Corporate Relations 1783

M E D I A   M O N I T O R   June 17, 1983

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Milwaukee Journal, June 10, 1983

Milwaukee Road debt payment OK'd

Chicago, Ill. — The federal court overseeing the reorganization of the bankrupt Milwaukee Road has given the railroad permission to pay off its debt to certain bondholders at rates ranging from 22% to 41.5% of the debt principal.

Richard Ogilvie, the railroad's trustee, estimated that the payments would amount to $28.4 million and would be made by June 30. The railroad plans to pay about $83 million of its $572 million in debts this year. Grand Trunk Inc., which wants to buy the Milwaukee Road, has said it would assume about $253 million of the total debt.

Under the plan, the railroad would pay first mortgage bondholders $220 per $1,000 in debt principal and $233.54 and $237.29, respectively, to unregistered and registered Terre Haute bondholders.

The railroad also will repay $238.15 to Southern Indiana Railway Co. first mortgage bondholders, $239.53 to Bedford Belt Railway Co. bondholders, $397.98 to general mortgage bonds, Series A, and $415.85 to general mortgage bonds, Series B.

Elgin Daily Courier News, June 9, 1983

Train cars just 'busted loose'

By Mike Castelvecchi
and Mark Masek

A Milwaukee Road freight train derailed in southeast Elgin Wednesday afternoon, strewing wreckage over a mile-long path.

No injuries were reported.

The cause of the 3:30 p.m. accident is still under investigation by railroad and police department detectives.

Eleven of the 70 cars were thrown off the track, one landing in the Fox River. Most of the derailed cars left the track at Raymond Street near the Elgin Corrugated Box Co.

Traffic at various intersections in Elgin was blocked Wednesday and today, and rail commuters were being bused between the Elgin and Bartlett depots to get around the wreckage site.

The tracks were expected to be cleared in time for today's afternoon rush hour, a Milwaukee Road spokesman said.

Train conductor Paul Mills told police he was traveling at 37 miles an hour when the derailment occurred as the train entered the south side of Elgin.

THE TRAIN, carrying automobiles, auto parts and freight, was bound for Kansas City. Dozens of new 1983 models were destroyed in the accident.

Craig Martin, 28, a cable installer for a subsidiary of Centel Cable Television of Illinois, was in his truck on Raymond Street waiting for the train to pass.

"I was sitting right there and one of the cars leapt off the track. (The engine) kept going and the rest of the cars busted loose.

"I saw the car and it went off, so I got out of the way. I didn't know how fast it was coming or where it was going, so I got out of there," Martin said.

The engineer told police he did not immediately feel the derailment until the engine was almost to National Street, about a mile from the Raymond Street crossing.

A man rafting in the river below the train trestle told police he saw all the cars gradually tilt and then begin to fall.

THE FORCE OF the accident caused wheels to be ripped from the cars and tossed randomly about the accident site.

Two semi-trailers riding piggyback on a freight car were dragged several hundred feet before falling into the Fox River near the U.S. 20 bypass.

Three engines were pulling 70 cars—38 loaded and 32 empty. The front 25 continued the trip to Kansas City.

"They've been working on the tracks the last couple days, but we don't know what caused the wreck," said Elgin fire Chief George Van Der Voorde, who was at the scene. New gravel was visible along the roadbed.

According to Bill Bickley, director of corporate relations for the Milwaukee Road, the company has been "upgrading that stretch of track for about a year," and new surfacing was added to the crossing where the trains were derailed "within the last couple of weeks."

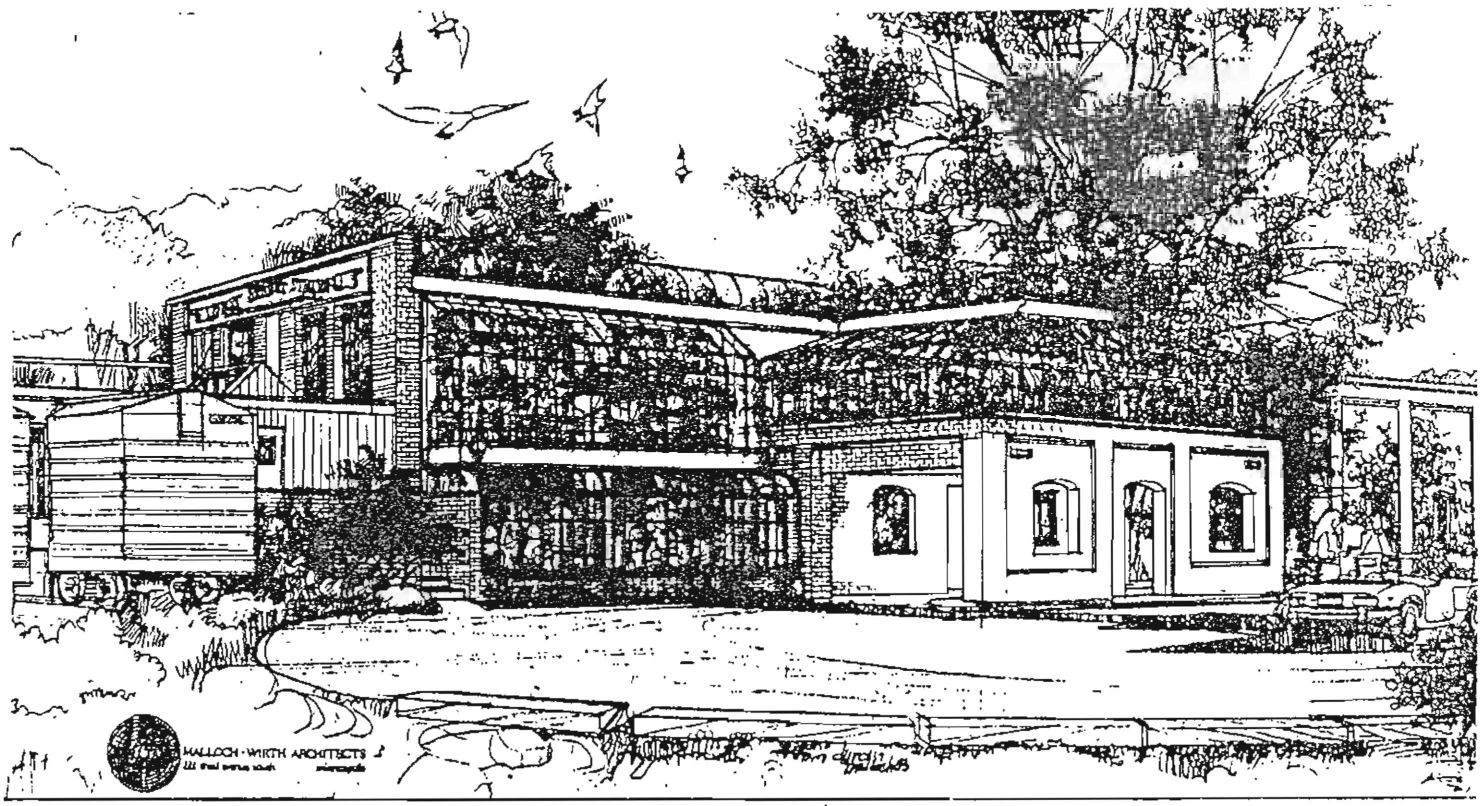
HE ALSO SAID the fact that the first 25 cars passed with no problem "indicate that there isn't a problem with the track."

The track is used for both passenger and freight runs, he said.

There was no structural damage to the bridge, Bickley said.

Commonwealth Edison service was disrupted for about two hours, affecting 250 customers in the Raymond Street and Bluff City Boulevard area.

One suspected looter was arrested by police several hours after the crash.



An architect's drawing of the proposed remodeling of First Street Station.

Wirth says he bought First St. Station

By Joe Blade
Staff Writer

Developer Harry Wirth said Wednesday that he had bought the First Street Station restaurant as another step in his plans to develop the downtown riverfront along with the old Milwaukee Road depot area.

Wirth did not disclose the price he paid for the seven-year-old restaurant at 333 S. 1st St. He said it was bought for cash put up by his partners, Paul Feldman and Dan Christensen, the California loan brokers who arranged the $13-million loan that enabled Wirth to buy the depot property from the bankrupt Milwaukee Road.

First Street Station was remodeled from an abandoned building once occupied by the Minneapolis Eastern Railway. The restaurant was a quick success but fell into difficulty later as the economy softened. Owner Jim Howe revealed last summer that business had not improved, even though he had reduced prices and had stopped drawing a salary.

Wirth said yesterday that he plansto add a solarium greenhouse that would encase the restaurant's second-floor deck. He also said he plans a two-story solarium to unite the first- and second-floor bar areas. He hopes to have the work finished by the end of the year. The 73,000-square-foot parking lot probably will be used for other purposes, he indicated.

A master plan for the entire riverfront area should be completed within 30 or 45 days, Wirth said. It would include plans for the depot and land just south of the planned park along the Mississippi River between 3rd Av. S. and the Interstate Hwy. 35W bridge east of downtown Minneapolis. He plans a complex of shops, hotels, housing, offices and restaurants to be built over the next 20 years.

After missing nine deadlines and almost losing the right to buy the 15.5-acre Milwaukee Road depot property, Wirth obtained title on April 12 by paying the bulk of the $9.5 million purchase price with the loan he obtained from Texas and California savings and loan associations.

The same day he bought an acre of adjoining land from the Chicago & North Western Transportation Co.

Yesterday Wirth estimated that the total investment in his Milwaukee Road property would run to $280 million. He has said that it will take more than $1 billion to develop the entire riverfront area.

He envisions three types of ownerships in the area. He and his partners would develop what he calls "key parcels." They would enter into joint ventures with other developers for some projects. And he would sell some land to builders who meet his criteria and agree to follow his master plan.

Chicago Tribune, June 13, 1983

Illinois could be end of line in caboose fight

By David Young
Transportation writer

THE UNION that represents railroad conductors is attempting to persuade the Illinois General Assembly to pass a law making cabooses mandatory on all freight trains in the state, officials disclosed last week. This would block efforts by the railroad industry to eliminate cabooses.

The issue is in arbitration nationally between the United Transportation Union, which represents conductors, and four railroads, the Seaboard, Chessie, Southern and Illinois Central Gulf systems.

Passage of a mandatory caboose law in Illinois would virtually doom efforts by the railroad industry to eliminate that vehicle, because the state is served by all but one of the nation's major railroads, industry officials said.

ALTHOUGH ONE attempt to make cabooses mandatory on all trains in Illinois exceeding 1,500 feet [about 23 cars] was sidetracked last week in the Senate Labor and Commerce Committee, union officials have promised to try again before the legislative session ends.

"It's an issue of safety," said Patrick W. Simmons, lobbyist for the United Transportation Union, testifying in favor of the amendment before the committee. "There is nothing else to it. We're not out to get more people on the payroll. You can't shove long freight trains over blind crossings without something on the end. You're going to kill someone."

Officials of the Association of American Railroads said mandatory caboose laws have been proposed this year in Montana, Louisiana, Washington and Idaho, and one was passed in Nebraska.

The association estimates that the elimination of cabooses would save the railroad industry $400 million a year in operating expenses. Cabooses cost about $80,000 apiece. U.S. railroads own 12,000 of them.

AS PART OF the contract negotiated last year with the railroad industry, the union agreed to submit to arbitration a proposal that the railroads be allowed to eliminate 25 percent of the cabooses on through freight trains.

James Martin, operating vice president of the Illinois Central Gulf, said he expects a decision from the arbitrator in the next month.

That railroad operates most freight trains with four-man crews, two of them manning the caboose. However, since 1975, the railroad has had an agreement permitting it to operate piggyback trains between Chicago and St. Louis with two-man crews and no cabooses. Martin said those trains operated safely.

Simmons said the union's campaign for mandatory caboose laws was spurred by the railroad industry's attempt to renege on provisions of the 1982 contract.

"We had settled in our national contract for the railroads to eliminate 25 percent of the cabooses on trains of 35 cars or less," Simmons said. "Now they want all freight trains without cabooses. That includes trains of 100 cars. Now they want the whole ball of wax."

