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96-95 **ROCK ISLAND TRANSITION ACT**

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HEARING
BEFORE THE
SUBCOMMITTEE ON SURFACE TRANSPORTATION
OF THE
**COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION**
UNITED STATES SENATE
NINETY-SIXTH CONGRESS

ON
S. 2246
TO CONTINUE RAIL SERVICE BY THE CHICAGO, ROCK ISLAND,
AND PACIFIC RAILROAD FOR NINETY DAYS

S. 2253
TO PROVIDE FOR AN EXTENSION OF DIRECTED SERVICE ON THE
ROCK ISLAND RAILROAD AND TO PROVIDE TRANSACTION ASSIST-
ANCE TO THE PURCHASERS OF PORTIONS OF SAID RAILROAD

S.J. Res. 139
TO REQUIRE CONTINUATION OF RAIL SERVICE BY THE CHICAGO,
ROCK ISLAND, AND PACIFIC RAILROAD THROUGH AUGUST 31, 1980

FEBRUARY 20, 1980

Serial No. 96-95

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ROCK ISLAND TRANSITION ACT

WEDNESDAY, FEBRUARY 20, 1980

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

The subcommittee met at 9 a.m., in room 318, Russell Senate Office Building, Hon. Russell B. Long (chairman of the subcommittee) presiding.

OPENING STATEMENT BY SENATOR LONG

Senator LONG. This hearing will come to order. Today the Surface Transportation Subcommittee is conducting an oversight hearing on the economic crisis which several States are facing with regard to the Rock Island Railroad. This railroad serves 13 States in the Midwest and the South and is considered by many to be vital to the livelihood of thousands of employees and to the transportation needs of many shippers.

The poor financial health which has led to the Rock Island's liquidation has been a reality for some time. When rail labor went on strike in mid-1979 on the Rock Island, the future of the railroad became even more starkly bleak. The Interstate Commerce Commission had no choice in the fall of last year but to find the railroad cashless and order directed service by the Kansas City Terminal Co. This directed service has produced good results, providing necessary transportation for such important commodities as grain. However, the Federal Government cannot fund directed service over the entire system indefinitely, since it is clear that the Rock Island system will never be able to function effectively as a whole and must be restructured. The transfer of viable portions of the system must be accomplished as quickly as possible.

In the meantime, however, the committee is concerned about the continuation of necessary service until such time as the liquidation can be completed. In this regard, the Department of Transportation has stated that despite its original intention to complete negotiations on transfers of portions of the system and on related labor protection by March 3, 1980, there is uncertainty as to whether such negotiations can be advanced to a point at which the potential transferee carriers can assume operations by such date, when the directed service carrier ceases operations.

The committee and Congress must examine with haste the various alternative courses of action, as March 2 grows near. Our options include legislation which would provide for extended directed service. The committee must determine whether directed service

should be continued, what the appropriate extent of such service should be, and whether legislation is necessary to insure such service and to provide appropriate funding.

During today's hearing, we will be reviewing these questions as we consider S. 2253, introduced by Senator Kassebaum to provide for the current level of directed service for 30 days and subsequently for serviceover lins subject to offers for purchase; S. 2246, introduced by Senator Dole to extend service for 90 days; and Senate Joint Resolution 139, introduced by Senator Boren to extend service for 6 months.

[The bills follow:]

96TH CONGRESS
2D SESSION

S. 2246

To continue rail service by the Chicago, Rock Island, and Pacific Railroad for ninety days.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 1 (legislative day, JANUARY 3), 1980

Mr. DOLE (for himself, Mrs. KASSEBAUM, and Mr. BOREN) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

A BILL

To continue rail service by the Chicago, Rock Island, and Pacific Railroad for ninety days.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That for a period commencing with the expiration of Directed
- 4 Service Order Numbered 1398 of the Interstate Commerce
- 5 Commission, or with the date of enactment of this Act, and
- 6 terminating ninety days thereafter, the Rock Island Railroad
- 7 shall—
- 8 (1) maintain its entire railroad system, as it
- 9 existed on September 1, 1979;

1 (2) continue no less than the level of service pro-
2 vided by it as of that date; and

3 (3) not take any action to abandon or discontinue
4 service over any part thereof unless it is authorized to
5 do so by the Interstate Commerce Commission, and no
6 affected State (or local or regional transportation au-
7 thority) opposes such action by the Commission.

8 SEC. 2. (a) The Secretary of Transportation, under the
9 authority of the Emergency Rail Services Act of 1970, shall
10 immediately guarantee trustee certificates of the Rock Island
11 Railroad in the amount specified in section 3 of this Act.
12 Such guarantee shall be made without regard to the findings
13 and conditions set forth in subsections (a) and (b) of section 3
14 of such Act, and the certificates guaranteed under this Act
15 shall not have the status and priority set forth in subsection
16 (c) of section 3 of such Act, except to the extent that funds
17 guaranteed by such certificates increase the assets of the
18 Rock Island Railroad.

19 (b) Certificates granted under this Act shall not have
20 priority in bankruptcy over the claim of any creditor of the
21 Rock Island Railroad as of the date of enactment of this Act,
22 except to the extent that funds guaranteed by such certifi-
23 cates increase the assets of the Rock Island Railroad.

24 SEC. 3. The Secretary of Transportation shall guaran-
25 tee trustee certificates of the Rock Island Railroad pursuant

1 to this Act in an amount equal to the difference between (1)
2 the total expenses incurred by such railroad in or attributable
3 to the maintenance and continuation of service as required by
4 section 1 of this Act, and (2) the direct revenues from the
5 handling, routing, and moving of traffic in connection with
6 such service, together with any other source of revenues
7 available to such railroad.

8 SEC. 4. Section 3(e) of the Emergency Rail Services
9 Act of 1970 (45 U.S.C. 662(e)) is amended by striking out
10 "\$200,000,000" and substituting in lieu thereof
11 "\$250,000,000".

1 (1) a cessation of service over the Rock Island ap-
2 pears imminent;

3 (2) a cessation of operations by the Rock Island
4 would have serious repercussions on the economics of
5 the States in which such railroad principally operates;

6 (3) a cessation of service would have a dramatic
7 impact on the farm economy due to the volumes and
8 value of fertilizer and agricultural products moved on
9 the Rock Island, damaging the economic viability of
10 the Nation's grain producers and handlers by seriously
11 impeding the movement of grain for both domestic and
12 export sales;

13 (4) a cessation of operations of the Rock Island
14 would result in the loss of many thousands of jobs of
15 railroad workers and other workers whose employment
16 is dependent upon rail service over the lines presently
17 operated by the Rock Island;

18 (5) premature cessation of services over lines
19 which are the subject of pending purchase application
20 would result in harm to the shipping public.

21 (b) The Congress declares that emergency measures set
22 forth in this Act must be taken to avoid extensive disruptions
23 in transportation services in the areas served by the Rock
24 Island.

DEFINITIONS

SEC. 3. As used in this Act—

(a) the term "Commission" means the Interstate Commerce Commission; and

(b) the term "Rock Island" means the Chicago, Rock Island, and Pacific Railroad Company.

DIRECTED SERVICE

8 SEC. 4. (a) Directed service over the lines of the Rock
9 Island Railroad that were in operation on the date of enact-
10 ment of this Act shall be continued by the Commission until
11 April 2, 1980.

(b) Notwithstanding the provisions of section 11125(b)(1) of title 49 of the United States Code, the Commission shall direct service over all lines identified by the Secretary of Transportation as being the subject of bona fide offers of purchase until the transactions are consummated.

EXPEDITED PROCEEDINGS

18 SEC. 5. (a) The Commission shall give all proceedings
19 involving the Rock Island preference over all other proceed-
20 ings related to rail carriers pending before it and make all its
21 decisions at the earliest practical time.

(b) The Commission shall reach a final decision on all proceedings filed by April 2, 1980, which involve a sale, transfer, or lease of any line of the Rock Island to a solvent carrier within 120 days of the filing of an application.

1 TRANSACTION ASSISTANCE

2 SEC. 6. Section 505 of the Railroad Revitalization and
3 Regulatory Reform Act of 1976 (45 U.S.C. 825) is amended
4 by adding at the end thereof the following new subsections:

5 “(h) PURCHASE OF ESSENTIAL PROPERTIES FOR
6 COMMON CARRIER SERVICE.—(1) Notwithstanding subsec-
7 tions (a) through (g) of this section (other than subsections
8 (b)(2) and (d)(3)), the Secretary shall immediately purchase
9 redeemable preference shares or trustee certificates convert-
10 ible to redeemable preference shares under this section as
11 necessary to facilitate the purchase of properties of the Rock
12 Island by other railroads to be used for common carrier rail
13 service. This subsection shall apply only to purchase applica-
14 tions filed with the Commission after January 1, 1980.

15 “(2) The total par value of the redeemable preference
16 shares and the amount of trustee certificates which the Sec-
17 retary may purchase under this subsection from the proceeds
18 received from the issuance and sale of Fund anticipation
19 notes shall not exceed \$150,000,000.

20 “(3) The loan shall be granted upon such terms and
21 conditions that ensure that the applicant rail carrier will be
22 financially capable of making the requisite interest and princi-
23 pal payments without a drain on its financial resources.”.

1 APPLICABILITY OF THE NATIONAL ENVIRONMENTAL
2 POLICY ACT

3 SEC. 7. The provisions of the National Environmental
4 Policy Act shall not apply to transactions carried out pursu-
5 ant to this Act.

6 COURT REVIEW

7 SEC. 8. The determinations as to essentiality under sec-
8 tion 7 of this Act shall not be subject to any court challenge.

9 AUTHORIZATION OF APPROPRIATIONS

10 SEC. 9. (a) There is hereby authorized to be appropri-
11 ated to carry out the directed service required under section
12 4 of this Act, \$75,000,000.

13 (b) There is hereby authorized to be appropriated to pro-
14 vide the transaction assistance, under section 7 of the Act,
15 \$150,000,000.

96TH CONGRESS
2D SESSION

S. J. RES. 139

To require continuation of rail service by the Chicago, Rock Island, and Pacific Railroad through August 31, 1980.

IN THE SENATE OF THE UNITED STATES

JANUARY 31 (legislative day, JANUARY 3), 1980

Mr. BOREN (for himself, Mr. BUMPERS, Mr. BELLMON, Mr. PRYOR, Mr. ZORINSKY, Mrs. KASSEBAUM, and Mr. TOWER) introduced the following joint resolution; which was read twice and referred to the Committee on Commerce, Science, and Transportation

JOINT RESOLUTION

To require continuation of rail service by the Chicago, Rock Island, and Pacific Railroad through August 31, 1980.

- 1 *Resolved by the Senate and House of Representatives*
- 2 *of the United States of America in Congress assembled,*
- 3 That (a) Congress hereby finds that—
- 4 (1) the proposed embargo of the freight operations
- 5 of the Chicago, Rock Island, and Pacific Railroad
- 6 Company (hereinafter referred to as the “Rock Island
- 7 Railroad”) in the States of Minnesota, Iowa, Illinois,
- 8 Missouri, Nebraska, Kansas, Colorado, New Mexico,

1 Texas, Oklahoma, Arkansas, Tennessee, and Louisi-
2 ana, which the trustee of the railroad has asked the
3 bankruptcy court to authorize and to direct, would
4 have crippling repercussions on the economies of these
5 States;

6 (2) the threatened embargo of freight service ex-
7 tends over ten thousand miles of track;

8 (3) the proposed embargo would threaten the loss
9 of more than six thousand jobs of railroad workers and
10 the employment of thousands of other workers whose
11 jobs are dependent upon uninterrupted rail service;

12 (4) the agricultural producing and marketing ac-
13 tivities in this tier of States are totally dependent upon
14 continuing rail service;

15 (5) cessation of essential transportation services
16 by the Rock Island Railroad would endanger the public
17 welfare;

18 (6) cessation of such service is imminent; and

19 (7) there is no other practicable means of obtain-
20 ing funds to meet payroll and other expenses necessary
21 to provide such services.

22 (b) Based on the findings set forth in subsection (a), the
23 Congress declares that emergency measures must be taken to
24 avoid the substantial damage to the economy of the region .

1 and of the Nation which the proposed embargo would other-
2 wise cause.

3 SEC. 2. For a period commencing with the expiration of
4 Directed Service Order Numbered 1398 of the Interstate
5 Commerce Commission, or of the date of enactment of this
6 joint resolution, and terminating at midnight on August 31,
7 1980, the Rock Island Railroad (1) shall maintain its entire
8 railroad system, as it existed on September 1, 1979; (2) shall
9 continue no less than the level of service provided by it as of
10 that date; and (3) shall not take any action to abandon or
11 discontinue service over any part thereof unless it is author-
12 ized to do so by the Interstate Commerce Commission, and
13 no affected State (or local or regional transportation author-
14 ity) opposes such action by the Commission.

15 SEC. 3. (a) The Secretary of Transportation, under the
16 authority of the Emergency Rail Services Act of 1970, shall
17 immediately guarantee trustee certificates of the Rock Island
18 Railroad in the amount specified in section 4 of this joint
19 resolution. Such guarantee shall be made without regard to
20 the findings and conditions set forth in subsections (a) and (b)
21 of section 3 of such Act, and the certificates guaranteed
22 under this joint resolution shall not have the status and prior-
23 ity set forth in subsection (c) of section 3 of such Act, except
24 to the extent that funds guaranteed by such certificates in-
25 crease the assets of the Rock Island Railroad.

1 (b) Certificates granted under this joint resolution shall
2 not have priority in bankruptcy over the claim of any creditor
3 of the Rock Island Railroad as of the date of enactment of
4 this joint resolution, except to the extent that funds guaran-
5 teed by such certificates increase the assets of the Rock
6 Island Railroad.

7 SEC. 4. The Secretary of Transportation shall guaran-
8 tee trustee certificates of the Rock Island Railroad pursuant
9 to this joint resolution in an amount equal to the difference
10 between (1) the total expenses incurred by such railroad in or
11 attributable to the maintenance and continuation of service as
12 required by section 2 of this joint resolution, and (2) the
13 direct revenues from the handling, routing, and moving of
14 traffic in connection with such service, together with any
15 other source of revenues available to such railroad.

16 SEC. 5. Section 3(e) of the Emergency Rail Services
17 Act of 1970 (45 U.S.C. 662(e)) is amended by striking out
18 "\$200,000,000" and substituting therefor "\$250,000,000".

Senator LONG. Senator Kassebaum, do you have an opening statement?

OPENING STATEMENT BY SENATOR KASSEBAUM

Senator KASSEBAUM. Good morning, Mr. Chairman.

Mr. Chairman, first I want to acknowledge and thank you for your efforts in dealing with the transportation crisis created by the liquidation of the Rock Island Railroad. I commend you for calling this hearing, which I hope will be but the first step in quickly acting to bring about a legislative approach to deal with the changes in our national transportation system, being occasioned by the demise of the Rock.

I think it important to note at the outset that the purpose of the proposal before the committee today is not to save the Rock Island Railroad. What we must do, Mr. Chairman, is facilitate the transfer of Rock Island routes into the hands of stronger railroads, facing the fact that not every mile of Rock Island track can or should be saved. And this is the purpose of S. 2253, which I have proposed and which Chairman Cannon and Senator Exon along with Senators Dole, Boren, Jepsen, Culver, Tower, Zorinsky, and Bellmon have cosponsored.

This bill would continue the existing directed service order for 30 days. It provides for directed service over lines which are the subject of bona fide purchase applications, thus avoiding interruptions of service where acquisitions are likely. And finally, Mr. Chairman, the bill amends section 505 of the 4-R Act to allow funds appropriated under that section to be used for purchase of Rock Island properties by qualified carriers. This would operate as an additional incentive to make the purchase of viable Rock Island lines more attractive to healthy carriers. As you know, Mr. Chairman, the Government's investment under this program is secured by stock in the solvent railroads seeking such transaction assistance. To support these new authorities, the section 505 authorization is increased by \$150 million, and the directed service fund is increased by \$75 million.

A \$225 million price tag is not to be scoffed at. However, when you consider that in Kansas alone the value of the grain shipped on the Rock approaches \$1 billion annually, the necessity of this investment in our transportation system becomes obvious.

Mr. Chairman, there is no need to belabor the consequences of a total cessation of Rock service on March 2, when the existing ICC directed service order expires. Locally, they are catastrophic. Nationally, they are ominous at best. According to the ICC, In 1978, the Rock Island carried 8.5 million tons of corn and wheat. That amounts to 7 percent of all the corn and wheat moved by rail in that year.

Without rail service, grain, fertilizer and other products will move slowly and expensively. The cash price offered to farmers if grain must be trucked is often 5 to 17 cents below the rail rate per bushel. The increased traffic load places an additional burden on our already overstrained bridges and rural highways. In addition, much valuable energy is consumed.

So, Mr. Chairman, the need to act and act quickly is not in doubt. I am sure we will hear from today's witnesses much evi-

dence concerning the dimensions of the crisis we face and the need for Congress to act quickly in addressing these problems. I know that we are fortunate to have several Kansans of the witness list today. These men have all worked long and devotedly in seeking solutions to the Rock problem. I know their assistance has been invaluable to me and my staff, and I want them all to know how much I appreciate their efforts.

I am pleased, Mr. Chairman, that you have called this hearing to help expedite a matter which is of great concern to all of us, and I know that we all wish to continue in every way we can to move expeditiously in this matter of how we can adjust to the liquidation of the Rock Island Railroad.

Senator LONG. Thank you very much.

I will call as our first witness the Honorable John C. Culver, Senator from the State of Iowa, and I believe that Senator Jepsen would also like to testify. I will call the two Iowa Senators at the same time.

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

Senator CULVER. Mr. Chairman, members of the committee, I want to commend the subcommittee for this timely hearing on legislative proposals affecting an extension of directed service for the Rock Island Railroad.

I want to commend the Subcommittee and Senator Kassebaum particularly for her leadership in this area, for this timely hearing on legislative proposals affecting an extension of directed service for the Rock Island Railroad.

One of this morning's witnesses, Mr. Chairman, Raymond Kassel, who is the Director of the Iowa Department of Transportation, will testify in greater detail about the severe impact a March 2, 1980, service discontinuance or suspension would have on our State.

I would just like to underscore the importance of avoiding a total shutdown of the Rock Island before successor carriers are able to assume operation along the line.

This year, Iowa's record corn and soybean crops will result in an estimated 18 million tons of grain, worth \$2.2 billion, that must be moved by rail—not only within Iowa but throughout the country.

Yet, the bankruptcies and the pending liquidations of both the Rock Island and the Milwaukee railroads together comprise about 43 percent of our railroad service and total trackage in Iowa. And this will make it virtually impossible, of course, for farmers and shippers to plan for the orderly movement of crops and industrial goods so critical to the agricultural economy not only of our State but this Nation.

The Interstate Commerce Commission recognized the serious transportation crisis in the making when it issued its original directed service order last summer, and subsequently the Commissioners extended the order until March 2, 1980, as we know.

The order was extended, however, for only 90 days—rather than the remaining 180 days allowed by law—partly on the assumption, shared by the Department of Transportation, that other railroads

would have entered purchase bids on the Rock Island and would be able to assume uninterrupted service by March 2.

This assumption, Mr. Chairman, unfortunately will not be completely realized; 17 bids have been received to purchase portions of the Rock Island system, including almost 85 percent of the Rock Island trackage in our State of Iowa.

This response has been extremely encouraging and raises the possibility that most essential services will be retained by successor lines.

However, it is virtually impossible that all complex negotiations will be completed and bidders able to step in to pick up service by the March 2 shutdown date.

Given the interest shown by other railroads and the ultimate probability of permanent service along much of the Rock Island line, it would be both short-sighted and unwise public policy to permit a complete systemwide shutdown next month.

Even a temporary service suspension would have severe negative consequences. It would encourage the movement of equipment out of the Rock Island system, as well as accelerate the deterioration of track, which already plagues much of the system.

Perhaps more importantly, a March 2 shutdown would come at precisely the most critical time at which incoming fertilizer shipments begin running into Iowa and other Midwestern States.

A 30- or 60-day service disruption could result in fertilizer shortages whose real impact, Mr. Chairman, would not be felt until next year's fall harvest.

Mr. Chairman, finally we need to minimize the uncertainty of farmers and shippers, so that they can make market decisions with as much information as possible. This means, of course, first and foremost the knowledge that there will be rail service available, so that they can ship their goods and meet their commitments.

It would be penny-wise and pound-foolish to risk the negative consequences of a complete service shutdown while the process for buying the Rock Island is so far along.

I strongly believe that extending the directed service order now scheduled to expire on March 2 is in the best interests of Iowa, the Midwest, and the Nation.

I have previously urged both the Chairman of the ICC and the Secretary of Transportation to support such action. Legislation may be needed, however, to assure the continuation of rail services.

I support the approach taken by S. 2253 introduced by the distinguished Senator from Kansas, Mrs. Kassebaum, and cosponsored by both Senator Jepsen and myself.

This bill would extend the directed service order for 30 days, enough time for all bids to be identified, evaluated, and hopefully completed.

After April 2, directed service would be ordered only along those sections of the Rock Island track that will be purchased by another line. This both assures shippers of continued service, while assuring that scarce Federal resources will be spent only on those portions of the Rock Island system that have a future.

Mr. Chairman, revitalizing the Midwestern grain transportation system is clearly one of the most urgent domestic needs of this decade. The administration has taken one step in this direction

through its recent public commitment to spend \$100 million to upgrade the essential north-south Rock Island mainline from Minneapolis to Kansas City through Des Moines.

Congress, however, must make the equally essential short-term commitment to guarantee that Rock Island service does not prematurely grind to a halt until new permanent carriers are in place. Such action would be in the best interests of the Nation and a responsible use of public funds.

Thank you, Mr. Chairman.

Senator LONG. Thank you, Senator Culver.

Senator Jepsen?

STATEMENT OF HON. ROGER W. JEPSEN, U.S. SENATOR FROM IOWA

Senator JEPSEN. Thank you, Mr. Chairman, Senator Kassebaum.

Mr. Chairman, I am pleased to join my fellow Iowans, Senator Culver, Ray Kassel of the Iowa Department of Transportation, and Maurice Van Nostrand of the Agri Industries, in appearing before you today.

Mr. Chairman, as my distinguished colleague has so ably stated, the uninterrupted service of the Rock Island Railroad is essential for the future of Iowa's twin-empire state of agriculture and industry.

Farmers and shippers alike cannot afford the uncertainty caused by a last-minute decisionmaking on the part of the Federal Government.

I am a farmer by heritage, and a businessman by profession, and I know that success in both requires good advance planning based on reliable knowledge and future events. Both agriculture and industrial shippers must be informed and have reliable information, and they must have it now.

At this point, I want to go on record thanking the Interstate Commerce Commission, the Federal Railroad Administration, and the Iowa Department of Transportation, for their efforts in trying to resolve this longstanding crisis. They, along with many others, have been most helpful and sincere in their efforts on behalf of Iowans, and we appreciate that.

Mr. Chairman, you cannot run a farm on a day-to-day basis. A farmer just doesn't sprinkle a few seeds into the ground, pray for rain, harvest his crops, and go to the bank. A grain elevator manager doesn't load his bins to the top and assume an infinite number of rail cars will come rolling down the tracks—and both are making plans now for the months ahead.

Raymond Kassel of the Iowa Department of Transportation will provide you with facts and figures showing just what an interruption in service will do. It will cause chaos over the entire Midwest.

I am a cosponsor of S. 2253 introduced by the distinguished Senator from Kansas, Mrs. Kassebaum. This bill provides for continuous service for 1 month past the March 2 deadline on the entire Rock Island system, and service beyond that on portions of the Rock in which other railroads have expressed an interest.

I believe this concept provides the most orderly and expeditious restructuring possible. However, Mr. Chairman, the most desirable solution to the Midwest rail crisis is not additional legislation, but

a decision from Government agencies using laws they have already written.

With the information we now have, I respectfully urge the ICC to make a decision to extend directed service and provide for a smooth transition from the Rock Island to healthy railroad companies.

It must also be recognized that some families have been a part of the Rock Island Railroad for its entire 130-year history. The Rock Island built the first bridge across the Mississippi River, bringing rail transportation into my home State of Iowa.

Railworkers take great pride in their work, and all they want to do is run a railroad. If we are going to sit here and decide the future of the Rock Island, let's not forget the people—those who run the engines, lay the tracks, and keep everything running.

Any plans for the Rock Island must include provisions to protect the dedicated employees, some of whom have given their entire working lives to this company. Let's not leave them out of work while the Federal Government decides who will buy the Rock Island Railroad.

Finally, Mr. Chairman, the fate of the Rock Island Railroad will affect people from all walks of life—producers, shippers, railroad workers, and consumers.

Uninterrupted service on the Rock Island will benefit everyone. In recent weeks, much progress has been made toward a final resolution of the Rock Island problem—one which will merge the Rock Island lines with viable rail companies relieving the taxpayer of the burden he has been carrying. The momentum must continue uninterrupted, if our goal is to be reached.

Thank you, Mr. Chairman.

Mr. Chairman, we also have Mr. Raymond Kassel from the Iowa Department of Transportation here to make a brief presentation, with your permission.

Senator LONG. Let me ask you, is he listed as a witness further on down the list?

Senator JEPSEN. Yes, sir, he is.

Senator LONG. I think you informed me that he had to go to the White House to meet with a group there. I would suggest that we hear him immediately after Mr. William Johnson, who is the administration witness, or as soon as we start hearing from the public witnesses.

Senator JEPSEN. Well, I appreciate your consideration very much, Mr. Chairman.

Senator LONG. Meanwhile, we will try to move this hearing along, which hopefully will not take very long.

Senator JEPSEN. Fine. Thank you very much.

Senator LONG. Thank you very much, too, Mr. Kassel.

Senator JEPSEN. Yes, Mr. Chairman, Raymond Kassel. It is the first name on this back page there, under the Iowa-Illinois panel.

Senator LONG. All right, we will hear from him at that time. All right, sir, is Senator Pryor here?

STATEMENT OF HON. DAVID PRYOR, U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Yes, sir.

