Corporate Relations

MEDIA MONITOR October 21, 1982

Dissemination of these news items to all interested people is encouraged. Content may differ from Milwaukee Road viewpoint. You may want to retain for reference.

Austin Herald
October 14, 1982

Final spike driven in rail rehab project

By TOM ROSELIEP
Herald Staff Writer

The driving of a symbolic last spike in a section of Milwaukee Road track near the Weyerhaeuser Co. here this morning marking completion of a $22.5 million, 111-mile rail rehabilitation project from Austin to Jackson.

The most recent part of the project was the Austin to Albert Lea section of the line. Some 30,000 ties, 25,000 cubic yards of crushed rock ballast and 2,897 tons of heavy rail were added, partially financed by money from an area rail users' group, the Southern Minnesota Rail Shippers Corporation. The line will be able to handle 100-ton hopper cars and accommodate unit trains.

The shippers signed a contract for the work last April. Rail users furnished $603,900 for the project. The Minnesota Department of Transportation added $1,771,400 in state funds, with another $1,577,200 coming from the Federal Railroad Administration. Milwaukee Road crews did the work on the line.

Large users of the line in this area include the Geo. A. Hormel & Co., the Weyerhaeuser Co. and Austin Utilities. The local 'shippers' group and two similar organizations in southern Minnesota contributed a total of $2,765,923 for the three projects. The state chipped in $5,624,954, the Milwaukee Road added $4,813,930 and federal grants came to $9,272,200.

The money from the shippers was an interest-free loan to the railroad. Rail users will be paid back for each car they ship on the line. The Milwaukee will also repay $2,906,177 of the state's share.

The line from Austin to Albert Lea is considered vital because it will link a potential north-south rail corridor from Minneapolis to Kansas City.

On hand for the ceremonies here today were: Sen. David Durenberger; Lt. Gov. Lou Wangberg; Transportation Commissioner Richard Braun; Jim Barber, of Austin, head of the Southern Minnesota Rail Shippers Corporation; Worth Smith, president of the Milwaukee Road; John Uitemarkt, president of the Austin Area Chamber of Commerce; and Mayor Robert Enright.

Following the spike driving here, officials boarded a train for ceremonies in Winnebago and Jackson celebrating the project.

In 1977, the Milwaukee Road filed for reorganization under federal bankruptcy laws. Since last spring, an arrangement has been pending with federal agencies to have the Grand Trunk Railroad take over operation of the Milwaukee.

Austin Herald
October 7, 1982

Completion of rail rehab to be noted

On Thursday, Oct. 14 the Southern Minnesota Rail Shippers and farmers will mark the completion of the major railroad rehabilitation project from Austin to Jackson. Over $15 million from area shippers, banks, grain elevators, city, county, state and federal grants make this project a reality and insures good rail facilities for years to come.

In Minnesota, federal money was combined with funds from shippers to rehabilitate rail lines that can be competitive and show a profit of their own. The Austin to Jackson project has gained national attention.

Dedication ceremonies ~~will~~ for the tracks will be held on Thursday, Oct. 14, at Weyerhauser in Austin. Featured speakers include: Gov. Al Quie; Sen. Dave Durenberger, Worth Smith, president, Milwaukee Railroad, and Richard Braun, commissioner of the Minnesota Department of Transportation. The public is invited to attend the ceremonies.

The Austin Area Chamber of Commerce spearheaded the Austin to Albert Lea segment of this line. A group, the Southern Minnesota Rail Shippers Corporation, was set up within the chamber and raised over $604,000 from area businesses and government units to help finance the project.

2

St. Paul Dispatch
October 11, 1982

Railroads lukewarm to rail repair proposals

Associated Press

A group of shippers, labor unions and farmers campaigning for rehabilitation of deteriorating railroad lines in Minnesota appears to be finding support just about everywhere — except from the railroads.

The group is campaigning for approval of a constitutional amendment on the Nov. 2 ballot that would allow the state to sell bonds to pay for the rehabilitation.

So far, the group's efforts have won support from both political parties and their major candidates. But Burlington Northern Railroad based in St. Paul, the Soo Line and the Milwaukee Road have decided to take no position on the amendment, as has the Minnesota Railroad Association.

The railroads say they don't oppose the concept of the amendment, but they are worried they'll get stuck with the bill for repairing and operating branch lines they want to abandon.

"We have said we will not oppose it and we will not support it," said Alan Fitzwater, a BN Railroad assistant vice president for governmental affairs.

"Our problem is that we're not sure where the funding will come from," Fitzwater explained. "If we're assured that the bonds will be paid off out of general revenue funds, we'd have no reservations."

The amendment would remove constitutional barriers that prevent the state from going into debt to finance work on private property such as railroads. The Legislature then would be allowed to approve the sale of bonds for rail repair.

Without financial aid, the state may lose 2,000 miles of its 5,820 miles of track during the next 10 years, according to the Minnesota Department of Transportation (DOT). About 830 miles of track already is in formal abandonment procedures.

"Loss of railroad lines means increased truck traffic," the DOT said. "If 2,000 miles of line is indeed lost, that could result in an extra 300,000 truck trips per year, which means increased deterioration of our roadways, which, in turn, means a need for additional money for road repairs."

The DOT estimates that a $32 million investment by the state, with shippers and railroads also providing funds, could preserve and improve rail service for 48 communities on 370 miles of track. The state would not be allowed to issue more than $200 million worth of bonds under this amendment, although its supporters say they don't expect to come close to that figure.

"I visualize spending probably in the first year $15 million to $20 million," said Arnold Anderson, head of Minnesotans for Amendment IV. Anderson also is 2nd Distict chairman for the Independent-Republican Party. "The taxpayers, through the Legislature, will have control over it."

"This isn't a subsidy for the railroads," Anderson said. "It's a matter of *financing rail improvements* to keep the pattern of moving grain the way it has been. Many communities were built around the railroad and they will dry up if they lose it."

Anderson argues that railroad profits have suffered because of public subsidies for their competition — dredging rivers for barge companies and road construction and repair for trucking companies.

"This isn't a gift," he said.

Bill Bickley, Milwaukee Road spokesman, said the railroads "view this not as something for the railroads, but as something for the shippers." For that reason, the shippers or the public should be responsible for paying off the bonds when they come due, the railroads say.

For now, there is the Minnesota *Rail Service Improvement* Program, in operation for about six years. It requires the state, shippers along a rail line and the railroad to put up money for a repair project and to comply with terms of operating the line after the repair work is complete.

Supporters of Amendment IV, however, say the state cannot continue to fund repair and rehabilitation projects without being able to sell bonds.

Austin Herald
October 7, 1982

Nelson urges vote to save the rails

State Senator Tom Nelson today criticized actions by railroad companies to abandon 1,120 miles of railway lines in Minnesota.

"I've always been opposed to the abandonments, but up to now there's been little anyone could do to prevent it," Nelson said. "This fall, however, voters will have the chance to provide a solution and prevent the abandonment of a large segment of the state's rail system."

"A Constitutional Amendment on the general election ballot will provide Minnesota voters with the opportunity to allow the state to bond up to $200 million for rail rehabilitation and repair."

"A YES vote basically would put railway bonding on an equal footing with highway and airport programs, which are currently supported by bond sales," Nelson said. "Any of the actual bonding would, however, first have to be approved by the Legislature."

Passage of the amendment would help preserve rail service to 225 farm communities that are slated to be cut from service over the next 10 years, Nelson said. For example, about $32 million in state assistance could save 370 miles of rail lines. That means 48 communities on those 370 miles could receive improved service instead of losing service altogether.

"As a prime agricultural state, Minnesota depends heavily on the railways to transport goods to market. I believe it's absolutely necessary that the integrity of the rail system is maintained," Nelson concluded. "That's why I'm urging a YES vote on the amendment."

St.Paul Dispatch
October 18, 1982
Excerpt from a Dispatch poll of Twin Cities area residents regarding constitutional amendments to be voted upon in the November election

Respondents were then asked: "Would you vote for or against the amendment that would allow the state to issue bonds up to a maximum of $200 million for the improvement of railroad branch lines?" The results:

	Men	Women	Total
For	35%	28%	32%
Against	37	26	31
No answer	5	13	9
Undecided	23	33	28

Many of those opposing the railroad measure said the state should not be supporting private industry. Those favoring the amendment said the branch lines are needed to help farmers get their products to market as inexpensively as possible.

"Farmers need all the help they can get," a woman supporter of the measure said. A man favoring the measure said, "There's lots of towns that just die when the branch lines go out."

A man against the measure said, "The railroads have raped and robbed us for years. It's about time they take care of their own mess."

Minneapolis Star/Tribune
October 13, 1982

Soo Line offers to buy Rock Island track in Iowa

Associated Press

Ames, Iowa

Farmers would be the big winners if the trustee of the bankrupt Rock Island Railroad accepts the latest offer to buy the railroad's "spine line" in Iowa, transportation officials were told Tuesday.

"It would contribute to your economy by bringing a new competitor in," said Thomas Beckley, president of Soo Line Railroad Co., the latest firm seeking to buy the track. "I think we have a reputation for service to the farmers in North Dakota. We would hope the same quality of service would be attractive to Iowans."

The Minneapolis-based firm is seeking to buy 650 miles of Rock Island tracks and operate a major route to Kansas City, Mo., through grain-producing areas of central Iowa. Beckley met yesterday with Gov. Robert Ray and the Iowa Transportation Commission to discuss the proposed purchase.

