

BEFORE THE SURFACE TRANSPORTATION BOARD

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Docket No.36500

CANADIAN PACIFIC RAILWAY LIMITED; CANADIAN PACIFIC RAILWAY
COMPANY; SOO LINE RAILROAD COMPANY; CENTRAL MAINE & QUEBEC
RAILWAY US INC.; DAKOTA, MINNESOTA & EASTERN RAILROAD CORPORATION;
AND DELAWARE & HUDSON RAILWAY COMPANY, INC.

-CONTROL-

KANSAS CITY SOUTHERN; THE KANSAS CITY SOUTHERN RAILWAY COMPANY;
GATEWAY EASTERN RAILWAY COMPANY; AND THE TEXAS MEXICAN RAILWAY
COMPANY

IMA – NA REQUEST FOR CONDITIONS

Industrial Minerals Association – North America (IMA) respectfully requests that certain conditions be imposed on this transaction in accordance with 49 U.S.C. § 11324(c). IMA seeks these conditions to eliminate the adverse impacts this transaction will have on its member companies that are large rail shippers in the United States.

IMA-NA INTEREST IN TRANSACTION

IMA is a trade association that represents companies that mine, process, and sell industrial minerals throughout North America. IMA represents a diverse set of member companies engaged in mining and processing of ball clay, barite, bentonite, borates, calcium carbonate, diatomite, feldspar, industrial sand, kaolin, lithium, mica, perlite, potash, quartz, salt, soda ash, sodium bicarbonate, talc, and wollastonite, and other minerals across North America.

The industrial minerals produced by IMA member companies are the raw material feedstock that are incorporated into a broad range of products, including among other things, container, food products, flat and specialty glasses, paint and coatings, ceramics, and a broad range of building products. Additionally, industrial minerals are used to make foundry molds and cores, which are in turn used to make metal shapes used to manufacture automobiles, SUVs and trucks, rail cars and almost all other items that have metal castings. The demand for many of these minerals from manufacturers is global, and the continued pressure member companies are feeling from the railroads in the form of unreliable service and higher rates is making it more difficult to compete in that global market.

Industrial minerals are low margin, high volume products. Member companies are heavily dependent upon a reliable and cost-effective transportation network, especially rail, and are major shippers with the rails. To help highlight that, in 2014, the nonmetallic minerals except fuels category, made up \$1.5 Billion in total freight rail premiums.

IMA member companies have been adversely impacted by the consolidation of the rail industry and their increasingly captive status in many locations. Further consolidation of the rail industry will only make this impact worse. As a result, IMA is seeking conditions here.

THE TRANSACTION

Applicants are seeking approval under 49 U.S.C. §§ 11321-26 for a proposed transaction that involves the acquisition of control by Canadian Pacific Railway Limited (Canadian Pacific), Canadian Pacific Railway Company, and their U.S. rail carrier subsidiaries, Soo Line Railroad Company (Soo Line), Central Maine & Quebec Railway US Inc., Dakota, Minnesota & Eastern Railroad Corporation, and Delaware & Hudson Railway Company, Inc. (collectively, CP) and

Kansas City Southern and its U.S. rail carrier subsidiaries, The Kansas City Southern Railway Company (KCSR), Gateway Eastern Railway Company, and The Texas Mexican Railway Company (collectively, KCS) (CP and KCS collectively, Applicants).

By decision served April 21, 2021, the Board found the Transaction to be a “major” transaction under 49 C.F.R. § 1180.2(a), as it is a control transaction involving two or more Class I railroads. Canadian Pacific presently controls Soo Line, a Class I railroad, and proposes in Docket No. FD 36500 to acquire common control of KCSR, also a Class I railroad. *See Canadian Pac. Ry.—Control—Kan. City S. (Decision No. 3)*, FD 36500, slip op. at 3 (STB served Apr. 21, 2021). By decision served April 23, 2021, following a public comment period, the Board found the proposed transaction to be subject to the regulations set forth at 49 C.F.R. part 1180, subpart A, in effect before July 11, 2001, pursuant to the waiver for a merger transaction involving KCS and another Class I railroad under 49 C.F.R. § 1180.0(b). *See Canadian Pac. Ry.—Control—Kan. City S. (Decision No. 4)*, FD 36500, slip op. at 2-3 (STB served Apr. 23, 2021) (with Vice Chairman Primus dissenting).

