



OFFICE:

One O'Hare Centre
6250 North River Road
Suite 9000
Rosemont, IL 60018
Tel (847) 318-4600

MAILING ADDRESS:

P.O. Box 5062
Rosemont, IL 60017-5062
Website: www.wclx.com

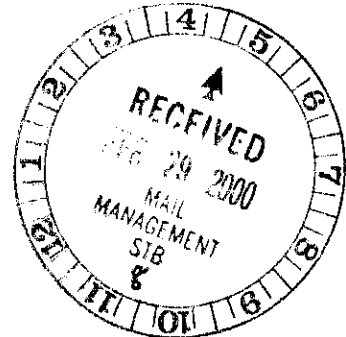
February 28, 2000

Surface Transportation Board
Office of the Secretary
Case Control Unit
Attn: STB Ex Parte 582
1925 K Street, N.W.
Washington, DC 20423-0001

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Re: Ex Parte 582, Public Views on Major Rail Consolidations

Dear Secretary Williams:

Pursuant to the STB's filing requirements in this matter, enclosed please find an original and 10 copies of the Wisconsin Central System's written comments, as well as a 3.5 diskette in WordPerfect 6.0.

Further, pursuant to the STB's decision of February 17, 2000, this is to confirm that the individual participating on behalf of the Wisconsin Central System will be J. Reilly McCarren, President and Chief Executive Officer.

I have enclosed a duplicate copy of this transmittal letter which I would ask that you date stamp and return to me in the self-addressed, stamped envelope provided for your convenience.

Very truly yours,

Janet H. Gilbert
Vice President and General Counsel

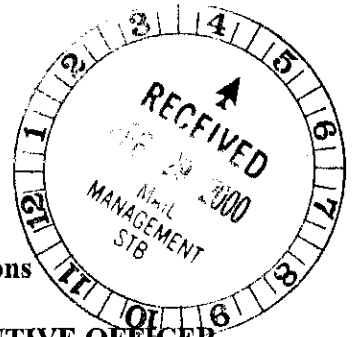
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BEFORE THE
SURFACE TRANSPORTATION BOARD

STB EX PARTE NO. 582, Public Views on Major Rail Consolidations



STATEMENT OF J. REILLY MCCARREN, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF WISCONSIN CENTRAL LTD., FOX VALLEY & WESTERN LTD., SAULT STE. MARIE BRIDGE COMPANY, WISCONSIN CHICAGO LINK LTD., AND ALGOMA CENTRAL RAILWAY, INC.

Thank you for allowing me to present my views on major rail consolidations. My name is J. Reilly McCarren, President and Chief Executive Officer of Wisconsin Central Transportation Corporation's North American Properties. Those properties include: Wisconsin Central Ltd., Fox Valley & Western, Ltd., Sault Ste. Marie Bridge Company, and Wisconsin Chicago Link Ltd., which operate rail lines in the United States, and Algoma Central Railway Inc., a Canadian short line operating in the Province of Ontario. Together these lines comprise the Wisconsin Central System and provide shippers in the Upper Midwest with seamless rail service to such major gateways as Chicago, IL, Minneapolis/St. Paul, MN, and Duluth, MN/Superior, WI. The Wisconsin Central System operates 2855 miles of railroad, owns or leases 14,000 railcars and 244 locomotives and employs close to 2300 employees. Wisconsin Central Ltd., along with its contiguous affiliate railroads, constitutes the country's largest regional railroad system. For 12 years, we have operated a railroad dedicated to superior rail service to the customers we serve.

I am also a member of the Board of Director of Wisconsin Central Transportation Corporation, the parent company of our North American system of railroads. Since entering the regional and short line industry approximately 12 years ago, WCTC has grown into an international owner and operator of railroads, with overseas operations in New Zealand, Australia, Great Britain and Jordan.

INTRODUCTION

The railroad industry in North America finds itself at a unique juncture in its history. The long-haul railroads have consolidated to two carriers in each of the western and eastern halves of the United States, and two transcontinental Canadian carriers with substantial U. S. operations. Numerous regional and local carriers supplement the system, and integrate Mexico with the remainder of the North American

rail network.

