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# The Surface Transportation Board (STB): Background and Current Issues

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The Surface Transportation Board (STB) was created by Congress in 1995 to replace the Interstate Commerce Commission (ICC) as the economic regulator of providers of interstate land and water transportation. It most often deals with issues facing the railroad industry. STB is smaller in size and more limited in regulatory reach than its predecessor, and the powers that it inherited upon its creation are more limited than those the ICC possessed prior to the deregulatory initiatives of the 1970s and 1980s.

Railroads are generally far freer to set their own cargo carriage rates under STB than they were under the ICC. However, STB retains the power to impose maximum rates in situations where the railroad is considered “market dominant,” and if the rate quoted by the railroad is deemed unreasonable. The definition of market dominance is a mathematical one, based on complex assumptions about railroad operating and capital costs, and the process to challenge the reasonableness of a rate can be costly and time-consuming.

Related to the rate reasonableness issue is the potential for customers to obtain service from a competing railroad that may offer a better rate but lacks access to the shipper’s facilities. STB has the authority to prescribe such arrangements, but has rarely done so. Procedures to expedite the determination of market dominance, to reduce the burdens associated with minor rate disputes, and to reexamine competitive access and reciprocal switching policies are currently under consideration by STB. A perennial concern is the treatment of shippers that claim to have no other economically viable alternatives for freight transportation than a single railroad company. These so-called captive shippers frequently complain about what they characterize as monopolistic behavior on the part of railroads. One behavior to come under scrutiny more recently is the approach railroads take to assessing “demurrage” fees on customers who exceed allotted time for loading or unloading of railcars. In 2021, STB ordered large railroads to disclose demurrage fees more clearly to shippers.

In addition to its limited powers to set maximum rates, STB has authority over railroad corporate mergers and acquisitions. It may approve such transactions only when it finds them to be “in the public interest.” Following a surge in activity during the 1970s and 1980s, which saw competing railroads consolidate their networks to take advantage of economies of scale and shed redundant capacity, no major railroads have successfully combined since the mid-1990s. STB updated its merger policies in 2001, setting a somewhat higher bar for major railroad mergers. In 2023, STB approved the first merger in decades of two large railroads, but the board granted the railroads a waiver that allowed them to use the prior merger policies.

STB occupies a limited but growing role in the regulation of passenger rail. The creation of Amtrak and commuter rail authorities in the 1970s and 1980s helped return the private rail sector to profitability, but resulted in passenger rail carriers depending on access to tracks they do not own, with dispatching outside their control. If disputes arise between Amtrak and a freight railroad over the terms of access to tracks and facilities, STB is empowered to adjudicate them, but Amtrak’s network has seen little change in recent decades, so this power has been rarely exercised. The Infrastructure Investment and Jobs Act (IIJA) of 2021 (P.L. 117-58) directed STB to hire additional staff to handle passenger rail issues; it also provided funding for expansion of passenger rail service, potentially creating additional conflicts between Amtrak and freight railroads that STB may be asked to adjudicate. In the Passenger Rail Improvement and Investment Act of 2008 (P.L. 110-432), Congress empowered STB to monitor the on-time performance of Amtrak trains on freight tracks and penalize host railroads for obstructing passenger traffic, something it could not previously do. A series of court challenges effectively prevented these provisions from taking full effect until 2021, and STB has yet to render decisions under this authority.

STB also retains some regulatory power over interstate commerce by motor carrier, water carrier, and pipeline, though these represent a small fraction of its annual workload.

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## Introduction

The Surface Transportation Board (STB) is an independent federal agency tasked with economic regulation of common carriers engaged in interstate commerce.<sup>1</sup> It most often deals with issues facing the railroad industry (which is the focus of much of this report), but its authority also extends to motor carriers, waterborne carriers, and pipelines under certain circumstances.

Railroads have been regulated at the federal level since 1887, when Congress created the Interstate Commerce Commission (ICC).<sup>2</sup> When many large railroads began to fail in the 1960s and 1970s amid intense competition from truckers and airlines, Congress began relaxing some of the rules governing the industry, granting railroads considerable freedom to set freight rates and terminate unprofitable services.<sup>3</sup> In 1995, Congress replaced the ICC with STB, a new agency smaller in size and more limited in regulatory reach.<sup>4</sup>

The law that abolished the ICC and created STB, the Interstate Commerce Commission Termination Act of 1995 (P.L. 104-88), began with a 13-point articulation of national policy that included, among other elements,

In regulating the railroad industry, it is the policy of the United States Government ... to allow, to the maximum extent possible, competition and the demand for services to establish reasonable rates for transportation by rail ... to minimize the need for Federal regulatory control over the rail transportation system [and] to reduce regulatory barriers to entry into and exit from the industry.<sup>5</sup>

The environment surrounding the railroad industry in the 2020s is considerably different from that of half a century prior. At that time, a series of bankruptcies threatened the ability of the rail system to reliably move freight, to the extent that several failed railroads serving the Northeast and the Midwest were taken into federal ownership<sup>6</sup> and regulators gave priority to the railroads' ability to operate self-sufficiently. In recent decades, the railroad industry, having shed excess capacity and transferred responsibility for passenger transportation to other public or private authorities, has consolidated into a handful of consistently profitable companies. The extent of railroads' power over freight shippers has arguably become a larger issue for STB than ensuring the survival of the industry.

Congress has commissioned studies and solicited input from carriers, shippers, and others concerning STB's role and procedures. These include the following:

- The Safe, Accountable, Flexible, Efficient Transportation Act of 2005 directed the Secretary of Transportation and the Transportation Research Board (TRB) of the National Academy of Sciences to publish a comprehensive study of the nation's railroad system since 1980, including the future role of STB in

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<sup>1</sup> A *common carrier* is a person or corporation that holds itself out to the general public to transport property or passengers for compensation and must do so upon reasonable request for service.

<sup>2</sup> Interstate Commerce Act, 24 Stat. 379.