The Transaction involves all the U.S. mainline and branch line mileage of the CP and KCS rail systems. (Application 1-31.) The CP rail network spans Canada from the Pacific Ocean at Vancouver to the Atlantic Ocean at Saint John, N.B. In the United States, CP owns rail property in Michigan, Illinois, Minnesota, North Dakota, South Dakota, Wisconsin, Maine, Vermont, Iowa, Missouri, and New York, reaching into the U.S. industrial centers of Chicago, Ill., Detroit, Mich., Buffalo, N.Y., Albany, N.Y., Kansas City, Mo., and Minneapolis, Minn. (*Id.* at 1-20; *id.*, Ex. 13, Operating Plan 8.) CP’s principal routes serving the United States extend from six Canada/United States border crossings: North Portal, Sask./Portal, N.D.; Emerson, Man./Noyes, Minn.; Windsor, Ont./Detroit; Buffalo; Rouses Point, N.Y.; and a point near

Jackman, Me., on the Quebec/Maine border. CP also operates a short stretch of branch line trackage between Abercorn, Que., and Richford, Vt. (*Id.* at 1-22 to 1-23.)

The KCS rail network extends in a north-south corridor from Kansas City, south to the Pacific Ocean at the Port of Lazaro Cardenas, Mexico. (*Id.* at 1-24.) In the United States, KCS owns rail property in Alabama, Arkansas, Illinois, Kansas, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas. (*Id.* at 1-20.) KCSR's network is centered on Shreveport, La., with lines radiating in five directions. (*Id.* at 1-24.) KCSR's north-south corridor extends from the Mexican border at Laredo, Tex., to Kansas City. (*Id.*) The "Meridian Speedway" line runs east-west through Shreveport, between the Dallas, Tex. area and a connection with Norfolk Southern Railway Company at Meridian, Miss. (*Id.* at 1-25.) KCSR operates a secondary line that extends southeast from Shreveport to New Orleans, La. (*Id.*) KCSR also operates the former "Gateway Western" lines extending east from Kansas City to Springfield, Ill., and East St. Louis, Ill., where it connects with the Terminal Railroad Association of St. Louis and other Class I railroads. (*Id.*) KCSR also operates several former "MidSouth" branch lines in Mississippi and Tennessee. (*Id.*)

As set forth in the September 15 Merger Agreement, Canadian Pacific, through its indirect, wholly owned subsidiary Cygnus Merger Sub 2 Corp., acquired KCS. (*Id.* at 1-2.) Upon receipt of approval by the shareholders of Canadian Pacific and KCS and the satisfaction of other customary closing conditions, Cygnus Merger Sub 2 Corp. merged with and into KCS (the Merger), with KCS surviving the Merger. (*Id.*) Upon completion of the Merger, holders of KCS's common stock became entitled to receive a combination of Canadian Pacific common shares and cash in exchange for their common stock, and holders of KCS's preferred stock became entitled to receive cash in exchange for their preferred shares. (*Id.*) Immediately

following completion of the Merger, Canadian Pacific conducted a series of internal transactions that resulted in its voting interest in the successor to KCS being placed into a voting trust, as approved by the Board (*Id.*) As a result of the internal transactions, KCS is legally merged with and into Cygnus Merger Sub 1 Corporation, a wholly owned subsidiary of CP, with Cygnus Merger Sub 1 Corporation surviving. (*Id.*) However, the successor holding company of KCS will continue to own KCS's railroad and other affiliates, and will maintain the same name, governance structure, and other corporate-level attributes of KCS. (*Id.*) Applicants state that, if and when the Board grants the Application, CP accepts any conditions imposed by the Board, and the Board's approval becomes administratively final, then the voting trust would be terminated, and Canadian Pacific would assume control of KCS. (*Id.* at 1-3.)

STB VIEW ON FURTHER MERGER ACTIVITY

The regulations applicable to this transaction as noted are set forth at 49 C.F.R. part 1180, subpart A, in effect before July 11, 2001, pursuant to the waiver for a merger transaction involving KCS and another Class I railroad under 49 C.F.R. § 1180.0(b). These merger regulations were adopted soon after passage of the Staggers Act of 1980. The Board has explained that “the widespread financial distress faced by our nation's rail carriers in the period leading up to enactment of that statute, and the associated deteriorating service levels faced by their customers, were due in large measure to an overly restrictive regulatory system that unduly limited the ability of railroads to effectively rationalize what was at that time a significant degree of excess rail infrastructure.”¹ These merger regulations — aimed at encouraging railroads to formulate proposals that would help rationalize excess capacity so long as competition, access to

¹ *Major Rail Consolidation Procedures*, EP 582, slip op. at 3 (STB served March 31, 2000).

essential service, and other public interest goals were not degraded — were in response to these serious problems affecting railroads and their customers at that time.²

As the Board explained, however:

