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FINANCIAL CONDITION OF THE ROCK ISLAND RAILROAD

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HEARING

BEFORE THE

SURFACE TRANSPORTATION SUBCOMMITTEE

OF THE

COMMITTEE ON COMMERCE

UNITED STATES SENATE

NINETY-FOURTH CONGRESS

FIRST SESSION

ON

S. 917

TO AMEND THE INTERSTATE COMMERCE ACT TO AUTHORIZE THE INTERSTATE COMMERCE COMMISSION TO GRANT TEMPORARY OPERATING AUTHORITY TO A CARRIER BY RAILROAD PENDING FINAL DETERMINATION BY THE COMMISSION

MARCH 10, 1975

Serial No. 94-9

Printed for the use of the Committee on Commerce



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FINANCIAL CONDITION OF THE ROCK ISLAND RAILROAD

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FINANCIAL CONDITION OF THE ROCK ISLAND RAILROAD

MONDAY, MARCH 10, 1975

U.S. SENATE,
COMMITTEE ON COMMERCE,
SURFACE TRANSPORTATION SUBCOMMITTEE,
Washington, D.C.

The subcommittee convened at 10:10 a.m. in room 5110, Dirksen Senate Office Building, Hon. Vance Hartke (chairman of the subcommittee) presiding.

OPENING STATEMENT BY SENATOR HARTKE

Senator HARTKE. The committee will come to order.

Good morning. Today, the Commerce Committee is having its first hearing on the latest crisis in rail transportation. This time, it appears that the region beyond the region covered by the Regional Rail Reorganization Act is facing a crisis not dissimilar to the almost permanent crisis of the northeastern railroads such as the Penn Central.

While it appears that a number of rail carriers in the Midwest and West are in relative severe financial difficulty, at the moment the Rock Island is apparently the worst of the lot. The Rock Island has been a well-known railroad name for some time. This is not the first time that it has been in financial difficulty. Harry Truman, when he was in the Senate, made a speech about some of the financial difficulties that the Rock Island experienced in the 1940's. Addressing himself to a possible cause of some of these financial problems, he said the following:

* * * The first railroad robbery was committed on the Rock Island back in 1873 just east of Council Bluffs, Iowa. The man who committed that robbery used a gun and a horse and got up early in the morning. He and his gang took a chance on being killed and eventually most were. That railroad robber's name was Jesse James. The same Jesse James held up the Missouri Pacific in 1876 and took the paltry sum of \$17,000 from the express car. About 30 years after the Council Bluffs holdup, the Rock Island went through a looting by some gentlemen known as the tin plate millionaires. They used no guns, but they ruined the railroad and got away with \$70,000,000 or more. They did it by means of holding companies. Senators can see what pikers Mr. James and his crowd were alongside of some real artists.

Those were the words of former President Truman when he was in the Senate. No wonder the country loves him.

Staff members assigned to this hearing: Thomas G. Allison and Paul A. Cunningham.

Unfortunately, it does not appear that the present difficulties facing the several marginal rail carriers operating in this region are explainable by misdeeds of a few robber barons. There are a number of interrelated and complex factors that have led to our present predicament.

First, there is without doubt an excess of rail transportation facilities in this area. For instance, between many of the cities where the Rock Island offers the only service, and the committee will be interested in the extent of service that the Rock Island provides exclusively, and what are the ways in which the continuation of essential services can be assured.

Another major problem in this area is the condition of the carriers operating in it. With some exceptions, the physical plant of not only the Rock Island but also the other carriers in this region is in poor shape. Substantial funds would have to be expended to produce an adequate rail transportation system in this region.

This means that we have two problems: First, and most importantly, the continuation of essential services must be assured. I understand that we will have several alternatives presented to the committee to accomplish this. Second, there needs to be a well thought out plan to produce a sensible and adequate rail transportation system in this region. Today I am hopeful that the witnesses will concentrate on the first problem, but we must keep in mind that attention must also be given to the longer range view of producing an adequate transportation system in this region. This is not a problem that is by no means limited to the Rock Island.

Before we hear from the witnesses today, I would like to make one further point. There are a number of factors which have contributed to the problems faced today by the United States in the field of rail transportation. It is fair to say that there have been deficiencies in management in the rail industry. There is no doubt that changes in the industrial mix of the Nation's economy have contributed to declines in certain portions of our rail system. The growth of other modes of transportation have in many cases left us with a rail transportation system originally designed as the primary means of transport in an era when the Nation's railroads are carrying less than 40 percent of the intercity freight and an even smaller proportion of intercity passengers.

While all of these factors are important, there is one single factor that is most important of all. The Federal Government has not formulated a sound basis for its investment in transportation. Some Government assistance is provided to all modes of transportation. Government assistance is made up of a complex mix to tax benefits, capital grants, right-of-way construction and maintenance, and operating subsidies. The recently issued Preliminary System Plan of the U.S. Railway Association, in appendix H, sets forth the dimensions and nature of these varying forms of assistance, and I am hopeful that the Congress can take some meaningful action this year that insures that the Federal dollars invested in transportation are returning the maximum possible public benefit.

[The bill follows:]

94TH CONGRESS
1ST SESSION

S. 917

IN THE SENATE OF THE UNITED STATES

MARCH 3 (legislative day, FEBRUARY 21), 1975

Mr. PEARSON introduced the following bill; which was read twice and referred to the Committee on Commerce

A BILL

To amend the Interstate Commerce Act to authorize the Interstate Commerce Commission to grant temporary operating authority to a carrier by railroad pending final determination by the Commission.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Railroad Temporary
4 Operating Authority Act".

5 SEC. 2. Section 5(2) of the Interstate Commerce Act
6 (49 U.S.C. 5(2)) is amended by adding at the end thereof
7 the following new subsection:

8 “(g) Pending the determination of an application filed
9 with the Commission for approval of a consolidation or mer-

II

ger of the properties of two or more carriers by railroad; or
of a purchase, lease, acquisition of control, or contract to
operate the properties of one or more carriers by railroad;
or of acquisition by a carrier by railroad of trackage rights
over, or joint ownership in or joint use of any railroad line
or lines owned or operated by any other such carrier, and
terminals incident thereto, the Commission may, in its dis-
cretion, and without hearing, grant temporary approval, for
a period not exceeding 180 days, of the operation of all or
part of the railroad properties or property rights sought to
be acquired by the party or parties proposing in such pend-
ing application to acquire such properties or property rights,
if it shall appear that failure to grant such temporary ap-
proval may result in destruction of or injury to such railroad
properties or property rights sought to be acquired, or to
interfere substantially with their future usefulness in the
performance of adequate and continuous service to the public.
The Commission may, in its discretion, attach to any order
granting such temporary approval such terms and conditions
as in its judgment the circumstances surrounding such tem-
porary approval shall warrant. Extension of such temporary
authority beyond 180 days may be determined by the Com-
mission upon written request by any interested party, or it
may determine the need therefor upon its own initiative.”

Senator HARTKE. I would like to request that all witnesses keep their oral statements as short as possible. Written statements of any length can be submitted and will be reprinted in the record of these hearings and considered by the committee as if they had been given orally. The limiting of oral testimony will permit the committee to ask questions of the witnesses.

Senator McClellan has requested that the hearing be held open for him to make a statement.

Senator Pearson, do you have a statement?

Senator PEARSON. I have no statement.

Senator HARTKE. Senator Stevenson?

Senator STEVENSON. Mr. Chairman, I have no statement.

Senator HARTKE. All right. We have some Congressmen and Senators. We will first hear from Senator Clark and Senator Culver of Iowa. Which is first?

STATEMENT OF HON. DICK CLARK, U.S. SENATOR FROM IOWA

Senator CLARK. Mr. Chairman, it is a pleasure to be here this morning before this subcommittee for these hearings on the Rock Island Railroad. I would like to take this opportunity to thank the chairman on behalf of the State of Iowa for recognizing the emergency situation facing our State and the rest of the Midwest, and to congratulate you for initiating these hearings on such short notice.

Mr. Chairman, it was just 11 days ago that the Senate, under your leadership, gave final approval for emergency financial assistance for the Penn Central Railroad so that line can sustain rail service in the northeastern section of the country. As you know, Congress takes no delight in confronting imminent railroad shutdowns and the "permanent emergency" situations that have come to characterize the Penn Central. Neither the Federal Government nor the railroads should have to operate from crisis to crisis.

But an effective rail system is essential to American commerce and recovery of the American economy, and today, we again find ourselves facing an emergency situation which threatens to disrupt both the rail system and the economy.

This time the crisis is not in the 17-State northeast region, but instead in a 13-State expanse in the heart of the country—an area extending from the Great Lakes to the Gulf of Mexico and from Chicago to the Continental Divide. The different location of the current crisis does not detract from its importance to the economy, and I believe the Congress—and the American people—will have great reason to be dissatisfied with any effort to restore adequate and efficient rail service to the northeast if it is done at the expense of rail systems in other parts of the Nation.

A month ago, on February 4, the USRA approved a part of a loan—some \$9.1 million of \$100 million sought—to keep the Rock Island running for the rest of 1975. When the deteriorating economy altered the financial projections submitted by the railroad, the railroad increased its application to \$30 million. On February 26, the USRA determined that Rock Island could not demonstrate the reasonable assurance of repayment required by the statute before loans can be authorized, and the authorization by both loans was denied.

What does this mean? If the Rock Island stops running, the economic costs would be enormous—some \$2.5 billion in lost wages alone, with 11,000 Rock Island employees out of work. Layoffs in related industries would almost certainly follow, affecting perhaps 10 times that number of workers. In our own State alone, 58 trains and 1,960 miles of track—the most of any State—would be abandoned, 2100 Rock Island employees would lose their jobs, and nearly 40,000 Iowa citizens would be seriously affected. Finally, the movement of grain in Iowa and the rest of the Midwest could be seriously disrupted, with an ominous impact upon both the farming community and the Nation's consumers. The Rock Island moved some \$2.5 billion worth of grain in 1974, and it has been estimated that 1,668 grain elevators would be left with no rail service if Rock Island's services were shut down.

It is my understanding, however, that sufficient remedies exist in the current laws to prevent the complete collapse of the Rock Island's services and keep its employees on the job for the coming weeks, at least—and perhaps up to 7 or 8 months. Given new financial reports, the USRA could reverse itself and grant the emergency loan. If the company runs out of cash and files for bankruptcy under section 77 of the Bankruptcy Act, a trustee will be appointed by the court to keep the line running while the bankruptcy proceedings are in progress. Finally, if the company runs out of cash and does not file for bankruptcy—or the trustee in the bankruptcy proceeding can no longer continue the service—the Interstate Commerce Commission has the authority and is prepared to order another railroad to assume the service for a minimum of 60 days and a maximum of 240 days.

This should give Congress enough time to devise a sound, long-range solution, to prevent this kind of emergency situation from recurring. Many alternatives have already been suggested. For example, some believe Rock Island should receive emergency funds, either through the USRA or through special legislation enacted by Congress similar to that passed for Penn Central. Others suggest that the tentative merger of Rock Island with the Union Pacific Railroad offers a solution—either by expediting the merger procedures and addressing the remaining ICC conditions which have stalled the merger, or by granting the Union Pacific temporary authority to run the line in the event the Rock Island runs out of cash.

There is not as much time to act as we would like, but I hope that we'll use what time we do have to the best advantage. Every alternative solution should be evaluated in light of long-range transportation needs in the Midwest and the Nation. If nothing else, the Penn Central experience should teach us that prevention is far preferable to being forced to find a last-ditch cure. It would be shortsighted to adopt a quick-fix remedy to help Rock Island now, only to have it knocking at the door for more a couple of months—or years—from now. It would be equally shortsighted to adopt a policy that ignores the financially troubled competing carriers such as the Milwaukee Road and the Northwestern—a policy which might produce three Rock Islands in the future.

Mr. Chairman, we can prevent a railroad disaster in the Midwest, and I hope the committee will take every possible step to prevent the

Northeast rail crisis from spreading through Iowa, Illinois, Minnesota, Nebraska, Kansas, Missouri, Oklahoma, Texas, New Mexico, Colorado, Arkansas, Louisiana, and Tennessee. These hearings today are a good place to begin.

Thank you.

Senator HARTKE. Thank you, Senator Clark.

Any questions, Senator Pearson?

Senator PEARSON. No questions.

Senator HARTKE. Senator Stevenson?

Senator STEVENSON. No questions.

Senator HARTKE. Thank you, Senator.

Senator Culver.

STATEMENT OF HON. JOHN CULVER, U.S. SENATOR FROM IOWA

Senator CULVER. I, too, wish to join Senator Clark in commending the chairman and members of the committee for their leadership in this critical area of our national life.

At a time when economic, energy, and environmental problems accentuate the need for the development of a sound national transportation system, with emphasis on low-cost rail transportation, we are faced with the imminent collapse of yet another major railway—the Rock Island.

The financial plight of the Rock Island over the past several years is well-known. It is the grim and familiar story of many other railroads—of declining revenues, increasing costs, and deteriorating equipment.

But only in the past 2 weeks has it been revealed to the Congress and the people that the Rock Island is actually on the verge of shutting down. The adverse impact this would have on the main food producing region of America and on the economy of the entire Nation is frightening to contemplate, particularly for those of us in the States served by the carrier. At the very least, it is imperative to examine and weigh all possible alternatives to standing back and permitting this disaster to run its course.

The Rock Island has a 123-year history of service to the heartland of America. It operates 7,500 miles of track in 13 States and has 11,000 employees. The nearly 5,000 businesses it serves employ more than 167,000 workers with a total payroll of \$2.5 billion. Some 756 communities—181 of them in my own State—depend entirely on the Rock Island for rail service, as do 1,668 grain elevators. At a time when food is an urgent global concern, it is worth noting that a fourth of the carrier's traffic volume is grain—much of it for export. My own State of Iowa produces 20 percent of the corn in the United States and 17 percent of the soybeans, and the Rock Island is our principal grain pipeline to the Gulf of Mexico. It is obvious that this service has a direct bearing on our balance-of-payments situation and on the Nation's general economic well-being.

As we all know, the U.S. Railway Association denied on February 26 the request of the Rock Island for a \$30 million loan. I understand that the Board of Directors of the USRA made their decision

largely on the determination that the Rock Island would not be able to meet the statutory requirement of ability to repay such a loan. I do not question the good faith of the Association. But questions still remain unanswered as to how thoroughly the fiscal condition and potential of the Rock Island were researched and how complete the information was on which this decision was made. Accordingly, a number of us in the Congress have asked the USRA to review and reconsider the possibility of granting a substantial loan to the Rock Island. There is a possibility that the carrier may be able to present additional evidence in support of their application. There is the possibility that a loan might be more favorably considered as an interim funding measure, pending consummation of the merger of the Rock Island with the Union Pacific, if that merger is still feasible.

As I stated before, Mr. Chairman, it is only in the past 2 weeks that we have learned that the Rock Island is on the verge of bankruptcy. Allowing the carrier to go into bankruptcy is another option that has been discussed. However, according to the Rock Island management, reorganization of the system under terms of the bankruptcy laws, while it would permit the deferral of taxes and interest on debt, would not help enough to prevent the railroad's shutdown.

Senator Pearson, last week, introduced legislation in the Congress which would authorize the Interstate Commerce Commission to approve the temporary operation of the Rock Island by another railroad for a maximum of 180 days. It is envisioned that this would allow sufficient time for consummation of the Union Pacific merger. Is this a viable alternative?

Realistically, it would appear unlikely that Congress would enact legislation in the present economic climate to directly bail out yet another railway system. However, at a time when the rate of unemployment has soared past 8 percent and we are pouring vast sums of money into job programs and other stimuli for the economy, this option can't be completely ruled out.

Here again we are hampered by lack of adequate information on which such a momentous decision should be made.

The only thing clear about the Rock Island case is the fact that so much is unclear.

Without prejudice toward the USRA or any of the other agencies involved, the people of my State are asking for answers to several vital questions.

They know that the Government has provided funds to assist other railroads in similar distress. Why should the Rock Island be singled out for euthanasia? The USRA has now indicated that the Rock Island would not be able to repay a substantial loan. On what basis was that judgment reached in the context of assistance given to other beleaguered lines?

It is understood that if the railroad folds, this does not mean that all of the services it provided are necessarily discontinued. We understand that plans have been made by the ICC for the takeover of its services by other lines in the event of the Rock Island's demise.

But this would be at substantial cost to the Government under existing law. How does this cost compare to what would be needed to keep the Rock Island going under its present management?

Would the continuation of services be permanent or temporary? Would the services be approximately the same or would they be significantly curtailed?

Whatever the actual fiscal condition of the Rock Island may be and its recovery potential, we do know that the services it provides for the Midwest and the Nation are of the first order of importance.

Officials of my own State's government have pointed out that the Rock Island is "a more attractive potential recipient" than other lines that have been assisted. "The Rock Island has not diverted railroad revenues to nonrail investments," they state. "Far from using inside information to avoid personal losses, the Rock Island management has voluntarily taken 10 percent pay reductions."

Those of us of the 13 States served by the Rock Island need solid assurance that the services provided by the Rock Island will be continued under some auspices. I think we also need assurance that if the Rock Island is permitted to go out of business that all feasible alternatives to avert the calamity have been thoroughly and fairly considered.

One aspect of this matter which disturbs and bewilders the people of my State is the abrupt time frame in which it appears the fate of the Rock Island is being determined. This seems curiously out of phase with the slow pace of regulatory decisions in the rail transportation field. The proposed merger of the Rock Island with the Union Pacific has, for example, been in process for more than a decade, and this is not a typical. Considering the tremendous economic and social costs of the Rock Island going under, is there no way to buy time for more intensive deliberation and study?

The services this railroad provides to Iowa and the other States it serves are essential. Any plan that would entail the elimination or significant reduction of those services would be far more damaging than can be seen at first glance.

From the Great Lakes to the gulf and from Chicago to the Continental Divide, the Rock Island network serves the Nation by channeling food and other products to the populous areas of the country and to export terminals. I hope and believe that a sound solution can be found to sustain these services.

In addition to my own comments, I am privileged, this morning, to communicate to the subcommittee a statement prepared on behalf of the State government of Iowa by Mr. Maurice Van Nostrand, chairman of the Iowa Commerce Commission; Mr. Victor Preisser, director of the department of transportation, and Mr. John Millhone, director of the energy policy council.

From their statement, you will know that we are a united front in Iowa—the State government and the congressional delegation—in our deep concern about the preservation of the vital services of the Rock Island in our State.

Thank you very much.

Senator HARTKE. Thank you, Senator Culver.

Do you have any questions, Senator Pearson?

Senator PEARSON. No questions.

Senator HARTKE. Senator Stevenson?

Senator STEVENSON. No; I just want to thank our colleagues for their statements.

Senator HARTKE. I want to thank Senator Culver for coming and for his excellent statement.

Senator PEARSON. I might say this, Mr. Chairman. The efforts and concerns of those Members of the Congress testifying here today didn't start this morning. Our concern began with the first news of the impending disaster of the Rock Island. We are going to continue to be in this thing all the way through.

It looks like we have about four options right now—either a loan through USRA under the Regional Rail Reorganization Act, DOT loan guarantees, service orders by the Interstate Commerce Commission for other railroads to come in and run the line, and the fourth option, S. 917 which I introduced last week, and which is meant to be just that, another option.

I think I want to indicate to those Members of the Congress who I said started out with us on the thing, I hope they will stay with us, because they will be in contact with a lot of people in their State and in the railroads and the railroad unions.

We are going to need their continued input, I think in finding a solution here.

Senator HARTKE. Thank you.

We also have some Congressmen, Congressman English from Oklahoma, and Congressmen Murphy and O'Brien from Illinois. Which one is first?

STATEMENT OF HON. MORGAN F. MURPHY, U.S. REPRESENTATIVE FROM ILLINOIS

Mr. MURPHY. Thank you, Mr. Chairman. I will be very brief in my remarks.

First of all, Mr. Chairman, and members of this committee, I wish to thank you for the opportunity to submit testimony today on the Rock Island situation. I have given the reporter my statement, and I will be very brief in my remarks.

Representing an urban area whose residents daily depend upon the Rock Island Railroad, my major concern, naturally, lies with the commuter line. Since I am more familiar with this aspect of the rail service, I will restrict my comments mainly to this area.

There are 26,000 commuters who will be affected by a Rock Island shutdown. A major portion of this group commutes to the downtown Chicago area.

This line has served as their main means of transportation for work as well as direct access to the Chicago Loop area for 123 years.

Location of my community, in particular, places an additional burden on our residents should the commuter line be forced to close. With the energy situation, I feel all efforts should be employed to assure continued service in this area of mass transportation.

Mr. Chairman, I believe it was the intent of Congress to provide emergency money to financially strapped rail lines through the Railroad Reorganization Act to avert another Penn Central crisis.

Moreover, in light of the recent congressional decision to authorize \$347 million in grants and loans to keep the Penn Central, Erie-Lackawanna, and other Northeastern and Midwestern lines from shutting down, a \$30 million loan requested by the Rock Island seems reasonable.

The estimated 11,000 Rock Island employees who will be out of work also concerns me.

The President said recently that unemployment could soar as high as 9 percent before the recession is over. I have heard more shocking figures of 10 percent. We cannot allow yet another industry to add to these unemployment ranks.

It has been suggested that the Federal Government could aid and assist these employees no longer working because of a Rock Island shutdown. This proposal is directly at odds with recent legislation creating more public service jobs to help the unemployed.

Moreover, I think the railroad employees who have volunteered to loan 10 percent of their monthly pay to keep the road running attests to the good faith on the Rock Island. I find it highly unusual at any time for management to join hands with labor.

Today's economic picture is complicated further with inflated prices and limited purchasing power.

Actually, Mr. Chairman and members of the distinguished committee, I believe we all agree—I know I agree with Senator Pearson's remarks made just a minute ago—that we want to see the Rock Island remain afloat. The problem is how most economically to achieve this end.

One other additional remark I would like to make, Senator Hartke, is that I find it strange that the ICC has taken some 12 years to decide on the merger of the Rock Island and the Union Pacific Railroads. As a result of this delay, I think the ICC has put the Rock Island in a precarious economic position.

Then, on the other hand, we have another Federal agency, USRA, saying no to the Rock Island when Rock Island comes in and makes application for a loan. USRA says, "You are not in an economic position to repay the loan."

Well, if the Interstate Commerce Commission had acted with any kind of expeditious business manner, they may not have been in a position where they even had to come for the loan.

So it seems we have two Federal agencies working against one another. The result is the Rock Island becomes like a Ping-Pong ball. The ICC takes 12 years for their merger plan and puts Rock Island in a financial situation which forces them to go to USRA which refuses the loan, stating: "Your financial position is such that we don't think you can pay back the loan." It seems strong to me.

Senator HARTKE. Congressman, I appreciate what you said, and I think there is plenty of room for criticism of the ICC. But I am not exactly sure that that is quite fair.

The point still remains that what happened on the Rock Island merger is that under the law, which the Congress wrote for the ICC, I do not know how they could have possibly moved completely in the expeditious manner which so many people would anticipate.

The fact remains that under the law, under due process, there were a lot of railroads, competing railroads, which absolutely litigated the situation to death.

We can change the law if we want to, but I don't think it is quite fair, as much as we might want to, to put all the blame on the ICC. Maybe the blame belongs on those of us who are in the Congress.

Mr. MURPHY. That's right.

Senator HARTKE. That is part of what is being attempted in the Rail Reorganization Act, in which we attempted to prevent some of that long-term litigation.

I think that, at this moment, if the merger came before us, there is testimony coming forward today which indicates that to a great extent the same opposition that was presented against the merger would still be presented today, and the same legal steps would still be available to them to prevent the merger.

That is not a very happy thought, but what this demonstrates, I think, quite conclusively is what I have been saying for quite some time. There is no comprehensive national transportation policy.

What we have to come to ultimately is a rationalization of the rail transportation system.

That is not a very happy thought, because when you do that, there are a number of competing interests which ultimately become involved. One of them is the owners of the railroads themselves, not alone those who are bankrupt, but those which are financially solvent and those which are doing quite well.

There is a question of some of the shippers who are involved. As far as they are concerned, in some cases they have a very special interest, and a legitimate special interest, as to what is going to happen to them in the event that there is a change in the setup similar to that that is going to occur hopefully under the Rail Reorganization Act in the Midwest and Northeast.

In addition, you have people who work for these railroads, and I do not think that we ought to neglect them either, because they have a legitimate interest. Because of no responsibility or fault of their own, all of a sudden they find themselves with serious questions of how they are going to be able to continue to make a living when they have been working for a railroad all their life.

So I just want to put that in perspective before we start using someone to be the scapegoat. I think the scapegoat is simply the fact that there is no national transportation policy, and we are late getting on the road on that.

Mr. MURPHY. I agree with you, Senator. I didn't mean to—

Senator HARTKE. I understand. But the point is that it is high time we start to move. I think we are starting in that direction, and we need help.

Mr. MURPHY. I agree with you, Senator. I didn't mean to blame the ICC. I was just trying to demonstrate the predicament Rock Island is in.

I think you are correct that we in the Congress have a share of blame to take unto ourselves. But I think that since you have undertaken this task, you and your committee, these are the things we ought to look into so that this doesn't happen again.

Because I don't think we have the luxury of 12 years, 10 years, or 5 years any more for financially strapped institutions. I think maybe our system is too complicated, and maybe it needs some more business-like management. And we in the Congress are responsible for that.

Senator HARTKE. Let me say part of it is sort of the growing pains of a new Nation, really. That is what it amounts to.

A lot of people seem to think that 200 years is an old system, but, frankly, it is not true. We are going through the growing pains of a new Nation. Yet we are still emerging.

It is hard to think of the United States as an emerging Nation, but in this field we are. We have just not had any type of policy similar to what they have in other countries.

Let me also point this out to those people who point with a great deal of dissatisfaction to our American transportation system and say, "Why can't you have a railroad passenger system like they have in Japan or in Germany, for example?"

I just point out that Germany last year on their passenger system had a deficit of \$2.5 billion. They subsidized their passenger system at \$2.5 billion. And then people talk about us pouring money down a rathole.

You know, I really think it does a disservice to the solution of the problem. The problem is there, and it is serious, but it is not one that is going to be solved first without money.

In my judgment, it is not one that is going to be solved without some taxpayers' money. I have tried to say, repeatedly, in all the hearings, that we are not at the end of the road. We are just at the beginning of the trail.

Thank you. Let me ask a question, though. I understand what you are saying. What about the situation with the Chicago Regional Transit Authority? Are they going to continue the commuter service in the Chicago area, no matter what?

Mr. MURPHY. They have loaned some money, Senator, to the Rock Island already on the commuter line service.

I talked to Mr. Milton Pikarsky, chairman of the RTA. He assures me they will attempt to make up the difference, and he thinks the chances are good they will make up the difference between the operating revenues of the railroad and what they need to continue that operation.

Senator PEARSON. Was that in relation to this crisis or a prior one?

Mr. MURPHY. This is in relation to this crisis, Senator Pearson. The trouble is, as I understand it, Mr. Pikarsky said the rolling stock of the railroad is in bad shape and it needs new purchases, new bi-level cars, and some new locomotives.

But he makes it clear, though, that he does not intend—nor does he have the authority under the Urban Passenger Transportation Act—to take up any other debt of the railroad other than the commuter line service.

Senator HARTKE. Just the commuter lines?

Mr. MURPHY. Yes, sir.

Senator PEARSON. They make up the difference between what?

Mr. MURPHY. He said he feels that the RTA can make up the difference between the operating revenues brought in by the railroad operating commuter service and what they need to operate it. In other words, the difference between what they actually take in and what they need to pay out.

Senator PEARSON. How long could they do that?

Mr. MURPHY. This is a question of how long are we going to send funds back to the Regional Transit Authority under the Urban Mass Transportation Act.

We are indirectly funding this. It is a three-part system. It is the State, local government, and the Federal Government.

Senator PEARSON. Is there an estimate as to what that amount will be?

Mr. MURPHY. I think somewhere in the area of \$3 million a year. These are Pikarsky's figures—just on the commuter service alone, Senator.

Senator PEARSON. I understand.

Mr. MURPHY. It serves my district and Congressman O'Brien's district down in Joliet. Thank you very much.

Senator HARTKE. Thank you, Congressman Murphy.

Senator PEARSON. But all of that is contingent upon several funding of passenger transit at the current level?

Mr. MURPHY. That's correct, Senator.

Senator HARTKE. Which, in substance, is the point that some place along the line it always comes back to the taxpayers bearing part of that burden.

Mr. MURPHY. That's correct, Senator.

Senator HARTKE. All right.

[The statement follows:]

STATEMENT OF HON. MORGAN F. MURPHY, U.S. REPRESENTATIVE FROM ILLINOIS

Mr. Chairman and Members of this Committee, congressional support was elicited in a last-ditch effort to save the Rock Island on Thursday, February 27. A meeting was hastily called by Rock Island officials to acquaint Members of Congress with the deteriorating situation.

In order to allow the Rock Island to maintain its essential services, I asked those Members of Congress from states serviced by the Rock Island to join me in petitioning the United States Railway Association (USRA) Board to reconsider its February 26 decision.

I called upon Arthur Lewis, Chairman of the USRA Board, to convene a special board meeting to re-examine the Rock Island's loan request. I believe it was the intent of Congress to provide emergency money to financially-strapped rail lines such as the Rock Island through the Railroad Reorganization Act which established USRA.

The response from Members supporting this action was heartening. Within 48 hours, thirty-three Members: four Senators and twenty-nine Representatives, joined my effort urging the special board meeting.

I felt an immediate Congressional response was necessary to register our distress about the financial emergency facing the Rock Island Line and the implications this matter would have on our communities.

As I mentioned in my letter to the Chairman of the USRA Board, an estimated 176,000 workers and 11,000 Rock Island employees in 13 states will be directly affected by the shut-down. The effect on mid-America's economy, moreover, extends beyond the direct loss of jobs and transportation. The industrial plants and utilities serviced by the Rock Island and the farmers dependent on the railroad for transporting their goods will pass on additional costs of finding new routes to us consumers.

Since I represent an urban area whose residents depend on the Rock Island Railroad, my major concern lies with the commuter line. Since I am more familiar with this aspect of the rail service I will restrict my comments to this area.

There are 26,000 commuters who will be affected by a Rock Island shutdown, a major portion of this group commuting to the downtown Chicago area. This Rock Island line has served as these commuters' main means of transportation to work and has given direct access to the Chicago Loop area for 123 years.

Convenience is not the major reason why the Rock Island commuter line must be saved, however. This form of mass transportation sharply reduces the gasoline consumption of commuters who would otherwise be forced to drive alone or carpool to work. And in addition to energy considerations, the Rock Island takes cars off the highways and reduces traffic congestion.

In light of the recent congressional decision to authorize \$347 million in grants and loans to keep the Penn Central, Erie Lackawanna and other Northeastern and Mid-Western lines from shutting down, a \$30 million loan request by Rock Island seems reasonable.

In March 6 response to the signers of my March 4 letter, Chairman Lewis mentioned the assurances that the USRA must have before approving an application: (1), that any such loan is "necessary to prevent insolvency"; (2), that the business affairs of the applicant will be conducted in a "reasonable manner"; (3), that the applicant has offered security sufficient to "protect reasonably the interests of the United States", and (4), that there is "reasonable assurance that the . . . railroads to which such loans are granted will be able to repay them."

The Rock Island loan application was in the amount of \$100 million, according to Chairman Lewis, and was filed with the Association under date of September 19, 1974. This was the amount of money requested for rehabilitation and working capital and Rock Island officials were confident the repayment could be made.

Chairman Lewis noted that shortly after filing the loan application the Rock Island acquired new management. The Board of Directors approved a \$9.1 million loan of "working capital" for the Rock Island on February 4, 1975 but deferred action on the balance of the \$100 million loan application until such time as the new management could "assert itself in turning around the company's performance."

When the Rock Island applied for a \$100 million loan, it did so because it was in danger of going under. Unfortunately, the new Rock Island management did not have the time to "assert itself in turning around the company's performance." In fact, USRA auditors concluded that \$9.1 million was insufficient to carry Rock Island's operations beyond the end of March. At USRA's suggestion, Rock Island resubmitted a request—this time for \$30 million.

Rock Island officials originally asked for a \$100 million loan because this amount of money would give them the funds necessary to recover from their slump and make a go of it in the future. If \$9.1 million would have been enough to recover from past losses and improve its financial picture in the future, Rock Island would have asked for \$9.1 million instead of \$100 million.

\$9.1 million would help Rock Island avoid insolvency but only if additional funds were forthcoming. Rock Island could give "reasonable assurances" of repaying a \$9.1 million loan but only if a realistic appraisal of its situation were made and additional monies guaranteed.

The new management at Rock Island has not been idle. I was informed last week that Rock Island plans major changes based upon new analysis of its traffic mix to improve profitability. New management predicts that the Rock Island can increase contributions to funds above out-of-pocket costs by \$167.1 million. According to a Rock Island memorandum, "this includes improvements we can, and will, make in reductions of expense due to train accidents, intrastate rate increases that have been approved, and reductions in service." The new management feels this is a beginning and I concur.

Additionally, there has been a regional commitment of funds and an expression of support to Rock Island. For the past seven months, the Regional Transit Authority (RTA) within my state authorized more than \$940,000 to partially subsidize the Rock Island commuter lines. Most recently when Texaco argued it would no longer deliver fuel to Rock Island unless payment was received prior to delivery, the RTA again stepped in to guarantee payment.

The Urban Mass Transportation Act of 1974 designates RTA as a recipient of funds. Last week RTA announced it planned to purchase new equipment for the Rock Island commuter operation—50 modern bilevel coaches and 21 new diesel locomotives for use on the Rock Island. According to this proposal, RTA's share of the project, would be \$2,667,000 with the federal Urban Mass Transportation Administration providing \$32,000,000 and the Illinois Department of Transportation \$5,333,000.

Rock Island's financial dilemma is not new to government agencies. The Interstate Commerce Commission has been discussing the possibility of merging the Rock Island with another railroad for some ten years now. USRA Chairman Lewis chaged that Rock Island's situation "changed dramatically within a matter of weeks if not days." But, in actual fact, Rock Island has willingly admitted serious financial difficulty for years.

I do not intend that the United States Railway Association should subsidize Rock Island indefinitely. I believe that a comprehensive transportation policy must be developed which recognizes the severe strains the recession has brought to the entire rail industry and proposes a long-range rather than stop-gap approach to keep our railroads running.

But, in the meantime, the railroads must be guaranteed operating funds to hold them over. Other modes of transportation have received such guarantees and it is only fair that we give the railroads an equal chance. It is my hope that these hearings today will focus national attention on the Rock Island in particular but, more importantly, that they will make clear that Rock Island's problems are symptomatic of the rail industry in general.

Senator HARTKE. Congressman O'Brien.

**STATEMENT OF HON. GEORGE M. O'BRIEN, U.S. REPRESENTATIVE
FROM ILLINOIS**

Mr. O'BRIEN. Thank you, Senator.

I do not have a prepared statement, just a few remarks.

As Congressman Murphy indicated, the Rock Island commuter service is critical to my area. It begins in my home community of Joliet and picks up people all along the line to Chicago. A bus substitute is really not adequate, although it has been suggested. And many of the Rock Island's 55,000 employees come from our area.

I would like to echo Senator Culver's remarks that your hearings will probably give us the assurance that services will continue and that the Rock Island will not fold until the thing is thoroughly examined.

I intend to stay with Senator Pearson in hanging-in with the group to see we do the job right.

Aprpos of the Congressman's remarks about the ICC, I remember a judge one time said to me, "Mr. O'Brien, it is sometimes more important that I be decisive than that I be absolutely right." I think this is an important feature. I just hope we give it all the attention in a capsulized form that maybe we should have done years ago.

Thank you, Senator.

Senator HARTKE. Thank you.

Let me ask you what kind of conditions are the cars in that come to Joliet in the commuter service?

Mr. O'BRIEN. General types of complaints, I suppose, Senator, but not bad. My people have not been up in arms about it as long as we have the service. Over the years they have done a pretty good job for us.

Senator HARTKE. All right.

Congressman English.

**STATEMENT OF HON. GLENN ENGLISH, U.S. REPRESENTATIVE
FROM OKLAHOMA**

Mr. ENGLISH. Mr. Chairman, I want to say it is a privilege to be here today to share with your committee some thoughts and facts about the situation facing the Rock Island Railroad. And as I know

that this committee has numerous distinguished witnesses to hear, I'll keep my remarks as brief as possible.

Mr. Chairman, the economic impact of the discontinuation of service of the Rock Island would be a disaster of major proportions to the Central United States—and that disaster would very shortly have a devastating effect on the rest of the country.

In Enid, Okla., the Rock Island carries about 21 million bushels of wheat per year out of the wheat belt and into the consuming States which rely on a dependable supply of the vital foodstuff. In El Reno, the Rock Island employs 800 workers in a town where the total population is just 15,500. Needless to say, the effect of a shutdown of the line in these towns, or in hundreds more like them across the Midwest, would be an immediate collapse of the local economy.

But I did not come here simply to add my voice to the hundreds detailing the devastating effect that the discontinuation of the Rock Island's services would have on mid-America; I came to raise what I feel are some extremely serious questions implied by the situation facing this particular company.

In the past few decades, there has been a major trend toward urbanization of America's population. This trend has resulted in a number of new problems, as overburdened cities seek the answers to the difficulties of servicing the needs of hundreds of thousands of taxpaying citizens, who are all living in the same few square miles of land. But the trend toward urban and suburban growth has also caused a change in outlook on the part of our Government.

Here in the Congress, where agricultural members once dominated both the Senate and the House, there are now only about 48 Representatives who come from districts that are exclusively engaged in agriculture. And, as most Americans no longer make their living in farming communities, this is as it should be. But I perceive a very real danger that the Congress and the executive branch both have begun to neglect the needs of the agricultural heart of America which provides nourishment to us all.

Just a few weeks ago, the Congress was asked to provide an additional emergency grant to a major railroad company serving the northeast corridor. And, with very few dissenting votes the Congress did so—believing that it was important to preserve the passenger transportation represented by the line. But in all recent railway legislation there has been an implicit assumption that the long-range policy of the country with regards to railroads would be to subsidize the passenger-carrying lines in areas of high population, and to allow the freight-carrying roads in less populous regions to fend for themselves.

Consequently, the Rock Island, when it requested emergency assistance from the USRA, had to face the hard reality that the principal purpose of the authority, as defined by its charter, was to assist railroads in the northeast, and that any assistance provided to a Midwestern railroad would be at the whim of the USRA board.

Yet this congressional policy, as evidenced in the priority given to Eastern railways, will very soon catch up with urban areas. In many parts of the country—the parts that produce the food and fiber for the more populous areas—railways like the Rock Island are by far the most efficient and least expensive means of transport available. In

some communities, it simply wouldn't be possible to find another way to ship the harvest of wheat, cotton, or corn at any cost.

Needless to say, with the collapse of the Midwestern railroad system, the shipping costs, which are borne by the farmer, would rise drastically. And, despite the allegations to the contrary by the Department of Agriculture, the American farmer is facing a crisis of rising costs and falling returns on the fruit of his labor. I have personally contacted numerous farmers and ranchers in Oklahoma, and I know that the discontinuation of railway service would mean bankruptcy for many otherwise profitable operations.

Mr. Chairman, I believe that it's high time that the Congress accept the fact that America's less populous areas must be kept healthy so that they can keep providing the rest of America with the produce it so desperately needs. I strongly urge every member of this committee to consider very seriously the consequences before allowing a continuation of the policy of abandonment of midwestern railway lines.

And I urge the committee to take prompt action to provide the guarantees necessary to insure the continued operation of the Rock Island line.

Mr. Chairman, thank you very much for giving me the opportunity to share these thoughts with this committee.

Senator HARTKE. Thank you, Congressman English. It is a fine statement.

The next witness is Mr. Rodney Eyster, General Counsel of the DOT, accompanied by Mr. Asaph Hall, Acting Administrator, Federal Railroad Administration.

STATEMENT OF RODNEY E. EYSTER, GENERAL COUNSEL, DEPARTMENT OF TRANSPORTATION; ACCOMPANIED BY ASAPH HALL, ACTING ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION

Mr. EYSTER. We appreciate the opportunity to be present this morning.

First, I would like to discuss the present condition of the Rock Island and some of the reasons why it is in that condition, and then I will discuss the outlook for the railroad and what we believe to be the most appropriate action to be taken now by the Federal Government.

The present cash position of the railroad can be described as perilous, at best. Advance payments of certain receivables were necessary to avert a cash crisis on March 5. The President of the Rock Island, Mr. John W. Ingram, has stated that they see another cash crisis occurring next week. The Rock Island Board of Directors is planning to meet Friday to determine what action is to be taken with respect to that crisis.

This is not simply an interim problem. The Rock Island has previously indicated that its cash needs throughout 1975 could reach \$48 million. This need could be reduced by sales of property and implementation of the pending rate increase. However, the information available to us indicates that the total cash need for 1975 will, in all events, likely exceed \$27 million. The cash need for 1976 cannot be

predicted since it is heavily dependent on the state of the economy and the physical condition of the railroad at that time. Given this financial outlook, it seems clear that the Rock Island will not be able to obtain from conventional private sector sources the cash it needs to sustain operations.

On the operational side, the Rock Island is not much better. A recent survey of the Rock Island lines, both main and branch, conducted by the Federal Railroad Administration, indicated that approximately 30 percent were subject to the 10 mph speed limit of class 1 track, and only 16 percent were of class 4 condition allowing 60 mph operation. The results of this bad track condition are not only higher operating costs per revenue ton mile due to slower train operation, but also a significantly higher incidence of train accidents. Obviously, the Rock Island line is no longer the "mighty good road" praised in folk song. Rather it is a line operating at the very brink of financial insolvency and operational collapse.

What are the reasons? As we have seen in the Northeast, there is not any single factor which can be identified as the proximate cause. Several forces and events appear to have produced this result collectively. First, one must consider the effect of the Rock Island merger proceeding.

In July 1963—almost 12 years ago—the Chicago and North Western Railway Co. filed an application with the ICC to acquire control of the Rock Island. This application, which had been preceded by complicated negotiations and countermoves by various connecting and competing railroads, launched the longest and most massive proceeding ever conducted by the ICC, involving 22 railroads in eleven basic alternative rail structures and producing a record exceeding 200,000 pages.

The central controversy was between the CNW and the Santa Fe, on the one hand, and the Union Pacific and the Southern Pacific on the other. By an order served December 3, 1974, the Commission approved the Union Pacific/Southern Pacific merger proposal but only on satisfaction of a long list of conditions. Last week, the Commission ordered that petitions for reconsideration of this decision be filed by April 4, 1975.

It cannot be doubted that 12 years of uncertainty with respect to the future of Rock Island operations had an adverse impact on the management of the Railroad. Some have asserted that management for most of the last 12 years, and until recently, was more in the nature of a caretaker pending consumation of the merger than that of an aggressive operator at work in a highly competitive environment. Certainly, management decisions, particularly with respect to investment and disinvestment, must have been colored by the likelihood of eventual merger. Thus, during the pendency of the merger, decisions were made, and non-decisions occurred, some of which produced results that will affect the railroad far into the future.

I cannot predict when the merger case will be concluded. However, even under the most expedited procedures available under present law, it is difficult to conceive of a conclusion prior to 1977, if any party appeals and that appeal is then reviewed by the Supreme Court.

Also, agreements will have to be reached between many of the railroads involved to implement the conditions mandated by the Commis-

sion, and those conditions may, of course, be modified in appellate review. Accordingly, some railroad officials estimate that the merger will require at least 10 more years. Others have predicted it will never occur.

Senator HARTKE. Let me ask you at that point: In other words, anyone who holds that as a solution is probably dreaming? Right?

Mr. EYSTER. I would say yes.

Senator HARTKE. All right.

Mr. EYSTER. A second factor affecting the Rock Island has been the recent economic downturn. Current Rock Island management has stated to us that certain economies they had begun in late 1974 would have produced a turnaround of their continuing revenue decline by January. Instead, they suffered a 16 percent downturn in the first 2 months of this year, and, rather than moving away from the brink, they were pushed closer.

A third factor is the structure of rail service in the area served by the Rock Island. It is our view that, for most of this area, there is an overabundance of duplicative main lines among the various carriers. Rock Island, in particular, is a victim of this redundancy in that virtually all of its major markets are served by at least two other carriers, and in some cases by a many as six.

The best example of this is the important Chicago-Omaha corridor where six railroads operate direct service: Norfolk and Western, Burlington Northern, Illinois Central Gulf, Chicago and Northwestern, and the Milwaukee Road, plus the Rock Island. From the standpoint of the Rock Island it has had to compete, with an ever-deteriorating plant, for a share of traffic which is insufficient to support the redundant system as a whole.

The prospect for the Rock Island, in the very near term, appears to be cessation of service. As you know, the only possible source of Federal cash assistance under present crisis to meet an immediate cash crisis under present law would be a loan from the U.S. Railway Association under section 211 of the Regional Rail Reorganization Act of 1973. On February 4, the Board of Directors of USRA approved a loan of \$9.1 million to provide working capital for 1975. Additional facts were presented shortly thereafter indicating a cash need of up to \$48 million for 1975 without any indication that such a loan would be repaid unless an additional amount of \$100 to \$120 million were made available under section 211 for track rehabilitation purposes.

Senator HARTKE. Let me ask you: that is an additional amount which would mean in substance you are talking about the possibility of at least in the neighborhood \$148 to \$168 million? Is that right?

Mr. EYSTER. That is correct, sir.

Senator HARTKE. Thank you.

Mr. EYSTER. Under those circumstances the USRA Board refused to approve a working capital loan. The Board has been asked to reconsider that decision, but it is difficult to perceive any likely change in circumstances that would warrant assistance under section 211 to meet next week's cash need.

If the railroad petitions for reorganization under section 77 of the Bankruptcy Act, it could possibly sustain operations for a very limited period by deferring certain fixed charges. However, neither re-

organization under section 77 nor bankruptcy offers much hope for preservation of Rock Island rail service due to the fact that, since its debt burden is low, deferral of fixed charges will not have a significant impact on its cash flow.

It is therefore conceivable that the Rock Island will exhaust its cash in a matter of weeks. Once that occurs, there are only two available alternatives for sustaining service. One is for reorganization trustees to issue certificates guaranteed by the Secretary of Transportation under the Emergency Rail Services Act of 1970. There is \$19 million remaining in authorized loan guarantees under that act. However, it is doubtful that a Rock Island trustee would avail himself of a guaranty with its first lien priority, or that the required statutory findings could be made, given the Rock Island's financial condition.

The other alternative is for the Rock Island to begin to cease operations and for the ICC to direct another carrier or carriers to handle affected traffic under section 1(16)(b) of the Interstate Commerce Act.

This will assure continued service in the public interest for at least 60 days, and service can be extended for an additional 180 days if there is sufficient cause. In our view, this alternative, with a few modifications which I will discuss, in conjunction with Senator Pearson's proposal to authorize the ICC to grant temporary operating authority to a carrier over property it proposes to acquire, provides reasonable assurance that all traffic presently handled by the Rock Island, will have adequate transportation service, in the event Rock Island is unable to continue operations.

The service order mechanism was designed to meet the situation which may be presented by the Rock Island—termination of operations due to lack of cash. Whereas this mechanism would have been unworkable in the event of a Penn Central shutdown, we feel that, with two modifications, it will be very suitable for Rock Island. I will describe those modifications.

First, one of the nagging problems presented to the directed carrier is that it must sustain from its own cash flow any losses resulting from carrying out the service order until there is an appropriation from Congress.

We propose that the Secretary be authorized to guarantee, from authority available under the Emergency Rail Services Act of 1970, short-term borrowings by the directed carrier, which are necessary to cover the estimated difference between costs and revenues attributable to the directed service for a period of not to exceed 240 days. This will give the Commission and then the Congress time to determine the amount of the appropriation which is adequate to compensate the carrier for the difference between the revenues and costs incurred, as defined in section 1(16)(b).

Second, section 1(16)(b)(A) provides that the order shall be effective for not more than 60 days unless extended "for cause shown" for a period of up to an additional 180 days. We expect that for the first 60 days it would be necessary for the entire Rock Island system to be subject to service order, in order to assure that there will not be a hiatus of service for any shipper. During that 60-day period, shippers will have an opportunity to make arrangements for alternative service.

Given the redundancy of lines in the area served by the Rock Island, it is our preliminary estimate that well over half, and probably as much as 70 percent of the traffic, can be easily diverted to other available rail carriers by the end of the 60-day period.

Our second modification would address the remaining traffic both by encouraging the orderly development of alternative service and by providing the Commission greater flexibility. First, instead of a single 180-day extension, we would permit one or more extensions or renewals totalling not more than 180 days in the aggregate. We would also define the term "cause" to make it clear that continued or renewed operation at federal expense must be expected to result in beneficial adjustments by the private sector and by State and local governments. These adjustments could include additional service by other rail carriers acquiring property or rights from the Rock Island, additional truck and water carrier service where equipment, scheduling or other problems are to be solved, changes in shipper operating methods to make alternative service feasible and financial assistance from shippers and State and local governments. The Department, of course, stands ready to work with shippers and carriers in facilitating these private sector adjustments and will expedite assistance to State and local governments under existing Departmental authorizations.

Senator PEARSON. Let's stop and go over this again.

Where does the first modification under the authority of 1(16)(b)—You have reference to the financing there, do you not?

Mr. EYSTER. That's correct, Senator Pearson. The first modification to the service order concept would be separate legislation technically. We would propose it as an amendment to the Emergency Rail Services Act of 1970.

Senator PEARSON. Under the present law, if the ICC directs other carriers to pick up this service, we have to pay the difference between cost and revenues plus some reasonable return. Now, do you have an estimate as to how much money we are talking about?

Mr. EYSTER. Our best estimate at this point is that for the 60-day period, that could be of the order of \$3 to \$5 million of excess costs.

In addition to that, there would, as you say, be an entitlement to a reasonable profit to the directed carrier.

Senator PEARSON. Would we have to go to the Congress for a supplemental appropriation to cover that prior to the time the ICC issues that order?

Mr. EYSTER. Senator Pearson, I think I should defer to the ICC as to its view as to whether it is empowered to issue the service order without getting an appropriation first.

I think that the amendment we are proposing today would be a fair expression of congressional intent that it could, the concept being that whatever the Anti-Deficiency Act might say, if the Congress says to the Secretary of Transportation, "You are authorized to guarantee working capital borrowings to carry out a service order," I think that would be sufficient for the ICC to proceed.

Senator PEARSON. Who acquires that loan that we guarantee under your amendment?

Mr. EYSTER. We would contemplate that the directed carrier or carriers would arrange for borrowings for working capital, and that borrowing would be guaranteed by the Secretary.

Senator PEARSON. That is over and above the \$19 million in loan guarantees you have in the other act?

Mr. EYSTER. It is out of the \$19 million. It is the proposal that we simply use the existing authorization, which looks to us as though it will not be used for its original purpose, by adding an additional propose for which it may be used.

Senator PEARSON. All right.

Now, the second proposed modification is to remove the 60 plus 180 days, and extend it for some longer time?

Mr. EYSTER. No, sir. The act as it presently reads is that service orders shall be for not more than 60 days unless extended for a period not to exceed—

Senator PEARSON. 180 days?

Mr. EYSTER. 180 days. What we are saying is: Give the Commission flexibility so it could extend first for 30 days, and then perhaps it might find that alternative service is not workable. We think the Commission, together with DOT, should watch that situation, and if the alternative which is believed to be available does not prove workable, then reinstitute the service order.

So we are saying that the Commission should be able to extend or renew for a period or periods, but still not to exceed 180 days in the aggregate, the present statutory limitation.

Senator PEARSON. All right. I thank the chairman.

Senator HARTKE. Go right ahead.

Let me ask a question first. What about beyond 180 days?

Mr. EYSTER. I'm sorry?

Senator HARTKE. Is there any thought they should go beyond the 180 days?

Mr. EYSTER. Well, we think that 180 days is appropriate at this time. Now, certainly, the Congress, the DOT, and the ICC will need to watch the situation very closely. But we think the total of 240 days is a reasonable time to try.

If during that period it develops that it is not an adequate period, I think there will be ample opportunity for the Congress to address that problem.

Senator PEARSON. And the truth is, we need the pressure of that time limitation to get something done.

Mr. EYSTER. That is correct.

I would also suggest that the proposal introduced by Senator Pearson may have a great deal to do with the sufficiency of the 180-day period. If I may, I would like to give you our comments on that proposal.

Senator HARTKE. You are coming to that now.

Mr. EYSTER. During this 180-day adjustment period, probably the most significant activity for the long term will be negotiations for acquisition of property, and rights by other rail carriers, and possibly shippers and State and local governments. With minor exception, any such acquisition will require ICC approval. Because it might be desirable to have these lines operated pending final decision by the Commission on the merits of the acquisition, the Commission should have the power to grant the applicant temporary authority to operate the lines.

"We therefore support S. 917, introduced by Senator Pearson, which would give the Commission that power. However, we would modify the bill in one respect. The bill as introduced permits the Commission to grant operating authority only "for a period not exceeding 180 days." As section 5 proceedings usually take much longer than 180 days to conclude and a considerable period of time may be expended in judicial review of the Commission's decision, we think that the bill should expressly permit the Commission to grant the temporary authority "pending termination of the proceedings and all judicial review thereof."

I would say there is a Supreme Court decision under which Senator Pearson's proposal might be read as permitting extension beyond the 180 days during pendency of the proceeding. We think that authority should be made express if this addition is made to part one.

The decision to which I refer was a decision on a comparable provision in part two.

Mr. Chairman, in our view this proposal assures protection of the public interest and continuation of adequate service to shippers. Moreover, it provides sufficient time for the assessment of alternatives and selection of the one most advantageous. It thereby facilitates an orderly adjustment by all those who would be affected by a failure of the Rock Island or other marginal carriers while at the same time increasing the flexibility of existing Federal authority to assure that unacceptable disruptions in transportation do not occur.

That concludes my prepared statement, Mr. Chairman. My colleague and I will be pleased to answer any questions the committee may have.

[The attachment referred to follows:]

A BILL To facilitate service of traffic of a railroad which is unable to continue operations, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. Section 1(16) (b) of the Interstate Commerce Act (49 U.S.C. 1(16) (b)) is amended by deleting from subparagraph (A) "extended by the Commission for cause shown for an additional designated period not to exceed 180 days." and inserting in lieu thereof:

"extended or renewed by the Commission for cause shown for one or more additional designated periods, not to exceed 180 days in the aggregate. For this purpose 'cause' shall mean a likelihood that the extension or renewal will result in the provision of alternative service by rail or any other mode of transportation or in significant economic benefit, taking into consideration the expected cost of the extension or renewal, through consummation of other arrangements by shippers, carriers, or State or local governments. The Commission may at the time of any such extension or renewal alter or amend its directions with respect to such carrier, by substituting another carrier or carriers for a directed carrier or otherwise."

Sec. 2. Section 5(2) of the Interstate Commerce Act (49 U.S.C. 5(2)) is amended by adding at the end thereof the following new subsection—

"(g) Pending the determination of an application filed with the Commission for approval of a consolidation or merger of the properties of two or more carriers by railroads; or of a purchase, lease, acquisition of control, or contract to operate the properties of one or more carriers by railroad; or of acquisition by a carrier by road of trackage rights over, or joint ownership in or joint use of any railroad line or lines owned or operated by any other such carrier, and terminals incident thereto, the Commission may, in its discretion, and without hearing, grant temporary approval, pending termination of the proceeding and all judicial review thereof, of the opera-

tion of all or part of the railroad properties or property rights sought to be acquired by the party or parties proposing in such pending application to acquire such properties or property rights, if it shall appear that failure to grant such temporary approval may result in destruction of or injury to such railroad properties or property rights sought to be acquired, or to interfere substantially with their future usefulness in the performance of adequate and continuous service to the public."

SEC. 3. The Emergency Rail Services Act of 1970 (45 U.S.C. 662) is amended—

(1) by inserting after section 3 (d) the following new subsection—

"(e) The Secretary is authorized, on such terms and conditions as he may prescribe and after consultation with the Commission, to guarantee any lender against loss of principal and interest on obligations issued by a railroad to finance the estimated deficit the railroad will incur in carrying out an order of the Commission under section 1(16) (b) of the Interstate Commerce Act (49 U.S.C. 1(16) (b)) respecting the handling, routing, or movement of the traffic of any railroad (1) undergoing reorganization under section 77 of the Bankruptcy Act, as amended, or (2) in equity receivership or an equivalent proceeding. For the purposes of the preceding sentence, the term 'deficit' means the amount by which the cost of carrying out the order of the Commission exceeds the direct revenues thereof. The maturity date of an obligation guaranteed under this subsection may not be later than one year after the date the railroad begins the handling, routing, or movement of traffic under an order of the Commission.";

(2) by redesignating subsections 3(e) and 3(f) as subsections 3(f) and 3(g), respectively, and by inserting after the word "certificates" in redesignated subsection 3(f) the words "and other obligations"; and

(3) by deleting from section 7 "section 3" and by inserting in lieu thereof "section 3(a)".

Senator HARTKE. We will proceed first with Senator Pearson.

Senator PEARSON. I take it from your testimony that you reject the alternative of loan guarantees if the Rock Island goes into bankruptcy under section 77. You don't feel that is a viable alternative for us to consider?

Mr. EYSTER. Are you speaking of loan guarantees under section 211?

Senator PEARSON. Yes; under section 211. Should the Rock Island go into bankruptcy and proceed under section 77, I take it that your testimony is that the loan guarantees under section 211 are not a viable alternative.

Mr. EYSTER. The Rock Island's present eligibility under section 211 is its position that a loan would be necessary to prevent it from going into reorganization. If it were to go into reorganization, it would no longer have that element of eligibility.

It would, as I indicated in my testimony, have the potential of loan guarantees under the Emergency Rail Services Act of 1970.

In the Rock Island situation, as we see it, we think that a Rock Island trustee would not be likely to avail himself of that opportunity.

I would think the argument against a loan would be that there is no prospect of the Rock Island coming out of reorganization, and that putting a Government loan guarantee with a first lien on top of the creditors would be contrary to the interests of the estate.

Senator PEARSON. What was the figure you submitted as the estimated cost under section 1(16) (b)?

Mr. EYSTER. I gave you a figure of \$3 to \$5 million.

Senator PEARSON. For the first 60 days?

Mr. EYSTER. Yes, and for the 240-day. Our best estimate at the moment would be \$12 to \$18 million. A pretty wide range.

Senator PEARSON. Yes.

I might say in relation to your suggested modification of S. 917 that that was made in the final draft of the bill. I think what you saw was a working paper.

Mr. EYSTER. I saw the working paper.

Senator PEARSON. The modification you suggested is incorporated in the bill as introduced, at lines 21 through 24.

Mr. EYSTER. I am pleased to know that, Senator. We had mechanical difficulty getting a copy of S. 917.

Senator PEARSON. Do I gather from your earlier testimony that, by inference or some oblique suggestion, you think a regional rail reorganization act for the Midwest, that area served by the Rock Island, is something that is becoming more necessary all the time?

Mr. EYSTER. As you know quite well, the Department of Transportation has for a long time in a variety of ways urged that major restructuring of our rail systems is in order.

We have seen the problem at its earliest and ugliest perhaps in the Northeast. We are now seeing another phase of it in quite troublesome proportions in the Midwest. We think that it really should be looked at as a nationwide problem.

We have here, however, an immediate cash problem, and we do not see that even restructuring—even if the Congress were to reenact overnight the STIA bill of last year—we don't think that restructuring could solve the immediate cash crisis of the Rock Island.

Senator PEARSON. I take it your suggestion is to proceed under section 1 (16) (b) of the Interstate Commerce Act.

Mr. EYSTER. For the present emergency.

Senator PEARSON. With modification as to financing authority to the Secretary of Transportation.

Mr. EYSTER. Yes.

Senator PEARSON. And then to come in later, hopefully, with S. 917?

Mr. EYSTER. That is correct, sir.

Senator PEARSON. Thank you, Mr. Chairman.

Senator HARTKE. Senator Stevenson.

Senator STEVENSON. Mr. Eyster, you were not explicit in your statement, but you seem to be saying that the Rock Island Railroad as such is not worth saving. Is that correct?

Mr. EYSTER. Senator, a great deal of the property of the Rock Island is indeed worth saving.

Senator STEVENSON. But the railroad as an operating entity is not worth saving?

Mr. EYSTER. Well, with respect to that, Senator, I would point to the Rock Island merger proceeding in which the ICC has determined, in the public interest, that the Rock Island Co., should not be continued as a separate entity.

But, indeed, a great deal of the Rock Island property would be attractive to the merger partners and possibly to some of the losers, and a great deal of the Rock Island is essential both for single-carrier service and in competitive service.

Senator STEVENSON. I understand that. I'm not disagreeing with this conclusion. My mind is wide open.

But the conclusion is that the Rock Island Railroad as an operating entity, as a railroad, ought to go down the drain?

Mr. EYSTER. As a single, separate operating entity, yes. At this point we do not see that it could or should be saved.