Minneapolis Star/Tribune, June 9, 1983

Coal-slurry pipelines aided

Washington, D.C.
The House Public Works and Transportation Committee Wednesday approved legislation aimed at encouraging the construction of coal-slurry pipelines. The bill, sent to the floor by a 32-18 vote, would grant federal power of "eminent domain" for coal slurry projects, providing them with the legal authority to obtain rights-of-way for the pipelines on compensation to landowners.

Lack of such power has held up construction of almost all such pipelines because most rights of way would have to cross property owned by railroads, the primary haulers of coal in the nation and vigorous opponents of slurry pipelines.

Railroads Freed to Compete for Business

By JOHN W. ROWE
and
TIMOTHY T. O'TOOLE
(First of Two Articles)

In the two-and-one-half years since Congress passed the Staggers Act, the railroad industry has been partially deregulated — not only in accordance with the fashion of the day but in response to decades of eroding economic strength.

That erosion has historically been most severe in the Northeast and Midwest where the railroad industry has suffered the largest bankruptcy in American history, that of the Penn Central, the bankruptcy of most other railroads that served the Northeast, the demise of the Rock Island, and the dismemberment of the Milwaukee Road.

Congress first responded to the failed structure of railroading in the Northeast by installing piers of federal funds. In the Regional Rail Reorganization Act of 1973, Congress sought to preserve rail service at no cost to shippers, the rail unions, and connecting carriers. Instead, taxpayers were asked to foot the bill: for the shippers a rehabilitated railroad; for the employees' lifetime wage protection; for the connecting carriers rate divisions adopted when the Northeast was the heart of the nation's economy.

The conventional wisdom underlying this government generosity was that a rebuilt and consolidated regional carrier, Conrail, would experience sufficient traffic increases and economies of operation sufficient traffic increases and economies of operation to become profitable.

Conrail proceeded to confound those forecasts. In spite of utilizing $3.28 billion in federal funding, and additional privately financed capital, for rehabilitating plant and equipment, traffic continued to plummet and $1.5 billion in losses followed through 1980. Clearly, something more was needed.

In the Staggers Act, Congress provided the railroad industry with some of the tools which Conrail particularly needed and sought to deal with these problems. The act ended the regulation of rates where market dominance is absent, provided limited remedies with respect to divisions of joint rates, and provided for ending regulation altogether in particular areas at the discretion of the Interstate Commerce Commission.

In the Northeast Rail Service Act of 1981, Congress took further steps specifically designed to free Conrail of the deadweight of past regulation: Conrail was given the absolute right for a limited time to abandon unprofitable lines; it was permitted to cease commuter services; and it was given assistance in terminating unneeded employees.

Faced with the termination of lifetime wage protection and a threatened breakup of the railroad, Conrail's employees responded with wage-related concessions.

With these new opportunities and a cost-cutting chief executive officer, L. Stanley Crane, Conrail again proceeded to confound forecasts, but this time in a healthy way, earning $39 million in 1981 and, with certain extraordinary items, $174 million in 1982. In the first quarter of 1983, Conrail reported net income of $12.6 million, its first-ever first quarter profit.

These profits were not achieved, however, without major structural changes in Conrail's relationships with its labor unions, connecting carriers, and shippers — the same interests which Congress had attempted to hold harmless in passing the 3R Act.

In NERSA, the Staggers Act, and in various decisions interpreting those acts, Congress and the ICC have addressed the industry's chronic revenue inadequacy by shifting from a form of regulation unique to railroads and suited only to a transportation system dominated by railroads to one which balances more general public utility theories with competitive market concepts.

That shift was not the product of an ideological bias that blindly called for deregulation regardless of industry structure. Rather, it was the result of the recognition that regulation frustrated the railroads' ability to respond effectively to the competition of trucks and barges. An examination of particular areas in which Conrail has been intensely involved illustrates the practical widsom of these changes and the opportunities they provide.

JOINT RATES: A joint rate is a single charge to a shipper for the carriage of goods over two or more railroads. A joint rate is divided among the carriers according to a prescribed formula and cannot be changed without the agreement of all participating carriers.

With the exception of certain bulk commodities, such as coal, joint rates have generally applied for the carriage of goods uniformly on all through routes. The shipper paid the same price regardless of the actual length of haul and the number of carriers in the route.

This was a major problem for Conrail because the money it received when the rate was divided among the carriers (its "division") did not cover its cost on many routes. Studies showed that 75 percent of Conrail's deficit traffic involved interline movements.

Once, Conrail could have addressed this problem only by bringing a divisions case before the ICC.

Given the Staggers Act, Conrail chose to address the problem as would any normal competitor. First, it cancelled its participation in interterritorial joint rates on circuitous and little-used routes, limiting its participation in joint rates to high volume routes where it received adequate remuneration. The concentration of traffic on such routes also reduced costs because Conrail could eliminate redundant interchange facilities.

Second, Conrail replaced some joint rates on movements of grain, grain products and recyclables entirely with combination or proportional rates. Proportional rates apply

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Railroads Freed to Compete for Business - Concluded

in combination with another railroad's proportional rates, but each railroad sets its rates separately, and each railroad can assess different proportional rates on different routes.

A connecting carrier is not only a partner in the movement of freight, it is often a competitor for the long haul where railroad lines and facilities overlap. The railroad that exclusively serves the most shippers and receivers has the ability to control its own prices on particular routes and to obtain long hauls. This is one reason why end-to-end railroad mergers have become so popular of late.

These same forces have led Conrail and other railroads to cancel joint rates between points that the railroads can serve in single line service. The concentration of traffic on single line routes reduces the railroads' costs because needless interchanges are eliminated.

Retaliation by other railroads has taken the form of cancelling reciprocal switching, which provides a carrier with access to a shipper that it cannot serve directly. Switching charges have been held down by regulation because the service ostensibly was provided equally among the carriers, and the line-haul rates were thought to subsidize unrecovered costs.

These events leave several developing problems. Will an arbitrary joint rate structure be restored? Commercial order of sorts would be gained, but at a cost of reduced efficiency that the railroads can ill afford. Will carriers be forced to increase the switching service they offer? How will switching prices be regulated?

The ultimate answers to these questions are likely to derive from two pervasive facts. First, a competitive environment necessitates an entirely different pricing structure from that used under regulation. The new structure will require accurate estimates of the marrginal costs of, and demands for, discrete services.

Second, and even more crucially, the needs of shippers must be met responsibly and profitably. Conrail has taken many actions to ensure that shippers are not hurt by sparring among railroads. It will continue to fight for business in that way.

BOXCARS: ICC recently handed down its decision to deregulate boxcar traffic. Conrail was the leading proponent of boxcar deregulation, and a review of our position illustrates the opportunity for new solutions in a deregulated environment.

Boxcar traffic faces stiff competition from trucks and trailer-on-flatcar railroad movements. Conrail has historically suffered losses in many commodities moved in boxcars. Conrail could not raise its rates, however, to establish a positive contribution without diverting the traffic to another mode of carriage.

The only answer was to cut costs and improve efficiency. The category of cost that we identified as producing the greatest waste was the cost of the boxcars themselves. And that cost was a creation of regulation that would not otherwise appear in a competitive market.

Railroads interchange freight cars. The rent a railroad receives when another railroad is using its car is set by the Interstate Commerce Commission. The administratively prescribed car hire (rent) levels are designed to ensure that the owner of the car recovers its investment costs, even if that investment exceeds the needs of the marketplace.

Indeed, the car hire levels prescribed may increase in times of car surplus because car hire may be established by dividing total fleet ownership costs by the active fleet size.

While Conrail is fighting that possibility before the commission — in Ex Parte No. 334 the commission is addressing this problem — its point here is that in times of car surplus, car owners are encouraged to deploy their equipment on the lines of another railroad, so that they can collect artificially high car hire payments. The receiving railroad is required to accept and move the car to its destination.

This practice also results in an increase in miles that railroads move empty cars because a railroad will load its equipment rather than that owned by another carrier, even if loading the latter would be more efficient.

A study of just one type of boxcar indicated that in 1980 alone there were over 1 billion excess empty car miles, representing a cost to the industry of $350 million.

Conrail is a net receiver of boxcars, which makes it vulnerable to the car hire system, and faces car hire payments of $100 million annually. Attempts to change the car hire formula within the regulatory structure have not yet succeeded. Accordingly, Conrail proposed complete deregulation of boxcar movements so that the market could be allowed to set car hire rates.

Opposition claimed that such drastic change would produce administrative chaos and the breakdown of the free flow of rail equipment. In response to those concerns, Conrail proposed that the ICC continue to regulate the interchange of boxcars and car hire rates.

Conrail requested, however, that railroads be permitted to charge for the empty movement of another railroad's equipment and that the rates charged to shippers who use boxcars be completely deregulated. This discourages the inefficient loading of cars. The car owner will be less eager to deploy its cars on the lines of another railroad if it must pay for empty backhauls.

Conrail expects to reach bilateral agreements with other railroads and car owners that provide for efficient car utilization. Those agreements, some of which are already in force, will make unnecessary an empty mileage charge. Additionally, the new rate freedom allows Conrail and other railroads to vary their charges to shippers based on the type of boxcar used.

Mr. Rowe is Conrail's senior vice president-law. Mr. O'Toole is associate general attorney at the railroad. This is taken from a speech they prepared for delivery to the public utilities section of the American Bar Association.

Conrail: Deregulated Road Fights for Business

By JOHN W. ROWE
and
TIMOTHY T. O'TOOLE
(Second of Two Articles)

Congress and the Interstate Commerce Commission have shifted from a form of regulation suited only to a transportation system dominated by railroads to one which balances more general public utility theories with competitive market concepts.

The shift resulted not from a blindly ideological bias toward deregulation but from the recognition that regulation frustrated the railroads' ability to compete with trucks and barges.

An examination of several areas in which Conrail has been involved illustrates the wisdom of these changes and the opportunities they provide.

MAXIMUM RATES: Under the Staggers Act, the ICC retains jurisdiction over maximum rates where there is market dominance. The commission has recognized that a railroad rate structure cannot be completely tailored to fit a public utility model in which the ends the regulator chooses to promote determine the rate structure and individual rates are set within that for a return that will attract capital.

For railroads a rate structure must be set that will give a sufficient yield on investment to attract capital, where many of the rates cannot be increased because of competition.

The varying elasticities in demand faced by railroads prevent the regulator from successfully issuing uniform rate prescriptions. Therefore, railroads must be allowed to price their services so as to stay in business, leaving the market to decide in which lines of business the railroads are needed.

Under these conditions, many bulk shipppers, such as power companies that consume coal, have complained that they cross-subsidize the movement of other commodities. At the same time, the commission and Congress recognized that the varying elasticities faced by railroads in different markets justified differential pricing. The problem was in defining the point at which differential pricing became cross-subsidy.

In a number of decisions, the commission attempted to find the solution through some variation of fully allocated costing. Maximum permitted rates were to equal the incremental cost of providing the service plus a portion of common costs as assigned by any one of the number of formulae. The commission could not find a satisfactory solution in this way, however, because fully allocated costing ignores demand.

Recently, the commission has accepted the guidance of the market in addressing maximum rates on coal traffic. It recognized that the railroads will attempt to maximize earnings on each piece of traffic. The contribution by traffic subject to diversion is left, as it must be, to be defined by the market.

The maximum rate for traffic that may be captive to the railroads will be that amount that allows the railroads to make up the remainder of the revenue needed for a fair return on investment. Increased costs may not be caused by waste, and no captive shipper's rate may exceed the long term stand-alone cost of providing service to that shipper.

The latter limit was suggested by Alfred E. Kahn appearing for the National Coal Association and works to prevent any actual cross subsidy. With these guidelines Conrail and other carriers have a real opportunity to earn a reasonable return while competing for all business which makes a positive contribution.

COMMUNICATION WITHIN THE INDUSTRY: Deregulation brings with it limitations on antitrust immunity for cooperative rate-making within the industry.

The rail industry is often described as an interdependent national rail network, which it obviously is. The connotations of that description, however, often seem to be that the railroad companies stand or fall as a piece, and that we are railroaders first, differentiated by company only on a second look. That plainly is not, and never was, true.

Deregulation compels an end to rate uniformity. The perception remains, however, that the industry must protect its vehicle of communication, the rate bureau, lest the pursuit of self-interest destroy the integrated rail network. This just is not so.

