Corporate Relations

M E D I A   M O N I T O R   June 9, 1982

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Toronto Globe and Mail   May 25, 1982

U.S. unit of CN to acquire Milwaukee Road

Grand Trunk Corp. of Detroit, a U.S. holding company wholly owned by Canadian National Railways, has signed a letter of intent to acquire the Chicago Milwaukee St. Paul and Pacific Railroad Co. of Detroit, better known as the Milwaukee Road.

Robert Bandeen, former CN president, had expressed interest in absorbing the Milwaukee Road last fall, after the company filed for protection under Chapter 11 of the U.S. Bankruptcy Code.

At the time, Mr. Bandeen said Grand Trunk, which has more than 3,000 kilometres of railway in the north-central United States, was looking at the acquisition because deregulation in the United States had increased competition. Grand Trunk had to "take more steps to protect itself . . . and avoid getting clobbered.

"Cross-border freight routes are of great importance to the total CN system," he said. The Milwaukee Road acquisition would create an 8,000-kilometre system, almost encircling the U.S. side of the Great Lakes.

Under the letter of intent, Grand Trunk is to acquire the stock of the Milwaukee Road after it has been reorganized. In return, Grand Trunk has agreed that the newly reorganized corporation will assume about $250-million (U.S.) in debts and obligations of the Milwaukee Road estate.

On the New York Stock Exchange, shares of Chicago Milwaukee Corp. of Chicago gained $6.25 to $53, on expectation of the sale of its bankrupt railway subsidiary. The deal was announced after the market closed.

Under the proposed merger agreement, the estate of Milwaukee Road will retain possession of the its Milwaukee Land Co. subsidiary and certain other railway properties, a spokesman for Milwaukee Road said.

These assets, along with funds in existing escrow accounts, would be used to satisfy claims of creditors of the estate and claims of existing shareholders, the company said.

About $50-million in U.S. federal loans to the railway company, plus accrued interest, which may amount to $50-million, will be cancelled upon closing the transaction, it said.

The letter of intent calls for a definitive agreement by July 1. The merger requires the approval of the Milwaukee Road Bankruptcy Court and the U.S. Interstate Commerce Commission.

Milwaukee Road sale plans are welcomed by officials

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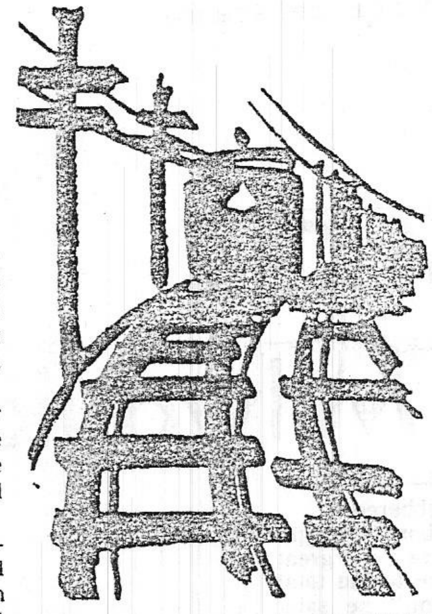
By Paul A. Rix
State government reporter



There was plenty of glad handing this week when Grand Trunk Corp., of Detroit announced plans to buy the Milwaukee Road, a once overgrown railroad that has managed to prune losing lines for years.

"This is the best thing that's happened in years," says a Milwaukee Road executive familiar with rail abandonments in Wisconsin. "I look for things to improve. I sure hope that we have seen the worst."

The acquisition will be good for Wisconsin's economy because the railroad will be healthy, a state Transportation Department official said.

A state Justice Department attorney added, Grand Trunk's proposal "probably won't change things much (for Wisconsin). Who can tell what these big companies will do?"

Even U.S. District Judge Thomas McMillen, Chicago, appeared sympathetic to the proposal. He called it an important step in improving trade between the U.S. and Canada.

McMillen has presided over the Milwaukee Road's efforts to reorganize ever since the company entered his bankruptcy court in December, 1977.

The Milwaukee Road is not likely to abandon its reorganization effort in the wake of this week's announcement by Richard Ogilvie, trustee for the Milwaukee Road and former governor of Illinois, and John Burdakin, president of Grand Trunk Corp.

"This represents a new direction for the Milwaukee," William Bickley, director of public relations for the Chicago-based Milwaukee Road, said.

"We're a stronger entity. But we're still going on the basis that everything that occurred before Monday (the day of the announcement) won't change." That, Bickley said, includes the disposition of the railroad's property in Wisconsin.

News analysis

The Milwaukee Road, which is still negotiating the final price for some 15 lines in Wisconsin with the state Justice Department, apparently has plans to shed additional marginal routes.

The railroad has already indicated it wants to drop service from Madison to Janesville and from Racine to Sturtevant. Company property around Burlington and Avalon is also up for grabs.

Deal pending

"Until the deal is sealed," says John Williams, director of public affairs for the Grand Trunk in Detroit, "the two railroads will continue to operate as they have."

Williams said Ogilvie and Burdakin anticipate opposition from such competitors as the Soo Line Railroad and the Chicago and North Western Transportation Co. Both have lines in Wisconsin. The Soo, based in Minneapolis, is a subsidiary of Canadian Pacific Limited, Montreal.

"Both railroads are in a fight to survive against the big ones," Williams said.

The Grand Trunk, a unit of Canadian National Railway, operates three U.S. railroads: the Grand Trunk Western; Duluth, Winnipeg & Pacific; and Vermont Central. Combined they are 2,100 miles long and employ 6,100 persons. The corporation showed a $17.2 million profit last year.

The Milwaukee Road is 2,900 miles long, has 6,300 employees and had a $35.8 million operating loss last year, although in March it reported a $4.2 million operating profit for the first time since filing for bankruptcy in 1977. The two systems connect in Chicago and Duluth, Minn.

The letter of intent stipulates that the Grand Trunk will acquire all stock of the Milwaukee Road after it has been reorganized and assume the Milwaukee's $250 million in debt incurred since the filing for bankruptcy.

$500 million debt

The Milwaukee Road has $500 million in long-term debt, half of which was incurred prior to the bankruptcy filing. Debt incurred prior to the filing will be paid off from cash obtained through the sale of 7,000 miles of track recently abandoned. Any money left over from the land sales "will go to the stockholders," said Thomas Power, Milwaukee Road vice president of finance.

Milwaukee Road officials are hoping that an estimated $100 million in federal funds borrowed under provisions of the Emergency Rail Services Act, a federal law, will be forgiven.

The Milwaukee Road on Tuesday will seek an order from McMillen authorizing Ogilvie to submit an application to the Interstate Commerce Commission for sale of his railroad, negotiate a definitive agreement with the Grand Trunk by July 1 and submit a revised reorganization plan to the court and ICC.

Williams said the Grand Trunk in 1979 expressed interest in acquiring parts of the bankrupt Chicago, Rock Island & Pacific Railroad but backed off after federal officials and other railroads objected.

Burdakin said the Canadian ownership issue was raised before the ICC when the Grand Trunk acquired the Detroit, Toledo and Ironton Railroad in 1980 but was not a significant factor in the ICC ruling.

New offer for Rock Island tracks disrupts expansion plans

AMES, Iowa (AP) — A last-minute offer by the Chicago and North Western Transportation Co. to buy or lease former Rock Island tracks in central and eastern Iowa could be an attempt to disrupt expansions planned by competitors, a state railroad official said Tuesday.

The Iowa Transportation Commission was told during its regular meeting in Ames that the offer by Iowa's largest railroad not only could stymie the plans of two other railroad companies, but could jeopardize the delivery of coal needed to fire up a huge, new power plant near Muscatine as well.

Les Holland, director of the Iowa Department of Transportation's rail division, said the North Western's bid late last week on certain Rock routes came as a surprise.

It was made as the Iowa Railroad Co., a new, privately-owned company based in Atlantic, was seeking authority to expand operations on Rock Island tracks through Des Moines and the Quad-Cities to Illinois and as the reorganized Milwaukee Road was on the verge of buying a former Rock route from Washington, Iowa, to Davenport.

"One can't help but speculate that it's an effort to disrupt" some of the efforts by the Milwaukee Road and the Iowa Railroad Co, Holland said.

Bryan Whipple, president of the Iowa Railroad Co., said he felt the North Western was "trying to lay some groundwork" to oppose the revitalized Milwaukee Road and was trying to give a major Iowa competitor "some extra Excedrin headaches." DOT officials said Tuesday they expect the Milwaukee Road to be strengthened through its merger, announced Monday, with the Great Trunk railroad.

