Corporate Relations 1983

M E D I A M O N I T O R July 13, 1983

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Chicago Tribune, June 30, 1983

C&NW's purchase of track approved

by Carol Jouzaitis

CHICAGO & NORTH Western Transportation Co. scored a victory Wednesday when a federal bankruptcy judge decided in favor of its $93 million bid to buy 720 miles of mainline from the bankrupt Chicago, Rock Island and Pacific Railroad.

Judge Frank McGarr awarded a purchase order for the track to the North Western, which was embroiled in a bidding war with the Soo Line to buy the line running through the grain-rich area from St. Paul to Kansas City, Mo. The Soo Line, controlled by Canadian Pacific Ltd., a publicly held Canadian railroad, had offered $100 million for the track, plus an additional 50 miles.

"I'm satisfied with the decision," said William Gibbons, trustee for the Rock Island. Gibbons, along with the Henry Crown family and First National Bank, which hold a major portion of the Rock Island's stock and mortgage bonds, told McGarr during a hearing that they supported North Western's proposal.

THE SOO LINE NEEDED 30 to 60 days to consummate a purchase, while the North Western was able to close the cash deal Thursday, thus saving the Rock Island $1 million in interest, Gibbons said.

An analysis of the two bids and properties involved showed there was a real price difference of only $2 million, Gibbons said, with the Soo's valued at $104 million and the North Western's at $102 million. "While $2 million is a lot of money, it's not a lot in the context of $100 million," Gibbons said.

The North Western has been paying $5 million a year to lease and operate the track. It is expected to upgrade the track and connect it with its other lines.

Judge McGarr had approved in March a preliminary petition for the sale of the line to the North Western. At that time, the Soo's bid stood at $88.5 million.

THE NORTH WESTERN bid for the line had been opposed by the State of Iowa. Iowa officials said the sale would give the North Western a monopoly in their state. The line has been operated by the North Western since the bankrupt Rock Island shut down in 1980.

North Western officials argued that the Soo's bid for the line, along with that of the Canadian-controlled Grand Trunk Corp. to acquire the Milwaukee Road, was an attempt by the Canadian railroads to "invade" the Midwest and gain access to ports on the Gulf of Mexico.

Minneapolis Star/Tribune, June 30, 1983

Washington Av. viaduct's demise appears on track

By Martha S. Allen
Staff Writer

The infamous Washington Av. railroad viaduct could be torn down soon. And city officials are delighted.

The unsightly century-old viaduct has been a sore point for a long time; in 1972, Sen. Hubert H. Humphrey called it a "death trap." Its low clearance has jammed many a semitrailer truck, and countless accidents have occurred at the Chicago Av. crossing.

But the many railroads using it — among others, the Soo Line, Milwaukee Road and Burlington Northern — have long contended that it was essential to them. Each wanted to keep switching yards north of the viaduct. The city wanted them to abandon the tracks all along the downtown bank of the river to make way for housing and commercial development.

Recent negotiations among the railroads have produced some breakthroughs, leading city officials to believe that the viaduct could be gone by fall. Said Fran Albers, Soo Line attorney: "We're very optimistic we can work things out." An agreement hasn't been signed, Albers said, but the parties hope to settle by July 25.

One major obstacle — how to serve companies needing the railroads along the Hiawatha Av. corridor — has been worked out. Among the firms is the Minneapolis Star and Tribune Company.

The railroads have agreed to new transfer procedures that will give more direct lines from the south-side yards at 28th St. and Hiawatha Av. This keeps the newspaper's shipping costs competitive, said Tommy Thompson, senior vice president of Cowles Media Inc., parent company of the Star and Tribune.

Last week, the city council passed a resolution promising to keep the southern approach open to railroads. That means the city "won't abandon the track," Thompson said, although Alderman Walter Rockenstein, IR-11th Ward, said it "never intended to abandon the south trackage."

The railroads' major unresolved items, they said, are agreements on track usage and money — who should pay whom for various costs associated with the lines.

The negotiations began this winter, officials said, when the Burlington Northern's development division decided it wanted the line's tracks vacated in its new multimillion-dollar housing and commercial development along the river between Plymouth and Hennepin Avs.

The southern boundary of the Heritage Landing project almost touches the boundaries of another major development district along the river, the Mills District. It, too, contains plans for millions of dollars in development.

The Burlington Northern finally decided, over the objections of its operations division, that it was time to abandon the tracks, according to several sources. A Burlington Northern spokesman would only say, "We proposed it to the Soo Line."

Assuming the viaduct is be torn down, city officials can begin considering the two large development districts. Guidelines for both districts are being considered by the Minneapolis Community Development Agency, and will be before the city council within a month.

Said Rockenstein: "This is the best for everyone. It keeps the shippers from the south safe, takes out an eyesore and safety hazard and frees up land for development in the Mills District and Heritage Landing."

Chicago Tribune, June 30, 1983

Planned rail gets green light

A federal appeals court has approved the creation of a new freight rail system in the Northeast, overruling objections by the competing Canadian National Railway Co. The ruling by the U.S. Circuit Court of Appeals in Washington upheld an Interstate Commerce Commission decision to permit Guilford Transportation Industries Inc. to acquire the financially troubled Delaware & Hudson Railroad. Guilford is owned by financier Timothy Mellon, who plans to combine the D&H with two other railroads to form a 4,000-mile system stretching from New England to Buffalo, with legs running north to Montreal and south to Baltimore and Washington, D.C.

Milwaukee Journal, June 25, 1983

Prison move invites challenge

Wisconsin lawmakers and Gov. Earl unwisely crammed approval of a new prison for Milwaukee's Menomonee River Valley into the state budget bill. It's a good prison site, but bad legislation.

The state does urgently need additional prison space, so Earl and legislators understandably are trying to prevent misuse of the environmental protection law as a means of blocking prisons. However, this particular legislation discriminatorily curbs the use of the law *only* in Milwaukee.

Thus, Earl and the Legislature have hardly put the vexing issue out of the way. Undoubtedly, there will be court challenges to the measure's discriminatory features.

The measure did not have adequate Senate hearings and debate. The legislators who shoved it into the budget bill thereby reduced to a charade the hearing that was held in Milwaukee the day before their questionable action.

The bill is not all wrong. It sensibly sets aside land in the Menomonee River Valley for the new maximum-security prison. It also permits state agencies to take preliminary steps, such as land acquisition, while the necessary environmental impact statement is being prepared.

However, the measure changes the nature of environmental impact hearings and burdens Milwaukee citizens' rights to seek relief in court. Democrats modified the bill to meet some objections on court procedure, but kept the discrimination against Milwaukee.

Technically, the bill's designation of a site in Milwaukee may limit the restrictive aspects of the measure to that location. Still, the broader public policy question remains: Shouldn't any needed and sensible changes in the environmental law apply throughout the state? The legislators lamely respond that, at the moment, they aren't trying to put a prison anywhere *outside* of Milwaukee.

That flimsy answer needlessly exacerbates the state-city conflict over this issue. Mayor Maier and other implacable opponents of a prison in Milwaukee can shape the debate in pro-city, anti-city terms, not on the legitimate issue of the desirability of an urban prison.

The Milwaukee hearing showed how prison opponents can define the debate. Bud Selig, president of the Milwaukee Brewers, said that locating a prison near County Stadium, which also is in the valley, would be an insane act that could damage his baseball club. Selig said some fans might have concerns about safety and security, and added that Milwaukee's national image wouldn't be helped by Goodyear-blimp photographs of the prison. Selig was followed to the witness chair by Maier, who immediately dubbed the proposed institution, "the Stadium Prison."

The state should (and could) make a reasoned, persuasive response to such nonsense. Unfortunately, state officials' embrace of this flawed, discriminatory legislation weakens their position.

Journal of Commerce
June 28, 1983

BN Begins Eastbound Intermodal Train

Journal of Commerce Staff

Burlington Northern Railroad has initiated an eastbound intermodal train which has cut 10 hours off the Portland to Chicago run.

Officials said the new train's 11 p.m. cutoff time was set to enable customers to deliver trains to its Portland hub in time for an evening departure.

Trailers carried on the train are available third morning at Minneapolis-St. Paul and earlsy fourth afternoon in Chicago, according to Bill Greenwood, who heads the railroad's intermodal unit.

Wall Street Journal
June 27, 1983

Canadian Rail Freight Volume Declines 8.2%

OTTAWA—Canadian rail freight volume declined to 4,247,335 metric tons in the week ended June 14, off 8.2% from 4,624,520 tons a year earlier, Statistics Canada, a federal agency, said.

Volume was down 17.8% in eastern Canada but was up 1.5% in western Canada.

Rail cars loaded during the period declined to 66,450, off 5.7% from 70,445 a year earlier.

From Jan. 1 to June 14 volume totaled 88,460,285 tons, off 9.6% from 97,845,734 tons a year earlier. Rail cars loaded during the period declined to 1,385,270, off 7.7% from 1,501,646 a year earlier.

Hoffman Estates-Schaumberg Daily Herald, June 21, 1983

Railroad opposes new crossing

by Tom Prentiss
Herald staff writer

Milwaukee Road officials are objecting to plans for a street-level railroad crossing that would link Gary Avenue in Hanover Park with Springinsguth Road in Schaumburg.

The $3.14 million proposal, financed through federal funds plus shares from several local governments, involves building a four-lane road on Gary Avenue to the railroad tracks. Springinsguth Road would be widened from two to four lanes between Irving Park and Wise roads.