Conrail has withdrawn from the rate bureaus and has found no insurmountable problems in pricing independently. Moreover, independent rate actions have not hindered Conrail's ability to participate in an integrated rail network.

Attempting to retain the vestiges of cartel rate-making is a mistake, because the exposure to antitrust prosecution is intolerable and because it induces the wrong focus. In a competitive environment the company, not the industry, is the focal point.

THE BOTTOM LINE: Competition in the market for transportation services has made much regulation superfluous. There is no longer a monolithic railroad industry that can extract monopoly profits from its customers. The development of the interstate highway and river systems took away any such power.

Faced with that competition from other modes, railroads had to be given the freedom to price their services competitively or face continued failure. Conrail simply could not have stopped the hemorrhaging of red ink without changes in relationships with its unions, shippers, and other carriers. Deregulation made many of those changes possible.

Deregulation is neither self-implementing nor automatic, however. The industry and its regulator must learn to segment the industry, to accurately assign costs and estimate demand in each market, and to determine sources of costs. For example, it was not enough for Conrail to eliminate uniform rates; it had to address the cost of the boxcars that traveled on those uniform rates in order to increase its ability to compete.

This process isolates those few aspects of the business that are not subject to competitive restraints. The regulator can then surrender its

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Conrail: Deregulated Road Fights for Business - Concluded

oversight on other matters and leave the market to allocate resources efficiently.

As we continue to peel away the layers from the onion of regulation, we shall learn that very little regulation is justified because there are hidden restraints on market power for every aspect of railroad operations.

It is likely that the theories of regulation needed for these remaining pockets will turn out to be very much the same as those applicable to the telephone industry. We have not reached that point, however, and in the interim we must continue peeling away regulation of specific routes, specific kinds of traffic, specific types of equipment, or of whatever segments of the business appear appropriate.

That process engenders fear in those conditioned to the ways of regulation. It is the fear of the unknown, however, and it will prove unfounded. With increased managerial discretion, railroads will not engage in self-destructive behavior.

There is a common theme to the changes taking place. Where competition is found, railroads will be permitted to set prices to the maximum benefit of the individual company within the constraints of the marketplace. Where competition is absent, railroads will be permitted to set prices so as to ensure the continued availability of the particular facility or service. In either case, the public will be better served.

Mr. Rowe is Conrail's senior vice president-law. Mr. O'Toole is associate general attorney at the railroad. This is taken from a speech they prepared for delivery to the public utilities section of the American Bar Association.

The Journal of Commerce welcomes letters to the editor. Letters intended for publication should include the name of the writer, address and telephone number. Letters on business or international topics should include the writer's occupation or title. We cannot acknowledge letters received or return unpublished letters.

Milwaukee Journal, June 14, 1983

On, Wisconsin

An Editorial

'Testing' the hazard of bigger trucks

Get ready, all you guinea pigs who use Wisconsin highways: You're going to help establish the "data base" needed to determine how much more dangerous the roads will be after bigger trucks start using them. Unfortunately, that may be the only way to reduce the hazard in the long run.

Congress has decreed that bigger trucks, including those with twin trailers, must be allowed on many thousands of miles of additional highways. That law is being challenged in court, but meanwhile the states must comply. Thus, all Wisconsin can do is negotiate with the Federal Highway Administration on just which roads must be open to the behemoths. The state is seeking deletion of about 900 miles of the more than 4,000 miles (including the interstate system) that the feds initially designated in this state.

"Heavy trucks are disproportionately involved in fatal crashes, and are a major concern for passenger car operators . . . particularly as cars become smaller," says the Insurance Institute for Highway Safety. But such common sense won't be good enough in any future negotiations with the feds. So, state and local officials will need to make careful records of all the expectable accidents involving big trucks.

"Right now," says State Transportation Secretary Lowell Jackson, "we have . . . no accident data because two-trailers or the longer semi-trailer trucks haven't been permitted on two-lane roads before. . . . In order to convince them (the feds) that certain Wisconsin routes should be exempted, we will have to present factual evidence that the safety hazards or other problems outweigh the potential benefits."

That's where you guinea pigs come in.

Des Moines Register, June 9, 1983

A tense, costly day in Muscatine: Train with chemicals tips

By TOM KNUDSON and BARBARA MUSFELDT
Register Staff Writers

MUSCATINE, IA. — A derailed train car loaded with a hazardous chemical forced the evacuation of hundreds of townspeople here Wednesday and shut down nearly the entire downtown business district.

Thousands of workers were kept off the job, highways were closed and shoppers were told to stay home. Many of the city's larger businesses, including HON Industries and Stanley Consultants Inc., were forced to close completely at a cost estimated to be $1 million or more.

Even the local bureaucracy was affected: Both the Muscatine City Hall and the Muscatine County Courthouse shut their doors.

This normally bustling river city was more like a ghost town at mid-day Wednesday. The only sounds around downtown were the chirping of sparrows and the chatter of policemen as they steered pedestrians and motorists away.

The decision to close the town was a tough one. Said Muscatine Mayor Donald Platt: "I'm fully cognizant of the monetary complications, which must run into the millions of dollars. It's not a situation I like, but I'd rather be criticized for taking precautionary measures than have a disaster on my conscience."

As it turned out, there was no disaster. But there was plenty of nervous tension as thousands of Muscatine residents wondered if an explosion would send toxic fumes sweeping through their city.

Nerves began to calm a bit around 2 p.m. when two cranes successfully hoisted the 200,000-pound derailed railroad car onto the tracks. And although city officials quickly called off the evacuation, many downtown businesses remained closed for the day.

The evacuation — the most extensive in modern Muscatine history — began late Tuesday night after a Milwaukee Road train derailed near the heart of downtown. Only four cars were affected, but one contained a highly flammable and poisonous liquid chemical called acrylonitrile, which is used in plastics manufacturing.

Pete Hamlin of the Iowa Department of Environmental Quality in Des Moines said the substance is explosive and has the potential to cause cancer.

The tank car, containing 26,000 gallons of the liquid, was not leaking, but officials didn't want to take a chance. About 11 p.m. they began clearing people out of taverns and other downtown businesses. All told, about 24 square blocks of Muscatine's downtown were evacuated.

About 115 people were roused from apartments and shuffled off to nearby Central Junior High School where the Red Cross set up an emergency shelter, said Muscatine Fire Chief Paul Ziegenhorn. Dozens of others found homes with relatives or friends.

The ruckus took many by surprise. "We had just got to bed," said Dorothy Cockshoot, who lives with her husband, Kenneth, above K & D Clothiers, which they own. "Then we heard the police. They said: 'Get out. It's dangerous.' But they didn't say what it was."

Kenneth didn't ask questions. "I'd rather get out than be out in Greenwood Cemetery," he said.

A short distance away, about 14 men were ordered out of rooms above the YMCA. According to Ray Sawyer, 43, who rooms at the YMCA, the evacuation did not go smoothly.

Door Kicked

"The apartment attendant came up, and he was kicking on the door and hollering. We were all running around in our shorts. We didn't know what was going on. We thought he had flipped his lid. And then this woman cop comes bursting in. She said, 'Just grab what you can and get out of here,' " Sawyer said.

Another YMCA roomer, Marty McLaughlin, 19, said, "At first, they said, 'Go west as far as you can.' And we said, 'Where should we go?' And the woman cop said, 'Just curl up on the sidewalk or something, but just get going.' "

Business leaders were phoned early in the morning and asked not to open their stores. Hundreds of employees got the day off. Mayor Platt said businesses were cooperative, but some complained about losing revenue. HON Industries officials told him they would lose $10,000 an hour, he said.

About 400 employees of the office furniture manufacturing company did not make it to work Wednesday.

HON Industries President Ron Jones said first-shift workers did not work at all. Second-shift workers came in about 3 p.m., he said, and production was going by 4 p.m.

The accident could cost Stanley Consultants $100,000 to $150,000, according to company President Richard Stanley.

He said about 450 company employees did not work Wednesday. The firm specializes in engineering, architectural and city planning consulting services.

Three major banks were located in the evacuated area.

Cause Unknown

Dozens of city, railroad and special hazardous-waste workers scurried about the derailment site Wednesday morning. Officials of the Milwaukee Road said that they had no idea what caused the derailment and that the incident was under investigation.

Art Proefrock, a hazardous-waste manager who works for Hulcher Emergency Services Inc., an Illinois firm called in to clean up the derailment, said acrylonitrile "is more flammable than kerosene but not as flammable as gasoline." Its main threat is its high flammability, but its fumes are also poisonous, he said.

Proefrock supervised the delicate operation of getting the huge tank car

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A tense, costly day in Muscatine:
Train with chemicals tips - Concluded

back on the tracks. That happened about 1:45 p.m. Less than a half-hour later, with the threat of an explosion defused, business people began to return to their shops and stores just a few blocks away.

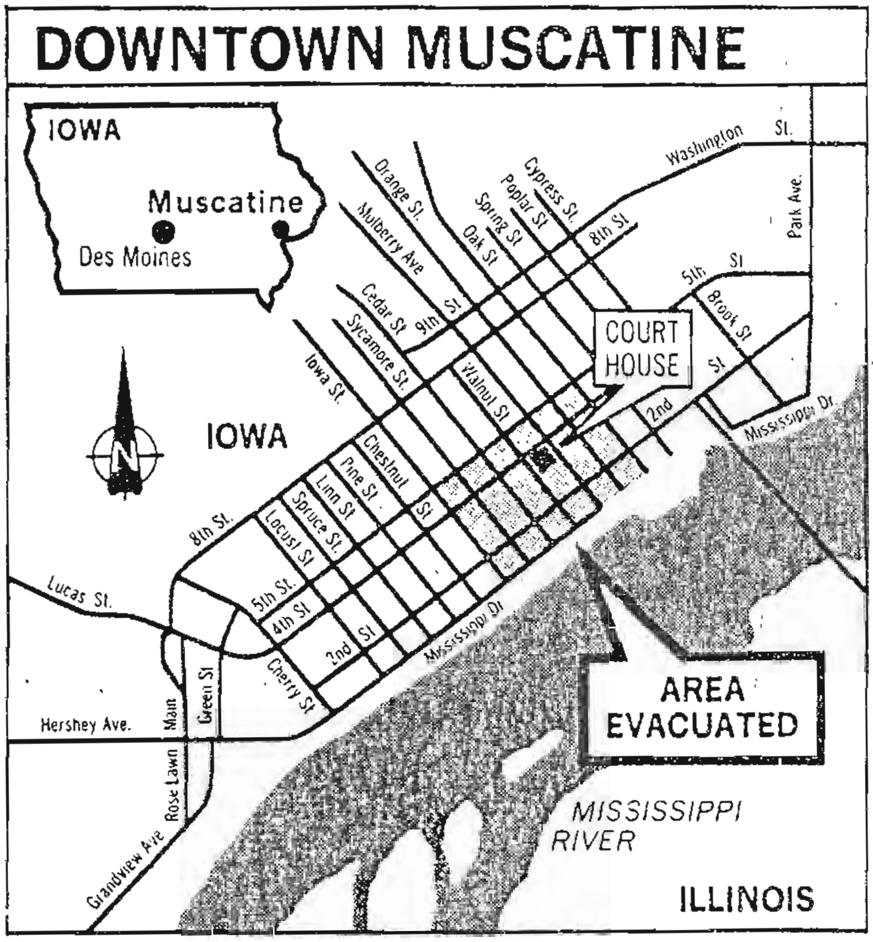
Most felt like John Hanna, manager of Stiles Drug and Ace Hardware Store, which is just one block from the derailment. "Naturally, it's an inconvenience," he said. "But I'm just tickled to death that no one was hurt. The public safety comes first, and the business is secondary."

Officials Praised

Hamlin, director of the Field Services Division for the DEQ, praised Muscatine officials for their quick decision to evacuate the area.

"Given the chemicals involved, we felt prudence was the best approach," Hamlin said.

The railroad manifest showed that the acrylonitrile was manufactured at a Du Pont Chemical Co. plant in Beaumont, Texas, and was headed for the Dow Chemical Co. plant in Midland, Mich.