Senator STEVENSON. Now, wouldn't the effect of your proposal be at least temporarily to consummate the merger with the Union Pacific?

Mr. EYSTER. Not necessarily, Senator Stevenson. We think that it is within the power of the ICC under the proposals that I have outlined to grant approvals and withhold approvals or enter disapprovals in a way that would be calculated to permit the merger to happen as approved by the Commission.

On the other hand, we think that as conditions develop the Commission might very well decide that a Chicago North Western or Milwaukee Railroad or Soo Line should be permitted to make acquisitions of certain Rock Island properties that was not contemplated by the Rock Island merger decision.

Senator STEVENSON. Do you make this proposal without anticipating what the ICC would do?

What I am getting at is the possibility that under your proposal the Union Pacific would end up taking over most of the Rock Island service. And if so, I would like to know what the effect would be on other railroads in this large region, some of which railroads are—

Mr. EYSTER. Senator Stevenson, we make the proposal after having consulted extensively with ICC staff as to their approach to the service order program.

We do not know what specific, detailed service orders would ultimately result from this program, but we have had extensive discussions, and those discussions are continuing.

Based on those and our own appraisal of the situation, we do not think that this would mean the UP would go in and run the Rock Island.

One might very well expect that the service order for the 60-day period would be directed toward a number of carriers and might follow one of two approaches. Either it would be directed to a consortium of carriers or to carriers individually, much along the lines of the proposed result of the Rock Island merger proceeding.

Senator STEVENSON. Can you speculate about the effect of this proposal, including enactment of the Pearson legislation, on other railroads, including, for example, the North Western?

Mr. EYSTER. I can speculate, on your agreement that it is just speculation. We think many of the parties to the Rock Island proceeding other than the four railroads that were selected by the Commission for acquisition of the Rock Island properties would come forward, you know, at the very beginning during the 60-day period and continue during the 180-day period to try to acquire either trackage rights or to make other acquisition agreements for portions of the Rock Island over which they see profitable operations for themselves.

Our early analysis at this point is that nearly 40 percent of the Rock Island lines are a sufficiently heavy generator of traffic that we would expect two or more railroads to be interested in virtually all of that 40 percent.

Senator STEVENSON. Should the Northeastern Railway Act be broadened to permit the United States Railway Association to participate in the reorganization of railroads in this region pointing toward the

possibility of serving some of this service if the services could be provided by Conrail in the future?

Mr. EYSTER. There seems to be merit in that as a possibility. I would defer to the USRA for its evaluation of its ability to undertake a major new planning effort at this point in time.

As you know, Senator Stevenson, it has continuing responsibilities under the Regional Railway Reorganization Act of 1973 and will until the final system plan becomes effective.

First of all, it will have to be presented to the Congress and then implemented.

Senator STEVENSON. Thank you, Mr. Chairman.

Senator HARTKE. Senator Weicker.

Senator WEICKER. Mr. Chairman, I am just recovering my voice from 2 weeks on the Senate floor with Penn Central. It seems to me we are right back where we started on this business.

I would like to use this occasion to suggest that maybe the subcommittee which you chair, and of which I am ranking member, ought to hold bailout hearings, which hearings would apply to those that need to be bailed out now, or those that think they will have to be bailed out within the next 2-year period of this session of the Congress—because I think we could save ourselves a great deal of time on the type of matter before us.

I am very serious about that. We now have an indication of some difficulties in the Midwest. We obviously know the problems in the East. And as I stated out on the floor of the Senate, it is clear from the low return on investment of the railroad industry that it is only a matter of time before the problem hits in the other sections of the country.

I would very much like to have those railroads that, as I say, either need bailing out or think they are going to need bailing out, or want to get out of the railroad business and keep their interests in natural resources and real estate, to step forward, because I think that a series of bailouts are going to be very difficult to present on the Senate floor, no matter what the legislation.

I commend Senator Pearson for his emergency legislation, and I think he is doing exactly the right thing.

The fact is that I just don't think we can continue to go back to a group of intelligent individuals and ask them to participate one by one in these bailout type of proceedings.

The Rock Island Railroad obviously has my complete sympathy. I will do everything I can to assist in the matter.

As I said, the problem doesn't belong just to the Northeast, but it is, as counsel has said, and properly said, a nationwide problem. For us to be attacking it piecemeal, I think is bad legislation. It is bad business. It makes no sense insofar as the future is concerned.

So I make those comments without addressing myself to the specifics of this railroad, because really, I am sure the specifics will be repeated. I don't know when, but in a matter of weeks, a matter of months, within a year.

I think the time has come to devise one plan, one type of plan, in order to create a decent rail system in this country.

I am becoming equally concerned with the proliferation of Federal agencies charged with the responsibility of producing decent rail systems. We have a Department of Transportation to which I look.

You have USRA, Amtrak. Gosh knows how many entities are going to be set up.

I suggested in my comments on the floor a couple of weeks ago, that maybe it is that the Federal Government should take over all the roadbeds and be responsible for their maintenance, for their upkeep, and this would be the Federal commitment to the rail industry, just as indeed the Federal commitment is known in the building of highways.

Maybe it is that nationalization is in order.

But I think the time has come to find out what it is that lies ahead, and I am certain there are even those railroads today that might, relatively speaking, look healthy when compared to their sister railroads, who are in sick condition, but when compared to other enterprises they look fairly weak. If, indeed, they want to get out of the business of railroading, let's hear it now.

So I don't mean in any way to be facetious about this matter. It is very serious. I think that the time has come to put it all together, and I don't see that happening, and that is probably what concerns me.

I have no specific questions of this witness.

Senator PEARSON. Mr. Chairman, I asked a question that may have been confusing and I would like to go over it one more time.

A loan by USRA under section 211 of the Regional Rail Reorganization Act requires the railroad to be solvent and have an ability to pay. A loan guarantee by the DOT under the Emergency Rail Services Act takes place only if a railroad is in reorganization under section 77.

Mr. EYSTER. That is correct, sir.

Senator PEARSON. Now, in your testimony today, you for the moment have rejected both of those alternatives as a way to deal with the Rock Island situation. Is that right?

Mr. EYSTER. I did not expressly reject either one,—

Senator PEARSON. Well,—

Mr. EYSTER [continuing]. Senator, but I think it is unlikely that either one—

Senator PEARSON. It is your testimony you would prefer to go another way?

Mr. EYSTER. It is my testimony that we think it unlikely either one would prove to be sufficient for the present crisis, yes, sir.

Senator HARTKE. Just to clarify that, in other words, what you are saying in substance is that the ability to repay just plain isn't there, in your judgment?

Mr. EYSTER. Well, under section 211 it was the judgment of the board of directors of the USRA—and I would say it was a judgment made in the financial submissions by the Rock Island as well—that it would not be able to repay unless there was additional \$100 million to \$120 million rehabilitation loan.

Senator HARTKE. But the Department of Transportation did not substantially disagree with USRA's judgment, did they?

Mr. EYSTER. We did not.

Senator HARTKE. In fact, you concurred, basically?

Mr. EYSTER. I would say that we are in agreement basically with the USRA analysis. The Secretary was not present at the February 4 meeting when this loan originally came up.

Senator HARTKE. But my understanding is that there is no dissenting opinion by the Department of Transportation from the decision made by the USRA. Is that fair?

Mr. EYSTER. That is correct.

Senator HARTKE. Let me just ask you this: When are we faced with the decision? When is D-day? When is the Rock Island going to cease to operate if we do nothing?

Mr. EYSTER. According to the information they give us, they will be by continuing in operations have a crash crisis next week.

Senator HARTKE. What day?

Mr. EYSTER. It is unclear whether it will be Monday or Wednesday.

Senator HARTKE. Monday or Wednesday or next week?

Mr. EYSTER. Yes.

Senator HARTKE. Do you see any method other than some type of action by the Congress to prolonging that day?

Mr. EYSTER. No, sir.

Senator HARTKE. You don't see anything at this moment?

Right?

Mr. EYSTER. No, sir.

Senator PEARSON. But the ICC could act.

Mr. EYSTER. By service order?

Senator PEARSON. Yes.

Mr. EYSTER. Yes; that is correct.

Senator HARTKE. Once that occurs you are really down the road, assuming that the Rock Island is going to be at least dismembered, if not put out of business.

Mr. EYSTER. I would say that is correct. I would amend my earlier response. If the Rock Island were to go into reorganization, that would produce some cash savings. As I indicated in my testimony, it would be very great.

I think on a yearly basis it would be a savings of some \$2 million in interest. Whether that would effect any savings next week, we don't know. We have not seen—

Senator HARTKE. But it would not save the Rock Island as such, as it exists today?

Mr. EYSTER. It would not as it exists today.

Senator HARTKE. That is right.

And is this a fair statement? That no one really wants the whole Rock Island today? None of the carriers out there? The whole thing?

Mr. EYSTER. We certainly don't know of anyone.

Senator HARTKE. That is part of the problem. On one hand, no one wants the whole thing. Yet all the area has railroads in there like sharks in a barrel, all biting at each other. Is that a fair statement?

Mr. EYSTER. It is your characterization.

Senator HARTKE. Read this testimony. I mean some of the statements coming down the pike. There is certainly no unanimity of agreement with your program. You know that.

Mr. EYSTER. I understand.

Senator HARTKE. You are not under any illusion that you presented here a sweet way out?

Mr. EYSTER. No; indeed.

Senator HARTKE. I am just trying to get the water cleared so Senator Weicker doesn't have too much trouble with his voice when he has to go back on the floor with me.

Anyway, we are faced with a tremendous conflict. I really think it is a proper time to point this out.

That is, if you move in even not alone with bailout but with any type of Federal subsidy, you ultimately put some other carriers at a disadvantage. Isn't that true?

Mr. EYSTER. That frequently happens, sir.

Senator HARTKE. Yes. In other words, what could happen here is whether or not you are going to rescue the Rock Island only to see them possibly put back on their feet, which you could do if you wanted to rehabilitate them. You could rehabilitate the Rock Island with taxpayers' money. The only thing you would do is you would put some competing carriers out of business because they do not have the taxpayers' money to rehabilitate themselves. Isn't that a fact?

Mr. EYSTER. That is certainly a likely eventuality.

Senator HARTKE. All right. So it is not just a question of simply making a speech to save the Rock Island, because we have some more problems coming right down the pike.

The ultimate, of course, is a question of service to this area. But even that is not so simple.

I want to point out that even in this emergency situation, you are dealing with the act which created the Railway Reorganization Act of 1973. You are dealing with the Emergency Rail Service Act of 1970 and also with the change of section 1(16)(b) of the I.C.C. Act.

All of these items were enacted in anticipation that something like this was going to happen.

Let me ask you this. Do you have any estimate at this moment of the total cost that the United States would be asked to bear if you used the solution which has been proposed by the DOT?

Mr. EYSTER. Our best estimate at this point is—and it is only quite preliminary—that it would be in the range of \$12 to \$18 million.

Senator HARTKE. \$12 to \$18 million?

Mr. EYSTER. Yes, sir.

Senator HARTKE. Now, you have under this authority, a total of \$19 million available. Isn't that correct?

Mr. EYSTER. That is correct.

Senator HARTKE. So within the terms of the authority which is there and the appropriations, in your judgment at this moment there still is enough money to take care of this temporary expedient?

Mr. EYSTER. There still is. And there are two things that might also be done, Mr. Chairman.

One is that there is outstanding a commitment to the trustee of the Central of New Jersey in the amount of approximately \$4 million, which is not likely to be used. We could conceivably ask for court approval to rescind that commitment, which would increase the total availability to \$23 million.

In addition, the \$12 to \$18 million I am talking about now is for a 240-day period, and it seems possible to us that during that period there could be some rolling over of the working capital indebtedness.

That is, the Commission might total up the bill for the first 60 days and put it in for payment through the appropriations process and pay out the first 60 days' operation. That would give us more of a margin for the remaining 180-day period.

Senator HARTKE. What about the employees? What happens under your proposal to the employees?

Mr. EYSTER. During the first 60-day period while under service orders, as we understand it, the employees of the Rock Island would be used by the directed railroad so they would essentially stay in place.

During the 180-day period with respect to the portions of the road that are under service order, that would continue to be the situation.

With respect to the portion of the Rock Island that might during the 180-day adjustment period be the subject of trackage rights agreements or acquisition agreements between the Rock Island and other carriers, the ICC has authority, under section 5 of the act, to provide labor protection in those cases.

Senator HARTKE. Labor protection for the employees. Right. How much is that a day? Per person?

Mr. EYSTER. That is within the discretion of the ICC.

Senator HARTKE. They get their full salary under railroad protection?

Mr. EYSTER. Up to a 4-year maximum, depending on the length of service.

Senator HARTKE. Would some of the people be put out of work?

Mr. EYSTER. I would expect so.

Senator HARTKE. Have you anticipated what that would cost or how many people would be involved? That would not come out of the \$19 million available or out of the \$12 to \$18 million you were talking about? Isn't that an additional cost?

Mr. EYSTER. That would be an additional cost which would fall—

Senator HARTKE. Fall under the Unemployment Compensation Act? That is \$12.70 a day. Do you have any estimate what that would be?

Mr. EYSTER. Not at this time, Senator. That would depend very heavily on how much of the Rock Island property is operated under service order and for how long.

It would be very difficult for us to speculate at this point as to what the per capita impact would be on the labor force.

Senator HARTKE. You do not want to make any estimate of that? Right?

Mr. EYSTER. We are not prepared at this time. We are trying to get data together on that, but we do not have any we can submit at this time.

Senator HARTKE. Do you have any estimate of the number that would be involved? The number of people that would be unemployed as a result of the proposal which you advocate?

Mr. EYSTER. We don't really. We do know the labor force of the Rock Island presently is some 11,000. One can speculate that if as we expect 50 to 70 percent of the Rock Island traffic is movable by other rail carriers, there would very probably be some additional employment by those directed carriers.

If they have employees of their own who are furloughed, I assume they would come back first and after that the Rock Island employees would be the logical place to look for additional employees on the other carriers.

Senator HARTKE. As I understand your proposal, now, it would not guarantee rail service for all shippers using the existing Rock Island service beyond 60 days. Is that correct?

Mr. EYSTER. For at least the initial 60-day period.

Senator HARTKE. Beyond the 60 days, though, it would not guar-

antee that they would use existing Rock Island facilities for their services? Is that a correct interpretation?

Mr. EYSTER. That is correct. We think the emphasis during the 180-day period should be on the development of alternative service and the reduction gradually, as we go along, of the amount of traffic operated under service order.

Senator HARTKE. Do you have any estimates at all of how many shippers then would have to seek transportation by other modes?

Mr. EYSTER. In terms of the number of shippers?

Senator HARTKE. Yes. My information is you have been receiving and compiling carloading statistics in the region in a similar way that the DOT did when we had the Railway Reorganization Act. Is that true?

Mr. EYSTER. I am sorry, I didn't hear the first part.

Senator HARTKE. In other words, you have been getting statistics on the carloadings in the region. Isn't that true?

Mr. EYSTER. Yes, we have.

Senator HARTKE. Do you have those available?

Mr. EYSTER. I have given some of those. I can give you a further breakdown.

I would amend an answer to a question by Senator Stevenson when I said nearly 40 percent. I should have said nearly 40 percent of the carloadings—

Senator HARTKE. What does that represent in numbers of shippers? Do you know?

Mr. EYSTER. I do not have it by number of shippers. I can tell you that about 40 percent of carloadings—39 to be exact—move over 19 percent of the Rock Island track miles. It is that 39 percent and 19 percent that we would expect to be very attractive to other carriers.

In addition, there is some 19 percent of carloadings and 23 percent of track miles currently served by a competitive carrier, or over which there are currently trackage rights permitting automatic continuation by another carrier.

Senator HARTKE. Is it possible for you to get the information on the number of shippers involved?

Mr. EYSTER. We can get at least approximations, yes, sir.

Senator HARTKE. How soon?

Mr. EYSTER. I will ask Mr. Hall to answer that.

Mr. HALL. May I address this, Mr. Chairman?

The data we have is coming to us from the Rock Island, from their actual 1974 traffic tapes.

The data tells us how many carloadings originated and terminated on the Rock Island system. It does not give us specific shipper identification. It provides only billing points on the system.

In terms of that data we have available we could not quickly come up with individual shippers.

However, our plan would be to work with the Commission during the first 60-day period, and I believe between the two of us we can get a very good detailed analysis of which shippers individually are being adversely affected and which could be picked up with little problem.

Senator HARTKE. You say in your statement that the Department stands ready to work with shippers and carriers in facilitating these private sector adjustments, and will expedite assistance to State and local governments under existing departmental authorization.

Will you tell me exactly what that means? In other words, what authority do you have? What can you do? What kind of assistance can you give to dislocated shippers?

And what occurs in the case of termination of rail service?

Mr. EYSTER. With respect to shippers, we can be quite helpful in a lot of cases in finding alternative service and in helping to solve the problems that will pop up as shippers look for alternative service.

With respect to programs for working with State and local governments, we think that a great deal of assistance again can come from the entities that are responsible for regional transportation planning.

Senator HARTKE. In other words, this would be an information service type of operation? Right?

Mr. EYSTER. So far. We also feel we can expedite a number of highway programs where the best alternative service is moving over highway but where there may be some grade crossing problem or bridge strength problem, and we are quite prepared to give top priority to such funding programs under the highway program.

Senator HARTKE. Let me ask you: Is there a great big problem here of rehabilitation costs that is necessary? You have indicated that in your statement.

Mr. EYSTER. Mr. Chairman, I think the big problem is one you identified a little while ago. The Rock Island is talking about a \$100 to \$120 million Federal financial assistance in order to provide seed money for what is perceived to be a \$750 million rehabilitation program.

If that were to be made possible by the Federal loan, it would have a very significant impact on the composition of the transportation system in the region.

I think you are quite right, Mr. Chairman. We fully agree that one would have to look at least at the impact on other rail carriers in the region, and one should also look at the impact on competitive modes in the region.

Senator HARTKE. So you really have three problems here.

If you subsidize and put the Rock Island in shape, it will have adverse effect on the competition in the area.

On the other hand, if you permit these healthy carriers like UP and some of the others to come in and acquire the major portions of the Rock Island, the same thing will happen. The other competing and smaller carriers in the area are at a disadvantage competitively.

Mr. EYSTER. We think the Commission has quite adequate powers in that respect, Mr. Chairman. It can include protective orders that would prevent the directed carriers from being able to impact the competitive road unfairly.

We think one of the benefits of our slight language change which would give the Commission flexibility to enter shorter extension periods, is it could then reexamine its protective conditions and on any renewal or extension modify them so the competitive services would not be adversely impacted.

Senator HARTKE. I might as well address this to you. What bothers me about this is that, sure, you come on in and you will continue to operate on these lines under the Commission's order. Isn't that right?

Mr. EYSTER. That is correct.

Senator HARTKE. In the meantime, that will be the Commission's decision as to what the effect is on the competition. And I can tell you

now by looking at what is going on that the Commission's decision is just going to be absolutely opposed from every side under the Sun. And you are back to the sharks in the barrel again.

In other words, what would happen here? If you follow what you are talking about, certain portions of this, the Commission would make a decision as to who would use what lines and how they would use them. Isn't that right?

Mr. EYSTER. That is correct, sir.

Senator HARTKE. And then, if there were an appeal from that, which is a legal process, during the time of that appeal, the operation would continue under the Commission's orders. Isn't that correct?

The Commission's decision would, in effect, be what would happen as a practical fact of life.

Mr. EYSTER. I think that is a reasonable expectation.

Senator HARTKE. Pardon me?

Mr. EYSTER. I think that is a reasonable expectation. I am not prepared to predict with any degree of confidence what the courts would do with respect to stay orders and the like if there were judicial challenges to the Commission's orders.

Senator HARTKE. I am saying the Commission makes a decision that this service would be conducted by so and so on such a line. Isn't that right?

Mr. EYSTER. That is correct. But, as I say, they could also require that certain protection be given to competitive railroads.

Senator HARTKE. But that is a subjective decision, the protection of competitors, while the objective decision is simply that the lines would be continued operating and somebody would be on those services.

I think that's the picture. I'm not very sure I understand who is going to be happy with it, if anyone.

Mr. EYSTER. I don't think that there is any single solution in this present situation with which everybody—or even anybody—would be totally happy.

Senator HARTKE. Let me come back to this rehabilitation thing. On page 6 of your statement you conclude, in your words, that it is difficult to perceive any likely change in circumstances that would warrant assistance to the Rock Island under section 211 of the Regional Railway Reorganization Act. Is this simply because under section 211 the working capital could not be repaid by the Rock Island without a major rehabilitation?

Mr. EYSTER. That is an element of it. Also my testimony recognizes the shortness of time involved here.

Senator HARTKE. Now, since the USRA cannot under their decision make any loan for working capital simply because there is no likelihood of repayment without a major rehabilitation program, I wonder how did the Association ever justify its initial approval of the \$9.1 million loan.

In other words, did the Board believe at the time that the \$9.1 million loan was approved that this was the only loan that would be necessary and that the Rock Island would be able to repay that loan in accordance with congressional intent of section 211?

Mr. Ingram, in his testimony which is coming down the line, admits that they will be unable to repay any loan without a major rehabilitation program.

Mr. EYSTER. Mr. Chairman, I was not present at that meeting. I can tell you my understanding of what transpired.

It was indicated to the Board after staff analysis that the figure \$9.1 million would be adequate to sustain Rock Island operations through calendar 1975. There was consideration of how the amount could be repaid. There was a plan to obtain some security by the issuance of general obligation bonds by the Rock Island.

That was one of several things that were being examined with a view to having adequate security for repayment.

Shortly after that meeting, what I referred to in my testimony as additional facts were presented to the USRA, and when those additional facts were examined it was apparent in the first place that the \$9.1 million would not be adequate to see the Rock Island to the end of the calendar year.

Rather, the figure was a much larger one of \$30 to \$48 million, depending on whether a rate increase comes through, depending on whether or not certain properties could be sold, depending on whether or not a transaction could be consummated with the Regional Transit Authority in the Chicago area.

It was also stated by the Rock Island in its submission that that working capital loan would be repayable out of an upturn in the economy if it could participate and that its participation would be possible only if the rehabilitation loan were made.

So it was the Rock Island's own analysis that the larger working capital loan would not be repayable without the rehabilitation loan.

Senator HARTKE. The rate increase would have made the increase between \$30 and \$48 million. Is that correct?

Mr. EYSTER. No, sir. That was only one of several variables. The rate increase, according to Mr. Ingram, would benefit the Rock Island at the rate of \$250,000 per month per percentage of increase.

Senator HARTKE. How much again?

Mr. EYSTER. \$250,000 per month per percentage of increase.

Senator HARTKE. Let's address ourselves to this thing as to whether we have another Penn Central coming to the Rock Island.

A lot of statements have been made that the Rock Island could be another Penn Central—some of the press statements and some of the attributions that have been made. As Senator Weicker indicated, we have just been on the floor of the Senate trying to manage to convince the Congress that the Penn Central operation was a good program, that we need to do it.

And I am not very enthusiastic, any more than Senator Weicker, to go to the floor again and try to persuade the Senate to come along with an additional assistance for the Rock Island.

Now, in regard to Penn Central, you testified that a shutdown of the Penn Central would have had disastrous effects on the entire national economy. Is that true of the Rock Island?

In other words, what would be the effect of the closedown of the Rock Island? Is it in the same ball park?

Mr. EYSTER. It is not, Mr. Chairman. The total operating revenue is one basis of comparison. Penn Central in 1974 had some \$367 million.

I'm sorry. That is the Rock Island. And the Penn Central was of the order of \$2¼ billion compared to \$367 million for the Rock Island.

The total track operated or over which the Rock Island has author-

ity to operate is some 10,888 miles compared to approximately 20,000 for Penn Central.

The actual number operated by the Rock Island is somewhat below that because of discontinuance of service.

The region that it serves is large. It serves Illinois, Iowa, Minnesota, Missouri, Arkansas, Tennessee, Louisiana, Texas, Oklahoma, Kansas, Nebraska, Colorado, New Mexico—not necessarily in that order, Senator.

There are respects in which it is the same as the Penn Central, and there are respects in which it is different.

It is the same in the sense that there are a number of shippers that are served by only one rail carrier at present.

It is the same as the Penn Central in the sense that in many of the significant markets in the Midwest region we would like to see two or three strong competitive carriers in order to have the best competitive service.

And it is similar in the respect that a cessation of operations would cause some disruption.

Our proposal, as I think you understand, is addressed primarily to the question of how you minimize that disruption in the best possible way.

We think the amount of disruption is not nearly so great as in the Penn Central because of the vastly larger number of Penn Central shippers who do not have any alternative rail service, as opposed to the 20 percent or so of Rock Island shippers who could not have alternative rail service and the 50 to 70 percent that we think easily would.

It is dissimilar also in the sense that the Penn Central was an important factor, a very significant factor, in the economy. I think that no one really could perceive of any way to accept the cessation of Penn Central's transportation or its demise as a corporate entity.

In the Rock Island, as I mentioned before, we have a company which after 12 years of examination, study, and deliberation, and hearing every conceivable argument by every possible interested party, the Commission has decided it is no longer needed to be continued as a separate corporate entity.

We think that decision having been made by the Commission, we should be looking at the transportation property in the transportation planning sense, and we think the role we have been discussing this morning permits the Commission in conjunction with DOT to address the problem just that way.

Senator HARTKE. So what you are saying they have some items of similarity but the net result of the closedown of the Rock Island as compared to the net result of the closedown of Penn Central is not really comparable? Is that fair?

Mr. EYSTER. That's fair.

Senator HARTKE. All right. I know we have not heard from—

Senator PEARSON. Let me ask you this: Whether the Rock Island survives as an entity or not, that system is a vital part of the national rail system, isn't it?

Mr. EYSTER. A great deal of it is vital.

Senator PEARSON. It doesn't make any difference whether the Rock Island runs it or it is done under the merger, or otherwise? The Rock Island is an essential part of the national rail system, isn't it?

Mr. EYSTER. We believe a great deal of it is. Not the system as an entirety.

Senator PEARSON. Not in its entirety.

Senator HARTKE. What percentage?

Mr. EYSTER. Probably a half to two-thirds.

Senator HARTKE. A half to two-thirds is necessary or desirable?

Mr. EYSTER. Well, it would probably prove desirable if we had the luxury—

Senator HARTKE. Those are two different words.

Mr. EYSTER [continuing]. Of 2- or 3-year planning exercises to determine what is the best. We think something of the order of 50 percent is necessary and desirable in the present circumstances where it is not possible to look at every possible alternative down to the fine detail and only pick out the right ones.

But a great deal would depend on the kind of adjustments that I am describing as to the flexibility of other railroads.

There are situations where the Rock Island has a shorter line or a preferable line from the standpoint of track geometry, but a carrier who has a less desirable line might not decide to acquire the Rock Island and sell its own but would rather stay with its own property.

Senator PEARSON. I just want to observe that a disaster is a disaster whether it is big by the numbers in the Northeast or relatively smaller by the numbers in the Midwest. It is still an enormous economic catastrophe in our part of the country.

Go ahead.

Senator HARTKE. There is another difference, and that is the Penn Central was in reorganization under chapter 77 of the bankruptcy law. Is that correct?

Mr. EYSTER. That's correct.

Senator HARTKE. Under such circumstances you are dealing with an entirely different set of relative interest, are you not? In other words, when you are in the court, once you are in the court, you are dealing with a different situation.

Mr. EYSTER. It does change.

Senator HARTKE. At the moment all you can really do is pour money into the operation and try to keep it going, and then have the ICC continue the service under some form of redirection.

Mr. EYSTER. Well, I would not at this point regard it a pouring of money in under the proposal we have been discussing this morning.

Compared to the cost of keeping the Rock Island going itself, I think that the figures we see as the cost of service orders are relatively modest. It would be more expensive than other alternatives, if we had any other really workable alternatives.

The service order concept generally is one we have regarded from the beginning as potentially expensive. However, we think it far less expensive than simply putting up working capital this year and more working capital next year, and so on ad infinitum.

Senator HARTKE. Wouldn't it be better, though, in the long run, to go ahead and have the Rock Island go into bankruptcy and then go ahead and proceed from that point?

Mr. EYSTER. Well, I am—

Senator HARTKE. In other words, if we are going to get moving through this maze—and I suppose we're going to have to move through it somehow—why are you not better off to permit them to go under

chapter 77 into reorganization? They will probably have to come out with a statement that they cannot reorganize similar to what the Penn Central did.

Isn't that a fair interpretation of the situation at the present time? If they went into the court under chapter 77, then the court would probably make a finding that they could not reorganize similar to the situation of Penn Central.

Mr. EYSTER. That is probably correct.

Senator HARTKE. Then why is that not a better procedure to move in that fashion than to do what you propose here as to really proceed to carry out a situation which ultimately, hopefully, we can settle with a long, prolonged litigation facing us.

Mr. EYSTER. The decision on whether or not to go into section 77 reorganization proceeding is one for the Rock Island board of directors, which, as I said, is planning to meet on Friday of this week.

It is an option that the creditors of Rock Island could maneuver or force them into. But first it will be considered by the board.

Senator HARTKE. What choice does the board have? The board cannot liquidate. There is no authority to liquidate; is there?

Give me the part of the law where they can just stop operating without going into court. I have contended with this a long time. I don't even know that there is a law to provide for liquidation for a railroad after they are in court. Is there?

Mr. EYSTER. It is a very difficult area, Mr. Chairman.

Senator HARTKE. It is what?

Mr. EYSTER. It is a very difficult area.

Senator HARTKE. I mean it is a difficult area, but we have always assumed there is a possibility of liquidation of the railroads, and these creditors come in and want to sell off the track, the steel, sell the good ties, some of the real estate, and thereby recover part of their property.

I will tell you as a lawyer that I would be willing to contest them on that point; and I don't think that there is any legal authority for a railroad to liquidate.

Once they have taken the authority under the law to provide this service, they either have to provide the service or go into court and ask for a reorganization. Then, when they go into court and ask for reorganization and come back with the statement they cannot reorganize, I do not know what the next step is, and I don't think any other legal eagle does either.

Mr. EYSTER. I agree. I hope you did not understand me as suggesting they should not go into reorganization or that they should cease operations.

I did say in my prepared statement that cessation was what we see. I was speaking there in the cash flow sense, in the cash drain sense.

Senator HARTKE. Maybe I am wrong. Under the fifth amendment to the Constitution and under the Tucker Act, what would probably happen here—and I would hope some people could see this possibility—is that if you go into court and if a service is ordered to be continued—I don't know how they can avoid it—then the Tucker Act would apply and they could have a claim against the U.S. Government for the deficiency; could they not?

Mr. EYSTER. It's a possibility.

Senator HARTKE. It is not a very pretty picture; is it?

Mr. EYSTER. No, sir.

Senator HARTKE. That is much more expensive than anything you have suggested at least. Right?

Mr. EYSTER. Right.

Senator HARTKE. OK.

Let me ask you one other question here. In Mr. Ingram's statement—he has not testified yet—he makes the statement that he has presented some improved approaches to doing business through the DOT's financial specialists and that they were receptive and urged us to pursue the matter.

I wonder if you can tell us what your financial experts are urging Mr. Ingram to do.

Mr. EYSTER. Mr. Hall can answer this.

Mr. HALL. Senator Hartke, I was not at the meeting at which Mr. Ingram presented these improvements to our people, but I do have a summary.

Basically, what Mr. Ingram was saying is that he thought, given time, he could improve his contribution to revenue through the traffic that is currently carried by doing several things, in some cases by raising rates that are below compensatory cost and in other cases by raising rates because it is possible to do it.

Second, he was looking at some cost savings that could take place.

I think, third, he was talking about the rehabilitation loan in the sense, if that were made available, his operations would improve. He would be able to compete better in the marketplace.

I don't believe that our people made any representation that we thought those actions could take place in the very near term. Because having read what Mr. Ingram was talking about, I think at a minimum you are talking about a year or so to begin the improvement in operations, based on the assumptions that he was making.

So, I don't believe that we are talking about a near-term solution of the current crisis.

Senator HARTKE. Was the fourth proposition prayer?

Mr. Ingram also suggested to the committee staff several legislative suggestions. One of these approaches proposed to modify section 211 of the Regional Railway Reorganization Act, so that it would mandate the association to make the loan rather than authorizing them to do so—in other words, changing the “may” to “shall.”

I wonder if you could tell the committee what the possible exposure of the United States would be if such a change were made. How many other carriers could qualify for section 211 loans?

Mr. EYSTER. Certainly, Katy would be a possibility, and possibly also some others.

I suppose I would have to say the maximum exposure would be the \$1.5 billion authorization.

Senator HARTKE. Almost immediately? Right?

Mr. EYSTER. I would hope not almost immediately.

Senator HARTKE. Over how long a period of time is that \$1.5 billion you're talking about? Compared to what we are dealing with here in the neighborhood of about \$200 million?

Mr. EYSTER. What I am speaking of is the \$1.5 billion of obligational authority under the 1973 act which Congress intended primarily for rehabilitation of the Northeast, up to \$500 million, and \$500 million maximum for the acquisition purposes, and of the remaining \$500

million it was intended most if not all of that would be available for Amtrak purposes in the Northeast corridor.

Senator HARTKE. All right, Mr. Eyster. I want to thank you for being very helpful.

Senator Stevenson, go right ahead.

Senator STEVENSON. Mr. Eyster, the North Western estimates that at least 80 percent of the Rock Island traffic could be picked up comfortably by its competitors under orders from the ICC. Do you agree with that assessment?

Mr. EYSTER. We think that is high, Senator Stevenson. We think it is, however, more than half and possibly up to 70 percent.

Senator STEVENSON. Up to 70 percent?

Mr. EYSTER. Seventy percent.

Senator STEVENSON. What happens to the other 30 percent? Is that nonessential service, in your opinion?

Mr. EYSTER. These figures—we have slightly different ones—are the percentage of the traffic of the Rock Island which is readily divertible. In our view, during the 180 day adjustment period I have been referring to, we think that some additional portion of the Rock Island traffic could be served by alternative rail service. For the remainder that cannot be moved by rail—and I am talking about negotiation of trackage rights and so forth—it would be necessary to increase the percentage that would be serviceable by rail—we would look at truck and barge alternatives.

Senator STEVENSON. What happens to Rock Island passenger service next week under your proposal? Do you know? What happens to passenger service?

Mr. HALL. I think, Senator Stevenson, for the first 60 days under our approach all of the passenger service would be continued to be operated under the service order. During the next period—

Senator STEVENSON. May I just make sure? Are you including commuter service?

Mr. HALL. Yes, sir. There would be a service order directing continued operation of that service, both the commuter and probably the one intercity train, although I think that may be treated somewhat differently as we got into it.

However, addressing the commuter service, it is our understanding that the RTA in Chicago is prepared to move into the gap and assure that commuter service would continue even beyond any directed service order. By insuring that the gap between revenues and cost is made up at the local level.

Senator STEVENSON. Would it have to make up 100 percent of that operating deficit?

Mr. HALL. I am not an expert on our Urban Mass Transit Act, but I believe the share is 50-50 as far as the operating subsidy is concerned, Federal 50 percent, local 50 percent.

Senator STEVENSON. The State of Illinois, as you know, is subsidizing, I believe, two-thirds of the operating deficit on intercity, for intercity passenger service in Illinois.

Mr. HALL. Yes, sir.

Senator STEVENSON. It has petitioned Amtrak to pick up the one-third now absorbed by the Rock Island, as I understand it.

Do you envision a role for Amtrak in the provision of passenger service?

Mr. HALL. It is quite possible that that one train could be reinstated as a section 403(b) route under the Amtrak Act, State shared with Amtrak.

It would require, obviously, a new negotiation, if you will, between the State of Illinois and the State of Iowa, I believe, in that case with Amtrak to come up with the required two-thirds funding to continue operations on the route.

Senator STEVENSON. Assuming that the States can come up with the two-thirds, is Amtrak willing to come up with the one-third?

Mr. HALL. I can't answer that today, Senator. It is something we can look into with Amtrak for you. We would be happy to do that.

Senator STEVENSON. I have no further questions. Thank you, sir.

Senator HARTKE. Let me ask you one other question. Are UP very happy with the proposal? I understand they are objecting to it. Maybe it would be better to ask Mr. Stafford.

Mr. EYSTER. For the UP, they still have a few days in which to file a petition for reconsideration.

Senator HARTKE. We will ask that of Mr. Stafford.

I have no further questions.

Any other questions?

Senator PEARSON. Yes.

Senator HARTKE. Go ahead.

Senator PEARSON. If you have a service order and you have to pick up with public funds the difference between a reasonable profit and the costs, does the ICC order commit the Congress to pick up the bill?

Mr. EYSTER. Yes; it would.

Senator PEARSON. Now, under your proposal, if the Secretary should guarantee loans, that likewise would be a front-end commitment for the possible expenditure of public funds? Is that right?

Mr. EYSTER. Correct.

Senator PEARSON. Is there any way, if we go that route, that you can give us firm, hard figures, something better than between \$3 and \$5 million, so we can go to the Congress and get a supplemental appropriation very quickly?

There is a political problem here, and I don't think it's generally understood. There is a sense of resistance on the floor to the Penn Central authorizations, particularly when we had a different figure between the Senate and the House within a period of days.

Is there any way you can give us a hard figure to have a more open and a more frank approach to the Congress about how much money is needed, if we go the route you suggest?

Mr. EYSTER. That is the best we can do on the basis of the information we have now. It is my understanding that the ICC is doing a detailed analysis with a view to that.

Senator PEARSON. Thank you.

Senator HARTKE. Thank you for a very fine statement. I think you have done a fine job. I really appreciate it.

The next witness is Hon. George Stafford, Chairman of the ICC.

We welcome you here. Will you identify the rest of the members at the table for the purposes of the record?

STATEMENT OF HON. GEORGE M. STAFFORD, CHAIRMAN, INTER-STATE COMMERCE COMMISSION; ACCOMPANIED BY FRITZ KAHN, GENERAL COUNSEL; ROBERT BROOKS, DIRECTOR, OFFICE OF PROCEEDINGS; AND JOHN GRADY, DIRECTOR, BUREAU OF ACCOUNTS

Mr. STAFFORD. Mr. Chairman, I have with me my general counsel, Fritz Kahn, and also Bob Brooks, Director of the Office of Proceedings, and John Grady, Director of the Bureau of Accounts.

The subcommittee requested our appearance here today to discuss the provisions of S. 917 and the current status of the Chicago, Rock Island and Pacific Railroad Co.—Rock Island.

S. 917 is a bill designed to authorize the Commission to approve the temporary operation of all or part of a railroad by a party that has applied under section 5 of the Interstate Commerce Act for authority to purchase or acquire all or part of the railroad to be operated.

The authority could be granted only if we determine that the failure to do so would result in injury to the vendor's rail properties or would interfere with their future usefulness.

Although the act now contains similar provisions for motor carriers, no such authority for rail unifications presently exists. We support the enactment of S. 917 because we believe it could be beneficial to our efforts to maintain essential rail services of a failing carrier when another carrier has applied for authority to acquire all or part of the failing carrier.

The committee is to be commended for its prompt and forward looking response to this urgent matter.

S. 917 is similar to legislation recommended by the Commission to the 92d Congress and introduced as section 4 of S. 3239. In our statement in support of that bill, we indicated that it would be particularly helpful in situations like the present Rock Island merger case. We recognize, of course, that such interim authorization would be exercised sparingly in view of the difficulty of restoring the status quo should the correlative section 5(2) application be denied or approval not consummated.

I will have more to say concerning the pros and cons of S. 917 as it applies to the Commission proceeding concerning the acquisition of the Rock Island, but first, since the plight of the Rock Island is the focus for today's hearing and the impetus for the introduction of this bill, I would like briefly to describe the current conditions being experienced by the rail industry as a whole and the Rock Island's present status within that context, its recent history, the probable effects of a shutdown of operations by the Rock Island, and the alternative courses of action that would be available if such a shutdown occurred.

The rail industry as a whole has begun to feel the full force of the downturn in national business activity. Within the last 60 days, the industry's business has plummeted; the rapidly deteriorating situation

leads us to expect a first quarter deficit worse than has ever before occurred, even during the great depression of the thirties.

The reasons: a 10-percent reduction in traffic for the first 6 weeks of 1975 as compared to 1974 coupled with a 10-percent wage increase retroactive to January 1. Dealer inventories of automobiles are at a 3-month supply, housing starts are still trending downward, durable goods orders in December experienced the sharpest drop in 20 years, inventories generally are high, grain shipments are 13 percent behind last year, and coal shipments while fairly strong at present promise to moderate soon.

What we are seeing, in other words, is the bite of a declining economy starting to draw blood in the rail industry.

The financial fortunes of the Rock Island long had been declining and recently it has been devastated by the economic downturn afflicting the entire Nation. The precipitous drop in carloadings experienced by most of the country's railroads has wrought havoc on the Rock Island, and has cast into doubt its continued ability to render service for any substantial period of time.

The Rock Island's total number of carloadings for the first 2 months of 1975 is 135,515 as compared to 158,312 carloadings for the first 2 months of 1974. This represents a 14.4-percent decrease.

The Commission estimates that at present the Rock Island's operating losses are running at the rate of approximately \$15 million per quarter. Attempts by the Rock Island to generate working capital by the sale and leaseback of locomotive and rolling stock and other drastic remedies have had some measure of success, but the opportunities for further cannibalizing of the Rock Island plant to produce cash for operating purposes appear to be diminishing.

It appears that the Rock Island has little or no future as an independent entity; however, the Commission by a report and order served December 3, 1974, approved the merger of the Rock Island into the Union Pacific Railroad Co., and several other railroads.

The proceeding leading up to the Commission's approval of the merger has been among the most complex in the Commission's history. A chronological description of these proceedings is attached hereto as appendix A. The basic problem with the merger has been the need to arrive at a takeover arrangement which maintains and improves the Rock Island's present service to the public, but which is structured so as not to threaten the viability of the various other competitive railroads in the region served by the Rock Island.

The complexities of this case are illustrated by the fact that it required over 280 days of oral hearings and involved a record of testimony and exhibits of over 150,000 pages. The administrative law judge, in February 1973, issued a massive three-volume report recommending a major restructuring of the railroads in the West into basically four strong rail systems. The Commission's report, which itself runs to more than 300 pages, differs substantially from the recommendations of the administrative law judge.

In its report, the Commission determined that the public interest would be served by the merger in that it would lead to the upgrading and substantial improvement of the essential service provided by the Rock Island and would alleviate the critical financial situation facing

the Rock Island. The Commission also determined that the public interest required extensive protective conditions to maintain the viability of competing carriers.

The Commission approved the merger of the Rock Island into the Union Pacific subject to sale of portions of the Rock Island to several other railroads. Union Pacific was required to sell the Rock Island lines generally south of Kansas City to the Southern Pacific and the line between Omaha, Nebr., and Denver and Colorado Springs, Colo., to the Denver and Rio Grande Western. Southern Pacific, in turn, was required to sell the Rock Island line between Memphis, Tenn., and Amarillo, Tex., to the Santa Fe and Rock Island's half interest in the Joint Texas Division, extending from Dallas to Galveston, Tex., to the Fort Worth and Denver Railway, a subsidiary of the Burlington Northern, which already possesses a half interest in that line. In addition, Santa Fe, as a condition of its acquisition of portions of the Rock Island, was required to include the Katy railroad in its system. This would give the Santa Fe access to the important St. Louis gateway and an additional route between major Texas points and Kansas City. Union Pacific would thus acquire, principally, Rock Island's lines from Chicago to Omaha, Kansas City, and Minneapolis-St. Paul; between Minneapolis-St. Paul, Des Moines and Kansas City and between St. Louis and Kansas City. Southern Pacific would acquire the Rock Island lines between Kansas City and Tucumcari, N. Mex., Kansas City and Dallas, Tex.; and between Little Rock, Ark. and Alexandria, La.

In addition, the Commission imposed a number of conditions for the protection of investors, the shipping public, railroad employees, and railroads which would otherwise be adversely affected by the merger. Among the most important were conditions requiring the successful applicants to maintain existing traffic delivery levels to a number of railroads, including North Western, Milwaukee, Fisco, Kansas City Southern and Katy (pending its inclusion in the Santa Fe).

Under the Interstate Commerce Act, the Commission's report must now be the subject of petitions for reconsideration. Last week, the Commission issued a procedural order shortening the time for filing these petitions by requiring that they be on file by April 4, 1975.

Once these petitions and the replies to these petitions are filed, the Commission will issue the final order in the case. The Commission intends to issue this final order well before the fall of this year.

It is conceivable that the merger could be consummated within a year from today but a number of factors—the entry of a stay order by a court pending its review of the Commission's decision, voluntary withholding of the consummation of the merger by the acquiring railroads pending resolution of a court challenge, substantial difficulty or outright refusal on the part of one or more of the acquiring railroads in implementing the essential protective conditions for competitors—could produce a substantial lengthening of the time needed to consummate the merger.

Predictions for the timeframe have ranged up to 5 years from the present time; however, we believe that even under the most adverse conditions, the merger can be accomplished in substantially less time than that.

With this background the question becomes what should be done in the interim to preserve the Rock Island's operations. The Rock Island has indicated that if no further financial assistance is forthcoming, it has operating capital only to sustain it through March 17, 1975, a week from today.

The Commission has prepared for the committee, some data on what the economic impact of a Rock Island shutdown would be. This data is attached to my statement as appendix B.

The Rock Island Railroad operates more than 7,000 miles of rail line in 14 States. Roughly, its operations stretch between Chicago and the Mississippi River on the east, southern Minnesota on the north, the Rocky Mountains on the west, and the Texas Gulf on the south. Rock Island's main lines extend from: (1) Chicago through Des Moines, Iowa to Omaha, Nebr.; (2) Chicago to Kansas City; (3) Kansas City and Omaha to Denver and Colorado Springs, Colo.; (4) St. Louis to Kansas City; (5) Chicago to Minneapolis and St. Paul, Minn.; (6) Chicago and Kansas City to Tucumcari and Santa Rosa, N. Mex.; (7) Memphis, Tenn. through Little Rock, Ark., Oklahoma City, Okla., and Amarillo, Tex., to Tucumcari; (8) Minneapolis-St. Paul through Des Moines, Iowa, Kansas City, Fort Worth, Dallas and Houston, to Galveston, Tex.; and (9) Little Rock to Alexandria, La. This entire area is virtually blanketed by lines of competing railroads. Details of the service territory are set forth in appendix B.

A complete shutdown of the Rock Island's operations would produce a complex series of economic impacts on the shippers, competing carriers and the overall economy of the area served by the Rock Island.

Appendix B analyzes these impacts and relates them generally to the national overall economy. Basically, the analysis shows that while much of the Rock Island's traffic could be absorbed by other carriers, substantial volumes of traffic originated and/or terminated by Rock Island would produce adverse impacts on the region served.

Railroads competitive with the Rock Island have indicated that if the Rock Island shuts down, 80 percent of its traffic could and would be handled by other railroads.

We have no precise estimates at this time, but it is likely that this figure is somewhat high although there is no question that at least after a period of adjustment, a substantial portion of the traffic presently being moved by the Rock Island could be handled by other railroads.

Even if the competing railroads' figures are accurate, this still leaves 20 percent of the Rock Island's present traffic without any substitute rail service and the Rock Island's approximately 10,000 employees without any job protection.

Assuming that consideration must be given to maintaining this service and continuing these jobs, it is important to examine the Rock Island's present financial position in order to determine what future action is appropriate. The Rock Island's cash position appeared to have stabilized in the last quarter of 1974 with \$6.3 million reported on hand as of January 31, 1975 and \$8.5 million of unpaid vouchers (unrecorded checks issued but held by the treasurer). This was a sharp improvement over the Rock Island's midsummer condition. However, due to the economic downturn and the expected large losses during the

first 6 months of 1975, the railroad's cash and working capital will probably deteriorate substantially during this period. Indeed, as noted, this has already occurred during first 2 months of 1975. Cash on hand on March 3, 1975 was \$1.6 million compared to \$11.6 million of unpaid vouchers.

Rock Island has incurred substantial losses in recent years. In 1974, Rock Island lost \$23.2 million which was a considerable deterioration from the \$19.3 million loss reported for 1973. At this time, the Commission projects a loss for the Rock Island of almost \$35 million for the first 6 months of 1975. This would result in a cash drain in excess of \$30 million. A more detailed statement of the Rock Island's forecasted cash needs appears at appendix C to this statement.

As set forth in appendix C, we predict that under present conditions and without any rate increases, the Rock Island's cash shortage for 1975 will be \$65.5 million.

We estimate that every 1 percent of across-the-board rate increases implemented by Rock Island would produce an additional \$280,000 per month in revenue. Moreover, we project that if the Rock Island went into bankruptcy, it would reduce its cash shortage on an annual basis by about \$8 million, due to deferral of interest and taxes.

Finally, it is based on these figures that the Commission has made its assessment that \$15 million in operating capital would allow the Rock Island to function for an additional 90 days.

With this background information, I would like briefly to discuss the alternatives for future action.

First, if nothing were done to alleviate the plight of the Rock Island, it can be assumed that the railroad may very quickly attempt to cease operating with the attendant economic impact I have just described. This would be accomplished by the imposition of a traffic embargo, notice of which must be filed with the Commission.

An embargo differs from an abandonment of operations in that an embargo is a cessation of operations due to circumstances beyond the carrier's control, which is intended to last only as long as the circumstances causing it, whereas an abandonment is a voluntary decision to cease operating permanently.

An abandonment can lawfully occur only with Commission approval under section 1(18) of the Interstate Commerce Act, but an embargo can be instituted without such approval.

If the Rock Island issued notices of embargo, the Commission would look closely to determine whether the Rock Island's action was, in fact, an embargo—that is, an involuntary cessation caused by a total unavailability of operating capital—rather than an unauthorized, and thus unlawful, abandonment.

If an unlawful abandonment were involved, then the Commission, or any other party, is authorized by section 1(20) of the Interstate Commerce Act to seek a court order enjoining the abandonment. Conceivably, this could lead the Rock Island to enter section 77 reorganization.

It is true that the Rock Island, because of its small debt structure, could not achieve savings in reorganization that would lead to a substantial prolongation of service, but there would definitely be some savings.

More importantly, if the Rock Island were to go into reorganization, it would immediately become eligible for financial assistance under the Emergency Rail Services Act of 1970. At present some \$19 million of funds remain uncommitted under that act. This could mean that the railroad's operations could be continued for several more months.

A second alternative would be an infusion of funds by USRA through a loan under section 211 of the Regional Rail Reorganization Act of 1973. As a member of the USRA Board, I voted to approve a \$9.1 million loan to the Rock Island but the majority of the Board did not agree and the loan was not approved. The benefit of such a loan would be that it would allow for continued operation of the Rock Island at least through April of this year. By that time, the Commission will have had the time to formulate more completely a directed service order under section 1(16)(b) of the Interstate Commerce Act. Moreover, it would give the acquiring railroads an opportunity to formulate and submit to the Commission an application for temporary authority if S. 917 is enacted.

Senator HARTKE. Let me stop you at that place, Mr. Chairman.

I want to read from the act itself, under the loan provisions of section 211, in section (e) on prerequisites.

The Association shall make a finding in writing before making any loan to any applicant under this section that (1) the loan is necessary to carry out the final system plan or prevent insolvency, (2) it is satisfied that the business affairs of the applicant will be conducted in a reasonable and prudent manner, and (3)—

And this is the portion to which I want to specifically direct your attention—

the applicant has offered such security as the Association deems necessary to protect reasonably the interests of the United States Policy, under (f):

It is the intent of Congress that loans made under this section shall be made on terms and conditions which furnish reasonable assurance that the corporations of the railroad to which such loans are granted will be able to repay them within the time fixed.

Can you really honestly say that when you voted for this that there would have been an anticipation that they could have reasonably given assurance that they could repay that loan?

Mr. STAFFORD. This was talked of a great deal within the Board meeting that day, and the views went all the way from a bank loan and the securities they have to this.

I recall some of the suggestions I have had from time to time before the Congress. There are times when emergencies are such that you have to consider all factors in making your judgment.

Senator HARTKE. What other factors are you going to look at under the law? The law is very clear.

I can see where you might recommend changing the law, but I can't see how you could recommend violating the law.

Mr. STAFFORD. My general counsel just called my attention that the analysis by the staff pointed out that there was ample security to secure the loan of \$9 million.

Senator HARTKE. There was what?

Mr. STAFFORD. Do you want to read that?

Mr. KAHN. Chairman Hartke, I believe the analysis prepared by

the staff of the U.S. Railway Association, and dated, I believe, January 29, 1975, indicated that there probably would be sufficient in security to protect the interests of the Government if the \$9.1 million loan were granted to the Rock Island.

Senator HARTKE. There is an ability to repay the loan, you are saying, in the analysis by USRA?

Mr. KAHN. We were talking about security, Senator, ability to repay. That is a policy—

Senator HARTKE. Pardon me?

Mr. KAHN. That is a policy requirement, or policy declaration in the statute rather than a prerequisite.

Senator HARTKE. It is the intent of Congress. I don't know how you can make it more clear. It is the intent of Congress that a loan under this section shall be made on terms and conditions which furnish reasonable assurance that the corporations of the railroads to which such loans are granted will be able to repay them. Now, that is pretty clear.

Mr. KAHN. Right.

Senator HARTKE. In terms of another man, that is "crystal clear."

Mr. KAHN. The ultimate rationale, of course, Chairman Hartke, was that the Commission saw that the future of the Rock Island lay in the effectuation of the merger that the Commission worked out, and it was assumed that this liability of the Rock Island would be undertaken by the merging partners as any other liability of the Rock Island.

Senator PEARSON. If that is true, why, when they came in the second time for \$30 million, wasn't that application approved?

Mr. STAFFORD. The argument then goes if you are going for \$30 million that what you are really talking about there is that you have to go for complete rehabilitation of the system.

Now, their figures were showing somewhere in the neighborhood of \$180 million to \$200 million.

More recent reports we are getting run it even as high \$700 million for rehabilitating the system as is.

Senator HARTKE. Yes; but Senator Pearson, I think, presents a legitimate question. Why was the \$30 million not within—if the merger was a possibility, if that is the rationale for approving the \$9.1 million recommendation—

Mr. STAFFORD. For me.

Senator HARTKE [continuing]. When the Rock Island said itself they couldn't repay it—they say they couldn't repay the \$9.1 million without further rehabilitation.

Mr. KAHN. I don't believe they said that at the time, Mr. Chairman.

Senator HARTKE. They didn't say it at the time? That was an afterthought?

Mr. KAHN. I think that is a subsequent view by the Rock Island based on deteriorating economic conditions.

Mr. STAFFORD. In fact, as I recall, at one time the president indicated he didn't want the \$9.1 million. He had to have at least the \$30 million. Since that time he has told the chairman that he would take that if he could get it.

Senator HARTKE. But you voted for it two times? Is that right?

Mr. STAFFORD. I wasn't there. I was appearing before another committee that day, and I didn't get an opportunity to vote for it that day.

Senator HARTKE. Which time? First or second?

Mr. STAFFORD. First time.

Senator HARTKE. But you voted for it the second time?

Mr. STAFFORD. Because of another meeting I had to attend, my general counsel cast my vote for me. The board had no objection to that procedure.

Senator HARTKE. All right. At that time, then, Mr. Kahn, you did on behalf of the chairman of the Commission, vote in favor of the \$9.1 million?

Mr. KAHN. Yes, sir.

Senator HARTKE. How was that \$9.1 million, or \$30 million?

Mr. KAHN. No, sir, that was \$9.1 million. The vote cast by the Chairman was in favor of the \$9.1 million.

Senator HARTKE. What about the vote on the \$30?

Mr. KAHN. As the vote was taken by the Board of Directors it was to provide Rock Island with no money, and the Chairman's vote which I cast, was he favored giving the Rock Island a \$9.1 million loan.

Senator PEARSON. At any rate, it is a judgment based on whatever information you had before you?

Mr. STAFFORD. When you get into a case like this, you have got in my opinion to look at the lesser of the evils.

Senator HARTKE. No, no, wait a minute.

Mr. STAFFORD. I was trying to keep the road running.

Senator HARTKE. You mean to say you are going to tell me that you have the authority to make a decision without congressional authority to keep the railroads going?

Mr. STAFFORD. That was my judgment that you would feel——

Senator HARTKE. That is remarkable. We don't have to——

Mr. STAFFORD [continuing]. That you felt we would need to keep this running.

Senator HARTKE. We can disband these hearings. We don't need these hearings at all if that is the case.

Mr. STAFFORD. Plus we had this study by the USRA staff saying that there was ample security.

Senator HARTKE. All right. Go ahead.

Mr. STAFFORD. Utilization of the Commission's authority under section 1(16) (b) to direct another carrier to take over the operations of the Rock Island would be considerably more expensive than direct financial assistance to the Rock Island.

Section 1(16) (b) requires that the directed carrier be reimbursed for all costs which are not met by revenues under directed service, plus payment for the rental of necessary equipment and facilities plus a reasonable profit for its performance of directed service.

The Commission estimates that the monthly cost of directed service under section 1(16) (b) would be roughly \$8 million, which is substantially more than the approximately \$5 million monthly cost of direct financial assistance to the Rock Island.

Under section 1(16) (b) the Commission may direct a carrier to handle the traffic of a defunct rail carrier for a period of 60 days, which period can be extended by the Commission for an additional 180 days.

The Commission cannot direct a carrier to perform operations under this section if such a direction would substantially impair the ability of the carrier so directed to serve adequately its own patrons or to meet its outstanding common carrier obligations.

The Commission is engaged in intensive planning efforts for a possible utilization of this statutory authority upon a shutdown by the Rock Island. Meetings have been held with the railroads that possibly could be affected by a directed service order. Traffic volume and flow information dealing with the Rock Island have been analyzed.

Our efforts have been coordinated with the Federal Railroad Administration of the Department of Transportation and we have studied a number of options for the form that directed service could take.

These options could include directed service over all or part of the Rock Island's lines by (1) a major railroad involved in the merger such as the Union Pacific; (2) a group of railroads in the region, either those directly involved with the merger or railroads that have a substantial number of connections with the Rock Island; or (3) a relatively neutral railroad that does not operate in the same region.

Thus, the Commission has been preparing for the possible use of its section 1(16)(b) authority and if the Rock Island should shut down, the Commission will be ready to take whatever action is necessary, in the words of the statute, to "best promote the service in the interest of the public and the commerce of the people." But again, this subcommittee should be aware that the cost of directed service would be substantially more than direct financial aid to the Rock Island.

At this point it should be noted that the Commission has already used its section 1(16)(b) authority on a much smaller scale to order the Lehigh Valley and Reading Railroads to operate over certain portions of the Lehigh and New England Railway Co.

That experience bared several shortcomings in the present statutory language of section 1(16)(b). To rectify these shortcomings and reduce the cost to the Government of directed service, we recommend the enactment of three amendments to section 1(16)(b). The amendments and explanatory statements are set forth in full in appendix D. I will summarize them here.

The first proposal provides a means by which the Commission could provide necessary startup funds to a directed carrier, in the event the directed carrier does not itself possess sufficient cash to commence the directed operations. Under the present language, section 1(16)(b) does not provide any funds for directed operations, until 90 days subsequent to the termination of such operations. Money so advanced would be generated by loan arrangements similar to those authorized by the Emergency Rail Services Act of 1970. Such loans would of course be considered in partial satisfaction of any moneys payable to the directed carrier under the present section 1(16)(b) for the provision of services. By granting the Commission this new authority, Congress would enable the Commission to meet a substantial problem which presently exists in the ordering of directed service.

Another concern with section 1(16)(b) is the cost to the Federal Government, which in some situations may be quite substantial. Our second proposal is designed to defray such costs by permitting the

Commission to impose a surcharge on freight traffic originating or terminating on those rail lines operated pursuant to section 1(16)(b) orders. By so doing, the Commission could, in effect, pass on some portion of the additional expense to those rail patrons benefiting from the provision of directed rail services.

Lastly, the Commission seeks an amendment which would make clear the Commission's authority to effect certain economies in operations under directed service. Such economies would be obtained from the coordination of rail facilities and classification activities between the directed carrier and the carrier previously performing the service. As section 1(16)(b) presently reads, it is arguable that the directed carrier may be precluded from effecting such economies because of existing work rules affecting employees. The proposed section clarifies the Commission's authority to require modification and consolidation of operations and facilities, while at the same time adequately protecting the interests of affected employees. We believe that these amendments would make section 1(16)(b) a more viable option in a situation such as the one that confronts us today.

Another potentially valuable option is the one proposed in S. 917. Temporary operation of the Rock Island by one or more of the railroads that may acquire part of the Rock Island under the Commission's decision could well be the solution to the problem of what to do concerning the maintenance of operations until the merger is consummated. The major benefit of this option, aside from continued service, is the fact that it would involve no further expenditure of public funds.

The major problem with this proposal is the fact that it is entirely voluntary; thus, its effectiveness hinges on the willingness of the acquiring railroads to apply for temporary authority.

