Corporate Relations

M E D I A   M O N I T O R   December 28, 1982

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Traffic World Magazine
December 27, 1982

Nighthawk Success— John H. Burdakin, president of the Grand Trunk Rail System, says that since GT initiated its "GT Nighthawk" freight runs between Chicago and Detroit six months ago, the line has added new shippers resulting in revenues in excess of $3.6 million. Mr. Burdakin *(see photograph)* credits the transit time reduction of 50 per cent and cooperative labor agreements for the success of the project and notes that the results are particularly gratifying in such depressed economic times.

Wausau Herald
December 20,1982

Rail switching service changes

MERRILL — Milwaukee Road switching service in Merrill will be available six days a week instead of five starting today, but there no longer is a Merrill switch engine or crew.

Starting Monday, switching will be done by the way-freight crew en route to Tomahawk, according to Gene Porter, sales representative for the railroad.

Switching of incoming and outbound cars will be done starting about 7:30 a.m. That work will take about three hours. The freight train then will proceed to Tomahawk.

The way freight operates six days a week and thus switching service will be available six days a week, Porter said. The Merrill switch engine crew had worked only five days a week.

Rehabilitation of the Milwaukee Road trackage between Wausau and Tomahawk enabled the railroad to eliminate the Merrill switch engine crew.

The way freight had operated at 10 to 15 miles an hour. It now can operate at 30 mph between Wausau and Merrill and 25 mph between Merrill and Tomahawk. The only exception is five miles into Tomahawk where continuous weld rail will be installed next spring.

Another change in railroad operations will take place Monday in Tomahawk. The Milwaukee Road sold its yard tracks west of the former depot to the Marinette, Tomahawk and Western Railroad, a subsidiary of Owens-Illinois Inc.

Starting Monday, the Milwaukee Road way freight will drop inbound cars for the O-I mill on one yard track and pick up outboard cars on another. Previously, connections were made on MT&W tracks to the west, requiring about an hour of switching time in Tomahawk.

The switch engine which had been kept in what remained of the Merrill roundhouse was hauled from the city on the southbound freight train Friday afternoon. Crew members have "bumped" other Milwaukee Road employees with less seniority. Somewhere in the railroad, three people will be laid off.

The now single stall of the one-time roundhouse will eventually be torn down. Porter said. Railroad historians have said it is the oldest Milwaukee Road building north of New Lisbon.

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Minneapolis Star/Tribune
December 23, 1982
Two Articles

Railroads merge after stay denied

Associated Press

Washington, D.C.
U.S. Supreme Court Justice Warren Burger refused Wednesday to block the merger of three western railroads. Immediately after that, the Union Pacific announced it had completed its acquisition of the Western Pacific and Missouri Pacific railroads.

Four competing railroads had asked Burger to delay the merger, but he denied their application without comment.

Within hours, Union Pacific President John Kenefick announced in Omaha, Neb., that the other two railroads had been acquired through a series of stock transfers and that top priority would be given to consolidating the sales forces of the three rail lines.

The Interstate Commerce Commission (ICC) approved the merger in September, clearing the way for creation of a 22,800-mile rail system serving 21 states from Puget Sound to the Gulf Coast.

Competing railroads filed suit challenging the decision, and earlier this month asked that the merger be postponed until a final court ruling was issued. Burger's action does not affect their suit, which is before the U.S. Court of Appeals for the District of Columbia.

The Southern Pacific Railroad has led the opposition to the merger, claiming creation of the new rail system would harm competition, reduce alternatives for some shippers and threaten some essential services provided by Southern Pacific.

The railroad was joined in its petition by the Atchison, Topeka & Sante Fe Railroad, the Kansas City Southern Railway, and the Louisiana & Arkansas Railway.

Union Pacific spokesman Tom LaHood said no timetable has been set for reorganizing the management structure of the three railroads He said the companies had been reluctant to take any action pending the possibility of a supreme court stay. The ICC had said the merger could have begun as early as Nov. 19.

Although the appeal of the ICC decision is pending, LaHood said, "we're optimistic" the courts will uphold the merger.

The ICC approved the merger of the three railroads 5-1, saying the new railroad would "enhance efficiency and competition while providing improved service to shippers."

Under the agreement already approved by the boards of directors of the three companies, the Western Pacific will become a division of the Union Pacific, which along with the Missouri Pacific will be managed by a new holding company, the Pacific Rail Systems Inc.