<sup>3</sup> The main deregulatory law was the Staggers Rail Act of 1980 (P.L. 96-448).

<sup>4</sup> The Surface Transportation Board (STB) is one of several agencies that inherited powers once held by the ICC. Many former ICC functions have been transferred to modal administrations at the U.S. Department of Transportation, including the Federal Railroad Administration (in 1970) and the Federal Highway Administration (in 1980, until a separate Federal Motor Carrier Safety Administration was created in 2000).

<sup>5</sup> 49 U.S.C. §§10101(1), (2), and (7).

<sup>6</sup> This process was initiated under the Regional Rail Reorganization Act of 1973 (P.L. 93-236), which led to the creation of the federally owned Consolidated Rail Corporation (Conrail) pursuant to the Railroad Revitalization and Regulatory Reform Act of 1976 (P.L. 94-210).

- regulating the industry (P.L. 109-59, §9007). Funding for the study was appropriated in 2011, and the study report was published in 2015.<sup>7</sup>
- The STB Reauthorization Act of 2015 (P.L. 114-110, §15) commissioned a study of the sufficiency, complexity, and cost-effectiveness of STB's methodologies to resolve major rail rate disputes, and whether additional methodologies might constitute an improvement while remaining consistent with sound economic principles. The study report was published in 2016.<sup>8</sup>
  - The Fixing America's Surface Transportation Act of 2015 (P.L. 114-94, §11311) directed the Secretary of Transportation to evaluate passenger and freight rail systems' shared use of railroad rights-of-way and the operational, institutional, and legal structures—including the current and future role of STB in these structures—that would best support improvements to such arrangements. The study report was published in 2017.<sup>9</sup>

## **STB Governance and Structure**

At its inception, STB was an agency administratively aligned with the U.S. Department of Transportation, though it had independent decisionmaking ability. It became an independent agency under the Surface Transportation Board Reauthorization Act of 2015 (P.L. 114-110), which also increased the number of STB board members from three to five and amended some of the agency's powers and requirements. Despite the new seats, no more than three members served concurrently until 2021, when the last two vacancies were filled.

The five members of STB issue decisions after weighing filings by one or more parties. By statute, board members are appointed by the President (subject to confirmation by the Senate), may serve a maximum of two five-year terms, and may remain in office for up to one year after the expiration of a term if a replacement has not yet been confirmed. Not more than three members may belong to the same political party.

The board can be likened to some degree to a court, in that commissioners consider petitions brought by various parties and hear arguments and motions offered by attorneys for the parties, and a concurring majority issues decisions based on legal tests and following agency precedent. However, the board also has the power to initiate its own proceedings in some cases, conduct investigations, and carry out a number of support functions relevant to its rulings (e.g., STB may serve as the lead federal agency managing an environmental review pursuant to the National Environmental Policy Act). Some proceedings may require oral hearings, while others involve only written submissions. When a case docket is open, outside parties such as Members of Congress, local officials, or members of the public may enter written comments into the records of the proceedings.

Certain railroad actions expressly require STB review and approval under federal law; others may be challenged in an STB proceeding. Before 1980, many proposed changes to railroad operations, pricing, or ownership or control were likely to require ICC approval. By comparison, far fewer actions—mainly those involving a change in ownership or control—now require STB approval,

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<sup>7</sup> National Academies of Sciences, Engineering, and Medicine (National Academies), *Modernizing Freight Rail Regulation*, Washington, DC, 2015, <http://nap.edu/21759>.

<sup>8</sup> InterVISTAS Consulting Inc., *An Examination of the STB's Approach to Freight Rail Rate Regulation and Options for Simplification*, STB, September 14, 2016, <https://prod.stb.gov/wp-content/uploads/STB-Rate-Regulation-Final-Report.pdf>.

<sup>9</sup> Federal Railroad Administration, *Report to Congress: Shared-Use of Railroad Rights-of-Way*, Washington, DC, July 2019.

and the threshold for approval tends to be lower (see “Freight Railroad Mergers and the Public Interest”). Also, many STB decisions are determinations that an action is exempt from further STB review, as is often the case with proposed service discontinuations or track abandonments. In FY2024, the most recent year for which data are available, STB issued 336 decisions, of which 120 (36%) concerned exemptions from further STB review (Table 1).

**Table 1. STB Decisions Issued, FY2018-FY2024**

Decision Type	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Complaints	46	32	31	19	6	41	27
Rate	16	7	0	0	1	7	1
Non-rate	30	25	31	19	5	34	26
Declaratory Orders	53	40	33	25	11	25	14
Ex Parte Proceeding Decisions	43	53	57	40	40	46	39
Rulemakings	21	25	32	20	21	14	8
Other	22	28	25	20	19	32	31
Licensing	310	377	266	295	281	229	224
Applications/Petitions	57	85	70	92	101	63	90
Notices of Exemption	185	224	156	180	166	154	120
Other (incl. Grant Stamps)	68	68	40	23	14	12	14
Nonrail Decisions	9	3	4	9	3	3	17
Other	20	10	28	30	15	17	15
<b>All Decisions</b>	<b>481</b>	<b>515</b>	<b>419</b>	<b>418</b>	<b>356</b>	<b>370</b>	<b>336</b>

**Source:** STB Budget Requests.

**Notes:** STB introduced the current classification of the agency’s workload for reporting purposes in FY2018; figures for prior years are unavailable.

STB has consistently employed between 100 and 200 personnel since its founding. By contrast, the ICC employed over 2,000 personnel at its peak, though at the time of its dissolution, it employed roughly 400. A portion of STB’s operating budget for salaries and expenses, which was roughly \$45 million in FY2024, is offset by the fines STB collects (see Table 2).

