OPINION

Transcontinental plan sets off a firestorm

Nobody at Burlington Northern Santa Fe Corp. or Chicago, Milwaukee, St. Paul and Pacific Railroad Inc. expected the firestorm of opposition that their proposed combination received on Monday.

With considerable enthusiasm, they presented a merger that would provide some single-rail service to shippers, bypassing congested terminals where one or the other railroad's trains met and, they say, generate earnings from the first day the companies are merged.

On balance, the merger of BNSF with CN makes a lot of sense from purely transportation considerations. The two systems now connect at the key points of Vancouver, Duluth-Superior, Chicago, Minneapolis, St. Louis and Memphis. The last merger of a major railroad essentially was mid-to-end in 1968. It did not eliminate competition as did some other recent mergers.

Customers that must have their freight interchanged at gateways between the two systems will be able to extend market reach because their goods would flow more efficiently for greater distances. 

Rob Kebsch, BNSF’s most influential chairman, didn’t promise rate reductions, but he did say the efficiencies of the BNSF-CN combination would relieve pressure for rate increases.

So everyone should welcome the merger that will create the first real North American railroad, right? Wrong.

It must have been a shock, certainly a disappointment, when customers greeted it with a consumer outcry and sent signals that they might want it to be happened, and Wall Street sold off stock of both companies.

Wall Street’s reaction was easy to understand. Uncertainty is not good for stock prices, and the merger process will take close to two years. It was not a surprise that competitors didn’t like the idea that the railroad networks would be more efficient. One large rail carrier of the revenue increases promised by Rob Kebsch and Paul Tellier would come from diverting traffic that currently moves on other railways.

Competitors — read: Union Pacific — don’t like the idea that highly rated automotive traffic from Canada that moves to the West on its rails would be routed on the BNSF system.

Nor does UP welcome the prospect that Canadian farmers would have an easier time getting to agricultural markets in the Midwest; it competes with products that currently originate on the UP system.

Others, from the much smaller Kansas City Southern to Wisconsin Central to the big eastern systems of Norfolk Southern and CSX Transportation, also wish this would not happen, and KCSC and WC would be overwhelmed by the giants and would be likely to lose traffic currently handled by CN.

The eastern north, still struggling to digest their joint purchase of Conway, are in no position to play in the merger game, but may feel they are being forced to do so.

Ordinarily, a combination such as this would have a clear role with the Surface Transportation Board. Its track record is clear. Rail mergers with far greater competition problems have been approved over the objections of the antitrust at the Justice Department. Only one railroad merger has been rejected in the last 30 years. And that one — between Southern Pacific and the old Santa Fe — could have been approved if executive hadn’t arrogantly refused to ameliorate anti-competitive issues before the Interstate Commerce Commission ruled on it.

The wild card this time, however, is that the STB still has not been reassured by Congress. That provides an opportunity for other railroads, politicians, customers, unions, communities — virtually anyone — to trip up in the regulatory process.

Opponents have an opportunity to lobby key members of Congress. Expect threats from Congress to abolish the STB and transfer rail merger oversight to the Judge Department.

STB Chairman Linda Morgan has demonstrated that she is the consummate political creature. If reauthorization of her agency becomes imperiled in a political fight over allowing BNSF and CN to combine, it would surprise no one if Morgan and her fellow commissioners chose preservation of the institution, over good transportation policy. 

If it comes to making a choice between the politics of saving the STB and making good transportation policy by approving a rail merger, don’t be surprised if Morgan and her colleagues say no and CN in a borderline.

That would be bad public policy.

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