Senator LONG. Senator, we are pleased to have you with us. Is Senator Bumpers here? If he is here, we will hear the two of you together.

Senator PRYOR. Mr. Chairman, I don't know where Senator Bumpers is, but I think he is coming. He may be on the way.

Senator LONG. Well, I think that if you have to do it by yourself, you will take care of Arkansas very well, and we are glad to hear from you.

Senator PRYOR. Mr. Chairman, I do have a statement from one of our colleagues, Senator Sasser of Tennessee, and with the permission of the committee, I would like to have his statement included. He's been very active in the preservation of the Rock Island Railroad system, and he could not be here today to present his testimony in person.

Senator LONG. We will be happy to have Senator Sasser's statement, and I will ask that it be printed.

Senator PRYOR. Mr. Chairman, because of the large number of witnesses today, I am not going to read all of my statement.

I would just like to say that it has been a great challenge for me in the past several months to work on this problem. When I was the Governor of the State of Arkansas, I began working with the various parties in an attempt to maintain rail service on these lines.

Last week, Mr. Chairman, I had the privilege of meeting with several hundred of the Rock Island employees in Little Rock, and the following day I met in El Dorado, Ark., with many of the shippers who utilize the Rock Island Railroad.

Mr. Chairman, I think it goes without saying that the preservation and the success of the Rock Island system is, critical to the economy of our part of the country. My longer statement details some of the specific consequences of the termination or interruption of service along the system.

I don't know which is the best approach, whether it would be an additional amount of time to allow the parties to come together on greater incentives to prospective purchasers of Rock Island lines. I understand that there is some hope being offered now in the labor area, and I sincerely hope substantial progress has been made. Legislation should also assure that service will be continued to specific locations where there is a need to continue essential shipping service as determined through normal ICC procedures, and on other lines where we can expect offers of purchase to be made once the labor issues are resolved.

Senator LONG. We will hear from Senator Dole, who has to go make a speech elsewhere. He wanted to get his statement in the record.

Senator Dole?

STATEMENT OF HON. ROBERT DOLE, U.S. SENATOR FROM KANSAS

Senator DOLE. Could I just take about 1 minute?

Senator LONG. Yes, sir.

Senator DOLE. First of all, I wanted to thank the committee for the hearings, and I appreciate what I just heard from the witness.

There are a number of proposals pending—by Senator Kassebaum, Senator Boren, and this Senator. I think perhaps the issues have been fairly clearly delineated by this time, but I commend the Commerce Committee for recognizing the importance of the crisis facing those of us who depend on the Rock Island for our rail service.

We have, as Senator Kassebaum may have already indicated, thousands of Kansas communities and shippers who depend upon the Rock Island to transport their commodities. Kansans in particular bring fertilizer into the State on the Rock and ship record crops to market on the Rock Island.

The final answer appears to be purchase by other railroads, but that is not immediately going to happen. So what a number of us have done is work to extend the service. There are different proposals, but the thrust of the legislation I introduced is to continue directed service over the Rock Island while purchase plans by healthy railroads are finalized. We must assure that service is not disturbed.

So I would just thank you, Mr. Chairman, and I have put the balance of my statement in the record. I think when March 2 comes, if we don't have any purchase agreements and no service, there is going to be a real crunch. I don't know what the shippers will do. This will bridge the gap and give a little more time.

We are suggesting, in addition to the extension to June 1, authorizing \$50 million for this service. The estimates are that it will cost about \$12 to \$13 million per month over a 3-month period. We also provide for the standard funding mechanism often used in railroad bills, guaranteed trustee certificates. It's not the critical part of our bill, but it is important.

Thank you, Mr. Chairman.

Senator LONG. You are very welcome, Senator Dole.

[The statement follows:]

STATEMENT OF HON. BOB DOLE, U.S. SENATOR FROM KANSAS

MR. DOLE. Mr. Chairman, I would first like to commend Senator Cannon and the other members of the Commerce Committee for recognizing the importance of the crisis facing those of us who have depended upon the Rock Island for our rail service. If this hearing can assist other Senators in understanding the need for Rock Island service, and if this hearing can prompt passage of legislation to address this need, we will have done very well indeed.

IMPORTANCE OF ROCK ISLAND

Thousands of Kansas communities and shippers depend upon the Rock Island to transport agricultural commodities and manufactured goods. Kansans, in particular, bring fertilizer into the State on the Rock, and ship record crops to market on the Rock. I will let those who testify later this morning supply the statistics. Suffice it to say, nearly 40 percent of the total grain storage capacity of Kansas is served by the Rock Island. Over 125 Kansas grain elevators receive their sole service from the Rock Island Railroad. The Rock Island Railroad is clearly a critical component of the Great Plains and Kansas economy.

ANSWER IS PURCHASES BY OTHER RAILROADS

While Kansans desperately need continued service on the Rock Island Railroad, they realize that permanent service cannot and should not be provided by the Government at taxpayers expense. There is a clear consensus in Kansas (and I believe the Midwest) that the only lasting solution is the purchase and operation of Rock Island track by strong, healthy railroads.

GOVERNMENT ROLE SHOULD BE FACILITATING SALES

The role of the Federal Government, and the goal of those of us here today, should be to facilitate and encourage those purchases, and to make the transition from the rock island to future owners as smooth as possible.

DOLE BILL

That is the thrust of the legislation I have introduced—S. 2246. My central interest is continuing directed service over the Rock Island while purchase plans by healthy railroads are finalized to insure that service is not disrupted.

Several weeks ago the Interstate Commerce Commission indicated that it would not extend directed service beyond the March 2, deadline. I, and many other representatives of the midwestern States served by the Rock Island, had asked the I.C.C. to allow the Kansas City terminal to operate over this railroad for an additional 90 days, as allowed by law. We argued (as I am arguing today) that this service was necessary to bridge the gap between Rock Island service and operation by healthy railroads now considering the purchase of portions of the Rock Island Railroad. Apparently, however, the commissioners at 12th and constitution do not preceive our need. My bill would simply require the Interstate Commerce Commission to do what it failed to do on January 31—extend directed service over the Rock Island for an additional 90 days.

NEED TIME TO COMPLETE PURCHASES

I have talked with representatives of several railroad companies who are seriously considering purchasing major segments of the dying Rock Island. They feel that these lines may be important to their development. However, it is highly unlikely that they will be able to complete all of the complex negotiations involved in a sale of this magnitude by March 2. I have also talked with shippers, manufacturers and regional planning commissions that are negotiating arrangements which would allow them to operate segments of track not likely to be purchased by larger railroads. Every single organization emphasizes that it needs at least 2 or 3 months to complete arrangements.

SERVICE WILL BE DISCONTINUED

When March 2 comes, and none of these purchase arrangements and alternate arrangements are finalized, the Kansas City terminal will discontinue service on the Rock Island and begin the process of mothballing the locomotives. Shippers along the line will begin arranging for other means of transportation. Transportation and economic patterns will be disrupted. The process of transferring operation to purchasing railroads at a later date will be vastly complicated.

BRIDGE BETWEEN PAST AND FUTURE

That is why I believe that directed service must be continued for another 90 days. The three months of service can act as a bridge between the past and the future, between the old owners and the new. It can prevent disruption and disarray, and ease a difficult transition in the lives of affected communities. The cost of this additional directed service will be off-set by the savings in shutdown costs, which are estimated at \$15 million, and the savings to the economies of the States of the midwest. The alternatives are expensive.

THIRTY DAYS IS TOO SHORT

I believe that 30 days of directed service is simply too short a period to prevent disruption and ease the transition. A 90 day extension has been supported almost unanimously by both the Kansas Senate and the House of Representatives. The Kansas grain and feed dealers have also indicated to me that they favor from 60 to 90 days of additional directed service. I look forward to their testimony later this morning.

SPIRIT OF COOPERATION

I am pleased at the cooperative attitude I have encountered with Senators from other States. Senators Boren and Kassebaum have co-sponsored my bill to extend directed service. In turn, I support their efforts to find a reasonable solution to the problem we face. Though provisions of our proposals vary, I detect a willingness to work together, rather than fight over individual approaches.

Specifically, I strongly support the transaction assistance provided for in Senator Kassebaum's legislation, S. 2253. Our first priority must be encouraging healthy railroads to purchase the dying Rock Island. Many railroads are hesitant to take that chance because of the deteriorated nature of the track. Loan assistance is a reasonable and important step in enticing purchases and ensuring an orderly transition.

TRANSACTION ASSISTANCE AND DIRECTED SERVICE

I believe that legislation including the transaction assistance of Senator Kassebaum's bill and the ninety days of directed service as provided in my bill, can ease the midwest through the rough times ahead and provide a format for developing a healthy, viable railroad system that is not dependent upon the Federal Government and the American taxpayer.

Senator LONG. I see Senator Percy is here. He has a statement, I believe.

STATEMENT OF HON. CHARLES H. PERCY, U.S. SENATOR FROM ILLINOIS

Senator PERCY. Mr. Chairman, I would like to commend this subcommittee for holding this hearing to review proposals to provide temporary service over the Chicago, Rock Island, and Pacific Railroad.

It is an end of an era for the Rock Island as we long have known it. I am not quite sure when the downfall of the Rock began, but I do recall that in 1963 the Rock Island Board of Directors approved a plan to merge with the Union Pacific. Nearly 12 years later the Interstate Commerce Commission approved the merger application.

The problem, of course, was that by late 1974 the prospective partner was no longer interested in the aging bride-to-be. Several months later, the Rock Island filed for bankruptcy. Last September, the Interstate Commerce Commission directed the Kansas City Terminal Railroad Company to take over the operation of the bankrupt and strike-torn Rock Island Railroad. In a matter of time, Trustee William Gibbons' plan for liquidation of the Rock will be put into effect.

One of the reasons Senator Robert Byrd and I introduced the Regulatory Reform Act nearly 5 years ago was the ICC's failure to act promptly on the Rock Island merger. We simply were not able to get a decision out of a regulatory agency set up by Congress to make such a decision. This was one of the reasons that prompted the Governmental Affairs Committee to conduct a comprehensive 2-year study of Federal regulation.

Why is it we can't get decisions more quickly? Why is it that while a decision is languishing, we have a railroad system dying on the vine? The possibility for preserving it was simply made impossible because of indecision.

Today we are faced with the prospect of the ICC-directed service order over the Rock system running out on March 2. Without an extension of this service, this system will simply shut down, even though there are a number of companies interested in purchasing parts of the Rock.

As a first step toward reaching this unreasonable goal of terminating service over all of the Rock's lines, the ICC is allowing the Kansas City Terminal Railway Company—the Rock's directed service carrier—to begin embargoing inbound shipments into the Rock Island System the day after tomorrow.

This action must be stopped.

The Department of Transportation has received letters of intent from various companies expressing an interest in acquiring most of the Rock's lines in Illinois. Thus, an interruption of service over these lines in the near future may be unnecessary and cause undue hardship to shippers, employees, and consumers. It also would disrupt whole communities.

I would like to insert in the record, Mr. Chairman and Senator Kassebaum, the economic impact of a shutdown as I see it in the State of Illinois. It would mean the loss of almost 3,000 jobs. Over 350 businesses would be disrupted. Commuter service would be ended for 14,000 people.

[The information follows:]

Loss of jobs: There are 2,882 Rock Island employees in Illinois who would lose their jobs immediately.

Over 350 businesses disrupted; A disruption of service on the Rock's lines could cause untold layoffs at plants and manufacturing companies depending on shippers supplies. In addition, there would be a ripple effect on consumers of the products shipped by the Rock. In just the past few weeks, I have heard from Illinois businesses that would be affected. They include: Archer Daniels Midland Co., Marshall Putnam Oil Co., Pabst Brewing Co., E. I. DuPont DeNemours and Co., Bellrose Silica Co., Ralston Purina Co., Ottawa Silica Co., A. E. Staley Mfg. Co., Garvey International, Inc., the PQ Corp., Bemis Co., Hiram Walker & Sons, Inc., WABCO, Sherwin Williams Co., Pullman Corp., Agar Products, Keebler Baking Co., Metron Steel, Solo Cups Co., Owens II, Georgia Pacific, CID Warehousing Co., Clear View Plastic Co., and Caterpillar Tractor Co.

Loss of commuter service: Over 14,000 daily commuters on the Chicago to Joliet run would lose this service. This at a time when we are asking the American public to conserve our precious energy resources and cut back on automobile driving.

Highways: The Department of Transportation estimates that on a yearly basis the Rock originates and terminates over 132,000 carloads of traffic in Illinois. Some of these carloads could be moved by trucking firms. However, much of Illinois' highway system is relatively old and was not designed to handle the increase in truck traffic that has already occurred in the last decade. By dramatically increasing the volume of truck traffic on these roads, Illinois' highway system would have a greater strain placed on it than it currently has.

Example: Sherwin Williams, the world's largest manufacturer of paints, annually moves 2,500 carloads on the Rock system out of Calumet. If rail service becomes unavailable, a minimum of 10,000 trucks would be needed to carry this traffic. Of course there would be further complications by trucking these products since there are regulations governing certain hazardous materials over the highway system.

Senator PERCY. I cannot see the sense of shutting down service when there is a real, genuine interest in acquiring parts of the Rock's line. Take for example, the cost of startup, some companies would find it uneconomical to bid for the Rock if the service was interrupted.

Therefore, we must stop the ICC action that is imminent. In reviewing these implications—the shutting down of the Rock—my main objective is to attain a smooth transition period during which companies interested in acquiring portions of the Rock will have that opportunity without disruption to the communities involved.

I recognize that the entire system cannot be preserved as it now exists. That decision has been made. My purpose is to support the subcommittee's effort to devise an equitable transition period leading to the continuation of a system that is viable.

There are several portions of Senator Kassebaum's proposal, S. 2253, the Rock Island Transition Act, which I strongly support because it provides the transition time needed to resolve this problem.

S. 2253 extends the existing ICC directed service order, slated to expire on March 2, to April 2. I believe that this action would provide the time frame needed to interest companies in acquiring portions of the Rock and the time frame needed for those carriers who have expressed an interest an opportunity to firm up their offers of purchase.

After April 2, 1980, it provides continuing directed service over all those lines which the Secretary of Transportation has indentified "as being the subject of bona fide offers of purchase until the transactions are consummated." As I understand Senator Kassebaum's bill, the ICC would have a 120 day limit in which to reach a decision on all proceedings filed by April 2, 1980, which involve a sale, transfer, or lease of any line of the Rock Island.

Labor protection for the Rock Island employees and the type of Federal assistance which will be made available to prospective purchasing railroads, also are important matters. As far as they are concerned I am reserving judgment until I have an opportunity to review the Department of Transportation's proposals.

Since the Department of Transportation has received letters of intent from prospective purchasers for over 95 percent of the Rock's freight traffic, I encourage the subcommittee to provide the reasonable transition time necessary for action to be taken on these bids.

I appreciate the opportunity to testify today, Mr. Chairman. Senator LONG. Thank you, Senator. Senator Bumpers?

STATEMENT OF HON. DALE BUMPERS, U.S. SENATOR FROM ARKANSAS

Senator BUMPERS. Mr. Chairman, with your permission I will just testify from right here, and I will do it briefly and extemporaneously and request permission to submit my written statement later in the day.

Mr. Chairman, I just want to say, first of all, without opening old sores and rehashing this whole thing, that if the Interstate Commerce Commission had done its duty 12 to 14 years ago, we wouldn't be here right now, because the Rock Island Railroad would probably be a viable part of another system.

But, unhappily, that is not the case. So a railroad system on which my State depends very heavily is in chaotic condition, and unless one of these bills is reported out of this committee and adopted by the Congress, we are going to suffer very dire economic consequences in my State—particularly the agricultural interests there.

First of all, it seems to me a very impropitious time for us to be considering allowing a good part of the Rock Island system to be abandoned, forcing shippers to revert to the use of truck transportation. With all due deference to all the truck owners in the country, trucking isn't nearly as energy efficient as rails can be when properly used.

No. 2, Rock Island is the biggest carrier of farm commodities in our State. When you consider how much would have to be carried by truck, or by some other means, you can see that the agricultural interests in our State will suffer. I think that is true in the chairman's State, and I think that is true in Senator Kassebaum's State.

Senator Kassebaum just asked the question about the route from Denver to Omaha. If you look at that chart [indicating], you will see the route from Memphis to Amarillo. Now when I was a

youngster, one of the most exciting things you could do was to ride the Rock Island Rocket, which was a passenger train, from Memphis to Amarillo. It was considered one of the fastest trains in the country, one of the most luxurious.

Of course that all went by the boards, and now obviously if the trustee's plan is allowed to go into effect on say March 2, Southern Pacific Railroad will probably pickup the route from Memphis to Little Rock to Shreveport, with that little intervening route which goes South down to Stuttgart, which is the rice capital of the world. The route from Little Rock to Amarillo, and certainly the route from Little Rock to Oklahoma City, will be abandoned.

I don't have a study to show how many small businesses will go under as a result of that, nor how many people will be thrown out of work—completely aside from the 500 Rock Island employees that serve that route, but it just occurs to me that if we allow this, the whole system will collapse, and then everybody will come in and say, "Well, I want this piece," and "I want that piece," then we've lost a significant part of a potentially viable railroad. It will be a system of pickin' the bones clean.

I talked to the president of Santa Fe the other day. I was hoping the Santa Fe would be interested in picking up the route from Little Rock to Amarillo.

Santa Fe's estimates were that it would cost \$250 million to rehabilitate the line and build all the facilities from Memphis to Amarillo that they would have to build to put that line in the kind of condition that Santa Fe would like.

Well, nobody is going to pick that line up faced with a \$250 million front end cost. All I am saying is that Congress should direct continued service so that an orderly transition can take place for those who do want to buy parts of the Rock Island.

I have been voting for ConRail appropriations. They don't affect my State. But there are 17 States in the Northeastern part of the United States that are, and I know what happens if they lose rail service. If they lose ConRail, the economies of those 17 States are going to suffer. We have appropriated \$3.3 billion for ConRail since 1976. We have provided financial assistance for the Milwaukee Railroad. So this does not seem to me an unusual, inappropriate, or inordinate request—to ask the Congress to allow directed service to continue on the Rock Island until an orderly transition can take place.

I remember the first year I was in the Congress Russell Long wanted something for Louisiana, and he wanted it very badly. I was debating against it, and he got up and said, "You know, for 18 years I voted for all those appropriations to build that navigation system on the Arkansas River, \$1.2 billion, in the hope that some day Arkansas would vote for something for Louisiana."

So I have voted for ConRail, and I have voted for Milwaukee, and now I hope that my colleagues will vote a very sensible, rational, appropriate vote and keep this line open until something in a very orderly way can be accomplished.

That concludes my informal statement, Mr. Chairman. As I say, I will submit a written statement later in the day.

Senator LONG. Thank you, Senator Bumpers. Without objection, your written statement is accepted for the record and may be added to later in the day as you had indicated.
[The statement follows:]

STATEMENT OF HON. DALE BUMPERS, U.S. SENATOR FROM ARKANSAS

Mr. Chairman and members of the Committee, thank you for scheduling these hearings on legislation designed to redress the terrible economic impact which would accompany the demise of the Rock Island Railroad.

I am a cosponsor of S.J. Res. 139, which would order a continuation of service over Rock Island lines until August 31, 1980, and authorize an additional \$50 million in trustee certificates. I am also cosponsoring S. 2246, legislation introduced by Senator Dole, which would extend directed service for an additional 90 days. I do so for three reasons:

- (1) the economies of several states, especially Arkansas, are directly tied to the availability of this rail service,
- (2) our energy problems do not afford us the luxury of turning to lesser efficient transportation systems, and
- (3) the interdependence of the entire railroad system is at stake.

BACKGROUND

We are now feeling the full impact of the so-called love affair that Americans have had with cars and superhighways since World War II. Our dependence on imported oil has risen dramatically in the past decade, yet we have witnessed the collapse of northeastern railroads, the Milwaukee Railroad, and the Rock Island Railroad, as well as a deterioration in our rail passenger service that necessitated creation of a quasi-governmental corporation.

Congress has responded to these situations by creating Conrail, passing the Milwaukee Road Restructuring Act, Amtrak legislation and the Railroad Revitalization and Regulatory Reform Act of 1976.

The problems of the Rock Island Railroad are a continuation of those problems, and the shippers and employees affected are as fully deserving of thoughtful attention—despite the perils of an election year and national balance-the-budget fever—as those affected by earlier collapses.

I might also point out that the Committee has reported S. 1946, a railroad regulatory reform bill, which proposes changes in ratemaking, abandonment and merger procedures and the authority of the Interstate Commerce Commission. The Committee has worked hard on this legislation to strike a proper balance between government involvement and allowing railroads freedom from unnecessary government interference. Yet at the same time I hear that the Rock Island lines should be abandoned.

It reminds me of last year when the Department of Transportation was ready to reduce rail passenger service, in terms of route mileage, by some 43 percent. The Inter-American, preserved under the regional-balance concept, had never had a chance under Amtrak. Inadequate or non-existent station facilities, inadequate equipment, tri-weekly service, abysmal on-time performances, lack of dining and sleeping cars, you name it, demanded that this train be deemed a "failure."

I submit to the Committee that the Rock Island Railroad, managed as it has been for the past five years, is not one of the finest trains running.

Despite its problems, however, there are many small shippers, particularly west of Little Rock, who depend on the Rock Island Railroad. Faced with elimination of such service, many will go out of business or be forced to turn to trucking at twice the cost of what it costs them today to ship by rail. These businesses are often the major employers in such towns as Booneville and Danville. When they go out of business, either immediately with the loss of service on the Rock Island Railroad or later when they can't afford to be in business, the impact on these towns will be devastating.

The Rock Island hauls the kinds of products most suited for rail transport, i.e., bulky products such as farm and food products and timber products. Rice and soybean producers both use the Rock Island extensively. I would only add that these two products are also two the country's largest export goods.

Agricultural interests in Arkansas depend on the Rock Island to ship large quantities of fertilizer for the spring planting season for corn, soybeans and other crops. The railroad provides the best service because of its ability to move the fertilizer in volume in a timely fashion.

Potential development of lignite resources in the southern part of the State bodes well for development of our own domestic energy resources, but such growth is contingent on the availability of rail service.

Lastly, I would be less than candid with you if I didn't mention that over half of the estimated 900 Arkansas Rock Island employees are not expected to be reemployed by future owners of the Rock Island lines. I would be the last to suggest that the new owners ought to be saddled with unnecessary numbers of employees or unreasonable labor protection provisions, but by the same token, I cannot help but question a system that allows lifelong employees to lose everything under a court-ordered liquidation. I understand that the Federal Railroad Administration has been attempting to work with the unions and prospective rail owners to work out an agreement.

Mr. Chairman, I ask that the report prepared by the Office of Rail Public Counsel at the conclusion of three days of hearings in Little Rock in October be printed following my remarks.

Transportation and energy policies are intimately related, but the simple fact remains that we can work to reduce our dependence on imported oil by:

- (1) Improving the energy efficiency of all modes of transport;
- (2) Changing our energy consumption patterns in transportation; and
- (3) Conservation.

It is simply inconceivable to me that at the same time we are talking about developing a national energy policy, energy conservation, reducing our dependence on petroleum and the like, we, in the same breath, talk of closing a system which will result in about 12 percent of the carloads previously carried on the Rock Island Railroad being shifted to trucks, more expensive rail, or simply discontinued.

The policies of neglect since World War II have resulted in deterioration of track, equipment and station facilities, which in turn has led to poor service and lower revenues with which to improve the capital plant, which in turn has led to lower utilization levels by shippers. As the Committee points out in the report accompanying the freight deregulation bill, "In short, many of the railroads are caught in a vicious cycle."

I would also point out that some railroads, such as the Norfolk & Western and Southern Railway Company, posted all-time high profits in recent months.

Perhaps most importantly, the interdependent nature of the rail system ought to make us think twice before we allow a railroad that provides service in thirteen states, employs over 8,400 employees, and hauls over 770,000 carloads of goods to experience severe disruptions in service or lose service entirely.

Congress has approved \$3.3 billion in budget authority for Conrail operations since 1976, and paid out that amount, pending Congressional action on the Administration's request for \$185 million for fiscal year 1981. For the Milwaukee Railroad, \$25.1 million in outstanding ERSA loans have been approved, \$33.8 million in preferences shares issued and \$21.4 million approved for Section 511 loans, for a total of \$80.3 million in assistance.

The cost of running the Rock Island directed service is estimated at \$12-\$13 million per month, which would lessen each month as the Bankruptcy Court and the Interstate Commerce Commission approve the transfer of ownership and operating authority of the Rock Island Railroad system. S.J. Res. 139 would not impede these processes. It seems reasonable to me to provide this assistance for this transition period so that an orderly transfer of ownership can take place. The worst possible scenario would be for disrupted service to occur on March 2, forcing shippers to turn to other ways of transporting their goods before the administrative steps that must be taken are taken. Track conditions may deteriorate rapidly with late winter weather, agricultural and industrial production will decline and agricultural crops dependent on the movement of fertilizer and feed will be in chaos. The ultimate bearer of this vast economic disruption will be the consumers.

Senator LONG. We will now hear from Mr. William B. Johnston, Assistant Secretary for Policy and International Development, Department of Transportation.

STATEMENT OF WILLIAM B. JOHNSTON, ASSISTANT SECRETARY OF TRANSPORTATION FOR POLICY AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION; ACCOMPANIED BY ROBERT GALLAMORE, DEPUTY ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION; AND WILLIAM LOFTUS, ASSOCIATE ADMINISTRATOR FOR FEDERAL ASSISTANCE

Mr. JOHNSTON. Good morning, Mr. Chairman, Senator Kassebaum.

The Department of Transportation appreciates this opportunity to appear before your committee to advise you of the current status of our efforts to restructure the Rock Island Railroad in order to preserve essential rail service and minimize adverse impacts on employees, shippers, and communities.

I will also discuss our proposals to continue service in the short term, as well as the labor protection legislation which is urgently needed to advance the restructuring process in an orderly manner.