**Table 2. STB Operating Budget, FY2018-FY2024**

(in thousands of dollars)

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
<b>Nominal Dollars</b>							
Salaries & Expenses	34,998	35,258	36,625	37,014	38,950	41,429	44,714
Offsetting Collections	458	736	814	1,251	1,250	1,015	592
<b>Constant FY2024 Dollars</b>							
Salaries & Expenses	42,910	42,444	43,521	42,520	41,820	42,535	44,714
Offsetting Collections	562	886	967	1,437	1,342	1,042	592

**Source:** STB Budget Requests. Nominal dollar amounts adjusted to constant FY2024 dollars using the GDP (Chained) Price Index column from Table 10: Gross Domestic Product and Deflators Used in the Historical Tables: 1940-2029, in *Budget FY 2025 - Historical Tables, Budget of the United States Government, Fiscal Year 2025*, <https://www.govinfo.gov/app/details/BUDGET-2025-TAB>.

## Authority to Set Maximum Rates

Historically, railroads’ status as common carriers meant that they could not be arbitrary or discriminatory in the rates they charged their customers or in the services they provided. Under the ICC, freight rates were tightly controlled and made to comply with pricing guidelines (“tariffs”) that applied broadly to most railroads and commodities. The commission frequently considered complaints that a railroad was unreasonably favoring one shipper, one community, or one commodity over another, and it was empowered to initiate inquiries into pricing compliance. A 1976 law gave railroads limited flexibility to set rates without ICC approval and to enter into contracts with customers using a negotiated rate instead of using a common carriage rate.<sup>10</sup> Since 1980, such contracts have been confidential, giving railroads further flexibility to customize rates for individual customers. However, not all rail freight is handled in this manner.

STB retains authority to set a “reasonable” maximum price for common carriage, but only in response to customer complaints (it cannot initiate its own rate inquiries) and only in cases where the railroad company is “market dominant”—that is, where no economically viable other transportation option exists. In such cases, STB is constrained by law to impose a rate no greater than 180% of the railroad’s “variable cost” of providing the service in question. STB determines the variable cost by employing the Uniform Railroad Costing System (URCS) adopted by the ICC in the 1980s.

There have been 52 rail rate cases brought before STB since its creation. STB has issued a reasonableness ruling in under half of these; the remainder were either withdrawn or settled by the parties before STB issued a decision (**Table 3**).

**Table 3. STB Rail Rate Case Outcomes Since 1996**

Outcome	Number of Cases
Rates reasonable	11
Rates unreasonable	11
Settlement reached	28
Complaint withdrawn	2
<b>Total</b>	<b>52</b>

**Source:** STB, Report on Rate Case Review Metrics, Second Quarter, July 1, 2025, <https://www.stb.gov/wp-content/uploads/2Q-Report-on-Rate-Case-Review-Metrics-2025.pdf>.

**Table 4. STB Rail Rate Case Methods Used Since 1996**

Method	Number of Cases
Stand-Alone Cost (SAC)	38
Simplified SAC	5
Three-Benchmark	5
Stipulated 180% rate-to-variable-costs (R/VC)	4
<b>Total</b>	<b>52</b>

**Source:** STB, Report on Rate Case Review Metrics, Second Quarter, July 1, 2025, <https://www.stb.gov/wp-content/uploads/2Q-Report-on-Rate-Case-Review-Metrics-2025.pdf>.

Even though shippers occasionally file rate- or service-related complaints with STB, few formal rate cases have been argued before the board in the past several years. Some shippers complain that the process of formally challenging a rate is too costly to pursue. Using what is known as the Stand-Alone Cost (SAC) method, a shipper challenging a rate must essentially design a

<sup>10</sup> Railroad Revitalization and Regulatory Reform Act (P.L. 94-210).

hypothetical, completely new railroad capable of handling its traffic and calculate the rates that railroad would charge given the costs associated with operating the route (including other hypothetical revenue-generating traffic it would carry). If STB were to find that the real-world railroad is charging a shipper more than this hypothetical railroad would, it would rule the rate unreasonable, and the hypothetical rate would become the new maximum allowable rate.<sup>11</sup>

The SAC process is very detailed, requires extensive documentation, depends on assumptions derived from the URCS, and frequently results in prolonged litigation. When it established STB, Congress directed the newly formed agency to develop ways to resolve rate disputes that would be more accessible to shippers in cases where a full SAC process would be too costly to pursue.<sup>12</sup> In 1997, STB established two alternative methods of determining whether a rate is unreasonable, the Simplified SAC and Three-Benchmark methods. These alternatives, which have been revised several times since their creation, are notionally simpler than the Stand-Alone Cost method in that they require less evidence to be submitted by the shipper, rely on less-intricate calculations, and impose stricter timelines on when a decision must be reached. Alternatively, the parties may stipulate that STB should simply impose the maximum rate allowed, equal to 180% of the variable cost of providing the service, instead of a hypothetical competitor's rate. The SAC method has been used in the majority of rate complaints adjudicated by STB (**Table 4**).

There is dispute as to whether the statutory definition of market dominance blocks STB from granting relief to shippers who claim to have no economically viable alternative to transportation other than a single railroad. These entities often refer to themselves as “captive shippers,” and they generally tend to be customers who cannot ship their product economically by truck because of its bulk and who lack viable access to a navigable waterway to ship by barge. The term “captive shipper” is not defined in law, however, and shippers in a wide variety of situations have asserted that they are captive to a single railroad.<sup>13</sup>

## Proposals for Reform in Rate Reviews

Proposals to reform the rate review process have ranged from subtle adjustments to near-total overhauls. A 2015 TRB report recommended abandoning the uniform rail costing system, repealing the 180% variable cost ratio threshold for market dominance, and replacing the entire rate reasonableness hearing process with a new system of accelerated arbitration.<sup>14</sup> (Repealing the statutorily defined 180% threshold can be accomplished only by Congress, not by STB.) The

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<sup>11</sup> Related to the concept of rate reasonableness, but not an explicit factor in STB's power to set maximum rates, is revenue adequacy. A railroad can be considered revenue adequate if its operating revenues are enough to cover the necessary costs of providing service. STB publishes an annual list of which railroads qualify as being revenue adequate, including an annual recalculation of the Railroad Cost of Capital, a measure of return on investment that is one component of STB's revenue adequacy formula and also a component of SAC calculations.

