Corporate Relations 1383

M E D I A M O N I T O R May 2, 1983

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Journal of Commerce, April 27, 1983

Santa Fe Industries has reported a 6 percent gain in first quarter net income from $30.2 million last year to $32.9 million in 1983.

John S. Reed, chairman, said petroleum production earnings on a pre-tax basis were up, but that the company's railroad suffered a $10.3 million operating loss during the first quarter compared to an operating profit of $3.1 million last year.

Railroad results were attributed to a 9.3 percent carloading drop and flood-related expenses. He added that railroad operations weren't reflecting widely reported economic recovery.

Petroleum profits rose to $30.5 million, up from $28.8 million last year. Reduced windfall taxes also affected the profit picture, Mr. Reed said.

Chicago, Milwaukee, St. Paul and Pacific Railroad Co. has announced its first quarterly net income since 1974.

First quarter results showed a net income of $3.2 million including a $200,000 loss on reorganization related transactions. Revenues for the first quarter of 1983 were $87.0 million.

During the same period in 1982, losses including reorganization transactions were $11.3 million on revenues of $97.6 million.

The railroad reported the results to U.S. Bankruptcy Court in Chicago late Monday. The line which once had over 10,000 miles of track, now has less than 3,000 as reorganization proceedings have pared the system.

Soo Line Railroad Co. has announced first quarter 1983 net earnings of $2.3 million, down from $6.0 million in the same period last year.

Revenues dropped 12 percent from $75.8 million during last year's first quarter to $66.7 million this year.

Mr. R. Milton Clark
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Chicago Tribune
April 26, 1983

Milwaukee Road has an operating profit

FOR THE FIRST time since 1974, the bankrupt Chicago, Milwaukee, St. Paul and Pacific Railroad reported a quarterly operating profit.

The Milwaukee Road reported first-quarter net income of $3.2 million; it had lost $11.3 million in the quarter last year. Those figures include reorganization transactions.

Its core system railroad operations posted pretax earnings of $3.4 million, up from a net loss of $8.3 million a year ago. Core system operating revenues were $87 million, down from $97.6 million in the 1982 quarter.

The railroad's core system consists of the 3,100-mile Midwestern route. The railroad has abandoned and sold nearly 7,000 miles of its former route through the Northwest.

The Des Moines Register
April 26, 1983

Bankrupt Milwaukee Road posts operating profit

The restructured Milwaukee Road had a first-quarter operating profit this year for the first time since 1974.

In a report to the U.S. District Court overseeing the railroad's organization, trustee Richard B. Ogilvie said the railroad earned pre-tax revenue of $3.4 million on operating revenues of $87 million during the first three months of 1983. That compared with an $8.3 million loss on revenues of $97.6 million in the first quarter of 1982.

Chicago Sun-Times, April 26, 1983

MILWAUKEE ROAD: For the first time since 1974, the company posted a quarterly operating profit. The restructured Milwaukee Road said it netted $3.2 million on operations in the first quarter on revenues of $87 million. For the same period last year, the railroad reported an operating loss of $8.3 million on revenues of $97.6 million. With reorganization transactions taken into account, the loss last year was $11.3 million. A warmer winter helped results, as did the fact that the restructured railroad does not serve as many cold-weather areas where severe weather has curtailed first-quarter operations in the past.

The Milwaukee Sentinel, April 26, 1983

For the first time since 1974, the **Milwaukee Road** has reported an operating profit for the first quarter. In a status report filed Monday with the Federal Court overseeing the railroad's reorganization, Richard B. Ogilvie, trustee, said the core operating railroad posted pretax income of $3.4 million on operating revenues of $87 million during the first three months of 1983. Total results for the quarter, including reorganization transactions, showed net income of $3.2 million. The railroad, which plans to become part of the **Grand Truck Corp.**, has pared 700 route miles from its system.

Wall Street Journal, April 25, 1983

Bad Signals

N&W Railroad Learns Hard Lesson in Getting Along in Coal Country

It Refuses to Cut Rates to Aid Miners, Until Forced to By Ire of West Virginians

What Will the Analysts Say?

By BILL PAUL
Staff Reporter of THE WALL STREET JOURNAL

IAEGER, W. Va.—Miners who inhabit the ridges and hollows of southern West Virginia are accustomed to swallowing adversity right along with the fine coal dust that settles like a shroud into every crease of the hard-scrabble landscape.

But late last year, with recession causing misery in the coal fields, the people in these parts began to air long-simmering resentments. The focus of their wrath: Norfolk Southern Corp., a giant railroad that, in its own attempts to grapple with the recession, ran afoul of the coal industry, which had long been its bread and butter. A close look at the still-festering controversy suggests the bitterness bred of hard-core unemployment, and the perils for companies that ignore or underestimate it.

Through its Norfolk & Western subsidiary, Norfolk Southern has long enjoyed a virtual monopoly on coal-hauling in southern West Virginia. Coal has always been good for the railroad, the nation's fourth-largest. In 1982 it accounted for more than 35% of the line's $3.36 billion revenue.

Last year, hard-pressed coal operators figured it was time for the railroad to return the favor. To help stimulate the mining industry and reduce the region's roughly 40% unemployment rate, they called on Norfolk Southern to sharply reduce its coal-hauling rates.

Test of Strength

Norfolk Southern resisted, mindful that lower rates would reduce its revenues and jeopardize its blue-chip reputation on Wall Street. Indeed, many saw the dispute as a test of whether railroads could withstand freight-rate discounting pressure now that those rates are negotiated, rather than regulated by the pro-carrier Interstate Commerce Commission. The long-term profitability of Norfolk Southern and other railroads was at stake, it was argued.

Many West Virginians saw it differently: "People feel they've contributed to the railroad's success and now, when the crunch is on, the railroad isn't willing to help," said Clayton Hale, a former highway-maintenance worker echoing widespread public opinion. The rate dispute quickly boiled over into a free-for-all recitation of accumulated grievances against the railroad.

In the end, Norfolk Southern buckled under, granting a discount to a major coal shipper at a much-publicized news conference in March. The legacy of ill will remains, however. And industry analysts worry that Norfolk Southern, in being backed into so public a concession, is now vulnerable to demands from other coal producers and buyers for similar discounts.

'Tremendous Pressure'

"Norfolk Southern is under tremendous pressure now," says Jack Kawa, a railroad analyst for Dean Witter Reynolds Inc. "If the rate-cutting becomes widespread, (the railroad's) profits will be significantly hurt." Mr. Kawa adds that, because of pressure from coal producers, Norfolk Southern recently made a modest 0.5% rate cut for its contractual export customers.

The event that catalyzed sentiment against the railroad occurred in December. It was then that a big Northeast utility, New England Electric System, announced that it wasn't renewing its contract to purchase 400,000 tons of coal annually from two southern West Virginia mines owned by A.T. Massey Coal Co. of Richmond, Va. In explaining its decision, the Westborough, Mass., utility said Norfolk Southern's hauling rates were too high.

Instead, the utility said it would buy 400,000 tons of coal from mines served by a carrier offering lower hauling rates, Consolidated Rail Corp. (Conrail's rates were lower in part because the mines it serves are in Pennsylvania and northern West Virginia, a shorter distance from the utility's power plants than the Massey mines.)

Layoffs Loom

News of the canceled order was followed by the grim announcement from Massey that it would lay off 250 miners in mid-February. To the people of southern West Virginia, worrying that they or their friends or relatives would be among those let go, the villain was clear: "The railroad is the bogyman," declared Ebb K. Whitley, a dentist who is McDowell County's Democratic chairman.

Lacy Wright, the area's popular state senator who aspires to run for Congress, was quick to seize on the issue. In late December, he vowed that he would "take appropriate steps to see that (the railroad) suffers along with the rest of West Virginia's people." Marching to the railroad's offices in Roanoke, he threatened to "stop the railroad in southern West Virginia" by seeing that county prosecutors—whom he called his "personal friends"—enforced the multitude of state safety and environmental laws to the letter. Such tactics as strictly enforcing anti-noise regulations and imposing five-mile-per-hour speed limits as trains passed through a succession of tiny hamlets could have crippled Norfolk Southern, whose main east-west line runs through the region.

