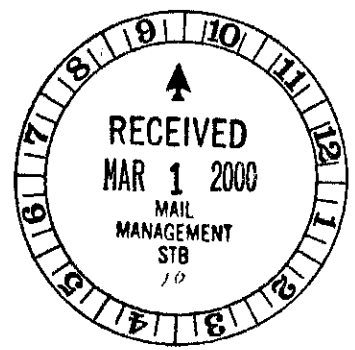


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Before The
Surface Transportation Board



Ex Parte No. 582
Public Views on Major Rail Consolidations

Statement of Daryn McBeth, Gordley Associates
Representing the
Nebraska Wheat Board

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Office of the Secretary

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Part of
Public Record

The Nebraska Wheat Board (NWB) herewith submits this as its Statement in the above-described proceeding.

BACKGROUND:

The Nebraska Wheat Board represents the 25,000 Wheat growers of Nebraska. The NWB operates under Nebraska Codified Section 2-2301 to 2-2321 of the Nebraska Wheat Resources Act. It is hereby declared to be the public policy of the State of Nebraska to protect and foster the health, prosperity, and general welfare of its people by protecting and stabilizing the wheat industry and the economy of the areas producing wheat. The Nebraska Wheat Development, Utilization, and Marketing Board shall be the agency of the State of Nebraska for such purpose. We estimate about 50% of Nebraska wheat goes to exports each year, though that varies depending on the year and total wheat exported. Wheat grown in the eastern part of the state and as far West as North Platte will usually go to the gulf ports. However, wheat grown west of North Platte goes either to the Pacific Northwest or the gulf.

The Nebraska wheat producers grow in excess of 86,000,000 with a value of over \$250,000,000 to the Nebraska economy. Nebraska historically ranks in the top ten states in the production of hard red winter wheat.

NEBRASKA WHEAT INDUSTRY COMPETES GLOBALLY BUT IS DOMINATED BY TWO MONOPOLY RAILROADS

Beyond general marketing and production problems there exists special challenges and opportunities for our agricultural products. The wheat industry in Nebraska is export-dominant because of its location relative to major consumption centers. We compete with all the major wheat producing countries of the world: Australia, Canada, and the European Union for our hard fought wheat markets. The wheat industry in Nebraska is now learning that its rail customer captivity is hurting its ability to compete in major world markets. We face a monopoly with increasing market power between us and our markets. This monopoly does not see itself as a partner of grain merchandising but rather they view Nebraska grain as a profit center from which to exact monopoly profits. The Nebraska farm producer is being punished in the world market because it does not have access to competitive rail, a rail system that is virtually deregulated when it comes to its pricing practices.

Railroads argue that government intervention is necessary to insure that they earn "adequate revenues." At the same time, railroads argue that NO GOVERNMENT intervention is necessary to limit their monopoly power! In 1980, when Congress passed the Staggers Act, the premise of the railroad deregulation plan around which Staggers became law was that the 42 Class I railroads in existence at the time would, through rail-to-rail competition, be the replacement for regulatory oversight. Today, as North America moves to a two-monopoly railroad system, something has to change or whole industries, which compete in the world markets, will be held hostage to monopoly pricing. An elevator only has to be a few miles from a competitive railroad to be totally captive because the two monopolies do not allow interchange between monopolies or competition over bottlenecks. It is conceivable that virtually the entire U.S. wheat industry could be held to paying monopoly rates on transportation when this country moves to a two-railroad system unless the monopoly systems are opened up to intra-modal competition in the up-coming mergers. Federal policy by the ICC and now

the STB has left our state captive. The whole State of Nebraska is totally captive to two monopoly railroads. Only 31 elevators have access to both railroads, while 320 elevators have access to a single railroad.

INTRAMODAL COMPETITION HOLDS THE PROMISE TO HIGHER PROFITS FOR RAILROADS AND MORE CHOICE FOR RAIL CUSTOMERS

Railroad track structures require significant capital investment, are perpetually maintained, and reflect excess capacity; thus, the greater the density of traffic, the lower the unit cost of transporting that traffic. To the extent the elimination of duplicate track structures reduce operating costs, railroad mergers have a desirable aspect. But competition for rail business will also tend to draw traffic to the railroads and significantly increase density of traffic thereby further lowering unit costs. The long-term viability of the U.S. rail industry requires the opening up of the rail system to competition and competitive forces.

Transportation is one of the most important and central elements in the production and marketing of agriculture products. Our national transportation system directly affects farm income as costs of transportation are borne largely by farmers through prices received for their products.

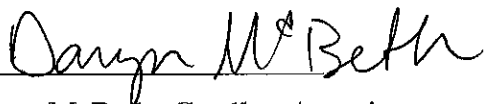
Primarily, two factors impact transportation costs to farmers: the efficiency in which their products are moved and the distances the products must be transported. Because of the reliance on long distance markets, competitive freight rates and service are crucial to the success of marketing our agriculture.

In 1980, when Congress passed the Staggers Act, the premise of the railroad deregulation plan around which Staggers became law, was that the 42 Class I railroads in existence at the time would, through rail-to-rail competition, be the replacement for

regulatory oversight. Now we are faced with four becoming only two railroads. The STB has chosen to foster bigger and bigger railroads at the expense of captive rail customers. Is not the rail customer the most affected entity in railroad merger? Yet, the STB has a pro-merger not a pro-competitive position in dealing with the ever-increasing number of captive rail customers.

Under current federal legislation, changes in the regulatory oversight of the transportation industry and the marketing environment of agricultural commodities will have great impact on agriculture and the state's economy and profitability. Introducing competition has effectively deregulated other monopolistic industries and the captive customers have been protected. In telecommunications, telephone, natural gas pipelines, and most recently utilities, each time the former monopoly companies have flourished after introducing competition.

To address these challenges and improve the manner in which the state's transportation systems serve agriculture the Nebraska Wheat Board is dedicated to supporting proactive legislation to ensure efficient and reasonable shipping services and rate competition.

s/ 

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