A spokesman for the North Western denied those charges later Tuesday.

"We would not do something for a negative purpose," public relations director Jim R. MacDonald told the Associated Press in a telephone interview from Chicago. "We did it because it's a good business venture."

At issue is a 64-mile stretch of old Rock Island track from Washington to Muscatine. It is fast becoming a "plum" railroad route as it is expected to carry 110-car trains of coal every other day for the new Louisa Generating Station located just south of Muscatine.

The Milwaukee Road, which has operated trains on the route for years, has offered $14.5 million to buy the route from the Rock's bankruptcy trustee.

But last Thursday, Holland said, the North Western met that offer, then upped the ante a day later just prior to a U.S. Bankruptcy Court hearing in Chicago. The North Western increased its offer by $2 million, offered to at least temporarily lease — at 20 percent above present shipping rates — the Rock tracks wanted for lease by the Iowa Railroad Co. in central and eastern Iowa, and further offered to pick up track rights on a nearly 40-mile stretch of track from Davenport to Clinton.

DOT officials estimate that proposal could mean $21 million more to the Rock trustee than the Milwaukee Road's offer.

Holland said bankruptcy Judge Frank McGarr, who delayed a decision on sale of the route, must consider maximizing the money available for return to Rock creditors.

But the DOT will argue that he also must consider the public interest, Holland said.

In this case, the Louisa Generating Station needs a 90-day supply of coal prior to scheduled start-up in late September or October, Holland said. Since the Milwaukee Road has operated on the line, the deal would be considered a minor transaction and could be approved in time for the railroad to make needed repairs and begin the coal shipments, he said.

On the other hand, the North Western's proposal would be considered a major realignment, meaning a delay in the deal as more hearings and reviews must be held, Holland said.

Judge McGarr set another hearing on the matter for June 4.

Holland said the DOT staff and the Iowa Transportation Commission have supported the Milwaukee Road's efforts in hopes of preserving competition among railroads. Sponsors of the new power plant — Iowa Power and Light, Iowa Public Service, Eastern Iowa Light and Power Co. and the city of Tipton, in addition to Iowa-Illinois — are supporting the Milwaukee Road as are other shippers along the route, he said.

The Milwaukee Road already is making nearly $500,000 in repairs to switching facilities in Ottumwa to handle the coal shipments, he added.

Holland questioned the economic feasibility of the North Western's proposal to operate on the approximately 190-mile line through Des Moines, Newton, Iowa City and the Quad-Cities.

Iowa Railroad has estimated the costs of operating that line at $571 a mile per month. Holland questioned whether North Western financially could justify operating trains at 25-30 miles per hour on that slower route when it operates a double, 30 m.p.h. route parallel to it through Ames, Marshalltown, Cedar Rapids and Clinton.

The North Western spokesman asserted that his company could make money hauling goods locally on the old Rock route.

"Do people think we're crazy?" MacDonald said. "We see it as good business and it is up for sale to all bidders and we're a bidder."

He said the route would provide access to agricultural implements in the Quad-Cities and access to Mississippi terminals for grain shipments,

Whipple, of Iowa Railroad, said his firm is hoping to operate strictly local trains making round-trips out of Council Bluffs, Des Moines and the Quad-Cities. Expected clients would include the Cargill grain plant and Staley AE Manufacturing Co. in Des Moines, Maytag Appliance of Newton, the Penick-Ford and ADM Corn Sweeteners grain plants in Cedar Rapids and implement makers in the Quad-Cities.

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Quad City Times, Davenport
June 5, 1982

Railroad connections

A federal judge in Chicago is giving the Milwaukee Road a chance to bid on Quad-City area track and property of the bankrupt Rock Island Lines being sought by another railroad.

U.S. District Court Judge Frank J. McGarr on Friday gave the bankrupt Milwaukee Road until June 29 to beat an offer made May 20 by the Chicago & North Western Transportation Co.

McGarr is overseer of the Rock's bankruptcy case.

THE C & NW purchase offer — which was not disclosed — covered:

- 64 miles of track from Davenport to Washington, Iowa.
- Property at Clinton, Iowa.
- The Rock's right to run from Clinton to Davenport over about 30 miles of Davenport, Rock Island & North Western Railway (DRI Line) track. The DRI Line is co-owned by the Milwaukee Road and Burlington Northern.

"It wasn't completely what we wanted, but it is an order we can work with and take to our reorganization court," Bill Bickley, a spokesman for the Milwaukee Road, said.

THE MILWAUKEE Road had bid $4 million for 38 miles of Rock track from just west of Muscatine to Washington, Iowa. The C & NW's bid was made last month during a court hearing on the Milwaukee's offer.

The Milwaukee Road will submit its reply to U.S. District Court Judge Thomas R. McMillen, overseer of their bankruptcy case. Any deal must be approved by the Interstate Commerce Commission.

At stake in the disupte is the lucrative Muscatine rail business and a contract to deliver coal to the Louisa Generating Station.

ALSO jeopardized may be hopes of the Iowa Railway Co. — now operating between the Quad-Cities and Bureau, Ill. — to reopen the Rock's main line between Council Bluffs, Iowa, and Bureau.

Toronto Star
May 26, 1982

CNR offers to buy stock, pay half Milwaukee railway debts

CHICAGO (AP) — The bankruptcy trustee of Milwaukee Road has announced plans to sell the railway to a corporation owned by Canadian National Railways that would double CNR's U.S. track mileage and extend its system south to Kansas City, Mo.

Under the proposed sale, announced Monday, Grand Trunk Corp. would purchase the stock of Milwaukee Road, which filed for protection under federal bankruptcy law in 1977, and assume $250 million in debts.

"The GTC acquisition of the Milwaukee will ensure continuation of the Milwaukee Road for the benefit of its employees, shippers and the public," said Milwaukee Road Trustee Richard Ogilvie, a former governor of Illinois.

Owns four railways

The sale must be approved by the Interstate Commerce Commission and U.S. District Judge Thomas McMillen, who has been supervising the reorganization.

Grand Trunk Corp., a subsidiary of the CNR, owns four U.S. railways, all operating along the Canadian border.

CN's U.S. holdings through Grand Trunk Corp., include: the Central Vermont Railway, which operates from the Canadian border throughout Vermont; the Duluth, Winnipeg and Pacific Railway, which runs from Duluth, Minn., to Winnipeg; the Detroit, Toledo and Irontown Railroad Co., which runs south from Detroit, Mich., to the Ohio River; and the Grand Trunk Western Railroad, which runs from Detroit to Chicago, Ill.

The sale would add the Milwaukee Road system, which runs from Chicago to Louisville, Ill.; from Chicago to Kansas City, Mo.; and from Chicago north into Wisconsin, the Upper Peninsula of Michigan and across Minnesota.

The systems would interchange in Duluth and Chicago.

Separate firms

Grand Trunk officials said they hope the entire transaction will be completed in about two years.

In the meantime, Milwaukee Road and Grand Trunk will continue to operate as separately managed firms, Ogilvie said.

Under the letter of intent signed by Ogilvie and Grand Trunk president John Burdakin, Grand Trunk will acquire the stock of Milwaukee Road after it has been reorganized.

In return, Grand Trunk has agreed to assume about $250 million of the $500 million estimated debts and obligations of Milwaukee Road.

The acquisition would combine Milwaukee Road's 4,666 kilometres of track with Grand Trunk's 3,380 and form a company that would employ 12,000 people.

GTC to Submit Plan To Buy Milwaukee Road To ICC by Late Summer

(From Midwest Bureau of Traffic World)

The Canadian-owned Grand Trunk Corporation, which announced plans May 24 to purchase the bankrupt Milwaukee Road, expects to file the proposal with the Interstate Commerce Commission by late summer.

The Milwaukee Road on June 1 will ask the reorganization court for permission to submit the application to the ICC for the proposed sale. In addition, Richard Ogilvie, trustee for the railroad, will ask the court's permission to negotiate a definitive agreement with the Grand Trunk by July 1, and to submit a revised reorganization plan to the ICC and to the court.

Both the court and the ICC will have to approve the proposed sale before it can be finalized, and that could take two years, perhaps longer.

Under the terms of the letter of intent signed May 24 by Mr. Ogilvie and John H. Burdakin, president of the GTC, the GTC will acquire all of the Milwaukee stock after the Milwaukee has been reorganized.

In return, the GTC will relieve the Milwaukee Road estate of about $250 million in debts and obligations.

Also, the estate will retain possession of the Milwaukee Land Co., which is now a subsidiary of the railroad, and other railroad properties that are determined to be excess to the reorganized railroad's operations.