By January, railroad analysts were deeply troubled by the dispute and its implications for the line's profitability. "This coal-rate situation bothers us most of all," one pointedly told Norfolk Southern's chairman, Robert B. Claytor, at a meeting in New York that month. Another said privately that if the carrier gave in to the utility's demand for a discount in the area of $5 a ton off the going rate of about $15 a ton—and if that discount became widespread—he would issue a "sell" recommendation.

'They're Lashing Out'

Thus, Norfolk Southern found itself caught between political and financial adversity. "This is the toughest pressure I've been under in 20 years," conceded William Bales, the line's vice president for coal and ore traffic. West Virginians, he said, "are lashing out at us."

Cornered, its every move scrutinized by an increasingly critical public, the railroad had little choice but to grant New England Electric a discount—reportedly in the range of $2 to $3 a ton—thereby saving Massey's contract with the utility and the miners' jobs.

Before emotions reached a fever pitch, Norfolk Southern actually had other options. At one point, the railroad apparently had decided to allow the New England Electric contract to lapse, figuring that toughing it out would signal to Wall Street and coal shippers alike that it could withstand rate-reduction pressure. Another alternative would have been to quietly accede to the utility's demands, thereby avoiding the embarrassing hoopla of a televised news conference presided over by West Virginia's Gov. Jay Rockefeller.

The railroad bungled these opportunities, observers say, partly because it was so unprepared for the outpouring of local resentment. Perhaps because Norfolk Southern has always had a monopoly on coal hauling in the area, it had never felt compelled to burnish its public image. Whatever the case, the coal-rate controversy was merely the flash point and state Sen. Wright the match that ignited long-smoldering public animosity.

"God bless Lacy Wright," declared Rev. Roger Yates, a fundamentalist minister in McDowell County, after Norfolk Southern agreed to the discount.

Among those with longstanding grievances against Norfolk Southern is W.B. Swope, a former mayor of Welch, the biggest town in the area near Massey's mines. Describing a time when the line "rudely and emphatically" turned down his request to buy a parcel of land for a municipal parking lot, Mr. Swope observes: "You can say 'no' or 'hell no.' The railroad said 'hell no.' "

Junk dealer Chester Matney is equally disgruntled. "The railroad doesn't give a damn about us small shippers," he says, ex-

Cont'd....

N&W Railroad Learns Hard Lesson
in Getting Along in Coal Country - Concluded

plaining that the carrier recently pulled out its local service representative, a man upon whom Mr. Matney had depended for years.

Mr. Yates, the minister, says he had approached the railroad trying to buy land on which to build a new church. "I told them I'd pay a fair price, but they wouldn't even consider it. They'd rather keep the whole county locked up."

As publisher of the Welch Daily News, David Corcoran has chronicled the area's run-ins with the railroad. "We're tired of being kicked around," he says. Once, he recalls, the railroad drastically raised the fee that the War, W. Va., Catholic church paid to lease railroad land it used for its parking lot. "The railroad doesn't care how it affects people," Mr. Corcoran says.

There are a variety of other complaints, ranging from the closing of the Welch station last fall as a cost-cutting move to general foot-dragging on a promise to fix rough railroad crossings in Iaeger. "I wish that the N&W was as quick to fix rough crossings as they are to raise coal-hauling rates," wrote the editor of the Iaeger weekly newspaper, Tony Johnson.

Mending Fences

Norfolk Southern officials, while clamping a tight lid on public comment after the press conference, have nevertheless begun a fence-mending operation in the area. The railroad, for example, recently allowed Mr. Wright to announce that it was withdrawing a 1% coal-rate increase that had previously been announced.

Meanwhile, state politicians have milked the issue for all it is worth. Mr. Wright's headline-grabbing head start in challenging the railroad prompted his political opponents to rally around with equal fervor. With Mr. Wright a potential rival for his congressional seat, Rep. Nick J. Rahall joined Gov. Rockefeller in negotiations with the railroad to try to save the utility contract.

At the March 2 press conference, the governor said that he and Rep. Rahall had been instrumental in saving the "Massey 250" by persuading Norfolk Southern to institute a "competitive rate structure" for West Virginia coal. When asked whether this meant that other coal shippers could expect discounts, Norfolk Southern's Mr. Claytor said no, but Gov. Rockefeller's implication was clear.

The railroad's recent conciliatory moves have done little to dispel public criticism. Some point out that although 250 jobs were saved, hundreds more may have been lost because the railroad tarried in cutting New England Electric's rates. While the railroad pondered its decision, they say, Massey mines lost out on new business that the utility offered to mines outside the area.

Now that Norfolk Southern has been publicly identified as a cause of the area's economic ills—joining such other devils as Reaganomics and imported steel—it is likely to stay in the public eye. "The railroad isn't out of the woods by a long shot," says Mr. Swope, the former mayor. Indeed, Mr. Wright and another state senator have called for an investigation of the railroad's maintenance expenditures following two recent derailments in the area.

Mr. Wright vows to "stay on top" of the rate issue, and predicts that "other coal companies now stand a better chance of getting lower freight rates."

Just where does this leave Norfolk Southern's Mr. Bales, the man charged with trying to stave off other shippers seeking discounts? "My hair has gotten grayer since all this began," he says with a sigh, adding that the situation will remain tense at least until the economy picks up and more miners return to work.

Wall Street Journal, April 26, 1983

Two Canada Rails Agree to Buy Some Of Conrail's Assets

By a Wall Street Journal *Staff Reporter*

MONTREAL – Canadian National Railways and Canadian Pacific Ltd. said they agreed to acquire some of Consolidated Rail Corp.'s Canadian assets, including its 71% stake in Canada Southern Railway.

Canada Southern operates about 300 miles of rail line, including the main line between Windsor, Ontario, and Niagara Falls, Ontario. It also owns the Niagara River bridge, a rail bridge linking Niagara Falls, Ontario, and Niagara Falls, N.Y.

Also included in the sale would be all the shares of Detroit River Tunnel Co. and Conrail's leases on the Canada Southern rail line and the Detroit River Tunnel.

Canadian National and Canadian Pacific said they would acquire the Conrail assets in partnership. The pact calls for Canadian National and Canadian Pacific to offer $200 (Canadian) a share for all of the shares of Canada Southern, including those held by the minority.

There are 150,000 shares of Canada Southern outstanding, placing a value of $30 million on that part of the transaction. Canada Southern shares last traded at $100 a share on the Montreal Stock Exchange.

Last fall, Canadian National and Canadian Pacific said they agreed with Conrail to buy much the same assets, but the transaction was subject to an agreement between Conrail and Canada Southern for acquisition of the Canada Southern line.

Negotiations between Conrail and Canada Southern broke off in March, and Canadian National and Canadian Pacific decided to proceed with the latest proposal that includes the planned offer to buy the Canada Southern shares.

The purchasers said the transaction is subject to several conditions, including ap-

Wall Street Journal, April 25, 1983

GTE Plan to Buy Southern Pacific Unit Advances

But Justice Agency Requires Separate Long-Distance, Local Phone Operations

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON – GTE Corp. received informal clearance from the Justice Department to buy Southern Pacific Communications Co. if it keeps that company's long-distance phone service separate from GTE's local phone companies.

The department and GTE announced an agreement in principle that would allow GTE to acquire Southern Pacific Communications, of Burlingame, Calif., from its parent, Southern Pacific Co. of San Francisco. Department spokesman Mark Sheehan said he expects the parties to formalize the agreement by filing a consent decree in federal court here in "a week or two."

Such a decree would clear a major hurdle from the path of GTE's planned acquisition. But the transaction also must await approval from the Federal Communications Commission, which is considering the matter.

Southern Pacific Co.'s president, Alan D. Furth, called the Justice Department's action a "significant step" toward bringing the proposed sale to GTE to conclusion.

GTE has offered $775 million and agreed to assume about $200 million in debt for the communications unit, operator of the highly successful Sprint long-distance telephone system.

In allowing GTE to own both long distance and local regulated phone companies, the Justice Department is granting GTE something it currently is stripping away from American Telephone & Telegraph Co. As a result of an antitrust settlement with the Justice Department, AT&T is scheduled to shed 22 of its local operating companies Jan. 1.

But according to the department, the agreement contains some of the other safeguards against anti-competitive behavior in the phone business that have been written into the AT&T divestiture plan. These include GTE's commitment to:

–Offer to all long-distance carriers equal and nondiscriminatory access to its local telephone networks.

–Require its local phone companies to route calls through long-distance companies whenever they pass beyond local areas that will be defined later. Similar areas already are being mapped out for each of AT&T's local companies.