<sup>12</sup> P.L. 104-88, 49 U.S.C. §10701(d)(3).

<sup>13</sup> For example, DuPont, a chemical company, has asserted in the past that its Spruance plant was captive to CSX Transportation. The plant is located just south of the city of Richmond, VA, along CSX tracks. Bordering the other side of the plant is Interstate 95. Across the highway is the Port of Richmond on the James River. This port provides a 25-foot deep shipping channel to Norfolk. Three miles downriver from the Port of Richmond, DuPont owned a wharf along the river where it received bulk material by vessel. The river terminal was also served by CSX. CSX's competitor, Norfolk Southern Railroad, can be accessed approximately 6 miles north of the plant in Richmond or about 15 miles south of the plant in Petersburg. DuPont's definition of captivity would appear to have been based on the claim that none of these nearby alternatives was economically viable for shipping some of the plant's inputs or outputs. See written testimony of Gary Spitzer, Vice President/General Manager DuPont Chemical Solutions Enterprises, House Transportation and Infrastructure Committee Hearing 110-70, *Rail Competition and Service*, September 25, 2007, p. 648.

<sup>14</sup> National Academies, *Modernizing Freight Rail Regulation*, Washington, DC, 2015, pp. 5-6, <http://nap.edu/21759>.



2016 InterVISTAS report found that the SAC process, while often difficult to justify in terms of time and expense, is nonetheless an appropriate process to follow in large rate cases, and that the existing alternative methods (simplified SAC and three-benchmark) offer viable alternatives and may not benefit from further streamlining.<sup>15</sup> In January 2018, STB convened a Rate Reform Task Force to recommend options for more accessible and less burdensome ways to challenge rail rates. The task force report, published in April 2019, made several recommendations, including providing less costly ways of resolving small rate disputes.<sup>16</sup>

STB has begun to act on some of these recommendations. In 2019, it initiated rulemakings that would (1) streamline the process by which a complaining shipper could demonstrate a railroad's market dominance and (2) establish a new dispute resolution procedure known as Final Offer Rate Review (FORR).<sup>17</sup> The market dominance proposal would establish six "prima facie factors" that, when demonstrated to exist by a complaining shipper, would constitute sufficient evidence to show market dominance, effectively bypassing the need for STB to conduct its own qualitative analysis. Under FORR, parties would furnish STB with a packet of evidence and documentation to support their demanded rates, and STB would select a single party's package when rendering a decision. The parties could reply to each other's submissions, but would not be permitted to alter their offers or supporting materials. Both arrangements would be intended to provide a shorter and more predictable time frame for moving through the various steps in resolving rate disputes, and would limit opportunity to extend costly and time-consuming litigation.

The streamlined market dominance regulation was adopted in 2020. The first rate case under the new regulation was brought in 2022 and was resolved via settlement.<sup>18</sup> Also in 2022, STB published a final rule establishing FORR for cases involving an amount of relief up to \$4 million, but this was struck down by the U.S. Court of Appeals for the Eighth Circuit in August 2024.<sup>19</sup> The court reasoned that by allowing STB to choose between two rates proposed by parties to a dispute, FORR improperly limited the board's own statutory directive to prescribe maximum rates. After a petition for rehearing was denied, STB ultimately withdrew its FORR rule in May 2025.<sup>20</sup>

## **"Captive Shippers" and Competitive Service**

Besides imposition of maximum rates, shippers have sought expanded access to other remedies that STB is authorized to grant, including competitive access and reciprocal switching (also referred to, usually by opponents, as Forced Access and Forced Switching). The central idea of each remedy is similar: a customer who is physically served by only one railroad would be able to solicit service from a different railroad to reduce costs and/or improve service. Under competitive access, a competing railroad would be granted access to the incumbent railroad's infrastructure to allow it to serve the customer's premises directly; under reciprocal switching, the incumbent railroad would be directed to haul the customer's freight as far as an interchange point with a

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<sup>15</sup> InterVISTAS Consulting Inc., *An Examination of the STB's Approach to Freight Rail Rate Regulation and Options for Simplification*, STB, September 14, 2016, pp. 157-158.

<sup>16</sup> Rate Reform Task Force, *Report to the Surface Transportation Board*, April 25, 2019, p. 11, <https://www.stb.gov/wp-content/uploads/Rate-Reform-Task-Force-Report-April-2019.pdf>.

<sup>17</sup> 84 *Federal Register* 48872 and 48882, September 17, 2019.

<sup>18</sup> STB, *Omaha Public Power District v. Union Pacific Railroad Company*, decision no. 51564, served November 22, 2023.

<sup>19</sup> *Union Pacific Railroad Co. v. STB*, No. 22-3648 (8<sup>th</sup> Cir. 2024).

<sup>20</sup> STB, "STB Announces Removal of Final Offer Rate Review Rule," press release, May 30, 2025, <https://www.stb.gov/news-communications/latest-news/pr-25-21/>.

competing railroad and then hand it off to the competitor. Under either arrangement, the incumbent railroad would receive a fee, but much of the revenue would go to the competing railroad. Either remedy would give shippers greater bargaining power with respect to rail carriers.