Those assets, along with funds in existing escrow accounts, will be used to satisfy the claims of remaining creditors of the estate, according to Tom Powers, Milwaukee Road vice-president of finance.

In addition, the railroad expects about $50 million in federal funds borrowed under the Emergency Rail Services Act, plus accrued interest, to be forgiven by the government upon closing of the transaction. The loan is a liability of the estate. The interest could be as much as another $50 million, Mr. Powers said.

The transaction does not include the Milwaukee's commuter line, which lost $4.5 million in 1981. Mr. Burdakin said his company is not interested in taking over an unprofitable operation.

Mr. Ogilvie said if the Regional Transportation Authority does not purchase the railroad's two commuter lines by the time the deal with the GTC is closed, the commuter lines will not be operated.

The Milwaukee Road and the GTC plan to continue to operate as separately managed companies, pending regulatory approval of the transaction.

The two companies, however, plan to begin immediately operating coordinations designed to improve service to customers. The GTC operates a 2,100-mile route in 11 states and two Canadian provinces. The Milwaukee Road has slimmed down from the 10,000-mile system it had in 1979, when it went into reorganization, to approximately 2,900 miles, primarily serving six states.

President Burdakin said the combination of the two systems will give the GTC a better mix of products. The GTC primarily hauls automobiles and lumber, and the Milwaukee, grain.

"We view the proposed consolidation of Grand Trunk and The Milwaukee Road as an opportunity for two relatively small end-to-end rail systems to gain strength through cooperative efforts while improving their service to the public," Mr. Burdakin said.

He said that the GTC, which is a holding company for three wholly owned American railroad subsidiaries of Canadian National Railways, has no plans to acquire other railroads. In fact, it is possible that the Grand Trunk will be purchased by a larger company, he said. "Who that company might be, I don't know."

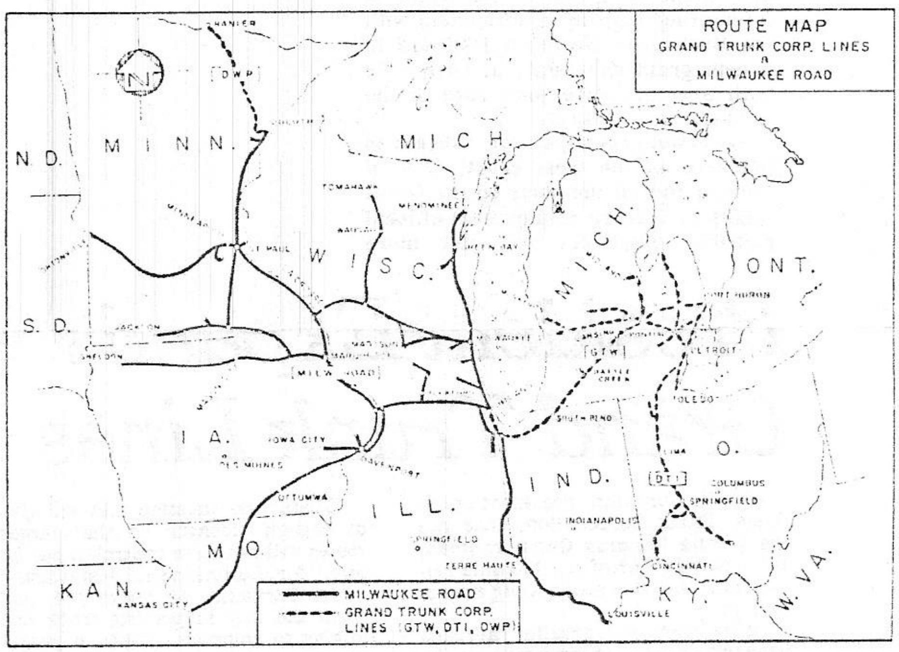
The GTC's subsidiaries are the Grand Trunk Western Railroad and its subsidiary, the Detroit, Toledo & Ironton Railroad; the Duluth, Winnipeg & Pacific Railway, and the Central Vermont Railway.

Mr. Ogilvie said the chance to be purchased by the GTC "is welcome on my part. It's been my hope all along that we could reorganize and become part of another railroad. With the conclusion of this, I will have accomplished both of those goals."

Mr. Ogilvie and Mr. Burdakin said they had discussed the proposed sale with Federal Railroad Administration authorities. Both men said they did not believe there was any reason for concern because the Canadian National Railways is owned by the Canadian government.

"The issue undoubtedly will be raised, but we operate surprisingly independent of Canadian National Railways," Mr. Burdakin said.

The president, also, said he would be surprised, "if we don't hear from the other Canadian railroad," and some United States railroads.



This is the 5,000-mile system that would be operated by the Grand Trunk Corporation if the GTC's proposed purchase of the Milwaukee Road gains approval. Both the reorganization court and the Interstate Commerce Commission would have to give their okay. The 5,000 miles include the 2,100-mile system now operated by the GTC, and the 2,900 miles operated by the Milwaukee Road.

Farmers, shippers happy about Grand Trunk takeover of Milwaukee RR

Montevideo
American News
May 27, 1982

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Announcement of the Grand Trunk Corporation's having agreed to take over the bankrupt Milwaukee Railroad after the road is reorganized is good news for shippers and farmers in this area.

The purchase is expected to insure continued, improved rail service through Montevideo, and combined with the merger of the Watson, Wegdahl and Montevideo elevators into a viable organization is a bright spot on the horizon for this entire agriculturally oriented community.

Officials of both railroads have signed a letter of intent for the acquisition, but warn that final approval of the takeover could be delayed as much as two years.

According to Arnie Anderson, president of the Great Plains Rail Shippers and Employees Ass'n, there remains one final negotiation, and that is the gateway issue in the western movement of grain. "The Ass'n is attempting to settle an agreement with the Burlington Northern Railroad to accept grain shipments at Ortonville with a competitive joint rate to the west coast," he says.

Anderson also says that "Access to markets on the west coast, Gulf of Mexico and all the ports on the Great Lakes will insure employment of local railroad employees and give more options in the marketing of local farm products. This purchase is what we have hoped for and it can't help but be beneficial to this area of the state."

The Grand Trunk provides rail service in 11 states and two Canadian Provinces, connecting to the reorganized Milwaukee Road in Chicago and in Duluth.

The Milwaukee Road which was once a major northern route link to the west coast is being reorganized into a more compact system running from Chicago to Louisville, Kentucky, Kansas City and part of Iowa, Minnesota and Wisconsin.

The letter of intent specifies the Grand Trunk would acquire stock of the Milwaukee Road in return for assuming approximately $250 million in debts and obligations.

The deal does not include the Milwaukee Land Company or certain other non-operations properties of the Milwaukee Road. Milwaukee Road Trustee Richard B. Ogilvie said those assets will be saved to satisfy claims of remaining creditors and shareholders.

The agreement, to be finalized by July needs the approval of the Interstate Commerce Commission and the Federal Court overseeing the finances of the Milwaukee Road, a process which may take two years.

President Expands Grand Trunk Lines

Washington Post
May 26, 1982

John H. Burdakin, president of the Grand Trunk Corporation, once ran the 46-mile Panama Canal railroad. He is now leader of a 2,100-mile rail system, but that is still not big enough for him.

To Mr. Burdakin, smaller railroads have two choices: to grow or go on the Government dole. And he has acted on his beliefs by signing a letter of intent for Grand Trunk to acquire the Milwaukee Road.

The Grand Trunk Corporation operates three subsidiaries: the Grand Trunk Western Railroad, the Duluth, Winnipeg & Pacific Railway and the Central Vermont Railway. In turn, Grand Trunk is a subsidiary of the Canadian National Railway.

"There's no question this will give us enough strength so that larger routes will not have control of our future," Mr. Burdakin said yesterday.

Mr. Burdakin, 59 years old, had spent the day inspecting track and talking to shippers. "Once a year I like to get over most of the railroad and talk to people out on the line," he said.

He said his bid to acquire the bankrupt Milwaukee Road — the formal name of which is the the Chicago, Milwaukee, St. Paul & Pacific Railroad — might take until 1984. But if all goes well, he said, the deal could be wrapped up by next year.

In bankruptcy, the Milwaukee Road has been cut from a 10,000-mile network to 2,900 miles. A combined Grand Trunk/Milwaukee Road system would serve nine Middle Western states in a 5,000-mile system.

Mr. Burdakin has worked for railroads all his life. He grew up in Wollaston, south of Boston, and was graduated as a civil engineer from the Massachusetts Institute of Technology. He went to work for the Pennsylvania Railroad in 1947 and worked there and at the Penn-Central Railroad until 1971, when he joined the Grand Trunk Western Railroad.

