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UP and NS align for the deal of the century

"A monster of a railroad" is how some have described the result of the proposed takeover by Union Pacific (UP) of its fellow US Class 1 Norfolk Southern (NS). Following weeks of speculation, the deal was officially confirmed by both railways on July 29 (p6), with UP CEO, Jim Vena, declaring the $US 85bn transaction to be "the next step in advancing the industry."

Vena is right to be bullish. The Union Pacific Transcontinental Railroad, as it is expected to be known, will combine UP's 51,800km network that stretches across 23 states in the west of the United States with NS' 31,250km network that covers 22 states in the east. The largest Class 1 merger in almost three decades, it promises to deliver what even famed financier and Progressive Era railroad baron, John Pierpoint Morgan, could not - a truly coast-to-coast railway.

"Imagine seamlessly hauling steel from Pittsburgh, Pennsylvania, to Colton, California, and moving tomato paste from Huron, California, to Fremont, Ohio," Vena says. "This combination is transformational, enhancing the best freight transportation system in the world. It's a win for the American economy, it's a win for our customers, and it's a win for our people."

The extent of coverage in the US business media following the announcement reflects the enormous scale of the transaction, which will challenge all established industry norms. Inevitably, some favour the proposed deal, while others are cautious about its long-term implications. The Surface Transportation Board (STB), which will ultimately decide whether the deal will proceed in mid to late 2027, has much to consider.

The announcement of the transaction on UP's website is categorised as "Growth" and this is exactly what UP and NS are pitching.

"The combined company will deliver faster, more comprehensive freight service to US shippers by eliminating interchange delays, opening new routes, expanding intermodal services, and reducing distance and transit time on key rail corridors," the statement reads.

"A more truck-competitive solution, the Union Pacific Transcontinental Railroad will decrease highway congestion, reducing wear and tear on taxpayer-funded roads."

Improving interchange and reducing the friction between freight flows, which add significant costs and reduce rail's competitiveness with road, is a key part of the argument for the merger. Memphis is a particular choke point that will benefit due to the elimination of the current approximately 800km service offered by both railways. Combining their resources and eliminating interchange in Chicago by constructing new connections could help relieve this long-standing bottleneck. It could even free up capacity for other railways. However, others have pointed out that the ongoing Create programme has already had and will continue to offer significant improvements in performance in and around the Windy City. A Class 1 merger is not the silver bullet for success here, they say.

The US rail freight sector does appear ripe for change, however. According to a report by market analyst and investment bank TD Cowen, published in the July edition of our sister publication *Railway Age*, total US wagon loadings are down 11% between 2014 and 2024. The 52% fall in coal traffic is the major factor here, with the decline only 1% if it is excluded. Growth in intermodal and automotive traffic has largely compensated for the loss of coal and it is these market segments that UP and NS are targeting, arguing that a combined railway is better-placed to compete with future driverless lorries.

By combining their resources, UP and NS would have a 46% market share for containers compared with 30% at BNSF, the next highest Class 1. They would also have a 47% share of the automotive and equipment market, compared with 23% at CSX. Overall, the combined railway would possess a 43% share of the US rail freight market. The nearest competitor would be BNSF with 27%.

With UP-NS set to claim such a dominant market position, further consolidation among the other Class 1s will surely follow, with BNSF and CSX the most likely candidates. But will this result in a better and more competitive railway? Many believe it will not.

> **With UP-NS set to claim such a dominant market position, further consolidation among the other Class 1s will surely follow.**

While stating that the potential of Precision Scheduled Railroading (PSR) to deliver operational efficiencies and shareholder value is not what it was, and that the Class 1s now need another narrative to maintain investor interest, TD Cowen says a merger should only be the last resort. Instead, they argue that market growth is the best way to counter the downward volume trend, pointing to service improvements as the best way of capturing a greater share of the overall freight market.

Others worry about the reduction in competition and choice for shippers in some markets that will result from consolidation. By focusing on combining their resources over the coming years, UP and NS might lose sight of the service improvements seemingly within their grasp.

"Mergers and acquisitions at lofty levels between some of the largest companies in a segment is about expense consolidation and reduction, efficiency and doing more with less," says president of Railroad Financial Corp and *Railway Age* contributing editor, David Nahass. "It is rarely about increased prospects for organic growth."

