

# A Final Round of Big RR Mergers?

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Don Phillips, a highly-regarded transportation journalist with a history of timely and perceptive coverage of the U. S. railroad industry, recently questioned Warren Buffett on the potential for additional rail mergers. This occurred at the Berkshire Hathaway annual meeting in Omaha. The exchange got Don thinking about the much-anticipated final round of big rail mergers, which some have long speculated would result in only two huge coast-to-coast systems. Be sure to read Phillips' column in the current (August) issue of TRAINS magazine. The conclusion appears to be that such a dramatic final round of rail mergers could occur sooner than we might have thought.

Rail companies have been merging almost since the beginning, and while there are still many smaller regional and short line operators, only four U.S. based giants now dominate the domestic scene. BNSF (recently acquired by Buffet), UP, NS and CSX. The two Canadian roads, CN and CP, are also players with a major presence in the U.S. They may very well be involved in any future consolidation scheme..

Like airlines, rails have historically been financial underperformers. Not infrequently, the weak have thrown themselves into the arms of another when it was obvious they couldn't go it alone. This pattern was often accelerated by aging CEO's who were about ready to retire. That is not likely to be the prime motivation this time around, but all it takes is for one of the big guys to make a move, and the rest of them will have to similarly realign themselves for defensive purposes.

Past mergers undoubtedly saved the private U. S. rail industry, but they did not save the U. S. rail network, which is but a shadow of its old self. The public is now rediscovering rail, and we are faced with a stampede of well-meaning advocates who would like to see the rail mode of transportation quickly restored to its historic position as a dominate player in surface transportation. Such unrealistic expectations -- call it a mismatch of hopes and dreams verses reality -- are sure to cause everyone grief unless we figure out, as a matter of public policy, just what role we want the rails to play, and how to achieve a spectacular revival. Thus far, that picture remains cloudy, especially at the federal level. Similarly, states are all over the place, policy wise, in regard to rail.

Don Phillips has provided a wake-up call. Here in Virginia we still lack a clearly defined vision of the long-term future of rail. Prior efforts to develop a State rail plan have fallen short. While we are fortunate to have two fine Class I rail operators in Virginia, they have their

own corporate goals and objectives, which often align with the public interest, but occasionally they do not.. We would be well advised to get busy and figure out just what we would like rail in Virginia to look like, two or three decades hence, before the corporate jets from Fort Worth and Omaha, or elsewhere, land in Richmond with CEOs selling another round of merger plans. Our past experience has not been particularly encouraging. Let's be prepared !

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