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TESTIMONY OF
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FEDERAL RAILROAD ADMINISTRATION
BEFORE: THE SUBCOMMITTEE ON MERCHANT MARINE,
HOUSE COMMITTEE ON MERCHANT MARINE AND FISHERIES
THE NEW YORK SENATE STANDING COMMITTEE ON COMMERCE
AND ECONOMIC DEVELOPMENT
THE NEW YORK STATE LEGISLATIVE COMMISSION ON
SCIENCE AND TECHNOLOGY
THE NEW YORK STATE ASSEMBLY SUBCOMMITTEE ON
PORTS AND TERMINALS

It is a pleasure to be here today to describe for you the Department of Transportation's proposal to improve the quality of railroad freight and commuter service in the Northeast. The Department proposes to fashion a permanent solution to the problems confronting shippers and commuters in the Northeast. This solution will center upon the premise of continued and improved rail service, with the prospect of greater competition. It will also relieve the taxpayers of the burden of supporting an inefficient, expensive, nationalized Conrail system. The essence of the proposal is to transfer the important rail lines and services now operated by Conrail to profitable, private sector railroad companies.

The Department's proposal is based on the following policy goals.

- The regional freight services now operated by Conrail should be integrated into the interregional freight services developing throughout the Nation. Conrail

shippers and communities must have access to these interregional services.

- Railroad freight service should be provided by profitable railroads. The Government's involvement should be to act as a catalyst in the transfer of
- Railroad service should be provided on a commercial basis that is fair to both the users and the railroads.

In my presentation of the Department's proposal today, I would like to highlight three areas. First, the solutions to commuter, labor protection, and freight terminal operating problems that must be developed and implemented as a prerequisite to the transfer process. Second, the benefits that will flow from the transfer of Conrail's services to profitable railroads, and third, the feasibility of the transfer policy.

Solutions Preceding Transfer

Any solution to the Conrail problem requires that three long-standing problems be addressed. These areas involve commuter service in the Northeast, the congested, high-cost terminals and freight switching operations along the East Coast and Conrail's high labor and labor protection costs.

Conrail's commuter services must be separated from its freight system. Commuter services should be operated by a passenger-oriented entity, not by Conrail or any other freight railroad. Commuters in the Northeast should not have to endure the constant nonproductive friction that is bound to occur when local authorities have to run their services by "remote control" through a freight railroad management. They deserve a first-class operation run by a full-time, passenger-oriented management that can devote all of its attention to resolving the difficult operating, labor and cost issues that are involved in commuter service. The Department proposes to transfer Conrail's commuter operations to one or more such managements.

Profitable freight railroads may also be unwilling to accept entrepreneurial responsibility for the present terminal operations in and adjacent to the Corridor between Wilmington, Delaware, and the New York/New Jersey port area. These services are vitally important to this highly industrialized area and must be attended to directly. The Department believes it would be best if profitable railroads assumed and operated these operations, and it is prepared to structure the purchase of these facilities in a way that will facilitate this outcome. If the Department finds that the profitable railroads are reluctant to provide the service that is needed, however, it is willing to support formation of

one or more terminal companies dedicated solely to continuing and improving these terminal services. As with other terminal companies, the operating costs of this company should be offset by switching charges paid by the profitable railroads for traffic handled by the terminal.

The final area which needs resolution is the large number of Conrail employees and the attendant high cost of labor protection. Any reduction in employment Conrail makes in an effort to become self-sufficient is negated by Conrail's labor protection liability. Savings from operating efficiencies would be quickly offset by current Title V liabilities or similar conditions, if they were to be imposed.

The problem exists for Conrail or any of its possible successors. Other carriers would not assume the large numbers of Conrail employees now utilized in providing service, nor the protection costs associated with reducing the work force. At the same time, the Department does not believe it is appropriate that the total burden of change be placed on the taxpayer.