As part of the merger, however, the new railroad must provide some compensation in the form of trackage rights to a number of competing railroads, including the Southern Pacific.

The new railroad will be one of the nation's largest. In total trackage, the merged operation will rank third, behind the Burlington Northern (29,729 miles) and the CSX System in the Southeast (about 25,000 miles). Most of the Burlington Northern routes are to the north of the area served by the new combined system, but some areas are served by both rail systems.

Benefits approved for Rock Island employees

Associated Press

Washington, D.C.
Congress has passed legislation that makes available $35 million in benefits for former employees of the bankrupt Rock Island Railroad.

The final hurdle to the measure, pending for months, was cleared late Tuesday when the Senate passed an omnibus rail bill that included the benefits provisions. The benefits would come from excess federal funds that had been earmarked for Conrail. The money would provide up to $20,000 for each former employee "adversely affected" by the failure of the Rock Island.

The railroad filed for bankruptcy in 1975 and halted operations four years later after a strike by employees. Some 8,000 people were thrown out of work, but some of them returned to their jobs when portions of the line were returned to service under new operators. An estimated 2,250 to 3,000 former employees would be eligible for benefits, said Sen. Nancy Kassebaum, R-Kan.

The measure gives representatives of rail labor groups and the Department of Transportation 90 days to come up with a program providing subsistence and severance pay, moving and retraining expenses and health and welfare insurance premiums. The program then would be administered by the Railroad Retirement Board.

Moline Dispatch December 12, 1982

Smaller Milwaukee Road gains efficiency

By MARY ROESNER
Dispatch Farm Editor

MUSCATINE — The problem-plagued Milwaukee Road Railroad is finding that smaller is better.

LEN STANISLAWEK

The Milwaukee Road, the largest grain shipper in Iowa, formerly was a transcontinental shipper with 10,500 miles of track. That was before its bankruptcy in 1977 and its reorganization.

Today the Chicago, Milwaukee, St. Paul and Pacific Railroad has 3,000 miles of track and a different viewpoint, according to Len Stanislawek, director of marketing and pricing grain and grain products.

"Years ago (with the longer lines) we just didn't know where we were at. We had a lot of track and little equipment. Today we have an efficient and workable railroad," he told the Great River Grain Elevators and Processing Society at a meeting here.

Stanislawek said it was only after the bankruptcy and the reorganization — which included sales of track to such diverse buyers as the Burlington Northern in Montana and Washington and the state of South Dakota, and abandonment of many hundreds of miles of track, plus the sale of other assets including timberland — that the reorganized "Milwaukee II" began to earn a profit in March 1982.

THIS PAVED the way for the acquisition of the reorganized railroad by the Grand Trunk Corporation. In August the Milwaukee acquired former Rock Island Railroad trackage between Clinton, Davenport, Muscatine and Washington, Iowa, for $17 million. This was made primarily to serve a new coal-burning electric power plant at Fruitland, Iowa, but it also gave the railroad a firm base through the big grain-producing areas to the Mississippi River.

"After we cut down on size we were able to concentrate on the best use (of equipment). This led to a change in marketing and it is a better railroad all the way around," Stanislawek said.

One of the major changes has been that now the Milwaukee favors shipping grain to river points rather than long distance hauling to the Gulf.

"The rates to the Gulf are too low on grain from Southern Missouri and Iowa. We don't make any money on them. And if we don't make any money, then our connections don't make any money either. So we decided to put on rates to the river and handle it ourselves," rather than ship on other railroad lines to the Gulf, Stanislawek said.

CURRENTLY THE Milwaukee serves more river terminals than any other railroad in Iowa, Stanislewk said.

Another innovation has been the addition of the "MUT" or Mini-Unit-Train, for customer grain elevators which cannot fill large unit trains.

The MUT heads west from the Mississippi River in the evening and drops off five empty jumbo hopper cars at four predetermined grain elevators. The next evening the MUT picks up the 20 loaded cars and makes a return run to the river. The cars are unloaded onto waiting barges and head out for another run to the elevators.

In the first month of operation the MUT made 15 round trips in 30 days and moved more than a million bushels of corn and soybeans.

"This is really a most efficient way to move grain," Stanislawek said.