Wisconsin Central Ltd., and its North American affiliates, operate one of the most efficient and customer-friendly regional rail carriers. At a time when railroad customer discontent is at an all time high, Wisconsin Central has sustained a record of 11 consecutive *Quality Carrier Awards* from *Logistics Management and Distribution Report* (formerly *Distribution Magazine*) - unequaled by any rail carrier.

FRAMEWORK FOR ANALYSIS

The railroad industry has many stakeholders. Customers, employees, shareholders, local communities, states, carrier partners, distribution companies, transportation intermediaries are only a few of the groups that share an interest in the future structure of the industry. Different issues place emphasis on different stakeholders; however, and we believe that three key interests must be emphasized in evaluating the structure of the industry:

Customers

Investment Community

“The National Interest”

These three interests are paramount because at stake is the design and capacity of the rail network itself. In our view, the customer interest is twofold: quality service and economic transportation. The investment community needs to have confidence that the railroad industry is capable of producing competitive returns on a sustained basis. While defining the “national interest” is always fraught with peril, in this instance we believe it requires a robust rail network shouldering as much of the transportation burden as economically feasible. In so doing, the nation benefits from reduced need for public outlays to support truck transportation, and enjoys the safety, energy and environmental advantages of rail transportation.

THE PLIGHT OF THE RAIL CUSTOMER

Rail customers have suffered substantial service disruptions as a result of the recent Conrail and Union

Pacific mergers. Plants have shut down, companies have laid off workers and whole industries have been affected. Despite these relatively short-term problems, the longer-term rail service problems may be more severe.

In survey after survey, rail customers cite reliability of transit time as their major complaint with railroad service. The Achilles' heel of the rail industry -- service unreliability -- results in part from the dependence of rail transportation on numerous interrelated functions. A breakdown in one piece of the machinery causes substantial disruption, unlike trucking where only a single shipment is affected.

Railroads know how to overcome much of the service unreliability. System capacity, scheduled operations, robust plant, quality equipment and well-trained employees are all part of the equation. Unfortunately, the industry has not consistently managed to do this and maintain the margins and capital returns necessary for financial success.

Merger integration notwithstanding, meeting customers' increasing expectations for reliability and timely service requires that the industry first overcome its financial challenges.

RAILROAD FINANCIAL REALITY

At the present time, the railroad industry is under great financial pressure. Stock prices have first stagnated, then tumbled during one of the great boom markets of all time. The implementation problems of the UP/SP merger and CSX/NS division of Conrail have contributed significantly to this decline. However, the foremost issue is not mergers, nor even the customer defections that have resulted; it is the poor returns on capital exhibited by the industry.

Following the partial economic deregulation brought about by the Staggers Rail Act of 1980, rail industry financial fortunes generally improved. By the early 1990's, it looked as if the rail industry might indeed have the possibility to not only make a profit (which was in doubt in the 1970's) but also achieve an *economic profit*. The difference between the two is important. Economic profit is only achieved after the cost of capital has been first overcome.

The STB currently determines a cost of capital for the railroad industry, a figure which is used in various regulatory contexts. There has been much discussion that the statutory rate is too high, and in effect permits railroads more pricing discretion than they deserve. The opposite is in fact true. In today's markets, investment capital has alternatives with significantly higher returns than that implied by the STB-determined rate. While the industry does not today achieve that rate, even if it did it would still be a poor competitor for capital in today's consumer and communications-driven economy. As it is, by earning less than its *cost* of capital, the industry is condemned to slowly withering away, or shrinking to the point where the remaining network can earn enough to cover the cost of reinvestment in plant and equipment.

If the railroad industry is to grow and prosper, and shoulder a significant portion of the nation's and the continent's increasing transportation requirements, it must earn more, not less. While railroads will always pay a financial price for poorly executed decisions, including consolidations, the fact remains that the margins for normal operations must be significantly higher than those of the recent past.

