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M E D I A   M O N I T O R   August 25, 1983

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Chicago Tribune, August 14, 1983

A Midwest rail merger

If ever there was proof of the wisdom of Congress in refusing to deregulate the railroad industry totally in 1980 when it passed the Staggers Act, it is the current case of the Chicago, Milwaukee, St. Paul & Pacific Railroad headquartered in Chicago.

The Milwaukee, which filed for bankruptcy in 1977, has been paring itself down from a 10,000-mile railroad to a 3,100-mile carrier, mainly by abandoning its transcontinental line, in hopes that it could survive financially and find a suitor to acquire it.

There have been several ardent suitors showing their interest. The Grand Trunk Corp., a holding company that controls the Grand Trunk Western Railroad in Detroit, has made an offer for the Milwaukee, as has the Chicago & North Western Transportation Co. Now it seems that the Soo Line, a Minneapolis-based railroad owned by the giant Canadian Pacific is interested in the Milwaukee.

The Interstate Commerce Commission is scheduled to begin hearing the Milwaukee acquisition case Aug. 15. Compared to the giant mergers the ICC has approved over the last two decades, the Milwaukee case seems on the surface to be insignificant.

But looks can be deceiving. The case may be one of the most far-ranging the ICC has been asked to decide in years.

The significance is that the two major Canadian railroads are attempting to expand substantially their Midwestern rail holdings. The Grand Trunk is a subsidiary of the Canadian National, a railroad owned by the Canadian government. The Canadian Pacific, which owns the Soo, is a publicly held corporation like most U.S. railroads.

On the other hand, the North Western has emerged in the last decade as the dominant railroad of the upper Midwest, and its acquisition of the Milwaukee may make it too powerful in many of the areas it serves. The North Western is already the dominant carrier in Iowa, and the Milwaukee acquisition would put it in that position in Wisconsin.

The question the ICC must decide is whether it is in the best interests of the upper Midwest to have its rail system dominated by a Canadian railroad or one headquartered in the United States.

It may be in the best interests of the region to have the three suitors jointly acquire and operate the Milwaukee. The North Western would benefit by the Milwaukee's superior mainline between Chicago and the Twin Cities, and the Canadian carriers would benefit by access to traffic bound from the Midwest to overseas destinations via Canadian ports, as well as the potential for ultimately acquiring a another railroad that would give them access to the U.S. Gulf Coast.

Railway Ages, August 1983

Milwaukee Road:

Trimmed down, shaping up

The railroad has shrunk to one-third of its former size—but its m/w budget hasn't. Improving key line segments is an important part of Milwaukee's marketing strategy.

After years of bare-bones budgets, Milwaukee Road engineering people are enjoying the luxury of being able to plan—*and* spend. The railroad is in its second year of a five-year roadway program budgeted at $256 million, including $47 million in capital projects. Virtually all funding is internally generated.

This year's track-related spending will total about $75 million, including about $10 million for capital improvement. On the Milwaukee, however, there's a rather fine line between maintenance and improvement. Just about everything is an improvement for a plant that deteriorated as the railroad headed for bankruptcy in 1977, and continued to deteriorate for some time afterwards.

"In our program, cycle maintenance and rehabilitation are commingled," says Nate Smith, assistant vice president and chief engineer. "That's how we laid out our five-year plan, and by 1987 there'll be no need for rehabilitation." By that time, says the amended plan for reorganization, "all main line trackage will be at the long-run required marketing utility level."

Smith emphasizes that this year's roadway budget for the 3,300-mile railroad approximates what used to be spent each year for a 10,000-mile system (the Milwaukee's size at bankruptcy). The 1983 plan includes 150 miles of new or relay welded rail, about 310,000 new crossties, 305 miles of surfacing with varying amounts of new ballast, and 500 miles of surface correction.

• **Looking to merger.** The plan reflects decisions about the Milwaukee's marketing strategy as well as a stronger sense of direction in the engineering department. The choices for route improvement also fit the operating plan of a merged Milwaukee and Grand Trunk, but Paul Cruikshank, vice president-operations, says: "These things were pretty well decided before the conversations about consolidation had begun." The proposed merger, to be consummated in late 1984, lends even greater strategic importance to certain segments covered by the five-year plan.

One such segment is the 63-mile stretch from LaCrescent, Minn., to Marquette, Iowa, along the west bank of the Mississippi River. Though closed from March 1980 to August 1981, it's now busy and this summer is receiving 28 miles of welded rail. Last year, the line received new ties and ballast.

Why the rebound from near-abandonment? Studies showed that the segment could be part of an effective shortcut between St. Paul and Kansas City. Distance of the river route is 650 miles, compared with 913 for the St. Paul-Chicago-Kansas City route.

"We could see a very substantial ROI from car-mileage and fuel savings," says Cruikshank. "Now, with the Grand Trunk possibility, that line is more important than ever. About 45% of the traffic through Duluth is going to go along the river." At Duluth, Minn., the Milwaukee interchanges with the Duluth, Winnipeg & Pacific, a Grand Trunk affiliate. Between Duluth and St. Paul, the Milwaukee has trackage rights over Burlington Northern.

Also recognizing the value of the Milwaukee's resuscitated St. Paul-Kansas City line is the Interstate Commerce Commission, with its June 20 decision regarding the sale of the former Rock Island Twin Cities-Kansas City route. Though that "spine line" through central Iowa is more direct, the Milwaukee is an "effective" competitor for overhead traffic, the ICC said.

• **Marquette to Sheldon.** The railroad's marketing strategy also calls for improvement of 253 miles from Marquette to Sheldon in the rich grain territory of northwestern Iowa. That segment received 14 miles of relay welded rail in June, and more will go in during 1984-86. About midway across the state, the line joins another segment once scheduled for abandonment, a 40-mile link between Mason City and Austin, Minn., now being rehabilitated.

From Austin, the Milwaukee operates into the Twin Cities partly over its own track and partly over the Rock Island spine line (some of which Milwaukee owns). Mason City will become an operations center especially for grain gathering on the Sheldon line and on a parallel branch in southwestern Minnesota that feeds the Austin-Mason City line.

State programs have already helped the railroad upgrade its branches. "The key secondary lines are really in pretty good shape," says Cruikshank. Included is the 133-mile Wisconsin Valley line between New Lisbon on the St. Paul-Chicago main and Tomahawk in the northern part of the state. There, unit train service started last year for a new electric power plant near Wausau.

As for this year's main-line improvement, one major project is installation of 18 miles of rail in southeastern Minnesota on the St. Paul-Chicago route. Another is the start of a three-year program for the Chicago-Sabula route, with installation of 30 miles of new ties and ballast west of Elgin, just outside of the Chicago region.

From Sabula, the main line southwest to Kansas City is a constant candidate for improvement. It has become the railroad's busiest segment, with as many as 12 trains a day. Most handle blocks for connecting carriers at Kansas City, especially Southern Pacific. This year, the Milwaukee is restoring centralized traffic control on a 40-mile former Rock Island segment in southeastern Iowa that has become part of the route to Kansas City. This stretch also handles unit coal trains for a new Iowa-Illinois Gas & Electric power plant, after rehabilitation in 1982. Further Kansas City-line improvement this year includes installation of 66 miles of new ties and ballast, and 31 miles of rail south of Ottumwa, Iowa.

Most of the rail for Milwaukee's five-year program is coming from the ample supply produced by the two-thirds shrinkage of the system. Earl Selchert, roadmaster in charge of the 96-person system rail gang, says: "We have a lot of good, use-hardened rail available." Welding into 1,400-foot strings takes place at Savanna, Ill. (right across the river from Sabula), where a Holland Railweld plant has been meeting the railroad's needs since 1976. With some modifications in recent years, "production is quite satisfactory," says Smith. In the field, all welding is Thermit.

Also at work are three tie and ballast gangs, and four Jackson Jordan tampers that run in tandem for good use of track time. All ballast is granite, from a source at the end of the railroad's Minneapolis-Ortonville, Minn., route. The railroad is seeking up to $6 million in the "last remaining dribble" of federal 505 funds for further improvement of the Ortonville line, says Cruikshank. That line forms part of the route for unit trains that deliver western coal to Wisconsin power plants. ■

TRAINS, September 1983

Milwaukee Road— still Sprint-ing along

J. DAVID INGLES

EVERY DAY, the Editor watches from his living-room window in suburban Elm Grove, Wis., as Milwaukee Road's all-TOFC Chicago-Twin Cities "Sprint" trains go by. Traffic looks good; but is it? We asked P. Laurin Cowling, Milwaukee's Vice President-Intermodal (and President of its trucking subsidiary, Milwaukee Motor Transportation Co.).

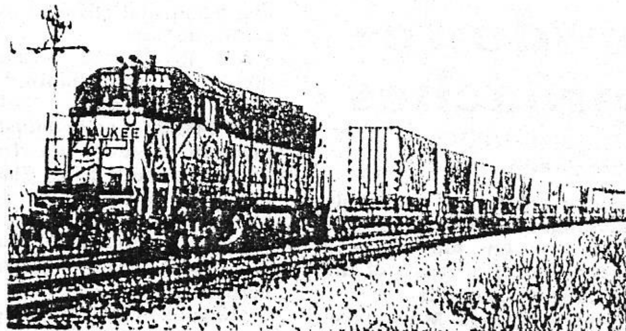
Milwaukee's Sprint, recall (Espee now also has one—see "News"), is the result of the Federal Railroad Administration's "Intermodal Freight Program" of the mid-1970's, designed to show that railroads could capture medium-distance (*i.e.*, about 400 miles, which Chicago-Twin Cities is) trailer traffic from the truckers [see "The Train They Call Sprint," pages 26-33, April 1981 TRAINS]. For two years, Milwaukee's Sprints were an FRA project; after June 1980, MILW continued them on its own, and they have "been holding reasonably good, in line with the economy," says Cowling. Schedules are unchanged from 1981 — 34 trains per week, 10 hours per trip, three each way Tuesday-Friday, two each way Saturday and Monday, and one each way on Sunday. Departures are 1 p.m., 8 p.m., and 2 a.m. from Chicago; 2 p.m., 8 p.m., and 1 a.m. from St. Paul.

Cowling will not quote specific numbers on traffic loads as Milwaukee Road did in 1981, citing the new climate of deregulation and hence the competitive factor including price-cutting, but he says Sprint's loads are about what they were two years ago. "But we're doing a few things differently now than we did during the time of the FRA Demonstration Project," he cautions. At the time of the previous TRAINS article, Sprint traffic was "fudged," or skewed upward a bit, because it had traffic not now handled in Sprints, mostly Twin Cities-Kansas City, which moved via Chicago at the time owing to Milwaukee's Mississippi River line south of La Crosse, Wis., being out of service (it now moves directly in St. Paul-K.C. trains), and Twin Cities-Louisville, which now moves through Chicago on scheduled trains rather than being switched onto Sprints there. "Our Sprint corridor now is very clean with the Chicago-Twin Cities traffic, and we've seen some nice increases on it in spite of the economy when you account for this other traffic." An exception: to honor its GM contract, MILW adds St. Paul auto racks to 211 at Chicago when the GT connection is late.

How many trailers are needed per train to break even? And is Sprint profitable? Under dereg, with different types of contracts involved and hence different quantities of trailers from different customers moving each trip, it's "very difficult to pinpoint a break-even point per trip because of the consists," Cowling says. "Our costing people determine that the Sprint trains are profitable." But, traffic balance "has not been as good in the last 4 or 5 months as it had been. We're more imbalanced southbound [*i.e.*, more northbound loads]; however, the last couple of weeks, this has improved. There has been about a 15 to 18 per cent imbalance." Sprints still run with two 3-man crews each direction, one crew making a Milwaukee-Chicago turn, the other one Milwaukee-Twin Cities trip per day. Cabooses are still used.

Sprint's biggest customers and commodities? Cowling: "We can separate our traffic to United Parcel Service and the Post Office, both in the top five of our customers, and third-party traffic, which is FAK [Freight All Kinds]—so we're really not supposed to know what's in those trailers. Our 20 largest customers are probably 90 per cent of Sprint traffic." One commodity Cowling singled out: glass bottles moving south.

How does Sprint perform? Cowling glowed. "We're running between 97 and 98 per cent on-time lately [vs. 85 in 1980]." Only hang-ups: routine railroad problems such as derailments [of other trains], or snow, water, or signal problems. "If we wanted to discount those things, we could probably say we're running a 99.9 per cent record, but you have to be realistic." But scheduling / performance is not the entire ball game these days. Cowling: "Some people don't care about time as long as the price is there, and that is the competitive factor today. The service is a definite criterion with a lot of people when times are good, but when times in the economy go bad as we've seen in the last couple of years, people do a lot of things differently. When a $5 bill is dangled in front of them, that is, a rate reduction, then service becomes secondary."


TRAIN 208 "Sprints" out of Milwaukee, Wis. TRAINS: J. David Ingles.

Well, is Sprint taking traffic off parallel I-90/I-94? "Sure; no question about it. Highway traffic is our number-one concern. That's where the volume is. But our sales people also have three other railroads to compete with [North Western, which has a competitive overnight train but not all-TOFC; BN; and Soo Line]." Sprints do carry a "substantial amount" of interline TOFC traffic from east and south of Chicago, interchanged with every connecting eastern carrier, Conrail being the largest. All of it is "rubbered" across Chicago to save time.

Is Sprint's traffic base growing? Cowling is cautiously optimistic. "Getting people to try us is difficult. Many shippers just perceive the railroad as not the way to ship, whether out of past experience or just habit. Every once in a while we do make inroads, and once our people convince them to try us, we usually keep them because of our service performance. They can see what we deliver. Since price means more now, they more-and-more *have* to take a look, and once they try it, they are pleasantly surprised at the overall service. Generally then, we have no problem in having those shippers stay with us."

Are the new, longer 45-foot trailers a problem for Sprint? No. For about 8 months, the dedicated Sprint car fleet has been all the "new generation" of Trailer Train flats, modified by TTX to handle two 45's. The cars have permanently affixed stanchions, no bridge plates, and must be loaded/unloaded by mechanized equipment. But on other Milwaukee TOFC runs, "Yes, it is a problem," Cowling says. "Like every other road, we have the same mixture problem until the flow of modified cars catches up, and we'll continue to have the empty table problem. We move the Sprint consists whether there are trailers or not, so right now you do see some of the empty tables, but on non-Sprint trains you'll probably see all the cars with at least one trailer on them because of the 45-foot problem." Unless it exceeds 25 cars, a Sprint rates only one diesel; most Milwaukee GP40's and SD40-2's have been recently overhauled.

Will there be a "Son of Sprint," and will the expected Grand Trunk takeover of Milwaukee Road change anything? Cowling: "We're getting very close to the point where we can establish a Chicago-Kansas City direct intermodal train, either late this year or early next year. The Kansas City route is a big bright spot." Planned: a 16½- or 17-hour schedule, including a stop in Davenport, Ia. (the Quad Cities have been very lucrative for MILW since the Rock Island quit), despite Santa Fe's ability—and it has a dedicated TOFC service—to do Chicago-K.C. in 12 hours. Milwaukee Road has also been pleased with TOFC growth on its regular Chicago-Green Bay train. While Cowling "cannot, of course, speak for Grand Trunk, I would say their people are very enthused about the Sprints." GT operates the Chicago-Detroit TOFC *Nighthawk*.