–Offer information services only through entities separate from GTE's local regulated operations.

These and other restrictions are expected to be written into the consent decree, according to the department. As further insurance, the department said in a statement, the decree is expected to enable the government to seek further restrictions or divestiture later if GTE violates the decree.

It is understood that department officials believe the consent decree will enable them to get a court order even to undo the acquisition if anti-competitive practices arise–and that this wouldn't require the years of litigation needed to obtain that result from scratch.

William Baxter, head of the department's Antitrust Division, said the decree, "should provide some immediate competitive benefit in the telecommunications industry."

Gerald Connell, a private lawyer who formerly headed the Justice Department's successful litigation against AT&T, said the agreement sounded like a reasonable solution to the issues raised by GTE's acquisition plans.

Mr. Connell said the merger should make GTE a stronger competitor with AT&T in the long-distance business, where AT&T currently dominates with about 95% of the market. The safeguards appear designed to deter GTE from anti-competitive practices similar to those alleged in the department's suit against AT&T, he said.

Justice Department officials wouldn't comment publicly why GTE should be permitted to own long-distance and local regulated phone companies, when AT&T isn't. Mr. Connell noted that AT&T, unlike GTE, was charged with a pattern of practices designed to use its local monopoly to put its competitors in other fields at a disadvantage. Another lawyer noted that as GTE and Southern Pacific Communications would have been separate and would remain so under the agreement, they would operate with few common institutional loyalties and if necessary, could be split without serious complications.

In Stamford, Conn., Theodore F. Brophy, GTE chairman, said the agreement "entered into without constituting any admission by either party, will permit the acquisition to proceed without Justice Department opposition."

Wall Street Journal
April 27, 1983

SANTA FE INDUSTRIES INC. may step up merger efforts, in keeping wth a more aggressive style of its newly elected chief executive officer, John J. Schmidt. Yesterday Mr. Schmidt, 55 years old, succeeded John S. Reed, who is retiring as chairman and chief executive. "You know I'm an activist," Mr. Schmidt said after the meeting, when asked whether Norfolk Southern Corp.'s recent purchase of 5% of Santa Fe's common stock would spur merger efforts. Mr. Schmidt declined to discuss any future course in detail. W. John Swartz, 48, was elected to succeed Mr. Schmidt as president and was elected a director. He had been executive vice president. Santa Fe also reported that first-quarter net income rose 9% to $32.9 million, or 39 cents a share, from $30.2 million, or 34 cents a share, despite losses by the railway and a 3% decline in revenue to $757.8 million. Lower federal income taxes were a big factor in the earnings increase.

Journal of Commerce, April 26, 1983

Rail Considers Chartering Ships for Coal Exports

By STANLEY MANTROP
Journal of Commerce Staff

GALVESTON — The recently merged Union Pacific Railroad and Missouri Pacific Railroad are looking into the possibility of chartering ocean carriers to move U.S. coal exports out of Western ports, a step that could be extended to the Gulf ports, a spokesman for the merged carriers revealed here at the weekend.

Addressing the Gulf Ports Association luncheon, Vice President-Marketing Robert L. Godfrey, of Omaha, said the move was part of the combined system's plans to broaden its cargo base in an area of rapidly developing competition. He did not elaborate.

However, Mr. Godfrey said he saw in the future other developments within the carrier concept that included alliances between railroads and barge carriers.

Regulatory policies at the present time permit carriers to carry out these functions, which he painted as a natural development of the nation's changing transportation trends.

He also predicted other rail mergers contemplated and expressed the belief the nation's rail system eventually could include only five lines.

Mr. Godfrey defended the government's carrier deregulation that most of the ports and barge industry oppose, telling the port executives they no longer could halt changing trends in the nation's transportation picture including the ports.

"The fact is, the mood of the country is for deregulation, the railroad executives said in forecasting even more deregulation coming in the future.

He said the rail carriers are seeing fierce competition for contacts and the rail carriers must make a greater effort to provide service for their customers.

Meanwhile, Archie Wilson, chairman of the American Waterways Operators, which represents the majority of the barge operators, was painting a gloomy outlook for the shallow-draft carriers.

Mr. Wilson, who also is president of the Houston-based barge line Dixie Carriers Inc. and an official of the Water Transport Association, said changing trends in the handling of energy cargoes, coupled with the recession, which had reduced the need for carriers, had left the industry in a poor economic condition.

"At the present time, to bring you up to date on the status of our industry, there is between 30 and 40 percent of the fleet idle," said Mr. Wilson. "A large part of that idle fleet probably will never operate again."

Conservation of fuel, he told the port directors, was responsible for part of the industry's economic plight, he explained, coupled with the greater use of pipelines to move crude oil, once almost exclusively handled by the barges.

"Unless something dramatic happens, the cargoes probably will never again return to the barge lines," said Mr. Wilson.

The barge line executive said, too, his industry was told that natural gas would no longer be available as a boiler fuel and that oil was going to be the boiler fuel of the future.

"Being astute, our industry began building oil barges like crazy," he told the meeting. "Finally, we had natural gas flowing out of our ears, and as a result there was little or no use for the oil barges.

Including the idle ocean ships, most of them tankers, Mr. Wilson said the idle tonnage is estimated at 86 million deadweight tons, which accounts for more than 8 percent of the total ocean fleets.

Far from making any large profits on their oeprations, Mr. Wilson said the operators probably lost money during the 1981-82 period when interest and other charges were added to their incomes.

He estimated before-tax profits in 1981 at 9.6 percent, and 1.6 percent in 1982.

The figures, he added, were supplied by 15 of the major large carriers.

Mr. Wilson said the barge industry is willing to accept the user charge concept for cost recovery for operating the inland waterways. However, he objected to the barge industry being saddled with the whole burden, pointing out that noncommercial users who benefit from the waterways should bear an equal responsibility.

Minneapolis Star/Tribune, April 21, 1983

Soo Line net income declines 58%

By John J. Oslund
Staff Writer

The Soo Line Railroad Co., marked its 100th anniversary in Minneapolis Wednesday, but the company's officers weren't exactly celebrating.

Thomas Beckley, president and chief executive officer, reported that the Soo Line's net income was down 58 percent to $15.3 million last year from 1981's record $36.4 million. And for the first quarter of this year, net income was $2.3 million, down 61 percent from last year's first quarter.

"The results from 1982 reflect the downturn in the transportation industry," he said. And because of railroad industry deregulation, he said, "there was pressure among carriers in 1982 to reduce freight rates and to establish long-term contracts." Beckley said nearly 20 percent of the Soo Line's traffic moved on contract rates last year.

Like most transportation businesses, the Soo Line's fortunes are tied to the economy. The railroad has about 4,600 miles of track from upper Michigan to eastern Montana. But unlike some other major railroads, the Soo's performance is closely tied to agricultural products. About one-fourth of its revenues come from grain shipments, with chemicals (particularly fertilizer), pulp, paper and lumber and wood products making up nearly half of the revenues.

"We expect to see only a gradual recovery in rail traffic as the year continues," Beckley said. "We are hopeful that further improvements in consumer spending will lead to greater movements of consumer goods, particularly those related to the construction industry."

Another unknown in the Soo's 1983 projections is the Payment-In-Kind program, which is intended to idle substantial farm acreage to reduce commodity surpluses.

Soo spokesman John Bergene said, "Frankly, we don't know what the effect will be." If the program is successful, it will drive up the price of grain, and that "could result in a substantial movement from large stocks in storage," Beckley said. However, with farmers not planting as many crops, fertilizer traffic could be reduced.

Still, the company's balance sheet and cash position remain strong, Beckley said. He also told shareholders that company officers had planned to present a proposal calling for the formation of a holding company, which would become owner of the railroad.

This strategy—already employed by most major railroads, including Burlington Northern—provides managers with greater flexibility in the use of company assets. That's because decisions about the use of assets are largely freed from scrutiny of the Interstate Commerce Commission, which still retains some regulatory powers over railroads.

However, Beckley said, the plan was contingent on favorable tax rulings from both U.S. and Canadian authorities. (Fifty-six percent of the Soo Line's outstanding common stock is owned by Canadian Pacific, Ltd.) Beckley said the Internal Revenue Service indicated a favorable ruling, but Canadian authorities declined to make such a ruling last month. The company said it would continue to explore ways to secure the needed rulings and hoped to present the proposal "in the near future."