Journal of Commerce, June 10, 1983

Riley Gets Top Slot At FRA

Journal of Commerce Staff

WASHINGTON — John Riley, an aide to Sen. David Durenberger, R-Minn., is the administration's choice to become the new head of the Federal Railroad Administration, White House sources told this newspaper.

The appointment, to be announced shortly, marks the first in a string of changes at the Department of Transportaion since Elizabeth Hanford Dole succeeded Drew Lewis as Secretary of Transportation.

Mr. Riley, who lives in Apple Valley, Minn., has worked for Senator Durenberger since 1979.

He received his law degree from Cornell University in 1972 and his BA from Boston College in 1972.

He presently is chief counsel to Senator Durenberger.

FRA is responsible for administering federal railroad safety programs and is playing a key role in the proposed transfer of Conrail to the private sector.

Mr. Riley's appointment means that one other key slot at DOT still must be filled, and indications are that another one will open up shortly.

Secretary Dole still is looking for a successor for National Highway Traffic Safety Administrator Raymond E. Peck who resigned last March.

But indications are that Mr. Peck's former assistant, Diane Steed, is in line for this job. Ms. Steed currently is working as a special assistant to Secretary Dole and played a key role in ensuring a smooth transfer from the Lewis to the Dole regimes.

Urban Mass Transit Administrator Authur Teele also has told reporters he will be leaving federal service shortly.

UMTA's major role is providing mass transit project funding though it does have other responsibilities in this area.

Names to succeed him have not yet surfaced.

Derailment wasn't first in Q-C

The derailment Tuesday night of a train car carrying a highly explosive chemical through Muscatine was at least the sixth derailment involving a hazardous material in the Quad-City area in the last five years.

The most recent was in December in Sabula, Iowa, when a Milwaukee Road tank car carrying liquid chlorine went off the tracks, prompting the evacuation of 600 residents.

Although the tank car appeared to have numerous scratches on its underside, the tank was not punctured. No chlorine leak was discovered, and there were no injuries.

The 17,426-gallon tank car, filled to capacity, was one of 12 cars that derailed. Ten of them were empty and one contained paper.

Other area train accidents involving hazardous materials include:

- An April 1982 collision of two Milwaukee Road trains near Washington, Iowa. The accident sparked a fuel oil fire, preventing firefighters from approaching the wreck for several hours. The collision ruptured fuel tanks on three engines of one of the trains, allowing the fuel oil to spill and catch on fire. Two railroad employees escaped the flames but received minor injuries.
- A March 1979 derailment near Savanna, Ill., where a highly flammable liquid spilled from a Milwaukee Road tank car near Illinois 84, forcing traffic to be rerouted for four hours. No injuries were reported.
- A November 1978 accident near Colona, Ill., where a Rock Island Lines tank car filled with sulfur sparked and caught fire. About 400 residents of a trailer park were evacuated. There were no injuries.
- A July 1978 accident in Clinton, Iowa, where two Chicago and North Western tank cars containing flammable gas derailed, forcing the evacution of thousands of residents. One of the tank cars, loaded with isobutane gas, leaked slightly. There were no injuries.

Muscatine residents are fortunate that the tank car of acrylonitrile was not punctured when it derailed Tuesday night — the chemical catches fire at 30 degrees Farenheit and its fumes can cause death.

The derailed car of highly explosive chemical was on its way from an E.I. Du Pont De Nemours & Co. plant in Beaumont, Texas, to Dow Chemical in Midland, Mich., for use in making plastics, a Dow spokesman said.

Acrylonitril is commonly used in making insecticides, plastic, fibers and other chemicals, Jim Turner, a spokesman for the Chemical Manufaculurers Association, said. The CMA maintains Chemtrex, a 24-hour national emergency number to advise authorities on the handling of hazardous material emergencies.

Acrylonitrile is a fairly common chemical and it is probably shipped frequently through the state of Iowa, said Pete Hamlin, spokesman for the Iowa Department of Environmental Quality.

When acrylonitrile burns, it produces toxic oxides of nitrogen that can be fatal if inhaled. Skin contact with the chemical also can be poisonous, Turner said.

In addition, the fumes can catch fire in the air and burn over large areas if allowed to pool in low-lying spaces, Turner said.

Exposure — either by skin contact or inhalation — causes nausea, vomiting, shortness of breath, collapse and loss of consciousness. Prolonged exposure in poorly ventilated area can cause death.

Fires caused by acrylonitrile can be extinguished with water, but because it can contaminate drinking water supplies, officials are cautioned to keep the runoff out of storm or sanitary sewers.

In case of leaks, evacuation of all people within a 2,500-foot radius is recommended. Authorities in Muscatine evacuated a much larger, 24-bock area.

People cleaning up a spill must keep upwind of the fumes and wear self-contained breathing apparatus and full protective clothing of either neoprene or rubber, Turner said.

Wall Street Journal, June 16, 1983

GTE CORP. said it completed the acquisition of Southern Pacific Co.'s long-distance and satellite communications units for $727.4 million.

Des Moines Register, June 9, 1983

Deal made for rail line across Iowa

By RANDY EVANS
Register Staff Writer

A group of community leaders reached a tentative agreement Wednesday to buy the bankrupt Rock Island Lines' tracks across the mid-section of Iowa, the group's lawyer said.

The agreement with the Rock Island's trustee would give trains using the Iowa line direct access to the important rail hub of Chicago, said the lawyer, Scott Bannister of Des Moines.

At the request of trustee William Gibbons, Bannister would not reveal the purchase price for the 420 miles of track. However, the trustee's asking price recently had been $45 million.

The tracks run between Council Bluffs and Bureau, Ill. The line passes through Atlantic, Des Moines, Newton, Iowa City and Davenport.

Three-year Wait

The fate of the tracks, part of the old Chicago-to-Denver mainline of the Rock Island, had been up in the air since the Rock went out of business three years ago.

Parts of the line subsequently were operated by the North Western Railway and later by the Iowa Railroad. But cross-state service over the entire line has been provided by the Iowa Railroad only for the past year.

Community leaders along the tracks have been working for two months to acquire the line because they feared it would be sold for scrap and dismantled.

Bannister declined to predict when a final purchase agreement will be completed and presented to the federal judge in Chicago who is overseeing the liquidation of the Rock Island. Before the sale can be wrapped up, he said, the Iowans must meet a number of conditions.

He declined to disclose what they are.

Conditions

"It's subject to a lot of conditions that we are going to have to meet and a lot of obstacles we'll have to overcome before we put this deal to bed," Bannister said. "But both the trustee and TRAIN want to get our deal done as quickly as possible."

TRAIN is the acronym for This Rail Across Iowa Is Necessary, the name of the Newton-based community group that is headed by Lee Hays. Hays is the traffic manager for The Maytag Company, the largest shipper on the line.

Hays could not be reached Wednesday for comment on the agreement. No one answered the phone at his residence.

Biggest Obstacle

The biggest obstacle for TRAIN has been raising nearly $50 million for the transaction.

But the group successfully lobbied the Iowa Legislature this spring to provide $15 million to the Iowa Railway Finance Authority so the agency could lend it to TRAIN.

Shippers and community leaders along the east-west line are expected to put up an equal amount toward the purchase price.

TRAIN officials also met last month with an executive of the Federal Railroad Administration to discuss the possibility that the agency might lend money to help with the transaction.

A federal loan is a necessity, Bannister said, and the tentative deal would fall through without it. TRAIN expects to file an application with the federal agency soon, he said.

Bannister said the inclusion in Wednesday's agreement of short segments of track in the Chicago and Peoria, Ill., areas will allow TRAIN's trains to travel into those rail hubs from Bureau, a junction in central Illinois.

Clear Access

Those Illinois tracks are leased to the Chessie System railroad. The company providing train service over the Council Bluffs-Bureau portion would pay the Chessie for use of the tracks.

Without those rights, freight cars going from Iowa to Chicago would have to be handed over from one railroad to another at Bureau — something that would make the trip more costly for shippers.

Bannister said the track rights to and from Chicago are an important feature for businesses located along the east-west line in Iowa because of the direct access to Chicago.

"This is just a heck of a lot more efficient way for Iowa industries to get their products all the way into Chicago," he said.

The tentative agreement does not answer the question of who will own a 13-mile piece of the east-west tracks in Des Moines, Bannister said.

TRAIN had been trying to buy that, too, but the North Western worked out an agreement earlier to acquire the tracks as part of its offer for the Rock Island line between Kansas City and Minneapolis. TRAIN officials fear that North Western ownership would hamper their operations, even though they would have trackage rights through the capital city.

Bannister said the ownership of the Des Moines tracks is in the hands of the Interstate Commerce Commission, which is considering competing offers for the north-south tracks from the North Western and the Soo Line Railroad. The Soo has indicated it would sell the Des Moines segment to TRAIN.

When the sale is completed, Bannister said, TRAIN intends to lease the tracks to the Iowa Railroad, a Des Moines-based company that would provide train service.

Des Moines Register, June 12, 1983

Iowa Northern to ask state aid to buy rail link

By RANDY EVANS
Register Staff Writer

A $15 million loan fund the Iowa Legislature created last month to help finance the purchase of the Rock Island railroad's mainline across Iowa's midsection is being eyed by at least one other group that is trying to get a piece of the Rock.

The Iowa Northern Railroad, which has been operating over the Rock tracks between Manly and Cedar Rapids for two years, intends to seek state financing to help the company purchase the 125-mile line, the railroad's president, John Gohmann, said.

And the way the law was written, a prospective buyer of other segments of the Rock Island system, including the Milwaukee, North Western, and Soo Line railroads, could apply for a portion of the $15 million, too.

The legislation only stipulated that the money be used for the purchase of tracks belonging to the bankrupt Rock Island. The bill did not specify that the money had to be used on the east-west mainline, although the Legislature acted in response to warnings that those tracks were in imminent danger of being sold for scrap.

A group of Iowa business leaders, called TRAIN, reached a tentative agreement last week to acquire 425 miles of Rock tracks between Council Bluffs and Bureau, Ill., and in the Chicago and Peoria areas. The purchase price was not revealed.

Gohmann said he did not want to derail TRAIN's deal by applying for a loan for the Iowa Northern. But he said farm cooperatives and elevator companies that are expected to join with his company to help finance its purchase offer are miffed that a state loan might be made for one project and not theirs.

One of the elevator owners, Harold Stark, who runs the Packard Elevator Co. in that Butler County community, said: "We feel it would be no more than fair if the state is going to start doling out money to the purchase of Rock Island tracks, we should be included in it. We as shippers feel that we have a viable line here."

Before the Legislature appropriated the loan money, the shippers were prepared to commit enough private capital to go into partnership with the Iowa Northern and purchase the tracks from the Rock Island's bankruptcy trustee, Stark said.

But the railroad-loan legislation for the east-west line "just blew our support right out the window, and rightfully so," Stark added, because the businesses and cooperatives along the Manly-Cedar Rapids line were reluctant to risk as much of their money on the project. They would be at a competitive disadvantage with their counterparts along the east-west Rock tracks, he said.

Said Stark: "If the state is going to start passing out money, why should we work our fannies off and raise the money ourselves and stick our necks out? Per mile of track and per dollar of investment, our line would return money to the state of Iowa faster than TRAIN's would."

The Soo Line, which is trying to acquire the Rock's north-south "spine" line, had notified the Iowa Railway Finance Authority last spring that it would seek financing from the state agency if its deal goes through. Officials of the North Western and Milwaukee, which are attempting to buy parts of the Rock Island system, too, said they did not expect their companies to turn to the state to finance parts of their transactions.

The president of TRAIN, Lee Hays of Newton, said his group was not "overly concerned" about a loan application from the Iowa Northern.

"We're fairly confident we can come up with what we need," said Hays, who is traffic manager of The Maytag Company.

One of the chief architects of the $15 million loan, Representative Jean Lloyd-Jones (Dem., Iowa City), said she would not object to money being made available to help the Iowa Northern as long as it would not jeopardize TRAIN's deal.

"The first choice for use of that money ought to be the east-west line," Lloyd-Jones said. "I don't have any objection to the Iowa Northern getting some money if there is enough after the essential line is saved."

But she added: "I would be very upset if they gave preference to the Iowa Northern over the east-west line if it would limit in any way the ability of TRAIN to come up with enough money to buy that line."

