

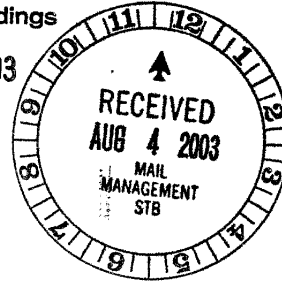
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July 23, 2003

Mr. Vernon A. Williams, Secretary
Surface Transportation Board
1925 K Street, NW
Washington, DC 20423-0001

Re: *Kansas City Southern – Control – The Kansas City Southern Railway Company,
Gateway Eastern Railway Company, and The Texas Mexican Railway Company*
(STB Finance Docket No. 34342)

Dear Mr. Williams:

My name is Charles E. McHugh. I am Director, North American Distribution Operations for the International Paper Company. I have occupied this position since January, 2000 and have been employed by International Paper Company in the field of logistics since August, 1970. My business address is 6400 Poplar Avenue, Memphis, TN 38197.

As Director, North American Distribution Operations for the company, I am responsible for the procurement of transportation services for the inbound movement of all raw materials, semi-finished materials necessary for the manufacture of our products, as well as the outbound delivery of all finished products to our customers throughout North America.

I am familiar with the Paper and Forest Products Industry and the various transportation modes employed to move our raw materials and deliver our finished products to market. International Paper Company is the world's largest paper company, conducting operations throughout the United States from over 650 paper and lumber mills, converting plants, warehouses, distribution centers, retail stores and related sales service support offices. International Paper Company's sales for 2002 are approximately \$25 billion with international sales amounting to over \$7 billion. Our manufacturing facilities in the United States produce paper and paper products including woodpulp, pulpboard, wrapping and printing papers; converted products including corrugated boxes, folding cartons, labels and milk cartons and wood products including lumber, plywood, decorative panels and other specialty products to serve the building trades as well as chemical products. We move these products throughout the United States and North America utilizing the services of a number of transportation vendors including the applicants to this merger and acquisition.

Transportation is an essential service, greatly affecting the public interest with serious potential for discrimination. Government has a legitimate role in protecting the public interest where necessary and guarding against undue discrimination. Mexico is an emerging market for International Paper Company and for these reasons we take a serious and active interest in transportation matters that affect the region and our ability to market our products therein. We have a number of sizeable customers in Mexico to whom we shipped over 213,000 tons in 2002, and the volume is expected to grow significantly over the next decade.

International Paper's cross-border rail traffic involves direct sales shipments to Mexican customers. Laredo is by far the largest border crossing for International Paper's Mexico bound rail shipments involving over 186,000 tons in 2002 or about 88% of our annual volume. The border crossing points of El Paso, Eagle Pass and Brownsville handled the remainder of our annual volume, Laredo provides a very direct route into the heartland of Mexican industry, and is the preferred border crossing point for our Mexican customers. At Laredo, BNSF, UP and Tex Mex handle International Paper's cross-border rail shipments from and to TFM.

The KCS is one of the railroads that serves International Paper's facilities and has long been a valued service provider. We recognize, given the ongoing concentration and diminishing rail-to-rail competition in the railroad industry, the KCS' need to assure itself of both a reliable customer base and an efficient, competitive long-haul route for this growing cross-border traffic. Accordingly, International Paper does not oppose the creation of NAFTA Rail. Nonetheless, and based upon the experience we have had at the hands of other merging rail carriers - - which have routinely attempted to force all traffic over their concept of the "most efficient" route (usually their longest haul) - - we do have a number of concerns about the possibility of potential discrimination against either UP or BNSF traffic at the International Bridge at Laredo and, through its affiliation with TFM, in Mexico. Similarly, International Paper Company has concerns that real or perceived anticompetitive actions by KCS might trigger retaliation by its US connections by, for example, not providing neutral treatment to Tex Mex trains that necessarily move over trackage rights on the Union Pacific. In a dispute of that nature, it is always the shippers that ultimately are penalized, through higher rates and/or by deteriorating service.

The cooperation of interlining railroads in establishing equitable and efficient car supply and car hire agreements, compatible train schedules and fair divisions of interline freight revenues, is absolutely essential to the maintenance of cost competitive, efficient through rail service, to all points in North America. This is a principle which merging railroads typically try to avoid once their application is approved and the promises of merger operating efficiencies and enhanced, or at least preserved, intramodal competition can be forgotten or ignored. It is nonetheless an important principle to International Paper Company, which has long understood the importance of, and has been a vocal supporter, of the need for rail-to-rail competition both for economic efficiency and service effectiveness reasons.

The Union Pacific and Burlington Northern Santa Fe have expressed similar concerns with respect to this merger and acquisition of control of NAFTA Rail. In particular, the Union Pacific has expressed concerns that under KCS control, the NAFTA Rail carriers will have many incentives and opportunities to undermine UP-TFM routes rather than compete fairly on the value of the services offered. This is, of course, also a concern with respect to BNSF-TFM routes. We are encouraged by the UP's statements of concern and are hopeful that the UP itself will also live up to the high standards it expects of KCS/ NAFTA Rail. In recent filings at the STB, KCS has acknowledged UP's concerns and similar BNSF concerns. KCS has made several promises aimed at resolving those concerns. It represented that it would not "make any changes in the way the Laredo Bridge is dispatched and operated," that it "would continue to work with UP" in many specific ways, and that it would "keep the Laredo gateway open on commercially reasonable terms." KCS's assurances are encouraging, but, in order to be effective, they must be clearly defined and enforceable, either through STB conditions or private agreements.

International Paper understands and supports the concerns expressed by both Union Pacific and Burlington Northern Santa Fe. We believe that KCS/NAFTA Rail should clearly define and make enforceable its representations and assurances to UP and BNSF to no less nor more so a degree than both UP and BNSF have made on similar issues with the KCS under the purview of The Surface Transportation Board or its predecessor, the Interstate Commerce Commission. International Paper believes that the applicants' petition raises important issues regarding the vital Laredo gateway, KCS' arrangements with TFM, and the effect of the proposed transaction pending before the Board and the related transaction awaiting approval by Mexican authorities will have on the flow of through traffic through that gateway. For this reason, International Paper supports the request by UP and BNSF for the Board to require Applicants to provide enforceable commitments of:

- Fair treatment and efficient operations at the Laredo Bridge and operational cooperation with TFM regarding pre-blocking rail cars, automated customs pre-clearance procedures, car supply, accommodating run-through train service, and prompt rate quotes for UP and BNSF customers
- The continuation of non-discriminatory, competitive rates for UP and BNSF customers for traffic moving over KCS/TFM routes to and from Mexico
- Maintaining Laredo as a commercially open gateway.

International Paper Company believes that these and like conditions should be imposed and consistently applied not only to KCS/NAFTA Rail but to UP and BNSF in any future actions before this Board as well as to include the revision of any past Board actions where the opportunity for the Board to impose such non-discriminatory conditions was overlooked or somehow rejected. In this regard, if it approves this transaction, the Board should maintain oversight over these issues for a period of 5 years in order to ensure the applicants here maintain their commitments once existing marketing, pricing and operational agreements they currently have with UP and BNSF commence expiring.



Charles E. McHugh
Director, North American Distribution Operations

I, Charles E. McHugh, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Executed on July 23rd, 2003.