Interchange Between Shortlines and Major Carriers in U.S

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There are over 450 shortline railroads which interchange rail cars with the Class I railroads. Class I have obligations imposed by federal law and enforced by the Surface Transportation Board to provide facilities for interchanging rail cars with connecting lines, including shortlines.

There are several different types of business relationships that can exist between major carriers and shortline railroads. These include handling carrier arrangements, junction settlement arrangements, switch carrier arrangements, interline carrier arrangements, and Rule 11 arrangements,

Evidence from the American Shortline and Regional Railroad Association shows that most of the shortlines, especially the newer ones, have handling carrier arrangements (described as Interchange Agreements), with lesser numbers of shortlines utilizing junction settlements and switch carrier arrangements. Relatively few use the Rule 11 procedure. Some shortlines actually have various combinations of the arrangement listed above.

It is important to note that a written negotiated agreement between a connecting carrier and a shortline is needed to establish a handling carrier arrangement or a junction settlement arrangement – generally known as Interchange Agreements. These generally set out where, how and at what division cars will be interchanged and any other particulars to facilitate the interchange of cars between two carriers.

In the absence of such an arrangement, traffic can be moved pursuant to (a) interline settlement, (b) switch carrier, or (c) Rule 11.

- Under an "Interline Settlement Carrier" arrangement, the shortline negotiates its own division as part of a joint-line tariff, quote or contract. That is, the shortline and its connecting carrier (s) determine how much will be charged for moving railcars between any given points.
- When rail cars move between the shortline and the connecting carrier, the customer/shipper pays one rate ----a line haul rate---to the "settling carrier"(i.e. the railroad responsible for issuing the freight bill). If Class I issues and collects the freight bill then its responsible for paying the shortline its share of the rate. If the shortline issues and collects the freight bill then it is responsible for paying the Class I its share of the rate.

Another business relationship available to rail carriers is called a "Switch Carrier" arrangement.

- Under this arrangement, the shortline publishes a switch tariff for each station on its own line. When rail cars are interchanged between the shortline and connecting carrier, the customer/shipper pays one rate --- a line haul rate ----to Class I. Class I then keeps a share of the customer's payment, pays the shortline its switch fee, and bills the customer for any unabsorbed balance.

A sometimes utilized business relationship is called a "Rule 11" arrangement. Rule 11 is an accounting rule published by the Association of American Railroads (AAR). Under a Rule 11 arrangement, Class I (connecting carrier) and the shortline separately set and publish their own shipping rates and the separately bill the customer for that rate. When rail cars are interchanges between the shortline and connecting carrier, the customer / shipper make two payments ----one to the shortline and one to Class I. In this way, any two carriers can establish rates for a contemplated movement.

Each of the business relationships described above (Interchange Agreement, Interline settlement, switch carrier, and Rule 11) have been part of the railroad industry for decades.