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TRANSPORTATION

Federal regulator approves first major rail merger in over 2 decades

The deal creates a single rail line connecting the United States, Mexico and Canada, and drew more scrutiny after the Ohio train derailment

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A federal board on Wednesday approved a Canadian Pacific Railway merger with Kansas City Southern, creating a freight rail system linking North America. The deal is the nation’s first major rail merger in more than two decades.

The Surface Transportation Board, charged with regulating freight companies, said the merger will foster growth of rail traffic, support passenger operations and shift freight from highways to rail, ultimately resulting in greater safety and benefits to the environment.

“This transaction should improve rather than degrade the performance of the industry,” the board ruled, citing substantial support from shippers.

The STB had been pressured to defer the decision amid public outcry over increased rail traffic and safety risks from a combined network — concerns that were heightened last month after a Norfolk Southern train derailment released toxic fumes in northeastern Ohio. The combined company, to be called Canadian Pacific Kansas City, will connect the United States, Mexico and Canada and cover more than 20,000 miles of track — including 8,600 miles in the United States.

In its decision, the board laid out conditions designed to protect competition and mitigate effects on communities. Board Chairman Martin Oberman sought to reassure critics of the merger, saying the board’s analysis was robust and showed safety risks would not significantly increase.

“If there is a problem in this country about the safe transportation of hazardous materials on rail … it is a problem nationwide,” he said. “It is not a problem caused [by] or the result of this merger.”

The $31 billion deal was announced in 2021, when Kansas City Southern favored Canadian Pacific’s bid over the offer of rival Canadian National. The deal closed in December that year, but Kansas City Southern’s shares were transferred to a trust and the railroads have been operating independently, pending the STB decision.

The decision authorizes Canadian Pacific to take control of Kansas City Southern as early as April 14. Canadian Pacific said it is reviewing the decision and will announce its next steps in the coming days.

“This decision clearly recognizes the many benefits of this historic combination,” Canadian Pacific president and chief executive Keith Creel said in a statement. “These benefits are unparalleled for our employees, rail customers, communities and the North American economy at a time when the supply chains of these three great nations have never needed it more.”

Opponents had for months urged the U.S. regulator to reject the deal, citing concerns about job losses, service effects and fewer consumer choices in an industry that has had waves of consolidation. The deal drew increased scrutiny after the Feb. 3 derailment in East Palestine, Ohio, where the release of vinyl chloride prompted evacuations and a public health scare.

Earlier this month, Sen. Elizabeth Warren (D-Mass.) urged the STB to block the merger, saying the Ohio derailment “raised significant questions about the nation’s railroad safety.” A group of Democratic U.S. lawmakers from Illinois pressured the STB to defer a decision.

Oberman said the board also heard from citizens who are fearful about more hazardous materials in their neighborhoods after the East Palestine incident. From 2015 to 2019, Oberman said, Canadian Pacific moved 16 million car miles of hazardous materials through the Chicago area with virtually no hazardous spills.

Canadian Pacific ranks as the safest of the nation’s seven Class 1 freight railroads. The rate for accidents, from minor incidents in rail yards to collisions and derailments, was 0.93 per million miles last year. By comparison, Norfolk Southern’s was 3.89.

The acquisition combines the sixth- and seventh-largest U.S. railroads. CPKC would remain the nation’s smallest Class 1 railroad. It represents the first major rail merger since 1998, when CSX and Norfolk Southern each took a share of Conrail.

The tracks of the two companies do not overlap but connect in Kansas City, Mo., and would create the first direct route from Canada’s bitumen oil sands mines in Alberta to heavy crude refineries in Texas.

Canadian Pacific officials said it will take three years for the two companies to fully integrate and for the benefits of the merger to occur. During that period, the company will make investments to support the projected increases in rail traffic from more shipments of grain, vehicles, lumber and chemicals.

The combined rail network will open new trade opportunities, the STB said, including facilitating the flow of grain from the Midwest to the Gulf Coast and Mexico, and the movement of intermodal goods between Texas and Chicago. Traffic from Mexico's automotive industry will benefit from a new single rail line into Canada, while petroleum gas produced in Canada will more efficiently reach Mexico, where it is used for heating and cooking.

The companies said the combined railroad will save time and resources because it will be able to operate trains over long distances without having to switch freight cars to other railroads. The board said it expects the new service will foster growth of rail traffic and "support investment in infrastructure, service quality, and safety" while adding more than 800 new union jobs in the United States.

The board also said the merger will benefit Amtrak and its plans to expand passenger service. Canadian Pacific has agreed to allow Amtrak to add service in some corridors and pledged the merger will not hurt Amtrak operations.

The combined company also would compete with trucking operations for north-south shipping traffic. In its application seeking STB approval, Canadian Pacific said the merger could remove up to 64,000 trucks from highways and reduce greenhouse gas emissions.

The decision could strain the relationship between freight railroads and their tenant commuter operators, as well as communities where train traffic is expected to increase. Some communities will see an increase of about 14 trains per day, according to an analysis by the STB.

The board is establishing an unprecedented seven-year oversight period to monitor the consolidation and aftermath to ensure the completion of capital investments. It will collect data on train lengths to monitor community concerns about blocked crossings. Some communities have voiced concern about the projected increase of longer trains as a result of the merger.

The Chicago area's Metra commuter rail system — which shares two lines with Canadian Pacific trains — had urged opposition, citing negative effects on its service. The agency called on the STB to impose conditions to mitigate those effects.

The STB said it found the merger is unlikely to cause harm to Metra's commuter rail service or Chicago-area communities, where local, state and federal elected leaders had voiced concern. Oberman said that if the fears of those affected communities come to fruition, the board would exercise its authority to order mitigation efforts.

"We are deeply disappointed that the Surface Transportation Board has sided with corporations over our constituents in the Chicago region," Sens. Richard J. Durbin and Tammy Duckworth and Reps. Raja Krishnamoorthi and Delia C. Ramirez, all Illinois Democrats, said in a statement.

The Coalition to Stop CPKC, a coalition of Chicago-area suburban jurisdictions that opposed the merger, said it will consider legal options, including appealing the decision.