LOCALLY THE Milwaukee serves Muscatine, Buffalo, Davenport and Clinton in Iowa, and Rock Island, East Moline, Port Byron, Cordova, Albany and Fulton in Illinois.

Stanislawek said grain terminals along the Mississippi have used the Milwaukee Road's barge-rail concept and have been satisfied with the new concept.

"The (combination) barge-rail rates are much lower than through (shipment by rail) to the Gulf and we try to do everything we can to make grain move to the Mississippi," he said. The grain can be shipped from elevator to destination at the Gulf under one bill of lading.

"This worked very well when there was a shortage of barges and rail cars," he said. "This helps both the buyer and railroads because we know what the rates will be." Stanislawek said there will always be a price advantage shipping to the river until rail rates are raised to the Gulf.

During the three months of the year when ice closes the river to barge traffic, the grain moves by rail to the Gulf. "We have a commitment and we promise to keep (prices) competitive with others (rail lines) going to the Gulf," he said.

THE MILWAUKEE is doing some creative planning in an effort to meet grain customers' needs. Some of these changes include the numbers of cars in unit trains and the number of elevators allowed to use a single unit train.

"We can now load 75 cars at three stations," he said, which allows several elevators to ship with one unit train, rather than filling the unit train from one elevator.

Stanislawek said in the past the railroads have been strangled by an overload of paperwork and regulations.

WHEN RAILROADS were deregulated in 1980, the new Staggers Act gave railroads much more freedom, Stanislewk said.

Now rates can be determined in 10 days for a shipper. In an emergency, one day's notice is sufficient.

He gave the example of the problems both shippers and the railroads faced before deregulation.

"Before, rate adjustments had to be run through public docket and after 30 days it was partially reviewed by a committee. About 95 percent of the time the committee recommended against approval. We fought the objection and 15 days later the railroad and the committee met. About 90 percent of the time the committee disapproved (rate adjustments). Then we would file again. About six months later (after rate change was settled) the market was gone."

Because farmers are holding grain in storage on farm under government loan and reserve programs, very little grain moved this fall and the Milwaukee had about 850 jumbo hopper cars idle in storage.

"WE WANTED TO find a way to use them," Stanislawek said, and now the railroad is offering them for rent for grain storage to country elevators.

Stanislawek said the future looks bleak for some railroad companies in the next few years as more little-used tracks are abandoned.

"In the next 10 years we will be lucky to have 15 railroads and the Milwaukee intends to be part of it (those which survive.) There seems to be a cycle. The smaller lines went out." Today four short lines are operating from Denver to Chicago, but Stanislawek believes they will not survive long.

"But we will work with the short lines to move grain into markets they can't serve," he said.

And perhaps after bankruptcy and restructuring, which many railroads have faced in the past, some abandoned lines could again be put back in operation.

"Personally, from a grain marketing standpoint, I would like to see us pick up (some of) the Rock Island lines" to expand the our grain hauling network, Stanislawek said.

Chicago Tribune
December 28, 1982

Burlington fights evasive El Paso

From Chicago Tribune wires

BURLINGTON NORTHERN Inc. on Monday asked a Delaware state court to enjoin a preferred stock dividend announced by El Paso Co. in El Paso's effort to thwart a Burlington Northern takeover.

The Burlington lawsuit, filed in Delaware Chancery Court, also seeks to set aside bylaw changes adopted by the El Paso board to impede the exercise of shareholder voting rights, Burlington Northern said.

Burlington's takeover move was announced Dec. 20. The company offered $24 a share, or $602.4 million, for 25.1 million shares—about 51 percent—of El Paso's outstanding stock. The company said it already owned 1.1 percent of El Paso's shares. The offer expires at midnight Jan. 19.

El Paso is a Houston-based firm with pipeline, chemical and drilling subsidiaries. Company spokesman John McFall said El Paso would have no comment on the latest legal action.

Burlington Northern, based in Seattle, is a railway, trucking, forest-products and minerals company.

LAST THURSDAY in Houston, the El Paso board turned down Burlington Northern's offer as inadequate. It said the bid was not in the best interests of El Paso or its stockholders.

El Paso also filed suit Thursday in federal court in El Paso, seeking an injunction against Burlington Northern's takeover efforts. And it filed suit in Texas state court in El Paso, contesting the proration period—the time Burlington Northern would buy shares at a certain rate.

The El Paso board also made changes in bylaws and issued the special class of stock. That was the action Burlington Northern challenged in Delaware court Monday.

