

End of the Line? The Fight Over America's Great Rail Merger

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HISTORICAL PERSPECTIVE

In the early 1980s, after Washington deregulated the rails, more than 30 major freight railroads competed across the country. Today, there are six "Class I" railroads and just four of them (Union Pacific, BNSF, CSX, and Norfolk Southern) haul nearly 90% of America's rail freight¹. The last consolidation wave, in the 1990s, ended badly. Union Pacific's 1996 purchase of Southern Pacific triggered a service crisis so severe that federal regulators declared a transportation emergency in 1997, and the 1999 split of Conrail between CSX and Norfolk Southern congested the East for more than a year². Regulators responded in 2001 with a tough new rule. The rule explains that any future mega-scale merger must not merely preserve competition, it must *enhance* it³. Fortunately for Canadian Pacific and Kansas City Southern their recent merger in 2023 was judged under the old guidelines⁴. The new rule has never been tested on a deal of real size, until now.

TRIGGER PULLED

In July 2025, Union Pacific announced its intention to purchase Norfolk Southern for roughly \$85 billion, or \$320 per share, 72% in stock and 28% in cash⁵. America's first true transcontinental railroad would operate more than 50,000 route miles across 43 states while touching roughly 100 ports. The companies claim the combination will save shippers \$3.5 billion a year and pull 2.1 million truckloads off the highways⁶. The strategic rationale becomes clear from the map below. The merger combines long-haul

¹ Rail Customer Coalition, cited in AgWeb, "Union Pacific-Norfolk Southern Merger Enters Review," Dec. 22, 2025; four companies control ~90% of U.S. freight rail traffic; inflation-adjusted rail rates up more than 40% over two decades.

² Surface Transportation Board, Service Order No. 1518 (Oct. 31, 1997), declaring a transportation emergency in the West arising from Union Pacific's post-merger service crisis; Associated Press, "CSX railroad's merger prospects derail..." Aug. 26, 2025 (UP-Southern Pacific service crisis; Conrail split disruptions).

³ Surface Transportation Board, Major Rail Consolidation Procedures, EP 582 (Sub-No. 1), final rule served June 11, 2001.

⁴ Surface Transportation Board, Canadian Pacific-Control-Kansas City Southern, Docket No. FD 36500, decision served Mar. 15, 2023. Kansas City Southern transactions were expressly exempted from the 2001 rules via a waiver preserved in EP 582 (Sub-No. 1); the CP-KCS combination was accordingly reviewed under the pre-2001 standard.

⁵ Union Pacific / Norfolk Southern joint announcement materials, Form 425 filings, July 29, 2025: \$85B implied enterprise value; \$320/share; ~72% stock / 28% cash funded through cash and new debt; \$2.75B targeted annual EBITDA synergies.

⁶ Union Pacific press release, "UP & NS Amended Merger Application Estimates Shippers Will Save \$3.5 Billion Annually," Apr. 30, 2026 (also cites 2.1 million truckloads diverted to rail).

western freight corridors with the population density and consumption centers of the East. Incremental improvements in velocity and service reliability, including one- to two-day faster transit times, alongside superior fuel efficiency, could strengthen rail's competitive positioning against trucking and support long-term share gains⁷.



To move forward, the transaction has to survive an extensive review by the Surface Transportation Board (STB), the federal agency that is charged with economic regulation of freight rail. UNP and NSC filed a nearly 7,000-page application in December 2025⁸. The STB rejected it a month later as incomplete⁹. A more extensive version was filed in April 2026 and accepted in May. Even though the Board accepted the application, it still put the whole process on hold until more specific questions were answered. A response is due by July 27, 2026¹⁰. A final decision realistically lands in late 2027 or early 2028. Union Pacific's management has said they will walk away from the deal if the STB requires widespread line sales or grants competing railroads access to a significant portion of its track¹¹. This could result in a \$2.5 billion breakup fee payable to Norfolk Southern¹².

⁷ Union Pacific / Norfolk Southern announcement and STB application materials (Form 425, July 29, 2025; application filed Dec. 19, 2025), citing single-line service expected to be roughly one to two days faster than current interchange routings.

⁸ Norfolk Southern Form 8-K, Dec. 19, 2025 (nearly 7,000-page STB application; ~2,000 stakeholder support letters; shareholder approval ~99% at both companies, Nov. 14, 2025).

⁹ Surface Transportation Board, Press Release 26-02, Jan. 16, 2026; unanimous decision finding the application incomplete; rejection without prejudice (Docket No. FD 36873).

¹⁰ Surface Transportation Board, Press Release 26-13, May 28, 2026; revised application accepted for consideration; proceedings, including environmental review, held in abeyance; supplemental information ordered by July 27, 2026.

¹¹ FreightWaves, "Union Pacific would exit Norfolk Southern merger if STB orders widespread line sales or trackage rights," May 4, 2026; conditions with a total impact above a \$750 million threshold trigger review under the merger agreement; outside date Jan. 28, 2028, with automatic extension if the STB review runs longer.