Under the Railway Finance Authority's rules, the staff of the Iowa Department of Transportation would analyze any applications for state money and make recommendations to the finance authority's board, which would decide on each application.

The current DOT analysis of Iowa rail lines lists the east-west Rock tracks as being of regional importance, while the Iowa Northern track is judged to be of local importance.

Minneapolis Star/Tribune, June 8, 1983

CSX plans to acquire Texas Gas

Associated Press

Richmond, Va.
CSX Corp., operator of the nation's largest railroad, said Tuesday it agreed to acquire Texas Gas Resources Corp. for $1.16 billion in cash, notes and stock.

Two days earlier, Coastal Corp. had announced an unsolicited $450 million bid for a controlling interest in Texas Gas, a natural gas pipeline operator.

Coastal, a diversified energy company based in Houston, said yesterday it had no comment on the CSX arrangement with Texas Gas.

In a related development, Texas Gas filed suit in federal court in Houston to block the Coastal tender offer of $45 a share for 10 million Texas Gas shares.

CSX, based in Richmond, said directors of Texas Gas had approved the transaction and that a majority of CSX directors had informally endorsed it. The full CSX board is to meet today to consider the plan, the company said.

In terms of assets, CSX is about four times bigger than Texas Gas.

The deal would be about twice the size of a similar acquisition earlier this year, when Burlington Northern Co. acquired El Paso Co. for $602 million. Burlington Northern's principal operation is the St. Paul-based Burlington Northern Railroad, the nation's second-largest railroad; El Paso was a Houston-based natural gas company with extensive coal reserves in the West.

CSX said it agreed to pay $52 a share cash for 7.1 million shares, or about 35 percent, of the Texas Gas stock. Also, CSX agreed to buy 3.74 million newly issued Texas Gas shares for $52 apiece, paying $18.7 million in cash and the rest with a CSX note due June 30.

After those two steps are completed at a cost to CSX of about $565 million, Texas Gas would be merged into CSX, with the 13.2 million Texas Gas shares remaining to be converted into .684 of a share of CSX common stock, the company said.

CSX was formed through the merger of the Chessie and Seaboard rail systems. It has interests in coal, natural gas and land development and earned $338.4 million last year on $4.91 billion in revenues.

At CSX's closing price of $66 yesterday on the New York Stock Exchange, the stock swap would be valued at about $596 million, making the value of the total deal $1.16 billion.

News of the merger caused CSX stock to fall $2.375 a share yesterday, while Texas Gas rose $2.375 to $49.50. Meanwhile, Coastal Corp. fell 87.5 cents a share to $27.50.

Texas Gas, based at Owensboro, Ky., ships natural gas, primarily from Louisiana and Texas, to the Northeast and the North Central regions. It also operates trucking, barging, boatbuilding and oil and natural gas exploration units. It earned $113.5 million last year on revenues of $2.88 billion.

Green Bay Press Gazette, June 9, 1983

No rail ferry funds, Michigan says

LANSING, Mich. (AP) — The state has no money in sight to resume rail ferry service from Frankfort, Mich. to Kewaunee, Wis., a Michigan Department of Transportation official says.

DOT Deputy Director Carol Norris told idled railroad workers Monday that the state will try to keep rail service open between Ann Arbor and Frankfort. But she said the prospects of resuming the ferries across Lake Michigan are poor.

"Up to now, I haven't heard from one shipper who is aggrieved or whose business has been hurt because there is no car ferry service (at Frankfort)," Mrs. Norris said.

She met with representatives of a group of out-of-work railroad employees who also rallied at the Capitol as they demanded their jobs back. Almost 200 people have been put out of work in a financial dispute over who will operate the northern end of the Ann Arbor Railroad line.

The state owns most of the Ann Arbor system, which runs from Toledo, Ohio, to Frankfort. The Toledo-Ann Arbor stretch is operated by Michigan Interstate Railway Co. of Owosso, but the state has replaced that firm with two other rail lines on the northern section following the financial dispute with Michigan Interstate.

The ferry service across Lake Michigan was halted in April 1982.

St. Paul Pioneer Press, June 5, 1983

Caboose

Long railroad tradition is nearing end of the line

By David Shaffer
Staff Writer

Standing in the caboose, conductor Jim Belke listens to the rhythmic clanking of the freight cars beginning to move under the power of two locomotives.

The clanking noise surges from the front of the train to the caboose as the engines stretch out the slack between freight cars.

Then, with a metallic jolt, the caboose jerks forward. The steel wheels creak against the rails. Another jolt and the caboose is moving faster, headed out of St. Paul, bound for Chicago.

Belke picks up the radio microphone and tells the engineer in the locomotive: "Got them all moving, 248."

On most days, Belke is the man in the caboose of freight train 248 on the Milwaukee Road. He is the man at the window, dressed in bib overalls and a trainman's cap, watching the train and seeing the world go by.

The caboose and the men like Belke who ride them have been a colorful part of American railroading for 130 years. But the caboose is about to come to the end of the line.

Railroad companies, under an agreement reached last October with the United Transportation Union, are taking the first steps to eliminate the caboose. The railroads say they can operate trains safely without them.

Within a year, 25 percent of the cabooses in America probably will be parked permanently in train yards. The railroads hope to save $400 million a year.

It probably will be several years before all of the cabooses are gone. Some railroads may keep a few, especially on long hauls. And before a railroad can eliminate cabooses, it must go through a mediation process with the union.

When cabooses are gone, the caboose crew will move to the locomotive. For Belke, if the Milwaukee Road decides to retire the caboose on freight train 248, it will be the end of 17 years of riding the caboose.

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On a sunny day in May, Belke climbed on the caboose for his regular run from St. Paul to La Crosse, where the train's crew changes. For this trip, he was accompanied by a reporter, a photographer and trainmaster Bill Degidio.

Stowing his case in a compartment, Belke put the reflective markers at the rear of the train, then spread out his train lists and paperwork on the small desk at the rear of the caboose.

He went to work, talking as he wrote down the numbers of the freight cars.

"Sixty-eight cars — 4,623 tons," he said. "Stops at Hastings, Wabasha and Winona. We'll have some switching and blocking to do there."

Then Belke walked outside and inspected the last few cars on the train. When he returned to the caboose, he picked up the radio microphone and gave the engineer the signal to start: "248, highball when you are ready."

As the train moved out of the East Side yard, Belke moved back and forth between the bay windows on each side of the caboose, looking up the side of the train for dragging equipment and malfunctions.

On most trips, Belke would sit in a chair, perhaps put his elbow out the window in the classic conductor's pose, ready to wave at anyone he passes.

But this time, Belke gave the seats to his guests. He stood up, held on to a support bar, and looked out the window, sometimes talking over the radio and sometimes talking about the life of a conductor.

Belke, 51, of La Crosse, has worked for the railroad for 33 years, half of them as a conductor. His father, a grandfather and an uncle worked for the Milwaukee Road, too.

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CABOOSE - Long Railroad Tradition Is Nearing End of the Line - Concluded

"I hate to see them go," he said. "I personally think it's safer to have a caboose, but you can't railroad in 1983 like you did in 1943."

Belke won't feel nostalgia for the end of the caboose because he knows them for what they are — grimy, impersonal, utilitarian. The truth is that there is little romance about the caboose.

Gone are the old wooden cabooses with their brass fittings, hardwood trim, bunk beds and kitchen utensils. Gone are the personal touches that crew members added to make them their own.

Today the caboose is a stark, metal box with a toilet, a few seats, an ice box, oil heater, lockers, a desk and a radio. Most are dirty. One thing that's improved is the ride — still jerky, but a little more comfortable.

Some railroads still use cabooses with a cupola, the raised lookout post on the roof. But the cabooses on the Milwaukee Road have bay windows that allow the conductor to look up the side of the train.

Of course, nobody sleeps on a caboose anymore. Train crews stay in motels like everyone else. Cabooses are pooled, so train crews seldom use the same one from day to day.

The heyday of the caboose as living quarters and kitchen for crew members ended 40 years ago.

Even the caboose crew is shrinking. For years, caboose crews included a brakeman and a conductor. But Belke now rides alone because the Milwaukee Road is among the railroads that eliminated the rear brakeman.

"It gets a little lonely, but it's not bad," Belke said as he peered out the window, looking for signs that wheel bearings are burning out, a major cause of derailments and one of the main jobs of the conductor.

Like most conductors, Belke spends a lot of his time looking. He looks for the signs of wheel failure and dragging equipment, especially when the train rounds a curve and all the freight cars come into view.

"If you see blue smoke, you know the brakes are stuck," he said. "If you see white smoke, it's a hot box (a burned-out wheel bearing) and if you see sparks, you know its a brake."

"Nobody in his right mind sleeps back here because if you go off the tracks, you are going with it," Belke added.

The railroad companies say the conductor's watchful eyes are no longer necessary at the rear of the train and that the rear brakeman — already gone on the Milwaukee Road — isn't needed at all.

Instead, railroads have installed devices called hot-box detectors along rail lines. When a train passes one, sensors detect an overheated wheel bearing and pinpoint the car causing the trouble.

Degidio, the trainmaster, figures railroads are finally joining the high-tech age. But the union representing brakemen and conductors doesn't seem too happy about it.

The United Transportation Union, while agreeing in principle to the elimination of cabooses, has forced five railroads into arbitration after the railroads drew up specific plans for retiring cabooses.

"Our position is to maintain as many cabooses for safety as we can maintain," said union spokesman Lou Corsi. "You must maintain safety, and in many cases that can be done best from the caboose."

To sweeten the pot, most railroads are offering bonus pay to caboose crews when they are moved to the locomotive.

The Milwaukee Road has been urged by the Interstate Commerce Commission to retire cabooses as an economy measure, but the railroad, like most, still is studying it. Meanwhile, the rail company is reorganizing under bankrupty laws.

Burlington Northern and Chicago & North Western soon will begin arbitration proceedings over cabooses. The Soo Line Railroad, based in Minneapolis, has no immediate plans to retire cabooses, a spokesman said.

According to the Association of American Railroads, the five railroads already in arbitration proceedings to phase out cabooses are the Illinois Central Gulf, Seaboard, Chessie, Norfolk & Western and Southern.

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As train No. 248 slows to cross a bridge at Hastings, Belke picks up the microphone and chirps directions for the switching to be done at the yard there.

The train strains to a halt. The rumbling stops and the train is silent. Belke climbs down from the caboose and walks forward carrying a walkie-talkie.

Cars loaded with flour from the mill are added to the train. Belke and the front brakeman disconnect some cars to make space. Then locomotives pull up, drop empty cars on a siding and add new ones.

The switching takes less than half an hour. Belke reenters the caboose, gives the engineer a signal over the radio and the train moves again.

It moves down along the Mississippi River on the Minnesota side, passing houses on the banks. Barges are moving down the river and sun is filtering through the window. Belke works at the paperwork on the desk.

When another train approaches on a parallel track, Belke steps onto the caboose's back platform and watches it go by. He is looking for loose equipment on the other train. He sees none, so he waves — a sign that all is well.

The train is going about 40 mph now, but it must stop twice more before reaching La Crosse, eight hours after leaving St. Paul. It is delayed at Winona more than an hour because of track repairs ahead.

During the wait, Belke stands on the platform, smoking a cigarette, looking down the twin ribbon of steel track. As the afternoon fades into twilight, the train gets permission to move again.

The locomotive hums, the train jerks and the caboose begins to creak. In an hour, the train is in La Crosse.

Another trip is over. Belke picks up his suitcase, climbs off the train and goes home.

Chicago Sun-Times, June 15, 1983

Conrail employees offer $500 million for railroad

WASHINGTON (AP)—Unions representing 40,000 employees of Conrail, the government-owned freight railroad, offered Tuesday to buy it for $500 million plus considerations they estimated were worth another $1.5 billion.

The employees would become the railroad's stockholders, but would turn over management of the huge Northeastern line to professionals, spokesmen for the 16 unions said.

Under law, the Transportation Department is obliged to try to sell Conrail, first as a whole and then, if no buyer is found, to sell off segments.

Conrail was created by Congress in 1973 after the bankruptcy of the Penn Central RR and six smaller lines left most of the Northeast without railroad freight service.