Why do we need higher margins? They are necessitated by the high cost of maintaining our private rail network while competing transportation modes enjoy networks provided to them with subsidized assistance. Railroads compete with other modes of surface transportation on two levels: as transportation providers against motor carriers and vessel operators, and as infrastructure providers against governments at all levels.

While railroad transportation is comparatively inexpensive compared to motor carriage, the provision of infrastructure is not. Governments enjoy all sorts of advantages as infrastructure providers and are not subject to the need to earn a competitive return on capital. Neither do they pay taxes on their property, materials or income. Governments do not need to compete with private sector companies for capital; they can claim the funds they need through taxation without any economic justification.

With current technology, the railroad industry in North America requires approximately \$2.50 in permanent capital (including both infrastructure and equipment) for each \$1.00 in revenue. This is not a result of some imagined inefficiency. North America's railroad industry is the most efficient general-commodity rail system in the world. Even more compelling is the fact that this differential is rising in

many cases as rail customers demand higher levels of quality, on-time service.

Any change in the structure or in the terms of trade in the railroad industry must also responsibly allow for returns to flow to the owners of the infrastructure capital. Schemes that provide “competitive access” or a substitute thereof, which in effect mandate access to infrastructure at less than an economically attractive capital return, must be avoided at all costs. These schemes will doom the railroad industry and stifle or eliminate any new investment!

THE NATIONAL INTEREST

Any responsible public policy towards railroads must consider the impact of the industry on the nation and the economy. Economic impact alone does not fully describe the significance of the railroad industry. Railroads haul 40% of the nation’s intercity freight transportation burden (measured by ton-miles) for 10% of the economic cost of intercity transportation. There are several reasons for this disparity:

- Rail transportation is relatively slow, and therefore unsuitable for many consumer markets
- Rail transportation, with today’s infrastructure and volume, is less reliable than truck
- Economical rail transportation requires relatively large shipment sizes
- The economics of rail transportation work best with dense products, which have relatively declined in volume
- Many customers do not have direct rail access and intermodal economics are no match for carload
- Rail handles a disproportionate share of low-value bulk commodities, where product and market competition limit rail pricing

While some of these factors may be overcome with time, changes in the economy increasingly favor the production of higher-value consumer products (many of small size) over high-density bulk and industrial goods. Thus, it is unlikely that rail will gain significant share of the intercity transportation dollar.

Given this mix, the impact of moderate changes in rail industry economics is relatively trivial in the scope of the national economy. A significant change in the rail industry has little economic impact

outside the group of core customer industries that are heavy rail users. Those industries, and their transportation choices, however, are obviously keenly important to the rail industry and the railroads to them.

Despite the above, railroads do have a significant impact on the nation simply by virtue of what they do. Low-cost, environmentally friendly surface transportation over a private network affords the nation alternatives that it would not have otherwise. Long distance transportation of many low-value commodities would simply not be possible without railroads. Enormous quantities of goods would move, however, by highway. This would require spending vast sums of public money on further road network maintenance and expansions and employing additional hundreds of thousands of workers to drive trucks, exacerbating current employment problems in that industry. Greenhouse gas emissions and other pollution problems would become even more problematic without the railroad network and highways would take over even more of our land area than they already cover.

Thus, public policy should encourage initiatives that allow the industry to continue to perform the task it handles today, and to improve its service offerings so that it can continue to serve its customer base and, hopefully, expand it. Public policy should favor improving the rail industry's return and encouraging investment, particularly in infrastructure, over policies that reduce industry revenues to improve the economic returns of select customers or customer groups, many of which already earn returns far exceeding those of the rail industry.

INVESTMENT IS THE KEY

The status quo in the railroad industry isn't working. Thus, preserving it has little value. Railroad revenue market share is falling, customers are angry and shareholders are disillusioned. Communities bridle as railroad delays impact their citizens.

In order to provide customers with better service and to shoulder a greater and greater share of the nation's transportation burden, railroads need to invest heavily in infrastructure and equipment. Despite the record investments of recent years, railroads still employ capital assets first deployed in the last century. In many cases, key lines are literally bursting at the seams, and infrastructure bottlenecks

obstruct the flow of traffic through many key rail gateways. Unfortunately, railroad investment of recent years has produced returns that the financial community finds disappointing and, as a consequence, the industry has been under pressure to actually reduce its capital spending.