Beckley would not specify the price offered for the tracks, but said $75 million to $100 million would be "in the ballpark."

Track that the Soo Line wants to buy includes a 400-mile "spine line" from Kansas City to Northfield, Minn., and 245 miles of track from Iowa Falls though Estherville to Ocheydan and Forest City.

The offer is the second for the Rock Island tracks, which under the Soo proposal would extend Soo service from Minneapolis to Kansas City, Mo. The other offer has come from the Chicago and Northwestern Transportation Co., which already is one of Iowa's main rail carriers.

It will be up to the Rock Island's bankruptcy trustee and a federal reorganization court judge to determine whether either offer should be accepted. The offer to buy would be subject to approval by the Interstate Commerce Commission.

Beckley said his line could provide new competition that could contribute to better shipping rates for farmers, along with improved service.

NEW YORK DAILY NEWS
October 11, 1982

Spot tracks of drunk engineers

By ROBERT GEARTY

Washington (News Bureau)—The problem of drunken driving has spread to roads with rails on them, according to a recent study that included Conrail and the Long Island Rail Road.

Drunken engineers reportedly have been the cause of several major accidents, and concern over drinking among the men at the throttle surfaced again recently in the derailment of a train at Livingston, La., which caused millions of dollars in damage and forced the evacuation of 2,700 persons from their homes for nearly two weeks.

Federal investigators said they found that the engineer of the Illinois Central train that went off the tracks outside Livingston on Sept. 28 was going too fast and was drinking at the time. Forty-three chemical-laden cars turned over, sending up plumes of highly toxic fumes and causing fires that lasted several days.

National Transportation Safety Board spokesman Ira Furman noted that "it does again show that crews do consume alcohol prior to going on duty."

THE SAFETY BOARD has long pushed for federal regulations to crack down on drinking on the railroad but so far has run into opposition from the Federal Railroad Administration, the railroads, and rail unions. All recognize the problem; they disagree on the safety board's approach.

The safety board, which has no regulatory authority, has pushed for changes since a 1974 accident in Indio, Calif., involving two freight trains. The crash killed an engineer and a brakeman and caused $1.6 million in damages. The board said its investigation showed that the rear train in the crash "was being operated at an excessive speed by an engineer under the influence of alcohol."

In a 1979 accident, when a freight train plowed into another train, killing an engineer and causing $1.5 million in damage, the safety board said the crash was caused by "the failure of the engineer, whose performance was significantly impaired by alcohol, to stop his train as required."

Safety Board Chairman Jim Burnett cited a Federal Railroad Administration study that showed that an average 5% of the 234,000 railroad employes covered by the survey showed up for work "very drunk" or got "very drunk" while working, and another 15% came to work "a little drunk" or got "a little drunk" on the job.

In a recent speech to railroad safety officers, Burnett suggested it was time to establish an alcohol-free period before work, similar to the Federal Aviation Administration requirement for commercial flight crews, and a screening process to find problem drinkers.

Chicago Tribune
October 15, 1982

3 workers arrested in derailment

BATON ROUGE, La. (AP)—Police arrested three railroad employees Thursday in a probe of last month's derailment of a speeding freight train carrying hazardous chemicals. Included in the arrests was a female clerk who police said was at the controls without authorization when the accident occurred.

The three employees of the Illinois Central Gulf railroad were charged with reckless handling of hazardous materials, a felony under state law.

"The investigation indicates that alcohol and speed were involved," a state police news release said. "However, it is unknown at this time that these factors led to the derailment."

A spokesman for the railroad said the derailment had been caused by a mechanical breakdown in one car's wheel assembly. Another spokesman at the railroad's Chicago headquarters said a company tip had led to the arrests, but he had no further comment.

HE SAID an internal investigation would begin Monday and the three had been suspended from their jobs.

More than 2,700 residents of Livingston, La., were forced from their homes when 43 cars derailed at the edge of town and exploded in flames on Sept. 28.

They were allowed to return home earlier this week, as clean-up crews continued to clear the tracks of wreckage.

State police identified the woman as Janet Brumfield Byrd of Gonzales, La., an office clerk for the railroad who was the only unauthorized person aboard. Asked why she was at the controls, state police Commander Grover Garrison said authorities believe she was just "along for the ride."

ALSO ARRESTED were the engineer, Edward Peyton Robertson Jr. of McComb, Miss., and brakeman, James Russell Reeves of Summit, Miss.

Byrd was held in the Livingston Parish jail in lieu of $250,000 bond. Robertson and Reeves were held there in lieu of $500,000 bonds.

The National Transportation Safety Board said on Oct. 2 that the train's engineer, whom it did not name, had been drinking in a Baton Rouge bar during a five-hour layover before reporting for duty.

A board spokesman also said that the 101-car freight train was going at least 5 miles per hour above the town's 35-mile-per-hour rail speed limit.

Journal of Commerce
October 21, 1982

BN Proposes Coal Rate Increases

Journal of Commerce Staff

WASHINGTON — The Burlington Northern Railroad has proposed increases in unit train rates on coal moving from Colstrip and Kuehn, Mont. to Columbia, Wis.

Specifically, the BN wants to charge $17.49 per net ton on the traffic instead of the present $15.44 rate.

BN filed for the increase after talks with the Wisconsin Power & Lift Co. broke down.

The increase is scheduled to go into effect Oct. 31 unless suspended by the Interstate Commerce Commission.

Journal of Commerce

10-19-82

Iowa Truck Ruling Allows Tax Refunds

Journal of Commerce Staff

WASHINGTON — A recent Iowa state government ruling could have interesting tax implications for the nation's trucking industry.

Iowa officials have held that Umthun Trucking Co. — an Eagle Grove, Iowa, company — may apply for and receive refunds on the state fuel tax for fuel consumed while its trucks are idling if it can document the practice.

Computers can provide such documentation, company officials told this newspaper.

Various segments of the trucking industry are researching other state tax laws to determine if they are eligible for refunds.

10-15-82

Rail Eliminates Interchange Point

Journal of Commerce Staff

WASHINGTON — The Interstate Commerce Commission has approved Norfolk-Southern Corp.'s proposal to quite interchanging traffic with the Burlington Northern Railroad at Birminghan, Ala.

Tariffs issued by the Southwestern Freight Bureau and the Southern Western Trunk Line Committee cancelling joint rates on the traffic were approved despite vigorous BN protests.

The agency's action permitted them to go into effect Oct. 10 as scheduled.

Agreement reached on Rule G Bypass

The UTU and the St. Joseph Terminal Railroad have signed a Rule G Bypass Agreement. Rule G prohibits the use or possession of alcohol, drugs or narcotics by employees subject to duty or by employees on duty or on company property.

The agreement provides an employee caught in violation of the rule with a chance for rehabilitation. An employee removed from duty and referred to a counselor has the option under the agreement to accept counseling or treatment without loss of job or blemish on his personnel record, or to refuse treatment and demand a formal Rule G investigation.

Each employee covered by the agreement gets only one chance at a Rule G Bypass in a career.

Signing the agreement for the UTU were General Chairman Fay Garges, Dean Hazlett, local chairman of 1409, and G.A. Bishop, vice local chairman.

UTU NEWS October 16, 1982

Chicago Tribune
October 14, 1982

Soviets OK big Canada grain deal

OTTAWA (UPI)—Canada has made a $1.5 billion deal with the Soviet Union for 8.3 million metric tons of grain in the largest single grain sale in Canadian history, officials said Wednesdav.

Hazen Argue, the Canadian Wheat Board minister, told a news conference there might be further grain sales to the Soviet Union this year and Canada might post a record in total exports.

"I forecast by way of volume of export grains ... this year should equal or perhaps even exceed the total record of exports of last year," Argue said. Canada sold almost 30 million metric tons worldwide in 1981 for $5.6 billion.

The Soviet Union, facing its fourth poor harvest in a row, is committed to buy at least 6 million metric tons of U.S. grain this year. Soviet and American officials are to meet in Vienna late this month to discuss further sales. Last year the Soviets bought 13.9 million metric tons from the U.S.

CANADA'S DEAL with the Soviet Union is "the largest announcement ever made at a single time concerning grain sales in the history of Canada," Argue said.

The sale is for a mix of cash and credit at commercial rates. Argue would not reveal the exact terms.

However, he said Canada has extended credits of at least $1 billion to the Soviet Union at commercial rates for six months.

Administration Transport Issues

By KEITH ROCKWELL
Journal of Commerce Staff

THE JOURNAL OF COMMERCE, Wednesday, October 13, 1982

SAN FRANCISCO — Former Secretary of Transportation Neil Goldschmidt blasted the Reagan administration Tuesday for dragging its feet on upgrading the rail and motor carrier deregulation acts, for failing to develop a national transportation policy and for slashing the motor carrier safety budget by 15 percent.

In a speech given here before the 10th annual conference of the National Council for Physical Distribution Management, Dr. Goldschmidt lambasted the administration for what he called shortsightedness on transportation issues and for failing to allocate the funds necessary to repair the nation's transport system.

"Today there is no national direction toward which transportation policy is moving; no clear set of outcomes or values which we should expect or hope to achieve," he said.

Dr. Goldschmidt said the administration has neglected its responsibility for improving the conditions of the current deregulated environment which was established by the Carter administration. Dr. Goldschmidt, now international vice president of market for Nike Inc., served his term in Washington during that time.

"Deregulation is still working, but it is a much smaller factor than it should be because the Reagan administration lacks the vision to link it up with other pieces of a transportation policy to make it larger and more successful," he said.

