The Union Pacific and Southern Pacific railroads completed a $5.4 billion merger that created the largest railroad network in the United States. The merger was hotly contested by the Department of Justice as well as many states and private parties. The Surface Transportation Board voted to approve the merger.

Cornerstone Research analyzed how rail rates paid by shippers related to the level of competition in markets for transportation services in the western United States. This analysis included an econometric model that captured specific factors affecting rail rates, such as length of route and existence of nonrail shipping alternatives. We applied the model to a key commodity at issue in the merger transaction, and showed that rail rates in markets with only two providers were no higher than those in similar markets with three providers. We also showed that merger opponents’ analysis, when corrected, yielded no finding of anticompetitive effects. The Surface Transportation Board voted to approve the merger.