With me today are Bob Gallamore, Deputy Administrator of the Federal Railroad Administration; and Bill Loftus, FRA's Associate Administrator for Federal Assistance.

After 3 years of financial difficulty, the Rock Island reached a severe crisis point last August. An employee strike related to back-pay issues stopped the railroad, and President Carter established an Emergency Board to restore essential service for the grain harvest.

Shortly thereafter, the Interstate Commerce Commission found that the Rock Island was cashless and could not continue operations. The ICC, at the President's urging, then directed the Kansas City Terminal Railway to provide service for 60 days. That directive was later extended an additional 90 days, and is now due to expire March 2.

In November, Secretary Goldschmidt announced a process that resulted in bids for Rock Island properties being received by us on February 1, and we reported the results of that process to the public on February 4.

Mr. Chairman, it is apparent that further steps must be taken immediately to avoid counterproductive disruptions of service that could set back the progress we have made. It is reassuring that both we and the administration and many of you in the Congress have a similar perception of the urgency of events.

I am pleased to be able to advise you today of a set of actions and legislative recommendations being developed that will advance the goal I think we share—permanent service arrangements by railroads that are financially able to do the job, and a reasonable level of protection for adversely affected employees.

My suggestions will, however, be significantly different from the Senate bills and Joint Resolution which have been introduced to continue operations of the Rock Island for periods of from 1 to 6 months as a whole, and potentially longer in cases of lines on which bids have been submitted.

Instead, our proposals build on the substantial progress the Department has already made. We believe this process is working, and that it must be permitted to proceed.

Major progress in the next few weeks will require resolution of the labor protection question, voluntary acceptance of interim operating responsibility for acquiring railroads, and full cooperation of the Trustee, the Reorganization Court, and creditor groups.

While there are uncertainties and many complexities, the tight deadlines we have set are designed to move all parties toward solutions as quickly as possible.

Also, the tight timetable will hold to a minimum the large expense to the general taxpayer of directed service.

Recognizing that directed service is only a stopgap solution, the Department over the last several months has been taking steps to encourage and shape long-term solutions.

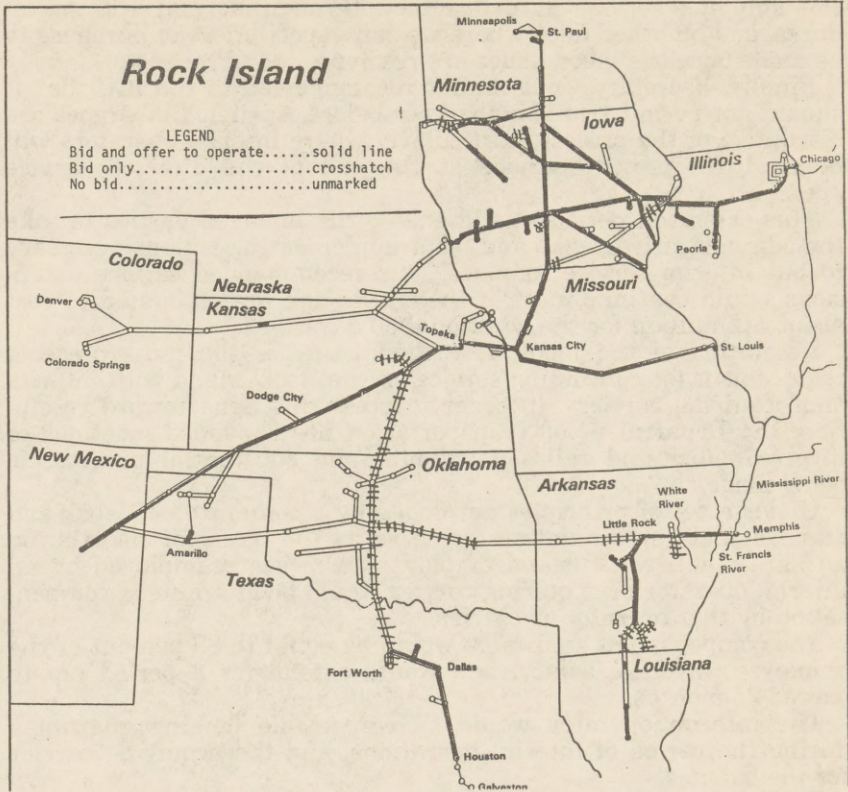
We have pursued the basic policy of seeking the transfer of essential parts of the Rock Island system to other rail carriers in order to avoid long-term Federal funding.

To this end, the Federal Railroad Administration has, using the Department's authority under section 401 of the 4-R Act, been meeting with railroads who have an interest in acquiring facilities of the Rock Island Railroad.

As a result of our request for firm purchase orders, 18 parties have expressed interest in acquiring and operating portions of the Rock Island, with bids covering 88 percent of Rock Island traffic, and 65 percent of its track.

The map before you indicates the level of interest on different lines, and a copy of this map is appended to my testimony.

[The map follows:]



Mr. JOHNSTON. In order to maintain service during the transfer period, we have proposed that prospective purchasers become interim operators at the termination of directed service orders on the Rock Island.

In those cases where the prospective purchaser indicated a willingness to provide such interim operations, the lines are shown in green on the map [indicating]. Where the bidders prefer to operate only after acquiring the property, the lines are shown in orange [indicating]. The red lines indicate that no bid was received—although we are continuing to work with certain railroads to cover major traffic points on those lines.

Our objective is to install interim operators to provide service on the green and orange lines, and to essential service points on other lines by April 1.

To assure an orderly transfer of most service—and to provide time for critical labor negotiations, and the enactment of necessary labor protection legislation—Secretary Goldschmidt has made the following recommendations to the Interstate Commerce Commission:

The ICC should cancel its February 22 embargo of incoming traffic and continue full directed service until March 2.

Second, the ICC should maintain directed service for 30 days after March 2 on lines for which offers of purchase have been made. It should also assure that service will be continued to specific locations on other lines where there is a need to continue essen-

tial shipping service as determined through normal ICC procedures, and on other lines where we can expect offers of purchase to be made once the labor issues are resolved.

Finally, Secretary Goldschmidt recommended to the ICC that it should not permit traffic embargoes before April 1. Embargoes are disruptive of the process, particularly where interim operators will be ready to provide service at the end of the directed service operation.

This extension period should enable the involved parties to take the administrative, legal, and labor-implementing actions necessary to put interim service in place. Our recommended service extensions would continue most of the traffic and are estimated to cost about \$12 million for the additional 30 days.

Resolution of the labor protection issues is the most pressing requirement for continuing service on the Rock Island with interim and acquiring carriers. In order to press this issue toward resolution, the Department of Transportation has convened meetings of involved labor and railroad officials, and substantial progress is being made.

Under a set of principles developed by a committee of labor and management representatives to serve as the basis for negotiating an agreement, Rock Island employees who are reemployed by an interim operator or acquiring carrier would be guaranteed compensation by that operator or carrier.

The compensation guarantee would be equal to 80 percent of the employee's average salary, and would extend for a period not to exceed 36 months.

The interim operator would be responsible for the guarantee during the period of interim operations, and the acquiring carrier for the balance.

Employees not hired by interim operators or acquiring carriers would not be provided any protection under this agreement. Thus, there is a need for appropriate legislation to provide assistance to such employees. In our view, it will be extremely difficult to even begin interim operations without such legislation.

I might underscore that point, Mr. Chairman. Each of the bids we received on February 1 for further operation of the Rock Island, are contingent upon resolution of the labor issues. And while the umbrella agreement that I just referred to covers those employees who will be used by the acquiring carrier, unless the labor issue for all employees is resolved, at least some of those carriers may not be willing to move forward with their purchase.

Senator LONG. Let me ask you this. Does this involve the question of the acquiring railroads feeling that they do not need as much of a labor force to operate the segments which they would take over? Is that basically what is involved here?

Mr. JOHNSTON. No, I think it is more a question of the employees who would not be hired by acquiring carriers. In the framework arrangement, there is agreement between management and labor representatives that they would use all of the employees who are directly involved on the lines to be purchased.

That would leave the overhead employees, and of course the employees on lines that are not bid on, without protection under the acquiring carrier agreement.

Senator LONG. Well, now, as to the "overhead employees," what are you talking about? The clerks?

Mr. JOHNSTON. Those are some of the employees, yes.

Senator LONG. Because I was led to believe that one of the difficulties in trying to continue service in the Louisiana area was that they had about 100 or 200 clerks up there at Little Rock who were counting on the union to make some railroad take them. Is that part of the problem?

Mr. JOHNSTON. I think it is fair to characterize that as part of the problem, yes. Although I think no specific group of clerks or mechanics would necessarily stop the acquisitions. It is more a question of solving the overall problem in order for the bids to move forward, and for the carriers to begin interim operations.

Senator LONG. All right, go ahead.

Mr. JOHNSTON. In enacting the Milwaukee Railroad Restructuring Act, Congress provided a framework which we believe could also be desirable for labor legislation on the Rock Island.

We are in the process of developing a labor protection proposal consistent with the MRRA, discussing its elements with other agencies involved, and making adjustments appropriate to the Rock Island circumstances.

While our proposal has not been put in final form, we believe the trustees should compensate those employees displaced by service discontinuance and not hired by an interim operator or acquiring carrier.

Under normal ICC precedents, the trustees' labor protection responsibilities could be very large, but this case presents an entirely new situation.

For that reason, we would take the view that the trustee should be able to borrow federally guaranteed funds to meet his responsibilities.

Under the precedent established by the MRRA, labor protection could include up to 6 months of monthly compensation equal to 80 percent of the employees' average salary. During that 6-month period, the employee could elect to take a separation allowance based on his years of service, less any monthly compensation already provided. An employee who elected to take a separation payment would forego further compensation or protection.

The Rock Island trustee should have a ceiling on his payments to employees. It is our present view that this ceiling would not exceed \$75 million, consistent with the level of protection being assumed by the Milwaukee under the MRRA. The ceiling could be reduced as we further develop our proposal.

We are also evaluating whether the Federal Government should be responsible for providing initial monthly compensation guarantees for up to 6 months to employees who are displaced and are ultimately hired by an interim operator or acquiring carrier.

In addition, our plan would have the Federal Government offer the opportunity for retraining to employees not hired. Beyond the immediate transition period, we feel strongly that the Railroad Restructuring Assistance Act, which was submitted to the Congress last May, is essential to the longer term restructuring process.

This legislation would authorize \$1.5 billion in repayable financing for the purchase of acquisition and rehabilitation of facilities by railroads involved in restructuring.

Labor protection costs resulting from restructuring or from negotiated work rule changes would also be eligible.

The availability of this financing would facilitate the continuing interest of the greatest number of carriers in acquiring Rock Island and Milwaukee properties, and in expediting track rehabilitation to provide improved service.

I urge the Congress to enact this legislation as quickly as possible.

To conclude my testimony, Mr. Chairman, let me summarize.

We believe the process is working, and that the only tool lacking to bring it to a conclusion is that of labor protection legislation. We have urged the ICC to provide the time necessary for the parties to reach an accommodation of the complex issues involved in restructuring the railroad, and we will take all actions within our power to achieve that end.

We do not support any of the legislative proposals before you, feeling that they would simply freeze the process, thereby relieving all parties from the pressure to bring it to conclusion.

Thank you. We would be glad to respond to any of your questions.

Senator LONG. Mr. Johnson, in your testimony, you stated that the Department is developing a labor protection proposal. If this proposal requires legislation, when would such legislation be available to the committee for review?

Mr. JOHNSTON. I would anticipate very shortly, within a week.

Senator LONG. The Department has requested an additional 30 days of directed service. However, I understand that you are opposed to the legislative proposal, S. 2253, on which you are testifying, which would provide such service for 30 days.

Would you support this bill under any conditions?

Mr. JOHNSTON. To answer that, I should make clear the reasons for our support of continuation of the process, rather than legislation to freeze the process.

Our main concern is, as we move through this process, that we continue to reach points at which hard decisions get made. I think the process up to now has led in that direction—for example, by setting our February 1 deadline, we forced the railroads to come forward with their legitimate offers.

We would not want to see in place legislation which suspended the decisionmaking process. So to the extent that these proposals before you would do that, we would not be in support of them. To the extent that they were modified so that they allowed the continuation of the process, I think that could change our views.

Senator LONG. Does the Department feel that no appropriation is necessary for extended directed service?

Mr. JOHNSTON. Well, I think the answer to that question probably is more dependent on what the ICC's accountants and analysts argue.

We have not been able to satisfy ourselves that any additional money will necessarily be needed. In part, it is a question of

whether we set-aside money for the tapering off of service during an embargo period.

As I stated, we have recommended that there be no embargo until April 1. We would be prepared to use all the directed service money up until that date, since we would have in place an alternative after that date.

Senator LONG. Is not an extension of directed service as is more practical than trying to determine what constitutes essential service, as you have proposed for assessing the extent of additional directed service?

Mr. JOHNSTON. I would refer back to my answer to an earlier question. It might be simpler just to say we will keep everything in place. But even if there are some problems created by trying to make decisions now about what ought not be continued, we think that decisions ought to occur now, because getting the bids in has made clear—at least in terms of what the private sector is willing to support—where, with the exception of essential shippers, throughservice may not be needed. And we would like to see that decision made, now.

Senator LONG. Senator Kassebaum?

Senator KASSEBAUM. Yes, I do have some questions, Mr. Chairman.

One, as I understand, we are going to have markup on this bill on Tuesday, and I would feel that if there is going to be anything submitted by you on labor protection, it will be important to have it prior to that.

You have mentioned several times "freezing the process." Certainly the intent of S. 2253 was to move it, and not freeze it. Directed service 30 days at a time does simply freeze it. Taking it beyond that to give assistance it seems to me an incentive for those purchasers who have made a bid to go ahead and get that bid consummated.

In fact, there has to be, on the part of ICC, action within 120 days of that offer.

I would like to ask you, I guess, if you feel that that incentive that is offered in S. 2253 of up to not-to-exceed \$150 million in transaction assistance, is enough of an incentive? And if it isn't, what alternatives would you suggest?

Mr. JOHNSTON. As to the level of funding needed, I think I probably should let one of my colleagues address that question.

As I stated in my prepared statement, we have proposed legislation to provide not only for the Rock Island but for other restructuring activities in the future. Our estimates of what may be needed for the Rock Island are somewhat greater than \$150 million, if we look at the long term, both the rehabilitation and the acquisition needs.

Senator KASSEBAUM. \$150 million? Billion?

Mr. JOHNSTON. \$150 million.

Senator KASSEBAUM. Million.

Mr. JOHNSTON. Bill, would you like to address that?

Mr. LOFTUS. I think the Senator's question is: Is the \$150 million in your proposal necessary or helpful in spurring purchase activity?

The Federal assistance we have now available, both in loan guarantees and low-cost loans for rehabilitation, is sufficient for the Rock Island acquisition costs, and is sufficient for the 1980 rehabilitation program that could be done.

The \$1.5 billion program which the administration has proposed is necessary for the multiyear, long-term program.

I would say that it is not a question of transaction assistance at this point: It is a question of resolving the labor issue, before any of the purchasing carriers would make the total move toward a final and serious bid.

Senator KASSEBAUM. Well, I would like to ask you also, then: You stated I believe in your testimony that a large part of the cooperation—a large part of the labor program hinges on the cooperation of the trustee. And given the fact that the trustee has not participated in any of the labor negotiations, nor even wishes to be a witness here today, do you feel this is not a rather thorny part of the problem?

Mr. JOHNSTON. It certainly is. The difference between the attitude and actions of the trustee in the *Milwaukee* case and in this case is striking. And as you point out, it is potentially a critical problem.

It is one that we would hope to be able to address in our labor protection provisions. That is, in the *Milwaukee* case we were in the position of lending money to the trustee allowing him to fulfill responsibilities which he accepted for providing labor protection.

If we have a trustee who is unwilling to accept such assistance, then I think we will have to consider other alternatives for providing it.

Senator KASSEBAUM. And do you feel that you will know this soon?

Mr. JOHNSTON. We are in continuing, almost constant discussions with the trustee. I think that we will have a very clear understanding of how far he is prepared to move, or whether he is prepared to change his current position. I think we certainly have a clear understanding of his position today, and the question is whether he is prepared to reconsider it.

And if we conclude that he is in fact completely unwilling to cooperate, we will have to adjust our legislative strategy accordingly.

Senator KASSEBAUM. It has been argued that, since the Rock Island is no longer a carrier, that it is no longer bound by labor protection responsibilities under the Interstate Commerce Act.

I would appreciate your comments on that.

Mr. JOHNSTON. Well, this case, as I pointed out, is one with no precedent. I think the ultimate answer to that question will probably not be resolved short of the courts.

Our view is that the trustee does have responsibilities. The question of the legal extent of those responsibilities and the question of moral responsibility to the employees of the railroad is one that needs further definition and might be addressed in the legislation.

Senator KASSEBAUM. I have just one other question. There has been no carrier that has indicated an interest in the line between Denver and Omaha. This is an important part of not only our

transportation in Kansas but certainly in Nebraska as well. We ship 27½ percent of Kansas agricultural products over that line.

Have there been any recent developments that would indicate an interest in that line? And if not, what plans do you have to assist shippers along that line?

Mr. JOHNSTON. I think there have been some recent developments. I will ask Bill Loftus to address that. We were concerned about the lines on which there were no bids, both from the standpoint of traffic which has been moving over them, and especially from the standpoint of shippers with critical needs. We have been making a number of inquiries and efforts with other railroads to encourage them to reconsider their decisions not to bid on those lines.

Bill, can you address that?

Mr. LOFTUS. Yes. Prior to February 1, we had a meeting in Denver, Colo., of four major railroads that could serve that line.

In addition, we had a separate meeting with the Denver-Rio Grande & Western. The four railroads who could serve it would do so in such a way as to extend their service where they crossed the Rock Island Line at key points. We have identified areas of critical concern to us based on the level of shipments from certain Rock Island stations.

Again, the labor issue I think clouded the situation, and no one bid. We have continued our communications with two of the four large railroads who we think would be properly located and could well serve those lines once we are able to put together a labor protection proposal.

Senator KASSEBAUM. Thank you.

Senator EXON [presiding]. Thank you, Senator Kassebaum.

Mr. Johnston, could you expand a little bit on the comments which you made in answer to questions asked by Senator Kassebaum regarding the other interested railroads? You indicated, I believe, that you had had a recent meeting in Denver.

I believe that the Union Pacific has been at those meetings and is interested in parts of the line. Would you amplify on how well those negotiations are going? And I assume that the Department of Transportation is taking into consideration the possibilities of other roads picking up parts of the line.

Mr. JOHNSTON. We definitely are. I will again turn that over to Bill Loftus, since he has been directly involved in those meetings. But I might underscore a point that Bill made at the close of his last remarks.

In every case where we go back to the railroads and say, "Reconsider; take a look at this piece of line," the answer is: "Maybe; but it is all contingent on the labor issue." If we can resolve the labor issue, then I think we can make progress not only on the lines that are bid, but on some of the lines for which no bids have been received.

But maybe, Bill, you could follow up on that?

Mr. LOFTUS. In our discussions with both the UP and the Burlington Northern, we have expressed our concern that service is indeed necessary at the minimum between Limon, Colo., and Colby, Kans., and between Lincoln, Nebr., and Fairbury, Nebr.

Now there are other areas—Bellville to McFarland, and I believe that green spot on the map [indicating] is where the BN would buy current joint trackage. There are stations I believe on either side of that point where they could extend out to pick up service.

At other points, the Missouri-Pacific crosses the line. But in looking at traffic figures, we've focused on high production stations, both Fairbury, Nebr., into Lincoln as a coal-using utility, and Limon, Colo., to Colby, Kans., as a very major heavy grain-shipping area.

It is a question of a private-sector industry purchasing on its own volition an enterprise, or adding to its own enterprise. The expression of interest I think is real. It is just that, in making those corporate decisions, they are looking at all aspects, and one aspect is certainly the question of how they utilize Rock Island labor. They certainly are concerned that they not enter a situation where a labor problem could erupt on their overall system.

Bob Gallamore is closer to the overlay map, and I would think it might be good if he would just go through where we have bids, and the extent of those bids, covering some of the major areas.

Mr. GALLAMORE. I think the simple point to make, Senator, is that on the lines where the multiple colors appear on the map, particularly in the Illinois-Iowa-Minnesota area, and in Arkansas, we have bids from more than one railroad. Each color in effect is representative of a bid from a different railroad.

But that map illustrates the question that Senator Kassebaum is raising, because we do appear to have more bids actively in other parts of the Rock Island than we have for the line from Denver to Omaha.

Senator EXON. Would you explain the colors? Is red good or bad?

Mr. GALLAMORE. It's a traffic light system. Green is a "go." Orange is an offer from the railroad to acquire the property, but not to operate it for its own account, as yet. And red is on the lines for which we have no bids at all yet.

You can see that we have color coding [indicating] to show the different railroads which have proposed service on these various lines.

This map only shows the Rock Island lines. What it doesn't tell you is what other service is potentially available in the same area.

On the Colorado line, for example, the Union Pacific is in Limon, Colo., where the two lines cross at Colby, Kans., with a line down to its own line at Oakley. The Missouri-Pacific crosses at Mancado. The Santa Fe crosses at Courtland, and so on.

The Burlington-Northern crosses at a couple of points—Thompson, Nebr.

Senator EXON. One last question. As you know, I have only been here a little over a year now, but I have already become familiar with the ConRail problem that was mentioned in some detail by the Senator from Arkansas. We are all familiar with the railroads all over the United States which are having increasing difficulty financially.

The Rock Island of course has been in financial trouble for a considerable number of years. When the Secretary appeared before our committee for confirmation, we discussed at least in some detail—and I think you may have been there, Mr. Gallamore—an

overall plan for the Department of Transportation regarding the overall railroad industry in the United States.

We have the Rock Island problem. I assume that once that problem is disposed of, we are going to have other railroad difficulties and transportation difficulties around the United States.

Has the new Secretary of Transportation been working on an overall planned recommendation from the Department of Transportation to the Congress to solve what appears to be an ever-increasing problem with regard to the rail industry in general?

Mr. JOHNSTON. Well, if for the answer to your question you would hope for a map that would draw every line that would be federally supported, the answer would be "no." But if the question is: Do we have a strategy, are we developing a strategy for preserving the private-sector railroad system? The answer is definitely "yes."

We view the process taking place in the Midwest now, which has had its rough spots in accomplishing, as the preservation with Federal help of a strong private-sector railroad system. By going through this process, painful as it is, in a bankruptcy situation, in which you allow other railroads to express their interest to pick up the slack, and in some cases rely on Federal help to expand service, what you are doing is redrawing the map in a way that will have healthy private-sector railroads operating, rather than a large, federally supported and federally operated system such as we have on ConRail.

The other half of our strategy is the issue that this committee has already dealt with and is continuing to deal with: the question of changing the way we regulate this industry to encourage it to develop and to improve its own health.

I think those are the two parts of the process.

Senator EXON. I have no further questions.

Senator Kassebaum?

Senator KASSEBAUM. No.

Senator EXON. Gentlemen, thank you very much.

Mr. JOHNSTON. Thank you.

Senator EXON. In order to accommodate Mr. Kassel, who wishes to testify on behalf of the Iowa Department of Transportation, we will call Mr. Kassel at this time. We understand that he has another meeting that requires that he finish his testimony as quickly as possible.

So at this time, Mr. Raymond Kassel, we will be glad to recognize you for your presentation.

Welcome.

STATEMENT OF RAYMOND KASSEL, DIRECTOR, IOWA STATE DEPARTMENT OF TRANSPORTATION; ACCOMPANIED BY MAURICE VAN NOSTRAND, DIRECTOR, MARKETING RESEARCH, AGRI-INDUSTRIES, DES MOINES, IOWA; AND DEAN KLECKNER, IOWA FARM BUREAU

Mr. KASSEL. Thank you very much, Mr. Chairman. It is a pleasure to be here.

I would like to introduce some of the people of the panel with me. We have Maurice Van Nostrand from the Agri-Industries, and I have Dean Kleckner, president of the Iowa Farm Bureau, and

Dean will have a few brief statements to make about where we are. Also in the audience we have Ed Williams from the Central Iowa Power Co., Cedar Rapids; We have Bob Krause, who has now recently been appointed as Mr. Goldschmidt's representative out in Region VII in Kansas City, with us. Mr. Krause is very active in the Iowa program and knows where we're at.

In the interest of helping you save time, I am going to very briefly summarize the highlights of my written testimony and the vast appendix that I have attached to it.

Senator EXON. Without objection, your entire statement has been accepted into the record, and we would appreciate your summary.

Mr. KASSEL. The one map you see, which almost speaks for itself, shows you the major shippers on the Rock Island Railroad System in Iowa. We have clearly identified those by various symbols. This particular map [indicating] is not in the appendix, but there is a series of maps which give the same story.¹

What you get out of that is: We show that we have 32 unit-train shippers that ship grain in Iowa, and we have 171 other grain shippers in the State that are significant in the amount of grain they ship on the Rock Island.

We have 30 large industries that are served by that Rock Island System that employ over 14,000 people in our State, which gives you an idea of the importance of it.

The Rock Island System moves approximately 100 million bushels of export grain from Iowa each year, and moves 28 percent of all of Iowa's rail traffic.

The importance of this system came home to us very quickly and very clearly when we had the interruption of service during the strike. We documented very clearly and quickly that we had over \$300,000 a day increased transportation costs with the loss of that service on the Rock Island System. That is over \$100 million a year in added, real, hard dollars of transportation costs.

More importantly, we lost \$165 million of export sales due to fertilizer movement. And one of the points I have to make at this time is: Fertilizer is moving into the State now, and has to move into the State now, for the planting of our crop this coming season. And if that fertilizer is not there, we will have a 25-percent reduction in agriculture output of our economy, and of course that also has a reduction that goes all the way through the system.

So we are especially concerned that enough time exists for the smooth transition of the ownership and operation of the Rock Island. And to this end, we propose that Congress direct the ICC to continue directed service, which is set to expire March 2, for a period of at least 60 days on the present basis. This gives a chance for the transition that has been clearly identified by our Senators from Iowa and some of the other statements that have already been made as to the problems that are involved in that transition period.