This failure was, he said, "the real tragedy of transportation deregulation."

Dr. Goldschmidt urged the Reagan administration to give top priority to repairing the damage which plagues the country's transportation infrastructure. The current state of the system is extremely costly to all Americans.

"Our transportation system should attack inflation by encouraging productivity. Bottlenecks in our inland waterways, decaying highways that are literally rotting through, bridges that are a threat to the movement of goods — these are real hazards to American productivity and they should be attacked," he said.

"As a nation, we are running for the decade of the '80s a $2-3 trillion capital infrastructure repair bill; $1 trillion in highways and bridges, $600 billion in city streets, $40 billion in inland waterways and more for sewers and water systems," he added.

He claimed that federal budget reductions which affect these repairs are merely a case of the administration passing the buck onto other administrations.

'The work we are putting off today will cost that much more tomorrow — and we will incur the cost of delay and damage today.'

"America has hit a new low point in our spending for public works," he said. "Today, these needed investments are being deferred in the name of false economy."

"The work we are putting off today will cost that much more tomorrow — and we will incur the cost of delay and damage today."

He was particularly upset over the administration's slashing of the motor carrier safety budget by 15 percent. As transportation secretary, Dr. Goldschmidt had strongly recommended to Congress that new safety legislation was the only way to insure that the nation's highways are kept safe.

"I do not accept the notion that a government which surrenders economic regulation can automatically walk away from its responsibility from safety regulation," he said.

"The fact of the matter is, there hasn't been new safety legislation. Instead we've seen a reduction in the federal commitment to highway safety — and it comes at a time when more and more of the motoring public is taking to the highway in smaller and smaller cars," he said.

Dr. Goldschmidt pleaded with the current administration to develop an effective transportation policy to begin the task of curing the nation's transportation ills. Failure to do so, he suggested, would hinder the nation's attempt at economic recovery.

"As a result (of not having a decisive transportation policy), we are seeing opportunities being missed, we are seeing costs deferred for future generations to pay and we are seeing America's self-interest ignored in a world where other nations clearly understand and act in their self-interests," he said.

Journal of Commerce
October 18, 1982

Rail Traffic Hit Hard By Economic Slowdown

By HELEN ERICSON

Journal of Commerce Staff

WASHINGTON — After breaking out of a long slump for two promising years, the rail freight industry is losing ground to the dismal economy. Rail industry officials and financial analysts see no near let up.

Domestic and export coal markets and traffic in general is declining. Revenues continue to fall.

Of the 1.1 billion freight cars owned by the nation's largest railroads, an unusually large number — 265,000 — are in storage. This compares with an average number of only 25,000 routinely idle between grain harvests and none during healthy economic times.

If it were not for recent easing of federal regulation, "we'd be awash in a sea of red ink," William H. Dempsey, president of the Association of American Railroads said in a telephone interview.

"We're hurting, but we're surviving," he explained, because of marketing freedom, including deregulation of piggyback service, now enjoyed by the industry.

Association statistics show that net revenue in the first half of the year was down almost 31 percent. The industry's rate of return was 3.07 percent compared with 4.59 percent for the first six months of 1981.

Freight traffic during the week ended Sept. 18 showed a typical decrease of more than 19 percent below the same week a year ago.

A week later, the four-day strike by the Brotherhood of Locomotive Engineers caused traffic to drop more than 38 percent.

Mr. Dempsey pointed out that although the overall traffic picture is fairly bleak, coal, the railroads' prime traffic and revenue producer, and piggyback have held up.

So far this year, coal is 4.7 percent more than 1981. Piggyback is 6.8 percent more than last year.

Mr. Dempsey reported that the industry did not start to lose ground until the fourth quarter of 1981. Net revenue was up 22 percent in 1981, but that included a 17 percent drop in the last quarter.

Since that quarter, the economy has continued to move "straight down," Mary DeSapio, vice president at Lehman Brothers Kuhn Loeb Inc., observed, and "it seems to be getting worse."

Early this year, Ms. DeSapio was more optimistic than some rail analysts, predicting that rail deregulation and the new tax law would keep the railroads in decent shape.

These changes have helped keep the industry from serious financial trouble, but if the economy continues to drop, 1983 looks foreboding, she observed.

At the same time, the industry's balance sheets are "very strong," there is plenty of cash, Ms. DeSapio reported. And she predicted that stock in newly merged railroads will continue to be strong.

Isabel H. Benham, president of Printon, Kane Research Inc., predicts that the railroad industry will see a substantial reduction in earnings this year, with no improvement in sight.

"The business just isn't there," she said, and fourth quarter results are likely to be "very, very poor," especially if the winter is hard.

In 1980, the railroad industry recorded its highest rate of return in 25 years — 4.13 percent. It was still relatively strong in 1981 at 3.98 percent.

The failing economy hit in the fourth quarter of 1981 when net revenue from rail operations dropped 17 percent to $584 million compared to $707 million in the same period of 1980.

Roanoke, Va. Times/World News September 24, 1982

Analysts say unions won contract negotiations

By JAMES A. BACON
Staff writer

Although Congress ordered a halt to a four-day strike by the Brotherhood of Locomotive Engineers, some analysts say the BLE and other railroad unions were the real winners in overall contract negotiations.

The engineers — who walked out over the right to strike in separate negotiations to win a pay premium over other railroad workers — were ordered back to work Wednesday and had the no-strike clause imposed on them. The BLE had bitterly opposed the no-strike provision.

Despite the congressional order, however, the BLE and other unions have won contracts from the railroad industry that provide train crewmen pay raises of around 28 percent over three years, depending on inflation. The contracts also blocked an industry bid to overhaul the complicated system of railroad work rules.

The BLE did lose the right to strike during negotiations over certain productivity bonuses. And the United Transportation Union, which represents brakemen and conductors, did lose ground on the issue of phasing out cabooses.

But the railroad unions were able to avoid major salary concessions that were forced upon many other industrial and transportation unions during a year of severe recession.

"The settlement with the unions has got to be a real disappointment for the industry," said Jack Kawa, a railroad analyst for Dean, Witter Reynolds, a New York stock brokerage.

"This was the industry's year to get something" from the unions, he said. When the contracts expire in 1984, Kawa said, the economy probably will be in better shape. If unemployment is lower, he said, the unions will be in a stronger bargaining position. If the railroads found it hard to win concessions in 1982, he said, they may find it even harder in 1984.

All but two of the railroad craft unions reached contract settlements with the industry last year. The United Transportation Union has tentatively signed a contract, but the agreement must be approved by the union's membership. The BLE contract was imposed this week by Congress.

Since they were able to win "lonesome" pay in compensation for smaller crews, the crewmen may hold out for "strap-hanging" pay in compensation for working in more crowded conditions, said Livingston, using an analogy with the subway cars used by New York commuters.

The companies granted a generous wage increase — 11 percent for the three years up to January 1984, plus a cost-of-living increase that could add roughly another 17 percent. But they also pressed for concessions on a number of work rules that add considerably to payroll costs.

Four major issues arose in discussions between the industry and the train crew unions:

- The industry wanted a study commission to review numerous work rules it claims are antiquated and inefficient. Crew members are given extra pay for certain types of work known as "overmiles," traveling more than 100 miles in a day, and "arbitraries," such as linking air hoses, switching from one train to another or operating a train without a fireman.

Under the terms of the settlements, a study commission will examine the issues but will have no power to impose its recommendations. In other words, "the carriers lost," said Henry Livingston, a railroad analyst with Kidder, Peabody, a New York brokerage house. It's a move in the right direction, but it's an open question whether it will lead to anything, he said.

- The industry sought to exclude the overmiles and arbitraries, which account for some 35 percent of total pay, from the pay increases. The unions, which wanted to extend the raises to all categories of pay, won this major issue.

- The industry sought an end to trainmen and engineers each seeking successively larger pay raises than the other. They also wanted contracts with a clause preventing strikes in case agreements could not be reached.

In past years, the brakemen and conductors of certain railroads had agreed to smaller crews in exchange for "lonesome" pay, a productivity bonus to compensate them for the additional work and responsibility imposed by the reduction of crew size.

These bonuses substantially narrowed the gap between the pay of the engineers and other crewmen. The engineers objected, and sought additional pay raises to preserve their status as the highest-paid crew members. They also demanded the right to strike in order to back up their demands.

Without the right to strike, BLE officials have said the engineers would have no leverage in their negotiations with the railroads.

In the contract settlements, the industry agreed to allow the union to negotiate these questions with individual railroads, but won a moratorium on all strikes over the issue.

- The industry sought to eliminate all cabooses from its trains, a move it claimed could save some $400 million a year. The brakemen and conductors conceded the right to negotiate the issue railroad by railroad.

The caboose issue is probably the major gain won by the railroad industry, but railroad company savings aren't likely to amount to the full $400 million, said Livingston, the rail analyst. Arguing that the elimination of cabooses will force crew members into the less comfortable accommodations of the locomotives, they may well ask for additional productivity bonuses.

HAYS T. WATKINS

INDUSTRY WEEK, October 18, 1982

Once every other week, often before dawn, Hays T. Watkins eases his gray 1979 Oldsmobile Toronado out of his condominium driveway in Richmond, Va., threads his way through suburban streets to Interstate 95, drops a dime in the toll booth basket, and heads for Washington, D. C.