In 1959, he took a leave of absence for 14 months and ran the Panama Railroad for the Panama Canal Company. "That was the first time I had a whole rail system underneath me," he said.

Now, as Grand Trunk president, he said he would like his railroad to continue to grow. "We'll take a look at every opportunity that comes along."

Montevideo American News
May 13, 1982

Friends hold roast for Ross, railroad owner

by Jane McKeown

"I never thought I'd settle for a 38-mile branch line when I was fighting to keep a trans-continental railroad," says Jerry Ross, one of the leaders in the battle to keep a viable, Milwaukee Railroad coursing through Montevideo.

But that's what he has wound up with. Not as an employee, however, but as top banana.

Ross is president of Dakota Rail, Inc. which he recently purchased with John Wenschlag of Sisseton and Wally Schlemmer of Wood Lake. Schlemmer is vice-president of the newly formed company and Wenschlag, secretary-treasurer.

Because many of Ross's Montevideo friends have never known a man who owned his own railroad outside of in a Monopoly game, they honored him at a dutch treat dinner and roast at Chez Gus here on Tuesday night.

The 38-mile stretch of rail from Sisseton to Milbank, S.D., purchased by Dakota Rail is the former Sisseton branch line of the Milwaukee Railroad, and is expected to generate $1 million annually.

Wheels of the first locomotive on the newly purchased line are expected to be turning this week. Ross is general manager and his son, Mike Ross, who was recently discharged from the U.S. Air Force, is assistant to the president and general office manager. Kenneth Sparby, a former Milwaukee Road conductor from Montevideo has been hired as a conductor and Irvin Hopper, a former Milwaukee Road traveling engineer from Aberdeen has been hired as an engineer.

About 100 cars of barley per week, for a total of 5,000 carloads per year will be hauled from the grain-rich elevators of the Sisseton area to connect with the Burlington-Northern at Milbank. New rock and ties are expected to be used to re-build the roadbed this summer.

Ross is currently recovering from surgery which he underwent at University of Minnesota Hospitals. He returned to Montevideo May 3 after an operation which corrected a problem caused by a blood vessel pressing against a nerve.

Ross, who has 35 years experience as a railroad engineer, says he has never been a real railroad buff — "I just wanted to keep the Milwaukee Road running." He has disposed of some of his properties in Montevideo and plans to move with his family to Milbank sometime this summer. The offices of Dakota Rail are in that city, and it is also the new railroad owner's home town.

Aberdeen American News
June 2, 1982

Milwaukee sale one step closer

CHICAGO (AP) — A federal judge issued an order Tuesday allowing Milwaukee Road Railroad trustee Richard B. Ogilvie to request Interstate Commerce Commission approval of a proposed track sale to the Grand Trunk Corp.

Ogilvie announced last week a plan to sell the Milwaukee Road's 2,900-mile core system to the Canadian-controlled Grand Trunk, which has 2,100 miles of track in the U.S.

The former Illinois governor has already sold off the least profitable sections of the Milwaukee Road's former 10,000-mile system in order to restore the railroad's fiscal health.

Under the order issued by U.S. District Judge Thomas McMillen, the ICC must first approve the proposed sale and then receive a revised Milwaukee Road reorganization application by Oct. 1.

Under a letter of intent signed May 24 by Ogilvie and Grand Trunk president John Budakin, Grand Trunk would acquire the stock of the reorganized Milwaukee Road in return for assuming $250 million of the financially ailing railroad's outstanding debts.

Approval of the sale would give Grand Trunk rail lines completely encircling the Great Lakes in the U.S. and Canada.

Green Bay Press Gazette
May 23, 1982

Railroad asks to cut rail line

RHINELANDER (PG) — Citizens of Shawano, Langlade and Oneida counties have until July 8 to protest the abandonment of a Chicago and North Western rail line between Birnamwood and Rhinelander.

The railroad announced its plans to abandon the 68-mile line in legal notices placed in northern Wisconsin newspapers last week.

Critics of the abandonment say loss of the rail service will put the three counties at an economic disadvantage.

Rail officials say it is no longer economical for them to operate the line.

A spokesman for CNW said last week he did not believe logging and other businesses using the line would be adversely affected "because the Soo Line will probably pick up some of the freight we have been carrying."

CNW will consider bids on the line, which has for some time maintained stops at Birnamwood, Aniwa, Antigo, Deerbrook, Kempster, Summit Lake, Pelican Lake, Malvern and Rhinelander, the spokesman said.

Written comments on the proposed abandonment should be addressed to: Deputy Director, Section of Finance, Room 5417, Interstate Commerce Commission, Washington, D.C., 20423 and must be received no later than July 8.

Comments in support of the proposed abandonment, intent to offer financial assistance, environmental and economic impacts and the impact of the line's abandonment on rural and community development should be sent to the same address.

Green Bay Press Gazette May 28, 1982

E&LS ready to buy area rail segment

A tentative closing date of June 30 has been set for purchase of a segment of the Milwaukee Road line between Green Bay and Iron Mountain, Mich.

Purchaser would be the Escanaba & Lake Superior Railroad, based in Escanaba, Mich.

Preliminary details of the purchase and operational plans were outlined Thursday by Tom Klimek of the Bay-Lake Regional Planning Commission to members of the Northeast Wisconsin Railroad Transportation Commission.

The commission includes representatives of the county boards of Brown, Oconto and Marinette counties.

Although John Larkin, president of the E&LS, could not attend, he provided Klimek with information on the transaction.

The E&LS has been negotiating with the Milwaukee Road for purchase of the route for more than a year. During that time, the E&LS has been paying a monthly rental fee to the Milwaukee Road to move freight trains into Green Bay.

Purchase price would be \$2.25 million, including \$1,312,000 through a state loan from the Bureau of Railroads of the state Department of Transportation and the balance from the E&LS.

In addition, an application is almost ready for a \$1.25 million grant from the DOT for track rehabilitation. The railroad would spend another \$1.25 million.

Klimek said Larkin told him that the purchase price was higher than he anticipated paying, but the agreement was extended over at least two more years.

The agreement also would permit the Milwaukee Road to operate over the route on a lease basis to continue its service to Scott Paper Co. at Marinette, via Crivitz.

The Milwaukee Road plans to spend about \$100,000 to restore the line to service this summer and begin using it Sept. 15. The route has not been used since March 1980.

For the past few years, the Milwaukee Road has been leasing trackage between Green Bay and Marinette over the Chicago & North Western route. However, the C&NW has ended the agreement effective Sept. 15.

If the Milwaukee Road is to keep the business, it will have to lease trackage from the E&LS to Crivitz and then run on its own line from Crivitz to Marinette, a distance of 18 miles.

That trackage has not been in use for more than three years and has become overgrown with brush and trees.

Klimek said the final agreement between the Milwaukee Road and E&LS has been approved by the trustee in the bankruptcy of the Milwaukee Road, but still must be approved by the bankruptcy court.

Chicago Tribune June 4, 1982

RTA approves stopgap to keep 2 lines rolling

THE REGIONAL Transportation Authority Board approved an emergency measure Thursday to let it continue operating the Chicago, Rock Island & Pacific Railroad's two commuter lines.

The ordinance approved by board members, sitting as directors of a subsidiary corporation, was necessary because a directed service order by the Interstate Commerce Commission expired May 29.

The order was imposed by the ICC in late 1979 after the bankrupt Rock Island collapsed financially during a strike by clerks. The federal action allowed the railroad to continue service.

Lewis W. Hill, chairman of the RTA and its subsidiary, the Northeast Illinois Regional Commuter Railroad Corp., said the ordinance will let the RTA continue operating the Rock Island's commuter lines until an RTA suit to condemn and take over the railroad property is resolved.

THE RTA has agreed with the court-appointed trustee for the Rock Island to pay about \$300,000 a year to rent railroad property until the suit is settled.

Journal of Commerce
June 4, 1982

Soo Line Gets OK To Acquire Railroad

Journal of Commerce Staff

WASHINGTON — The Soo Line is free to acquire the Minneapolis, Northfield & Southern Railroad without receiving formal Interstate Commerce Commission permission to do so, the agency ruled Thursday.

The decision clears the way for Soo to purchase all the capital stock of the MN&S, a carrier that operates about 45 miles of line between Minneapolis and Northfield, Minn.

The Soo system extends from Sault Ste. Marie, Minn., and Chicago, on the east, and connects with various Canadian carriers at Noyes, Minn., and Portal, N.D.