Ultimately it will be left to the STB to address these questions. Indeed, the UP-NS combination is the first challenge to the enhanced competition requirement within the public-interest test framework of the 2001 merger rules under which the board will consider the proposal. The appointment of a fifth member, tipped to be James E Wolf, appears crucial.

The prospective Republican appointee, a third-generation railwayman, is considered to favour the merger. But with the final decision still a long way off, it is by no means a formality. The current volatile political climate in the US and the fluid state of an economy rocked by president Donald Trump's global trade war means that much can and probably will change over the next 18 months. This deal is not done yet.

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DB CEO Richard Lutz resigns

THE resignation of German Rail (DB) CEO, Dr Richard Lutz, was announced by transport minister Patrick Schnieder on August 14.

Lutz had come under increasing pressure from politicians and the German rail sector in recent years due to the continuing poor performance of DB (px), and in particular its long-distance passenger and freight subsidiaries, which have both suffered from unreliable infrastructure.

DB Cargo has not been profitable for several years, reporting a loss of €357m in 2024, and is currently restructuring in an attempt to move into profit by the end of 2026. The long-distance passenger division recorded its worst-ever punctuality figures in 2024, including a low of 52.9% in June when Germany was hosting the European football championships.

Despite the €14.3bn sale of its logistics subsidiary DB Schenker earlier this year, DB's interim results were lacklustre, with the company aiming to merely to break even this year following an operating loss of €333m in 2024. Flagship projects, such as the late-running Stuttgart 21 (below), have consistently been mired in controversy.

A successor to Lutz has not been announced, although federal transport minister, Patrick Schnieder, says he will remain in post for what is expected to be a relatively short transition period.

Rail industry groups say that Lutz's resignation is an opportunity for the company and Germany's rail sector to change course.

"It is a good thing that Lutz is clearing the way for a new strategy and new minds," says Peter Westenberger, managing director of the German Rail Freight Association (Die Güterbahnen). "It is now even more urgent to create a resilient framework that capable rail managers can follow as a basis for positive change."

Photo: DB AG/Stefan Wildhirt

DB loses latest Stuttgart 21 court battle

GERMAN Rail (DB) has failed in its latest attempt to force its partners to share cost overruns on the late-running €11.45bn Stuttgart 21 project to replace the city's surface-level main station with a new underground station.

The administrative court of the southwest German state of Baden-Württemberg ruled on August 5 that DB may not appeal a decision made by Stuttgart's administrative court in May 2024 that the state-owned railway is solely liable for additional costs associated with the project, which are now believed to have risen to more than €7bn, excluding court costs.

Since 2016, DB has been trying to share the overrun with its project partners, the Baden-Württemberg state government, the Stuttgart city government, the Stuttgart transport authority (VRS), Stuttgart Airport and the German federal government. However, they successfully argued in court that they had agreed to co-fund the project on a fixed-cost basis.

The higher administrative court of Baden-Württemberg found that DB had not presented any justification for granting the appeal. "There are no serious doubts about the correctness of the judgment, and no procedural errors have been committed. The Stuttgart ruling is therefore final," the court ruled.

According to a court spokeswoman, DB has now exhausted its administrative court options, although it is technically possible for it to appeal to the federal constitutional court.

The ruling has been welcomed by the government of Baden-Württemberg. "The administrative court confirmed what we have been saying for years," says state transport minister, Winfried Hermann. "We've talked enough, and we've paid enough. The lawsuit had no basis from the start, there was a clear contract."

Stuttgart Airport also welcomed the decision. "The airport has invested a total of €359m in the entire project, a significant contribution for our company," says a spokesperson.

The decision has not been widely welcomed by the German rail industry, however, which points out that DB does not have the capital to meet the cost overruns. There is therefore concern about where the money to foot the bill will ultimately come from.

"Neither the regular transport budget nor the planned special fund for infrastructure should be used for a miscalculated individual project," says Dr Matthias Stoffregen, managing director of the association representing German private operators (Mofair) and Peter Westenberger, managing director of the German Rail Freight Association (Die Güterbahnen) in a joint statement.

"Stuttgart 21 was never an ordinary rail project, but an atypically financed real estate scheme. Now it is up to the owner, the federal government, to find a way to pay for it."

Prior to the ruling, DB confirmed that the new station at Stuttgart will at last open in December 2026. All long-distance trains, except those on the Stuttgart - Singen line, will use the new through station, along with around half of regional services.