We do know that there is a means of continuing that service through voluntary bids for temporary operating authority, which would not require the settlement of outstanding issues on the lines. Many railroads naturally are reluctant to commit themselves to

¹Due to the fact the maps were in color, reproducing them would lose their value, therefore they are in the committee files.

this expensive service—but I think that issue must be settled before the final transfer can be implemented.

This really deals with settling the question of labor protection payments for nonretained workers which, perhaps, is the major barrier; the transfer of the unexpired railroad equipment lease because these railroads that take this over must have equipment; and finance the purchase and rehabilitation of the lines, and the availability of adequate Federal aid for those railroads to meet the high acquisition costs.

As you are maybe aware, we do have a very unique branchline upgrading program. We are talking to the companies who have been interested in coming into Iowa, and we want to continue this program with them.

To that end, we now have about \$10 million more available for the coming year. Our legislature has continued to support this program. We have upgraded over 800 miles of branchlines in our State at a total cost of about \$35 million.

The output of that has been very significant. And in the appendix you will see some of the payoffs that have come from that. It has made a difference of a minimum of 2 cents a bushel more to our grain raisers at the elevator. They get 2 cents more a bushel. When you talk about millions of bushels of grain, it is significant to our economy. The payoff has been very great.

I think it is important that we do finance the available successor, from the State, the Federal, and the shippers' levels. I think all three parties have to be involved, along with the railroads.

Therefore, we would recommend that Congress amend section 5 of the Railroad Revitalization and Regulatory Reform Act of 1976 to allow the use of section 505 redeemable preference shares to be used for the purchase of the Rock Island.

As we talked earlier, I think the major barrier is to make sure we adequately protect labor. That has to be involved by the successor carrier, as well as those that can be handled by the carrier.

I propose that, in order to overcome this barrier, that we may look at a labor protection provision for the Rock similar to what has been provided for the Milwaukee, or we set some sort of a definite limit so it is not wide open, and we can handle that and rationalize what that cost is. That cost undoubtedly should be eventually borne by the trustee and the assets of the Rock Island Railroad, rather than being a burden to the Federal Government, or to the carriers that take over, or to the employees themselves.

And for this reason, we very much support S. 2253.

In summary, I would like to just briefly make three points that need attention:

- Continue the uninterrupted service;
- Funding of the DSO and the restructuring;
- Labor protection must be resolved.

Then I think we can successfully restructure the Rock system in the Midwest. I am sure that the figures you see there [indicating] as an example of Iowa—I mean, you look at the tons originated and the costs—are similar to the States in the Midwest such as Minnesota, Kansas, and the rest of the States that have been served by the Rock.

Obviously, we do not have the time to deal with that. I would like at this time to allow, if you would, Mr. Dean Kleckner to make a few remarks, and then we will have Maurice Van Nostrand to conclude the panel.

Mr. KLECKNER. Thank you, Mr. Chairman, Senator Kassebaum.

We recently formed a transportation user group, TUG, in Iowa, composed of agricultural shippers—all shippers, agricultural, ag-related shippers, industrial and manufacturing. They selected me as chairman of this group.

We have met frequently with the Iowa DOT, with Mr. Kassel and his staff. We support what they are saying here today. It makes sense. We think it is an obvious solution, temporarily, to this problem.

We think directed service must continue, but these deadlines have to be met. It just can't be put off forever without being resolved. We think the bill that is being discussed does that, so we support it.

One last statement about the cost of lack of rail transportation in our State. I am a farmer. Part of the Rock goes near my farm and near my elevator. My hometown co-op is on the Milwaukee line, but one town away is the Rock.

When they can bid rail transportation versus truck bids, there's 20 cents a bushel difference—20 cents. That just shows the importance of continuing this, and not letting the directed service stop. They need to know that they can keep bidding, rather than living almost day-to-day. When they are in doubt and of course when managers are in doubt they don't bid to the farmers.

We think this is very, very important and we support it.

Mr. KASSEL. Mr. Kleckner reminded me of one thing. That is, I forgot to mention that we have arrived at our position not only with the transportation user groups that Mr. Kluckner represents, but we have had hundreds of open public meetings in our State with our shippers, and they are firmly supporting the direction we are going. They consistently make the point: We support the Iowa DOT; we're looking for the Iowa DOT to provide the leadership out of this situation and they are willing to follow us.

Along that line, on the last page of the appendix of the statement I gave to you is a map entitled "Iowa's Minimum Rail Service Needs." This is a map where we've looked at those lines that have to be abandoned in our State because they're not economical. Our shippers, when we gave this to them, are making constructive suggestions to change it. But basically, they are supporting that system as being reasonable to provide the needed service for Iowa; and they see that the Rock is a very integral part of providing essential service across the State.

Maurie?

Mr. VAN NOSTRAND. Senator Kassebaum, Senator Exon, I appreciate being given this opportunity to speak to you.

My name is Maurie Van Nostrand. I am director of market research of Agri Industries of West Des Moines, Iowa. Agri Industries is a 76-year-old regional grain marketing cooperative. It is owned by 325 country elevator cooperatives, most of which are in Iowa, although we have members in Minnesota, South Dakota, and Louisiana.

These 325 country elevator cooperatives, which have 440 grain-loading stations, are owned by 130,000 farm families. Agri Industries has an 8.4 million bushel grain terminal in Des Moines, two soybean processing plants, three barge-loading terminals on the Mississippi, and an export terminal in Lake Charles, La.

Agri Industries supports in its entirety the position taken by Iowa's Department of Transportation on this and other railroad issues. We consider ourselves lucky to have a State DOT with the knowledge and professionalism continually demonstrated by Director Ray Kassel and his fine staff.

While Agri Industries and its member elevators have made their own independent analyses of the viability of the various segments of the railroad lines serving Iowa, we agree on almost every point with our DOT, and we share their optimism that railroads can be made to work in Iowa.

While concurring with Director Kassel's statement, I would like to take this opportunity to make a few other points we consider important.

Agri Industries markets almost one-third of the corn and soybeans in our State that leave the community in which they are raised. In the fiscal year ending August 31, 1979, we marketed 210 million bushels of corn, and 70 million bushels of soybeans.

Of this amount 70 million bushels moved by barge down the Mississippi River to New Orleans ports. The balance in most cases moved over one of the five railroads serving Iowa. Approximately 70 percent of the grain we handled went into export channels.

Our company operates through leases 2,350 grain hopper cars. Our members, in addition, have 4,000. I think this makes us the third largest operator of grain hopper cars in the Nation.

In 1979 we saw a near-collapse of rail transportation in Iowa. While our State raised the biggest crops in history, we saw a continued deterioration in the capability of Iowa railroads to move that grain. Turnaround times on our trains to the gulf, which we have operated since 1973, which average 14 to 16 days in 1974 and 1975, fell to 22 to 24 days in 1979.

This declining ability of our railroads to move grain caused great economic distress. On the average, in 1979, our member elevators, and I think it is true of the other elevators as well, bought and sold grain from 10 to 12 cents under the market solely because our transportation system denied us access to the most attractive markets.

For example, our company out of its Des Moines terminal, sold 10 100-car trains of corn to be loaded out of Norfolk, Va., 9 cents less to us than we could have received had we been able to tap the best market, which almost consistently in our State is the gulf. But our only outlet at the time was via the Norfolk & Western Railroad, which required that those cars not leave their line.

I must emphasize the frustration which comes from developing an effective marketing organization which knows what the markets are all around the world at any given time, and then being forced to sell 3½ million bushels of corn at 9 cents a bushel under the best bid solely because rail transportation couldn't handle the load.

Speaking for Agri Industries, and I think the rest of the grain shippers in Iowa, our people do not expect other Iowans or other

Americans to pay any of the cost of our rail service. Iowans can and will pay all the reasonable cost of the rail service provided them.

Prior to accepting my present position with Agri Industries last June, I headed the Iowa State Commerce Commission for 8 years. During half of that period, prior to the creation of Iowa's DOT, our commission had the responsibility for State regulation of railroads, both as to service and rates.

From that experience, and working with railroads in one capacity or another for three decades, I have concluded that no railroad has lost money serving Iowans. Unfortunately, our State has been served by railroads with wide-flung systems that included many areas and functions that lost money.

Given a railroad system with the kind of cost-accounting that will identify the costs of moving various commodities on various routes, and with the commitment to serve our people in a modern, aggressive manner, the rates paid by Iowans can provide a level of revenues that will prove attractive to investors.

We will pay our way. An extension of the directed service order on the Rock Island is vital at this point. We are fortunate in that, in Iowa, we have developed an active interest on the part of several railroads in purchasing almost all of the Rock Island Lines in Iowa. But there has been inadequate time for those potential buyers to generate the mass of data to justify the huge bite represented by a purchase of that magnitude. This real interest on the part of other railroads, and the new optimism of our people, will be jeopardized by cessation of directed service at this time.

We are confident that with this extension, and with the things that are going on with the Milwaukee, and with the strong leadership of our DOT, that we can come out of this mess at the end of 1980 with a much stronger system than we have seen for 2 or 3 years, and hopefully in 3 or 4 years have the kind of railroad system that our people deserve.

I would like to make one last point. Since President Carter suspended grain sales to Russia on January 4, the off-the-farm movement of corn has almost stopped. This decline in marketing was probably desirable, for it provided an opportunity to eliminate the horrible port congestion which existed at the beginning of the year.

For example, there were 3,500 loaded barges in the New Orleans Port the evening that the President made that speech. But what that off-the-farm movement stopping means is that much more of our crop must be moved in the next few months than would otherwise have been necessary.

The cessation of service for even a short period of time will make far more certain a jamming up of grain within the marketing system sometime during the balance of this marketing year.

We strongly support S. 2253. We respectfully urge a continuation of directed service on the Rock Island for sufficient time to consummate the sales of Rock Island property to railroads that can provide our people with the service they deserve.

Thank you for your kind attention.

Senator EXON. Thank you very much.

I have one question for you, Mr. Van Nostrand, because I know you have had a lot of experience in this particular area: You have indicated your belief that if we provide more time, the Rock Island can become a viable railroad once again.

Do you think that the 60-day extension which has just been requested here would be sufficient time to make the rather extensive arrangements that need to be made to keep the Rock Island going in Iowa and the other States that we are concerned about?

Mr. VAN NOSTRAND. Well, it is hard to get an exact date from those railroads which have expressed an interest to acquire, and it may be necessary for more time on the end, but at this point it would appear that that would probably get the job done.

Senator EXON. But to be absolutely frank, if we go for the 60-day extension, it is likely that we are going to be—at least there is a strong possibility that we are going to be—asking for another 30-, 60-, or 90-day extension, in your opinion?

Mr. VAN NOSTRAND. I don't really think so. In conversations last week, I think the package will be put together by the most probable railroad acquirer by the end of this month, and I think that the money can be raised, the funding can be handled, the transfer can be made, assuming no obstacles which we now can't see so we can have an orderly transition of that railroad within a 60-day period.

Senator EXON. So it is your belief that the 60 days would provide adequate time to get it all together?

Mr. VAN NOSTRAND. Yes, sir.

Senator EXON. Mr. Kassel, in your testimony, I believe that I understood you to say that there has been \$35 million spent on road upgrading in Iowa? Is that correct?

Mr. KASSEL. That is correct.

Senator EXON. And that is from State funds?

Mr. KASSEL. That is from State, shippers, and the railroads themselves. It is a three-party arrangement. Approximately one-third of the upgrading cost comes from the State, one-third from the shippers, and one-third from the railroads.

These are interest-free loans from the shippers and the State, and we get paid back on additional traffic per car that is generated over those lines.

We have not had one of those lines fail to make the payback schedule at this point. Some are paying back faster than we originally anticipated. The traffic generated much quicker since we are able to operate the trains at 25 miles an hour and keep the cars on the track.

Senator EXON. I have one question of you, Mr. Kleckner. In your testimony, you indicated, if I understood you correctly, that there was a considerable difference in the amount per bushel charged by railroads operating in your particular area relatively close together? Did I understand you correctly?

Mr. KLECKNER. I may have misspoken. What I meant to say was that the elevators will bid—I know of elevators that bid around 20 cents a bushel more when they have rail, than when there is a shortage of cars. If there is a shortage of cars, they have to figure on trucks getting the grain out at 20 cents a bushel more.

Senator EXON. Senator Kassebaum?

Senator KASSEBAUM. No questions.

Senator EXON. Gentlemen, thank you very much. We appreciate your testimony.

[The statement follows:]

STATEMENT OF RAYMOND L. KASSEL ON BEHALF OF THE IOWA DEPARTMENT OF
TRANSPORTATION

My name is Raymond L. Kassel, and I am Director of the Iowa Department of Transportation (Iowa DOT). I was born in Mason City, Iowa, in 1926, and graduated from the University of Colorado in 1950 with a Bachelor of Science degree in Civil Engineering. I received a Master of Engineering degree in Transportation Engineering from Iowa State University in 1972.

I first joined the Iowa State Highway Commission in 1951 as an inspector in Decorah and was later transferred to the Ames, Iowa, central office to fill various positions until being named Deputy Chief Engineer of Planning in June, 1972.

In 1975, I was named as Director of the Planning and Research Division, Iowa Department of Transportation. In heading this Division, I assumed the responsibility for the planning function of all modes of transportation embraced by the Department. I was confirmed as Deputy Director, Iowa Department of Transportation, on April 5, 1977. After a nationwide search, I was named Director of the Iowa Department of Transportation in April, 1978.

I currently am a member of the Policy and Executive Committees, and the Chairman of the Planning Committee, of the American Association of State Highway and Transportation Officials (AASHTO); a member of the National Academy of Science's Transportation Research Board Group I Executive Council, the Iowa Engineering Society, the American Society of Civil Engineers, the Executive Committee of the Mississippi Valley Association of State Highway and Transportation Officials, and the American Public Works Association.

I am the sponsor of all the direct exhibits and appendices attached hereto offered by the Iowa Department of Transportation. These exhibits were prepared by me or under my supervision and direction, and are true and correct to the best of my knowledge and belief.

SUMMARY

The solution of the Midwest railroad problem in general, and the reorganization of the Chicago, Rock Island and Pacific Railroad system in particular, depends on continued coordination and cooperation among the Congress, the Bankruptcy Court, the Interstate Commerce Commission (ICC), the Federal Railroad Administration (FRA), state governments, various railroads, and the shippers. These jurisdictions must jointly develop measures which will ensure the maintenance of adequate service over essential Rock Island lines and provide for a smooth transition from current directed service through the implementation of a final plan for reorganization.

The Iowa Department of Transportation (Iowa DOT) is especially concerned that enough time exist for a smooth transition of ownership and operation of Rock Island lines to take place. To this end, we propose that Congress direct the ICC to continue current directed service, which is set to expire on March 2, 1980, for a period of at least 60 additional days on the present basis plus to extend service on lines for which bona fide offers of purchase have been received by the Rock Island Trustee and certified to the ICC by the Secretary of the U.S. DOT until purchase can be completed and interim operations by the acquiring carriers can commence. We could accept a proposal that has been made for an overall extension of 30 days if transitional directed service on "purchase lines" was guaranteed to follow. Extension is needed in order to provide all parties the time necessary to overcome major outstanding issues which are currently barriers to a timely transfer of lines to successor carriers and to avoid economic chaos in the Midwest and Iowa in particular.

We would also suggest that Congress act to aid this transfer process by: (1) Cooperating with other interested parties in the development of selection criteria for successor carriers. (2) Providing \$150 million in additional funds appropriated under Title V of the 4R Act and authorizing the use of funds under Section 505 by successor carriers for the express purpose of acquiring essential Rock Island railroad lines. (3) Developing and enacting a labor protection payment provision for displaced Rock Island workers.

INTRODUCTION

The Iowa DOT's position with regard to the reorganization of the Rock Island has involved a great deal of input from Rock Island shippers and Iowa citizens. Initially, the Iowa DOT supported the railroad's position that it could be reorganized successfully. However, no plan or reorganization was forthcoming from the Rock Island's Trustee for nearly four years. Thus, the Iowa DOT began to reassess this position. We came to the realization that government should not place itself in the position where it would become necessary to create a "Midwestern Conrail," or to accept any solution to the collapse of the Rock Island (or Milwaukee Road) which would require massive and continued public subsidy. The Rock Island Trustee's subsequent efforts identified a viable railroad system but could not provide for the financial reorganization of the corporation. Therefore, the Iowa DOT has developed a position regarding reorganization which stresses the orderly transfer of major Rock Island traffic regions to alternative carriers and the liquidation of the railroad as a corporate entity.

To this end, we have supported directed service over essential segments of the Rock Island system. This service, which had never been applied on such a large scale before, has worked surprisingly well. Difficulties which have arisen have not been insurmountable. The Kansas City Terminal Railway Company, after a short gearing-up period, has done an exceptional job of providing service over the Rock Island's deteriorated track system. In some cases service has improved over that provided in recent years by the Rock Island itself. But more importantly, directed service has prevented large-scale economic loss to the Midwestern economy and the disintegration of the viable portions of the railroad, and has provided the much needed time for the restructuring process to begin in earnest.

IMPORTANCE OF THE ROCK ISLAND TO IOWA'S ECONOMY

The Rock Island system plays a major role in Iowa's transportation picture. A large percentage (27 percent) of the Rock Island's total system mileage is located in Iowa. The system serves both the principal grain-growing and industrial areas within the State. For example, important branchlines located in the northwest and central quadrants of the State serve Iowa's major crop-producing counties. These counties are also major termination points for inbound fertilizer shipments. Rock Island lines serve 32 multiple car grain loading facilities. The system serves 171 other grain elevators in Iowa. Rock Island lines, particularly the Council Bluffs to Davenport mainline and other lines in southeastern Iowa, also serve 30 major industrial shippers in 18 cities directly employing 14,200 persons. In 1978, Rock Island system lines in Iowa carried 28 percent of all rail traffic originating and terminating in Iowa, including 26 percent of rail originating farm products and grain. Appendix A contains further information pertaining to Iowa's economy and rail transportation system.

IOWA DOT TRANSPORTATION POLICIES AND PROGRAMS

The primary purpose of the Iowa DOT rail effort is to identify and help to maintain essential rail lines in the State to assure that complementary and coordinated transportation by rail is available to serve Iowa's citizens. Established priorities provide a basis for planning and programming rail transportation projects administered by the Iowa DOT. They also help to determine the Iowa DOT position as to applications for abandonment of rail service and rail carrier mergers. Federal planning efforts are primarily in the area of national systems, while rail companies are primarily concerned with their own systems. Therefore, the Iowa DOT coordinates transportation needs of the State and represents the interest of its local communities and citizens in the development of a viable and national rail system. The Iowa Transportation Policy, enacted on January 1, 1979, (see Appendix B) provides the cornerstone for the Iowa transportation planning efforts.

Iowa's concern for the condition and future of the State's rail system and its goal of providing financial assistance to those lines which can be self-supporting is well-evidenced by the State's unique Branchline Assistance Program. Since 1974 the State, shippers and rail carriers have negotiated contracts for the upgrading of 832 miles of branchline at a total cost of \$35 million.

State legislation gave the Iowa DOT the necessary flexibility and latitude to develop a sound program. The State provides approximately one-third of the project rehabilitation costs, the shippers one-third, and the railroads one-third. The railroads repay the shippers based on the amount of traffic generated by the line. The

State is repaid once on the same basis and, thereafter, the monies are placed in a "rollover" account for future projects on a grant, rather than a loan basis.

The results of the program are typified by one notable Rock Island upgrading project. Known as the "Iowa Falls Gateway Project," (see Appendix B), 302 miles of branchlines located in northwest and central Iowa have been and are currently being rehabilitated. In calendar year 1978, there was an increase of 4,040 carloads of grain and other products shipped and received on the line, as compared to the prior three-year average, an increase of 43 percent.

The Iowa Program has been workable and effective, it arises from Iowa's need for good rail transportation services, and it exemplifies the State's concern for a sound rail transportation system in Iowa and the nation. The Iowa Program provided the model for the new national program enacted by Congress as the Local Rail Service Assistance Act of 1978.

One of the Iowa DOT's most recent projects was the development of a preliminary Minimum Essential Rail Service Needs Plan (see Appendix B). With two of Iowa's major rail companies, the Rock Island and Milwaukee Road, undergoing imminent reorganization, it was imperative that the Iowa DOT maintain a clear understanding of our State's specific rail needs. Service needs, rather than current ownership or operational patterns were considered in the development of this preliminary map. As expected, comments from shippers, industrial groups, railroads, and citizens have been heavy and will be used in developing the final plan.

The Iowa DOT has continued to participate in the process of reorganizing the Rock Island, in fact acting as the lead agency for most of the 13 states served by the Rock Island. We have submitted testimony to all ICC hearings regarding the Rock Island. We have participated in all Bankruptcy Court hearings.

PROPOSED DIRECTIONS AND POLICY

The Iowa DOT has supported the Interstate Commerce Commission's efforts to date in coordinating the activities of other parties toward bringing about a needed restructuring of the Midwestern railroad network. However, we disagree strongly with the ICC's decision of January 31, 1980, to not extend directed service over essential lines of the Rock Island beyond March 2, 1980. We believe that there are compelling reasons for such extension.

DIRECTED SERVICE BASED UPON TRANSITION

Most importantly, we are convinced by recent events that the ICC's decision will not provide adequate time to allow all parties involved to address the major issues which stand in the way of a successful reorganization. Extension of directed service is essential to overcome these issues. The Commission appears not to have considered the likelihood that additional time beyond March 2 will be needed for temporary operating authority to be implemented on major portions of the Rock Island. This despite its prior recognition of timetable needs at the time it acted to extend directed service until March 2, 1980. Though voluntary bids for temporary operating authority would not require the settlement of outstanding issues on lines, many railroads are naturally reluctant to commit themselves to expensive interim service in an unsettled environment. Issues which must be settled before final transfer can be implemented include labor protection payments for non-retained workers (perhaps the major barrier), the transfer of unexpired Rock Island equipment leases, financing the purchase and rehabilitation of the lines, and the availability of adequate federal aid for railroads to meet the high costs of acquisition and operation.

As these unresolved issues would seem to place major roadblocks in the way of expedient transfer of operation of essential Rock Island lines, the Iowa DOT believes that major adjustment in the current directed service time schedule is needed. Directed service operations must be based on the eventual transfer of lines to successor carriers rather than arbitrary deadlines.

In his letter of November 19, 1979, U.S. DOT Secretary Neil Goldschmidt indicated that the directed service period through March 2 would be a period which would give carriers an opportunity to "study Rock Island traffic potential and how it would complement their own operations." A number of bona fide offers by interested carriers were submitted in early February for purchase of major portions of the Rock Island system. However, the assessment and offer process, which had begun on December 19, 1979, became much broader on January 25, 1980, when Judge Frank McGarr's decision not to accept the Rock Island Trustee's Core Plan was made public. In effect, 45 days of the initial directed service and assessment period were "lost" to carriers interested in acquiring and operating Rock Island segments within

the Trustee's proposed core system. These segments include all of the essential Rock Island lines within Iowa.

For these reasons, the Iowa DOT proposes that the existing directed service operations (under the supervision of the Kansas City Terminal Railway) be extended for a period of at least 60 additional days. Directed service should be further extended, on those lines for which bona fide offers of purchase have been received by the Trustee and as certified to the ICC by the Secretary of the U.S. DOT, until purchase can be completed and operations by purchasing carriers and commence. Additional authority will be needed by the ICC to extend directed service beyond current statutory limits. Congress should authorize such authority to enable the ICC to deal with the liquidation and reorganization of such a major railroad.

THE NEED FOR CONTINUOUS, RELIABLE SERVICE

The Iowa DOT is further concerned that reliable directed service be maintained over essential Rock Island system lines until transfer can be completed so that major disruptions to the Midwestern economy can be avoided. As was noted previously, Rock Island system lines in Iowa are especially vital to the State's agricultural and industrial economy. Cessation of directed service over essential Rock Island lines in Iowa would cost shippers at least \$300,000 per day in additional direct and indirect costs. While this figure represents only Iowa's losses, shippers in other states served by the Rock Island system would likely incur similar costs.

We are particularly concerned that rail service be continued during the next three months. Although the bumper harvest of last autumn has passed, grain shipping can be expected to continue at heavy levels. It is especially vital to the agricultural economy of Iowa and the Midwest that reliable service be available during March and April. During those months, approximately 4.6 million tons of fertilizer ingredients will be shipped to blending points in Iowa and ultimately to farmers for use in spring planting. Over two million tons (44 percent) of those inputs require rail delivery—500,000 tons (12 percent) to locations on Rock Island lines alone. There is no practicable alternative to rail shipment of these bulk commodities, many of which come from as far away as Saskatchewan and Florida. Loss of these shipments might well result in decreased crop yield of up to 25 percent and lost farm income of \$125 million to Iowa alone this fall. Iowa farm exports, which covered over 5 percent of the U.S. foreign petroleum import bill in 1978, could fall by \$160 million as a result. These losses are in addition to the previously mentioned increased costs to shippers.

To meet the obvious need for continuous, reliable rail service on the Rock Island system, the Iowa DOT supports extension of directed service as outlined above, plus the necessary additional funding and authority to the ICC as needed to carry out the extension.

CRITERIA FOR SELECTING SUCCESSOR CARRIERS

The Iowa DOT also believes that it is essential that all parties involved in the Rock Island reorganization process develop criteria for selecting carriers to operate portions of the Rock Island's system. In previous submissions to the ICC and U.S. DOT, we have stated that lines should not necessarily go to the "highest bidder," but that transfer should further the public's interest in developing a strong Midwestern rail network. To this end, the Iowa DOT has proposed several selection criteria:

Successor carriers must be interested in operating existing Rock Island traffic subcores intact rather than in acquiring lines in a piecemeal fashion. The Iowa DOT supports keeping intact the Rock Island's "heartland core."

Preservation of access to product markets should be stressed so that economic disruption can be minimized. Improvement of the Rock Island's Minneapolis to Kansas City corridor is essential for Iowa grain shippers.