Two elements are keys for the justification of further capital spending: margins and growth. Most improvement in railroad margins since 1980 has come as a result of relentless, and sometimes ruthless, cost cutting. While most of the benefits of reduced costs have flowed through to customers, enough have been retained by the industry to allow it to improve its financial performance from the very dark days of the regulatory era. Price increases are another method of improving margins, but they are increasingly difficult to implement in the modern era. The rail industry experience overall has been one of falling nominal prices and sharply falling real prices.

Going forward, most industry analysts agree that the potential for continued reductions in the cost of operations is limited.. With price increases difficult to achieve, financial improvement must come primarily from growth, improved asset utilization and reductions in overhead expenses. Consolidations offer the promise of the latter two; the resulting improvements in financial performance should produce a climate conducive to investment and growth.

IS FURTHER CONSOLIDATION THE ANSWER?

Given the record of the Conrail and UP transactions, one could easily surmise that consolidation diminishes, rather than improves, financial performance. However, those transactions are still relatively recent and more history may provide another perspective. Given the unacceptableness of the status quo or conditions that prevailed over the past decades, the industry doesn't have a "do nothing" option if it is to grow and prosper.

Two of the best-run carriers on the continent, the BNSF and CN, have concluded that further consolidation is the only way to break out of the current stagnation. These carriers have a track record of successful merger implementations. They are well aware of the financial markets and their demand for improved performance. Their senior executives are associated with the most positive railroad stories of the past decade. Thus, is it not reasonable to accept their judgment as a sound proxy for the requirements

of the market in the long term, regardless of the short-term behavior of rail stocks?

Several arguments have been advanced against further consolidation. One of the most pervasive is that the particular merger proposed between BNSF and CN will set into motion a process which will inevitably end with only two major rail carriers in the U. S. and Canada. That begs two questions:

Is a two-carrier system inevitable?

Is it bad?

A two-carrier system may well be inevitable in the long term. The Canadian example provides a model of a stable rail environment with two carriers. The development of a continental market ultimately challenged the stability of that environment. Absent such a major shock, the model worked quite well, and service offerings by Canadian carriers often surpassed those of U. S. carriers in quality and diversity.

In the short term, however, a two carrier system is not inevitable. The majority of shipper concerns that we have heard recently focus instead on the “downstream” effect of the proposed merger. Their concern is not with the BNSF, nor with CN, nor even the merger of the two. Their concerns are focused on service disruptions that might result from mergers of other major railroads.

The STB has an important role to play here. That role should not be to frustrate a beneficial merger and deny benefits to its proponents and their customers due to a fear of “downstream effects” from others. Such a miscarriage of justice would deny basic economic freedom to the proponents of the merger. Rather, the STB’s role should be to ensure that any responsive mergers are not executed until and unless those companies can demonstrate that they can execute them without disruption. To their credit, BNSF and CN have proposed to guarantee customer service levels post-merger. Such guarantees should become the standard for future consolidations. If BNSF and CN are willing to guarantee the quality of their customers’ service, than other applicants should meet the same standard – and demonstrate they have the ability to achieve it..

Short line and regional carriers face the same issues as their customers with regard to poor merger execution. In fact, due to the small size of their enterprises, small railroads may, in many cases, be more

vulnerable. Guarantees and protections extended to customers of merging carriers should include the customers of short line and regional railroads and the railroads themselves.

These standards should be set unambiguously by the STB. Given recent experience, absent those assurances, customers will anticipate service problems and actually divert traffic away from the rail system. That would harm uninvolved carriers, particularly smaller railroads, and run counter to public policy.