Under standards adopted by the ICC in 1985, STB can authorize a reciprocal shipping agreement only if the shipper can show that it is necessary “to prevent an uncompetitive act.”<sup>21</sup> This has proven to be a high bar, as few reciprocal switching petitions have been filed since 1985 and none have ever been granted. The 2015 TRB report recommended that reciprocal switching agreements be included among the remedies STB can prescribe during rate disputes.<sup>22</sup>

STB proposed a new standard for reciprocal switching agreements in 2016, which would instead require that shippers show the proposed arrangement is “practicable and in the public interest” or “necessary to provide competitive rail service,” in line with STB’s statutory authorities.<sup>23</sup> STB’s proposal was roundly opposed by the railroad industry, and it was not adopted. In its place, STB adopted new rules in 2024 that would allow some shippers in “terminal areas” to petition STB for a reciprocal switching agreement if service reliability dips below a specified threshold for a period of 12 weeks.<sup>24</sup>

These rules do not apply to rail service provided under a confidential contract, nor do they apply to shipments of commodities exempted from STB jurisdiction.<sup>25</sup> If a shipper is receiving rail service under a confidential contract, that shipper could not petition for a reciprocal switching order without first terminating the contract, arranging for service under common carrier tariffs—which may result in increased shipping costs—and waiting the requisite 12 weeks in order to show a service deficiency (data from when service was provided under contract cannot be used to support a reciprocal switching petition). A shipper moving cargo that is covered by a commodity exemption would first need to petition STB for a partial revocation of that exemption before it could then seek a reciprocal switching order.

## Demurrage Charges and the Railcar Supply

While many rail customers own or lease railcars for their own use, customers sometimes use railcars that are owned by the rail carriers themselves. Customarily, a rail carrier will allow its railcars to remain at a customer’s facility for a certain amount of time (“free time”) for loading and unloading, but if the customer keeps the railcars for longer than initially stipulated (“demurrage time”), it will incur a fee. During deregulation in the 1970s and 1980s, railroads gained flexibility to establish individual free time and demurrage charges instead of complying with a set of uniform rules for all customers. Demurrage charges offset costs that delays pose to rail carriers, and serve to incentivize the efficient utilization of the pool of available railcars.<sup>26</sup> In recent years, however, customers have complained of demurrage policies that feature higher fees and less “free time.” This has coincided with the rise in popularity of “precision scheduled railroading” (PSR), a set of industry practices designed to maximize efficient use of railroad assets, among the largest railroads.

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<sup>21</sup> 49 C.F.R. §1144.2(a)(1).

<sup>22</sup> National Academies, *Modernizing Freight Rail Regulation*, Washington, DC, 2015, p. 8, <http://nap.edu/21759>.

<sup>23</sup> STB, “Petition for Rulemaking to Adopt Revised Competitive Switching Rules; Reciprocal Switching,” 81 *Federal Register* 51149, August 3, 2016; see also 49 U.S.C. §11102(c).

<sup>24</sup> STB, “Reciprocal Switching for Inadequate Service,” 89 *Federal Register* 38646, May 7, 2024.

<sup>25</sup> These exempted commodities are listed in Part 1039 of Title 49 of the *Code of Federal Regulations*.

<sup>26</sup> Maintenance of an adequate supply of railcars is a statutory requirement; see 49 U.S.C. §10746.

STB held a hearing on this issue in May 2019, and issued a proposed policy statement the following October detailing how it would assess the reasonableness of demurrage policies.<sup>27</sup> In response to shipper complaints that railroads provide little notice for them to prepare for changes in free time or demurrage rates, STB concurrently adopted a rule in April 2021 requiring Class I railroads—those with annual operating revenues above \$900 million in inflation-adjusted 2019 dollars<sup>28</sup>—to more clearly and consistently disclose certain information in demurrage invoices.<sup>29</sup> Starting in 2018, STB has also asked all Class I railroads to disclose the amount of demurrage fees they collect on a quarterly basis. Though this is not a regulatory requirement, all Class I railroads have so far complied, and STB makes their submissions available to the public on its website.<sup>30</sup>

## Freight Railroad Mergers and the Public Interest

Railroad company mergers and acquisitions (or “changes in control”), including the acquisition of one company’s railroad line(s) by another, must be approved by STB. This approval depends on different factors according to the complexity of the transaction:

- Any merger involving more than one Class I railroad is automatically considered a “major” transaction subject to the highest level of STB scrutiny.
- Other transactions can be deemed “significant” (entailing an elevated level of scrutiny) or “exempt” (no longer requiring STB review prior to approval) if certain conditions are met.
- All other transactions are considered “minor.”

Federal law holds that STB “shall approve and authorize a transaction [ ... ] when it finds the transaction is consistent with the public interest,” and may impose conditions on the transaction.<sup>31</sup> In minor or significant transactions, STB is essentially directed to approve all transactions unless there is likely to be a substantial lessening of competition, or if any anticompetitive effects of the transaction outweigh the public interest in meeting significant transportation needs.<sup>32</sup> Determining what is and is not in the public interest is therefore central to STB’s review of proposed mergers and acquisitions.

The 1970s and 1980s saw many railroad mergers. In some cases, these transactions enabled the surviving railroads to consolidate their networks by abandoning or selling off parallel lines. In other instances, end-to-end mergers allowed railroads to improve profitability by carrying long-haul traffic greater distances, often leading to the divestiture of lightly used lines to smaller “short line” railroads. This merger wave left seven Class I carriers controlling almost all long-distance freight traffic in the United States and Canada.

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<sup>27</sup> STB Docket No. EP 757, decision no. 47133, decided October 4, 2019, <https://dcms-external.s3.amazonaws.com/MPD/48301/7EBA2E5972A0ECE8852584AC00138BED/47133.pdf>.

<sup>28</sup> The \$900 million threshold was also adopted in April 2021 and took effect the following June; see <https://www.stb.gov/news-communications/latest-news/pr-21-16/>. Prior to this, Class I railroads were defined by the ICC in 1992 as those having annual operating revenues of at least \$250 million, and the amount was adjusted for inflation each year. At the time STB issued its demurrage rule, the Class I threshold was approximately \$504 million.

<sup>29</sup> 86 *Federal Register* 17735, April 6, 2021.

<sup>30</sup> STB, *Demurrage & Accessorial Charges: Board Letters and Quarterly Reports*, <https://www.stb.gov/reports-data/demurrage-accessorial-charges/>.

<sup>31</sup> 49 U.S.C. §11324(c).

<sup>32</sup> 49 U.S.C. §11324(d).

