to be gouged by monopolistic pricing, the monopolist must be regulated by an agency to control its prices (rates).

We have witnessed this consolidation of railroad companies over the two hundred years of the industry's existence. Now we are faced with only a handful of major railroads in the United States and are perilously close to a duopoly in the West and a duopoly in the East. Some people think the consolidation has already gone too far. Nevertheless, this is our current railroad industry situation.

Now, we are faced with the decision as to whether we allow the beginning of the process of consolidating two near regional duopolies into one national duopoly. To do so, is to further empower the industry to control their product pricing—railroad rates. Unless we want to return to the days of heavy regulation, which nearly everyone agrees was suboptimal, we will inevitably be faced with excessive profits earned by the remaining companies. Economic theory generally holds that a

duopoly is usually quite stable and the resultant market power (pricing) is nearly the same as a monopoly.

Secondly, the argument is put forth by the applicant parties, Union Pacific and Norfolk Southern, that a national railroad would be able to attract more business in the center of the country, primarily near the Mississippi River. This is because business to/from this area often involves a short haul by one or the other carrier. This is a valid argument. However, the traffic to be gained is offset by the traffic that will be lost by virtue of "short haul creep". That is, as the opportunity to garner traffic with longer and longer hauls from a coast-to-coast merger, means that more traffic now gets classified as short haul. What was long haul to a regional railroad now becomes short haul for a national railroad. Due to the natural economics of the industry, more and more "short haul" traffic will be shed over time, as it can't compete for internal resources with the extremely long haul traffic. This has happened with every railroad merger that expanded the length of the merged company, and will only be exacerbated by a coast-to-coast merger.

Therefore, for the above two reasons, I urge the Surface Transportation Board to reject the Union Pacific/Norfolk Southern merger proposal.

Sincerely,

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CC: Parties of Record