

GENTER FOR BALANCED TRANSPORTATION

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February 22, 1979

Wallace W. Abbey
Director of Corporate Communications
Chicago, Milwaukee, St. Paul and Pacific Railroad Company
516 West Jackson Boulevard
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Dear Mr. Abbey:

I read with interest your letter of February 16 in which you allege that our status report on the Milwaukee Railroad "contains misstatements of fact which need to be corrected and implications which are erroneous." Unfortunately, you promise much more than you deliver. I will respond to your contentions in order.

You suggest that we are incorrect in alluding to the Milwaukee Road's "failure" and that we are likewise incorrect in suggesting that the failure of the railroad is "having a profound impact in Montana and surrounding states." You say the railroad has not failed; but a casual glance along the grain sidings in Montana proves my point, not yours. Your suggestion that the Milwaukee has done as much as "has been permitted by its cash position" is a singularly weak answer to my allegation of failure.

Let's face it. Your railroad is essentially bankrupt. It is not providing the level of service required by shipping interests in Montana.

Second, you make the totally irresponsible assertion that, since "no more than 1.5 per cent of Montana's population is dependent exclusively on the Milwaukee for rail service" and, since the Milwaukee's "employment in Montana is a mere fraction of the state's total job force", the Milwaukee bankruptcy will inflict no irreparable economic hardship on Montana. Your ignorance of the economic dependence that several of the Montana communities have on the Milwaukee is appalling. A more careful examination indicates that Harlowton, Three Forks, Deer Lodge, and others will be severely harmed by the Milwaukee's departure should it materialize.

My point in raising that type of issue seems to have escaped you. I don't know how familiar you are with the

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National Environmental Policy Act, but I raise these concerns in the context of the Interstate Commerce Commission's extraordinarily weak environmental impact statement on the Burlington Northern/Frisco Merger. That impact statement should evaluate precisely this type of disagreement -- that is, whether a BN/Frisco merger would further weaken the Milwaukee and, if so, whether that weakening will adversely affect communities along the line.

Third, our report quite rightly raises questions about the relationship between the Chicago Milwaukee holding company and the Milwaukee Railroad. Your defense of the holding company is interesting, but it fails to answer the very real question whether that particular industrial structure diverted attention away from the railroad part of the operation. You suggest that "it should not be forgotten that the Milwaukee Road had two of the best years ... in recent history after Chicago Milwaukee Corporation was formed." Although I may agree with that statement, it is also important to remember that the railroad is now flat on its back.

Fourth, you suggest that the Chicago Milwaukee Corporation "has absolutely nothing to do with running the railroad" at this time. Are you seriously asserting that the holders of Chicago Milwaukee debt -- some of whom are apparently directors of the corporation -- have absolutely no influence on the trustee? If so, let me simply say that I don't believe it.

Fifth, you allege that, were the Center to "study the matter, you would find that the SEC's concern (in ordering the Milwaukee to stop abusive management practices) was not so much what the management of the Milwaukee and Chicago Milwaukee Corporation had done, but whether there had been adequate public disclosure of matters of importance to stock holders." Your position doesn't explain the allegations that Milwaukee changed the numbers on some of its freight cars; nor does it in any way undermine my contention that the circumstances of the Milwaukee Road collapse deserve very careful public scrutiny.

Sixth, you seek to justify Milwaukee management practices that were investigated and found inappropriate by SEC with the interesting contention that "the railroad's management was fighting a desperate battle to avoid bankruptcy in the late 1960s and early 1970s...." I fail to see how efforts to ward off bankruptcy require policies of inadequate disclosure to stockholders. In short, the fact is that we have studied the Securities and Exchange Commission investigation of the Milwaukee and we are entitled to our opinion on that proceeding. In fact, we are reinforced in that opinion unless you have some stronger arguments than you have expressed in your letter.

Seventh, I don't care whether the Milwaukee Land Company

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transfers to Milwaukee Railroad are a secret or not. The Securities and Exchange Commission found that your corporation was selling Milwaukee lands without adequately disclosing that fact to shareholders. Your presentation of historical totals for Milwaukee Land Company interest, dividends, and loans to the railroad is irrelevant.

Eighth, you suggest that we should avoid further studies of the Milwaukee -- beyond those already underway -- because of "the time constraints which are on the trustee." The problem with that argument is that the trustee can secure extensions if it appears that the public interest would be served thereby. We in Montana are in no rush to see the trustee finalize his decisions on the Milwaukee -- particularly in light of his early actions -- until we have all had a chance to consider the situation fairly and openly.

Ninth, I tend to agree that Mr. Hillman may not present a reorganization plan for the Milwaukee Railroad. He may very well have made constructive reorganization impossible with his early announcement that the transcontinental system could not be operated any longer and would be sold to Union Pacific or junked. You suggest further that the trustee has had to make public statements to overcome suspicions that the railroad "would cease operations very quickly." Frankly, we were entitled to have those suspicions -- particularly in light of the fact that maintenance-of-way employees started disappearing out here as winter approached, locomotive power was withdrawn from lines west without advance explanation, assets were being sold in a piecemeal fashion (including the now-famous roll top desk that was sold far below market value to a Milwaukee employee), and the trustee and the Milwaukee's left-over management persisted in making statements about the lines west that scattered the shippers and revenue base needed for reorganization of this portion of the system. You just don't seem to understand that your handling of the Milwaukee bankruptcy has generated great concern and distress across the northern tier of states. When we hear that you, others in management, and the trustee have begun sale negotiations even before your own consultant studies are concluded, we are entitled to wonder whether you really care how the facts shape up.