Assuming such authority is sought and granted, the acquiring carriers could commence temporary operations over all or part of the track, subject to conditions imposed by the Commission. As of this moment it is not known whether the carriers involved in the Rock Island merger are willing to seek this authority if S. 917 is enacted.

It would appear, however, that if the Rock Island were to shut down, a competitive spur would exist for the acquiring railroads to seek temporary authority. If the acquiring carriers do not exercise this option when it becomes available, they face the prospect of other railroads quickly taking over a substantial portion of the present Rock Island traffic.

Senator PEARSON. Let me interrupt you there.

This is a problem with the bill I introduced. It is conceivable that a merger will not occur.

Mr. STAFFORD. Yes, it is conceivable.

Senator PEARSON. For a variety of reasons.

Mr. STAFFORD. That is right.

Senator PEARSON. Where does that leave us if we pass this bill, and the competition spurs the railroads to come in on a temporary basis prior to the merger, and then the final merger doesn't occur?

Mr. STAFFORD. Then we could act under 1(16)(b).

Senator PEARSON. The final order wouldn't come before the fall on the merger.

Mr. STAFFORD. I am rather well convinced that some of those roads that we gave in the merger, some parts of the Rock Island, are very anxious to have that part.

Senator PEARSON. And to pick up what you estimate to be \$8 million in additional cost?

Mr. STAFFORD. A month. Well, that is over the whole system, and we are talking about the possibility, among all the possibilities, of a consortium to protect their own rights as far as any deviations or loss of traffic might be concerned.

Senator PEARSON. Let me ask you this additional question. Do you think you can provide conditions and requirements which will sufficiently protect the other railroads such as the Chicago Northwestern, Milwaukee, and the Katy?

Mr. STAFFORD. Well, in our judgment, yes. I am sure in their judgment, no. And we have been doing this in many cases, many mergers, through the years, imposing protective conditions for a period of time to protect them. They have worked.

Senator PEARSON. But your figure is \$8 million per month.

Mr. STAFFORD. Yes, sir. When you talk about the loss, then under 1(16)(b) we have to pay the roads so much money for the use of it, plus a management fee or a profit. We think it will be somewhat less after the first 2 months.

Senator PEARSON. Does your General Counsel tell you that you can issue that order before supplemental appropriations are made?

Mr. KAHN. Yes, sir.

Mr. STAFFORD. Yes, sir.

Senator PEARSON. You can commit Congress and the country to the payment of that under the existing law?

Mr. KAHN. We believe so, yes, sir.

Senator PEARSON. Thank you very much.

Senator HARTKE. I think the question here that Senator Pearson is addressing himself to would be very useful to the committee if you could really give us the financial conditions of all of these railroads in that area and that especially in relationship to the Chicago Northwestern, Chicago Milwaukee, and the Katy.

Mr. STAFFORD. Well, in the back of our presentation, in appendix D, we start out with the Rock Island and ordinary income 1973 against 1974, ordinary income fourth quarter, freight revenue fourth quarter, cars loaded, received from connections, and total carloads for the Rock Island, Chicago and Northwestern, Milwaukee, Katy, Kansas City Southern, Illinois Central Gulf, and Burlington Northern.

Senator HARTKE. All of those show substantial decline in business. Right?

Senator STAFFORD. Yes. The first 60 days of this year there was a tremendous decline. It wasn't just the Rock Island.

Senator HARTKE. Are any of these other carriers in potentially the same position as the Rock Island?

Mr. STAFFORD. Yes.

Senator HARTKE. As far as cash flow?

Mr. STAFFORD. They have some rather serious problems.

Senator HARTKE. Can you tell us what those are?

Mr. STAFFORD. Well, I think it is probably generally known that the Northwestern has some problems, that the Milwaukee has some problems.

Senator HARTKE. How soon are we going to be faced with them?

Mr. STAFFORD. I guess it depends on the economy. If we don't start coming out of it quickly, they are going to have some problems, financial type problems.

Senator HARTKE. Any time?

Mr. STAFFORD. It is very hard to give a timeframe. You recall that you and I went through this back in the old Penn Central days.

Senator HARTKE. I went through with the idea—With all due respect, Mr. Chairman, I have been defending the ICC on some scores, but on this score I am going to tell you I am not very happy.

If you recall, I asked you about a planning unit some time ago. When were those hearings? A year ago. And I think you told me you didn't need a planning unit, that that was the regular business you have down there.

You are telling me now you can't give us any real good projections because we don't have a planning unit or we don't have anybody doing planning.

How do you expect us to legislate if you don't have anybody doing the planning?

Mr. KAHN. The Rock Island would not be in the position it is today and we would not be here justifying before you, Mr. Chairman, but for the downturn in the economy.

The Rock Island experienced an unprecedented and unanticipated 16-percent drop in its business. There is no way that railroads could have survived for very long with that kind of a downturn.

I think the witness for the Chicago and Northwestern will tell you that its drop in business has been even greater, some 25 percent.

Senator HARTKE. You mean to tell me that I am supposed to sit here and say to you that you are not supposed to have any contingency plans in case the economy turns down? In other words, we are supposed to sit here and say that the economy is going to go at a steady, progressive rate upward?

Lord, you don't have any problems then.

Mr. KAHN. The Commission had apprised you, Senator Hartke, of the precarious condition of the Rock Island and of the Commission's view of its solution in the report on the Rock Island merger served December 3.

Senator HARTKE. I am not asking about the Rock Island. I am asking what about the rest of the railroads. You are telling me they have a serious problem. How soon can we anticipate it? Do you have any contingency plans for that?

Are you going to come up next week with some other railroad? Or how soon are you going to be up here? Next month? Two months? Three months? Four months?

Mr. STAFFORD. Mr. Chairman, we have been carrying on a continuous program regularly, and I would like for Mr. Grady, who supervises it, to testify on that.

Mr. GRADY. Now the only thing I can say in response to that, Senator Hartke, is it is extremely difficult to actually pinpoint a time, but to say we are not doing anything is wrong, because we are doing something, and we are trying to have a handle on the railroad industry.

Example. In our opinion a break-even point in the railroad industry in 1975 is 205 billion ton-miles, in the first quarter of 1975. That is our estimate for a break-even point.

Senator HARTKE. All right.

Mr. GRADY. The estimate in the first quarter is 192 billion ton-miles. So, obviously, the industry as a whole is not going to make any money.

We considered what would a break-even point be if you had a 7-percent increase, and with a 7-percent increase the break-even point there would be 190 billion ton-miles.

We have actually done studies on the 67 class 1 roads, and out of that we estimate that about 30 of them are either marginal or poor.

Senator HARTKE. What does that mean? Marginal or poor?

Mr. GRADY. Well, marginal or poor means that the cash flow that comes out of that railroad is not enough to perform an adequate maintenance, and it is a bare-bones operation.

Senator HARTKE. Out of the 30? Right?

Mr. GRADY. Yes, sir.

Senator HARTKE. Out of that 30, assuming no change in the economic conditions upward—I mean that is a fair assumption—out of that 30, how many are going to be faced with the problem here within the next year?

Mr. GRADY. I would say the 30 would be faced with a problem.

Senator HARTKE. What do you mean by a problem? Are they going to be short of cash? Is their cash flow going to be in such a situation they can't meet the payroll?

Mr. GRADY. No, I don't think that would be the problem.

Senator HARTKE. How many of the 30 will be faced with that?

Mr. GRADY. If you want my guess—

Senator HARTKE. I didn't ask anybody else.

Mr. GRADY. All right, I will give you my guess, Senator. I would say about three or four.

Senator HARTKE. Three or four?

Mr. GRADY. Yes, sir.

Senator HARTKE. Who are they?

Mr. STAFFORD. We have watched those kind of things rather closely—

Senator HARTKE. Oh, my, I really can probably tell you myself.

Mr. STAFFORD. I expect you can.

Senator HARTKE. Why don't you tell me then?

Mr. STAFFORD. Probably the ones we have just named.

Senator HARTKE. Let me come back to you—

Mr. BROOKS. It probably doesn't serve a great public purpose to give a forecast of gloom or doom for any of these who are striving to stay alive through cannibalization.

Senator PEARSON. I agree.

Senator HARTKE. I withdraw that.

Senator Pearson wants me to withdraw it, I will withdraw it.

Let me ask this, Mr. Grady. You say you need 205 billion ton-miles under the present situation. Right? In the first quarter? Is that right?

Mr. GRADY. Yes, sir.

Senator HARTKE. And you have a projection of 192 billion? Is that right?

Mr. GRADY. Yes, sir.

Senator HARTKE. A shortfall of 13 billion?

Mr. GRADY. Yes.

Senator HARTKE. You say with a 7-percent increase, though, 190 billion ton-miles would have made it possible for them to break even? Right?

Mr. GRADY. Yes, according to our estimates.

Senator HARTKE. And you have a projection of 192 billion, but you turned down the 7-percent increase.

Mr. STAFFORD. Mr. Chairman—

Senator HARTKE. All right.

Mr. STAFFORD. On the turndown of the 7-percent increase that you speak of, you cannot grant a general rate increase just because one railroad is in trouble. You have to base it on some facts concerning a general need. And that, of course, is being appealed now, and further consideration is being given.

Senator HARTKE. All right. Go ahead.

Mr. STAFFORD. An important aspect of S. 917 is that it empowers the the Commission to impose conditions on its grant of temporary authority. This is important because it recognizes the fact that if certain railroads were temporarily authorized to conduct service over the Rock Island, they could develop an advantage over competing railroads in the region. The Commission has imposed extensive protective conditions on the permanent merger authority that it has granted in order to avoid undue competitive effects. S. 917 would authorize the Commission to impose similar conditions on a temporary basis. Of course, some conditions, such as required mergers, could not be imposed on a temporary basis, but this provision would give the Commission the opportunity to minimize any undue competitive effects of temporary operations.

Another benefit of S. 917 is that the temporary operations authorized thereunder can be extended to the date of consummation of the merger. The other alternatives discussed—short-term USRA or Emergency Rail Service Act financial assistance, directed service section 1(16) (b)—are not likely to last until the date of the merger. Thus, S. 917 provides an alternative after the other options have expired.

To summarize, if nothing is done to provide financial assistance to the Rock Island, it is likely that in the fairly near future the Rock Island will shut down; however, the shutdown date may well be considerably beyond the March 17 date presently projected by the Rock Island, particularly if the Rock Island goes into reorganization and funds become available under the Emergency Rail Services Act of 1970. Such a shutdown would leave a substantial number of shippers without adequate rail service.

Probably the best short-term alternative would be the approval of the \$9.1 million loan by USRA. This could provide 1 or 2 months breathing space during which a more permanent solution could be worked out.

Another alternative is directed service by the Commission under

section 1(16)(b), but this would be considerably more expensive than direct financial aid to the Rock Island.

Finally, the granting of temporary authority to one or more of the acquiring railroads, thus allowing them to operate the Rock Island until consummation of the merger is potentially a very valuable option, in that it is the least expensive to the Government and could provide a solution up to the actual consummation of the merger.

Turning briefly to a discussion of the general state of the railroad industry, it is obvious that there are at present a substantial number of financially ailing railroads.

This subcommittee is well aware of the problems of the North-eastern railroads in reorganization. In the Midwest, the Rock Island is not the only marginal railroad. Other railroads in that region that are encountering serious financial difficulty are the Chicago, Milwaukee, St. Paul & Pacific Railroad Co. (Milwaukee), the Chicago & Northwestern Transportation Co., Forth Worth & Denver Railway Co., and Missouri-Kansas-Texas Railroad Co. (Katy). All of these railroads have been severely impacted by the present economic downturn.

In light of the substantial number of railroads in financial trouble, it would appear that some thought must be given to broad ranging legislative proposals to improve our nationwide rail system. In enacting the Regional Rail Reorganization Act of 1973, Congress took an unprecedented action in setting up the framework for the entire restructuring of a rail system for a major region of the country. The evolution of this new system should be closely watched for the purpose of developing improved legislative proposals to deal with the rail system in other sections of the country.

In a somewhat parallel action, the Commission, in its approval of the Rock Island merger, has authorized a substantial restructuring of the railroads in the Midwest for the purpose of providing better service to the public, while maintaining a viable system of competitive railroads.

In its report the Commission recognized that additional unifications and restructuring could serve to create more competitive systems and suggested some possible ways in which this restructuring could proceed, thus encouraging the involved carriers to consider future combinations which could better serve the public interest.

In the 93d Congress, the Commission presented a proposal in H.R. 6591 to impose a tax on the users of transportation services, the proceeds of which would be put into a fund for the rehabilitation of the Nation's railroad facilities. While this proposal encountered substantial opposition, we still believe it is important that our Nation's railroads receive support that is available for other modes, as there is a clear need for substantial upgrading of track and facilities.

We will continue to take whatever administrative action we can to insure an adequate and efficient rail transportation system and will also attempt to develop new legislative ideas to improve that system.

Thank you for this opportunity to present the views of the Commission on the Rock Island situation and on the pending legislation. That concludes the presentation of my formal statement. I and those members of the Commission's staff who are with me will attempt to answer any questions you may have.

Thank you, sir.

Senator HARTKE. Senator Pearson.

Senator PEARSON. I don't have any questions.

Senator HARTKE. Senator Stevenson.

Senator STEVENSON. Mr. Chairman, Mr. Eyster estimated that the cost to the Federal Government for 60 days under 1(16)(b) would be \$3 to \$5 million, and another \$12 to \$18 million over the additional 180 days. You say it would be \$8 million.

Mr. STAFFORD. A month.

Senator STEVENSON. Or \$16 for the 60 days.

Mr. STAFFORD. Yes.

Senator STEVENSON. And \$48 for another 180 days.

How do you account of this difference in the estimates between the DOT and the ICC?

Mr. STAFFORD. It appears to me when they were preparing their figures that they looked at the loss that the Rock Island was suffering at this time and which was \$3 to \$4 million a month.

But 1(16)(b) as passed by the Congress not only says that the Congress should reimburse that loss but the directed railroad, the road or roads, that we say must serve over the Rock Island must pay the Rock Island for the use of their lines.

And, third, as passed, it says that the directed railroad or railroads must be paid a profit or operating fee of 6 percent, I believe it is.

Senator PEARSON. What is that reasonable return?

Mr. BROOKS. The Commission is proposed in *Ex parte 293*, Sub 3 that it be 6 percent of the revenue.

In the case of the Rock Island, that would be about \$1.8 million a month.

In addition, the directed railroads would be required to pay for the use of equipment which it probably would have to rent from Rock Island to other railroads, and that could amount to approximately \$800,000 a month.

In addition, a directed railroad might at least in the initial 60 days find it necessary to do some maintenance work beyond that which is now being done by the Rock Island, since they are on a bare-bones program, and the directed carrier would probably, in order to protect itself, want to spend some more on maintenance.

Those figures are what add up to the Commission's monthly estimate for the first 60 days.

Senator STEVENSON. If the Rock Island ceases operations next week or whenever that happens, how quick can you move the 1(16)(b) orders?

Mr. STAFFORD. Immediately. Do you want to speak to that?

Mr. BROOKS. The Commission has actually issued car service orders almost within hours' notice. This is a rather complicated situation, and the Commission couldn't react that quickly, but we have underway a plan by which the Commission should be able to get an order out by next Monday it that is the day of the shutdown.

Senator STEVENSON. And what happens then? Is service immediately commenced by the others?

Mr. STAFFORD. Actually, you would hardly notice any difference in a sense.

Because of the complexities of trying to run that long a railroad, the thing that would probably happen would be that the railroad or railroads that we named and the consortium perhaps would agree on some one man to act as their director in this, and they would still maintain the management.

And of course, by law you must maintain the employees of the road.

Mr. KAHN. Senator, lest you be misled by the responses of Mr. Brooks and Chairman Stafford, if the board of directors next week concluded or at the end of this week concluded that no assistance from the Federal Government was forthcoming and it would have to terminate operations, it very likely would elect to seek reorganization under section 77.

A petition would be filed with the reorganization court. A trustee would be appointed. That would immediately make available to the trustee the alternative of seeking the \$19 million of unexpended emergency funds.

Only after that money has been exhausted and continued operations then are not foreseeable, would the Commission need to exercise the section 1(16) (b).

Mr. STAFFORD. You are assuming they would get that money.

Mr. BROOKS. May I add a point to that? When the board of directors decide to go into reorganization, they would be doing so because they will choose that as a course in their best interest.

If they found that to borrow \$19 million by a device which creates a prior lien over theirs would not be in their best interests, they, of course, would address that point to the court.

So that we cannot rely on that \$19 million as being available for continued operation. That is a risky thing, too.

Senator STEVENSON. But at such point as the Rock Island ceases operation with or without determining to reorganize, can you not issue a 1(16) (b) order? You can issue the 1(16) order?

I can't find it, but I thought somewhere in your statement you indicated, Mr. Chairman, that—

Mr. STAFFORD. I doubt we would want to put into an order unless they had gone into bankruptcy, or at least until we were sure that there was no way for them to continue to operate.

Senator PEARSON. Say that again?

Senator STEVENSON. You would not want to issue such orders until after it had opted for reorganization?

Mr. STAFFORD. If it goes into bankruptcy or simply cannot continue to operate then the Government operates it for 60 days or 240 days.

Senator PEARSON. Will the Senator yield?

Senator STEVENSON. Yes.

Senator PEARSON. You have only used section 1(16) (b) on a single occasion. Isn't that right?

Mr. STAFFORD. Yes.

Senator PEARSON. In that instance, the DOT came forward with some money so that the directed railroad knew it was going to be paid.

Do you not anticipate, if you should issue an order today under the circumstances you described, that there would be litigation as to—

Mr. STAFFORD. Oh, I think there would be litigation.

Senator PEARSON. There would be litigation?

Mr. STAFFORD. Yes.

Senator PEARSON. Injunctive proceedings?

Mr. STAFFORD. Sure.

Senator PEARSON. Then where would we be?

Mr. STAFFORD. You say if we put that order into effect prior to bankruptcy?

Senator PEARSON. Either after bankruptcy or prior to bankruptcy. If you issue an order pursuant to section 1(16)(b) with no more precedents that we have, you would certainly anticipate litigation, wouldn't you? A directed carrier seeking to enjoin the Commission from directing them to carry forward rail service?

Mr. STAFFORD. Yes.

Mr. KAHN. It could be a directed carrier or a competing carrier.

Mr. STAFFORD. You are probably right, Senator, because at the time we were getting ready trying to figure out how to handle this section 1(16)(b) in another case, I had invited in the railroads thereabouts who could serve that railroad under a direction of ours, under one of our orders under section 1(16)(b), and the president of one very healthy railroad said to me: "Mr. Chairman, I want to be sure that this is perfectly clear, that if you direct me to do it, we are going through every court in the land."

So you are probably right.

Senator PEARSON. Is he still around?

Mr. STAFFORD. He is still president of his railroad, yes.

Senator STEVENSON. Mr. Chairman, on what grounds would the directed railroads contest the validity of the section 1(16)(b) orders? Is that a constitutional complaint? Is it the result of some infirmity in the statute?

Mr. STAFFORD. I think basically on the lack of front-end money probably. They don't want to use any of their money, but in one case they have assigned this over to a bank, the right that they will have 90 days after the end of the operation. So the bank in one instance was preparing to grant the loan to keep it going as front-end money.

Senator STEVENSON. Do you need additional authority from the Congress with which to issue section 1(16)(b) upon cessation of operations?

Mr. STAFFORD. This is one of the proposed bills we mention in our statement that we are asking you to consider.

Senator STEVENSON. One of the bills is intended, as I understand it, to authorize the advancement of funds sooner than is now possible. Now, as I understand it, you have to wait 90 days?

Mr. STAFFORD. Yes.

Senator STEVENSON. After—

Mr. STAFFORD. After the end. We talked over the possibility of submitting cost figures on a monthly basis, but I am afraid the act may prohibit that. But this is something we have been discussing.

Senator STEVENSON. What I am trying to get at is whether you need emergency legislation from the Congress right now that would authorize you to issue these emergency orders, these orders under section 1(16)(b), as soon as the Rock Island ceases operation.

You need to get rid of the 90-day authority. Do you need more than that? The 90-day delay you need to get rid of.

Mr. BROOKS. What we have now is the directed carrier must pay within 90 days after the end of the directed service period, so that if its directed service period is 8 months in length, if the carrier doesn't get paid until that is finished, then the 90 days begins.

Senator STEVENSON. Is that the principal complaint of the directed railroad?

Mr. BROOKS. It is one of the complaints. The statute as now written prohibits the Commission from directing a carrier to take over another if that would impair its ability to serve its own people adequately or its own area under common carrier obligation.

So if the directed carrier has a limited amount of working capital in cash and it is required to plow it into directed service operation, it probably would be impairing its own operation.

That is the legal grounds on which they can contest the order.

So the lack of front-end money is a very serious deficiency in this statute.

Senator STEVENSON. Let's assume Congress provides you the front-end authority. Is there additional authority the ICC requires in order to issue immediately upon cessation of operations by the Rock Island orders which would be carried out by the railroads and enforced by the courts?

Mr. BROOKS. The provision of front-end money eliminates the major problem.

However, if you look at this situation, particularly the Rock Island, the competitive railroads might be able to contend, as the General Counsel pointed out, that any directed service order would work against their interest and to their injury and could use that legal basis for obtaining a stay of the Commission's order.

Senator STEVENSON. It seems to me they would have to maintain the service until the court can decide it. And if the law is valid, the court will make such a decision.

That's what I'm getting at. Is there anything we need to do to strengthen the law so it can't be successfully resisted by the directed railroads?

Mr. STAFFORD. This is one reason that I, at least, and some of the staff were leaning toward a consortium rather than directing just one carrier to do it. They look after their interests and loss of any traffic imbalance during that period. But there will be—

Senator STEVENSON. With proper authority you could direct whatever railroads you want.

Mr. STAFFORD. Certainly. Somebody suggested the Alaska Railroad. Of course, that puts the Government running it.

Senator STEVENSON. Would you also like authority that would enable you to pay these railroads for their actual out-of-pocket expenses that might enable you to reimburse them on a financial basis more in line with the DOT's cost estimates and with your own?

Mr. BROOKS. I don't understand the question. Are you indicating that the amounts to be advanced would be geared to DOT?

Senator STEVENSON. Not the fee and the profit that was alluded to by the chairman. This perhaps explains the disparity in the cost estimates between ICC and DOT.

Mr. BROOKS. It probably would be very beneficial if there were funding available, omnibus-type funding, from which the Commis-

sion could draw to meet the cash demands as they occur from time to time, perhaps monthly.

Senator STEVENSON. That's what I'm getting at, whether this front-end money authority should be geared to the actual operating expenses or deficits of these directed railroads, instead of adding in the management fee or profit.

Mr. BROOKS. It probably would be safer to gear these takedown to the actual cash outlays. But the figure for the overall standing appropriations would be very difficult, mostly because the data available doesn't permit anyone under the Sun to accurately estimate what the cost would be of operating a skeletal, dressed down, rationalized Rock Island system.

The Commission's objective, if it has to undergo this procedure between now and the end of the first 60 days, to study the Rock Island very much in detail and determine exactly what service cannot be performed by other railroads and then to think in terms of only preserving that service for the 180-day extension period—the cost of that simply can't be estimated on the basis of our present information.

Senator STEVENSON. Let me make sure we have one point clear. At whatever moment the Rock Island ceases operation, the ICC is prepared to issue the 1(16) order, in order to maintain essential services?

Mr. STAFFORD. That is right.

Senator STEVENSON. Now, Mr. Chairman, you as I recall supported the emergency railroad reorganization legislation for the Northeast. If that was a proper solution for the Northeast, why isn't it for this region?

Mr. STAFFORD. As a standby authority, it might be a proper thing—for one railroad, it would be unnecessary but if suddenly a number of these roads started going into bankruptcy or just closing down, that is one way to try to solve the problem.

Senator STEVENSON. Why wait? Why not expand the authority of the U.S. Railway Association right now to permit planning for this region and perhaps eventually for the folding-in of at least part of the Rock Island system into the system operating by Conrail?

Mr. STAFFORD. I think basically the answer to that is we pretty well have the merger directions worked out on this thing, even though I well recognize that some of the roads are opposed to any action on this on the theory that we already have plenty of service in these various corridors, anywhere from two to seven competing lines on most of their major lines now, outside of their connection lines.

And having been on the board over there, I know that USRA is working at full capacity. Their staff people are working at capacity now and will be until we get the final plan out.

We will be beyond the time that they could take on any added responsibility would be my guess. It is true however, that they can act expeditiously without regard to the structure of the Administrative Procedure Act.

Mr. BROOKS. I think one of the major differences between the situation here and that in the Northeast region is that about 50 percent of the rail capacity was in bankruptcy. Seven or eight of the major railroads there were in reorganization, each operating under a different reorganization judge, with one exception.

A major problem there which the legislation overcame was to estab-

lish a supercourt, a special court, which could bring together the common problems of each of the bankrupts.

That was one of the major factors of the Northeast rail legislation. You don't have that factor in this section of the country.

Senator STEVENSON. At the moment.

Mr. BROOKS. What you have got is a problem of railroads trying to stay alive.

Perhaps a better way of approaching it would be a rationalization process through negotiation among those railroads, possibly with the Commission using its good offices for that purpose.

Senator STEVENSON. Is that what you anticipate under S. 917?

Mr. STAFFORD. Yes. Under S. 917, once we got by, say, the 60-day proviso here and had been able to rationalize some of it, then I think it would begin to take shape where if some of those grantees under our merger proposal were to file we probably would grant them some temporary authority.

But that would depend entirely on the Commission. I just can't see how USRA could get cranked up into this in time to make any effort in regard to the Rock Island alone.

Senator STEVENSON. If the ICC got cranked up under S. 917, what would the result do? Would it be the Union Pacific taking over most of the Rock Island.

Mr. STAFFORD. Well, under our merger we gave the Union Pacific everything north of Kansas City with the exception of Denver Rio Grande into Omaha from Denver and then the southern portion we gave to the Southern Pacific with the exception of the run from Tucumcari into Memphis, which we gave to the Santa Fe.

Senator STEVENSON. Is that the way it would be divided up under S. 917?

Mr. STAFFORD. Not necessarily. That was our original grant, but they still have the right to file a petition.

Senator STEVENSON. I understand. But under S. 917—

Mr. STAFFORD. We also gave the Santa Fe in this the Katy Railroad—

Senator STEVENSON. I'm trying to figure out what the results of S. 917 would be. On the face of it, it looks to be just a means of expediting the Union Pacific merger.

Mr. STAFFORD. I would hope it would expedite the merger. I think that would probably be the probable result of using S. 917. I think it would expedite the merger.

Senator STEVENSON. Bring about that result?

Mr. STAFFORD. Yes, sir.

Senator STEVENSON. You are not concerned that would result in adversely affecting North Western, Milwaukee, Katy, and other railroad and starting this process all over again?

Mr. STAFFORD. We have, of course, the right under S. 917, as we do in our merger proposal, to write in protective features to protect these roads. But as I said a second ago, I think we are protecting them. I'm sure they don't.

Senator STEVENSON. 1(16) orders indicated the ICC would be prepared to issue when and if the Rock Island ceases operations. It would direct maintenance of passenger service—

Mr. STAFFORD. Yes; we would, but I think we would want to have a caveat in there of some type that we were not placing on the Federal Government now the cost of the commuter services that have been maintained by the local transportation authorities. This is my judgment.

Senator STEVENSON. Can you do that? Do you have the authority to?

Mr. STAFFORD. Put limitations in?

Senator STEVENSON. To direct the maintenance of the commuter services without Federal compensation. How would that work?

Mr. STAFFORD. We can put in any number of orders or directives in any of our orders of this type. But it would not be our intention to by this action turn over the costs of commuter services to the Government, which are now maintained by local transportation authorities.

Senator STEVENSON. Would you issue 1(16)(b) orders for the maintenance of commuter services? And if so, who would pick up the Federal Government's share?

Mr. BROOKS. What could be contemplated is a conditioned order would be issued requiring performance of service provided that the funding would be in a certain way, funding as much by the State under the present system as now exists, and whatever additional costs then would be taken up by the funding under 1(16)(b).

The Commission's idea in 1(16)(b) is that orders should be such as to minimize the cost of the Federal Government through the 1(16)(b) jurisdiction.

Senator STEVENSON. Cost to the ICC?

Mr. BROOKS. The cost to the Government in general. The Commission is constantly faced with the problem of how far Congress intended it to go with the car service order type of jurisdiction in restructuring or preserving the Nation's rail system.

Senator STEVENSON. Where would Amtrak fit in to the passenger service, if at all?

Mr. BROOKS. I think if you are dealing with the Rock Island you don't have an Amtrak problem. The Rock Island's passenger service is primarily, if not all, commuter service.

Senator STEVENSON. The State of Illinois has petitioned Amtrak to take over Rock Island's share of the operating deficit. As you know, the State of Illinois maintains two-thirds of the intercity and Rock Island paying the other third, and Rock Island may not be able to continue to absorb that deficit. As I understand, the State is seeking to get Amtrak to take it over.

Mr. BROOKS. As pointed out by the DOT testimony, if the petition is made to Amtrak to put trains on that will be funded two-thirds by the State, Amtrak probably will be required by law to put those trains on.

Senator STEVENSON. Can you issue 1(16)(b) orders to Amtrak?

Mr. BROOKS. Amtrak is a railroad. There are no obstacles to issuing orders.

Senator STEVENSON. You have that authority if necessary?

Mr. STAFFORD. Yes, under 1(16)(b).

Mr. BROOKS. I think the Amtrak legislation itself imposed certain obligations on Amtrak in this kind of situation.

Senator STEVENSON. I'm sorry?

Mr. BROOKS. The Amtrak legislation itself imposes an obligation on Amtrak to provide the service if requested under certain circumstances.

Senator STEVENSON. I think you're right, but I'm not sure Amtrak agrees.

Thank you, Mr. Chairman. I have no further questions.

Mr. STAFFORD. On the question a while ago about the rate increase, if that came in, wouldn't that affect the carrier; Mr. Grady points out they would have needed a 24-percent rate increase.

Mr. GRADY. To break even.

Senator HARTKE. For Rock Island?

Mr. STAFFORD. Yes.

Senator HARTKE. Twenty-four percent increase for Rock Island?

Mr. GRADY. Yes. That would be from April 1.

Senator HARTKE. OK.

Let me point out there is no such thing as bankruptcy for a railroad. Is that correct, Mr. Kahn?

Mr. KAHN. It is termed reorganization under section 77.

Senator HARTKE. Of the bankruptcy law?

Mr. KAHN. Yes.

Senator HARTKE. It is called the Bankruptcy Act. I think that is terminology which we should clearly keep in mind. Now, if you go into reorganization under section 77, how long then can you keep the railroad going?

Mr. KAHN. The actual savings to the then estate of the Rock Island resulting from the reorganization proceeding are estimated by the Commission to be no more than \$8 million a year, which would be very little in terms of meeting the cash shortage by the Rock Island.

Senator HARTKE. But the reorganization would carry them what? Another 2 weeks?

Mr. KAHN. No longer.

Senator HARTKE. Roughly 2 weeks? All right; then, how long could the Commission keep them going? Indefinitely?

Mr. KAHN. At that point, Senator Hartke, the trustees for the bankrupt would have the opportunity to sell trustee certificates secured by the \$19 million of uncommitted funds.

Senator HARTKE. They could. What if they didn't?

Mr. KAHN. They could. If they did not, they would face a shortage and would have to petition the court for a shutdown.

Senator HARTKE. They would have to petition the court for a shutdown?

Mr. KAHN. Yes.

Senator HARTKE. Could you keep it moving?

Mr. KAHN. In that situation the efforts by the ICC to enforce the obligation of the railroad to continue operating would probably not be very effective. We could not mandate operations that the court would have ordered shut down.

Senator HARTKE. Under what authority?

Mr. KAHN. Presumably the court would have exercised a constitutional—

Senator HARTKE. Authority under what provision of the Constitution?

Mr. KAHN. Article V—that property cannot be taken without due process.

Senator HARTKE. Yes; without due process I grant you. You could order them to proceed and then ultimately as far as they are concerned they can make a claim and that's all.

Mr. KAHN. I don't think, Senator Hartke, that I would agree with you that a court-imposed requirement that the railroad continue operating—

Senator HARTKE. Not court-imposed: ICC-imposed requirement.

Mr. KAHN. The court then would determine—the reorganization court at that point would determine—whether the Commission had the power to enforce a taking. So it ultimately gets back to the reorganization court. I don't think the order of the reorganization court would automatically provide a Tucker Act remedy.

Senator HARTKE. You don't think they would? That's not the question I am really asking. What I am trying to really get back to is the basic authority of the ICC to continue operation of that service. Couldn't ICC go ahead and order them to continue the service after they are already in bankruptcy court?

Mr. KAHN. Yes.

Senator HARTKE. For how long?

Mr. KAHN. It could enter such an order without termination date under section 1(4).

Senator HARTKE. Two things. Under the taking procedure, in other words, they could make a claim. Is that right?

Mr. KAHN. At that point the trustee of the bankrupt would seek review of the Commission's order, undoubtedly, by the reorganization court. The court could invalidate the Commission's order subject to further appeal.

Senator HARTKE. Let's take it one step back. Now they are back into court in reorganization. How long can you operate even under the existing authority with the money you have available?

Mr. KAHN. The \$19 million—

Senator HARTKE. Would last how long really?

Mr. KAHN. Under our projections it would last approximately 4 months.

Senator HARTKE. In other words, as far as we are concerned at this time—if we do nothing in the Congress is what I am coming back to—if we do nothing, if they file a petition for reorganization, they go into court, they have enough cash to last them for two weeks. In the interim the ICC can come in and under the authority of the existing law order them to continue service, and you have got 4 months. Am I right in that?

Mr. KAHN. Yes, sir.

Mr. BROOKS. Senator, as was pointed out by DOT again, in the case of Central of New Jersey they had authorization to draw down \$6 million under the 1970 act. But the court stopped them at \$2 million and refused to allow them to draw down any more. So they have \$4 million that the court would not allow them to draw down because he felt they had reached the point of an unconstitutional erosion.

Senator HARTKE. Let's assume you take the provision of Senator Pearson's act. You are going to be in court that way too, aren't you?

Mr. STAFFORD. Probably.

Senator HARTKE. You are going to be in court under the provisions of Senator Pearson's act. You are going to be in court if you follow what I tentatively suggested there. And the fact of it is that the trustees probably would not want to go ahead and take down the additional amount because it would be a prior lien. But under either circumstance you are going to be in court. Isn't that right?

Mr. STAFFORD. I think that's right.

Senator HARTKE. Even though what you have under Senator Pearson's proposal is a legislative merger. Isn't that correct? Is that a fair statement?

Mr. STAFFORD. It could be, although not necessarily.

Mr. KAHN. Senator Hartke, the provisions of the bill before you in S. 917 were patterned after comparable provisions of part 2 of the Interstate Commerce Act, section 210 (a) (b).

Under that section, the grant of temporary authority by the ICC has been held to be nonreviewable by the courts as an exercise of discretion committed exclusively to the Commission.

I would hope that if this legislation were approved by the Congress the courts would similarly view those provisions and deem the grant of temporary authority to be committed to the nonreviewable discretion of the ICC.

Mr. BROOKS. There is an additional problem there in that the applicant probably would be seeking authority to operate only a portion of the system, and while the Commission would have conditioning powers and might authorize the part of the system requested provided some other parts were taken, it is not exactly clear that this temporary authority device is something that can be relied on to keep the entire Rock Island going.

Senator HARTKE. I have some more questions but I think we ought to proceed. We are under a time problem here. I have a hearing at 2 o'clock, another hearing. We are going right on through. I am going to ask Mr. Ingram to testify right now.

I want to say just for the information of you people who are hungry we do not intend to break for lunch at all. When I leave at 2 o'clock, Senator Stevenson is going to proceed with the hearing.

[The appendixes follow:]

APPENDIX A

CHRONOLOGICAL DESCRIPTION OF THE ROCK ISLAND MERGER PROCEEDINGS

The Rock Island merger proceeding was complicated by the fact that two competing sets of railroad partners, the North Western and Santa Fe on one side, and the Union Pacific and the Southern Pacific, on the other, originally sought to acquire and divide the Rock Island, and both groups' applications and supporting evidence had to be considered by the Commission. The proceeding was initiated on July 5, 1963, when the Chicago and North Western Railway filed its application for authority to acquire control of the Rock Island. Subsequently, by application filed November 22, 1963, as amended December 10, 1963, and October 7, 1965, the North Western filed an application to issue its certificates of deposit in exchange for shares of Rock Island common stock. The application for authority to issue the certificates of deposit was authorized by the Commission by a report decided on March 8, 1965, and a supplemental report decided on December 20, 1965.

The Union Pacific entered the proceedings on September 10, 1964, when it filed three applications for authority to merge with Rock Island, or alternatively to acquire control of the Rock Island. It too sought Commission authority to issue its own certificates of deposit in exchange for Rock Island common stock and the Commission authorized Union Pacific to issue its certificates by an order served on March 8, 1965.

Southern Pacific entered the proceedings on April 15, 1965, when it filed an application to acquire the southern portion of Rock Island from the Union Pacific, and Santa Fe entered the proceedings on December 13, 1965, when it filed an application to acquire the southern half of the Rock Island in partnership with

the North Western. Thus, not until early 1966 were the parties in a position to go to hearing.

Hearings on the proceeding were opened on May 4, 1966, before Administrative Law Judge Paul C. Albus. Subsequently, Mr. Albus was injured, and after a delay of a few weeks, another Administrative Law Judge, Mr. Nathan Klitenic, was added, and he continued the hearings in the proceedings. A total of 17 railroads intervened, and 56 other parties participated in the hearings, which were conducted in seven cities. Some 279 days of actual hearings were held at seven different locations, producing a record encompassing over 100,000 pages of testimony and exhibits. The hearings were closed on August 22, 1968, and initial briefs were submitted within five months, by January 27, 1969. Thereafter, on September 24, 1969, the North Western petitioned for additional hearings on certain peripheral issues, held on November 18 and 19, 1969, and April 15 and 16, 1970, after which further briefs were filed by the North Western and some of the other parties.

In the meantime, the Commission on March 31, 1970, having denied its application to merge with the North Western, the Milwaukee on April 6, 1970, petitioned for inclusion in either the Union Pacific system or Southern Pacific system, as a condition to approval of the Union Pacific-Rock Island merger and Southern Pacific purchase application. Most of the other applicants resisted, but on May 15, 1970, the Commission ordered the proceedings reopened for consideration of Milwaukee's request.

Mr. Albus, the senior hearing officer, retired on May 1, 1970, and most of the recommended report and order was drafted by Mr. Klitenic. The recommended report and order which encompassed some 1,400 pages, was served in three volumes, with Volume I served on September 1, 1971, Volume II on March 21, 1972, and Volume III on February 16, 1973. Completion of the report and recommended order was delayed when Administrative Law Judge Klitenic suffered a heart attack. Reassignment of the case was considered by the Commission but rejected at the urging of several of the parties because of Mr. Klitenic's unique familiarity with its large and complex record. In his report Mr. Klitenic recommended that the Rock Island case be used as a vehicle to restructure most of the railroad system in the Western half of the nation into four huge systems; Union Pacific, Southern Pacific, Santa Fe, and Burlington Northern.

Following service of the final volume of the recommended report and order, and at the request of Southern Pacific and several of the parties to the case and in view of the case's complexity, the deadline for filing exceptions to the report and recommended order was extended from March 15 to August 17, 1973, and the deadline for answers to the exceptions from April 5 to October 19, 1973. At the request of the parties, oral arguments were heard by the Commission on November 26 and 27, 1973. Before reaching its decision the Commission also had to consider a petition to dismiss the proceedings filed by most of the major railroads participating in the case, including Santa Fe, North Western and Southern Pacific on March 8, 1973. That petition was denied by the order of the Commission served May 7, 1973.

The Commission's report, which departed significantly from the Administrative Law Judge's recommendations and approved merger of the Rock Island with the Union Pacific subject to a number of conditions, was decided on October 29, 1974, and served December 3, 1974. Various parties to the case, including Union Pacific have asked for an extension of the time in which to file petitions for reconsideration of the Commission's decision. The parties have been given until April 3, 1975, rather than May 2, 1975, as originally ordered, to file such pleadings and the effective date of the Commission's report and order has been postponed in the meantime. Following the receipt of replies to the petitions, the Commission will be able to conclude the case, most likely well before the Fall of the year.

APPENDIX B

ECONOMIC IMPACT OF CESSATION OF ROCK ISLAND OPERATIONS

Overall Conclusions

The complete cessation of Rock Island operations would by no means have as great an impact on the Nation's economy, the region served, or on other railroads as would, for example, a shutdown of the Penn Central. *All* of Rock Island's major freight traffic routes are paralleled by from two to as many as *seven* other

individual railroads or single-system railroads (i.e., two or more affiliated carriers providing coordinated service). In addition, combinations of joint-line routes are available which paralleled Rock Island's major routes.

Rock Island handles approximately one million carloads annually of which roughly 75 percent is interline traffic of all types involving participation in the movements of one or more other railroads. Approximately 25 percent of Rock Island's traffic is "bridge" traffic, i.e., it is received from one railroad, carried over Rock Island lines, and delivered to another connecting carrier for movement beyond. Virtually all of the bridge traffic could be handled by other railroads.

The situation is not so clear-cut with respect to interline traffic originated or terminated on Rock Island lines or with respect to traffic both originated and terminated on Rock Island's lines, i.e., "local" traffic. At this juncture, data made available last week (the week of March 3, 1975) indicate that in the first 11 months of 1973 approximately 38 percent of total originated carloads were carloads originated at 24 major Rock Island points served in common with other railroads, and similarly, some 57 percent of total terminated carloads were terminated at such points. It is possible, if not probable, that some of this traffic is originated or terminated on tracks operated exclusively by Rock Island even though other railroads serve the community. In these instances, some means might be devised whereby the other carriers could use Rock Island tracks in order to serve the affected shippers and receivers. A detailed investigation of physical conditions in these situations would be necessary to implement the arrangements.

Although Rock Island's main routes between major points are paralleled by other railroads and therefore traffic between these points could be shifted to the other carriers, there are intermediate points on the Rock Island lines that are served only by Rock Island. This is true also of branch lines, particularly in the grain producing areas of Rock Island's territory. Elimination of service to these points might be alleviated to some extent by substitution of truck service. Here again, detailed information would be required for an accurate assessment of the impact on the communities served by Rock Island.

In light of the foregoing, with approximately half of Rock Island's traffic being interline originated and interline terminated, and another 25 percent moving locally, it is doubtful that a full 80 percent of Rock Island's total traffic could be shifted to other railroads even when the bridge traffic (25 percent of the total) is included.

Ultimately, in consideration of all the factors discussed herein, it is concluded that the long-term impact of cessation of Rock Island operations would not be severe because the traffic handled by the carrier largely can be absorbed by other railroads. In the short-run period immediately following a shutdown, however, there would be specific situations where shippers and receivers would be deprived of rail service. These short-run impacts could be alleviated fairly rapidly in most instances through arranging service over Rock Island tracks by other railroads where necessary. Motor carrier substitution would also relieve the situation during this initial period for the short-haul (less than 1,000 miles) movements of most commodities. Measures also would have to be taken to alleviate the loss of jobs and income for approximately 11,000 employees.

The sections which follow deal more specifically with the various aspects of the economic impact of a Rock Island shutdown, namely, labor, affected commodities, the regional and national economy, the affected traffic flows, the competing and the connecting railroads, and the possibility of absorption of Rock Island traffic by other modes of transportation.

ROCK ISLAND MAJOR FREIGHT TRAFFIC ROUTES AND ROUTES OF COMPETING CARRIERS TRAFFIC DENSITY

The attached schematic map shows the major Rock Island freight routes and the approximate traffic density on each segment of the routes, expressed in thousands of net tons (freight carried) per average day in 1973. The map is largely self-explanatory, but a few comments are necessary. Obviously, the map is a highly simplified representation of the Rock Island system. Many lines are deleted on the basis that less than 1,000 tons of freight were carried over them on an average day. The lines on the map also state ranges of traffic density (e.g., "4 to 7") where such density changes somewhat between major traffic points or line junctions.

The main route of the Rock Island going west from Chicago splits twice, once at Davenport, Iowa, and again at West Liberty, Iowa. At Davenport, the line to Kansas City diverges, and at West Liberty, the Twin Cities line begins. Thus, Rock Island's traffic density is greatest on the line between Davenport and Chicago, over which *all* traffic between Chicago and the balance of the system is funneled. Going west from West Liberty through Des Moines to Omaha-Council Bluffs, Rock Island's density reflects the heavy flow of Union Pacific traffic coming from the Omaha-Council Bluffs interchange, and in addition, Rock Island's traffic moving between Chicago and Denver.

With respect to east-west traffic moving via Rock Island's St. Louis gateway, the map shows clearly that the line from St. Louis to Kansas City is relatively light in density compared to either the Chicago line or the line between Amarillo and Memphis, which also handle east-west traffic.

Rock Island is the only railroad with its own route between the Twin Cities and the Gulf. The traffic density of this route increases south of Allerton, Iowa, where it connects with the Chicago-Davenport-Kansas City line described above. The stretch between Kansas City and McFarland, Kansas, handles the traffic moving to and from the Twin Cities, Chicago and St. Louis on the east. Some of this traffic moves west of McFarland to and from Denver via Belleville, Kansas.

Between McFarland and Herington, Kansas, to the southwest, Rock Island's traffic includes that moving to and from Texas points and also Tucumcari, New Mexico. The latter line carries Southern Pacific-Rock Island traffic, much of it from the Imperial Valley and Southern Arizona points.

The Herington-Ft. Worth-Dallas-Houston-Galveston line completes the route from the Twin Cities. It is this segment of the Rock Island which siphons export grain traffic from the carrier's lines in the upper midwestern states to the Texas Gulf ports. In fact, the southbound traffic densities shown on the map for this line reflect the 1973 "Russian wheat deal" export movement. An earlier Rock Island traffic density map (for 1964) was checked and found to show only about half as much southbound traffic moving over this line.

Competing Routes

The foregoing description of Rock Island's major freight traffic routes must now be put in the context of their competitive relationships. The following list shows Rock Island major city pairs served by other individual railroads or single-system (affiliated) railroads:

<i>Rock Island Major City Pairs</i>	<i>Other Railroad(s) Serving Cities</i>
Chicago-Omaha -----	BN, C&NW, ICG, MILW, N&W, MP-C&EI (circuitously via St. Louis and Kansas City).
Chicago-Colorado Gateways (Denver, Colorado Springs, Pueblo).	BN, AT&SF, MP-C&EI.
Chicago-Kansas City-----	BN, C&NW, MILW, N&W, AT&SF, MP-C&EI, ICG.
Chicago-Twin Cities-----	BN, C&NW, MILW, SOO.
St. Louis-Kansas City-----	BN, MP, MKT, SL-SF, N&W, ICG.
Twin Cities-Kansas City-----	BN, C&NW, MILW.
Omaha-Colorado Gateways-----	BN, UP, MP (circuitously via Kansas City).
Kansas City-Colorado Gateways-----	BN, UP, AT&SF, MP.
Kansas City-Ft. Worth and/or Dallas---	AT&SF, MP-T&P, SL-SF, MKT, KCS-L&A.
Kansas City-Houston-----	AT&SF, MP-T&P, MKT.
Ft. Worth & Dallas-Houston & Galveston.	FW&D, AT&SF, SP, MKT, MP.
Ft. Worth and/or Dallas-St. Louis-----	SP-SLSW, MP-T&P, SL-SF, MKT.
Ft. Worth and/or Dallas-Memphis-----	SP-SLSW, MP-T&P, SL-SF (circuitously).
Houston-St. Louis-----	SP-SLSW, MP-T&P, MKT.
Houston-Memphis (RI is circuitous)----	SP-SLSW, MP-T&P.
Chicago-Houston & Galveston-----	AT&SF, MP-T&P-C&EI.

The foregoing list is not exhaustive of the routes available as alternatives to Rock Island. Many joint-line routes are available. For long-haul traffic, for ex-

ample, Southern Pacific may participate jointly with T&P-MP via El Paso, or with its subsidiary St. Louis Southwestern (Cotton Belt), or participate solely in movements between Southern California and Arizona in the West and, variously, the Mississippi River gateways of St. Louis, Memphis, and New Orleans. Further, both Santa Fe and Union Pacific and their connections maintain routes between Southern California and points on or east of the Mississippi River.

On the basis of the information set forth above, it is clear that much of the traffic handled as bridge movements from and to connecting carriers by Rock Island could move via alternate routes. Similarly, where Rock Island serves pairs of major points in common with other carriers, much of the traffic could be moved between the points by the other carriers. This traffic would be comprised of both shipments moving locally on Rock Island as well as interline shipments originating or terminating on Rock Island. Even at common points, however, the situation may exist where Rock Island physically serves a shipper exclusively but through reciprocal switching the shipper is served by other line-haul carriers with the intermediate switching done by Rock Island. In the event of a shutdown of Rock Island, then, arrangements would have to be made to allow other carriers to physically serve the plant if possible.

Commodities Handled by Rock Island

The accompanying tables showing Rock Island's commodity statistics reveal the carrier's dependence on agricultural commodities for tonnage and revenue. In each of the years shown, "Farm Products" have accounted for between 19 and 26 percent of Rock Island's total tonnage and between 19 and 24 percent of its total freight revenues. "Farm Products" include, of course, the grain traffic. Further, "Food & Products" have contributed from approximately 13 to 16 percent of the total tonnage and 14 to 16 percent of the total freight revenue. Non-metallic minerals, while representing about 10 to 15 percent of the tonnage, have contributed only 3 to 5 percent of the total freight revenue.

The remainder of Rock Island's commodity mix, other than chemicals (roughly 10 percent of both tonnage and revenues in recent years) is widely diversified. A shutdown of the carrier clearly will have its primary impact on the agricultural sector. It is understood that the winter wheat movement will not begin for about two months, and the absence of Rock Island operations for this movement would cause problems.

At this time, the Commission has detailed commodity data available from Rock Island, but it is in computer printout form, carload-by-carload. We shall be examining these data, a time-consuming task, in order more precisely to determine the flow of commodities to, from, and over the Rock Island system.

Labor Impact

The following table shows Rock Island's work force by employee category and the compensation of each category for the year 1974.

	1974	
	Number of employees middle of month count	Total compensation
I Executives, officials and staff assistant.....	387	\$8, 039, 355
II Professional, clerical, and general.....	2, 302	28, 212, 372
III Maintenance of way.....	1, 812	22, 338, 414
IV Maintenance of equipment.....	2, 182	26, 849, 340
V Transportation (other than train, engine, and yard).....	677	9, 358, 617
IV Transportation (yardmaster; switch tenders and hostlers).....	146	2, 304, 172
Total all groups (except train and engine).....	7, 506	97, 162, 270
VI Transportation (train and engine).....	3, 764	60, 801, 425
Total all groups.....	11, 270	157, 963, 695

The foregoing data may not be precisely representative of Rock Island's work force at the present time. It is our understanding that the number of employees has been reduced to slightly over 10,000. The data here, however, are sufficient as a basis for the economic impact of the loss of jobs and wages. Obviously the impact on the employees will be severe, and immediate relief for them is necessary.

In terms of the impact on the economy of Rock Island's territory, we have estimated that the nearly \$158 million in wages, after a deduction of 25 percent for Federal taxes and personal savings (leaving \$118.5 million), would be "turned over" in the economy about four times in one year. In short, the dollar loss to the economy as a result of lost wages would total roughly \$474 million.

Shippers

No single shipper nor even a small number of shippers dominates Rock Island's traffic in terms of volume. The top 60 shippers (by volume) accounted for approximately 35 percent of total Rock Island carloads in 1974. Stated more broadly, the top 130 shippers, each of which represented a minimum of 2,000 cars annually, together accounted for approximately 49 percent of all total carloadings. It is clear that a large number of shippers utilize Rock Island services. Many of these shippers are involved in the grain trade. As pointed out earlier, further analysis is necessary to determine the locational factors surrounding the shippers in order to assess the full impact of cessation of Rock Island service and the possible substitution of the services of other carriers.

Rock Island Equipment

Rock Island, as of December 31, 1973, operated 629 diesel locomotives and 27,354 freight cars. Some of this equipment conceivably could be made available to other carriers after Rock Island ceases to operate.

Absorption of Rock Island Traffic

The earlier discussion of Rock Island's traffic flows details the competing railroad routes. If time permits, basic data for these railroads will be added to this statement. In terms of ability or capacity to absorb Rock Island traffic, there appears to be little problem for any of the carriers, particularly in view of the current decline in rail traffic.

With respect to short-haul traffic, e.g., grain moving to country elevators, it has already been stated that trucks could absorb some of the movements to some degree. At this time, the extent to which this is true can not be measured accurately. Detailed shipper location information is necessary among other factors such as rate availability, etc.

While Rock Island serves the Mississippi-Missouri River area, the availability of water transportation is, of course, limited by geography. Currently, the five principal commodities or commodity groups that make up 80 percent of the total traffic on the waterways are: Petroleum and petroleum related products; grain and grain products; bituminous coal and lignite sand, gravel, crushed rock; and iron and steel products. While these commodities can be moved by barge the limiting factor is, as stated above, accessibility to the waterway from the inland locations, if it would be necessary to construct waterway facilities, e.g., port facilities, in order to absorb Rock Island traffic, the cost factors may well be prohibitive, and at a minimum, would represent long-term solutions.

Comparative Data—Rock Island and Competitors

Following the attached map are tables showing the recent condition of the economically less stable Midwestern railroads. Those in the most precarious position other than the Rock Island (Chicago and Northwestern, Milwaukee, and Missouri-Kansas-Texas) show the greatest rate of deterioration. These are, as noted earlier, the carriers which have principal routes in common with the Rock Island; and who might substantially benefit from a shift of traffic from the Rock Island to their lines.

APPENDIX C

CHICAGO, ROCK ISLAND & PACIFIC RAILROAD CO.—FORECASTED CASH NEEDS

The following schedules contain our estimates as to what additional cash the Chicago, Rock Island needs to survive under conditions presently existing, and what the needs would be if the railroad was in bankruptcy.

Cash Needs Under Present Operations Assuming No Rate Increase in 1975

Table I below sets forth our estimates with respect to cash needs for the year 1975 in terms of present conditions. (It should be noted that while our projections have been made for the first six months of the year, time pressure dictates the assumption that the losses for the last two quarters will be the same as for the second quarter.)

TABLE I.—CASH FLOW PROJECTION 1975

	[In millions of dollars]				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Sources:					
Earnings.....	(17.2)	(17.5)	(17.5)	(17.5)	¹ (69.7)
Depreciation.....	2.3	2.3	2.3	2.3	9.2
From operations.....	(14.9)	(15.2)	(15.2)	(15.2)	(60.5)
R.T.A. subsidy.....	1.0		² 1.0		2.0
Sale of locomotives.....	3.0				3.0
Account 716.....	³ 1.0				1.0
Total.....	(9.9)	(15.2)	(14.2)	(15.2)	(54.5)
Uses:					
Capital investment.....	2.4	2.4	2.4	2.4	9.6
Equipment obligations.....	.4	.5	.2	.3	1.4
Total.....	2.8	2.9	2.6	2.7	11.0
Cash shortage.....	(12.7)	(18.1)	(16.8)	(17.9)	(65.5)

¹ Actual loss for 1974 was \$23,200,000, but forecast is predicated upon substantial traffic volume decline. During the 15 weeks of 1975, traffic volume declined 16.5 percent from the same period of 1974.

² We understand that an additional subsidy will be forthcoming from the Illinois Regional Transportation Authority sometime during the year, and possibly in the same amount as that paid in January. The timing or amount has not been verified, but we have reflected it in the 3d quarter.

³ The company has reported an unused balance of about \$1,000,000 as of Dec. 31, 1974 in account 716 which would be added to funds available for ordinary corporate purposes upon approval of their application for exemption from the XP 305 segregation requirements. All our estimates reflect the assumption that this will be approved.

Cash Needs Assuming Bankruptcy

Should the Rock Island go into bankruptcy, it would be relieved of the need to pay interest on indebtedness except for equipment trust obligations, and also property tax liability. Assuming the payment of property taxes evenly by quarters throughout the year, the additional fund generation by reason of bankruptcy would be as follows:

	1st quarter	2d quarter	3d quarter	4th quarter	Total
Interest.....	\$0.9		\$0.9		\$1.8
Property taxes.....	1.6	\$1.6	1.6	\$1.6	6.4
Total.....	2.5	1.6	2.5	1.6	8.2
Therefore: Cash shortage in bankruptcy..	(10.2)	(16.5)	(14.3)	(16.3)	(57.3)

Since the interest payable comes due in January and February, these may have been paid already so the cash flow in the first quarter may not be increased by this component.

Summary

To summarize, we estimate the cash shortages under the aforementioned assumptions to be as follows:

	[In thousands of dollars]			
	For 1975	Per month ¹	Assuming no capital expenditures	
			1975	Per month
Under present conditions.....	65.5	5.87	55.9	5.07
In bankruptcy.....	57.3	5.23	47.7	4.43

¹ Because of distortions created by some additional cash made available in the 1st quarter of 1975, and because the 1st quarter is almost over, the per month estimates shown above are based on our estimates for the last 9 mo of 1975.

Effect of Rate Increases

The above forecasts do not assume any rate increases in 1975. However, a 1% across the board rate increase would produce, we estimate, additional revenues of \$836,000 per quarter or almost \$280,000 per month. Thus, on a monthly basis, the additional revenues which might be expected under varying levels of rate increases are as follows:

Rate increase (percent) :	Additional revenue per month	Rate increase (percent) :	Additional revenue per month
1 -----	\$280,000	6 -----	1,680,000
2 -----	560,000	7 -----	1,960,000
3 -----	840,000	8 -----	2,240,000
4 -----	1,120,000	9 -----	2,520,000
5 -----	1,400,000	10 -----	2,800,000

APPENDIX D

RECOMMENDATIONS FOR AMENDMENTS TO SECTION 1(16) (b)

Recommendation No. 1.—Add new subparagraphs (F) and (G) as follows:

(F) Whenever the Commission determines that the directed carrier does not possess sufficient funds to commence directed operations, then the Commission is herein authorized to loan the directed carrier the necessary funds to commence the directed operation. Any funds so loaned pursuant to this subsection may be considered in partial satisfaction of any monies to be paid the directed carrier pursuant to subparagraph (E) of subsection (b) (1).

(G) To enable the Commission to carry out its functions and responsibilities under subparagraph (F) of this paragraph, it is authorized to issue to the Secretary of the Treasury notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions, as may be prescribed by the Commission with the approval of the Secretary of the Treasury. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or other obligations. The Secretary of the Treasury shall purchase any notes or other obligations issued hereunder, and for that purpose is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that act, as amended, are extended to include any purchase of such notes and obligations.

The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired under this section. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States. There are authorized to be appropriated to the Commission such sums as may be necessary to pay the principal and interest on the notes or obligations issued by it to the Secretary of the Treasury.

Explanation and Justification

The proposed subsection enables the Commission to provide, when necessary, "start-up" funds to a directed carrier. The purpose of this provision is to ensure the success of a directed service order in the event the directed carrier does not possess sufficient funds to meet expenses which it incurs in commencing directed service operations.

A problem which is encountered in ordering a carrier to perform directed operations is that the directed carrier itself may be unable to assume the immediate additional financial burdens resulting from the provision of these services. In many cases, the carrier best situated to provide the most efficient service may be in reorganization or in poor financial condition. In conducting additional operations, the directed carrier will incur new expenses such as employees' salaries, leasing of equipment, maintenance of tracks and facilities and the payment of interline accounts. The character of these expenses indicate that they will be incurred immediately upon the commencement of operations and will exceed revenues received in the early period of directed service.

The first example of directed service demonstrates the advisability of this proposal. Recently, the Commission directed the Lehigh Valley and the Reading Company to operate the lines of the Lehigh and New England. The two directed railroads are both carriers in reorganization but were selected for the directed service based upon their familiarity and proximity with the operations as well as the substantial amount of the traffic they interchanged with the Lehigh and New England. Early discussions with the trustee of the Lehigh Valley indicated that Lehigh Valley did not possess sufficient working capital to commence the directed service operations. Fortunately funds were made available by the Federal Railroad Administration under section 213 of the Regional Rail Reorganization Act of 1973 and the Lehigh Valley was able to obtain its reorganization court's approval and commence the directed service.

The Commission believes that it should be accorded a means by which it may provide, when necessary, "start-up" funds to the directed carriers. As section 1(16)(b) is presently worded, the only monies payable to the directed carrier are upon termination of the directed service. The proposed subsection remedies this situation by providing funds from the Secretary of Treasury to the Commission by a loan arrangement between the Commission and the Secretary similar to that provided the Department of Transportation in section 5(a) of the Emergency Rail Service Act of 1970. In turn, the Commission could loan the funds so obtained to the directed carrier and upon final accounting set off the amount loaned against monies due the directed carrier for the performance of directed service.

