STATEMENT OF WILLIAM T. COLEMAN, JR., SECRETARY OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON SURFACE TRANSPORTATION, COMMITTEE ON COMMERCE OF THE UNITED STATES SENATE, ON THE PROPOSED ACQUISITION BY THE SOUTHERN RAILWAY OF THE PENN CENTRAL LINES ON THE DELMARVA PENINSULA, MONDAY, MARCH 1, 1976.

Mr. Chairman and Members of the Committee:

I would first like to thank you for the opportunity to appear before this Subcommittee of the Committee on Commerce of the United States Senate. I have often appeared before this Committee, and I have come to have great admiration for its ability to obtain results for the American people.

I appear today to discuss the serious situation confronting all of us in our attempts to revitalize rail service in the Northeastern part of the United States, and specifically, for the people of Maryland, Delaware and Virginia. The situation is serious because we now face the likelihood that rail service on the Delmarva Peninsula is going to wither away or, at least, be further downgraded. But even more important is the fact that there was an opportunity for an upgrading and enhancement of such service which will now be lost. The situation is not only serious but also tragic, for it could and should have been avoided.

As you know, the condition of most of the rail facilities on the Delmarva Peninsula is extremely poor. In most places there has been virtually no maintenance for some fifteen years. The result is a system that is only minimally functional. I am told that in many places

traffic moves at only 6-10 miles per hour. Operations have been so unprofitable that the Penn Central has continually sought to reduce or eliminate service. Thus, for the communities, industries, and shippers of the Peninsula, there could have been no better news than that contained in the United States Railway Association's Final System Plan -- that the Southern Railway Company proposed to purchase the rail properties of the Penn Central there. For the Final System Plan designated the rail properties between Wilmington, Delaware and Cape Charles, Virginia, including a number of associated marine and terminal facilities, to be transferred to the Southern. And not only was rail service going to continue, but it was going to be operated and radically upgraded by one of the industry's most successful carriers. For the affected communities, this meant not only preservation of existing industries, but also the likelihood of the development of new industrial establishments and better access to national markets (because the Delmarva would be connected into the Southern's national rail system).

For the Southern Railway, these properties represented a unique opportunity to offer rapid service to the Wilmington market by avoiding the Richmond-Washington-Baltimore bottleneck, and it provided the Southern with access through Wilmington to important interchanges with the

upper Atlantic and New England regions. The price to the Southern for these properties, $6 million, was, I believe, certainly reasonable, based as it was on the net liquidation value of the properties; moreover, the Southern was to be provided with deficiency judgment protection by the United States Government. I might add that this deficiency protection came only as a result of the tireless efforts of many members of this Committee during the enactment of the Railroad Revitalization and Regulatory Reform Act of 1976. In announcing its intention to purchase this property, the Southern also declared its commitment to invest approximately $30 million of its own money to rehabilitate and improve the presently worn out facilities.

The law provides, however, that before this purchase could be consummated, the Southern had to negotiate successfully labor agreements with the employees who presently operate the Penn Central properties on the Peninsula. These employees, to the extent needed by the Southern, would have the first rights to jobs with the Southern to operate the transferred properties. Mr. Chairman, I am extremely disappointed to say that the Southern Railway and the labor unions have been unable to reach such agreements. And it now appears that the Southern acquisition will never take place.

If it was so significant, why wasn't the [illegible] in the FSP?

The impact of this on the people of the Delmarva Peninsula will be significant. ConRail will now be designated to operate the rail properties. ConRail, however, will operate as part of its mainline system, only approximately 185 of the 460 miles of the total present system on the Delmarva. The remaining miles, unless they can be subsidized by the State, with a diminishing Federal participation, and then only temporarily, will be abandoned. The Southern, on the other hand, would have operated almost the entire 460 miles. Moreover, the properties acquired by ConRail will not be rehabilitated and improved, as they would have been by the Southern. It simply makes no sense for ConRail to operate all of or rehabilitate those properties which are only tangentially connected to its main rail network. As part of the Southern, however, the properties would have provided that railroad with a link to new markets and would have justified operation and rehabilitation. The future of industry, including the 350 shipping and receiving points, on the Delmarva Peninsula is therefore now seriously threatened.

Mr. Chairman, before I discuss what efforts have been made in the past few days to try to put the Southern acquisition of the Delmarva back together, I want to point out there is another tragedy taking place, simultaneously with that of the Delmarva, as a result of these unsuccessful labor negotiations.

Under the Final System Plan, the Chessie System had offered to purchase and operate most of the properties of the Erie Lackawanna and Reading Railroads, thereby allowing the Chessie to serve most of the Northeastern United States. This expanded Chessie System would have provided competition for ConRail throughout most of the region and influenced ConRail to be more efficient. Of signal importance, the Chessie had committed itself to investing between $500 and $800 million of its own money to upgrade and rehabilitate the 2,000 miles of Erie Lackawanna and Reading property that it intended to acquire. This money, and the $30 million that the Southern intended to spend on the Delmarva, was to be in addition to $2.1 billion Federal investment in ConRail which was provided for in recent legislation. Thus the Chessie and Southern purchases meant the infusion of anywhere from 530 million to 830 million dollars of private capital into the Northeastern rail system.