The goals of that merger policy have largely been achieved. It does not appear that there are significant public interest benefits to be realized from further downsizing or rationalizing of rail route systems, as there is little of that activity left to do. Looking forward, the key problem faced by railroads — how to improve profitability through enhancing the service provided to their customers — is linked to adding to insufficient infrastructure, not to eliminating excess capacity.³

Therefore, the Board noted that any additional rail mergers presently offer very little opportunity for additional efficiencies through elimination of excess capacity. And while extensions of single-line service as touted by Canadian Pacific here can offer benefits to railroads and their customers, the Board has expressed that these benefits could be better achieved, short of merger, through innovative joint marketing arrangements and other cooperative efforts, such as joint dispatching to more efficiently move trains through congested terminal areas.⁴ With respect to transactions like here, the Board advised that “[j]oint marketing arrangements, which enable railroads to offer joint-line service almost as seamless as single-line service, could be more practicable and more likely to be in the public interest when the carriers connect largely end-to-end, rather than competing over broad territories.”⁵ Further, the Board expressed concern

² *Id.* See 49 CFR 1180.1(a) (The Surface Transportation Board encourages private industry initiative that leads to the rationalization of the nation’s rail facilities and reduction of its excess capacity. One means of accomplishing these ends is rail consolidation).

³ *Public Views on Major Rail Consolidation*, EP 582, slip op. at 6 (STB served March 17, 2000).

⁴ *Major Rail Consolidation Procedures*, EP 582, slip op. at 3.

⁵ *Id.* at 3, note 10.

that the integration of two large railroads is complicated and takes a significant amount of time, and has been associated with severe service disruptions.⁶

Additional service disruptions at the present time would be devastating to the U.S. supply chain. There are already major service issues on the U.S. rail network brought on by the pandemic and the widespread adoption of Precision Scheduled Railroading as the Board has noted.⁷

The prospect of reducing the already small number of major Class I railroads even further is deeply concerning. As a result of the intense merger activity that took place in the 80s and 90s, the number of overall railroad companies has been reduced dramatically, and the size of the remaining carriers has increased correspondingly. This consolidation has resulted in less competition, higher rates, and poorer service over the last twenty years.⁸

⁶ *Id.* at 3.

⁷ See, e.g., *First-Mile/Last-Mile Service*, EP 767 (STB served Sept. 2, 2021).

⁸ See, e.g., Escalation Consultants, “*Economic Analysis: Consolidation and Increasing Freight Rail Rates*,” June 2021, <https://www.freightrailreform.com/new-report-finds-rail-customers-paying-a-steep-price-for-consolidation-and-dwindling-competition/>; Rate Reform Task Force, Report to the Surface Transportation Board, at 11, Apr. 25, 2019, <https://prod.stb.gov/wp-content/uploads/Rate-Reform-Task-Force-Report-April-2019.pdf>; U.S. Senate Committee on Commerce, Science, and Transportation, *The Current State of the Class I Freight Rail Industry*, at 9-10 (Sept. 15, 2010) (describing increased “pricing power” and higher margins for Class I railroads); U.S. Gov’t Accountability Office, *Freight Railroads: Industry Health Has Improved, but Concerns about Competition and Capacity Should be Addressed*, at 13-16 (Oct. 6, 2006) (documenting rate increases from 2000 to 2004, and explaining “the rail industry has continued to consolidate, potentially increasing the market power of the largest railroads. ...[A]ccording to freight railroad officials, shippers, and financial analysts, since 2004, rates have continued to increase as the demand for freight rail service has increased, and rail capacity has not kept pace with demand.”).

REQUEST FOR CONDITIONS

Under 49 U.S.C. § 11324, the Board must consider the public interest in addressing rail mergers, considering, at a minimum, **adequacy of transportation to the public**; including other rail carriers in the area involved; **competitive effects**; financial impacts on the involved carriers; and impacts on employees. “The Board shall approve and authorize a transaction under this section when it finds the transaction is consistent with the public interest. The Board may impose conditions governing the transaction, including the divestiture of parallel tracks or requiring the granting of trackage rights and access to other facilities.” *Id.* at (c). In addition, the rail transportation policy set out in 49 U.S.C. § 10101 directs the Board, among other things, to promote safety, efficiency, good working conditions, an economically sound and competitive rail transportation system, and the needs of the public and the national defense.