Cowling, a long-time champion of trailer and container traffic replacing the box car, of course looks at dereg as a challenge. "It's offered us more opportunities. It's a real change for railroad people to get used to the fact that they can be competitive. We can make rates on a moment's notice. We have to be innovative in pricing. We have total freedom, and we have to learn to live and deal with it."

Railroad showdown approaches

By CARL GREEN
Dispatch Business Writer

The guns are drawn and the whole town is watching. It's high noon on the great plains — an old-fashioned showdown for control of much of the Midwestern railroad business.

The prize is the Chicago, Milwaukee, St. Paul and Pacific Railroad, better known as the Milwaukee Road. Two railroads want to take over the Milwaukee — one a major railroad that wants to be dominant, the other a small railroad that wants to be bigger.

Local shippers now served by the Milwaukee are keeping a close eye on the proceedings. They could be hurt in the crossfire, or they could come out ahead.

The protagonists are Grand Trunk Corp., Detroit, and the Chicago and North Western Transportation Co., Chicago. Grand Trunk is the patient suitor; North Western is the stranger that just rode into town.

The story will unfold in Washington governmental chambers, in Chicago courtrooms and boardrooms, and ultimately on the railroad lines passing through the Quad-Cities.

The Milwaukee has been shrinking its way to financial health after going bankrupt. It is strong enough to be a desirable merger partner, but not strong enough to sustain itself.

Officials have been working for months on a merger with the Grand Trunk, a Detroit-based railroad that operates mainly in Michigan and Ohio.

THE MERGER seemed a certainty until last week, when the North Western filed its own last-minute proposal to take over the Milwaukee.

There is little concern here that a merger with the Grand Trunk would cause problems. A North Western merger could be another matter.

The North Western has a main line that runs from Chicago to Des Moines, where it branches off in two directions — Omaha and Kansas City — by passing the Quad-Cities. The Milwaukee's main line runs from Chicago through the Quad-Cities to Kansas City.

Dick Weeks, president of the Quad-City Development Group, said the Milwaukee service here has been excellent because of that main line. More cars are available, connections are more frequent and shipping is quicker and cheaper as a result, he said.

But the North Western plans to consolidate its system with the Milwaukee's, and industry insiders believe the firm can't run both main lines. North Western's Jim McDonald says they're wrong and that the North Western is ready to operate both lines.

Milwaukee Road president Worthington Smith considers the Grand Trunk proposal the culmination of the five-year effort to revive the Milwaukee. Teams of accountants, engineers and executives from both firms spent thousands of hours studying the possibility and drafting the proposal.

THE TWO FIRMS announced their intent to merge last summer. With that announcement, they entered the regulatory examining phase that has come to mark virtually all railroad transactions.

Other railroads had the opportunity to intervene, but none did until the last possible day, Wednesday, when the North Western filed a plan it says is "financially superior" to the Grand Trunk offer.

All three firms will go to the Interstate Commerce Commission for hearings and, eventually, a recommendation.

The last time the ICC had such a choice to make was earlier this summer, when the North Western and the Soo Line were competing for a piece of the Rock Island Railroad connecting Des Moines and Minneapolis. The ICC ruled that both firms had good offers; the decision favoring the North Western was finally made by Rock bankruptcy judge Frank McGarr.

The parties in the Milwaukee Road merger expect the final decision to be made by that line's bankruptcy judge, Thomas McMillan. It may be a long time coming, and in the meantime local shippers and receivers will be wondering what lies in store.

BOTH SIDES have their arguments. The North Western maintains that competing railroads won't make it in the Midwest, citing the bankruptcies of the Rock and Milwaukee Road. A strong, well-financed and dominant railroad, such as the North Western is seeking to become, would provide the region with "the service it deserves," McDonald said.

Also, the North Western proposal is set up to appeal to Milwaukee Road stockholders. It will leave them with about $180 million in tax benefits based on past losses and investments in the railroad. They'll keep some valuable real estate -- particularly the Milwaukee's large freight yard near Chicago's O'Hare Airport.

Grand Trunk vice president for corporate planning Robert Walker maintains that shippers and railroad employees will be hurt by the North Western offer because about 1,200 miles of Milwaukee and North Western track would be abandoned along with about 2,100 employees.

Grand Trunk's lines are mostly in Ohio and Michigan. They meet the Milwaukee only in Chicago. The result of the merger would be improved service to customers on both lines, he said.

"I think the public interest is much better served by our offer," he said. "The basic difference is that we intend that the Milwaukee will be run as a going concern — and not liquidated. I think it's obvious what their intentions are."

THE TWO FIRMS already have begun working together. As a result, goods can be shipped from one end to the other two days sooner.

The North Western often points out that Grand Trunk is a subsidiary of the national Canadian railroad, but Walker maintains their operation is not run by the government.

"We operate as a private sector railroad in the U.S. like any other private sector company," he said.

The first skirmish will be at an Aug. 15 ICC hearing in Washington, set up to consider the Grand Trunk bid. The North Western will be allowed to make a presentation.

The North Western states its position this way: "The Midwest rail system will be strengthened, stabilized and rationalized as North Western's acquisition of the (Milwaukee) core assets will eliminate redundant trackage, lead to improved rail efficiency and create better rail service for the shipping public."

That was in a recent press release. A Grand Trunk official responded: "That's a nice way of saying, 'We're going to be cutting out the duplication of the Milwaukee and the North Western.'"

GRAND TRUNK'S position is this: "We view the proposed consolidation of Grand Trunk and the Milwaukee road as an opportunity for two relatively small end-to-end rail systems to gain strength through cooperative efforts while improving their service to the public."

That statement came from Grand Trunk president John Burdakin. North Western's McDonald has a different view. "There are too many railroad companies with too much track chasing too little business," he said, citing the failures of the Rock and the Milwaukee. "Historically, that's been part of the problem. If history is any guide, it's already been demonstrated."

Walker said the Grand Trunk believes there is room for competition between the North Western and a merged Grand Trunk-Milwaukee. "That's part of the free enterprise system," he said. "We think competition is good. We expect to fight very strongly for business — and maybe take some away from the North Western."

McDonald said a combination of the Milwaukee and North Western would mean more efficient, reliable service because the firm would be financially strong and profitable.

"If you combine the Milwaukee core system with our system, you're eliminating a lot of rails running next to each other. You can use the best of both," he said.

THE MILWAUKEE main line through the Quad-Cities is not one of the lines that would be eliminated, McDonald said.

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"We have no plans at all to abandon that," he said. "That is a more direct route from Chicago to Kansas City than our line. That is one of the most desirable parts for us of the whole Milwaukee core."

The parallel North Western line from Chicago to Clinton and then Des Moines would be used mainly for shipments going further west to Omaha then for shipments south to Kansas City, he said.

Weeks, who has spearheaded efforts to retain adequate rail service here, said he is worried about the North Western offer and prefers the Grand Trunk proposal.

It wouldn't make sense for the combined North Western-Milwaukee to operate both the east-west main lines, he said. If a choice had to be made, the Milwaukee main line could lose out because the North Western main line has been rehabilitated with a $147 million loan from the federal government.

"I can't believe this (the Milwaukee main line) would be anything other than a branch line," he said. "I know the Grand Trunk commitment is to maintaining main line service between here and Kansas City. I think the Quad-Cities benefits because of this."

LOCAL SHIPPERS, Weeks said, have yet to take an official position on the matter.

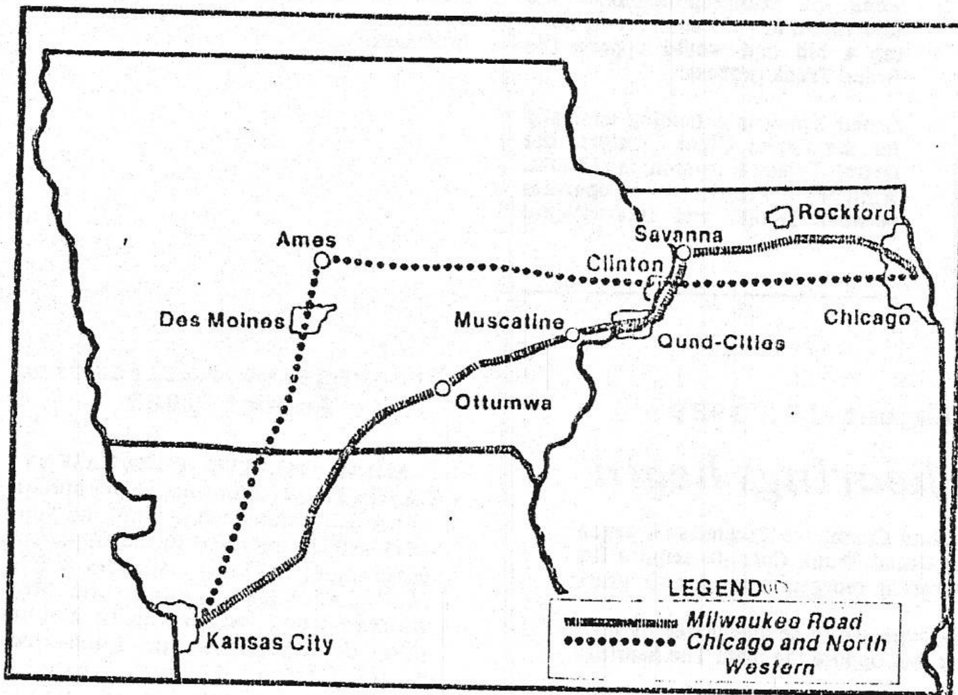
Joe Harper, traffic manager for Caterpillar Tractor Co., Davenport, and head of an Iowa Quad-Cities shippers group, said those shippers have not taken a position. But he's wary of a Milwaukee-North Western combination.

"The only scary thing is that you would end up with one railroad controlling 90 percent of Iowa and you've lost a competitive market," he said. "If they wanted to jack up the prices, they could sure do it."

Rural grain shippers with no transportation alternatives would be hurt most by such a development, he added.

Harper said he hasn't been contacted yet by the North Western about its plans for this area. Week said he'd feel better if the railroad made a few local contacts.

"It's curious to me that there's been no attempt by the North Western to get support here," he said.



The Chicago & North Western's main line runs from Chicago through Dixon and Clinton to Des Moines and eventually Kansas City. The Milwaukee Road's runs through Rockford, Quad-Cities and Ottumwa before ending in Kansas City. Shippers here are concerned that service would be reduced if the North Western is successful in its bid to take over the Milwaukee. The North Western says it wouldn't happen.

Minneapolis Star/Tribune, August 16, 1983

Hearings begin on Grand Trunk plan to acquire Milwaukee Road

Associated Press

Washington, D.C.
The Interstate Commerce Commission (ICC) began hearings Monday on a proposal by the Grand Trunk Corp. to acquire the Milwaukee Road railroad, which has been undergoing reorganization as part of bankruptcy proceedings since 1977.

More than two dozen witnesses are expected to be questioned by lawyers representing a number of railroads that oppose the plan. The hearings are expected to continue into next week.

Grand Trunk, a unit of the Canadian National Railway and a holding company for several railroads, must obtain ICC approval to acquire the Milwaukee Road.

The transfer of ownership would involve no cash payment, but Grand Trunk has proposed assuming about $250 million in Milwaukee Road debt.

The plan is being opposed by several railroads, including the Chicago & North Western, which has made an offer to purchase the Milwaukee Road that it has described as substantially more favorable to the Milwaukee Road's stockholders. Last week the Minneapolis-based Soo Line said it too was considering making a bid and would oppose the Grand Trunk proposal.

Grand Trunk is a holding company for the Grand Trunk Western; the Detroit Toledo & Ironton; the Duluth, Winnipeg & Pacific (which operates between Duluth and International Falls, Minn.), and the Central Vermont. A merger with the Milwaukee Road would create a 5,000-mile rail system that would encircle the Great Lakes.

In recent years the trustees of the Milwaukee Road have reduced the size of the railroad to about one-third of what it was when it filed for reorganization. It now is a regional carrier operating about 2,900 miles of line, including about 800 in Minnesota. The Chicago & North Western operates about 1,500 miles of track in Minnesota.

Milwaukee Journal, August 17, 1983

Milwaukee Road hearings begin

Washington, D.C. —AP— The Interstate Commerce Commission began hearings Monday on a proposal by the Grand Trunk Corp. to acquire the Milwaukee Road, which has been undergoing reorganization for six years as part of bankruptcy proceedings.

More than two dozen witnesses were expected to be questioned by lawyers representing a number of railroads that oppose the plan. The hearings are expected to continue into next week.

The Grand Trunk, a unit of the Canadian National Railway and a holding company for several railroads, must obtain approval from the ICC to acquire the Milwaukee Road. Its proposal is being opposed by several railroads, including the Soo Line and the Chicago & North Western, which has made an offer to purchase the Milwaukee Road.

Grand Trunk is a holding company of the Grand Trunk Western, the Detroit Toledo & Ironton, the Duluth, Winnipeg & Pacific, and the Central Vermont.

A merger with the Milwaukee Road — known officially as the Chicago, Milwaukee, St. Paul & Pacific Railroad — would create a 5,000-mile rail system that would almost encircle the U.S. side of the Great Lakes.

In recent years the trustees of the Milwaukee Road have reduced the size of the railroad to about one-third of what it was when it filed for reorganization under the bankruptcy laws.

Progressive Railroading
August 1983

MILW. TO GTC A GIVEAWAY, SAYS STUDY. More than $500-million in tax deductions lasting until the year 1995 will be provided to the Canadian government by U.S. taxpayers if CN Rail is allowed to acquire the Milwaukee Road, according to a new study by Manalytics, Inc. Sponsored by the Chicago & North Western, which opposes the sale, the study shows that: 1) The U.S. has already provided $299-million to the Milwaukee, which is operating in trusteeship; this includes guaranteed loans, unpaid interest, and trustee certificates; 2) $104-million in principal and interest on a U.S. government loan to the Milwaukee Road will be forgiven under terms of federal railroad bankruptcy procedures, resulting in "American taxpayers indirectly subsidizing Canadian taxpayers by $104-million"; 3) the $500-million in tax deductions will result from net operating loss carry forwards of $264-million through 1995, investment tax credit carry forwards of $35 million, and $200 million in expenses as yet unclaimed for tax purposes.

Journal of Commerce, August 17, 1983

2 Groups Compete to Buy Midwest Rail Line

By RIPLEY WATSON 3rd
Journal of Commerce Staff

Two short-line railroad operating groups will be meeting later this month with the Norfolk & Western Railroad to buy what the railroad says is the longest stretch of track ever posted for abandonment by a solvent railroad.

Representatives of Railway Management Services Inc. of Vienna, Va. and the Colorado & Eastern Railroad of Colorado Springs, Colo. are hoping to buy part or all of the 220-mile route between Council Bluffs, Iowa and Kelly, Mo.

If either party is successful, one of the nation's three or four longest short-line railroads would be created from a branch line whose abandonment case is proceeding more smoothly than most.