Wall Street Journal
April 26, 1983

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Canadian National Registers Sale of Debt

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON—Canadian National Railway said it registered with the Securities and Exchange Commission the sale of as many as $300 million of debt securities.

Proceeds will be used for general corporate purposes.

The securities may be sold directly through agents, dealers or underwriters. The underwriters may include Salomon Brothers Inc., McLeod Young Weir Inc. and Richardson Greenshields Securities Inc.

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Wall Street Journal
April 27, 1983

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SOO LINE RAILROAD sweetened its offer for 770 miles of track from the Chicago, Rock Island & Pacific Railroad. The new offer of $100 million keeps alive Soo Line's competition with Chicago & North Western Transportalon Co. to buy Rock Island track.

* * *

The Washington Post, April 23, 1983

Union Wins Freight Battle

By Thomas W. Lippman
Washington Post Staff Writer

A dramatic new chapter in one of the nation's thorniest labor disputes was written this week when the International Longshoremen's Association regained the exclusive right to pack shipping containers within 50 miles of East and Gulf coast ports.

Work rules requiring that containers packed within 50 miles of the ports be packed by ILA members, or emptied and repacked by ILA members if packed by anyone else, took effect Monday after Chief Justice Warren Burger denied a weekend request for a stay filed by the American Trucking Associations.

Reinstatement of the rules after a two-year suspension was a major victory for the ILA over independent freight "consolidators" who assemble cargo at warehouses near the ports to be packed at lower cost by members of the Teamsters Union or by nonunion workers.

The National Labor Relations Board ruled on Feb. 28 that the work rules, which are contained in the master agreement between the longshoremen and the stevedores, are legal and could go back into effect.

But the battle—which has been going on almost since the advent of containerized freight in the 1950s—is far from over:

- The freight consolidators, known as Non-Vessel-Operating Common Carriers, or NVOCCs, already have appealed the NLRB ruling to the federal appeals court in Richmond.
- The Federal Maritime Commission is conducting its own inquiry to determine if the rules violate the 1916 Shipping Act by discriminating against one class of shipper.
- Congress is considering legislation to strip the FMC of its jurisdiction.

Shipping experts estimated that up to 20 percent of all the containerized freight moving through ports on the East and Gulf coasts is affected by the work rules. They said that the ILA could gain more than 1,000 jobs in the Port of New York alone because of the change.

Raymond deMember, attorney for the National Association of NVOCCs, said that the economic impact of the rules is "hard to quantify," but that it would be "devastating" to the consolidators. He said shippers are threatening to divert freight to Canadian ports "rather than let the ILA handle it. They don't want the cargo loaded on the piers because of delays, damage and pilferage."

The key to the long dispute is the corrugated steel container in which most general cargo now is shipped. The container can be packed at a factory or warehouse, shipped by truck or rail to a port and loaded intact onto a cargo vessel.

Under the ILA's contract with the stevedores, containers filled to capacity at factory or warehouse, or small cargoes assembled into container-size lots and packed by consolidators more than 50 miles from a port, may be packed by non-ILA members, but a fee of $3 a gross ton is paid to the union when these containers are loaded aboard ship.

The 50-mile rule was forced on the shipping agents by the ILA as a job-saving measure. Without it, shippers of lots that are too small to fill a container could send their cargo to consolidators, who would put together enough to fill a container and then send the container to the pier, cutting the ILA out of that work.

According to David Siolkawski, assistant director of national port affairs for the Port of Baltimore, "What an NVOCC working here would do was contact an inland shipper and say, 'I'm off the piers, in the Inner Harbor or somewhere, so I can save you money. I'll pack and stuff the container for less labor charges.' Now they can't do that."

Chicago Sun-Times
April 29, 1983

SALE QUESTIONED: The Justice Department urged the Interstate Commerce Commission to reject a proposal by Chicago and North Western Transportation Co. to buy 720 miles of Midwestern track owned by the bankrupt Rock Island Lines. The department recommended the ICC approve the sale to the Soo Line.

The Washington Post, April 20, 1983

Long-Term Solution Urged

Rail Pension Bailout Draws Fire

Associated Press

Office of Management and Budget Director David A. Stockman yesterday criticized a bailout plan that management and labor fashioned for the faltering Railroad Retirement System, saying it relies too heavily on the general treasury.

Stockman told the Senate Labor and Human Resources Committee that the package worked out in February was a good starting point, but "the federal Treasury has precious few dollars to contribute" to the plan.

He added that Congress must begin work on reforms almost immediately.

As with Social Security, the Railroad Retirement System, which has 1 million pensioners, has been running at a deficit in recent years.

A Social Security rescue bill that President Reagan is due to sign today is supposed to keep that retirement system solvent into the next century.

Stockman urged legislators to adopt a similar long-term solution for problems of the railroad fund.

Railroad retirees, who have never been under Social Security, get pensions divided into two parts: one providing benefits generally similar to Social Security and financed by an identical payroll tax paid by employers and employes, and a supplemental part financed by additional taxes on employers and employes.

In February, the industry and labor representatives recommended increased payroll taxes and delayed benefit increases.

But Stockman said those recommendations would rely on the general Treasury to provide 56 percent of the financing.

Instead, he said, Congress should follow the outlines of the Social Security package, which gets 73 percent of its total from higher taxes or benefit curbs and other savings.

Stockman said "a prudent package" to solve the rail pension problems would generate $10 billion to $12 billion through 1988. He said the industry-labor package would generate only $8.9 billion.

He added that the industry-labor recommendations also fail to provide help for the railroad unemployment insurance fund, which he said will need at least $1.8 billion by 1988.

Stockman said a package acceptable to the administration would have:

- The burden of financing coming from railroad employers, employes and retirees and not a reliance on open-ended Treasury financing that would increase the budget deficit.
- Provision for the parties to bargain collectively on rail pension issues along with other compensation questions under the Railway Labor Act.
- Unification of the railroad unemployment insurance fund with the regular federal-state unemployment insurance funds.

Cedar Rapids Gazette, April 21, 1983

Power officials protest proposed coal rail rates

By David Lynch
Gazette Washington reporter

WASHINGTON — Officials of the Midwestern Regional Power Pool Wednesday urged lawmakers to support legislation to curb railroad rate hikes.

They said the increases could drive up electric rates from coal-fired generators by 30 percent to 60 percent over the next five years, and that they will have a "drastic effect in Iowa."

Ed Williams, general manager of the Central Iowa Power Cooperative in Cedar Rapids, said the Interstate Commerce Commission has approved a 15 percent rate hike that will more than double the power pool's transportation costs — from $120 million in 1982 to $241 million in 1987. "And that's not counting inflation."

Williams said he plans to lobby the Iowa congressional delegation to support amendments introduced in the House and the Senate.

"So far, the railroads have gotten their cake from the ICC, and have been able to eat it, too. The intent of the original legislation was to provide a reasonable rate, not an excessive rate of return."

The public utility officials held a breakfast meeting for Midwestern lawmakers and their staffs to make this presentation and to outline their concerns.

Minneapolis Star/Tribune, April 23, 1983

How many miles for heavy trucks?

If common sense counts for anything, state Transportation Commissioner Richard Braun should win his fight with federal authorities over how many miles of Minnesota highways must be opened to 80,000-pound trucks. Braun says only about 2,000 miles of the state system can support such loads year-round without breaking up. But the Federal Highway Administration, acting under provisions of the gasoline-tax law passed by Congress last December, is demanding that big trucks be allowed to use 4,250 miles of Minnesota roads.