The Department believes this problem should be solved along the concepts evolved in the Milwaukee legislation enacted by Congress last year. First, the Title V protective conditions

must be repealed. A new program of labor assistance should then be enacted which is fair and equitable for both employees and the taxpayers. The program must include equitable protection for employees, including one-time compensation for employees who lose their jobs and assistance for workers in relocating and finding other railroad positions. Employees hired by acquiring railroads should be given a reasonable wage guarantee for a specific period of time by the acquiring railroad.

It is essential that rail labor participate directly in developing the solution. The Department plans to work with the railway labor organizations and railroads to resolve these issues.

Benefits of Transfer

Once these improvements are made, there are major benefits to shippers, commuters, Conrail employees and profitable railroads which would flow from the transfer of Conrail's services and lines.

- First, if profitable railroads acquire Conrail's services and lines and merge them into their own systems, Conrail's shippers and communities will receive more efficient, reliable, and competitive single-line rail service.

For the first time, Conrail shippers will be able to avoid the expense and dispersion of accountability implicit in the interchange of cars between railroads at historic regional boundaries. The integration of Conrail's lines with strong interregional carriers will provide Conrail shippers with direct service from points throughout the Northeast to customers in other regions of the country. This new service pattern also will allow Conrail shippers to derive the maximum possible benefits from the innovative pricing and contract freedoms of the Staggers Rail Act of 1980.

- Allowing profitable railroads to integrate Conrail's services and lines into their own operations will expand the revenue base of these railroads and provide opportunities for them to reduce costs by consolidating their operations with Conrail's. This will enable these railroads to improve the service they provide to both Conrail shippers and their own shippers in the Northeast and in other parts of the country.

- Allowing profitable railroads to acquire Conrail's lines will generate the highest economic use of the

$2 billion investment the public has made since 1976 in rehabilitating these lines. It will also protect the public's investment by guaranteeing that the lines will be owned by profitable railroads that can adequately maintain them.

- Perhaps most important, bringing strong, profitable railroads farther into the Northeast to operate Conrail's services and lines will permanently stabilize the Northeast railroad system. It will assure secure employment for the individuals hired by the acquiring carriers and encourage industrial reinvestment in the region. The Department believes the introduction of service by profitable, interregional railroads will be of immense assistance to the efforts by Northeast states and communities to revitalize their economies.

Feasibility of Transfer

Whether profitable railroads will participate fully in the implementation of a service transfer program has always been at the core of the transfer issue. The Department strongly believes that, although there may well be initial expressions of caution, the rail industry will cooperate and will participate fully if the three problems referred to earlier are addressed.

The profitable railroads surrounding Conrail realize significant revenue from the traffic they interchange with Conrail. Of the 10 railroads that interchange the most traffic with Conrail, 3 are in the East, 2 are Canadian carriers and 5 are Western railroads. Traffic density and flow maps incorporated in the Department's formal report illustrate the magnitude of the commercial interests of these railroads in a solution which preserves the important rail traffic base of the Northeast.

Not only will these railroads want to preserve their existing traffic base, but they will also want to gain access to Conrail's local traffic and eliminate the costly inefficiencies and delays implicit in interchanging traffic with Conrail. No railroad can afford to sit on the sidelines once the transfer process is approved and underway.

Past solutions have failed because we have been willing to invest public funds on the strength of optimistic assumptions which have never been achieved. It would be a serious error, and an unwise commitment of public monies, to perpetuate Conrail on the basis that it can achieve, in a timely manner, the unprecedented labor changes, fundamental operating changes, and traffic and revenue gains that Conrail and others have predicted. Instead, an orderly transfer to profitable railroads of Conrail's services,

and the lines, employees, and equipment necessary to provide them, should be undertaken.

Even if Conrail were somehow to achieve breakeven operation and no longer to depend on an annual infusion of public funds, it would remain a marginal railroad, owned by the Government, isolated from the mainstream of the railroad system and unable to provide the kind of service its patrons need.

I should be pleased to answer any questions you might have.