THE IMPACTS OF THE UNION PACIFIC SERVICE DISRUPTIONS ON THE TEXAS AND NATIONAL ECONOMIES: AN UNFINISHED STORY

Prepared for the Railroad Commission of Texas by

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Background and summary of findings

Since last July, the Union Pacific Railroad has experienced severe service disruptions that have resulted in delays, lost production, and higher shipping costs for a large number of businesses who depend on rail to move their products. In addition, the entire UP system has been plagued with safety problems since the merger with the Southern Pacific. More than a dozen crashes and derailments have occurred over the past year, including several last summer that killed seven people. So serious is the safety issue that the National Transportation Safety Board has scheduled three days of hearings from March 18^{th} to 20th to ascertain the underlying causes of these accidents (*Dallas Morning News*, February 3, 1998).

Though the entire western U.S. has been affected by the UP's problems, Texas has been hit harder than any other state. This is not surprising considering the Union Pacific is the largest railroad in Texas and thousands of businesses are served by no other rail carrier. Within Texas, the greater Houston area has endured the most economic harm because of the UP's dominance in that part of the state. Indeed, nine of the 11 major rail lines running in and out of the Houston are controlled by the UP, while the Burlington Northern operates the other two.

Bulk commodity shippers, such as petrochemical plants, grain merchants, quarries and forest products companies, have been most inconvenienced as have electric utilities who depend on the UP to deliver coal from Montana and

Wyoming to fire their generators. But retailers of consumer goods such as furniture and general merchandise have also been affected by the UP's partial suspension of intermodal service and other system disruptions.

Responding to shippers' complaints, on October 27th the Surface Transportation Board (STB) of the U.S. Department of Transportation conducted a 12-hour hearing to determine if federal intervention was required to alleviate the Union Pacific's service disruptions. Testimony was received by more than 60 witnesses, including the chairman of the Railroad Commission of Texas (RRC). Following the hearing, the STB found that a "transportation emergency" existed in the western U.S. that was having adverse effects on shippers and overall rail service. On October 31st, the Board issued an order allowing the Texas-Mexican Railway Company to accept traffic from Houston shippers currently under contract with the Union Pacific in an effort to alleviate some of the most serious tie-ups in south Texas and the Port of Houston. The Board also ordered the UP to facilitate the operations of the Tex-Mex and the Burlington Northern in the Houston area and to maintain open use of the main lines and sidings on its Houston-to-Memphis and Houston-to-Iowa routes.

In the face of continuing complaints from shippers about poor service from the Union Pacific, on December 5th the STB extended its emergency service order until March 15, 1998. Complementing the relief provided in the initial service order allowing Houston shippers access to Tex-Mex service, the Board directed UP to release fully from their contracts all shippers in the Houston switching district so they could route traffic over the Burlington Northern in addition to the UP or Tex-Mex.

