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BNSF deal raises consolidation fears

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South Dakota's largest freight rail carrier, Burlington Northern Santa Fe, soon will be part of Warren Buffett's marquee holding company, Berkshire Hathaway Inc.

With Tuesday's agreement to buy BNSF for \$34 billion, Buffett is doubling down on prior investments in railroads and putting his money on the improving vitality of the economy.

Few changes to the railroad are expected, but some worry what consolidation of the industry will mean for grain transportation in South Dakota.

"Our industry has watched as significant consolidation in the railroads has taken place," said Lisa Richardson, executive director of the South Dakota Corn Grower's Association. "Currently, five railroads move 90 percent of all the product in the United States. So when something of this nature happens, we sit back and wonder, what will happen next?"

The deal, the largest acquisition yet for Omaha-based Berkshire Hathaway, marks a huge bet on BNSF, its executive Matt Rose and the railroad industry, said Buffett, chairman and chief executive of the company, in a statement.

"Most important of all, however, it's an all-in wager on the economic future of the United States." Buffett added: "I love these bets."

### **Big player in S.D.**

BNSF, the nation's second-largest railroad, is the biggest hauler of food products such as corn and coal, making it an indicator of the country's economic health.

In South Dakota, the railway is far and away the largest transporter, primarily carrying grain and ethanol. BNSF owns about 900 miles of railroad track in South Dakota after exercising its option to purchase the Core railroad line from the state in 2005. This is but a tiny percentage of the company's 32,000 route miles in 28 states and two Canadian provinces.

The deal offered a big premium on BNSF stock, with Buffett offering to pay \$100 a share, a 30 percent premium on Burlington Northern's shares.

Rose said this was in the best interest of his company's shareholders because the deal allows shareholders to convert their stock for a cash payment of \$100 per share or receive Berkshire Class A or Class B common stock.

### **Deal met with surprise**

Although Buffett has been talking about the importance of infrastructure and transport to the U.S. economy for some time, the news was unexpected for many.

"I was surprised he completed the transaction," said Todd Yeaton, chairman of the South Dakota State Railroad Board and manager of a grain facility for South Dakota Wheat Growers in Highmore.

Yeaton took the purchase as a positive sign for the rail industry, the agriculture industry and the economy - he took even greater assurance in Buffett's well-known "hands-off" approach to his company's acquisitions.

"When he goes and closes on a deal like this, he does it for a reason," Yeaton says. "It tells me that maybe he feels that maybe it is an opportune time for the economy."

But Yeaton doesn't anticipate too many changes in South Dakota: "I can't see where it will do too much here. It is a well-run company, and Warren Buffet just reiterated that by buying it."

Berkshire already had a 22 percent interest in BNSF and has minority ownership of two other major U.S. railroads - 9.6 million shares of Union Pacific and 1.9 million shares of Norfolk Southern - as of June 30.

### **Consolidation concerns**

The investment in an arena with few players is a cause for concern by those who cite eroding competition in grain transportation.

The lack of competition, Richardson said, makes her nervous. She said the biggest export for corn is to the Asian market out of Pacific Northwest ports, and it costs \$1.13 per bushel of corn to move it out there.

"Competition is key for us," she said. "Competition is the invisible hand. They are minority interests he holds, but he had a minority interest in this before now."

With two dominant rail lines in the west, Union Pacific and BNSF, and two primary lines in the east, CSX and Norfolk Southern - three of which Berkshire Hathaway is invested in - concerns about consolidation are awakened by this deal. The boards of both companies have agreed to the deal, but it still needs two-thirds approval by BNSF's shareholders and antitrust clearance.

"In every capital-intensive industry, there is a strong tendency toward consolidation," said Mike Steenhoek, executive director of the Soy Transportation Coalition, an Iowa-based consortium for seven state soybean organizations. "We witness that in agriculture all the time."

But he said the purchase was not the first step toward further consolidation.

"Certainly when someone owns a significant part of any industry, particularly one mode of transportation, that's something to be attentive to," Steenhoek said. "But I don't really see any reason for concern at this moment."

The news was a surprise to some at South Dakota Wheat Growers, a grain co-op in Aberdeen, but folks were relieved after BNSF gave assurances its headquarters would remain in Fort Worth, Texas, and little would change.

"BNSF stressed that operations wouldn't change and the operations people wouldn't change in the foreseeable future," said Jerry Cope, the transportation manager at the co-op. "As the co-op is dependent on the railroad to move the farmers' grain, our biggest concern is: Is there stability?"

The Associated Press contributed to this report.