A two-carrier system is not a new concept and something that the industry has often discussed in theory. Moreover, it is not necessarily bad for the nation and, in fact, may actually be good. A two-carrier system would remedy many existing rail problems:

- Single carrier service would reduce costly interchanges
- Congestion at rail gateways, currently a huge problem, would diminish
- Carrier economics would improve due to lower costs
- Equipment utilization would improve due to increased opportunity for multi-season use

In addition, transcontinental carriers would make substantial inroads on a problem that has vexed the industry since deregulation: rail market share in the Midwest. Since the nation's major systems (as well as many regionals) primarily meet along the Mississippi River, many potential rail movements originating or terminating in this area require an interline movement. Frequently that results in a short haul for one of the carriers involved. The result is higher costs, higher prices and lower market share than would be the case in a more consolidated rail environment. One western carrier once described Indiana and western Ohio as "the dead zone" for this very reason and this is exactly the same phenomenon that CSX and NS experienced with Conrail on north-south movements in the East prior to their acquisition.

Other than concerns over execution, major negatives associated with further consolidation are concerns about competition and the impact on remaining interline markets, especially those involving regional and short line carriers.

COMPETITIVE ISSUES OF CONSOLIDATION

The rail industry today produces three main products that are purchased by external customers:

- Intermodal freight
- Trainload freight
- Single and multiple carload freight

These three principal products have different factors and forms of competition. Intermodal freight is the most competitive of the lot, and is competitive both on an intra- and intermodal basis. The production of door-to-door, intermodal transportation involves a significant trucking component and the final product competes heavily with over-the-road trucking. In addition, since only a tiny fraction of intermodal traffic involves customer facilities, two railroads with terminals in the same geographic area can contest the same traffic. We believe there would be negligible impact on competitive forces in the intermodal sector as a result of further industry consolidation.

Trainload freight is generally characterized by significant competitive advantage for railways compared with other modes of transportation. Where direct competition between railways does not exist, railroads frequently enjoy profitable margins on this traffic. Generally the movements are not complex operationally; complexities result from scale, not service requirements. In a two-carrier environment, marketing issues over division of haul will be a natural competitive issue, just as it is between railways today. The issue may be exacerbated because the networks will be larger and the consequences of how hauls are shared potentially greater. These same issues will exist for some regional railways and more rarely for short lines.

Single and multiple carload traffic was once the staple of railroad transportation. It remains an important element of the rail transportation picture, especially for regional and short line carriers. Economic production depends heavily on network efficiencies. Competitive advantage among railways can be gained on the basis of both service, franchise and network. For example, in the United Kingdom, WC's affiliate English, Welsh and Scottish Railway (EWSR) operates intermodal, trainload and single carload service in an open access environment. While intermodal and trainload markets are fiercely contested,

other rail carriers do not contest the single carload market due to the difficulty associated with duplicating the network economies of EWSR.

We at the Wisconsin Central System are particularly concerned with the single and multiple carload market, as it constitutes the majority of our business. In a two-long haul carrier system, some of that traffic would be placed in jeopardy, where it can be directly accessed by one or perhaps both of the long haul carriers. In such a system, the STB should ensure that customers at multiple carrier terminals retain access to reciprocal switching at reasonable prices. This is particularly important to ensure the viability of rail for shorter-distance movements, which tend to be more important for smaller carriers than for larger ones. The railroad industry has been moving in this direction, reaching individual agreements between large carriers and also entering into the rail industry agreement covering shortlines and regionals.

Gateway issues impact carload traffic in much the same way as they impact unit train business. In a two-carrier system, much of today's freight that is interchanged between eastern and western carriers on an amicable basis will be exchanged between fierce competitors. This occurs today on a regional basis with BNSF and UP, CSX and NS, and CN and CP. In such an environment, appropriate protocols will be important to ensure that these exchanges occur smoothly and without such a dramatic disparity between interline pricing and single line pricing that traffic is driven away from the rail mode. Ideally, this will happen through market-driven arrangements between the remaining long haul carriers, as well as between those carriers and the regional and short line carriers.