But the Milwaukee Road railway will ask the Illinois Commerce Commission to deny a permit for the crossing, instead seeking a bridge or underpass.

"There are no benefits to allowing a crossing at street levels," said railroad attorney Ellen Kirschenbaum. "It only interferes with our operations and creates obvious safety hazards."

THE VILLAGES of Hanover Park, Roselle and Schaumburg have been working on connecting the two roads for five to six years, said Kenneth Dallmeyer, Schaumburg transit manager.

If the ICC denies a crossing, Dallmeyer said the project could be delayed indefinitely while money for a bridge or underpass is found.

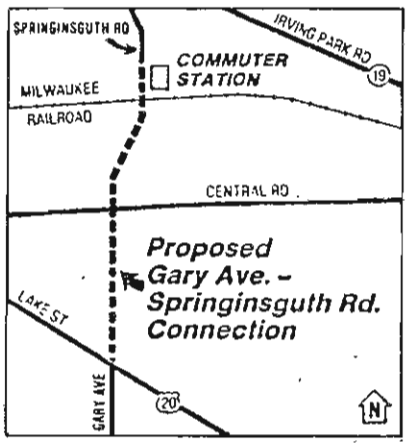
Kirschenbaum said chances for accidents increase with each additional crossing. The railway's financial costs increase as insurance liabilities rise to handle the additional crossings, she said.

The communities seeking the connection of Gary and Springinsguth have not yet petitioned the ICC for a hearing on their request, said Marc Hummel, Hanover Park assistant village manager.

Officials say the road is especially important to Hanover Park because two industrial parks are being planned in that area. Hanover Park and Roselle are working to develop an 800-acre industrial complex north of Lake Street, and another developer is planning an industrial and commercial site on a 70-acre parcel at Gary Avenue and Lake Street.

HUMMEL IS optimistic the Milwaukee Road can be swayed in their longstanding objections to additional street-level crossings.

Support for the north-south road from the Regional Transportation Au-



thority could help convince the ICC that the road is needed to attract commuters to the Schaumburg commuter station, he said.

If needed, the villages may ask to close the Rodenburg Road crossing in a trade for the Gary Avenue crossing, Hummel said.

The Milwaukee Road and the Village of Bartlett had been embroiled in a similar dispute until last year, when the railway dropped its objections to a new street-level crossing in Bartlett after village officials agreed to pay for liability insurance. Bartlett won approval for a street-level crossing from the ICC four years earlier, but the railroad held up the project by arguing in bankruptcy court that the potential for a costly accident was too high.

Journal of Commerce, June 29, 1983

Two-Member Crew Speeds SP Service

Journal of Commerce Staff

Southern Pacific has begun operating an overnight piggyback train between Dallas and Houston with a two-member crew.

"The fuel efficiency and reduced crew size enables SP to offer piggyback service between Texas' two major cities at an attractive price that is competitive with truck cost and service," said Rollin D. Bredenberg, the carrier's general manager at Houston.

The train operates with 15 cars and is run with crews from the United Transportation Union and Brotherhood of Locomotive Engineers. Both unions agreed to work rule modifications reducing both number of crew members and crew change points, SP officials said.

The train is operated without any switching en route and accommodates shipments with a 7 p.m. cutoff of trailers and delivery at the destination terminal before 7 a.m.

Cedar Rapids Gazette, June 16, 1983

Former Rock employees ask investigation

Some former employees of the Rock Island Lines have asked U.S. Rep. Lane Evans, D-Ill., to push for a congressional probe of events leading to the financial collapse of the railroad.

Evans is scheduled to meet with the former employees at 1 p.m. Saturday at United Township High School in East Moline, Ill. The meeting is being arranged by the Federation of Former Rock Island Railroad Employees.

An Evans staff member in Rock Island said the congressman has taken no position on the need for an investigation, but plans to listen to the group's concerns.

Lee Beardsley, a Federation official, charged that the Rock's collapse was "planned" to the advantage of other railroads. "It had to have been planned or complete incompetence. The union did a great job for former Milwaukee and Penn Central employees, but suddenly it gets dumb for us."

He said the severance pay received by former employees of the Milwaukee and Penn Central was substantially greater than that given to former Rock employees.

Beardsley also claims the ex-Rock Island Lines employees were treated unfairly after the shutdown. He accused railroads that operated over Rock Island tracks on an interim basis, and those that purchased Rock track, of unfair labor practices.

He said agreements gave former Rock Island employees first-hire rights by other railroads operating on Rock trackage. That included, Beardsley said, carriers like the Chicago and North Western and Iowa Railway Co.

Cedar Rapids Gazette, June 18, 1983

Rock Island workers knock 'table scrap' severance pay

EAST MOLINE, Ill. (AP) — Former Rock Island railroad workers are being offered only "table scraps" in severance pay and are being discriminated against by other railroads, a workers' spokesman said Friday.

Former workers will meet in East Moline, Ill., today with U.S. Rep. Lane Evans, D-Ill., to ask for a congressional investigation of events surrounding the demise of the Rock Island. The road ceased operations in 1980, idling 9,600 employees in more than a dozen states.

The former workers also want a probe of what they say are unfair severance awards to some former railroad workers, and alleged discrimination by railroads to which former Rock Island workers have applied for jobs.

On Thursday, the House Appropriations Committee approved $35 million for the former Rock Island workers as part of an $11.2 billion transportation appropriations bill. The bill awaits action by the full House.

That amount "is table scraps compared to the feast they fed furloughed northeast (region railroad) employees," said Lee Beardsley, legislative chairman for the Federation of Former Rock Island Line Employees.

Beardsley, 53, a switchman who worked for the Rock Island for 24 years, said former workers want an employee stock ownership plan, such as was offered employees of other bankrupt railroads.

The $35 million means an average maximum payment of only $6,000 for each former worker, Beardsley said, although railroad and labor union estimates range as high as $13,000.

Whether the amount is $6,000 or $13,000, it is unfair when compared to an average of $20,000 that Beardsley said was awarded to most former employees of bankrupt railroads in the northeast rail corridor, when Conrail was formed in 1974.

"Wages then were less than half what they are today," Beardsley said. "Most of the votes are in the northeast and the northeast more or less controls Congress. The Conrail people work in the northeast section of the country."

An aide to Evans, Philip Hare, said it was his understanding that the group was more concerned about what they say are discriminatory hiring practices by other railroads.

Beardsley founded the federation to represent about 800 former workers from the Quad Cities area.

"We want the investigation," he said, "but we really want to get jobs for our people, by stopping the unfair hiring and by buying our own railroad through the stock ownership plan."

Cedar Rapids Gazette, June 20, 1983

Former Rock Island workers request congressional probe

EAST MOLINE, Ill. (AP) — About 220 former workers for the bankrupt Rock Island Railroad met with U.S. Rep. Lane Evans Saturday and asked for a congressional investigation into events that led to the railroad's collapse.

The former workers are members of the Federation of Former Rock Island Railroad Employees. They also asked Evans, a Democrat from Rock Island, to investigate whether former Rock Island workers are being discriminated against by other railroads which have refused them jobs.

They also want a probe of whether they are being offered unfairly low severance payments.

"It appears that the demise of the Rock Island Line might have been planned so that the other faltering railroads could survive," said federation spokesman Lee Beardsley.

He added that severance pay for his members amounted to "table scraps" compared to what Congress paid laid-off workers in the Northeast and accused the federal government of discrimination.

Beardsley said $35 million approved Thursday by the House Appropriations Committee for the former Rock Island employees amounted to an average maximum payment of $6,000 compared to an average $20,000 provided to former employees of bankrupt railroads in the Northeast in 1974.

Evans, a freshman congressman, said he agreed that the group had been treated unfairly but said they should be pleased with the $35 milllion appropriation because the Reagan administration opposes any severance pay for unemployed railroad workers.

Muscatine Journal, June 9, 1983

Rock Island agrees to sale

CHICAGO (AP) — The trustee for the bankrupt Rock Island Line agreed in principal Wednesday to selling a 420-mile shipping route to a group of Iowa businessmen.

Trustee William Gibbons said the agreement was for 420 miles of track from Council Bluffs, Iowa, to Bureau Junction, Iowa, and Chillicothe, Ill. Arrangements with the Chesapeake and Ohio Railway for track use to Joliet, and use of a routing from there to the Chicago south yards also are to be nailed down, Gibbons said.

The group, This Rail Across Iowa is Necessary, or TRAIN, has been working to assemble a multi-million dollar financing package to acquire the tracks. Shippers along the lines are expected to pledge about one-third of the purchase price and the Iowa Legislature recently voted to divert $15 million from the state's road use tax fund to assist.

Scott Bannister of Des Moines, TRAIN attorney, said federal help is required if the transaction is to be completed.

"We can't make it unless we get such help and we'll file an application with the Federal Railroad Adminstration as soon as possible," he said. "But first, the agreement and conditions must be approved by other principals in Iowa. I will lay it all out before them when I get back, probably on Thursday."

The Iowa businessmen said they need the entire route in order to ship products out of the state to points serving other parts of the country. Bannister said the Milwaukee Road is interested in part of the line, a segment between Davenport and Iowa City.

Des Moines Register, June 24, 1983

Bidding war for Rock?