El Paso said it would issue one share of the new series of 8 percent convertible preferred stock for each 20 shares of outstanding stock. The company said the preferred stock would have a stated value of $25 and would be redeemable after five years at the option of the company.

Milwaukee Journal
December 28, 1982

On, Wisconsin

An Editorial

Truck-fee dodging must be halted

Wisconsin officials should take whatever action they can to thwart the apparent wish of some trucking companies to duck out of their fee-payment obligation to this state.

A Green Bay trucker, the largest cartage company in the state, has avoided about $1 million a year in Wisconsin fees since 1978 by registering as an Illinois firm. Wisconsin sued the company, Schneider Transport Co., but lost when a judge ruled that the state's fight was with Illinois for registering the firm, not with the company itself. Now other truckers are trying to follow Schneider's lead.

James Thiel, general counsel for the Wisconsin Transportation Department and Atty. Gen Bronson La Follette want to appeal the court ruling, but have been thwarted by Transportation Secretary Owen Ayres. Ayres and Gov. Dreyfus argue that an appeal would drag out the case and cost taxpayers too much in legal fees. When Thiel persisted in his opinion, he was censured by Dreyfus.

Thiel should be commended instead. Wisconsin can lose millions from this truck-fee sham. The crux of the problem is that Illinois does not collect all the fees it legally can from trucking companies registered there (such fees are supposed to be apportioned among all states in which a trucker does business). Illinois' go-easy approach entices trucking companies into establishing sham headquarters in that state, thus enabling them to avoid full fees to their real home states.

It seems to us that an appeal of the Schneider decision would discourage other truckers from following Schneider's bad example. Then, the Legislature could seek a permanent cure for this dodging of truck fees.

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Chicago Tribune
December 27, 1982

Bigger, heavier trucks OKd as U.S. hikes taxes

WASHINGTON [AP]—The trucking industry has won long-sought permission to run bigger and heavier trucks on the nation's main highways, albeit at the cost of sharply higher use and excise taxes.

However, the compromise gasoline tax bill finally cleared by Congress last week does not put as large a tax increase on the trucks as the Reagan administration had sought.

The main part of the bill adds another nickel a gallon to the federal gasoline tax—now 4 cents—to pay for repairs to the nation's roads and bridges and for mass transit improvements.

Under the part applying specifically to trucks, operators will be able to run 80,000-pound vehicles through Missouri, Illinois and Arkansas, which now impose lower weight ceilings, and to operate double-trailer rigs in the 14 states, mostly in the Northeast, which now prohibit them.

Another item on the industry's wish list, a 102-inch width standard, already has been signed into law as part of an appropriations bill, and will require 46 states to change their standards.

STATES HAVE little choice in the matter. They must go along with the new uniform weight and size limits or risk losing all federal highway aid, money that will be greatly increased under the extra nickel-a-gallon gasoline tax legislation. The bigger trucks will be rolling not only on interstate highways, but also on other primary roads that the Department of Transportation deems adequate to handle them safely.

"I expect a great outcry of futile protest, and then every state will go ahead and comply," said Ralph Craft, transportation staff director for the National Conference of State Legislatures. "Nobody wants to give up their federal highway money, especially since it's collected from their motorists."

The conference of legislatures had opposed federal preemption of state size and weight laws, in part because the bill was rushed through with little chance for comment. "Nobody even saw the bill before the second day of the lame-duck session," Craft said.

Truckers also had strongly opposed early versions of the bill, despite the concessions on size and weight, because of the size of the excise tax increases. The original administration proposal called for the maximum annual use fees for heavy trucks to jump almost immediately from about $240 to $2,700.

THAT FIGURE was cut by Congress, with the final version becoming a graduated increase, starting with a $1,600 maximum use fee in 1984 and rising to $1,900 by 1988.

The American Trucking Associations estimated the higher levies on trucks would bring the government an additional $1.6 billion in the first year.

The new size and weight limits will go into effect sometime in 1983, months before the new tax revenue, designed to pay for the increased damage big trucks do to the highways, begins to roll in.

Even with the reduction from what the administration originally proposed, an industry spokesman said, the tax is excessive.

"The trucking industry is appalled" that Congress would take such action "at a time when the industry is suffering from the twin blows of a depressed economy and the instability caused by deregulation," said Bennett C. Whitlock Jr., the trucking associations president.