A number of shippers and the N&W, which has promised to keep contact with shippers and area communities to assure a smooth and acceptable transition, have made an agreement to have the railroad maintain present service levels until May 25, 1984 while negotiations to find a new operator can be finalized. A sale will be consummated sooner if all parties can agree, according to N&W and others interested in the case.

The agreement, though, doesn't mean that everyone along the line is happy. Some shippers at Malvern, Iowa, about 30 miles from Omaha, Neb., are protesting the abandonment before the Interstate Commerce Commission.

Most shippers aren't, however, because the agreement requires that shippers not protest the abandonment.

The railroad wants to abandon the line, where freight service to move grain and paper products is operated twice a week, because of losses calculated at $5 million over the past three years.

Short-line railroads, according to the prevailing theory, are able to successfully operate lines that larger lines, such as N&W, couldn't make profitable. The reason experts single out is the lower operating costs which occur because of non-union crews and lower overhead.

Richard Wiersema, of Railway Management Services, heads a group which is familiar with the line because the firm made a study of the feasibility of short-line operations at the behest of officials in Nodaway County, Mo.

Railway Management proposes to purchase 174 miles of railroad from Kelly, where the junction with N&W's St. Louis line is located, to Shenandoah, Iowa. A lease until January 1985 would be negotiated with any interested parties for the stretch of line from Shenandoah to Council Bluffs.

Retention of that portion under Railway Management Services' plan is contingent on traffic growth.

Mr. Wiersema declined to give particulars on how the firm would finance the purchase, but he insisted that "we have our financing pretty well arranged."

Members of the Railway Management group have short-line railroad experience with lines in Michigan, Indiana and Iowa.

The Railway Management proposal would funnel traffic on the line, which was about 6,000 cars in 1981, to N&W at Kelly if low traffic levels at the northern end were to end operations.

Total carloadings plummeted from 6,000 to 3,500 in 1982 when Norfolk & Western imposed a $191 per car surcharge that prompted diversion of traffic to trucks.

That surcharge remains in place now though it is being challenged in the U.S. Court of Appeals at St. Louis.

Mr. Flanders, who heads the Colorado & Eastern Railroad and formerly was president of the Cadillac & Lake City Railroad, says his firm will buy the entire line.

That purchase would fit into an overall strategy Mr. Flanders outlines to operate more than 1,000 miles of railroad in Nebraska, Iowa, Colorado, Illinois and Kansas.

The present N&W line would link up at Council Bluffs with the lines Mr. Flanders seeks to operate.

He said he hoped to be able to be the operator for two long stretches of former Chicago, Rock Island and Pacific Railroad track between Chicago and Denver and to buy shorter sections of track from the trustee which is overseeing Rock Island's reorganization.

The Colorado & Eastern owns 11.5 miles of track and Cadillac and Lake City has about 140 miles, including a stretch from Limon, Colo. to Colby, Kan.

Mr. Flanders says he is working on a proposal to buy tracks linking the Denver area with Limon.

He said the Colorado & Eastern has an $8.5 million line of credit with an Eastern bank, but he declined to name it.

Mr. Flanders named a possible purchase price for the N&W line that was about half of the line of credit.

A price of anything less than $25,000 per mile would be lower than recent railroad purchases in the area.

The Chicago & North Western originally offered more than three times that amount per mile for the so-called Spine Line, though that price was for a direct line between Minneapolis and Kansas City.

Colorado & Eastern already owns 75 locomotives, according to Mr. Flanders, but Railway Management Services would have to buy motive power to operate the line.

Mr. Wiersema said that locomotives could be bought within a week and that four engines could handle the work.

Wisconsin State Journal, August 10, 1983

Save railroad depot

For Sale: Historic railroad depot in Madison, Wis. Buyers who wish to tear it down need not apply.

Want to buy a hot property just a few blocks from the state Capitol, the State Street Mall and the heart of downtown Madison?

All it needs is an owner with a preservation ethic, a few renovation skills, an entrepreneurial spirit and a half-million dollars.

The property is Madison's 80-year-old Milwaukee Road railroad depot. The bankrupt railroad has put the depot and the two-acre site it occupies up for sale. It has set $475,000 as the minimum bid for the property.

The Milwaukee Road also plans to sell the 20 or so acres of property around the depot. The city intends to rezone the area from manufacturing to mixed retail-commericial-residential use.

Don't try to buy the depot if you plan to tear it down. City officials say they'll refuse to issue a demolition permit.

What's in it for you? Because the building has been designated a national landmark (it's listed in the National Register of Historic Places), an owner who wishes to renovate the depot will be eligible for sizable tax credits and other financial breaks.

Ambiance? The depot fits nicely with the 1890s-vintage Washington Hotel nearby. Up the street, the Greater Madison Board of Realtors has completed a handsome rehabilitation of four Victorian homes, giving the neighborhood a look of new life.

Think about the possibilities! In San Francisco, waterfront warehouses have been turned into attractive shops, offices and restaurants. The same for warehouses in the old industrial sector of Omaha.

Why not Madison's railroad depot?

Interested? Write for more information from J.P. Nail at 547 West Jackson Blvd., Chicago 60603. Do it soon: The railroad plans to show the property to potential buyers Aug. 17 and will open bids Sept. 6.

The price puts the depot out of reach of most Madisonians who might take an interest, but surely someone can find good use for the property. The city stands ready to help.

Des Moines Register
August 16, 1983

ICC opens rail merger hearings

WASHINGTON, D.C. (AP) — The Interstate Commerce Commission began hearings Monday on a proposal by the Grand Trunk Corp. to acquire the Milwaukee Road, which has been undergoing reorganization as part of bankruptcy proceedings for six years.

More than two dozen witnesses were expected to be questioned by lawyers representing a number of railroads that oppose the plan during the hearings, which are expected to continue into next week.

The Grand Trunk, a unit of the Canadian National Railway and a holding company for several railroads, must obtain approval from the ICC to acquire the Milwaukee Road, which has been in reorganization proceedings since 1977.

The Grand Trunk proposal is being opposed by several railroads, including the Soo Line and the Chicago & North Western, which has made an offer to purchase the Milwaukee Road.

Minneapolis Star/Tribune
August 17, 1983

Viaduct's destruction moves step closer as railroads reach accord

The infamous Washington Av. viaduct in downtown Minneapolis has moved a step closer to destruction. It's likely to be torn down this fall.

In a letter to the city, lawyers for the Milwaukee Road say that they and the Soo Line have signed a letter of agreement settling the outstanding issues concerning the viaduct. It adds that "we anticipate court approval of these arrangements on Sept. 12."

The railroads will transfer their interchanges from the yards that depended on the viaduct to yards in St. Paul. "This will permit the Washington Av. viaduct to be demolished in 1983," the letter says.

The viaduct may fall in October, said city planner Mike Cronin. While the city waits the required 30 days after the judge's ruling, it will be working to have everything ready for demolition, he said.

The Soo Line was the last party objecting to the abandonment of the viaduct. It had to work out with the Milwaukee Road just who would pay for which trackage. The other users of the viaduct, including the Minneapolis Star and Tribune Company, withdrew their objections earlier this summer.

Wirth must pay his bankruptcy court attorney

By Jacqui Banaszynski
Staff Writer

A federal bankruptcy judge has ordered developer Harry Wirth to pay more than $44,000 to a St. Louis Park lawyer who represented him in bankruptcy court against several creditors, including five other lawyers.

According to documents filed with Judge Robert Kressel in St. Paul, Wirth failed to pay Samuel Stern, who represented him in a bankruptcy action earlier this year as part of Wirth's efforts to buy the old Milwaukee Road depot.

That action involved five other law firms that did work for Wirth's depot-development firm, Waterfront Companies, Inc., and that had to file claims in bankruptcy court to force payment of fees ranging from $1,300 to $90,000. Those firms have now been paid, as have Wirth's other creditors in the bankruptcy action.

Wirth said Stern had put in a large claim for legal services in order to take advantage of Wirth's company. He said Stern must have said to himself, "Now, Waterfront has all kinds of money. Why don't I get some of it?"

Wirth's current attorney, Jerrold Hartke, of St. Paul, said Wirth received the judge's order Tuesday and hasn't decided whether to appeal the decision.

Stern, who no longer works for Wirth, said, "The judge's order speaks for itself."

Stern asked the court in July to order Wirth to pay him $57,000 for more than 400 hours of work his firm did for Waterfront Companies. Wirth has paid Stern only $7,000 since last December, according to the court file.

The file shows that Wirth wrote Stern a personal check for $3,000 as a fee payment earlier this year. However, the check was post-dated so it couldn't be cashed for two months. That check later was replaced with a check that was returned by Wirth's bank because of insufficient funds.

Wirth said yesterday he knew nothing about the post-dated check or the returned check.

Kressel ordered Wirth to pay Stern about $27,000 for the time spent on the case, $1,200 for expenses and $15,000 in "premium pay" because of the difficulty, risk and "undesirability" of the case. He noted that two other lawyers had refused to represent Wirth in bankruptcy court and that Wirth was "lucky to have located and made arrangements with (a lawyer) as skilled and able as Stern." Kressel also said he thought Stern's fee of $80 an hour was low considering the complexity and risk of the case.

Wirth had told the judge he would pay Stern a total of $24,000 but said the case did not warrant premium pay.

Stern went to work for Wirth last December, when Wirth filed for protection from creditors under federal bankruptcy laws after a yearlong effort to gather enough cash to complete his $9.5 million purchase offer for the depot.

At the time, Wirth said the bankruptcy action was a "legal technique used to buy more time" so he wouldn't lose his option to buy the 15.5-acre depot site. He had missed nine earlier deadlines to purchase the depot and had announced at least three financial partnerships that later fell through.

Wirth purchased the depot site in April and paid off his remaining creditors with $13 million borrowed from lending institutions in California and Texas. He said he envisions a recreational and commercial development on the site costing $275 million to $300 million.

Wirth and other Waterfront officials presented their latest plans for the depot development yesterday to the Minneapolis Heritage Presentation Commission.

Commission members questioned whether some design elements would be compatible with historic presentation. One item was Wirth's plan to convert the depot clock tower into a six-level condominium unit. The condominium is essential, Wirth said, to generate enough money to finance the tower's restoration to its original form, including replacement of a cupola that once topped the tower.

To restore the tower is "a very expensive undertaking," Wirth said. To convert the tower to living space would mean adding windows that were not part of the original plan. Some members questioned whether this would defeat the goal of historic restoration.

Similar concerns, to be discussed in later meetings with the commission, involved other tentative design plans. They included a glass enclosure just inside the train shed behind the main depot building and artificial ponds amid commercial and residential developments on a site adjacent to the depot property.

Chicago Sun-Times, August 23, 1983

RTA mulls ticket good on bus, train

By Pat Wingert

Southwest suburban residents who commute to the Loop may get better service soon if the RTA board approves a plan to issue tickets and passes that would be honored on Norfolk & Western trains and on RTA express buses.

The plan was approved Monday by the RTA's transportation committee, and will be considered by the full board in early September.

Currently, southwest suburban commuters can use public transportation by riding the Norfolk & Western rail line or the RTA's express bus No. 835.

Since both kinds of service are considered "premium," the RTA charges the same amount for one-ride tickets and monthly passes. However, bus drivers will not accept a train pass and train conductors will not accept a bus pass.

This has caused some hardships for commuters because of the limited service the area receives.

RTA planning manager Joanne Schroeder said there are only two Norfolk & Western train runs in the morning and two in the evening. The last train leaves the Loop at 5:30 p.m. If the plan is put into effect, commuters who miss the train or want to stay later downtown would not have to pay more to ride the last bus, which leaves the Loop at 6:30 p.m.

The staff also would change the bus route so commuters would be dropped off at train stations, since many people in the area leave their cars in the stations' lots.

If the plan is successful, she said the RTA would consider adding trains. It might also cut rush-hour bus runs and increase mid-day and evening bus service.

Schroeder said if the board approves the plan, ridership would probably increase from 1,800 a day to 3,000 by 1986. In addition, she said, the RTA would save $279,000 the first year. The savings would drop to $111,800 by 1986, as additional service was added.

The bus and train serves Orland Park, Palos Park, Palos Heights, Chicago Ridge, Worth, Oak Lawn, Hometown and Ashburn/Landers.

During the transportation committee meeting, RTA Chairman Lewis W. Hill also indicated that the board will consider allowing commuters holding a Chicago & North Western, Burlington Northern, Rock Island, Milwaukee Road or Norfolk & Western train ticket or pass to use it on any of the five systems.

Milwaukee Sentinel
August 16, 1983

Milwaukee Road hearings begin

Washington, D.C. —AP— The Interstate Commerce Commission began hearings Monday on a proposal by the Grand Trunk Corp. to acquire the Milwaukee Road, which has been undergoing reorganization as part of bankruptcy proceedings for six years.

The Grand Trunk proposal is being opposed by several railroads, including the Soo Line and the Chicago and North Western, which has made an offer to purchase the Milwaukee Road.

In recent years, trustees of the Milwaukee Road have reduced the size of the railroad to about one-third of what it was.

Wauwatosa News-Times
July 21, 1983

In another matter, the board Monday recommended council acceptance of Traffic and Parking Control Co. Inc.'s low bid of $52,897.20 to provide rubberized railroad grade crossing modules for N. 68th, N. 70th and N. 72nd streets, south of State St.

Also a part of rail crossing rehabilitation, Payne & Dolan's bid of $26,423.30 to reconstruct crossing approaches was recommended to the council. It too was the lowest, best bid.

Total cost of rehabilitating the three railroad crossings will be $100,452.55. Included in that figure are: $52,897.20 for a rubberized module system; $26,423.30 for approaches; $12,000 for installation by the Chicago, Milwaukee, St. Paul & Pacific railroad; $9,132.05 for engineering and administrative work.

Originally, the Engineering Department estimated the project would cost about $114,149.

Journal of Commerce, August 22, 1983

C&NW Branch Remains Up for Grabs

Journal of Commerce Staff

A shipper-community group is hoping to see operations start on a new railroad in western Minnesota by Sept. 15 after an earlier effort by a Colorado firm to buy the 36-mile line fell through.

Until two weeks ago, it appeared that efforts by the Lacquiparle Regional Railroad to buy part of a Chicago & North Western Transportation Co. branch line would fail because of a higher bid made by the Colorado and Eastern Railraod.

However, the C and E didn't complete the purchase for $942,000 from the North Western, but the reasons for the lack of completion aren't clear.

Gary Flanders, who heads the Colorado and Eastern, said his effort was opposed by a major shipper on the line. Mr. Flanders had proposed to buy not only the 36-mile segment but another section the North Western wants to abandon and sell, which would have given his carrier direct access to barge points on the Mississippi River.

Mr. Flanders contended that his operation would have provided lower shipping rates for elevators and other shippers on the line.

He denied reports that Colorado and Eastern was unable to raise the money and said that problem applied to another group interested in buying another stretch of C&NW track.

"We just gave up. Have you ever tried to help someone who didn't want to be helped?" he asked.

Mr. Flanders also is negotiating to buy a branch line the Norfolk and Western Railroad is seeking to abandon in Missouri and Iowa.

Mr. Flanders says his carrier has an $8.5 million line of credit from an unidentified Eastern bank to finance purchases.

The successful bidders' group is headed by Bob Bleeke of Madison, Minn.