Recommendation No. 2.—Add a subparagraph (H) as follows:

(H) The Commission may, at its discretion, impose a surcharge to accrue to the benefit of the directed carrier on freight traffic originating or terminating on the lines of the other carrier, for the period of effectiveness of any order entered pursuant to this subsection, notwithstanding any other provision of law. This authority may be exercised with not less than five working days' notice, but without hearing provided that the Commission's reasons are adequately set forth in its order.

Explanation and Justification

This proposed condition would enable the Commission to increase the rates charged shippers on traffic originating or terminating on those lines under directed service. The basic purpose of this subsection is to reduce those losses which may be incurred by the directed carrier which losses are reimbursed by the government under the terms of this section.

It should be emphasized that the potential cost of directed service to the government may, in many cases, be quite high. And it is clear that the benefits obtained as a result of directed service accrue directly to the shippers on the lines of the defunct carriers. In the absence of Commission action, shippers face the options of seeking alternate, more costly, modes of transportation or perhaps terminating their operations. In this light, it behoves the affected shippers to retain rail service.

In order to reduce the potential government subsidy of directed service operations, it is considered equitable to require the affected shippers to share in the financial burden. The proposed legislation affords the Commission the necessary authority to increase rates for the period of directed service on an emergency basis in a necessarily expeditious manner.

Recommendation No. 3.—Add to section (b), in the paragraph subsequent to item (3), after the expression "such carrier's lines", the following: "Including but not limited to, the modification and consolidation of operations and facilities of the other carrier."

Add to subparagraph (d), at the end thereof: "*Provided, however,* That if the Commission directs the modification or consolidation of operations and facilities, it need only require fair and equitable arrangements, during the period of directed service, to protect the interests of the railroad employees, affected by such modifications and consolidations, who previously performed the directed service for the other carrier."

EXPLANATION AND JUSTIFICATION

Under section 1(16)(b) as presently drafted, the Commission's authority to reroute traffic and consolidate facilities in order that directed service can be provided in the most efficient manner possible is by no means clear. Although

the legislative history to this section indicates that the Commission should make every effort to minimize costs, it is not clear how the Commission is able to eliminate certain inefficient operations, such as freight classification or the operation of a portion of a railroad's operating division, unless this section implicitly confers the authority to consolidate certain operations of the other carrier and directed carrier. This section clarifies that authority.

Whether or not the Commission has the authority, as a practical matter, the requirements imposed on the directed carrier by subparagraph (D), which requires the directed carrier to hire all the employees of the other carrier who previously performed the operations which are to be directed and the assumption of all their employment obligations and work rules prevent the directed carrier from implementing any such economies.

The suggested amendment ameliorates this problem by not only clearly providing the Commission with this authority, but also providing the Commission the authority to impose labor protective conditions during the period of directed service for the employees who provided the directed service for the other carrier, but have been adversely affected by any Commission modification and consolidation of the operations and facilities. The wording of the last clause is analogous to the wording of section 5(2)(f) of the Interstate Commerce Act requiring the protection of employees adversely affected by approval of section 5 transactions.

By granting the Commission this authority, circuitous and inefficient operations under directed service can be eliminated without eliminating the protection the section affords railroad employees. Of course, authorization under this amendment would be used sparingly and only when necessary to achieve substantial cost reductions.

ROCK ISLAND COMMODITY STATISTICS, SELECTED YEARS COMMODITY GROUP REVENUE AND GROUP REVENUE
AS PERCENTAGE OF TOTAL REVENUE

[In thousands of dollars]

Commodity group ¹	1964		1968		1972		1973	
	Revenue	Percent	Revenue	Percent	Revenue	Percent	Revenue	Percent
Farm products.....	\$43,459	24.0	\$45,585	19.4	\$69,515	23.1	\$75,737	23.5
Metallic ores.....	3,306	1.8	3,694	1.6	3,888	1.3	3,878	1.2
Coal.....	3,329	1.8	3,263	1.4	3,888	1.3	3,763	1.2
Nonmetal minerals.....	8,852	4.9	8,311	3.5	10,576	3.5	12,732	3.9
Food and products.....	26,414	14.6	36,313	15.5	46,750	15.5	47,790	14.8
Lumber products.....	9,857	5.4	13,283	5.7	18,512	6.1	17,128	5.3
Pulp paper products.....	5,787	3.2	8,977	3.8	11,848	3.9	12,728	3.9
Chemicals, et cetera.....	15,208	8.4	22,761	9.7	29,413	9.8	30,743	9.5
Petroleum and coal products.....	6,220	3.4	7,413	3.2	13,978	4.6	14,597	4.5
Stone, clay, and glass products.....	6,832	3.8	8,617	3.7	8,386	2.8	7,592	2.4
Primary metal products.....	11,535	6.4	15,744	6.7	12,626	4.2	13,857	4.3
Transportation equipment.....							24,326	7.5
All other groups.....	40,405	22.3	60,709	25.9	76,084	25.2	57,657	17.9
Total ²	181,204	100.0	234,670	100.0	301,576	100.0	322,528	100.0

¹ The commodity groups specifically named each accounted for the movement of 1 million or more tons in each of the years where data are shown. All other groups represent the total for the balance of the commodity groups which had an annual movement of less than 1 million tons in each of the years shown.

² The annual revenue totals are unadjusted figures and may not agree with freight operating revenue totals reported in the railroad annual report forms A and R-1. The totals shown here are for comparative purposes only.

Note: Percentage may not add to 100 percent due to rounding.

[In thousands]

	Dollars		
	1973	1974	
Rock Island:			
Ordinary income	-19,280	-23,214	
Ordinary income (4th quarter)	-4,857	-5,913	
Freight revenue (4th quarter)	79,161	88,177	
	Carloads		
	1974	1975	Percent change
Cars loaded 1st 7 weeks	66.7	59.6	-10.6
Received from connections 1st 7 weeks	64.1	53.4	-16.7
Total carloads 1st 7 weeks	130.8	113.0	-13.6
	Dollars		
	1973	1974	
Chicago and Northwestern:			
Ordinary income	-12,848	-5,228	
Ordinary income (4th quarter)	-2,501	-10,303	
Freight revenue (4th quarter)	96,602	110,493	
	Carloads		
	1974	1975	Percent change
Cars loaded 1st 7 weeks	106.9	81.8	-23.5
Received from connections 1st 7 weeks	91.9	84.9	-7.6
Total carloads 1st 7 weeks	198.8	166.7	-16.1
	Dollars		
	1973	1974	
The Milwaukee Road:			
Ordinary income	3,405	868	
Ordinary income (4th quarter)	1,365	-2,544	
Freight revenue (4th quarter)	84,717	92,796	
	Carloads		
	1974	1975	Percent change
Cars loaded 1st 7 weeks	76.2	64.4	-15.5
Received from connections 1st 7 weeks	45.6	39.5	-13.4
Total carloads 1st 7 weeks	121.8	103.9	-14.7
	Dollars		
	1973	1974	
Missouri-Kansas-Texas:			
Ordinary income	3,733	-2,599	
Ordinary income (4th quarter)	-248	-256	
Freight revenue (4th quarter)	22,278	21,002	
	Carloads		
	1974	1975	Percent Change
Cars loaded 1st 7 weeks	13.9	11.7	-15.8
Received from connections 1st 7 weeks	27.8	21.0	-24.5
Total carloads 1st 7 weeks	41.7	32.7	-21.6

[In thousands]

	Dollars		
	1973	1974	
Kansas City Southern:			
Ordinary income	529	4,032	
Ordinary income (4th quarter)	1,385	2,006	
Freight revenue (4th quarter)	28,995	31,129	
	Carloads		
	1974	1975	Percent change
Cars loaded 1st 7 weeks	28.6	25.8	-10.0
Received from connections 1st 7 weeks	41.9	36.2	-14.0
Total carloads 1st 7 weeks	70.5	62.0	-12.1
	Dollars		
	1973	1974	
Illinois Central Gulf:			
Ordinary income	45,132	24,538	
Ordinary income (4th quarter)	18,223	10,487	
Freight revenue (4th quarter)	126,636	137,488	
	Carloads		
	1974	1975	Percent change
Cars loaded 1st 7 weeks	158.7	146.2	-7.9
Received from connections 1st 7 weeks	82.6	66.8	-1.91
Total carloads 1st 7 weeks	241.3	213.0	-11.7
	Dollars		
	1973	1974	
Burlington Northern:			
Ordinary income	38,656	77,548	
Ordinary income (4th quarter)	24,204	19,442	
Freight revenue (4th quarter)	282,096	332,191	
	Carloads		
	1974	1975	Percent change
Cars loaded 1st 7 weeks	288.8	232.3	-19.6
Received from connections 1st 7 weeks	90.2	70.2	-22.2
Total carloads 1st 7 weeks	379.0	302.5	-20.2

Senator HARTKE. Mr. Ingram, we are pleased to hear you. Will you identify the people at the witness stand?

I would hope you will summarize your statement as much as you feel will be expressing the complete story.

STATEMENT OF JOHN W. INGRAM, PRESIDENT, CHICAGO, ROCK ISLAND & PACIFIC RAILROAD CO.; ACCOMPANIED BY LEWIS B. HARDER, CHAIRMAN OF THE BOARD; AND PAUL H. BANNER, EXECUTIVE VICE PRESIDENT

Mr. INGRAM. Thank you.

First, on my right we have Mr. Lewis Harder, chairman of the board of the Rock Island. On my left we have Mr. Paul Banner, who is executive vice president of the railroad.

I will go through the statement for you page by page, and being mindful of your admonition I will try to get the complete story.

I want to thank you for scheduling the hearing on short notice. I think that my appreciation is a reflection of the thanks of the more than 10,000 Rock Island people usefully employed in 13 States who are looking for their Government to reaffirm the honest concern it has previously expressed for their company and their livelihood.

I might note some of our general chairmen are here in the hearing room today.

Mr. Chairman, the Rock Island will in all probability run out of cash on Monday. It might not happen until Wednesday. Those 2 days are days when large tax payments are due to the Government and cannot be postponed. Our board will meet in the near future to consider the future of the corporation.

Senator HARTKE. May I ask you before we get started how long can the Rock Island continue to operate?

Mr. INGRAM. It can continue to operate as long as it has cash. The cash, as I say, will run out either Monday or Wednesday. I am not sure which.

Senator HARTKE. Monday or Wednesday of next week?

Mr. INGRAM. Yes. And it can continue operating for a while past that as long as the fuel lasts. The oil companies have put us on prepay for fuel. If there is no cash, there is no fuel. And if there is no fuel, there is no operation.

Senator HARTKE. All right. Go ahead.

Mr. INGRAM. I am certainly delighted Congress is taking the initiative in resolving this problem. The interest and reception we receive here is far warmer than what we have encountered in other parts of Washington. I am a former bureaucrat myself, as this committee is well aware, and I have a fair understanding of how crises are allowed to develop.

I think the Rock Island crisis is perhaps the most mishandled problem I have ever seen, and I consider the Government's approach to this situation to be a travesty of nonfeasance and bureaucratic apathy. Those are strong words, and I intend to justify and defend them.

Mr. Chairman, I am not here to complain, but I want to go through some of the details of the USRA handling of this exercise.

Some of these things happened before I got to the Rock Island, but they are well documented, and I speak for the record.

The Railroad Reorganization Act was signed into law back in January of 1974, and the Rock Island was beating on the doors, so to speak, to make application right at that time. The legislative history and the conference report I think make it clear that part of section 211 had been inserted and enacted by Congress for the specific purpose of aiding marginal railroads such as the Rock Island.

Congress knew of our troubles then. The words used in the law are that one of the requirements for a loan required that the railroad be in need of financial assistance through reorganization.

It took USRA a while to get started up. As soon as we had a mailing address down there we submitted a two-volume, 200-plus-page application that outlined our precarious position, and we proposed a system-wide rebuilding program on the order of \$100 million. We considered

the rebuilding program necessary because 211 wisely requires there be reasonable assurance of repayment.

Rock Island's position then and now is that a rebuilding program will put the railroad in an earning posture which will enable it to repay all debts incurred.

This application, which is still the application of record at USRA, was filed on September 20, 1974. Of course, that application was filed before the recent sharp downturn in the economy, and it showed in that application we would run out of cash somewhere around mid-1975. That was part of the application to USRA.

We have had good comments in the docket at USRA. Forty-four comments were received; 43 were in favor of the loan application and one opposed.

Through the fall we continued to limp along. And back in October there was a news conference of the Chairman of USRA who said at that conference that the Rock Island would be treated before the end of December.

I became president and chief executive officer of the railroad November 1. I have been in railroading quite some time, with positions of responsibility at the New York Central, the Illinois Central, and the Southern Railway. I know what it takes to run a railroad. I know how to compete in our free enterprise system.

I spent the better part of last November out on the Rock Island system, riding the freight trains, inspecting the track and equipment, meeting our people, talking to shippers and looking at physical conditions.

I met by accident really with Arthur Lewis in Chicago. He suggested I review the utilization of the funds we applied for in the loan application.

I did that. I concluded that in spreading out the \$100 million we had applied for over all of the railroad we would notch the system up a notch but we wouldn't be maximizing our potential for repayment.

So in a letter to USRA dated January 8, 1975, we revised the application to concentrate the money on the spine of our railroad from Chicago to Dallas-Fort Worth. A copy of the letter that we sent to USRA is attached to this testimony.

It was and is my feeling that this revised program gives the United States great assurance of repayment. I think within 2 years it would make the Rock Island a top-line railroad over sizable portions of our four most heavily-trained main lines, Chicago to New Mexico, Chicago to Denver, Chicago to Texas, and Twin Cities to Texas tidewater. Speed and reliability would be improved. As a result those improvements would be carried through to net income and become very rapidly an ability to repay.

Our application proposed \$37.7 million to be loaned in 1975, \$33.1 million in 1976, and the remainder over the following year. That is still our application, and we still think it would do the job.

I direct your attention to page 3 of the letter where those draw-downs are itemized. This is the letter to USRA that is attached to the testimony.

One thing I think is important. I think it is a good example of how this rehabilitation money can be used to repay the loan.

You see freight car rehabilitation of \$2.9 million shown for calendar year 1975. It sounds like a small amount of money, but we currently have 530 bad-order hopper cars sitting on storage tracks all over the railroad. Now, some of those could be put in service for as little as \$2,000 or \$3,000 each, and we don't even have that small an amount of money to do it.

Our shortage of these cars varies from 600 to 1,500 cars a day. They are in great demand. The business is out there waiting for us. In some cases \$2,000 worth of repair money would put a car back into the fleet that would earn as much as \$10,000 to \$12,000 in revenue before the end of 1975.

The average cost of rehabilitating the cars we wanted to do in 1975 is \$2,700. The revenue estimates are approximately the same for the rest of the car fleet.

Now, drop down to the bottom of the column in that letter, and you will see that famous figure of \$9.1 million for working capital. It keeps reappearing in my nightmares.

We thought we made it quite obvious that the \$9.1 million in that loan application was working capital to support the loan application and the work that was going to be done in the rehabilitation program, certainly not working capital to support the entire railroad during the current depression in traffic.

I think the USRA Board made a rather large mistake in assuming the \$9.1 million was only devoted to keeping the railroad afloat. Actually, it wasn't devoted to that at all. The idea was that the \$9.1 million would go to support the program of rehabilitation for which we had applied for money.

We had made many attempts to establish some sort of dialog with all of the personnel at USRA. We wanted to prevent a Penn Central-type situation in the Midwest.

The Commission had said it would make a decision by the end of 1974. In our situation, cash was getting tighter and tighter. In January, we asked if the railroad could make a presentation to the full USRA Board. We were told we could not because that would "open the floodgates," which were the words used, and every special interest in the country would demand a similar day in court.

Late in January, however, the secretary to the USRA Board, Mr. Donald Cole, told our office that I should present myself to the Board on February 4 because they had some questions concerning our application. They emphasized that this was not to be a presentation and that I would be appearing at their request.

I cut short an inspection trip and came back for the meeting. Mr. Jordan was holding the chair. He introduced me and stated I should proceed with my presentation.

I had a map with me. I showed where the spine of our railroad was. The map is sitting in the back of the room if anyone would like to see it. I summarized our need. I answered questions for 10 minutes or so, and the session ended.

There were three questions in particular that come to memory. One member asked if we do indeed have shortages in covered hopper cars. And I said yes.

And could we earn money if we rehabilitated them? Yes.

Another member asked if there would be any assurance of repayment if working capital alone were extended as a loan. My answer, of course, was no, that what the railroad needed was rebuilding.

I have a transcript of the hearing, at least my part of the hearing, with me, and if you would like to copy it in the record, I would be glad to furnish it.

We still want to make a presentation to USRA's Board one of these days detailing precisely how we can repay this loan and why we are essential to the communities we serve. So far we haven't really been able to do that.

At 8 o'clock that evening the Rock Island official waiting at the USRA for the Board's decision was handed a draft of the press release stating the Board had voted to extend a \$9.1 million loan to the railroad for "general working capital purposes, and that the remainder of the loan, \$90.9 million, would be reconsidered at a later date."

The Board had adjourned and left the building.

We tried to get together with USRA to find out what they expected us to do with the \$9.1 million. We didn't know any more than we saw in the press release. In fact, we still haven't. Well, I guess we found out now what they intended us to do.

We were told at the time, though, Mr. Jordan was tied up with the preliminary system plan, as he indeed was, but that a meeting could be arranged for Thursday, February 13.

In the meantime, taking the Board's press release at its face value and the words "reconsideration at a later date" as meaning something, and assuming that perhaps USRA wanted to wait until the issuance of the preliminary system plan on February 26, the Rock Island announced it would start work on 9.1-percent portion of that \$100 million rehabilitation program, pending receipt of the check from USRA, of course.

At the meeting on the 13th, Mr. Knapton of our Washington office was told the Rock Island should not have issued such an announcement, that a "later date" meant much later, and that the \$9.1 million constituted working capital we had asked for to get the railroad through 1975.

Frankly, Mr. Chairman, it's the first time we ever had heard or even considered \$9.1 million being the amount necessary to get through 1975. In fact, on the day before the loan was made on February 3, a cash flow statement was given to USRA that showed a negative cash balance at the end of 1975 of over \$19 million. That is projected balance, of course.

We were also advised that it would be a good idea to stop making public statements until such time as the loan had been worked out, and the terms and conditions, the terms and agreements, for a \$9.1 million loan they said would be ready the following day, February 14.

They were handed to Mr. Knapton with a comment, he tells me, that I probably would find those conditions to be too onerous but that the interest rate was awfully good.

The document was brought to Chicago on the next plane out of Washington. We did indeed find the terms rather strange, but because of the "golden rule of business," that "the fellow with the gold makes the rules," we signed them, and we sent them a wire telling them we had signed them so there wouldn't be any mistake about it.

Now, the terms and conditions of that loan included first mortgage bonds in an amount equal to 150 percent of the loan as security and which we thought was fairly high in light of the ICC's less demanding and much more reasonable policy under its administration of the railroad loans under title V, and since Rock Island bonds we think are as good as gold in liquidation, and we have about \$420 million worth of book assets and only \$97 million worth of bonded indebtedness.

Senator PEARSON. Let me interrupt to ask what efforts were made to secure financing from the private sector.

Mr. INGRAM. We contacted all the banks in Chicago we normally do business with, and we have an ongoing relationship with many of them.

Senator PEARSON. You have a low debt structure.

Mr. INGRAM. Yes. But we also have no earnings right now, which of course they look at as being a very important thing. You are quite right the debt structure is very low, and there are plenty of assets to secure a loan of the size we are looking at.

Senator PEARSON. Had you done that prior to the time you went to the USRA?

Mr. INGRAM. Yes, sir.

Senator PEARSON. Go ahead. I'm sorry to interrupt you.

Mr. INGRAM. They also wanted, in addition to the 150-percent first mortgage bonds, for security of the loan an amount equal to 150 percent of the debt of our accounts receivable to be placed with a trustee in Chicago whose services we would pay for, which seemed a rather strange thing to do in a cash-starved railroad.

And, of course, there was also a problem that that particular pledge would not in our counsel's mind survive a bankruptcy of the Rock Island.

The third and most interesting condition was we would automatically fall in default of the loan if at any time during the period the loan was outstanding, which was 3 years, our net worth or cash balances fell below the predicted figures in our loan application.

We have had troubles predicting this economy. I don't mind admitting that. I think that part of the problem the Rock Island is in stems from the fact we have had inability in predicting this economy.

In fact, Mr. Arthur Lewis, who is Chairman of the AAR Board, said at the meeting of AAR, and I quote: "We can't make forecasts that have much meaning in a capital-intensive, labor-intensive, regulated industry in an inflationary environment." And I certainly would back up his statement a hundred percent.

But I do think he makes a slightly different statement when he is talking about the problems with Conrail and when he is talking about the requirements of a loan for the Rock Island.

But be that as it may, we didn't reject the terms. We accepted them. We wired them our acceptance. And about the same time I was learning from our treasurer we were in a very poor cash position, and it was getting much worse. Our traffic was declining. Midmonth figures showed the rather dismal plunge that has been afflicting the entire railroad industry. Actually, it hasn't been hurting us as badly as it has the rest of the industry, but they started from a higher cash position than we did.

It was obvious, if we were going to continue operations through February and March, we needed that \$9 million fast and on almost any terms.

After we sent them our acceptance, the next morning on a speaker-phone telephone conversation with Mr. Jordan, Mr. Hillman and Mr. Terry of USRA, our people were told, "You mean he signed those terms? Then he couldn't have read them."

I suppose we should have gotten the message then.

But while we are poor, we are also honest, and we felt that we had recourse to the USRA Board of Directors and they perhaps would override what was becoming what we felt was an obvious bias on the part of the USRA staff of vice presidents and other functionaries.

The upshot of that 1-hour speaker-phone conference was an agreement that on Monday, February 17, USRA would send its people to Chicago and that we would set up shop in Washington and we would work out a further loan application or further amendment of the loan application that would allow us to avoid bankruptcy through 1975.

In the meantime the processing of the \$9.1 million loan was halted. Our people stayed in Washington through that week. We delivered a revised set of figures to USRA on Thursday, the 20th, and that was in a letter dated the 19th which is available if the committee would like to have it.

It was supplemented by another letter on the 24th, and we would be glad to furnish both of them for the record if you would like them.

Our great reservation in accepting the loan that would just keep us alive was that we could give no assurance of repayment of such a loan. We were told by Mr. Tierney of USRA, however, on the evening of February 18, in the presence of Mr. Jordan, that we could "cover" ourselves by keving repayment to a "general improvement in the economic condition of the Nation."

Mr. Knapton and Mr. Lipfert of our staff were at that meeting.

The Rock Island limped through the weekend sort of waiting for salvation or at least partial salvation that we thought was going to come from the USRA Board meeting when they had their meeting on the 26th. That day you recall was the day USRA announced its preliminary system plan. They started their deliberations in the morning around 9:30, had received the TV cameras on the final system plan during the day, and the Board finally resumed its deliberations around 3 o'clock in the afternoon.

At 4 o'clock we were notified the Board had voted to extend no loan to the Rock Island, and the reasons were given as follows:

First, the amount applied for was insufficient to keep the railroad from becoming insolvent.

Second, the loan could not be granted because there was no reasonable assurance of repayment.

In other words, the amounts we originally applied for and needed were in their minds too great for them to lend and thereby, they thought, endangered the Conrail plan I guess, and the amounts they were willing to lend were in their minds insufficient to do the job and therefore not in compliance with the intent of Congress.

I really think they were wrong on both of those counts, Mr. Chairman. I think if the Penn Central "disease" is allowed to spread to Colorado and New Mexico, the result is not going to be a final system plan solution but nationalization.

I think Penn Central is sort of a bottomless pit for Federal money today because it was allowed to deteriorate both physically and in its relationship with Government to the point where it is sort of a perpetual crisis waiting for a periodic check from Uncle Sam.

I think the time to rebuild the Rock is now—when it can be done relatively cheaply and in an orderly way.

As far as our inability to pay is concerned, I am confident that the loan can be repaid not only because of the facts shown in our application but because of the incremental revenue analysis that we made recently which summarizes data recently transmitted to the DOT.

Before summarizing those figures, I want to assure you that they are not just a "bolt out of the blue." We have been working ever since I got there in November, not just sitting there wringing your hands. We have hired some new people, top people, new blood, new initiative. We are in the process of taking a new look at the entire marketing structure of the railroad. We want to maximize the return on those things we do best and minimize the activity on which we lose money.

Late last week we provided the DOT with the fruits of an analysis that was just completed that showed that we could do work on our traffic mix that would add contribution to net income of \$148.8 million for the period 1976 through 1978. That improvement doesn't include improvements we can and shall make because of reduction in losses due to accidents, intrastate rate increases presently pending before the ICC in section 13, and selective reductions in service that will eliminate other service losses.

If you add all that together you get \$167.1 million. And that, of course, is money that can be used for debt service, plant restoration, and so forth.

In addition to that, I might say our operating people have instituted cost savings so far that amount to about \$3 million a month, somewhere between \$3 and \$3.5 million. We are trying to get a little bit more accurate calculation of it right now.

One good example I think was that the calculations we performed—and we did most of them by hand on a car-by-car basis—showed \$34.6 million worth of traffic on which we suffered an incremental cash loss of \$9.6 million last year. Evidently that giveaway traffic was not properly monitored in the past. We intend it to be in the future.

In short, Mr. Chairman, and without continuing in economics, the Rock Island can repay simply by improving some ways it does business. And we have to add that factor which was not included in our loan information, that the efficiency of the railroad would be greatly improved.

We showed that approach to DOT's financial specialists last week and they were receptive and urged us to pursue the matter further.

Well, I can't overemphasize the fact that ability to repay the loan is virtually certain. I think the new management has been in place on the Rock only 4 months now, a little bit more than 4 months—4 months and 10 days—and we have thus far been able to identify areas where an average of \$55.7 million annually in traffic improvements can be made. We have already cut operating costs by \$3 to \$3.5 million per month, but we need more time to put all this into effect.

We need 1975 as a working year to get these programs underway to turn the Rock Island around.

I think we ought to also look at what happens if there is no USRA loan whatever. Obviously, the Rock Island runs out of cash very quickly—as I said at the outset, about a week from now. In such an event, we would probably file under section 77 of the Bankruptcy Act.

Unfortunately, a trustee wouldn't have any more working capital than we would. The railroad has very little funded indebtedness. Half of our debt roughly is contingency interest bonds on which no debt payment is being made today. The other \$47 million of debt consists of 27/8 percent and 5½ percent bonds. The total debt service comes to about—

Senator HARTKE. Let me stop you a moment because I am going to leave. If you got the \$9.1 million loan without anything else, what does it really do? You would have to use it or at least a part of it for cash operation, would you not?

Mr. INGRAM. If we got the \$9.1 million loan there is no doubt that it would be used for working capital. The only thing it would do for you is give you time to—

Senator HARTKE. Working capital. How long would that carry you?

Mr. INGRAM. It is possible that it could go through May or somewhere around there. It is very difficult to predict exactly. It depends on how traffic goes.

Senator HARTKE. Then the additional amount of \$30 million, what does that provide for you?

Mr. INGRAM. \$30 million we feel would get us through the end of the year and make a start on the rehabilitation program.

Senator HARTKE. Maybe start?

Mr. INGRAM. No; we would make a start on the rehabilitation.

Senator HARTKE. How much of it would go to operating capital? In other words, how much of it would go to rehabilitation?

Mr. INGRAM. We would put it into operating capital at first to get ourselves back to more or less equilibrium position. We would start the work on the marketing side to improve our cash flow position. And we would continue to work on our operating side to continue the savings. And I think the end of the year we would have this thing turned around.

Senator HARTKE. Let me ask you this. Or let me make a statement. It is not possible for you to really repay the \$9.1 million without an additional loan. Isn't that true?

Mr. INGRAM. Unless some other action takes place after that, that's correct.

Senator HARTKE. What do you mean—"other"?

Mr. INGRAM. Like merger or further loan or some other action of that sort. By itself we cannot pay—

Senator HARTKE. What about the \$30 million? Would you be able to repay \$30 million?

Mr. INGRAM. Yes, but it would be a long time off.

Senator HARTKE. What do you mean by a long time off?

Mr. INGRAM. The rehabilitation program that we plan for 10 years started with a \$30 million loan with no money to follow for subsequent years would probably take 20 years.

Senator HARTKE. You are saying with \$30 million you could keep on operating for the next 20 years?

Mr. INGRAM. Yes; I really think we could, sir.

Senator HARTKE. I think with that statement I am going to turn it over to Senator Stevenson. I am going over to do other duties. Senator Stevenson will take over.

Senator STEVENSON. Please continue, Mr. Ingram.

Mr. INGRAM. Well, we were reviewing what would happen if the Rock Island did go into bankruptcy. The problem he would face would be working capital problem, the same as ours. He would have no great infusion of working capital as a result of that bankruptcy because of our small amount of debt.

I might say as far as taxes are concerned, which of course are not paid in some instances in bankruptcy, we are already deferring those taxes so there wouldn't be any further savings in that area to speak of. Some small amount.

Reference has been made to the availability of \$19 million in trustee certificates that are the last remnants of the Emergency Rail Services Act of 1970. They have a prior lien provision in those certificates that would make it questionable as to whether or not a judge would use them, unless, of course, he was planning to liquidate the program and get his money back out right away.

Recent additional appropriations for bankrupt railroads I think make it clear that that money would not be used. It has not been used, in any event, in the Northeast where it is equally useful.

It is our understanding that in the Penn Central reorganization the court dropped that procedure. So have several other groups in the Northeast. It does exist, however. We are just not sure it is a solution to this particular problem.

Section 1(16)(b) of the Interstate Commerce Act can and will provide relief. We have already participated in discussions at the ICC regarding the operation of essential services by outside railroads. We will, I assume, get paid for this. It is our property. The incoming railroad will also get paid a profit for conducting it. The act indemnifies them from a loss. In addition, the incoming railroads will be guaranteed a profit for doing it, or a management fee, whatever you want to call it.

Our back-of-the-envelope figuring—and I must caution you this is back-of-the-envelope figuring—indicates that during the 8-month maximum period that section 1(16)(b) could be in effect, the out-of-pocket cost to the American taxpayers would be something like \$60 million in money down the drain, and the problem will still exist. The

Rock Island territory would be left with an inoperable railroad unless some other solution came along in the intervening period.

You can buy time this route. We think the price is expensive; but I don't think it is the way to solve the problem.

It does remind me of the Penn Central—money spent but no solution.

In the meantime, Mr. Chairman, let me give you a quick rundown of what has happened to the Rock Island since last fall. The act became law in January of 1974, but USRA did not have a chance to take positive action until after September 20 of last year when we filed our application. But since October 1 of last year, 1,221 people who used to be gainfully employed on the Rock Island don't work there any more. That represents roughly \$14 million in annual payroll that has stopped being pumped into local economies throughout the territory we serve.

Since October 1, there have been 10 serious train wrecks on the Rock Island, most of them caused by bad track. The cost of these wrecks totals \$2,400,000. The total cost for accidents last year on the Rock Island was \$14 million, and, of course, that is why we want to fix the track. There have been 618 injuries on the system during the period. No one has been killed, thank the Lord.

Since October 1, Mr. Chairman, there has been a cumulative total of 86,000 cars ordered by shippers that the Rock Island could not supply. These represent carloads of revenue that would have helped solve the Rock Island situation. That's why we need money to increase freight car supply.

None of that need happen. I think it happened because someone at the USRA made a decision not to make a decision.

I think it happened because the insolvency of the Rock Island would stand to benefit at least one identifiable entity.

Paralysis on the Rock Island benefits other railroads who see either elimination of competition or, more importantly, an opportunity to serve our market at taxpayers' expense with a guaranteed profit. It is a situation that would have brought a gleam to the eye of the old robber barons. I don't think the Congress wants this unfair and expensive prospect to become fact.

I would be wasting your time if I was only here to bemoan our fate. I have asked you to listen. I appreciate your concern. I do ask you to take action.

First—and I agree this is somewhat unorthodox—I think it would be helpful if USRA's formal docket on the Rock Island and each of their Board members received a letter today from this subcommittee reminding them of congressional intent. We will be most pleased if USRA would this week come forward with the \$9.1 million check to keep us going. This, in addition to the systemwide 10-percent deferral that went into effect last week on pay for all executives of the railroad and on a voluntary basis for our labor which is now effective to the tune of about 25 percent of our employees, will I think give USRA time to reconsider the entire loan application and give Congress a few months to pass whatever appropriate legislation will provide long-range solution to what we require, instead of mass layoffs.

The first-year drawdown on that project would be a \$37 million loan. That is the first-year drawdown on the loan we have applied for,

and that is all we have ever applied for, that \$37 million for the first year. With that program we start solving the problem rather than perpetuating it. And failing that, we do have three bills I would be glad to suggest to the committee.

One makes section 213 money available to the Rock Island.

The second approach would be to amend section 211 of the Regional Rail Reorganization Act to change the words "is authorized" to "shall." Tell them to make loans, in other words.

Third, we would like to see legislation similar to last year's Surface Transportation Act loan guarantee program be acted upon swiftly. The entire railroad industry needs access, of course, to capital. It is not just the Rock Island. Both houses passed the financial assistance portions of STA last year. Lengthy hearings I don't think would be required. The Administration has agreed such a system of loan guarantees is essential. We have drafted such legislation for your consideration.

Finally, let me comment on S. 917 introduced by Senator Pearson last week. We certainly support the bill. We are not sure exactly how it will work. It authorizes the ICC to allow the Rock Island and the Union Pacific really to pretend that they were married. It's all very nice. We don't mind that at all. We'd like to get married with the Union Pacific. We have made that clear for the last 12 years. But I think really somebody ought to ask the Union Pacific if they still feel the same way. I have asked them and I have not gotten an answer.

If Congress wants those two railroads to live together, we are certainly happy to do so. However, if the Union Pacific did not pay for the assets and operating rights received, I think we would have a problem, and we think the Union Pacific should be specifically asked what parts of the Rock Island they want to operate or lease.

We believe that absent the same sort of thorough analysis that USRA has done in the Northeast our shippers and receivers and employees should be able to expect continuation of substantially all of our services. We would hate to see a rationalization by default in the territory we serve.

I certainly appreciate your time and that of your colleagues.

That concludes my prepared remarks, and I will be glad to answer any questions you might have.

Senator STEVENSON. Thank you, Mr. Ingram.

I agree with what you said on the last page of your statement about Union Pacific's intentions. I think before we can consider all of the options, and in particular the option posed by S. 917, we ought to try to find out from the UP what its intentions are.

I have already suggested to the chairman we do that, and I believe that he agrees with me that we should very soon invite the Union Pacific in to tell us what its intentions are.

We have been going at it now for a long time and continuously. We will recess for about 3 minutes for the benefit of anybody who would like to take a stretch, including the overworked reporter.

[Whereupon, a brief recess was taken.]

Senator STEVENSON. The committee will come to order.

Mr. Ingram, all the members of this subcommittee are sympathetic to the plight of the Rock Island. In fact, section 211 I believe origi-

nated in this subcommittee. I, probably as much as any member, can claim authorship and familiarity with the congressional intent that was embodied in that situation.

I think one of the concerns that many of us would have about a \$30 or \$37 million loan would be the effect of that money in the Rock Island on other railroads. I wonder, if you could tell us a little about your rehabilitation program and more specifically where this \$30 million would go. Would it go into the rehabilitation of lines that are duplicated by the lines of other carriers?

Mr. INGRAM. The \$37 million that we would draw down as the first year's installment of the \$100 million loan would go to rehabilitate the railroad line running from Chicago through Rock Island, Ill. on down to Kansas City, from Kansas City south to Fort Worth, Tex. That particular line we call the spine of the railroad, because it is the part of our railroad that now presently has the highest traffic densities on it.

Typically, the traffic density over that particular part of the railroad exceeds 20 million gross ton-miles per mile of line. Some of it is a little higher than that. That is present traffic that is presently moving.

In addition to that, by furnishing cars to our customers—we would also start a modest car rebuilding program—we would be able to originate additional traffic that could be put over those lines.

Now, as far as parallel lines are concerned, the line from Chicago to Rock Island in my understanding is the shortest line there is. It is the most direct line, and it serves a good bit of industry in that town exclusively, with no other service of any kind.

When you go from Rock Island to Kansas City you will find the Milwaukee Railroad parallels our railroad. They are roughly about 10 miles away. Of those two lines—they actually come out of Davenport but that isn't very far from Rock Island—of those two lines, in our opinion, the Rock Island line has more industry on it than the Milwaukee line has on it. We have invited the Milwaukee to use our railroad if reasonable trackage rights arrangements can come out.

The Milwaukee line we also understand is in relatively poor condition for a mainline railroad, and this, of course, would save both railroads some money.

From Kansas City over to Topeka we operate on trackage rights over the Union Pacific, which is really in excellent condition. We pay for that trackage on trackage right agreement.

From Topeka to Herington, Kans. is an extremely heavy part of our railroad which does not have any substantial competition by parallel routes in the immediate vicinity. There are other ways to get there but you have to go a little distance to do it.

From Herington, Kans. south to Fort Worth our line is probably the most direct line. Competitive routes are a considerable distance away from it.

Fort Worth to Dallas was not included initially.

From Dallas south we presently operate with Burlington Northern on the same piece of railroad, currently enjoying the fruits of a combination of effort. That piece of railroad is really a condominium of sorts. We both jointly own it and jointly use it. So there are already two railroads using that piece of track.

If the Rock Island was to cease, Burlington Northern would have to carry the whole burden.

From Houston down to Galveston, Tex. we operate on the Santa Fe. The line is presently coordinated with another railroad, and, of course, if we cease, again the Santa Fe would have to maintain the entire effort.

I think that about sums up the competition situation. I don't think there is any doubt that rehabilitation of the Rock Island will make it a more effective competitor. But we have never in any of our projections included anything more than normal traffic growth as part of our justification for paying back the loan. We are not going to be using that rehabilitation to raid other people's territory.

We feel that there may well be other railroads in the area that need rehabilitation as well, and our door is wide open for any projects that would combine various railroads to use the same track.

In some areas we are sure the Rock Island route is the route you would want to preserve. In other areas we are sure that is another railroad. In all of the areas, however, where we would expend the money in the rehabilitation we are pretty sure that the line is the most direct line, or, if it is not the most direct, it is the second most direct in the market place and that it is a line that would survive and be rehabilitated in anybody's final system plan if one were devised for the region.

Senator STEVENSON. That sums up the competitive situation and also the dilemma for the Congress which does not represent one railroad or another but the public. To the extent funds are made available to this one railroad, it improves its competitive position vis-a-vis other railroads which deliver services across many if not quite all of the same lines.

From your standpoint let's assume the worst case—that there is no loan and that the Rock Island is forced to cease operations. The North Western has indicated that about 80 percent of the services provided by the Rock Island could easily be picked up by competitors. What is your reaction to that suggestion? Is that a fair estimate?

Mr. INGRAM. Well, my reaction is really based on definition of the word "could." I think 100 percent of the Rock Island's services could eventually be taken over by other railroads. But my question is: At what cost?

I think the shippers who presently use our services use them because we are the lowest cost alternative they have. If we are going to track grain across country for—we have 1,600 elevators on our railroad served by no other railroad. If that elevator operator is expected to truck that grain across country to some other railroad in order to maintain his access to markets, that trucking is going to cost him some money. If it is a 10-mile trucking operation it is going to cost him 5 cents a bushel. If it is a 20-mile trucking operation, it is going to cost him 10 cents a bushel to make that extra transportation move.

Now, I have no doubt that it could be done, that you could truck that grain, and you could move it out of some other grain elevator, but there is a cost involved, added transportation cost, to get to the

other railroad and cost to the economy of the wasted assets of the elevator located on our railroad and perhaps the cost of rebuilding it on somebody else's railroad.

If you were to serve all the elevators on our railroad, you would be essentially operating our railroad, for every town you pass through has one.

Senator PEARSON. If the Senator would yield, I think the proposal was that 80 percent could be serviced by other railroads. Twenty percent would be serviced by service orders by the ICC. With that kind of proposal, is your answer the same?

Mr. INGRAM. If you ran 100 percent of our railroad plant, then you would have 100 percent of our railroad operation probably. I am not really clear as to what the proposal is. It seems to be rather loosely drawn. It's awfully hard for me to define it.

But I keep coming back to the same thing. If our customers felt there was a cheaper way to get their job done, I think they'd be using it. I don't think they are using us because they love us. They are using us because it is the most efficient thing for them to do.

Presumably, if they have to use someone else, it is going to get less efficient. The question in my mind is: What is that cost going to be? I don't know. I haven't made that study, and I don't think anyone in the room has made that study.

Senator STEVENSON. If Amtrak were to pick up the expense of operating passenger service that was not absorbed by other ways, would that provide much relief?

Mr. INGRAM. It would certainly help. On our commuter service, our uncovered deficit as it were is about \$2.1 million. The total deficit is about \$3 million.

Senator STEVENSON. If I could interrupt at that point, Amtrak wouldn't pick up the commuter service. That would have to be picked up by RTA or other transit authority.

Mr. INGRAM. I think that's right.

Senator STEVENSON. That would save you how much?

Mr. INGRAM. \$2 million that is not presently covered. It is our understanding that our RTA will start doing that in the middle of the year, at the beginning of the fiscal year.

Senator STEVENSON. So it is about \$2 million there?

Mr. INGRAM. That's correct. And then I am not exactly sure what the intercity passenger deficit is that is not covered by the State of Illinois grant. The State gave us \$1 million this year to go toward paying that deficit. It is my recollection, and I will correct it for the record, that the total deficit is around \$2 million, and there is about \$1 million that is, therefore, at our expense as of now.

Senator STEVENSON. Is there a similar arrangement in other States? Are other States subsidizing Rock Island passenger services?

Mr. INGRAM. No, sir, not at the present time, although I understand the State of Iowa is considering a project. There are no passenger trains on the Rock Island presently operating in that State, but it is my understanding that they are considering whether or not they would like to start such service.

Senator STEVENSON. Are you operating passenger services in still other States?

Mr. INGRAM. No. We only operate in the State of Illinois. Passenger trains are only operated in the State of Illinois. We have two intercity passenger trains. One operates from Chicago to Peoria. One operates from Chicago to Rock Island. And, of course, return.

Senator STEVENSON. So you are not operating any passenger service in Iowa, so the sum total saving would be about \$2 million in the Chicago area and another \$1 million for intercity passenger service?

Mr. INGRAM. Yes, sir. We asked them to reconsider. We have had check it, and I will put it in the record.

Senator STEVENSON. That is \$3 million. That doesn't go very far.

Senator PEARSON.

Senator PEARSON. I want to continue your line of questioning regarding the worst possible case.

You have asked the USRA to reconsider your loan application. Have you had any response from them?

Mr. INGRAM. Yes, sir. We asked them to reconsider. We have had two indirect responses. One was a statement made as I understand by the Chairman of the USRA saying that he doubts such reconsideration would take place. I don't want to put words in his mouth, and I can't remember the exact words, but it was something like that.

The other was a contact we have made with the President of the USRA, and on that contact there wasn't any question raised as to whether reconsideration would happen or not. The contact really had to do with making sure he saw all of the new numbers that have come out of our traffic analysis so he could make up his mind as to whether or not he was going to have a board meeting or not.

Senator PEARSON. I thought you said earlier that the \$39 million would see you through. But in response to Senator Stevenson, I thought I again understood that the \$39 million was the first draw-down on \$100 million.

Mr. INGRAM. \$37 million. Yes; that is correct. It is the first draw-down on a \$100 million loan. It represents the work we could do this year.

Senator PEARSON. But is your only application now for \$37 million?

Mr. INGRAM. For \$100 million. Actually, I think the exact figure is \$99.7 million or something like that. And the drawdown schedule was \$37 million the first year. Let me see if I can find it.

Senator PEARSON. Well, the actual numbers aren't that important. I think it is the principle involved. You say that will see you through. And we talked in terms of 10 or 20 years. You mean, see you through to the merger, really? Isn't that what you are talking about?

Mr. INGRAM. See us through either merger or independent operation, either way.

Senator PEARSON. Well, if that doesn't materialize, and there is no evidence indicating the loan is going to be made by USRA, if you go into bankruptcy under section 77, your indication is that because of your low debt structure that a referee in bankruptcy isn't going to have any better cash flow situation than you have had?

Mr. INGRAM. That's correct, sir.

Senator PEARSON. Do your legal advisers indicate to you that the referee in bankruptcy could order a liquidation in face of the ICC requirement that service cannot be discontinued?

Mr. INGRAM. It is our counsel's opinion that an order of liquidation would have to pass through both the ICC and a court before it could be approved. However, there is a difference between shutting down because you haven't got any fuel to run the engines and—

Senator PEARSON. That's the point. If you can't pay the people and you can't buy fuel, what difference does it make what the ICC says?

Mr. INGRAM. I think it is two different names, Senator. It is liquidation if you did it on purpose, and it is embargo if you didn't. But I agree with you the effect is exactly the same.

Senator PEARSON. I want to voice some pessimism about the possibilities, although I probably shouldn't speak for anybody but myself, about some of the legislation you proposed.

I thank you very much for your testimony. I don't believe I have any further questions.

Senator STEVENSON. Mr. Ingram, if the railroad were to elect section 77 reorganization, would in your opinion or the opinion of your counsel the trustee in bankruptcy seek funds from the Department of Transportation under the Emergency Railway Services Act?

Mr. INGRAM. Not in my opinion, sir. I just doubt that a receiver in bankruptcy would use those funds unless there was some other legislation pending that he felt that gave him a way to get to.

But I don't think that the \$19 million that is available under the Emergency Rail Services Act by itself would do more than solve the problems for a few months and waste the estate.

I think that a trustee in bankruptcy probably would not want to rely on that money if it just meant a few more months of the same thing.

Senator PEARSON. May I interrupt a minute? I agree with you. Is it your view that S. 917 could be utilized even after the Rock Island might have gone into bankruptcy under section 77?

Mr. INGRAM. I think that is a possibility, yes, sir. The real problem I think with S. 917 is that—well, first of all, I don't know that much about it. I have just read it. But it strikes me it takes two to tango under that bill, so to speak. And while we might be perfectly willing to do it, we still have to find the other partner to run it and doesn't have to go through the problems of court litigation and so forth that various other railroads might raise.

Senator PEARSON. If that bill became law, wouldn't that change the possible attitude of the referee in bankruptcy as to utilizing the \$19 or \$23 million under the emergency act?

Mr. INGRAM. It is a possibility, but I would think that again if the Union Pacific, for instance, were to turn down the offer to operate and several other railroads were to do the same thing, the trustee would be in the same situation he would be as I described a minute ago.

If, however, some other railroad was coming forward to operate the railroad and it was coming forward as part of this merger that's been presented to the ICC, then you are quite right the \$19 million might get you over the hump, so to speak, until they concur.

Senator PEARSON. One further question. Your figure under section 1(16) (b) is about the same as the ICC's, if I calculate it correctly. It's about \$7.5 million per month. You said \$60 million for 8 months, did you not?

Mr. INGRAM. That's correct. Yes, sir. I think they are quite accurate in that estimate.

Senator PEARSON. Thank you, sir.

Senator STEVENSON. Mr. Ingram, do you think you could supply the subcommittee with a little more data to back up your assertion that the \$37 million loan could be repaid?

Mr. INGRAM. Yes. You are talking about as the first drawdown for the \$100 million? Yes; we certainly could do that. We would be delighted to.

Senator STEVENSON. Let's do that on the assumption that no other money is forthcoming. I believe you made that—

Mr. INGRAM. I can do that, though obviously the risks would be greater on payback on that situation than the \$100 million situation. But I can show you how that can be done. Yes, sir.

Senator STEVENSON. I share Senator Pearson's lack of optimism. It may be optimistic to expect \$37 million, but the extent to which that is a possibility might depend at least in part on such data.

Mr. INGRAM. We are going to try very hard to show these data to USRA, and we hope to convince them to have a Board meeting to consider them. I think that they are really an eye-opener. I am sorry they weren't provided to USRA a long time ago, but I have been on the property for 4 months and it has taken this long.

We had to do a good bit of this work by hand. We finished the initial part of the study just a few days ago, and still a lot of it is in pencil. But it shows awfully good prospects of the actions that are outlined in that data turning this railroad around by the end of the year.

Our real problem is, How do we get to the end of the year?

Senator STEVENSON. Thank you, Mr. Ingram.

[The statement follows:]

STATEMENT OF JOHN W. INGRAM, PRESIDENT, CHICAGO, ROCK ISLAND AND
PACIFIC RAILROAD COMPANY

Mr. Chairman, let me first thank you for scheduling these hearings on such short notice. My appreciation is a reflection of the thanks of the more than 10,000 Rock Island people usefully employed in 13 states who are looking for their government to reaffirm the honest concern it has previously expressed for their company and their livelihood.

We are also heartened by Senator Pearson's introduction of S. 917, The Railroad Temporary Operating Authority Act. It represents at least an intermediate solution, and I would like to discuss it in greater detail in a few moments.

We also appreciate the work and the interest displayed by the subcommittee's staff. These young men are an asset to the Senate, to railroading and to the nation.

I am delighted that the Congress is taking the initiative in resolving this problem; the interest and reception we receive here is far warmer than what we have encountered in other parts of Washington. I'm a former bureaucrat myself, as this committee is well aware, and I have a fair understanding of how crises are allowed to develop. But the Rock Island crisis is perhaps the most mis-handled problem I have ever seen, and I consider the government's approach to this situation to be a travesty of nonfeasance and bureaucratic apathy. Those are strong words, and I intend to justify and defend them.

Mr. Chairman, I am not here to complain—but I feel the committee is entitled to know the details of Rock Island's exercise with the United States Railway Association.

You understand, Mr. Chairman, that some of the events in my narrative occurred prior to my being hired by the directors of the railroad. Those events have been well documented, however, and I speak for the record.

Shortly after the Regional Rail Reorganization Act of 1973 was signed into law in January of 1974, and as soon as the U.S. Railway Association had a mailing address and the first semblance of a managerial staff, the Rock Island sought a loan under Section 211 of the Act. This was to be expected, of course. The legislative history and the Conference Report made it quite clear that part of Section 211 had been inserted and enacted for the specific purpose of aiding marginal railroads such as the Rock Island.

USRA had start-up troubles, as we all know. It was not until July 24, 1974, 202 days after the bill became law, that the railroad was told how to apply for assistance. As the railroad limped along through the summer of '74, its engineering and financial staff prepared a 2-volume, 200+ page application that thoroughly outlined the railroad's precarious position and proposed a systemwide rebuilding program on the order of \$100 million.

A rebuilding program was considered necessary, because Section 211 requires that there be "reasonable assurance" of repayment. Rock Island's position—then and now—is that a rebuilding program will put the railroad in an earning posture which will enable it to repay all debts incurred.

This application, which is still the application of record at USRA, was filed on September 20, 1974. Acknowledgement of receipt was published in the Federal Register, and a docket was opened for comment. The last time we looked at that docket the ratio in our favor was about 43 to 1—which isn't bad for 44 comments. (The one objection, I might note, came from the Commonwealth of Pennsylvania, which wanted no dilution of funds that might otherwise go to Pennsylvania.) We received strong support for our loan from Governors, Members of Congress, shippers, mayors, Chambers of Commerce, State Departments of Transportation and others. It was a good cross section. I don't think it has been seen by the Board of Directors of the U.S. Railway Association.

The application languished at USRA through the fall. The Rock Island continued to limp along. At a news conference in October, the Chairman of USRA was asked when a decision would be made on the Rock Island application. He answered flatly that it would be done before the end of December.

I became President and Chief Executive Officer of the railroad November 1. Let me note that my entire professional life has been devoted to railroading—with positions of responsibility at the New York Central, the Illinois Central, and the Southern Railway. I know what it takes to run a railroad. I know how to compete in our free enterprise system.

I spent the better part of last November out on the Rock Island System—riding the freight trains, inspecting the track and equipment, meeting our people, talking to shippers. Mr. Chairman, we have some very good people and some very bad railroad.

During a chance meeting in December with Arthur Lewis, Chairman of USRA, in Chicago, he told me USRA would soon be considering our loan application, and suggested that I carefully review our proposed utilization of the hoped-for funds. I did so. I concluded that spreading \$100 million all over the railroad would—in effect—bring the entire system up one notch, certainly a laudable goal. But we would still be short of where we should be in providing the service our shippers require. Nor would we be earning the funds necessary for the most expeditious repayment of our loans.

In a letter to USRA dated January 8, 1975, we revised our application, proposing to utilize the bulk of the \$100 million for a massive upgrading of the spine of our railroad resulting in 70-mph freight service from Chicago to Dallas-Fort Worth, and potential 100-mph passenger operation over Rock Island passenger routes. I would appreciate that letter being made a part of the record, and submit it to the Chairman for his consideration. It is attached to copies of this testimony.

It was—and is—my feeling that this revised program gives the United States great "assurance of repayment." Within two years it would make the Rock Island a top-line railroad over sizable portions of 4 of our mainline routes; Chicago to New Mexico, Chicago to Denver, Chicago to Texas, and Twin Cities to Texas tide-

water. Speed and reliability on these heavy-density lines would be vastly improved, costs would be brought into line, shippers and consumers would be much better served, and the national transportation system (such as it is) would be sharply upgraded.

The revised application proposed a \$37.7 million drawdown in 1975, a \$33.1 million drawdown in '76, and the remainder to be spent over the following year.

I direct your attention to the next-to-last page of that letter wherein these drawdowns are itemized. There are two line items there of critical importance—both in the column marked "1975."

The first is "Freight Car Rehabilitation," and shows a proposed \$2.9 million expenditure for calendar year 1975. Let me comment on the freight cars we want to rehabilitate. We currently have 530 "bad-order" covered hopper cars sitting on storage tracks and idle rip tracks on our railroad. Some of them could be put back in service for as little as \$2,000 or \$3,000 each. But we don't have even that small amount of money. In the meantime, there is great demand for these cars. So far this year, our daily shortage of covered hopper cars (these are the ones that move the grain) varied between 600 and 1,500. In other words, the business is out there waiting for us, but we don't have the equipment to do the job. These cars are money-makers. In some cases, \$2,000 worth of repair money will put a car back into the fleet, and it will earn as much as \$10,000 to \$12,000 in revenue before the end of 1975. Car rehabilitation would be the quickest and most effective way of improving the Rock's financial status right now.

Now drop to the bottom of that column—and you will see, under the heading "working capital," the figure of \$9.1 million. I am well acquainted with that number; it keeps re-appearing in my nightmares.

We thought we'd made it quite obvious that \$9.1 million is what the Rock Island would have needed to support the rehabilitation program outlined in the application. If we were to do no rebuilding, no rehabilitation, then there's no way to believe that \$9.1 million, by itself, would suffice to keep the Rock Island limping along through 1975.

But, as members of this Committee are aware, that is precisely what the USRA Board voted for on February 4, 1975.

Let me back up in this chronology just a bit. Prior to USRA's Board meeting of February 4, the Rock Island attempted to establish some sort of dialogue with USRA's staff. Continued personal contact with the Chairman, the President, the Secretary and others at USRA was attempted. Our people sought to communicate; to determine what questions USRA might have; to see if they had problems with our application; to find out whether we constituted a thorn in their side, or whether they looked upon us as partners in an effort to prevent a Penn Central-type situation in the Midwest.

We reminded them that the Chairman had claimed there would be a decision by the end of 1974, and that it was already a good part of the way through January. Our situation, like that of railroads everywhere, was increasingly tight. We asked if the railroad could make a presentation to the full USRA Board—because they are the decision-makers, after all—to explain the increasingly critical situation on the Rock Island and the need for a speedy resolution. We were told, Mr. Chairman, that we could not make a presentation to the Board, because that would "open the floodgates," and every special interest in the country would demand a similar day in court.

Late in January, however, the Secretary to the USRA Board (Mr. Donald Cole) told our Washington office that I should present myself to the Board on February 4th, because they had some questions concerning our application. They emphasized that this was not to be a presentation—that I would be appearing at their request.

I cut short an inspection trip of our Memphis to Amarillo route in order to be in Washington on February 4, and I was ushered into the Board Room at mid-afternoon. Chairman Arthur Lewis was not there. Mr. Jordan held the Chair; he introduced me and stated that I should proceed with my "presentation."

Fortunately, I had a map with me, and I showed them where the spine of our railroad is and quickly summarized our situation and our needs. I answered questions for ten minutes or so, and the session then ended. Three questions in particular come to memory. One member asked if we do indeed have shortages in covered hopper cars, and could we go out and earn money if we started a rehabilitation program. (Yes) Another member asked if there could be any assurance of

repayment if working capital alone were extended as a loan—my answer, of course, was “no”—that what the railroad needed was rebuilding. A third member commented that we were looking for an awfully large chunk of the limited resources USRA has to accomplish its major task, which is to take care of the railroad situation in the Northeast.

I have obtained a copy of the official transcript of my appearance before the Board: I can make that part of the record also, if the Chairman so desires.

At eight o'clock that evening, a Rock Island official, waiting at USRA for the Board's decision, was handed a draft of a press release stating that the Board had voted to extend a \$9.1 million loan to the railroad for “general working capital purposes, and that the remaining \$90.9 million would be reconsidered at a later date.” The Board had adjourned and left the building.

Starting the next morning, our Washington office attempted to arrange a meeting with Mr. Jordan of USRA to find out what, exactly, the Board expected us to do with \$9.1 million. We knew no more than what we could read in the newspapers. We were told that Mr. Jordan was tied up with the Preliminary System Plan for the railroads in the Northeast, but that a meeting could be arranged for Thursday, February 13. In the meantime, taking the Board's promise of “reconsideration at a later date” at face value, and assuming that perhaps USRA wanted to wait until issuance of the Preliminary System Plan on February 26, the Rock Island announced that it would start work on 9.1-percent of its \$100 million rehabilitation program (pending receipt of the check from USRA, of course).

At the meeting on February 13, Mr. Knapton of our Washington office was told that the Rock Island should not have made such an announcement—that “a later date” was to be much later than we had interpreted, and that the \$9.1 million constituted the working capital we had asked for to get the railroad through 1975.

We were also advised that it would be judicious to stop making public statements until such time as the loan had been worked out, and were told that the terms and agreements for a \$9.1 million loan would be ready the following afternoon, February 14 (St. Valentine's Day).

These terms and agreements were handed to Mr. Knapton the following afternoon with a grin and the comment that “John will probably find these conditions too onerous, but the interest rate can't be beat.” The document was brought to Chicago on the next plane out of Washington.

We did indeed find the terms rather strange. I would like to make them part of the record also, with the Chairman's permission.

I won't go into detail, but they demanded first-mortgage bonds in an amount equaling 150% of the loan as security which we feel is somewhat high in light of the ICC's less-demanding policy under its administration of railroad loans under Title V, and since Rock Island bonds are as good as gold in a liquidation. We have some \$420 million worth of assets and only \$97,875,000 worth of bonded indebtedness.

But they also asked, Mr. Chairman, that during the period of our loan we pledge our accounts receivable in an amount equaling 150% of the debt with a trustee in Chicago whom we should pay. First of all, this seemed a strange thing to do to a cash-starved railroad, and secondly, it would offer no security in event of bankruptcy as the Court must get first claim on all accounts receivable. All it would do is cripple the Rock Island while it was trying to stay alive.

The third—and most interesting—condition was that we would automatically fall in default if at any time during the period of the loan our net worth or our cash balances fell one penny below the predicted figures in our loan application. The loan was to be for three years. Mr. Chairman, economic predictions are difficult enough in stable times; in today's situation, they are almost impossible. In fact, I would like to quote Mr. Arthur Lewis' remarks before the AAR Board of Directors on Friday, February 28th, when he said in referring to the possible profitability of Conrail (and I quote) “We can't make forecasts that have much meaning in a capital-intensive, labor-intensive, regulated industry in an inflationary environment.” Mr. Chairman, USRA talks out of one side of its mouth about Conrail and the other side about Rock Island.

Be that as it may, we did not flatly reject the terms. We have followed the Golden Rule of Business, which says “he who has the gold makes the rules.” In the meantime, however, and on that same date of February 14, I learned from our Treasurer that the Rock Island's cash position had become even more critical. Our mid-month figures showed the dismal plunge that has afflicted the entire railroad

industry during this very poor first quarter, and it became obvious to us on the 14th that if we were to stay alive and in operation through the months of February and March, we needed the \$9.1 million fast and on almost any terms.

Consequently, we wired the members of the USRA Board on the night of the 14th, telling them of the critical situation, noting that the letter of terms and agreements had been signed, and that we needed the check on an expedited basis.

The following morning, in a speaker-phone telephone conversation with Mr. Jordan, Mr. Hillman and Mr. Terry of USRA, our people were told (quote) "You mean he signed those terms? Then he couldn't have read them!"

Mr. Chairman, we should have gotten the message then.

But while the Rock Island is poor, we are also honest. We still felt that we had recourse to the USRA Board of Directors, and that they perhaps would override that was becoming an obvious bias on the part of the USRA staff of Vice Presidents and other functionaries.