STB revised its merger regulations in 2001, creating a higher bar for transactions involving multiple Class I railroads. Under the previous standards, Class I carriers intending to merge had to demonstrate to STB that the level of competition would remain unchanged following the transaction, but since 2001 STB is to approve such transactions only if the parties can demonstrate that competition will be enhanced as a result. Since the revised regulations were implemented, most railroad mergers and acquisitions have involved smaller carriers, as potential mergers among Class I carriers have triggered strong enough objections that the parties never formally applied for STB approval. For example, Canadian Pacific Railway explored mergers with CSX Transportation in 2014 and with Norfolk Southern Railway (NS) in 2020, but neither was consummated.

The 2015 TRB study recommended that authority for approving railroad mergers be transferred from STB to antitrust agencies, such as the Department of Justice (DOJ) Antitrust Division, and that “public interest” tests be abandoned in favor of customary antitrust principles.<sup>33</sup> The study authors reasoned that the rationale for retaining a public interest standard—excess capacity creating struggling competitors—no longer applies, as STB itself has noted that excess and duplicative capacity no longer pose as large a threat.

## **The Creation of Canadian Pacific Kansas City**

In March 2021, Class I railroads Canadian Pacific (CP) and Kansas City Southern (KCS) announced a merger agreement. In April, another Class I carrier, Canadian National (CN), submitted a competing proposal to acquire KCS, which KCS accepted in May before ultimately accepting another counteroffer from CP in September. STB approved the merger, with conditions and a seven-year oversight period, in March 2023, creating Canadian Pacific Kansas City (CPKC) and reducing the number of Class I railroads operating in the United States from seven to six.<sup>34</sup>

When STB adopted new merger regulations in 2001, it granted KCS—the smallest of the Class I railroads—a waiver that allows it to meet the less stringent pre-2001 standards in the event of a merger proposal. The reasoning at the time was that KCS was small enough that its involvement in a merger would present fewer anticompetitive effects than a merger between any two of the six larger railroads. On April 23, 2021, STB affirmed that it would allow KCS and CP to invoke this waiver, noting that the combined system would still be the smallest Class I railroad based on U.S. operating revenue and that the merger would join two railroads whose routes meet end-to-end without major overlap. The overlap of CN’s and KCS’s existing routes factored into STB’s decision to apply the newer set of rules in CN’s case, as an overlapping network could reduce options for some shippers and therefore might not be in the public interest. (A combined KCS-CN system would have become the third-largest Class I railroad.) When KCS accepted CP’s counterproposal, STB clarified that it would continue to abide by its decision to honor the waiver and apply the older set of rules.

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<sup>33</sup> National Academies, *Modernizing Freight Rail Regulation*, Washington, DC, 2015, p. 9, <http://nap.edu/21759>.

<sup>34</sup> STB, “STB Approves CP/KCS Merger with Conditions and Extended Oversight Period,” press release, March 15, 2023, <https://www.stb.gov/news-communications/latest-news/pr-23-07/>.

## Acquisition of Pan Am Railways by CSX Transportation

CSX Transportation announced an agreement to purchase Pan Am Railways,<sup>35</sup> a smaller Class II railroad in New England, in November 2020. CSX 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. In its initial filing, CSX described the acquisition as a “minor” transaction, but STB determined in March 2021 that it would be evaluated as a “significant” one. STB approved the acquisition in April 2022, with the transaction completing on June 1, 2022.<sup>36</sup>

Though a “significant” transaction does require a more thorough evaluation process than a “minor” one, STB affirmed that no environmental or historical reviews would be needed to complete the deal. 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, but CN was required to agree to a number of measures, such as building several road bridges over its tracks to mitigate local concerns, before receiving final STB approval in December 2008.

## Passenger Rail

The prevailing model of passenger rail service in the United States involves the national intercity carrier Amtrak or a commuter rail authority that is operating trains over tracks owned by some other entity. On the Northeast Corridor (NEC) line connecting Boston, New York City, and Washington, DC, much of the infrastructure is owned by Amtrak, and it is heavily used by commuter trains making local stops. Outside the NEC, tracks are generally owned by freight railroads, or at least shared with freight rail traffic. Limited-stop intercity trains, commuter trains, and freight trains all have distinctly different operating patterns and infrastructure needs. This occasionally results in disputes between freight rail owners and passenger operators over the terms of shared use. STB is the agency with jurisdiction to resolve these disputes.

This role may take on additional importance if states move to expand passenger rail service. The Infrastructure Investment and Jobs Act (IIJA) of 2021, which provided some \$66 billion for passenger rail projects, directed STB to hire up to 10 employees to staff a new passenger rail program to carry out the board’s passenger rail responsibilities.<sup>37</sup> At the end of FY2024, the STB Office of Passenger Rail had five employees.<sup>38</sup> However, the IIJA was unusual in the level of emphasis placed on expanding passenger rail, which has not always been prioritized in surface transportation laws. In its FY2026 budget request, STB put forward a reorganization plan that would eliminate the Office of Passenger Rail as a separate entity, consolidating its functions—along with those of the Office of Proceedings and the Office of the General Counsel—into a new Office of the Chief Counsel.<sup>39</sup>

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<sup>35</sup> 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.

<sup>36</sup> STB, “Surface Transportation Board Approves CSX’s Revised Merger Application to Acquire Pan Am,” press release, April 14, 2022, <https://www.stb.gov/news-communications/latest-news/pr-22-22/>; and CSX Transportation, “CSX Completes Acquisition of Pan Am Railways,” press release, June 1, 2022, <https://investors.csx.com/news-and-events/news/news-details/2022/CSX-Completes-Acquisition-of-Pan-Am-Railways/default.aspx>.

<sup>37</sup> P.L. 117-58, §22309.

<sup>38</sup> STB, Budget Request FY2026, p. 47.

<sup>39</sup> STB, Budget Request FY2026, p. 45.

## Track Access

Plans for expanded passenger rail service have generally assumed that Amtrak would operate trains over existing freight tracks, but freight railroads often demand that additional infrastructure be constructed at public expense on the grounds that without added capacity the passenger traffic would interfere with freight trains.