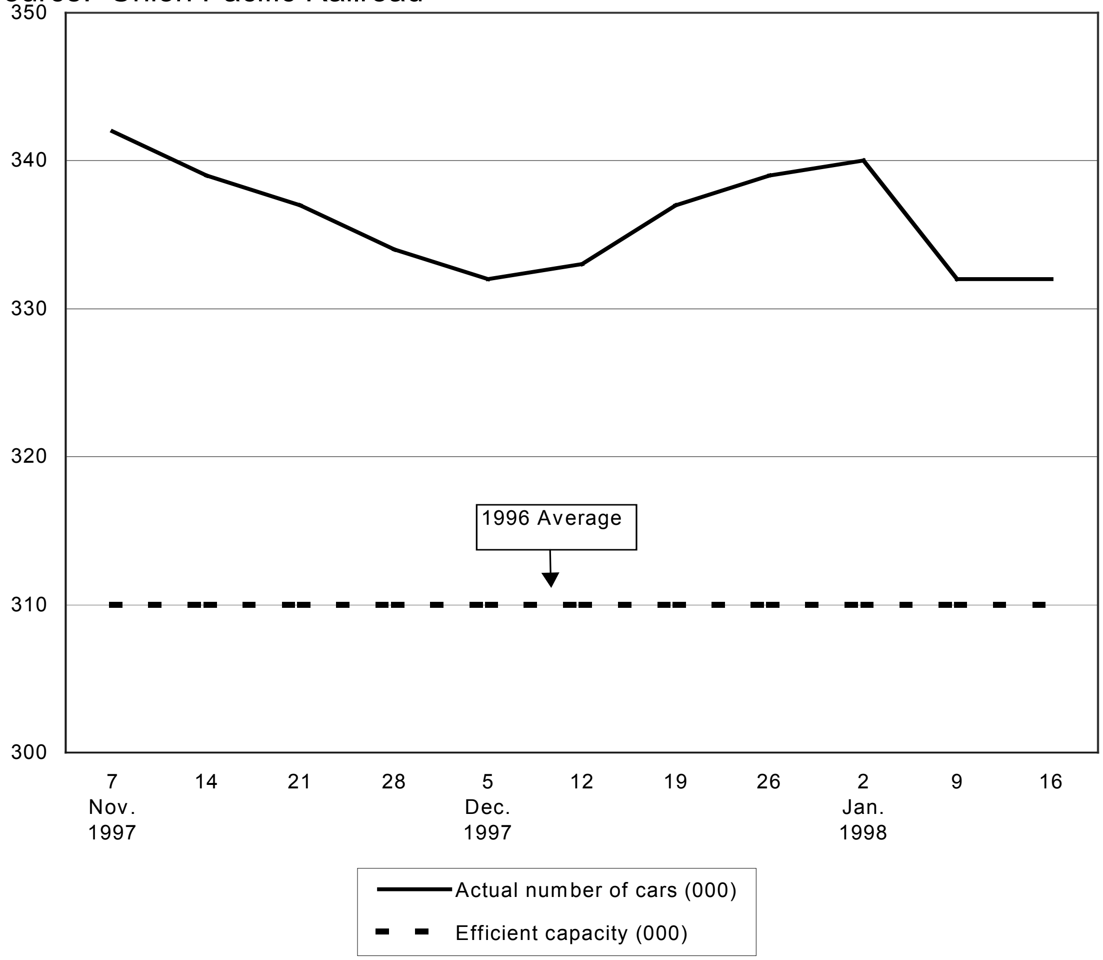
To date, however, it doesn't appear the STB's intervention has done much to improve rail freight service in the western U.S., Texas or the Houston area. Indeed, the UP's freight delays have been rising in recent weeks. At the beginning of the year, UP's average train speed was at the lowest level in four months (*Bloomberg Business News*, January 6, 1998). And in its January 23, 1998 filing with the STB, the railroad reported average speed had declined to 15.1 mph from 15.4 mph the week before and 17.9 mph in January 1997 (*Bloomberg Business News*, January 28, 1998). Significantly, the total number of cars on the UP system is still 24,000 above what company officials say is the maximum for efficient operations. Excess cars jam the railroad's tracks and sidings and make it difficult to run trains (see Figure 1).

Without question, the Union Pacific's logistical problems are imposing significant incremental costs on Texas manufacturers, growers and shippers that will eventually be passed on to businesses and consumers both in-state and out-of-state. ***We conservatively estimate the costs to date for Texas businesses, measured by lost sales, reduced output and higher shipping charges, at $1.093 billion. We have also identified $643 million in additional costs to businesses, consumers and taxpayers in Texas that may be incurred within the next few months unless the Union Pacific can quickly remediate its service delivery problems (see Table 1).***

Figure 1

Still Too Many Cars on the Union Pacific Railroad

Source: Union Pacific Railroad



SOURCE: Union Pacific Railroas

Table 1

Short-Term Economic Costs for Texas from Union Pacific Service Disruptions July 1997 - January 1998
($ millions)

Chemical industry	$ 400
Agriculture	150
Paper and forest products	292
Building materials	146
Electric utilities	25
Retail trade	80
Total	**$ 1,093**

Possible Additional Costs During 1998
($ millions)

Utility fuel purchases	$ 393
Road construction materials	150
Higher consumer goods prices	100
Total	**$ 643**

The following discussion describes, illustrates and--where possible--documents these costs and also posits some long-term consequences for the state and the nation if the UP's problems aren't resolved in an expeditious manner. Finally, this report addresses the long-term policy issue of how to create a more competitive environment for rail transportation in Texas generally and the Houston area in particular.

<u>The chemical industry</u>

The Gulf Coast's $105 billion chemical industry has probably been hit harder than any other manufacturing sector by the UP's service problems since virtually all bulk chemicals are shipped by rail. Furthermore, large chemical companies typically own or lease their own rail cars. Thus, diverting shipments to trucks and barges imposes significant incremental costs to chemical companies.