The group won't be operating the railroad, Mr. Bleeke said, but is negotiating with the Burlington Northern Railroad to provide engines, crews and cars for the line.

Last year, traffic on the line was about 2,200 cars, Mr. Bleeke said, but it has been as high as 4,000 cars a year.

The largest shipper is Land o' Lakes Co., which has a soybean processing plant in Dawson, Minn. that employs 140 people. It provides about 90 percent of the traffic, Mr. Bleeke said.

Funds to buy and rehabilitate the line have come from a federal loan to the city of Dawson, Lacquiparle County, communities along the line and shippers, Mr. Bleeke said.

The shippers' contribution amounted to $300,000, he said.

"We hope we'll have a good railroad by winter," Mr. Bleeke said.

BN officials have said they could rehabilitate up to one mile per day on the line. Some parts of the branch line have 65-pound rail.

"We're excited to beat the band," he added.

BN officials acknowledge that they are talking with the Lacquiparle group. If they operate the line, it would connect with mainline operations at Hanley Falls, Minn.

"They apparently want this traffic," Mr. Bleeke said.

Though no agreement has been signed, LQP hopes to arrange to get a percentage of the profits from the line to pay off loans, Mr. Bleeke said.

The Interstate Commerce Commission had to re-enter the case after the C&E didn't complete its purchase, but officials at the ICC said only that since LQP had also submitted a bona fide offer for the line when it was offered for sale that it had no further role in the matter.

Milwaukee Journal, August 11, 1983

Soo Line eyes Milwaukee Road

The Soo Line Railroad Co. is considering making a bid to buy the assets of the bankrupt Milwaukee Road, a Soo spokeswoman in Minneapolis confirmed Thursday.

The Soo Line board of directors met Wednesday to discuss a possible Milwaukee Road offer, the spokeswoman, Laurie Hennings said, but the board is holding off saying anything further. Canadian Pacific Ltd. controls the Soo Line.

The Soo Line, in a limited way, competes in Wisconsin with the Milwaukee Road. If the Soo Line does make a bid, it would the third carrier to do so. The others are the Grand Trunk Corp., owned by the Candadian National Railway Co., and the North Western [illegible]

On Monday, the Interstate Commerce Commission will begin hearings on the Grand Trunk proposal. The ICC also will decide by Aug. 26 whether to hold hearings on the North Western bid.

St. Paul Dispatch
August 9, 1983

BN workers plan 2-hour party in park

By Don Del Fiacco

Lowertown will become a crowded, noisy, steamy whistle stop.

Sausages will pop and bands will wail Wednesday during a railroad romp in Mears Park. The bash surely will not be derailed by poor weather.

About 2,500 Burlington Northern Railroad employees will party at the 6th annual BN Day in the Park. The event, free and open to the public, will run from 11:30 a.m. to 1:30 p.m.

Entertainment will be provided by the Burlington Northern Chorus, Bob Achterling and the Switchmen Band, singers Shirley Trimble and Wanda Swyningham, juggler Bruce Stone, accordionist George Schlitz and ventriloquist Jim Pratt.

Perhaps the star of the shindig will be Clyde White, who is billed as "a singing locomotive engineer."

On display will be a replica of a computerized railroad control room, an 80,000-pound "Brute" crane and a mobile training center for teaching locomotive engineers how to save diesel fuel. Visitors will be photographed in a simulated locomotive cab.

Children will be given balloons and paper engineer hats. Food, beverages and railroad memorabilia will be sold.

Among the participating Burlington Northern organizations will be the National Association of Railway Business Women, Junior Achievement, the Northliners employees club and the Boy Scouts of America Explorer Division.

Wall Street Journal
August 18, 1983

British Railways Board Plans to Reduce Costs, Cut 17,000 More Jobs

By a WALL STREET JOURNAL *Staff Reporter*

LONDON—Britain's Railways Board will continue to slash jobs through 1988.

The state-owned railroad outlined to workers a five-year plan for boosting productivity and cutting subsidies. By reducing off-peak services, consolidating maintenance operations, modernizing signal equipment and eliminating 17,000 more jobs between 1984 and 1988, the railroad said it could reduce the annual subsidy it receives by 25%, to the equivalent of $1.1 billion, by that year. That would be the lowest level in inflation-adjusted terms since 1975, it added. The railroad is to receive a $1.5 billion subsidy this year.

Since the end of 1979, the railroad has cut about 36,000 jobs. An additional 10,000 are slated to be lost this year in addition to the 17,000 proposed yesterday. By 1988, employment should be reduced to 175,000, the railroad said.

A Transport Department spokesman called the plan "not too bad," given the railway's obligation to continue its present level of service. But a leader of one of two main rail unions called the plan "a recipe for trouble."

Sir Peter Parker, who retires Sept. 1 as chairman of the railroad, expressed confidence the unions would accept the plan. "We have lost about 200 (employees) a week from this system for some time. The number we are talking about over the next five years is actually less than we have lost over the last few years," he said. Sir Peter's successor hasn't been named.

Separately, the Scottish Trades Union Council outlined a plan for preserving jobs at British Shipbuilders, another unprofitable state industry. It called for more govern-

Journal of Commerce
August 23, 1983

ICC Firm On Ruling For Boxcars

Journal of Commerce Staff

WASHINGTON — The Interstate Commerce Commission has decided not to hold an argument on its controversial decision to eliminate rate regulation on traffic moving in boxcars.

The disclosure was contained in a recent letter ICC Chairman Reese H. Taylor Jr. sent to Sen. Richard G. Lugar, R-Ind., late last week.

Along with the agency's decision to deregulate export coal shipments, the move to terminate rate regulation over boxcar traffic has generated the most strongest criticism of the ICC by the hill in recent years.

So far 66 senators and 129 congressmen have contracted the commission to complain about the decision on grounds ranging from allegations it could create rate problems for shippers to contentions that small carriers will be severely damaged by changes in the new freight car compensation system.

In his letter Chairman Taylor said he has proposed having an oral argument in case since everybody except the railroads seem to be quite upset about the action.

But none of the other three commissioners seemed to want to hold one, so none will be held, he added.

Rates on boxcar traffic will be deregulated Nov. 7 unless the commission or a court issues an order blocking the change from going into effect.

The Triumphs of a Prairie Populist

South Dakota cashes in with an aggressive, pro-business program

"We are the bankingest town in the U.S.," declares Herb Bowden, president of Sencore Inc., a manufacturer of electronic-testing equipment. The town's mayor is more precise. "Citibank," Mayor Rick Knobe says proudly, "moved us from a known regional entity to a newcomer on the national and international scale."

Bowden and Knobe do not live in Miami or Chicago, Dallas or Los Angeles. Their improbable new financial capital: Sioux Falls, S. Dak. "We used to have such an image of cowboys and Indians," recalls Bowden, "when I would go to New York, the guys in the bar would give me a big war whoop. Now they say, 'Oh, you're from South Dakota, where you have good tax laws and where industry is moving in.'" Kind of stilted talk for bar chatter, perhaps, but apt. Sioux Falls (pop. 81,000) and the rest of South Dakota are in the midst of a self-made, state-wide economic renaissance. Says Governor William Janklow, 43, a rawhide Republican: "I showed 'em we can do business out here."

Indeed he has. Citibank, which has moved its credit-card operation to the city, broke ground in June for its third building in three years. With 1,200 employees in Sioux Falls, South Dakota's largest city, the bank is now the state's No. 3 employer. By 1985 Citibank expects to hire as many as 600 more people.

The boom is bigger, however, than just one bank. In the past decade the state's population increased by just 25,000 (to 690,000), but the number of nonagricultural jobs has grown by 60,000. South Dakota ranked third in the nation in per capita income growth in 1982.

Perhaps the state's main attraction for business is not what it has but what it does not have: pollution, congestion, crime (third-lowest rate in the U.S.), personal or corporate income taxes or, especially, restrictive banking laws. In 1980 the state became one of the first to abolish the usury limit on interest rates that banks may charge. In addition, Janklow, who then had been Governor barely a year, rammed a second bill through the legislature that included a specific invitation to an eager Citibank to relocate its credit-card computers. Financial institutions in Michigan and neighboring Nebraska have asked if they can transfer their credit-card operations too. Last spring Janklow persuaded the legislature to agree in effect that all is laissez-faire in economic war: South Dakota was the first state to make it easy for banks to buy insurance companies and thus expand their consumer services. The Governor mailed engraved announcements of the deregulation to the 100 largest U.S. banks. Last month Citicorp won the state banking commission's permission to buy a state-chartered bank in Rapid City.

The Governor has also given the state's more traditional enterprises special attention. The Milwaukee Road rail net-work went bankrupt in 1977 leaving farmers with no easy way to ship corn and wheat. Janklow engineered an improbable railroad resuscitation plan. With revenue from a special sales-tax increase, the state bought 1,316 miles of track and contracted with Burlington Northern to operate the freight trains. Earlier this summer, as Janklow drove through Mitchell (pop. 14,000), he shouted, "There's my railroad! Those are some of my rail cars!"

Janklow is not afraid to endorse what are usually Democratic policies, such as state bonding programs to provide low-interest loans to home buyers and students. Comments South Dakota Secretary of Water and Natural Resources Bob Neufeld: "Where in the Republican philosophy does it fit that a state should own its own railroads? The Governor fits into the mold of what you would call a progressive." Last fall Janklow won a second term, by law his last, with 71% of the vote, the greatest margin of victory ever in a South Dakota gubernatorial race.

The Governor's hard-charging style, encouraged by a better than 2-to-1 G.O.P. majority in the legislature, has its detractors. "At times I've felt he's the most dangerous politician I've ever met," says Republican State Senator Don Frankenfeld, manager of the E.F. Hutton office in Rapid City. "He would be much more comfortable in a benevolent dictatorship than a democracy." Asserts State Democratic Chairman Robert Williams: "He's a very strong person. I wouldn't call it a dictatorship, but it's as close as you can get."

Janklow's hip shots rattle some fellow Midwestern Governors as well. They are peeved by his raids on their states' business firms. Cracks Minnesota Governor Rudy Perpich about his western neighbor: "I concede only that they're No. 1 in prairie dogs." Perpich has reason to be resentful. Since 1969 as many as 100 Minnesota companies either have moved to South Dakota or have built new plants there.

Janklow has acquired an anti-Indian reputation, despite six years of service as a Legal Aid lawyer on his state's Rosebud reservation. A decade ago, as the state attorney general's chief prosecutor, he launched something of a one-man legal war against Dennis Banks and the American Indian Movement. When California Governor Jerry Brown refused to extradite Banks, who had jumped bail after a 1975 South Dakota riot and assault conviction and fled to California, Janklow announced that in retaliation scores of South Dakota defendants had been allowed to avoid prosecution on the condition that they move to California. Quiet discretion is not his strong suit. Earlier this year the Governor filed two libel suits against publishers because they had repeated an unproven allegation that Janklow raped an Indian teen-ager in 1967.

An ex-Marine, Janklow, 5 ft. 10 in. and 225 lbs., calls himself "the world's best fatman water skier." He has padded around the Governor's mansion in bunny pajamas. He drives a Corvette and a pick-up truck and, while Governor, has been ticketed for speeding on his Yamaha 1100 motorcycle. He presides over an annual birthday "sock hop" in a greaser's T shirt. But most of Janklow's constituents look beyond the quirks. Admits Frankenfeld: "He's given South Dakotans a sense of pride in their state they haven't felt before." —*By Kurt Andersen. Reported by J. Madeleine Nash/Sioux Falls*

Journal of Commerce
August 11, 1983

Conrail Begins Upgrading Project

Journal of Commerce Staff

Conrail has started a $5.9 million upgrading project on its Cleveland-Indianapolis, Ind. mainline that will include installing 49 miles of welded rail and 20,500 crossties and surfacing of 168 miles of roadbed.

The project is scheduled to be completed in October. The line carries traffic between the railroad's St. Louis gateway and Cleveland, which handles freight destined for New England and upstate New York.

Also included in the project is rehabilitation of 46 grade crossings.

Progressive Railroading, August 1983

Cross-Examination Held In Milwaukee Road-GTC Acquisition Proceeding

Opponents of the Grand Trunk Corporation's proposed purchase of the Chicago, Milwaukee, St. Paul & Pacific Railroad Co. were given the opportunity to cross-examine proponent witnesses at ICC hearings last week.

Among those cross-examined were Milwaukee Road Trustee Richard B. Ogilvie, Canadian National Railways' President Ronald E. Lawless, and James W. Metsos, system manager of CN's planning and development division.

GTC is a wholly owned American subsidiary holding company of CN, which is in turn owned by the Canadian government.

Participating in the cross examination were Burlington Northern, Conrail, Guilford Transportation, Soo Line Railroad, several short line carriers, and Chicago & North Western Transportation.

Opponents of the takeover (Finance 28640, Sub. 9, *Chicago, Milwaukee, St. Paul & Pacific Railroad Co.— Reorganization—Acquisition by Grand Trunk Corporation*) have repeatedly decried the corporate relationship between GTC and CN, contending that if the proposed transaction is approved, the ultimate owner of the Milwaukee Road will be the Canadian government. Many of the questions put to CN's president centered on the corporate relationship between CN and its American subsidiaries.

Mr. Lawless assured the participants that current subsidiary operations are not "fully integrated" into CN, but are instead operated "at arms length."

He noted however, that any "significant action" by a subsidiary would be taken with the knowledge and consideration of the CN board of directors.

Also last week, C & NW was turned back in its attempt to obtain documents from the Milwaukee Road and GTC related to the acquisition bid.

In an August 15 decision, the Commission dismissed C & NW's interlocutory appeal of an administrative law judge's decision denying the railroad's request for interrogatories.

But the Commission remanded to the judge the issue of whether C & NW's requests for documents from CN and the Canadian government involve relevant and non-privileged matters. If so, the Commission said, the judge is to direct GTC to respond to the requests.

In another development, C & NW has issued a "position paper" explaining its case for consolidation of the C & NW and Milwaukee Road. C & NW recently filed its own plan to acquire the core system of the Milwaukee (T.W., Aug. 1, p. 5).

C & NW contended that its acquisition plan "will strengthen the midwest rail system, afford the most favorable treatment to the existing owners and creditors, protect jobs, and not adversely affect competition in the midwest market." The railroad also contended that its plan "offers an alternative to further expansion of Canadian government control over U.S. rail lines."

St. Paul Dispatch
August 11, 1983

Soo Line trims quarterly dividend

Soo Line Railroad Co. has cut its quarterly dividend in half, after earning only 31 cents a share in the first six months of the year, down 76 percent from 1982.

The dividend of 30 cents a share, down from the previous rate of 60 cents, will be paid Oct. 31 to shareholders of record Oct. 7.

Thomas M. Beckley, chairman of the Minneapolis-based regional railroad, indicated the directors believed it prudent to adjust the dividend level to reflect better the company's level of earnings and maintain a more realistic relationship between earnings and dividend payout.

Soo expects improvement in earnings and traffic levels in the second half of the year, he said, and is taking steps to increase market penetration and make changes in pricing and service. The company has a strong cash position, he added, and its debt position, already favorable by industry standards, has improved from past year by reducing equipment and other long-term debt.