One such dispute involves service along the Gulf Coast. This route was previously served by the long-distance *Sunset Limited* train, which ran once daily in each direction between Los Angeles, CA, and Orlando, FL, prior to the suspension of all service east of New Orleans, LA, as a result of Hurricane Katrina in 2005. Amtrak has proposed to restore service over a portion of the route by operating two daily trains in each direction between New Orleans and Mobile, AL. Congress created a grant program intended to fund a portion of the restored route's operating costs in 2015. The route was selected to receive federal funds from this program in 2020, but progress has been slowed due to claims by the intended host railroads, NS and CSX Transportation, that Amtrak's service will delay freight trains unless Amtrak pays for additional infrastructure. The dispute came before STB for adjudication in an early test of the board's attitude toward passenger rail expansion plans that are to be paid for with funds authorized in the IIJA; however, the parties reached a voluntary settlement before STB issued a binding decision in the case. A bill introduced in the 117<sup>th</sup> Congress would have created a Passenger-Freight Rail Transportation Advisory Council to provide recommendations to resolve future disputes between freight and passenger rail carriers as part of a multiyear reauthorization of STB.<sup>40</sup>

Once a passenger service is operational, federal law provides that Amtrak trains shall receive “preference over freight transportation in using a rail line, junction, or crossing unless the [Surface Transportation] Board orders otherwise [ ... ].”<sup>41</sup> In practice, however, Amtrak has frequently cited delays to its trains from freight train interference.<sup>42</sup> The freight railroads that own the tracks generally control train movements, and Amtrak has asserted that they often give priority to their own freight trains while requiring passenger trains to wait for clearance to move. DOJ filed a lawsuit against NS in July 2024, alleging that NS had routinely failed to give Amtrak trains priority on the long-distance *Crescent* route and that on-time performance was suffering as a result.<sup>43</sup> Only the Attorney General may file suit to enforce this provision; prior to July 2024, this had occurred once before, in 1979. Some Members of recent Congresses have introduced bills that would grant Amtrak the right to sue a host railroad on its own behalf.<sup>44</sup>

Unlike Amtrak, commuter railroads and private-sector passenger train operators do not have a statutory right of access to freight rail infrastructure or preference over freight traffic. They face

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<sup>40</sup> H.R. 8649 (117<sup>th</sup> Congress), §301.

<sup>41</sup> 49 U.S.C. §24308(c).

<sup>42</sup> For example, “A legislative fix is necessary to remedy poor on-time performance and ensure host railroad compliance with existing Federal law which requires that Amtrak passenger trains be given preference over freight transportation. [ ... ] In addition, legislation is needed to provide a fair and expeditious process for determining appropriate compensation for the use of host railroad infrastructure to support the expansion of Amtrak service to underserved communities.” Amtrak, *General and Legislative Annual Report & Fiscal Year 2020 Grant Request*, March 19, 2019, p. 33, <https://www.amtrak.com/content/dam/projects/dotcom/english/public/documents/corporate/reports/Amtrak-General-Legislative-Annual-Report-FY2020-Grant-Request.pdf>.

<sup>43</sup> Department of Justice, “Justice Department Files Complaint Against Norfolk Southern to Stop Amtrak Passenger Train Delays,” July 30, 2024, <https://www.justice.gov/opa/pr/justice-department-files-complaint-against-norfolk-southern-stop-amtrak-passenger-train>. See also 49 U.S.C. §24308(c).

<sup>44</sup> For example, see H.R. 9961 (118<sup>th</sup> Congress) and S. 1500 (117<sup>th</sup> Congress).

many of the same issues related to access charges and schedule reliability, but must seek to resolve those through negotiations with track owners.

## **On-Time Performance**

The Passenger Rail Investment and Improvement Act of 2008 (PRIIA; P.L. 110-432, Div. B) directed the Federal Railroad Administration and Amtrak, in consultation with STB and other railroads, to establish metrics and standards for on-time performance of Amtrak trains operating on freight railroad tracks. As enacted, the law contained a provision—Section 207(d)—allowing STB to resolve disputes between the parties negotiating these standards by appointing an arbitrator after an initial deadline had passed, but that provision was eventually “severed” in a set of federal court rulings.<sup>45</sup> A set of standards issued in 2010 (but never enforced) was therefore voided, and new standards were issued by regulation in 2020.<sup>46</sup>

The new standards—which measure the percentage of riders who arrive at their ticketed destinations on time (“customer on-time performance”) rather than the percentage of passengers or trains arriving at the train’s final destination on time—did not enter into effect until July 1, 2021, two full calendar quarters after the publication of the final rule. During that time, host railroads and Amtrak were free to renegotiate schedules. Host railroads specifically requested a grace period to negotiate new schedules during the rulemaking process on the grounds that prior schedules were not formulated with the new metrics in mind.

Under the regulation, STB can initiate an investigation at the request of Amtrak, of a host railroad, or on its own accord if an intercity passenger train fails to meet the on-time performance standards for two consecutive quarters. If STB finds that on-time performance has suffered as a result of a host railroad’s failure to honor Amtrak’s statutory priority over other types of rail traffic, it may award damages to Amtrak. In July 2023, STB granted a petition from Amtrak requesting an investigation into the long-distance *Sunset Limited* route.<sup>47</sup> This was the first use of the PRIIA enforcement powers since the on-time performance standards entered into effect, but STB had not imposed any penalties or other remedies by the end of 2024.

## **STB Authority in Nonrail Modes**

Some STB authority extends to transportation providers other than railroads due to their interstate nature. Although nonrail decisions make up a relatively small share of the agency’s overall workload, STB has a statutory duty “to promote the public interest” in carrying out federal regulatory policy over certain nonrail modes and industries.