A fall 1997 survey by the Chemical Manufacturers Association (CMA) found that 213 major production facilities along the Gulf Coast had been affected by disruptions in service, placing a large number of jobs at risk. (Employment at these facilities exceeds 95,450). According to 31 responding companies, the average monthly costs of service disruptions during the summer totaled $34.1 million and are now running at $62.3 million per month. About two-thirds of the total costs arise from lost sales or production while another 23 percent is attributed to higher freight and shipping costs. The remaining incremental costs are attributed to lost rail car utilization, additional inventory carrying costs, the higher cost of raw materials purchased from other producers, the cost of tracing rail cars, and other administrative expenses.

The appended press clippings and RRC public testimony offer several examples of lost sales and production cuts related to UP delivery problems. For example, the Huntsman Corporation-- a $5 billion chemical producer based in Salt Lake City-- recently reported it had reduced output at some of its plants because the Union Pacific had failed to bring in the necessary raw materials and deliver the finished products in time. According to Peter Huntsman, president and chief operating officer of the company, UP's service is "still abysmal." (*Wall St. Journal*, January 23, 1998). As another example, the Coastal Corporation of Houston estimates it is spending about $40,000 extra per month to ship asphalt by truck because of tank car delays on the Union Pacific rail system (see testimony of Marty Alday, Ft. Worth hearing, pp. 16-17). Dow Chemical, one of the Union Pacific's largest customers with about 50,000 rail cars a year, reports its service improved in November but worsened a week before Christmas. The company's plants in Freeport, Texas and Plaquemine, Louisiana can't get enough empty cars and have shipment delays, forcing Dow to use comparatively expensive trucking firms as an alternative (*Wall St. Journal,* January 6, 1998).

At a minimum, the Gulf Coast chemical industry-- located principally in Texas-- has incurred costs of about $500 million in lost production and higher freight charges since the UP's service problems began in June. For the state of Texas, economic losses are probably in excess of $400 million with companies in the Houston Ship Channel area being the hardest hit.

What's more, because industrial chemicals are essential raw materials for many other industries-- including agriculture, automobiles, construction, food processing, pharmaceuticals, plastics and electronics-- production delays and higher shipping costs attending the UP service disruptions are no doubt being felt by other sectors of the state and national economies. Though these costs are indeterminate at this time, inevitably they will show up in higher prices to wholesalers, distributors and consumers over the next six to twelve months.

Agriculture

In 1996, the value of U.S. crop production totaled $86.3 billion, and the cost of transporting these crops to food processors was approximately $4 billion. For the state of Texas, cash receipts to farmers totaled $5.3 billion in 1996 and transportation costs came to about $250 million. As with chemicals, the nation's farmers and grain shippers depend largely on the railroads to get their crops to markets, both domestic and foreign. Agricultural shippers and receivers generally have limited access to alternative providers of transportation services because many are located beyond effective trucking distances from these markets. In addition, western growers and shippers have little access to waterway transportation, with the result that up to 80 percent of grains and cereals are shipped by rail in some states.

Grain shipments by the Union Pacific have slowed markedly in recent months. According to Association of American Railroads, the UP loaded 6,104 rail cars with grain during the first week of November-- 41 percent less than the

10,343 for the same week a year ago. The Burlington Northern, partly because of the UP tie-ups, has also seen a drop-off in grain shipments-- 8,475 cars per week versus 10,892 a year ago. Some elevator operators report waiting 30 to 60 days to receive rail cars.

During the STB's October 27 hearing, the National Grain and Feed Association reported that grain elevators were filled to capacity, particularly in Kansas, Oklahoma and Texas, and that local cash prices were declining because of a lack of storage. At both the STB and RRC hearings, some shippers cited numerous instances of rail cars that had been loaded with grain and billed but were sitting idle on their tracks for weeks because the Union Pacific was unable to provide locomotive power (see testimony of David Swinford, Ft. Worth hearing, pp. 7-9). Members from the Texas Panhandle reported that some customers were refusing to buy Texas-origin grain for fear of not receiving timely shipments (see testimony of Art Smith, El Paso hearing, pp. 2-3).