Successor carriers should have the financial and management capabilities necessary to rehabilitate and operate major portions of the Rock Island's deteriorated system, including through use of available public assistance funds where appropriate.

Competition must be insured within major traffic regions where there is an adequate traffic base to support more than one carrier.

Management must be willing to cooperate in ongoing state and federal railroad restructuring programs. The Iowa DOT is particularly concerned that successor carriers will be willing to continue the Rock Island's record of participation in the State's branchline improvement program.

SUFFICIENT PURCHASE FUNDS FOR SUCCESSOR CARRIERS

It is important that sufficient financing be available to successor carriers to allow them to purchase essential Rock Island lines without assuming injurious debt load. To this end, the Iowa DOT recommends that Congress amend Section Five of the Railroad Revitalization and Regulatory Reform Act of 1976 (4R Act) to allow the use of Section 505 redeemable Preference Share funds to be used for purchase of Rock Island railroad lines. We further recommend that \$150 million be available for expanded funding of Section 505 programs at this time. We would also suggest that the U.S. DOT develop criteria for equitably distributing these funds to applying carriers, perhaps by limiting the proportion of total Section 505 funds which can be made available to any individual railroad, including funds already made available.

ADDRESSING THE PROBLEM OF LABOR PROTECTION

Perhaps the major barrier to a timely restructuring of the Rock Island is the problem of labor protection payments to workers who are not initially retained by successor carriers. The Federal Railroad Administration (FRA) recently estimated that as many as 2,600 of the Rock Island's 8,400 existing employees (or about 31 percent) might not be retained by successor carriers given the existing bids for purchase of lines. Although this may be a pessimistic assessment, it could represent a significant problem for prospective purchasers if they are required to employ or provide labor protection payments to excess workers.

The Rock Island's Trustee may, under liquidation, claim no obligation to cover labor protection obligations, which could amount to as much as \$68 million given the FRA's assessment of non-retained workers and prevailing labor protection standards. Purchasing railroads should not be asked to assume such a burden. To do so will burden the viability of otherwise profitable rail lines beyond all reasonableness at the expense of the shippers and the public interest. We realize that negotiations are currently in progress to address this issue, but propose that in order to overcome the barrier of labor protection, Congress enact a labor protection provision for the Rock Island as it did for the Milwaukee Road. The financial responsibility should remain that of the Rock Island Trustee. To assist in clearly establishing this responsibility, and to ensure that the Trustee has the funds to meet labor protection payments, Congress should set limits and provide financial assistance for such payments as it did in the Milwaukee Road Restructuring Act. To insure repayment Congress should establish the priority of such debt as falling after the cost of administration by the Trustee, after the tax responsibilities of the trustee and behind the interest of the secured creditors, but coming ahead of all other credit and debt interests. However, in view of the disruption that a corporate liquidation represents to the long term careers of Rock Island employees, Congress should authorize "vesting" seniority rights greater than five years with individual employees and assure them of some priority in seeking reemployment in the rail industry. Reemployment will minimize the personal impacts of this reorganization on individual employees and reduce the total cost of labor protection.

CONCLUSION

Only through continued coordination and cooperation among diverse interest can a solution to the current Midwestern rail problem be reached. The Iowa DOT is especially concerned that those parties be given enough time to work out the major barriers to solution that still exists. As always, the Iowa DOT believes that the ultimate solution to the Midwest railroad problem lies essentially within the private sector, but that government has an important role to play in facilitating restructuring and preventing economic disaster. We appreciate this opportunity to submit testimony before this body.

APPENDIX A.—IOWA ECONOMIC AND RAIL TRANSPORTATION BACKGROUND

IMPORTANCE OF ROCK ISLAND TO IOWA

	Iowa	System
Miles	1,591	6,960
Employees	1,043	8,406

IMPORTANCE OF ROCK ISLAND TO IOWA

Commodity	1978 tons	
	Originated	Terminated
Farm products.....	¹ 3,248,681	1,193,659
Chemicals and allied products.....	² 232,604	972,422
Food products.....	2,241,858	639,457
Nonmetallic minerals except fuels.....	1,094,441	1,193,659
Other.....	998,582	1,362,046
Total.....	³ 7,816,166	5,361,243

¹ Includes approximately 100 million bushels of exports grain.

² A disruption of fertilizer movement on the Rock this spring could result in as much as \$125 million in lost Iowa farm income and \$160 million in lost exports.

³ Represents 28 percent of all rail in Iowa.

Number of multiple car grain facilities.....	32
Storage capacity—multiple car (in million bushels).....	46.9
Major industrial shippers.....	30
Employment—major shippers.....	14,200

IOWA RAIL MILEAGE

	Roadway miles	Percent	
		Iowa roadway miles	Comapny system in Iowa
Class I Railroads:			
Chicago & North Western Transportation Co. (includes Des Moines and Central Iowa Railway and Ft. Dodge, Des Moines and Southern Railways)	2,286	32	24
Chicago, Rock Island & Pacific R.R. Co.....	1,591	22	27
Chicago, Milwaukee, St. Paul and Pacific R.R.....	1,499	21	17
Burlington Northern, Inc.	805	11	4
Illinois Central Gulf R.R.....	670	9	8
Norfolk & Western Railway Co.....	168	2	3
Atchison, Topeka & Santa Fe Railway Co.....	20	(¹)	(¹)
Union Pacific R.R.....	2	(¹)	(¹)
Class II Railroads:			
Central Iowa Railway	64	1	100
Davenport, Rock Island & Northwestern	35	(¹)	64
Iowa Terminal Railroad Co	35	(¹)	100
Cedar Rapids & Iowa City Railway.....	25	(¹)	100
Waterloo Railroad Co.....	15	(¹)	100
Des Moines Union Railway.....	4	(¹)	100
Iowa Transfer Railway.....	(²)	(¹)	100
Total	7,219	100	.....

¹ Less than 1 percent.

² Less than 1 mile.

Source: R-1 Reports by rail companies to the ICC.

MAJOR IOWA CROP DATA

	1978	1977	1976	1975	1970
Corn:					
Field Corn (acres).....	12,500,000	12,700,000	12,900,000	12,420,000	10,077,000
Production (bu).....	1,462,500,000	1,092,200,000	1,173,900,000	1,117,800,000	866,622,000
Yield per acre (bu).....	117.0	86.0	91.0	90.0	86.0
Value of production ¹	\$2,925,000,000	\$2,173,478,000	\$2,406,495,000	\$2,794,500,000	\$1,083,278,000
Cash receipts.....	NA	\$1,246,915,000	\$1,560,705,000	\$1,520,057,000	\$645,610,000
Soybeans:					
Acres harvested.....	7,550,000	7,080,000	6,450,000	6,970,000	5,680,000

MAJOR IOWA CROP DATA—Continued

	1978	1977	1976	1975	1970
Production (bu)	286,900,000	251,340,000	199,950,000	236,980,000	184,600,000
Yield per acre (bu)	38.0	35.5	31.0	34.0	32.5
Value of Production	\$1,836,160,000	\$1,487,933,000	\$1,409,648,000	\$1,206,228,000	\$520,572,000
Cash Receipts	NA	\$1,395,338,000	\$1,399,518,000	\$939,689,000	\$582,036,000
Oats for grain:					
Acres Harvested	1,150,000	1,350,000	1,400,000	1,425,000	1,711,000
Production (bu)	66,700,000	82,350,000	82,600,000	75,525,000	94,105,000
Yield per acre (bu)	58.0	61.0	59.0	53.0	55.0
Value of Production	\$76,705,000	\$91,409,000	\$128,856,000	\$108,756,000	\$60,227,000
Cash Receipts	NA	\$26,508,000	\$39,824,000	\$39,026,000	\$17,315,000
All hay:					
Acres harvested	2,300,000	2,340,000	2,360,000	2,450,000	2,460,000
Value of Production	\$336,191,000	\$348,881,000	\$405,894,000	\$336,630,000	\$136,440,000
Cash receipts	NA	\$37,272,000	\$30,690,000	\$34,061,000	\$11,613,000
Miscellaneous crops: Cash Receipts	NA	\$58,820,000	\$59,858,000	\$58,617,000	\$29,665,000
All crops: Cash Receipts	\$2,924,755,000	\$2,764,855,000	\$3,090,595,000	\$2,591,450,000	\$1,286,239,000
Value of production: All crops	\$5,190,561,000	\$4,124,299,000	\$4,379,245,000	\$4,477,564,000	\$1,810,454,000

¹ Includes value of corn fed to livestock or placed in storage.² Preliminary estimate.

NA: Not Available.

Source: Iowa Crop and Livestock Reporting Service.

IOWA PRODUCTION OF MAJOR CROPS—PERCENT OF UNITED STATES AND RANK AMONG STATES

Year	Corn			Soybeans			Oats			Hay		
	Millions of bushels	Percent of United States	State rank	Millions of bushels	Percent of United States	State rank	Millions of bushels	Percent of United States	State rank	Millions of bushels	Percent of United States	State rank
1960	772.5	19.8	1	66.3	11.9	2	172.2	14.9	2	8.1	6.9	2
1970	866.6	20.9	1	184.6	16.4	2	94.1	10.3	5	6.8	5.4	4
1972	1,229.6	22.0	1	216.0	17.0	2	71.3	10.3	5	7.0	5.4	6
1973	1,207.0	21.3	1	260.1	16.8	2	67.0	10.2	4	7.3	5.5	5
1974	968.0	20.6	1	199.1	16.4	2	78.4	13.1	2	6.5	5.2	4
1975	1,117.8	19.2	2	237.0	15.3	2	75.5	11.8	3	6.9	5.2	4
1976	1,173.9	18.7	2	200.0	15.5	2	82.6	15.1	2	6.7	5.5	3
1977	1,092.2	17.0	2	251.3	14.3	2	82.4	11.0	3	7.4	5.7	5
1978	1,462.5	20.7	1	286.9	15.6	2	66.7	11.1	3	8.3	5.8	4

TABLE 7.—LIVESTOCK ON IOWA FARMS JAN. 1 AND RANK AMONG STATES

Year	All hogs		All cattle		Beef cows ¹		Milk cows ¹		Stock sheep	
	Thousand head	Rank	Thousand head	Rank	Thousand head	Rank	Thousand head	Rank	Thousand head	Rank
1960	12,951	1	6,600	2	933	8	943	4	1,143	8
1970 ²	13,720	1	7,478	2	³ 1,582	7	³ 508	6	651	10
1972 ²	14,853	1	7,773	2	1,770	6	465	6	556	11
1973 ²	14,200	1	7,770	2	1,820	7	442	8	495	11
1974	14,700	1	7,660	2	1,770	7	410	8	421	11
1975	13,400	1	7,350	2	1,835	7	405	⁴ 7	370	13
1976	12,600	1	7,500	2	1,928	5	395	7	320	13
1977	14,200	1	7,650	2	1,903	5	392	7	318	12
1978	14,500	1	7,800	2	1,800	5	380	8	300	13
1979	15,100	1	7,300	2	1,684	6	374	8	320	12

¹ 2 years and older.² Hogs on farms December 1 of preceding year.³ Classification of cows changed to "cows that have calved" in 1970.⁴ Tied in Ohio.

Source: Livestock and Poultry Inventory, January 1 and December 1 (annual issues) SRS, USDA.

IOWA'S NATIONAL RANKING IN FARM CASH RECEIPTS

[Dollars in millions]

Commodity	Rank 1977	Rank 1976	1977 value	1976 value	1975 value
All commodities.....	2	2	\$7,064,884	\$7,091,404	\$6,487,012
All livestock.....	1	1	4,300,029	4,000,809	3,895,562
All crops.....	4	4	2,764,855	3,090,595	2,591,450
Corn.....	2	2	1,246,915	1,560,705	1,520,057
Soybeans.....	2	2	1,395,338	1,399,518	939,689
Cattle and calves.....	2	2	1,794,565	1,670,265	1,548,609
Hogs.....	1	1	1,981,695	1,827,407	1,892,353
Sheep and lambs.....	8	9	16,784	14,135	15,227
Turkeys.....	8	7	41,516	37,249	41,867
Dairy products.....	8	8	372,485	344,953	304,224
Eggs.....	15	15	67,237	78,183	67,341

Source: FIS 609 Supplement, September 1978, Farm Income state estimates, USDA Economic Research Service.

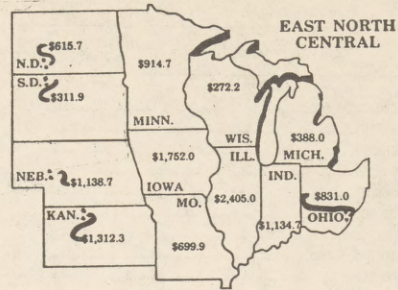
IOWA FARM PRODUCTS EXPORTS

[Dollars in millions]

Fiscal year	Total United States	Total Iowa	U.S. Total
1970.....	\$6,721.4	\$515.1	7.7
1971.....	7,759.0	594.0	7.7
1972.....	8,050.3	619.7	7.7
1973.....	12,894.0	1,095.0	8.5
1974.....	21,322.5	1,770.6	8.3
1975.....	21,578.3	1,732.0	8.0
1976.....	22,146.9	1,752.0	7.9
1977.....	24,013.4	2,042.0	8.5

Source: Foreign Agricultural Trade of the United States. USDA.

**12 mid-American states
account for over 53%
of total U.S. agricultural
exports...1975-76**



U.S. \$22,146.9
(Figures in Millions of Dollars)

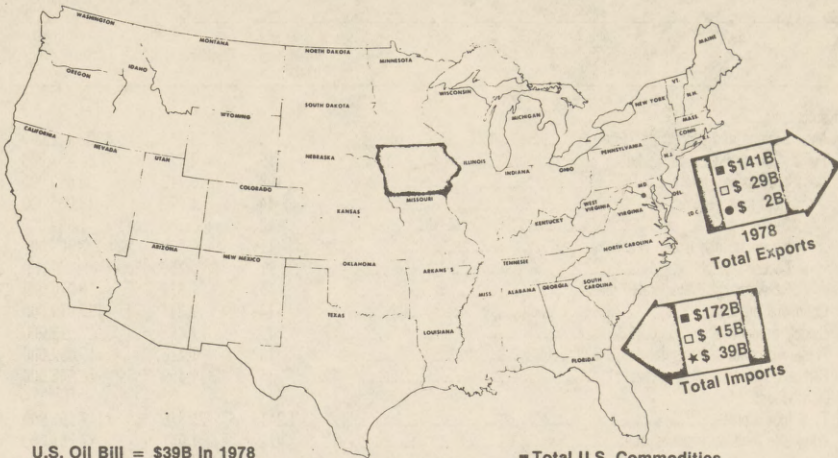
**leading states for agricultural export
shares, 1976¹ (millions)**

Selected Commodities	United States	5 Leading States				
		1 Ill.	2 IOWA	3 Tex.	4 Calif.	5 Ks.
All commodities	\$22,146.9	\$2,405.0	\$1,752.0	\$1,541.2	\$1,466.6	\$1,312.3
Feed grains	5,597.7	Ill. 1,181.6	IOWA 793.7	Nebr. 610.3	Ind. 509.9	Tex. 497.3
Wheat and flour	4,934.5	Ks. 855.3	N.D. 496.4	Okla. 391.9	Mont. 352.3	Wash. 348.0
Soybeans	3,078.1	Ill. 591.9	IOWA 482.3	Ind. 242.5	Mo. 230.7	Ark. 226.0
Protein Meal	759.6	Ill. 142.2	IOWA 115.9	Ind. 58.3	Mo. 55.5	Ark. 54.5
Meats & products	572.7	IOWA 98.4	Ill. 53.8	Nebr. 37.6	Mo. 34.7	Tex. 32.7
(excluding poultry)						
Hides and skins	560.7	Wis. 60.0	Tex. 48.0	Minn. 37.4	IOWA 36.2	Nebr. 29.0
Tallow, lard, etc.	355.7	Tex. 38.7	IOWA 33.4	Nebr. 25.8	Colo. 18.7	Ks. 18.6
Soybean oil	174.9	Ill. 33.6	IOWA 27.4	Ind. 13.8	Mo. 13.1	Ark. 12.8
Dairy products	118.9	Wis. 25.9	Minn. 21.9	Calif. 16.6	IOWA 10.3	N.Y. 9.8

¹Fiscal year ending June 30.

Source: FATUS, October 1976, U.S. Department of Agriculture

**Over One-Third Of Our Oil Bill Made Up By U.S. Agriculture
Iowa Contributes 7% Of Total Agricultural Exports**



U.S. Oil Bill = \$39B In 1978

U.S. Exports - U.S. Imports = Total Surplus (Deficit)

\$141B - \$172B = (\$31B) Deficit

Exports - Imports (Agriculture) = Surplus (Deficit)

\$29B - \$15B = \$14B

Iowa Agricultural Exports = \$2B

■ Total U.S. Commodities

□ Total U.S. Agricultural Commodities

● Iowa Agricultural Commodities

* Oil Bill

This section is an attempt to measure the impact of Iowa agriculture upon directly related industries and agriculture's contributions to other selected Iowa industries.

AGRIBUSINESS IN IOWA—1975

	Number of establish- ments ¹	Employees ²	Payroll ³
Food processing:			
Meat packing and processing (total)	120	24,248	\$302,411,000
Poultry processing.....	19	1,127	10,457,000
Dairy processing (total)	108	3,712	38,459,000
Fluid milk.....	44	1,679	18,035,000
Butter	12	162	1,559,000
Ice cream and frozen desserts.....	11	239	2,605,000
Cheese	21	750	NA
Condensed and evaporated milk.....	19	874	10,010,000
Grain mill products	174	9,844	137,079,000
Bakery products.....	42	2,483	27,512,000
Preserved fruits and vegetables.....	16	1,416	15,092,000
Fats and oils (including soybeans)	37	1,459	16,648,000
Food Distribution:			
Total food stores.....	1,941	25,676	147,195,000
Wholesale food warehouses.....	411	7,051	77,361,000
Business:			
Farm machinery (retail).....	908	8,041	84,000,000
Farm supplies.....	1,207	8,182	80,363,000
Agricultural services.....	693	2,694	20,366,000
Veterinary services.....	187	627	4,358,000
Grain dealers.....	715	7,617	67,383,000
Livestock dealers.....	446	2,566	13,930,000
Farm machinery	146	31,668	430,991,000
Agriculture chemicals.....	26	1,019	12,823,000
Soybean oil mills.....	19	987	11,636,000

¹ Non-manufacturing businesses with operations in more than one location are counted only once. Thus, the number of food stores represents the number of reporting firms rather than actual store numbers.

² As of March 1975.

³ Based on payroll for January-March 1975 expanded to annual basis.

Source: County Business Patterns 1975, Iowa, U.S. Department of Commerce, Bureau of the Census, CBP-75-17.

Major industrial shippers—Rock Island System in Iowa—1979

	Employees
Location:	
Avon: General Mills.....	
Des Moines:.....	
Penn-Dixie.....	101-250
Marquette Cement.....	501-1,000
Forest City: Winnebago Industry	2,000
Estherville: John Morrell	
501-1,000	
Sibley:	
AMPI.....	51-100
Chase Bag Co.	101-250
Oskaloosa: Keomah Industry	1-20
Atlantic: Gould, Inc.	251-500
Fairfield:	
Crane & Monorail System	101-500
Rockwell International Corp	101-500
Clinton: Clinton Corn Processing	over 1,000
Sperry: U.S. Gypsum	101-250

Major industrial shippers—Rock Island System in Iowa—1979—Continued

	Employees
Davenport:	
Nichols Homeshield.....	101-250
Oscar Mayer.....	over 1,000
Ralston Purina.....	501-1,000
Black Hawk Foundry.....	101-250
Muscatine:	
Grain Processing Corp.	1,000+
Monsanto.....	501-1,000
Letica Corp.....	21-50
Polar Insulation.....	1-20
Keokuk: Hubinger.....	501-1,000
Cedar Rapids:	
National Oats.....	101-250
Penick & Ford.....	101-250
ADM Corn Sweeteners.....	251-500
Cargill.....	101-250
Newton: Maytag.....	over 1,000
Iowa City: Proctor & Gamble.....	251-500
Mason City: Lehigh Portland Cement.....	101-250
Pella: Rolscreen.....	over 1,000
Total.....	11,443-16,940
Average.....	14,192

INDUSTRIAL DEVELOPMENT ACTIVITY IN IOWA

[Dollars in thousands]

Year	New Industry		Expansions		Totals	
	Number	Capital investment	Number	Capital investment	Number	Capital investment
1967.....	90	\$57,430	151	\$213,576	241	\$271,006
1968.....	101	34,144	173	176,920	274	211,064
1969.....	60	80,477	185	128,879	245	209,356
1970.....	68	122,018	155	96,930	223	218,948
1971.....	50	56,097	119	52,394	169	108,491
1972.....	75	71,346	181	122,733	256	194,079
1973.....	98	202,801	277	322,477	375	525,278
1974.....	88	85,268	227	275,919	315	361,187
1975.....	61	88,135	125	183,982	186	272,117
1976.....	75	58,884	156	318,343	231	377,227
10 yr. totals.....	766	856,600	1,749	1,892,153	2,515	2,748,753

Source: Development Division, Iowa Development Commission.

IOWA RAIL TRAFFIC

[Tons in thousands]

	Farm products				All other products			
	Originating		Terminating		Originating		Terminating	
	Tons	Percent of total	Tons	Percent of total	Tons	Percent of total	Tons	Percent of total
Chicago & North Western.....	4.5	36	1.13	33	4.5	33	6.56	36
Rock Island.....	3.2	26	0.93	28	4.6	34	4.42	24
Milwaukee Road.....	2.1	17	0.84	25	1.7	12	2.26	13
Illinois Central Gulf.....	1.4	11	0.21	6	1.0	7	0.73	4
Burlington Northern.....	1.3	10	0.28	8	1.9	14	4.22	23
Totals.....	12.5	100	3.39	100	13.7	100	18.19	100

Source: CY 1978 00 R1 Reports to Interstate Commerce Commission.

TOTAL NUMBER AND STORAGE CAPACITY IN THOUSANDS OF BUSHELS OF MULTIPLE CAR GRAIN
SHIPPERS BY CARRIER IN IOWA—OCTOBER 1979

Carrier	75 car		50 car		25 car	
	Number	Storage capacity	Number	Storage capacity	Number	Storage capacity
Served exclusively:						
CNW.....	11	24,430	11	14,147	33	32,408
RI.....	10	18,290	5	5,780	11	11,545
MILW.....	3	6,165	7	11,072	18	15,354
ICG.....			5	5,437	11	15,570
BN.....			1	3,301	1	1,212
Iowa terminal.....			1	365		
Subtotal.....	24	48,885	30	40,101	74	76,089
Open switching:						
RI.....	1	6,300	1	1,380		
ICG.....					1	1,495
BN.....			1	3,700		
UP.....			1	1,704		
Subtotal.....	1	6,300	3	6,784	1	1,495
Served jointly:						
CNW/RI.....			2	1,924		
CNW/MILW.....	3	6,546				
CNW/ICG.....	1	1,050				
MILW/RI.....	1	640	1	994		
Subtotal.....	5	8,236	3	2,918		
Total.....	30	63,421	36	49,803	75	77,584

Chicago, Rock Island and Pacific

[In thousands of bushels]

	Storage Capacity
75 Car:	
Avon Lake—AGRI Industries—100 car capacity.....	6,300
Clarion ¹ —Cargill, Inc.	1,275
Dows ¹ —Farmers Co-op Co.	1,430
Graettinger—Terminal Co-op.....	3,575
Harley—Gulf Coast Grain—RI has operating rights (Milw.).....	640
Klemme—Klemme Co-op Grain Co.	2,050
Lake Park—Farmers Exchange Co-op.....	1,060
Lakota—Farmers Co-op (Buffalo Center).....	380
Royal—Cargill, Inc.	1,800
Superior—Superior Co-op Elevator Co.	2,430
Swea City ¹ —Cargill, Inc.....	540
West Bend—West Bend Elevator Co.....	4,500
50 Car:	
Bradford—Farmers Co-op Elevator Co.	905
Buckeye Co-op Elevator Co.....	1,300
Northwood—Central Soya Co. of Minnesota ²	665
Northwood—Northwood Co-op Co. Elevator ²	1,259
Pocahontas—Farmers Co-op Co.....	1,605
Rake—Farmers Co-op Elevator.....	1,400
Swea City—Farmers Co-op Elevator Co.	570
Waterloo—Pillsbury Co.	1,380
25 Car:	
Armstrong—Farmers Co-op Elevator Co.....	645
Bode ³ —Farmers Co-op.....	950
Earlham—Farmers Co-op Elevator Co.	900
Garden City—Farmers Co-op Co.....	1,305
Gruver—Graves Grain Co.	630
Hardy ³ —Hardy Co-op Elevator Co.....	1,300
Indianola—Laverty Elevator, Inc.	1,600

Chicago, Rock Island and Pacific—Continued

Kellogg—Farmers Co-op Elevator	740
Laurens—Farmers Co-op Elevator Co.	1,074
Ocheyedan—Co-op Elevator Assn.	1,215
Palmer—Farmers Co-op Elevator	1,186

¹ Requires one switch. Able to load 50 cars with no switch.

² Served jointly by CNW and RI.

³ Bode can load 43, Hardy can load 32. Together they load 75 car units.

NOTE.—Now expanding or planning to expand: Emmitsburg—Cargill, Inc.—50 car.

Number of non-multiple car grain elevators, Iowa—June 1979

Railroad:	
BN	107
CNW	262
MILW	156
RI	171
ICG	71
Other railroads	21
Total	788

NOTE.—182 other grain elevators in Iowa that have no direct rail access.