Soo is paying 46 million for the MN&S.

Green Bay Press Gazette
May 29, 1982

Rail embargo lifted by judge

A federal court judge in Michigan Friday lifted an embargo on the Ann Arbor Railroad which operates between Toledo, Ohio, and Frankfort, Mich.

The embargo effectively halted the Lake Michigan ferry system from Frankfort to Kewaunee, which meant the Green Bay & Western Railroad was unable to ship over that route.

The embargo had been in effect since April 25. The embargo took place after the line's operater, the Michigan Interstate Railway Co., filed a court action which stopped the State of Michigan from leasing the line to the Michigan & Western Railroad Co., a subsidiary of GB&W.

Judge Stewart A. Newblatt ruled that Michigan Interstate may continue to operate the line from Ann Arbor to Toledo, and instructed the Michigan Department of Transportation to get a new operator for the route from Ann Arbor to Frankfort.

Steve Selby, vice president of GB&W, said GB&W has rejected an offer to operate that route. That leaves a third operator that had been bidding for the route, Delpar Inc. of Saginaw, Mich.

The Michigan DOT will be negotiating with Delpar to operate that part of the system, and it is expected it will return to operation in the next week to 10 days.

If that occurs, the full route then will be open from Kewaunee east to Toledo.

Chicago Tribune
June 4, 1982

Rock Island's trackage sale OKd

The $55 million sale of 630 miles of track in Kansas, Oklahoma and Texas by the bankrupt Chicago, Rock Island & Pacific Railroad was approved by the Interstate Commerce Commission. The sale is contingent on the buyers getting financing. Under the agreement, the trackage from Salina, Kan., to Dallas-Ft. Worth will be bought by the Oklahoma, Kansas & Texas Railroad Co., the state of Oklahoma and the Oklahoma, Kansas and Texas Rail Users Association, a shippers group. The Oklahoma, Kansas & Texas Railroad, a subsidiary of the Missouri-Kansas-Texas Railroad Co., carried freight over 34 miles of the line between Ft. Worth and Dallas from May, 1980, to the end of 1981 under a temporary arrangement. Although the railroad and its parent company would be operating parallel freight lines as a result of the agreement, the ICC said it foresaw no monopoly problems.

Chicago Tribune
June 4, 1982

RTA OKs new track

THE REGIONAL Transportation Authority has approved a $285,551 contract to install a third track leading to the north end of Union Station to reduce delays on the Milwaukee Road commuter lines. The contract to install the track was awarded to Swanson Contracting Co., of Worth. RTA officials said that when the work is completed by the end of the year, the Milwaukee Road will be able to reduce sporadic delays caused by equipment malfunctions by routing trains around the trouble spot over the third track. The additional track from Western Avenue to Lake and Canal Streets will also permit a smoother operation for Milwaukee Road trains during rush hours, RTA officials said.

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Aberdeen American News
May 27, 1982

Rail funds agreement is signed

WASHINGTON (AP) — The state of South Dakota will receive $30 million in federal funds to rehabilitate a cross-state rail line under an agreement signed Wednesday by the Federal Railroad Administration and South Dakota Gov. William Janklow.

The money will be used to install ballast and crossties and to repair highway grade crossings on the 482-mile South Dakota Main Line, which crosses the state, extending from Ortonville, Minn., to Terry, Mont.

The South Dakota Railroad Authority is purchasing the line from the Chicago, Milwaukee, St. Paul and Pacific Railroad.

During the signing ceremony, FRA administrator Robert W. Blanchette said: "This agreement, combined with the revenue bonds the state plans to issue shortly, ensures this service will continue.

"We at the FRA are pleased and proud to be part of the great effort put forward by the people of South Dakota to preserve this rail line, which is so important to the state's economy," Blanchette added.

The agency said the purchase of the line by the state will ensure a steady flow of coal from the Knife River Coal Mine in Gascoyne, N.D., to an electric utility at Big Stone City, S.D., which serves South Dakota and neighboring states.

It also will mean continued shipments of grains and other goods over the Main Line and feeder lines, the FRA said.

The $30 million is being made available under provisions of the Railroad Rehabilitation and Regulatory Reform Act of 1976. The FRA said the South Dakota Railroad Authority will receive the money when it has completed purchase of the line.

Arlington Heights Herald June 3, 1982

RTA nearing deal with Milwaukee Ry.

by Joann Van Wye
Herald staff writer

An agreement that could bring the Milwaukee Road commuter lines back under the Regional Transportation Authority umbrella and cut fares by 15 percent is expected within 10 days, RTA Chairman Lewis W. Hill said Wednesday.

"We have been in deep negotiations, and I think we will have something definite to give the public on the Milwaukee Road within the next 10 days," Hill said following an RTA board meeting.

Hill refused to release any details of the negotiations, which have been going on for several months.

FORMER GOV. Richard B. Ogilvie, trustee for the bankrupt railroad, announced last month the the two commuter lines were not included in a deal with Grand Trunk Railroad to purchase the Milwaukee Road.

"By the time we get ready to close with the Grand Trunk either the commuter operations will be under the RTA or they will not be," Ogilvie said at the time. Hill said details on the financing of an agreement with the Milwaukee Road would be announced after the final agreement is reached.

"What we are looking at is a program to continue to provide commuter service," Hill said, adding that commuters need not fear the two commuter lines will be shut.

Hill also repeated earlier statements that if the Milwaukee Road comes back under the RTA it would result in nearly a 15 percent fare cut.

MILWAUKEE ROAD commuters have been paying substantially higher fares than other commuter rail riders since July 1 when the bankrupt railroad's agreement with the RTA expired and it independently imposed a 75 percent fare hike while the ticket prices on other rail lines rose 57 percent. The prices on other lines later were cut 7 percent.

If the Milwaukee Road fares are brought in line with those of the other commuter railroads the cost of a monthly pass between Roselle and Chicago would decrease $16.05 to $90.45, and between Hanover Park and Bartlett fares would decrease $18.35 to $99.90.

About 15,000 commuters ride the two Milwaukee Road commuter lines that operate from Elgin and Fox Lake into Chicago.

Crain's Chicago Business
June 7, 1982 EXCERPTS

Wisconsin's 'Maglev' train

By HERB GREENBERG

A consortium of Wisconsin business people and politicians is betting $40,000 that one day they'll be able to ride the train from Milwaukee to Chicago's O'Hare International Airport in as little as 20 minutes.

Led by Wisconsin Democratic Rep. Henry Reuss, the group is financing a three-month study by Budd Co. of Troy, Mich., to determine the feasibility of building high-speed, magnetic-levitation service—called Maglev—on the 80-mile route.

Announced last week, the proposed project has met with skepticism—at least in Illinois, where Milwaukee is not considered a leading business or travel destination.

As one Illinois transportation official says, "The smart-aleck response is, who wants to go to Milwaukee?"

Chicago-Milwaukee, always a strong rail market, was ranked 11th of the top 20 emerging rail corridors in a recent U.S. Department of Transportation study. And a 1980 study by the Southeast Wisconsin Planning Commission tallied 35,000 weekday trips between the two cities —95% by car.

"So there seems to be sufficient demand," says John Cupper, Rep. Reuss' press secretary. Rep. Reuss, chairman of the Joint Economic Committee, is a strong proponent of revitalizing passenger railroads.

But a first requirement is available land.

Even if that problem could be overcome, it's unlikely that the demand for Milwaukee-O'Hare service is anywhere near that between the Loop and various suburban stops and Milwaukee.

Because Amtrak isn't interested, the system would have to be funded through private backers or run by the two states.

"We have yet to be approached and don't know much about it yet," says Fred Wengenroth, chief of program development for the Illinois Department of Transportation's Bureau of Railroads.

However, in a meeting with Gov. James Thompson planned for Friday, Wisconsin Gov. Lee Dreyfus plans to propose a Wisconsin-Illinois Maglev Authority.

Maglev is being billed as an opportunity to open up commuter traffic between Milwaukee and Chicago, but traveling from O'Hare to Chicago and suburbs still would require transferring to a bus, cab or the new rapid-transit line being constructed alongside the Kennedy Expressway. That could take longer than the original trip from Milwaukee to O'Hare.

C&NW's commuter lines 'up for sale' if RTA wants them

Chicago Tribune June 8, 1982

By David Young
Transportation editor

THE CHICAGO & North Western Transportation Co., operator of the largest transit system in the suburbs, wants to sell its commuter rail lines to the Regional Transportation Authority, it was learned Monday.

James R. Wolfe, North Western president, said he made the offer in a May 27 letter to RTA chairman Lewis W. Hill.