The failure of the Chessie system, like the Southern Railway, to obtain labor agreements means that this purchase and infusion of additional capital will not take place. The Erie Lackawanna and Reading lines will instead become part of ConRail. I believe this to be an extremely unfortunate occurrence. To begin with, ConRail will not have the competition required to make it as efficient as it might be. Second, ConRail will not have the incentive to rehabilitate and improve those properties as the Chessie would have. Vis-a-vis Unified ConRail,

& thought — we whooped it up for a unified ConRail when the FSP was in progress.

large sections of these properties, especially on the Erie Lackawanna, are redundant. Because ConRail will need to consolidate and rationalize the many rail properties that it acquires, large parts of the Erie Lackawanna will be downgraded by ConRail. This means the loss not only of rail service but also of thousands of jobs.

If the Chessie purchases the Erie Lackawanna, it would undertake a major rehabilitation program on that line creating hundreds of new jobs. But under ConRail, the Erie Lackawanna becomes a totally redundant property except for local services, because ConRail already has two routes from the Midwest to the Eastern Seaboard -- the former New York Central and the former Pennsylvania Railroad. Thus the elimination of the Erie Lackawanna as a through traffic route is virtually assured. In addition, Erie Lackawanna yards and terminal operations in such places as Marion, Niles, Mansfield, and Dayton, Ohio, Scranton, Pennsylvania, and Syracuse and Utica, New York will be downgraded from their present role, or closed. Terminal operations in Buffalo, Chicago, and Youngstown will probably be rationalized and reduced. Other facilities at Hornell, New York, and Meadville, Pennsylvania, will be closed or their operations curtailed.

As a result of this downgrading of the Erie Lackawanna, most of the thousands of employees of that carrier will either be transferred or severed. While the Chessie

would not take on all of the Erie Lackawanna people, and no doubt would reassign certain personnel, the overall impact in terms of severance or moves would be far less under the Chessie than under ConRail.

What we lose, in the context of the broader picture, are the incentives which a competitive spur would give to Conrail, and that happy combination of Federal assistance and private initiative which could be the salvation, in my judgment, of the railroad industry in the Northeast.

Under the law, the Southern and the Chessie were required to obtain labor agreements prior to accepting finally the offers of rail properties designated to them pursuant to the Final System Plan. These designations were to terminate 7 days after the date of enactment of the Railroad Revitalization and Regulatory Reform Act of 1976, February 5, unless the carriers had secured labor agreements and accepted the offers. The negotiations were to be handled by the parties themselves with the assistance of USRA. It was only after USRA, management, and labor could not produce an agreement that the Administration concluded that it had to intervene.

Because of the long range effects on the entire rail system in the Northeast and the immediate effects on the people and industry of such states as Maryland, Delaware, and Virginia, that the failure of these labor negotiations will have, Secretary of Labor Usery and I last week decided to ask the parties involved to meet with us to see if a resolution of their differences could be found.

On Wednesday, February 25, beginning at 9:00 A.M., we met in my offices with the top representatives of both management and labor. After 16½ hours of continuous discussions, we recessed at 1:30 A.M. Thursday morning. We resumed deliberations Thursday afternoon and met continuously until 3:30 A.M. Friday. Secretary Usery and I made every effort to try to get the parties to resolve their differences, but at 3:30 A.M. on February 27, the talks broke off without sucess.

Mr. Chairman, it was a bitter disappointment to me, and I know to Secretary Usery, that we were unable to resolve this issue last week, for I firmly believe that a resoulution of the differences between the Southern and the Chessie and the unions could have been obtained and should have been obtained. Moreover, Mr. Chairman, with the cooperation of Congress, the legal tools exist to implement those transactions even now, if we could get labor agreements-although I do not mean by this an extention of the April 1 conveyance date. But we are rapidly running out of time.

I should emphasize, Mr. Chairman, that I definitely do not believe that the April 1 date for conveyance of the properties of the bankrupt railroads should be delayed. Nor do I believe that the answer lies in providing any more government money for ConRail to operate and rehabilitate the properties that the Chessie and the Southern would have acquired. Vis-a-vis Unified ConRail,

those properties are largely redundant or only marginally connected to ConRail's mainline rail network. To force such operations and rehabilitation onto ConRail would seriously interfere with its chances of successful operation of the bankrupt properties.

If the present situation is not reversed, Mr. Chairman, by speedy resolution of these labor disputes, it will be a tragedy for thousands of people and for the future of rail transportation in this country.

I will be happy to answer any questions you may have.

after all the big build up about the tragedy, we apparently leave it to the politics to resolve.