The upshot of that one-hour speaker-phone conference was an agreement that on Monday, February 17, USRA would send two of its financial analysts to Chicago to go over our books to determine the newly-depressed state of the Rock Island's finances, and that starting at 9 o'clock on the morning of February 18, our financial and legal people would set up shop in Washington to prepare in detail a further amendment to the Rock Island loan application that would allow us to avoid bankruptcy through calendar year 1975 while not getting involved in a rebuilding program.

In the meantime, processing of the \$9.1 million loan was halted. Our people stayed in Washington through that week, and delivered a revised set of figures to USRA on Thursday the 20th. This was in a letter dated February 19, and it was supplemented by another letter on February 24. These are available for the record as well, Mr. Chairman.

Our great reservation in being offered a loan that would simply keep us alive through 1975 was that we could give no assurance of repayment. We were told by Mr. Paul Tierney of USRA, however, on the evening of February 18 in the presence of Mr. Jordan, that we could "cover" ourselves by keeping repayment to a (quote) "general improvement in the economic condition of the nation."

The Rock Island limped through the weekend and the early part of the next week, waiting for the salvation—or at least partial salvation—that was sure to come from the USRA Board at their meeting on the 26th. The 26th, you will recall, is the day USRA announced its Preliminary System Plan to the Congress and the nation. A quorum of the Board was available in Washington that day, and they agreed to once again take up the Rock Island's loan application. Their deliberations began at 9:30; they broke at 11:00 in order to go before the TV cameras with their plan for the Northeast.

They resumed their deliberations for a short while over lunch, but broke again at 1:30 so that Mr. Jordan and Mr. Lewis could come to Capitol Hill to tell the Congress what they had told the press 2½ hours earlier. The Board meeting resumed at 3:00. At 4 o'clock we were notified that the Board had voted to extend *no* loan to the Rock Island, and that the reasons were as follows: One, the amount applied for was insufficient to keep the railroad from becoming insolvent; and two, the loan could not be granted because there was no reasonable assurance of repayment.

In other words, Mr. Chairman, the amounts we originally applied for and needed were, in their minds, too great for them to lend and thereby (they thought) endangered the Conrail plan—and the amounts they were willing to lend were, in their minds, insufficient to do the job and therefore not in compliance with the intent of the Congress.

Mr. Chairman, we think they were wrong on both counts. If the Penn Central "disease" is allowed to spread to Colorado and New Mexico, we think the result would be not a Final System Plan solution, but nationalization. Penn Central is a bottomless pit for federal money today because it was allowed to deteriorate both physically and in its relationship with government to the point where it is a perpetual crisis waiting for a periodic check from Uncle Sam. The time to rebuild the Rock is now—when it can be done relatively cheaply and in an orderly way.

Now let me address the second count—our alleged inability to repay. I am confident the loan can be repaid—not because of the facts shown in our application, but because of the following incremental revenue analysis which summarizes data recently transmitted to DOT.

Before summarizing those figures, Mr. Chairman, let me assure you that I am not presenting some "bolt out of the blue" that arrived at the last minute just in time to save the Rock Island. I have been doing more since last November than just sitting in Chicago wringing my hands. I have hired some top people—some new blood, some new initiative, some new brains. We are in the process of taking a new look at our entire marketing structure; we want to maximize the return from those things we do best and minimize the activity on which we lose money.

Late last week we provided the DOT and shall provide the USRA with a new analysis of traffic mix that should result in contribution of \$148.8 million for the 1976-78 period. This does not include improvements we can and shall make because of reduction of losses due to accidents, intra-state rate increases, and selective reductions in service that will eliminate other service losses. Adding these improvements can, during the three-year (1976-78) period, produce added net income of \$167.1 million. This money can be used for debt service, plant restoration, and so forth.

For example, our new data system has uncovered a significant volume of traffic which is now carried below cost—and when I say cost I mean our own cash flow basis. Generally, this cost basis is significantly below ICC prescribed out-of-pocket cost levels. On this basis, we have so far identified \$34.6 million worth of traffic upon which we suffered an incremental cash loss of \$9.6 million last year. Evidently this "giveaway" traffic was not properly monitored in the past.

In short, Mr. Chairman, and without continuing with too much detailed economics, the Rock Island can repay—simply by improving some of the ways it does business. If USRA is talking about a loan payable at the end of '78, which is about what they proposed to us last month, we could handle a \$30 million borrowing. I feel there is no question about our ability to repay in view of the way we intend to do business—profitably, logically and efficiently. I might note that when we presented this approach to the DOT's financial specialists last week, they were receptive and urged us to pursue the matter.

Mr. Chairman, I can't overemphasize the fact that ability to repay the loan applied for is virtually certain. New management has been in place on the Rock for only 4 months. We have thus far been able to identify areas where an average of \$55.7 million annually in traffic improvements can be made. We have already cut operating costs by (\$3½) million per month. But we need more time to be effective.

Now, Mr. Chairman, let us examine what happens if there is to be no USRA loan whatsoever.

Obviously, the Rock Island runs out of cash very quickly. We have already hung on longer than we thought we could. In such an event, we would probably file under Section 77 of the Bankruptcy Act.

Unfortunately, a trustee wouldn't have any more working capital than present management has. The railroad has very little funded indebtedness. Over \$50 million of this debt consists of income debentures on which no interest or principal payments are being made. The remaining \$47 million of debt consists of a mixture of 2⅞% and 5½% bonds on which only interest payments are being made at this time. Our debt service payments are so small that the savings from a Section 77 bankruptcy will not solve the cash problem.

In this connection, Mr. Chairman, reference has been made in the past few days to the availability of \$19 million in trustee certificates that are the last remnants of the Emergency Rail Services Act of 1970. The prior lien provisions of those certificates make it questionable as to whether or not a Judge would use them; it is our understanding that the Penn Central reorganization court dropped this procedure like a hot potato when the creditors pointed out the problem. Granted, the \$19 million does exist. We are not sure, however, that they represent relief to a trustee.

Section 1(16)b of the Interstate Commerce Act can and will provide relief. Indeed, we have already participated in discussion at the ICC last week regarding the operation of essential services over our tracks by outside railroads. We will get paid for this—it's our property. The incoming railroad (or railroads) will get paid for this—the act indemnifies them from a loss. In addition, the incoming railroads will be guaranteed a profit. A management fee. Our back-of-the-envelope figuring indicates that during the 8-month maximum period that section 1(16)b could be in effect, the out-of-pocket cost to the American taxpayers could be as much as \$60 million in money down the drain. At the end

of the eight months, the treasury will be \$60 million short, and Rock Island territory will be left with an inoperable railroad in no better shape than it is in today. You can buy time—at an expensive price—but you can't solve the problem this way. It reminds me of Penn Central—money spent but no solution.

In the meantime, Mr. Chairman, let me give you a very quick rundown of what has happened at the Rock Island since last fall. The Act became law in January of 1974, I know, but USRA did not have a chance to take positive action until after September 20 of last year.

Since October 1 of last year, 1,221 people who used to be gainfully employed by the Rock Island don't work there any more. This represents roughly \$14 million in annual payroll that has stopped being pumped into local economies throughout the territory we serve.

Since October 1, there have been ten serious train wrecks on the Rock Island, most of them caused by bad track. The cost of these wrecks totals \$2,442,000. Fortunately, no one has been killed in these accidents, but there have been 618 injuries on the system during this period.

Since October 1, Mr. Chairman, there has been a cumulative total of 86,735 cars ordered by shippers that the Rock Island could not supply.

None of this needed to happen, Mr. Chairman. I think it happened because someone at the USRA made a decision not to make a decision.

I think it happened because the insolvency of the Rock Island would stand to benefit at least one identifiable entity:

Paralysis on the Rock Island benefits other railroads who see either elimination of competition or—more importantly—an opportunity to serve our market at taxpayers' expense with a guaranteed profit. It is a situation that would have brought a gleam to the eye of the old robber barons. I don't think the Congress wants this unfair and expensive prospect to become fact.

Mr. Chairman, I would be needlessly wasting your time and that of your colleagues if I were here only to bemoan our fate. I have asked you to listen, and I appreciate your concern. Now I must ask you to take action.

First—and this is somewhat unorthodox, I agree—I think it would be helpful if USRA's formal docket on Rock Island received a letter today from this Subcommittee reminding the Association of Congress' intent. We will be most pleased if USRA would—this week—come forward with the \$9.1 million check that would keep us going. This, in addition to the systemwide 10% pay cut that went into effect last week, will give Congress time to pass appropriate legislation that will provide the long-range solution that is required.

What we want to do is rebuild the Rock. The first year drawdown on that project would only be \$37 million of loans. With that program we could start solving the problem—rather than perpetuating it. Failing that, we have three bills that I would be glad to suggest to this committee. One makes Section 213 money available to the Rock Island. I don't like this approach very much, but it is offered with the thought that cash grants to the Penn Central and no money to the Rock Island doesn't do much for the people of Iowa or Kansas.

A second approach would be to amend Section 211 of the Regional Rail Reorganization Act to change the words "is authorized" to "shall." Tell them to make loans. This would solve the Rock Island problem and prevent turning Rock Island into another Penn Central.

Third, we would like to see legislation similar to last year's Surface Transportation Act loan guarantee program be acted upon swiftly. The entire railroad industry needs access to capital, not just the Rock Island. Both Houses passed the financial assistance portions of the STA last year; lengthy hearings would not be required; the Administration has agreed that such a system of loan guarantees is essential. We have drafted such legislation for your consideration.

Finally, let me comment on S. 917, introduced by Senator Pearson last week. We support the bill, but we are not sure that it will work. First, it authorizes the ICC to allow the Rock Island and the Union Pacific to pretend that they have merged. For this legislation to be effective, someone is going to have to ask the Union Pacific if they want to do this. We have asked them, and we have not received an answer. Our answer is "yes," we want a merger. We have been kept waiting at the altar for 12 years; and if the Congress wants these two railroads to live together for a while without benefit of ICC clergy, that is acceptable to us. The legislation would provide for an unconstitutional taking of property, however, if the Union Pacific did not pay for the assets and operating rights received.

That will have to be worked out and will take time. Also, we think the Union Pacific should be asked specifically what parts of the Rock Island they want to operate or lease. We believe that absent the same sort of thorough analysis that USRA has done in the Northeast, our shippers and receivers and employees should be able to expect continuation of substantially all of our services. We would hate to see a "rationalization by default" in the territory we serve.

Mr. Chairman, I appreciate your time and that of your colleagues. That concludes my prepared remarks, and I will be glad to answer any questions you may have.

CHICAGO, ROCK ISLAND & PACIFIC RAILROAD CO.,
LA SALLE STREET STATION,
Chicago, Ill., January 8, 1975.

Mr. JOHN J. TERRY,
*Vice President for Financial Planning, United States Railway Association,
Washington, D.C.*

DEAR JOHN: Recently, I have met with members of your staff to discuss the urgent need for speedy action on our loan application. As you are aware, the only way to prevent insolvency of the Rock Island, other than by the Union Pacific merger; which appears to be years away, is to rehabilitate its physical plant so that it can effectively supply the service Congress wished to preserve for the future long-term growth in the Midwest. While the recent downturn in the economy has worsened the financial situation at the Rock Island, it provides us with a way to materially aid in constructively stimulating the economy by immediately commencing the proposed Rock Island rehabilitation program. (As you know, M of W expenses typically run 50% labor.) The lower traffic volumes resulting from the slowdown of the economy can be turned into an asset in permitting the track rehabilitation program to be accomplished in a more economical manner due to less train interference with work gangs and the corresponding delay of trains by maintenance gangs working on the tracks.

If a meaningful track rehabilitation program is to be initiated during 1975 and 1976, firm orders for equipment and materials must be placed immediately. Some examples of lead time for delivery are as follows:

ITEM, DELIVERY LEAD TIME, AND REMARKS

Cross ties, 5 to 11 months, required seasoning of green material.

Gang housing units, 3 to 6 months, 90 days plus 1 unit per day.

Ballast regulators, 12 months.

Production tampers, 4 months.

Crew cab trucks, 6 to 8 months.

These estimated delivery times could probably be shortened with firm orders because of the continued slowdown of the economy so that work could start with the return of warm weather. Some of the materials and equipment are currently available from our normal maintenance programs and could be utilized to supplement the rehabilitation program until delivery could be made.

Since coming to the Rock Island, I have had my staff review and reorder the work priorities set forth in the original application. In reordering the priorities of how funds made available for track rehabilitation would be utilized, it was decided that all work accomplished would be permanent reconstruction concentrated on selected routes rather than patching up all routes on the various east-west and north-south tracks that make up the Rock Island. Choice of these routes for initial rehabilitation was made based on historic volume, both tonnage and revenue dollars, and potential profitable traffic growth areas where the Rock Island has an inherent route advantage. In this respect, the Rock Island route between Chicago and Southern California in conjunction with the Southern Pacific is one of the shortest competing routes. The Rock Island has the only single line route serving both the important upper Midwest market (Illinois, Iowa and Minnesota) and the domestic production and export markets of Texas. Since a significant portion of the track is used in common by both of these routes, it was decided that the initial phase of the Rock Island rehabilitation program should be concentrated on the line running between Chicago and Ft. Worth, bringing train operating speeds up to 69 mph, except for timetable restrictions.

The general order of work to be accomplished on any particular line segment would be as follows:

DESCRIPTION AND YEAR

Sub-grade stabilization—where necessary—1.

Roadbed rehabilitation—ties, ballast, etc.—1 and 2.

Rail replacement—2 and 3.

Assuming funds were immediately available, the following tentative timetable for expenditures during the first two years has been developed.

[In thousands of dollars]

Description	1975	1976	Total
Construct roadway equipment shop.....	560		560
Purchase:			
Highway vehicles.....	702		702
Track machinery.....	2,666		2,666
Gang housing facilities.....	999		999
Track rehabilitation and siding extensions:			
Chicago, Ill.—Davenport, Iowa.....	5,184	5,488	10,672
Davenport, Iowa—Allerton, Iowa.....	1,060	5,118	6,178
Allerton, Iowa—Kansas City, Kans.....	663	1,420	2,083
Kansas City, Kans.—Herington, Kans.....		5,045	5,045
Herington, Kans.—El Reno, Okla.....		5,964	5,964
El Reno, Okla.—Fort Worth, Tex.....	3,358	637	3,995
Silvis, Ill. yard.....	1,502	1,500	3,002
Kansas City, Kans. (Armourdale) yard.....	2,575		2,575
Blue Island, Ill. yard.....		1,577	1,577
South Chicago, Ill. yard.....	1,617		1,617
Des Moines, Iowa yard.....		1,565	1,565
Morris, Ill. yard.....	1,983		1,983
Total.....	21,869	28,314	50,183
REVISED REQUEST			
1. Track work (described above).....	21,869	28,314	50,183
2. Rehabilitation of rolling stock (no change).....	2,925	4,081	7,006
3. Miscellaneous additions and betterments.....	3,781	689	4,470
4. Working capital.....	9,100		9,100
Total.....	37,685	33,084	70,759

¹ Preliminary estimates only.

Note that the amount requested has increased in the first year from \$34,000 to \$37,685 (compare this statement with that on Table 16 in our application) and from \$24,000 to \$33,084 for 1976. The change reflects an acceleration of work so that benefits can be attained earlier—it does not reflect any change in price levels since the application was submitted. The objective is to fix rather than patch. Except for rail, we would produce at the end of the second year a 69 mph railroad between Chicago and Fort Worth. Rail has been left to 1977 because we don't seem to be able to purchase it until then—it will cost an additional \$4,370,000 which should be added to the program cost.

(Des Moines Yard is included, but not on the route described. It is in bad condition and needs fixing, but is not a part of the Chicago-Fort Worth program.)

The detail behind the preceding program has not been completely developed; and some changes may, of course, be necessary as the program develops. For instance, these plans give no effect to the potential extension of CTC signaling in double track territory between Chicago and Davenport and Topeka to Herington, or the potential resulting track retirements that could reduce the amount of required rehabilitation expenditures. A rough cut estimate shows potential savings of rehabilitation costs on the order of \$2 million. This type of evaluation will, of course, be part of our continuing future program refinement.

In order to evaluate the potential effect of the preceding program on our competitive position, train operations were simulated on the computer utilizing the Davis resistance formulas and a sample train consist. These simulations indicated the following improvements in running times with the removal of slow orders.

REDUCTION IN TRAIN RUNNING TIME

Between	Westbound	Eastbound
Chicago-Davenport.....	1 hr, 29 min.....	2 hr, 25 min. ¹
Chicago-Kansas City.....	5 hr, 47 min.....	6 hr, 50 min.
Chicago-Tucumcari.....	6 hr, 19 min.....	7 hr, 14 min.
Chicago-Fort Worth.....	8 hr, 20 min.....	9 hr, 22 min.
Des Moines-Fort Worth.....	7 hr, 14 min.....	7 hr, 14 min.

¹ Reduces times on all traffic to and from Omaha and Denver gateways.

In addition, a very significant improvement in performance can be realized from the yard rehabilitation program.

There is one item that has not been touched on in our conversation and reports on which you should have assurance—the servicing of our debt. Given the opportunity to restore the Rock Island in the manner we have outlined, we see no difficulty. I cannot emphasize too strongly that this statement cannot honestly be made in connection with any interim relief measure or partial program.

From the foregoing and the data to follow, you can see we are now well along in the specification of the application of loan funds. We have a program that can be put into immediate operation on the receipt of notice of a loan, a program that maximizes the immediate and long-term return to the public in rail service for which there is no effective alternative. We need your approval of the scope of the program (\$100 million) and immediate authorization on at least the first two years so that materials can be ordered. It is essential that maximum use be made of the 1975 maintenance season.

We would be delighted to make, as a condition of the loan, an ongoing dialog which would treat in depth alternatives which accomplish the stated service objective. We would like an opportunity to meet with you and explain the back-up detail as it is completed.

Yours very truly,

JOHN W. INGRAM.

UNITED STATES RAILWAY ASSOCIATION,
Washington, D.C., February 14, 1975.

Mr. JOHN INGRAM,
President, Chicago, Rock Island & Pacific Railroad Co., LaSalle Street Station,
Chicago, Ill.

DEAR MR. INGRAM: The United States Railway Association is pleased to offer the following credit facility to the Chicago, Rock Island and Pacific Railroad Company. This letter of intent outlines the terms and conditions under which the loan would be made. Please indicate your acceptance of the terms by signing one of the two enclosed copies of this letter and returning it to the Association. Upon receipt of your signed letter of acceptance, we and our counsel are prepared to begin drafting final documentation for the loan.

SUMMARY OF TERMS

Borrower.—Chicago, Rock Island and Pacific Railroad Company (Rock Island).

Purpose.—Working Capital.

Amount.—\$9,100,000.00.

Term.—To mature three years after date of agreement, except as otherwise provided therein.

Interest Rate.—One-half of 1% per annum over United States Railway Association Rate from the Department of Treasury, payable semi-annually.

Drawdown.—Prior to March 31, 1976, as needed.

Repayment.—At due date or at refinancing if additional loan is granted.

Pre-payment Penalty.—None.

Security.—

(1) Pledge of First Mortgage Bonds as collateral, Series H and Series I, \$13,650,000.00.

(2) Pledge of accounts receivable in an amount equivalent to 150% of any funds drawdown, with pledging and releasing to be administered by a Chicago-based Trustee. Rock Island to pay Trustee's fee.

(3) Loan to be entitled to the governmental priority established by 31 U.S.C. Section 191 in the event of Rock Island entering Section 77 Reorganization or becoming insolvent.

Maintenance Provisions.—

(1) Net worth not to be less than levels projected in loan application for any year a loan from the United States Railway Association is outstanding.

(2) Working capital not to be less than projected levels.

Reporting Requirements.—The Company will furnish the following information in satisfactory form to the United States Railway Association:

(1) Monthly income and cash flow statements.

(2) Annual audited financial statements with clean opinion by a CPA of recognized professional standing acceptable to the United States Railway Association.

(3) Copies of 10k and 12k statements to the Securities Exchange Commission and Interstate Commerce Commission reports plus access to books of record.

(4) Other information as reasonably requested by the United States Railway Association.

Negative Covenants.—Without the approval, in writing, of the United States Railway Association, Rock Island will not:

(1) Sell, dispose or encumber any major assets or subsidiaries.

(2) Issue, modify or extend First Mortgage bonds without consent of USRA.

(3) Pay dividends.

(4) Merge or reorganize without repayment of debt to the United States Railway Association or satisfactory assumption of the debt by the surviving entity in a form and offering security acceptable to the United States Railway Association.

(5) Acquire or retire any outstanding stock.

Other Terms and Conditions.—In the event of a merger, reorganization, or disposal of any major assets, future commitment for advances will cease.

Failure to satisfy maintenance provisions, or the breach or violation of any covenant will be events of default.

Subject to satisfaction of the United States Railway Association and its attorneys as to documentation.

Borrower to pay legal and closing fees and other direct costs reasonably incurred, if any, of the United States Railway Association, including legal fees and direct costs reasonably incurred in the event loan not consummated.

Subject to approval of any necessary regulatory authorities and any other consents which Rock Island must obtain.

Required Opinions.—Rock Island will supply an opinion of outside counsel, acceptable to counsel for the Association, stating that Rock Island is duly authorized to accept the proposed loan, to incur the obligations thereunder, to pledge its First Mortgage bonds as collateral, and to pledge its accounts receivable, and that such actions will not violate any terms or provisions of its corporate charter or articles, by-laws, First Mortgage or income indenture and will not require the consent of the holders of First Mortgage bonds or income debentures. Such opinion will include consideration of the applicability to the loan of the governmental priority established by 31 U.S.C. Section 191 in event of Rock Island's bankruptcy or insolvency and any consequences bearing on Rock Island's authority to accept the loan.

If you have any questions concerning this Summary of Terms, we will, of course, be pleased to confer with you.

Sincerely,

PAUL E. TIERNEY, JR.,

Director Financial Programs and Capital Structure.

Senator STEVENSON. The next witness is Mr. Edward Jordan, president of the United States Railway Association.

Mr. Jordan, would you identify all of the gentlemen who have come with you and then proceed?

I admonish you as Senator Hartke did the other witnesses to, if possible, summarize your statement, in which case you can place the entire statement in the record.

STATEMENT OF EDWARD G. JORDAN, PRESIDENT, UNITED STATES RAILWAY ASSOCIATION; ACCOMPANIED BY JORDAN JAY HILLMAN, GENERAL COUNSEL; JOHN J. TERRY, VICE PRESIDENT FOR FINANCIAL PLANNING; HOWARD W. ROBISON, VICE PRESIDENT FOR CONGRESSIONAL AFFAIRS; AND PAUL E. TIERNEY, JR., DIRECTOR OF FINANCIAL PROGRAMS AND CAPITAL STRUCTURES

Mr. JORDAN. Mr. Chairman, if I may identify the people, on my far right is Mr. Howard Robison, vice president for congressional affairs for the association.

On my immediate right, Mr. Jordan Jay Hillman, our general counsel.

On my immediate left, John Terry, vice president for financial planning.

To his left, Paul E. Tierney, Jr., director of financial programs and capital structures.

These gentlemen on my left were the principal staff participants in the Rock Island loan.

I would like to ask the committee's indulgence that I may expand a bit, in fact, on my statement to hopefully clarify some factual statements that have been made or not been made during the course of the hearings. So in that case, if you will permit me, I would like to read a portion of my statement and add to it.

Senator STEVENSON. Proceed.

Mr. JORDAN. Before discussing the particular loan application, I think it would be useful to the committee to set out our understanding of the statutory requirements involved in considering section 211 applications.

While the major intent of the act quite clearly has to do with the northeastern region and a viable rail system in that particular region, we recognize it is not the exclusive concern of the act. The act provides for a number of financial programs, including cash grants under section 213, which in light of recent legislation are now up to \$282 million, employee protection benefits for \$250 million, continuation subsidies on branch lines under section 402(e) of \$180 million over 2 years.

There are also loan programs particularly in section 215 which provide for preconveyance loans to railroads in reorganization in the total amount of some \$300 million.

In this particular case the recent amendment indicates that the Association with the approval of the DOT may relieve Conrail in such cases of its general obligation to assume such loans.

In contrast, however, to these cash grants or potentially forgivable loans, the act establishes various "absolute" loan programs under section 211. As regards all categories of section 211 Government guaranteed loans, section 210 of the act provides for a maximum obliga-

tional authority of the Association of an aggregate of \$1.5 billion outstanding at any one time. Of this total, Conrail, the major new regional carrier contemplated by the act, is eligible for a maximum of \$1 billion in loans, subject to the mandatory use of at least one-half billion dollars for rehabilitation and modernization of acquired rail properties.

As for the remaining one-half billion dollars under section 210, the conference report on the act states at page 60 that the increase in this amount over the limits in the House bill is "intended primarily to permit improvement of the Northeast corridor."

Accordingly, any section 211 loans, under which we were considering the Rock Island, other to Conrail or for Northeast corridor improvement could operate for the present at least to reduce loan authorization amounts available for these seemingly "core" purposes.

There are various categories under section 211, the first one for Conrail, Amtrak, and other railroads in the region.

Until the recent amendments to the act which became effective on March 1, 1975, the purpose of such loans was limited to implementation of the final system plan. This purpose has now been amended to cover loans for "achieving the goals of the act." Since the "goals" as such, at least under section 206(a), remain entirely regional, it is not likely that the amendment covers the Rock Island situation. Moreover, its legislative history, as we understand it, suggests a "regional" purpose.

The second purpose or category is State, local, or regional transportation authorities in the region. These are loans to buy any railroad properties eligible for a rail service continuation subsidy as an alternative to cash subsidies for operating purposes.

Third, any railroad which connects with a railroad in reorganization. These loans are to help to "avoid reorganization proceedings" or, as also stated, "to prevent insolvency."

I should emphasize that the purpose here is not just to maintain operations, as in the case of section 213 grants and section 601(e) emergency service arrangements. Instead, to repeat, the stated purpose is "to prevent insolvency." In other words, if interim emergency financing to maintain operations would provide no reasonable possibility of preventing ultimate insolvency, the loan would seem to be clearly beyond our powers.

The broad range of section 211 loan purposes and the statutory limits on the association's loan authority requires us to evaluate each section 211 loan application with regard to its overall merits in furthering the purposes of the act. The most effective allocation of limited section 211 funds is not an easy job, but it constitutes a basic association obligation to the entire Congress and the entire public.

How does the association approach that obligation? We do not think we have approached it simply as lawyers reviewing a proposed trust indenture, although we do have a proper concern for not acting beyond our lawful powers or contrary to our basic responsibilities, as has been pointed out many times this morning, under the act. Nor do we approach it merely as bankers, although we can't ignore the clear intent of Congress under the act to distinguish between grant programs and these loan programs, and we do not think we should undertake to abolish that distinction by making grants disguised as loans.

In defining our obligation in respect to section 211 loans to connecting railroads for preventing insolvency, we have drawn our basic guidelines from the act's provisions and its legislative history.

As for the act itself, we cannot wholly disregard the fact that in the matter of repayment and security, only one important distinction is made on the basis of the identity of a borrower. "Where applicable," the act tells us, loans are to be treated as an "expense of administration." This has principal reference to loans to those so-called profitable railroads in the region which are in section 77 proceedings at the time of the loan. Erie Lackawanna, at the moment, and Boston and Maine fall in this category.

What this seems to say is that in loans to bankrupt railroads, Congress viewed the assurance of repayment and adequate security with special concern—even though this absolute statutory requirement might well induce a refusal by a reorganization court faced with creditor objections to approve a loan which is important to the goals of the act. In the case of loans to marginal railroads threatened with insolvency, this suggests to us that we cannot ignore reasonable considerations of repayment and security.

Given the important public purposes of these loans, it might be suggested that certain critical situations would warrant the assumption of some added repayment and security risks not warranted in other section 211 loans. But, as I have noted, we don't see how we could be justified in making outright grants in the guise of loans.

To be specific, the Association cannot repeal the statutory prerequisite of section 211 (e), covering any section 211 loan, of "security * * * to protect reasonably the interests of the United States." Nor can it nullify the stated congressional policy of section 211 (d) and (f) which looks to the timely repayment of section 211 loans. Moreover, we believe it necessary to look at the timely repayment and reasonable security requirements as having a kind of inverse relationship. That is, as the possibilities of timely repayment seem less assured, the question of adequate security becomes more important.

We are mindful that the conference committee, in accepting provisions "to provide financial assistance under certain conditions in the form of loans to railroads outside the region" (report, p. 60), referred specifically to the Rock Island and Katy lines—these being the most readily identifiable candidates for such loans at the time.

Based on more recent developments, about which you have heard much today, however, it is not in the least unthinkable that current economic conditions may spawn other candidates, some in keen competition with Rock Island.

In any case, we find something less than a congressional mandate in the report to make loans in any amount or under any conditions to the railroads mentioned, or to any other applicants in a cash crisis and facing possible insolvency. For what the conference committee said was that "loans could be extended * * * if they otherwise qualify."

We believe the association's task is to balance (i) the actual likelihood of avoiding an insolvency with (ii) the possibilities presented for timely repayment and reasonable security. Moreover, in general, we can't ignore the question of whether any particular loan in an amount

required to meet its basic purpose would involve a disproportionate share of our limited loan authority.

I think an examination of the circumstances surrounding the Rock Island application is called for.

The Rock Island did file its application for a \$100 million loan on September 19, 1974. Its application recited the steady financial and physical deterioration Rock Island had experienced over a period of years and requested a loan for the purpose of commencing a long-term rehabilitation program to restore the properties and earning capacity of the Rock Island.

The application proposed that loan proceeds be used for rehabilitating 19 segments of Rock Island's main lines, \$86 million; for repairing bad order freight cars, \$9.4 million; and for completing various other deferred capital expenditures, \$4.5 million. Loan proceeds were to be drawn down as rehabilitation costs were actually incurred, although an initial \$9 million drawdown for working funds was proposed—to be replaced by subsequent cash benefits.

As security for the proposed loan, Rock Island offered to pledge \$23 million in principal amount of its first mortgage bonds.

The request was based on a stated need for "massive capital infusions" as the "only" means of avoiding reorganization proceedings. Repayment was predicated on the increased revenues and reduced operating costs resulting from this initial rehabilitation program.

Upon receiving the application, the association's staff began an intensive investigation of Rock Island's financial condition, the quality of security offered, the possible availability of other security, the condition of Rock Island's physical plant, and the need for and projected results of the rehabilitation program.

We would be glad to supply to the committee a chronological record of the memos, contracts, and reports written for this purpose.

Members of the Association's staff made several trips to Chicago to interview Rock Island management personnel and to review Rock Island's financial records and the data underlying its forecast. We hired a consultant to inspect Rock Island's lines and maintenance procedures and to evaluate the proposed rehabilitation program.

As our analysis proceeded, additional information was requested and received from the Rock Island.

In mid-October 1974, Rock Island's board of directors elected a new president and chief executive officer, who, on assuming office shortly after, began a reexamination of Rock Island's management policies, including its rehabilitation program and loan application. This ultimately led to Rock Island's proposal of substantial changes in the rehabilitation program underlying the loan request. These revisions were submitted to the Association on January 8, 1975. The revised financial projections were not submitted until January 23.

Specifically, new Rock Island management proposed concentrating the widespread rehabilitation program on a few critical segments and postponing rehabilitation of the remaining segments until later stages of the program.

As now broadly conceived by Rock Island, the \$100 million loan would be for the purpose of funding the initial steps of a total rebuilding program estimated at \$350 million over 5 years and as much as \$700 or \$800 million over 10 years. Under the revised program, however, the overall amount requested remained at \$100 million, and \$9.1 million

continued to be earmarked for working capital. At the same time, the entire program was accelerated.

Meanwhile, as part of its continuing analysis of the loan request, our staff determined that as the rehabilitation program provided additions and betterments, a railroad accounting term, and a loan from Union Pacific was repaid, it would be possible for Rock Island to issue a further \$28 million of first mortgage bonds as added security for an Association loan.

Actually, this latter possibility of "freeing up" added bonds for pledge in support of an Association loan would seemingly result in part at least from the indirect use of loan proceeds to pay off the related debt maturing in 1975-76.

While the Association's staff concluded that Rock Island was being prudently managed, its analysis cast substantial doubt on Rock Island's projection that completion of the initial phases of the rehabilitation program would result in an earnings improvement from a \$22.5 million loss in 1974 to a \$36 million profit in 1980.

The Association's primary concerns were that traffic predictions did not reflect the substantial economic downturn commencing in the last quarter of 1974, that Rock Island was projecting over a 5-year period a \$17 million annual net income improvement resulting from rate increases in excess of cost increases and that Rock Island may have been too optimistic in forecasting a substantially more favorable ratio for equipment-rent expenses.

Our own analysis indicated that Rock Island's predictions reflected a consistent overstatement of potential net benefits.

To reflect these concerns, the Association's staff prepared a revised forecast. This showed Rock Island continuing in a deficit position, at least through 1980.

It should be noted here the President of the Rock Island indicated substantive detailed information supporting these rate increases is only now available and has not been provided to the Association yet.

Rock Island's revised cash flow projections as of January 20, 1975, being the latest available at the time of the Board's consideration of the loan, indicated a \$2.5 million cash deficit at the end of 1975. While our staff thought this projected deficit was understated, the Board concluded that the \$9.1 million portion of the loan requested for working capital purposes could be sufficient to get the Rock Island through the year.

On February 4, 1975, the Association's Board of Directors approved offering a \$9.1 million working capital loan, without prejudice to Rock Island's right to reapply for a \$90.9 million rehabilitation loan at a later date. While the repayment prospects for this loan were clouded, the available security for a loan of this amount, primarily through the use of maximum pledge of \$13,650,000 face amount of first mortgage bonds, seemed adequate in the circumstances—particularly if any priority lien status could be arranged.

The Board's decision was a matter of assuming some risk in the public interest to make timely repayment in the interest of giving new management an 11-month opportunity to take hold, to consider all methods of avoiding insolvency, and to allow further public consideration of Rock Island's financial problems.

While it has been stated by the Rock Island management that they were not in accord with this statement, I gather from comments made

today that the president of the Rock Island agrees with this thesis. They did need the time to catch hold.

Following the Board's loan approval, the Association's staff contacted Rock Island concerning the terms and conditions specified by the Board and to complete the loan transaction. In the period February 10 to 12, various public statements were made by Rock Island's management that the \$9.1 million loan proceeds would be used largely in track and freight car rehabilitation. Its confidence in the future prospects of the company was also expressed.

Despite Mr. Ingram's letters to the Association, no projected serious operating cash shortage was then suggested. On February 13 we met with a member of the Rock Island management and discussed with him the relative questions of the cash being used for rehabilitation purposes as opposed to maintaining liquidity of the Rock Island through 1975.

On February 15 the Rock Island sent a telegram to the Association Board members, to me and to others, stating that the Rock Island was now forecasting a lack of cash in 1 week to 10 days. The telegram said this condition was caused by a business decline of 10 percent below forecast and the ICC's postponement of the pending rate increase which had taken place on January 30 prior to Ingram's appearance before the Board of the Association.

During the course of that day, telephone conversations with Rock Island officials also revealed that Rock Island might be unable to satisfy some of the basic conditions of the proposed terms. It was agreed that Association representatives would meet with Rock Island personnel in Chicago on Monday, February 17, to review the railroad's current cash position. It was also agreed that representatives of the Rock Island would meet with members of the Association staff on Tuesday morning, February 18, 1975, to review these matters, at which time the Rock Island representatives were requested to present a detailed analysis of their current financial position.

At the February 18 meeting, the Rock Island representatives stated that their current forecast showed a lack of cash for operations in the last week of February. On the basis of this February 14 revised forecast, it was also asserted that a loan of \$9.1 million for working capital purposes would no longer be sufficient to sustain operations beyond March. Preliminary indications by USRA staff were that the minimum amount of working capital necessary to sustain operations during the remainder of 1975 would be in the order of \$25 million.

In light of these developments, I concluded that the Board's basis for the \$9.1 million loan no longer existed and that further Board consideration was required. Any loans now seemingly necessary to avoid insolvency until the close of 1975 would raise substantial questions both as to the adequacy of security and any possibility of repayment.

At the February 18 meeting, we requested Rock Island to provide a more detailed forecast of its cash needs for the remainder of 1975, a letter, which also can be made part of the record.

I agreed, however, to bring the situation promptly to the attention of our Board. I also instructed the Association's staff and legal counsel to work with Rock Island's representatives so that any loan the Board might approve could be consummated without delay.

Rock Island submitted new projections on February 24 confirming its most recently expressed view that at least \$30 million and as much as \$48 million would be needed simply to sustain operations during 1975. The \$48 million forecast assumed the nonavailability of various other external sources of funds and a lack of revenue benefits from then pending freight rate increase proposals. The \$30 million forecast assumed realization of these cash benefits. Both the \$30 million and \$48 million projections assumed a stabilization of freight traffic at present levels based on no further decline in the economy. Rock Island made a formal request for a \$30 million working capital loan.

In discussing working capital loans with the Association, Rock Island's management emphasized that the avoidance of insolvency after depletion of these working capital funds by the close of 1975 and any repayment of such loans would be impossible in the absence of a further loan commitment to fund the rehabilitation program. This repeated representation reflected its conviction that the cash flow benefits of rehabilitation were the essential basis for any possibility of repayment.

Consequently, in requesting a minimum working capital loan of at least \$30 million, the Rock Island made the further representation that the \$100 million rehabilitation loan possibly increased to \$110 to \$120 million would be a requirement by 1976.

As late as February 25, this position was restated in telephone conversation between Mr. Hillman, myself, and Mr. Ingram.

In effect, therefore, a \$30 million loan could only be considered as part of a total loan requirement of \$130 to \$168 million as the necessary basis for avoiding insolvency and providing any possibility of repayment.

Mr. Ingram did note to us verbally of the first \$30 to \$48 million, some \$4 to \$6 million might be used for rehabilitation purposes and thus reduce the \$100 to \$120 million.

In evaluating these explicit initial funding requirements, the Association was also compelled to consider Rock Island's most basic "hard core" capital requirements over the next 10 years. Cumulative equipment obligations to be issued in the 1975-84 period exceeded \$284 million. The refinancing of some \$47 million of series A and C first mortgage bonds would also be required in the period 1979-83. Rock Island's debt to Union Pacific of \$2.7 million as of February 1975 was also due and owing in 1975-76. The staff had serious concerns about Rock Island's ability to carry out these financing programs during the life of any long-term loan as would be required by a \$130 million or more commitment.

While the staff continued to analyze Rock Island's revised application, although never formally revised, it was also working intensively with Rock Island's representatives in accordance with my instructions to agree on the terms, conditions, and documentation for a working capital loan, so that if the Association's Board were to authorize such a loan, an initial advance could be made to the Rock Island not later than February 28, 1975.

On February 25 and 26, representatives of Rock Island's management urged the Association to advance the closing of any loan trans-

action to February 27 because they believed Rock Island would be without operating cash on February 28.

On February 26, 1975, the Association's Board of Directors met to consider the revised Rock Island application. Following a considerable discussion of the matter, which has been indicated took place throughout the day, it voted to deny the Rock Island's application as inconsistent in the circumstances with the standards of section 211.

The Board, I believe, had the following major concerns:

(1) Rock Island's professed inability to repay a working capital loan;

(2) The magnitude of funding required for loans to encompass both working capital and rehabilitation; and

(3) The lack of any adequate assurance that Rock Island's earnings would improve sufficiently to repay both loans, and the limited amount and quality of the security Rock Island could offer for a loan of this size.

In sum, the Board was unable to find that the \$30 million loan requested by Rock Island would actually prevent insolvency, that there was any reasonable possibility of repayment, or that the available security would protect reasonably the interests of the United States.

As regards security, we were advised by counsel that in the event of insolvency there was a present substantial doubt that the Government priority provided under title 31, section 191 of the United States Code would apply, if at all, in a manner to vest the loan with a priority status equivalent to its being treated as an "expense of administration."

This served to emphasize the importance of having some reasonable certainty that a loan in any given amount would, in fact, avert insolvency.

Given all these circumstances, it appeared to our Board that the dimension of Rock Island's problems precluded their effective handling under section 211.

As has been pointed out throughout the morning, there are many problems associated with continuing railroad viability outside the region defined in our act, and our Board has had limited time to consider any specific recommendations. Viewing the matter from the standpoint of our own statutory responsibilities, it is possible to conceive of better protected loan arrangements which could contribute to the useful operational restructuring of rail services suffering from overcapacity and underutilization.

I cannot, however, speak on this matter for the Board. Undoubtedly, there is a compelling need for legislative consideration of these problems. Many of the general observations in our preliminary system plan have relevance to the entire railroad system. These certainly include problems of unduly rigid regulation and inequities in the public treatment of the various transport modes—again points made earlier today.

Many of the immediate problems, however, are undoubtedly the partial result of current economic conditions. We believe it highly appropriate for Congress to consider these problems on a scale commensurate with their scope.

When the Regional Rail Reorganization Act of 1973 became law on January 2, 1974, few persons, if any, could foresee the full impact on our Nation's railroads, both within and without the region, of the general economic slide which began in 1974, and particularly of the

double impact of cost inflation and revenue contraction. In these critical economic circumstances there are distinct limits under the present Regional Rail Act on our capacity to respond to every crisis which may confront our railroads. But I assure you that we shall continue to do all we can with the resources provided to meet the priorities and standards established by the Congress under the Act.

We would welcome your questions.

Senator STEVENSON. Thank you, Mr. Jordan.

Mr. Ingram said:

If USRA is talking about a loan payable at the end of 1978, which is about what they proposed to us last month, we could handle a \$30 million borrowing. I feel there is no question about our ability to repay in view of the way we intend to do business—profitably, logically and efficiently.

You don't agree with improved business practices that they could repay such a \$30 million loan?

Mr. JORDAN. Mr. Chairman, I would start with the fact that the Rock Island management made it very clear prior to the Board's consideration of the February 26 review of the loan that that was their statement—that they could not repay the \$30 million loan without a \$100 to \$120 million rehabilitation loan. That was the statement at the time.

Now, if, in fact, circumstances have changed sufficiently that this new management has had an opportunity to better understand its problems, we would welcome the opportunity to review the information.

But we did consider an application submitted in September and a revised one in January. At three separate Board meetings in January and two again in February, and throughout those meetings there was no indication by the Rock Island that there was anything amiss or remiss in their figures or that they wished to adjust any further.

Senator STEVENSON. You are not closing the door then on a \$30 million loan? You are prepared to reexamine the application and to meet with the new management to discuss it?

Mr. JORDAN. The association's position as it stands today is that based on what has been presented to us that the loan request is in the nature of \$130 to \$168 million and that there is no reason to reconsider that application in light of what we know.

Now, if the Rock Island is prepared to resubmit an application for \$30 million—and I would point out quite clearly there is a great deal of confusion about this in the earlier testimony, or if the Rock Island, in fact, was applying for a \$100 million loan, \$100-plus million \$30 million, or was drawing down \$37 million of a \$100 million loan which in their application was to be used, in excess of \$20 million, for the rehabilitation of track, not for cash purposes, not to buy oil, not to meet payrolls, we would need a complete review of this information. I see no reason to go back and review the past application in light of the circumstances that surrounded it then or the statements made by the Rock Island management, both verbally and in writing.

Senator STEVENSON. You heard Mr. Ingram. He was saying without additional loans the railroad could repay a \$30 million loan. So I would urge you to get together with the railroad, and if it looks as if it is warranted, encourage it to submit a new loan application.

Mr. JORDAN. I have already made the commitment to meet with one of Mr. Ingram's people to review the factual material he referred to being recently developed. We certainly will reconsider anything of a factual nature.

Senator STEVENSON. You will reconsider, but I really don't think you are very optimistic about the chances of justifying a \$30 million loan, are you?

Mr. JORDAN. Senator, I am concerned that the nature of the statements made tend to vary considerably from time to time, and whether or not there is factual basis for the assertion that repayment can be made. The \$30 million loan, as I understood Mr. Ingram's statement, was that it "would see me through the year." It was not the same as the \$37 million drawdown as part of the \$100 million loan which was to be used for track purposes. Now, they tended to be commingled in the testimony. But I would suggest that there be a clarification of those two.

The \$30 million loan that they applied for—Rock Island—to the Association was for working capital purposes. And as I understood Mr. Ingram's statement earlier that \$30 million would simply see them through.

Under the terms of the act as I understand it—I should let counsel speak to this—though Senator Hartke made it quite clear he did not believe the Association should make law but respond to the law as made, and that is what the Association was doing when it considered these loans. It did not prevent insolvency. It merely postponed it.

Senator STEVENSON. I may have misunderstood Mr. Ingram, but I thought he said if he could get that first loan for \$30 million and no more that it could be repaid and that it would go into—not all of it, but most of it—into their rebuilding program.

When you consider such loan applications, do you consider also the effect of rehabilitation of facilities on the competitive position of other railroads?

Mr. JORDAN. We did not specifically make that a consideration or attempt to study it. I think, speaking for the Board, we were quite concerned about the possibility that this loan advanced in the nature of \$130 million to \$168 million to rebuild the Rock Island could very well be at the expense of other railroads in the region which are already marginal, which has also been verified here today.

Senator STEVENSON. Do you have any idea how much loan authority you would require to take care of your responsibilities in the Northeast and also provide for the needs of connecting railroads such as the Rock Island?

Mr. JORDAN. Senator Stevenson, starting with the Northeast, our preliminary system plan indicates that Conrail has a capital requirement over its first 10 years of approximately \$3 billion, outside of \$500 million that we believe can be identified from the private sector.

That \$3 billion compares to a billion now available in the act mandatorily for Conrail.

We have not suggested that the Government must provide that additional \$2 billion, but it certainly is right, I think, to state that some portion of that \$3 billion or some major involvement of the Government will be required in order to make that happen.

Now, in addition, in my testimony I indicated there is another \$500 million available for Amtrak, other railroads to implement the final plan, public authorities, States to buy out railroads, as well as for purposes such as the Rock Island Railroad, connecting railroads.

The DOT has indicated that the rehabilitation of the Northeast corridor will exceed \$2 billion to meet the requirements of the act for high-speed transportation. That is a sum in excess of that which we have indicated for Conrail, since we have divided the two problems.

We start out, therefore, with requirements far in excess of anything in the act today as a result both of the extensive rehabilitation required, far beyond what I believe anybody foresaw some 15 months ago, and due to the fact of inflation in the last 15 months, which, in the case of steel, raised the price of steel over 40 percent for rail purposes.

Now, if we go into the Midwest, if the Rock Island is an example of what may take place, we are looking at 10,000 miles of track. They are asking today for, by our figures and by their statements, \$130 million to \$170 million as the first step, working capital, beginning of rehabilitation. If they cannot, in fact, find private sources for the next level of funding, given that the Government has made any commitment of that nature, it may be that we are looking at a \$350 million requirement on the Rock Island.

Now, if you look at that in relationship to the other railroads, the Milwaukee, Chicago & North Western, the Katy, which has an application for approximately \$20 million for 110 miles of track in the Houston area, it would be well beyond my capability to suggest a figure but, I think, we are looking at numbers in the \$5 billion to \$10 billion range. I don't want to just describe a horror story to you. I think that is what we are facing.

The ICC as part of their rate increase, Ex parte 305, which was a 10-percent increase in the summer last year, required that railroads report on deferred maintenance and that the funds would be used for that purpose. You may recall the controversy surrounding it.

As I recall, the sum figure that they received from the railroads, the deferred maintenance today is suggested as being in excess of \$4 billion. That is by the railroads' own accounting.

Our figures on the Penn Central alone were in excess of \$3 billion in today's terms to rebuild it now, which suggests, I think, that the \$4 billion is low. I think that is really what we are talking about.

Senator PEARSON. Is that figure for the anticipated plan?

Mr. JORDAN. The \$3 billion figure in today's costs for a 15,000-mile system, not for the 22,000-mile system.

Yes, Senator.

Senator STEVENSON. Is it your present opinion that it would be more sensible to simply divide up one way or another all the existing Rock Island traffic among its competitors in order to improve the health of those competitors, some of whom are marginal?

Mr. JORDAN. I don't know that I could answer that question precisely that way. It seems to me that if the effort which Congress set forth with the Regional Rail Reorganization Act has any validity that the more appropriate way—and I recognize that we are in a crisis of time,

so what I am about to say may not be as practical as I would like—but that the more appropriate way would be to examine the proper place for the Rock Island or its route structure but not simply to suggest that we divide up the Rock Island.

To me it is not so much a question of whether it is the Rock Island or the Katy or the Milwaukee but how much rail service is required, how much competitive service is required at each point for a shipper. Do we need five and seven routes between these major communities, or do we need two, three, four, in which case we can start rationalization, reduce the enormous capital requirements we just talked about for rehabilitation, and concentrate our dollars or relatively few lines with relatively few entities operating them, which hopefully can be profitable as opposed to the kinds of figures that the ICC testified to this morning losing money.

Senator STEVENSON. What agency is competent to undertake that planning on a crash basis? I can't be very confident in the ICC on the basis of this track record.

Mr. JORDAN. I can't comment on that, but as far as the first part of the question I do agree with Chairman Stafford's comments the 200 plus people of USRA have a commitment of their own to make on the final system plan. I guess it might be a little self-serving, but I think the competence and quality of that organization is such to take on a larger job I have just suggested under whatever circumstances Congress wished to put forward—

Senator STEVENSON. That's exactly what I'm getting at.

Mr. JORDAN. I was reluctant to respond, to be honest.

Senator STEVENSON. Assuming the Rock Island ceases operations, the ICC issues its orders, service is maintained for 8 months, with whatever additional authority including funding is required by the Congress, are you prepared to take that job on?

Mr. JORDAN. No, sir. For two reasons. One, I have already stated I don't think we can handle the work in the next 8 months and do the job we have to do in the Northeast. We might be able to do it with an increased staff. But I am now just being judgmental about that.

I think, secondly, if we are only talking about the Rock Island, then perhaps the more reasonable course to follow is that which has been proposed in a merger case which the Rock Island reported on in December.

Given the shortness of time, the 8 months, and the fact that you are only dealing with the Rock Island, then to mount a larger effort in my judgment would not be worthy of your time and money.

Senator STEVENSON. But isn't it possible that the merger could lead to failures of more railroads?

Mr. JORDAN. I think more importantly this has been suggested. It may not take place at all if the railroads who compete with it are concerned about what happens to them in the circumstances. This leads me to suggest that if, in fact, we are looking at the leading edge of another Penn Central as has been described a number of times today, perhaps now is the time to look ahead and attempt to work the problem in the front rather than after the fact in crisis in which we have done the Penn Central.

When I speak of "we," I don't mean the Association but the Government as a whole.

We have considered what options there are available. It seems to us that if you consider—and I am now speaking largely for myself because this is not a matter that the Board has reached a judgment on—the need for capital infusion in the industry, which has been stated many times and for which there are many proposed pieces of legislation, it is not appropriate for the Government to simply loan that money to an individual private-sector management to put it precisely where it wants and leave the other railroads who are in weakened condition competing with it to come in and ask for money. That is a piecemeal solution.

I speak to what Senator Weicker said. Do we take them one at a time or look at them as a whole and attempt to rationalize the system and try our best to get the Government's money back out of the private sector so that the private sector can be left to operate as it is without the kind of subsidies Senator Hartke spoke of earlier in Europe?

Senator STEVENSON. When the Regional Rail Reorganization Act was enacted, I know it was enacted with the expectation on the part of some at least that we would be back pretty soon to consider the possibility of expanding the Northeast region to include another region and additional railroads. That was a possibility in the minds of some of the authors.

That moment has come a little bit faster perhaps than we anticipated, largely because of the economic downturn in the country.

Do you say you wouldn't want to take a look at the Rock Island by itself? I don't see how that is possible here. You really have to treat the Rock Island, don't you, as part of what ought to be at least an integrated, rational system in this large central section of the country? With that as the objective and with more time than 8 months and also with additional staff, are you ready? Would you recommend it?

Mr. JORDAN. Senator, you keep knocking down my caveats. At some point you're going to get to me.

Senator STEVENSON. I'm trying to get to that point.

Mr. JORDAN. If I am squirming, I am uncomfortable.

Certainly I think that the Association, having gone through the exercise it has in the last 8 or 10 months, has a fair regard and understanding of the requirements to do this kind of job and could repeat it. I should observe that the staff has come together largely as a result of the emergency nature of the problem, a particular appeal. And whether or not that staff can be maintained in the same sense of commitment into the future is a question I would have to ask.

I don't just mean to keep dropping hurdles in front of you. I think the Association can—I think perhaps the best way for it to undertake that kind of an effort was perhaps a broader reaching mandate and clearer understanding of what the total goal is, rather than working a piece at a time, in which case you can get the kind of commitment we have had in the last year.

But I would also add, if I may, one of the important benefits that exists in the Regional Rail Reorganization Act is the obligational authority of the Association to help implement the plan that it achieves, and without that it becomes an empty planning exercise. And perhaps more than anything else, that is a significant aspect of why there is a real chance for success in the sense of accomplishing something with Conrail than perhaps there has been with prior exercises.

Senator STEVENSON. Is it possible to plan—would it be in this case—for railroads that are not in bankruptcy?

Mr. JORDAN. We can plan, I guess, for anything. If I were the president of an independent railroad making enough money to support myself, I might prefer to do my own planning.

On the other hand, if the financing requirements which the railroads apparently have are as significant as they are, it could be that the Government presence from the loan side would make it possible in a quid pro quo to undertake a planning exercise as part of that.

In other words, we just don't hand out money. We do it as part of the total plan, so that the money gets spent on the appropriate route structure.

Senator STEVENSON. Senator Pearson.

Senator PEARSON. You don't have any authority in the current Act to take on this other job?

Mr. JORDAN. No, sir. We do not, Senator.

Senator PEARSON. The law doesn't say anything about the time of repayment of the loan. What does the Association consider? When you looked at this particular application, for instance, what period were you considering for repayment?

Mr. JORDAN. For the \$100 million, the terms we considered were 25 years.

Senator PEARSON. So there is no rigid rule about the time of repayment? You consider it then on the basis of the application—a reasonable time for repayment?

Mr. JORDAN. I think in the case of the larger loan the feeling on staff's part was that you should err on the long side as opposed to the short side. In the case of the \$9 million loan, the terms which were sent to the Rock Island, which were the subject of discussion as to whether they were signed or acceptable, called for 3 years, as I recall, and that was because it was just a working capital loan and it was anticipated to be repaid or refinanced.

Senator PEARSON. Do you have any new formal application or any new information before the Board at this time on the Rock Island?

Mr. JORDAN. No, sir. We have been told by the Rock Island in a telegram received a few days ago that they wanted to meet to review the situation, that they had new facts. A meeting was scheduled for Thursday of last week. I was out of town. That meeting was canceled by them.

I have just this morning attempted to set up a time with the executive vice president who appeared before you this morning to review some of that information directly. One of our Board members discussed it with him in the Middle West last week and asked that I do so, which I will tomorrow.

Senator PEARSON. Is this an official action? Is this a reconsideration by USRA? I am all in favor of sitting down and talking and maintaining a very good line of communication here, but I ask: Is there or is there not going to be a reconsideration? Do you have anything to reconsider?

Mr. JORDAN. Only now the statement that, "Yes; we do have some new information." After we have had a chance to look at it, we certainly can give it reconsideration. My hesitancy in responding earlier was largely because I think my counsel would tell me that if, in fact, there is a major change in their application, we may have some requirements on publishing.

Jay, would you care to comment on that?

Mr. HILLMAN. Actually, with regard to the request for a \$30 million working capital loan which was so clearly tied in to \$100 million for rehabilitation purposes, we had technical concerns about whether the total loan application as we understood it was within the formal application we had pending before us which was limited to \$100 million. Because our rules published in the Federal Register require that applications be filed and that notice be given of them to other parties who might possibly have an interest.

But because of what we understood was the urgency of the situation confronting the Rock Island, although we had these technical concerns about the posture of the application, we felt it appropriate to take the route out by viewing it as technically a request for \$30 million only.

But I would say that if there are any substantial changes in the financial and economic basis for a new loan which would require substantial new information that we would indeed have that problem.

Senator PEARSON. Publication?

Mr. HILLMAN. Yes, sir.

Senator PEARSON. What is the time frame for that? At least 30 days?

Mr. HILLMAN. I believe that comments are 30 days.

I must admit, sir, that those regulations were adopted before I came to the Association. But it is at least 30 days for public comment; yes, sir.

Mr. JORDAN. Our concern on the public information is some of the questions which have been raised about the nature of the loan application on competition, and to not proceed appropriately is to expose the Association and the Government to I think the wrong kind of action.

Senator PEARSON. Thank you very much, Mr. Jordan.

Thank you, Mr. Chairman.

Senator STEVENSON. I don't believe I have any further questions.

Mr. JORDAN. Thank you.

If I might just note one thing for the record, a specific point was made earlier that we received a cash forecast from the Rock Island dated February 3, the day before our Board meeting. We have no record of that either in the Association office or any material which we have. We have attempted to determine from the Rock Island management just this afternoon how that was sent to us, and it does seem it was sent through an intermediary.

So to the extent you relied on that for a piece of information. I would note we have no record of it.

Mr. HILLMAN. I wonder if I might also ask the committee to permit us to supply a corrected page 14 of Mr. Jordan's statement. We have

just noticed in the typing of it two lines were inadvertently omitted.

Senator STEVENSON. The statement will be corrected.

Mr. JORDAN. I think the statement was correctly received here, but thank you.

Senator STEVENSON. Is Mr. G. Phillip Dolan present? I understand Mr. Dolan has a plane to catch and only wants 3 minutes in which to submit a statement to the committee, so we will take him out of order.

**STATEMENT OF G. PHILLIP DOLAN, EXECUTIVE DIRECTOR,
BEVERLY AREA PLANNING ASSOCIATION, CHICAGO, ILL.**

Mr. DOLAN. Thank you, Mr. Chairman, for allowing me to move up on the agenda. I thought I was going to have to be the cleanup batter and I didn't relish that position, because the overpowering legal talent here and the minds of the leadership of these railroads remind me a great deal of Ida Tarbell and the robber barons, and I wanted to make sure I didn't get caught up in that if I could.

My remarks today will focus on just one small community affected by, as Senator Hartke said, the shark bite.

My purpose in speaking here is to plead for some attention to be paid to the people. We need your help, because without your help our community will die.

Mr. Chairman, I represent a community of 45,000 people living in 12,300 dwelling units, earning a mean income in excess of \$15,000. The twin communities of Beverly Hills/Morgan Park on Chicago's southwest side ranks second in affluence and second in educational attainment in Chicago. Our schools are superior, our crime is low, and we are a community with an ever-increasing number of professional families.

The Rock Island commuter service is literally and without question the lifeline of our community. Nearly half of the family units, 5,000 passengers daily, use the Rock Island Railroad to reach the core of the city downtown. The energy shortage has begun to bring people back into Chicago and certainly back into Beverly Hills/Morgan Park. They come because our community is the only area where the Rock Island detours off the mainline and stops at eight convenient stations.

Our so-called village within the city has been able to withstand the burden of urban decay primarily because of the availability of the Rock Island Railroad. And that is an issue which I would like to introduce today. White flight from the city of Chicago has stopped in the community of Beverly Hills/Morgan Park primarily because of the Rock Island Railroad. Stability and avoidance of the resegregation of our neighborhood have taken place because of the Rock Island commuter service.

We would point out our community organized a campaign and overwhelmingly supported the passage of the regional transit authority in metropolitan Chicago in an effort to assure ourselves of continued, comfortable commuter service.

Why, we would ask, should a Federal agency deny the one railroad that wants a loan and not a gift? I know we have heard a lot of testimony about that today. The Rock Island at least has promised to repay. Why should that same Federal agency deny the one railroad trying to save both its passenger and its freight service?

We have heard a lot today about shippers. We heard very little about the people. We have heard less about the passenger.

Why should another Federal agency, the ICC, seem to be the captive of one particular railroad system?

We are not asking for the Federal Government to step in alone. Our region has already provided \$974,000 of local tax money to pay for 70 percent of the last 6 months of the Rock Island deficit.

Mr. Chairman, the great Governor of the State of Illinois has just proposed as part of a major bond proposal a program to restore, rehabilitate, or reconstruct every railroad station in Beverly Hills and Morgan Park. It would be a shame to save these architecturally historic stations—some built in the 19th century—if there were no railroad to service them.

Lastly, we would ask is it any wonder that the Midwest where we reside has an ingrained suspicion of the so-called eastern establishment? Millions for the Northeast and not a penny for the Rock Island. It does not seem fair.

Mr. Chairman and gentlemen of the committee, we thank you from our community for the opportunity for you to be fair with us. We thank you for your help in preserving the lifeline of our community. And we remind you that the Rock Island line is to our community a mighty fine line.

Thank you very much.

Senator STEVENSON. Thank you, Mr. Dolan.

I just want to remind you, in view of what you said toward the end, that millions for the Northeast are also for Illinois. It is part of the Northeast. And I want to assure you also that Beverly will be represented in this subcommittee.

Mr. DOLAN. Senator, you have always given our community your leadership, and we do appreciate it.

Senator STEVENSON. Senator Pearson.

