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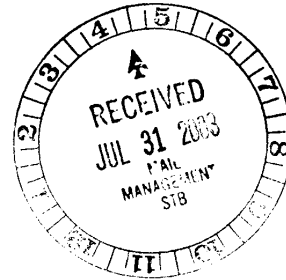
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July 31, 2003

BY HAND

The Honorable Roger Nober
Chairman
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001



**ENTERED
Office of Proceedings**

JUL 31 2003

**Part of
Public Record**

Re: Finance Docket No. 34342

Dear Chairman Nober:

At the conclusion of today's hearing, KCS's Executive Vice President and Chief Operating Officer, Gerald Davies, made an assertion that could easily be misconstrued. He stated that German Larrea, Chief Executive Officer of Ferromex, had told KCS's Michael Haverty that UP's Dick Davidson had instructed Larrea to veto an April agreement between Ferromex and TFM. The implication of Mr. Davies' statement was that Mr. Davidson had blocked an agreement to reduce the competition-inhibiting trackage rights fees that Ferromex must pay to use TFM trackage. We do not know what Mr. Larrea said or Mr. Haverty heard, but we must set the record straight.

First, Union Pacific learned about the proposed agreement *after* Mr. Haverty had met with Mr. Larrea. Mr. Davidson confirmed this afternoon that he learned about the agreement on about July 7. Mr. Davidson and Mr. Larrea could not have discussed an agreement of which Mr. Davidson was unaware.

Second, although UP has not seen the agreement, Ferromex has described it to UP personnel. According to Ferromex, the tentative agreement would not have reduced Ferromex's trackage rights fees. It would have *increased* them by some 25 percent, further impairing Ferromex's ability to compete with TFM, in exchange for an agreement by TFM to raise the fees for its trackage rights on Ferromex.

Third, although Mr. Davidson did not know about the agreement and thus could not have "vetoed" it, Mr. Larrea certainly would have known that Mr. Davidson would not have endorsed a further restriction on competition between Ferromex and TFM. In any event, UP's minority equity investment in Ferromex does not give it control over Ferromex, which operates quite independently.

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Mr. Davies also asserted that the trackage rights in Mexico are not used because TFM and Ferromex have not reached implementing agreements. If that is true, the fact that competition has been blocked in Mexico for six years since privatization is independently troubling. We understand, however, that TFM had used its trackage rights to Guadalajara, but stopped, and that Ferromex today uses its trackage rights on TFM, but for only intermittently for a few cars at a time.

Sincerely

A handwritten signature in dark ink, appearing to read "David L. Meyer". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

David L. Meyer

cc: The Honorable Vernon A. Williams
All Parties of Record