The Interstate Commerce Commission more or less passed the buck to a federal bankruptcy judge when it declined to recommend either the Chicago & North Western or the Soo Line to buy the north-south line of the bankrupt Rock Island railroad. The Soo has bid $100 million and the North Western $93 million for the mainline and north-Iowa grain-gathering branches.

The prospect now is for a renewed bidding war in a federal bankruptcy courtroom on June 29. The ICC could have blocked one or the other of the rivals by finding that its acquisition of the track would not be in the best public interest. Instead, the commission said there wasn't enough difference to justify vetoing either.

It did say that shippers and both railroads would benefit through joint ownership and/or operation of the lines, but made only a suggestion to that effect, rather than the binding ruling that the Iowa Department of Transportation had urged. The Soo Line has said that if it wins the track, it will share it with the North Western.

The judge overseeing the bankruptcy, having now been advised by the ICC that the public won't lose, however he decides, will be looking out for the best interest of the Rock Island's creditors and stockholders.

That almost certainly means accepting the best price offered, and that would seem to mean another bidding contest for the 700-some miles of track.

But not necessarily. The North Western and the Soo could decide to cooperate, rather than push the bidding skyward; and the judge might then see that the best price was the total of what each rival would offer for a 50-percent interest in the tracks.

Since the ICC found that this would be the best for all concerned, we don't disagree.

Journal of Commerce
July 7, 1983

Santa Fe Protests Boxcar Decontrol

Journal of Commerce Staff

WASHINGTON — The Atchison, Topeka & Santa Fe Railroad has taken the Interstate Commerce Commission's decision to deregulate all traffic moving in boxcars to court.

The railroad filed the suit in the U.S. Court of Appeals for the District of Columbia where it undoubtedly will be combined with numerous others filed by shipper interests.

ICC officials said the Santa Fe probably is upset about portions of the decision that permit Conrail to become a freight car creditor without investing in any rolling stock.

Conrail traditionally has been a debtor.

Wall Street Journal
June 30, 1983

Purchase by C&NW Of Rock Island Track Is Approved by Judge

By a WALL STREET JOURNAL *Staff Reporter*

CHICAGO—A federal bankruptcy judge gave final approval to Chicago & North Western Railroad's purchase of about 720 miles of track from the former Chicago, Rock Island & Pacific Railroad line.

Federal Judge Frank J. McGarr accepted the C&NW purchase for $93 million and rejected a competing $100 million bid by Soo Line Railroad for 770 miles of Rock Island track.

The Interstate Commerce Commission earlier approved both bids for the track of the bankrupt Rock Island, leaving it to the bankruptcy judge to pick the winner.

The track includes a main line between St. Paul, Minn., and Kansas City, Mo., and other grain-gathering lines linked to the St. Paul-Kansas City route.

Des Moines Register, June 30, 1983

North Western gets Rock track for $93 million

By RANDY EVANS
Register Staff Writer

CHICAGO, ILL. — The North Western Railway won the bidding war for 720 miles of Rock Island Lines track Wednesday without having to fire another shot.

U.S. District Judge Frank McGarr awarded the Rock's Minneapolis-to-Kansas City main line and several hundred miles of grain-gathering branch lines in northern Iowa to the North Western for $93 million.

Following the judge's decision, officials of the North Western and the bankrupt Rock Island set to work immediately to seal the deal. By Wednesday evening, the railroad had paid Rock Island bankruptcy trustee William Gibbons $93 million and strengthened its position as Iowa's largest railroad.

In giving the nod to the North Western, McGarr rejected a competing bid from the Soo Line Railroad, saying the Soo's $100 million bid did not offer "an overwhelming advantage" to the Rock Island.

In March, McGarr had given preliminary approval to the North Western bid. Since then the Soo Line had countered with a $100 million bid for 770 miles of track.

The two companies have been locked for several months in a heated, high-stakes contest for the right to buy the Rock Island tracks. Observers were expecting a final, furious round of million-dollar bidding during a hearing Wednesday in federal court here.

But the showdown did not materialize.

McGarr, who has expressed a dislike for turning his courtroom into an auction block, said he would not permit the bidding to resume.

Gibbons, the Rock Island's influential bankruptcy trustee, came out in support of the North Western's offer.

Gibbons' lawyer, Nicholas Manos, told McGarr there was not a $7 million difference between the two offers because the Soo's bid included more miles of track.

Manos said the actual spread was about $2 million — a difference he said was not sufficient to offset several advantages the North Western's bid had going for it.

He noted that the North Western was prepared to close the deal Wednesday, while the Soo Line indicated it would be another month before it had the money to seal the transaction. That delay would cost the Rock Island about $23,000 a day in interest, Manos said.

He also told a packed courtroom audience that the North Western had invested heavily in maintaining the Rock Island tracks for the past three years while it has leased them from the trustee.

"We feel that the North Western's application, on balance, would be the one that best serves the economic interests of the Rock Island estate," Manos said.

McGarr agreed, saying that while a $2 million difference in bids was not an insignificant amount, there were other "equitable considerations" that tipped the scales in the North Western's favor.

Soo Line officials asked the judge to delay the transaction long enough to permit the company to challenge the deal in the U.S. Court of Appeals. McGarr refused, and representatives of the North Western and Rock Island set to work immediately after the hearing to wrap up the sale.

North Western spokesman James Macdonald said the company was pleased with McGarr's decision. Railroad crews will begin at once to upgrade the Rock Island tracks, he said.

More Profitable

The North Western has said the Rock Island tracks will make the railroad a more efficient, and more profitable, operation.

State officials in Iowa, Minnesota and Missouri, the three states where the Rock tracks are located, supported the Soo Line, however. They had contended that the Soo Line would create important competition for railroad freight.

But McGarr said the competition concerns had been addressed — and dismissed — by the Interstate Commerce Commission. The commission ruled last week that the purchase by either the North Western or the Soo Line would be permissible.

Soo Line Chairman Thomas Beckley said he was disappointed with the outcome of Wednesday's proceedings. There is little the railroad can do to overturn the North Western deal, he said.

The Soo Line has a big strategic interest in getting to Kansas City — an important Midwest rail hub. The Soo is a subsidiary of the Canadian Pacific Railroad, and the CP's number one competitor, the Canadian National Railway, is gaining Kansas City access through the acquisition by one of its subsidiaries of the Milwaukee Road.

Railroad industry observers now believe the Soo Line will turn its attentions to acquiring all or part of the financially troubled Illinois Central Gulf Railroad, which has a Kansas City terminal.

Minneapolis Star/Tribune, June 30, 1983

Rock Island track sale approved

Associated Press

Chicago, Ill.
U.S. District Judge Frank McGarr gave final approval Wednesday to the sale of 720 miles of Rock Island railroad track, located primarily in Minnesota, Iowa and Missouri, to the Chicago & North Western Transportation Co. for $93 million.

McGarr had given preliminary approval in March to Chicago & North Western's bid for the bankrupt Rock Island's track over an $88.5 million bid from the Minneapolis-based Soo Line Railroad. Since then, the Soo had increased its bid to $99 million for 770 track miles and the Interstate Commerce Commission determined that either bid was acceptable.

But McGarr said yesterday that it was his understanding that the track, most of which is the former Rock Island main line between Northfield, Minn., and Kansas City, already had been sold to the C&NW and that the Soo's "11th-hour bid" was too late.

The Soo and C&NW had engaged in a bidding war last March in which the price of the track rose from about $70 million to $99 million.

The Rock Island, once the nation's 12th largest line with 7,025 track miles, declared bankruptcy in 1975. In 1980 McGarr ordered the railroad to liquidate its assets after finding that it had no viable future. The track awarded yesterday to the C&NW had been the core of the Rock Island system. In addition to the 650-mile main line between Northfield and Kansas City, the track includes some spur lines, primarily in Iowa, that are used to gather grain.

C&NW has been operating the track under a lease agreement since 1980, and Rock Island bankruptcy trustee William Gibbons had favored the C&NW acquisition bid because it would expedite the liquidation process.

The U.S. Department of Justice had recommended that the Soo Line's offer be accepted, saying that the C&NW's application "would substantially lessen competition in a number of major railroad transportation markets. Soo Line's application, in contrast, would not."

The ICC had agreed that awarding the track to the Soo Line would increase competition along the main line between Kansas City and Minnesota and in agricultural areas served by branch lines. However, the ICC also said that awarding the track to the Soo Line could mean the C&NW would abandon service along its own Kansas City-Minnesota line because of decreased business.

Gibbons earlier this year presented a reorganization plan to McGarr under which the Rock Island would sell off its railraod properties, pay off its debts and create a new company not involved in railroad operations.

Chicago Sun-Times, June 24, 1983

C&NW coal line makes headway

By Jerry C. Davis

The Chicago & North Western Transportation Co. appears to have cleared the last hurdle to a potentially high-profit entry into the coalfields of the Powder River Basin in Wyoming.

A federal appeals court refused a request by Burlington Northern RR for a rehearing on an earlier court ruling that upheld an Interstate Commerce Commission decision. That ruling said the C&NW could proceed to buy half of the Burlington's interest in the last leg of a line into the coalfields under a previous agreement.

The two railroads earlier had contracted to share the cost of the 106-mile line, but the C&NW had difficulties financing its share. Those problems have been overcome, but the Burlington Northern has tried to block the plan to protect its own interests as the exclusive transportation supplier to the area. The line was completed by the Burlington Northern and is already in service.