Senator PEARSON. Thank you.

Senator STEVENSON. Thank you, Mr. Dolan.

The next witness is Mr. Bill Mahoney representing the Railway Labor Executives' Association, the Congress of Railway Unions, and the Brotherhood of Railway, Airline, and Steamship Clerks.

STATEMENT OF WILLIAM G. MAHONEY, ON BEHALF OF RAILWAY LABOR EXECUTIVES' ASSOCIATION, THE CONGRESS OF RAILWAY UNIONS, AND THE BROTHERHOOD OF RAILWAY, AIRLINE, AND STEAMSHIP CLERKS

Mr. MAHONEY. My name is William G. Mahoney. I am a lawyer with offices at 1015 18th Street NW, Washington, D.C. As you mentioned, I represent the Railway Executives' Association, the Congress of Railway Unions, and the Brotherhood of Railway and Airline Clerks, all of whom appreciate and welcome the opportunity to express to you the collective opinion of their members today.

If I may, I would like my statement with its exhibit A setting forth the labor organization members of the Congress of Railway Unions and the Railway Labor Executives' Association and with its exhibit

B, being a suggested amendment to S. 917, copied into the record, and I will give a short summary.

Senator STEVENSON. Thank you. Without objection, it will be entered in the record.

Mr. MAHONEY. As noted in the proposed amendment, exhibit B, the only problem we have really with S. 917 is that it would effect a repeal of the requirements for protection of employee interests in connection with mergers, et cetera, in section 5. We assume this was inadvertent, simply because the temporary authority which is granted would undoubtedly become permanent authority eventually.

Temporary authority would be for 180 days, and it can be renewed. If it were done on the basis of the present Union Pacific-Rock Island merger that is before the Commission and has been approved by the Commission; by the time it gets through the courts and all, I think the Chairman of ICC said that would be 2 years, at least 2 years, away. In my opinion, by the time it would proceed through the courts with the temporary authority granted, the lines would be merged; the employees would be assimilated, some of them, at least; the operations would be assimilated; and, the Rock Island would no longer exist except, perhaps, on paper. When it became permanent authority, the section 5(2) (f) employee protection would necessarily be imposed and there wouldn't be anybody to protect. Everybody would have already been affected by the temporary authority.

In any event, that authority, temporary authority, could last for years; and the car service orders under which the employees are not protected at all as many employees would not be hired; such as clerical employees and maintenance employees. They wouldn't be hired and these people would be affected by the car service orders and would be unprotected.

But we would ask in addition to that type of amendment for S. 917 that such an amendment be considered for any legislation which would come out of committee and which would hurt the employees of the Rock Island.

Now, it seems to me, listening to the statements made here today, that what is called for is legislation which would permit the Congress to do something permanently about this railroad situation which is very bad. To constantly return to the Congress of the United States and say more money for this railroad and another railroad, we have got to do this, and patching the rail system like a patchwork quilt is a terrible thing. There has to be some sort of solution.

And there's no question in terms of ecology, in terms of economy, in terms of energy that rail transport is the most efficient transport this country has, and our national transportation policy should recognize this fact and protect this vital national asset.

I think, the only way to do that here at least with the immediate problem confronting Congress would be to take such steps as are necessary to preserve the Rock Island, the parts of the Rock Island as are necessary, required, essential, preserve it until the Congress can act as it did in the Northeast.

The Northeast is moving pretty fast. It doesn't take years to merge now as we find out under these time limitations. I think the USRA got a 180-day or 120-day extension and that was quite an extension of time considering the statute. Things are moving very fast there.

And it appears now from what the Chairman of the ICC said that—for lack of a better word—this cancer of the Northeast is spreading out into the Midwest, and who only knows where it will go from there with our present economic situation in the country.

So, it seems to me that we should do something broadly to try to take care of this situation once and for all and with the immediate problem that we should simply take care of this railroad with injection of funds or something perhaps to keep it going until such a plan can be devised.

One other point I made a note of. There has been some talk about 20 percent is all that is necessary and 30 percent is all that is necessary of the Rock Island. Mr. Eyster said 66 percent was desirable, if we had the time. You don't take a national asset and get rid of it, you know, half of it or better than half of it, if it is desirable to keep any of it. But he said we couldn't do that, because we don't have 2 or 3 years.

Well, I think we do—maybe not that much—but at least we could keep it going long enough to find a solution, and in any solution we hope the Congress would continue to consider the protection of the employees who would be affected by the legislation.

Thank you very much.

Senator STEVENSON. Thank you, Mr. Mahoney. I certainly agree with you that we need to consider the welfare of the employees as well as the shippers.

What would happen to the employees if the Rock Island simply went ahead and liquidated?

Mr. MAHONEY. If the Rock Island liquidated?

Senator STEVENSON. Yes.

Mr. MAHONEY. They would just lose their jobs, go out on the street, go on unemployment as when other companies liquidate.

Senator STEVENSON. 10,000? Is that the total?

Mr. MAHONEY. 11,000 I think now.

Senator STEVENSON. Do you have any views on what the Congress should do beyond simply making money available to keep the Rock Island afloat temporarily? That is what you seem to be suggesting.

Mr. MAHONEY. Yes; until such a time as a long-term program can be reached. Now, that could take the form, it seems to me, either of another Northeast type regional rail line, or it could take the form perhaps, as Senator Weicker mentioned earlier today, of a means by which the Government might—and I don't endorse this because I haven't talked this over with all of my clients—but Senator Weicker mentioned the Government taking over the right-of-way as the Government has the airways and the highways and waterways. So perhaps that would be a means in some fashion.

There must be a number of ways to do it. I have none particularly in mind for this region.

Senator STEVENSON. Senator Pearson.

Senator PEARSON. Mr. Mahoney, I don't in the first instance see any problem in this amendment you proposed. But let me give it to staff and then we will talk to you about it.

Mr. MAHONEY. Surely.

Senator PEARSON. I think it is all right, but let us think about it. Then we will talk to you later.

Mr. MAHONEY. Thank you, sir.
 Senator STEVENSON. Thank you.
 [The statement follows:]

STATEMENT OF WILLIAM G. MAHONEY, ON BEHALF OF THE RAILWAY LABOR EXECUTIVES' ASSOCIATION, THE CONGRESS OF RAILWAY UNIONS AND THE BROTHERHOOD OF RAILWAY, AIRLINE AND STEAMSHIP CLERKS

Mr. Chairman and members of the subcommittee:

My name is William G. Mahoney. I am a lawyer with offices at 1015 Eighteenth Street, N.W., Washington, D.C. I appear here today on behalf of the Railway Labor Executives' Association, the Congress of Railway Unions, and the Brotherhood of Railway and Airline Clerks. The Congress of Railway Unions and the Railway Labor Executives' Association are unincorporated associations and each has offices in the Railway Labor Building at 400 First Street, N.W., Washington, D.C. Affiliated with these associations are all of the national and international standard railway labor unions in the United States, excepting only the Brotherhood of Railway and Airline Clerks. The 19 labor organizations affiliated with these associations and the Brotherhood represent virtually all of the employees of this nation's railroads. The Railway Labor Executives' Association, the Congress of Railway Unions, and the Brotherhood appreciate and welcome the opportunity to express to you the collective opinion of their members on subjects of such substantial importance to them as well as to the economic and transportation future of this country.

As the economic problems of this country increase and diversify, the crises confronting the railroad industry are worsened significantly. Railroads which, but a few months ago, thought they would be able to reorganize without the aid of the Regional Rail Reorganization Act of 1973, or would be able to place themselves upon a profit-making plane have, because of recession, found themselves seeking inclusion in the Northeast ConRail System and facing liquidation.

The Congress has been very patient and very sympathetic to the needs of the railroad industry in assisting it to overcome one crisis after another. It is, however unfortunately, a fact of economic life today that Congress must confront still another railroad crisis and overcome that crisis if we are to continue to have rail transportation throughout the country.

We have not had the opportunity to study all of the bills which you have before you at this time. We have, however, been able to study S. 917 which is presently before you.

S. 917 as presently drafted would permit the Interstate Commerce Commission to authorize on a temporary—but indefinite—basis railroad purchases, leases, acquisitions of stock control, contracts to operate, consolidations, or mergers, pending determinations of applications for such authority filed pursuant to the provisions of Section 5(2) of the Interstate Commerce Commission.

While present-day economic pressures may require drastic remedies, we must not lose sight of the practical effect of enactment of those measures which are intended to protect the public against the consequences of some of our economic difficulties. For example, S. 917 would permit a "temporary" merger of two railroads for a period of 180 days or more. Assuming such a "temporary" merger occurs and is implemented by the railroads involved, there is no practical method—by judicial, legislative, or operational means—that can be employed to "unmerge" those carriers. If the present Commission order authorizing the sale and merger of parts of the Rock Island Railroad with other railroads were to be "temporarily" implemented pending the outcome of the litigation now in progress, the litigation would become moot because, whatever the outcome, the Rock Island operations and properties could not be unmerged or the Rock Island resurrected from oblivion as a going corporation.

An additional effect of the enactment of S. 917 would be the repeal of certain of the employee protective provisions of the Interstate Commerce Act; provisions which have been in effect for 35 years. Since 1940, Section 5(2) (f) of the Interstate Commerce Act has required the Interstate Commerce Commission to provide a fair and equitable arrangement for the protection of the interests of employees affected by a Commission order. Prior to that time such protection was afforded by the Commission at its discretion. S. 917 would permit a merger to take place for 180 days or more without the imposition of the protections required upon Commission issuance of a permanent order. The result of this could be that employees affected by the consolidation of the two railroads in terms of job loss, demotion, transfer, etc., might receive

none of the protections required by Section 5(2) (f). By the time a permanent order were issued pursuant to Section 5(2) and employee protection imposed in accordance with Section 5(2) (f), most of the employee adverse effects of the merger would have already occurred. It could then be argued that the employees who had lost their jobs or who had been required to move or who had been demoted, were not affected by the permanent authority granted by the Commission under Section 5(2), but had been affected by the "temporary" authority granted under the provisions of S. 917 and, consequently, would be unprotected.

We do not believe that repeal of employee protection was intended by the author of this bill and we have prepared a suggested amendment to S. 917 which would require the same protections be imposed on a grant of "temporary" authority as are imposed on a grant of "permanent" authority. A copy of our proposed amendment to S. 917 and a short statement of explanation is attached to my prepared statement as Exhibit B.

Today we are all aware of long-range need to conserve our sources of energy. We are also aware that the railroads of this nation are not only essential to our economy, but present the most efficient and effective means of conserving transport energy.

This Congress, indeed, this nation, now faces the very severe problem of how to utilize that means to the fullest without unnecessarily adding to the burdens of our already overburdened taxpayers and without doing violence to those industries which we developed in a time of seemingly endless energy reserves and the millions of people dependent upon them.

The 19 labor organizations affiliated with the Railway Labor Executives' Association and the Brotherhood will support vigorously legislation which will preserve the essential service provided this country by our nation's railroads.

Thank you for your invitation to appear here today and for your attention to my remarks.

EXHIBIT A

MEMBERS OF CONGRESS OF RAILWAY UNIONS

Brotherhood of Maintenance of Way Employes.
Hotel & Restaurant Employes and Bartenders' International Union.
Seafarers' International Union of North America.
Transport Workers Union of America.
United Transportation Union.

MEMBERS OF RAILWAY LABOR EXECUTIVES' ASSOCIATION

American Railway Supervisors' Association.
American Train Dispatchers' Association.
Brotherhood of Locomotive Engineers.
Brotherhood of Railroad Signalmen.
Brotherhood Railway Carmen of the United States and Canada.
Brotherhood of Sleeping Car Porters.
International Association of Machinists and Aerospace Workers.
International Brotherhood of Boilermakers and Blacksmiths.
International Brotherhood of Electrical Workers.
International Brotherhood of Firemen & Oilers.
International Organization Masters, Mates & Pilots of America.
National Marine Engineers' Beneficial Association.
Railroad Yardmasters of America.
Railway Employee's Dept., AFL-CIO.
Sheet Metal Workers' International Association.

EXHIBIT B

PROPOSED AMENDMENT TO S. 917

At the end of the second sentence of subsection "(g)" strike the period following the words "approval shall warrant", and insert the following in lieu thereof: "provided, however, that any such order shall be subject to the provisions of subsection (f) hereof."

* * * * *

PURPOSE OF AMENDMENT

The proposed amendment to S. 917 would prevent that bill's effective repeal of those provisions of the Interstate Commerce Act requiring the protection of employee interests affected by mergers, etc.

Proposed subsection "(g)" would permit an effective and complete merger of Railroads without requiring the protection of the interests of the employees affected thereby. The "temporary" merger authorized by proposed subsection "(g)" may be extended indefinitely by the Interstate Commerce Commission. This would result in an effective repeal of the 35-year old provisions of the Interstate Commerce Act which require protection of employee interests in merger, lease, purchase and similar cases. By the time a permanent order were issued pursuant to Section 5(2) and employee protections imposed as required by Section 5(2) (f), most of the employee adverse effects of the merger would have already occurred. It could then be argued that the employees were not affected by the permanent authority granted under Section 5(2) but by the "temporary" authority under subsection (g) thereof.

Senator STEVENSON. The next and final witness is Larry Provo, President of the Chicago and North Western Railroad.

Mr. Provo, if you can, too, we would appreciate it if you would summarize your statement.

STATEMENT OF LARRY S. PROVO, PRESIDENT, CHICAGO & NORTH WESTERN TRANSPORTATION COMPANY; ACCOMPANIED BY RICHARD FREEMAN, VICE PRESIDENT OF LAW; EDWARD WHEELER; AND JAMES R. McALEE, ATTORNEYS

Mr. Provo. Yes, Mr. Chairman.

I have submitted a statement, which I will not read. I will just make a few brief remarks to give you an opportunity to ask questions if you wish.

On my right is Mr. Edward Wheeler of the law firm of Wheeler & Wheeler in Washington. On my left is Dick Freeman, vice president of law. On his left is Jim McAlee, senior partner of Arnold & Porter.

I would like to describe the North Western briefly. We are a 10,000-mile railroad. We operate in 11 States. We are the largest employee-owned company in the United States.

On June 1, 1972, the employees bought the company, and today some 3,300 employees, or approximately one out of four, own the North Western. Included in that group are some 2,500 union personnel.

There was a lot of discussion this morning about the present economic situation, and I can certainly say that times are difficult and I have never seen a downturn come quite as rapidly as this one did.

Our response to this is—I might say as an employee-owned company we pay no dividends. We are not diversified, and every penny we make goes back into the railroad. In the past several years we have spent \$200 million of private money to rehabilitate the North Western. Our response to the present economic situation is to reduce our expenditures from our budgeted levels for 1975 by \$100 million. We will reduce our operating expenses by 10 percent. And this produces about \$48 million. We intend to reduce our capital expenditures, those that were programed last September, by \$24 million. We intend to reduce our inventory by \$18 million.

Also there are other cash sources, such as we are now in the process of cutting up some old cars that when we were in short supply of equipment we felt might justify repairs, but they do not now justify

repairs, and in order to keep our repair shops at Clinton, Iowa, going at least at as high a level as we can, we are dismantling those cars.

I believe those figures will add to \$100 million.

There was a lot of discussion about Rock Island first and then possibly North Western and then possibly Milwaukee. We expect to be able to see our way through this situation, assuming we are permitted to play an equal ball game. And by that equal ball game I mean that we compete the way we have competed for years.

In the Midwest, the North Western, Rock Island, Milwaukee are marginal carriers, and I guess it has been this for certainly at least the last two decades. When I came to the North Western in 1956 the Rock Island was the strongest of the three and was the strongest for a number of years. Then for various reasons the ball game shifted and Rock Island became the weakest of the three railroads.

Incidentally, these three railroads have 28,000 miles roughly of track or some 27-percent more than Penn Central.

Really, the problem we are faced with is excess plant. There's just too much plant for the business in the Midwest.

Mr. Wheeler, I think, has sent a map up showing Iowa with overlays of the various railroads. It's an old cliché that you cannot stand anywhere in Iowa and be more than 5 miles from a railroad. I think this is certainly true.

As I said, I am not going to read my testimony, but there are some remarks that are attributed to the ICC and to Mr. Langdon who was then chief executive of the Rock Island that I think are worth reading.

He says: "The States served by Rock Island are grossly oversupplied with railroad mileage."

The ICC in its 1974 orders said: "One of the primary reasons for the critical financial condition of Rock Island and the chronic weakness of such carriers as North Western, Milwaukee, and Katy is the existence of an overabundance of carriers and excess capacity in the Midwest."

As the Commission has properly recognized, "What is needed is a reduction, not an increase, in capacity."

Mr. Langdon again: "This oversupply of railroad mileage in Rock Island's territory produced a competitive situation that may be unique in the railroad industry."

Now, going on, we heard about 80 percent and 20 percent today. Mr. Langdon says:

More than three-quarters (76.4 percent) of Rock Island's freight revenues (originated and/or terminated) are produced at 55 stations, and yet at these stations Rock Island shares the traffic with an average of 4.2 other railroads.

In other words, this does not include overhead traffic. Let's say New York to Los Angeles or the Chicago to Los Angeles traffic.

The net effect is that at its stations where there is real freight volume Rock Island is only one of many railroads, and the competition leaves only a thin slice, particularly for Rock Island. At the smaller stations—where the volume hardly justifies (having a Rock Island traffic agent)—Rock Island usually offers the only rail service, but even here, a second or third railroad is often present.

With a few exceptions here and there, Rock Island has no important volume traffic that it can call its own.

We do estimate—and admittedly this is an estimate because we do not have access to Rock Island figures—but from our knowledge of the Midwest and our own operations we would estimate that 80 percent of

the Rock Island traffic could be very conveniently handled by existing rail service under section 1(15) orders and this would be at no cost to the Government.

An example is Colby, Kans. I understand the Rock Island runs like this and UP runs like this (indicating parallel) and Rock Island serves the elevator. If there are 1(15) orders authorizing UP to operate over Rock Island tracks to the elevator UP could come right on in with their crews and handle business as well as, if not better than, it has been in the past.

We recognize that the remaining 20 percent particularly in a crisis situation is extremely difficult, but we think that if these are handled under 1(16)—we think this is what 1(16) was intended for in the legislation—that all the rails will cooperate and that it will be at a minimum of cost.

The Rock Island in some material it submitted referred to Ivan Zumma who had some equipment. This is about 44 miles from North Western. And North Western could go that distance without much trouble and service Ivan and others like him.

If you will look at page 11, I quote from Mr. Kahn, ICC general counsel. He is indicating he feels this is the way the Commission should operate, that 1(16) should operate:

The Commission feels in an emergency situation we should be able to order Norfolk & Western to run those fifteen additional miles from South Bend to Elkhart if Elkhart otherwise would be left without rail service.

We have had some discussion with RTA in Chicago, and RTA has stated positively that it will assure the continuation of the suburban service, so that I don't think there is any great problem there.

The Rock Island has said that "23 major utilities, depots, and arsenals in 10 States would be without rail service" if the Rock Island should cease operating. We have analyzed the 23 stations to which we believe the Rock Island is referring and find that 5 burn only oil or gas and receive no Rock Island rail service to provide their fuel; 12 are served by 1 or more other railroads; 5 of the remaining 6 are within 5 miles of another railroad, and the other plant is within 21 miles of another railroad. This happens to be at Lincoln, Nebr., and I guess Union Pacific brings the coal all the way through Wyoming to Nebraska, and Rock Island takes it the remaining 21 miles.

This type of service could well be handled easily by 1(16)'s.

I'm not sure we are 100-percent correct on these, but I think we are pretty close, and I do have the detail here if staff would like to take a look at them.

What we are saying is that there ought to be a private enterprise solution to this situation, and we think that the proposal we offer is a private enterprise solution. A number of the rails have indicated they would cooperate. I understand the Santa Fe has sent a telegram in saying our approach is thoughtful and one that should be given further consideration.

In connection with the meeting at the ICC, it was perfectly clear that no railroad wanted to operate under these 1(16)'s by itself. The Union Pacific said it did not wish to operate. All of the rails were quite concerned and really panicky about the thought of operating when the line was not in reorganization. And almost all of us agree that a consortium is just not workable. You really cannot protect yourself.

If people get over on that railroad, just their basic instincts of their

own property are going to cause them to have just fantastic conflicts of interest. We just don't know how to avoid them.

So we think that the 1(16)'s for operating the whole property are just not workable, and we question their legality.

I think—I won't repeat this too much—but certainly if you are going to infuse money into Rock Island, seed money, for \$700 or \$800 million, being in the railroad business we see no way to raise private capital like that, so if \$100 million is going to be the start of \$700 or \$800 million, it will have to come from the Federal Government.

If it is going to be done that way, you are probably going to need a like amount for North Western and Milwaukee and others.

Mr. Ingram outlined his program to improve service to Kansas City. North Western goes to Kansas City. And in the last 5 years we have invested \$20 million to upgrade our line from Des Moines to Kansas City. This has made us more competitive. I am sure we have taken some business from the Rock Island.

When we bought the company, we said we want to be a service-oriented railroad, that we are going to put our money into it, and we are going to try to be the best competitor we can.

Any money that goes into their Kansas City line, when they talk to you about benefits and getting benefits from these programs, they are talking about getting business back. They may try to cloud it, but they are talking about getting business back from us that we have gained from them under the free enterprise system.

Right today there is a speed race going on, on piggyback traffic from Chicago to Los Angeles, and the two foremost competitors are the Santa Fe and the North Western/Union Pacific connection. We are able to do it together. Right at the moment the Rock Island and the SP cannot compete very well.

If that line gets built back up, you have interjected another competitive factor in there.

We are spending a lot of money. We are running trains with as few as 12 cars from Chicago to Fremont, Nebr., just to provide competitive service. We spent the money on our tracks so we can run 60 miles an hour. There isn't any doubt but what our policies have hurt the Rock Island.

But, you know, I guess I just wonder what the ball game is. We have got our money in there. All of us are stockholders. We are putting our money in there, and we're trying to compete.

I understand that everybody wants better service. They want competition and so forth. And that's what what we are trying to provide.

I might say there was some remark made that the rail industry might take advantage of this, and I think the allusion was to us. Until last I guess a week ago Friday when the Commission called a meeting to talk about these 1(16)'s, the Northwestern did not do a single thing to interfere in any way with Rock Island's attempts to get money. The legislation for the Northeast that included them and the Katy, Senator Stevenson, you never heard from the North Western saying you shouldn't do that. You never did. Nobody did. We did not participate in that.

The only thing we did, when their \$100 million loan was up, was write a letter to USRA and say, "If you give them the money, we think it ought to be conditioned on the fact that in the unlikely event there is a UP-Rock Island merger, that money is due and payable." We

thought it was a little much if a line from Chicago to Omaha were built at Government expense and then UP and Rock Island merged.

The thing that arouses us so much now is S. 917. That tries to legislate what we rails have been fighting and battling for 12 years. You know, I understand there are some antitrust suits around that involve American Tel & Tel. I think maybe people are talking about 12 years. When you try to change the competitive relationships of the whole Western part of the United States and change market structure, you are going to get the railroads in there squabbling, and we will use every device we have got to protect our interest.

We, for example, have \$6 million in cash invested in legal fees, economic studies, and so forth, in the *Rock Island* case.

So when a solution is proposed that we think will really deny us due process, I think you can maybe understand why.

The Commission in its report on the Union Pacific-Rock Island merger served December 3, 1974, agreed that five carriers—the North Western, Milwaukee, Frisco, Kansas City Southern, and Katy—would be destroyed by the merger unless protected in some manner. As Mr. Stafford said, we don't agree with that protection. You can be sure we don't agree with the protection. It would result in our destruction.

Here's what they said about the North Western:

In view of the marginal financial condition of the North Western we conclude that the North Western would not be able to withstand a loss of this magnitude.

Milwaukee:

Quite likely * * * that the UP-Northern Rock Island merger, without adequate protection, would result in the demise of Milwaukee as a viable carrier.

And so on down.

So you can see why these things are rather serious to us and why we do attempt to protect our interests.

On Chairman Stafford's statement, really I don't know if this got the attention it should, but on page 16 he talks about these 1(16)'s. He says:

The major problem with this proposal is the fact that it is entirely voluntary; thus, its effectiveness hinges on the willingness of the acquiring railroads to apply for temporary authority. Assuming such authority is sought and granted, the acquiring carriers could commence temporary operations over all or part of the track, subject to conditions imposed by the Commission. As of this moment it is not known whether the carriers involved in the Rock Island merger are willing to seek this authority * * *

As of the moment they are not.

But then it goes on:

It would appear, however, that if the Rock Island were to shut down, a competitive spur would exist for the acquiring railroads to seek temporary authority. If the acquiring carriers do not exercise this option when it becomes available, they face the prospect of other railroads quickly taking over a substantial portion of the present Rock Island traffic.

What, what in the world is he saying there except that you're going to restructure under 1(16). Just read that. He is saying—

Senator PEARSON. He is talking about the bill, though, isn't he? Or is he talking about 1(16)(b)? I thought he was talking about the bill.

Mr. Provo. But their proposal under 1(16)(b) is really quite similar to the bill in many respects where they were talking about one carrier operating the whole railroad or setting up a plan where it would be op-

erated by the roads that were granted a part of the Rock Island under their order.

Gentlemen, I think that I would prefer to leave any available time to questions. I would add the final thought we are proposing a private enterprise solution to an economic problem which arises because there is a surplus of rail plant in the Middle West.

Ultimately there are only two solutions—the one we propose and nationalization. If the surplus plant cannot be shrunk by liquidation, then the Congress will be required to support financially all the mid-western plant. We cannot believe that the Congress will be willing to undertake that burden without assuming control of the plant it is financially supporting.

Senator STEVENSON. Mr. Provo, under your free enterprise solution what would happen? The ICC would enter orders for the purpose of maintaining the service on lines that could not be served by other railroads. What happens to the other 80 percent? As the road goes through reorganization doesn't the carcass get picked? Don't the strong railroads move in and pick up pieces?

Mr. PROVO. I think there are about 15 railroads—probably about 15 railroads—that would be involved in this whole procedure. The shippers will reroute the traffic within a week.

Senator STEVENSON. That presumably is temporary, but what happens beyond that to all of the lines of the Rock Island? Are they just abandoned?

Mr. PROVO. Let me try to go through this if I may. Within a week the shippers where there is directly competitive service would take care of the rerouting. This is not unusual. We were on strike for 30 days. Not a wheel turned at North Western. With the weather in the Midwest there have been an awful lot of shippers in the Midwest that haven't had service for 3 months. Every time we try to open it up the snow blows in and we haven't been able to get to them for a long time. But a very large percentage of that 80 percent would get handled right away.

There is another portion that would require these 1(15) orders. That's my Colby, Kans., illustration where UP is running here and Rock Island here and the elevator is a Rock Island elevator. The UP would have to get some authority to cross those Rock Island tracks but that could be done, of course, very rapidly. That is the 80 percent.

Senator PEARSON. At what kind of increased cost could that 80 percent be picked up?

Mr. PROVO. Almost none really except the cost of getting in the terminal, and under 1(16) as I read it you have to use Rock Island personnel. Almost no extra cost. In fact, great savings in cost because this will move in existing transportation and it won't move over the Rock Island lines. There is no cost reimbursement provision for Government 1(15)'s.

Senator PEARSON. Have you studied this to the extent that you can make a determination on those rough percentages—and nobody holds you to them because they are rough—as to where that 20 percent would be where service orders would be required under 1(16)?

Mr. PROVO. I think it would be out throughout the Rock Island system. By that I don't mean on every mile of line but, as I say, I think you'd probably have 15 carriers that would be involved.

Certainly in Iowa there are a number of locations where we could most conveniently serve. There would be some where the Milwaukee could, the Illinois Central, the Burlington Northern, and so forth. And whoever was closest and can do it most conveniently would presumably be the carrier directed under 1(16) to provide the service.

Just for example, I read off those powerplants that were served exclusively by Rock Island. Well, the other rails there are within 5 miles. All they'd have to do is get 1(16) authority to run 5 miles up to the powerplant.

Senator STEVENSON. Some of the Rock Island's routes are the most direct routes between major points. Are you proposing that those direct routes be abandoned in some cases?

Mr. PROVO. Yes; that is not what Mr. Langdon says. He says most of their routes are the long routes: "I must fight for every ton and do so within the handicap of generally longer rail routes."

Senator STEVENSON. In those cases where they are the most direct, why wouldn't it make more sense to abandon those which are indirect instead of maintaining service over them and abandoning the direct routes?

Mr. PROVO. Well, actually, you know, there are competitive routes that are just as good as Rock Island to any major pair of points that they have got. In some cases, our mileage may be shorter. In some cases, theirs may be shorter. Actually on these 500- or 600-mile routes, it doesn't make a great deal of difference who is 50 or 60 miles shorter. It depends mainly on terminal operations and conditions of their track.

I think the problem is really: Why should you spend the money to have five lines of railroad directly from Chicago to Omaha in a competitive environment?

Senator STEVENSON. Do the other railroads have sufficient capacity now so that they can pick up all of the Rock Island freight?

Mr. PROVO. Yes, sir. I don't think we even need much Rock Island equipment. I think the North Western has about 6,000 cars stashed on the railroad, 60 locomotives stored, and most of the rails are in similar position.

Senator STEVENSON. What would be the economic effect on shippers? Would rates be affected?

Mr. PROVO. No.

Senator STEVENSON. Basically the same?

Mr. PROVO. Rates would be the same.

Senator STEVENSON. To the same points?

Mr. PROVO. Yes.

Senator STEVENSON. Why would the North Western proposal to abandon these Rock Island lines be more beneficial to the public than either the administrative law judge's or the Commission's final merger plans in the Rock Island merger case?

Mr. PROVO. Well, we think that the administrative law judge's report and the Commission's decision are just as destructive as can be. They are no better than putting \$800 million in them. They are terrible. And the Commission decided the case on what we considered to be very shaky grounds. They indicate they probably wouldn't have approved this merger if the Rock Island hadn't been in such bad shape, but then they go on to say, "It's going to destroy four or five railroads, but, nevertheless, because Rock Island is in bad shape we will go on and

destroy four or five. We'll try to protect them." But they haven't protected us.

Senator STEVENSON. What would be the effect of the Rock Island merger on North Western and other marginal railroads?

Mr. PROVO. The only thing is that then we would have to become part of the Union Pacific or get included with somebody. No way we can survive. And that has been found by the Commission time after time.

Senator STEVENSON. Would that be contrary to the public interest to have the North Western taken over by the Union Pacific, too?

Mr. PROVO. Well, I think many other roads would think so, such as the Southern Pacific and the Burlington Northern, and then I think you are back into another 10-year dogfight.

Here again, you know, you are affecting values of properties. You are affecting competitive relationships. And people like to look at maps, and it looks so simple, but you really have to know what is involved, and any time you shift any competitive advantage one way or another, you have just tremendous impact.

Somebody asked me the question just yesterday: What if you were still the poor one? Would it be in the public interest to let you go?

I think it would be. We have been in that position. There just is too much plant. We, as I say, set out to compete, and we try to do as good a job as we can. I must say we are all railroad people. We have been in the railroad business for a long time, and that's all we do.

Senator, I might just give you an interesting—

Senator STEVENSON. I'm just carrying your free enterprise solution one step further. A free enterprise merger goes through and you can't compete. I guess the next step is for another merger, isn't it?

Mr. PROVO. Well, you know, but we can protect ourselves in the courts. We have protection in the courts. We are willing to take due process. We have taken it now. We don't like to have our due process taken away just like that with a piece of legislation.

Mr. FREEMAN. The free enterprise system contemplates the application of the antitrust laws.

Mr. PROVO. In connection with the Chicago RTA, we are the biggest problem to the people out there you can imagine. We make money on our suburban operations. We did until this year until they got mixed up in fare increase cases.

They don't know how to deal with us out in Chicago because we made money on our suburban service. We run 200 suburban trains a day, and we carry 100,000 people in. We asked for a 7-percent fare increase. No opposition from commuters. You are familiar with Chicago. They get us in the red so we have to come in begging for Federal money. Then they know how to deal with us.

Senator STEVENSON. What would be the response of the Chicago & North Western when it receives the 1(16)(b) orders to provide services in the 80 percent if it—

Mr. PROVO. I'm certain we would challenge them in court if they are going to have the same effect as a merger of putting us down and putting us in bankruptcy. I am sure we would challenge them.

Senator STEVENSON. Senator Pearson.

Senator PEARSON. I get the feeling I am talking to Henry Kissinger about the domino theory. As a matter of fact, I'm in a mood to call him home to see if he can settle this one.

Well, I am pleased to have your testimony, particularly as it relates to the piece of legislation I put in. I think it gives another dimension and causes us to think more about it.

I don't think I have any further questions. I thank you very much. Mr. Provo. Thank you.

Mr. WHEELER. Senator, I have a statement here which deals with some of the technical aspects of Senator Pearson's bill and some suggestions that if it is enacted there be some provisions, limiting provisions. I'd like to submit that.

Senator STEVENSON. We will be happy to have that for the committee's records.

[The statements follow:]

STATEMENT OF LARRY S. PROVO, PRESIDENT, CHICAGO & NORTH WESTERN
TRANSPORTATION CO.

My name is Larry S. Provo. I am president of the Chicago and North Western Transportation Company.

The North Western operates more than 10,000 miles of rail line in the states of Illinois, Missouri, Kansas, Nebraska, South Dakota, North Dakota, Minnesota, Wisconsin, Iowa, Michigan and Wyoming. It is the largest employee-owned company in the nation.

The Chicago, Rock Island and Pacific Railroad Company has stated that it is running short of cash and may be forced to cease operations, whether or not it files for reorganization under the federal bankruptcy laws. I am here this morning to comment on this possibility and on S. 917.

The Rock Island has recently been described as operating some 7,500 miles of rail line in the heartland of America, as serving 4,879 businesses, including 17 major utilities, which employ more than 167,000 workers with an aggregate payroll of \$2.5 billion. This recitation is designed to suggest that it would be an economic catastrophe if the Rock Island were not preserved as an operating entity.

This is simply not true. The lines of the Rock Island, which operates in 13 states of the upper and lower Midwest, are part of a maze of rail lines that overlap and duplicate each other throughout the Midwest. As a result of this excess capacity, there are relatively few shippers solely dependent upon the Rock Island for service. The vast bulk of shippers are already served by another railroad or railroads or could be served by them upon orders of the Interstate Commerce Commission opening up such locations and allowing other carriers to operate over the Rock Island's tracks.

In short, there can be no comparison between the Rock Island's position in the Midwest and Penn Central's position in the East. The Rock Island can be permitted to abandon service between all major cities, with nothing more than a slight and temporary effect on industries in those cities. The traffic of shippers now using Rock Island between such cities would merely be rerouted over the railroads having more than adequate capacity to handle their traffic. Such rerouting on a temporary basis now occurs when one of our Midwestern railroads is disrupted by a flood, snow or serious derailment.

A shutdown of the Rock Island would constitute a problem only for those communities served exclusively by the Rock Island—communities which probably account for less than 20 percent of the Rock Island's total carloads. With respect to those communities, the Interstate Commerce Commission now has power under the Regional Rail Reorganization Act that you passed last year to direct other carriers to provide service to them for up to 240 days. Moreover, I can assure you that in the event the Rock Island discontinues operations, other Midwestern carriers would continue service to these shippers over their own and such Rock Island lines as required, assuming the same obligation to them as the Rock Island. The cost to the public treasury of this approach would be infinitely less than the cost of preserving the entire Rock Island system as a going concern—a cost which the recent problems of the Penn Central demonstrate can be staggering. Rock Island officials and others who have recently examined the Rock Island estimate that rehabilitation of its lines would cost from \$700 to \$800 million.

This private enterprise solution is not only infinitely preferable to enormous public subsidies to maintain duplicating and surplus rail operations, but also infinitely preferable to the solution envisioned by S. 917. That solution would in effect be a quick, de facto merger with the Union Pacific—a solution which would sound the death knell for both the North Western and the Milwaukee and probably the Katy. It would seriously damage the Kansas City Southern, Frisco, Rio Grande and the Missouri Pacific. It would thus create in the Middle West a rail crisis worse than that now plaguing the East.

EXCESSIVE RAIL PLANT IN THE MIDWEST

The Rock Island itself has repeatedly pointed to the gross excess of rail capacity in the Midwest. Jervis Langdon, Jr., then chief executive of the Rock Island, stated:

"[T]he states served by Rock Island [are] grossly over-supplied with railroad mileage." (ICC F.D. 22688, Langdon testimony, p. 8)

Rock Island calculates that the states in which it operates have more than 40 percent of the total rail mileage in the 48 states of the continental United States and has demonstrated that by virtually every economic indicator its service area is greatly over-supplied with rail plant. (ICC F.D. 22688, Langdon testimony, p. 6)

The Interstate Commerce Commission is well aware of the excess of rail plant in the Rock Island's service area. In its report served December 3, 1974, on the Union Pacific-Rock Island merger application, the Commission stated:

"One of the primary reasons for the critical financial condition of Rock Island and the chronic weakness of such carriers as North Western, Milwaukee and Katy is the existence of *an over-abundance of carriers and excess capacity in the mid-west.*" (p. 603) (emphasis added)

As the Commission has properly recognized:

"What is needed is a reduction, not an increase, in capacity [in the midwest]."
Id.

The welter of rail lines criss-crossing the Middle West traces back to the days when the economy was essentially local in nature and when the railroads held a practical transportation monopoly. Today, this maze of duplicating service is an anachronism. There is simply no justification for five railroads operating between Chicago and Omaha, or five between Chicago and the Twin Cities, or four between the Twin Cities and Kansas City. A pruning away of excess lines throughout the Midwest would be strongly in the public interest.

ROCK ISLAND SERVES RELATIVELY FEW SHIPPERS NOT ALREADY SERVED BY OTHER RAILROADS

The Rock Island itself has repeatedly made the point that its problems as well as the problems of other carriers stem from an excess of rail capacity. Mr. Langdon has thus stated:

"This over-supply of railroad mileage in Rock Island's territory produced a competitive situation that may be unique in the railroad industry." (ICC F.D. 42182, Langdon testimony, p. 5)

One consequence of this over-supply of rail service in the Midwest is that there is relatively little traffic that is dependent *solely* on the Rock Island for rail service. The vast majority of carloads handled by Rock Island can today move by some other railroad and, if Rock Island shuts down, will move by another railroad. As Mr. Langdon has stated:

"[M]ore than three-quarters (76.4%) of Rock Island's freight revenues (originated and/or terminated) are produced at 55 stations, and yet at these stations Rock Island shares the traffic with an average of 4.2 other railroads. Otherwise stated, for all practical purposes, the stations local to Rock Island [that is, the stations at which Rock Island is the only railroad providing service] are the small ones." (ICC F.D. 24182, Langdon testimony, p. 6)

* * * * *

"The net effect is that *at its stations where there is real freight volume Rock Island is only one of many railroads*, and the competition leaves only a thin slice, particularly for Rock Island. At the smaller stations—where the volume hardly justifies [having a Rock Island traffic agent]—Rock Island usually offers

the only rail service, but even here, a second or third railroad is often present." (ICC F.D. 22688, Langdon testimony, p. 9)

* * * * *

"With a few exceptions here and there, *Rock Island has no important volume traffic that it can call its own*. It must fight for every ton and do so with the handicap of generally longer [rail routes]." (ICC F.D. 22688, Langdon testimony, p. 11)

It has nevertheless been suggested that the continued operation of the Rock Island is so essential to the nation's well-being that the Rock Island must be preserved as an operating entity. Recent examination of the Rock Island's rail lines show that it would require a staggering cost of between \$700 and \$800 million to bring Rock Island's lines up to satisfactory standards. Additional hundreds of millions of dollars would be required to provide Rock Island with freight cars and locomotives to enable it to compete more effectively with other railroads serving the Midwest. The Rock Island has suggested that a federal loan of \$100 million could serve as "seed money" to support private borrowing for the remaining \$600 to \$700 million. That is wholly unrealistic. Private capital for roadway improvements on the Rock Island simply is not available.

The fact is that Rock Island's competitive position is, in the words of Mr. Langdon, "weak" and its weakness is "largely inherent" (ICC F.D. 22688, Langdon testimony, p. 5). That weakness, as analyzed by the Rock Island, stems from the fact that (i) there is too much rail competition in the Midwest, (ii) Rock Island handles very little traffic that it does not have to compete with other railroads to get, and (iii) its routes are generally longer than those of competing railroads.

SECTION 1(16) (b)

One solution suggested for the problem of the Rock Island is that the Interstate Commerce Commission employ its powers under § 1(16) (b) of the Interstate Commerce Act to continue for a period of 240 days the entire operations of the Rock Island. I am opposed to employing the Commission's power under this section to continue all of the Rock Island's duplicating operations. I support, however, a use of this power to maintain service to communities which would otherwise be left without such service.

Last week, on March 3, 1975, the staff of the Interstate Commerce Commission met with representatives of those major railroads connecting with Rock Island to consider possible Commission action under § 1(16) (b). The Commission staff tentatively suggested several possible alternatives under § 1(16) (b) in the event that the cash position of the Rock Island rendered it unable to transport traffic offered to it: (1) a decision not to take action under that Section; (2) a direction to one carrier to operate the Rock Island properties; (3) directions to a number of carriers or a consortium of carriers to operate such properties; or (4) a direction to a Rock Island subsidiary to operate such properties. The staff also welcomed other suggestions from those present.

It appeared from the meeting that it would not be feasible for the Commission to order one or more carriers to operate all of the Rock Island properties. In the first place, it was clear that no carrier, whether or not from within the territory, would be "neutral" in operating the Rock Island and that serious disruption and diversion of traffic would result if any one carrier were directed to conduct Rock Island's operations or if these operations were divided among several carriers. The notion that the Rock Island be operated by a "committee" of carriers was rejected as totally unworkable by many of those present. Finally, it appeared that the Commission's staff entertained serious reservations about the legality of directing that a subsidiary of the Rock Island be ordered to operate the Rock Island—a solution which would, in effect, allow the Rock Island to operate its own lines at a Government guaranteed profit.

Each of these plans to keep the Rock Island operating over the totality of its lines would also result in a huge bill to the American public, for Section 1(16) (b) provides that the treasury will foot the bill for any losses and pay the operating railroad a reasonable profit for its services. The Rock Island itself estimated the cost to the public at \$60 million for eight months. The American public could thus be called on to pay \$60 million to maintain the largely redundant rail operations of the Rock Island for a period of 240 days. It is difficult for me to see what benefit the public would receive for that expenditure.

One thought that was expressed at the March 3 meeting was that full existing operations should thus be continued for 240 days because of the possibility that opposition to a Union Pacific-Rock Island merger might evaporate during that period and that such a merger might solve the Rock Island problems. I assure you there is no such possibility. Virtually all of the railroads in the western two-thirds of the country have now spent twelve years urging or defending against this highly controversial merger—a proposal which I will deal with shortly. The need of many of these railroads, including the North Western, to defend themselves against such a merger has not changed and will not change.

At the March 3 meeting at the I.C.C., the North Western offered a solution that would avoid the problems attending the other possible solution to Rock Island's situation, while fully protecting the interests of shippers and the public at large. Specifically, the North Western urged that the solution which would, in the language of § 1(16) (b), "best promote the [Rock Island] service in the interest of the public and the commerce of the people" is not for the Commission to direct that the Rock Island's entire operations be continued but for the Commission to assure that every shipper now served by the Rock Island will continue to be served by at least one rail carrier.

The Commission can utilize its existing authority under §§ 1(15) and 1(16) (b) to assure that no shipper now served by Rock Island will be without rail service in the event Rock Island shuts down. At the outset, it must be recognized that the vast bulk of the traffic handled by Rock Island either moves overhead across its lines (and neither originates nor terminates on its lines) or originates or terminates (or both) at an industry that is served by the Rock Island but which is also served by one or more other railroads. We estimate that 80 percent of Rock Island's traffic is in this category. If the Rock Island were to shut down, these shippers would simply use the service of one of the other railroads available to it. No expenditure of public funds would be required to assure that they received satisfactory rail service.

Some shippers are, of course, now served only by the Rock Island. Many of these shippers are located in communities that are served by the Rock Island and by one or more other railroads, but their facilities are not open to the other carriers. The Commission has the power under § 1(15) of the Act to order all industries now served exclusively by the Rock Island at such communities to be opened up to service by the other rail carriers serving those communities. By using these powers, the Commission can assure that Rock Island shippers in these communities are served. Service to such Rock Island industries would not involve any cost to the public treasury since § 1(15) does not embody any reimbursement provision.

That leaves only those shippers that are located in communities served by the Rock Island and only Rock Island. From what the Rock Island has stated, we know that the shippers in these communities account for a small fraction of the shipments handled by Rock Island. The North Western has proposed to the Commission that it use its § 1(16) (b) powers to assure that service is provided to such communities for the 240-day period contemplated by that section. At the 1971 Hearings before the Subcommittee on what is now § 1(16) (b), the Commission representatives testified that they could use § 1(16) (b), in the event the giant Penn Central system were to close down, to provide rail service to individual communities such as Elkhart, Indiana, served exclusively by the Penn Central. The Commission representatives indicated that generally they would direct the rail carrier whose lines came nearest the community to provide service to the community. 1971 Hearings, p. 21. As the general counsel of the Commission stated:

"The Commission feels in an emergency situation we should be able to order Norfolk & Western to run those fifteen additional miles from South Bend to Elkhart if Elkhart otherwise would be left without rail service." 1971 Hearings, pp. 9-10.

What the North Western proposes is that the Commission implement this type of plan in the event of a shutdown of the Rock Island's operations. We are confident that the railroads in the territory served by the Rock Island would cooperate in designing a specific plan for serving each community now served exclusively by Rock Island. Thus, with respect to service to communities in the Southwest, one or more of the following railroads could be directed to provide service: Missouri Pacific, Katy, Kansas City Southern, Frisco, Southern Pacific

or Santa Fe. In the area north of Kansas City and St. Louis and east of Omaha, North Western, Milwaukee, Burlington Northern, Illinois Central Gulf, Norfolk & Western, and the Soo Line would be best situated to provide rail service to such communities. In Kansas, the Missouri Pacific, Santa Fe, Union Pacific, Frisco and Katy could provide service to any local Rock Island points. In Nebraska and Colorado, the Union Pacific, Missouri Pacific, Burlington Northern or Denver & Rio Grande could be directed carriers for local points. Of the shippers now served by Rock Island, it is only those shippers in this last category—those that would be served under § 1(16) (b)—that would confront the possibility of some interruption of rail service if Rock Island ceased operations. That possibility can be minimized, however, if the Commission completes plans to implement § 1(16) (b) immediately in the event of a Rock Island shutdown.¹

The Rock Island has said that "23 major utilities, depots and arsenals in 10 states would be without rail service," if the Rock Island should cease operating. We have analyzed the 23 stations to which we believe the Rock Island is referring and find that 5 burn only oil or gas and receive no Rock Island rail service to provide their fuel; 12 are served by one or more other railroads; 5 of the remaining 6 are within 5 miles of another railroad, and the other plant is within 21 miles of another railroad. All could easily be served by another railroad.

Service under the North Western's § 1(16) (b) plan will involve substantially less expenditure of public funds. The Commission would be using § 1(16) (b) not to perpetuate a rail operation that, in the main, is providing the same service being provided by other carriers. Rather, the Commission would be using § 1(16) (b) to direct that service be provided to specific communities by those carriers that could provide the service most readily and at the lowest—or no—cost. The traffic originating and terminating at these communities would simply be added to existing trains now being operated by the Midwestern carriers. Thus, much of this traffic will be handled profitably by the new carriers. In any event, even if none of it were handled profitably, the cost to the public of the North Western's § 1(16) (b) plan would be only a small fraction of the cost of perpetuating Rock Island's entire operations under § 1(16) (b).

Admittedly, an order under § 1(16) (b) would provide only an interim 240-day solution to the service disruptions that would otherwise result from a Rock Island shutdown. But this interim solution clears the way to a legislative solution, to which I shall turn after first addressing myself to S. 917.

S. 917

I do not believe that the United States should attempt to cure the problems of the Rock Island through major new programs which would provide for massive infusions of cash from the public treasury. Nor do I believe that it would make any sense to attempt to cure the Rock Island's problems through massive transfers of funds from other, already marginal, railroads in the Midwest—a process which might save the Rock Island from bankruptcy, but which would also ensure the bankruptcy of other railroads in the Midwest such as the North Western and Milwaukee. Yet this would be the effect if Congress were to enact S. 917.

S. 917 would authorize the Commission to permit the immediate consummation of a Union Pacific-Rock Island merger—a merger which would divert from other Midwestern carriers enormous quantities of much-needed traffic and much-needed revenues. S. 917 would precipitate a rail crisis in the Midwest at least as severe as the crisis in the East.

I firmly believe that the Union Pacific-Rock Island merger case is the most destructive proposal ever put before the Interstate Commerce Commission. For that reason, it is not only "the largest and most complex rail unification ever presented before the Commission" (ALJ's Report, Sheet 1040), but also the most bitterly opposed. Consummation of a Union Pacific-Rock Island merger would change the structure of the nation's rail system in the western two-thirds of the country in a single stroke. It would put the North Western and, probably, the Milwaukee, Frisco, Kansas City Southern and Katy out of business in short order.

Carriers throughout the upper and lower Midwest serve as bridge carriers, facilitating the movement of transcontinental traffic between the East and the West. All of these Midwest carriers are dependent in substantial part on the

¹ We do not here deal with Rock Island's Chicago area commuter service, because the Regional Transportation Authority has announced that it will assure continuation of that service.

revenues which they receive for moving transcontinental bridge traffic. The earnings generated by this relatively high volume, long haul traffic enable them to continue to serve the public.

The Union Pacific's eastern termini are Omaha and Kansas City. Today, the Union Pacific brings tremendous numbers of cars over the central corridor route to these termini where it interchanges them with carriers such as the North Western, Milwaukee, Burlington Northern and Illinois Central Gulf at the Omaha gateway and the Missouri Pacific and Frisco at the Kansas City gateway. With each of these carriers, the Union Pacific interchanges entire trainloads of cars.

For years, the North Western has been Union Pacific's main interchange partner in the East and the Union Pacific has, similarly, been the North Western's principal interchange partner. The two carriers have pioneered in the development of through-train operations. Union Pacific and North Western interchange several trains daily. The North Western now handles a substantial percentage of the traffic Union Pacific handles through the Omaha gateway.

If the Union Pacific were to extend its lines eastward to Chicago and St. Louis through merger with Rock Island, the services of the North Western and other carriers in handling transcontinental traffic in conjunction with the Union Pacific would be rendered superfluous. The Union Pacific would carry these tremendous volumes of freight to and from Chicago and St. Louis itself, taking this important traffic away from connecting carriers such as the North Western. This would have a devastating impact on the railroads that presently connect with the Union Pacific. It is an impact the North Western could not survive.

The Administrative Law Judge who presided over the Union Pacific-Rock Island merger case concluded that extending Union Pacific's lines eastward would destroy most of its major eastern connections. Accordingly, he recommended that the Union Pacific-Rock Island merger be approved only if the rail industry in the western two-thirds of the country were completely restructured.

The Commission, in its report on the Union Pacific-Rock Island merger served December 3, 1974, agreed that five carriers—the North Western, Milwaukee, Frisco, Kansas City Southern and Katy—would be destroyed by the merger unless protected in some manner. Three other carriers—Missouri Pacific, Rio Grande and Western Pacific—would be injured by the merger. It concluded that even the giant Burlington Northern system would be “weakened” by the merger. It is instructive to repeat the Commission's findings as to the injury that a Union Pacific-Rock Island merger would cause other carriers by taking important traffic from their lines and putting it onto the Union Pacific's extended lines:

North Western.—“In view of the marginal financial condition of the North Western we [conclude] that the North Western would not be able to withstand a loss of this magnitude.” (p. 843)

Milwaukee.—“Quite likely * * * that the UP-Northern Rock Island merger, without adequate protection, would result in the demise of Milwaukee as a viable carrier.” (p. 844)

Burlington Northern.—“Although BN would undoubtedly be somewhat weakened by such a loss, a carrier of its size and profitability should be able to withstand such diversion without impairment of its ability to perform its vital transportation services.” (p. 845)

Denver & Rio Grande Western.—“While [it] may not be eliminated as a serious factor in the handling of transcontinental traffic, * * * its competitive ability would be somewhat impaired and it would surely be weakened as a result of the UP transactions.” (pp. 846-47)

Western Pacific.—“[WP] would suffer substantial losses as a result, primarily, of the UP transaction.” (p. 848)

Missouri Pacific.—“While [a loss of this magnitude would unquestionably be injurious to the MoPac system,] it is a relatively sound and prosperous carrier and would be able to sustain this diversion without impairment of its ability to provide its vital transportation services.” (p. 850)

Frisco.—“* * * Frisco, even though it is a relatively prosperous carrier, would be unable to withstand the traffic diversion likely to result from the proposed transactions.” (p. 852)

Katy.—“[I]t is extremely unlikely to be able to withstand any substantial traffic diversion. Accordingly, we find that inclusion in some other system must be required for Katy's protection.” (p. 853)

KCS-L&A.—“[W]e agree * * * that protective measures will be required for the benefit of KCS-L&A.” (p. 854)

The Commission sought to devise conditions to keep the North Western, Milwaukee, Frisco and Kansas City Southern in business for a few years. The object of the Commission's conditions is to enable the North Western and the other carriers to provide, after merger, the same quality of transcontinental service that they provide today and to assure them they will not suffer any significant loss of revenues or earnings as a result of the merger. The conditions, as they apply to the North Western, require the Union Pacific to make certain, even if it requires rerouting cars contrary to shipper instructions, that North Western receives each year a minimum number of cars moving eastbound or, in lieu of furnishing cars, to make a cash payment to North Western. The Commission's conditions will simply not work. For a host of reasons, the conditions will not restore North Western's ability to provide excellent service and will not stem the hemorrhaging that will result from the loss of vital revenues and earnings. The problem is that no truly adequate conditions can be fashioned that would preserve the status quo after consummation of such a merger. The plain facts are that the North Western and other carriers cannot possibly survive a Union Pacific-Rock Island merger.

You might ask why the Commission approved a Union Pacific-Rock Island merger as "consistent with the public interest," given the enormous injury that the merger will cause to other carriers. The answer is by no means clear. This is one merger that would yield no service benefits and no significant economies. Indeed, the shipping public would actually be injured by such a merger. The major injury would be suffered by the shippers in the Midwest located on the lines of the North Western and other carriers. These shippers now have the benefit of North Western-Union Pacific through-train service. That service would cease in the event of a Union Pacific-Rock Island merger. Shippers located in Official Territory and Southern Freight Territory would have no better service after merger than they do today. As noted, a high proportion of the traffic moving between these territories and the Union Pacific's lines already moves in through-train service that is the functional equivalent of the single-line service Union Pacific would provide.

The Commission intimates that it would find a Union Pacific-Rock Island merger *contrary to the public interest*, and deny it, were it not for the fact that the Rock Island is ailing and the Union Pacific is financially strong. Given those circumstances, the Commission articulates the benefits of such a merger as (i) making it unnecessary for Rock Island to file a § 77 bankruptcy petition, and (ii) permitting the Union Pacific to rebuild and upgrade the Rock Island's lines.

These are, to say the least, highly dubious grounds for approving any rail consolidation, let alone the most destructive rail consolidation in American history. Congress intended the § 77 procedure as an aid to ailing railroads that they should avail themselves of, not one that they should be protected from. Since the Commission has found, quite correctly, that the rail problem throughout the Midwest has been caused by excess rail plant, it is not clear how the Commission can conclude that it is in the public interest to have the Union Pacific make that problem worse by rebuilding the Rock Island's lines in the Midwest. Needless to say, we will ask the Commission to explain its position in our petition for reconsideration of the Commission's decision.

Suffice it to say, the Union Pacific-Rock Island merger is not so obviously in the public interest that this Committee ought to mandate its achievement by endorsing S. 917. Indeed, we believe that approval of a Union Pacific-Rock Island merger would be an historic, enormously destructive blunder. The deficiencies in the Commission's report on the Union Pacific-Rock Island merger are so serious and fundamental that they must be rectified by the Commission or, if not by the Commission, by the courts.

It is no answer to say that S. 917 provides in effect for a temporary merger which can be undone if the courts reverse the Interstate Commerce Commission. Given the time that large merger cases take to wend their way through the courts, a temporary merger would last long enough to destroy the North Western and the Milwaukee, as well as other railroads. The North Western has already suffered a loss of \$11 million in just the first two months of 1975. It cannot suffer the diversion of any substantial amount of traffic without facing financial disaster. I believe that the Milwaukee faces the same problems. Were the North Western and Milwaukee to confront bankruptcy, the Congress would confront the loss of service on more than 20,000 miles of line throughout the Midwest.

Moreover, Congress should give the procedures it has established over the years for dealing with ailing railroads an opportunity to work. Congress enacted § 1(16) (b) just last year to enable the Commission to deal with precisely the situation that would arise if Rock Island shuts down. As I have already indicated, the Commission can employ § 1(16) (b) to eliminate—for up to eight months—any service problem that might arise from a Rock Island shutdown. By using § 1(15) and § 1(16) (b) as we have proposed, the Commission can assure Rock Island shippers rail service if Rock Island ceases operations. Finally, the Rock Island has available to it a petition under § 77 of the Bankruptcy Act.

THE PRIVATE ENTERPRISE SOLUTION

The private enterprise course of action I am advocating would obviate the need for large scale Congressional action. Rather, the Congress could act to provide service on a permanent basis to communities which must be served by rail and which are presently served only by the Rock Island. It could also conclude to provide relief to those members of Rock Island's labor force unable to secure employment from other railroads.

As we have seen, there are relatively few shippers who are dependent on the Rock Island for rail service. The Midwest carriers serving shippers temporarily under § 1(15) or § 1(16) (b) orders may, in the event of a liquidation of the Rock Island properties, find it profitable to serve many of these shippers permanently through acquisition of lines or otherwise. Moreover, to the extent shippers cannot be served profitably, and service to them is regarded as important, consideration could be given to some form of local and/or federal support to minimize the impact on such shippers. The tools are available to make certain that shippers on the Rock Island could be served in the event of liquidation of the Rock Island's rail properties. The costs of such support would be a fraction of the cost of rehabilitating and sustaining the Rock Island's rail plant.

Liquidation would be in the interest of Rock Island's creditors and shareholders. The Rock Island has been suffering financial losses for years, and these losses have been increasing in magnitude in recent years. Its losses are reported currently to be running at an annual rate of \$40 million. Cessation of rail operations by the Rock Island would benefit creditors by putting an end to these annual losses. Liquidation could permit the Rock Island's surplus properties to be sold for their salvage or fair market value, which would probably produce substantially greater returns for creditors and shareholders than continued operation of the Rock Island or any other disposition of its properties.

Liquidation would provide much needed reusable materials—rail, ties and fastenings. In the recent past, these materials have been in critically short supply and in the post-recession period will most certainly be scarce again.

Liquidation of the Rock Island would also benefit the public by increasing the utility of the remaining rail plant. The traffic now handled by Rock Island would be handled by some 15 remaining railroads, thus strengthening the viability of those remaining carriers. Liquidation would have one additional benefit. So long as the Rock Island remains an entity, it is a time bomb. No strong carrier or carriers can acquire the Rock Island without extending their operations into new territories and, in the process, destroying connecting carriers whose services they no longer need. Liquidation of the Rock Island's lines would permit the time bomb to be defused safely, by selling individual sections of line to carriers that would not be able to use those sections of line in a manner that would destroy other carriers.

While the public at large, other railroads, Rock Island's shippers and Rock Island's shareholders and creditors will either be benefited or at least not harmed by liquidation of the Rock Island, one group that would be harmed, absent adequate protections, would be Rock Island's labor force. Undoubtedly, some of Rock Island's employees would be hired by other railroads. But the remainder, the majority, would lose their jobs. Congress could, of course, provide some form of federal financial assistance for those employees. It is clear that, if provisions are made for protecting Rock Island's employees, the cost of such protection will be miniscule in comparison to the costs that would be involved in any effort to save the Rock Island through infusion of federal funds. It would also be miniscule in comparison to the costs that would be involved in attempting to deal with the rail disaster that would result from the collapse of the North Western and other carriers following consummation of a Union Pacific-Rock Island merger.

In conclusion, I would add one further thought. What we are proposing is a private enterprise solution to an economic problem which arises because there is a surplus of rail plant in the Middle West. Ultimately, there are only two solutions—the one we propose and nationalization. If the surplus plant cannot be shrunk by liquidation, then the Congress will be required to support financially all the Midwestern plant. We cannot believe that the Congress will be willing to undertake that burden without assuming control of the plant it is financially supporting.

