

TESTIMONY OF
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BEFORE THE SUBCOMMITTEE ON ANTI-TRUST AND RESTRAINT OF TRADE
ACTIVITIES AFFECTING SMALL BUSINESS
COMMITTEE ON SMALL BUSINESS
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Mr. Chairman and Members of the Subcommittee:

The Department of Transportation is pleased to have this opportunity to discuss the effect that the Administration's proposal to return Northeast railroad service to the private sector will have on small businesses.

The Administration proposes over time to transfer all of Conrail's essential freight services to the private sector, either as a single entity or by transferring major portions to other railroads. This proposal will affect small businesses in the same way it will affect large businesses. That effect will be positive. Business leaders from companies of all sizes agree with this assessment. Organizations representing a broad range of business--including the National Industrial Traffic League, the National Council of Farmer Co-ops, the American Retail Federation, the Chemical Manufacturers Association, the American Paper Institute and the American Farm Bureau Federation--all have announced their support for the Administration's proposal.

The Administration's proposal will help business--including small businesses--in several ways. Removing Conrail's dependence on uncertain annual appropriations from the Federal Government and placing it permanently within the private sector will provide the stability that business needs to plan operations and support investment decisions. As long as Conrail remains a subsidized operation, its funding will remain uncertain and this will have a chilling effect on reinvestment in and expansion of business along its lines. Since many of Conrail's customers are relatively small enterprises, small businesses in the Northeast have borne most of the burden of Conrail's financial uncertainties.

By returning Conrail to the private sector we will minimize the need for surcharges and line abandonments, which affect both large and small businesses. We are now going through a period of surcharges and abandonments as a cure for the uneconomic services that were allowed to grow for years and undermine the Northeast and Midwest rail systems. Over the short term, these surcharges and abandonments will be necessary whether Conrail continues as a subsidized operation or its services are transferred to the private sector. By taking the steps necessary to allow Conrail to operate successfully in the private sector and then transferring it to private ownership we will reduce its costs and thus, over the long term, reduce the need for surcharges to bring revenues above costs; and we will improve the economics of marginal light density lines as well. This will have a positive impact on northeastern business, both large and small.

With your permission, Mr. Chairman, I would like to take a few minutes to describe the elements of the Administration's proposal to return Conrail to the private sector for the Subcommittee. The Administration has proposed legislation to authorize the transfer process and to correct three problems that historically have mitigated against the success of Conrail and its predecessors. Enactment of the legislation will remove the Federal Government from its involvement with Conrail and return Northeast rail service to the private sector, either as a single entity or in major portions that would collectively include all of Conrail's essential lines.

I want to stress that, while we intend to move the process forward in an expeditious fashion, the transfer will be orderly and will not be an auction or fire sale. The Administration expects that all of Conrail's essential services will continue to be operated, that the employees needed to operate them will be provided employment with the new owner or owners, and that the vast majority of Conrail's traffic will continue to move by rail.

It is our intention to restore stable private sector railroad service in the Northeast. For the first time in many years northeastern businesses--including small businesses--will have an economically sound railroad system that can become a dependable part of their investment decisions.

The successful transfer of Conrail's lines and services is dependent upon the resolution of three long-standing problems. These are commuter services in the Northeast; Conrail's high labor and labor protection costs; and high cost, congested terminals in east coast cities.

Conrail operates major commuter services in Connecticut, New York, northern New Jersey and Philadelphia under contracts with public transportation agencies. Conrail's management contends, and we agree, that managing commuter services diverts its attention from its primary responsibility, that of managing its 17,000-mile freight transportation network. The commuter agencies have testified before the Congress that they do not believe Conrail gives adequate priority to local commuter problems, and there have been historic disagreements over the allocation of costs. The Administration proposes to mitigate these problems by transferring responsibility for operating commuter service from Conrail to the public transportation agencies that now contract for the service, if they agree to assume that responsibility. The transfer will be accomplished in an orderly manner, and the Administration has proposed to earmark \$50 million to assist the public transportation agencies in making a smooth transition.

Conrail's management has told the Congress--and we agree--that it cannot function in the private sector if it continues to be burdened with more than 10,000 unneeded employees and labor protection conditions that remove private sector incentives by guaranteeing what amounts to lifetime pay protection.

The Administration proposes to repeal the current labor protection coverage and replace it with a more equitable program. At the same time, we will support Conrail's efforts to implement the work force reduction provisions contained in the Staggers Act, in order to eliminate positions that are not needed to operate the railroad. Once these steps are taken, Conrail will be more able to function successfully as a business enterprise and will be attractive to potential private sector purchasers.

The final problem is that the private sector may be unwilling to acquire 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, which includes many small businesses, and must be attended to directly. The Department believes it would be best if these services are operated in the private sector. If line haul railroads are unwilling to provide the service that is needed, we will 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.

Once again, I appreciate having been given the opportunity to discuss the Administration's Conrail proposal with this Subcommittee, and I will be pleased to respond to any questions you may have.