"Technically, they have the final option of appealing to the Supreme Court," a North Western spokesman said. "But the likelihood of the Supreme Court entering a fight between two railroads after our case has been affirmed twice in the courts and once by the ICC is unlikely. There is no precedential value to the Supreme Court to accept this case with its heavy workload."

The C&NW will pay Burlington Northern $76.2 million for its interest in the rail line. The ICC set the payment price last October after Chicago & North Western and Burlington failed to agree on a price. Burlington appealed, lost and has now been denied a rehearing on the issues pertaining to the case.

The North Western has drawn down $50 million of its loan commitments to begin work on additional construction to connect with lines operated by the Union Pacific, and it plans to start work July 1.

Chicago Tribune, June 26, 1983

Battling C&NW takes on new Goliaths

By David Young
Transportation writer

ALTHOUGH IT has never ranked among the nation's great railroads, the Chicago & North Western Transportation Co. has gained a reputation as a giant killer.

It's one of the few railroads to survive the wave of mergers and bankruptcies that has swept the industry since the early 1960s. Its survival was a result, in large part, of its management's ability to win legal and regulatory battles. Over that span, the company managed to outmaneuver some of the industry's giants: the Union Pacific, Southern Pacific and Burlington Northern rail empires; magnate Henry Crown; and a consortium of firms seeking to build a coal pipeline.

The North Western now is engaged in possibly its toughest regulatory battle: preventing Canada's two rail giants—the Canadian National and Canadian Pacific—from expanding further into its traditional Midwest territory. The outcome could also affect the viability of Great Lakes ports, including the Port of Chicago. In addition, a Canadian victory would eventually split the Midwest, giving the Canadians access to Gulf of Mexico ports.

IN PROCEEDINGS before the Interstate Commerce Commission and in federal court, the North Western is seeking to head off attempts by the two Canadian railroad systems to acquire nearly 4,000 miles of routes in the Midwest from two bankrupt U.S. railroads. Those routes parallel existing North Western mainlines that fan out across the Midwest from Chicago.

The battle also involves the Canadian government, owner of the Canadian National, and the State of Iowa, which is concerned that the North Western is gaining a monopoly on grain traffic there. The U.S. Justice Department is supporting the Canadian Pacific for the same reason.

What makes the regulatory fight more difficult is that Congress loosened regulations on the railroad industry in 1980. That means mergers and acquisitions by big railroads are harder for small railroads to block before the ICC.

"The mood of the commission has changed as a result of deregulation," said Thomas F. Power, chief financial officer and vice president of reorganization for the Chicago, Milwaukee, St. Paul & Pacific Railroad [Milwaukee Road], one of the carriers seeking a Canadian alliance.

THE SOO LINE, a St.Paul-based railroad 55.7 percent owned by the Canadian Pacific, is trying to gain control of the 800-mile Chicago, Rock Island & Pacific Railroad mainline from Minneapolis to Kansas City. That line has been operated by the North Western since 1980, when the bankrupt Rock Island shut down, but the Soo Line has filed a petition with the ICC to block the line's sale to the North Western.

The Grand Trunk Corp., a Detroit-based holding company for four small railroads, including the 1,500-mile Grand Trunk Western, is attempting to acquire the 3,100-mile Milwaukee Road, which filed for bankruptcy in 1977. The sale of the railroad to the Grand Trunk is an instrumental part of trustee Richard B. Ogilvie's attempts to resolve the company's bankruptcy proceedings.

The Grand Trunk is a wholly-owned subsidiary of the Canadian National—a crown corporation of the Canadian government.

IN ITS COURT and ICC arguments against both acquisitions, the North Western has charged that they would give the Canadian railroads, which are not regulated by any U.S. agency, a monopoly on Canadian lumber and potash shipments to the Midwest. The acquisitions also would cause a diversion of traffic from ailing U.S. Great Lakes ports to their Canadian competitors such as Montreal, the North Western argued.

"The Port of Chicago is so weak now it would become impossible to ever make it viable if this [Milwaukee-Grand Trunk] merger is approved," said James R. Wolfe, North Western president.

Many railroad industry officials believe the Soo Line's bid for the Minneapolis-Kansas City mainline in September, 1982, was a defensive move by the Canadian Pacific in reaction to the Canadian National-Grand Trunk bid for the Milwaukee Road. The Milwaukee also has a line to Kansas City.

SOME RAIL officials claim the Canadian "invasion" of the Midwest is the first step in an attempt by both systems to gain access to ports on the Gulf of Mexico. Both the Soo and Grand Trunk already serve Chicago.

"Their next step is the Gulf," Wolfe said. "They would then have two rapiers [swords] through the heart of the U.S."

They would also further squeeze the North Western, which has survived financially by serving primarily as a "bridge" for transcontinental traffic between the Union Pacific, which came no farther east than Omaha, and various Eastern railroads. However, the recent rail mergers have bypassed the North Western, threatening, in the not-too-distant future, to reduce it to the status of a local-haul regional carrier.

The Canadian Pacific-Soo acquisition would cost the North Western $58.1 million a year in revenue and force it out of the Minneapolis-Kansas City market, according to documents filed by the railroad with the ICC. Various U.S. railroads, including the North Western, would lose $270 million a year in revenue as a result of the Canadian National-Grand Trunk acquisition of the Milwaukee Road, North Western lawyers charged.

What makes that deal hard to swallow, North Western officials claim, is that the purchase of the Milwaukee would be subsidized by U.S. taxpayers.

The Milwaukee acquisition is predicated on the U.S. government forgiving repayment of $104 million of the $299 million in subsidies it has paid to the railroad to keep it in operation since it filed for bankruptcy, North Western documents filed with the ICC claim. They also charge that the Grand Trunk would be eligible for more than $500 million in federal income tax deductions as a result of Milwaukee Road losses since 1977.

POWER, of the Milwaukee Road, said those charges are misleading.

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Battling C&NW Takes On New Goliaths - Concluded

The Milwaukee Road's tax deductions can't be transferred to the Grand Trunk or Canadian National, he said. The only taxpayer subsidy that would be lost is the $52.8 million Congress forced the Milwaukee Road to accept in late 1979 and early 1980 to keep its transcontinental line from Minnesota to Tacoma, Wash., operating while it could be determined whether it could be profitably operated, Power said. The law passed by Congress stipulated that the loan would be forgiven if more than half the Milwaukee Road were sold to another railroad and more than half its employees stayed on the payroll as a result of any reorganization, he added.

"There isn't one cent of Canadian money involved in this deal," he added. "The issue here is the continuation of the Milwaukee as a separate company. The Milwaukee has been on the block for two years, and the only company that moved on it was the Grand Trunk Corp."

Power claimed one reason the North Western is attempting to block the acquisition is that the Milwaukee Road, after its initial reorganization in 1980 in which about 7,000 miles of lines were shut down, has been a stronger competitor in North Western markets. For example, he said, the Milwaukee, which as late as 1979 handled only 12 percent of the freight traffic from Green Bay, Wis., now handles 40 percent, primarily at the expense of the North Western.

THE ICC is expected to hold hearings on the Canadian National-Grand Trunk case in August and rule on the issue before the end of the year.

The Soo's purchase of the Rock Island trackage could be resolved by the end of June. On March 18, federal Judge Frank McGarr rejected the Soo's bid of $88.5 million and gave tentative approval to a contract with the North Western at a sale price of $93 million, after a spirited bidding war in court. However, the Soo, in a petition to the ICC, increased its offer to $100 million.

Iowa and the U.S. Justice Department supported the Soo's offer in proceedings before the ICC.

The ICC ruled Monday that both railroads would serve the public interest by acquiring the line and sent the issue back to McGarr in Chicago for a final decision. He is scheduled to rule Wednesday.

Muscatine Journal, June 8, 1983

Approval given rail improvement

AMES (AP) — The Iowa Transportation Commission has approved a $3.7 million contract for upgrading Chicago and North Western Transportation Co. rail lines in north central Iowa.

The contract, approved Tuesday at the commission's regular meeting, calls for the improvement of 22.5 miles of the C&NW branch line known as the Grand Junction Gateway. The lines to be upgraded are from Rolfe to Mallard and from Fort Dodge to Vincent.

It is the third in a series of four contracts to upgrade a total of nearly 220 miles of line in the Grand Junction Gateway. Including Tuesday's contract, a total of $19.8 million has been committed to the project.

The money is shared nearly equally by shippers on the line, the federal government and the railroad.

In other action, the commission heard a delegation underscore the need to complete relocated U.S. 20 in the Fort Dodge area.

"We strongly urge completion of this project," said Ed Augustine of Fort Dodge, president of the U.S. 20 Corridor Association.

"The U.S. 20 corridor is an important factor in the economic development of Northwest Iowa," Augustine maintained.

Commission Chairman Robert Rigler of New Hampton agreed with the need for a four-lane U.S. 20 in the Fort Dodge area, but stressed that whether the entire highway is ever improved to four-lane is a question that is still up in the air.

"We have been gung-ho on this stretch here," Rigler said. "But in the interest of fairness, Ed, you should know that some of us have real concerns that the state of Iowa can afford a four-lane U.S. 20 clean across the state."

"I realize that, Bob," Augustine replied. "We don't have our head buried in the sand."

But Augustine claimed a lot of traffic is on Interstate 80 that would be on U.S. 20 if it was a better highway. As U.S. 20 is improved, he said, the traffic count will rise and the commission will be able to justify improving it to a four-lane highway statewide.

"It may be 20 years," Augustine said, "but we're willing to work to that end."