STATEMENT OF EDWARD K. WHEELER, ATTORNEY AT LAW

S. 917, a bill to amend the Interstate Commerce Act, would authorize the Interstate Commerce Commission to approve temporary authority of a railroad by anyone who has an application before the Commission to acquire such railroad. In my opinion, this bill should not be passed without very careful consideration of the dangers it entails. Although Senator Pearson supports this measure because it would afford a fourth possible method of maintaining service on the Rock Island, it is inconceivable to me that the Commission could use it for that purpose. The Senator said in introducing the bill that it would permit the ICC to authorize temporary control of Rock Island by the Union Pacific. But the record before the ICC on Union Pacific's application to control Rock Island and the findings of the administrative law judge and the Commission establish that control of Rock Island by Union Pacific would cause the bankruptcy of the North Western and the Milwaukee and severely impair the viability of other roads in the Midwest, including the Katy, the Kansas City Southern, the Denver and Rio Grande, the Frisco and the Soo Line. Were the Commission to fly in the face of the record and findings in the Rock Island case and grant temporary control to U.P., it is my opinion that a court would probably issue a restraining order. So I do not believe that passing this proposed bill affords a practical method of providing relief for the Rock Island.

The grant of the proposed authority to the ICC holds vast potential for irreparable injury to all but the strongest railroads. It would permit the Commission, without hearing, to grant temporary authority to an application even though the grant of such authority would result in undermining the viability of other rail carriers. In order to determine the effect on other carriers, sophisticated traffic studies are required. Such studies require detailed analysis of involved traffic to determine whether the proposed control would result in diverting traffic from other carriers in the area. Traffic studies are not an exact science as the Commission and parties have recognized. Therefore, they should be the subject of careful cross-examination and analysis by the other side. Only by such a process can it be reasonably determined what the impact of a proposed merger would be. To grant the Commission authority without hearing opposing parties whose very existence may well be at stake is to repose in the Commission the power to destroy railroads who provide essential service, to destroy the huge investments of stockholders and creditors, and to deprive their employees of their livelihood. The Commission literally would hold the power of life and death over all affected carriers whenever an application for control was filed.

Now let us turn to the experience under the Motor Carrier Act to see how this power has been exercised. The Commission under the Motor Carrier Act has created an employee board consisting of three men who have the power to grant temporary authority whenever one motor carrier seeks to acquire another. The motor carrier board customarily grants such authority on a showing that the motor carrier sought to be controlled is experiencing financial difficulties or that the owner or manager of the operation is ill or wishes to get out of the business. Once the temporary authority is granted it is continued indefinitely almost without exception and, as any motor carrier lawyer will tell you, once you get temporary control, permanent control is almost a foregone conclusion.

The grant of temporary control permits the controlling carrier to create a situation where the Commission virtually cannot deny permanent control. Let me give you a recent example. A large motor carrier, which I will hereafter refer to as (A), filed an application to acquire Carrier (B), another carrier with very extensive operating authority. Thereafter, (A) contracted, in violation of one of the Commission's most hallowed and long-established principles, to sell part of duplicating rights held by (B) to Carrier (C). Carrier (C) then filed an application to acquire the duplicate rights of Carrier (B). Both (A) and (C) obtained from the ICC temporary control of its portion of the split rights

of (B). Because this division of (B)'s rights did such violence to Commission's precedents, the case was long and drawn out, and a denial was recommended by a hearing officer. As the years rolled by, the temporary authority continued. Carriers (A) and (C) completely took over the operations of Carrier (B) which became only a corporate shell. Carrier (A) advertised, displayed on its trucks and otherwise held itself out to the public as the owner of Carrier (B). When at long-last this matter reached the Commission, Carrier (B) had literally ceased to exist. The Commission was faced with a *fait accompli*. Who really made the decision in that case? A three-man employee board on next to no evidence and without a hearing many years previously. In any realistic sense, the long record in that case was pure window-dressing.

In my opinion, instead of extending the authority to grant temporary control to cover railroads, its exercise by the Commission in the motor carrier field should be severely restricted and surrounded by protection for protestants. The Commission's jurisdiction in my opinion should be limited to 60 or 90 days with no renewal allowed. The authority granted should be temporary and not be allowed to be made permanent by the actions of the parties.

Senator STEVENSON. The committee is recessed until further call of the chairman. The record will remain open for 7 days, subject to reopening.

[Whereupon, at 4:20 p.m., the subcommittee recessed subject to the call of the Chair.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF HON. BOB DOLE, U.S. SENATOR FROM KANSAS

Mr. Chairman, I appreciate the opportunity to testify here today on the financial condition of the Chicago, Rock Island and Pacific Railroad Company. In doing so, I am expressing my full support of a reasonable solution to the dilemma in which they find themselves.

I am sure enough will be said about the cash shortfall problems of the Rock Island line, and the concurrent possibility that it may have to curtail its services, regardless of whether it submits to a Section 77 Bankruptcy Reorganization. Therefore, I would like to focus my remarks on the impact such a suspension of operations might have on the State of Kansas—and stress the need for a remedy to insure their continuation.

EXTENT OF SERVICES

Of the some 7,500 miles of right-of-way throughout the Midwest, Rock Island operates 1,082 miles of track and 60 daily trains in Kansas alone. Moreover, it last year transported in excess of 30,000 carloads of wheat, corn, and feed grains out of the State.

As important as the trackage and the number of trains running, however, is the extent of the Rock Island services to the vital Kansas industries. That is, 557 separate business entities employing 8,326 workers are affected by the operation of this line, and its interruption would leave 108 Kansas communities and six major industries—plus a utility—without any rail service whatsoever.

IMPACT OF ECONOMY

The Rock Island has an annual payroll in Kansas of \$29 million and pays \$1.5 million in State taxes. In addition, just a week ago, it announced it would be unable to pay approximately \$1 million in property taxes to 27 Kansas counties—thereby causing an increased burden on the other taxpayers who would have to assume the load in the event of the railroad's insolvency.

In several Kansas towns and cities, Rock Island is the predominate employer—often accounting for more than 50 percent of the entire payroll. It employs 380 workers in Herington; 225 in Goodland; 110 in Pratt; 100 in Topeka and Liberal; and more than 30 in Wichita, Belleville and Hutchinson. In Kansas City, the loss of 705 jobs due to the shutdown of the line would have a significant impact on the whole metropolitan area, irrespective of its size and current employment picture.

IMPORTANCE TO AGRICULTURE

Perhaps the most severe repercussion from the cessation of Rock Island's operations would be felt by the average Kansas wheat farmer. I have already mentioned the volume of cereal grains shipped out of our State by rail—mostly for export—and the strategic location of the system's routes makes it essential to the orderly completion of the coming harvest season.

Estimates range anywhere from ten to forty cents per bushel extra that it would cost the Kansas farmer to get his grain to market—either by truck or alternate, more distant rail line (all of which would be operating to capacity, anyway—resulting in further delays), and with the hardships he is already facing due to falling prices, the impact might be devastating.

An equally important factor to consider is that any other form of transportation would likely mean the additional consumption of gasoline or other petroleum distillate, contrary to our national policy of energy conservation. So on the basis of both time, cost, and fuel requirements, the continuation of Rock Island services is imperative.

AVAILABLE OPTIONS

Speaking for Kansas, then, and evaluating the Rock Island in terms of its impact on the State's agriculture, energy, employment, and economic stability, there is no other conclusion than that its operation must be maintained. The difficult question, of course, is just how this is to be accomplished, and what should the federal government's exact role be?

I know the Committee is examining the various remedies available today, and that these include loan assistance by the U.S. Railway Association (under Section 211 of the Regional Rail Reorganization Act); the previously-referenced voluntary reorganization, with some emergency funding, under the Bankruptcy and 1970 Rail Service Acts; and the temporary transfer of services, by order of the Interstate Commerce Commission, to another line for a limited period of time not exceeding eight months.

In addition, I am aware of the initiative suggested by my Senior colleague from Kansas, and ranking minority member of the Committee, Mr. Pearson, to empower the ICC to grant temporary (six month) operating authority until a final determination is made on an application by Rock Island for merger with the Union Pacific. While each of these might, in the long-run, be satisfactory, the immediate crisis seems to be one of time—and in terms of days, not weeks or months.

NEED FOR ACTION

For that reason, it may be desirable to pursue a reconsideration of the USRA's decision on February 26 denying Rock Island's application for a \$30 million loan. While I am by no means in favor of committing funds unwisely—where the ability to repay is, at best, questionable, and the actual stabilizing effects undetermined—I think the particular plight of Rock Island may be difficult to bring into balance without some transitional authorization.

I say that because it is my understanding that Rock Island has some major payments coming due on March 17, 18 and 19, and that its Board of Directors is meeting this Friday to decide which course to follow. Their major concern seems to be that if a Section 77 filing is unavoidable, a trustee could still only finance a payroll for 30-60 days.

Therefore, alternative assistance may be essential, even with the highly commendable willingness on the part of Rock Island employees to loan back 10 percent of their pay checks to improve the company's cash position. In any event, the need for action is immediate, and there may not be time for any special legislation.

PROSPECTS OF MERGER

This is especially true, I think, with respect to S. 917, since it would presume the consummation of a merger between Rock Island and Union Pacific before the end of the year. Unfortunately, the 10-year history of this effort does not make the likelihood of such a transaction being completed very favorable—even given a final decision on the matter by the ICC.

The obvious obstacle, of course, would be court interference, and while a legal challenge to the proposal is not inevitable, it is certainly predictable. Thus, we have to be talking in terms of three or four years, perhaps—a period which contemplates much more than just interim payroll problems.

REHABILITATION PROGRAM

I am speaking quite realistically of the need for a comprehensive program of rehabilitation in order to keep the trains themselves moving. This is no simple matter, as everyone familiar with the situation recognizes, since in many locations Rock Island roadbeds are in such a state of disrepair that trains are required to operate at speeds under 10 miles per hour.

I have even heard stories of "stationary derailments" taking place, and whether true or not, no one can overlook the basic problem: that slow operating requirements mean higher equipment costs, more crew hours, and added fuel demands to accomplish the same "ton-miles" of hauling as would be realized if the tracks could sustain high-speed operation.

MONETARY REQUIREMENTS

The Rock Island management has, I believe, estimated that it could perform the necessary rehabilitation and continue to meet its other obligations with a

\$100 million loan spread over the next four years. On the other hand, it has also submitted that more than \$762 million in capital expenditures would be required to support a long-term improvement program over the next 10 years.

That latter figure is rather staggering when viewed in light of the fact that the company's total assets at the end of 1973 were less than \$430 million. But regardless of the monetary figures involved, no one can argue with the fact that considerable maintenance must be anticipated with any solution that is going to be successful and productive.

RETURN ON INVESTMENT

Whatever decisions are made with respect to Rock Island, the overriding concern must be one of promoting continuation of services while generating reasonable assurances of long-term stability. We have already witnessed enough governmental assistance programs to private corporations where shouts of "public good" have carried too much priority over essential guarantees of re-establishing a self-sustaining operation.

There must be a definite plan, that is, whereby we do not find ourselves "bailing out" one institution on a preferential basis with no expectation of a return on our investment. I am not opposed to providing aid to a critical element of our transportation system—so long as there is a time certain at which we may be assured of full recovery—but I am not interested in begging ultimate nationalization of an industry, or any portion thereof.

ROCK ISLAND DISTINGUISHABLE

In all fairness to Rock Island, it should be pointed out that they have seen their current problem coming; that mismanagement has not been a primary factor leading to their dilemma; that they have been frustrated in their merger attempts for a prolonged period of time; and that they have been denied rate increases by the ICC which would have at least moderated their current fiscal plight. In short, their situation is distinguishable from that of other Northeast lines, and one which I believe merits at least a "one shot" relief measure.

Whatever that "shot" is—and whether it amounts to a loan by the USRA, a provisional merger, a reorganization, or a combination of all these approaches—I would hope that it can be one which begins to untangle the snarled structure of the railroad industry, brought about by government regulation, while serving as a starting point for the development of a logical and effective Federal policy within the entire surface transportation area.

PROMPT RESPONSE

I wish to congratulate the Committee for its prompt action on this matter in any event, and to especially commend Senator Pearson for his efforts to resolve the problem. At the same time, I want to express my pledge of cooperation and assistance—as a Senator from one of the key states affected by Rock Island—in seeking a solution which will be acceptable to both the railroad, to its customers, and to the average American taxpayer.

I stand ready to help out in any way possible to insure that essential rail services are maintained; that current railway employees stay on the job; and that the long-term stability of the Rock Island system can be achieved. Mr. Chairman, I thank you for providing this time for me to present my thoughts, and wish the Committee every success in its coming deliberations.

STATEMENT OF HON. TOM RAILSBACK, U.S. REPRESENTATIVE FROM ILLINOIS

Mr. Chairman and Members of the Surface Transportation Subcommittee, I would like to thank you for giving me this opportunity to present my thoughts on a matter of extreme importance to me and my constituents. You correctly recognized the urgency of the situation of the Chicago, Rock Island, and Pacific Railroad and your prompt action in holding hearings is greatly appreciated.

Many witnesses have vividly described the financial consequences of a Rock Island shut-down and have explained that the continued operation of the railroad is vital to the economic well-being of the entire Midwest. We must also be cognizant of the effect that the cessation of the Rock Island operations would have on its 10,500 employees.

The job security of these persons must be given top consideration. These are hard-working individuals, many of whom have volunteered to take a 10% pay-cut in an effort to save the railroad and their jobs. I have received countless letters, telegrams and phone calls from Rock Island employees who are consumed by the fear of losing their jobs. If the Rock Island Railroad discontinues operations and its services are divided among existing carriers, the services of the vast majority of its employees would be terminated. In my district alone, the Rock Island employs approximately 1,500 workers. They and their families are faced with the devastating reality of losing their jobs at a time when jobs are hard to come by. I am extremely hopeful that the I.C.C., the Surface Transportation Subcommittee, and the Senate Commerce Committee will give this facet of the problem their full consideration.

I, along with many of my colleagues, was extremely disappointed and dismayed by the decision of the United States Railway Association to deny the Rock Island's request for \$100 million to rehabilitate its entire system and its rescission of the \$9 million loan which was originally granted the railroad. I am particularly concerned by the possibility that a regional bias in favor of Eastern rail concerns affected these deliberations. We have appropriated over \$650 million to support the bankrupt Penn Central Railroad and yet we are apparently willing to sit idly by and watch the Rock Island collapse and go out of business.

It is sad that at a time when the President and Congress have encouraged our farmers to produce at full capacity, farmers dependent on the Rock Island for the transport of their essential products may face unforeseen difficulties. Many farms and industries are serviced solely by the Rock Island and would be forced to transport their goods to more distant rail lines at a considerable increase in cost.

After a thorough review of the U.S.R.A.'s reasons for denying the loan request, I can only agree with John Ingram and various union leaders who concluded that \$100 million would be sufficient to commence a major rebuilding effort which would better the financial situation of the railroad and thereby provide adequate assurance of repayment. It would also provide greatly improved service to the railroad's customers.

In the absence of the loan it so badly needed, the Rock Island has been forced to declare bankruptcy. If the Rock Island's management decides to declare an embargo on April 12, the I.C.C. would be forced to issue a service order. It is estimated that the cost to the taxpayers of such a service order would be in the neighborhood of \$60 million over an eight month period. Unfortunately, the funds issued under such an order would only be used to prevent the disruption of service and would not provide money to rebuild the many miles of track which are in a dangerous state of disrepair. The failure of an I.C.C. service order to provide for reconstruction of the archaic railbeds only increases the possibility of further disrupted service and injury or death to the employees of the railroad. The Rock Island Railroad, as I mentioned previously, would have utilized the loan to begin this reconstruction effort.

It is my hope that the Surface Transportation Subcommittee can recommend legislative action that will prevent the loss of service to the Rock Island's customers and keep its employees working. I am personally willing to support either a loan authorization or a grant if that is what it takes to keep the Rock Island in service, because I believe it is that important to the economy of the Midwest.

Mr. Chairman, I again thank you and your colleagues for your consideration on this important issue.

STATEMENT OF HON. EDWARD MEZVINSKY, U.S. REPRESENTATIVE FROM IOWA

I am deeply concerned by the current financial plight of the Rock Island Lines. We must not underestimate the seriousness of the present situation or the larger problems which it implies.

I will leave it to other, more expert, witnesses to discuss in detail what the impact would be were the Rock Island to cease operations. The statistical data you will hear today will amply underscore the vital importance of this railroad.

All reasonable people will agree that the rail services provided by the Rock Island Lines must be maintained. The question is how this can best be accomplished, in the short run as well as for the future.

It is obviously unthinkable, particularly in light of worsening economic conditions in Iowa and the Midwest, for the Congress to stand by while communities, both large and small, businesses and industries of all types and sizes, grain ele-

vators and livestock operations, and Rock Island Lines' employees are threatened by the grim possibility that this once great railroad will be forced into oblivion.

The Congress has an obvious responsibility, in the short term, to prevent this from happening. To begin with, we have a responsibility to examine the evidence on which the United States Railway Association based its recent decision to deny the loan which the Rock Island says it needs to continue operations.

If the evidence shows that the loan would assure the future health of the Rock Island Lines and guarantee its ability to repay the loan as the Regional Rail Reorganization Act of 1973 specifies, then it should be granted. If, however, the evidence indicates that the loan would not prevent bankruptcy, as is probably the case, then the Congress must consider a much larger and more important commitment to assure the viability of railroads in regions of the country not specifically covered by provisions of the 1973 Act.

Rumors around today that other rail lines in the Midwest are on the verge of collapse. If it is important for Congress to guarantee the stability of Eastern railroads, and I believe it is, then it is surely just as important for the Congress to assure that the essential services provided by midwestern rail carriers will continue also.

The farms of Iowa are as dependent on efficient rail service as are the steel mills of Pennsylvania. One need only consider the vital role of the Rock Island in transporting Iowa's agricultural products to recognize the threat to the nation's food chain that would result were this railroad's operations to cease.

It appears to me, on the basis of current information, that the Congress must give serious and immediate consideration to broadening the scope of the Regional Rail Reorganization Act of 1973 so that the problems of railroads in the Midwest and elsewhere can be met with foresight and planning.

There is some talk, in and out of the Congress, that a merger involving the Rock Island Lines is the answer to the immediate problem. While I agree that this alternative should be closely examined, I remain skeptical, in light of past experience, as to whether or not a merger can provide a lasting solution. Remember that the merger of the Pennsylvania and the New York Central railroads was followed two years later by the bankruptcy of the newly formed Penn Central Transportation Company.

And remember, too, that this bankruptcy could not be accomplished under Section 77 of the Bankruptcy Act because of the massive cost of necessary upgrading of the Penn Central's right-of-way and equipment. It was at this point that Congress reluctantly stepped in. The result was the Regional Rail Reorganization Act of 1973.

While we should view the present situation in light of past experience, we must, above all, recognize that the problems of the Rock Island Lines are only a symptom of the vast surface transportation crisis which faces this nation.

While we react to this crisis, we must face the fact that the nation can no longer tolerate a situation where crisis-oriented decisions are a mainstay of the country's transportation policy. The Congress should long ago have devised a sound, coherent transportation policy which helps coordinate the available services of all modes of transportation.

The most immediate transportation problem we face is how to assure that the Rock Island Lines' services are maintained and its employees protected. But this problem is only the tip of the iceberg. Congress must face up to this fact now.

STATEMENT OF HON. ROBERT H. MICHEL, U.S. REPRESENTATIVE FROM ILLINOIS

Mr. Chairman and Members of the Subcommittee: This hearing has been called to consider the unfortunate circumstances which have come about with regard to the Chicago, Rock Island and Pacific Railroad. It is certainly appropriate that the plight of the Rock Island receive the attention of this Subcommittee, and of this Congress.

The Rock Island stands today poised on the brink of collapse. As in all matters of this kind, a plethora of reasons may be cited as having led to such an unfortunate situation. Of particular importance in this case are:

(1) The unusually high redundancy of Rock Island main lines. Virtually all of the major markets served by the Rock Island are also served by other carriers. In several cases, as many as six other railroads provide service to cities on the Rock Island line. It appears clear that there is insufficient volume of traffic in many of these instances to support the competing lines.

(2) The current economic downturn. Because of their extraordinarily high overhead expenses, railroads are particularly vulnerable to traffic load reductions brought about by periods of economic decline. In the present case, the Rock Island has suffered a 16 percent loss of revenue for the first two months this year.

(3) Twelve years of uncertainty with regard to the proposed merger of the Rock Island with other carriers. It cannot be maintained that the Rock Island, in anticipation of the consummation of the merger, did not make management decisions, particularly with regard to capital improvements, that have had an adverse effect on the ability of the carrier to function independently. While the ICC appears committed to expedite the merger at this time, great uncertainties remain, and the final consummation of the merger appears still to be years away.

(4) Government overregulation of the railroad industry. Without question, the overregulation of railroads by the government has brought havoc to the whole industry, the Rock Island included. Because this point has received little attention in the current debate, I would like to spend a few minutes tracing the development of government involvement in the railroad business. I believe this discussion may be enlightening as we look to the future for guidance with regard to appropriate government policies for surface transportation modes in general.

The condition of America's rail transportation system does no credit to the reputation of our nation's business community. Yet, if one takes the time to examine the history of this industry, there is little reason to expect much better. For, as much as any other industry in our country, the history of this industry is replete with overweening government regulation, subsidization, and intervention. More than any other, a study of the railroad industry is a classic case study of government regulation at its most detrimental.

Historically, railroads in our country have provided the crucial intercontinental link which allowed orderly access to, and development of our abundant natural resources. This function remains the prime one for the industry since, within our increasingly integrated national transportation network, railroads remain our most efficient means of hauling cargo over long distances.

Despite a temporary national trend in the 1830's departing from governmental interference in private enterprise, the categorization in the minds of many of the railroads as a quasi-public utility resulted in contrary treatment of the railroad industry. As in the case of the roads and waterways of our country, it became governmental policy to encourage and assist in the development of our rail network. The potential role of the railroad in the future growth and prosperity of the country provided the impetus which very quickly elevated this to a priority concern of the still young nation. Not infrequently, there was inordinate personal interest by state legislators in development of the rails, as a result of transportation gratuities and attractive stock offerings.

From 1830 to the 1850's, public assistance to the industry was largely the function of State and local governments. Floundering rail systems occasioned by poorly co-ordinated and integrated state rail systems quickly attracted the attention of the federal government, however. Market volumes were either ignored, or grossly over-estimated; and the States themselves had created, or at least contributed to, a nightmare experience of credit expansion, saturated bonding capacity, and treasury breaking direct assistance grants. The States' role was not usurped by the federal government; they opted out as an alternative to bankruptcy.

The lure, however, of Western development overcame whatever lessons had been learned as a result of the experiences of the States. Shortly after mid-century, the legitimacy of public involvement in the railroad industry was reaffirmed, this time in the guise of the federal government. There is little evidence that the industry itself offered any discouragement to these developments for they grew increasingly aware that risk capital is always less risky when in the form of federal grants.

It was during the early years of federal involvement with the industry that it expanded the most rapidly. In the opinions of many it over-expanded during this time, constructing plants far in excess of what was then economical, or profitable. Although there is debate over whether or not sufficient private capital existed to make transcontinental rail development feasible in the absence of federal assistance, the more plaguing question at the time was a legal one—whether or not private development and rights-of-way could be had across federally owned lands in the midwest. Perhaps more than any other circumstance, this fact encouraged the federal government to become massively involved in the dispensation of rail subsidies, monopolistic grants of rights-of-way, and special favors and privileges to those best able to convince their representatives

in the various legislative halls that their projects were the most worthy recipients of federal and state largesse. This assistance might also have taken the form of the exercise of eminent domain, tax exemptions, federal loans, and outright land grants.

These benefits, even if not of the magnitude that some of the most vehement critics of this relationship claim, made the difference in many instances between the orderly development of the railroad industry accompanied by normal elements of business risk, and the kind of wholesale explosion that marked the expansion of the system westward. Investment, and holding companies quickly formed for purposes of turning quick, easy profits from rail investments, and ensuing scandals lacked only the investigative enthusiasm of the *Washington Post* to insure them an unchallenged pedestal in American history.

Yet after approximately 20 years of increasingly intensified federal involvement in the rail industry, this involvement ended abruptly. It took only this short period of time for Washington to re-learn the earlier lessons of State participation. Personal financial disaster, and economic chaos was left behind in its wake. Union Pacific, among many others, was placed in receivership, and western immigrants, assured earlier by politicians of adequate rail transportation found themselves cut off from the more civilized eastern States. Private investment capital which had been buffered by federal patronage suddenly became jeopardized, and commercial expansion which had centered around expected rail expansion lay idle.

It was at this point in our history that co-ordinated, long run rail development first occurred. Under state and federal sponsorship only one fifth of the total track mileage which was to exist several decades in the future had been laid. Development continued steadily until the 1920's when track mileage peaked at slightly over 250,000 miles.

But the federal government was not satisfied to remain outside the railroad business. Despite failure at constructing the system, it turned its attentions in 1886 to regulating the achievements of the private builders of the railroad industry. The immediate impetus for the birth of the Interstate Commerce Commission in that year was a variety of discontents caused by price fixing railroad cartels (in most instances undercut by "renegade" independents unless the monopolistic residue of the federal era prevented this), and a growing desire for communities to rely upon political inducements, rather than economic ones to bring service to their markets. The leaders of the industry themselves turned to government to provide support for the questionable practices which had become institutionalized in some segments of the industry. Like many businessmen they spoke eloquently of their support of the free enterprise system, yet explained how the "special circumstances" of their trade required that, in the public interest, there be protection against "cut throat tactics" of competition.

It had not taken long for the industry to learn that price fixing cartels were only as strong as their weakest link. As price fixing agreements collapsed under the rigors of competition from the "renegades" the railroad leaders themselves turned to the government to protect their cartels.

The ICC was born, and immediately filled with industry approved appointees, Pennsylvania Railroad attorneys were responsible for drafting most of the amendments to the Interstate Commerce Act in the early 1900's, and modernly most ICC commissioners have close industry ties, such ties usually cemented after their commission tenures since the industry has proven the most prolific employer of unemployed ICC bureaucrats.

In the manner characteristic of most regulatory agencies, although with somewhat more speed than most, the ICC quickly became inundated with the sheer bulk of the task which they had set for themselves, growing increasingly inflexible in the process. As a result it became difficult for the railroads to respond to changing economic circumstances, and new technological developments. When the automobile industry began to manufacture trucks the response of the industry was first to encourage ICC prohibitions upon trucks carrying freight, and then to seek to include them within the regulatory ambit of the ICC. Similarly, the advent of air freight transportation saw the railroads and ICC working together to bring this industry underneath the regulatory umbrella.

The ostensible justification originally for the ICC, being the nascent monopolies which preyed upon helpless shippers, it follows that these developments should have resulted in a second look at the Commission's existence at this time since effective and feasible competing forms of transportation now constrained rail monopolies, as did the intervening passage of the Sherman and Clayton Acts.

The usual means of dealing with monopolistic structures has been antitrust, but in that class of industry holding their monopolistic position by virtue of enormous capital requirements, and a limited market, traditional antitrust is inapplicable. It is not reasonable, or efficient to break up a railroad corporation with many thousands of miles of interconnected track for the sake of re-establishing competition.

And, thus, government regulators turned to rate setting as a preventive measure against monopoly profits. As a general rule, any segment of the economy holding a natural monopoly is not allowed to exceed the average rate of return on investment enjoyed by the economy as a whole.

But, employing this regulatory technique results in two types of distortions. First, capital tends to be replaced by labor investment, allowing the monopoly operator an extra margin against which to measure his profits. This arbitrary and inefficient utilization of capital penalizes shippers in terms of artificially high rates, and penalizes the labor market in terms of long term productive employment opportunities.

Second, various inefficiencies which lead to increased costs are encouraged since inefficiency becomes the tool by which profits are manipulated to remain below the average rate of return on investment.

Regardless of one's feelings about monopoly profits, it is clear that the national interest is better served by the efficient, and productive use of capital. It is also erroneous to assume that no erosion is likely to occur in the influence or holdings of natural monopolies. As natural monopolies develop they create their own markets, until that point is reached at which market demand will provide the economic justification for competition, as in the case of intercontinental rail freight, which generates more volume than one set of tracks can haul.

Beyond the development within the monopolistic industry, technology itself will constantly introduce substitutes. When railroad regulations were originally established, trucking and airline competition did not exist. In time they offered the potential for equivalent service at a lower price, or a superior service at competitive prices. It is reasonable to assume that each possessed its own benefits and deficiencies, and that they could have meshed into a balanced, competitive network had not they been hindered at every step by federal regulators. These regulations, although supposedly designed in the "public interest", have uniformly kept shipping rates established at artificially *high* rates.

In a succession of cases in the 1950's when courts construed the Interstate Commerce Act to exempt various commodities from its regulation the prices of these unregulated commodities went substantially down in virtually every instance. Efforts by the Southern Railroad for many long years of litigation and hearings to reduce their freight rates for several commodities up to 60% illustrates both the magnitude of the costs of regulation to the consumer, and the obstructionist role played by the ICC in efforts to cut the costs of transportation.

ICC rate setting policies are an impenetrable maze of regulations and tariffs which not only serve to misallocate traffic between various modes of transportation, but involve elaborate cross subsidization of commodities regulated. There is no single standard of compensatory rates, but rather artificially high rates on the transport of some commodities will be used to support artificially lower-than-market rates on the transport of other commodities. Rates are geared toward the value of the cargo hauled to the shipper, and unlikely rate determinant, when the rates charged by unregulated competition would seem to be a more reasonable standard. Competition is also of little consideration to the ICC when it prohibits carriers from attempting to exploit their strengths, which in the case of the railroads are their abilities to haul heavy cargos long distances at reasonable rates. It has been in the area of long distance hauling that the ICC has been most rigid in preventing rate cutting by the rails. But it is probably to be expected that an agency which handles well over 20,000 tariff applications per month is bound to make a few mistakes here and there. Unlike the mistaken calculations of private enterprise, the victims of regulatory miscalculations are the entirety of society, not merely the miscalculator itself.

Because railroads are treated as "common carriers" there remain uncounted numbers of regulations designed to promote the public interest which raise costs to the consumer while failing to promote anyone's conception of the public interest. An example are the requirements that they be prepared to carry items such as cattle for which they have lost all competitive advantages, resulting in underutilized cattle cars, and empty, yet modern, cattle loading pens.

The ICC has also developed a complicated time-mileage formula discouraging additions of freight cars to lines which could economically and safely employ

them, thereby increasing operating costs, and decreasing efficiency. Streamlining our nation's transportation system through intermodal intergration, containerization, and technological improvements have all been given little encouragement by the ICC, ever fearful of upsetting a comfortable status quo. Nevertheless, without either the ability to set competitive prices, or to cut the costs of their own operations, the railroads increasingly find themselves in an unviable financial situation.

So what are we to do? What are we to do with regard to the Rock Island in particular, and in regard to the railroads of America in general?

There are no easy answers. If we simply stand by and allow the Rock Island to go under, many shippers will find themselves severely disadvantaged, and thousands of Rock Island employees, including many in my district, will find themselves out of work.

If we legislate a subsidy for the Rock Island, that subsidy will either be too small to have any real benefit, other than to postpone the inevitable for a few weeks or months; or it will be so large as to be fiscally irresponsible at a time when excessive government expenditures are already a prime cause of economic hardship for millions of Americans. And of course we will then be able to sit back and wait, not too long I suspect, for the next railroad president to come knocking at our door.

If we follow the lines of Senator Pearson's bill, S. 917, and in effect legislate the merger between the Rock Island and the Union Pacific (with some involvement by other lines too) we will keep trains operating over the Rock Island track, but perhaps bring Rock Island's competitors, ever closer to bankruptcy themselves, as they lose valuable revenue from their bridge traffic. Of course, we may include in our orders protection for these lines by requiring that the Union Pacific maintain a certain level of traffic with these lines, rather than operating solely or largely over their own now-to-be-acquired trackage. And with that we would add another layer of inefficiency upon the railroad business, with attendant increases in costs to be borne by the public. We would, in short, dig our hole just that much deeper.

There is no good solution to the Rock Island's problem. There is only a choice among bad solutions. I suggest therefore, that we adopt a temporary measure designed to avoid the greatest possible adverse effect on shippers and employees of the Rock Island.

But I suggest we not stop there. I suggest that we once and for all move to solve the railroad industry problem in this country. Billions of dollars and miles of red tape have been expended on half measures. The time has come to stop all that waste.

There are three basic alternatives to our present course of action, and I would like to conclude with a discussion of these possibilities.

First, we can nationalize the railroad industry. I would hate to see us adopt this course of action, simply because it is, in the final analysis, no solution at all, but merely a transfer of the remaining problems from private to public hands.

I believe we have seen in the case of Amtrak that the creation of a quasi-governmental corporation does not necessarily make for smooth-running, efficient service to the public; I am convinced that a nationalized rail freight system would be even more beset with problems, even more of a drain on the public purse, and even less of a boom to its customers, than the considerably less complex passenger system.

Whenever nationalization of a given industry is suggested, those of us who are ideologically inclined to distrust such ideas cannot help but think of the Post Office, and to wonder how it is possible to desire more of that.

The second possibility is comparable to what many suggested as an appropriate foreign policy during the Viet Nam years—unilateral withdrawal. I refer of course to the option of simply de-regulating the railroad industry, and allowing the market forces to resolve the problems involved.

I have earlier in this testimony cited the historical evidence for laying at the doorstep of the regulatory process many of the problems which currently beset the railroads. I am convinced of the truth of this analysis, convinced that if the government had let the railroads alone in the first place, we would not be in the mess we are in today, and convinced that a deregulated transportation system would perform admirably for the American people in our time.

Nonetheless, I feel that there are some very serious problems connected with a precipitous government pullout at this point.

Never before have we needed railroads more; our energy shortages impel us to turn to energy efficient rail mode. But I fear that the industry is so under-capitalized at present that it could not absorb the expense of rehabilitation through private financing without a substantial period of adjustment, and we simply do not have any time to waste.

Therefore, believing as I do in the efficacy of the market, and the futility of continued operating subsidies for the rail industry, I believe it is time that the government turned its energies toward the development of a publicly-owned network of tracks.

What I envision is a veritable interstate rail system, modeled after the interstate highway system. Innovatively conceived, such a system should then permit the establishment of truly competitive operations by private industry upon the public track.

It is axiomatic when discussing the plight of the railroads vis a vis other transportation modes to point to the fact that railroads alone are required to maintain their route media. Airplanes fly through the air; trucks ride over publicly-owned roads; barges float on public waters. To be sure, through user taxes and other devices, these modes provide in a substantial way for the maintenance of their media, but their contribution is in no way comparable to the massive overhead expenses borne by the railroads in maintaining their tracks.

While I am convinced that publicly-owned track is the most feasible long-range solution to the problems of the rail industry, I remain greatly apprehensive that such a program might defeat its own purposes unless the Congress can be persuaded to combine it with a plan for deregulating those who would operate on that track.

Unless the free market were permitted to function in this way, I would have great hesitancy in supporting the interstate rail system, much though I believe in its appropriateness. I can conceive of no technical reasons why virtually unlimited access to an interstate rail network cannot be granted for both passenger and freight carriers, if only we will be creative in our engineering, and truly dedicated to making a free system work.

Obviously, the establishment of an interstate rail system will not keep the Rock Island Railroad from going broke next week. As I have already said, I see no truly satisfactory solution to that problem, and can only support the lesser of many evils, to wit, a program that gives maximum protection to Rock Island employees and shippers, a minimum drain on the Treasury, and a minimum of unhealthy precedent.

But if we act now with creativity and concern, we just might be able to prevent the next Rock Island crisis. That is imperative, because if we fail to come up with a comprehensive solution to the rail problem, we shall be faced with a succession of Rock Island type crises that will not stop until it has touched every single railroad in the nation.

Thank you.

STATEMENT OF HON. MARTHA KEYS, U.S. REPRESENTATIVE FROM KANSAS

Mr. Chairman, I thank you for this opportunity to share with the Senate Commerce Committee my views regarding the rail service provided to the state of Kansas and to the Midwest by the Chicago, Rock Island, and Pacific Railroad.

Before I proceed, let me share with you the importance of the service of the Rock Island to the Midwest, as well as to the nation as a whole. The Rock Island employs nearly 11,000 individuals directly. It serves 756 communities not served by other lines. The Rock Island directly or indirectly is responsible for \$2.5 billion in payrolls. It serves 1,668 grain elevators not served by other rail companies and its flow of grain to export was worth \$2.5 billion to the United States in 1974. The service provided by the Rock Island is essential to a healthy economy in the Midwest.

In Kansas alone, the halting of service provided by the Rock Island would mean the loss of over 2,000 jobs. It would mean the abandonment of 1,082 miles of track, sixty trains out of operation, and the loss of rail service to ninety-seven Kansas communities. It would also mean a loss of \$1.5 million to the state treasury.

Certainly the most frightening aspect of this entire situation for the nation and the world is the probable effect that the stoppage of Rock Island service would have upon the price of grains and thus food. The farmers of Kansas choose to ship their grain on the Rock Island as it is the most economical means of

transportation available to them. Increased cost of grain transportation will most assuredly be reflected in higher grain and food prices. Some of this grain will undoubtedly be able to get to the market, but truck and alternate rail capacity in the area is already strained.

Even if truck transport can be expanded, it will be costly in the areas of environment and energy. In Kansas, there are 79 cooperative-owned elevators served by the Rock Island with a total storage capacity of 129.7 million bushels. There are 110 private elevators with a storage capacity of 48.7 million bushels. This means that at least 178.4 million bushels of grain would have to be moved by truck.

According to the office of the Kansas fuels coordinator, using an average truck weight of 800 bushels, this would require about 233,000 truck movements just to move this much grain. Considering an average trip length of 100 miles with a fuel consumption of three miles per gallon, this means a demand for at least 7.4 million gallons of diesel fuel, almost a fourth of our total February diesel fuel supply in Kansas. Considering the future energy needs of this nation, the alternative of shipping grain by truck is not very attractive.

As I understand the situation Mr. Chairman, there are several alternatives available that may provide the solution—at least on a short-term basis—to the present Rock Island dilemma. Conceivably, the U.S.R.A. could reconsider and grant the Rock Island its loan request. I have encouraged the U.S.R.A. to proceed in this manner. The Interstate Commerce Commission under Section 1(16) (b) of the Interstate Commerce Act, has the authority to order another rail company or companies to operate the Rock Island for up to eight months. If the Rock Island were to enter reorganization under Section 77 of the Bankruptcy Act, another source of financial assistance would be the Emergency Rail Services Act of 1970. And Senator Pearson has provided yet another alternative with the introduction of S. 917, the "Railroad Temporary Operating Authority Act."

It has become obvious Mr. Chairman that none of these potential "solutions" will be totally acceptable to all concerned parties. Any solution must however include adequate safeguards for the preservation of rail service and jobs now provided by the Rock Island. The resolution of this matter will most probably and properly come as a result of actions taken by the ICC, the U.S.R.A., and the Rock Island Railroad.

I however encourage the Senate Commerce Committee and the House Interstate and Foreign Commerce Committee to proceed in developing a more permanent legislative solution to the problems of the rail industry in this nation. Such a legislative solution will involve thorough studies into the effect that management, labor, and government regulation have had upon the demise of America's once great rail system. I am greatly encouraged by recent proposals to provide public service employment opportunities in rebuilding the nation's railroad rights of way. I am also encouraged by the increased attention being given to the concept of federal maintenance of railroad track and yards, similar to federal assistance and maintenance of highways for trucks, jet ports for airlines, and channels for barges. Mr. Chairman, I sincerely hope that your Committee will vigorously study these and other alternatives. Thank you.

STATEMENT OF JOE COX, ON BEHALF OF THE ARKANSAS RICE GROWERS COOPERATIVE ASSOCIATION AND RICELAND FOODS, INC.

My name is Joe Cox, I am employed as General Traffic Manager of Riceland Foods, Inc. and The Arkansas Rice Growers Cooperative Association. Both firms doing business as Riceland Foods. I have twenty-five years experience in traffic and transportation. Prior to my employment with these companies, I was employed by the Missouri Pacific Railroad Company in the Operating and Traffic Departments for Fifteen years. Thereafter, I was employed in the traffic department of these companies and was appointed to my present position on December, 1971. I am generally familiar with the freight transportation matters relating to the products of my company, both domestic and for export.

My company is a 25,000 member cooperative organization. In addition to other facilities, we operate three rice mills as well as two soybean processing plants, a hydrogenating plant for the refining and processing of soybean oil and shortening and a rice by products plant at Stuttgart, Arkansas, served by The Chicago, Rock Island and Pacific Railroad Company. In addition to these Rock Island served processing plants, we operate grain drying facilities at Hazen, Lonoke,

Des Arc and Wheatly which are served exclusively by the Rock Island. These four facilities have rice and soybean storage in excess of 15,700,000 bushels.

During the 1974/75 season, we received in excess of 15,750,000 bushels of rough rice and soybeans at our dryers located at Rock Island points. This grain is moved from the dryer locations to the processing plants at Stuttgart via rail where it is then processed and reshipped, primarily by rail, to destinations throughout the United States, Canada, Mexico and to various other countries through the Gulf Ports.

Our facilities are geared to large volume operations which necessitate the handling of rice, soybeans and the outbound products in large covered hopper rail equipment. If there should be a shut-down of operations on the Rock Island Railroad, we would be forced into other modes of transportation, the only alternative would be truck movements. If the rough rice and soybeans were moved from our four Rock Island dryer locations, the annual volume would amount to over 25,000 truck loads arriving at our Stuttgart facilities. Since we own or operate over 40 dryer and elevators which have in excess of 75 million bushels of storage throughout Arkansas, Southeast Missouri and Mississippi, and we are now handling more than 75 million bushels of grain annually, it is inconceivable that our mill facilities could be revamped to accommodate an extra 25,000 trucks annually.

It is estimated that our increase in transportation cost of rough material from these locations could increase by over \$800,000 annually. This would be based on current trucking costs and it will probably double in view of pending increases in fuel costs. This could cause irreparable damage to our company and would have to be passed on to consumers. With the spiraling food costs which now exist, this could only lead to further deterioration in our economic situation.

During the year 1974, our processing plants at Stuttgart, served by both the Rock Island and Cotton Belt Railroads loaded over 12,000 carloads of milled rice, rice by-products, soybean meal, soybean oil and shortening. In addition to the outbound loading, our driers located throughout the state are furnished with thousands of hopper cars to load raw materials to the mills. There are many times throughout the year that the capability of both railroads are taxed to the limit to furnish the necessary rail cars to supply our needs. If the Rock Island is closed down in Stuttgart, it is very unlikely that the Cotton Belt would be able to furnish us with the necessary equipment to keep our mills running. A shut down in our mill operations would result in a substantial layoff of hundreds of employees. In these days of world food shortages and high unemployment, it is absolutely imperative that our mills operate at capacity.

We would urge your committee to institute favorable legislation which would give the Rock Island some kind of relief in the form of federal loans to enable them to continue operations, and serve the vast agricultural area and industrial plants located in the Middle West, until such time as mergers with other carriers can be made.

VERIFICATION

COUNTY OF ARKANSAS,

ss:

State of Arkansas,

Joe Cox, being first duly sworn, on oath, deposes and says that he has read the foregoing statement prepared by him or under his direction, that he knows the contents thereof, and that the same are true and correct to the best of his knowledge.

JOE COX.

Subscribed and sworn to before me this 7th day of March 1975.

NELL BRAMLETT.

My commission expires January 17, 1977.

[Seal]

STATEMENT OF JOEL O. KOCHER, FOR THE ENID BOARD OF TRADE AND THE OKLAHOMA GRAIN AND FEED ASSOCIATION

IMPORTANCE OF ROCK ISLAND RAILROAD COMPANY TO HEAVY WHEAT PRODUCING AREA
OF OKLAHOMA

Oklahoma produces only one large cash grain crop. It is wheat, and the large wheat producing area is on and west of I-35 which runs north to south through Oklahoma City. The area encompasses 35,600 square miles of land. The area is

served by three railroads: the Santa Fe, the Frisco and the Rock Island. The Rock Island bisects the area from north to south and from east to west, and has a number of branch lines of considerable length.

If the Rock Island Railroad were to close down their railroad it would result in a devastating blow to transportation in the area. In 1973, Oklahoma produced 158 million bushels of wheat. By the end of harvest wheat was on the ground at a number of locations on all three rail lines. We are going to produce more than 158 million bushels soon. Maybe in the 1975 harvest. If the Rock Island lines were closed down there would be a loss of one third of the transportation capability in the area and wheat would be in the streets of many of the small towns.

EFFECT ON COUNTRY AND TERMINAL ELEVATORS

The total country and terminal elevators in the state is 330. A total of 136 elevators are in towns reached by the Rock Island. A total of 91 elevators are served by the Rock Island and many of them are in towns served by the Rock Island only. Some farmers would have to haul wheat 40 miles to find an elevator located on a rail line. We would find wheat on the ground on the farms as well as in the towns. The cost to the farmer goes up, not only in marketing his grain, also in the cost of his supplies.

The average inbound car receipts of wheat in Enid over the past 3 years is 20,100. This is an understatement because the Rock Island and Frisco have allowed substitution of trucks for rail service inbound and inbound truck figures are not available. The average in the past 3 years of outbound carlot shipments is 21,485 cars yearly. The average percentage that the Rock Island handled is 31%. We don't see how we could handle this volume of grain without the Rock Island in the picture.

MANY TOWNS WOULD NOT HAVE RAIL SERVICE

County Seat towns without rail service would be:

Towns—County
 Waurika—Jefferson.¹
 Walters—Cotton.¹
 Duncan—Stephens.¹
 El Reno—Canadian.¹
 Kingfisher—Kingfisher.¹
 Watonga—Blaine.
 Caddo—Anadarko.
 Mangum—Greer.¹
 Sayre—Beckham.¹
 Guymon—Texas.¹

¹ The entire county would not have rail service if the Rock Island closes down.

THE ROCK ISLAND IS A LARGE GRAIN CARRYING LINE IN OTHER STATES

The large grain producing states which the Rock Island also serves are Texas, Kansas, Missouri, Nebraska, Iowa and Minnesota. Grain moves from the country elevators in these states to Enid for storage. It later is shipped to the Gulf for export in practically all train load lots.

THE ROCK ISLAND RAILROAD SHOULD BE KEPT IN GOOD OPERATING CONDITION

The Rock Island for many years has barely kept their head above water. When a car shortage comes we always feel it on the Rock Island first. Their car supply is seldom equal to the demand. Their roadbed, power and equipment are not in top condition. They are caught in a vicious circle. A railroad, to make money, must have an adequate car supply, with the roadbed, power and equipment in good condition. On the other hand, if you can't meet these conditions you can't make money.

The Interstate Commerce Commission has made a decision dividing the Rock Island Railroad into three parts. North of Kansas City goes to the Union Pacific. South of Kansas City goes to the Southern Pacific. The line starting at Memphis, Tennessee and going through Little Rock, Oklahoma City and Amarillo to Tucumcari, New Mexico goes to the Santa Fe. The decision has been challenged and it may be several years before a final decision is made. In the interim period the Rock Island should be kept a viable railroad in good operating condition.

VERIFICATION

ENID, OKLA.,
County of Garfield, ss:

Joe O. Kocher being duly sworn deposes and says that he has read the foregoing statement, knows the contents thereof, and that the same are true as stated.

JOEL O. KOCHER.

Subscribed and sworn to before me, this 7th day of March, 1975.

DOROTHYE WOODARD,
Notary Public.

My Commission Expires December 17, 1977.

[SEAL]

STATEMENT OF RICHARD C. GRAYSON, CHAIRMAN OF THE BOARD AND PRESIDENT,
ST. LOUIS-SAN FRANCISCO RAILWAY CO.

This statement expresses the views and opinions of the management of the St. Louis-San Francisco Railway Company (Frisco). Its purpose is to advise the members of the Committee on Commerce, and the Surface Transportation Subcommittee, that Frisco strongly opposes the enactment of S. 917, The Railroad Temporary Operating Authority Act; the reasons for such opposition; and, to propose an alternative which we believe would best serve the interests of the nation and the railroad industry in solving the problems which will exist in the event the Rock Island Railroad were to discontinue business.

Frisco operates some 4800 miles of trackage in nine states, including the states of Missouri, Kansas, Oklahoma, Arkansas and Texas, which are states also served by the Rock Island. Frisco and Rock Island serve nineteen common points. We have about 8,000 employees. In normal times employees would number about 9,000. It is through the efforts of these people that we have year by year consistently improved our rail transportation services offered to the shipping public; substantially increased our volume of business; and, operated profitably for over two decades. Last year was one of the most profitable in the history of our Company with operating revenues of approximately \$290,000,000 and net income of about \$13,200,000.

S. 917 would authorize the Interstate Commerce Commission to direct the continued operation of the Rock Island by prematurely placing in effect the Commission's order in the Rock Island merger case prior to the Commission's final determination in the case and in advance of judicial review of the Commission's order. We believe that the enactment of S. 917 and implementation by the Commission of its merger order would in all probability make impossible Frisco's continued growth and seriously impair its ability to provide quality rail service to the shipping public.

The major effect of providing a temporary solution of this nature would be to provide the Union Pacific entry into St. Louis; Santa Fe entry into Memphis; and Southern Pacific entry into Kansas City. The immediate result would be drastic changes in the competitive relationships between Western rail carriers which could threaten the very existence of some viable railroads operating in the territory. The effect upon Frisco was succinctly stated by the Commission in its merger opinion at Page 603: "In fact, Frisco's losses to Santa Fe, coupled with the traffic it could anticipate losing to Union Pacific, probably would be more than the carrier could withstand."

Presently Frisco annually interchanges a total of 200,000 cars with the Union Pacific at Kansas City, Southern Pacific in Texas and the Santa Fe in Oklahoma and Kansas. Frisco estimates its annual traffic losses based upon a 1% traffic sample of business for the calendar year 1973 will exceed 120,000 cars if the Rock Island merger order were to be placed in effect. The gross revenue loss is estimated at about \$40,000,000, based on 1973 rates. Such a loss in 1973 would have reduced pretax net income about 50%. It is estimated that a similar loss of traffic in 1974 would have resulted in an operating revenue loss of approximately \$45,000,000 and an approximate 46% reduction in pretax net income. The serious adverse effect and the unfairness of prematurely implementing the Commission's merger order is obvious. This should not be rationalized by Congress or the Commission on a mistaken belief that the Rock Island merger will be consummated in the near future on the basis of the Commission's recent order. This merger case is now twelve years old. A merger, if one does occur, will only take place after further time-consuming litigation.

We recognize that there is a responsibility which rests with Congress and the Interstate Commerce Commission should the Rock Island be unable to continue operations. We believe that the answers to problems which develop under such circumstances must be in accord with the National Transportation Policy declared by Congress. This Policy aims "to provide for fair and impartial regulation * * * to foster sound economic conditions in transportation and among several carriers * * * all to the end of developing, co-ordinating, and preserving a national transportation system by * * * rail, as well as other means, adequate to meet the needs of the commerce of the United States * * *".

We believe that this Policy would not be promoted through the enactment of S. 917 in that implementation of the Commission's order in the Rock Island merger case in advance of a final decision and judicial review will extend existing territories and alter gateways and service routes; will disrupt competitive relationships; and encourage or require non-essential rail service.

Rock Island discontinuing operations will not present a situation analogous to that which would occur if the Penn Central and the other bankrupt railroads in the Northeast were to discontinue operations. All of the major markets of the Rock Island are served by at least two other carriers and in many situations by as many as six carriers. All of Rock Island's main routes between major markets are paralleled by from two to as many as seven other individual railroads. It has been estimated that 80% of the traffic handled by the Rock Island can immediately be diverted to other available rail carriers operating in the territory. The Department of Transportation has indicated that it is their "preliminary estimate that well over half, and probably as much as 70 percent of the (Rock Island) traffic can be easily diverted to other available carriers * * *", and that "some traffic can be shifted without serious disruption to truck and water carriers * * *".

The Rock Island has not operated at a profit for many years. It has been estimated that it will require an expenditure of \$750,000,000 to bring the properties up to good operating standards and that the cash shortage in 1975 alone will exceed \$65,000,000.

In brief we do not believe that the Transportation Policy as declared by Congress, or the interests of the Nation, the railroad industry, or the shipping public, justifies that the duplicated operations and services of the Rock Island be continued and perpetuated. We believe that it should not be a concern or objective to preserve the total Rock Island system but rather the concern and goal should be to develop a plan which would provide essential local service to points which would be without rail service in the event the Rock Island were to shut down.

In the event that Rock Island discontinues operations, Frisco proposes that the Congress and the Commission would best serve the interests of all concerned if:

(1) A neutral carrier were ordered to operate the Rock Island System under the provisions of Section 1(16)(b) of the Interstate Commerce Act for a period not to exceed 240 days; and

(2) The neutral carrier would be ordered to only provide essential and necessary local service from and to the nearest interchange or gateway beyond which service would be performed by viable carriers presently operating within Rock Island territory.

Such a proposal would provide continued rail service for the immediate future for all Rock Island patrons; it provides a period to determine the extent to which Rock Island traffic can be handled by existing railroads and the extent that local service is essential and to provide means and methods for such local service to be continued; it preserves the free enterprise system within the rail industry and could ultimately eliminate the need for funds which would be required to preserve a rail system no longer essential; it does not disrupt existing competitive relationships between railroads but rather only increases traffic volume of railroads operating within the same territory as the Rock Island; and it permits a wind down of Rock Island operations without an abrupt cessation of services.

Larry S. Provo, President, Chicago and North Western, has advanced a similar plan to which we have no objection. We would cooperate in its implementation if such were the choice.

We believe that adequate basic authority exists for the Commission to cope with and resolve the problems which will develop in the event the Rock Island were to shut down. We would be hopeful that the efforts of the Commission to find solutions will continue within the existing framework of the law. If such were the case we would suggest that the Commission again preside over a fur-

ther meeting such as took place on March 3, 1975, at which time the Commission Staff and management of interested railroads informally discussed proposals as to appropriate Commission action in the event of a Rock Island shut down.

We appreciate the opportunity to present our views. We will be pleased to help in any way possible.

STATEMENT OF WILLIAM J. QUINN, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, CHICAGO, MILWAUKEE, ST. PAUL, AND PACIFIC RAILROAD CO.

Mr. Chairman, Members of the Committee: My name is William J. Quinn. I am Chairman of the Board of the Chicago, Milwaukee, St. Paul and Pacific Railroad Company, usually known as "Milwaukee Road", with headquarters in Chicago. I am appreciative of the opportunity extended us to testify on S. 917. This bill would amend Section 5(2) of the Interstate Commerce Act to permit the Interstate Commerce Commission to authorize temporary operation by an applicant railroad of another railroad in a consolidation, merger, or control proceeding pending a final order of the Commission.

The impetus behind the bill stems from the current financial difficulties of the Chicago, Rock Island and Pacific Railroad Company which has a proceeding for merger with the Union Pacific pending before the Commission. If the merger proceeding, pending since 1963, were finally approved as proposed, Rock Island's lines north of Kansas City and east of Omaha would be retained by Union Pacific; its lines south and east of Kansas City would be sold to Atchison, Topeka and Santa Fe and to Southern Pacific; and its Omaha-Denver/Colorado Springs line would be sold to Denver & Rio Grande Western. This dismemberment of the Rock Island was approved by the Commission in its Report issued December 3, 1974, subject to petitions for reconsideration which are due April 4, 1975.

Milwaukee Road has opposed that result. It opposed, and continues to oppose, a Union Pacific Rock Island merger for one very substantial reason: we believe, and the Commission's hearing officer in fact found, that the Milwaukee simply could not survive the impact of a Union Pacific merger with the Rock Island lines north of Kansas City. This would happen for the simple reason that Milwaukee Road derives a substantial portion of its freight revenues from interchange with Union Pacific at its present eastern termini of Omaha/Council Bluffs, and much of this valuable traffic would naturally be held to Union Pacific after merger with Rock Island.

The Commission conditioned its approval of the merger for that specific reason upon Union Pacific's agreement to hold present interchange traffic with Milwaukee Road at the same level as prior to merger for a period of five years from date of merger. (See 347 I.C.C. at pp. 616-617). We have severe difficulties with the practicalities of such conditioning, which we are prepared to state to the Commission in our Petition for Reconsideration. But it is not my purpose here to argue the relative merits of the condition on the merger; the Commission as the expert body on the subject will weigh such argument. My sole purpose in relating this is to suggest, with all respect, that the decision in a hotly contested case involving hundreds of litigants, nearly all of the railroads operating west of Chicago, and scores of communities and public agencies, should be made on the complete record now before the Commission and not by legislative fiat.

I respectfully submit that these many contending interests should not now be deprived by measures such as this bill of their final "day in court" as guaranteed by law. The bill has the plain intent of allowing an immediate "temporary" consummation of the merger to prevent a cessation of transportation service to the public. On behalf of Milwaukee Road, *which has proved its case of mortal harm* if Union Pacific is permitted access to Chicago, I must oppose the bill. Legislating Union Pacific into Chicago would simply open the arteries of Milwaukee Road, allowing it to bleed to death.

The "temporary" nature of such Union Pacific operation envisioned by the bill would not, I fear, prove to be reality. Mr. Justice Brennan, in his concurring opinion in the first Penn Central decision by the Court, warned that "the decision to allow consummation is often irreversible * * * or reversible only at enormous expense." (*Baltimore & O. R. RR. Co. v. United States*, 386 U.S. 372 at 406). The majority opinion that case observed "Our experience with other mergers, and common sense as well, indicate that the 'scrambling' goes fast but the unscrambling is interminable and seldom effectively accomplished." *Id.* at 392. In view of the Union Pacific's huge investment in the merger *proceeding* itself, its

fait accompli would not be reversed. And it is that result which would doom my Company—as the Commission's hearing officer has found.

Milwaukee Road and the other major Midwestern railroads propose a private-sector alternative to the bill preserving and perhaps even improving the service now provided Rock Island's customers. There are few communities or industries of any size in the entire Rock Island service area not served today by a line or lines of other railroads. There are, for example, 61 communities served by both Rock Island and Milwaukee Road. We propose that, if the Rock Island comes to a halt, the Commission exercise its present powers under Section 1(15) and 1(16) (b) of the Interstate Commerce Act to order these railroads to commence serving, on a temporary basis, Rock Island customers located at or near their junction with Rock Island. The Milwaukee Road is prepared to assume such a duty, along with other railroads, until a final Rock Island solution is found which is fair to other railroads and protects their shippers and those served by the Rock Island. We are now in process of designing a plan for such immediate assumption of service which we shall submit to the Commission. Our reasons for doing so are as candid as our reasons for opposing Union Pacific's assumption of Rock Island: if the private-sector does not rise to the challenge of the Rock Island crisis, this or a future Congress may be required to respond with further measures akin to the Regional Rail Reorganization Act of 1973 and impose *de facto* nationalization on the railroad industry.

It would be unfortunate for Congress by enacting this bill to wreak havoc on another major railroad. To paraphrase Justice Holmes, one generation of bankruptcies is enough.

I urge that S. 917 be tabled.

CHICAGO, MILWAUKEE, ST. PAUL, AND PACIFIC RAILROAD CO.—FACT SHEET

States served.—16.—Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nebraska, North Dakota, Oregon, South Dakota, Washington, Wisconsin.

Employees	13, 533
Payroll	\$180, 344, 964
State and Local Taxes paid.....	\$9, 015, 000
Stockholders Equity.....	\$320, 738, 000
Funded Debt and Equipment Obligations.....	\$213, 299, 436
Road Mileage operated.....	10, 286
Track Mileage operated.....	15, 122
Locomotives operated.....	789
Freight Cars owned and leased.....	34, 311

NOTE.—Figures as of December 31, 1973.

STATEMENT OF ROBERT C. CALDWELL, TRANSPORTATION MANAGER, GIFFORD-HILL & Co., INC., DALLAS, TEX.

I am Robert C. Caldwell, Transportation Manager for Gifford-Hill & Company, Inc. I am headquartered in the general office of the corporation at 8534 Stemmons Freeway, P.O. Box 47127, Dallas, Texas 75247. I have been Transportation Manager over eight years. Gifford-Hill & Company, Inc. is a diversified construction materials company. Gifford-Hill's interest in the "Rock Island" railroad situation is due to the fact that we have two important plants located on the railroad at Chico, Texas and Brinkley, Arkansas.

Our Perch Hill plant at Chico, Texas is an extensive facility for stone processing and serves a market area encompassing the Dallas-Ft. Worth metroplex and a large area of northeast, east central and southeast Texas. Our new plant is this location was placed in service in 1972, replacing an old plant that had been served by the "Rock Island" since 1956. The new plant was constructed on the strong foundation that "Chico" stone was needed for highway and other construction in the above mentioned market area due to rapid depletion of natural aggregates in the market area.

Over the years the rail share of plant shipments has been in the neighborhood of 20 to 25%. Carloadings the past few years have been as follows:

1971	Cars 4, 997
1972	5, 805
1973	4, 226
1974	5, 814

1973 was lower than average due to heavy truck shipments to the Dallas-Ft. Worth Regional Airport construction project. Forecast of carloadings in the near term indicate increase to 30% to 35% of production moving by rail:

	<i>Cars</i>
1975 -----	8,000
1976 -----	10,600
1977 -----	11,100
1978 -----	11,600
1979 -----	12,200
1980 -----	12,800

In terms of rail tonnage, for 1975, we expect to move 300,000 tons into the Dallas area and approximately 500,000 into the east Texas market area. Rail movement affords reduction of 50¢ to \$2.00 per ton of stone in construction costs for state highway, county and city roadwork, steel production and building construction in our market area. There is a commanding necessity for 5 to 6 day per week rail service by Rock Island for our stone plant and three others in the Chico, Texas area as the area generates a heavy trainload of business every work day during most of the calendar year.

