

Potential UP-NS tie-up would cause major shift in US intermodal market



Union Pacific's interest in Norfolk Southern has pros and cons for a western railroad that prioritizes high-margin business, which is not intermodal. Photo credit: William E. Johns / Shutterstock.com.

Ari Ashe, Senior Editor, Intermodal Rail | Jul 18, 2025, 2:49 PM EDT

Union Pacific (UP) is in preliminary discussions to acquire Norfolk Southern (NS), according to *The Wall Street Journal*, in what could become the largest freight rail merger in American history. If a deal happens, it would create the first coast-to-coast US rail network and mark a dramatic shift in the structure of US freight railroads.

The transaction, which would create a mega-railroad valued at \$200 billion, would far exceed the \$31 billion merger between Canadian Pacific and Kansas City Southern completed in 2023. However, UP and NS bring different freight portfolios to the table, and any proposed deal is expected to draw intense scrutiny from regulators.

Other Class I railroads BNSF Railway, CSX Transportation and Canadian Pacific Kansas City (CPKC) will likely be vocal in their opposition to any deal and look to rally support from shippers to block the move, setting the stage for a contentious regulatory battle.

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UP and NS share a common commitment to the principles of precision scheduled railroading (PSR), an operations philosophy that emphasizes efficiency, asset utilization and cost control. But some in the analyst community have speculated that CSX could be a potential target of UP.

UP might also see more upside acquiring NS, which has underperformed CSX for several years financially and operationally. But from a freight mix perspective, UP more closely resembles CSX.

Since 2018, non-intermodal cargo has accounted for 53.8% of CSX's volume, nearly identical to Union Pacific's 55%, according to the Association of American Railroads (AAR). Non-intermodal accounts for just 43.4% of Norfolk Southern volume, with the majority being containerized freight.

UP CEO Jim Vena has been critical of intermodal at times because it doesn't generate the high margins of commodities such as agricultural products, petrochemicals, plastics and construction materials.

"In the intermodal piece, I don't know. I like the industrial and the bulk business," Vena said last month at the Wells Fargo Industrials & Materials Conference. "I think the railroads have made some real strategically impactful decisions on how they handle intermodal that are not helpful."

After a brief interjection from his chief financial officer, Vena added, "I didn't say I didn't love [intermodal customers]."

UP's CEO is a protégé of the late E. Hunter Harrison, the creator of precision scheduled railroading. PSR practitioners measure operating ratios — i.e. the percentage of revenue that is absorbed by expenses. Lower operating ratios mean more revenue flows to the bottom line, driving profits.

"We have long believed that the larger carload footprint, better chemicals, autos, and export ag connectivity makes CSX a better target from a freight flow perspective," David Vernon, an industry analyst with investment bank Bernstein Societe Generale, wrote in a note published Friday. "While the potential synergy value of a UP and CSX combination is slightly greater, it's not that much greater."

Intermodal implications would be profound

If it were approved, a transcontinental US freight railroad would cause a significant reshuffling of the domestic and international intermodal markets. Ocean carriers, for example, often sign long-term contracts for inland rail services. If a carrier currently uses BNSF on the West Coast and Norfolk Southern on the East Coast for international business, the fate of those contracts in a post-merger landscape would be uncertain.

The implications for domestic intermodal would be even messier.

Hub Group, Swift Intermodal and parcel giant UPS are already customers of Union Pacific and Norfolk Southern, but Schneider National and STG Logistics are locked into multi-year deals with CSX in the eastern US.

The shakeup could be substantial for non-asset brokers, also known as intermodal marketing companies (IMCs). Union Pacific controls the EMP and UMAX 53-foot container pools, which are shared with CSX, NS, and Canadian National. A UP-NS merger could limit or eliminate CSX's access to those pools, potentially impacting significant volumes of freight.

"While intermodal channel partners would need to adapt, single line trans-con service would likely be more competitive to the highway and accelerate share shifts," Bernstein's Vernon noted.

The largest unknown would involve J.B. Hunt Transport Services, the largest US intermodal provider. J.B. Hunt exclusively partners with BNSF in the West and relies heavily on NS in the East, although it does put a portion of business on CSX.

J.B. Hunt is unlikely to sever ties with BNSF because their relationship spans nearly four decades and includes joint Quantum service offerings in the US and Mexico. J.B. Hunt has also been critical of the PSR model employed by UP and CPKC.

While J.B. Hunt could shift its East Coast operations to CSX, a combined Union Pacific-Norfolk Southern could wield unprecedented pricing power, potentially creating the first company with enough leverage to compete with J.B. Hunt on pricing negotiations with shippers.

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