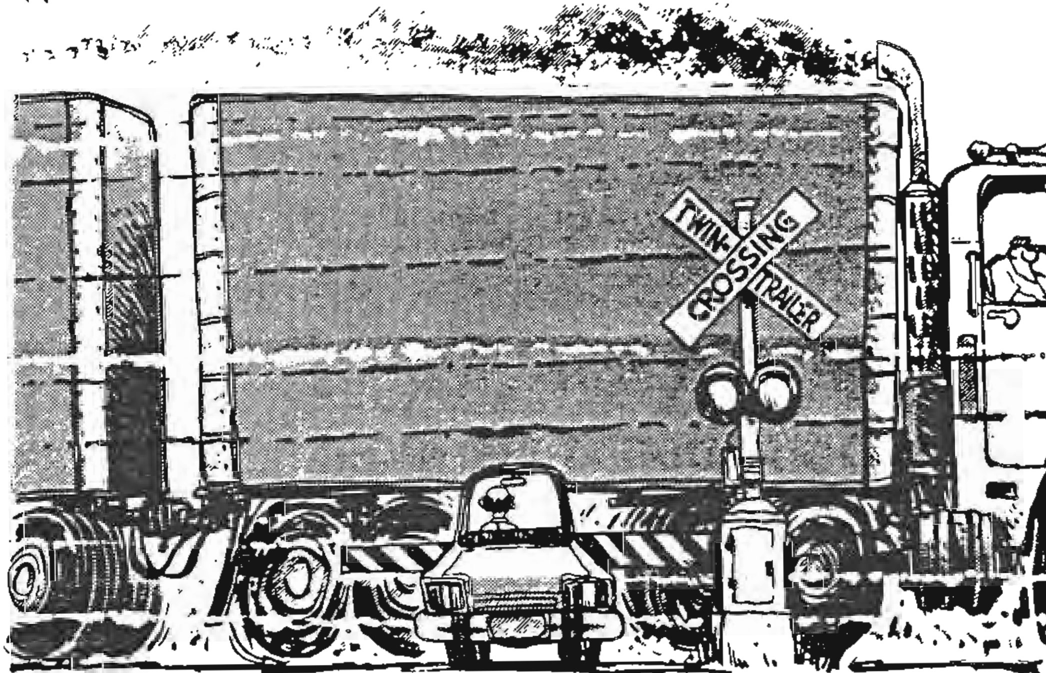
Actually, it's not clear yet just what the federal officials mean by big trucks. If it's 80,000-pounders, there's a problem. But if it's double-trailer trucks, which don't necessarily weigh that much, Braun says Minnesota can more than meet its mileage quota. He is seeking a clarification.

The issue hinges on two different readings of the gas-tax law. Braun's interpretation is that the law calls for states to designate one road system for heavy trucks and another (which would probably include the heavy-truck routes) for double trailers. But he says some federal officials contend that the two systems must be the same.

If so, Minnesota will find itself allied with several other states, which object to their double-trailer mileage quotas. Alabama, Georgia, Pennsylvania and Vermont — all with many miles of narrow, twisting mountain roads in their systems — took the issue to court for safety reasons and recently won at least temporary federal concessions. Alabama and Vermont can now prohibit double-trailer trucks on almost all of their non-interstate highways.

Braun isn't asking for that much. He might even settle, he said, for a requirement that would allow Minnesota to close some roads to heavy trucks during the spring, when they are most vulnerable to damage. That way, he said, Minnesota could open about 3,700 miles of its roads to heavy trucks during the rest of the year.

The requirement that states allow 80,000-pound trucks to use their roads was included in the gas-tax law to help offset the higher user fees that the law will impose on heavy truckers. But the rule must be administered with common sense. Otherwise it can only undo much of the highway-repair work that the increased gas-tax and user-fee revenues are supposed to buy.



Bill makes county prison easier

By Eugene C. Harrington

Journal Madison Bureau

Madison, Wis. — The Earl administration hopes that its determined drive to build two prisons in Milwaukee County will get an added burst of strength with the introduction of a prison-siting bill in the Assembly this week.

The bill, to be introduced by Rep. Jeffrey Neubauer (D-Racine), would modify the Wisconsin Environmental Protection Act to help speed construction of correctional facilities in Milwaukee County only.

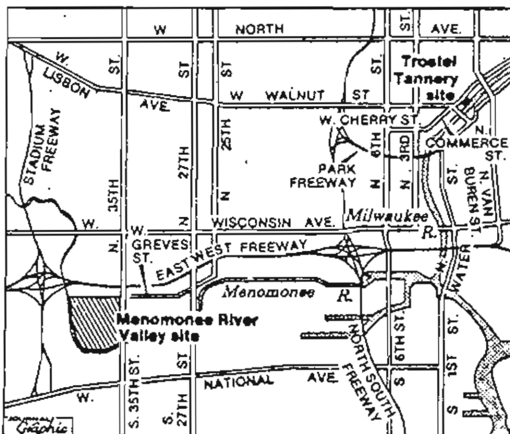
Neubauer said the measure was the product of six months of work by legislators, the governor's office, the state agencies involved and other interested groups, including environmentalists.

Support of the draft bill was given to Neubauer Friday in a letter signed by Gov. Earl; Linda Reivitz, secretary of the State Health and Social Services Department, and C.D. Besadny, secretary of the Department of Natural Resources.

Aimed at lawsuits

Passage might help the Earl administration break through possible lawsuits based on environmental concerns.

Meanwhile, there were signs last week that the administration was inexorably moving toward construction of a prison in the Menomonee River Valley on land now owned by the Milwaukee Road.



The movement is coming at the same time verbal artillery continues to burst around plans to build a prison at the Trostel Tannery site several miles to the east.

How soon would the Earl administration like to have everything in line for construction on the Menomonee Valley site?

"Yesterday," was the quick and firm answer given last week by Harold Bergan, Earl's policy director.

Neither the Trostel nor Milwaukee Road location is specified in the bill; instead it would set up special procedures for the establishment of any correctional institution within Milwaukee County.

Neubauer said the bill was not designed as a "generic prison-siting bill" allowing the modified environmental protection provisions to be used anywhere in the state.

He said the Department of Health and Social Services had hoped to have such a bill, but a compromise was reached under which the Milwaukee County sites could be taken care of and the environmental law would be preserved "without gaping holes" after enactment of the bill.

"Most of the sections of the bill are session laws and will expire on Jan. 1, 1985," he said.

Session laws are in effect only during the legislative session in which they are introduced and enacted.

The bill would:

- **Let the Health and Social Services Department and other agencies** take preliminary steps to build correctional facilities concurrently with preparation of the enivironmental impact statements.

Eliminate a present requirement that the department consider other sites or no site at all as alternatives in the impact statement.

Make public hearings on impact statements informational or legislative type hearings. Now, the law requires that the hearings be contested or quasi-judicial hearings.

Set deadlines for the planning, design and construction of any new prisons in the county. A preliminary environmental statement would be due within five months and a final statement within eight months. There would be deadlines for contract bidding and awarding so construction could begin within 14 months after the Legislature selected a site.

Require that challenges may be filed only in the Court of Appeals at Madison, thus bypassing circuit courts. The cases would be given preference over other cases before the appellate court.

Place limits on persons seeking court orders to block any new prison in Milwaukee by requiring clear and convincing evidence that defects in the state's compliance with the environmental protection law cannot be remedied during construction.

Let the Department of Transportation have the first right to acquire abandoned railroad land, such as the Milwaukee Road property in the Menomonee River Valley. Now, the department may exercise the first option on abandoned railroad property for transportation, recreation or scenic purposes, but not for prisons.

Neubauer, chairman of the Assembly Environmental Resources Committee, said he was considering a public hearing on the bill, along with the Senate Energy and Environmental Resources Committee, on May 5.

Sen. Joseph Strohl (D-Racine), chairman of the Senate committee, has been part of the group working on the bill, along with Democratic Reps. Thomas Crawford, Milwaukee, and David Travis, Madison, chairman of the Assembly Criminal Justice and Public Safety Committee.

Earl has said he would like to have the bill on his desk before passage of the state budget bill, Neubauer said.

The letter by Earl and the two agency officials noted that "the bill goes a long way toward preserving environmentalists' concerns while streamlining the process of siting a prison."

Meanwhile, Doris Hanson, secretary of the State Administration Department, said last week that initial steps toward establishing a prison on the Milwaukee Road site were moving on schedule.

The state is aiming at a rough equivalent of the planned prison in Portage — a 450-bed maximum-medium security facilitity on the 50-acre site.

Hanson noted that two appraisals of the property began last week, that an attorney for the department was continuing land-title searches and that the DNR had completed its soil-boring and soil-analysis tests.

No problem

The bankruptcy status of the Milwaukee Road does not appear to be presenting any problems, she said, noting that bankruptcy trustees in Chicago "have been very helpful."

The State Building Commission earlier authorized $23,035 for the preliminary appraisals and soil work and will consider a request for another $24,000 at a meeting Wednesday.

The money would be used for the survey and title work and further appraisals.

John Torphy, deputy Health and Social Services secretary, said the request included funds for an appraisal of about seven more acres that might be needed.