Disruptions of agricultural shipments have also been felt in South Texas, where delays of two to four weeks for hopper cars have been common (see testimony of William Lock, Corpus Christi hearing, pp. 1-2). Movements of rice, corn, milo, soybeans and cotton have been slowed, imposing additional pressures on farmers and co-ops in the face of bumper crops and low prices.

As of mid-December, grain deliveries by the Union Pacific were falling further behind schedule. These increasing delays prompted the Surface Transportation Board to order UP and the Burlington Northern Santa Fe

Corporation to set up a system to minimize spoilage and get 1997’s record grain harvests moving.

During the late fall, more than 50,000 carloads of grain typically flow through Texas Gulf Cost ports on their way to foreign markets. Undoubtedly, exports through these ports will be lower in 1998 because of the cumulative impacts of UP's service disruptions (see discussion of international trade below).

A conservative estimate of the losses incurred by Texas' farmers and grain shippers from lower prices, foregone sales opportunities and higher freight costs is $150 million to date. These higher costs may eventually show up at the dinner table, not only for households in Texas but in all other parts of the U.S. as well.

Paper and forest products

The forest products and paper industry records total annual sales of approximately $200 billion and generates seven percent of all U.S. manufacturing output. Annually, the industry exports in excess of $17 billion of product. It is also the fourth largest user of rail transportation in the country, moving an average of 24,000 carloads in a given week. The industry is responsible for 70 percent of all railroad boxcar traffic and also fills thousands of containers carrying finished goods for domestic and offshore distribution.

The American Forest and Paper Association (AF&PA) reports that many member companies have seen their businesses disrupted by the UP's problems. These disruptions have ranged from longer transit times to paper mill shutdowns.

Some companies claim delivery problems have caused mill inventories to rise, resulting in extra warehousing costs, increased emergency delivery costs, and--ultimately--higher prices to customers.

East Texas is a major producer of timber, paper, plywood, particle board and other forest products with many manufacturing operations dependent on the Union Pacific for inbound raw materials as well as outbound product. Not surprisingly, a number of East Texas forest products companies are reporting delays and lost sales because of the UP's problems. For example, Champion International, with four manufacturing operations in East Texas, has experienced service problems with shipments destined to southern California. Transit times have increased to as long as 45 days, and the company claims business is being lost to competitors not dependent on UP service.

In Texas, forest products and paper companies shipped about $10 billion of processed goods in 1996. ***If the Union Pacific service disruptions have reduced sales of Texas' forest products companies by 5 percent since July, losses to date have totaled approximately $292 million.***

<u>Cement, concrete and other building materials</u>

Cement manufacture is tremendously reliant on rail transportation, both for inputs and product shipment. Aggregate must be hauled from quarries to cement kilns, while coal and/or coke are typically burned as kiln fuels. The Union Pacific's service disruptions have severely burdened the region's cement and concrete companies.

For example, Cemex USA, the second largest cement company in Texas and captive to the Union Pacific, has seen a 52 percent reduction in outbound trains since July. Consequently, sales have been reduced by 1/3 to 1/2 at rail supplied terminals, resulting in revenue losses in the hundreds of thousands of dollars per month as customers shift to other suppliers. Cemex also reports the loss of a contract to supply limestone to a TxDOT highway project near Beaumont because of an inability to maintain delivery schedules (see testimony of Trey Schmidt, San Antonio hearing, pp. 10-13).

Redland Stone Products Company of San Antonio reports a 23 percent drop in business during 1997 due to deteriorating Union Pacific service. During the month of September alone, lost sales and higher freight charges for the company totaled $1,000,000 (see testimony of Larry Roberts, San Antonio hearing, pp. 22-24).

Pioneer Concrete of Texas has been virtually abandoned by the Union Pacific for the hauling of aggregate and has been forced to rely on trucks instead. Pioneer estimates that lost sales and higher shipping costs have cost the company $2.7 million since June 1st, with no relief in sight. Other Houston-area cement and concrete companies report similar difficulties. North Texas Cement, located in Midlothian, is incurring lost profits and higher fuel costs of $113,000 per month because of slow coal and coke deliveries by the UP. In part because of the Union Pacific disruptions, cement has been on allocation in most parts of Texas for the past eight months.

Glass manufacturers in Texas and other parts of the U.S. are paying more for soda ash because most of the producers are located in the Green River basin of Wyoming and captive to the UP. Shippers have turned to trucks since the car shortage began on the UP several months ago and are paying the higher freight costs.