Although a railroad man, he's as familiar with the 105-mile stretch of highway as any truck driver. And, once he arrives in the nation's capital, the 6-foot, 56-year-old chairman and CEO of Richmond-based CSX Corp. knows his way around there, too.

In an era when many CEOs find themselves enmeshed, however reluctantly, in government relations, Mr. Watkins meets the task with unusual elan. By his own estimate, he spends one-fourth of his worktime on government-related activities. And he's adept at it; he is widely credited for playing a pivotal, behind-the-scenes role in spearheading the landmark railroad deregulation legislation of 1980.

A low-key, gentlemanly sort who keeps a Bible on the coffee table in his luxurious office overlooking the James River, he protests in his Kentucky drawl that he is a not a government-relations "superstar."

"I'm not a confidant of Presidents like Irving Shapiro and Reginald Jones," he says, alluding to the two most recent winners of IW's Excellent In Management award for government relations.

Yet, in his own way, he is just as effective. He does considerably more than merely testify or make speeches on issues—which is often the extent of the government-relations involvement of CEOs at many large companies. (CSX is the holding company formed by the November 1980 merger of Chessie System Inc. and Seaboard Coast Line Industries Inc.; its other holdings include natural resources, real estate, and corporate aviation.)

Making rounds. Mr. Watkins has taken it upon himself to personally visit senators from each of the 22 states—as well as representatives from each legislative district—in which CSX has operations. As a result, he has made some 300 calls to legislators' offices during the last 18 months, a cycle that will begin again when a new Congress is elected in November.

In addition, he's an habitue of the Dept. of Transportation (DOT), the Interstate Commerce Commission (ICC), the Federal Trade Commission, and other federal departments and agencies whose decisions affect his company. And, although he assigns responsibility for state-government relations to the heads of CSX's operating units, he is an informal adviser to such governors as Kentucky's John Y. Brown Jr. and West Virginia's Jay Rockefeller. On a more formal basis he is co-chairman of the task force examining the Interior Dept. for President Reagan's Private Sector Survey on Cost Control in the Federal Government. The overall survey project is chaired by Peter Grace, chairman of W. R. Grace & Co.

For all his personal involvement, Mr. Watkins insists that he is only the "leader of the team." His most significant accomplishment, he believes, has been to instill an awareness of the importance of government relations throughout his company. Indeed, asserts John W. Snow, CSX's Senior Vice President for Corporate Services (who accompanies Mr. Watkins on his Washington trips and shares the driving): "Hays has sensitized this entire corporation to government relations—right down to the engineer on a train. He has institutionalized it. If he were to leave the company, his approach would endure."

Rail buff. Hays Watkins isn't about to leave, however. Railroading runs deep in his blood. As a youngster in New Castle, Ky., he had an uncle who was a railroad conductor and a cousin who was a brakeman. While working toward a master's degree in business administration at Northwestern University he was such a rail buff that he photographed every "named" passenger train that came to nearby Chicago in the late 1940s. That collection of photos today is one of his prized possessions.

His love of railroading steered him to the Chesapeake & Ohio Railroad (C&O) following his graduation from Northwestern in 1949. He started as a staff analyst and quickly moved up the ranks—becoming president and CEO of the merged C&O and Baltimore & Ohio Railroad Co. in 1971. From that year on, he recalls, "it became obvious to me that government is a key participant in any [business] organization. More decisions that affect your company are made in Washington than in your own office."

In his assignments since then—he became chairman and CEO of the Chessie System, the holding company formed in 1973, and has been chairman of CSX since May of this year—that conviction has been reinforced.

"I had no idea in 1971," he reflects, "that some day government relations would take up 25% of my time. But the more I become connected with government relations, the more I am convinced that it is the single most important function of my job."

Wanting nothing. "From a lobbyist's point of view, Hays is a delight to work for," says Woodruff "Woody" Price, CSX's Washington-based vice president for government relations. "He has a sophisticated understanding of, and a respect for, the political process and its participants. Unlike a lot of businessmen, he doesn't perceive the political process as the enemy—as an adversary proceeding."

Mr. Watkins wasn't always that sophisticated, as he readily admits. He recalls "very, very vividly" what one influential congressman asked him when Mr. Watkins first started going to Washington: "How come you railroad guys never come to see me," the legislator grumbled, "except when you want something?"

Continued

Industry Week 10-18 Concluded

Since then, when the CSX chairman sees legislators and agency officials, he makes a special effort to avoid, as much as possible, discussion of the political issues of the moment. "When you don't have a particular bill to lobby for, the atmosphere is much more relaxed," he observes. "You can talk about longer-term policy issues and trends."

His willingness to seek accommodation distinguishes him from many CEOs, who tend to be more demanding in their Washington dealings. Comments CSX's John Snow: "Hays immediately perceives why you can't get a full loaf in Washington. He realizes you have to accept things you don't like in order to get, say, a 10% gain."

Long wait. Mr. Watkins possesses another attribute that comes in handy in Washington: an immense reservoir of patience. Unlike many CEOs, accustomed to being No. 1 in their companies and expecting the same kind of deference in the capital, he realizes that congressmen and government officials aren't at his beck and call.

It's not uncommon for Mr. Watkins to wait 75 minutes or more to see a legislator or Administration official—an experience he calls "humbling." His all-time record was 16 hours. That heel-cooling ordeal occurred in 1975 when, during the negotiations to set up the quasi-public Consolidated Rail Corp. (Conrail), then Transportation Secretary William J. Coleman Jr. mediated a dispute between eastern railroad managements and labor unions. The secretary suggested that Mr. Watkins, who was one of the management negotiators, wait in an outer office while he, Mr. Coleman, discussed a point with the labor leaders.

"That was at 10 a.m.," Mr. Watkins remembers. "At 2 a.m. the next morning Secretary Coleman came out of the room and told me, 'I'm having a little difficulty. Let's take a break.' "

Prime mover. Because he is Washington-wise, it's not surprising that Hays Watkins has been one of the most influential CEOs in shaping rail legislation of the last decade. He played a key role in fashioning the Regional Rail Reorganization Act of 1973, which set up the planning mechanism for restructuring eastern railroads after the bankruptcy of Penn Central and other carriers, and the Railroad Revitalization & Regulatory Reform Act of 1974, which established Conrail.

Perhaps his most shining accomplishment, though, was in helping to sell the 1980 rail deregulation law—the Harley O. Staggers Rail Act. "There wouldn't have been a deregulation bill without Hays Watkins," declares one former DOT official. So contentious was the issue that the Assn. of American Railroads took no position. Mr. Watkins, however, "evangelized" the bill within the Chessie System, sold his own board on it, and then became the prime mover in setting up an independent lobbying organization among railroads on behalf of the measure.

More recently, Mr. Watkins has been credited with influencing the transformation of Conrail into a profitable railroad for the first time. The Reagan Administration initially seemed ready to give up on the eight-year-old carrier and sell it piecemeal to other railroads. But CSX, led by Mr. Watkins, was the only major rail firm to oppose such a sale, arguing that it probably wouldn't attract any takers. A better approach, contended CSX, would be to grant Conrail greater authority to lay off unneeded employees and abandon unprofitable branch lines. The Administration pursued that course—with apparent success.

Eye on the future. Mr. Watkins' endeavors in behalf of orderly rail deregulation ultimately should benefit not only his company, but all of the nation's shippers. He talks enthusiastically about the future.

With deregulation as a starting point, he envisions the day when it "will no longer be enough to be a railroad, truck line, a slurry line, a water carrier, or an airline." He'd like to see the government take steps to enable companies to provide a full range of transportation services.

His vision of one-stop shopping for transportation will require a further overhaul of the nation's transportation laws—and a lot of sensitive government-relations work. Thus, it's not surprising that when his associates at CSX begin trickling into the office, as early as 7:30 a.m., they usually find that someone has already turned the lights on and flipped the calendar page in the reception area.

More often than not, that someone is Hays Watkins—already at his desk, thinking about the future and how to bring it about.

And planning his next trip to Washington. ◆

Journal of Commerce
October 15, 1982

CSX Announces Railroad Merger

Journal of Commerce Staff

The Seaboard Coast Line Railroad and the Louisville and Nashville Railroad are being merged officially to form the Seaboard System Railroad.

The board of directors of CSX Corp., the lines' parent company, announced that the change will be effective Jan. 1 following filings with the Interstate Commerce Commission.

The merger is intended to provide shippers with the advantages of a single railroad throughout the 16,000 mile system, which covers 13 states, according to Richard D. Sanborn, president of the system, which is known as the Family Lines at present. The Family Lines name will be discontinued, officials said.

The new system also will include three other Family Lines carriers, the Georgia Railroad, the Atlanta and West Point Railroad and the Clinchfield Railroad.

Mr. Sanborn said the consolidation will improve the efficiency of the lines' internal operations.

Corporate Relations

M E D I A   M O N I T O R   October 13, 1982

Dissemination of these news items to all interested people is encouraged. Content may differ from Milwaukee Road viewpoint. You may want to keep for reference.

Jackson County Pilot
Jackson, Mn. September 30, 1982

Railroad:

Plan celebration here on Oct. 14

The $26 million, 85-mile Milwaukee railway line from Austin to Jackson is scheduled for completion Oct. 8, and there will be celebrating Oct. 14.

On Oct. 14, a train will be leaving Austin around 12:45 p.m. and will arrive in Jackson at approximately 6 p.m., with a dinner at the elevator planned after arrival. Speeches by dignitaries are planned here, along with other festivities. Plans have not been finalized, however, according to Forrest Mariner, Jackson, vice-chairman of Cornbelt Shippers Association.