Wall Street Journal
August 22, 1983

CSX's Seaboard Road Lays Off 1,000, Cites Declines in Traffic

By a WALL STREET JOURNAL *Staff Reporter*

JACKSONVILLE, Fla.—Seaboard System Railroad Co. said it has laid off about 1,000 employees, largely because of a decline in coal and fertilizer traffic.

The railroad company, which employs about 30,000, operates in the Southeast and parts of the Midwest. It is a subsidiary of CSX Corp., a railroad holding, publishing and real-estate company.

Seaboard System said it doesn't know when the employees might return to work. A spokesman said the high level of coal stockpiles and the federal payment-in-kind program have slowed coal and fertilizer traffic.

Shippers Still Steamed Over Railroad Actions

By KEITH M. ROCKWELL
and
RIPLEY WATSON 3rd
Journal of Commerce Staff

Although railroad officials say the wave of protest about revised rates, routes and switching charges has died down after cresting this spring, shippers say they still are steamed about particular actions by some carriers.

The controversy peaked publicly this spring as Eastern carriers sought to protect their traffic by discouraging multi-carrier routings for freight in order to increase the length of haul on their own lines.

Shippers responded loudly that those actions were removing customers' transportation options.

Now shippers seem concerned about the future at least as much as they are upset about the past.

"If we lose joint rates and routes, in key terminal markets especially, it's going to have a terrific impact on the grain industry," said William C. Harding, vice president of transportation for the Stamford, Conn.-based Louis Dreyfus Corp.

A number of railroads seem to wish the problem would go away, and those who will talk about the situation say the most recent the spurt of activity is over.

Wholesale changes in rates and routes won't occur in the future, they believe.

But the shippers still are upset, especially about increases in reciprocal switching charges that railroads add to shipments that have to be picked up or delivered on another carrier's lines.

Reciprocal switching is action by one railroad to handle a car destined to or from a plant on another carrier's tracks at single-line rates.

"There has been a tremendous increase in reciprocal switching costs which puts other carriers, serving the same city, out of the competitive picture," said Paul Stepner, chairman of the National Grain and Feed Association's Transportation Committee.

Mr. Harding of Dreyfus said some of the Eastern railroads have raised switching charges as many as three or four times. Formerly his company paid 1 cent per bushel for such charges, but now the fee is up to 3 or 4 cents a bushel.

"If you're at a Norfolk & Western facility in Toledo going to a Chessie System destination which competes with an N&W destination, you have to pay 3 to 4 cents per bushel (in reciprocal switching charges) and you can't compete," said Mr. Harding.

He added that switching fees have increased shipper costs by $200 to $300 per car.

"It will make many facilities obsolete and uneconomical. You will not be able to utilize these facilities if they compete with facilities operating with single-line rates on a particular railroad," Mr. Harding said.

Railroads argue in their defense that those kind of switching charges were being held at artificially low levels until recently and that new rates accurately reflect their costs.

Other actions that shippers have protested are carriers' canceling joint rates and closing gateways to another railroad's movements. Joint rates are a single price charged to move goods over one or more railroads. Those rates historically have been lower than most other prices for multi-carrier movements.

Shippers and some smaller carriers aired their gripes to a Senate Committee two weeks ago, when groups representing every bulk shipper protested the trend that emerged earlier this year.

A decision last month by the Interstate Commerce Commission threw out a bid by the National Industrial Traffic League for a formal investigation of the rate-alteration situation.

Shippers are talking about going directly to Congress in a bid to get legislation that will keep routes open and limit switching charges.

"This (railroads' actions) represents a complete misrepresentation of what Congress intended in the Staggers Act," said Rodman Kober, vice president of corporate transportation for Continental Grain Co.

Much of the opposition to the rate actions has come from bulk shippers of chemicals, paper and grain.

"The ICC has continued to ignore these non-competitive actions," said Tom Gilroy of the Chemical Manufacturers Association, who says the commission has "refused to maintain or promote competition."

That isn't the view that railroads have.

Conrail, which sparked a number of rate actions when it lowered its single-line rates below joint rates with Chessie System and other Eastern carriers, believes it is encouraging competition by eliminating circu-

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Shippers Still Steamed Over Railroad Actions - Concluded

itous and costly joint routes and encouraging economical transportation service with lower rates.

Charles N. Marshall, Conrail's vice president of marketing, said, "The problem has receded. Virtually no shippers were concretely harmed.

The joint rate cancellations always left rates in place where they were needed."

However, he admitted, "in some cases, a price increased to shippers (for reciprocal switching), but generally of a very modest amount. We've found that there were adjustments that had to be made, and we made them."

Mr. Kober did not agree with this assessment, however.

"The language of the act has been misinterpreted by a commission that is hell-bent on allowing railroads to do whatever they like, regardless of the adverse affects on the shipping community," he charged.

Officials at Chessie System refused to comment.

Norfolk Southern Corp. officials also wouldn't comment.

Southern Pacific Assistant Vice President Evans R. Hughes said the railroad's "route simplication program," of which gateway closings and joint-rate cancellations were a part, still is continuing.

Mr. Hughes, however, said the current activities are aimed at correcting any situations where shippers were inconvenienced. "Our objective is to take care of our customers," he said, adding that some joint routes that were closed had been reopened.

SP has tried to emphasize service packages tailored to customers by establishing other programs such as distribution-type intermodal operations or contracts to help shippers, he added.

"We'll do what is necessary to protect that customer and keep traffic for this railroad."

The SP official contended the overall goal for the railroad is to channel its traffic over its most cost- and service-effective routes.

Mr. Hughes said he thought shippers were more concerned with having industries closed to reciprocal switching, an activity SP hasn't pursued.

A spokesman for Burlington Northern Railroad, which also was cited by some shippers as an active participant in the program of route and gateway closings, said his railroad had finished the process.

Union Pacific's spokesman, Tom LaHood, said, "It just hasn't been a problem for us. We generally have not closed gateways the same as some of the railroads have."

John Grygiel, assistant vice president-pricing at Santa Fe, said he felt "there is sort of a lull" in rate activities by railroads.

Santa Fe chose not to participate in route closing because the railroad has a philosophy of open routing and a belief it can compete on a price and service standpoint, according to Mr. Grygiel.

He acknowledged that there were situations in which Santa Fe had been "adversely affected" and that some traffic had been diverted, but he said the amount was hard to quantify because causes for traffic changes were difficult to isolate in a changing marketplace.

Journal of Commerce, August 18, 1983

Grain Pact Signing Date Set for Aug. 25 in Moscow

Commodity News Services

WASHINGTON — U.S. Agriculture Secretary John Block will officially sign the newly negotiated U.S.-U.S.S.R. long-term grain trade agreement Aug. 25 in Moscow, a USDA official said.

Mr. Block will be accompanied by Robert Lighthizer, deputy U.S. trade representative; Mark Palmer, deputy assistant Secretary of the State Department's Bureau of European Affairs; and Daniel Amstutz, USDA undersecretary for international affairs and commodity programs.

Under the new agreement, which begins Oct. 1, the U.S.S.R. will purchase a minimum of 9 million metric tons of wheat and corn annually, up to 1 million tons of the minimum can be satified by purchases of 500,000 tons of soybeans and/orsoymeal, in which case the minimum of wheat and corn would be 8 million that year, agreement on the new 5-year pact was reached July 28.

Danger Signal

Alcohol and Drug Use By Railway Crewmen Poses Threat to Safety

Some Carriers Are Offering Counseling for Abusers; The Louisiana Explosion

A Little Party in the Caboose

By BILL PAUL
Staff Reporter of THE WALL STREET JOURNAL

WAYCROSS, Ga.—A.E. "Sonny" Lee, a recovered alcoholic, is a foot soldier in the battle against alcohol and drug abuse among the 100,000 workers who operate the nation's railroads.

The Seaboard System Railroad of Jacksonville, Fla., pays Mr. Lee and three other recovered alcoholics to counsel abusers. Most of their clients seek help voluntarily with the understanding that management won't be told. Mr. Lee's home here doubles as his office, and he hears many tales of accidents and near-accidents. On a recent day, a trainman with sunken cheeks and pasty-white skin told him:

"One time I bought several six-packs of beer before going to work. By the time I started unloading this tank car full of gasoline, I was bombed out of my mind. The coupling hose came undone and gas started spilling all over the place. The whole tank emptied before somebody saw it and called the fire department. They had to evacuate the immediate area and put foam on the spill."

Other Industries Affected

Railroading isn't the only industry where alcohol and drug abuse has become cause for concern—even the sports pages now play up this national problem. But given the one million carloads of hazardous material moved each year by the major U.S. railroads, often through the hearts of big cities, few industrial problems pose as great a threat to public safety.

Last September in Livingston, La., for example, a freight train derailed and two tank cars carrying chemicals exploded and burned. About 3,000 people who lived within five miles of the accident site had to be evacuated for up to two weeks, and environmental damage was extensive. The National Transportation Safety Board found that "contributing to the cause of the accident (was) the impairment of the engineer's faculties by alcohol."

(The railroad involved, the Illinois Central Gulf, disagrees with the board's findings. It says that human failure wasn't a contributing factor and that the accident was due to a defective freight car.)

Train passengers, too, are at risk. In another recent incident, a commuter train carrying about 300 people was about to pull out of Union Station in Washington, D.C., when a supervisor, quite by chance, noticed that the engineer appeared to be drunk. The engineer was taken off the train, and a hospital test found that he had a blood-alcohol level of 0.22%. "To put that in perspective," says Jim Burnett, the safety board's chairman, "one of my staff people observed that the engineer was 'halfway to being dead.' "

Counseling and Education

After decades of neglect, most railroads now are trying to deal with the problem through counseling and education programs. The Union Pacific Railroad shows its workers a film entitled "Too Dangerous to Work With." In it, Billy Carter, the former president's brother, jovially calls alcohol "a subject I'm pretty familiar with." Turning serious, he adds that it is also "a pretty good way to cause a lot of trouble."

Many people say that counseling and education aren't enough. Mr. Burnett, among others, wants the government to step in and punish more offenders more severely. His agency can't make rules; but it can make recommendations to other agencies, such as the Federal Railroad Administration, or FRA, the Transportation Department branch that oversees the railroad industry.

This education vs. punishment controversy may come to a head soon. The FRA has been holding public hearings on whether federal regulations are needed to control alcohol and drug use by rail workers, and a big turnout is expected for the final session, a two-day affair in Washington starting Sept. 1. The agency is expected to reach its decision within a few months, and observers hope the ruling will ease the bickering.

Changes Wanted

But of 23 alcoholics and drug abusers interviewed for this article, most don't think that education or punishment, or even a combination of both, will solve the problem. These abusers, who now are in counseling programs, say that the real answer lies in changing the nature of the work itself: They want unions and management to eliminate irregular work hours, the long layovers in isolated places far from home and the lack of direct supervision. Railroad experts say, however, that changes in hours and layovers would cost the carriers a great deal of money and that reaching an agreement to increase supervision would require an unprecedented degree of mutual trust between management and labor.

The interviewed alcoholics and drug abusers work for three railroads that are helping them to deal with the problem: the Seaboard, the Union Pacific and the Southern Pacific Co. The stories they tell are scary. Some examples:

—"One time I left North Platte, Neb., drunk and with a quart of whiskey in my pocket," says Jim Cunningham, a Union Pacific engineer. "I blacked out and went a hundred miles that way. I got to my destination, but I don't know how."

—"As soon as I'd wake up, I'd drink a pint of whiskey and a quart of beer," says Walter V. Ward, a switchman on the Southern Pacific. "I'd come to work in my van with two cases of beer, two quarts of brandy and a quart of Scotch. I'd play games (while moving cars around the yard), and I had some close calls. I never knew what was in those cars, and for all I know I could have blown up half of San Francisco."

—A Southern Pacific brakeman who worked an Amtrak route from Sacramento to Los Angeles says he used to smoke marijuana in the baggage compartment when he should have been inspecting the train. "I did it every day," he says. The same rail worker, who asked that his name not be used in this article, says he once was a brakeman on a train where "we were having a party" in the caboose. He says the revelers were smoking pot, drinking beer and inhaling amyl nitrite the entire 2½-hour trip and thus weren't in a position to catch any problems such as, say, a fire in the undercarriage.

—Barry Brokate, a Union Pacific brakeman, recalls that on a trip near San Bernardino, Calif., in 1978, he was in the caboose when the train ran through a red signal. Mr. Brokate was in good shape this trip, but "I knew the engineer had been drinking," he says. Another crewman pulled the emergency switch. "If we'd waited another 30 seconds," Mr. Brokate says, "we would have slammed into another train that was stopped ahead of us." Both trains were freights.

Magnitude of Problem

More evidence of a threat to public safety comes from a study done for the FRA in 1978 by University Research Corp. of Washington. After a survey covering 234,000 operating and nonoperating workers on seven railroads, the firm concluded that on any given day there were 33 "very drunk" workers on these seven unidentified lines. The study estimated that 19% of the workers—23% of the operating workers—could be called problem drinkers and that only 4% of the problem drinkers were getting professional help. (Drug use wasn't studied.)

Brian Miller, the head of Southern Pacific's six-man counseling program, says that his people had a total of 895 active cases and that 590 more people have been successfully rehabilitated since the program began in 1976. The numbers include nonoperating as well as operating personnel.

Nobody knows how many accidents have

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Alcohol and Drug Use By Railway Crewmen Poses Threat to Safety - Concluded

been caused by alcohol and drugs. One reason for this, according to former FRA head Robert W. Blanchette, is that accident statistics supplied by the railroads to the FRA aren't accurate. In an interview, Mr. Blanchette contended that railroads avoid attributing accidents to alcohol and drugs because of the prospect of lawsuits charging negligence. The carriers told the FRA that only one of the 445 accidents in 1981 resulting from human factors was caused by "impairment due to alcohol or drugs." The blame often falls solely on a mechanical failure caused by the worker, say critics of the reporting system, even when that failure might have been caused or made significantly worse by alcohol or drug use.

Covering Up

The critics cite another reason for their belief that the statistics aren't reliable: Workers, they say, often cover up for their buddies. An existing industry regulation calls for firing anyone found drinking or taking drugs while on duty or subject to duty, but the regulation is routinely ignored and that 1978 study found that only one in 90 alcohol violations gets reported.

The federal safety board, which investigates only the most serious accidents, says it has looked into five alcohol- or drug-related accidents in the past 12 months, plus two more "incidents" that the board believes could have led to accidents.

The education vs. punishment controversy has stemmed largely from efforts by the Southern Pacific to put teeth in the existing industry regulation. A few years ago, the line decided to make spot checks of its workers with an intoxilyzer, a machine that measures blood-alcohol levels. But the first time it tried to use the machine, in 1980, the Brotherhood of Locomotive Engineers called a strike, charging that the intoxilyzer infringed upon workers' individual freedom and that its use wasn't provided for under terms of the existing contract. The BLE complained to the National Railroad Adjustment Board, an arbitration panel, which agreed that the machine shouldn't be used because it wasn't provided for under the contract.

Official Angered

That decision so enraged Mr. Burnett of the safety board that he has been campaigning for the FRA to institute a tough regulation of its own against using alcohol or drugs on the job. Mr. Burnett wants mandatory toxicological testing of train-crew members after every serious accident—it is usually done now only if a crew member is killed—and he has suggested licensing of train-crew members. They would lose their licenses if they were found to have an alcohol or drug problem.