1979 GRAIN HARVEST TO BE SOLD BY FARMERS—IOWA FORECAST

[In thousands]

	Sales of 1977 production	
	Bushels	Tons
Corn	557,002	15,597
Oats	27,176	435
Sorghum	1,089	30
Soybeans	248,575	7,457
Wheat	3,541	106
Total		23,526

1979 ESTIMATED CROP AND SALES PRODUCTION

[In thousands]

	1979 estimated crop production— bushels ¹	1978 percent sold ¹	Estimated sales of 1979 production	
			Bushels	Tons
Corn	1,474,000	57	840,294	23,528
Oats	63,000	32	20,160	323
Sorghum	1,560	44	686	19
Soybeans	309,700	99	306,603	9,198
Wheat	2,520	89	2,243	67
Total				33,135

¹ Iowa Crop and Livestock Reporting Service.

1979 GRAIN HARVEST TO BE TRANSPORTED BY RAIL—IOWA FORECAST

[In thousands of tons]

23,625 (sales of 1977 harvest) divided by 13,095 (1977 harvest transported by rail) equals 33,135 (sales of 1979 harvest) divided by (1979 harvest transported by rail) times (1979 harvest to be transported by rail) equals 18,366,000 tons.

I. ESTIMATED MONETARY WORTH OF THE 1979 GRAIN HARVEST TO BE TRANSPORTED BY ALL RAIL CARRIERS IN IOWA

	Sales of 1979 production ¹	September, 1979 ² price per bushel	Value of sales ³
Corn	23,528	2.31	\$1,941,079
Oats	323	1.35	27,216
Soybeans	19	6.68	2,048,108
Sorghum	9,198	* 1.79	1,228
Wheat	67		5,944
Total	33,135	* 2.65	4,023,575

¹ In thousands of tons.

² Iowa Crop and Livestock Reporting Service.

³ In thousands of dollars.

* Season average price per bushel for 1979.

II. \$4,023,575,000 (value of sales) divided by 33,135,000 (tons) equals \$121 per ton.

III. Estimated tons of 1979 grain harvest to be transported by rail	18,366,000
Estimated price per ton	\$121
Estimated monetary worth of 1979 harvest to be transported by rail in Iowa	\$2,222,300,000

I. ESTIMATED MONETARY WORTH OF THE AMOUNT OF THE GRAIN HARVEST ORIGINATED BY ROCK ISLAND IN 1978

	Sales of 1978 production ¹	Price per bushel	Value of sales ²
Corn	23,342	2.00	\$1,667,250
Oats	342	1.20	25,613
Sorghum	22	1.79	1,418
Soybeans	8,530	6.60	1,876,499
Wheat	45	2.65	4,017
Total	32,281		\$3,574,797

¹ Iowa crop and Livestock Reporting Service. In thousands of tons.

² Iowa crop and Livestock Reporting Service. In thousands of dollars.

II. \$3,574,797,000 (value of sales) divided by 32,281,000 (tons) equals \$111 per ton.

III. Tons of 1978 grain harvest transported by the Rock Island (Iowa)	3,248,681
Price per ton	\$111
Monetary worth of 1978 harvest transported by the Rock Island (Iowa)	\$360,600,000

Senator EXON. We will next call on the Chairman of the ICC, Hon. Darius Gaskins.

Mr. Gaskins, would you come forward please?

I would just announce at this time that we have a rather long list of witnesses and we want to give everybody a chance to testify. It is required that we vacate this room by 1 p.m. And if we have not finished by that time, we will discuss the possibility of breaking for a short lunch, and then possibly reconvening in some other location.

I will alert the staff to the possibility that we might have to vacate this room, and therefore, please arrange for some other room where we could meet this afternoon, if necessary.

But if we move along rather rapidly, it is possible that we could complete the hearing this morning.

Welcome, Mr. Gaskins. We're glad to have you before the committee this morning. Please proceed.

STATEMENT OF HON. DARIUS GASKINS, CHAIRMAN, INTERSTATE COMMERCE COMMISSION; ACCOMPANIED BY RICHARD ALLEN, GENERAL COUNSEL; AND RICHARD SCHIEFELBEIN, DIRECTOR, RAIL SERVICE PLANNING OFFICE

Mr. GASKINS. Mr. Chairman, members of the subcommittee, I appreciate the opportunity to be here today to present the views of the Interstate Commerce Commission on the Rock Island Railroad and legislation relating to it.

With me today, on my left, is Richard Allen, the General Counsel of the Interstate Commerce Commission, on my right, is Richard Schiefelbein, director of our Rail Services Planning Office.

With your permission, I will briefly summarize my longer statement, which I will submit for the record.

Senator EXON. Without objection.

Mr. GASKINS. Directed service has always been considered a stop-gap measure. We have repeatedly warned that directed service is little more than a brief respite and that those affected should make arrangements for the transition to a permanent resolution of the service problem.

I believe that real progress has been made toward a long-term solution to the problems of the Rock Island only since the Commission's decision to terminate directed service.

I believe that our decision not to extend directed service has been a catalyst in the settlement process and 150 days of directed service has achieved the purposes for which it was intended.

However, as we have said before, we would continue directed service if it would help facilitate permanent solutions to the Rock Island's problem. For example, we would consider extending directed service on some lines for a brief interval if that would permit uninterrupted service until a purchaser could begin providing service on a more permanent basis.

With the moneys that remain in our directed service fund, it appears that the Commission could direct service over the whole system for about 3 weeks beyond March 2, 1980.

Let me briefly address the legislation now before the subcommittee. While the majority of the Commission does not believe that any of the measures before the committee are necessary at this time, S. 2253 is clearly the least objectionable of the three bills presented for our review.

While the bill handles the Rock Island's problems logically, I do not believe that legislation is necessary to provide continued directed service on the Rock Island. Ample time has already been provided for shippers, carriers, labors, and the trustee to find permanent solutions to their problems. An unlimited commitment to 3 months of directed service may only encourage delay at the Government's expense.

Nor is legislation necessary to provide for the expeditious consideration of applications by the Commission. The Commission is prepared to render decisions on purchase applications within 100 days rather than 120. We are prepared to make decisions on applications for emergency temporary authority within 7 days.

Finally, we do not feel that legislation providing additional monetary incentives for purchasing carriers is necessary to promote the purchase of lines on the Rock Island.

What is necessary for a resolution of the Rock Island's problems is resolution of the labor protection issue. This will probably mean that some legislation is necessary.

Clear resolution of the labor issues would allow a conducive atmosphere for the successful sale of lines or utilization of temporary service carriers. Lack of resolution will certainly delay such action.

We understand that management and labor have reached a tentative arrangement on basic issues, but require governmental assistance to reach a final resolution.

That type of assistance is beyond the powers of the Commission to give. We hope that the Congress will seriously consider the joint proposals of rail management and labor.

This is not to say that the Commission will take no action. While we believe that the Commission's orders thus far have provided a workable framework for transition, we stand ready to cooperate with Congress and the administration and are willing to contribute to a solution to the Rock Island's problems.

I will certainly take back to the Commission on a timely basis any recommendations which you may have. Specifically, as I have noted, the Commission has sufficient funds to direct service for about 3 additional weeks. Therefore, if it should be necessary to insure an orderly and final transition, the Commission would seriously consider extending our directed service order for a brief interval to facilitate actions which may follow on the heels of any Congressional action.

I have one basic point to make here: Whatever money Congress chooses to spend is best spent on a permanent solution to the problems of the Rock Island, not on directed service. Labor protection is the central problem which prevents a private sector solution to this problem.

If rail management can be assured that it will not have to pick up unneeded employees, and if rail labor can be assured that its members will get a reasonable level of protection, nearly all Rock Island lines on which there are large volumes of traffic will be purchased and operated on as an interim basis while the purchase applications are adjudicated by the Commission.

The approach of the Milwaukee Restructuring Act to this problem is a useful model on which to build in that it provides employees with lump sum cash settlements in lieu of long-term, perhaps uncollectable, obligations against the estate.

Three additional months of directed service will cost in excess of \$30 million. This money is better spent on funding the labor protection obligations of the Rock Island estate.

I am hopeful that this committee will concentrate its efforts on writing appropriate legislation instead of spending money on temporary measures which only put off the ultimate reckoning.

Providing 3 more weeks of directed service may allow Congress some breathing space in which to write the necessary legislation. However, our experience to date has been that parties procrastinate.

nate and dawdle, avoiding the necessary compromises of their differences while the Federal spigot is turned on.

I will seriously consider voting to extend directed service for an additional 3 weeks if it is clear that Congress is moving in the direction of finding a permanent solution to the Rock Island problem.

That concludes my statement. I'm of course prepared to answer any questions.

Senator EXON. Thank you, Mr. Chairman.

I have a question. I understand that the ICC has rejected funding for repairs of locomotives on the KCT, which is operating on a directed service basis and would not be able to continue directed service beyond March 2 in any event without such locomotives.

Is my understanding of this situation correct?

Mr. GASKINS. There are two parts to that question. It is true that at our direction, the Kansas City terminal has been preparing to phase down and end directed service on March 2. What that means is that if they have to start up again and operate beyond March 2, they will have to incur additional expenses to buy supplies, to repair locomotives, and to get back on the track.

And that's why, even though we have approximately \$8 or \$9 million left, that's our best guess, we think that that amount of money would only be sufficient to provide service for 3 weeks into the month of March.

Now on the question of the ICC not paying for locomotives, we have paid for some locomotives to be repaired. We did put certain restrictions on repairing locomotives. We had an unfortunate incident in which half a million dollars was spent on locomotives for which we had not authorized repairs. We are still deliberating as to whether or not we will make the payment for that expense.

It is true that for directed service to be effective beyond March 2, that moneys will have to be spent on locomotives.

Senator EXON. If I understood the thrust of your testimony, you, in essence, are saying that the ICC has the money and the authority to continue for an additional 3 weeks, if necessary, to complete the arrangements that are being discussed at this time.

And if I understand you correctly, Mr. Chairman, you are saying that your recommendation as Chairman of the Commission is that rather than pass a 60-day directed service continuance, it would be much better to leave it up to the ICC, which has the authority and the money to continue for 3 weeks if, in your opinion, that is necessary.

Mr. GASKINS. Yes. But also, I would say that if the Congress is considering extending directed service for 60 days, they should consider spending that money on resolving the labor protection issue, rather than on the additional directed service.

I think it's better; you'd get more bang for the buck.

Senator EXON. Senator Kassebaum?

Senator KASSEBAUM. Well, I'd like to follow along with that just a minute, if I might, Chairman Gaskins. If you feel that this can be handled in 3 weeks, then I'm assuming that you think the ICC can finalize all the purchase bids that have been made within that time.

Is that right?

Mr. GASKINS. That depends entirely on the resolution of the labor protection problem, Senator. And that, in turn, depends, I believe, at this time on what the Congress does. If the Congress does not do anything in this time period to resolve the labor protection issue, it is my understanding that the railroads will not make the applications even for the emergency temporary authority.

Senator KASSEBAUM. Well, I'd like to ask you a question that I posed to Secretary Johnson.

I think one thing that is very different, even though we have certainly alluded to the Milwaukee and this has been helpful in fashioning some of this legislation, that it is a very different situation because in the case of the Rock Island line, it's a line that has been liquidated. It's bankrupt.

And in the light of that, I would like to move on as far as the ICC's interpretation of labor protection. The only court precedent that this committee has been aware of is the situation of a small line in Tennessee where it was liquidated and purchased by the Southern Pacific.

I don't know if you're familiar with this particular point I'm talking about.

The court found that since it was a total liquidation, that the Interstate Commerce Act on labor protection didn't apply. I think there are different and some unique circumstances involving that case and this.

However, I would like to know what the position of the ICC is in regard to the Rock Island Railroad's estate labor protection responsibilities.

Mr. GASKINS. I would like to ask our general counsel, Richard Allen, to give you his legal interpretation. Unfortunately, I'm not in a position to give you the Commission's position at this time because I've not canvassed the other members.

Senator KASSEBAUM. I realize that.

Mr. ALLEN. Senator, in brief, it's my view that under the present law, the trustee would be liable for labor protection. The Milwaukee statute, which applies here, quite specifically says that labor protection provisions must be imposed in the event that the court grants abandonment authority, which I believe is a necessary legal prerequisite to terminating operations.

The Tennessee case that you mentioned, I believe, is quite different. That was a case under the old Interstate Commerce Act before the passage of the 4R Act and before the passage of the Milwaukee Railroad Restructuring Act, both of which have quite specific provisions concerning abandonment and imposing labor protection obligations on the abandoning carrier.

Senator KASSEBAUM. Then you're basing it more on the 4R Act, I would assume, than the Milwaukee because it would seem to me that there are two different precedents here as far as what we're talking about with the Rock Island and the Milwaukee.

Mr. ALLEN. The Milwaukee Restructuring Act, Senator, governs abandonment applications by the Rock Island. It covers the Rock Island. Section 17 of the act states that—if I may: "In authorizing any abandonment pursuant to this section, the court shall require the carrier to provide a fair arrangement, at least as protective of

the interest of employees as that required under section 11347 of title 49."

Senator KASSEBAUM. So you feel that this is certainly a guideline under which you would make any decision?

Mr. ALLEN. That's correct.

Senator KASSEBAUM. Regarding labor protection.

Mr. ALLEN. That's correct.

Senator KASSEBAUM. That's really the main question that I had to ask. I would appreciate, if possible, I think the committee would benefit from some written opinion on that before we mark up on Tuesday, because I do think that there is some discrepancy in interpretation there.

Mr. GASKINS. Our general counsel would be glad to provide that.

Mr. ALLEN. Certainly.

Senator EXON. I believe those are our questions. We appreciate very much your coming, Mr. Chairman, with your associates.

[The statement follows:]

STATEMENT OF HON. DARIUS W. GASKINS, JR., CHAIRMAN, INTERSTATE COMMERCE COMMISSION

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to be here today to present the views of the Interstate Commerce Commission on the Rock Island Railroad and legislation relating to it. I will first briefly provide some recent background on the situation, then consider what developments we expect over the next several weeks, and finally comment on the legislation now before the Subcommittee relating to the Rock Island.

I will briefly review the events since August 1979 concerning the Rock Island. On August 28, 1979, employees of the railroad went on strike over certain wage issues. The following month various creditor groups filed motions with the Rock Island bankruptcy court seeking an order compelling the railroad to discontinue operations. Their principal ground was that continued operations would unconstitutionally erode the estate. As evidence of this they pointed to, among other things, an ever increasing backlog of unpaid bills. They also stated that it was clear that even if the strike were settled the railroad would never be able to resume full operations because it was cashless. This assessment was shared by the United States Department of Transportation which urged the Commission to enter an order under 49 U.S.C. 11125 directing another railroad or group of railroads to provide the adequate level of service which the Rock Island was incapable of providing.¹

Before the court ruled on the creditors' motions, the Commission held an open conference to consider directed service. After analyzing the mounting evidence that the Rock Island had insufficient cash to conduct normal railroad operations and that its inability to do so was creating severe hardship for shippers in the area served by it, the Commission² served an order on September 26, 1979, directing the Kansas City Terminal Railway Company (KCT) to provide service for 60 days for traffic originating or terminating on the lines of the Rock Island.

At the time the initial directed service order was entered, the Commission had approximately \$14 million in its directed service fund which was later increased to a total of \$50 million through the 1980 continuing appropriations resolution, Public Law No. 96-86. This sum was again increased, this time to a net total of \$80 million by the Department of Transportation and related agencies appropriations, Public Law No. 96-131. However, as the Subcommittee is aware, the Congress placed explicit limitations on any directed service funding by the Commission. The appropriations act provided: "That none of the funds provided under this Act shall be available for the execution of programs the obligations for which can reasonably be expected to be in excess of \$80,000,000 for directed rail service under 49 U.S.C. 11125."

The conference report accompanying the bill, H.R. 4440, stated: "The conferees strongly believe that directed rail service should be only a temporary mechanism to continue essential rail service for a brief period of time until a permanent solution

¹ The creditors motions were later ruled moot by the court in view of the directed service order which the Commission later issued.

² The Commission voted 7 to 1 to direct service with Vice Chairman Gresham dissenting.

is implemented. * * * The conferees direct the Commission to consider only essential services for further directed service orders and to limit the duration of any further directed service orders to the minimum period of time found necessary to implement a permanent solution. The conferees believe that thoughtful and fair Commission decisions which distinguish between essential and non-essential service will indicate to those who may continue to receive essential service that such service is only temporary and that an alternative solution must be found. The conferees direct that the Commission not order directed service on the Rock Island which can reasonably be expected to result in obligations in excess of \$70,000,000, without consultation with the House and Senate Appropriations Committees."

In late October, the Commission, cognizant of strong Congressional and Administration interest in reducing the cost of directed service, began a thorough review, including field hearings, of the initial directed service order to determine whether modification or continuance would be appropriate. Prior to the expiration of the initial directed service order on December 4, 1979, the Commission voted (5 to 2 with Vice Chairman Gresham and Commissioner Trantum dissenting) to continue directed service for an additional 90 days. That second order cut back service on the system to approximately 89 percent of total Rock Island mileage. That order is due to expire March 2, 1980. Incoming traffic was to be embargoed beginning February 15, 1980; however, on February 13, the Commission instructed the directed service carrier to delay the embargo until February 22.

At the time the Commission made the decision to direct service for an additional 90 days, it appeared, in light of the bankruptcy court's schedule for the Rock Island reorganization plan and the Department of Transportation's timetable for the results of its negotiations with other railroads for the sale of Rock Island segments, that a 90-day extension (as opposed to 180 days which was statutorily permissible) would be adequate to permit restructuring plans to be advanced to the point where applications for temporary authority could be filed. However, the court timetable was delayed when the trustee was allowed to file his reorganization plan a month later than the original December 10, 1979 deadline.

Furthermore, the complexion of the court proceeding changed dramatically although not unexpectedly when, on January 25, 1980, the court determined that the reorganization plan proposed by the Rock Island trustee was unworkable. The court ordered the plan to be withdrawn and the trustee to develop a plan for liquidating the railroad by March 2, 1980, and to present that plan at a hearing scheduled for the afternoon of February 19, 1980.

Commission action followed the court's request for a liquidation plan. On January 31, the Commission held an open conference to discuss the Rock Island directed service order. While no formal vote was taken, it was clear that a majority of the Commission (4 to 2, Commissioners Stafford and Clapp dissenting) did not favor continuing the directed service order beyond March 2. However, the discussion revealed some support for limited continuation of directed service on those lines which would be purchased by another carrier. Subsequently on February 1, 1980, the Commission issued a press release stating that directed service would not be extended beyond March 2, 1980. Commissioner Stafford dissented, favoring a 90 day extension. Commissioner Clapp also dissented, favoring a 45 day extension over those lines for which offers have been made or for which FRA can certify that serious prospects exist for continued service. The rationale for not extending the order involved (1) the spending limitation placed on the Commission in the appropriations legislation previously discussed, (2) a desire to provide a strong incentive for parties to initiate and to complete negotiations for the purchase of segments of the Rock Island system, and (3) a belief that sufficient notice (150 days) had been afforded all parties that Rock Island service would end.

Directed service has always been considered a stop-gap measure, as the Commission clearly announced in the initial directed service order: "Purpose of directed service—the provision of directed rail service under 49 U.S.C. 11125 is an interim measure, and will not provide a permanent solution to the problems of RI, its users, or its employees. Rather, section 11125 applies only to those situations requiring immediate action to prevent severe transportation and economic dislocations. Although an expensive alternative appropriate only upon exhaustion of less cumbersome protective measures, directed service—used in conjunction with ancillary re-routing under 49 U.S.C. 11124—will permit continued rail operations over an impaired carrier's lines, while attention is focused on long range restructuring alternatives."

The initial September 26 order directed service over virtually all Rock Island lines "so as to permit shippers, consignees, employees, local communities and States time to adjust to possible dislocations resulting from the loss of rail service." It went on

to state: "We caution affected persons to recognize the fiscal and time constraints on directed service, and to prepare for a winding-down of many operations now conducted over RI lines. Patrons and others must realize that directed service can provide no more than a brief respite, and that our decisions to continue particular operations and preserve RI transit rates and prepaid charges may change following the initial 60-day period." (360 I.C.C. 294).

The Commission did subsequently revise the order, as mentioned, reducing its scope by about 10 percent while extending it 90 days. This December 3 extension of directed service also included a sterner caution to affected persons making clear that directed service would: "* * * cease at the end of the 90-day period. Accordingly, appropriate arrangements should be made by such persons for the transition to the post-directed service period. For example, carriers interested in operating or purchasing portions of the RI system should immediately begin developing the plans and conducting the negotiations which are a condition-precendent to their operational or acquisitional intentions. Further, shippers concerned about the movement of their traffic should immediately begin to investigate the availability of alternative transportation modes."

Despite our repeated warnings, real progress has been made toward a long-term solution to the problems of the Rock Island only since the Commission's decision to terminate directed service. The trustee, rail management, labor and shippers had not moved quickly in trying to reach a resolution of their concerns. We believe that our decision not to extend directed service has been a catalyst in the settlement process and that 150 days of directed service has achieved the purposes for which it was intended. However, as we have said before, we would continue directed service if it would help facilitate permanent solutions to the Rock Island's problems. For example, we would consider extending directed service lines for a brief interval if that would permit uninterrupted service until a purchaser could begin providing service on a more permanent basis.³

Let me turn now to the present situation on the Rock Island. As I have mentioned the Trustee has been directed by the bankruptcy court to prepare a plan to liquidate the railroad by March 2. In the long run, substantial portions of the Rock Island will be purchased by other carriers, although it is not certain they will be operating the lines with temporary authority on March 3. This presents the likelihood of some service interruptions. To assist in the sale process, DOT has served as an intermediary between the Rock Island trustee and other railroads to arrange the purchase of Rock Island system segments. The most recent news which we have of those negotiations (prior to February 19) was that applications to purchase had been received which cover about 88 percent of Rock Island's 1978 traffic level. As far as we are aware none of these purchase negotiations are final, except for the Southern Pacific's proposed purchase of the "Tucumcari line".

There are three ways that service can be continued over the Rock Island. The first is through the formal sale of rail line segments to other carriers. Under the recently passed Milwaukee Railroad Restructuring Act (MRRA), these types of sales require the approval of the court and approval from the Commission within 180 days of filing. No such applications have yet been filed, although expedited procedures have been adopted to ensure Commission compliance with the deadline.

It is important to note that MRRA also provides that service may be continued through the use of an interim carrier as provided in section 17 of the Act. In this situation, if a railroad has applied to the Commission for the purchase of line, the Court may grant the railroad authority to provide interim service over the line proposed to be purchased, until the Commission acts on the purchase application.

The second way that service could continue is through an emergency service order under 49 U.S.C. 11123. This provision allows a carrier to provide service over another carrier's lines without the need for any Federal payment or compensation. We believe that this type of service could be used extensively on the Rock Island to provide service before the interim service (as explained above) or actual sales can be implemented. Our Office of Proceedings estimates that such emergency applications could be processed in one week's time.⁴

The third way to provide service over the Rock Island is to direct service under 49 U.S.C. 11125 as has been done since October. However, a majority of the Commission has felt that extending directed service beyond March 2 would only serve to extend the disbursement of directed service funds at a rate of about \$11 million per month and to postpone the necessary task of selling Rock Island lines to other

³ Commissioners Stafford and Clapp question the accuracy of the first half of this paragraph.

⁴ Commissioners Stafford and Clapp believe that more time would be required to adequately decide some of these applications.

carriers. Nonetheless, as previously mentioned, under certain circumstances a continuation could be justified.⁵

With the monies that remain in our directed service fund, it appears that the Commission could direct service over the whole system for about two weeks beyond March 2, 1980.

I will turn now to a consideration of the three pieces of legislation forwarded to us for comment. Two of these, S. 2246 and S.J. Res. 139 are similar in approach and so will be dealt with together.

S. 2246 AND SENATE JOINT RESOLUTION 139

S. 2246 and S.J. Res. 139 both require the Rock Island Railroad Trustee to operate the entire system at the level of service which existed on September 1, 1979, and not to take any action to abandon or discontinue service if such action is opposed by an affected State. S. 2246 would continue service for 90 days after the Commission's directed service order expires or the date of enactment. S.J. Res. 139 would require service through August 31, 1980. In both measures, funds for the trustee's operation of the railroad would be provided in the form of Emergency Rail Service Act (ERSA) funds which would have a low repayment priority in the bankruptcy proceeding.

We see a number of practical problems with these two measures. Most importantly, under present circumstances, we believe that it would be less efficient and more costly to fund continued service by the trustee than to fund continued directed service operations by the present directed carrier, the KCT. The KCT is already in place operating the railroad and has provided efficient, economical and adequate service as it is possible under the incredibly difficult circumstances under which it has been operating. Moreover, neither the bankruptcy judge nor the trustee may be willing to accept loans or assume the obligation to provide continued service.

S. 2253

While a majority of the Commission does not believe that any of the measures before the Subcommittee are necessary at this time, S. 2253 is clearly the least objectionable of the three bills presented for our review. First, S. 2253 would utilize the existing system which is functioning satisfactorily. It would limit the duration of directed service and would require expeditious treatment by the Commission in dealing with applications for purchase.

While we feel that the bill handles these problems logically, we do not believe it is necessary to provide for continued directed service on the Rock Island.⁶ Ample time has already been provided for shippers, carriers, labor and the trustee to find permanent solutions to their problems. An unlimited commitment to three more months of directed service will only encourage delay at the government's expense.

Nor is legislation necessary to provide for the expeditious consideration of applications by the Commission. The Commission is prepared to render decisions on purchase applications within 100 days rather than 120 days. We are prepared to make decisions on applications for emergency temporary authority within seven days. Finally, we do not feel that legislation providing additional monetary incentives for purchasing carriers is necessary to promote the purchase of lines of the Rock Island.

What is necessary to a resolution of the Rock Island problems is resolution of the labor protection issues. This will probably mean that some legislation is necessary.

The type of labor legislation required must certainly be determined by rail management and labor and the Congress. We would note that the MRRRA provisions relating to labor seem to be working. We understand the Milwaukee employees are likely to elect to receive the guaranteed benefits of the Act rather than take a chance on any return from a low priority position in the bankruptcy court distribution. Clear resolution of the labor issues would allow a conducive atmosphere for the successful sale of lines and utilization of temporary authority procedures. Lack of resolution will certainly delay such actions. We understand that management and labor have reached a tentative agreement on basic issues but require governmental assistance to reach a final resolution. That type of assistance is beyond the powers of the Commission to give but we hope that the Congress will seriously consider the joint proposals of rail management and labor.