"UNFORTUNATELY, some companies and some independent owner-operators will go out of business because of the approval by Congress of the administration's program designed to create jobs in one segment of the economy while disregarding the effects upon other segments," Whitlock stated.

His organization argued that uniform national standards would enhance productivity and save fuel by eliminating barriers such as the one on heavy trucks in the Midwest.

The 14 states being forced to accept longer trucks are Alabama, Connecticut, Florida, Maine, Massachusetts, New Hampshire, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia and Wisconsin.

Journal of Commerce December 28, 1982

Transport Reforms May Suffer If Lewis Leaves Post

By DAVID M. CAWTHORNE
Journal of Commerce Staff

WASHINGTON — The Reagan administration expects to propose legislation reducing government controls over most of the transportation industry, but the possible departure of Secretary of Transportation Drew Lewis may create problems, especially in the maritime area.

Other issues expected to be addressed when the 98th Congress convenes Jan. 3 include proposals to reduce further or terminate the authority the Interstate Commerce Commission has over the trucking industry and "fine tuning" of the regulatory reforms for the railroads contained in the Staggers Rail Act of 1980.

Secretary Lewis reportedly is considering several offers to re-enter the private sector and his decision on whether to do so is expected early next year.

Expectations within the administration are that he will leave.

The maritime reform bill that cleared the House clarified the antitrust exemption enjoyed by ship lines to set international freight rates, reduced some current FMC regulations and lifted some limitations on intermodal service.

A Senate committee passed a similar bill that also contained a provision permitting shippers to form councils to confer with carriers and their rate-making conferences.

But the bill was blocked by a filibuster during the lame-duck session of Congress and some parts of the coalition pushing the legislation fear that Mr. Lewis' departure would make it very difficult to reintroduce the measure successfully.

Secretary Lewis was instrumental in persuading the administration, carriers and shippers to go along with the key changes in the bill and they fear his departure would make it doubtful this kind of unanimity would survive in the next Congress.

In the trucking area, the administration is considering a push to totally eliminate ICC controls over the trucking industry. At the very least it will settle for legislation giving the agency the right to exempt some types of truck traffic from ICC rate regulation.

Similar provisions are contained in the Staggers Rail Act of 1980 and the recommendation continually surfaces from time to time in ICC staff proposals on how to make the commission operate more effectively.

One related factor that could affect the outcome of this debate is the issue of whether to continue the industry's immunity from antitrust laws that permits the carriers to meet and collectively set freight rates.

A commission to study the matter is split on what course to follow and failure to reach an agreement by Jan. 1 would mean that the immunity to meet and set rates on freight hauled by a single carrier automatically will be extended until July 1, 1984.

If the commission concludes — and Congress accepts — a recommendation that this immunity be eliminated, practical problems may arise that could expose carriers to antitrust prosecution when they consider rates on shipments handled by more than one company.

Any move to terminate the antitrust immunity also could force the industry to call for abolition of the ICC regulatory controls since this is the primary benefit the firms receive from rate regulation in the current environment.

In the rail area, the administration's goal will not be total deregulation sought by the industry but rather will focus on modifications of the 1980 legislation that substantially reduced ICC rate and entry controls.

Issues to be addressed include a determination of what constitutes the kind of major abandonment that would require commission approval and clarification of the agency's powers on maximum rates and major merger cases.

One issue that is certain to come up is how far the commission should go in exempting rail traffic from rate regulation.

An industry proposal to deregulate export coal traffic has generated strong opposition from shippers and some segments of the administration on grounds that it goes far beyond the "limited scope" criteria that must be met before rail traffic is deregulated.

Another option being looked at involves a significant expansion of that limited scope definition to cover major commodities, possibly including coal.

Railroads

By Jeff Blyskal

EVERY INDUSTRY deregulated so far has gone through a traumatic and sometimes chaotic adjustment. Now that railroads are free to set their own rates, drop unprofitable routes and work out big mergers, will they escape some of the jolts airlines and trucking have taken?

Wall Street must think so. Rails are riding high. While the Dow industrials were up 22% in the post-August bull market, rail issues rose 41%—even though 1982 earnings were off considerably. One reason was the recession, of course. But another reason was disguised by the recession: intense price-cutting among the railroads and between them and their longtime competitors, long-haul truckers. "Rails have been cutting into their bone and marrow on prices," says Phil Yeager, president of Hub City, Inc., the nation's largest shipping agent.