IMA’s biggest concerns are further loss of competition and poorer service as a result of this transaction. As the U.S. Department of Justice explained in its comments⁹ filed earlier in this proceeding:

Although on its face this transaction may raise fewer competitive problems than other possible combinations of Class I railroads, the Board should carefully consider the competition implications posed by this transaction. As the Board has recognized, a railroad merger can harm competition even if the parties do not compete head to head to provide single-line service between the same origin and destination pairs. As one example, railroads can also compete through “source competition”—that is, the ability of

⁹ Comment of the U.S. Dept. of Justice, Apr. 12, 2021, at 9-10.

shippers to choose between railroads that can carry their goods to (or receive goods from) different endpoints.¹⁰ As the Board has explained:

[S]ignificant losses in geographic competition could occur even where carriers truly are “end-to-end,” because there are many commodities (such as phosphate and soda ash) that have a limited number of sources. Similarly, a merger between BNSF and a Canadian carrier, even if largely end-to-end, could raise potential competitive concerns in western export wheat markets. End-to-end carriers that compete with each other geographically would stand to gain market power if we were to approve their merger without imposing effective conditions, which, as discussed above, could be difficult.¹¹

Railroads can also compete by serving portions of longer multi-carrier or multi-modal shipping routes. For instance, CP and KCS might each provide part of competing multi-modal routes between Asia and the eastern United States, or might compete to serve north-south routes by each partnering with other rail lines. A merger could reduce this type of competition by depriving current or future interchange partners of CP or KCS

¹⁰ See Statement of Interest for the United States, *In re Rail Freight Fuel Surcharge Antitrust Litigation*, MDL Docket No. 1869, at 12-13 (July 13, 2020), <https://www.justice.gov/atr/casedocument/file/1294246/download> (explaining that two hypothetical railroads that interline to serve a move from San Francisco to New York, with one carrying the traffic from San Francisco to Chicago, the other from Chicago to New York, could still compete with one another for the business of a shipper in Chicago: “Thus, if a Chicago-based shipper disliked western carriers’ rates to San Francisco, it could shop for a lower price and send its product instead to New York on an eastern carrier if a market for its product existed in both cities. Western and eastern carriers are rivals in this scenario – they are not competitively neutral and they are certainly not partners.”); Russell Pittman, *Options For Restructuring The State Owned Monopoly Railway*, *Railroad Economics* 182 (2007).

¹¹ *Major Rail Consolidation Procedures*, EP 582, slip op. at 16 (STB served June 11, 2001).

of a means to compete for this traffic, and thus reduce choices for shippers and ultimately raise prices.

Class I railroads that do not compete on a day-to-day basis for current shippers may compete in broader ways that are socially important, for example in seeking to attract new shippers to locate on their lines and in the adoption of technological and productivity enhancing innovations; or, correspondingly, they may coordinate tacitly or explicitly in anticompetitive actions.¹² The Board has rightly been attentive to such concerns,¹³ and should carefully consider these issues when evaluating this transaction or other potential rail mergers.

Thus, before permitting additional consolidation, the Board should thoroughly examine the competition concerns raised by commenters and ensure that this transaction would not exacerbate these trends. As the Board recognized in adopting the 2001 major rail consolidation procedures, the consolidation that has already occurred in this industry means “There is little margin for error as we proceed ahead.”¹⁴

For example, with respect to conditions that could help ameliorate the anticompetitive effects of a major transaction in the post-2001 era, in a quite similar situation, Canadian Pacific

¹² See Comment of The Freight Rail Customer Alliance et al., Apr. 1, 2021, at 3 (expressing concern that “the reduction in Class I railroads from seven to six, even if unaccompanied by further consolidation, will facilitate further rate and practice coordination in what is already a highly concentrated and coordinated industry.”).

¹³ See, e.g., *Petition for Rulemaking to Adopt Revised Competitive Switching Rules*, EP 711, slip op. at 9 (STB served July 27, 2016) (“[T]he consolidation of class I carriers ... could lead to reduced competitive options for some shippers and thus should be considered.”); Rate Reform Task Force, Report to the Surface Transportation Board, at 11, Apr. 25, 2019, <https://prod.stb.gov/wp-content/uploads/Rate-Reform-TaskForce-Report-April-2019.pdf> (“As a result of mergers, there are now only seven class I railroads, and they have rationalized their routings and increased rates.”).