People from the Jackson area could possibly board the train in Winnebago, Mariner commented, although those plans are not finalized.

The Cornbelt Shippers Association, which includes Jackson area shippers, was responsible for 36 miles of Milwaukee track from Winnebago to Jackson. Shipper, state, federal, county, city and railroad money was used in the project. Contributions also came from other civic organizations and area shippers.

In phase one of the renovation, the Cornbelt Shippers were responsible for laying of new rail ties and rail bed. Phase two involved the laying of new rails.

Mariner said he thinks the project is the only successful one of its kind in the country. The planning started way back in 1977, he commented.

The first phase involved a share of $647,367 by Cornbelt. Cornbelt helped put $423,000 into the second phase, Mariner said.

The rails are used for the shipment of grain and other commercial freight. The railway never shut down but Mariner said it would have if it had not been for the soon to be completed effort.

Firms pledging money for rail repair are virtually assured of repayment, according to Cornbelt.

Payment will be refunded at the rate of $65 per railcar the first year, $70 per car the second year, $75 the third year, $80 the fourth year, and $85 for the fifth through tenth years.

Wausau Herald
September 30, 1982

2

From Wausau to Tomahawk

Rail line being upgraded

By DEWEY PFISTER
Herald Staff

MERRILL — While other areas of the state are facing a loss of rail service and removal of tracks, Lincoln County is fortunately seeing an upgrading of the Milwaukee Road line from Wausau to Tomahawk.

The $6 million rehabilitation project will enable the speed limit for freight trains on the line to be increased from 10 to 25 miles an hour and provide more dependable service.

A state Department of Transportation grant and loan, a loan by rail users along the line and Milwaukee Road funds are financing the project.

Railroad and DOT officials were guides Wednesday on a tour of the project for members of the Lincoln County Board and representatives of the Lincoln County Shippers Association.

Motor vehicles equipped with railroad wheels transported the delegation on the trackage north from Merrill.

The project is being accomplished on schedule and quality work is being done, was the unsolicited compliment from Jack Ormond, head of the Marinette, Tomahawk & Western Railroad at Tomahawk. The short-line railroad is a subsidiary of Owens-Illinois Inc., a major user of the Milwaukee Road line.

About 40 percent of the work has been completed. Replacement of ties and installation of 15 to 20 rail carloads of ballast per mile has progressed northward some miles from Merrill.

Elimination of 10 unused turnouts (switches) has made more money available for ballast, a DOT report said. Twenty turnouts have already been rebuilt.

Crossings have been rebuilt from Wausau through Merrill. A rubber material was used instead of planking at the First and Third Street crossings in Merrill under a cost-sharing arrangement with the city.

The next major phase will begin in about two weeks with installation of rehabilitated continuous welded rail on 28 miles of the line. That work may not be completed before winter but Project Engineer Larry Carroll is hoping the 1,400-foot-long sections can be installed from Wausau through Merrill before cold weather and snow halts work until spring.

Other work has been done in conjunction with the project. Yard tracks were adjusted in Wausau, Merrill and Tomahawk, rail anchors have been installed on eight miles of rail not scheduled for replacement, roadside brush has been sprayed, vision for motorists has been improved at crossings, and drainage is being improved.

The tour provided evidence that trains will soon be operating more safely between Wausau and Tomahawk and the daily way freight between the two cities will more easily be able to make connections with freight traiins operating between Wausau and New Lisbon at the railroad's main line.

Chicago Tribune October 12, 1982

U.S., Canada rail link

THE U.S. AND CANADIAN railroad passenger systems will begin joint service between Chicago and Toronto, Canada's largest city, beginning Oct. 31, officials announced. It will be the first through passenger train between those cities in more than 11 years. One-way fare to Toronto will be $64. A round trip fare will be $96. The new "International" will be operated with equipment provided by both Amtrak and VIA Rail Canada, the Canadian rail passenger agency, in part with subsidies from Michigan. The train will bypass Detroit, but will provide service to Hammond, Ind.; Kalamazoo, Battle Creek, Lansing, Flint, and Port Huron in Michigan; and Sarnia and London in Ontario. The train will connect in Toronto with VIA service to Niagara Falls, Ottawa, and Montreal, Amtrak officials said. The 495-mile trip is scheduled to take approximately 10½ hours. The train is scheduled to leave Chicago's Union Station at 10:25 a.m. daily with an arrival time of 9:50 p.m. [EST] in Toronto. The return train leaves at 8:10 a.m. and arrives in Chicago at 6:02 p.m. except Sundays when the departure is pushed back to 1 p.m. with a 10:47 p.m. arrival in Chicago. The International will be the second train jointly operated by Amtrak and VIA. Those agencies also operate the Maple Leaf between New York and Toronto, and Amtrak operates the Montrealer between Washington, New York, and Montreal.

Time
October 4, 1982
Excerpt

railroad *four-day strike*

A generation ago, a national rail strike might have paralyzed the country. Last week's walkout, however, was no crippler: both the sluggish economy and the diminishing role of rail transport blunted its impact. In the Northeast, service was relatively unaffected since the region's major line, Conrail, was not struck by the engineers. The Southern and the Family Lines systems, the two major railroads in the South, drafted supervisors and other skilled personnel to operate the trains, and most major runs were made.

Hardest hit was the Midwest, hub of the nation's railroad wheel. Burlington Northern, whose headquarters is in St. Paul, is the country's largest rail system, with 800 trains, but it was running fewer than 200. Only twelve of the 46 Amtrak trains that chug out of Chicago daily were operating, while Armco steel shut down eight coal mines in West Virginia, idling 1,400 workers.

By week's end the nation's rails were returning to normal, which was a mixed blessing. When the strike began, for example, the Spirit of California was in the middle of its run between Sacramento and Los Angeles. The train stopped abruptly in Oakland and discharged its passengers. Many travelers hopped on buses to complete their journey, but their fury soon abated: they pulled into Los Angeles a full hour before the train had been scheduled to arrive in the first place. ■

Trains Magazine
November 1982

A difference

"It makes a difference," wrote Martin Luther, "whose ox is gored." To wit:

"That consolidation [Grand Trunk + Milwaukee Road] if it is approved would be, we think, highly beneficial to the Katy. The Milwaukee Railroad is what we call a friendly connection. In recent deals with us, we have reason to believe that they are friends. By expanding their territory, such as the Grand Trunk, and including eastern Canada and the western half of the United States, it will give us greater opportunities to solicit traffic over our railroad than we have had in the past. We think this is excellent. As a matter of fact, I would not be too surprised if once this developed, we think we may be able to have even a closer association, but that will come three to four years down the road." *Missouri-Kansas-Texas Railroad Chairman Reginald N Whitman at the May 26, 1982, annual meeting of Katy Industries stockholders in Elgin, Ill.*

"During the quarter the Grand Trunk Corporation announced plans to acquire the Milwaukee Road. The Soo interchanges approximately 7 per cent of its carload traffic with units of the Grand Trunk System. The proposed combination would represent a significantly changed competitive relationship on traffic originating or terminating in Canada."—*Soo Line President Thomas M. Beckley in the railroad's second quarter 1982 report to stockholders.*

Trains Magazine
November 1982

MILWAUKEE MANEUVERS: Grand Trunk, moving to improve service ahead of planned 1984 purchase of Milwaukee Road, has begun run-through freights St. Paul-Duluth-Winnipeg over Duluth, Winnipeg & Pacific/CN Rail, and GT runs a daily freight to Milwaukee's Bensenville Yard outside Chicago....MILW has bought for 17 million dollars 33-mile Rock Island main, Washington-West Davenport, Ia., and 33 miles of rights over Davenport, Rock Island & North Western (Dry Line), Davenport-Clinton (on which Chicago & North Western also bid)....As part of reorganization, Milwaukee has agreed to transfer commuter operations to Chicago RTA.

4

Chicago Tribune

October 3, 1982

Drink, speeding tied to engineer of derailed train

LIVINGSTON, La. (AP)—The engineer of the chemical-laden freight train that derailed and set off spectacular explosions here all week had been drinking and was going too fast when the accident occurred, the National Transportation Safety Board said Saturday.

The engineer was driving 5 or 6 miles an hour over the 35 m.p.h. speed limit when the train jumped tracks and set off the string of explosions and fires that have kept 2,700 people from their homes since Tuesday, NTSB spokesman Ira Furman said.

"We are not saying the guy was drunk," Furman said. "We don't know anything about quantity. We are not saying that the fact that he went into a bar or fact of the speed . . . were necessarily causal."

Furman said the Illinois Central Gulf engineer was seen in a bar during a 5½-hour layover the train made in Baton Rouge. He would not give the engineer's name.

Furman said regulations prohibit drinking on the job, "but there are no federal rules to prohibit the use of alcohol before going on duty."

THE ENGINEER told investigators his speedometer read 43 m.p.h. at Livingston and tests of the engine found the device read 2 m.p.h. faster than it should, Furman said, "so his speed indication of 43 miles an hour came down to 41."

He said the engineer acknowledged going 40 m.p.h. about 10 miles outside of Livingston where the train passed over a "hotbox detector," a device that checks for overheated axles.

"That was a 25 m.p.h. restricted zone," Furman said.

An analysis of the tape from the detector also indicated that the train was going about 40 m.p.h., he said.

He said a rough analysis of the time and distance traveled from Baton Rouge indicated the train averaged nearly 29 m.p.h. for the 20-mile stretch, 8 miles of which is restricted to 10 m.p.h.