And a delegation from southeast Iowa appeared before the commission to emphasize the need to improve Iowa 16 in Lee County from the Van Buren County line to U.S. 218.

The delegation included Iowa Senate Majority Leader Lowell Junkins, a Democrat from Montrose.

Journal of Commerce, June 29, 1983

NS Restructures Sales, Marketing Departments

Journal of Commerce Staff

WHITE SULPHUR SPRINGS, W.V. — Samuel D. Guy, vice president-sales of Norfolk Southern Corp., says that plans actually started four years ago to merge the sales and marketing departments of the firm's two railroads.

In a behind-the-scenes look at how two railroads combine a department, Mr. Guy told the Railroad Public Relations Association meeting here last week that talk about combining sales and marketing departments of the Norfolk & Western and Southern Railway was considered during aborted merger talks the carriers had in 1979.

Mr. Guy explained that everyone was anxious to have "all our sales people speaking with one voice."

He related an anecdote about a 1963 consolidation of two subsidiaries in which six salesmen called on one customer soon after the merger. He called that event "a valuable learning experience, one that certainly gave us a clear vision of how to do it the next time around."

The process started, Mr. Guy said, by drawing up an organizational chart showing only positions, not personnel.

Then a team with each carrier represented determined a number of issues — inlcuding piggyback, reporting data and a personnel policy — that needed to be addressed.

A one-day orientation program outlining facilities, service, equipment pricing and routing was offered to all salespeople just before the June 1, 1982 merger date for the railroads.

Sales offices were combined in 39 locations.

Mr. Guy listed a number of marketing areas — pricing, market planning, industrial development, marketing services, commercial development and coal and ore traffic — which have been or will be combined under the new structure.

Pricing and other marketing functions will be centralized in a remodeled facility in Roanoke, Va., former N&W hedquarters.

A new corporate logo was designed and "on that first day of operation our people launched a sales blitz aimed at current and potential customers," Mr. Guy said.

The firm also initiated an advertising campaign which Mr. Guy said was aimed at image-building rather than "hard sell of the product".

Future plans call for the firm to tailor future ads to customers' needs and interests or to describe specific service features such as five corridor routes created when the two carriers were merged.

Mr. Guy also offered his opinion of some of the more familiar salesmens' giveaway items, which in Norfolk Southern's case included desk clocks, luggage tags, calendars and glasses. "A lot of people think we're wasting out time with 'trinkets' or that we're trying to 'buy' business," he said. "In my opinion, that's just simply bunk."

"Everyone here knows you get business for your railroad in one way only — by providing efficient, safe transportation service that meets your customers' needs," Mr. Guy said.

"Nevertheless," Mr. Guy added, "it never hurts to keep your name in front of your customer's eyes."

Journal of Commerce, July 1, 1983

CBT Soybeans Finish Trade Up the Limit

Soybeans advanced the daily permissable limit of 30 points across the board on the Chicago Board of Trade, where some buying spilled over into corn which also rose, and wheat, which was mixed.

Bullishness stemmed from USDA's 1983 planted soybean acreage estimate Wednesday, reported at 63.3 million acres, down from 65.8 million in its May perspective plantings report and below trade estimates of 64.8 to 67.0 million.

Increased buying interest in December corn was noted at midsession, however, professional selling continued to pressure that month. In addition, the absence of any corn deliveries Thursday continued to boost the July contract, although no corn deliveries had been expected.

Wheat prices continued to be supported by the USDA's acreage report, which showed lower 1983 wheat plantings than its previous report.

Active professional buying continued to boost prices, particularly in the December contract.

Additional support stemmed from weakness in the dollar and increased trading of soybeans and soymeal in Rotterdam before the opening on ideas prices were heading higher.

Gains in soybean products were linked to soybeans. Soybean closings were up the 100-point limit and ranged 97 to 108 points higher and soybean meal was up the $10 limit at $910 to $920 higher.

Soybeans were 30 cents higher in all deliveries; wheat 1 cent to 2½ cents higher; corn 3 cents lower to ¼ cent higher, and oats were ¾ cent lower to 2 cents higher.

Journal of Commerce, July 6, 1983

Rio Grande Resumes Service

By RIPLEY WATSON 3rd
Journal of Commerce Staff

Freight service has been resumed on the Denver & Rio Grande Western Railroad's main line between Denver and Salt Lake City after a two-month hiatus caused by an April landslide in eastern Utah.

The carrier had to reroute more than six miles of track and bore a tunnel six-tenths of a mile long around the slide area near Thistle, Utah, 65 miles east of Salt Lake City.

The first train moved across the rerouted line Monday afternoon.

"Normal service has been restored," said a spokeswoman for the railroad.

The line has been located north of the old route which was buried under an April 14 slide that created a 120-foot high dam in front of Spanish Fork Creek, which shared a 200-foot wide canyon with the railroad line and U.S. Route 6.

Cost of the rebuilding project wasn't released by the carrier. "It's impossible to say what the costs are," the spokeswoman said, adding that they still are being calculated. The railroad has insurance to cover the cost of rebuilding, company officials said.

The railroad is planning to build a second tunnel adjacent to the one which has been opened. Construction on that second bore will begin in late October.

The newly constructed line is double-tracked except for a short stretch on each side of the tunnel.

When the slide first occurred, officials had hoped to open the line in mid-May, but later revised their estimate to late June. Heavy rains were credited as the reason for the slide, which is believed to have been stabilized.

While the line was closed, freight trains were detoured over the Union Pacific Railroad line between the two cities in accordance with arrangements which railroads maintain to handle each others' traffic when lines are blocked.

The reopening of the line should mean the resumption of coal train service from eastern Utah to the West Coast.

It was believed that the Union Pacific was handling an average of 10 Rio Grande trains a day, excluding the Utah-originating service.

The railroad subcontracted a portion of the work on the rerouted line to Morrison-Knudsen of Boise, Idaho, which did much of the work on the tunnel and the Loudermilk Construction Co., which joined Morrison-Knudsen in doing the grading and site work for the 6.1 miles of new tracks, Rio Grande officials said.

Rio Grande crews did the actual laying of the new tracks.

The railroad's spokeswoman said she didn't know how many employees worked on reopening the route.

Although freight service has been resumed, the scheduled start of Amtrak's passenger service on the Rio Grande between Denver and Salt Lake City has been set for July 16, according to L.J. Bernstein, the railroad's liaison officer with the nationwide rail passenger system.

Amtrak had been scheduled to reroute one of its trains that connects Chicago with San Francisco, Los Angeles and Seattle over the Rio Grande tracks on April 25.

The train still is running over Union Pacific Railroad tracks between the two cities. The UP route links the two cities by a more northerly route through Wyoming.

Amtrak's daily train will be replacing the Rio Grande's tri-weekly "Zephyr" service which was the last privately owned intercity rail passenger service in the country.

Rio Grande chose not to join Amtrak in 1971 when the passenger corporation was formed.

Mr. Bernstein said the first Amtrak trains over the route will leave their western and eastern points of origin July 15 and that inaugural ceremonies will be conducted on the 16th after the trains reach Denver and Salt Lake City.

The scheduled startup date also is expected to give Amtrak time to resolve the complaints of Wyoming residents and officials who have protested the rerouting of the train on grounds that it will leave the state without rail passenger service.

Amtrak chose to reroute the train because officials believe that the mountain scenery in both Colorado and Utah will attract additional riders to the system.

The new train is called "The California Zephyr," which is recycling the name of a famous train that ran over the Rio Grande and two other railroads until 1970, when it was discontinued.

Journal of Commerce, June 24, 1983

Conrail Sale: Some Questions

NO MATTER WHO winds up owning Conrail when the Department of Transportation ends its auction, it is imperative that the present high quality service to shippers and other carriers be maintained impartially. That goal may not seem unreasonable, but each potential buyer — other railroads, employees, or shippers — has self-interest which threatens it.

There are a number of questions about the sale that must be aired and considered closely.

LAST WEEK, CONRAIL'S EMPLOYEES made the first offer for the railroad, calling it "a jobs plan, pure and simple."

Employees surely want to preserve their jobs, but what would happen if their bid is successful and management has to lay off or fire people when traffic levels drop?

That is a real possibility. Conrail traffic slipped 20 percent from 1981 to 1982 alone. What would happen if time doesn't bear out the mildly rosy forecast by the U.S. Railway Association for growth in traffic? Would employees who share ownership in Conrail let management issue layoff notices to their brethren? Who would make the impartial choice, a shop steward or division superintendent?

The unattractive specter of unhappy, laid-off railroad workers in an election year suggests that the Department of Transportation won't turn down the employees' offer before the 1984 elections, conveniently giving time for other bidders to surface.

WHILE DOT HASN'T COMMENTED publicly on the employees' bid, Secretary of Transportation Elizabeth Dole clearly wants other bidders and claims several other parties are interested. No one is sure who the parties are, but speculation centers around railroads in the West and South, singly or in combination.

The problem of impartial service is applicable here, too. The winner can use the market and operating power of single-line rates and service to win customers while offering competitors old-fashioned disincentives such as bad connections, slow service and unfavorable divisions of revenue between carriers.

Do recent trends toward maximizing revenue by extending lengths of haul and revising rate structures qualify as cooperation? Some industry officials feel the high percentage of traffic interchanged and the presence of few major carriers forced by mutual self-interest to work together make cooperation necessary.