What's down the tracks for the deregulated rails? To find out, FORBES sat down with John Fishwick, former chairman of the Norfolk & Western and a respected railroad man for more than three and a half decades. Fishwick retired in 1981 after working out the basic details of the N&W-Southern Railway merger that formed the 21,000-mile, $3.6 billion (revenues) Norfolk Southern last June.

Today, at 66, he is a partner with the Washington law firm of Windels, Marx, Davies and Ives—"I wanted to prove I could do something other than run a railroad," he says. FORBES met with him recently at his Pennsylvania Avenue office just across from the Executive Office Building.

There is a lot of talk these days about a renaissance of the rails. Is there a smooth track ahead for the railroads now that Washington is off their back?

Fishwick: There's no reason to think the railroads won't suffer the same pain of deregulation that the airline and trucking industries are suffering now. And over the next couple of years, you'll see a swing in the fortunes of those railroads adversely affected. Frankly, it amazes me that Wall Street hasn't been more concerned. Every other industry that has gone through deregulation has had an adjustment period harmful to some of its members. Why not the railroads?

What adjustment problems do you see? The current rate wars, for example?

Fishwick: It's unfortunate deregulation had to come during hard times. You get more cutthroat competition then. Yes, as with the current rate wars. That never happened before. The railroads—especially Conrail—have to realize they are a system whose parts should work together. For example, a shipper shipping between St. Louis and New York City can use the Norfolk Southern to Buffalo, then switch to Conrail, or ship Conrail all the way from St. Louis through Buffalo to New York. Since only Conrail goes from Buffalo to New York, it can charge whatever the traffic will bear. That in turn gives Conrail the leverage to be more competitive on the St. Louis-Buffalo part of the run, undercutting the NS. Conrail has said, "We're not going to get together with anybody on rates." Luckily, the bigger railroads can play tit for tat. But a smaller railroad may not have a tat.

What can small railroads do?

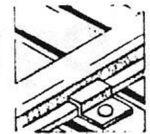
Fishwick: If I were the chairman of a smaller railroad, I would try to get it into the best shape possible and then be open to merger talks. If you don't get in early, you might not be able to maintain the economies, and in ten years you probably wouldn't be worth very much.

Last time we spoke, you mentioned a coming second wave of mergers. Could you explain?

Fishwick: Before long you'll see efforts to establish a transcontinental railroad system. The benefits of having four, five or six very large systems will be enormous. In a single transcontinental system you wouldn't need the interchanges that you now do across the country. That would cut costs, speed up trains, and allow for longer trains; and you wouldn't have to maintain as many repair points.

Do you wish you could be starting your career again today? Is this the best of times to be running a railroad?

Fishwick: This is probably the most exciting time to be running a railroad. The Eighties will be an interesting decade. If the railroads are managed properly and efficiently, and if they develop good cost controls, their future will be very bright. It could be a new era. But success will certainly not be automatic. In the short term there will be some serious mistakes.



What kinds of mistakes?

Fishwick: One scenario is already being played out. The railroads made a big error by buying too many boxcars. Everyone said the boxcar was obsolete, but the railroads didn't believe it. Now that's pretty much accepted, and there is an enormous investment in boxcars sitting all over the country, many of which will never be used.

Is intermodal, or piggyback, service the answer to the inefficiencies of the boxcar?

Fishwick: The industry is very efficient in moving bulk commodities between distant points. And that's what piggyback has done—changed boxcar freight from a nonbulk into a bulk commodity. But it's still not efficient with the equipment the railroads have. They've had to provide the service to keep from losing business to truckers, but it's a relatively high-cost operation to put a train in dedicated service, and I doubt most piggyback is currently profitable. They have to develop new technology to make it more profitable.

More railroads are diversifying into related, nontransportation areas—something you support. Does that mean you believe a railroad can't make it on its own?

Fishwick: No. The advantage of a company that is in coal, oil, telecommunications and whatever, and also in railroads, is that the railroad will be in competition for capital that goes where it can get the highest return. That will keep the railroad people on their toes to come up with the maximum investment performance.

You seem to be saying that deregulation and the concurrent adjustments railroads are making, and will have to make, are good, but that there are no guarantees. Would you say the key in all this will be smart management?