"When they are ready to deal, we will be ready," Wolfe said Monday. "It's for sale to the RTA."

Hill said that the RTA board has not yet established a firm policy on the acquisition of commuter railroads.

ALTHOUGH THE RTA until recently has resisted buying commuter railroad lines, preferring to subsidize them, transit officials say a variety of reasons has caused a rethinking of that position. The reasons include:

- Although the RTA subsidies once permitted many of the railroads to earn a profit on their commuter lines (state law permitted it), the financial troubles of the RTA have forced the railroads to subsidize the money-losing commuter operations with their freight revenues. The RTA currently owes the railroads $14.8 million in back payments — including $6.8 million to the North Western and $6 million to the Illinois Central Gulf Railroad.
- The bankruptcies of the Chicago, Rock Island & Pacific and the Chicago, Milwaukee, St. Paul & Pacific railroads have forced the RTA to negotiate to buy those lines to keep them operating. The Rock Island is under a court order to sell off all its property, and Richard B. Ogilvie, Milwaukee Road trustee, said he either will sell his money-losing commuter line to the RTA or shut it down. He plans to sell the rest of the Milwaukee Road to another railroad.
- RTA purchase of the major commuter lines could reduce the cost of the service by taking off the real estate tax rolls thousands of acres of railroad property. However, that could reduce the tax revenues in many suburbs in which the railroads are the largest single taxpayer.
- Officials of the profitable railroads fear that if the RTA buys the bankrupt Rock Island and Milwaukee, it will divert a disproportionate share of its revenues to keep those lines operating at the expense of other commuter railroads.

Wolfe acknowledged that the North Western's recent offer to sell was prompted by Ogilvie's announcement that he could shut down the Milwaukee Road commuter line if the RTA does not buy it. RTA purchase of both the North Western and Milwaukee commuter lines would avoid "discrimination," Wolfe said.

SOME TRANSPORTATION officials contend that it is to the RTA's political advantage to buy as many commuter railroads as possible to forestall attempts by various groups in Springfield to abolish the agency. Bills introduced in the legislature at the behest of an organization of suburban mayors and the Chicago Association of Commerce and Industry would replace the RTA with new agencies.

The purchases of the commuter railroads apparently would be made with federal grants that provide up to 80 percent of the cost. The remainder would come from the state.

Wolfe said the North Western is willing to sell to the RTA most of its railroad commuter lines north to Kenosha, northwest to Harvard and west to Geneva. However, the North Western wants to retain ownership of a portion of the three-track Geneva line — its principal freight line — as well as trackage rights for freight trains over the other lines.

A SPOKESMAN FOR the Illinois Central Gulf railroad said that its commuter lines are also for sale. "We made an offer a couple of years ago to sell our commuter division, lock, stock and barrel. That offer is still open," he added.

The ICG, which operates four lines to Park Forest South, Blue Island, Joliet and in the South Chicago neighborhood, is the second largest commuter railroad in the region.

Wolfe said he has not yet discussed the price of the commuter railroad with RTA officials.

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Rail safety program falls short, study says

Des Moines Register June 2, 1982

By LARRY FRUHLING

Of The Register's Washington Bureau

WASHINGTON, D.C. — The government's program to ensure railroad safety is falling short of its goal because of its preoccupation with individual violations and fines that the industry treats as routine costs of doing business, according to a General Accounting Office study.

The GAO said state and federal safety inspectors are so busy looking for problems on individual segments of track and individual rail cars that the overall safety programs of railroads get but scant notice.

"While the Federal Railroad Administration's monitoring approach results in the correction of specific individual defects, it does not address the overall condition of railroads' operations and, therefore, has not motivated railroads to improve their overall safety programs," said the recent report by the GAO, Congress' watchdog over federal agencies and programs.

The report quoted Robert Blanchette, the top official of the Federal Railroad Administration (FRA), as agreeing with its conclusion that the FRA was making little progress in improving rail safety with its current approach.

"Carriers often look at fines as a cost of doing business and there is little emphasis on correcting the problems," Blanchette is quoted as saying in the GAO study.

The GAO study recognized the importance of spot inspections of tracks, cars, engines and signals as a help in assessing a railroad's overall commitment to safety, but it said the emphasis on this approach has caused carriers to spend their time and money on individual problems at the expense of developing comprehensive track-improvement and safety programs.

The GAO study also disclosed that:

- It takes so long for the FRA to settle cases with a railroad that has failed to repair a known safety deficiency that the "deterrent value" of government fines is greatly diminished. In 1981 an average of 20 months elapsed before such cases were settled, the report said.
- The FRA should redistribute its inspectors. While some inspectors can adequately cover their assigned territories, the report said, "some field personnel told us of facilities that they had not seen in years or had not seen at all."
- The FRA has only "ineffective" sanctions available against railroads that falsify their own reports of substandard track. "One regional director informed us of one instance where the railroad's records indicated no defects existed and FRA found 6,000 defects," the report added.

The GAO said that despite the federal program's emphasis on spot inspections, the FRA had in the past conducted three comprehensive safety assessments of railroads in 1979 and 1980, using teams of inspectors and specialists to check track, signals, engines and other equipment.

The results, the GAO said, were dramatic. Two railroads that had wide-ranging appraisals experienced reductions in accidents of 45 percent and 44 percent, the agency said. The third railroad had only a minor decline in accidents because it was bankrupt and could not afford to correct the problems the FRA identified.

In their response to the GAO report, FRA officials agreed that more emphasis should be given to improving the overall safety programs of railroads, instead of concentrating on "parking meter" violations that "can be cited *ad infinitum* with no discernable salutary effect."

The FRA said it was increasing its emphasis on such systemwide evaluations, but that statement was looked upon skeptically by the GAO, which said no such appraisals of carriers were made in 1981 and none was planned this year.

ATA Chairman Assails 'Duplicity' of Rail Tactics

By GREG STOREY 5/17/82

Journal of Commerce Staff

The nation's railroads are unethically trying to hamstring the trucking industry's efforts to improve its productivity, the chairman of the American Trucking Associations has charged.

ATA Chairman Richard Few, in a strident speech Friday to the New Jersey Motor Truck Association, claimed railroads have abandoned traditional American values in their tactics against motor carriers' attempts to boost truck weight limits in certain states, win approval to haul small twin trailers and overturn inequitable taxes.

Mr. Few cited as an example of what he claimed was railroad duplicity a referendum in Missouri earlier this year, when a so-called citizens committee funded with more than $1 million by several railroads helped block an attempt to up weight limits, he charged.

In that case, where voters by a slim margin overturned a new state law increasing the limits, the railroads had "secretly financed a campaign of false propaganda" that was "based strictly on emotionalism and falsehood," Mr. Few alleged.

"Well, the railroads may be the winner, but the people of Missouri are the losers . . . and people all over the country will suffer because of that," he charged, saying that the result of the vote will be to raise trucking costs.

Mr. Few, who also is president of Cooper Motor Lines in Greenville, S.C., warned the New Jersey truckers against giving in to pessimism in the difficult environment created by partial deregulation and the floundering national economy.

He urged them to embrace an attitude of "faith and optimism."

He said after the speech that he and other ATA officials were encouraged by the approval last week by the House Public Works and Transportation Committee of a bill establishing a nationwide 80,000-pound minimum truck weight standard.

The bill will be passed by the full House and the Senate, he predicted.

Mr. Few declined to comment on an expected administration proposal for higher highway-user fees, except to say that he hoped the administration would consider a plan advocated by the ATA.

TRANSPORTATION

Recession rides SP's rails

The company's fortunes are still tied to industries socked by the slump

A 91% plunge in the first-quarter earnings of Southern Pacific Co. is sobering proof that the holding company, which is dominated by its Southern Pacific Transportation Co. subsidiary, has been unable to insulate itself against swings in the economy—even though it was one of the first railroads to try to do so. SP Chairman Benjamin F. Biaggini blames first-quarter results on the current recession; he claims SP will cannonball ahead when business in general improves. Others say the course charted for SP by Biaggini, 66, is responsible for the company's lackluster earnings, and that any recovery will be brief.

SP eked out a $2.1 million net profit on sales of $799.1 million in the first three months of 1982, compared with $22.9 million on revenues of $778.3 million for the same period last year. Only the sale of $12.3 million in tax benefits enabled the San Francisco-based company to report any profit at all. Earnings in 1981 had risen 7.5% to $167.7 million, on a 14.4% sales increase to $3.3 billion.