In an interview, Mr. Burnett said he basically wants train crews to have to abide by the same federal rules as airplane pilots. Drug and alcohol use by pilots has long been restricted by federal regulations as well as by industry policy.

Meanwhile, in San Francisco, the Southern Pacific has instituted what R.D. Krebs, the president of the railroad, calls "an almost desperation-type measure" aimed at heading off "the next catastrophe," which Mr. Krebs fears may be around the next bend.

That measure requires one out of every four crew members to sign a so-called sniff-and-see agreement, which makes the signer responsible for all others in his crew who violate the alcohol and drug prohibition. But, says Mr. Krebs, the agreement has a critical loophole: The signer merely is vouching that his co-workers don't "appear" to be drunk or taking drugs.

Unions' View

Mr. Krebs says the loophole was demanded by the unions, though he adds that he can understand their position since rail workers aren't doctors. Surprisingly, union leaders empathize with Mr. Krebs. "This is a union responsibility as much as a management one," says a BLE official. "We want to be more involved but we don't know how without our membership thinking that we're trying to get them run off."

It isn't surprising, therefore, that the unions favor taking the penalty out of alcohol and drug use—thereby, they hope, encouraging workers to seek help for what then becomes just a medical problem. The Union Pacific has signed a number of such so-called decriminalizing agreements with its unions. While the railroad thinks that this approach will work, counselors acknowledge that it could take a decade doing it this way. "It takes a long time to build up confidence," says Ray Goodman, a Union Pacific counselor in Los Angeles.

The alcoholics and drug abusers themselves insist that changes in working conditions would be the most effective solution. Bob Kirk, a Union Pacific mechanic in Los Angeles who is a recovering alcoholic, says that rail workers drink heavily because of the mental stress of irregular hours. He says that it can take a worker 20 years to build up enough seniority to get weekends off.

Lonely Layovers

Another cause of stress, says a Southern Pacific worker, is the layovers in lonely towns where there is nothing to do but drink. "It gets people into trouble, feeling sorry for themselves and drinking to drown that sorrow," says this worker.

Still another cause of stress, several abusers say, is the industry's pattern of having workers subject to duty at anytime after they have been off for eight hours. That can make even an outing involving social drinking a dangerous affair.

Compounding the stress is the opportunity to abuse. "In an office, you can't get away with things like we can," says Mr. Ward, the Southern Pacific switchman. "Most of the time, we work without supervision, sometimes far from home."

But while changes in working conditions would be costly and would very likely lead to union problems, the abusers offer another change that seems a bit more palatable to all concerned. They propose that candidates for promotion be screened by the alcohol- and drug-abuse counselors, whose decisions would be subject to the approval of both management and labor.

"If we had more influence," says one counselor, "we could make a bigger difference."

Des Moines Register
August 22, 1983

Work set to begin on rail improvements

The Register's Iowa News Service

AMES, IA. — Work is scheduled to get under way soon on two North Western Railway track improvement projects costing $2.5 million.

Portions of the lines between Ellsworth and Jewell and between Ames and Bancroft are being upgraded as part of the Iowa Department of Transportation's branch line improvement program.

News Week, August 15, 1983

New Uses For Cabooses

Brad Bower—Picture Group

The Red Caboose Motel: One man's relic is another man's hotel—or bank or home

... and the caboose. For a century, that has meant the end of the train, the completion of the car count, the opening of the crossing gates. Now America's railroads, calling cabooses an obsolete relic, want to retire almost every one. And hundreds of businessmen and train buffs, expecting that thousands of the so-called "crummies" will soon be rolling off into the sunset, have come to the railroads with so many requests to take one home that cabooses have become one of America's hottest new collectibles.

There are still 12,563 cabooses in use in the United States, and railroads say they are wasting $400 million a year on them in heating, fuel, repair and handling costs. Operating a caboose costs up to 92 cents a mile, according to the railroads, and the old cars are just not that useful anymore. They are no longer needed as rolling dormitories because trains get places faster; they no longer carry repair tools because the equipment is too sophisticated to move around, and they no longer are little offices on wheels because most paperwork now is done by computer. So last year the railroads and the United Transportation Union worked out an agreement that was supposed to lead to the gradual phase-out of cabooses.

But it is still not the end of the line. Local railroad unions, arguing that cabooses are important for safety because someone should keep watch from the back of the train as well as the front, have persuaded legislatures in Virginia, Oregon, Nebraska and Montana to pass mandatory caboose laws. Louisiana's lawmakers passed such a caboose law, too, but Gov. David Treen vetoed it, suggesting that its proponents had loco motives. Now the unions are working hard to pass the law in Illinois; since that is the hub of American railroading, a law requiring cabooses there would virtually ensure their continued existence. "The elimination of cabooses is going to take ages," says Cathy Westphal, spokeswoman for the Illinois Central Gulf Railroad. "There won't be many surplus cabooses available for years."

Try telling that to people desperate to have one. Illinois Central Gulf already has more than 100 names on a waiting list, and it gets 10 more written requests every week. Cap Glover, a Santa Fe Railway vice president, is negotiating with a Colorado banker who wants two for a drive-up banking facility. The Milwaukee Road railway, which has 98 cabooses available because of big cutbacks in its system, receives 5 to 8 letters a day and 5 or 10 phone calls asking for retired cabooses. Says Harold Mahoney, director of salvage disposition: "I've got a deal cooking right now with a man in Illinois who wants to buy 32 of them for a motel."

That's not nearly as odd as it sounds: the Red Caboose Lodge in Strasburg, Pa., operates under the motto: "The end of the train was just the beginning for us." Old cabooses are often used as restaurants, like the Katy Station in Columbia, Mo., and the Victoria Station chain. Ice-cream parlors are common as well, but there's also the Caboose Jewelry Shop in Hyannis, Mass., and a caboose bank in West Wilmington, Conn. Jim Schroeder of Bellevue, Iowa, refurbished an old caboose and put it in his front yard as a guesthouse and occasional getaway. "Some people drive away in a camper for the weekend," he says. "We stay in the caboose."

Buying an old caboose is a bigger project than most people realize. They cost anywhere from $1,500 to $5,000. The ones the railroads are selling are usually in terrible shape. They weigh 64,000 pounds, and they're hard to transport. They're lousy playhouses because they're made of sheet metal and get unbearably hot in the summer. And, as Westphal put it: "A lot of city housing departments aren't too excited about somebody bringing in a big unelectrified shack with an outhouse inside it." But caboose lovers are undaunted. "People like the romance of a caboose," says Union Pacific Railroad spokesman Joe McCartney. "They think of it as a little house on wheels. It's not. It's got a couple of seats and a small desk and a stove and a bathroom and that's about it. There's a reason why railroad people call a caboose 'the crummy'."

JOHN BRECHER with JOHN McCORMICK in Chicago

Kansas City Today - Summer Issue

Kansas City Emerges As Nation's Second Busiest Rail Hub

Kansas City has become the nation's second largest rail center, surpassing St. Louis, which had held second place to Chicago for nearly a century.

"Kansas City is assuming greater strategic importance as the large railroad mergers take place," said Frank Malone, associate editor of *Railway Age* magazine.

"Compared with the nation's two other major railheads, Chicago and St. Louis, the Kansas City terminal has distinct advantages to support a growing role," *Railway Age* noted last year. "Railroads generally face fewer operating problems here than in the vast Chicago terminal area and in the congested confines of St. Louis and East St. Louis."

Kansas City a 'Natural Rail Hub'

The second-place ranking means railroads are a significant part of Kansas City's long-standing profile as a national transportation hub.

"The Kansas City area is a magnet for the rail industry," said James W. Monroe, president of the Kansas City Area Economic Development Council. "The area's central location makes it an ideal spot for railroad office headquarters and for firms that equip and supply the rail industry."

As evidence of its commitment to Kansas City as a rail center, the Burlington Northern Railroad Co. has moved its operations department and about 300 employees to the Kansas City area from St. Paul, Minnesota.

"For us, Kansas City is a natural operational hub," said Peter Briggs, Burlington Northern assistant vice president for public affairs. "It is a point at which our lines intersect."

Kansas City's central location also has spurred other types of development. Lower transportation costs and a central time zone location that allows access to both coasts for more hours each workday have prompted new investment, not only by domestic firms but also by more than a dozen western European and Japanese firms, which have located facilities here in the last six years.

"We did choose Kansas City in part because of the rail access," said Les Balick of W.W. Grainger, Inc., a Chicago-headquartered wholesale equipment distributor that opened a large distribution center here in mid-February.

The firm's 1,400,000-square-foot distribution center uses piggyback rail carriers to service its 73 branch facilities in 22 western and southwestern states, said Balick, who is regional disribution manager.

$39 million in Railyard Improvements

Several railroads have made significant investments recently in their Kansas City railyards:

- Burlington Northern has spent more than $11.8 million on its Murray Yard, one of the largest in its system. The investment will pay for improvements to the yard's physical plant and car-and train-handling systems.
- Kansas City Southern has invested almost $10 million in improvements in its railyard since 1973.
- The recently merged Union Pacific and Missouri Pacific Railroads began in May 6.7 miles of track construction designed to improve flexibility for routing trains through Kansas City. Improvements, including new signal installations and a closed circuit television system for freight car identification, will cost nearly $5 million dollars and will be completed by the end of the year.
- Southern Pacific Railroad began work in January on a $12.6 million rehabilitation project in its Armourdale Yard in Kansas City, Kan. That project, expected to be completed by the end of 1983, will add new tracks for assembling and breaking down trains loaded with freight, said Jim Johnson, manager of public relations for Southern Pacific. "We are building Kansas City into a more important hub of our 14-state transportation system," Johnson said.

"Kansas City will continue to command a major role and fine-tune its assets as a national rail center," Monroe said. "It is a role the city has held for more than a century."

A Kansas City settler, plotting the area's future in 1853, foretold the railroad's strategic role in Kansas City's development as a major urban center: "The next thing is the railroad. The inhabitants of this place are sure the terminus will be at this point. Then, of course, we shall soon have a large city."

Traffic World, August 15, 1983

Cast Adopts New Name, Purchases Rival Sofati

The Cast shipping group now has a new name and a piece of its competition.

Cast (1983), Ltd., is the new name of the Montreal-based containership company under the ownership of the Royal Bank of Canada. The new company kicked things off by buying industry arch rival Sofati Container Line, which was formed almost a year ago by a group of disgruntled Cast executives.

Meanwhile, parent Eurocanadian Shipholdings Ltd. is in the process of folding, having received permission by the Supreme Court of Bermuda to liquidate (T.W., June 27, p. 28).

Under the reorganization plan, a new subsidiary company called Cast North America (1983) will purchase the assets of Cast North America, Ltd. Another new subsidiary, Cast Europe (1983), Ltd., will handle all of Cast's European operations.

Sofati is to maintain its separate identity, but all its cargo sales will be shipped in Cast vessels. Sofati vessels, now operated under charter, are to be removed from service when the charters expire. Three of Cast's four vessels are owned by the Royal Bank. The new company is looking into the possibility of buying a fifth vessel.

The purchase of Sofati is expected to ease the intense competition on the North Atlantic and to help Sofati get back on its feet. Sofati was believed to be losing $250,000 a month on its operations.

Business Week, August 15, 1983

BITTER MEDICINE FOR THE RAIL PENSION FUND

Millions of Americans have sought work on the railroads—not to pass the time away, as the old song would have it, but to earn good pay and become eligible for the generous retirement benefits voted by Congress in the 1930s. The retirement system for rail employees is separate from Social Security and, on average, pays $640 a month, compared with the federal pension system's $419. But like Social Security, the railroad retirement fund has been in crisis. The industry and rail labor have turned to Congress to rescue the system and prevent a 40% cut in benefits from taking effect Oct. 1.

On Aug. 2, Congress approved a tax package that puts the retirement system back on track and shores up the debt-ridden unemployment fund. But the annual increases—rail employers must pay $1,500 more per employee into the system and each employee $500—are substantially higher than the two sides had initially agreed to in February. Noting that the rail pension system has been near collapse three times in the last 10 years, House Democrats joined the Reagan Administration in insisting on the higher payments.

TWO CHECKS. "I think it's time for us to realize that railroad retirement has been a mess," says Representative J. J. Pickle (D-Tex.), who chairs the House Ways & Means subcommittee on Social Security. "We have postponed this problem for nine years." Some pension experts believe that the underfunding dates back to 1950, the year Congress raised Social Security benefits and rail workers started moonlighting to collect both pensions. However, a legal quirk resulted in both checks being drawn from railroad retirement—with a federal government promise to pay back the difference.

The payback did not come until 1974, when Congress first moved to support the system by phasing out "double dipping" and by ordering repayment. The government has yet to return all of the shortfall But the new law orders that the $2 billion still due be paid in three installments—a move grudgingly accepted by Office of Management & Budget Director David A. Stockman.

Railroad retirement has lots of other problems, too. Actuarial tables and employment projections are both off. "This situation is much worse than Social Security was," says Frank N. Wilner, a spokesman for the Association of American Railroads. "There are three workers for every Social Security recipient, but there is one rail worker for every three railroad retirees." In other words, there are no longer enough employed workers to sustain the system—and rail workers are living longer than anticipated.

Rail employment has recently surged to 408,000, as companies call back workers laid off during the recession. But the 1981 figures used to set contribution levels were calculated on employment projections of 520,000—a point the railroads never reached. Moreover, the 77,000 unemployed "caused a double whammy," in the words of a United Transportation Union official. Not only were those workers not contributing to the railroad retirement fund, but the separate unemployment fund was so stretched that it had to borrow from the retirement fund.

The AAR tried to avoid dealing with the industry-financed unemployment fund, but Pickle increased the unemployment taxes as well. This move will still not solve the problem, and a commission has been created by the legislation to come up with solutions by Apr. 1. The total cost of the bill to the railroad industry is a hefty $2.1 billion over the next five years, which is prompting considerable complaining from individual railroads.

"This is going to be a burden for every railroad," says Norfolk Southern Corp.'s T. C. Sheller, senior assistant vice-president for labor relations. "You have an overkill by Congress to make sure that railroad retirement never gets into trouble again." There is already concern that smaller, marginal railroads—especially in the Northeast—will not be able to make the payments.

'SEVERE IMPACT.' The only railroad to oppose the legislation actively, however, was Guilford Transportation Industries Inc.—the three-road combination being put together by Timothy Mellon. David A. Fink, chairman of two of the lines—the Boston & Maine and the Maine Central—calculates that the legislation will add $7 million to his projected first-year costs. "It has a severe impact," he says.

Labor is not sympathetic. "I think that under deregulation, railroads have a wonderful opportunity to make money," drawls Fred A. Hardin, UTU president. "They will make it up very easily." The unions feel that they are contributing heavily and that retirees are contributing, too, by skipping a cost-of-living increase next year.

Journal of Commerce, August 15, 1983

Reagan Signs Rail Pension Bill

United Press International

WASHINGTON — President Reagan Friday signed a compromise bill intended to keep the railroad retirement system solvent at least to the end of the decade.