The 15,000-mile line began operations in April, 1976, and suffered severe losses despite $3.3 billion in federal subsidies. But last year, it turned a profit of $174 million, thanks to a cost-cutting program and a 12 percent wage cut accepted by workers.

Fred A. Hardin, chairman of the Railway Labor Executives' Association, announcing the unions' offer, said he knew of no other entity that is considering making a bid for the railroad. The government has hired an investment banking firm to see if there are other potential buyers.

Hardin said the unions would be willing to negotiate on price. "It's a detailed proposal and it will take us some time to review it, but we certainly intend to give it every consideration," said Transportation Department spokesman Tom Blank.

In addition to $500 million in cash, Hardin said the unions were willing to offer these two considerations:

- The elimination of net operating loss tax attributes, which would cost the government $1.2 billion in lost tax revenues if another buyer could benefit from them.
- An agreement to turn money owed workers who took wage deferrals since April, 1981, into a profit-sharing arrangement, in effect wiping away those liabilities that the unions estimated will total $400 million by July 1, 1984, when the deferral agreement expires.

Hardin and Brian M. Freeman, financial consultant to the unions, said the unions would be willing to commit themselves to another three years of wage concessions.

But the unions refuse to commit themselves to take wages lower than prevailing industry scale if Conrail is sold to someone else, they said.

"All we want to do is share in the ups in the years ahead; we've shared in the downs," Hardin said.

Freeman said no fixed deadline exists on the offer.

Hardin said the unions had a commitment from banks to lend them the $500 million cash, and stressed that the unions would not own the railroad. He said employees and retired employees would be the owners and that union leaders would not sit on the board of directors. The directors, he said, would come "from the traditional range of private sector experiences. All we want to do is to own the railroad and hire professional people to manage it."

Wall Street Journal, June 15, 1983

Unions Offer to Buy Conrail for $2 Billion, But U.S. Sees Serious Problems With Bid

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON – Rail unions formally proposed buying Consolidated Rail Corp. from the federal government, making what the unions called a $2 billion offer.

However, that offer involves a mixture of proposed financing backed by Conrail's own cash and assets, and union wage and tax-benefit concessions. Transportation Department officials said the offer will be considered, but suggested the bid involves some serious problems, too.

Meanwhile, competing offers, perhaps from other railroads, might be made, department officials said. "We expect to receive other offers," Thomas Blank, an agency spokesman, said although he added that none has come yet.

The unions' offer, made on behalf of 40,000 Conrail workers, included $500 million in cash, to be obtained through private financing, secured by Conrail's cash flow and assets. The unions would also waive tax benefits stemming from past Conrail losses that they said would give the Treasury more than $1.2 billion in revenues.

Finally, the unions said employees would extend wage deferrals scheduled to expire July 1, 1984. The 12% pay concession, granted in April 1981, would be extended another three years, and workers would be compensated for the deferred wages with cash from profit sharing, if Conrail's earnings rise substantially. The unions estimated that by July 1, 1984, the wage concessions will have saved Conrail more than $400 million.

Conrail, formed in 1976 by Congress from the giant Penn Central and five other bankrupt Northeastern railroads, has had losses most of the time. But it recently moved into the black, and two weeks ago the U.S. Railway Association, the government corporation that monitors Conrail operations, officially predicted that Conrail will be profitable over the next five years.

One of the Reagan administration's leading transportation priorities has been to sell Conrail to private owners. Congress authorized, but didn't order, such a sales in 1981.

Under a recent law, the association's determination forestalls any piecemeal sale of Conrail at least until June 1. However, the government could sell it as a single entity before then.

The employees' offer was made by the Railway Labor Executives' Association, an umbrella group of rail unions. Government officials' concern about the offer focuses primarily on the fact that the proposal relies heavily on Conrail's own resources.

For instance, the $500 million is roughly the same amount as Conrail's current cash reserves, raising speculation that much of the reserves could be used to repay the loan. "That thought has crossed many people's minds," a department official says.

The unions maintain that repayment of the $500 million would be "secured by cash flow" that would, in turn, be assured by the wage deferrals and by other employee actions. However, the unions say, interest payments on the private debt would be "substantially offset" by proceeds of an "early" public sale of 20% to 30% of Conrail common stock.

The government also wants to be assured that a new Conrail owner would be able to keep the road running on its own, to ensure that Conrail doesn't return to federal hands or financial support. Seeking to allay that worry, the unions' offer included provisions aimed at speeding a merger or further sale of the company or its assets, "if it later becomes clear that Conrail can't be maintained as an independent entity even with the substantial resources provided by the employee actions."

A railroad official familiar with the Conrail issue contends the union association offer "will drive (government) people to look for alternatives" with greater fervor than before.

The unions contend that the offer is "generous," that Conrail isn't financially viable without the union concessions—as the government corporation has conceded—and that only the unions can keep it profitable. With the current offer, "I can't conceive of the government wanting to sell the railroad piecemeal" to other buyers, Brian Freeman, the group's attorney, said.

The employees want to buy Conrail to "maximize service" and protect their jobs. The jobs would be threatened if the railroad is purchased by other roads, especially piecemeal, that might then seek to abandon big segments, the union association said. Without a union takeover, Conrail "is likely to be acquired by speculators, other railroads, or others who are apt to reduce service, divert traffic, 'cherry-pick' the assets and terminate a significant number of employees," Fred Hardin, the union group's chairman and president of the United Transportation Union, said.

Indeed, he noted indications by some other roads that they would like to buy into Conrail, but "only to cherry-pick it." But the union officials insisted that the unions would leave Conrail's management and operation to "professionals."

A final agreement between the government and the unions would require ratification by Conrail workers, the union association said. The employees voted last November to begin negotiations toward the purchase.

Journal of Commerce, June 17, 1983

Employees' Plan for Conrail Concerns Crane

By RIPLEY WATSON 3rd
Journal of Commerce Staff

L. Stanley Crane, chairman of the board of Conrail, has expressed concerns about financing and management independence facets of a plan submitted by the railroad's employees to buy the carrier from the government.

At the same time, Brian Freeman, a spokesman for the Railway Labor Executives Association, which made the formal offer earlier this week, expressed willingness to work out specific arrangements to deal with Mr. Crane's concerns.

Mr. Crane said Thursday that "I am particularly concerned that the RLEA plan does not make clear how it would implement assurances that management would maintain the necessary independence to effectively carry out its duties."

The statement was directed to the 40,000 employes whose offer includes $500 million in cash and a total value of about $2 billion.

The U.S. Department of Transportation is under Congressional mandate to sell the carrier which used more than $3.3 billion in federal funds before turning a profit in 1981.

The bid by the employees is the first formal offer the government has received for the 16,000-mile carrier which was created in 1976.

Secretary of Transportation Elizabeth Dole has said that other parties are interested in the property and are talking with the government, but none of them have come forward publicly to state their interest.

The track was cleared for the employees' bid when a report released two weeks ago by overseer United States Railway Assocation declared that Conrail had future profit potential and therefore had to be sold as a unit.

Mr. Crane also said he felt "it will be in the best interests of all parties to reduce the debt to be borne by the corporation and thereby increase its financial flexibility."

"Anything which acts to curtail either of those goals would be counterproductive to Conrail's long-term health and its ability to serve its customers," Mr. Crane said.

The RLEA plan which was unveiled Tuesday includes a provision giving up more than $1.2 billion, which are the tax benefits the prospective buyers say would accrue to another purchaser.

The group representing the employees also made it a point, in a news release issued when the purchase offer was detailed, to praise Mr. Crane and promise the management complete independence.

Mr. Freeman, who is coordinating the purchase offer as an advisor to RLEA, said he felt the proposal dealt with both of Mr. Crane's points adequately, but he indicated willingess to increase the number of specifics in the plan.

While calling Mr. Crane's points "fair and reasonable," Mr. Freeman noted that the presence of banks who helped arrange the plan should be an indication of their faith in its viability.

He noted that employees offered in the plan to take whatever steps are needed to maintain adequate cash flow.

The employees agreed to wage concessions in 1981 which contributed to Conrail's showing a profit over the past two years.

Their statement Tuesday indicated that policy would continue.

Mr. Crane also said in his statement that he favors the return of Conrail to the private sector.

Journal of Commerce, June 17, 1983

Cargill to Build Corn Wet Milling Plant

Journal of Commerce Special

DES MOINES, Iowa — Cargill announced plans to build a $100 million corn wet milling plant at Eddyville, Iowa, about 60 miles southeast of here.

Construction will begin this summer. When completed in early 1985, the plant will have the capacity for annual production of more than 600 million pounds of high fructose corn syrup, 200 million pounds of corn syrups and 150 million pounds of industrial and food-grade starches, according to Ernest Micek, president of Cargill's Domestic Corn Milling Division.

The facility will be built adjacent to a steam and power generation plant that Cargill bought along with 260 acres of land from Iowa Southern Utilities Co. in 1981, Mr. Micek said. The coal-fired generating plant will provide steam used in the milling process and most of the electricity to power the corn plant.

Journal of Commerce, June 13, 1983

Soviet Imports of US Grain Expected to Rise

By ANGUS ROBERTSON
Commodity News Services

WASHINGTON — Soviet imports of U.S. grain in 1983-84 are projected at about 10 million metric tons by private analysts and Department of Agriculture specialists, assuming the U.S.S.R. produces a crop between 180 million and 200 million metric tons.

USDA specialists on the Soviet Union and even private analysts are reluctant to be quoted on market-sensitive projections of Soviet imports. But several contacted by Commodity News Services expressed a surprising degree of agreement on Soviet needs.

Underlying almost all government and private forecasts is the assumption that the Soviet Union will continue to buy as much grain as it conveniently can from other sources before turning to the United States.

Even USDA analysts concede this point, despite the high hopes expressed for expanded sales under a new long-term agreement.

The Agriculture Department has no official estimate of 1983-84 imports from the United States, but an internal breakdown of USDA's May forecast of total grain imports of 34 million metric tons pegged the U.S. share at 13 million in the July-June year. This would be more than double the 6.2 million imported in 1982-83.

The Agriculture Department's internal 1983-84 forecast is considered too high by private analysts who claim USDA has persistently been overly optimistic in its projections of Soviet imports from the United States.

USDA analysts privately concede that based on a crop of 180 million to 200 million metric tons, the United States will do well to top the 10-million mark.

They agree with private analysts' projections that the Soviet Union can safely expect to obtain about 25 million metric tons from other sources, barring crop disasters, with the balance to come from the United States.

With imports estimated by USDA at 35 million metric tons from all sources, this would leave the United States with about 10 million tons.

Latest indications are the Soviet crop may well be closer to 180 million metric tons than 200 million this year, making the USDA internal forecast of 13.5 million potentially attainable.

But based on imports of 33.5 million in 1982-83 after a crop of 180 million tons, most of the analysts contacted do not expect imports to greatly exceed 35 million tons unless there are further major complications with this year's crop.

Private and government analysts do not expect the Soviet Union to change its buying habits significantly, even if a new long-term pact with the United States is concluded.

Having been stung by the 1980 embargo imposed by former President Jimmy Carter, the Soviets have learned the value of diversifying their import sources, according to the analysts.

The Soviet Union also has discovered that purchases from competing suppliers such as Argentina and Canada do not have the same dramatically bullish impact on the price-setting Chicago grains markets as do purchases of U.S. grain.

And while the United States continues to hold the bulk of the world's stocks, the Soviet Union knows it can turn to the U.S. market at any time.

The main value of a new agreement will be political, analysts believe, and in smoothing the timing of Soviet purchases.

The analysts also agree too much attention has been focused on the importance of the Soviet Union as a buyer of U.S. grain.

While they all expect the U.S.S.R. to remain a significant importer of U.S. grain, the United States will have to look elsewhere for expanding export prospects — notably the Third World, note some analysts. The Soviet share of U.S. exports is likely to stay closer to the 20 percent level of 1982-83 than the 75 percent of 1976-77, they say.

Wall Street Journal, June 17, 1983

Rail Industry's Retiree System Seeks Bailout

By ROBERT S. GREENBERGER
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON–While attention has focused on patching up Social Security, another big retirement system has been running into trouble.

The railroad retirement system pays about $5.7 billion annually in benefits to nearly a million people. But because of growing demands on its shrinking resources, the system is going into debt. Next year, benefit obligations will exceed revenues by $532 million.