¹⁴ *Major Rail Consolidation Procedures*, slip op. at 66.

announced a proposal to acquire Norfolk Southern in November 2015. Canadian Pacific stated repeatedly that it believed its proposal to acquire Norfolk Southern would have a significantly pro-competitive outcome, emphasizing there is minimal overlap between the track networks of the two companies, and instead the merger would be a market-extension creating an end-to-end transcontinental solution for customers in large parts of the US and Canada.¹⁵ In making this proposal, CP offered to include as a part of the transaction modified terminal access which would have allowed another carrier to operate over CP+NS lines to serve a customer if the customer is not receiving adequate service or is being charged an unreasonable rate. CP also offered to end the bottleneck pricing approach, allowing customers to obtain a separately challengeable rate to the customer's preferred interchange location. It noted that these proposals are consistent with the type of competitive enhancements that the STB has found would offset merger-related competitive harms.¹⁶ Also, in this proceeding, Applicants have already fully committed to keeping all existing gateways open both physically and commercially and ensuring that shippers' existing bottleneck rate regulatory options are not adversely affected by the transaction.¹⁷

The number of Class I railroads has remained the same since 2001 when the Board expressed its strong concerns over any further major mergers and adopted the new merger guidelines. Now, CP and KCS want to change the landscape to only six Class I railroads in the U.S. As noted, the effects of rail consolidation in the 80s and 90s after 2001 have led to higher rates, less competition, and poorer service. The statement by Chairman Morgan at that time that

¹⁵ *CP Asks U.S. Dept. of Justice to Review Recent Meeting of Some Class I Railroads to Oppose CP Acquisition of NS* (Jan. 19, 2016), <https://www.cpr.ca/en/investors/cp-asks-doj-to-review-recent-meetings>

¹⁶ *CP Responds to Norfolk Southern White Paper* (Dec. 15, 2015), <https://www.cpr.ca/en/investors/cp-responds-to-ns-white-paper>

¹⁷ Applicants' Reply to Objections to KCS Waiver from 2001 Major Merger Rules, Apr. 12, 2021, at 21.

there is little margin for error when addressing the next major merger is even more true today as the railroads have clearly used their market power to their overwhelming advantage and to the disadvantage of their customers over the past two decades. Therefore, the Board should impose the three forms of statutory competitive access as conditions on this transaction for use by any shipper on the new CP/KCS system that is subject to market dominance or receives inadequate service.

Competitive access generally refers to the ability of a shipper or a competitor railroad to use the facilities or services of an incumbent railroad to extend the reach of the services provided by the competitor railroad. The provisions of 49 U.S.C. §§ 11102 and 10705 make three competitive access remedies available to shippers and carriers: the prescription of through routes, terminal trackage rights, and reciprocal switching.

These crucial conditions will help to alleviate the inevitable service issues that will occur when the two railroads begin to merge their operations. This outcome is one of the major reasons behind why the new merger guidelines were created and should not be taken lightly here.¹⁸ The U.S. rail network is already under tremendous strain at the present time due to the use of Precision Scheduled Railroading and the ongoing supply chain issues caused by the pandemic. Both KCS and CP are PSR railroads and could easily have crushing service issues from the implementation of this merger at a time when the country certainly does not need additional supply chain problems. As a result, by providing these captive or inadequately served shippers with access to competing railroads, the Board would be ensuring a better transition during the implementation of this merger and protecting the U.S. from additional mayhem brought on by

¹⁸ *Major Rail Consolidation Procedures*, EP 582, slip op. at 3.

the service issues that will occur from this transaction during a time when the national supply chain cannot afford any additional issues.

Moreover, as discussed, this further consolidation of an industry that is clearly overly consolidated and lacking competition in many instances will only result in less competition, higher rates, and poorer service on this new rail system. While an end-to-end merger will not result in the normal 2-1 railroad effects that the Board has remedied in the past to preserve competition, the effects of further consolidation of the Class I railroads will only decrease the options available to the shippers that are on these two rail systems as discussed herein. As a result, the time has come for the Board to remedy this loss of competition caused by this merger through these three competitive access remedies. The way to avoid deterioration in competition on this system is to introduce new competition. Otherwise, the new CP/KCS system will reap the benefits of this loss in competition at the sole expense of its shippers.

Finally, the Board should limit any rate increases to captive shippers for five years after the transaction is approved to 10% over that time. This limit will ensure that the merged railroad will gradually use its new pricing power from the decrease in competition as a result of the transaction. Otherwise, the affected captive shippers will be subjected to large rate increases shortly after the transaction.

CONCLUSION

Based on the foregoing discussion, IMA respectfully asks the Board to impose these competitive access and pricing conditions on this merger to prevent the loss of competition and to improve service. Otherwise, IMA cannot support a transaction that will harm its member companies who already suffer from the effects of an already overly consolidated rail network.

Respectfully submitted,

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Dated: February 28, 2022

Certificate of Service

I certify that I have, this 28th day of February 2022, served by email copies of the foregoing document on all parties of record in this proceeding and on the parties listed below, by first-class mail, postage-prepaid, or by email:

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