As we discuss the issues of competition in face of another industry merger, Wisconsin Central is troubled by the effort of some to use this opportunity to obtain price reductions unrelated to the direct effects of any consolidation, particularly those who advocate "open access." It is a simple economic fact that all railroad products must ultimately contribute to the renewal and expansion of the infrastructure. Some will naturally contribute more and the contributions of different movements will change over time. The case for market-based pricing is well known and need not be repeated here. The economics of the railroad industry should not be jeopardized as a by-product of consolidation nor should the possibility, or unsubstantiated fear, of a two-carrier system, justify wholesale restructuring of the industry.

INTERLINE MOVEMENTS

Interline movements constituted 65% of Wisconsin Central's 1999 carloads, and 78% of our revenue. For our customers, as well as many other rail users, interline service will continue to be an important factor even in the event of consolidation to two major carriers. In addition to the economic considerations discussed previously, there are operating issues involved in interline movements that must be considered as well. The industry framework post-consolidation must preserve the interline system in order to make the system responsive to the needs of its customers. Many rail customers regard the industry as a collective transportation system; it must not be allowed to become balkanized. It is noteworthy that the BNSF and CN have taken the initiative in this regard by pledging to retain current gateways and routes, providing a model for future consolidation.

There are potential advantages for interline freight in a two-carrier environment. The most troublesome customer service issues confronted by Wisconsin Central today are the service problems associated with the Chicago terminal. We are not the only carriers whose traffic is so affected, and Chicago is far from the only terminal to experience these problems. Carrier consolidation offers significant opportunity to improve the performance of these terminals, both by streamlining traffic flow and facilitating infrastructure investment. The latter is frequently stymied in today's multi-carrier environment because improvements to joint infrastructure inevitably accrue unevenly among carriers; infrastructure disabilities for one carrier become competitive advantages for another but, unfortunately, leave the customers of those carriers caught in the middle of these battles as the victims. The price we pay as an industry is that these customers may leave rail and never come back.

From Wisconsin Central's standpoint as a regional carrier, a large number of interchanges works against fast, efficient and reliable movement of interline freight. The more finely divided the routing, generally the more handling (in classification yards) required on our system. More handling generally results in increased delay, unreliability, damage and operating cost. The ability to simplify movements and interchanges at major rail hubs, such as Chicago, can bring significant benefits to regional carriers and their customers, apart from the improvements in terminal performance.

SHORT HAUL MARKETS

Related to the issue of interline movements is the issue of short hauls. The railroad industry has traditionally struggled with short hauls, and as it has consolidated, the average length of haul in the industry has grown. Undoubtedly much of this reflects loss of competitive advantage versus trucking in these markets, but to some extent it may reflect the scale of the carriers. And railroads are not the only transportation mode where carriers struggle to be successful in both short and long haul markets. Cost profiles for the long and short haul businesses differ dramatically. Frequently some degree of carrier specialization results also in trucking and vessel operation.

Railroads are far more successful in short haul markets when the movement is single line. Increased opportunities for single line movements will improve rail competitiveness in this sector. Many short haul markets, however, will remain interline markets. To maximize the public benefit of the rail network, we need to find a way to deal with them effectively. If we move to a two-long haul carrier industry, the institutional and operational framework that results will need to support these operations.

Interline short haul markets are disproportionately important to short line and regional carriers. The viability of the short line network will be significantly influenced by the ability of short line carriers to participate in short haul markets jointly with the remaining large carriers. Some progress on this issue was achieved with the AAR-ASLRRA Industry Agreement, but more needs to be done.

ROLE OF SMALL RAILROADS

Regional and short line railroads augment the long haul carriers to the advantage of the overall network and its customers. This is particularly true in territories where freight density does not support the existence of competing networks. Wisconsin Central Ltd. and its affiliate carriers are a perfect example of this. Prior to the existence of the modern WC, the heart of the railroad's territory was principally served by two Class I carriers (consolidated from three two years earlier), a Class II railroad, and a Canadian regional. The financial results of most operations were poor, the network subject to disinvestment and rail traffic in decline. Today, after consolidation into an aggressive new company, traffic is up and WC invests over \$100M in plant and equipment every year. Traffic has substantially

increased and service has vastly improved. 78% of our revenues reflect traffic interlined with other carriers, so there has been a gain to the overall rail system as well.