Although the retirement system has so far been privately financed, it is regulated by federal statute. The railroads and their workers, in addition to seeking changes in the law, are counting on taxpayers to help the system out of its difficulties by contributing at least $2 billion.

Experts say that if the law isn't changed, benefit cuts will be needed to avert a $13 billion deficit by 1992.

"In many respects, it's even more severe than what we faced with Social Security earlier this year," says David Stockman, President Reagan's budget director.

Cuts in Benefits

For railroad retirees, it's crucial that Congress act quickly. Certain benefits will be cut 40% in October and another 40% the following year under 1981 legislation if a rescue plan isn't adopted soon. Legislators are being asked to approve a plan put together by rail management and labor that would raise about $9 billion over five years through increased payments by employers and employees, smaller benefits for retirees, and aid from the government.

Congress twice has rubber-stamped rescue plans in the past 10 years, but several obstacles this time might make a resolution more difficult. The 1981 fix, which was supposed to last 10 years, fell apart so quickly that Congress is looking more carefully at the new plan. The Reagan administration also wants to limit the federal contribution. And rail unions are feeling pressure from retired members, who believe they are being asked to pay an unfairly large share of the tab.

Most observers believe Congress will resolve these problems before its summer recess. "It's a game of chicken," says a Senate Labor Committee staff member. "Everybody up here knows that if those notices of benefit cuts ever go out, a million angry telegrams will be received here."

Nevertheless, the aide adds, a credibility gap could hinder a settlement. "Twice in the last decade we've been told we had the magic fix to make this system self-sufficient," he says. "People no longer believe it when anyone comes up here with a solution."

Enriched Pensions

Part of the problem lies with Congress. In 1954, despite opposition from some rail unions and railroads, Congress enriched the pensions of retirees by removing certain restrictions on double pension payments. Under the change, an employee who had worked in the railroad industry and in another private-sector job qualified for a bigger combined Social Security-railroad retirement pension than if he had spent the same number of years in just one sector.

The railroads say Congress underestimated the cost of this change, which the railroad retirement system paid, causing much of the deficit that drove the system to near-bankruptcy in 1974. Congress changed the system that year, but the railroad retirement system wants the $2 billion from the government to make up for some of those double pension payments.

At the same time, some members of Congress suspect that the labor-management rescue package may also underestimate costs. The system may be too optimistic in expecting to get back $500 million it has lent to the railroad unemployment insurance fund to cope with high unemployment. Under the rescue plan, an increase in employer contributions to the fund would help pay back this debt over five years.

However, some congressional aides and administration officials believe that high unemployment in the railroad industry will force the unemployment fund to borrow $1.8 billion by 1988. And if the retirement fund can't get its money back, "the big fear up here is that they'll be back again in a couple of years," says a House aide.

Employment projections for the various rescue proposals have been made by the Railroad Retirement Board, the federal agency that administers the railroad retirement and unemployment systems.

Drop in Employment

The board's track record hasn't been good. In 1981, it estimated that railroad employment would drop to about 500,000 by 1983–but it turned out that jobs fell to 395,000 by April 1983. The drop reduced revenues and raised jobless payments, sending the railroads back to Congress this year.

"The problem was that the recession had a drastic effect on railroad employment," says Norman Solomon, the board's chief actuary. "Nobody has ever put pressure on me to use rosier employment assumptions. But it is true that in the past they've turned out to be too optimistic. It's a guess, at best, as to what employment will do," he says.

Currently, the board projects that employment will fall to 370,000 next year and level off at 340,000 by 1989. Mr. Solomon says this "best guess" assumption has been used as the basis for the latest rescue proposal made by rail labor and management.

But Ralph Ladden, president of National Transportation Research Corp., a consultant and investment adviser, calls the latest numbers "on the high side." He says that because of an expected reduction in the amount of track used and an increased use of truck carriers, railroad employment could be 240,000 by 1989.

Many of the 20 unions involved in the rescue effort are hearing complaints from disgruntled retired members. Under the plan, retirees would have to take a permanent reduction in certain pension payments and for the first time, pay taxes on a portion of their pensions. The rescue also would phase out a plan that permits retirement with full pay at age 60 after 30 years of service.

As a result of this discontent, membership in the Railroad Retirement Association, formed last summer, has risen to 9,000 and could reach 25,000 by year-end. "I don't think it's fair to extract anything from retirees," says Lloyd Duxbury, the association's president. "They paid everything they were expected to pay to the fund while they were working." Mr. Duxbury, who estimates that half his members are union members, says retirees weren't properly represented when the rescue package was constructed. And he blames labor and management for the fund's financial ills.

Congress is trying to shape these various interests–and its own–into a workable package. But first, the railroad-retirement legislation will be studied by several committees. "In 1981, when they told us the fix would hold for 10 years, everyone winked and voted for it," says a House committee aide. "People aren't winking this time."

Journal of Commerce, June 14, 1983

PIK May Delay Progress On Mart-Oriented Farming

Journal of Commerce Special

KANSAS CITY — The high cost and the deficiencies of the payment-in-kind program can be justified if it is used as an emergency plan while the administration and Congress work toward a market-oriented agriculture, a grain company executive said here. However, there is concern that PIK could delay such an adjustment, according to Ted Rice, vice president of commodity research for Continental Grain Co., New York.

Analyzing the complexities of PIK before a seminar for executives in the breadstuffs industry, Mr. Rice noted that PIK's objective is to boost farm income by reducing stocks of grain, rice and cotton through acreage reduction. The cost of that program, excluding rice and cotton, has been estimated conservatively at $8 billion this year.

From a grain farmer's point of view, Mr. Rice said PIK is an unqualified short-term success. Grain prices are higher than they would likely have been without PIK. And 1983-84 farm income will rise, primarily by reducing out-of-pocket costs and increasing government payments, he explained.

PIK also helps alleviate the build-up in overall grain stocks and the excessive levels of stocks in the farmer-owned reserve, he added. Furthermore, the program reduces direct outlays of Treasury funds needed for an acreage reduction program.

On the other hand, Mr. Rice pointed out that PIK has turned a margially profitable poultry industry into a loss situation. And fertilizer, petroleum and pesticide companies report substantially reduced sales this year.

The immediate impact on food prices is small, Mr. Rice continued. But he suggested that PIK will later cause prices to rise materially since the amount of meat and poultry products available will be smaller than had feed prices stayed at lower levels.

PIK can also send the wrong signals to farmers, Mr. Rice cautioned, because it renews a belief that producers can expect high grain prices in the future.

"Farmers will view the two-year bear market starting in the late fall of 1980 as an aberration rather than an adjustment to increased agricultural productivity worldwide and slow growth in world demand for grain imports," he said. "In addition, PIK will encourage more investments in land and machinery, which will increase the difficulty of adjusting to any subsequent decline in prices."

Journal of Commerce, June 16, 1983

Chessie Inaugurates 'Sunshine Express'

Journal of Commerce Staff

WASHINGTON — A daily transcontinental piggyback service called Sunshine Express has been put into operation by Chessie System Railroads and its trucking subsidiary, Chessie Motor Express.

The route extends from California's agricultural regions to New York, Baltimore, Philadelphia and other Eastern points and offers a schedule competitive with truck delivery, Chessie said.

Chessie said its truck-rail-truck intermodal service makes the carrier the only line to offer door-to-door, coast-to-coast transportation on a single bill.

The Sunshine Express' cargo is principally wine, food, and other perishables. Chessie said the service was handling almost a full trainload per day in East bound transcontinental traffic.

The express train is loaded with other freight on the reverse haul to minimize expenses, Chessie said.

Wall Street Journal, June 15, 1983

Rails Urged to Monitor Crews More Closely To Spot Any Drinking

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON—Railroads should monitor crews better to guard against the operation of trains by drunken or otherwise impaired personnel, the National Transportation Safety Board said.

The recommendation was made in Safety Board reports on two railroad accidents last fall, both involving crew members found to have been drinking.

In one crash, Sept. 28, an Illinois Central Gulf Railroad freight train, including 14 cars carrying hazardous chemicals, derailed near Livingston, La. In the ensuing fire, two tank cars exploded, releasing toxic gases. About 3,000 people were evacuated from their homes, and property losses were estimated at $10 million.

The Safety Board found that an Illinois Central Gulf engineer and a brakeman had been seen drinking before and after reporting to work. The engineer had an estimated blood-alcohol level of about 0.19% at the time of the accident, and his ability to run the train "was impaired significantly," the investigative agency said. When the crash occurred, an off-duty Illinois Central clerk was operating the train, though she wasn't qualified to do so, the Safety Board said.

The derailment occurred when a damaged air hose caused a sudden uncoupling and a rapid emergency braking action, the agency said. The Safety Board indicated that the sudden braking usually can be smoothed out by an experienced, clear-headed engineer.

The other crash occurred Oct. 3, near Possum Grape, Ark. A Missouri Pacific Railroad freight train collided with another train, killing the engineer and chief brakeman. The engineer was found by the Safety Board to have a moderate blood-alcohol level and alcohol in his stomach. He drank just before coming on duty and possibly continued drinking after starting work, the Safety Board said. Cans of beer were found in a locomotive cooler and on the track right-of-way after the accident, the agency said.

The accident occurred because the crew members didn't reduce train speed when they reached certain track signals, the Safety Board said. It also said that the alcohol-impaired engineer had turned over the controls to the brakeman, who wasn't qualified to operate the train.

In both accidents, the conductors, who are in charge of a train, didn't make any effort to caution the engineers about excessive train speed, the Agency said. The conductor of the Illinois Central Gulf train didn't have "face-to-face contact" with the engineer and head brakeman after they arrived for duty, it added.

The Safety Board recommended that the ICG provide "intensive" supervision of train operations, including "periodic unannounced checks of train crew members' fitness for duty at reporting points and on trains enroute."

In its report on the Missouri Pacific accident, the agency urged railroads to set up procedures to check out train employees at crew-change terminals, assuring that operating crews come to work "physically fit" and able to comply with operating rules. It also urged railroads to train employees to understand their responsibility in monitoring the performance of fellow workers and to take "positive action" to prevent the running of trains by workers who are unfit.

In March, when the Safety Board investigations of the two accidents were in progress, the agency recommended that the Transportation Department's Federal Railroad Administration adopt rules aimed at curbing the "widespread" use of alcohol and drugs by train workers.

The department has said it is working with railroad-industry and union leaders to find ways to curb alcohol and drug abuse by train crews. Transportation Secretary Elizabeth Dole has said the department favors a "consensual" approach, using rules the industry and unions would accept.

In its latest recommendations, the Safety Board also urged steps to provide better training for railroad employees in running trains that haul hazardous goods.

Journal of Commerce, June 17, 1983

Rails Free To Abandon Some Lines

Journal of Commerce Staff

WASHINGTON — Rail lines that have been out of service for at least two years can be abandoned without the prior approval of the Interstate Commerce Commission, the agency ruled.

The abandonment exemption will apply to lines used for overhead traffic, or alternate routing, as long as no shipments have originated or ended on the line for at least two years, the ICC said.

The commission said the decision will have no competitive or operational impacts because it will usually pertain to short line segments with no shippers.

The exemption was generally supported by the railroads, but shippers, trade asssociations, and states objected to the abandonment deregulation saying abuses could result.

The commission said, "A two year period is long enough to show that no subterfuge is involved and to allow shippers time to induce a resumption of service through negotiations or legal actions.

"A longer period would impose opportunity costs on the railroad without any overriding public benefits," the commission concluded.

Those protesting the abandonment plan sàid railroads could use service and rate manuevers to force traffic off certain lines for two years, and then abandon the line.

The commission discounted that argument, saying lines will not be approved for abandonment while a complaint is pending with the ICC concerning service on the line.

Journal of Commerce, June 14, 1983

Railroads Propose Rate-Making Extension

By RIPLEY WATSON 3rd
Journal of Commerce Staff

A group of 25 major railroads are asking the Interstate Commerce Commission to postpone for three years a rate-making provision of the Staggers Act that the carriers claim could cost them more than $300 million.

The carriers are asking that the commission find a provision called "direct connector" rate-making infeasible on grounds that it would slow down cost recovery and be difficult to administer.