Striving for efficiency. Southern Pacific RR, the transportation company's largest operating unit, extends from Portland, Ore., down the West Coast to Los Angeles, east through Texas and Louisiana, and then north to St. Louis. It depends heavily on shipments of automobiles and forest products, both of which are currently very weak.

SP has been trying to decrease that dependence. Armed with the pricing freedoms granted by the Staggers Rail Act of 1980, it has aggressively gone after fresh produce, chemicals, and other freight. It has streamlined operations as well, eliminating 5,000 jobs, or 12% of its railroad work force, since 1979. The line has also improved fuel efficiency some 15% and stepped up roadbed and equipment maintenance programs.

These moves, claims SP, have helped it increase its share of 15 of its top 20 markets. Profits are another matter. The railroad posted a first-quarter operating loss of $16.4 million, compared with a $20.3 million profit in 1981. Robert D. Krebs, the railroad's vice-president for operations, says the recession is masking the bottom-line impact of SP's recent operating gains. Agrees one rail analyst: "SP is the most sensitive to economic cycles of all the major lines. It's also the railroad best poised for recovery when the economy turns."

Nevertheless, SP must prove that it has overcome the disadvantages of its long and circuitous main line. Last November it completed a $97 million rehabilitation of its so-called Tucumcari line, which cuts 400 mi. off its route between Los Angeles and St. Louis by heading north from El Paso to Tucumcari, N. M., where it connects with a branch of the now-defunct Chicago, Rock Island & Pacific RR. SP and the Rock Island had jointly promoted this "Golden State" route, but traffic began drying up in the early 1970s as the Rock Island's track and finances deteriorated. SP bought the line for $57 million in 1980. Now it must lure back lost traffic—a job made tougher by recession and by the way the line crosses the heart of the Atchison, Topeka & Santa Fe Ry. Co. system.

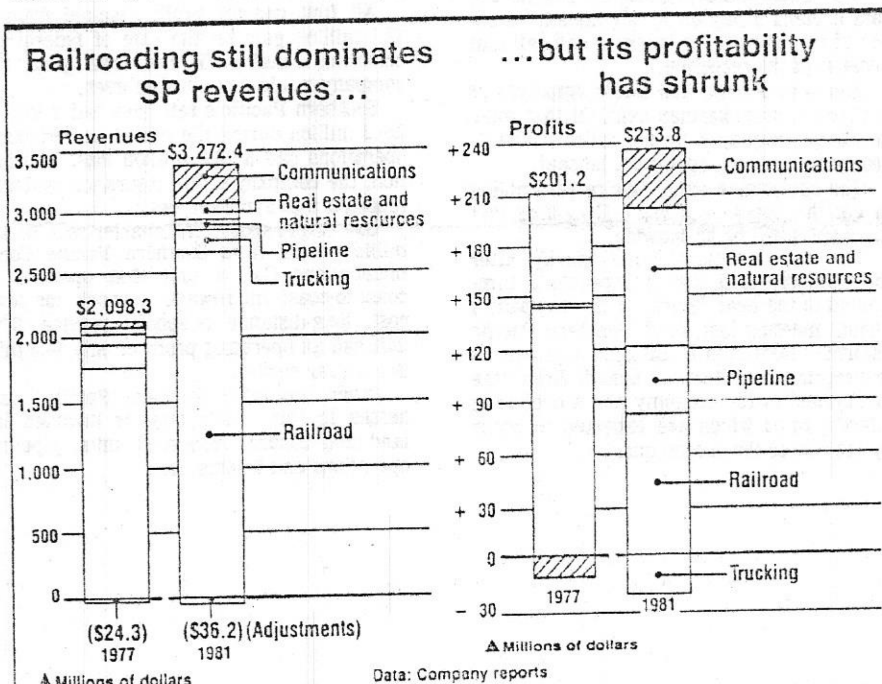
Potential bloodbath. Even if it succeeds, SP may be imperiled, for the railroad will most likely face tough new competition. The Interstate Commerce Commission is expected before yearend to approve Union Pacific Corp.'s proposal to merge the Union Pacific RR with the Missouri Pacific RR and to acquire Western Pacific RR Co., thus creating a 22,700-mi. powerhouse linking major Midwestern freight centers with West and Gulf Coast ports.

The "Mop-up" will be in a position to divert traffic from one end of SP's 13,740-mi. system to the other. Says an industry analyst: "Once UP takes over the Western Pacific, it could be a bloodbath." Already, claims SP, the Union Pacific, with which it connects at Ogden, Utah, is routing westbound traffic once put on the SP to a competing line owned by Western Pacific. And in its busiest corridor, the Texas-Louisiana region, SP fears that a Mop-up capable of offering longer single-line service than could the Missouri Pacific alone will threaten its recent gains in that region's fast-growing petrochemical market.

Merger malaise. Biaggini was an early, vociferous advocate of railroad mergers. But he has twice failed to arrange marriages for SP—with Seaboard Coast Line Industries Inc. and with Santa Fe Industries Inc.

Now Biaggini says the SP is quite capable of going it alone. "There is nothing in the current situation that gives great urgency to finding a merger partner," he maintains. Obtaining trackage rights—guarantees that it can run its trains, for a fee, on parts of the Mop-up system—are critical to SP, particularly between Kansas City and St. Louis. That portion of SP's Tucumcari line, says Biaggini, is "just a piece of junk," which he figures needs $150 million worth of repairs. Because SP is the competing carrier with the most to lose from the three-way combination, it has a fair chance of getting such rights despite the deregulatory bent of the Interstate Commerce Commission. But many industry experts contend that the mighty Mop-up will still overwhelm SP.

SP's shining hope in recent years has been its communications subsidiary, which operates the Sprint long-distance microwave telephone system. Biaggini



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predicts communications will account for half of SP's revenues and an even greater share of profits by 1990. Its $18 million first-quarter operating profit was more than half the $34.1 million it earned in all of 1981.

Diversification moves. That rosy outlook could be as short-lived as the railroad's. Sprint's chief selling point is cheap long-distance telephone service, an edge it may not be able to retain. American Telephone & Telegraph Co.'s long-distance and local services will soon be separated as part of the settlement in AT&T's marathon antitrust suit. Says one analyst: "When Ma Bell no longer has to use long-distance to subsidize local services, it will cut the hell out of rates."

Other diversification moves have been less successful, notably the $261 million acquisition of Ticor in 1979. Principally a title insurance company, the unit posted an operating loss of $4.7 million last year and a further $6.5 million loss in the first quarter. Ticor is as dependent on the volatile real estate sector as Southern Pacific RR is on the erratic forest products industry, creating double trouble for SP because the two rise and fall in tandem. SP also has a trucking subsidiary that is suffering along with the rest of its industry and a smallish, profitable pipeline operation.

The luck factor. SP's unspectacular earnings stem in part from simple bad luck: It is a land-grant railroad, but its original holdings did not harbor the vast coal and oil reserves that have enriched other Western roads. SP does own prime sites in San Francisco, as well as other urban real estate, and is an active commercial developer. However, the bulk of its real estate earnings comes from land sales.

SP also has 450,000 acres of timberland, some 20% of which is for sale. Its Bravo Oil Co. subsidiary was reorganized last year from a collector of lease and royalty payments into an exploration and production company. If SP provides enough money, Bravo could become a winner.

That is not likely any time soon, however, because SP is clearly betting on its communications company. "Sprint is the biggest thing we have going," says Biaggini. Capital spending in 1982 is budgeted at only $325 million, down from $349 million last year, with $150 million earmarked for Sprint and a meager $130 million for the railroad, down from $210 million last year.

SP's critics argue that the biggest stumbling block to growth is Biaggini himself. The company has no mandatory retirement age for officers, and Biaggini shows no signs of slowing down. Any alterations in strategy are unlikely without a change at the top. Says one competitor: "They've been on the same course for so long now that it's going to be tough for them to adapt." ▪

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Wall Street Journal May 27, 1982

Southern Pacific Planning Layoffs In Truck-Rail Unit

By a WALL STREET JOURNAL *Staff Reporter*

SAN FRANCISCO—Southern Pacific Co. said it plans to lay off a "significant" number of employes in its trucking and rail unit because of the recession.

Southern Pacific had 50,500 employes as of April 1, a spokesman said. Of that total, 36,850 are employed by the railroad and 2,500 in the trucking operation, he said.

The spokesman said, "We're scrambling to get the exact numbers." He added that the layoffs will be nationwide.

The announcement came shortly after the company said that it expected a turnaround in the near future. At the company's annual meeting last week, Southern Pacific chairman Benjamin F. Biaggini said that its transportation unit would benefit from "the turnaround in the economy and a decline in interest rates which are expected to occur by the end of the second quarter."

