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U.S. Approves $31 Billion Merger of Two Big Railroads

Canadian Pacific's acquisition of Kansas City Southern will create a railroad that links Canada, the United States and Mexico.


By Niraj Chokshi and Mark Walker

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A federal regulator on Wednesday approved a Canadian freight railroad's plan to buy an American competitor, a $31 billion deal that will make the railroad the first to operate across North America.

In approving the deal, the regulator, the Surface Transportation Board, said the new single-line service would shift about 64,000 truckloads a year to rail from the roads, potentially enhancing safety and reducing carbon emissions, and add more than 800 union jobs in the United States. The Surface Transportation Board said the merger would not reduce competition.

"On balance, the merger of these two railroads will benefit the American economy and will be an improvement for all citizens in terms of safety and the environment," Martin J. Oberman, the chairman of the five-member board, said at a news conference on Wednesday.

Under the merger plan, Canadian Pacific, the sixth-largest freight railroad by revenue operating in the United States, agreed to buy the next-largest carrier, Kansas City Southern. The combined railroad will not overtake the fifth-largest carrier, Canadian National.

The deal is the first merger between two major railroads since the 1990s. It also culminates a yearslong campaign by Canadian Pacific to grow. The company had unsuccessfully pursued mergers with several other large railroads, including Norfolk Southern and CSX, over the past decade.

Canadian Pacific said it could take control of Kansas City Southern as soon as April 14, creating a new carrier, Canadian Pacific Kansas City. The company expects to spend three years combining the railroads. The combined company, based in Calgary, Alberta, will operate about 20,000 miles of track and employ about 20,000 people.

"This decision clearly recognizes the many benefits of this historic combination," Keith Creel, the chief executive of Canadian Pacific, said in a statement. "As the S.T.B. found, it will stimulate new competition, create jobs, lead to new investment in our rail network and drive economic growth."

The merger is known as an "end-to-end" combination because there is little overlap between the companies' networks, a feature unique among recent railroad mergers, Mr. Oberman said.

"There will be no loss of a parallel competitive route by putting these two railroads together," he said. "That is a central fact of this decision."

While the board approved the merger, it did impose some conditions. The railroads will have to keep open their existing gateways, interchanges where railroads meet and shippers have the opportunity to move their goods from the trains of one company to another. The board also created a process that will allow shippers to challenge certain rate increases by the new company. And it required Canadian Pacific to provide extra data over a seven-year period so the board could monitor compliance with the conditions it is imposing to approve the merger.

The decision came amid mounting concerns with the deal. In a letter to the Surface Transportation Board in January, the Justice Department said it had "serious concerns" about industry consolidation and asked the regulator to carefully scrutinize the merger. Senator Elizabeth Warren, Democrat of Massachusetts, asked the transportation board this month to block the deal outright, saying it would reduce competition and could result in higher shipping costs, fewer jobs and more service disruptions.

"This merger clearly fails the public interest test, and accordingly, I ask S.T.B. to uphold the law and deny it," she wrote in a letter to the agency.

The board has a congressional mandate to review rail mergers while taking into account the effect that they would have on transportation for the public and on competition, among other factors.

Mr. Oberman noted that Canadian Pacific and Kansas City Southern were the smallest of the large U.S. freight carriers known as Class 1 railroads. He also acknowledged criticism that the industry had already become too consolidated in recent decades.

"That consolidation presented the landscape on which we are acting today, and we have to act in what is the best interest of the country as a whole when considering such a transaction," he said. The merger "will actually provide a stronger competitive landscape," he said.

The board's decision also took into account the environment and other factors. In a detailed review in January, the board found that the merger would have little negative effect on safety, air quality or other concerns, though some communities could see heightened air or noise pollution, it stated. Mr. Oberman also said on Wednesday that the merger might well improve safety by removing transport of hazardous materials from roads to railways.

The safety of railroads has gained new prominence since a Norfolk Southern train derailed in East Palestine, Ohio, in early February, spilling hazardous chemicals and prompting officials to allow a controlled burn of some of those substances. On Tuesday, the attorney general of Ohio sued Norfolk Southern.

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