

RAILROAD WEEK IN REVIEW

January 2, 2026

“Protecting competition is not optional, it is essential to keep costs down and the economy sound. The fact is that this merger would reduce rail transportation options for customers while creating a single entity that controls more than 40% of the US freight rail market. Without real railroad competition, prices go up and consumers lose.” — CN Statement on UP-NS STB Filing, December 19

“UP has a long history of making promises in past mergers that they back away from once they’ve secured approval. BNSF remains focused on achieving these same benefits through partnership and collaboration which results in streamlined service, and greater operational flexibility — delivering real, immediate benefits to customers.” — Katie Farmer, CEO, BNSF, reported by Trains’ David Lassen, December 19

“Note that there will be 53 weeks of weekly data this year and 14 weeks of weekly data in 4Q. This happens every 5-6 years so the weekly volume data aligns with the annual calendar. Actual 4Q reports will still be based on normal calendar quarters, but this will make the weekly data a bit volatile the next few weeks.” — Scott Group, Wolfe Research, Weekly Rail Volume Flash, December 29

The deeper I delve into the UP+NS merger filing, the more I’m convinced this is really all about intermodal and the merchandise carload franchise is almost an afterthought. The reality is that even though one sees lot more intermodal trains out there than one does mixed freight, the latter still boasts higher margins with lower operating and capex needs than intermodal. But the fact remains that the PR departments tout intermodal as the hot thing and the press and others eat it up.

Lost in the noise are these truths: (1) the apparent merchandise carload franchise earns higher margins, has better pricing power, yields longer asset lives, and keeps the lights on. Intermodal, on the other hand, has lower margins (less than \$1000 per container, average 1.7 boxes per carload equivalent, vs. \$2,000+ per merch carload) while demanding better track and more horsepower per trailing-ton.

So why push intermodal over carload when it’s a less lucrative business model? IMHO, it’s less “messy” (no class yards, no local freights, no car hire/demurrage), and makes no demands on a sales force to really know the customer. Bottom line, intermodal is the only traffic segment where scale + network geometry change the outcome. You win lanes, you reshape service patterns, and you lock in customers for intermodal.

The Verified Statement of John Orr (NS) and Eric Gehringer (UP) tells us, for example, “UP/NS will combine UP’s efficient route from Southern California to Kansas City with NS’s efficient route from Kansas City to the Northeast to establish a new train pair carrying intermodal traffic between Southern California and the Northeast. The new route will eliminate the need to interchange in Chicago and will save approximately 17 hours of transit time on traffic moving eastbound from Southern California.”

There is an acknowledgement of the carload franchise here “UP/NS will also implement new train and blocking plans that allow manifest traffic, including traffic moving to and from watershed areas, to move faster and more reliably in many places with fewer handlings.” But intermodal gets top billing throughout.

I also think that intermodal is “easy pickings” vs. carload so the potential gains can be more easily touted. To wit: the truck share in coal, grain, chemicals, long-haul autos, coiled steel and lumber is minuscule. But light-density commodities from refrigerators to fresh vegetables and toys are being trucked from the western origins to eastern metro areas — an easily definable TAM (total available market). These are exactly the lanes a UP + NS system would optimize.

The downside is all this truck freight is fungible, meaning it can go to whatever vendor is perceived as cheapest. Every week I see reports on how rate competition among truckers is keeping rates low, and how intermodal loses share in these price wars. I think its safe to say these price wars are also eating into intermodal’s already tight margins. Moreover,

Finally, it can be argued that “Precision Scheduled Railroading” hasn’t worked all that well in the intermodal arena. It *should*, I grant you, but in practice it broke service elasticity, bit into trust in the product, and continued to cause intermodal to cede share to trucking. Here, a merger might work by resetting service expectations and justifying further capital reinvestment.

The blunt truth is carload doesn’t need a merger and continues to pay the rent. Without a \$jillion merger — a fact lost on analysts with only a superficial understanding of railroad operations.

Another example of how short lines build business by creating customers comes from Michigan’s Lake States Railway, acquired by Watco last March. The purchase fits perfectly with Watco’s strategy of investing in customer-focused short line railroads, emphasizing safety, service reliability, and long-term partnerships with shippers and Class I railroads.

Just this month, LSR received an emissions grant to replace five older locomotives with four newer Tier 4 locomotives. They chose SD70ACe-T4 locomotives from Progress Rail based on several factors, including delivery timing, parts commonality, and after-sale services. Watco says the new units will support traffic growth on the 375-mile regional, which handles about 60,000 carloads per year. That's 160 cars a mile. Nice.

If there were no future in the carload sector, Watco wouldn't be making this bet. But with volumes of 1,000 cars a week and growing, the newer, more modern power is essential. The primary connection to the national network is CSX, so the direct effect of the UP-NS event ought to be minimal.

By way of background, LSR operates in Michigan's northern Lower Peninsula. Commodities include forest products, aggregates, chemicals, and general merchandise. Watco's 40-year history of growing the traffic base of existing customers and adding new ones by becoming an essential part of their supply chains will persevere.

ASLRRRA Webinar. *The UP/NS Transaction: Update for Short Line Railroads*

This webinar will discuss UP and NS's application for UP to acquire and control NS, including specific items of interest for shortline railroads. ASLRRRA is blocking an extra 15 minutes to allow plenty of time for audience Q&A following the presentation. See aslrria.org for further details and registration.

I think this is a particularly timely topic, given the way the UP/NS Filing seems to play down the carload sector. Perhaps at last the Board will look seriously at paper barriers and other anti-competitive measures the Class Is have put in place over the years.

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