

TESTIMONY OF DEPUTY FEDERAL RAILROAD ADMINISTRATOR
ROBERT E. GALLAMORE
BEFORE SENATE COMMITTEE ON COMMERCE, SCIENCE AND
TRANSPORTATION, SURFACE TRANSPORTATION SUBCOMMITTEE
ON APRIL 16, 1980
ON CONRAIL AND THE UNITED STATES RAILWAY ASSOCIATION

Mr. Chairman:

I am pleased to be able to appear before you today to discuss two closely related issues -- the future of Conrail and the future of the United States Railway Association (USRA). These issues are addressed in S.2527 recently introduced by Senator Cannon, and in the USRA Board of Director's February 28, 1980 resolution recommending the transfer of USRA's nonlitigation functions to the Department by the end of calendar year 1981.

For both issues, the Administration has developed a single guiding principle: Conrail, in its relations with the Government, should eventually be placed on an equal footing with the rest of the industry.

This means that Federal financing for Conrail, if any additional funds are required, should come to resemble Federal financing for the railroads generally. Also, the Federal Government should develop and implement its policies toward Conrail and toward the rest of the industry in a unified, rather than a fragmented, manner.

This approach takes into account Conrail's current status and prospects. In calendar 1979, Conrail had the best year in its four-year history. It sustained a net loss on the order of \$180 million, half the loss it incurred in 1978. Although Conrail expects a one-year performance drop

for 1980 due to traffic declines in the current economic environment, first quarter results for this year show Federal funding requirements falling \$100 million below budget. In calendar year 1981, Conrail expects to improve its performance as the economy progresses, as corporate operating efficiencies build up and as regulatory reforms hoped for from this Congress take effect. Thus, the Corporation has not requested a new Federal authorization in FY 1981, and the Administration has not budgeted any financing above the existing \$3.3 billion.

In the event that Conrail develops emergency financing requirements in FY 1981 -- for example, if the 1980-81 winter should be particularly severe -- the Department would consider requesting funds to allow Conrail to undertake, up to its currently budgeted level, the approved calendar year 1980 and 1981 fixed plant rehabilitation and improvement program, depending on the nature of the emergency and the amount of funds requested. In that circumstance, we would want to evaluate all available options for providing additional funds, including authorizing additional section 216 funds, authorizing a loan program for Conrail, or other possibilities. I want to make clear however, that at this time we do not believe that provision of 1981 funding is necessary or desirable.

Conrail may also identify a need for a new Federal authorization in FY 1982 and beyond. In that eventuality, we are considering an approach similar to that of Title V of the 4R Act, in which Conrail fixed plant rehabilitation and improvements would be funded through the Department on a project-by-project basis. As we noted, we believe that Conrail

eventually should be placed on an equal footing with the rest of the railroad industry in applying for the limited amount of Federal funds available for railroads.

Substantial regulatory reform, which we expect from this Congress, will have a major effect on the financial performance of the Conrail system, both as a whole and on a line-by-basis. Under a market-oriented system, pricing flexibility would be used to make profitable lines that otherwise would face abandonment. Until regulatory reform is in place and Conrail has an opportunity to react to it, we would not favor a Federal effort such as contemplated in S.2527 to identify lines for deletion from Conrail's for-profit system.

The history of Conrail's predecessors illustrates that line deletion is not the sole remedy for Conrail's financial problems. For example, Conrail at its inception excluded 5500 route-miles operated by its predecessors; the predecessors between 1959 and 1975 deleted 3600 route-miles from their own systems; yet neither Conrail nor its predecessors was able to achieve self-sufficiency. Moreover, a September 1979 report released by USRA suggested that the elimination of 4600 route-miles from Conrail's system would yield annual benefits of about \$100 million, while improvements in operating efficiencies could yield savings of as much as \$500 million. Nonetheless, any opportunities for improvement in Conrail's financial performance should be examined carefully, and Conrail should seek ICC authorization to abandon those lines that offer no hope of profitability, even with pricing flexibility. We are confident that the ICC would act expeditiously on such requests from Conrail.

In addition to deletions of light-density lines and pricing improvements, transfers of lines to solvent railroads have been suggested as a remedy for Conrail's continuing losses. Sales or transfers of any major segments of the Conrail system would require a thorough evaluation of a number of legal and financial questions. Among the issues to be addressed are the willingness of other railroads to acquire Conrail lines, the possibility of Conrail picking up services now provided by other railroads, and the financial implications of transfers.

While the Department does not favor the abandonment and transfer proposals embodied in S.2527 at this time, Mr. Chairman, we believe the concept is appropriate in the larger context of a full review of Conrail's future, including its present structure, the implications of regulatory reform, and requirements for continued Federal assistance. We intend to undertake such a fundamental review as the basis for budget recommendations in FY 1982 and as our initial effort under our forthcoming proposal to transfer USRA's Conrail planning, financing and monitoring functions to DOT by the end of calendar year 1981.

The transfer of oversight functions would enable the Federal Government to deal with Conrail issues in a manner consistent with national transportation policy. The USRA Board would continue to oversee the conduct of the valuation case. This follows the joint recommendation of USRA and the Department of Justice against a transfer of these ongoing litigation functions.

The Department of Transportation is both willing and able to take over USRA's responsibilities for Conrail financing, monitoring, and planning. Our budgetary requirements for the job will be well within the personnel and other resource levels now allocated to USRA for these functions. Within the limits of Federal personnel requirements, we hope to be able to attract USRA personnel with qualifications appropriate to the tasks we are assuming.

In line with S.2527, we recognize that USRA--with its unique corporate composition--could provide a valuable review and analysis of Conrail to sum up its work. USRA could analyze Conrail's past performance and future prospects and present its recommendations on a variety of issues -- such as physical plant, operations, and productivity -- based on its six years' experience with Conrail. This would tie together USRA's efforts in exploring structural alternatives for Conrail, including such specialized studies as the New England and controlled transfer efforts. Such a report would assist us in assessing the impacts of proposed sales and transfers of Conrail properties, and in conducting our fundamental review of Conrail's future as part of the FY 1982 budget cycle. We believe that such a study by USRA would be useful.

Mr. Chairman, that concludes my remarks. I would be pleased to answer any questions on S.2527 or on S.2530, the Railroad Employee Protection Modification Act.