In the Chico, Texas area there are no other railroads within economical distance to the stone deposits so our rail shipping is "locked in" to the Rock Island Railroad. Cessation of service by Rock Island would wipe out one half million tons of East Texas business for Gifford-Hill as trucking costs to the market area would be prohibitive. Freight costs to customers in the Dallas area would be considerably higher as the absence of rail service would cause a minimum of 12,000 truck loads on the highway, burning an estimated quadruple amount of fuel and further congesting the metroplex road system.

Special consideration on ecology and traffic congestion was legislated by the Dallas City Council when permission was granted Gifford-Hill in 1973 to build a new ready mix concrete plant near downtown Dallas. The council specified rail movement of inbound stone to the plant—that stone must be shipped from our Chico facility via Rock Island to Dallas. In fact, Gifford-Hill has 43 special aggregate cars of its own in service for this required movement.

Gifford-Hill believes that cessation of normal six day per week rail service to its Chico plant would cause the facility income to become so marginal that a total shutdown would probably be necessitated to avoid financial losses. This of course would put several hundred people out of work and further swell the already heavy unemployment rolls. The effect on construction of all sorts to our metroplex and East Texas customers would also lead to projects being shut down in an already depressed construction industry. In other words, cessation of rail service to our Chico facility turns a winner into a loser for Gifford-Hill and a whole area of construction activity.

At Brinkley, Arkansas, Gifford-Hill has a PVC (plastic) Pipe plant which has done its share in improving the economy and employment for this Arkansas community. The raw materials used to make PVC pipe—PVC Resin—is moved into the plant by rail from Texas City, Texas.

Cessation of service by Rock Island Railroad would cause a shutdown of the plant which is owned by the City of Brinkley and would cause further unemployment distress in this eastern area of Arkansas.

In summation, Gifford-Hill considers a cessation of normal rail service by Rock Island Railroad as a possible event of disastrous proportions that should be prevented by all possible means. Gifford-Hill would hope that an outright government loan or government guaranteed loan can be worked out to afford continued normal operation of the Rock Island and also afford Rock Island's new management the opportunity to improve the efficiency and thus the earnings of the company. Considering the impending resolution of the merger proceedings involving the Rock Island, the most undesirable action, we believe, would be a bankruptcy situation as it would throw a federal court and trustee intervention into an already complicated picture. Historically, our impression of bankrupt railroads, under trusteeship, includes poor service to shippers and lack of incentive to perform adequately.

STATEMENT OF BEN R. SMITH, ON BEHALF OF TEXAS INDUSTRIES, INC.

My name is Ben R. Smith. I am Traffic Manager of Texas Industries, Inc., a Delaware Corp., with mailing address at P.O. Box 400, Arlington, Texas 76010.

I have held this position for the past six years and, in this capacity, am thoroughly familiar with the transportation needs of my company. I have been authorized by officers of my company to prepare and present this verified statement seeking financial aid in the form of a Government Guaranteed loan for the Chicago Rock Island and Pacific Railroad Co.

Texas Industries, Inc. owns and operates a limestone quarry on the Rock Island at a location known as Arc Spur in Wise County, near Bridgeport, Texas. We are dependent upon the transportation services of the Rock Island at this location, shipping in excess of three thousand car loads of construction aggregates per year to our own plants and customers in the Dallas-Ft. Worth metroplex area, portions of East, West, North, Central, and South Texas and in interstate commerce to Louisiana and Arkansas. We have just set a monthly record at this location for average car loadings per day during the month of February and we expect this record to be broken in the ensuing months.

The trend of construction aggregate shipments by rail seems to be shifting from short range movements in the fifty to one hundred fifty mile radius to movements for distances of greater than three hundred miles. Our sales projections indicate this trend will continue, and with the continued availability of railroad equipment, we expect car loading of construction aggregates to increase tremendously. Due to the above mentioned changing trend in aggregate sales and the advent of the energy crisis we are more reliant on the Railroads today than we have been in the past.

At the Arc Spur stone quarry location, we are receiving six day a week service from the Rock Island. Anything short of six day service would be unsatisfactory. For this reason, we feel that immediate culmination of the proposed rail merger of the R.I., U.P., S.P., and A.T.S.F. would not satisfy the shippers' needs insofar as one of the other carriers might desire to operate that portion of the existing Rock Island main line between Kansas City and Houston as a branch line and not offer six day a week service.

In this connection, it is my understanding that the Rock Island is in desperate need of additional operating funds and is seeking action of an emergency nature from your Committee to effectuate a loan with repayment provisions. I believe the plight of the Rock Island is similar in many respects to that of the Penn Central and other eastern lines and should receive the same consideration with regard to their loan request. Therefore, it is my sincere hope that you and your committee will see fit to initiate emergency legislation or whatever action you deem necessary to insure that the Rock Island is not forced to curtail service or suspend operation because of insufficient funds.

Respectively submitted,

VERIFICATION

STATE OF TEXAS,
County of Tarrant.

Ben R. Smith, being duly sworn, deposes and says that he has prepared the foregoing statement, that the contents thereof are true to the best of his belief, knowledge and information.

Subscribed and sworn to before me this 6 day of March, 1975.

BEN R. SMITH.

HERBERT W. SCULLI,
Notary Public.

My commission expires June 1, 1975.

STATEMENT OF WILLIAM R. ALLEN, JR., DIRECTOR OF TRANSPORTATION, UNION EQUITY COOPERATIVE EXCHANGE

Mr. Chairman and Members of the Subcommittee: My name is William R. Allen, Jr., and I am employed by Union Equity Cooperative Exchange (hereinafter referred to as Union Equity) as Director of Transportation. Union Equity is owned by the producers of agricultural commodities in Texas, Oklahoma, Kansas, Colorado, Nebraska, and Arkansas.

This Statement is filed on behalf of Union Equity with home office and main storage facility at Enid, Oklahoma. As a regional cooperative, Union Equity has 190 member elevator organizations representing a total of 339 country elevators operating in the six states named above. Approximately 70 of such country elevators are switched and directly served by the Rock Island Railroad. At Enid we have elevators totaling 50,300,000 bushels storage capacity, and at Ft. Worth,

Texas, our storage capacity is 5,000,000 bushels. As a major exporter of wheat, we also have an elevator at Houston, Texas, with 6,500,000 bushels capacity.

The Rock Island Railroad is very, very important to the Grain Industry in Kansas, Oklahoma, and Texas, in addition to other states. The Grain Industry, including the farmers, the country elevators, the terminal elevators, and the export facilities, are depending more and more each year on the Rock Island Railroad, as well as the other granger line railroads. Larger grain crops are being produced; and thus the direct need for more and better railroad service. Many elevators switched by the Rock Island are totally dependent upon the Rock Island for rail service, and the majority were, no doubt, constructed mainly because of the rail service provided by the Rock Island, and represent huge financial investments.

In the Appendix attached hereto, we have listed various carload statistics in an effort to indicate the degree to which Union Equity at Enid depends upon and utilizes the services of the Rock Island Railroad. These figures are, of course, in addition to the many Rock Island carloads handled (shipped and received) at our Fort Worth and Houston facilities, as well as those of our many members.

In addition to Union Equity and its local cooperative members depending upon the Rock Island to transport and deliver many of our inbound rail shipments and handle the many outbound rail shipments from our respective locations throughout each year, many of us are vitally dependent upon the Rock Island during our grain harvests. Therefore, we have also listed various carload statistics of our last three wheat harvests at Enid, Oklahoma, in the attached Appendix.

As is indicated in our Appendix, Union Equity alone, at Enid, receives a tremendous amount of grain via the railroads during the month of June, which is our normal wheat harvest. We have four separate elevator facilities at Enid totaling 50,300,000 bu. storage capacity or approximately 76 percent of the 66,000,000 bu. storage capacity in the city of Enid. Two of our elevators are switched exclusively by the Rock Island, and a third is switched jointly, i.e. two tracks are switched by the Rock Island while two other tracks are switched by the ATSF/SLSF, and the fourth elevator is switched by the ATSF/SLSF (ATSF and SLFS alternate their switching duties annually). Without this Rock Island service, the majority of our operations at Enid would be without rail service and could not operate successfully, as would be the hundreds of other elevators and industries which are served exclusively by the Rock Island Railroad.

In the rush of the wheat harvest, the local farmers and country elevators are highly dependent upon the Rock Island and all granger line roads, to have cars available to keep the grain flowing thru the country elevator and on to the receiving markets. Without Rock Island rail service, much grain would no doubt be forced on the ground because of the lack of transportation. In addition to meaning financial ruin for many farmers and country elevators, it would be a tremendous loss of a basic food product; and each of us are aware of the critical food shortage throughout the world.

We firmly believe the only efficient way to move great quantities of bulk grain is via railroad service, and this need most definitely includes the service of the Rock Island. When we study our total Rock Island bulk grain rail shipments from Enid in Column 2 of the Paragraph (B) of the attached Appendix for the last two years, we have 4,546 cars in 1974 and 5,094 cars in 1973 which would have required at least 13,638 and 15,282 truckloads, respectively—and this is just from one firm at one station. These rail figures would have been larger had we not been operating under a tremendous grain car shortage throughout 1973 and well into the first half of 1974.

If we lose the Rock Island Railroad, it is highly doubtful that any alternate modes of transportation could be obtained to handle our grain harvests, as well as our shipping needs throughout the year. Certainly the increased number of trucks which would attempt to handle such a large job would consume much fuel which is in short supply, would emit much more pollution than would the equivalent railroad engines required to move the same amount of tonnage, and would directly cause much highway and road congestion and the sum of these factors would be most catastrophic. Neither is it likely that the remaining railroads pick up the slack of the Rock Island, because they also have had tremendous car shortages on their respective systems.

We are attempting today to explain how vitally important the Rock Island Railroad is to Union Equity Cooperative Exchange, to our many local cooperative members, and to many of the farmers in this country; in addition to the

many communities served by the Rock Island, the hundreds of other grain firms, and the many non-grain industries who are also strongly dependent upon the rail services of the Rock Island Railroad. In addition to our direct and personal needs from a dependency upon the Rock Island, we sincerely believe a basic interest of each taxpayer and of each United States Citizen is also at stake, at least to some degree on this proceeding. If we permit this fever or cancerous condition, which has deteriorated several railroads in the northeastern part of this Country, to spread west of the Mississippi River, it could well be the beginning of a continuous disruption/destruction of our total railroad system.

We continue to believe that the railroads of our Country constitute the arteries through which much of this Nation's commerce must flow. We respectfully and sincerely urge this Subcommittee to provide the financial assistance through a loan to be repaid, to enable the Rock Island Railroad to again become a strong and viable carrier and asset to this Country. Much financial assistance has been provided by our federal government for the financially troubled railroads in the Northeast in recent years, and this is also important and good; and we are urging you to take similar action to help this financially troubled railroad operating west of the Mississippi.

In viewing the financial problems of some of our major railroads from the viewpoint of our Government as well as of U.S. Citizens, perhaps these railroad problems have erupted in recent years because of serious neglect for many years. We have slowly, and throughout the years, financially helped our inland waterways and common motor carriers in the building of their respective "roadbeds," so to speak, without having provided similar assistance for our many railroads, and apparently the "day of reckoning" has arrived. When one neglects one's dental care for several years, the pain becomes great, and the bill is costly, but the need does not disappear.

We sincerely urge you to take immediate action to keep the Rock Island viable by instructing the United States Railway Association to reconsider their rejection of the \$100 million Rock Island loan request, and/or take the necessary steps to obtain emergency legislation to accomplish this objective. Thank you.

Respectfully submitted.

Enclosure.

APPENDIX—UNION EQUITY COOPERATIVE EXCHANGE

(A) ROCK ISLAND BULK GRAIN CARLOAD STATISTICS FOR THE CITY OF ENID, OKLA.—SHIPMENTS AND RECEIPTS¹

Year	Approximate carloads shipped via Rock Island	Rock Island percentage of all shipments via all Enid railroads	Approximate carloads received via Rock Island
(1)	(2)	(3)	(4)
1974	7,460	38.5	7,027
1973	8,465	28.0	6,249
1972	5,153	26.1	10,424

¹ When applicable, Rock Island motor substitution (truck for rail service) figures are included as railcars at the rate of 3 trucks for 1 average railcar. Such substituted service is handled identically to rail service.

(B) UNION EQUITY'S SHARE OF THE ROCK ISLAND BULK GRAIN CARLOAD STATISTICS AT ENID, OKLA., IN (A) ABOVE¹

Year	Union Equity's approximate carloads shipped via Rock Island	Rock Island percentage of all Union Equity shipments via all 3 railroads serving Enid	Union Equity's approximate carloads received via Rock Island	Rock Island percentage of all Union Equity carloads received via all 3 railroads serving Enid
(1)	(2)	(3)	(4)	(5)
1974	4,546	36.0	3,549	30.0
1973	5,094	24.1	2,553	19.9
1972	3,318	26.0	7,382	33.9

¹ When applicable, Rock Island motor substitution (truck for rail service) figures are included as railcars at the rate of 3 trucks for 1 average railcar. Such substituted service is handled identically to rail service.

(C) EQUIVALENT RAIL CARLOADS RECEIVED BY UNION EQUITY—ENID, OKLA., VIA ALL 3 RAILROADS SERVING ENID, DURING VARIOUS JUNE WHEAT HARVESTS¹

Month (1)	Union Equity equivalent carloads received via all 3 railroads (2)	Union Equity equivalent carloads received via Rock Island (3)	Percentage via Rock Island (4)
June 1974.....	6,083	1,874	30.8
June 1973.....	5,056	1,894	37.5
June 1972.....	4,850	1,413	29.1

¹ When applicable, Rock Island motor substitution (truck for rail service) figures are included as railcars at the rate of 3 trucks for 1 average railcar. Such substituted service is handled identically to rail service.

VERIFICATION

STATE OF OKLAHOMA,
County of Garfield, ss:

William R. Allen, Jr., being duly sworn, subscribes to the foregoing statement and holds the same to be true as stated.

WILLIAM R. ALLEN, JR.

Subscribed and sworn to before me this 6th day of March, 1975.

ELAINE BURRIGHT,
Notary Public.

My Commission expires June 4, 1978.

STATEMENT OF FRANK L. MERWIN, VICE PRESIDENT, AMERICAN SMELTING & REFINING Co.

Mr. Chairman, members of the subcommittee: My name is Frank L. Merwin. I am Vice President, Traffic and Transportation, of American Smelting and Refining Company, hereafter referred to as Asarco, located at 120 Broadway, New York, New York 10005. I have been actively engaged in the field of traffic and transportation for over 25 years. Asarco is a miner, smelter and refiner of non-ferrous metals and among other interests, owns and operates several coal mines near Peoria, Illinois.

The location and needs of its mines, plants and other facilities require that Asarco engage all forms of transportation to move its commodities expeditiously at reasonable cost through its processing and manufacturing steps and thence to its customers. By far, the most important of the transportation modes is the railroad. Asarco's products are heavy, dense, bulk and move in heavy volume between various points through the entire United States. Due to its strategic location, the Chicago, Rock Island & Pacific Railroad plays a key part in the rail transportation network used by Asarco.

The Rock Island serves directly, or through switching carriers, Asarco plants located in Omaha, Nebraska; Amarillo, Texas; Houston, Texas and its largest coal mine near Lafayette, Illinois. In addition, the Rock Island transports large volumes of "bridge" traffic between connecting carriers over long distances in the territory it serves. As is well known, the Rock Island has recently been experiencing financial difficulties which if not resolved quickly may have a major impact on the ability of Asarco to accumulate its raw materials and/or market its products. Any interruption in the transportation chain in which the Rock Island plays a part will not only affect Asarco properties and its employees, but also those customers who rely on Asarco's products and services.

During the year 1974 the Rock Island transported for Asarco's account over 1,600,000 tons of company products which include copper, lead and zinc ores and concentrates; copper, lead and zinc metal to industrial consumers in the electrical, automotive and steel industries, as well as others; and most importantly transported over 1,500,000 tons of coal from Asarco's Midland Coal Company's

Mecco mine. This large coal production was transported primarily to electric utilities in the states of Iowa and Illinois for the production of electricity. The termination of or slowing down of train service from the Mecco mine to the utilities could have noticeable effect on electric power generation in that area.

Due to its present financial condition, the Rock Island has been unable to satisfactorily service Asarco's needs on a continuous basis. There have been car shortages, power shortages and poor track maintenance. This situation has caused Asarco to hire premium cost transportation, repair cars at its expense, employ labor to load cars which never arrive and to advance money for trackage to serve our new copper refinery under construction near Amarillo, Texas.

This Committee has wisely and judiciously recognized the financial plight of certain railroads in the Northeast and has aggressively taken steps to solve the financial woes of those railroads. It is now imperative that the Committee recognize the serious consequences to the nation's transportation system if the Rock Island is threatened with a shutdown. Congress has not been unaware of its duties and responsibilities to the American people to provide this nation with a strong, viable transportation system in which the railroads play such an important part. This Committee in particular, has painstakingly surveyed the situation and provided ways and means, including financial assistance, to return weak railroads and systems to a point where they make a meaningful contribution to the health and prosperity of the nation.

I strongly urge the Committee to introduce legislation which will provide emergency guaranteed loans to the Rock Island to assist it in reversing the deterioration of its operating and financial resources. To not recognize the importance of the early passage of such legislation may mean the loss of an essential link in the nation's transportation network.

STATEMENT OF DONALD BOYLES, ON BEHALF OF REYNOLDS METALS CO.

Reynolds Metals Company, a maker of primary aluminum and aluminum articles, has more than eighty manufacturing facilities located throughout the United States. These plants manufacture a variety of products and receive and ship in the millions of pounds. We use all modes of transportation making use of the best features each has to offer; however, because of the vast tonnages involved, our network of plants could not long survive without the services of the nation's rail carriers. Among the railroads of principal concern to us is the Rock Island.

In the state of Arkansas, we have three manufacturing facilities that could not continue their present operations without the services of the Rock Island Lines. If the Rock Island were suddenly out of existence, it would not be many days before we would have to close down, or continue at such a reduced level of operations as to be financially disastrous. Aside from the economic hardship to Reynolds Metals Company, there would be such an unemployment situation in the three plant areas as to cause a considerable shock wave, further contributing to the nation's increasing unemployment. The attached Exhibit A shows that at Bauxite and Jones Mills, Arkansas, we had more than 12,000 shipments into and out of the three listed plants via the Rock Island during 1974. These shipments totaled more than 2,000,000,000 pounds. It might be suggested that we really don't need the services of the Rock Island Lines in Arkansas and that with their demise we would switch the tonnage to alternate forms of transportation. Because of the transportation characteristics of most of the material moving into and out of these plants, such a suggestion is economically unacceptable. Bulk materials such as ores moving in the millions of pounds traditionally have moved via the rail carriers, and we have geared our operations accordingly.

Exhibit A also shows movements into and out of our plant at McCook Illinois, in the Chicago area, which plant is engaged in the manufacture of such semi-finished aluminum articles as plate, sheet, and roofing. The McCook plant is located on the Baltimore & Ohio Chicago Terminal Railroad Company line and has the line-haul services of various carriers available to it. Among the line-haul carriers that we use into and out of McCook is the Rock Island. It is to be noted from Exhibit A that at McCook we used the Rock Island during 1974 for more than 300 shipments weighing more than 16,000,000 pounds, which shipments do not include the inbound shipments of aluminum materials shown as "outbound" from our other plants. It is true that to and from McCook we might have used

some other carrier in the transportation of some of the material shown on the exhibit, but we have found that any restriction on the amount of carrier service available to us at McCook results in an economic hardship both to us and our customers.

Besides the three Arkansas plants that would be seriously affected by the interruption or cessation of the Rock Island service, we have locations in twelve other states that would suffer immeasurably. Exhibit B attached is a statement showing shipments into and out of our plants during 1974 which moved over the Rock Island Lines as a bridge carrier. As noted on the exhibit, some of the tonnage moved into our plants with the Rock Island as a destination line, but our reports did not permit us to segregate such traffic. Nevertheless, we do know that the majority of the traffic depicted on Exhibit B was overhead as far as the Rock Island was concerned. It is to be noted that during 1974 the plants shown either received or shipped a total of 1,902 carloads weighing more than a quarter of a billion pounds. Admittedly, we might have used other rail carriers or other modes of transportation, but it must be obvious that the fact we used the Rock Island in these instances, was a matter either of business judgment or economic necessity.

Reynolds Metals Company makes no brief as to how the Rock Island now finds itself in such distressing conditions nor, in fact, as to what financial assistance it must now have and to what extent, in order to survive. We do know that the continued existence of the Rock Island Lines is vitally necessary to us and, we believe, to the country as a whole.

Wherefore, for the reasons above stated, as well as those presented before the United States Railway Association in the Rock Island's loan application, Reynolds Metals Company prays that Senate Surface Transportation Sub Committee will grant the relief sought by the Rock Island Lines and give such other assistance as it may find warranted in the premises.

Enclosure.

EXHIBIT A.—STATEMENT SHOWING SHIPMENTS INTO AND OUT OF OUR PLANTS DURING 1974 VIA THE ROCK ISLAND LINES EITHER AS ORIGIN LINE-HAUL CARRIER OR AS DESTINATION LINE-HAUL CARRIER

Origin	Destination	Commodities shipped or received	Number of shipments	Total weight (pounds)
Various	Bauxite, Ariz.	(1)	3,833 (1)	736,300,000
Bauxite, Ariz.	Various	(2)	6,640	1,183,950,000
Various	Jones Mills, Ariz. (ingot)	(3)	505 (2)	66,748,000
Jones Mills, Ariz.	Various	(4)	1,101	147,588,000
Various	Jones Mills, Ariz. (cable)	(5)	217 (2)	5,849,000
Jones Mills, Ariz.	Various	(6)	403	35,012,000
Various	McCook, Ill.	(7)	8 (2)	741,000
McCook, Ill.	Various	(8)	303	16,718,000
Total			13,010	2,197,906,000

¹ Bauxite ore and other raw materials necessary for making alumina.

² Alumina, cryolite, sodium aluminate and other byproducts.

³ Alumina and other raw materials used in producing ingot.

⁴ Aluminum ingots.

⁵ Aluminum and other materials needed to produce cable.

⁶ Aluminum cable.

⁷ Aluminum and other materials used in manufacture of semifinished articles such as aluminum plate and sheet.

⁸ Aluminum plate, sheet, roofing and other semifinished articles.

Note.—Explanation:

(1) Inbound tonnage shared by Bauxite & Northern Railway Co.

(2) Other inbound tonnage shown as outbound from other plants and not duplicated.

EXHIBIT B.—STATEMENT SHOWING SHIPMENTS INTO AND OUT OF OUR PLANTS DURING 1974 UTILIZING THE SERVICES OF THE ROCK ISLAND LINES AS A BRIDGE CARRIER ON OVERHEAD TRAFFIC*

Origins	Destinations	Commodities shipped or received	Number of shipments	Total weight (pounds)
Listerhill, Ala.....	Various.....	(1)	114	10,160,000
Various.....	Listerhill, Ala.....	(2)	10	725,000
Phoenix, Ariz.....	Various.....	(1)	9	226,000
Hayward, Calif.....	do.....	(1)	6	541,000
Baton Rouge, La.....	do.....	(3)	779	129,770,000
Grand Rapids, Mich.....	do.....	(1)	12	838,000
Woodbridge, N.J.....	do.....	(4)	26	264,000
Troutdale, Oreg.....	do.....	(1)	296	41,008,000
Various.....	Troutdale, Oreg.....	(2)	125	15,179,000
Chester, Pa.....	Various.....	(1)	23	1,262,000
Various.....	Chester, Pa.....	(2)	3	241,000
Gregory, Tex.....	Various.....	(5)	65	8,936,000
Various.....	Gregory, Tex.....	(2)	1	124,000
Houston, Tex.....	Various.....	(4)	28	1,087,000
Bellwood, Va.....	do.....	(1)	4	290,000
Longview, Wash.....	do.....	(6)	354	47,148,000
Various.....	Longview, Wash.....	(2)	11	765,000
Do.....	St. Louis, Mo.....	(7)	13	1,541,000
Do.....	Various.....	(1)	23	807,000
Total.....	1,902	260,912,000

1 Aluminum and aluminum articles.

2 Raw materials used in the manufacture of aluminum and aluminum articles.

3 Petroleum coke.

4 Aluminum cans and related products, and aluminum scrap.

5 Alumina and aluminum ingots.

6 Aluminum ingots, rods and cable.

7 Paper, aluminum foil and other products used in the manufacture of aluminum packaging materials.

Note.—Explanation: *Some tonnage is included hereon where Rock Island was the destination carrier; our reports did not distinguish those instances. Ma or portion was bridge or overhead traffic.

STATEMENT OF RICHARD C. SHEFFEL, VICE PRESIDENT, BELLROSE SILICA CO.

INTRODUCTION

My name is Richard C. Sheffel and I am the Vice President of Bellrose Silica Company, with main offices in the Central Life Building, Post Office Box 460, Ottawa, Illinois, 61350.

I have been associated with Bellrose Silica Company for over twenty years and have taken an active daily interest in the operations of our company. Bellrose Silica Company has been in existence since 1897 and has been engaged in the mining and processing of silica sand since that time. Bellrose Silica Company, at the present time, has a quarry at Utica, Illinois which is in LaSalle County, Illinois and, therefore, is captive to the Rock Island Lines for rail shipment of its product. LaSalle County, Illinois is one of the largest and purest sources of silica sand available anywhere in the world. In as much as Bellrose Silica Company is a closely held company owned partially by me, we do not care to reveal the actual tonnages or volume of our business. We believe, however, that it is substantial.

DESCRIPTION OF INDUSTRIAL SAND

The term "industrial sand" is used to describe our products which are primarily adapted for glass manufacturing, foundry purposes, and other industrial products as distinguished from "common sand" which is used to designate sand primarily used for road building and construction.

Industrial sand is identified as No. 14-1413 in the Standard Transportation Commodity Code (STCC). Deposits of sand that can be made suitable for industrial purposes are found at locations throughout the Eastern, Western, and Southern Rail Territories. Therefore, competition between industrial sand producers is intense.

BELLROSE SILICA COMPANY POSITION

After a thorough review of our customers we have concluded that many of the glass manufacturing companies, foundries and other users depend *solely* on our company for their entire sand requirements. The majority of these industries have such limited storage facilities that they could operate for only 3 or 4 days. Therefore, it is absolutely essential that our shipments are made on a consistent basis, with particular reference to the glass industry that normally operates on an around the clock basis and 7 days per week. In the case of the foundry industry they produce many types of castings that are essential to our national defense effort. We also ship a large volume of sand to the oil well service companies that is used in their fracturing process, which I believe we will all agree is very essential because of our current energy crisis.

Therefore, any interruption to any of the above mentioned industries or the others that we service would immediately cause additional lay-offs as well as an economic loss.

We further believe that if the Rock Island Lines is forced to terminate service because of a lack of funds thereby forcing the closing of our company it would create a tendency toward monopolistic endeavors.

SUMMARY

In my capacity as Vice President I am directly responsible for the traffic and transportation decisions of our company and we are vitally concerned as to the future of the Rock Island Lines as 96.8% of our material is shipped by rail. Bellrose Silica Company is the *only* producer of industrial sand in this area that is *solely* dependent upon the Rock Island Lines for our rail transportation requirements.

I have said that 96.8% of our traffic moves by rail and that we are *solely* dependent upon the Rock Island for rail transportation. One of the things that a lot of people usually suppose is that if you don't have rail service you can just ship by truck or you can ship by truck to the closest railhead. Well, on my commodity it just is not that simple. Gentlemen, I can tell you it won't work. First of all, we could not ship a heavy commodity like sand in truckload lots from our mines to our consumers. The cost would be prohibitive either to us or to our customers. That is, the differential in truck cost would either make us noncompetitive with another mine some place else, or the shipper couldn't stand the additional cost and he would not be competitive, and you could assume that nobody buys sand from us except where we produce the lowest cost for that raw material, so shifting to truck just isn't possible, nor would it be possible for us to ship to the nearest railhead by truck and then move out by another railroad. As a matter of fact, it is only 8 to 10 miles to the closest railhead from our mines, but we could not truck over to that railhead. We have many different varieties of sand and it would mean building entirely new loading facilities at the railhead and then absorbing the cost of trucking. Between the two costs, we just could not make it. So what I am saying is, it is either Rock Island service being retained, or we go out of business. It's as simple as that. If you force the Rock Island out of business, it isn't just a question of our absorbing a little additional cost, but our going out of business.

Unless and until this railroad is once again in a viable condition we have been forced to cancel our production expansion programs and to tread with extreme caution regarding even daily financial expenditures.

All of our employees, myself included, currently face the threat of losing our jobs should the Rock Island Lines be forced to close and cease operation, because we would not be in a position to ship our volume of sand via any other mode of transportation. Also, even a very slight curtailment in service by the Rock Island Lines would jeopardize the jobs of a large majority of our employees.

The economic impact on the Village of Utica, Illinois (population 500) would be very substantial and severe in numerous aspects as a majority of our employees and their families reside in that immediate area.

It is the considered opinion of the Officers of Bellrose Silica Company that it is incredible that we would have worked so diligently over the years to build and promote our organization and to provide jobs and economic stability for our employees and our communities and now be faced with the possible demise of our company because of the actions of others.

We, therefore, respectfully request the Congress of the United States to take the immediate and necessary action that would permit the Rock Island Lines to once again be an integral part of our American transportation system.

In the event this cannot be accomplished our fate and destiny will be sealed with that of the Rock Island Lines.

AFFIDAVIT

STATE OF ILLINOIS, *County of LaSalle, ss:*

Richard C. Sheffel, being duly sworn, deposes and says that he is Vice President of Bellrose Silica Company; that he is authorized to make this affidavit on its behalf; that he has read the foregoing statement, and that the facts set forth therein are true as stated.

RICHARD C. SHEFFEL.

Subscribed and sworn to before me this 7th day of March, 1975.

MARGARET M. LAVERY,

Notary Public.

My Commission expires: October 28, 1977.

STATEMENT OF LEONARD H. MURRAY, PRESIDENT, SOO LINE RAILROAD CO.

My name is Leonard H. Murray and I reside at 14 Woodland Road, Minneapolis, Minnesota 55424. I am President of Soo Line Railroad Company which has main lines extending from Canada to Minneapolis-St. Paul and to Chicago as well as several branch lines serving North Dakota, Minnesota, Wisconsin, Michigan, South Dakota and Montana.

We don't see any need for the proposed legislation now being considered by your committee because there are other feasible alternatives which I will subsequently mention. We can understand the opposition of many midwest lines because the proposed legislation would change the competitive balance among the midwest lines in a summary fashion without protective conditions. However, we do not believe the public interest will be promoted or served by permitting a cessation of Rock Island operations with other lines attempting to handle the business under a reroute order or by service orders as to those parts of the Rock Island where no alternative rail or truck service would be reasonably available. In my opinion cessation of all operations by Rock Island would have the same adverse effect on the Soo Line as a series of mergers of various portions of Rock Island with Chicago and North Western Transportation Company, or Milwaukee Road or Burlington Northern.

The Soo Line and Rock Island are basically compatible connecting lines and work together for traffic moving between points in Iowa and southerly areas of the midwest served by the Rock Island and points in Minnesota, Wisconsin, North Dakota, Canada and the Pacific Northwest. The only significant competition between our two companies is for traffic moving between the Twin Cities and Chicago. The benefits we obtain from our favorable connection with the Rock Island outweigh the losses to the Rock Island of traffic moving between the Twin Cities and Chicago. The proposal to terminate Rock Island operations between major points would destroy Rock Island as a favorable connection for the Soo Line and compel the Soo Line to interline traffic with companies who would then be in a position to eliminate the Soo Line's participation in a substantial amount of traffic moving in and out of Canada, the Pacific Northwest, North Dakota, Wisconsin and the Upper Midwest.

In my opinion the Interstate Commerce Commission now has power under Section 1(16) (b) to continue Rock Island system operations for a sufficient period of time during which the Congress can come to some conclusion as to the kind of legislation required to solve the Rock Island problem. The Soo Line is opposed to any directive issued by the Interstate Commerce Commission under Section 1(16) (b) which would require a line haul carrier to take over Rock Island system op-

erations and give the operating carrier the opportunity either to divert traffic from the Rock Island or from rail lines connecting with the Rock Island. Diversion of traffic could be avoided, or at least it could be held to insignificant levels, if the Interstate Commerce Commission would direct Belt Railway Company of Chicago to take over operations of the Rock Island system under conditions which would require Belt Railway to retain all employees of Rock Island for that purpose. However, in my judgment Section 1(16) (b) should be amended promptly so as to require the federal government to make loans to the operating company pending a monthly accounting for the cash flow resulting from operations of a line taken over pursuant to an Interstate Commerce Commission directive under that section.

System operations could also be preserved if Rock Island filed a petition for reorganization under Section 77 of the Bankruptcy Act as amended. Trustees appointed by the Bankruptcy Court with approval of the court and of the Interstate Commerce Commission could issue trustees' certificates which would constitute a first lien upon all fixed assets, including those which are mortgaged and could devote all cash income to the cash disbursements required to continue operations. If the trustees' certificates could not be marketed, the United States could guarantee the principal and the interest thereon with assurance the certificates would constitute a first lien on all assets other than rolling stock mortgaged under equipment trust certificates or conditionally sold to the Rock Island.

Mr. Chairman, the Interstate Commerce Commission has the power under Section 1(16) (b) of the Interstate Commerce Act to authorize the Belt Railway Company of Chicago to take over operations of the Rock Island system and Belt Railway can take charge of all employees and supervisors and carry on those operations in the same way that Trustees in Bankruptcy take over operations. The only legislation required at this time, in my judgment, is an amendment to Section 1(16) (b) so as to require the treasurer of the United States to lend the necessary working funds to an operating company (in this case the Belt Railway Company) pending final settlement of the accounting contemplated by that section.

STATEMENT OF M. H. SWANSON, VICE PRESIDENT, TRANSPORTATION—AGRIPRODUCTS
COOK INDUSTRIES, INC., MEMPHIS, TENN.

My name is Michael H. Swanson, I am Vice President, Transportation Agri-products Group, of Cook Industries, Inc., headquartered at 2185 Democrat Road, Memphis, Tennessee.

Cook Industries is a diversified company with major interests in the principal areas of agribusiness, building products and services. Founded in 1919 as a cotton merchandising company, Cook established its Grain Division in 1961. In 1969 Cook merged with E. L. Bruce Co., a major manufacturer of hardwood products and related goods. Riverside Industries, a complex of agribusiness related companies, engaged in the manufacture and sale of agricultural fertilizers, chemicals and mixed feeds, and in the processing and refining of cotton seed, soybeans and derived oil products was acquired in 1969. The Company now ranks among the major U.S. exporters of grain products and soybeans. During the 1973-74 crop year, the Agriproducts Group had export sales of more than 450 million bushels of U.S. grains and soybeans, and traded an additional volume of about 100 million bushels in the U.S. Domestic Markets.

As an adjunct to these interests in the marketplace, the Company has become involved in the rail, barge and ocean transportation sectors of both U.S. and World Markets. Cook's total expenses for transportation of its agriproducts volume exceeded 160 million dollars last year.

The grain marketing system is a complex of many activities of which transportation is an essential part. The Rock Island railroad interlaces the area of western Iowa, southwest Minnesota, southeast South Dakota and eastern Nebraska where grain production has recently had the greatest increases. During calendar 1974, a year of poor grain production, Cook industries originated about 4,500 cars of traffic on the Rock Island Railroad. Needless to say, we are very concerned over the Rock Island's physical and financial position.

Cook Industries believes that a major solution to the chronic rail equipment shortages is to increase the utilization of the existing rail equipment. To do this, the railroads must place heavy concentration of capital into upgrading and

maintaining their trackage. Following this theory, we support federal government financial aid to economically depressed transportation companies whose services are essential to the public interest.

In the case of the Rock Island Railroad, we plead for relief in the form of financial aid to be repaid. This loan must be large enough to not only keep the railroad alive, but also, to allow for major upgrading of their track facilities.

STATEMENT OF THE BEVERLY AREA PLANNING ASSOCIATION, CHICAGO, ILL.

Mr. Chairman, thank you for the opportunity to plead for help before your committee. Without your help, our community will die.

Mr. Chairman, I represent a community of 45,000 people living in 12,300 dwelling units, earning a mean income in excess of \$15,000. The twin communities of Beverly Hills/Morgan Park on Chicago's southwest side ranks second in affluence and second in educational attainment in Chicago. Our schools are superior, our crime is low and we are a community with an ever increasing number of professional families.

The Rock Island commuter service is literally the lifeline of our community. Nearly half of the family units, 5,000 passengers daily, use the Rock Island Railroad to reach the core of the City. The energy shortage has brought new families back to Chicago, back to Beverly Hills/Morgan Park. They come because our community is the only area where the Rock Island detours off the mainline and stops at eight convenient stations.

Our Village within the City has been able to withstand a burden of urban decay primarily because of the availability of the Rock Island Railroad.

We would point out, sir, that our community organized a campaign and overwhelmingly supported the passage of the Regional Transit Authority in an effort to assure ourselves of continued, comfortable commuter service.

Why, we would ask, should a federal agency deny the one railroad that wants only a loan not a gift? The Rock Island has promised to repay. Why should that federal agency deny the one railroad trying to save both its passenger and its freight service?

We are not asking for the federal government to step in alone. Our region has already provided \$974,000 in local tax money to pay 70% of the last 6 months of Rock Island deficit. Mr. Chairman, the governor of the State of Illinois has just proposed as part of a major bond proposal a program to restore, rehabilitate or reconstruct every railroad station in Beverly Hills/Morgan Park. It would be a shame to save those architecturally historic stations, if there were no railroad to service them.

Lastly, we would ask is it any wonder that the midwest has an ingrained suspicion of the so called "eastern establishment." Millions for the northeast and not a penny for the Rock Island. It does not seem fair.

Mr. Chairman, and gentlemen of the Committee, thank you for your attention, thank you for your interest in fairness and thank you for your help in preserving the lifeline of our community. The Rock Island Line is a mighty fine line.

THE BOARD OF TRADE,
Kansas City, Mo., March 7, 1975.

Senator VANCE HARTKE,
Chairman, Senate Subcommittee on Surface Transportation, Russell Senate Office Building, Washington, D.C.

DEAR SENATOR HARTKE: The Rock Island is one of the twelve major railroads that serve Kansas City. One of the commodities which they haul in substantial quantities is grain, and grain of course is why there is a Kansas City Board of Trade. We draw grain mainly from the States of Iowa, Kansas, Missouri and Nebraska. In Iowa, the Rock Island (RI) has 1,960 miles of track and 2100 employees; in Kansas 1,080 miles of track and 2050 employees; in Missouri 510 miles of track and 500 employees; and in Nebraska 189 miles of track and 180 employees.

In our four-state drawing area set out above, there are many elevators located in communities that are served only by the Rock Island. If the RI ceased operation, elevator operators would have to go to the extra expense of trucking grain

to the markets, or trucking grain to the nearest community served by rail. This added cost would be deducted from the price the producer would receive for his grain. Loss of rail service could put some of these producers of grain out of the market.

The RI is an integral cog in midwest rail structure, and its demise would have severe financial repercussions not only on the grain producer as set out, but also on the hundreds of communities in all of the states served by the Rock Island's thousands of miles of track in 13 states where they provide the only rail service.

This tremendous financial loss would be not only to the Rock Island employees who would be let out of work, but also to the employees terminated due to close downs of plants served by the Rock Island, and also the loss to many communities of taxes paid by the Rock Island.

We need the Rock Island, the grain trade needs the Rock Island, and the 13 midwestern states need the Rock Island. We strongly urge that you contact the USRA and urge them to reconsider the grant to the Rock Island, or that immediate steps be taken in the form of legislation to amend the necessary provisions of the Regional Rail Reorganization Act of 1973, (Public Law 93-236) such as Sections 210 through 215, so that the Rock Island will be included as a recipient of available funds.

Yours truly,

W. N. VERNON III,
Executive Vice President and Secretary.
JON C. HANSEN,
Transportation Commissioner.

THE NATIONAL INDUSTRIAL TRAFFIC LEAGUE,
PROMOTOR OF SOUND ECONOMICAL TRANSPORTATION,
Winston-Salem, N.C., March 7, 1975.

Hon. VANCE HARTKE,
Chairman, Senate Subcommittee on Surface Transportation, U.S. Senate, Washington, D.C.

DEAR CHAIRMAN HARTKE: It is our understanding that the Senate Subcommittee on Surface Transportation has scheduled hearings commencing March 10, 1975 to receive testimony regarding the continued operation of the Chicago Rock Island and Pacific Railroad. This matter is of the utmost importance to the League and its members.

On behalf of The National Industrial Traffic League I would like to present the following comments and observations for the Committee's consideration.

The National Industrial Traffic League is a voluntary organization of shippers, shippers' associations, boards of trade, chambers of commerce, and other entities concerned with traffic and transportation service for all carrier modes. The primary concern is to provide for our members a sound, efficient, well-managed transportation system, privately owned and operated. Members of The National Industrial Traffic League are located throughout the United States, consist of enterprises large, medium and small, which use all modes of transportation by land, river, sea, and air. Carriers are ineligible for membership in the League and since the membership has such a broad base, the League is generally looked upon as representing the shippers' point of view.

For the more than 60 years of its existence, The National Industrial Traffic League has been dedicated to the development and maintenance of sound conditions in transportation having in mind the needs of the nation, the carriers, and the shippers/receivers who are the consumers of transportation. The League has frequently presented its views to Congress on proposed transportation legislation. Over the years the League has also actively participated before the Interstate Commerce Commission, the Civil Aeronautics Board, Federal Maritime Commission, and the federal courts in major litigation affecting transportation.

Essential rail service via the Chicago Rock Island and Pacific Railroad should be allowed to continue until the Rock Island merger proceeding is completed. The nation's shippers and receivers have patiently waited for over a decade for the status of the merger of the Rock Island and its connecting carriers to be decided by the Commission. On November 8, 1974 the Chairman of the Interstate Commerce Commission announced that the majority of the Commissions had

approved the Rock Island and Union Pacific merger with certain conditions. The Commission's decision came five years after the ICC reported on the status of the case at your oversight hearings. It would appear that this merger proceeding is nearing completion. Interruption of rail service via the Rock Island at this time would adversely affect the nation's shippers and receivers.

Comments by the Rock Island on March 3 in an informal meeting of railroads (but no shippers/receivers) at the Interstate Commerce Commission together with subsequent statements in the press indicates a strong sense of urgency. Even with additional funds provided by a 10% across-the-board reduction in employee salaries and recent ICC authorization to transfer unused funds, approximately \$115,000 generated as a result of Ex Parte No. 305, there are indications that additional assistance will be necessary. The ICC recently extended until May 2 the date for filing comments by interested parties on the Rock Island-Union Pacific merger.

The League would support in principle temporary government assistance, since the alternative is cessation of service or at best short-term directed service. Action by your committee is necessary to insure that the Rock Island continues to operate in this important interim period. We share your concern that the question of solvency of the rail transportation system in the United States is by no means limited to the Northeast and Midwest region and that the Rock Island problems are by no means limited to that particular carrier. We stand ready to work with you to assure the continuation of essential rail service while at the same time moving toward a healthier system nationwide.

Very truly yours,

AUGUST HEIST,
President.

CHICAGO, ROCK ISLAND, AND PACIFIC RAILROAD CO.,
Topeka, Kans., March 12, 1975.

HON. VANCE HARTKE,
*New Senate Office Building,
Washington, D.C.*

DEAR SENATOR HARTKE: Please find enclosed, Kansas House Concurrent Resolution No. 2018, memorializing the Congress of the United States to provide such assistance to the Chicago, Rock Island and Pacific Railroad Company as may be necessary to insure its continued service to the people and economy of the mid-western and western areas of the country.

Your fine attention and consideration will be greatly appreciated.

Sincerely yours,

HUBERT R. BUCKLES,
Regional Commissioner of Real Estate Taxes.

Enclosure.

HOUSE CONCURRENT RESOLUTION No. 2018

A Concurrent Resolution memorializing the Congress of the United States to provide such assistance to the Chicago, Rock Island and Pacific Railroad Company as may be necessary to insure its continued service to the people and economy of the mid-western and western areas of the country

Whereas, The railroads serving this area of the country are a vital link in the food supply lines of both this nation and the world connecting the areas of agricultural production with manufacturers and processors and the people of this country and the world, and

Whereas, Adequate facilities and services for the transportation of agricultural products is vital not only to the economy of the state of Kansas, but to that of the nation as well: Now, therefore,

Be it resolved by the House of Representatives of the State of Kansas, the Senate concurring therein: That Congress is hereby urged to take all necessary measures to insure the continued service of the Rock Island lines to the citizens and the economy of the areas of the country served by such railroad line.

Be it further resolved: That a duly attested copy of this resolution be immediately transmitted by the secretary of state to each member from Kansas in the Congress of the United States.

I hereby certify that the above CONCURRENT RESOLUTION originated in the House, and was adopted by that body March 5, 1975.

D. O. MCGILL,
Speaker of the House.
L. HAGEN,
Chief Clerk of the House.

Adopted by the SENATE March 7, 1975.

RICHARD D. ROGERS,
President of the Senate.
LU KENNEY,
Secretary of the Senate.

CHICAGO, ROCK ISLAND & PACIFIC CO.,
Little Rock, Ark., March 14, 1975.

HON. VANCE HARTKE,
U.S. Senate Office Building,
Washington, D.C.

DEAR MR. HARTKE: As information I am enclosing herewith a copy of Arkansas House Resolution No. 33.

Will you please support the Rock Island in as many ways as possible? I am sure the thousands of people affected by an ultimate decision will appreciate any help you can offer.

Very truly yours,

R. L. HORSLEY,
Regional Commissioner of Real Estate Taxes.

Enclosure.

STATE OF ARKANSAS

DEPARTMENT OF STATE



KELLY BRYANT, SECRETARY OF STATE

*To All to Whom These Presents Shall Come, Greeting
I, Kelly Bryant, Secretary of State of the State of Arkansas,
do hereby certify that the following and hereto attached instrument
of writing is a true and perfect copy of*

HOUSE CONCURRENT RESOLUTION

NUMBER 33

Seventieth General Assembly

Approved March 13, 1975

*In Testimony Whereof, I have hereunto
set my hand and affixed my official seal
Done at office in the City of Little Rock,
this* 14th *day of* March *19* 75

By

Kelly Bryant
Secretary of State

Deputy

By: Representative Foster
Representative Willems

HOUSE CONCURRENT RESOLUTION Urging the United States Railway Association to reconsider its decision to deny the loan of funds to support the operating and capital needs of the Rock Island Railroad; and to urge the President and the Congress to give highest priority to regulatory reform for the transportation industry

Whereas, the Chicago, Rock Island and Pacific Railroad Company provides rail transportation services to twenty-five of Arkansas' counties; and

Whereas, if the Rock Island ceased operations, fifty-two communities in Arkansas would be left without any rail service whatsoever; and

Whereas, the Rock Island Railroad provides an essential transportation service that carries Arkansas' agricultural and manufactured products to national and world markets; and

Whereas, the decline in natural gas supply and available supplies of petroleum will require that millions of tons of coal be moved to meet the energy needs of the nation; and

Whereas, the easing of energy shortages requires that energy efficient means of hauling bulk goods for long distances be preserved and protected; and

Whereas, the Rock Island's financial problems have been grievously aggravated by the intolerable delay of the Interstate Commerce Commission in deciding the merger application of the Rock Island and other Railroad Companies; and

Whereas, the Rock Island Railroad has been denied a 100 million dollar reconstruction loan requested from United States Railway Association; and

Whereas, the Congress in passing Congressman Smith's amendment to the Regional Rail Reorganization Act clearly showed its intent that the Rock Island be eligible for federal assistance; and

Whereas, federal aid in regulatory responsiveness is essential for the Rock Island to continue to provide transportation services in Arkansas and elsewhere,

Now therefore, be it resolved by the House of Representatives of the Seventieth General Assembly by Arkansas, the Senate concurring therein: That the General Assembly of the State of Arkansas urges the United States Railway Association to reconsider its position to deny loan funds to support the operating and capital needs of the Rock Island Railroad.

Be it further resolved that the President and Congress give the highest priority to regulatory reform for the transportation industry (especially railroads) as advocated in the President's message of October 13, 1974, to free the industry from the waste of time and finances which have been a steady drain on the financial resources of railroad companies.

Be it further resolved that a copy of this Resolution be immediately transmitted to the United States Railway Association, the President of the United States, the members of the Arkansas Congressional Delegation, Senator Vance Hartke, Chairman of the Surface Transportation Subcommittee of the Senate Commerce Committee, and Congressman Harley Staggers, Chairman of the House Interstate and Foreign Commerce Committee.

STATEMENT OF ORREN BEATY, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF RAILROAD PASSENGERS AND RAIL FOUNDATION

The National Association of Railroad Passengers is an Illinois nonprofit corporation with offices at 417 New Jersey Avenue, S.E., Washington, D.C. Founded in 1967, NARP currently has some 4500 members in all parts of the country. Membership is open to users of rail passenger service and to anyone else who believes that rail service is an essential part of a truly balanced transportation system. NARP activities include working for the passage of constructive legislation; participation in selected cases affecting passenger services before regulatory authorities and the courts; and conducting a continuing educational campaign to acquaint the public with the advantages and benefits of good passenger service, and the underlying economic and political issues involved.

The RAIL (Railroad Advancement through Information and Law) Foundation is a District of Columbia not-for-profit corporation with offices at 417 New Jersey Avenue, S.E., Washington, D.C. RAIL was organized in May, 1969 with the primary objective of furthering the development of modern rail passenger service. RAIL's principal activity is to sponsor academic and professional studies on a variety of questions relating to passenger service and railroading in general. Also, the Foundation undertakes litigation before administrative

agencies and the courts when it determines that such action is required by the public interest in matters affecting rail service.

NARP and RAIL are submitting these comments in response to the invitation of the Commission for public comment regarding proposed emergency car service orders requiring operation of the Rock Island. The primary concern of both groups in this proceeding is to prevent the dismemberment and/or severance of two key Rock Island main lines—Chicago-Omaha and Kansas City-Tucumcari.

In a strictly legal context, we offer these comments pursuant to the language of Section 1(16)(b), which provides that the Commission, in exercising its jurisdiction under Section 1(16)(b), must be guided by considerations that "will best promote the service in the interest of the public and the commerce of the people. . ."

We believe that "service in the interests of the public and the commerce of the people" embraces, if not mandates, a consideration of passenger service aspects of the Rock Island problem as well as freight service aspects. However, because the only passenger service presently being operated on either of the two Rock Island segments is between Chicago and Moline, Illinois, we recognize that considerations involving freight transportation undoubtedly will dominate decisions as to the future of the Chicago-Omaha and Kansas City-Tucumcari lines in their entirety. Accordingly, our comments will be directed primarily at freight service issues.

Obviously, the simplest way to assure the preservation of the track, roadbed, and right of way between Kansas City-Tucumcari and Chicago-Omaha would be to see the Rock Island itself continue to operate these facilities. Indeed, the Commission's invitation to comment on dismemberment proposals may be somewhat premature in view of the recent action by the District Court indefinitely postponing the date for shutdown of Rock Island operations. Discussion of possible dismemberment might encourage shippers to move traffic off the Rock Island and onto other rail carriers and other modes. We hope that the Commission's good offices will not be used—or abused—to facilitate a premature "meat-ax" rationalization of the Rock Island which would not be in the public interest.

Nevertheless, for the balance of these comments, we will assume that the Rock Island will fold as a separate entity and that its lines will be divided up among other railroad companies.

I. CHICAGO-OMAHA

This Rock Island main line serves by far the largest intermediate population of the four principal Chicago-Omaha main lines:

Places of 10,000 or more—1970 census

Rock Island:	
Joliet	80,378
Ottawa	18,716
La Salle	10,736
Peru	11,772
Quad Cities (SMSA)	362,638
Iowa City	46,850
Newton	15,619
Des Moines (SMSA)	286,101
Total	832,810
Chicago & North Western:	
Geneva-St. Charles-West Chicago	32,154
De Kalb	32,949
Dixon	18,147
Sterling-Rock Falls	26,400
Clinton	34,719
Cedar Rapids (SMSA)	163,213
Marshalltown	26,219
Ames	39,505
Boone	12,468
Total	385,774

Places of 10,000 or more—1970 census—continued

Milwaukee:	
Elgin.....	55,691
Cedar Rapids (SMSA).....	163,213
Total.....	218,904
 Burlington Northern:	
Aurora.....	74,182
Kewanee.....	15,762
Galesburg.....	36,290
Monmouth.....	11,022
Burlington.....	32,366
Ottumwa.....	29,610
Total.....	199,232

Clearly, the Rock Island line has by far the greatest potential for passenger service. While we do not have data relating to the number of freight shipments originating and terminating along these lines, we assume that there is a reasonably close correlation between freight traffic generation and population density, and thus that more on-line shippers would be affected by a disruption or partial shutdown of the Rock Island than of any of the other lines. While all of the places listed above on the Rock Island line will receive some kind of service under the proposals submitted to the Commission by the other railroads,¹ the quality of this service is bound to be inferior to that which could be provided were the line operated intact over its entire length with through service connections with carriers east of Chicago and west of Omaha. So in order to preserve high quality freight service and better protect against any shutdown of service, we believe that it is necessary for a single rail carrier to operate the route as a primary through route.

The emergency car service provisions give the Commission a chance to regain the initiative on behalf of the public interest, which it lost in the Rock Island-Union Pacific merger case by delaying its decision for over ten years primarily on account of the objections of other railroads. The Commission should not be deterred in consideration of the long-term public interest on account of the statutory limitation of 240 days. This is ample time for Congress to determine whether the time period should be extended or the arrangements made permanent. If Congress does not act, things may fall apart, but the Commission will have done its best and the public will know who is to blame. Accordingly, whether or not other railroads are agreeable to a given proposal should be distinctly secondary to whether or not the proposal is in the short and long term public interest.

In approaching the question of which carrier should operate it, we believe that the Commission should deliberately exercise its powers in a way which will facilitate long-range objectives.

Looking at the Chicago-Omaha line as a through route, we believe that the first choice for takeover should be the Union Pacific. The UP is better equipped than any other railroad company, financially and otherwise, to rehabilitate the line and provide a high standard of service, and shippers would gain the benefit of single-line service to the west coast. While the UP has understandably dropped its corporate merger plans in view of the Rock Island's bankruptcy, it presumably is still interested in acquiring its own line into Chicago. The Commission's belated approval of the UP-RI merger included specific findings that UP operation of the Chicago-Omaha line was in the public interest, 347 ICC 556 at 593-596 (1974).

Our second choice for operation of the line would be the Milwaukee Road. On the basis of population served, the present Milwaukee line between Chicago and Omaha appears to be the most expendable of any of the routes, while the Rock Island is clearly the least expendable. Were these lines to come under common ownership, operations could be rationalized by upgrading the Rock Island line, reducing the Milwaukee line to branch line status.

¹ Chicago-Quad Cities—Burlington Northern.
Quad Cities-Des Moines—Milwaukee.
Des Moines-Earlham—C. & N.W.
Earlham-Council Bluffs—No service proposed.

II. KANSAS CITY—TUCUMCARI

This line is part of the shortest and fastest route between Chicago and the populous cities of southern Arizona, an area which also attracts a substantial number of tourists and vacationers. We have long advocated that Amtrak provide service between these points, and consequently want to see this line remain intact as a potential Amtrak route.

The Southern Pacific is apparently still willing to take over the line despite the collapse of the UP-RI merger. Despite our past and continuing differences with SP on passenger service issues, SP seems the logical operator of this line and the Commission should support its bid. We are somewhat surprised to read in the Commission's release that "Other carriers—are opposed on the ground that SP would be invading territory it had not previously served". In the merger case, the Commission found that SP acquisition of the line would be consistent with the public interest (347 ICC 556 at 609) and noted that—

"Of all the Rock Island's major Southern lines, acquisition by Southern Pacific of the Tucumcari line is probably least subject to controversy—since Southern Pacific's acquisition of the Tucumcari line will do little more than extend its portion of the Golden State route to Kansas City, the transaction is unlikely to have any significant impact on other carriers." (607-608).

An SP takeover of the Tucumcari-Kansas City line would clear the way for the elimination of what is apparently a very wasteful operation—the SP—Cotton Belt "Blue Streak Merchandise" trains between St. Louis and California via Corsicana, Texas and El Paso. Cotton Belt (SL-SW) is a 97% owned subsidiary of SP.

Between St. Louis and Los Angeles, the Cotton Belt—SP route is 2,456 miles:

St. Louis—Corsicana (SL-SW)-----	756
Corsicana—Flatonia (SP)-----	186
Flatonia—El Paso (SP)-----	701
El Paso—Los Angeles (SP)-----	813
	2,456

Between the same points via Rock Island, the mileage is 2,038:

St. Louis—Kansas City (MP)-----	279
Kansas City—Tucumcari (RI)-----	614
Tucumcari—El Paso (SP)-----	332
El Paso—Los Angeles (SP)-----	813
	2,038

As a result of the additional 418 miles via the Cotton Belt route, freight moving between St. Louis and Los Angeles on that route must go about 20% further than if it went via Rock Island and Kansas City. The energy and economic waste of the Cotton Belt routing is underscored by the necessity of using high-powered diesels to move the "Blue Streak" trains at sustained speeds of 70 miles an hour and higher in order to be competitive with more favorable routes.

Were SP to take over the Rock Island line and then reroute "Blue Streak" freight via Kansas City, it would probably interline with a connecting carrier such as Missouri Pacific for the 270 miles between Kansas City and St. Louis. Even so, it apparently would be financially better off compared to the present operation via the Cotton Belt. For the moment we will assume that the revenue on a given carload between St. Louis and Los Angeles on any competitive route is \$1,000, and the SP-Cotton Belt cost of hauling it is \$900, which for the 2,456 miles is 37¢ per mile.

If we further assume that the cost per mile on a SP-Missouri-Pacific route via Kansas City is the same as via the Cotton Belt, the total cost of the shorter move would be \$754:

SP: 1,759 miles, at 37 cents-----	\$651
MP: 279 miles, at 37 cents-----	103
	754

Our final assumption is that SP and MP would divide the \$1,000 of revenue in direct proportion to mileage:

SP: 1,759 miles equal 86 percent-----	\$860
MP: 279 miles equal 14 percent-----	140

Here is how SP would come out on each route :

	SP—Kansas City—MP	SP—Cotton Belt
Revenue.....	\$860	\$1,000
Cost.....	651	900
Profit.....	209	100

If SP wanted to avoid interlining west of St. Louis, it could acquire Rock Island's St. Louis-Kansas City line. Assuming that line is in poor condition, it is interesting to note that, even if the "Blue Streak" averaged only 30 miles per hour over this stretch and 50 between Kansas City and Los Angeles, it would still get to Los Angeles four hours faster than by averaging 50 all the way over the Cotton Belt Route.

We believe that the Commission should avail itself of every opportunity to encourage more economical utilization of transportation facilities. Since the onset of the energy crisis, much has been said about waste in trucking operations, but almost nothing has been said about waste in rail operations. While the "Blue Streak" seems a particularly flagrant case, there undoubtedly are other instances of wasteful circuitry in freight railroading which should be corrected.

Passenger service in Texas should also benefit from the rerouting of the "Blue Streak" trains, since this might lead SP to drop what we believe to be its unreasonable, negative attitude towards the operation of Amtrak trains on certain segments: Texarkana-Mt. Pleasant, which is part of the shortest route between Texarkana and Dallas (29 miles shorter than the T & P route Amtrak now uses); and Corsicana-Hearne which is part of what may be the best passenger route between Dallas and Houston.

CONCLUSION

The Commission, recognizing the long-term implications of its "emergency" orders, should carefully study all Rock Island mainlines, and should base its orders on its independent assessment of the public interest, not merely the expressed desires of other railroads. Amtrak's views should also be solicited. Though passenger service would only be a by-product of established freight patterns, there may be situations where long-term passenger opportunities would tip the balance regarding which of two or more trunk routes would be retained. Particular mention should be made of Rock Island's Amarillo-Tucumcari line, and portions of the Rock Island which formed part of passenger services previously offered between Minneapolis-Des Moines-Kansas City and Minneapolis-St. Louis.

Where long term planning considerations are inconsistent with present track conditions and corporate desires, the former must predominate.

If the Commission believes that the emergency car service provisions are inadequate to properly protect the public interest in situations such as the present Rock Island crisis, it should not hesitate to ask the Congress for appropriate additional legislation.