But what is to prevent the winner of the Conrail sweepstakes from acting more in self-interest than in a spirit of cooperation? Neither the Interstate Commerce Commission nor the Justice Department has yet considered revenue maximizing actions to be in violation of antitrust or other laws. Would those agencies

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Conrail Sale: Some Questions - Concluded

change their stance if a Western or Southern carrier suddenly was in a position to dictate traffic flows throughout the Northeast and industrial Midwest?

L. Stanley Crane, Conrail's chairman, has demonstrated that with good management the property can show a profit, which should go a long way toward allaying the fear expressed by his lodge brothers that the proverbial silk purse couldn't be made from a sow's ear.

The stakes surely are high. Conrail's interchanged traffic generated more than $1.8 billion last year in revenues. More than $1.12 billion of that was received from other carriers whose traffic was terminated on Conrail tracks. What carrier would sit still and let more of that revenue go to a competitor, even with the higher costs of operating in the Northeast because of shorter hauls?

IF CONRAIL IS A DESIRABLE PROPERTY, a bidding war may well ensue. The winner is likely to be the would-be buyer with the deepest pockets and the smartest lawyers — if only to fend off the suits by the losers.

A possible alternative to this outcome would be to convert Conrail into a giant, impartially run terminal railroad.

But getting top rail management to agree to such a proposal seems unlikely, especially when the mood of the moment seems to be increased competition in a deregulated, free-market setting.

And just where do any of these scenarios leave shippers? On-line shippers might be tempted to side with employees, because both want to preserve service. If another railroad bought Conrail, industry analysts predict that it well might lop off all but the most profitable parts.

Other shippers, those whose goods move via Conrail through interchange with other railroads, may well feel that their service is protected by existence of competitive rail outlets.

One way shippers might protect themselves against reduction in service levels is to buy the carrier themselves. There might be merit in this proposal if the shipper-owners allowed other railroads to run trains on a contract basis over the Conrail system.

However, the notion leaves several questions unresolved.

First, whose employees would run these "contract" trains? Could an arrangement like present trackage rights work? In addition, how would the 40 percent of Conrail's traffic that is local be moved? What kind of management would be needed to coordinate operations?

Most of all, how would the question of impartial treatment among shipper-owners be resolved? Would U.S. Steel, for example, sit idly by and lose service it viewed as valuable while trains were kept running on a spur to a Bethlehem mill?

We don't pretend to have the answers to all such questions, but it is clear that a politically expedient sale or an auction to the highest bidder won't necessarily keep Conrail solvent and in the private sector, where it belongs.

Journal of Commerce
June 28, 1983

NITL Backs Moves to Cut Labor Costs

Journal of Commerce Staff

WASHINGTON — The National Industrial Transportation League has announced support for motor and rail carrier initiatives to reduce excessive labor costs.

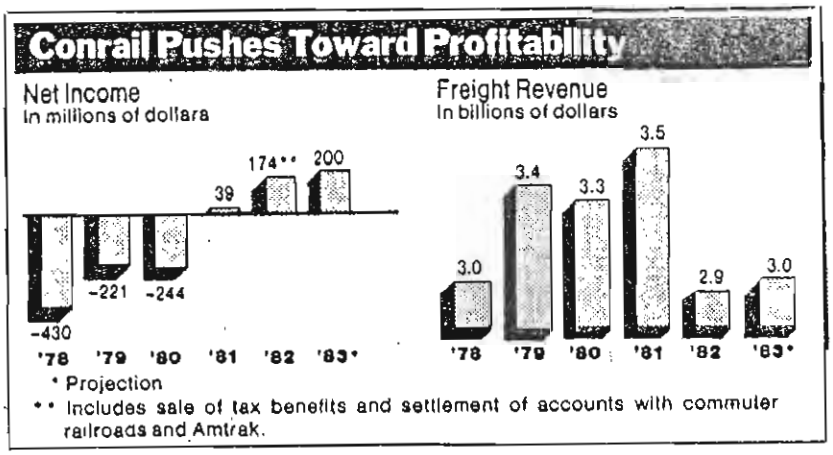
The league said the support announcement resulted from June 22 meetings between the league's Project 2000 Presidential Advisory Committee and key rail and trucking industry leaders.

Trucking industry cost reductions supported by the group centered on the Employee Retirement Security Act and multi-employer pension plans, as well as uniform state regulations.

The rail industry cost solution backed by NITL included seeking legislation to the financial problems confronting the railroad retirement system that would have a minimal impact on the shipping and consuming public. NITL also backed the fight to stop states from requiring the use of cabooses.

New York Times, July 4, 1983

Sale of Conrail Now Appears Attractive



By AGIS SALPUKAS

Conrail is suddenly looking good enough to put on the market — a surprise even to the railroad's own management — and the sale may come soon, as a public stock offering.

L. Stanley Crane, Conrail's chairman and chief executive officer, thinks it is a good time to sell the federally owned railroad back to the private sector because of its sharply improved earnings, which have attracted interest from potential buyers. And he and others involved in the preparations for a sale think that a public stock offering may be the best course, given the momentum of the stock market.

The Consolidated Rail Corporation was formed by Congress on April 1, 1976, when six bankrupt railroads in the Northeast were consolidated. Included was the Penn Central, the largest of the roads. Congress took the step to preserve vital rail service and pumped in $3.28 billion to revamp tracks, equipment and yards.

In 1981 Congress passed the Northeast Rail Service Act, which enabled management to reduce costs and operations, and set the conditions under which the railroad could be sold, with mid-1984 as the target date. The intent of Congress was to return the railroad to the private sector as soon as it became financially viable. The Department of Transportation will be in charge of the sale.

Mr. Crane has guided the nation's fifth-largest railroad through a deep recession by trimming costs and staff. The cuts enabled Conrail to make money even as it lost 26 percent of its traffic.

Although this year's traffic is expected to remain at the depressed level of 1982 — about 177 million tons — Conrail's finances are picking up dramatically.

Mr. Crane, who was recruited by the Government from the Southern Railway Company, where he was chairman, estimated Conrail's earnings at $100 million for the first six months of this year. He and his staff last year had forecast earnings of only $92 million for all of 1983.

During a recent interview at his Philadelphia office, Mr Crane said that 1983 earnings "might approximate $200 million, which is about twice as good as I thought I was going to do."

Those numbers are even more impressive than they sound, for most of the 1983 earnings will come from operating profits — not, as in past years, from the sale of tax benefits and other forms of nonoperating profit. Last year, such unusual factors made up $135.1 million of Conrail's $174.2 million of earnings.

Because of the upturn in Conrail's performance, interest in buying the railroad is growing. One attraction for the buyer, be it another railroad, the public or a coalition of unions, might be the opportunity to take control during a burgeoning economic recovery. The buyer would also get a chance to offset much of the taxes on profits with $1.2 billion in loss carry-forwards still on the books.

So far, there has been only one official offer for Conrail, made in June by the Railway Labor Executives Association, an umbrella group that represents 16 railroad unions with 36,000 workers. But according to a key person involved in the effort to sell Conrail, interest is growing, with a number of feelers from other railroads.

"People are sidling up to the poker table and cards are being given out," he said, referring to the behind-the-scenes jockeying for Conrail, which is 85 percent Government-owned, with the balance held by employees.

A source, who asked not to be identified, said that Goldman, Sachs & Company, the investment banking house that has been hired by the Transportation Department to recommend the best course, may offer its suggestions well before the fall. Several sources close to the maneuvering said that Goldman, Sachs was leaning toward a public offering.

'Jumping Into Everything'

Mr. Crane, too, would like to see a public offering — and he thinks the time is ripe. "There's a tremendous amount of money out there looking for a place to be invested and they're jumping into everything under the sun," he said, referring to the large number of troubled airlines, such as Pan American World Airways, that have been able to raise more than they expected in the public market.

Mr. Crane added, however, that the decision rested with Elizabeth H. Dole, the Secretary of Transportation. "I certainly don't have any prejudice against another railroad acquiring us," he said. Any sale will also need Congressional approval.

Mr. Crane said there were two elements in the unions' offer that disturbed him. One was that the unions in effect would not be risking any money. Under the $2 billion offer outlined by Fred A. Hardin, the chairman of the labor association, $1.2 billion represented the carryover tax credits. Another $300 million represented wage concessions that the unions would make by extending the current concessions.

The employees would also contribute $500 million in cash, which would be raised by using Conrail's assets as collateral. Mr. Crane noted, however, that the railroad's cash on hand stood at $400 million to $500 million, far more than it needs. Thus, he said, the workers would not risk any money of their own since the loan could be offset by the railroad's cash.

The Tax Credits

The other point that disturbed Mr. Crane was that, since the Government really owns the $1.2 billion in tax credits — having pumped billions of dollars into the system since 1976 — the Government should get some benefits in return for giving those tax credits to a buyer.

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Sale of Conrail Now Appears Attractive - Concluded

profits but its own.

As for using the cash on hand to offset the loan of $500 million, he said the union's intention was to leave that money for the railroad's use.

He added that if the employees buy the majority of the stock, "they will make whatever concessions are necessary to keep up the railroad."

Cash Flow Study

The United States Railway Association, an agency set up under the Northeast Rail Service Act of 1981 to determine whether Conrail could generate enough cash flow on its own to become viable, found last June that continued wage concessions were essential.

With the concessions, the agency estimated, Conrail could generate a positive cash flow of $255 million from 1983 through 1987. Without them, the agency projected a negative cash flow of up to $290 million for the four years.

