

1st MONDAY 3rd MONDAY

Prepared for employees by the
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November 8, 1983

To All Milwaukee Road Employees:

As a member of RAM (Railroads Against Monopoly), the Milwaukee Road had an opportunity to present its views concerning joint rate and route cancellations to a House subcommittee holding hearings on the Staggers Act in Washington, D.C. on October 26.

The statement I submitted said, in part, that the issue of such cancellations is one which goes directly to the heart of what the Staggers Act means for railroad intramodal competition in the United States and the national rail transportation system.

Commenting on the improvement in plant and equipment that we've made during the reorganization years, we said that we're prepared to compete vigorously for traffic and provide superior service in all of the markets which we serve. Whether or not we will be able to do so depends in part, however, on how faithful to its objectives the Staggers Act is implemented regarding railroad intramodal competition. We feel strongly that the Interstate Commerce Commission presently is implementing joint rate and route cancellation provisions of the Interstate Commerce Act in a manner contrary to crucial Congressional rail policies set forth in the Staggers Act, among them: the promotion of intramodal competition, the avoidance of undue market concentration, and the creation of an environment which allows all carriers to achieve revenue adequacy.

While we take decided exception to the manner in which the ICC is administering the cancellation provisions, we said that we support the general direction taken in the Staggers Act. We are convinced that the new marketing and pricing freedoms given railroads in that legislation are the key to this company's successful reorganization and increasing profitability.

The key to continuing economic vitality, however, both for the Milwaukee and for many other rail carriers, is the protection of the right to compete for traffic. Carriers do not and should not have a proprietary right to traffic; but they must and do have a right under Staggers to vigorously compete for the traffic with the tools made available. Economic survival and prosperity in an increasingly unregulated rail environment depends on intramodal competition unobstructed by artificial market closures. We believe this is precisely the type of environment Congress envisioned in the Staggers Act.

Congressional intent to foster competition as regulation is eased, however, including intramodal competition, is being seriously frustrated by the Commission's implementation of the joint rate and route cancellation provisions. The ICC's administration of these important statutes has created an environment

in which the Milwaukee and many other carriers - both large and small - are being prevented from offering efficient and economical transportation services to shippers and using important marketing tools such as contract rates. In short, we are being denied the ability to compete by certain larger carriers bent on using their market power to inhibit rail competition. And, the Commission is permitting and indeed encouraging this state of affairs.

The point we emphasized is that it is not, in our view, the proper province of the Commission to determine, by action or inaction, which features of the Staggers Act it will use to implement the Act's clearly stated policies. Nor is it for the Commission to give overriding priority to certain of those policies over others. Congress has already struck the balance to be observed. All of the tools given by Congress to implement that balance must be given equal opportunity for use if Congressional intent is to be fulfilled. That numerous railroads and shippers alike have expressed outrage at the Commission's current direction is a significant indication that important aspects of the Staggers Act are being overlooked, sidestepped or trampled upon. We believe that these problems will require further direction from the Congress to the Commission to remedy.

The adverse impact of the Commission's misapplication of the cancellation provisions of the Act, on the Milwaukee Road and others, has been serious. In the past year alone, this company has been subjected to broad and massive joint rate and route cancellations by certain carriers via some of our primary routes and gateways.

Such cancellations and refusals have an adverse impact not only on us but our shippers as well because they are unable to take advantage of, for example, allowance contracts offered by the Milwaukee Road when a route in which we participate is closed. For this company, transportation contracts under Section 208 of the Staggers Act have been perhaps the most important tools made available by Congress in this Act. To date, we have placed into effect over 600 transportation contracts, traffic under which presently accounts for almost a third of our revenues and units handled.