Producers of cement, pre-cast concrete, limestone, soda ash and other building materials usually enter into one-year contracts to supply their products to customers at fixed delivered costs. Thus they're having to absorb the higher freight charges incurred as a result of the UP's problems for the time being. But when these contracts are renegotiated over the next six to 12 months, producers will attempt to recover not only their higher shipping costs but their foregone earnings. Higher costs for building materials, in turn, will ripple through the construction industry and boost the nation's overall inflation by some percentage.

Texas could be hit especially hard, since the state is in the midst of a building boom. In 1996, manufacturers of construction materials recorded total shipments of approximately $5 billion. (Data for 1997 are not yet available). ***Assuming a five percent loss of business due to UP service disruptions, we estimate the foregone sales of Texas' cement, concrete and other building products at $146 million to date.***

Taxpayers may also feel the pinch of the UP's problems because roads and other infrastructure projects consume huge quantities of cement, pre-cast concrete and other building materials. For instance, the Texas Department of Transportation currently spends about $3 billion for highway construction and repair annually. ***Should construction costs rise five percent because of higher material costs, Texas' taxpayers will have to spend an additional $150 million to realize the same level of road improvement.***

Electric utilities

About 50 percent of Texas' electric power generation comes from coal-fueled boilers, and most of the coal burned in the state is transported by rail from the Powder River Basin in Wyoming and Montana by the Union Pacific and the Burlington Northern. Although BNSF's coal shipments have remained on schedule, overall deliveries to utilities served by the UP have been curtailed or delayed since the company reduced the number of coal cars on its system by 19 percent in September in an effort to alleviate delays in shipping for other industries. Consequently, Houston Lighting & Power, City Public Service Company of San Antonio, the Lower Colorado River Authority (LCRA), Entergy, and Central Power & Light have all had to draw down their on-site stockpiles in order to meet customer demand. In some cases, stockpiles have been reduced to a 10 to 15 day supply (see testimony of Daniel Kuhen, Ft. Worth hearing, pp. 12-14). Entergy has filed a lawsuit against the Union Pacific for breach of contract, and the LCRA has threatened similar action.

Some Texas utilities have turned to other sources for coal or switched to natural gas to meet demands for power generation. City Public Service in San Antonio-- heavily dependent on the Union Pacific -- is importing coal from Colombia through the Port of Corpus Christi to help fuel its three coal-fired units.

In Austin, the LCRA spent more than $8 million in 1997 to buy higher-cost natural gas and purchased power.

About half of Texas' coal-fired generators depend on out-of-state coal, while the others burn Texas-mined lignite that's easier to deliver. Fortunately, sufficient gas-fired generating capacity exists to make up for any shortfalls resulting from interruptions in coal deliveries.

The Gas Services Division of the Railroad Commission of Texas has examined a scenario in which Texas' coal fired plants dependent on out-of-state coal face a 50 percent reduction in supplies during the five month winter heating season of 1997-98, from November through March. Making up the shortfall would require these utilities to purchase an additional 131 billion cubic feet (Bcf) of natural gas for consumption on gas-fired power plants. This would represent an increase in Texas gas demand of 9.6 percent and total U.S. gas demand of 1.3 percent.

Substituting gas for coal is an expensive proposition, since natural gas prices on a Btu equivalent basis are about twice that of coal. With spot gas prices currently running about $3 per thousand cubic feet, ***additional fuel purchases by Texas utilities could total $393 million during the winter of 1998 and be passed through almost immediately to businesses and households in the fuel adjustment portions of their bills.*** Fortunately, this winter has been exceptionally mild so far; thus, higher gas prices are not anticipated in the near term.

As of January 15, 1998, the Union Pacific was still well below its targets for on-time coal deliveries. In fact, coal deliveries had slowed for the previous six weeks and were running at only 72 percent of target (*Dallas Morning News*, January 23, 1998).

Retail trade and small business

As part of the strategy to clear gridlock on its system, the UP suspended intermodal service, which hauls general merchandise in containers and truck trailers, between the Midwest and Texas on November 1st. Partial service was re-established in mid-December. As a result of the suspension, some retailers and small businesses who previously relied on the UP to deliver their goods have had to pay premiums for truck or air service, or do without. Some stores were short of toys, furniture, consumer electronics and other products during the Christmas shopping season, which may have reduced overall sales in Texas and elsewhere in the U.S. (See testimony of Ruth Frierson and Russ Johnson, El Paso hearing, pp. 8-9 and 15-17).