¹² Norfolk Southern Form 425, July 29, 2025: upon termination under specified circumstances related to the failure to obtain regulatory approvals, Union Pacific is required to pay Norfolk Southern a \$2.5 billion cash termination fee; mutual \$2.5 billion fees also apply to board recommendation changes or alternative proposals.

INDUSTRY REACTION

Meanwhile, every other major railroad has lined up against the deal, including rival BNSF. BNSF stated, “This merger is about power, not progress. It will raise prices, reduce service and weaken supply chain resilience¹³.” The largest railroad union in the U.S., The International Association of Sheet Metal, Air, Rail and Transportation Workers (SMART-TD), made an unprecedented announcement in support of the proposed Union Pacific-Norfolk Southern merger. In return for the union’s support, UP and NS officials have stated that all SMART-TD members working in train and yardmaster service would be guaranteed a job for the length of their careers following the possible merger¹⁴.

This transaction is less about Union Pacific and Norfolk Southern and more about the final shape of American railroading. If approved, competitive logic all but forces the two remaining giants, BNSF and CSX, to consider merging in response, leaving nearly 90% of U.S. rail freight in the hands of just two transcontinental companies. If blocked, the six-railroad map is effectively frozen for the foreseeable future. BNSF and CSX have already launched a new partnership that links domestic intermodal services between Southern California with Charlotte, North Carolina and Jacksonville, Florida¹⁵. We would expect these types of agreements to become even more popular across the whole landscape if the merger is not successful. The Canadian rails have also spoken out against the transaction. Any transaction involving Canadian Pacific Kansas City would have to make its way through three regulatory agencies (U.S., Canada, Mexico) and would be subject to the more stringent 2001 STB rules. Canadian National is effectively off the table not by regulation, but by statute. When Ottawa privatized CN in 1995, it wrote directly into law that no shareholder may hold more than 15% of the company, and headquarters must stay in Montreal¹⁶. A failed merger would most likely keep these Canadian Rails independent as well.

RATING AGENCIES MOVE POSITIVE

The reaction from the rating agencies has been positive. On announcement, Fitch put Union Pacific’s A- rating on watch for a possible upgrade, S&P revised Norfolk Southern’s outlook to positive from stable, and Moody’s placed Norfolk Southern’s Baa1 rating on review for upgrade¹⁷. The logic behind the changes includes a coast-to-coast network that is more diverse, more efficient, and harder to compete with. Lower business risk coupled with a conservative post transaction leverage target is a recipe for upward ratings pressure. The agencies expect the combined company’s debt leverage to peak at about 3.3x at closing, then fall back below 3x within 12 to 18 months, helped by roughly \$4 billion-plus of annual free cash flow, after dividend payments, and a suspension of share buybacks by both companies¹⁸. Union Pacific has been building cash and paying down debt while it waits. The rating agencies do not have an opinion on the likelihood that a transaction is completed.

¹³ BNSF Railway, “The UP-NS Merger: Still a Monopoly in the Making,” advocacy flyer, [bnsf.com/ship-with-bnsf/preserve-rail-competition](https://www.bnsf.com/ship-with-bnsf/preserve-rail-competition) (accessed July 2026).

¹⁴ SMART-TD letter to Congress, Mar. 3, 2026, as reported by DTN Progressive Farmer, May 11, 2026 (career-length no-furlough protections for train and yardmaster employees of both railroads).

¹⁵ BNSF Railway and CSX joint press release, “CSX, BNSF Announce New Intermodal Services, Offering Seamless Coast-To-Coast Rail Solutions,” Aug. 22, 2025; direct domestic service between Southern California and Charlotte, N.C. and Jacksonville, Fla.; Phoenix-Atlanta service; international lanes linking Kansas City with the ports of New York/New Jersey and Norfolk, Va.

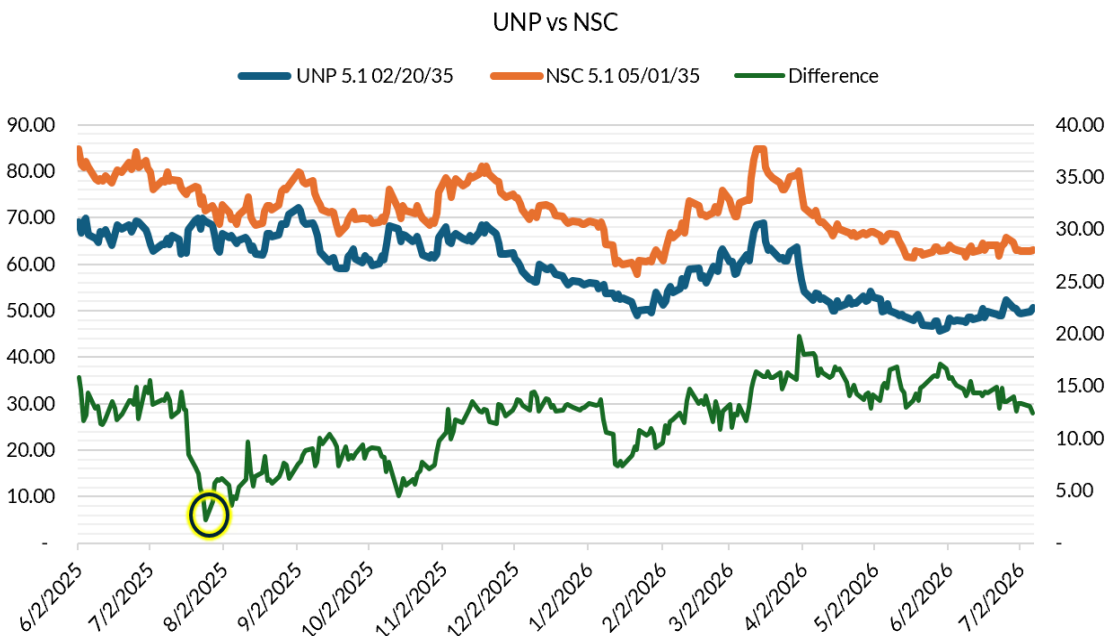
¹⁶ CN Commercialization Act, S.C. 1995, c. 24 (Canada): no person, together with associates, may hold more than 15% of CN’s voting shares; headquarters must be maintained in Montreal.