In conclusion, we said that over the past approximately three years the ICC has demonstrated a consistent unwillingness or inability to work toward the critical Staggers Act objectives of promoting intramodal competition and avoiding the undue concentration of market power. As a result, serious financial harm is being inflicted by some carriers on the national rail system, individual carriers and the public interest. Because the Milwaukee Road offers efficient transportation services which it is being impeded from providing by these ill-motivated route cancellations, restrictions and refusals, we urge Congress to take necessary action to repair the failure of the ICC in this area, and to do so before irreparable harm is done.

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Chicago and North Western Transportation Company's proposal to acquire the operating assets of the Milwaukee Road does not currently satisfy reorganization requirements, Trustee Ogilvie today told the Interstate Commerce Commission.

Trustee Ogilvie has proposed a separate reorganization plan to the ICC under which the Grand Trunk Corporation would acquire the Milwaukee Road. On July 27, the North Western filed a competing proposal under which it would acquire the railroad. Hearings have been held on Ogilvie's plan; hearings on the North Western plan are set for December 12, 1983.

In his filing with the Commission on the North Western plan, Trustee Ogilvie noted "My Amended Plan including the GTC acquisition of the Milwaukee Road meets all statutory criteria and will satisfactorily reorganize the railroad....I believe that in some form the CNW acquisition of the Milwaukee Railroad could be financially and operationally feasible and could still meet the public interest standard. I am not persuaded that the CNW Plan currently before the Commission satisfies all these criteria."

Trustee Ogilvie questioned the North Western's plan treatment of Milwaukee employees, its impact on competition, particularly in Iowa, Minnesota, and Wisconsin, and treatment of government and employee creditor claims. In contrast, he claimed that his own plan provides fair treatment for all employees, creditors and has no adverse effect on competition.

The effectiveness of the GT/Milwaukee Road plan has been demonstrated in the success of a voluntary coordinated service agreement, initiated in June, 1982 by the Grand Trunk and the Milwaukee, which, he said, has produced benefits for both rail systems and customers utilizing the freight service offered under the agreement.

Trustee Ogilvie stated, however, that no final conclusion could be reached on the North Western plan until the completion of hearings before the Commission. He further stated that it was the CNW's responsibility to proceed before the Commission providing further detail concerning its plan.

Trustee Ogilvie also noted that for the first time since reorganization began, the railroad reported a profit for the first nine months of the year. For the nine months ending September 30, on an ICC accounting basis, the core operating railroad reported pre-tax income of \$581,000; total company pre-tax income, including non-railroad activities, was \$2,481,000. For the same period in 1982, the operating railroad had a loss of \$25,229,000; the total company had a loss of \$10,167,000.

The ICC has indicated that a decision will be made on the competing acquisition plans of the GTC and the North Western by March 30, 1984. On Monday, November 7, a federal court judge entered a stay order with respect to ICC consideration of the CNW proposal pending resolution of certain other procedural matters. This could delay the Commission's decision.

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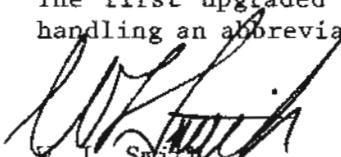
Projecting a new image for the future, linked to the glory of the past, Trustee Ogilvie will this week introduce a new look for the railroad's fleet of locomotives.

In ceremonies planned for the locomotive and car shops in Milwaukee, Governor Ogilvie will unveil the first repainted and renewed unit featuring on its prow the running Indian emblem long associated with the Milwaukee's crack Hiawatha passenger trains.

All of the railroad's diesel units eventually will be similarly designed and painted with the Milwaukee's familiar orange and black color scheme as they are regularly serviced and overhauled at the shops.

The bold, new look was conceived and suggested by two Milwaukee Road employees, Ed Abbott and Art Danz, who currently are employed as supervisors in Chicago suburban commuter service operated over Milwaukee lines by the Northeast Illinois Railroad Corporation.

The first upgraded engine, an SD 40-2 numbered 201, will be put in service handling an abbreviated intermodal train from Milwaukee to Chicago.


W. L. Smith
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