February 9, 2016

The Honorable Chairman Daniel R. Elliott, III
The Honorable Vice Chairman Deb Miller
The Honorable Member Ann D. Begeman
Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423-0001

Proposed Combination of Canadian Pacific Railway with Norfolk Southern Corporation

Dear Chairman Elliott, Vice Chairman Miller and Member Begeman:

I am writing you today to express Formosa Plastics’ concerns with this particular transaction. I hope you will consider this opinion as you complete your analysis of this potential merger and its long-term ill-effects on all the constituencies of the rail industry.

The degree of consolidation among Class I railroads in North America is already extraordinarily high. Large parts of the U.S. and Canada are served geographically by just two Class I carriers. Further consolidation will substantially enhance the already significant commercial leverage of the rail industry, reducing options for shippers and giving the remaining carriers increased power. Although there is little overlap between the CP and NS, an end-to-end merger in today’s already highly-concentrated rail industry threatens competition. For example:

- Competition will suffer when two of the seven remaining Class I carriers merge their vast networks. This brings even more captive producers and consumers under the umbrella of a single rail carrier. Rail investors continue to press the carriers for increased pricing even in light of declining volumes and a sluggish economy. One can only wonder what the expectation on pricing will be for an even larger entity.
- The bottleneck rule would extend the captivity of shippers over much greater distances to the entire route of CP/NS movements, including transcontinental movements and north-south movements that extend from Canada to the Gulf of Mexico. This has the potential to reduce competition that otherwise would be available over large portions of a route. Even to the extent that bottleneck pricing preserves existing routing options by short-hauling the bottleneck carrier, the potential downstream competition would be tempered by the absence of two neutral carriers.
- A CP-NS combination also threatens to trigger a “final” round of rail industry consolidation. A number of industry experts and analysts conclude the end result
would be just two Class I railroads serving all of the U.S. and Canada. We have a deep concern that these remaining carriers would not compete as vigorously as when there was a larger and more diverse pool of competitors.

- Bottleneck pricing by itself is not pro-competitive, because a bottleneck carrier still can quote a high bottleneck rate that effectively steers the shipper to choose its long haul route over the bottleneck route. The primary benefit of a bottleneck rate is to enable the captive shipper to pursue a regulatory remedy over a shorter portion of the route. At this point in time rate challenges are complex, costly and time consuming. This restricts the amount of shippers the can get the benefits of “true” bottleneck pricing.
- Terminal access rights are valuable to the shipping community; it would stand to reason that EP 711 would be something all would support. So far, the Class I’s have opposed this as they indicate it would add cost and negatively impact service. We support competitive access, but not at the cost of further mergers and industry consolidation.

The enhancements to competition that CP has proposed are inadequate to overcome the foregoing concerns.

We also object to a CP/NS combination from a service perspective. There do not appear to be any benefits to this merger that cannot be achieved through other means. For example, if the CP wants to avoid Chicago they can do so today by setting up alternative interchanges with other railways and routing their traffic over those revised gateways. As a point of reference, previous rail mergers of this magnitude have been followed by prolonged periods of poor service levels. CP’s publicly documented service problems from 2014 and its response to those challenges do not instill confidence that it is prepared for the challenge of merging its operations with NS.

We also feel that a large amount of the savings that the CP is outlining can be achieved by the NS without subjecting the shippers and receivers to the disruptions that mergers like this have generated in the past.

Lastly, we are concerned that imbedded in this merger are tax implications that reduce the amount of tax that the NS currently pays the Federal Government. We do not see where that could benefit the overall public good.

In light of these many concerns, we ask that the STB oppose this transaction.

Sincerely,

Richard A. Lissa
Sr. Director Logistics Management