¹⁷ Fitch Ratings, rating action on Union Pacific (‘A-’ placed on Rating Watch Positive), July 29, 2025; S&P Global Ratings, Norfolk Southern outlook revised to positive from stable, July 29, 2025; Moody’s Ratings, Norfolk Southern Baa1 placed on review for upgrade [confirm exact date and reference from Moody’s rating action before distribution].

¹⁸ Fitch Ratings, July 29, 2025: combined-entity leverage expected to peak in the mid-3.0x range at closing, declining below 3.0x within 12-18 months, supported by pro forma free cash flow of approximately \$3.0-\$3.5 billion in year one and the suspension of share repurchases. Figures cited in text should be reconciled to the full agency reports [verify].

BOND MARKETS TELL THE STORY

It has been interesting to look back at how the 10-year bonds of both Norfolk Southern and Union Pacific have performed since the transaction was officially announced on 7/29/2025. Even though there were rumors floating around that the companies were talking, it was a surprise given the very large regulatory issues. Bond spreads of both companies tightened, and Norfolk Southern’s spreads traded only a few basis points wide of Union Pacific’s, signaling that the two would become one and the lower rated, riskier Norfolk Southern should trade at the same spread, as its better positioned competitor. Since then, the difference in spreads between the two has only widened, signaling that the transaction has risk. Today, the gap between the two companies’ spreads sits at roughly 15 basis points, which is about what it was before the deal was announced. We see a similar pattern if you compare bonds in different maturity buckets. The bond market is telling us that the risk of closing the deal has increased¹⁹.



THE BOTTOM LINE

America is one step away from a single set of rails running ocean to ocean or one ruling away from proving it never will. The decision will shape the future for one of the oldest businesses in American history. The entire shipping industry is already making moves in anticipation of a decision. If nothing else, we believe the rail industry will find ways to work together and become more competitive. So far, the bond market and the tone of the regulatory review process are signaling a lower likelihood that a deal gets done.

¹⁹ AAM analysis of 10-year benchmark spreads, Bloomberg data, as of July 2026. Comparison uses curve-matched maturities.

References

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2. Norfolk Southern Corporation, Form 8-K and Exhibit 99.1, "Creating America's First Transcontinental Railroad: STB Merger Application," December 19, 2025.
3. Union Pacific Corporation, "UP & NS Amended Merger Application Estimates Shippers Will Save \$3.5 Billion Annually," press release, April 30, 2026.
4. Surface Transportation Board, Docket No. FD 36873, Union Pacific Corp.—Control—Norfolk Southern Corp.: Press Release 26-02 (January 16, 2026); Press Release 26-09 (April 30, 2026); Press Release 26-13 (May 28, 2026); UP-NS Merger Resources page.
5. Surface Transportation Board, Major Rail Consolidation Procedures, EP 582 (Sub-No. 1), final rule served June 11, 2001; Service Order No. 1518 (October 31, 1997).
6. Surface Transportation Board, Canadian Pacific—Control—Kansas City Southern, Docket No. FD 36500, decision served March 15, 2023.
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8. Fitch Ratings, rating action on Union Pacific Corporation (Rating Watch Positive), July 29, 2025; S&P Global Ratings, outlook revision on Norfolk Southern Corporation (positive), July 29, 2025; Moody's Ratings, rating action on Norfolk Southern Corporation [reference to be confirmed].
9. BNSF Railway, "The UP-NS Merger: Still a Monopoly in the Making," advocacy materials, bnsf.com (accessed July 2026).
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12. Associated Press, "CSX railroad's merger prospects derail as BNSF and CPKC make clear they aren't interested in a deal," August 26, 2025.
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15. Seeking Alpha, "Norfolk Southern/Union Pacific deal spread widens as regulator wants more info," May 28, 2026.
16. Wikipedia, "Proposed merger between Union Pacific and Norfolk Southern," accessed July 2026 (deal chronology and background).

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