Because of the better-than-expected performance of the railroad, Mr. Crane now does not agree with the agency's conclusions.

Most of the major steps to make the railroad profitable have already been taken, he said. The payroll, for example, has been cut from 74,300 employees to 40,000. When he joined the railroad, Mr. Crane said, 65 cents of every $1 spent went for wages. The figure has been cut to 49 cents.

Under a special program, the railroad has also been able to abandon 2,600 miles of track that no longer provided an adequate return. Mr. Crane said that 1,300 miles more may be submitted for abandonment by October. Also, as of last Jan. 1, the railroad transferred its commuter services — which had added about $70 million a year to Conrail's costs — to various regional agencies in the Northeast.

But there is a major worry confronting Conrail: whether its large loss of traffic has been stemmed or whether its markets will continue to be eroded by the aggressive competition from trucking and the decline of basic industries, such as steel and autos in the Northeast and Middle West.

As for the wage concessions, which have totaled $280 million so far, he said the unions' argument that they were owed the money was not valid. "They got jobs out of it which might not have been there had they not been willing to make that concession," Mr. Crane said.

In any case, he added, by July 1984 he might be willing to bargain for changes in work rules while asking for less in wage concessions.

Mr. Hardin countered in a telephone interview that it was mainly because of the wage concessions that Conrail had been able to make a profit, and therefore it was real money that was being given up. He added that with the union offer to give up the tax credits, the Government would be assured of not losing that money. A railroad acquiring Conrail, he said, could apply the credits not only to offset Conrail's

Journal of Commerce, June 24, 1983

Beatrice May Make Trucking Switch

By RIPLEY WATSON 3rd
Journal of Commerce Staff

WHITE SULPHUR SPRINGS, W. Va. — Beatrice Foods Co. in Chicago is considering shifting from extensive use of its own massive private truck network to using piggyback rail for long haul shipments and regional trucking companies for local pickup and delivery.

Paul Pelletier, director of distribution services for Beatrice, one of the top 10 U.S. food companies, also revealed the company is specifying that all future trailer purchases be suitable for piggyback operations.

On a panel of shippers addressing the annual meeting of the Railroad Public Relations Association here Thursday, Mr. Pelletier proposed "a revolutionary idea — let's work together to form a strong transportation system."

He called upon railroads to become more active in such shipper groups as the National Council of Physical Distribution Management by joining the group's periodic area roundtable meetings.

He said railroad and shipper management should invest money in training sales staff to address changing mutual needs brought about deregulation. Beatrice, he said, has introduced a mandatory marketing course for 360 executives as part of an overall change in distribution strategy at the firm.

He applauded railroad efforts to reduce empty freight car miles. One Beatrice train which operates empty southbound and full northbound is a prime example of one backhaul opportunity he is anxious to explore with carriers.

Philip Yaeger, president of Hub City Terminals Inc. of Chicago, largest piggyback freight consolidator in the United States, confined his remarks to the intermodal industry. He called the shippers' agent a built-in sales force for railroads who choose to wholesale service; it would cost the railroads $250 million to replace agents, he said.

Some railroads, such as the Chessie System, who have chosen to retail rather than use shippers' agents pick that route because poor service has eroded their market share, he said.

There is still a role for retail railroads in some cases, such as CSX'sOrange Blossom Special freight train, in which the company deals directly with Florida citrus suppliers, but the shippers' agent can fill backhaul moves for that train.

Journal of Commerce, June 28, 1983

Hagen Urges Rate Reductions on Boxcar Traffic

By RIPLEY WATSON 3rd
Journal of Commerce Staff

WHITE SULPHUR SPRINGS, W. Va. — Cutting rates to fill boxcars once the concept clears legal hurdles won't bring equal gains in revenue because the market is less elastic, according to James Hagen, senior vice president of marketing at Conrail.

Mr. Hagen told the Railroad Public Relations Association annual meeting here late last week that lowering rates won't generate enough volume to exceed current revenues. Price levels for boxcar traffic, however, still must come down to meet trucking competition, he said.

"I don't want to destroy the boxcar," Mr. Hagen said, reporting that 20-25 percent of the railroad's traffic is hauled in the car type deregulated by the Interstate Commerce Commission three months ago.

That deregulation is now subject to court challenge.

Conrail, which proposed the essence of the boxcar deregulation plan, is making an orderly transition into the new situation, Mr. Hagen said.

"We won't throw out all the present rates," he said. "We must go about change in a systematic way," he explained, while proposing that any other approach might prove those who predicted that chaos would result from deregulated boxcars to be correct.

Asked whether he thought Conrail would have trouble raising rates once they were dropped, he said, "You can't bring them up as long as there is excess capacity."

Conrail and other carriers really have been selling excess capacity in the present marketplace, Mr. Hagen contended and proposed that rates could only be increased as long as the traffic doesn't switch modes.

"The trick is that you have to communicate with your users," Mr. Hagen said. "You can't have a whole bunch of people get together and say to them, 'by the way, we're raising your prices.'"

Conrail is negotiating now with other carriers to try to set up new rate car utilization agreements, Mr. Hagen said. "This empty mileage is killing us," he said.

Empty miles are greater on Conrail than other railroads because it receives more traffic and has to return those cars home empty to other lines.

No agreements have been announced publicly as a result of Conrail's meetings with other carriers. Conrail has been trying to encourage other lines to buy its philosophy of setting through rates with different divisions of revenue between carriers. Conrail has contended it isn't getting a fair share of some boxcar traffic with the existing rate divisions.

Mr. Hagen reported some of the carriers with whom he has spoken have expressed interest in the idea, but only if the existing rate divisions are maintained.

Those old rate structures, Mr. Hagen said, are changing now as a result of deregulation, bringing with them an overall change in decision-making on rate policy which has taken the day-to-day process out of the hands of top management.

Lower-level managers are more prepared to make rate decisions now because they have access to information on costs and other market conditions, he said.

In the past, if top management changed one rate it would topple the entire structure, Mr. Hagen said, referring to the classification system that has been used less in deregulation.

Accounting, cost and competitive data generated within the company are more important to marketing officials now because the increasing presence of contracts has made outside rate information harder to obtain. However, pricing freedom is an improvement because the old process which lowered rates made it easier for shippers to stop any rate hikes through the rate bureau process, said Mr. Hagen.

Another change in marketing strategy has been to increase individualized rate negotiations, which has helped Conrail target particular shipper's needs, Mr. Hagen said.

Those negotiations have put much more emphasis on sales, he said.

"You used to just give out cigars and calendars," he said. "That's just not the way it is anymore."

Quad-City Times, June 24, 1983

$1 million plea to rail shippers

By John Willard
QUAD-CITY TIMES

Quad-City rail shippers were asked today to put up $1 million to help the Iowa Railroad Co. buy portions of the old Rock Island Lines properties serving Iowa and Illinois.

Gene Schwab, president of the Iowa Railroad Co., made the request during a report on progress made by the railroad since it began operating on the sections of the defunct Rock Island Lines last year.

The Iowa Railroad Co. currently uses 451 miles of former Rock Island track in Iowa and Illinois, including a 375-mile main track between Bureau, Ill., and Council Bluffs, Iowa, and a 10.5-mile branch serving the west Rock Island industrial park. Twenty-eight Quad-City companies use the branch, and several other local firms are served by the main line.

THE IOWA Railroad Co., consisting of Schwab and eight other stockholders, currently is leasing its track from the trustee of the bankrupt Rock Island Lines. The company is seeking $45 million to finance purchase and rehabilitation of the tracks.

Schwab told shippers his group is getting $15 million from the Iowa legislature. Other possible sources of funding include the federal government, which is difficult to get, and financing from private lenders. But a principal source of money should come from a partnership of rail users, who would own the railroad and lease it back to the Iowa Railroad Co.

Schwab said the Rock's trustee would like the purchase to be completed by November or December. A purchase price, which Schwab said he couldn't reveal, has been reached.

Harlan Wiss, vice president of warehousing and distribution for Eagle Foods, a major shipper, told Schwab that users would have to have detailed information on what they could expect from the venture before they could even talk about it.

RICHARD Weeks, president of the Quad-City Development Group, which arranged the meeting, suggested that another meeting be held between the railroad and a the railroad steering committee formed recently by shippers.

Shippers generally expressed satisfaction with service provided by the Iowa Railroad Co.

Gary Swift, operations manager for the railroad's eastern division serving the Quad-Cities, said car loadings in the Quad-Cities have more than doubled since the Iowa Railroad took over operations in May 1982 from the Davenport, Rock Island and North Western Railway (DRI Line).

He said the railroad has purchased 400,000 ties for general repair of the entire system and that the railroad hopes to rebuild its switching yard in Rock Island this summer.

The Iowa Railroad has 25 regular employees and nine summer employees based in the Quad-Cities. The switch engine operating on the 10.5-mile Milan branch now operates in two shifts from 8 a.m. until 2 a.m., Swift said.

System-wide, the railroad employs 65 people, many of them former Rock employees.

Cedar Rapids Gazette, June 23, 1983

Iowa in line for railroad rebuilding funds

By David Lynch
Gazette Washington reporter

WASHINGTON — Iowa would receive priority treatment in the allocation of $15 million earmarked for local railroad rehabilitation under the $11.3 billion transporation appropriation bill approved by the House on Wednesday.