This is not to say that the Commission will take no action. While we believe that the Commission's orders thus far have provided a workable framework for transition, we stand ready to cooperate with Congress and the Administration and are

⁵Commissioner Clapp believes that Secretary Goldschmidt's proposal of 30 days is the minimum required and that 90 days would be preferable. As noted in Commissioner Stafford's separate expression, he is of the view that 90 days would be an appropriate extension of time.

⁶Commissioners Stafford and Clapp disagree.

willing to contribute to a solution of the Rock Island's problems. I will certainly take back to the Commission, on a timely basis, any recommendations which you may have.⁷ Specifically, as I have noted, the Commission has sufficient funds to direct service for about two additional weeks. Therefore, if it should be necessary to ensure an orderly and final transition, the Commission would seriously consider extending our directed service order for a brief interval to facilitate actions which may follow on the heels of any Congressional action.

That concludes my prepared testimony. I would be glad to try to answer any questions you may have.

Commissioner Stafford dissenting in part:

In general I have no problems with that part of the testimony dealing with the background of Rock Island directed service.

What primarily concerns me is the majority's insensitivity to Rock Island shippers, particularly agricultural interests. The testimony elicited during public hearings held during October of 1979 dramatically show the importance of the Rock Island. In Kansas alone, increased costs of .25 cents per bushel will ensue to those unfortunate farmers and grain elevator operators captive to the Rock Island. Multiplied by the millions of bushels produced throughout the Mid-West, the effects in the Mid-West economy will be disastrous. Other costs must be considered such as damage to farm to market roads caused by increased truck movements and further urbanization of the country as small towns can no longer economically compete.

In conclusion, the above adverse economic impacts combined with the still relatively uncertain state of negotiations over which carriers will operate the Rock Island make it extremely reasonable to extend the period of directed service as long as the law permits, that is 90 days from March 2, 1980.

Commissioner Trantum, concurring:

I would like to expand briefly on the statement presented by Chairman Gaskins. As he noted in reviewing the Commission's role in the Rock Island situation, I voted for the initial 60-day period of directed service and against its extension. My impression has been that the parties make the most progress toward a permanent solution when facing pressure to do so. I will therefore not vote to extend directed service without extremely strong indications that the public interest requires such action.

It would be a mistake to provide additional service (under § 11125 or any of the three bills now before the Committee) merely for the sake of postponing the rationalization of the Rock Island. For too long we have been attempting to apply political solutions to economic problems of the railroad industry. Shippers, carriers, labor, and other concerned parties are most likely to reach real long-term solutions if the Government does not impede the process by unnecessarily delaying the inevitable.

[The following information was subsequently received for the record.]

INTERSTATE COMMERCE COMMISSION,
OFFICE OF THE GENERAL COUNSEL,
Washington, D.C., February 26, 1980.

Hon. Nancy L. Kassebaum,
U.S. Senate,
Washington, D.C.

DEAR SENATOR KASSEBAUM: This responds to your request at the hearing on February 20, 1980 for amplification of my opinion that the Estate of the Rock Island Railroad is liable for employee protection in connection with liquidation proceedings.

My opinion is based primarily on two decisions of the courts in deciding upon the value to be placed on assets of bankrupt railroads required to be transferred. In the first such decision a three-judge district court, in affirming the Commission's valuation of the rail properties of the bankrupt New Haven Railroad required by the Commission to be included in the merged Penn Central, held:

"When the case was last before us, we indicated tentative agreement with that position. We cited authorities which established in our view that a railroad with no reasonable hope of future earnings, such as NH, had a constitutional right * * * to cease operations and liquidate," 289 F. Supp. 440, since to force operation at a loss "would be to take its property without the just compensation which is a part of due process of law." *Railroad Commission of State of Texas v. Eastern Texas R.R.*, 264 U.S. 79, 85 44, S. Ct. 247, 249, 68 L.Ed. 569 (1924); *Bullock v. State of Florida ex rel. Railroad Commission*, 254 U.S. 513, 41 S. Ct. 193, 65 L.Ed. 380 (1921); *Brooks-*

⁷Vice Chairman Gresham and Commissioner Alexis were absent and did not participate in this matter.

Scanlon Co. v. Railroad Commission, 251 U.S. 396, 40 S. Ct. 183, 64 L.Ed. 323 (1920). Despite observations in the Commission's report, 334 I.C.C. at 55-57, we adhere to that view, for reasons fully developed in the recent opinion of the reorganization court, subject only to the qualification that liquidation of NH could not commence until the Commission, acting with appropriate speed under § 1(18) of the Interstate Commerce Act, had issued the certificate of abandonment to which NH would have been constitutionally entitled. We believe this position is also supported by two opinions of Mr. Justice Brandeis which we read as declaring that while Congress may in the public interest subject a secured creditor to reasonable delays in realizing on his security, it may not deprive him altogether of his right to sell the rest at public auction. *Louisville Joint Stock Land Bank v. Radford*, 295 U.S. 555, 55 St. Ct. 854, 79 L.Ed. 1593 (1935); *Wright v. Vinton Branch of Mountain Trust Bank*, 300 U.S. 440, 57 S. Ct. 556, 81 L.Ed. 736 (1937)."

New York, N.H. & H.R.R. Co., First Mortgage 4 Percent Bond Holders' Committee v. United States, 305 F. Supp. 1049, 1055 (S.D. N.Y. 1969). This holding was at least tacitly approved by the Supreme Court's observation in the *New Haven Inclusion Cases*, 399 U.S. 392 at 461, that "no one here quarrels with the proposition that in the event of a liquidation, New Haven would have been obliged to obtain a certificate from the Commission pursuant to § 1(18) of the Interstate Commerce Act."

The second decision is the decision of the Special Court under the Regional Rail Reorganization Act concerning the values to be assigned properties transferred to Con Rail under the Act. *In the Matter of Valuation Proceedings Under §§ 303(e) and 306 of the Regional Rail Reorganization Act*, 439 F. Supp. 1351 (1977). In addressing the question of whether erosion for operations continued by the various estates during the period prior to conveyance of property to Con Rail should be compensable, the court stated (439 F. Supp. at 1370-71):

"A third proposition is that § 1(18) does not cease to be applicable merely because serious erosion of the property of railroad is taking place. As indicated, the railroads in Brooks-Scanlon, Bullock, and Eastern Texas had been through all administrative processes that were required. Despite the desperate situation of the New Haven which had experienced net operating losses for four and a half years before invoking § 77, see *New York, New Haven, and Hartford Railroad Discontinuance of Trains*, 327 I.C.C. 151, 166 (1966), and by 1963 had no prospect for a successful reorganization on the basis of capitalized earnings, see *In re New York, New Haven and Hartford Railroad*, 289 F. Supp. 451, 456 (D. Conn. 1968), Judge Anderson considered that authorization to abandon would have had to be obtained from the Interstate Commerce Commission, *In re New York, New Haven and Hartford Railroad*, 304 F. Supp. at 801; as shown above, the Supreme Court rejected the Commission's proposal to take account of an additional year to obtain such authority not because it thought that this was not needed, but because Judge Anderson had already taken into account a reasonable period for obtaining it. 399 U.S. at 463, 90 S.Ct. 2054. Again, as noted in Section III of this opinion, our own decision on the 180-day Appeals held that the Brooks-Scanlon principle had been qualified by requiring compliance with reasonable requirements for administrative approval; perhaps it would have been more accurate to say that the Brooks-Scanlon doctrine needed no such qualification since the administrative process had been exhausted in that case and its two early companions. See also *New York, New Haven and Hartford Railroad First Mortgage 4 Percent Bondholders' Committee v. United States*, 305 F. Supp. at 1055; *In re Central Railroad of New Jersey*, 485 F.2d at 215. The validity of this third proposition is in no way impaired by decision, stemming from the *Third Avenue Transit case*, *supra*, 198 F.2d 703, that a reorganization court cannot properly impair liens by such measures as approving the issuance of trustees' or receivers' certificates or receivers' certificates or authorizing use of the proceeds of sale of mortgaged properties for operations when the prospect of successful reorganization has disappeared, but instead must direct a trustee to apply for abandonment."

See also *id.* at 1366-67 wherein the Court analyzes the import of the *New Haven* decision cited above.

The above decisions appear to indicate that a certificate of abandonment must be obtained before liquidation can commence. The question then becomes whether the Commission or the court overseeing the reorganization of the Rock Island should, or must, impose labor protective conditions upon its grant of the certificate.¹ Although the matter is not entirely free from doubt, I am inclined to the view that the reorganization court is obligated to impose employee protective conditions upon its

¹ Section 17(a) of the recently enacted Milwaukee Railroad Restructuring Act (P.L. 96-101) (MRRRA) transfers ultimate responsibility for authorizing abandonments from the Commission to the courts overseeing the reorganization of railroads in reorganization at the date of its enactment other than the Milwaukee.

grant of a certificate authorizing abandonment. Of course, the priority which the court affords claims for payments under these conditions will to a large extent determine the value of the conditions to the affected employees.

Prior to enactment of the Railroad Revitalization and Regulatory Reform Act of 1976 (4R Act), it was settled law that the Commission had broad discretion to determine whether and to what extent labor protective conditions should be included in certificates authorizing abandonment. The Commission customarily, but not always, imposed the so-called Burlington employee protective conditions, which afforded substantially less protection to affected employees than those imposed upon certificates authorizing mergers under former Section 5(2). The *Tennessee Central* case,² referred to at the hearing, was one of a number of cases in which the Commission refused to impose employee protection upon abandonment of an entire railroad system. The explanation given by the Commission for refusing to impose employee protective conditions in all of these cases was that it would be inequitable and unwarranted to require further consumption of a railroad's properties for the payment of employees after the railroad ceases operations (333 I.C.C. at 454).

With the enactment of the abandonment provisions of the 4R Act, Commission discretion with respect to the imposition of labor protection on certificates authorizing abandonment was apparently eliminated. Section 1a(4) of the Interstate Commerce Act, as added by the 4R Act, provides:³

Each such certificate which is issued by the Commission shall contain provisions for the protection of the interests of employees. Such provisions shall be at least as beneficial to such interests as provisions established pursuant to section 5(2)(f) of this Act and pursuant to section 405 of the Rail Passenger Service Act (45 U.S.C. 565).

In considering the effect of that provision in an entire system abandonment proceeding following enactment of the 4R Act⁴, the Commission acknowledged that "The precise language of Section 1a(4) of the Act would appear to require imposition of employee protective conditions in all permitted abandonments" (354 I.C.C. at 745) at the same time relying on the statement in the legislative history (H.R. Rep. No. 94-781, 94th Cong. 2d Sess., p. 218) that what ultimately became Section 1a(4) was not intended to change the policy and practice of the Commission in connection with certificates involving total termination of service by a railroad. The Commission concluded that it had discretion not to impose employee protection and adhering to its prior line of decisions on the subject, it declined to do so. This decision was subsequently followed by a decision of the Commission in a proceeding entitled *Northampton & Bath R.R. Co.—Abandonment*, 354 I.C.C. 784 (1978). Neither of these decisions were appealed to the courts and the time for doing so has long since expired. Accordingly, it must be accepted that the Commission in those cases believed it had discretion not to impose labor protective conditions on entire system abandonments.

However, as indicated, *supra*, n. 1, Section 17(a)(1) transfers ultimate responsibility for authorizing abandonments by the Rock Island from the Commission to the Court overseeing its reorganization. That section expressly provides that: in authorizing any abandonment pursuant to this section the court shall require the carrier to provide a fair arrangement at least as protective of the interests of employees as that required under Section 11347 of title 49 of the United States Code.

The conditions developed by the commission under that section were upheld on review in *New York Dock Railway v. United States*, 609 F.2d 83 (2d Cir. 1979) as the minimum level of employee protection required by amendments to former Section 5(2) enacted as a part of the 4R Act. Thus there would appear to be no doubt as to the level of protection required to be afforded employees, if abandonment is a necessary precondition to liquidation, as I believe it is. Also, there is no legislative history associated with the MRRRA comparable to that relied on by the Commission in holding it had discretion under the 4R Act not to impose employee protective conditions on entire system abandonments.

For the foregoing reasons, I am of the view that, regardless of whether the commission has discretion to decline to impose employee protection upon entire system abandonments, the reorganization court is obligated to impose the so-called New York Dock conditions upon its approval. The value of those conditions will,

² *Tennessee Central Ry. Co., Abandonment*, 333 I.C.C. 443, 454 (1968), 334 I.C.C. 235, 244-46 (1969).

³ As recodified at 49 U.S.C. 10903(b)(2), that provision now reads: Each certificate shall also contain provisions to protect the interests of employees. The provisions shall be at least as beneficial to those interests as the provisions established under section 11347 of this title and section 565(b) of title 45.

⁴ *Wellsville Addison & Galetton R.R. Corp.—Abandonment*, 354 I.C.C. 744 (1978).

however, be directly related to the priority the court assigns to employee claims thereunder.

Sincerely yours,

RICHARD A. ALLEN,
General Counsel.

Senator EXON. The next witness is Mr. John Barnum, representing the Kansas City Terminal Railway Company.

Mr. Barnum, would you come forward, please?

Mr. Barnum, we welcome you here this morning and you are certainly a very important factor in the matter that we are discussing here.

I would ask that you proceed with your testimony at this time and, introduce the others who are with you this morning.

STATEMENT OF JOHN W. BARNUM, REPRESENTING KANSAS CITY TERMINAL RAILWAY CO.; ACCOMPANIED BY VERNON E. COE, PRESIDENT AND GENERAL MANAGER; JAMES BROWN, SENIOR VICE PRESIDENT, OPERATIONS; AND JOHN J. CONNOR, SENIOR VICE PRESIDENT, LAW

Mr. BARNUM. Thank you, Mr. Chairman.

I am here as special counsel for Kansas City Terminal Railway Company as the directed rail carrier under the ICC's authority.

I have with me, on my left, the president and general manager of the Kansas City Terminal Railway, Mr. Vernon E. Coe. On his left, Mr. James Brown, who is senior vice president, operations, for the Kansas City Terminal Railway as directed rail carrier. He isn't actually an employee of KCT, but of one of the railroads that owns the KTC, and he is a senior vice president on the management team that has been operating the Rock Island. And on my right is Mr. John J. Connor, who is, likewise, an employee of another railroad, but is acting as vice president, law, for the KTC as directed rail carrier.

The KTC as directed rail carrier is pleased to respond to the committee's invitation to provide whatever information we can to assist you in your deliberations on legislation for continued directed service. We are not here as advocates or opponents of any such legislation, but we did want to be sure that the committee, in taking whatever action it did, was fully aware of the problems that exist both today and would exist after the second of March, if directed service were continued.

To that end, Mr. Coe asked his four senior vice presidents to prepare a memorandum which would outline those problems. We had intended to, and, indeed, this morning, did deliver that memorandum to the Chairman of the ICC, and I would like to offer to the committee a copy of our letter to the Chairman of the ICC and the memorandum which the senior vice presidents of the KTC as directed rail carrier gave Mr. Coe.

Senator EXON. Without objection, it is accepted as part of the record.

[The following information was subsequently received for the record:]

CHICAGO, February 19, 1980.

MR. V. E. COE: In view of the continuing public dialogue concerning the possible extension of directed service operation over the Rock Island by Kansas City Termi-

nal, you have asked us to consider the possibility and report to you with respect to the problems we can presently anticipate.

As you know, since mid to late January, the DRC has been planning for a termination of directed service operation on March 2, 1980, in accordance with the Commission's Directed Service Order No. 1398 (Sub No. 1) served December 3, 1979. Questions concerning this wind down were presented to the Commission on several occasions and the responses received clearly indicate the Commission's desire that common carrier services should be eliminated on March 2, 1980, and that only a short period of time after that date be allowed for clean-up operations. Accordingly, as of today, all directed service functions are geared to termination within the next several weeks. The actions taken by DRC in anticipation of a shutdown on March 2 will make it extremely difficult, if not impossible, to continue full-scale operations after that date if there is an extension of directed service. As indicated below, the problems which would arise if there were an extension would be comparable in many respects to those encountered when operations were scheduled to commence on October 5, 1979. There will be serious delays and additional costs associated with a renewal of service which would not appear to be justified by the circumstances.

We would like to review some of the serious problems which would be encountered under an extension.

PURCHASES AND STORES

From a Purchasing and Stores viewpoint, it is impossible to proceed in two different directions at the same time. This operating function is now in a shutdown mode and we seriously doubt if it can be reversed to operate efficiently and effectively in case of an extension.

A. Material lead times.—We have been instructed by the ICC and have tried our best not to purchase any material or supplies that could not be delivered and/or used by March 2, 1980. To adhere to this policy has depleted our inventory, particularly in the rail, tie, signal, and maintenance-of-way areas. It has also had its impact on locomotive and car parts, particularly wheels.

B. Open purchase orders.—In line with the shutdown procedures that were tentatively approved on February 8, we have made arrangements since then to cancel all open purchase orders placed since October 5 by the DRC, except for certain critical locomotive parts and fuel. Each purchase since February 7 has had to be an emergency and requires personal approval by a member of the DRC. Nothing is on order now for delivery beyond March 2.

C. Suppliers.—We have geared our suppliers to an orderly shutdown March 2 and seriously doubt whether we can turn them back on beyond that point. Their confidence in the DRC has been marginal at best and since 1975 they have lost all patience with the problems on the Rock Island.

D. Inventory problems.—In line with our recommended shutdown procedures, we have distributed forms and instructions for an orderly inventory ending DRC operation. The inventory is to be taken on February 22. All departments are geared up to take this inventory, at this time would be impractical as well as totally disrupting to our coordinated efforts with Southern Pacific personnel regarding the Tucumcari line. Auditing firms have been hired, at least three, and are in place for the February 22 inventory. Vacations have been canceled and modified to line up to the inventory dates. Material shipments have been restricted in anticipation of this inventory. As we count down to March 2 we continue to use the Trustee's inventory which we must pay for in final settlement—the longer DRC lasts, the greater the cost of settlement.

E. Fuel oil.—In line with our shutdown procedures, we have reduced purchases of fuel to allow for a maximum 15-day supply at any one location at the end of DRC. We have canceled our lease on tank cars to haul fuel in anticipation of this shutdown. In addition to restricting purchases of fuel, we have had to redistribute supply to save the Government money; and this has concerned our suppliers as we proceed away from an orderly day-to-day way of doing business.

F. Credit cards.—We have just now started to collect over 1,000 DRC-issued credit cards which must be returned to the oil companies before our departure. This is not an easy task.

G. People.—We will keep most all Purchasing and Stores personnel on the payroll until March 2, 1980. After this date we plan an orderly reduction of force during wind down. Morale is suffering on a daily basis.

OPERATIONS

The on-again off-again handling of the directed service order and the issuance and recinding of embargoes has predictably caused a tremendous amount of concern both to shippers and railroad employees. This has proven to be a very disruptive influence on normal operations.

The reduction of operating activities, particularly in the maintenance-of-way area, has increased the potential problems associated with continued operation and will result in increased costs should directed service be extended. Materials and supplies necessary for both maintenance of equipment and maintenance of the railroad itself are in extremely short supply and those supplies cannot be renewed on short notice. The inventory of rail and ties is now almost non-existent. For example, after a recent derailment, DRC found it necessary to purchase track panels from another railroad in order to make repairs because none were available on the Rock Island.

As the Spring thaw begins, derailments will become a real problem since necessary maintenance cannot be effectively performed without materials and supplies.

Extension of directed service will also be extremely difficult because of the fact that DRC does not presently have an adequate fleet of locomotives. Considering that locomotives are failing on a daily basis and the Commission is becoming more and more reluctant to give DRC adequate authority to repair bad ordered units. As you know, the Commission refused to give us authority for repairs to 45 units repaired in December 1979 even though those units are now operating in revenue service. Had those units not have been repaired, DRC could not be providing the present level of service and an extension of directed service would be out of the question.

LABOR

With respect to any extension of directed service, we and the Commission should realize that all DRC employees (under contracts) will earn their full 1981 vacation when they have performed 100 days of compensated service during 1980. This exposure, which will begin to accrue in May 1980, will amount to approximately \$12,000,000 (based on 7,950 employees).

EQUIPMENT

Because of the Reorganization Court's liquidation order, the lessors of equipment leased to Rock Island (80 per cent is leased) are making plans to secure the return of that equipment in advance of the expected default under their leases. KCT has been paying the rent under their equipment leases but good business judgment would suggest that further payments should not be made for a period beyond the presently anticipated end of directed service. While the Commission might have a claim against the Trustee for the rental for the post-directed service period, that may be difficult to realize. We recommend that DRC make no advance payments for the period after directed service but in the meantime cooperate with the Trustee and the equipment lessors in returning that equipment to the owners.

Extension of directed service will merely postpone the lessors' ability to recover their equipment and further hamper the Trustee's liquidation of assets.

CONCLUSION

Considering all the matters set forth above, we are of the opinion that the problems to be encountered if directed service is extended will be staggering, and the cost will be very high.

J. H. BROWN.
W. L. DORCY.
H. J. BRISCOE.
J. J. CONNOR.

Mr. BARNUM. I have copies of that here if any of the members of the committee or staff would like to have an opportunity to look at it.

I had previously given a couple of copies to members of your staff so that they would have an opportunity to see it before we testified.

We do not have any other prepared statement, but I would like to ask the committee's indulgence to permit Mr. Coe to make a few brief remarks concerning the problems that he envisions in con-

tinuing directed service, and then, of course, to respond to any questions that you or other members of the committee may have.

Senator EXON. Thank you. Mr. Coe?

Mr. COE. Thank you, Mr. Chairman, Senator Kassebaum.

As Mr. Barnum pointed out, Terminal—that is, Kansas City Terminal—takes no position for or against an extension of directed service. The Terminal does, however, ask that a definite date be determined for termination of directed service and hold to it.

We are already 3 weeks into an orderly shutdown of the Rock Island. We are proud of the job that the Kansas City Terminal, as directed rail carrier, and its management team have done, starting up the Rock Island after it had been on strike and operating it since October.

Extensions, postponements, and embargos create more chaos and confusion. There are major problems of supply, material, fuel, inventory costs within the confines of directed service, leases, labor problems, personnel problems, and repair of locomotives.

This off-again/on-again startup of directed service creates many problems.

We'd like to answer any questions.

Senator EXON. I have a question that goes to the heart of what you just said and follows up on what I asked some of the previous witnesses.

I recognize that you are in a very difficult position with the on-again/off-again situation that you have just outlined.

The practical aspect of this matter that concerns us on this side of the table is one of those things which can cause disruptions in the best laid plans of man.

Now let me ask you this question, Mr. Coe. If we had the option either of passing legislation to extend the directed service for 60 days or, as an alternative, of relying on the ICC to extend, if necessary, the operating period for 3 weeks, which of those two extensions would you consider the lesser of two evils?

Mr. COE. If the dates were held to, I would say the 3-week extension.

Senator EXON. You would say what?

Mr. COE. The 3-week extension, or 2 weeks, whatever it was that they suggested.

Senator EXON. Thank you. Senator Kassebaum?

Senator KASSEBAUM. I have no questions. I would just like to say that the KCT has done an outstanding job under most difficult circumstances keeping service going on the Rock Island line.

Those of us whose States are directly affected certainly appreciate it.

Mr. COE. Thank you.

Senator EXON. Gentlemen, thank you very much. We appreciate your testimony.

The next witness is Mr. William Mahoney, representing United Transportation Union.

Mr. Mahoney?

Mr. Mahoney, we are pleased to welcome you this morning. Since we have heard considerable testimony to the effect that the problem of labor is one of the hurdles which have to be overcome before we can have a successfully operating Rock Island Railroad, your

testimony and suggestions in this area are particularly interesting to the subcommittee.

STATEMENT OF WILLIAM MAHONEY, REPRESENTING THE RAILWAY LABOR EXECUTIVES' ASSOCIATION; ACCOMPANIED BY H. K. RITTER, UNITED TRANSPORTATION UNION; AND JOSEPH TRAYNOR, BROTHERHOOD OF RAILWAY AND AIR-LINE CLERKS

Mr. MAHONEY. Thank you, Mr. Chairman.

I present this statement on behalf of the Railway Labor Executives' Association and Mr. James Snyder, the chairman of its legislative committee. I am accompanied this morning by Mr. Harold Ritter of the United Transportation Union, who appears on my right; and Mr. Joseph Traynor of the Brotherhood of Railway and Airline Clerks on my left.

I myself am a lawyer and have been counsel to the RLEA for some 25 years. I have a very short statement and, if I may, Mr. Chairman, I would like to read it.

As you know, the Railway Labor Executives' Association is an unincorporated association whose membership comprises the chief executive officers of all of the standard, national, and international railway labor unions representing railroad employees in the United States. As such, it has been involved both in the courts and before the committees of the Congress in matters relating to the critical situation confronting its members and the public as a result of the bankruptcies of the Rock Island and the Milwaukee Railroads.

As you know, the Railway Labor Executives' Association has sought to preserve these railroads both as sources of employment for the members of its constituent unions, and as necessary to the future rail needs of this Nation which become more evident day by day as the cost of fuel increases and its supply diminishes.

It seems to the Railway Labor Executives' Association that today no argument should be necessary to convince anyone of the absolute need to preserve an adequate rail network which will serve the future needs of this Nation.

While the Rock Island has been in reorganization for several years, its sudden imminent demise occurred rather precipitously. It came immediately upon the heels of, and is now concurrent with, the crisis created by the Milwaukee Railroad's problems.

S. 2253, S. 2246, and S.J. Res. 139, each in a different way and for differing periods seek time to permit a reasoned, deliberate judgment to be made regarding the future of the service now provided by the Rock Island.

The RLEA supports such legislation as essential to that end. At the present time, the Rock Island employs over 8,000 people, the vast majority of whom are represented by the labor organization members of the RLEA.

For the most part, these employees are at an age when it is difficult, if not impossible, to obtain other employment—even other railroad employment. In the majority of instances, the skills of these employees are railroad skills saleable only in the railroad industry.

