

Howard Elliott, Chairman, New York, to Charles Donnelly,
President,

St. Paul, December 11, 1920

As per our various talks, I am handing you a memorandum of some of the matters which, in my judgment, need the attention of the officers of the company and many of which you and your staff have under consideration. I do not claim that I have put down all items of importance, but I submit these suggestions for such assistance as they may be to you and others in making a general survey of the situation; in adopting, so far as practicable, a continuous plan of management and development; and considering the relative importance of the various matters and the rapidity with which they should be handled.

REVIEW OF SITUATION BY OFFICERS

It occurs to me that it will be helpful for heads of departments to review their respective jurisdictions, responsibilities and organizations, and make a list of matters that, in their judgment, need consideration in their several departments, not only for their own use, but for the information of their superior officers, including yourself.

It is obviously a desirable thing for each officer to make a searching inquiry from time to time of the work he is trying to do in his particular jurisdiction, of obstacles to be overcome, of possible development and improvement, checking up what he has done, and planning consistently for the future. To go over the organization for which each man is responsible, to make certain that there is no duplication of work, no dead wood, and that every economy consistent with preservation of the property is being practiced all the time.

NEW CONDITIONS

We are starting out now to protect and manage the Northern Pacific properties under conditions entirely different from those prior to the war, and we are confronted with a good many difficulties that will affect the earning power of the company, both as to gross and to net. A new study by each responsible officer of the conditions with which he must deal and the obstacles which he must meet will help that officer and his superiors to understand better the complications and difficulties confronting the company, since government operation and government guarantee ceased.

Since 1910, the conditions confronting the Northern Pacific have changed materially, making it much more difficult to maintain its earning power, both gross and net, than was the case prior to that date.

As the pioneer transcontinental road through the Northern tier of states, the Northern Pacific has built up a well-deserved reputation for fair dealing and good service, which have made hosts of friends and which have been a great business getter; that reputation still remains, although the value of it is not as great as it was.

The Union Pacific is now a most active and aggressive competitor in all the valuable territory, Portland to Seattle inclusive and in the productive lumber regions of Gray's Harbor and South Bend; also all through the fertile Yakima Valley, the Walla Walla country; the Clearwater region, the Camas Prairie, the Palouse country, at Spokane, the Coeur d'Alene mining district, Butte, and the Yellowstone Park. Much of this territory, not so many years ago, was served almost exclusively by the Northern Pacific. The Union Pacific, with its very unusual earnings has a definite and announced policy of liberality to the shipping and traveling public in the way of good service, adequate supply of modern equipment, both freight and passenger, fast time and very active solicitation and advertising. The class of passenger equipment furnished by that company between Chicago and the Missouri River and Portland and Puget Sound is superior to that furnished by the Northern Pacific. It is generally understood that this company will put on improved passenger trains between Chicago and Puget Sound in the spring of 1921.

The St. Paul road, in making its extension to the coast, introduced a most active competitive force in Northern Pacific territory all the way from the Montana-South Dakota state line to Puget Sound. This line divides the business in the Yellowstone and Gallatin valleys, at Butte, the lumber territory of northern Idaho, at Spokane, in the Palouse and Big Bend wheat country, in the Kittitas Valley, in the Puget Sound country and in the Gray's Harbor and South Bend territory. Their line to the coast is shorter than that of the Northern Pacific, and considerable of it is electrified, attracting thereby much attention of the traveler and the shipper. Their passenger equipment on the through trains between Chicago and the North Pacific Coast is today superior to that of the Northern Pacific, and in any competitive struggle, better time can be made by the St. Paul road than by the Northern Pacific, because of the shorter distance. They are very aggressive as to all features of commercial development and in catering to the public, and with their own line to Chicago and a large mileage in Wisconsin, Minnesota and South Dakota, they are formidable competitors on all westbound business to Montana, Idaho and Washington points and for products of those states moving east to the consuming territory of the Missouri and Mississippi valleys.

The Great Northern, by some of its alternate lines in North Dakota, is cutting the earnings of some of the Northern Pacific branch lines in that state; through the building of the SP&S, competition is increased to the Northern Pacific in some of the Palouse territory and in Portland. By use of the Northern Pacific line between Seattle and Portland, the Great Northern also subdivides the business of the fertile Puyallup Valley and of the territory Tacoma to Portland, inclusive.