Washington Post

October 2, 1982

Railroads: Coal Comfort?

William Dempsey, president of the Association of American Railroads, fought for and got deregulation. Now he is fighting to prevent competition to railroad coal haulage.

In a letter to The Post [Sept. 22], he argues that coal slurry pipelines will not favorably affect electric utility rate payers. He does not deny the contention of the slurry people that coal can be transported by slurry over long distances more cheaply than by railroads. But he contends that the coal mines, pipelines and electric utilities, not the people, will derive all the benefits.

But it is not the actual cost of hauling coal that now determines the price the railroads charge for transporting it. Since passage of the Staggers Act in 1980 and the Interstate Commerce Commission's narrow interpretation of when railroads dominate a route, the western railroads have exercised their monopoly position with virtually no restraint by the ICC. For instance, they charge the San Antonio municipal electric utility more than twice what it costs them to supply it with coal from Wyoming (216 percent of variable cost).

Since utilities can pass increased fuel cost through to electric consumers, the railroads can, in effect, levy a tax on consumers of coal-generated electricity. Thus, it is ridiculous to say, as Dempsey does, that, if the cost of transportation were cheaper, rate payers would not benefit.

Coal slurry pipelines, when built, will give the railroads their only competition for moving coal from the western coal mines. The Southwest and Central South will use about 2½ times as much coal to generate electricity in 1995 as they do now. Yet the railroads say that coal slurry pipelines would cripple them and "render tens of thousands jobless." How so? All the slurry pipelines, if built, would move 20 percent of the coal from the western mines. The railroads would move the other 80 percent.

The railroads know that competition will work this way: the slurry lines will establish a yardstick of price, and they will keep prices of coal haulage from continuing to soar. That is why the railroads want to deny them the necessary tool of eminent domain, a privilege that other pipelines and railroads have exercised for generations.

That's why they are fighting Morris Udall's coal slurry pipeline bill, HR 4230. They have gotten rid of regulation; now they want to stifle competition.

—Bob Eckhardt

Former representative Eckhardt, now an attorney in Washington, sponsored the coal slurry legislation in the 95th and 96th congresses.

Minneapolis Star/Tribune September 30, 1982

BN plans to cut 1,800 positions

By Josephine Marcotty
Staff Writer

After three months of study, the Burlington Northern Railroad (BN) has determined that it can do with 4 percent fewer people, said President Walter Drexel in a letter to employees this week.

That amounts to about 1,800 jobs out of a total of 46,000. But railroad spokesman Chris Welsh said that it doesn't mean 1,800 people will be without jobs.

"We're talking positions here, not bodies," he said. However, he was unable to state how many people would be affected by the cutbacks.

Three months ago an internal committee was organized to investigate ways to make the company more efficient, Welsh said. The 4 percent cutback is part of the committee's conclusions.

The company also plans major changes within some departments in the coming months, Drexel said in his letter, but Welsh said no details have been provided. Department heads will be explaining these changes to their staffs this week, he said.

Almost half of the cuts that will be announced this week and in the coming months, according to Drexel's letter, will be among white-collar employees. About 5,520 employees in the company's work force are white collar.

Most of the cuts will be left to the discretion of department heads, said Welsh.

However, he added, some of those whose jobs are eliminated will be retrained or reassigned to open positions. The company will help others find work and they will not be asked to leave immediately, Welsh said.

"Wherever possible, people will be slid into other positions," he said. "Nobody is being pushed out the door."

The cuts announced this week are in addition to huge reductions the giant railroad has been making in the last two years, most of them among union ranks.

The railroad now has fewer employees than it did before it merged with the St. Louis & San Francisco Railroad in November 1980. (Between 1980 and 1981, the number of employees increased from 49,810 to 58,439.) Including the 4 percent reduction this week, that number will be reduced to about 44,000.

Many of the reductions are a result of the recession, said Welsh, who added that the company has 500 to 600 locomotives and 30,000 boxcars in storage.

Many positions will be refilled as the economy improves, company officials said, but many of them are permanent changes, the results of deregulation and increased competition.

The reorganization study is separate from another company study on whether to move BN's headquarters from St. Paul. Welsh said that no recommendations on that question have been made.

5

Journal of Commerce
October 12, 1982

RoadRailer Service to Debut On Buffalo-New York City Route

By RIPLEY WATSON III
Journal of Commerce Staff

A new freight transportation service using innovative rail-highway units will begin operation next week between Buffalo, N.Y. and New York City.

The train will run daily on a nine-hour schedule starting Oct. 21, using RoadRailers, which can be operated on highways or on railroad tracks without using flatcars.

Bi-Modal Corp. of Greenwich, Conn., which makes the RoadRailer, will provide marketing and terminal operations. Conrail will provide train crews and locomotives for the venture. The New York State Department of Transportation also participated in the project by upgrading terminal facilities at a cost of $900,000.

The Buffalo-New York service will be the second market in which the RoadRailer has been tried. Results of the first test between Louisville, Ky. and Memphis, Tenn. were not considered a complete success. Bi-Modal officials cited the recession and a lack of traffic and the railroad involved, the Illinois Central Gulf, reported problems with overweight loads due to distribution of the RoadRailer's weight on the axles.

Bi-Modal officials chose the Buffalo-New York market for the new service because of high traffic volume. Officials hope that the RoadRailer's combination of flexibility and fuel efficiency caused by lighter weight will enable the train to snare a significant share of the market.

The 45-foot trailers can carry a 43,000 pound payload. The company reports fuel savings of up to 50 percent due to the RoadRailer's lighter weight. The units have been tested at speeds up to 100 miles per hour, officials said.

One of the keys to starting the operation was a change made in work rules. Unions operating the trains have agreed to smaller crews and a reduction in the number of crew changes.

6

BUSINESS WEEK: October 18, 1982

Why Southern Pacific uncoupled a winner

Southern Pacific Co.'s decision to sell its prized communications subsidiaries to GTE Corp. for $750 million in cash is just the first—and probably the easiest—of several tough choices the San Francisco-based company will have to make in the next year. When the deal is done, SP will hold an ailing railroad, various real estate assets, a small oil company, a money-losing title insurance company, and a small but profitable pipeline operation. The question everyone is asking: "What will SP do with its $750 million?"

Benjamin F. Biaggini, SP's autocratic chairman, has had to accept that his cash-short company cannot support two capital-intensive businesses. SP earned $26.5 million on revenues of $1.58 billion in the first half, down from $67.6 million on $1.63 billion for last year; only SP Communications Co.'s $38 million operating profit and tax benefit sales made black ink possible. The profit potential for the subsidiary, operator of the Sprint long-distance telephone network and a potentially lucrative satellite communications network, is huge, but it needs $1 billion in capital in the next few years to keep up with its high-growth market. With $1.5 billion in long-term debt and a railroad whipsawed by recession draining SP's resources, something had to give.

Despite recent public statements by Biaggini that SPCC, which provided 10% of SP's revenues in the first half, would outgross the railroad by 1990, he has been quietly seeking a buyer for at least a year. Most analysts feel the deal, which includes GTE's assuming about $200 million in long-term debt, is fair. For GTE, says Chairman Theodore F. Brophy, purchasing Sprint "permits us to enter the long-distance field we are not in now." GTE's aim is to strengthen its position relative to American Telephone & Telegraph Co.

Out in the cold. The sale clearly signals that Biaggini, who declined to speak with BUSINESS WEEK, has opted to stay in the railroad business. But there is no place for Southern Pacific RR, the transportation subsidiary's largest operating unit, on the consolidating U.S. railway map. The formation of Pacific Rail Systems Inc.—an amalgamation of Union Pacific RR, Missouri Pacific RR, and Western Pacific RR into a 22,700-mi. system—is sure to go through by mid-1983, leaving SP out in the cold.

SP failed two years ago to consummate a marriage with rival Santa Fe Industries Inc., which would have given both railroads a more defensible position. Earlier it had tried to merge with Seaboard Coast Line Industries Inc., which has since become part of CSX Corp. Rumors of a hookup with either are resurfacing, as is talk that SP might acquire Rio Grande Industries Inc., operator of the Rio Grande RR, the third line that stands to be hurt by Pacrail. SP must soon decide which track to take.

"Biaggini should go back hat in hand to the Santa Fe and make the best deal he can," says one senior railroad executive. Others, who think East-West rail mergers make more sense, suggest the SP would be better off hooking up immediately with an Eastern carrier, such as CSX, the merged Chessie and Seaboard lines. What is more, says a railroad chief executive, "The personalities at the SP and the Santa Fe just don't mesh." He doubts a Western merger will take place, although Santa Fe does not rule out the possibility. Biaggini himself is believed to have been a major stumbling block in both his merger attempts.

The toughest choice. SP will not get its cash until mid-1983 at the earliest, pending regulatory review and resolution of expected legal challenges by MCI Communications Corp., the second-largest competitor to Sprint after AT&T. That gives Biaggini a few months to make perhaps his toughest choice: whether to yield his iron-willed control of SP. Many SP-watchers say privately that the 66-year-old Biaggini will have to step down before the company will find a marriage partner, but competitors still do not feel he is willing to do so anytime soon. Says one rail analyst: "Biaggini has been so difficult to deal with that everyone shies away from him. It's unfortunate that the fate of the company hangs on one man's personality."