Retail trade at general merchandise, apparel and furniture/home furnishings stores in Texas was approximately $40 billion in 1996. Stores typically record about 20 percent of their total retail sales during the holiday season. ***If Texas merchants realized even a one percent loss in sales due to the UP's inability to deliver goods in time for holiday shopping, retail trade was depressed by $80 million. In addition, state sales tax collections of $5 million and local sales tax receipts of $800,000 may have been foregone.***

Further losses of retail sales and state/local revenue may occur in 1998 if the UP service disruptions drag on.

Automobile dealers in Texas who depend on the Union Pacific have reported shipping times for new cars and light trucks doubling or tripling since August. This has been particularly harmful to smaller auto stores who do not keep much inventory on hand. In some cases, cars are being received more than a month past invoice, which means dealers wind up paying interest to the manufacturers on cars they haven't even received.

Presumably, automobile and light truck dealers will be able to recover lost sales once the UP solves its delivery problems. But in the short term, sales commissions are lower and interest charges are higher than they would be if deliveries of vehicles were on schedule.

International trade disruptions

International trade is of growing importance to the health of both the Texas and U.S. economies. Indeed, according to the U.S. Department of Commerce, about 40 percent of the nation's growth over the past year can be attributed to exports and imports. If anything, international trade is probably even more important to the Texas economy.

The Union Pacific's logistical problems have disrupted activity at two of the nation's busiest ports-- Los Angeles and Houston. At the Port of Los Angeles, which along with Long Beach accounts for 25 percent of all ocean-going container traffic, some vessels have been diverted because of congested terminals. Delays in loading and unloading cargo vessels are having the dual effect of increasing shipping costs and reducing the fees received by the Port.

The Port of Houston is affected somewhat differently since commodities, as opposed to containers, account for most of the volume. In 1996, the Port of Houston moved 86.5 million tons of cargo with a value of $34.1 billion. Chemicals, petroleum products, plastics, fertilizers, cereals and machinery constituting the major commodities and products. Though the Port of Houston has made no dollar estimates of lost business, ***it's likely that several billions of shipments have been diverted from Houston and other Texas ports as a result of the UP's problems.*** In addition, shippers point out that it costs $50,000 a day to keep a ship sitting at anchor waiting to be unloaded (*The Economist,* December 6, 1997).

A number of local carting companies have begun imposing surcharges in response to congestion at Houston-area rail yards. Just recently, Empire Truck Lines and Canal Cartage of Houston began adding a $50 surcharge to the $100 average bill customers pay to have their containers transported from the rail yard to a ship terminal. Truckers say it now takes some of them up to six hours, instead of two, to retrieve a container because congestion on the Union Pacific Railroad has backed up into the rail yards (*Houston Chronicle,* January 19, 1998).

Initially, the Port of Houston was a strong supporter of the UP-SP merger. But the inability of the UP to implement promised service improvements has turned the Port into a vocal critic. “Our community is not being properly served because of this," states Port Chairman Ned Holmes. "We are now not willing to sit back and accept what are hollow promises," (*Houston Chronicle*, January 14, 1998). According to Chairman Holmes, the Port has suffered as a number of customers have steered their cargo and container ships to other Gulf and East Coast ports to avoid the rail congestion in the Houston ship channel.

It should be kept in mind, however, that data reported by the Port of Houston only reflect tonnage and berthings at the public docks. The Port's data do not include shipments going to and from the private terminals operated by chemical companies, grain elevators, and the like.

Union Pacific's service problems are particularly disruptive to NAFTA trade. The UP's lines stretch from the Canadian border to the Mexican border, and the UP recently acquired a Mexican concession through a joint venture. About 60 percent of U.S.-Mexico rail traffic crosses the border in Texas, with the Union Pacific accounting for the lion's share. The UP and the Tex-Mex share the huge gateway to Mexico at Laredo, which alone accounts for about 80 percent of rail shipments between Texas and Mexico. UP is also the primary railroad serving the Port of Houston, another important gateway for NAFTA trade.