In brief

Belgium

The board of Belgian National Railways (SNCB) has confirmed CAF as preferred bidder for a 12-year framework contract to supply up to 600 EMUs, estimated to be worth €3.4bn. Instructing SNCB management to proceed with contract negotiations, the board says that it has noted the ruling of the Council of State which suspended tendering following objections from unsuccessful bidders Alstom and Siemens.

Britain

Prospective cross-Channel operator Virgin has agreed detailed heads of terms with Alstom for the supply of 12 Avelia Stream high-speed trains, with final documentation to be completed in the fourth quarter of this year. Virgin provided details of the new fleet in a submission to the Office of Rail and Road (ORR) to support its application for access to Eurostar's Temple Mills International TMI depot in east London where the 200m-long single-deck trains would be maintained.

China

China Railway (CR) is the sole corporate shareholder in Xinjiang-Xizang Railway, formed to build and operate a new line from Hotan in the Xinjiang region of northwest China to Shigatse and Lhasa in the Xizang or Tibet region. Based in the Tibetan capital Lhasa, the company has a registered capital of Yuan 95bn ($US 13.2bn).

Denmark

Regional operator Lokaltog has ordered a further 10 two-car Flirt Akku BEMUs from Stadler, exercising the sole option in a contract signed in October 2024 for 14 trains. The additional trains are expected to enter service in Zealand from the first half of 2029.

Europe

DAC4EEU, the European Digital Automatic Coupler (DAC) pilot project, has awarded Voith a contract to supply a further 30 CargoFlex wagon couplers and two

Union Pacific and Norfolk Southern confirm merger

UNION Pacific (UP) is to acquire fellow US Class 1 freight railway Norfolk Southern (NS), both parties have now confirmed following intense media speculation. The merger will create the first transcontinental railway in the United States, covering around 80,000 route-km in 43 states.

According to a joint statement, UP will acquire NS in a stock and cash transaction, with shareholders to receive for every NS share one share of UP stock plus $US 88.85 in cash. "The value per share implies an enterprise value of $US 85bn for Norfolk Southern, resulting in the creation of a combined enterprise of more than $US 250bn," the statement says.

UP will issue approximately 225 million shares to NS shareholders. Based on 2024 results, the pro-forma combined company would have revenue of approximately $US 36bn, Ebitda of around $US 18bn, an operating ratio of 62%, and free cash flow of $US 7bn a year.

The proposed transaction, expected to be filed with the Surface Transportation Board (STB) within six months, will undergo a 15-month review process and is likely to close by early 2027. The combined company will have its headquarters at UP's base in Omaha, Nebraska.

UP CEO, Jim Vena, will become CEO of the merged company, and, according to the statement, "has committed his intent to remain at Union Pacific for at least the next five years."

Both companies acknowledge that merging UP and NS will not be easy, but say that their cultures are closely aligned. UP and NS say that the merged company will deliver a better service for shippers by eliminating interchange delays, opening new routes, expanding intermodal services, and reducing transit time on key rail corridors.

UP and NS says that they "envision every union employee who wants a job in the combined company will have one."

"This combination is transformational, enhancing the best freight transportation system in the world," Vena says. "I am confident this historic transaction will enhance competition to benefit customers, communities, and employees while delivering shareholder value."

Morgan Stanley and Wells Fargo are acting as financial advisers to UP. BofA Securities is acting as financial adviser to NS.

Libya explores resumption of new railway construction

LIBYAN Railways has signed a memorandum of understanding (MoU) with China Civil Engineering Construction (CCECC) that could lay the groundwork for work to resume on the stalled project to build a national railway network in the North African country.

Libyan Railways signed three contracts with CCECC to support the development of three lines totalling more than 1400km in 2008. However, work came to a halt following the outbreak of civil war and the fall of the Gaddafi regime in 2011.

The lines are:

- a 170km line running east - west along the Mediterranean coast from the capital Tripoli to the Tunisian border
- a second 450km coastal section from Tripoli to Sirte, and
- an 800km north-south line running from Misrata on the Mediterranean into the Sahara Desert towards the borders with Chad and Niger.

The standard-gauge double-track lines would be suitable for 120km/h operation and built with a view to future electrification.

Under the MoU, CCECC will resume work on the network masterplan, as well as establishing working groups to tackle legal, financial and technical issues. It will also review the final project design to enable work to resume, but is not providing any financial assistance to Libyan Railways.