Fishwick: If railroads make investments that are based on their advantages and don't consider themselves to be a monopoly, I think that they can be very profitable. There is more opportunity for success, but also more risk. The next few years are going to be unusually challenging for the management of these [big] railroads because they're going to have to be the first to go into this new economic environment. It's like leaving a warm house and going out into the cold. ■

Forbes January 3, 1983

rail equipment

By Barbara Rudolph

YOU'VE HEARD IT in industry after industry: "Things haven't been this bad since the Great Depression." Often it's an exaggeration. But not in the $3 billion rail equipment industry. Deliveries of new freight cars last year should hit 18,000, the lowest level since the mid-1930s. Industry backlog is at its lowest point in over 20 years. Traffic has been steadily declining for 3 years, down some 25% since 1980, and profits have collapsed along with it.

Railcars have always been cyclical, of course, and this time the swing came with a vengeance. The peak of the last cycle was 1979, when deliveries hit a record 90,000. That was clearly a fluke, partly caused by the fact that boxcars as tax shelters were then the rage. Trouble was, railcar manufacturers acted as if it were not a fluke. They grossly overexpanded their capacity from some 70,000 in 1977 to 100,000 by the end of 1980. "It was like shooting 59 in a golf game. You forget that par is 72," says James Goff, president of GATX' railcar group. Says Amsted President Robert Wellington: "That's why this isn't a normal recession, why we're all in the trenches."

Now railcar makers know they won't see such demand again—ever. This year is almost universally written off—deliveries should be a tiny 15,000. By 1984 and 1985, volume will gradually increase to the 30,000-to-40,000 range—with a strong economy, say, 50,000.

Why is this downsizing permanent? First, there were the big mergers of the past few years that formed Norfolk Southern, CSX, and soon, Pacific Rail Systems. Take the coal-car market, for example. Both Southern Railway and Seaboard Coast Lines had been buying their own coal cars; now they use Norfolk's and Chessie's. Railroads are also operating with increased efficiency. That's partly because a slackening in traffic means cars move more efficiently. But it is also a reflection of more sophisticated computerized systems and permanent cost controls. Finally, rails have been using more piggyback trains—truck trailers that are placed on flatcars.

But although demand in a good year is now 50,000 at best, the industry still maintains capacity of 85,000. No question, a shakeout is beginning. In fact, says Kidder, Peabody's Graeme Lidgerwood, "It surprises me that we haven't seen more of it already." Pullman got out of the market in April 1982—though President Jack Kruizenga still insists they might return—but no other major producer has yet given up. There have, of course, been numerous, indefinite plant closings. GATX' Goff offers a plausible explanation: Everyone knows a shakeout is coming, "but they're saying, 'Please God, not me.' "

Railcar companies must scramble to position themselves for a future of even more piggybacking. There are already some 20 different designs for flatcars the piggyback trailer rests on. "The manufacturers feel that if they come up with the perfect piggyback car they'll have a perfect niche. But with everyone trying to build a better mousetrap, they won't all prosper," says Lidgerwood.

Who will? Over the long run, low-cost producers like the railcar divisions of Amsted and Trinity Industries will. Trinity has proved its ability to maintain good margins even at the bottom of the cycle; in 1981, for example, when operating capacity was only 30% but pretax margins were 12.5%. In contrast, ACF posted a pretax margin of only 4.3% in a good year—1980, when its operating capacity was 90%.

The low-cost producers will have more of an advantage because the recovery, when it does come, will be gradual. Price competition will remain fierce. No boom will bail out the weaker companies.

In the short run, component suppliers will probably do better than companies that make railcars. Piggyback cars travel so much faster than boxcars, and "unit" coal cars are so much heavier, that their wheels quickly wear out. So Amsted's wheel supply business should improve. On the other hand, the side frames and bolsters—the nuts and bolts that connect the wheel to the car—rarely wear out before the car. So the National Castings division of Midland-Ross, for example, won't turn around overnight. Already one of the largest producers of side frames and bolsters, Diversified Industries has abandoned the market. If grain exports pick up soon, specialties like the covered hopper would benefit, helping Tiger's North American Car and FMC.

But the business will never be the same, and the railcar makers know it. Looking on the bright side, Amsted's Wellington says: "On the other hand, we won't have the same number of builders and suppliers. So things will be all right, eventually, for those of us who are left." ■