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Canadian National to buy EJ&E

\$300 million deal eases urban routes

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Seeking to sidestep Chicago's notorious rail congestion, Canadian National Railway Co. on Wednesday agreed to pay \$300 million to acquire most of the Elgin, Joliet and Eastern Railway Co., a regional line that rings the metropolitan area.

The deal, which Canadian National said "fills the last gap" in its trans-Chicago network, is designed to let the company bypass much of the urban rail traffic that has long served as a choke point for railroad operators.

A spokesman said the company hopes the acquisition will allow Canadian National to eventually vacate an existing downtown route known as the St. Charles Air Line, which has long been the source of friction between the railroad and local residents and developers.

By purchasing the EJ&E, which operates 198 miles of track that encircle Chicago from Waukegan through Joliet and east to Gary, Canadian National said it is addressing "major operational challenges" the Chicago area poses.

Because Canadian National trains have to wait in line to cross clogged Chicago rail lines, "it now takes longer to go from North to South Chicago than it does to go from Winnipeg to Chicago," Canadian National President and Chief Executive E. Hunter Harrison said on a conference call with analysts.

The EJ&E is owned by U.S. Steel Corp., and the steelmaker will retain the railroad assets and equipment that directly serve the company's production facility in Gary.

In addition to being Canada's largest railroad, Montreal-based Canadian National also has been a leading player in the U.S. since its \$2.4 billion takeover of Illinois Central Corp. in the late 1990s, which was followed by the \$800 million purchase of Wisconsin Central.

Those deals made Chicago a key city for Canadian National, allowing it to funnel traffic from its east-west transcontinental route in Canada down through the midsection of the U.S. to the Gulf of Mexico.

But where those routes tie together in Chicago, the company, like other area rail operators, has been bedeviled



by the bottlenecks in America's biggest rail hub.

"This transaction will improve rail operations on the CN system and the rest of the Chicago rail network by moving CN trains out of the urban core to EJ&E lines on the outskirts of the Chicago metropolitan area," CEO Harrison said.

The EJ&E is part of U.S. Steel's Transtar subsidiary, which operates a number of strictly local railroad, barge and marine-terminal operations connected with the steelmaker's operations. Transtar runs a 15-mile rail operation in the southern Detroit area that serves U.S. Steel's mill in Ecorse, Mich., for example, and has a switching railroad that services U.S. Steel operations in the Monongahela River Valley south of Pittsburgh.

The steel giant has owned EJ&E since 1901. But the railroad also hauls coal to utilities and serves a number of outside customers through the heavily industrialized region, including steelmaking rival Mittal, petroleum producer BP PLC, and makers of bulk goods such as plastics, chemicals, gypsum wallboard and scrap metal.

That service will continue after ownership changes hands, Canadian National said.

Assuming the project receives the necessary regulatory approvals, the Canadian firm said, the deal could close by the middle of 2008.

Canadian National expects to spend about \$100 million upgrading the infrastructure of EJ&E, which has about 700 employees and operates 58 locomotives.

The purchase comes less than a month after Canadian Pacific Corp. agreed to pay \$1.48 billion to acquire the Dakota, Minnesota and Eastern Railroad, and the back-to-back announcements of south-of-the-border purchases could in part reflect the Canadian dollar's current strength relative to the U.S. dollar. A Canadian National spokesman said the company is simply responding to the surge in demand for rail service in North America.

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