If it does not already have one, SP had better develop a plan soon, because a $750 million cash infusion, added to $280 million already in its coffers, could make it vulnerable to takeover. "With that kind of money," says a rival railroad executive, "especially with the imaginative financing available today, you can buy a $2 billion corporation. Does SP have something else in mind, some nonrailroad thing it's keeping its mouth shut about?" ■

Green Bay Press - Gazette Oct. 10 '82

Great Lakes' officials fear higher tolls

PITTSBURGH (AP) — Unless Congress forgives the $110 million debt remaining on the construction of the St. Lawrence Seaway, higher cargo tolls could force shippers to find other ways to move their goods, a Great Lakes Commission official says.

"We feel that would have seriously declined our competitiveness for shipping boat cargoes," said Minnesota state Sen. James Ulland, who heads the commission's transportation and economic development committee.

"The debt elimination is probably the largest controllable issue on the seaway. It's been a priority of the Great Lakes Commission for five years," Ulland said.

Under a payment schedule set when the original $136 million bond issue was authorized in 1954, the commission's payments to Congress could rise from $2 million this year to $9.5 million in 1986.

That could force the St. Lawrence Seaway Development Corp. to raise shipping tolls by up to 50 percent over the next several years.

The tolls levied on ocean-going vessels that use the inland passage help make the construction loan payments.

In 1970, Congress forgave the remaining interest on the bond issue.

HE JOURNAL OF COMMERCE, Friday, October 8, 1982

Speculation Rife on SP

By RIPLEY WATSON III
Journal of Commerce Staff

While Southern Pacific Transportation Co. officials privately assess options created by the prospect of $700 million in new found cash, some rail analysts feel that money could become the carrier's war chest against a threatening rail merger.

It is clear that SP, which has court actions pending against the Union Pacific-Missouri Pacific-Western Pacific merger, won't stand idle if the Interstate Commerce Commission gives final approval to the new system.

What is unclear is how Southern Pacific would use $700 million gained from sale of its communications subsidiaries to GTE if and when the transaction is approved by the FCC and other regulatory groups.

One analyst sees merger as the only alternative. Potential partners mentioned in speculation include the Denver & Rio Grande Western Railroad, the Illinois Central Railroad or CSX Inc.

Another analyst believes Southern Pacific has a real need to continue upgrading its physical facilities first.

Improving the long-term debt picture is seen as a priority item by still another analyst. When the railroad announced the sale to GTE, it included the condition that GTE would assume debt totaling $200 million from SP's communications subsidiaries.

Another scenario analysts see is a holding pattern until court actions are concluded by SP and other carriers challenging the merger. An open court battle could be triggered if the commission gives final approval to the new system on or before the Oct. 20 deadline for commission action.

The official response from the Southern Pacific says that "it's far too premature" to determine what will be done. While acknowledging that merger talk involving SP could be expected in light of the PacRail situation, the spokesman would not comment on any potential changes in the line's strategy. A variety of interested parties, including ICC commissioners, have predicted that the PacRail decision would spark another round of mergers.

Richard Fischer, rail analyst for Merrill Lynch, points out that an SP merger with the Illinois Central Gulf Railroad would give Southern Pacific a direct line into both Chicago and St. Louis. A merger with Rio Grande could lead to one-carrier service between Kansas City and San Francisco.

Mr. Fischer, however, cautions that SP "may want to see what will happen in the courts" before moving in any direction.

There is unanimity among the analysts in their praise for the sale to GTE. Henry Livingston of Kidder, Peabody Inc. says "the sale makes sense to me." In addition to the threat deregulation of American Telephone & Telegraph would have posed, Mr. Livingston feels that the company doesn't have the resources to be both a communications and rail giant.

Mr. Fischer also felt that management had come to the conclusion that they had an attractive offer giving SP the opportunity to successfully get out of one of its two capital intensive interests.

Mr. Livingston belives that any Southern Pacific-Rio Grande merger talk is premature. He points to $243 million in SP debt coming due next year and feels that problem must be resolved first. Much of that debt is believed to have been undertaken to finance some rehabilitation of a railroad line once called "The Golden State Route," which SP purchased to give direct access to Kansas City. The route had been built by the Chicago, Rock Island and Pacific Railroad which is defunct.

As speculation continues, the value of Rio Grande stock has risen 40 percent while trading volume has soared. The Rio Grande won't comment on merger speculation, either.

All of the analysts agree that the Rio Grande would be a valuable acquisition for Southern Pacific, but they see little urgency in any merger.

Mr. Livingston feels that some of the attractiveness in such a combination is the Rio Grande's status as a strong, prosperous railroad with substantial coal traffic. He feels that Southern Pacific cannot indefinitely pursue a merger and court challenge strategy against PacRail.

A merger of Southern Pacific and Rio Grande would create a new single-carrier system parallel to PacRail between San Francisco, Salt Lake City and Denver on one end and Kansas City and St. Louis on the other, if traffic rights awarded the Rio Grande as a condition of the PacRail merger were to remain intact.

Mr. Fischer suggested that SP might be looking at Illinois Central Gulf, which has been mentioned in various merger combinations. That sort of combination would create a single system between Chicago and Texas which would compete with Santa Fe, Burlington Northern and trains operating on the Missouri Pacific's routes between Dallas, Fort Worth, Houston and the Midwest.

Still another prospect analysts see is the nation's first transcontinental system, which would join CSX with Southern Pacific. This system would cover Sunbelt states from Atlantic to Pacific with traffic moving through gateways at St. Louis, Memphis and New Orleans.

Wall Street Journal
October 12, 1982

Kansas City Southern's Net Fell 28% in Quarter And 5% in Nine Months

By a WALL STREET JOURNAL Staff Reporter

KANSAS CITY, Mo.—Kansas City Southern Industries Inc. said third-quarter earnings declined 28% because of a four-day national rail strike in September and continuing low levels of general commodity freight traffic.

The railroad-holding company earned $7.6 million, or 76 cents a share, down from $10.5 million, or $1.06 a share, the year earlier. Revenue fell 3% to $92.6 million from $95.6 million.

For the nine months, net income fell 5% to $25.8 million, or $2.60 a share, from $27.1 million, or $2.76 a share. Revenue was $294 million, up 7% from $274.7 million.

Kansas City Southern said revenue from its transportation segment, principally its Kansas City Southern Lines, fell 10% to $73.9 million in the quarter, and operating profit plunged 47% to $7.9 million. Revenue and operating profit from other segments—financial services, real estate and broadcasting rose in the third quarter.

Green Bay Press Gazette October 10, 1982

MIRC holds missing locomotives

By JERRY MOSKAL
Of Gannett News Service

LANSING, Mich. — No longer does the state have to wonder how three railroad engines it had in storage disappeared.

Someone took them.

The culprit is the Michigan Interstate Railway Co. (MIRC). And, railroad officials said they have no intention of returning them — yet.

MIRC said its keeping the three engines that were stored at Owosso, Mich., plus five others the state owns until the state reimburses it $1.1 million.

"We have them," admitted Vince Melanaphy, MIRC president. "I've placed a lien on all eight locomotives. Our lawyers researched the law. It's a garage-keepers lien. We haven't been paid for those repairs."

If the Michigan Department of Transportation (MDOT) doesn't pay up, he vowed to auction off the engines Dec. 13. MDOT officials estimated the 2,500-horsepower engines are worth $100,000 each.

A MDOT official admitted MIRC was owed the money for rehabilitating the engines over the years, but claimed the railroad owes the state an equal amount for engines and boxcars it has leased from the state.

The railroad and the department have been feuding for months, ending a relationship that began in 1977. MIRC had a state subsidy to operate the defunct Ann Arbor Railroad line from Toledo to Frankfort, along with cross-Lake Michigan service to Wisconsin.

When the state, wracked by fiscal problems, decided to reduce the subsidy for the line to $453,000 a month, MIRC balked and ceased operations north of Ann Arbor April 26.

As MDOT moved to hire a new operator, the railroad went to federal court in Flint where it was granted rights to the profitable 47-mile segment between Ann Arbor and Toledo. The state retained control north of Ann Arbor.

For much of the summer, rail traffic north of Ann Arbor was disrupted. The rail ferry service across Lake Michigan remains shut down and a MDOT official said there is little likelihood of restoring it in the near future.

As of Oct. 1 the Tuscola-Saginaw Bay Railroad (TSB) began operating the 90-mile Ann Arbor-Alma leg, and a 30-mile connecting line to Saginaw under a $250,000 annual contract. Michigan Northern Railway was given an $120,000 contract to operate the 125-mile segment from Alma to Alberta, near Frankfort.

One of the three engines in storage at Owosso had been scheduled to be leased to TSB. Because it's unavailable, the railroad rented one from a private company.

The MDOT official, who asked not to be named, said the three engines were discovered missing when department officials made an equipment check in Owosso, where MIRC is based. He said they were found last week in Ann Arbor.

"We checked to see where the locomotives were just to know where they are," he explained. "We've asked them to return them." Of the other five engines, he said, they are under lease to MIRC. He said four are in Toledo and one in Ann Arbor.

But MIRC's Melanaphy denied that the railroad is leasing the engines since the railroad owns two of its own engines along with a switch engine.

He claimed MDOT reneged on a contract clause that called for a three-member arbitration panel to settle disputes. He said the panel in 1979 and 1980 declared the state owed MIRC $889,000 for maintenance expenses, but the department refused to pay.

The state has filed suit in Ingham County Circuit Court to have the award set aside.

Meanwhile, Melanaphy isn't waiting. He invoked a call for new arbitration on a MIRC claim for $125 million in damages because the railroad was denied the right to exercise its option to operate the entire Ann Arbor for 50 years.