He explained that because the property was on a floodplain, berms [levee-like stretches of earth] would have to be built and the extra land might be needed.

The soil tests indicate that there is no major reason why a prison cannot be built on the site, according to DNR officials.

Wall Street Journal, April 25, 1983

Caterpillar Well-Positioned to Recover As the UAW Ratifies 37-Month Contract

By HARLAN S. BYRNE
Staff Reporter of THE WALL STREET JOURNAL

With the seven-month strike at Caterpillar Tractor Co. ended, the company is well-positioned for a rebound. But talks with Caterpillar, dealers and securities analysts indicate it may be 1985 before the company tops 1981's sales and earnings records.

United Auto Workers union locals representing 21,000 strikers and 15,000 laid-off workers completed overwhelming ratification Saturday of a new 37-month contract, and Caterpillar planned to reopen its U.S. plants today.

While the company went deeply into the red during the strike, Caterpillar now seems in better shape to face rising competition from lower-cost Japanese competitors, mainly Komatsu Ltd. Caterpillar got far fewer concessions than it demanded, but it minimized the damage by taking the strike at a time when demand was depressed.

Caterpillar made a major concession in agreeing to a profit-sharing plan, but it did win union agreement for a three-year wage freeze. That means the cost to Caterpillar over the life of the contract appears to be considerably less than the 25% increase that would have occurred under a three-year extension of the old contract, which the union initially demanded.

Cost-Cutting Measures

Caterpillar also has cut costs in other ways, including cuts in white-collar ranks through dismissals, downgrades in rank, salary reductions and early retirements. In addition, Caterpillar has scaled back expansion plans.

The strike strained Caterpillar's finances, but its condition remains stable. Long-term debt has increased $1 billion to $2.38 billion since the 1982 first quarter, and 1983 first-quarter, short-term borrowings increased $127 million. Debt as a percentage of total capitalization rose from 26% in March 1982, but this March it was still a fairly conservative 40%. A $248 million U.S. income-tax refund received this month was used to reduce borrowings, and other measures have been taken to conserve cash.

Caterpillar will get an initial boost toward recovery because of increased military orders and pent-up demand. At first, the company will try to replenish dealers' stocks by shipping finished inventories of earth-moving machines, diesel engines and parts. Beyond that, analysts estimate, Caterpillar needs to produce from $500 million to $1 billion of goods, or as much as a month's sales, just to replenish its and its dealers' inventories.

A Slow Recovery

But after that, any upturn may be more gradual. Many of Caterpillar's markets for machines and engines, though improving recently, remain seriously depressed. Lee L. Morgan, Caterpillar chairman, said in a February interview that he expects the company to come back stronger than ever, but he predicted that recovery would be slow.

Dealers say demand has picked up just in the past 30 days. G. Robert Blanchard, chairman of Rozier Machinery Co., Tampa, Fla., said he expected to sell more machines in the second half than a year earlier. "It's hardly a booming market, but it's improving," he said.

Sales of Darr Equipment Co. of Dallas this year are up nearly 15% from the 1982 fourth quarter, said Robert Engstrom, president. "But we haven't seen a spurt in business," he said.

Dealers, for the most part, said Caterpillar hasn't lost market share in earth-moving machines, (about 50% in the U.S. and one-third or so world-wide) though some business was lost because of shortages of certain models. That market dominance is a major reason that Caterpillar is well-positioned to recover.

Dealers said Caterpillar did a good job supplying them with parts even though shortages developed. Dealers also swapped machines and parts, and got customers to take machines—often at only a nominal cost—from their lease and rental fleets until a new machine could be provided.

At the annual meeting April 13, Mr. Morgan indicated that Caterpillar may be in the red again this year. The company had a $172 million first-quarter net loss, and he said it was uncertain if Caterpillar would make a profit for the balance of the year. But he said the concern should return to profitability during the year, presumably in the second half.

As reported, first-quarter sales plunged to $796 million from $1.96 billion a year earlier, when net income was $42 million, or 48 cents a share. For all of 1982, Caterpillar reported a net loss of $180 million, compared with the 1981 earnings of a record $579 million, or $6.64 a share, as sales slumped 29% to $6.46 billion from $9.15 billion.

Analysts vary considerably in estimates of how fast earnings will rebound. Estimates mostly run from $3.50 to $5.50 a share next year and from $6 to better than $7 a share for 1985. But Larry Hollis of Robert Baird & Co., said he looks for more than $8 a share in 1985, and Mitchell I. Quain of Wertheim & Co. said Caterpillar could earn as much as $11 a share.

The company wouldn't comment on analyst estimates.

The Washington Post, April 22, 1983

Unions Enlist Chase in Fight for Conrail

By Douglas B. Feaver
Washington Post Staff Writer

The labor unions that represent the Consolidated Rail Corp.'s 40,000 employes stepped up their campaign to purchase the federally owned system yesterday when they retained Chase Manhattan Bank to put together a financing proposal.

The announcement by the Railway Labor Executives Association (RLEA) came on the same day that Conrail reported a record first quarter and a tentative agreement on a new contract with the Brotherhood of Locomotive Engineers. That ends the threat of a strike April 30.

Fred Hardin, chairman of the RLEA and president of the United Transportation Union, said that "today we've made a lot of progress toward employe ownership; we're here [in New York] to sign an agreement with Chase Manhattan; Chase has been satisfied that an employe purchase is a viable arrangement and is committing itself to putting together the funds."

Bob Lichten, a senior vice president for Chase, called the agreement "another milestone on the road" to employe ownership and said that, if Chase did not think such a deal was possible, "we wouldn't be entering into this agreement."

Federal officials, who are committed to getting the government out of the railroad business, noted that Chase had not offered to finance the acquisition. "We have said and told the RLEA that we must be able to see in whatever offer they make sufficient financial backing that we will not have to take the railroad back," an official said.

The federal government has poured $3.3 billion into Conrail since it put it together from the remnants of the Penn Central and other railroads to preserve freight service in the Northeast.

The RLEA has made the only publicly known offer to purchase Conrail, but federal officials said other interests have asked to be consulted when the Transportation Department's Federal Railroad Administration is ready to sell.

The United States Railway Association, another government agency, is preparing a report on Conrail's financial prospects that is due June 1. That report is expected to play a significant role in whether private investors are the least bit interested in acquiring Conrail.

A USRA official noted yesterday that, regardless of the outcome of the RLEA offer, "it makes labor a player at the table."

Conrail's worth is an eye-of-the-beholder question. Its 1982 annual report listed assets of $5.5 billion, with $1 billion in outstanding equipment-related loans in addition to the $3.3 billion in federal loans. That money is presumed by federal officials to be gone forever.

The first quarter report yesterday said that Conrail earned $12.6 million on revenue of $729.7 million, compared with a loss of $23.5 million on revenue of $944.2 million for the first quarter a year ago.

The Milwaukee Journal, April 27, 1983

Railroad cutting back on diesel house

The Milwaukee Road is cutting way back on what remains of its diesel house at 3301 W. Canal St. The diesel house, where locomotives are repaired and maintained, employs more than 60 persons. More than half will either be transferred to Chicago or Twin Cities facilities or lose their jobs, a Milwaukee Road spokesman said.

Already, the diesel house is much smaller than in days past, observers noted. In the future, the Milwaukee Road spokesman said, "Milwaukee will have a facility to handle the necessary locomotives, but it won't be anywhere near the size" of the present operation. The shift of work away from Milwaukee and into Chicago and the Twin Cities is part of the bankrupt railroad's reorganization plan, which calls for a streamlining of services.

Journal of Commerce, April 27, 1983

Railroads Focusing On 3 Key Hill Issues

By DAVID M. CAWTHORNE
Journal of Commerce Staff

WASHINGTON — Ninety railroad industry lobbyists hit town this week amid indications that matters being discussed go far beyond controversial legislation aimed at encouraging the construction of coal slurry pipelines in areas currently served by railroads.

At least two other issues are on the industry's Hill agenda, according to Association of American Railroads President William Dempsey, though one is admittedly defensive in nature.

Specifically, the industry is looking for a change in legislation to prevent significant reductions in retirement benefits paid to its 900,000 pensioners and to forestall any major changes in 1980 legislation that made it far easier for carriers to change freight rates.

Probably the first legislative matter to be settled will be the pension bailout issue since labor, management and the White House agree a deal must be cut by mid-May in order to forestall a 40 percent cut in retirement benefits on Oct. 1.