In the first quarter, Southern Pacific's net plunged 91% to $2.1 million, or eight cents a share, from the year-earlier $22.9 million, or 85 cents a share.

Revenue climbed 3% to $799.1 million from $778.3 million.

All first quarter profit resulted from a $2.1 million gain on the sale of federal income-tax benefits. Without the gain, the company would have broken even.

Southern Pacific's rail lines had a loss of $20.3 million during the period and trucking operations had a $5.8 million loss. In addition, the company's title insurance business reported a $6.5 million loss.

One bright spot in the quarter was an $18 million profit from Southern Pacific Communications Co., a unit that operates a coast-to-coast microwave network for low-cost, long-distance telephone service. The unit had an operating profit of only $4.6 million a year earlier.

Other profitable Southern Pacific businesses in this year's quarter included its land and natural resources units, pipeline operations and leasing unit.

Journal of Commerce May 25, 1982

Grade-Crossing Deaths Decline

Journal of Commerce Staff

Fatal accidents at rail-highway grade crossings dropped 12.6 percent to 728 nationwide in 1981, the third straight year such deaths decreased, the National Transportation Safety Board said.

The board cited the decline as "strong evidence" of the success of the Operation Lifesaver program mounted by government and industry in 30 states to improve grade-crossing safety.

A total of 629 passengers, employees and pedestrians died in railroad accidents in 1981, the board said, a drop from the 663 who died similarly the previous year. The figure includes 556 fatalities in intercity rail service, compared to 580 in 1980.

In other modes of transportation, 896 persons died in heavy-truck accidents last year, a decrease from the 976 who died in 1980, the board said.

Overall transportation figures, including fatal accidents involving passenger autos, showed that fatalities dropped 4 percent in 1981 to 53,496. It was the first significant decline since 1974, when the 55-mph speed limit was introduced, the board said.

Washington Post
May 28, 1982

Amtrak, 6 Unions Sign Pact Holding Down Wage Gains

By Merrill Hartson
Associated Press

Under growing pressure from Congress to improve efficiency, Amtrak and six of its unions signed a labor contract yesterday that will hold wage gains for 14,000 workers well below those of unionists employed by the railroad freight industry.

The National Rail Passenger Corp. and the unions reached an accord on a 39-month pact that both labor and management described as "historic and precedent-setting."

The agreement—which was the result of 17 months of negotiations—was unveiled at a joint news conference on Capitol Hill, where representatives of labor and management won praise from members of Congress for seeking to limit Amtrak's operating costs in a time of mounting federal deficits.

Alan S. Boyd, who is retiring soon as president and chairman of the 23,000-mile Amtrak system, said that the contract, which also features major work-rule concessions by unions, "signals a new era of mutual labor-management cooperation and progress."

The pact is retroactive to Jan. 1 and runs through July 1, 1984. It has been ratified by the rank and file of the six nonoperating Amtrak unions that constitute about three-fourths of the rail passenger corporation's 18,000 workers.

The workers involved in the contract do not run the trains and are called "nonoperating" employes. Amtrak does not negotiate directly with train operating unions, whose members are not employed directly by the rail passenger corporation.

The unions involved in the contract are the Brotherhood of Maintenance Way Employees, Brotherhood of Railway, Airline and Steamship Clerks (BRAC), International Brotherhood of Electrical Workers, International Association of Machinists, International Brotherhood of Boilermakers, and Joint Council of Carmen, Helpers and Coach Cleaners.

The work of these union members ranges from track maintenance and locomotive repair to on-board food service and clerical work.

Amtrak officials said negotiations with nine nonoperating unions still are under way.

Through the life of the new pact, the typical Amtrak worker will receive wage increases of up to 18.7 percent and cost-of-living protection. This is well below the labor settlements reached in the freight industry last year, in which workers will get pay raises averaging 30 percent over 39 months.

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Candidates agree on need for more money for roads

One in a series.
By JAMES FLANSBURG
Register Staff Writer

The three Democratic candidates for governor all want to levy a new road tax, but their approaches are different.

Jerome Fitzgerald, Roxanne Conlin and Edward Campbell are vying in the June 8 primary for the right to be the Democratic Party's standard bearer against Republican Terry Branstad in November's general election.

The three agree that Iowa needs more money for its highways, and they warn that some may have to be closed or turned over to counties. But they part ways slightly on the question of how to pay for maintaining the state's highways.

None of the candidates advocates an increase in the traditional motor-vehicle fuel tax.

Campbell proposes to increase road revenues by about $50 million a year with a new 2 percent sales tax on all oil products coming into the state.

2 Percent Tax

Fitzgerald is aiming at the same revenue, with a 2 percent tax on the gross receipts of the oil industry in Iowa, but would exempt home-heating fuels and farm-use products from the tax.

Conlin also is aiming at the oil companies. She is looking at the same approaches as Fitzgerald and Campbell. But to prevent the industry from simply passing the tax on to customers, she wants to examine what is called the unitary tax. That system has the tax collectors regard an oil company and its various subsidiaries as one company, as opposed to the current system of regarding them as separate entities.

Although the approaches are different, the three have not quarreled over them. All three have left themselves flexible enough to adopt any one of the methods.

And they are in agreement over the need for more money for highways.

"The Department of Transportation is at least $140 million behind on its short- and long-range road needs," Campbell says.

"Hundreds of bridges need to be rebuilt, and we have 3,000 miles of primary highways that were built before 1940," Fitzgerald says. "Many are reaching the end of their design life."

"It's a problem that we've swept under the rug," Conlin says. "We have not reacted quickly enough to the changing gasoline usage."

$450 Million a Year

From taxes on gasoline and other motor fuels plus truck and car registration fees, the state now takes in about $450 million a year, and allocates about half of that to the state primary system, about one-third to the counties for rural roads, and the remainder to cities and towns for their streets.

The fund has not kept pace the past several years because construction costs have skyrocketed with inflation while conservation efforts and smaller cars have reduced fuel usage and, as a result, produced less revenue than needed.

The candidates have the same flexibility on registration fees. Fitzgerald says he thinks truck and car license fees may have to be increased. Campbell says no increase on cars but "possibly" on trucks. Conlin says no on car licenses, and she is "not sure" that a truck license increase is needed.

Past studies have indicated that trucks do not pay sufficient user fees to cover the damage they wreak on roads and highways, but there has been little sentiment in the Iowa Legislature for raising the license costs because, opponents argue, truckers simply would pass them on in increased freight rates.

All say the license fee question has to be studied by some sort of independent review group, which, at the same time, would look at the knotty political questions of the road issue: The division of revenues among the primary, rural and urban systems, and the transfer of some primary roads to the rural systems.

Among those not running for office there is general agreement that the counties get too large a slice of the pie for their rural roads, and that it should be trimmed at the same time that they are given the responsibility for maintaining some lesser-traveled primary highways.

Beyond that, however, the candidates do not tread. The history of Iowa politics since the "Get Iowa out of the mud" highway building campaign of the 1920s has been punctuated by the political explosions over the questions on road-money distribution and which political entity should be responsible for which roads.

"If we're going to talk about depriving the counties of money," Conlin said, "then we'd better be ready to provide other ways of transporting our goods to market."

The Iowa road question always has had three sides — the cities, counties and primary-road advocates — and rather than upset the current system and the political truce it represents, all three Democratic candidates say they may advocate issuing bonds to help bolster the finances of the primary highway and bridge systems.

On two other parts of the transportation issue — air and mass transit — the Democratic aspirants also are in general agreement.

Beyond making sure that state government does everything it can to encourage the development of commuter air service, they say they see little they can do to help smaller cities with their air transportation woes. And all say they would find state money to help support bus systems in the largest towns in the state.

But on rail transportation there is a significant difference in attitude. All three praise the state's efforts in recent years to upgrade branch railroad lines.

"I think the branch line assistance program is a very good program and ought to be continued," said Fitzgerald, adding that he wants to speed efforts to float a bond issue to accelerate the program.

Campbell, however, favors a go-slow policy. "It's a national problem," he said, "and the federal government should take over the roadbeds, fix them up, and lease them back and pay for it with user fees. In the meantime it doesn't make sense for the state to fix up branch lines if there aren't any main lines for them to connect to."

Fitzgerald and Conlin say they agree the federal government should take over the main lines, but they say the state should go ahead with its branch upgrading in the meantime.

In addition to speeding up present efforts, Conlin says she wants to clear the way in Iowa law to encourage businesses and affected municipal governments to acquire and operate their own branch lines.

"It's just a matter of clearing away some rules and regulations," she says.