

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. FD 36843

WATCO HOLDINGS, INC.—ACQUISITION OF CONTROL EXEMPTION—  
GREAT LAKES CENTRAL RAILROAD, INC.

Decided: May 30, 2025

On March 6, 2025, Watco Holdings, Inc. (Watco), filed a petition under 49 U.S.C. § 10502, seeking an exemption from the prior approval requirements of 49 U.S.C. § 11323 to acquire control of Great Lakes Central Railroad, Inc. (GLC), a Class III rail carrier operating entirely within the State of Michigan, by acquiring 100% of its common stock. Watco is a noncarrier holding company that controls one Class II carrier and 43 Class III carriers across the United States. (Pet. 2.) Watco states that this proposed transaction does not qualify for the class exemption at 49 C.F.R. § 1180.2(d)(2) because GLC’s lines connect with one of Watco’s Class III subsidiaries, Ann Arbor Railroad, Inc. (AA), at Ann Arbor, Mich. (Pet. 2.)

Watco asserts that the transaction qualifies for an exemption under 49 U.S.C. § 10502(a). It states that regulation of the transaction is not necessary to carry out the Rail Transportation Policy of the United States (RTP) set forth at 49 U.S.C. § 10101, and that the transaction would advance several of the RTP factors. (Pet. 6-7.) Watco also claims that regulation of the proposed transaction is not necessary to protect shippers from an abuse of market power because it will not reduce competitive options for shippers and shippers will benefit from greater service efficiencies. (*Id.* at 7.) Watco also asserts that the transaction is of limited scope because GLC is a Class III carrier whose lines are located entirely in Michigan. (*Id.* at 8.)

The Board needs additional information to determine whether this transaction qualifies for an exemption under 49 U.S.C. § 10502(a)(2). According to Watco, GLC interchanges with five rail carriers in addition to AA,<sup>1</sup> (Pet. 3), and “GLC will not increase whatever market power GLC or any of the involved Watco railroads may possess (if any), and it will not otherwise reduce competition or transportation options for shippers,” (*id.* at 7). Watco, however, does not provide support for its assertion. Watco does not explain why it would not have an economic incentive post-transaction to direct traffic moving on GLC to AA, and vice versa, notwithstanding the possibility of more efficient interchange and routing with other carriers. Nor does it commit not to foreclose use of those options. Cf. Grupo México, S.A.B. de C.V.—

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<sup>1</sup> In addition to interchanging with AA at Ann Arbor, Watco states that GLC also interchanges with Huron and Eastern Railway Company and Grand Trunk Western Railroad, Inc., at Durand, Mich.; CSX Transportation at Howell, Mich.; Norfolk Southern Railway Company (NS) via AA at Ann Arbor; and Mid-Michigan Railroad at Alma, Mich. (Pet. 3.)

Acquis. of Control Exemption—CG Ry., FD 36780, slip op. at 4 (STB served Aug. 13, 2024) (stating that the Board will hold the petitioner to its representation that it will not use the connection between carriers under its control to close vertical competition over efficient joint line routes with unaffiliated carriers); Genesee & Wyo. Inc.—Acquis. of Control Exemption—Atl. W. Transp., Inc., FD 36105, slip op. at 2-3 (STB served Apr. 18, 2017) (same). Moreover, AA has an interchange commitment with NS in Toledo, Ohio. See Ann Arbor R.R.—Lease Renewal & Operation Exemption with Interchange Commitment—Norfolk S. Ry., FD 35729 (Sub-No. 1) (STB served Apr. 5, 2024). Watco does not explain how this interchange commitment applies to traffic originating or terminating on GLC, but by its terms, the commitment may give Watco incentive to direct GLC to route traffic to NS via AA instead of to connections with other carriers. Watco’s assertion that the transaction might result in greater service efficiencies does not address these competitive concerns.

Watco alternatively argues the transaction satisfies § 10502(a)(2) because GLC’s lines are located entirely in one state. (Pet. 8.) Although GLC is located entirely within Michigan, this does not indicate that the transaction is limited in scope. GLC operates hundreds of miles of lines and has multiple interchange connections, including with three Class I carriers, yet the petition does not provide any traffic figures that would allow the Board to properly assess the scope of the transaction. Moreover, the length of railroad involved is not determinative of whether a transaction is of limited scope. In its petition, Watco notes that the Board approved a petition for exemption for an entity to acquire 300 miles of rail line in Manufacturers’ Junction Railway—Lease & Operation Exemption—Missouri Pacific Railroad, FD 31783 (ICC served Mar. 6, 1991). (Pet. 8.) However, the transaction underlying Manufacturers’ Junction presented different circumstances than here (e.g., it involved the lease of lines by a Class III carrier from a Class I carrier where those lines did not connect to any lines of the Class III carrier or its corporate affiliates). See id.<sup>2</sup> Given the above-noted lack of information, the Board cannot determine the full scope of this transaction based the current petition.

For these reasons, Watco will be directed to supplement its petition with additional evidence and argument explaining why regulation is not needed to protect shippers from an abuse of market power, given the potential impact on GLC’s interchanges with carriers not owned by Watco. See 49 U.S.C. § 10502(a)(2)(B). The supplement must include an explanation of any impact AA’s interchange commitment with NS may have on traffic or customer routing options post-transaction. In addition, Watco should identify any industries served by both railroads in the greater Ann Arbor area, including via truck transload to points that may be served exclusively by one or the other carrier. Watco may also supplement its petition with additional evidence and argument explaining how the transaction is limited in scope. See 49 U.S.C. § 10502(a)(2)(A).

Watco also will be directed to clarify information in its petition regarding the details of GLC’s rail network. The petition asserts that GLC operates “approximately 360 route miles of

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<sup>2</sup> Watco states that, as “both a matter of market impact and scope,” the transaction will also result in portions of the historical Ann Arbor Railroad being reunited. (Pet. 7.) It is unclear, however, how this fact relates to § 10502(a), particularly given that (by Watco’s own admission) the Ann Arbor Railroad stopped operating in 1976. (See Pet. 7.)

predominantly State-owned rail lines through central and northern Michigan” under modified certificates, (Pet. 3), but a supporting statement from the State of Michigan Department of Transportation says that GLC “operates over a roughly 400-route mile network, most of which is owned by the State of Michigan,” (Pet., Ex. B). It is also unclear from the petition whether GLC’s entire network is currently operable for rail service. In addition, the maps included in the petition lack details regarding GLC’s and AA’s lines in relation to one another, connections to other carriers, and to the lines of other carriers in the region more generally. Watco will be directed to clarify the length of GLC’s network, explain which portions of GLC’s network are operated under modified certificates, confirm whether GLC’s entire network is operable for rail service or provide details regarding any portions not in an operable state, and produce more detailed maps containing the above-noted information.

Watco should also provide the Board with a copy of the purchase agreement(s) that sets forth the terms of its acquisition of control of GLC.

By this decision, the Board is instituting a proceeding under 49 U.S.C. § 10502(b).

It is ordered:

1. Under 49 U.S.C. § 10502(b), a proceeding is instituted.
2. Watco is directed to file a verified supplement addressing the information described above by June 20, 2025.
3. This decision is effective on its service date.

By the Board, Scott M. Zimmerman, Acting Director, Office of Proceedings.