Australian freight derailment report released

THE Australian Transport Safety Bureau (ATSB) has released its final report into a freight train derailment at Traveston, Queensland, in February 2022, highlighting the importance of having an effective environmental monitoring system in place to enable an adequate response to extreme weather events.

The report says an Aurizon container train travelling north on Queensland Rail's North Coast line entered a section of track that had been washed out by heavy rainfall. Visibility was poor as the train was running at night and the driver was unable to stop before the train ran onto damaged track and derailed. Its two diesel locomotives fell on their sides and three wagons derailed, but the driver sustained only minor injuries.

The ATSB investigation found that an environmental monitoring station at Traveston had generated a critical flood alarm prior to the accident.

However, the required warning was not directly displayed at the relevant workstation at the Rail Management Centre, and email and text message alerts had not been correctly configured with key personnel details left empty. The rainfall sensor and CCTV camera at the monitoring station were also not working at the time of the accident.

Queensland Rail has implemented comprehensive improvements to address the deficiencies. The investigation also found that both the emergency pathway used by the driver to exit the overturned lead class 2800 locomotive, and the emergency equipment available in the locomotive, were inadequate to enable prompt escape and could also potentially hinder access by the emergency services.

In response, Aurizon has developed an access and egress strategy to comply with the relevant national standard, and is taking part in a development group reviewing this standard.

Renfe grounds series 106 Avlo fleet

SPANISH national operator Renfe was forced to temporarily withdraw from service in July the fleet of five series 106 high-speed trains that operate Avlo low-cost services on the Madrid - Barcelona high-speed line. Cracks discovered in the frames of motor bogies beneath the power cars were subsequently repaired.

The five trains are part of the batch of 15 1435mm-gauge variants contained in Renfe's initial order for 30 Talgo Avril high-speed trains. This also included 15 trains capable of operating on both 1435mm and 1668mm gauge, and Renfe said that the rest of the series 106 fleet was inspected without any faults being detected.

Following the detection of bogie faults requiring additional maintenance work, the maximum speed of series 106 trains operating on a 190km section of high-speed line from Madrid Atocha to a point 30km from Calatayud was limited to 250km/h on July 25.

The notice issued by the operational safety department of Renfe Passenger, informing drivers and managers of the temporary speed restriction, says that the faults have been caused by "vibration, oscillation and other incidents" occurring when the trains operate at maximum speed. This is 310km/h on the Madrid - Barcelona high-speed line.

According to the notice, the speed restriction will remain in place while Talgo works to assess the extent of the faults and determine a definitive speed limit, based on the stress as measured on the line and its impact on the dynamic forces acting on the bogie frame.

Saudi Arabia seeks new fleet for Haramain high-speed line

SAUDI Arabia Railways (SAR) is informing potential suppliers of its intention to procure 20 new trains for the 453km Haramain high-speed line, running from Mecca to Medina via Jeddah and King Abdullah Economic City.

The new fleet will support operational expansion and strategic development of the high-speed railway in line with Saudi Arabia's Vision 2030 objectives. SAR says that the Haramain high-speed line plays a vital role in carrying millions of passengers a year, particularly during the Hajj and Umrah seasons when large numbers of pilgrims make their way to Mecca.

The current fleet comprises 35 Talgo 350 SRO trains which operate at up to 300km/h on the high-speed line, which is equipped with ETCS Level 2. Each 13-car train has a dining area and a total of 417 seats, comprising 113 in business class and 304 in economy.

In brief

CargoFlex hybrid couplers to equip 13 wagons and one locomotive owned by Germany's Westphalia State Railway (WLE) by the end of this year. WLE has been operating the first pairs of DAC-fitted wagons in commercial service since March.

- A joint taskforce of transport experts from Germany and Britain is to be established to examine the feasibility of direct high-speed services between the two countries via the Channel Tunnel. The initiative is part of the Kensington Treaty signed by German chancellor, Friedrich Merz, and British prime minister, Keir Starmer, on July 17.
- Wagon leasing company Ermewa and Amsted Digital Solutions have deployed Load Status in Motion (LSiM) technology on Ermewa wagons, delivering real-time load status and distance tracking through embedded artificial intelligence (AI) and removing the need for external sensors.

Germany

Rail freight operator Helrom is