The Staggers Act states that starting in January 1984, railroads must use "direct connector" rate-making and set rates for multi-carrier movements one at a time rather than having joint rates set collectively as they are now.

The only way the "direct connector" system can be changed is if the commission finds it infeasible.

Without the right to collectively set rates, the petition argues, the carriers cannot successfully apply increases in rates to recover costs.

If the proposal is successful, the existing quarterly review of inflation-related rate increases would remain in effect. That index, which is calculated by the commission, applies to all rates unless carriers decide to exempt themselves.

The petition filed Monday includes all of the largest American railroads except the CSX Inc. carriers and Conrail. The Union Pacific, Southern Pacific, Santa Fe, Burlington Northern and Norfolk Southern railroads are party to the petition.

Also included in the petition are the Illinois Central Gulf, Chicago and North Western, Boston and Maine, Kansas City Southern, Soo Line and other smaller carriers.

There were some questions about shipper reaction to the filing, since it would make increases apply to all rates, rather than only to individually negotiated ones.

Shippers also would improve their cash flow if cost recovery increases were delayed in an individual rate negotiating process.

One aspect of the case the carriers make states that the generalized cost recovery increases are needed to enhance the railroads' revenue adequacy.

The most recent ICC calculation of railroad revenue adequacy showed none of the major systems were generating adequate revenues.

The contention made in the petition is that the direct connector standard "will lead to substantial delay as each individual route or route set is negotiated."

"If cost recovery was delayed by as much as 90 days," the carriers argue, "the nation's railroads could lose over $300 million annually (assuming a 4 percent increase in rail costs) which amounts to over 20 percent of the Class I railroads' net operating income."

The carriers also state that collective rate-making is pro-competitive because the Staggers Act limits increases only to cost recovery and because there are independent rate actions such as contracts.

The other part of the railroads' argument is that "with over 400 railroads in the United States party to joint rates with each other, a virtually incalculable number of route sets is created when all nationwide traffic is factored into the equation."

One of the statements submitted with the petition states that a rate adjustment for one commodity from one origin to multiple destinations which involved 21 railroads and 345 route sets took five months to complete.

It is proposed that the existing joint rate system "cannot be changed overnight (or even in three years) without potentially chaotic results."

If joint rates were eliminated, carriers would publish what are called proportional rates for their part of a multi-carrier movement.

Railroads estimate that more than 60 percent of their traffic moves on more than one carrier. The vast majority of that traffic moves under joint rates, rather than proportional tariff.

"If antitrust immunity for collective action is eliminated . . . , there would be a substantial reduction in the number of joint rates which are presently used and accepted by shippers and carriers," the carriers contend, while stating that joint rates improve railroads' competition and efficiency.

The carriers concede that rate levels ultimately would be the same with individual or collective action.

"However, even though the ultimate rate level may be the same, the resultant time lags and attendant financial losses from proceeding without collective action would result in permanent revenue losses."

Some carriers, such as Conrail, have canceled their joint rates because of what they felt were either unfair divisions of revenue between carriers or unnecessary duplication of routes.

Journal of Commerce, June 13, 1983

CN Gets 'Green Light' In Cast Takeover Bid

By LEO RYAN
Journal of Commerce Staff

OTTAWA — The federal government authorized at week's end state-owned Canadian National Railways to proceed with a complex exchange of debt for vessels and cargo contracts in a takeover of control of the Cast group's North Atlantic container operations.

Under the terms of an agreement still being finalized between the various parties involved, CN and the Royal Bank of Canada will own, respectively, 75 percent and 25 percent of the Cast Container Group (CCG) and its terminal trucking and marketing subsidiaries in the United States, Canada and Europe.

Each principal will hold an option to buy out the interests of the other in the Cast Container operations, subject to certain time and price conditions. CN, under the proposed agreement, is to have the majority of directors in the new North Atlantic shipping concern and holds the right to buy out, at any time, the Royal Bank of Canada's interests at the higher of the book value. For a period of six months, after five or eight years have elapsed, the Royal Bank will have the right to buy out CN, unless CN previously exercises its own option.

Up till now, CN has held an 18 percent interest in Eurocanadian Shipholdings Ltd. of Switzerland. Included in the acquisition are the assets of the Task Terminal in Montreal, for which CN paid $10 million to Eurocanadian Shipholdings a year ago last April at the time of a $200 million Cast financial rescue operation.

In an interview, a senior government transportation official declared it was "basically a business deal to permit CN to protect its access to a large volume of container traffic." Rail earnings from this traffic are estimated at $15 to $20 million annually.

The official recalled that CN's main competitor, the publicly-owned Canadian Pacific group, has been vertically integrated for sometime as an intermodal operation. "If Cast had been allowed to fold, a loss of traffic would have been irremedially lost to CN."

The total long-term debts and liabilities of the Cast Container subsidiaries are understood to be in excess of $45 million.

The Bank of Montreal, which had held two Cast Container bulk carriers against debts owned by Eurocanadian is to release its charge on them, allowing these vessels and three other similar vessels to be owned by the Royal Bank and chartered to the Cast Container Group.

After 12 years all five container-bulk carriers, built for about $150 million but valued under the takeover agreement at $108 million, will become the property of the Cast Container Group, unless previously sold to a third party.

CN is to transfer to Frank Narby (who owns 60 percent of Eurocanadian through Dolphin Investments Ltd.) and Helix Shipping Ltd. of Toronto its shares in Intercast SA, a Swiss affiliate of Eurocanadian. CN will release Intercast of its guarantees to the Cast Container operation and in return Intercast will transfer to CN the bulk shipping contracts it has presently with Noranda Mines Ltd. and Quebec Iron and Titanium Co.

Other terms of the proposed takeover stipulate that all debts of Cast Container transferred to the Royal Bank pursuant to the arrangement with Eurocanadian are canceled. Also canceled are all inter-company debts between Cast Container, the Bank of Montreal, Eurocanadian, and Intercast, and their subsidiaries. Similarly canceled are previous guarantees given by Cast Container in respect to the St. Lawrence Stevedoring Inc. of Quebec and its subsidiary, St. Lawrence Warehousing Inc.

CN will not guarantee charter agreements made in regard to the three Cast ships now pledged to the Royal Bank, and no charter payments will have to be made under these agreements in the first two years following the takeover, except for operating costs. Unpaid charges will be capitalized. Charter arrangements covering the other two vessels however, are to be guaranteed by CN and the Royal Bank on a 75-25 percent basis. The same two-year charter payment moratorium will apply.

The federal Cabinet authorization allows CN to make advances for working capital and to hold, pledge, and dispose of bonds, notes, securities and other indebtedness. However, CN is restricted to a total of $15 million in its guarantee of any borrowings, securities or other obligations of the Cast group and its subsidiaries.

Journal of Commerce, June 17, 1983

Rail Industry Freed to Raise Rates

By DAVID M. CAWTHORNE
Journal of Commerce Staff

WASHINGTON — Individual railroads will be free to raise their rates on shipments by as much as 2 percent under cost data the industry recently submitted to the Interstate Commerce Commission.

But with traffic still at depressed levels due to the slow pace of the economic recovery, several shipper representatives indicate they don't expect the increase to be applied on an across-the-board basis.

The data was filed at the commission under procedures adopted in 1980 in order to permit carriers to quickly increase their rates to reflect higher costs due to inflation.

Most of the increase was caused by an anticipated 2.1 percent increase in labor costs, a 3.7 percent boost in fuel costs and a 2.7 percent jump in other costs.

Only materials and supplies costs will go down, the Association of American Railroads said, adding that the industry expects them to decline by about 1 percent.

The AAR said the entire labor cost is covered by a 3 percent wage increase for employees due July 1 that is slightly offset by a one-cent reduction for the continued phase-in of entry rate savings for first and second year employees.

The 31.5 cents increase in the hourly rate also causes a 5.4 cents per hour increase in pay for time not worked and a 2.9 percent per hour increase in railroad retirement and medicare tax rates.

The railroads also projected a 3.1 percent increase in fuel cost from the actual second quarter level paid by the carrier. The original increase over this is a 3.7 percent increase over the AAR's second quarter fuel cost projection, the group added.

Much of the change is attributed to OPEC's successful defense of its new price for crude oil which has stabilized world oil markets.

The "other expense" increase is based on a Producer Price Index estimate which is 2.7 percent above the second quarter forecast and 0.3 percent above the APPI's actual value during the first quarter.

If the cost data is accepted by the ICC this will mark the first time this year the industry is free to raise rates to cover quarterly operating expenses.

Journal of Commerce, June 17, 1983

SP, GTE Announce Sprint Network Sale

Journal of Commerce Staff

Southern Pacific Co. and GTE Corp. have announced that the sale of SP's Sprint communications network has been completed for $727.4 million.

The sale, which was announced last year, involves the most profitable of Southern Pacific's varied interests.

When announced, the sale sparked a number of rumors and speculative statements concerning additional railroad merger activity involving the company.

However, no mergers have been announced by Southern Pacific.

The acquisition is the first move by GTE into the intercity telecommunications industry. The assets sold by SP are being operated separately from GTE's telephone companies and are being called GTE Sprint Communications Corp. and GTE Spacenet Corp.

Journal of Commerce, June 16, 1983

Western Rails Back Car Pool Plan

By RIPLEY WATSON 3rd
Journal of Commerce Staff

Three major Western rail systems are backing a car pooling plan submitted to the Interstate Commerce Commission, but the absence of Eastern railroads is raising questions about the plan's scope in its present form.

The plan submitted Wednesday, called car hire balancing, proposes to keep car hire rentals at approximately present levels while reducing empty miles.

Backing the plan are the Union Pacific, Southern Pacific and Atchison, Topeka and Santa Fe railroads and several other lines in the Midwest and Northeast.

However, Conrail and CSX Inc. and Norfolk Southern Corp. railroads declined to participate in the plan, leaving a gap that limits the pool's geography to New England and to an area west of the Mississippi excluding the Pacific Northwest where non-participant Burlington Northern operates.

Estimates of the amount of traffic which could be moved in pooled cars wasn't readily available, but it appeared to some observers that less than 20 percent of present rail traffic would be involved.

The railroads involved own a total of 30 percent of the nation's fleet of boxcars, open hoppers, gondolas and flatcars, which are the only car types in the pool plan.

One unknown factor in the situation is the effect of boxcar deregulation approved earlier this year by the commission.

The ICC decision removes most regulation of boxcars and may lead, in some observers' view, to expanded car usage agreements among pairs or groups of railroads.

Though no such agreements have been announced publicly since the ICC decision, any that are signed might have stipulations with a direct effect on the car hire balancing plan.

Backers of the proposal, however, hope that the presence of major carriers such as UP, SP and Santa Fe will entice the non-participants to join in trying to convince the ICC to approve the proposal.

Some observers suggested that participation was a way that carriers who make money on existing car hire rules could protect themselves to a degree against any changes in the system.

Western railroads such as Union Pacific make money on the rental payments known as car hire because the cars they originate are delivered on another railroad's line. The rent is paid both when cars are loaded en route to the consignee and empty while being returned to the car's owner.

The plan which grew out of an Association of American Railroads freight car management study last year proposes to end car hire payments on empty movements as an incentive to pool participants to load each other's cars.

It also proposes to create a fund for montly payments of car hire. The proposal uses historical car hire patterns and formula relating loaded and empty mileage to determine the size of each line's car hire revenue.

The present system has created what some industry observers view as an empty mileage problem which costs the industry as much as $300 million per year.

The problem, simply put, is that it is economically sound judgment for all railroads to load their own car and send another carrier's car back empty because the car hire gained exceeds the amount paid.

That procedure creates the empty mileage problem, in the view of the plan's authors.

Other carriers which have said they will join in the plan are: Illinois Central Gulf and Boston & Maine, both of which have backed the project from the start, and Kansas City Southern, Bangor and Aroostook, and Bessemer and Lake Erie.

Delaware and Hudson and Maine Central, which are to be combined with Boston & Maine to form a Guilford Transportation System, also are participating.

Participation by other railroads remains a possibility, as Burlington Northern officials are reported to still be studying the plan.

Conrail and CSX Inc. each said at one point that they were behind the proposal, but later withdrew.