In the event of further consolidation of the rail industry, regional and local railroads will be an indispensable element in extending the benefit of the rail system to rural areas and other locations outside the principal networks. In order for those benefits to occur, interchanges between these feeder lines and the long haul companies must be efficient and effective, as discussed previously. In some cases, routing restrictions imposed on "spin-off" lines or other barriers to competitive interchange may need to be removed so that regional and short line carriers can effectively fulfill their role in the continental system. For example, eliminating paper barriers may be the key to allowing some small railroads to serve as the competitive fix where there is a demonstrated anticompetitive effect to a consolidation of Class I carriers, or to eliminate circumstances where major line consolidation result in unreasonably circuitous routes instituted to honor the terms of such paper barriers.

Finally, car supply issues have dogged small railroads since depreservation of car hire rates. Current industry efforts to resolve these problems have met with only modest success. In the event of drastic industry consolidation, the car supply and car hire will need to be revisited, as the assumptions that underlay the depreservation decision will have changed substantially. Car supply is frequently cited by small railroads as a significant factor in their inability to increase their share of traffic. Consolidation may actually enable progress on this issue, as the number of major players with divergent views will diminish considerably.

TIMING

Concern has been expressed that the timing of the proposed BNSF-CN merger is poor, ironically due to the service problems of other railroads. Some have even advocated that the STB should refuse to consider the merger application until the rest of the industry gets its house in order. That course of action would be poor public policy from two standpoints.

First, there is a fundamental issue of economic freedom. BNSF, CN and customers supporting the merger should not be penalized for the difficulties of others. This is a basic issue of fairness and due

process. Regardless of Wisconsin Central's position on the merger, we could not support an opaque regulatory regime that simply refused to consider applications until the "timing was right." Who would make such a determination? The STB? Rail customers? Competing railroads? Congress?

Second, and most important from a financial and industry standpoint, the question has already been called. To the extent that the financial markets view future railroad consolidation with apprehension, merely postponing it will have no lasting value. Unless further consolidation is to be totally prohibited as a matter of law, the industry and its customers will be better off if the issue is resolved sooner rather than later. If the ultimate structure is in fact two transcontinental carriers, that structure should be allowed to take effect as the market dictates, with the caveat that merging carriers must be financially and operationally capable of successful execution and they must satisfy the STB that the public policy interests in maintaining a viable feeder line rail system remain intact.

CONCLUSION

Service improvement and growth in the railroad industry are critically important and highly dependent on heavy investment in plant and equipment. Capital returns constitute a major hurdle for railroads in the industry's effort to expand and to serve a larger share of the nation's transportation requirements. Margin improvement, growth and improved asset utilization are essential for improved capital returns.

In this context, further industry consolidation is a rational response to the marketplace and a logical strategy for survival. While recent consolidations have experienced service and financial difficulty, other transactions have been successful, notably the 1999 CN and IC merger. Consolidation to two carriers may well be inevitable in the long run, but should only be allowed when carriers are able to demonstrate their ability to execute such consolidations without disruption to customers or connecting railroads. A two-carrier structure is not necessarily a bad result; it may in fact be the most stable and productive structure for the industry. The BNSF and CN merger should not be held hostage to the ability of other railroads to participate in mergers of their own at the same time.

There clearly are competitive issues involved with consolidation to two transcontinental carriers, primarily concerning interline carload and trainload freight, but they are not insurmountable, and likely do not outweigh the potential benefits from consolidation. Substantial improvement in interline operations may be possible in a consolidated industry, where they have been frustrated in today's environment. Concerns with the viability of small railroads are inexorably linked with interline markets, some of which are short haul by rail industry standards. Short lines and regionals provide a critical link for many customers to the continental system and their viability must be given high priority in the regulatory regime.

While the pace of consolidation and the ultimate network design are appropriate subjects for this hearing, the proposed BNSF – CN merger should be heard and judged on its own merits. Given BNSF and CN's positive response to preserving the viability of short haul rail service, Wisconsin Central supports that consolidation as being in the best long-term interest of railroad customers, our industry and the nation.