In effect, the Ports of Laredo and Houston have become "chokepoints" for NAFTA-related trade. As the RRC hearing record indicates, because of the UP's problems cargo is piling up at both ports, and shippers have been forced to use more expensive truck transport to get their products to and from Mexico. If the Laredo and Houston gateways aren't unclogged soon, the rapid growth of U.S.-

Mexico trade may be impaired with an attendant loss of jobs and income in both countries.

<u>Other costs to the Texas and national economies from the Union Pacific service problems</u>

The UP's system-wide problems are disrupting "just-in-time" delivery schedules for many industries. By reducing the amount of inventory on hand, businesses have realized substantial cost savings that have helped to hold down retail price increases. Indeed, effective inventory control is one of the reasons inflation has been muted during the economic expansion of the 1990s. As discussed earlier, the ultimate cost of lost production, delays and additional freight charges will be higher prices at wholesale and retail for food, construction materials and a wide range of manufactured goods. Some economists have estimated the UP's problems could boost the consumer price index (CPI) by one- to two-tenths of a percent over the next year.

The UP’s service disruptions and their ripple effects may be having another insidious impact on the national economy. According to the National Association of Purchasing Management, manufacturing activity nationwide slowed in the latter part of 1997, and the industry’s main index dropped to its lowest level in a year during the month of December. According to Norbert Ore, chairman of the association’s survey committee, the economic crisis in Asia and “rail traffic delays” have hurt orders and production (*New York Times*, January 3, 1998). Coincidentally, the index fell again in January, its third straight decline. ***If***

the Union Pacific service disruptions have cost the state of Texas more than $1 billion so far, the national economic cost is probably in excess of $2 billion.

Of course, some industries are capitalizing on the UP's tie-ups. The trucking business, for one, has clearly benefited from the UP's delivery problems, as most shippers have no other alternative for moving their products. According to the American Trucking Association, truck tonnage has reached an all-time high in recent months. With few rigs or drivers available to serve new customers, not surprisingly long-distance trucking companies have boosted their rates by 10 to 20 percent.

At the same time, increased truck traffic is making Texas' (and the nation's) highways less safe while accelerating wear-and-tear on the pavement and roadbed. Higher TxDOT outlays for repair and maintenance of Texas' highways will soon follow. What's more, the growing number of trucks plying the roads in Houston and Dallas-Fort Worth because of the UP's service disruptions are making already polluted air even dirtier. Hydrocarbon emissions per billion ton-miles are nearly 10 times greater for trucks than trains while nitrogen oxide emissions are about three times greater. Both Houston and Dallas-Fort Worth are currently classified as "serious" non-attainment areas, and the growing use of trucks to move freight will make compliance with EPA air quality standards even more difficult.

Some Texas businesses, who've been unable to deliver product in a timely fashion because of the UP's problems, worry about a permanent loss of customers. Only time will tell if markets lost in the past few months can be quickly recaptured if and when the UP brings order to its system. Some commodity shippers, such as aggregate producers, are concerned the UP may abandon them entirely because of the low profitability associated with their business.

The UP will eventually solve its logistical problems. But, barring some structural changes in ownership and access, the UP will continue to dominate the Houston rail market, charging high prices for deteriorating service. As Judge Learned Hand so eloquently stated early in this century, “Monopoly and its exercise must needs coalesce.” In other words, a monopolist can’t help but act like one.

The trackage rights granted to the Burlington Northern as part of the UP-SP merger agreement have proven to be totally inadequate as a competitive substitute. In a recent filing with the STB, the BN says that the Union Pacific's congestion has hampered its ability to serve the state and that the BN has “serious reservations” about being able to play the long-term competitive role the railroad and the agency had envisioned. “BN’s operational experiences to date, in light of the cost and unreliability of service over the trackage rights lines, raise serious questions as to whether BN will be able to provide rail customers viable long-term competitive service, particularly in South Texas and along the Gulf Coast” (*Houston Chronicle,* January 13, 1998).

Against this backdrop, the Railroad Commission of Texas has called for divestiture of key stretches of the Union Pacific’s Houston-area tracks, including the line from Houston to Beaumont, as well as expansion of a neutral switching railroad, such as the Port Terminal Railroad Association, to handle local traffic in the Houston area. The Commission's proposals offer the only practical solution presented to date for instilling workable rail competition into the Houston region that, in turn, will benefit shippers across the state of Texas.