In a Rose Garden ceremony Mr. Reagan noted there had been "legitimate alarm that the railroad pension system would soon run out of money" if corrective action were not taken by Congress.

The financial crisis threatened to force reductions in railroad pensions by 40 percent beginning in October, he said.

In addition, "The railroad unemployment and sickness insurance system was so insolvent that the interest on its debt to the rail pension fund would exceed its income."

The president said negotiations among the rail sector, Congress and the administration had been "long and arduous," but he praised the "spirit of bipartisan cooperation" that produced the compromise.

Washington Post, August 18, 1983

ICC Paves Way For Rail-Owned Truck Firms

By Douglas B. Feaver
Washington Post Staff Writer

The Interstate Commerce Commission proposed yesterday to remove the last major governmental barrier to railroad ownership of truck companies.

If adopted as proposed, the rule would remove the regulatory hoops through which a railroad has to jump before it can purchase or create a trucking subsidiary. Further, trucking subsidiaries could substantially extend the markets served by the owning railroad, something that is difficult but not impossible for a railroad subsidiary trucker under present rules.

The proposal has long been sought by railroad interests and, the ICC said in its announcement yesterday, would improve so-called "intermodal" freight shipments, which require more than one mode of transportation to reach their destination. The theory is that if one company owns both the trucks and the railroad, costs can be reduced and shipments can be speeded through operating efficiencies.

Today, a railroad must prove that a "special circumstance" exists before it can operate a trucking subsidiary to specific points. The new rule, if adopted, would shift ICC deliberations on proposed rail-owned trucking operations "from a presumptive policy against railroad acquisitions ... to a balanced case-by-case approach."

The American Trucking Associations, which represents major trucking companies, opposes railroad ownership. Nelson Cooney, ATA's general counsel, said yesterday that "We think [the proposal] is bad for the industry and bad for the public. We do not think the benefits claimed will accrue ... The railroads' main interest is to turn freight back to rail regardless of efficiency and the cost of movement."

Frank Wilner, spokesman for the Association of American Railroads, called the ICC proposal "another necessary step towards creating additional competition that can only have a salutory effect on the shipping public." He said he knows of no railroads actively seeking to purchase trucking companies at this time, but said the AAR believes "the regulatory climate" should permit that activity "without bureaucratic interference."

While no trucking acquisitions may currently be planned, the CSX Corp.—which owns the Chessie System and the Seaboard System railroads—has purchased Texas Gas Corp., a subsidiary of which is the American Commercial Barge Lines Co.

The acquisition of the barge company still requires ICC approval and is being fought by waterway interests for many of the same reasons trucking companies oppose acquisiton by railroads. The ICC proposal was seen by some observers as an indication of the attitude the commission will take toward the question of railroad ownership of barge companies.

In its proposal, the ICC said that "Given the economic maturity of the motor carrier industry and its ability to compete effectively with other transportation modes, the expansion of railroad-owned motor carrier operations is not likely to lead to rail domination ... and restraint of trade."

Railroads have owned trucking subsidiaries for years, particularly piggyback operations where truck trailers ride on rail flatcars for the long-haul portion of their journey. But the types of loads railroad-owned truckers could carry and the territories they could serve have been strictly limited.'

Comments on the ICC's proposal will be due 45 days after it appears in the Federal Register.

Wall Street Journal, August 18, 1983

ICC Seeks to Ease Rules on Railroads Buying Truck Firms

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON – The Interstate Commerce Commission proposed easing its 40-year-old rules governing the takeover of trucking companies by railroads.

Under current policy, railroads can acquire trucking concerns only if the trucking service is "auxiliary or supplementary" to the rail operation, or in "special circumstances" in markets where truck service isn't authorized or being offered to shippers.

If the proposal goes into effect, the ICC said it won't maintain such a "presumptive" policy against railroad ownership of trucking companies. Instead, the agency said, it would switch to case-by-case analysis of the competitive effect of such acquisitions. The ICC indicated that it expects to approve most proposed takeovers.

The ICC noted that in rail and truck deregulation laws, Congress has called for more efficient, less-restrictive rail and truck operating authority. The agency also said the trucking industry has grown and matured over the years, and doesn't any longer require a protection from railroad incursions into the trucking business.

Interested parties will have 45 days to comment before the agency decides whether to put the proposal into effect.

In January the ICC lifted restrictions against railroad-owned trucking companies expanding their trucking operations and railroads starting their own trucking service.

HOW PIK IS POISONING FARM POLICY

IT IS UNDERMINING THE ADMINISTRATION'S PUSH FOR FREE-MARKET PROGRAMS

A man goes into a shoe store and asks for a pair of loafers. He comes out carrying a farmer under each arm.
—Joke circulating in Iowa

Only last winter, farmers tugged at the nation's heartstrings as they battled depressed crop prices and massive debt to avert the bankruptcy auction gavel. Today, in an abrupt reversal of sentiment, farmers are the target of scorn—and nowhere more than in the rural communities where they market their grain and bank their profits. From the main streets of the Midwest to the corridors of the Capitol, the realization is taking hold that farmers have wrangled the largest and perhaps least-effective federal bailout ever, the $12 billion payment-in-kind program, or PIK.

The mounting budgetary costs and apparent ineffectiveness of PIK and other farm programs are creating a powerful political backlash. But farm interests are bitterly split over how to contain the costs of agricultural supports and deal with the farm sector's fundamental problem of overcapacity. That split is paralyzing policymaking, and it threatens to undermine efforts by the Reagan Administration to overhaul the government's farm programs.

Meanwhile, the political costs are escalating rapidly. Hot, dry weather is baking the Midwestern grain belt and withering a corn crop that already was guaranteed to be 25% smaller because of federal acreage-idling programs. Since early July, corn prices have jumped 7% to about $3.35 a bu., and they are certain to continue climbing unless the Midwest receives abundant rainfall before mid-August, when the pollination process for corn is completed. If the increase in corn prices translates into a sharp rise in consumer food prices in 1984, an election year, notes Georgia State University economist Donald Ratajczak, "the public will blame farm programs such as PIK." And the casualties could include officials at the highest levels of the Reagan Administration, beginning with Agriculture Secretary John R. Block.

Hoping to head off a political explosion, Block is already working to build a coalition of agriculture interests in support of dramatic changes in policy. In mid-July he sponsored a "farm summit" with agricultural organization leaders, who talked about such ideas as pegging crop supports to an average of past seasons' prices as a way of preventing government subsidies from escalating too rapidly.

HUGE RIFTS. Block's political organizing skills will be critical to the Administration's hopes for a renewed push toward market-oriented farm programs in the future. In 1985, for example, Congress once again will have to consider a wide range of proposals to replace the expiring Agriculture & Food Act of 1981—the omnibus law that authorizes nearly every federal farm program. As Administration officials see it, the country can dig itself out of surpluses only by lowering crop supports and making U.S. grain more competitive in world markets. Notes Assistant Secretary of Agriculture William G. Lesher: "We have to decide whether we are going to compete effectively in world markets or continue cutting acreage 30% every year."

But in the current political climate, even the Administration's best efforts could fall short of their mark. Agriculture officials are reeling from the backlash over the cost of farm supports, which are expected to soar 76% in fiscal 1983 to a record $23 billion. On top of that, officials have added PIK like the icing on a rich layer cake. The program could increase the cost of future budgets by as much as $12 billion. Under PIK, farmers who agreed to limit their plantings are receiving commodities out of government holdings or will be given back grain and cotton that had been pledged as collateral for federal crop loans. So many farmers signed up that the program ballooned to twice its expected size and the government even had to buy wheat and cotton to meet its commitments. Says James S. Flansburg, a longtime political analyst for *The Des Moines Register*: "The blowup over the cost of these programs jeopardizes the fragile coalition that has made agriculture policy for about a century."

Forging farm policy has long depended on the cooperation—or at least the lack of infighting—of diverse interests. Grain and cotton farmers, who are the primary users of federal crop supports, figure most heavily in policymaking. But Western cattle ranchers, Southern tobacco growers, Midwestern railroad officials, and even urban consumer groups also exercise significant clout.

'A CATASTROPHE.' Now, in a striking development, those interests are bitterly divided over short-term policy decisions as well as the long-run direction of agriculture programs. Livestock farmers, angry over the steep runup in the costs of feed, oppose further moves by the Administration that would spark more increases in prices. Railroad officials, antagonized by the plunge in interstate shipments of commodities resulting from smaller harvests, take a similar position. Says one Midwestern railroad executive: "Another big PIK program in 1984 would be a catastrophe for us."

Grain growers view this year's massive acreage limitation programs as only a small step toward erasing U.S. surpluses, and they favor at least one more year of generous incentives to discourage plantings. Recently, for example, the National Corn Growers Assn. urged the Administration to offer a combination of PIK and other incentives in 1984 to idle nearly one-fourth of corn acreage and limit the corn harvest to 6.5 billion bu., about 23% less than the 1982 record crop. Officials of the group leave little doubt that they intend to press that position strongly. "Farmers are good voters," notes Leonard Binstock, president of the Minnesota Corn Growers Assn. "And I cannot envision the Reagan Administration hanging us out to dry."

Even more troubling for the Administration, farm interests are deeply split over the long-term answer to agriculture's problems. Well-capitalized, efficient producers favor major cuts in subsidy programs, while highly leveraged producers who depend heavily on federal loans and other subsidies warn that any sudden removal of the federal safety net will result in an economic bloodbath.

Nowhere has that division been more apparent than in the Administration's recent fight to avoid an escalation of target levels. Under the target price program, farmers receive cash for the difference between predetermined target prices and actual crop prices—a way of supplementing farm income in periods of weak markets. Under the 1981 Agriculture Act, target levels are scheduled to rise about 6% next year for corn and cotton, and 3½% for wheat. By canceling those increases, Administration officials argue, Congress could trim nearly $4 billion from the future cost of farm programs while reducing the incentives responsible for overproduction.

cont'd...

How PIK is Poisoning Farm Policy - Concluded

When they began their lobbying effort in May, Agriculture Dept. officials tried to overwhelm opposition to the target freeze by proposing simultaneous cuts in dairy and tobacco supports. House Democrats, however, sensing that the issue was politically explosive, blocked action in an attempt to force the Republican-dominated Senate to move first. But because farm state Republicans are equally unwilling to accept blame for cuts in subsidies, the target freeze moved at a snail's pace in the Senate Agriculture Committee—and was not expected to reach the full Senate until just a few days before Congress was to adjourn for the rest of the summer. Wheat state Democrats, such as Senator John Melcher (D-Mont.) and Senator David L. Boren (D-Okla.), threatened to filibuster until the measure was withdrawn.

RELUCTANT TAXPAYERS. Such squabbling may be only a hint of the fight to come over farm subsidies. Conservative farm groups, such as the giant American Farm Bureau Federation, strongly support proposals to scale back subsidies dramatically and put agriculture on a truly free-market footing. But the liberal National Farmers Union and other groups representing farmers dependent on federal programs argue for even more federal intervention in agriculture.

One proposal offered by liberal groups calls for crop loan levels to be determined by formula, giving Administration officials no flexibility in trying to limit the costs of programs. Moreover, that approach would push agriculture much closer to mandatory government controls, which are anathema to Reagan Administration officials.

Says Dean R. Kleckner, president of the Iowa Farm Bureau Federation: "Some farmers are beginning to realize that the taxpayers of this country are not going to bail us out with a multi-billion-dollar program every two or three years." The test, though, is how many farmers will be willing to accept the economic consequences. ■

Wall Street Journal, August 23, 1983

Grain and Soybeans' Price Leap Reflects Drought and Orders From Soviets, Japan

By Thomas Petzinger Jr.
Staff Reporter of The Wall Street Journal

CHICAGO—A drought that some say is the worst since the Dust Bowl harvest of 1937 continues to propel grain and soybean prices higher. But the price surge also reflects a recent wave of crop-buying by foreign interests, including the Soviet Union and the seemingly anxious Japanese.

U.S. and foreign traders' expectations of crop disaster intensified yesterday, after insufficient rain fell during the weekend. The Farm Belt over the weekend reached its highest average temperature of the year—95 degrees—as soybeans continued the most delicate phase of their growth.

As a result, many traders in Chicago's futures markets expect a soybean harvest as paltry as 1.5 billion bushels, down from the Agriculture Department's Aug. 1 estimate of 1.84 billion bushels. The corn crop has sustained most of its damage, but wilted further in some areas over the weekend. Reflecting the concern, prices for future delivery of grains and soybeans yesterday rose by the daily limits permitted by the Chicago Board of Trade.

The low moisture and unseasonable heat—the worst since the 1936-1937 crop year, according to calculations by Prudential-Bache Securities Inc.—account for most of the recent price gains in futures trading. The poor crop and a government effort to reduce U.S. grain surpluses have prompted a surge in foreign crop-purchasing that also is reflected in today's lofty futures prices.

Importers often contract for future delivery of commodities and may separately buy publicly traded futures contracts, either directly or through agents, before receiving the actual product. That enables them to "lock in" a price with a futures contract that can be sold later at a profit if the cost of grains increases on the open market.

An order of 230,000 metric tons of corn, reported by the Agriculture Department Friday for an "unknown" destination, is widely thought to have been placed by the Soviet Union. Other Agriculture Department figures show that the Russians already have contracts to purchase more than 200,000 metric tons of soybeans for delivery after Sept. 1, under a new grain agreement that isn't yet officially signed.

The Soviets "are going to use every means at their disposal to get into the market at the most opportune time," an Agriculture Department spokesman said yesterday.

The department counts nearly 4.5 million metric tons of soybeans committed for delivery overseas after Sept. 1, including nearly 1.1 million headed to "unknown" destinations. A year earlier, total soybean-delivery commitments were less than 2.9 million metric tons.

The Japanese have been the most aggressive purchasers, having entered the market before the bad weather hit, when U.S. surplus-reduction programs began boosting soybean prices. Japan so far has agreed to buy 606,700 metric tons of soybeans after Sept. 1, more than six times the level of a year earlier.

Corn, too, is benefiting from heavy overseas orders. Exports scheduled to begin after Oct. 1 totaled 8.4 million metric tons, nearly three times the 2.9 million metric tons of a year earlier. The Japanese account for about five million metric tons of the latest total, compared with just 649,300 metric tons at the same time in 1982.

"The Japanese are in shock" over the continued surge in prices, said a futures-market broker with a Far East clientele. Despite their recent heavy purchases, "they still haven't fully covered" their needs after Oct. 1.

But the Agriculture Department spokesman said the surge in forward-delivery agreements reflects purchases delayed from last year as well as purchases that might have been made later this year. Thus, total U.S. exports over the crop year aren't expected to rise as significantly as current levels might suggest.

Crop supplies in the domestic "spot" market should remain ample, despite low yields and acreage cutbacks made this season at the government's behest. Highly favorable growing conditions and relatively light domestic consumption in prior years have left government grain bins brimming. Much of that excess will be released to farmers who agreed to idle part of their land this year.

Wall Street Journal, August 22, 1983

Lost Contract Raises Doubts On Coal Slurry

By BILL RICHARDS
Staff Reporter of THE WALL STREET JOURNAL

The nation's most ambitious coal slurry project has suddenly faltered.