North of Seattle to Vancouver, B.C., inclusive, the territory is sharply competitive all or in part with the Great Northern, [St. Paul], and the Canadian Pacific.

In parts of North Dakota, the Soo Line competition is very close and very sharp. so it may fairly be said that the Northern Pacific has no very little really local and non-competitive territory left, except on a limited part of its main line and on a few of its branches; and even here, the outbound business produced is practically all competitive as to markets, that is to say, it must meet competition of the same commodities produced on other lines.

The dislocation of business methods during government control and the fact that all roads were

considered as one during that period impaired somewhat the prestige of the Northern Pacific, and to a certain extent reduced the value of the old Northern Pacific reputation and good will. Again, a new generation of shippers and travelers has grown up who have none of the old sentiment toward the Northern Pacific as the pioneer line, and who are forming their present judgment of the railroads under existing conditions, and who are impressed with the entrance of the newer lines into Northern Pacific territory; the electrification of the St. Paul; the rather superior passenger train service of the Union Pacific and St. Paul roads; and who are just as ready to ship and travel by those roads, if not more, than they are by the Northern Pacific, which road in the old days was justly considered the superior of all in its treatment of the public. The public also have to a certain extent misunderstood the arrangements under which Northern Pacific tracks and facilities were leads to others, and have assumed, because of this fact, that the Northern Pacific is not so keenly interested in the business of the country as it was many years ago. All of these conditions have a psychological effect on the minds of shippers and even on Northern Pacific employees.

So the Northern Pacific must fight to sustain itself under present conditions. The fact that in spite of the subdivision of its territory during the last ten years it has sustained itself, is an indication of the growth of the country, the inherent strength of the property and its good standing with the shipping and traveling public. The Company has undeniable advantages which it must press and many old customers which it must retain, and obtain new ones. The Company, however, cannot live on its past reputation and it must have a driving aggressive policy and give substantially as good service as its competitors and, within reasonable limits, meet the public demands as well as they do, if it is to obtain and retain its full share of the business of the states and communities it services.

The increase on long-haul rates may drive a greater proportion of business moving between the Atlantic and the Pacific via the Panama Canal; the higher rates may change the movement of lumber somewhat, so it is doubly important for the Northern Pacific to get every pound of freight business, both local and through, and all the passengers, mail and express that it can.

It should, therefore, continue its policy of perfecting its physical machine so as to move what business it gets promptly, regularly and with the maximum of economy, so as to save all possible out of a give dollar of gross earnings that it can obtain under the fiercely competitive conditions above described. It is doing this now as well, if not better, than its competitors so far as the freight business is concerned, but the end of its economies is not here and there is still opportunity for additions and improvements that mean savings, especially in these days of high wages; for strengthening its organization, the adoption of better methods, etc.

Under the increased passenger rates, the public is inclined to demands superior service both on main line and on branches, and the Company must look out for this, because of the reflex action in state and national legislatures and on the movement of freight business. the Company out to bring its freight and passenger train service between Chicago, St. Louis, the Twin Cities, Portland and the Puget Sound more nearly up to the standing now set by the Union Pacific and St. Paul roads. That kind of service is a leader in the business of growing communities like those of Montana, Idaho, Washington and Oregon with their energetic cities and towns, all of which have a state and civic pride in seeing that the best is provided; and all of this has a bearing on the

total volume of business attracted to any line, both freight and passenger. Arrangements to do this in part have already been authorized.

The capital assets of the Company representing the railroad property, lands, timber, coal, ore, oil, cash, securities, materials and good will were stated on the books on October 31, 1920, as \$724,247,142.50 and the capital liabilities were \$556,389,406.60; and a balance sheet of \$797,850,453.90.

Some of the assets are worth more and some less than shown on the books of the Company -- in the aggregate very likely worth more. We are called upon to protect and administer this great business enterprise, and to obtain a fair return on the fair value for the owners. The Northern Pacific has the men, the brains and the push to do many things and our problem now is to use these to the very best advantage. The inspiration to work hard and to drive the Company forward in a progressive manner must be furnished by the chief executive officers who must do much of the original thinking about our problems -- as the men on the line are busy with the details of management which are so important to the every day business of the Company.

Sincerely

Howard Elliott
Chairman of the Board