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INSIGHT

Proposed New England Rail Merger Could Affect Competition and Passenger Service

December 15, 2020

CSX Transportation, one of the seven Class I companies that handle the vast majority of U.S. rail traffic, announced in November an agreement to purchase Pan Am Railways, a smaller, Class II railroad in New England. The deal, if approved by the Surface Transportation Board (STB), could have significant effects on freight and passenger rail traffic throughout New England.

Background

CSX is one of the country's largest railroads, with 21,000 miles of track in 23 states, 20,000 employees, and annual revenues in excess of $11 billion. It has limited access to markets in New England, where Pan Am, which operates over 1,200 miles of track in five New England states and New York, is an important player. (Pan Am was known as the Guilford Transportation System until 2006. It acquired the branding rights from the defunct Pan American World Airways in 1998.) Several smaller freight railroads also operate locally in New England, making connections to the rest of the United States through CSX; through Norfolk Southern, which shares ownership of a line in Massachusetts with Pan Am; or via connections with the Canadian National and Canadian Pacific railroads, which connect New England with other U.S. points through Montreal, Quebec.

CSX serves the Port of Boston, but there are few rail customers there. The main CSX facility in the region is an intermodal yard in Worcester, some 50 miles inland, which is also connected to a branch of the Pan Am system. Massachusetts has purchased a number of freight corridors—including the line from Boston to Worcester—in order to prioritize passenger train traffic, but CSX and Pan Am retain ownership of freight easements or trackage rights. Purchasing Pan Am would strengthen CSX's connections to other railroads serving Canadian ports in Saint John, New Brunswick, and Halifax, Nova Scotia.

Freight Implications

Should the transaction proceed, CSX would control roughly 25% of rail miles in the six New England states, up from around 6% at present. This could give rise to situations in which customers would no longer have a choice of rail carriers for their shipping needs and therefore could potentially find

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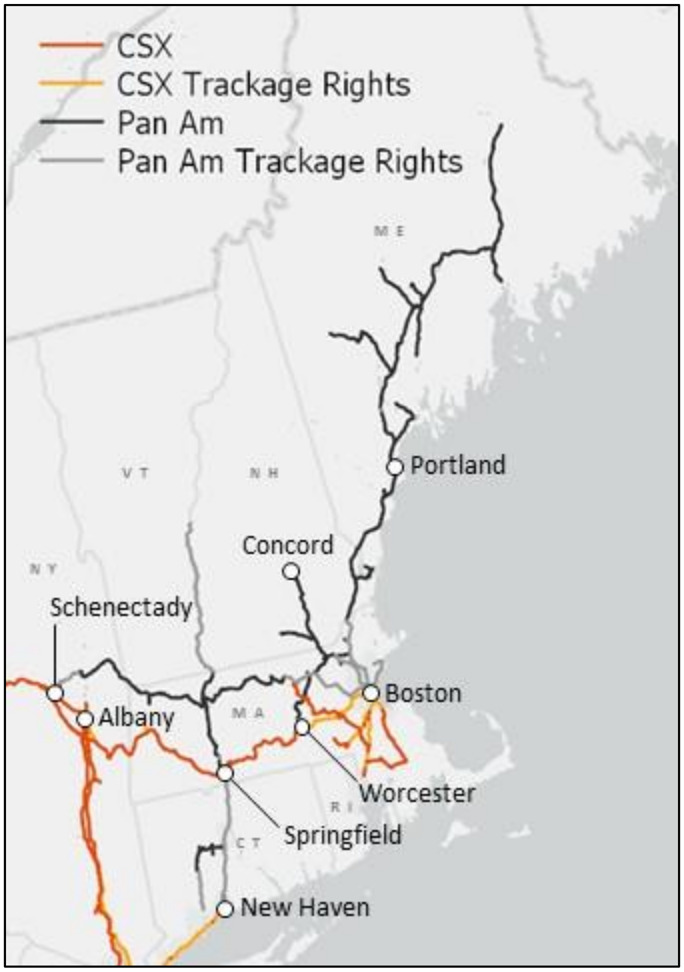
IN11558

themselves in a weaker position in negotiating shipping rates and schedules. Shipper associations refer to such businesses as "captive shippers."

For example, CSX currently controls one of the two east-west rail corridors through Massachusetts, linking Boston to Upstate New York and points west (**Figure 1**). The other is controlled by Pan Am through a joint venture, Pan Am Southern, which is co-owned by Norfolk Southern, CSX's major rival in the eastern United States. If CSX were to acquire Pan Am, shippers in some parts of New England might have fewer options to move their freight to and from connecting lines in New York State.

Figure 1. Map of Pan Am and CSX Systems



Source: U.S. DOT.

However, CSX's locomotive fleet is newer and more advanced than Pan Am's, and CSX has the financial wherewithal to complete the upgrades needed to accommodate increased traffic, which could end up benefiting existing customers who continue to ship by rail. Pan Am's tracks can carry heavy loads, but most do not have the 21-foot vertical clearances necessary for the double-stacked container trains favored by large railroads. Massachusetts has studied options for raising clearances in a 150-year-old tunnel linking Pan Am Southern to connections in New York, which would be costly.

Any increases in freight traffic are likely to draw the attention of local landowners and officials who may have concerns about increases in noise, emissions, vibrations, the potential for collisions at road-rail crossings, or the movement of hazardous materials through populated areas.

Passenger Implications

The transaction could similarly benefit or hinder plans to expand passenger rail service in the region, depending on how the deal is structured. The CSX-owned east-west corridor is currently used by one daily Amtrak train in each direction and by a commuter rail line near Boston, but additional passenger services between Boston and western Massachusetts are under consideration. CSX, as the host railroad, can try to stipulate that new or improved infrastructure must be constructed (at public expense) to protect the flow of more profitable freight trains before agreeing to accommodate more passenger traffic. However, if CSX were to reroute its east-west freight traffic onto the more northerly Pan Am corridor, passenger trains between Boston and Albany, NY, would have less freight traffic to contend with and might be able to operate at higher speeds.

If CSX does redirect additional traffic onto newly acquired tracks, however, expanding passenger service along those routes could become more difficult in the future. Pan Am's tracks, like CSX's, are used by Boston-area commuter rail lines, and Pan Am hosts Amtrak's *Downeaster* service in Maine. Plans to expand rail service between Boston and cities in southern New Hampshire would also use tracks currently owned or operated by Pan Am, as would plans to run additional daily trains on Amtrak's north-south *Valley Flyer* route in western Massachusetts. Amtrak trains running on Pan Am tracks have historically had better on-time performance than those using CSX tracks.

Next Steps

The STB approval process entails a review of the expected economic and environmental outcomes of an acquisition (49 U.S.C. §11324). Transactions are evaluated differently depending on the sizes of the railroads involved, with "major" transactions involving two Class I's receiving the most scrutiny. Even for lesser transactions, the process may take several months from start to finish. For comparison, Class I railroad Canadian National proposed in September 2007 to acquire the Elgin, Joliet and Eastern, a Class II carrier in Illinois, in what STB termed a "minor" transaction, and received final STB approval in December 2008. In that case, STB required that the merged railroad take a number of steps, such as building several road bridges over its tracks, to mitigate local concerns.

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