In moving the three engines out of Owosso, Melanaphy said, the railroad was merely complying to a letter from MDOT asking the railroad to move state-owned boxcars to the south end of the line.

"There was no provision or arrangement in the letter to get the engines back (to Owosso)," he maintained.

The state acquired the locomotives, boxcars, track and other equipment after the Ann Arbor went bankrupt in the 1970s. The state bought the Ann Arbor to keep the line operating. In all, the state owns 14 locomotives.

So far, MDOT officials have not decided on a course of action to recover the engines. They are meeting with attorneys.

Melanaphy said he expects the state to take legal action against MIRC.

Journal of Commerce
October 6, 1982

ICC Maps Changes To Abandonments

Journal of Commerce Staff

WASHINGTON — The Interstate Commerce Commission proposed changes in the rules it uses to determine whether railroads should be permitted to abandon rail lines.

One major modification involves how carriers should handle equipment and capital costs in determining whether the abandonment is warranted.

Other changes reflect recent commission rulings that labor costs and property taxes are costs attributable to a line and that opportunity costs must be considered by the agency in determining whether the abandonment should be approved.

The latter ruling sparked a proposal by Commissioner Frederic Andre to change the commission's current method of determining this figure.

Quebec's ready for business

Chicago Tribune October 13, 1982

Bob Wiedrich

QUEBEC CITY — This French-speaking province of Canada will celebrate the 450th anniversary of Jacques Cartier's voyage of discovery to the St. Lawrence region in 1984.

The tall sailing ships that graced United States shores during the bicentennial year of 1976 will race across the Atlantic from the Brittany coast to the Gulf of St. Lawrence to commemorate the importance of that waterway to the development of North America.

Politicians will make speeches. Scholars will eulogize the heroic explorer who ventured into the unknown in a fragile vessel from the harbor of St. Malo in 1534.

The fiercely nationalistic residents of Quebec will point with justifiable pride to the role of Frenchmen in opening up an entire continent from the Atlantic seaboard to the mouth of the Mississippi River.

BUT THE irony of these events will be that the waters of the St. Lawrence that constitute a natural highway to the American heartland will remain essentially empty of the commerce that logically should ply its broad surface.

Quebec officials want to change that. The elected representatives charged with guiding the destiny of this province's 6.5 million inhabitants want to capitalize on Cartier's discoveries. They do not believe they are 450 years too late.

So they have drawn a blueprint for industrial and technological development with one of its cornerstones the utilization of the St. Lawrence Seaway and Great Lakes as instruments for increased trade relations with the U.S.

That virtually is all a visitor hears here in the government executive suites and halls of Parliament in this lovely city. Officials want more trade with the United States. They want to expand the commercial horizons of Quebec beyond the scope of New England and New York to which they have been traditionally restricted.

And they view the seaway and Great Lakes system as a God-given transportation route to new markets in Chicago, the Middle West, the other Great Lakes states and beyond.

They want to use the waterways their French forebears like Cartier, Marquette, Joliet and de La Salle pioneered to lay the foundation for the two nations that now share a common border from the Atlantic to the Pacific.

"A RIVER of that size in any other industrialized society would have created twice as much economic activity and industrial development," declares Bernard Landry, Quebec's minister of external trade.

"Hydro-carbon fuels never will be cheap again. So economic transportation has become a permanent factor in business decisions. The tremendous increase in tonnage on the seaway system in the 1979-80 season demonstrated that.

"Shipping actually was diverted from Halifax to Montreal, Quebec, and other seaway-Great Lakes harbors because it was apparent the system was a good way to ship goods from Europe to the American heartland.

"So the trend was there until the recession. But when the economy recovers, those basic factors will prevail again. Industries burst out along the Rhine River for 100 years because transportation was cheap. We can make the same thing happen here.

"If you add to that potential the tremendous natural resources of Quebec, we have no choice but to be external trade oriented. And it is obvious from history and geography that the United States is a natural trading partner."

The province exports about 40 percent of its gross national product valued at $15 billion a year. Half of that commerce is with the United States. Conversely, Quebec imports about the same.

But, as Landry and Quebec's intergovernmental affairs minister, Jacques Yvan Morin, see it, that trading relationship should be vastly multiplied because of the province's access to U.S. markets via the seaway.

LANDRY PREDICTS that U.S.-Quebec trade eventually will exceed that of the province with Western Europe and other foreign markets. As he puts it: "If we have to live near a giant, I prefer that it is the United States.

"The seaway can serve as a wonderful instrument of common venture," he continued. "It creates a built-in solidarity between partners, like the Rhine is a part of European solidarity from Rotterdam to West Germany.

"Every partner appears to be prospering as a result. And the United States and Canada can do the same. Our first priority is the U.S. in emphasizing external trade."

Landry and Morin agreed that the natural lines of trade are from north and south rather than east and west on this continent.

As Quebec Premier Rene Levesque pointed out, Canada "is built like a tape worm" with 90 percent of its population living within 200 miles of the U.S. border.

Thus, it makes more sense for a Vancouver businessman to trade with the U.S. West Coast or a Quebec manufacturer to trade with the East Coast than to trade with each other. In addition, Quebec is uniquely situated to trade with Chicago and the rest of the Middle West because of its proximity to the St. Lawrence.

"Economic reality and hard facts indicate some sort of common market will emerge from the Rio Grande to the Grande Riviere (in northwestern Quebec)," Landry said. "I think it already is emerging."

That is part of the message Morin will bring to Chicago Oct. 25 when he addresses the Council on Foreign Relations there.

"Quebec is ideally situated to become a highly developed society," Morin said. "When you look at the map, it really stands out as one of the hinges between the most highly developed industrial power of the world — the United States — and the greatest single market in the world, the European Common Market of over 200 million people."

10

Chicago Tribune
October 12, 1982

Canada U.S. trucking permits

Knight-Ridder Newspapers

TORONTO—A new U.S. law restricting across-the-border trucking permits for Canadian firms threatens to inspire a war of regulations in the latest north-south conflict.

A spokesman for the Canadian trucking industry called the law "an act of war," and a Canadian embassy official said it is "a very delicate and dangerous issue."

The bill, signed into law by President Reagan Sept. 20, calls for a two-year moratorium on licenses for Canadian and Mexican trucking companies operating in the U.S.

The Canadian goverment, calling the bill "unnecessary, unwarranted and potentially harmful to international commerce," had taken the unprecedented step of asking Reagan to veto the legislation.

REAGAN DID give the Interstate Commerce Commission permission to issue authority to Canadian firms subject to certain conditions.

The ICC must review Canadian applications and give "great weight" to the economic problems of U.S. competitors before issuing permits to Canadians.

Mark Larratt-Smith, assistant deputy minister for the Ontario Ministry of Transportation and Communications, said it won't be clear what the restrictions will mean to Canada until the ICC acts on the 155 Canadian applications being processed when the legislation was passed by Congress.

Provincial transportation ministers agreed at a Sept. 24 meeting to defer any action in response to the legislation for 60 days to "obtain clarification of U.S. intentions."

"BUT WHATEVER the ICC decides, (the law) destroys fairness and equitability by applying a test to Canadians that it doesn't apply to Americans," Larratt-Smith said. "It discriminates against Canadians. We don't ask any more of you than you treat us the same as you do your own people."

Charges of discrimination by Canadians against American trucking firms initially sparked the lobbying effort that resulted in the law.

Before the U.S. deregulated the trucking industry in 1980, a load moving from Canada to the U.S. typically would be transferred at the border from a Canadian to U.S. carrier.

The easing of regulations prompted several Canadian firms to apply for U.S. permits to carry loads through, cutting out the U.S. truckers.

AT THE SAME time, American trucking firms complained of the difficulty of getting transborder licenses from the provincial boards that regulate the Canadian trucking industry.

A spokesman for the American Trucking Association said Canada imposes stiffer regulations, making it difficult for U.S. firms to get authority to drive in Canada.

"Each province has its own licensing law," said Ken Siegel, the spokesman. "It's an involved process with a long lag time between application and grant."

But Ken Maclaren, executive director of the Canadian Trucking Association, said: "The (license) grant rate for U.S. carriers is higher than for Canadian carriers in most provinces. That's hardly evidence for discrimination."

Chicago Tribune
October 13, 1982

IEA fears a rerun of oil crises

PARIS (AP)—Expanding oil demand and accompanying upward pressure on prices could stall economic growth in the industrialized West in the second half of the 1980s, the International Energy Agency warned Tuesday.

In a lengthy report on long-term energy prospects, the IEA secretariat once again cautioned its 21 member countries against complacency during the current oil glut, noting that economic expansion can only be sustained if oil dependency is reduced.

"The energy problem, in our view, has not gone away. It's only hiding behind economic problems," said J. Wallace Hopkins, deputy IEA director.

Although the IEA indicated that oil prices will continue to slip through the end of next year, the agency forecast an upswing in world oil demand by 1985 as the expected economic recovery takes hold.

Assuming economic growth at 0.6 percent to 0.8 percent a year in the first half of the 1980s and up to as much as 1.7 percent to 2.6 percent in the 1990s, the IEA warned that upward pressure on prices could parallel economic expansion.

The increased demand will be most notable in developing countries, including members of the Organization of Petroleum Exporting Countries, which are expected to expand their industrial base.

The IEA said that by 1990, the world could face a shortage of 4 million barrels a day, unless more is done to conserve energy.