Energy Transmission Systems Inc. had envisioned moving pulverized coal and water from Wyoming to Arkansas in a 1,200-mile pipeline. But last month, the company lost out to Chicago & North Western Railroad in a contest for a 20-year contract to supply coal for Arkansas Power & Light Co.

The pipeline is now trying to get other contracts in the Southwest, particularly in Texas. But its loss in the first price showdown since rail deregulation raises questions about whether slurry pipelines, especially in the West, can match rail rates.

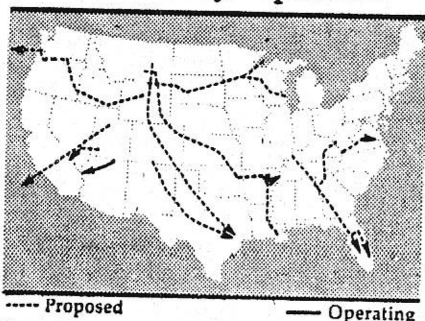
Until the setback, ETSI was progressing faster than the other eight U.S. slurry projects being planned. The only operating slurry project in the U.S. is a 273-mile pipeline from Arizona to Nevada owned by the Southern Pacific railroad.

A big slurry pipeline that actually went into operation was closed after six years, in 1963, when the railroads cut their rates and started using 100-car trains to move coal more cheaply.

The ETSI pipeline, which is projected to cost $3.8 billion, was to start construction next year and shipping by 1986. Then, it lost the bid.

"Arkansas Power & Light was a disappointment," says Paul G. Doran, president of ETSI, which is a joint venture involving Texas Eastern Corp., InterNorth Inc., Bechtel Group and Kansas-Nebraska Natural Gas Co. Nevertheless, Mr. Doran insists that ETSI's future still looks good. He says the company has been trying to persuade several other utilities to use the pipeline, and "we hope we'll have a new market before the year's out."

Coal Slurry Pipelines



----- Proposed — Operating
Source: Slurry Transport Association

No Visible Progress

But ETSI mightn't be able to regroup that fast. Some in the industry say it could be years before the venture begins construction. And because it hasn't made visible progress, ETSI might have trouble raising capital. "Nobody wants to be in ETSI's shoes—having spent $125 million without a customer to show for it," says an executive of a pipeline project in the East.

Not all slurry projects face ETSI's problems. In Virginia, a joint venture that proposes to move coal 400 miles from Appalachia to the East Coast includes among its members Virginia Electric Power Co., which will at least ensure a ready market for the pipeline's coal.

ETSI was apparently surprised when it didn't get the Arkansas Power & Light contract. It had invested in rights of way along the route, and was busy lining up an international consortium of banks and investors. "It doesn't take a brain surgeon to figure out ETSI was counting heavily on Arkansas Power & Light," says a potential investor.

Knowledgeable outsiders estimate that the railroad, which bid jointly with Union Pacific Corp., offered to haul coal from Wyoming to the utility for between $17.50 and $18 a ton. At 10 million tons a year for 20 years, that would make the deal the largest rail-transport contract ever signed. Burlington Northern, another unsuccessful bidder, currently supplies Arkansas Power & Light with Wyoming coal at a short-term rate of $22.85 a ton.

Now, ETSI is considering rerouting its pipeline to Texas. Some energy experts believe Texas could turn out to be the biggest battleground in the high-stakes fight to move Western coal. Many Texas utilities are unhappy with the rates Burlington Northern has been charging to haul coal into the state; several refuse to discuss renegotiating their contracts with the railroad.

Sagging Confidence

"If there's an alternative to the Burlington Northern, we're interested," says Ted Boquez, fuels engineer for Central Power & Light Co. in Corpus Christi.

A victory in Texas would do much to revive sagging confidence among potential ETSI investors. After the Arkansas loss, says a Chicago banker, "a lot of people went back to their books to check the economics." But he says lower equipment and labor costs over the long term still mean the pipeline compares favorably to shipping coal by rail.

Mr. Doran says ETSI officials learned from their experience with Arkansas Power & Light and are reassessing their bidding procedures. "We'll be more aggressive this time," he says. "We're playing hardball now."

Pipeline officials have had discussions with utilities in Oklahoma, Louisiana and Texas and are negotiating with Houston Lighting & Power Co., which now gets coal for its four plants from the Burlington Northern. Houston Lighting is also talking with the C&NW.

If ETSI wins a long-term contract with Houston Lighting, it will be moving six million to eight million tons of coal annually. Analysts believe the pipeline needs contracts for 15 million to 20 million tons to reassure jittery lenders. "Houston Lighting is the key," says a Texas utility official. A contract with the utility would probably lead to agreements with other disgruntled Texas utilities. With that in mind, ETSI has been wooing other likely customers, including San Antonio's City Public Service Board and the Lower Colorado River Authority.

Burlington Northern officials say they plan to fight to hold on to their Texas markets. The railroad is pressing utilities to sign long-term supply contracts. "We're not about to roll over and play dead just yet," says a spokesman.

The C&NW, too, wants more Western business. "Texas is going to be a very competitive market," says David G. Weisharr, the company's general marketing manager for energy. Some people in the slurry industry say the C&NW made an unprofitable bid to win the Arkansas Power & Light contract just so it could get into Western coal hauling. But the railroad denies that: "We're going to make money in Arkansas," says Mr. Weisharr.

The competition pleases Texas utilities. Some say they pay more to have Wyoming coal shipped than they pay for the coal itself. Competition among railroads and ETSI is bound to lower rates, they say.

"We've been at the mercy of the Burlington Northern for too long," says Steven Naeve, manager of coal and lignite fuels for Houston Lighting. "It's nice to be in the driver's seat for a change."

Chicago Tribune, August 9, 1983

Shell pact is major breakthrough for GATX tank car

By David Young
Transportation writer

IN WHAT MAY signal a major upswing in the disappointing market for a railroad tank car developed 10 years ago, General American Transportation Corp. [GATX] announced it had leased 72 of the cars to Shell Oil Co.

Shell is the first major oil company to acquire the car to ship crude oil, the purpose for which the car was designed by Chicago-based GATX in the early 1970s.

"There has been an upward trend for Tank Train leases," said Joseph A. Hayes, GATX marketing vice president. The Shell contract is encouraging, he said.

The train consists of 550-barrel capacity tank cars linked by flexible hoses to permit the train to be loaded or unloaded from a single connection. Without a hose system, each car must be unloaded individually.

THE SLOW PROCESS of unloading tank cars, once a common sight on U.S. railroads, and the construction of pipelines have resulted in the loss of most of the rail industry's crude-oil hauling business over the years.

"In many cases, the cost of facilities and labor required to individually unload tank cars is prohibitively high," said Joseph A. Hayes, GATX marketing vice president. However, the 20,000 barrels of oil in Shell's new train can be unloaded in four hours.

James M. Goff, GATX president, said Shell would use the Tank Train to haul crude oil between storage facilities in Bakersfield, Calif., and the firm's refinery in Carson, Calif., 200 miles away. The cars were manufactured by the GATX factory in Sharon, Pa., and shipped to Shell last week.

Company officials admit the market for the Tank Train cars has been sluggish. "What has been frustrating is that we haven't been able to identify more opportunities," Hayes said. In 1980, the cars won Modern Railroads magazine's prestigious golden freight car award after they were used successfully by Consolidated Rail Corp. in upstate New York to capture fuel oil traffic that had moved by barge.

SINCE ITS FIRST order in 1976 for 135 cars from Consumers Power Co. of Michigan, GATX has been able to lease only 496 of the 131-ton cars. Shell is the third major oil company to sign up. Mobil Oil uses 23 to haul gasoline in Vermont, and Quaker State has leased 16 for hauling crude oil.

Other customers use the cars for hauling a variety of products, ranging from sulphuric acid to refined vegetable oil.

Railroad officials blame the inefficiency of the railroad tank car and strict regulation of the industry for the loss of the crude oil market to pipelines. Railroads had dominated the hauling of crude oil since the tank car was invented after the Civil War.

As late as 1929, the pipelines carried only 26.9 billion ton miles of oil. However, by 1980 the pipelines carried nearly 600 billion ton miles, and the railroads were effectively out of the business, according to officials of the Association of American Railroads.

GATX officials hope that oil companies will lease Tank Train cars to solve distribution problems from the rapid growth of population and industry in the Sun Belt without building new refineries.

Minnesota DOT - UPTRAN UPDATE

LUDINGTON GROUP RUNS LAKE FERRIES

State transportation officials have lauded a group of Ludington residents for making possible continued passenger and railroad freight travel across Lake Michigan.

The group, known as the Michigan-Wisconsin Transportation Co., on July 1 took over service previously provided by the Chesapeake & Ohio Railroad (The Chessie System) between Ludington and Kewaunee, Wis.

One week later the new company began passenger service from Ludington to Milwaukee.

"Without the efforts of this group of Ludington residents, and the work of its president, Ludington businessman Glen Bowden, ferry service in that port city would be coming to an end," said UPTRAN Deputy Carol C. Norris.

The Chessie System had planned to ask the Interstate Commerce Commission (ICC) this year to approve abandonment of the service to Kewaunee. Chessie service between Ludington and Manitowoc was abandoned June. 8, 1982.

Chessie had ended the Ludington-Milwaukee run June 1, 1980. The state then subsidized a freight-and-passenger summer service in 1980 and again for three months in the summer of 1981 as a demonstration.

The demonstration proved that passenger service across Lake Michigan could be a profitable enterprise.

Kansas City Business Journal
August 22, 1983

Grand Trunk, C&NW vie for bankrupt line

By DELBERT SCHAFER

The Interstate Commerce Commission will not give an opinion on two competing claims to acquire core operations of the bankrupt Milwaukee Road before March 30 of next year. Both the Grand Trunk Corp. and the Chicago & North Western Transportation Co. have submitted plans to acquire the 3,100-mile-long rail operation.

Kansas City would receive direct rail service for the first time from the Grand Trunk if the firm took over the Milwaukee operations. Chicago and North Western operates two major rail lines into Kansas City.

Interstate Commerce Commission hearings on the proposal by Grand Trunk Corp. took place last week in Washington. On March 31, the federal commission had been requested by the bankruptcy court overseeing the Milwaukee Road to consider purchase by Grand Trunk, a subsidiary of Canadian National Railway Co. The purchase price consisted primarily of assumption of more than $250 million of debt.

Chicago & North Western on July 27 filed an alternative plan with the court and commerce commission. The firm stated its plan to absorb the core operations through assumption of the debt liabilities would be of greater tax benefit to Milwaukee Road stockholders.

Subsequently, on Aug. 8, the Interstate Commerce Commission agreed to consider Chicago & North Western's proposal. Public comments on the alternative plan will be received through Nov. 7.

Interstate Commerce Commission's opinion about both proposals will be consolidated.

Journal of Commerce
August 15, 1983

ICC Unveils Cost Data For Rails

Journal of Commerce Staff

WASHINGTON — In a surprising move the Interstate Commerce Commission has proposed that the railroad industry should make four times their costs as a basis for determining the increases permitted under the cost recovery percentage contained in the Staggers Rail Act of 1980.

Though the action still means that the cost recovery percentage should be 75 percent above variable costs contained in the law, it is a good indication of the agency's thinking in these matters.

Specifically, the agency said that data from rail costing surveys indicates that the 1983 cost recovery percentage should be 407.5 percent.

The new figure was based on 1980 unit costs updated to a 1980 level rather than 1981 unit costs.

In its decision the commission said it is concerned about the sensitivity of the cost recovery percentage to minor variations in data and costing procedures.

Comments are due Sept. 1, the agency said. A final decision will be issued by Oct. 1.

The case is documented at the agency as Ex Parte 399, Cost Recovery Percentage.

Wall Street Journal, August 24, 1983

Southern New England Telephone, CSX Plan 20-State Communications Network

By a WALL STREET JOURNAL *Staff Reporter*

NEW YORK – Southern New England Telephone Co. and CSX Corp. announced a partnership agreement to build a $300 million to $600 million optical fiber communications network in about 20 states east of the Mississippi River.

The partnership said it will begin building the first leg of the up-to-5,000-mile network Sept. 1, pending approval by the Federal Communications Commission. The first leg will connect Miami, Orlando, Jacksonville and Tampa with glass fibers buried along CSX railroad tracks in Florida and will cost about $50 million. The network, to be called LightNet, would then expand up the East Coast, across to Chicago, south to New Orleans and back to Jacksonville.

Southern New England Telephone, which is 24%-owned by American Telephone & Telegraph Co., and CSX, a railroad holding company, will make lightwave fibers available to large users of telecommunications services, such as common carriers, banks, insurance companies and government agencies. Under the plan, buyers would acquire an interest in the venture by paying at least $10,000 for each mile of the system they use, but the two partners would retain equal shares in the remainder of the operation.

"We're selling the fibers before we build," said a Southern New England Telephone spokesman. The partnership is negotiating with about 20 potential buyers, the spokesman added, and expects to complete several large sales in the next few weeks.

Buyers would be able to resell or lease the high-speed data transmission service, but the partners don't have plans to lease. Southern New England Telephone said that it hasn't decided whether to offer long-distance phone service, and it might use part of the system's capacity for that purpose. For the time being, the partnership said it plans to sell the full capacity of the service to others, who could use it to transmit telephone calls, television signals and data.

Western Electric Co., the manufacturing arm of AT&T that developed the new optical fiber that will be used, was awarded the contract for the Florida leg of the network. A pair of the fibers can transmit voice and data at 90 megabits a second, the equivalent of 1,334 voice conversations or a 30-volume encyclopedia, in six seconds. That capacity will be increased to 432 megabits a second over two years.

Southern New England Telephone said it is talking with other railroads and electric utilities about the possibility of similar networks in other regions, although a spokesman said existing technology wouldn't yet enable a national network to offer coast-to-coast service more economically than satellite data transmission services.

Wall Street Journal, August 24, 1983

Soybean Prices Soar Second Day in a Row On Foreign Purchases

A WALL STREET JOURNAL *News Roundup*

Soybean prices soared to close 30 cents higher, the daily limit permitted by the Chicago Board of Trade, for the second consecutive day.

Analysts said that although prevailing hot, humid weather continues to be the overriding factor, recent reports of increased foreign buying of crops helped push prices higher. For example, the Japanese, as reported, agreed to buy 606,700 metric tons of soybeans after Sept. 1, more than six times the level of a year earlier. "The weather is losing its potency. The crops can't be hurt much more," said Susan Hackman, a grain analyst for A.G. Becker Paribas Inc.

Futures Markets

Analysts and traders said the price increases were fueled further by the strength of the futures soybean meal market. Yesterday, prices of contracts for September, October and December settlement closed $10 higher, the daily maximum permitted by the Chicago Board of Trade. The upturn in soybean meal prices, which has been relatively weak, bolstered traders' hopes that export business is picking up.

Still, some analysts contend that buying by foreign interests hasn't increased significantly. "We aren't really trading all that much on export business. It's (the price increases) tied in to the uncertainty of the crop size," said George Van Horn, a grain analyst for Cargill Investor Services Inc. Many analysts and traders are now expecting a soybean harvest as small as 1.5 billion bushels. The Agriculture Department on Aug. 1 estimated a harvest of 1.84 billion bushels.