Though the retirees would continue to receive their equivalent to Social Security — railroad labor is the only major industry group that doesn't participate in the Social Security plan — additional pension benefits they currently receive would be reduced substantially.

But how to save the financially strapped plan is a source of some controversy between labor, the AAR and the administration.

Both labor and management support a package they negotiated calling for increasing employer and employee contributions by 1 percent and 0.75 percent, respectively, in 1984 and 1985 with a similar boost in 1986 if needed.

But the administration contends this proposal relies far too much on government money and wants the 1986 percent increase made mandatory while increasing employer and employee pension contributions by 1 percent on July 1.

Cost of living increases would be tied to the plan's solvency, under the administration proposal, and unemployment payments would be transferred from the fund to the states.

Many of the problems facing the fund were due to a decline in railroad employment from around 514,000 in July 1981 to around 389,000 in January 1983 due to declining tonnage caused by the current recession, Mr. Dempsey said.

He also criticized the proposal to transfer unemployment responsibility from the retirement fund to the states on grounds it probably could not be done quickly enough to get legislation through the Hill by mid-May.

The industry also is skeptical about portions of the administration plan requiring the railroads to make contributions to both the railroad retirement and state unemployment systems for some years to come, he said.

"Rail management and labor have come up with what we believe is a sound package," the AAR chief said after recent hearings on the matter, "and now we have to sell it to the Hill."

Though usually considered as separate matters recent Interstate Commerce Commission actions in the coal rate area may result in the coal slurry and Staggers Rail Act issues eventually becoming intertwined.

The coal slurry controversy is over legislation giving pipelines the right to cross railroad rights of way when building their pipelines.

Railroad reluctance to grant this or force the states to get it done on a state-by-state basis has severely hampered the development of the pipelines, which carry a mixture of coal and water.

Controversy over the water — or to put it more precisely the lack of it — usually has resulted in strong environmental interest support for the railroads' position.

But recent ICC actions substantially reducing the agency's grip over coal rates — including new guidelines permitting carriers to raise rates by as much as 15 percent annually with little fear of agency intervention — have upset quite a few shippers.

This has resulted in legislation being introduced substantiallyreducing the railroad industry's rate-making freedoms that were contained in the Staggers Rail Act.

Mr. Dempsey made it quite clear the carriers will oppose changes in the 1980 legislation primarily because the flexibilities permitted the industry to do rather well during the current recession.

But it is far from clear whether the railroads' opposition to changes in this law will result in any weakening of its opposition to the coal slurry legislation.

But several shipper interests expressed the opinion that something has got to give.

They noted that it will take around 10 years to build the contract pipelines and that railroads now have the ability to negotiate long-term contract rates with the shippers on their line.

Given this ability, they said, the railroads would be free to negotiate rates insuring that the carriers will get an adequate rate of return while still discouraging coal slurry investors.

U.S.-Soviet Talks on Grain Accord Seen; Congress to Take Up Other Farm Demands

By JEFFREY H. BIRNBAUM
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Soviet Union appears likely to accept the U.S. offer to negotiate a new long-term grain agreement. But the talks would resolve only one of many demands by the agricultural community for help with sagging farm exports.

A new agreement to sell grain to Russia, the world's largest grain importer, long has been at the forefront of these demands. But farm-state lawmakers also have been pressing for protectionist measures to fight competition from grain-exporting countries.

For instance, the Senate Agriculture Committee has passed and the full Senate soon may consider a bill that would require the U.S. to use export subsidies to increase sales of several farm products, including dairy foods—a measure the Reagan administration opposes.

The U.S. share of the Russian grain market has plunged to about 20% from 70% since former President Carter imposed an embargo on Soviet grain sales after the Russian invasion of Afghanistan in December 1979. President Reagan lifted the embargo in April 1981 but banned negotiations for a new long-term accord eight months later as one of several sanctions against the Soviets for backing the imposition of martial law in Poland.

Block Sees Talks

In a telephone interview, Agriculture Secretary John Block said he is optimistic that the Russians "will respond favorably" to the offer to negotiate. Other Agriculture Department officials said Soviet aides indicated informally that they want a new multiyear agreement with the U.S. and would be willing to discuss higher minimum purchase levels for grain, an administration objective.

But Mr. Block added that the offer alone isn't likely to cool efforts in Congress for further export aids. "We have to see what happens" with the talks, he said.

Ban 'Outlived Usefulness'

A spokesman for U.S. trade representative William Brock said the ban had "done the job for a time" but had "outlived its usefulness." He added that it is time for the U.S. to normalize its commercial standing with the Soviets in agriculture and to reestablish the U.S. as a reliable supplier.

Behind the scenes, Secretary Block and others have been pushing hard to open talks, arguing that the ban wasn't effective because the Soviets got the grain they needed elsewhere. Instead, these officials argued, the victims have been the U.S. trade balance—farm products are the largest U.S. export category—and U.S. farmers, whose incomes have declined because of mounting surpluses.

Despite long State Department opposition to lifting the ban, Secretary of State George Shultz, after a series of private meetings with Mr. Block, agreed to recommend offering to negotiate a new agreement.

Two weeks ago, the U.S. quietly told the Soviets it was ready to talk. The offer was disclosed by the White House Friday after administration officials feared that the decision had begun to be leaked and that knowledge of impending talks would distort commodity markets. News that the U.S. wants a new Soviet grain agreement is likely to push up the price of corn and wheat.

Current Pact Expiring

The Soviet Union currently buys U.S. grain under a five-year accord that went into effect in 1976. Because of the president's ban on negotiating a new multiyear arrangement, the earlier agreement was extended for one year twice and is scheduled to expire Sept. 30.

Originally, the pact was designed to protect the U.S. from huge and unexpected Soviet purchases of American grain, such as those that increased U.S. food prices in the early 1970s. With the current world-wide grain glut, however, the agreement is viewed more as a marketing tool to encourage the Soviets to buy U.S. grain.

Under the 1976 agreement, the Soviets must buy six million metric tons of corn and wheat a year, roughly in equal proportions; they could buy as much as eight million additional metric tons without seeking U.S. permission.

The U.S. has offered to let the Soviets buy as much as 23 million metric tons this fiscal year, which ends Sept. 30. But the Soviets have kept their purchases close to the minimum, buying 6.2 million metric tons so far. Last year, the Soviets bought more than twice that amount. A metric ton is 36.7 bushels of wheat and 39.4 bushels of corn.

To Encourage Purchases

The administration hopes a new long-term accord would encourage the Soviets to buy more. Historically, Moscow has bought more than the minimum required under its long-term pacts. Agriculture Department aides add that a multiyear pact would permit long-term planning by both U.S. farmers and the Soviets, who are chronically short of food.

As the Soviets apparently prefer a long-term agreement, some officials and lawmakers have speculated that the Reagan administration is making the offer to help persuade the Soviets to make concessions on nuclear-weapons control. "It may be an arms-control sweetener," said Sen. Larry Pressler (R., S.D.).

Domestic policies, however, may provide reason enough for the policy change. The decision to negotiate, which took many by surprise, was hailed by farm leaders, who have viewed the refusal to negotiate as a symbolic grain embargo. Mr. Block called the decision "a milestone" that could help the U.S. recapture some of the Soviet grain market it has lost to other countries, notably Canada and Argentina.

Separately, the Agriculture Department said that to fulfill its needs for the new payment-in-kind acreage-reduction plan, it will ask some wheat farmers in that plan to put their 1983 crop under a federal price-support program.

Under the payment-in-kind plan, cotton and grain farmers who agree to reduce plantings will be compensated with like commodities. To obtain grain for the program, the department asked farmers who have pledged grain as collateral for government loans to let the government keep the commodity in return for canceling repayment of the loan.

On Friday, the department said it had obtained 735 million bushels of corn, 145 million bushels of sorghum and 210 million bushels of wheat in this way.

But the department said it needs more wheat and will ask some wheat farmers in the payment-in-kind plan to place their crop in a loan program. A department spokesman said the U.S. believes this measure will prove adequate and doesn't expect to go into the cash market to buy grain for the new program.

Des Moines Register, April 22, 1983

USDA reports corn supplies at record levels

By JERRY PERKINS
Register Agribusiness Writer

The nation's corn supply is at a record level, the U.S. Department of Agriculture reported Thursday, but is still lower than many experts had expected.