The Reagan administration requested no funding for the Local Rail Service assistance in his budget, and Gov. Terry Branstad lobbied for continuation of the program when he was in Washington for the National Governors Conference last winter.

The transportation appropriations bill does not specify how much of the $15 million Iowa will receive — the allocation is based on a complicated rail mileage formula, and the distribution of $5 million of the total is left to the discretion of the Department of Transportation — but the secretary of transporation is ordered to give priority consideration to states such as Pennsylvania, Minnesota, Iowa, Oregon, Washington, Kentucky and Massachusetts, which need funds to complete on-going rehabilitation projects.

Rep. Tom Tauke, a Dubuque Republican, said Iowa won this priority rating because it has the most extensive branch line system in the country.

Iowa's delgation was split along party lines on the bill, with Democrats Neal Smith, Tom Harkin and Berkley Bedell voting for it and Republicans Tauke, Jim Leach and and Cooper Evans voting against.

Cedar Rapids Gazette, June 20, 1983

Iowa Northern Railroad rolls with more volume

By Dave Rasdal
Gazette Eastern Iowa reporter

DYSART — When the grain pours into a 3,500 bushel railroad car this week at Tama-Benton Cooperative Co. in Dysart, it will represent the 15th shipper to join the 2-year-old Iowa Northern Railroad.

The railroad was just an idea in early 1981 when shippers along the Rock Island Railroad tracks had been without service for a year and were anxious to get something started.

Carnus Corp., the parent company of LaSalle, Ill., Transport Co., gave the railroad its start by investing almost $1 million in track renovation. It christened the new railroad Aug. 8, 1981. The only engine it had at the time made its inaugural run on a 38-mile stretch of track from Cedar Rapids to Washburn, just south of Waterloo.

Today, Iowa Northern Railroad leases four engines and almost 500 covered hopper cars. It operates 140 miles of track and plans moving nearly 7,000 carloads of grain this year.

The running equipment — engines and cars — is leased from Greyhound Leasing and Chicago Freight Car leasing companies.

The newer engines are reconditioned Rock Island locomotives, each delivering 2,500 horsepower, enough to move a 25-car grain train.

The Rock Island tracks Iowa Northern leases stretch from Cedar Rapids to Manly in north central Iowa, with a 14-mile branch line from Vinton, through Garrison, to Dysart.

LAST YEAR Iowa Northern Railroad moved about 3,500 full hopper cars, or more than 19 million bushels of grain. Assistant general manager C.J. Stoffer estimates the company will double its volume this year because of higher grain prices and the moving of payment-in-kind grain.

"The key to this thing is that the line has made great gains for agriculture in Eastern Iowa," said John Gohmann, president of LaSalle Transport which also owns a Chicago-based industrial switching railroad. "You don't see any grain trucks on the roads around there any more.

"We've proven the railroad can be viable and it is operational. Our marketing has been the key."

Each elevator along the lines has a contract to move a certain number of railroad cars each year, ranging from 100 to 600 carloads.

"A good shortline railroad shouldn't be much over 130 miles and you've got to have about 15 shippers, then you should have a pretty good operation," said Les Rowse of Marion, general manager for Iowa Northern Railroad.

"What we have here is the perfect shortline. You can keep track of everybody and what we go through is some of the richest land in the country."

IOWA NORTHERN , based in Greene, Iowa, 30 miles northwest of Waterloo, employs 15 full-time workers, including two train crews of an engineer and a conductor. Two more train crews will be added later.

A pair of two-man road crews work on the tracks, each replacing from five to 20 ties per day, depending on the condition of the old ties and the ground.

"We're trying to make it a good, safe track, good for 10 miles per hour," Rowse said as he watched two men replacing ties. "We're not running a passenger train.

"When we get it bought, we'll do something different," he added. "Right now, we're just leasing this stuff."

There are no immediate plans for expansion, the railroad company instead plans to concentrate on good service to its present customers. That service not only provides cheaper rates than truck transportation, but also enlarges the potential market for the sale of grain.

MARK MONROE , general manager of the Tama-Benton Cooperative Co. in Dysart, said moving by rail can save 2 to 4 cents per bushel now. Other people say savings can get as high as 10 cents per bushel, depending on market conditions. That extra money is added profit for farmers.

"I'm excited about it," Monroe said, when asked how he and the co-op members feel about the railroad coming to Dysart. "They were still somewhat surprised when it came to town. We heard so many promises before — not from these people — that never came through.

"Everybody wanted to see the cars, see the train before they'd believe we were actually going to ship by rail," he added.

Ten hopper cars were delivered June 6 with the first loaded cars scheduled to leave Dysart sometime next week. About 250 carloads are expected to leave the elevator this year.

"And they can go anywhere they want to with grain," Rowse said, explaining that shipments can go to any place on the continent.

Iowa Northern is linked with the Chicago & North Western at Cedar Rapids, Waterloo and Manly; to the Milwaukee Road at Nora Springs and to Illinois Central Gulf at Waterloo.

Iowa Northern works as the middle man, shuffling the grain between the elevators and the large railroad companies.

"I think they've had their ups and downs," said Brad Davis, general manger of the Vinton Co-op which has elevators in Vinton and Garrison. "But I think overall they've been very good.

cont'd...

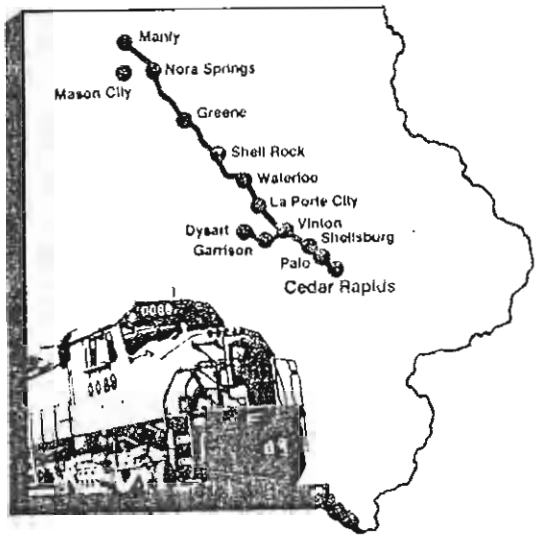
Iowa Northern Railroad Rolls With More Volume - Concluded

"It's a railroad that not only works for itself, but it works for the people that are using it. It's more customer oriented than, say, the larger railroads."

Rowse, who wound up a 25-year career with the Rock Island Railroad as a conductor from Cedar Rapids to Silvas, Ill., agrees. He joined Iowa Northern in 1981 and says a wide range of experience is a prime company asset.

"Everybody can do everybody else's job, that's what makes it successful. I can do everything but drive a spike," Rowse said, laughing.

"It's family oriented," he added. "We're all working together as a family. Everybody's got a job to do and they do it."



Des Moines Register, June 30, 1983

Corn acreage in Iowa down by 34 percent

By DON MUHM
Register Farm Editor

The number of acres planted to corn in Iowa this year is the smallest in more than a generation, according to estimates made available Wednesday by the U.S. Department of Agriculture.

The USDA report says this year's corn acreage totals only 9.1 million acres, the smallest amount of cropland devoted to corn production since shortly before the beginning of World War II.

Only 8.6 million acres will be harvested as grain, with the rest used as ensilage. The grain acreage is the smallest since 1936.

Iowa's corn planting is about 35 percent smaller than that of just a year ago, thanks to this year's popular farm program, which earlier had appeared to be taking 6.2 million acres of Iowa farmland out of production this year.

Preliminary figures had indicated that Iowa corn farmers might be idling as much as 41.5 percent of their grain base, or cropland normally planted to corn, rather than the 35 percent reported Tuesday.

The current figures are based on crop conditions that existed on June 1 and do not reflect any recent cropping changes that might have been caused by heavy rains.

Iowa soybean plantings also are smaller than those of a year ago, but by a lesser degree, the USDA said. Iowa soybean growers have planted only 8 million acres, 7 percent below than the record plantings of 1982.

On the other hand, oats have been seeded on about 5 million acres. The total acreage includes about 4.2 million acres of oats seeded as a soil-conserving cover crop to comply with requirements of the 1983 farm program.

Nationally, it appears that cropping history will be made this fall, when for the first time ever more acres of soybeans than of corn will be harvested.

The USDA estimated that there are only 60.1 million acres of corn planted in the United States, down 27 percent from the a year ago, while soybean plantings are expected to total 63.3 million acres, down only 12 percent.

Here is a look at how corn plantings have been cut in the major corn-raising states: Iowa — 9.1 million acres (down 34 percent); Illinois — 8 million acres (down 29 percent); Nebraska — 5.4 million acres (down 27 percent); Minnesota — 5.1 million acres (down 30 percent); Indiana — 4.9 million acres (down 25 percent); Ohio — 3.1 million acres (down 29 percent); Wisconsin — 3.1 million acres (down 27 percent); South Dakota — 2.3 million acres (down 29 percent); Michigan — 2.2 million acres (down 30 percent); and Missouri — 1.7 million acres (down 17 percent).

For soybeans, Illinois growers plan only a 5 percent cutback, with 9 million acres planted. Missouri farmers have planted 5.25 million acres, a 12 percent reduction, while in Indiana, soybean growers have planted 4 million acres, a 13 percent decline.

The USDA statistics indicate that some hay land may have been plowed up for crop-raising purposes. In Iowa, for example, the amount of hay land is put at 2 million acres, 11 percent below a year ago.