Tenth, you note that "Mr. Hillman determined in August of 1978 that if he attempted to include the transcontinental line in a reorganized railroad, the railroad couldn't be reorganized." That is a fine assertion; and to back it up you should simply release the studies on which that conclusion is based.

Eleventh, this office is very well aware of the correspondence between Mr. Hillman and Mr. Brazier of the Montana Consumer Counsel Office concerning maintenance-of-way employees. We also know that the maintenance-of-way employees were reinstated mysteriously after

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pressure from this region. So, you are not indicating anything new; but you are ignoring the substantial likelihood that political pressure from Montana and other northern tier states cause management to reconsider the layoffs.

Twelfth, I agree with your assertion that the Milwaukee's present cash situation is marginal. However, that doesn't answer the question whether the trustee is adequately conserving the assets of the corporation by protecting its revenue base.

Thirteenth, I appreciate your indication that Union Pacific and the Milwaukee have not agreed on a price for the sale of certain Milwaukee line segments. Our statement that there were rumors to that effect was not untrue. Since your office does not keep the public informed about the progress of these negotiations, people are unfortunately left to speculate. And that is what they do.

Fourteenth, you note that the trustee has determined that Milwaukee cannot successfully compete with Union Pacific, BN, the Canadian railroads, motor carriers, and so on. Once again, your assertion is interesting; and we would appreciate very much receiving the studies upon which that conclusion is based. Our position is correctly stated. The Milwaukee has "thrown in the towel" for the lines west. In doing so, the corporation risks egregiously precluding the opportunity employees have to consider reorganization of those lines. The trustee's rush to judgment impedes their reasonable efforts.

Fifteenth, you suggest that we arrive at a "curious" conclusion when we state that the trustee may have to be fought if liquidation of the railroad is to be forestalled. You note that Mr. Hillman has always said that reorganization is preferable to liquidation. However, that is after you have dumped all the track west of the Twin Cities. Mr. Hillman is advocating a rump reorganization at best.

Sixteenth, you suggest that my discussion of operating Rule 704 -- which was used to muzzle railroad employees -- is "one-sided." Mr. Merrill's reply does not place Rule 704 in quite a different light. In fact, if you honestly believe that the memorandum telling employees essentially to "shut up" was not an effort to curb free speech, how do you explain the fact that the Three Forks district manager and others collected and in some cases destroyed Save Our Rail Employment literature? I am quite well aware that employees agree to abide by the operating rules when they sign on with the railroad. However, those rules are not gospel and should be amended. When an Amtrak conductor is suspended for commenting on the quality of Burlington Northern track, or when employees are told they cannot talk about the jeopardized jobs at which they make their

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daily living, someone has drastically overstepped the bounds.

Finally, near the end of your letter, I find a point on which we can agree. You state that our "comments about the need for the state of Montana to develop a better approach to transportation matters are quite well taken. I believe that Montana is the only state, or at least the only state in Milwaukee Road territory, which has yet to file a state rail plan with the FRA and thus make itself eligible for certain assistance provided by the 4R Act." We agree; but it disturbs me that you criticize the state of Montana on this point -- for the railroads of Montana have been so stand-offish about rail planning that the legislation could not be adopted in the 1977 Legislature. And they appear to be up to their old tricks -- including the Milwaukee -- in the 1979 session. So perhaps you could answer a question for me. Since you believe that rail planning is such a good idea -- although not perhaps of immediate import -- what is the Milwaukee's position on the state rail planning legislation pending in the Montana legislature? Or, since the Milwaukee seems to have lost interest in the lines west of the Twin Cities, is there any position at all?

I appreciate you forwarding your thoughts on my letter. Although I find virtually nothing in your letter that I can concur in, these types of exchanges at least clarify points of disagreement.

Let me make one final observation. I don't think it has really sunk in there in Chicago how few friends the Milwaukee has made in its handling of this bankruptcy. From the beginning, the trustee has failed to offer the public much more than press releases. These have been very disruptive along the northern tier states and unfortunately have indicated an unwillingness to work cooperatively with affected employees, shippers, and citizens. I would remind you of the conclusion expressed in the Federal Railroad Administration's recent study of the freight rail industry:

In many ways, the most important determinant of the future of railroading will be the attitudes toward the industry held by its supporters and critics. This report adopts the theme that fundamental, necessary changes will not occur without the enlightened cooperation of railroad companies, shippers, labor, and public officials.

If the trustee and management were truly interested in cooperating with those affected, you could have established an advisory/information council of affected groups some time ago. That council could have met with the trustee on a regular basis and could have kept the public throughout this region

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informed. Instead, you have chosen to make assertions without offering substantiating evidence and you have adopted an inappropriately hostile attitude to those with legitimate concerns about present management practices. If you can supply the substantiating material indicated in this letter, and if you will consider the creation of an advisory/information council, perhaps a more constructive dialogue can occur.

Sincerely,


~~Rick Applegate~~
Rick Applegate
Director

RA:pah