### **Motor Carriers**

Certain interstate trucking and motor coach companies were brought under the jurisdiction of the ICC by the Motor Carrier Act of 1935, a policy that the railroad industry—already facing intense competition from highway modes—strongly supported. However, the trucking industry was largely deregulated by the Motor Carrier Act of 1980, and there were few authorities left for STB

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<sup>45</sup> U.S. Court of Appeals for the District of Columbia Circuit, *Association of American Railroads v. United States Department of Transportation*, Decision of July 20, 2018.

<sup>46</sup> These standards are codified in Part 273 of Title 49 of the *Code of Federal Regulations*.

<sup>47</sup> STB, “STB Opens Investigation into On-Time Performance of Amtrak’s *Sunset Limited* Service,” July 11, 2023, <https://www.stb.gov/news-communications/latest-news/pr-23-12/>. At the time of Amtrak’s original petition, the *Sunset Limited* was the worst-performing Amtrak route for three consecutive quarters.

to inherit upon the agency's creation. As a result, trucking is essentially unregulated in terms of freight charges and services provided. STB regulations do require carriers of household goods to maintain publicly available tariffs pursuant to 49 U.S.C. §13704, and for carriers contracted by the U.S. Postal Service to publicly disclose their contracts upon request.

Mergers, acquisitions, and other changes in control of passenger motor carriers engaged in interstate commerce are subject to an approval process similar to the one for the railroad industry. A separate process exists for the approval of "pooling" arrangements, where revenue or assets are shared by multiple carriers without a formal acquisition or merger.

## **Water Carriers**

The STB authorizing statutes state that it is the policy of the United States, "in overseeing transportation by water carrier, to encourage and promote service and price competition in the noncontiguous domestic trade"—that is, transportation from the contiguous 48 states to Alaska, Hawaii, Puerto Rico, Guam, or any U.S. territory or possession.<sup>48</sup> Waterborne transportation in the noncontiguous domestic trade is subject to the Jones Act, which bars foreign-controlled ships and requires that the master, all of the officers, and 75% of the remaining crew must be U.S. citizens. In most cases, the vessels must be built in the United States.<sup>49</sup>

Under 49 U.S.C. §§13701 and 13702, water carriers operating in the noncontiguous domestic trade are required to maintain and file public tariffs containing their rates, charges, rules, and service terms with STB. In accordance with a final rule issued in 2019, STB permitted water carriers to post their tariffs electronically on the internet and required them to file an annual certification in accordance with the terms of the final rule. For FY2025, 25 carriers filed certifications and tariffs with STB, the same number as filed in FY2024 and one less than filed in FY2023.

The House report accompanying H.R. 7616 (116<sup>th</sup> Congress), an appropriations bill for U.S. Department of Transportation agencies, directed the Government Accountability Office (GAO) to report to Congress on how STB exercises its authority over domestic oceangoing shipping, especially concerning how it evaluates rate reasonableness.<sup>50</sup> The report, released in August 2022, explains that STB uses the same principles and methods when adjudicating the reasonableness of oceangoing shipping rates as it does for railroad rates and had adjudicated one maritime rate complaint in its history to that point.<sup>51</sup> The report notes that stakeholders did not identify any additional actions they believe STB should be taking to regulate domestic oceangoing transportation, though one unidentified industry entity believed STB could provide more outreach to stakeholders about its regulatory role.<sup>52</sup>

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<sup>48</sup> 49 U.S.C. §13101(a)(4).

<sup>49</sup> The Jones Act is Section 27 of the Merchant Marine Act of 1920; see CRS Report R45725, *Shipping Under the Jones Act: Legislative and Regulatory Background*, by John Frittelli.

<sup>50</sup> H.Rept. 116-452, pp. 149-150.

<sup>51</sup> The case, brought by the government of the Territory of Guam against three shipping companies in 1998, was dismissed at Guam's request in 2007 without a finding of rate reasonableness by STB.

<sup>52</sup> Government Accountability Office, *Domestic Oceangoing Shipping: Information on the Surface Transportation Board's Regulatory Processes*, GAO-22-105391, August 16, 2022, <https://www.gao.gov/products/gao-22-105391>.



## Pipelines

STB's jurisdiction over the pipeline industry is limited to pipelines carrying commodities other than oil, gas, or water.<sup>53</sup> As stated by a 1998 GAO report (issued pursuant to a statutory requirement),

The ICC Termination Act of 1995 limited the Surface Transportation Board's role in regulating pipelines by specifying that the Board can investigate pipeline issues only in response to a complaint by a shipper or other interested party. The act also eliminated the requirement for pipeline carriers to file the rates they charge to transport commodities, which was the sole reporting requirement for pipelines under the Interstate Commerce Commission's regulation.<sup>54</sup>

Given this narrow jurisdiction, GAO found that fewer than two dozen pipelines were subject to STB regulations, transporting five commodities—anhydrous ammonia, carbon dioxide, coal slurry, hydrogen, and phosphate slurry. These pipelines are required by STB regulations to publicly disclose their shipping rates upon request, and are subject to certain conditions if they intend to establish a new rate or raise an existing one.

## Brokers and Freight Forwarders

Freight brokers and freight forwarders are businesses that arrange the movement of cargo by several different carriers, though they themselves may not be directly responsible for the transportation of goods. A freight forwarder might take possession of cargo at a warehouse or transfer facility, and might own the shipping containers used in some or all of a freight journey, while a broker generally does not take physical possession of the cargo for which it is coordinating transportation. These entities are subject to STB jurisdiction in some cases, and can be affected by changes in STB policy. Furthermore, where STB tariff requirements remain in place for certain carriers, those requirements also apply to freight forwarders who contract with those carriers.

While certain functions of a freight broker or forwarder may be the subject of an STB proceeding, one issue of frequent interest to the industry—the enforcement of insurance and bonding requirements—is the responsibility of the Federal Motor Carrier Safety Administration, not STB.

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<sup>53</sup> 49 U.S.C. §15301(a).

<sup>54</sup> Government Accountability Office (formerly the General Accounting Office), *Surface Transportation: Issues Associated with Pipeline Regulation by the Surface Transportation Board*, GAO/RCED-98-99, April 1998, p. 2.

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