Because of that, corn and soybean prices are expected to continue to move upward. Cash prices in central Iowa have increased 60 percent since Jan. 1. Soybean prices have advanced 24 percent since last fall's harvest.

The key to the bullish interpretation of the grain stocks report issued by the USDA Thursday is the amount of corn fed to livestock during the first three months of the year, said Robert Wisner, Iowa State University extension economist.

In the United States, corn fed to livestock increased 16 percent compared with the same three months a year ago, the USDA said.

Wisner said the poor quality of corn harvested in some parts of Iowa, waste from muddy feedlot conditions, and a sharp increase in the number of cattle fed during the first quarter all contributed to the 16 percent increase.

The lower-than-expected level of grain stocks in the United States "further tightens the already tight free supply of corn," Wisner said.

The tight free supply of corn available for sale this summer has been caused by heavy movement of corn into the government's nine-month and three-year loan programs.

Half the country's corn was under government control, the USDA said, either in loan programs (2.7 billion bushels) or owned outright by the government's Commodity Credit Corp. (472 million bushels).

Some of that corn will be released if the national average price of corn hits the "trigger" price of $3.15 a bushel.

Wisner said Thursday's USDA report "further increases the chances of hitting the trigger price between now and early summer. Planting delays [caused by wet weather] could bring it along sooner."

According to the USDA, the nation's corn stocks on April 1 totaled 6.4 billion bushels. That's 24 percent more a year ago.

Iowa had 1.5 billion bushels of corn on hand, the USDA said.

Soybean stocks totaled almost 2 billion bushels, also less than expected, Wisner said. Iowa has about 250 million bushels of soybeans on hand, the USDA said.

Wisner said the soybean figures suggested that the 1982 soybean harvest was 1 or 2 percent lower than reported.

That means there are adequate soybean stocks to meet demand this year, Wisner said, but the lower-than-expected soybean stocks also will add strength to soybean prices in the near future.

Second round of 'swap' bidding nets 1.1 billion bushels

By DON MUHM
Register Farm Editor

Nearly 1.1 billion bushels of corn, grain sorghum and wheat have been "bought" by the U.S. Department of Agriculture under a special plan it devised to pay off its grain payment-in-kind debts.

The USDA accepted all bids of 20 percent or less from farmers who had the commodity under government price support loan or in the national grain reserve.

No figures were released for Iowa's share of the grain offered to the USDA, or for the number of bids made by farmers in Iowa that met the 20-percent-or-lower acceptance level.

An estimated 50,000 Iowa farmers have about 733 million bushels of corn in the farmer-held reserve program, along with another 61.4 million bushels under the regular government price support loan program. All of that grain was eligible for the special bid program, which called for farmers to set their own "price" for providing the grain to the government to help it meet its in-kind obligations.

The USDA came up short of the grain it needs to pay off farmers in this year's highly popular farm program, which offered a combination of enticements ranging from cash payments and grain payments to price support benefits and target prices to farmers who signed up.

One Iowa official indicated that about a thousand bids were made to the USDA in some corn-rich counties in the state during the two-week period bidding period, which ended April 15. But, he added, "some of those bids were awfully high."

Under the bid arrangement, farmers could offer a price at which they would be willing to turn over grain to the USDA.

The USDA announced late Friday that it had obtained the following amounts of grain using the process: corn — 735 million bushels; grain sorghum — 135 million bushels; and wheat — 210 million bushels.

Officials have been keeping secret just how much grain they lacked to meet commitments made under the record signup in this year's farm program. In Iowa, however, supplies of grain were thought to be more than sufficient, with a total of 845 million bushels of corn available for grain payment-in-kind needs.

Iowa State University economist William Meyers has estimated that Iowans are owed about 380 million bushels for their idling of 6.2 million acres of cropland normally planted to corn.

The USDA did not say Friday whether this is its final effort to secure grain to pay off the in-kind commitments. It does have a "hole card" it can play, requiring farmers growing 1983 crops to put a portion of that grain under loan at $2.65 a bushel at harvest time. That may not be too popular with farmers, since corn prices have moved close to $3 a bushel across much of Iowa in recent weeks. Moreover, bad weather this year might move the price even higher by next fall, when the grain payments to farmers are to be made.

In a related development Friday, Agricultural Stabilization and Conservation Service officials said that the mowing period for crop-swap acres might be extended for two months, rather than the one-month period reported earlier.

Iowa ASCS program specialist Gene Johnson said that a rechecking of farm program rules Friday led to a determination that the state ASCS committee can extend the deadline for mowing crop-swap acres to "30 days past normal harvesting."

For oats, the most popular selection for seeding corn land taken out of production, the normal harvesting time in Iowa is July 15.

Interest in extending the cutting period has been expressed by wildlife enthusiasts, who want nesting time for birds beyond the traditional "disposal deadline of June 15." They say that a mid-June disturbance would be harmful to nesting birds and their progeny.

ASCS rules state that crops seeded on set-aside acres must be "clipped, shreded or lightly tilled" by a date no later than a month after the normal harvest time.

Farmers who want an extension must make a special request at local ASCS offices. They should expect to pay an examination fee, since the extension will require an inspection of the crop-swap fields to make sure none of the crop has been harvested.

The cost of the visit by an ASCS official will range from $9 to $13.

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Soo Line bids $100 million for Rock track

By RANDY EVANS
Register Staff Writer

The North Western Railway's pending acquisition of more than 700 miles of track belonging to the defunct Rock Island Lines was cast into doubt Tuesday when the Soo Line Railroad offered $100 million for much of the same property.

The Soo Line's offer was made in documents the company filed in Washington, D.C., with the Interstate Commerce Commission in which the Soo said it would not be in the public's best interests for the ICC to approve the North Western transaction.

"The Soo alternative presents an exceptional opportunity for the commission to strike a blow for reinstatement of effective rail competition in the Midwest," Soo Line Chairman Thomas Beckley said.

"If the [North Western] is successful in acquiring these lines, it would complete a long-standing effort of [the North Western] to achieve a rail transport monopoly in Central and Northwest Iowa and Northwest Missouri," he said.

The North Western appeared last month to have won a spirited, high-stakes bidding war for the Rock Island tracks, which include the main line between Minneapolis, Minn., and Kansas City, Mo., and approximately 300 miles of branch lines in the grain-producing heart of North Central and Northwestern Iowa.

The federal judge in Chicago, Ill., who is overseeing the liquidation of the bankrupt company gave preliminary approval to the North Western's $93 million offer after the Soo Line bowed out of the bidding at $88.5 million.

The transaction still must be approved by the ICC before going back to the judge for his final acceptance.

Although North Western officials and the Rock's bankruptcy trustee had settled on the $93 million price tag and signed a contract, the Soo Line was not precluded from reopening the bargaining.

But Rock Island trustee William Gibbons said he does not intend to act on the Soo Line offer until the ICC has ruled on the merits of the competing railroads' proposed acquisitions. If the ICC rules that the public interest would be served by either company's owning the tracks, it then would be up to U.S. District Judge Frank McGarr to decide which offer would be accepted, Gibbons said.

He said it was possible McGarr might give the North Western the opportunity to top the Soo Line's bid.

The Soo Line made its new offer, company officials said, because access to Kansas City is of "critical importance" to the railroad and its parent company.

The railroad is owned by Canadian Pacific Ltd., Canada's largest corporation. The giant conglomerate also owns the Canadian Pacific Railroad, whose principal competitor, the Canadian National Railway, is wrapping up a deal to enter the important Midwest rail hub at Kansas City with its purchase of the Milwaukee Road.

The Canadian National-Milwaukee deal will cost the Soo Line "substantial" amounts of business, the company said.

Iowa transportation officials have criticized the North Western's acquisition of the tracks because the company already operates the only north-south service through the center of the state. State officials also have criticized the deal because they are worried that it will be harder to find a buyer for the Rock's old east-west mainline if the North Western is permitted to buy 13 miles of that line in the Des Moines area.

The North Western's pending deal involves about 720 miles of track. The Soo Line had been seeking 670 miles, but its offer Tuesday included nearly 100 more miles, principally short segments in the Twin Cities, Cedar Rapids, Rake and Manson areas.

North Western officials were unaware of the Soo Line's new offer Tuesday, but the company's senior vice president for planning, Jerome Conlon, said he was confident the North Western deal would go through.