Many of these employees are people who live in western, rural communities where employment is not readily available. We re-

spectfully submit that to turn these people out without adequate protections and safeguards would be unjust.

The Federal Railroad Administration, recognizing the seriousness of the situation and the equity inherent in the position of the Rock Island employees, brought together the unions and the carriers who had placed bids on parts of the Rock Island and the Milwaukee.

As a result of that meeting, the Federal Railroad Administrator, Mr. John M. Sullivan, issued a statement of basic principles for negotiations which would seek an agreement governing the hiring of Rock Island and, to some extent, Milwaukee employees.

It is hoped that an agreement will be reached which, together with appropriate legislation by the Congress, will preserve to as many employees of the Rock Island as possible continued railroad employment with adequate safeguards for the permanency of such employment.

For those not hired, it is certainly not unreasonable to seek from this Congress the same protections which it provided Milwaukee employees in similar circumstances. The Federal Railroad Administrator and his staff are to be commended in their efforts to seek justice for the employees in a manner both fair and equitable to the railroads and to the employees.

The rail unions and the rail managements have recognized their respective responsibilities, and I believe have made great strides thus far toward seeking the best solution possible in most difficult and complex circumstances.

In order to insure a fruitful realization of their efforts, however, it is essential that the Rock Island continue operating as it has operated in recent months.

For that reason, the RLEA urges your favorable consideration of the legislation now before you. Absent such legislation, Rock Island employees and the public will suffer extensive and needless hardships.

Thank you, Mr. Chairman.

Senator EXON. Thank you, Mr. Mahoney.

Does either one of the gentlemen accompanying you have any statements?

Mr. RITTER. I have nothing to add.

Senator EXON. Let me ask a question or two. You have indicated that you support all three of the proposals that we are considering.

Do you have any particular favorite among those three proposals?

Mr. MAHONEY. No; we have no favorite. Obviously we would like to see the Rock Island remain in being for as long as possible. In that sense, we would favor the bill that accomplishes that result.

However, we are now engaged in a process which, if successful, I believe will alleviate to a great extent the hardship to the employees and the shipping public which apparently ultimately is going to result from a Rock Island collapse regardless of what interim legislation is passed.

And what we now need is time to make sure that that process can be completed fruitfully. It can't be completed fruitfully by March 2. I think that is impossible.

Senator EXON. What date do you think it might be?

Mr. MAHONEY. Well, the Secretary of Transportation in our conversations with that Department came out with a letter requesting the ICC for a month, an extension for a month, and I honestly believe it can be done in that length of time. That keeps the pressure on everybody, obviously. And based upon the progress we have made thus far—which has been tremendous—I believe we can accomplish that result.

But we have to have two things, it seems to me. We have to have, first of all, an agreement with the purchasing carriers with regard to the people they take. And we have to have protection for the people who are not hired.

We would hope that we could get the same protection for the Rock Island people that the Milwaukee people received. Now there is a problem there, as I understand it, and the problem is apparently the trustee is not as, let's say, "cooperative," for lack of a better word, in the Rock Island case as in the Milwaukee case.

It would be a sad thing, it seems to me, if the labor organizations were forced to exercise whatever legal rights they have to obtain whatever is owed their member-employees under the law. Because all that would do would be to frustrate transfers of these properties which should be transferred, like to the SP, the GTW has a large bid in, and it would be a darn shame to frustrate everything simply because these employees have to fight for their rights under the law, and try to stop everything until they can get the money that's owed them.

Cooperation is by far and away the better way to proceed. We found that out I think in the Milwaukee, and we are finding it out in Rock Island on the responsibilities that have been taken, recognized, and the obligations which have been assumed by the railroads and by the unions, which I think are very encouraging toward a successful conclusion—as successful as it could be in these circumstances of this situation.

Senator EXON. I take it, then, that you feel that if we could use the model or guidelines established in the Milwaukee matter as far as labor protection is concerned, we could probably resolve the Rock Island problem, which is similar with regard to labor protection? Is that correct?

Mr. MAHONEY. Yes, Mr. Chairman; that's right.

Senator EXON. You have expressed support for some labor protection legislation. Would you care to outline anything more specific? Or should we just leave it at that—that maybe we could use the Milwaukee procedure as a general guideline?

Mr. MAHONEY. I think that because this is such a complex problem, I think the legislation that is ultimately enacted should be coordinated with the agreement which is ultimately reached under the auspices of the FRA. I think it will probably—or should certainly follow insofar as protections to employees are concerned—pretty much the Milwaukee legislation, the Milwaukee Restructuring Act, that type of legislation.

But I think it should be that the agreement which we reach with the carriers should be coordinated into that legislation—not become a part of it, but it should be complementary to that legislation. And we will only know that of course after we get our agreement—which hopefully will be Monday, the 25th.

Senator EXON. Mr. Mahoney, I am a cosponsor of Senator Kassebaum's bill, S. 2253, which as you know calls for a 30-day extension of directed service.

In view of the testimony by the Chairman of the ICC, which I assume you heard this morning, that if they felt it was necessary they have the authority and the money to continue for a 3-week period, and since you said you thought that a month would be the time necessary to accomplish the desired goals, if you had a choice between the Kassebaum bill and leaving it up to the ICC which would you feel most comfortable with? And which do you think would be the most effective in reaching the desired goal?

Mr. MAHONEY. The Kassebaum bill, because of the 30 days. We need more than 3 weeks.

Senator EXON. You need more than 3 weeks?

Mr. MAHONEY. Since last April, starting with the Milwaukee, we have operated on a 7- or 10-day crisis cycle period. The Milwaukee was going to stop every 10 days for the last 365 days, and is still operating. And we have been in courts over and over again with this type of a psychology, which is not good for the business of the railroad or the morale of the employees or anything else.

Then with the Rock Island, it is the same situation. We were going to stop, and then we get extensions. We are going to stop, and we get extensions. I don't think that 3 weeks is enough. I think it would be a mistake to say: OK, we're going to go 3 weeks. And then we're coming right up to the end of that, and then we need another 10 days, or something like that.

I think we would have enough time. At the beginning, the shippers should know what they are confronted with. I agree with the gentleman who preceded us. We should have a pretty fixed, solid date when this thing is going to end, and when all these other railroads can take over who want to take over.

And we should give them enough time to make sure that can be done, and give them enough time to do that—whatever your ultimate selection is on the time that is necessary, fix it, and let that be it.

Otherwise, we just get strung along on this utter misery that we have been going through for the last 12 months.

Senator EXON. Senator Kassebaum?

Senator KASSEBAUM. Mr. Mahoney, I would like to ask you what you thought of the provisions that Congressman Staggers makes in his bill, which essentially has many of the same provisions I have, other than extensive labor protection guidelines. Have you had a chance to look at his bill?

Mr. MAHONEY. No. I have seen a draft with the labor protection in it, which I understood was going in his bill. I haven't seen the remainder of his bill, though, Senator. I don't know what—

Senator KASSEBAUM. And I would just like to point out again, it seems to me a difference between the Milwaukee situation and the Rock Island regarding labor protection, and perhaps one reason that the trustee is so reluctant to even talk, is that the Rock Island is bankrupt. The Milwaukee did have some assets that certainly provided the security under which they could obtain Federal loans to meet labor protection. And this has got to be a major difference we're dealing with here as far as the various assets in the line.

Mr. MAHONEY. Yes. I agree that that is a major difference. However, the difference between the approach taken by the trustee of the Milwaukee and the trustee of the Rock Island is that the trustee of the Milwaukee felt that he would make this attempt, which was creditor money now we're talking about—he would make this attempt with \$75 million creditor money.

The creditors objected, and the reorganization court sustained the trustee.

In the case of the Rock Island, granted there is more money, but in that case—and I am not sure everybody paid 100 cents on the dollar—my information is, and it may be inaccurate, but my information is that the trustee didn't bother taking a poll of creditors, or checking anything with anybody, he was just going to hardball it and say "no," I'm not going to do that, and there's a great deal of difference there.

After investigation and checking it out and analyzing say the—I don't know this either for a fact—but let's say the creditors had paid 35 cents on the dollar for what they've got, and they were going to get 65 cents on the dollar. Well, you know, by allowing some money for the employees, maybe they'd only get 55 cents on the dollar, and they decided that would be better than taking a chance of having a dead railroad operation that could be picked up for scrap at less, and they may only get 25 cents on the dollar when it's all done, because the employees will have to do everything they can to protect their rights in court and stop all of this until they do protect themselves.

Senator KASSEBAUM. Thank you.

Mr. MAHONEY. Thank you.

Senator EXON. Thank you, gentlemen; thank you very much. We appreciate your testimony.

Mr. MAHONEY. Thank you.

Senator EXON. The next witnesses are a panel from Kansas and Nebraska. Would that group please come forward at this time?

Mr. Vic Moser, Mr. William Morand, Mr. Jon Hansen, Mr. Kenneth McDaniel, and Mr. R. Dennis Wright.

Mr. Moser, I do not know whether you are the self-appointed or elected chairman of this group. Looking over the group here, I would suspect that they are organizations which would not elect anybody chairman. I not know whether you are the lead spokesman.

Is everyone going to make a statement? How do we proceed with the panel?

STATEMENTS OF VIC MOSER, KANSAS DEPARTMENT OF TRANSPORTATION, TOPEKA, KANS.; WILLIAM MORAND, PRESIDENT, COLLINGWOOD GRAIN, HUTCHINSON, KANS., ON BEHALF OF KANSAS GRAIN AND FEED; JON HANSEN, KANSAS CITY BOARD OF TRADE; ACCOMPANIED BY H. R. SCHMID, PRESIDENT, KANSAS CITY BOARD OF TRADE; KENNETH McDANIEL, AMERICAN AGRICULTURE MOVEMENT, KANS.; AND R. DENNIS WRIGHT, ON BEHALF OF THE NEBRASKA PUBLIC POWER DISTRICT

Mr. MOSER. Senator, we really haven't discussed it.

Senator EXON. Well, let us just proceed, then, with you?

Mr. MOSER. Senator, I have a prepared statement I would like to submit, for the purposes here and because I know we are running short on time, and I would just like to summarize my statement, if I could.

Senator EXON. Yes. Without objection, so ordered.

Mr. MOSER. In my statement to be submitted for the record, I have some technical changes. We were advocating for S. 2253, and I have some impact analyses of the abandonment of the Rock Island.

I would like to thank you for the opportunity to appear here today to express Kansas' concern for the future of the Rock Island lines, and to comment on proposed legislation we feel will be helpful to us.

I would like to say that we are pleased with the initiatives of the Senators from Kansas, Senator Kassebaum, and Senator Dole, and their leadership in this respect.

I am the executive director of the Kansas Railroad Working Group, appointed by Governor John Carlin to deal with problems resulting from the failure of the Rock Island Railroad in our State.

As you may know, we have almost 1,000 miles of line in our State which are at stake. We have 1,200 employees whose jobs are at stake. A great deal of our grain, which is an important product of the State of Kansas, is carried by the Rock Island.

I would like to say that we favor the provisions of S. 2253 which we feel is a realistic approach to the problems of the Rock Island. It does give us a realistic deadline, or a deadline that is at least public and will be adhered to, we hope, and offer some other solutions which we think are very reasonable for continuing service in the interim.

We have just returned from six public hearings across the State of Kansas in which we had an opportunity to talk to the people and ascertain their opinion as to what was—what their feelings were about the situation.

We held these during the week of February 4, in which two significant events having to do with the future of Rock Island lines occurred. One of these was the order of the Rock Island Bankruptcy Court to liquidate all lines; the second was the announcement of the results of the U.S. Department of Transportation's call for applications for Federal loans to finance rehabilitation of purchased lines.

As a result of these two events, we found the people most directly affected to have, for the first time, a clear indication of the future of rail service on their lines. Where at one time it had appeared that all lines in Kansas would be purchased, it was now clear that the future of the Rock Island lines from Denver to Omaha and Kansas City and Topeka-St. Joseph, were uncertain. Even on other lines where there were bona fide indications of interest, it was realized they faced interruptions in essential rail service after March 2.

As a result, shippers groups are now forming to investigate their options for obtaining transportation services. But it takes time to find alternatives, and even more time to incorporate legally and to seek financial resources for any alternative they may find.

For this reason alone, Kansas requests the Congress to enact legislation extending temporary rail service on the Rock Island lines where service is deemed essential, and where no bona fide offer of purchase has been made for a period of 90 days, which is the period allowable under law.

On those lines having an interested purchaser, the 30 additional days of directed service provided by S. 2253 should be sufficient. We think this would provide the needed incentive to move negotiations along.

But there is another reason why we are asking to extend service for this period: There are 147 million bushels of grain in grain elevators on Kansas-Rock Island Lines which must be transported before the harvest season begins in June. The stored grain must be moved before June in order to provide storage capacity for the 1980 harvest which is now estimated at approximately 745 million bushels.

It will require a combination of trucks and trains to move all this grain, but there are not enough trucks available for the grain industry in Kansas to service this demand. Also we are concerned with some other elevators who are also facing the same problems.

Further, we are concerned about the impact on the States' efforts to conserve energy. If we take the example of the Denver and Omaha and Kansas City Line, we estimate that it would take 32,667 truckloads to move this grain, which would consume about 2,665,000 gallons of diesel fuel in this next 3-month period. We think this is quite severe.

Senator, I've mentioned the changes we'd like to make. In summary, I'd like to go through those a little bit. We're asking you to extend service for 90 days on lines without interest but where service is essential, 30 days where interest has been proclaimed to allow applications to be filed before the bankruptcy court. And we think this should be the indication of interest, rather than just an analysis by the Secretary of Transportation.

We would also ask that the Secretary of Transportation be allowed to buy bonds as well as preference shares or trustee's certificates, because bonds can be, under Kansas law and probably under some other State laws, issued by organizations, port authorities or whatever, on the local level.

We are asking for time in essence to prepare for the future and to take care of our pressing short-term needs. I wish to emphasize, we are not asking for an extension of service at this time only to be followed by another request for a further extension, on the feeble hope that something or someone or some action will be taken that would save our lines.

Rather, we are acting in accordance with the thrust of Senator Kassebaum's bill, which is to prevent unnecessary dislocation and disruption during the transition to a transportation system which may not include the Rock Island Lines.

Thank you.

Senator EXON. You think, then, Mr. Moser, that the Kassebaum bill is the best alternative of those proposals which are being considered by the committee today?

Mr. MOSER. Yes, we believe it is. We believe it is. I think it has the feature that it is a realistic bill that recognizes that we will

come to some point where some lines will not be continued, but realizing also that we need some help to take care of this disruption in the interim period.

Senator EXON. Thank you.

Senator, shall we go ahead with the rest of the testimony?

Senator KASSEBAUM. Yes.

[The statement follows:]

STATEMENT OF VICTOR C. MOSER, EXECUTIVE DIRECTOR, KANSAS RAILROAD
WORKING GROUP

Senator Long, Members of the Surface Transportation Subcommittee: Thank you for the opportunity to appear here today to express Kansas' concern for the future of Rock Island lines and to comment on proposed legislation we feel will be helpful to us. My name is Victor C. Moser. I am the Executive Director of the Kansas Railroad Working Group appointed by Governor John Carlin to deal with problems resulting from the failure of the Rock Island Railroad in our state. My address is 514 Mills Building, 109 West 9th Street, Topeka, Kansas, 66612. The future of a thousand miles of Rock Island line in Kansas is at stake. Three of these lines are mainlines which have furnished the shippers of the state with access to markets in the East, the West Coast, and the Gulf of Mexico. It has been estimated the Rock Island conveys 38 percent of the state's agricultural products to their markets. Many industries are solely dependent on the Rock Island for movement of their products. The Rock Island employs 1200 people in Kansas. The loss of these jobs would mean severe disruptions to their families as well as resultant social and economic repercussions to their communities.

It was recognition of the problems resulting from the failure of the Rock Island that Governor John Carlin formed the Working Group. The Working Group is composed of people with relevant expertise from several agencies in Kansas state government. Working together, we can effectively utilize the resources of state government in seeking solutions that are both short and long range in scope. One of our first activities was to schedule and conduct a series of six public meetings across the state to ascertain needs and to direct our efforts. We held these meetings during the week of February 4 just following two significant events having to do with the future of Rock Island lines:

1. The order of the Rock Island Bankruptcy Court to liquidate all lines;
2. The announcement of the results of the U.S. Department of Transportation's call for applications for federal loans to finance rehabilitation of purchased lines.

As a result of these two events, we found the people most directly affected to have for the first time a clear indication of the future of rail service on their line. Where at one time, it had appeared all lines in Kansas would be purchased, it now was clear the future of the Rock Island lines from Denver to Omaha/Kansas City and Topeka to St. Joseph were uncertain. Even on the other lines where there were bona fide indications of interest, it was realized they faced interruptions in essential rail services after March 2d (the date ICC directed service terminates), depending on the ability of these companies to proceed toward eventual purchase and operation.

As a result, shippers' groups are now forming to investigate their options for obtaining transportation services. But, it takes time to find alternatives and more time to incorporate legally and to seek financial resources. Clearly, the eleven days left until directed service expires is not enough time. For this reason for this reason alone, Kansas requests the Congress to enact legislation extending temporary rail service on the Rock Island lines for an additional 90 days on those lines providing essential service upon which no bona fide offer of purchase has been made. On those lines having an interested purchaser, the 30 additional days of directed service provided by Senator Kassebaum's bill should be sufficient.

There is another more pressing reason to extend service which directly affects the short term economic future of the state. There are 147,422,000 bushels of grain in grain elevators on Kansas Rock Island lines which must be transported before the harvest season begins in June. This stored grain must be moved before June to provide storage capacity for the 1980 harvest which is now estimated at approximately 745 million bushels. These 147 million bushels of grain could be moved in 40,950 rail hopper cars; however, over four times as many semi-trailer truckloads (163,803) would be required to move this grain. Realistically, we must be aware that even under extended rail service, it will require a combination of trucks and trains to move all this grain. But, there are not enough trucks available to the grain

industry in Kansas to service this quantity of shipments, especially when considering the concurrent demand from non-Rock Island elevators in the state.

Further, we are not certain if adequate diesel fuel stocks will be available. Let us consider the case of the Denver to Omaha/Kansas City line in Kansas. There are 40 grain elevator facilities on this line with a total storage capacity of 42,000,000 bushels; 29,400,000 bushels of which must be moved before June to make way for the 1980 harvest. This represents 32,667 truckloads which will consume 2,665,627 gallons of diesel fuel to reach Amarillo which is approximately 408 miles. This fuel usage would amount to only 667,407 gallons by rail. The dollar comparison is even more striking, partly because railroads purchase diesel in bulk for approximately \$0.83 per gallon where as diesel is purchased at retail for trucking at approximately \$1 per gallon. The dollar difference, then is \$5,540,323 by truck and \$1,149,617 by rail. If directed service is not extended, Kansas would need to develop an allocation and fuel transportation plan to enable us to cope with the tremendous short-fall in diesel fuel that would result from this increase in consumption by trucks.

Senator, we are asking for time to prepare for the future and to take care of our pressing short-term needs. I wish to emphasize we are not asking for an extension of service at this time only to be followed by another request for a further extension on the feeble hope "something" will come along to save our lines. Rather, we are acting in accordance with the thrust of Senator Kassebaum's legislation which is to prevent unnecessary dislocation and disruption during the transition to a transportation system which may not include the Rock Island lines. A 90-day extension and otherwise the adoption of the general provisions of Senate Bill 2253 would:

1. Allow time to organize and develop plans for future transportation service where existing lines are not likely to be purchased;
2. Allow time to develop legislation and to negotiate for agreements acceptable to present Rock Island employees and potential purchasers;
3. Give Kansas shippers the ability to move our stored grain in an orderly, rational manner that is as fuel efficient as practicable;
4. Avoid disruption in service in lines that are eventually purchased; and
5. Through the addition of funds to assist in purchase of Rock Island lines, provide incentives that will encourage other railroads to act. While allowing this important transition period, the enactment of Senate Bill 2253 should signal that service on lines where no interest to purchase is shown would finally cease at the end of the additional 90-day period.

For the information and use of the Subcommittee, I have attached two analyses of the impact of the loss of service on Rock Island lines in Kansas. The first is a comparison of fuel consumption to move stored grain by truck trail. The second is an evaluation of the loss of service on Rock Island lines of some future time when transportation equilibrium has been reached.

I am submitting the following revisions for your consideration which would provide for the needs of Kansas shippers and communities reliant on rail service on Rock Island lines.

SUGGESTED WORDING CHANGES

Section 4(a) by adding to the sentence:

Suggestion No. 1: ". . . April 2, 1980, on those lines identified under subsection (b) of this section. On all other lines the Secretary of Transportation shall consult with the affected states to identify those lines providing essential rail services. The Commission shall continue directed rail service on all such lines until June 2, 1980."

On those lines which have not yet been bid upon, 30 days is not sufficient time to seek out other interested parties nor formulate and organize a local government response. For example, if no offer is made on the line from Denver to Omaha/Kansas City, it is possible a regional shipper and governmental organization could be formed to acquire the line. In fact, two groups of Kansas shippers have been considering this alternative. However, 30 days would not allow the necessary time to put everything together. Because service on this line and other like it is essential, the possibility of directed service should be continued for a full 90 days. On the other hand, directed service over the entire system should not be continued for a full 90 days. This would only encourage further procrastination by carriers who have expressed a desire to acquire lines. The 30-day limit might also prompt the bankruptcy trustee to come to terms with those carriers in order to avoid losing any favorable rates and divisions which currently exist with other carriers.

Section 4(b) by deleting and adding:

Suggestion No. 2: ". . . identified by the Secretary of Transportation as being the subject of bona fide offers of purchase applications, preliminary or otherwise, filed with the bankruptcy court, until the transactions are consummated."

The advantage of the addition of this language would be several-fold. First, it would require the full public disclosure of whom is interested in what. Second, it will conform to the concept adopted in the Milwaukee Act of shifting much of the control and authority to the bankruptcy court in liquidating lines of a bankrupt railroad. Third, by requiring an application be on file in the court, much of the Secretary's guess-work is eliminated in assessing what is truly a bona fide offer. Fourth, this would have the effect of stimulating those carriers who have expressed an interest in the Rock's lines to consummate their proposals.

Suggestion No. 3: Section 5(b) should be changed to conform with the Milwaukee Act or made amendatory to Section 17 of that Act.

The current language of Section 5(b) establishes a different time frame than does the Milwaukee Act. It also does not consider the involvement of the bankruptcy court in the application proceedings. This creates some confusion between the application of Section 17 of the Milwaukee Act and this Act which should be clarified. We favor the provisions of the Milwaukee Act.

Section 6, by deleting and adding:

Suggestion No. 4: "... the Secretary shall immediately purchase redeemable preference shares or bonds or trustee certificates . . ."

An alternative currently under study by Kansas is the formation of a shipper-government organization, such as a port authority. The generally accepted method of financing such an operation is by the sale of revenue bonds secured by the realty and rolling stock of the authority. By adding bonds to the types of indebtedness which may be acquired under this section, it vastly increases the flexibility of the states in attempting to deal with this crisis. An alternative to the word "bonds" would be "governmental bonds."

Suggestion No. 5: Add Section 20 of Mr. Staggers' bill (H.R. 6519) requiring guarantee of government issues used to acquire and rehabilitate the railroad.

Mr. Staggers' amendments to Section 511 of the 4R act provides a big addition to a state's arsenal of solutions, without additional cost to the Federal government. If this authority were expanded to allow government units which acquire part of the railroad to use proceeds from the sale of guaranteed issues to acquire rolling stock, such authorities could more easily acquire and operate segments of the Rock Island which otherwise would not be acquired.

Suggestion No. 6: Add Section 21 of Mr. Staggers' bill (H.R. 6519) providing additional funds under the Local Rail Service Assistance Act.

Section 21 of Mr. Staggers' bill provides additional incentive for local government and the affected shippers to try to solve their own problems and should be made a part of any semi-comprehensive plan to reach a long-term solution to the Rock Island problem. We would suggest, however, the additional funding provided by this section be limited to use on Rock Island lines which are to be operated or assisted by a governmental entity or shipper group.

Senator EXON. The next on the list—and I will proceed the list here the way it has been presented to me—Mr. William Morand, president of the Collingwood Grain Co., Hutchinson, Kans. I recognize you at this time.

Mr. MORAND. Mr. Chairman and Senator Kassebaum: My name is William Morand and I am president of Collingwood Grain, Inc., in Hutchinson, Kans. And I support S.2253.

Our company commenced business in 1890, and we were incorporated in 1958. Of course, you can understand that our principles are oriented to agriculture and rural America.

We have grain elevators in central and southwest Kansas and in the Oklahoma panhandle. We have two terminals in seven country locations that are served by the Rock Island Railroad. Of course, we also have locations served by the Santa Fe and the Missouri-Pacific Railroad.

And of course, we along with others suffered through the weeks of the Rock Island strike. We had one large grain terminal in Hutchinson, Kans., close during the strike, and we had to move our people that worked in that terminal to another of our terminals and work double shift.

Imagine a large terminal sitting like on a Sunday, lone and still, when we needed to export grain.

We were pleased September 27 when the ICC ordered the Kansas City Terminal Railway, a switching company, to provide service to December 3, 1979. We were further pleased when the directed service was continued to March 3, 1980.

We recently received notice that the directed service order would cease and the Rock Island would be closed. No foreign incoming cars would be accepted after February 15, later revised to February 22. No billing after March 2, and the railroad to be closed March 15, 1980.

I am testifying today, asking that the directed service order be extended. And I want to give you some of my ideas to the future. The Rock Island is very important to the survival of many businesses and communities. The recent Rock Island strike caused many plants to lay off employees and brought financial problems to many industries. The grain trade experienced full elevators with a big wheat harvest and were unable to make sufficient room for the fall harvest. Farmers sold wheat, which left elevators in a position of buying grain for inventory without an orderly way to turn the grain to cash.

And this all happened in a time of high interest rates. Interest on a \$4 bushel of wheat is $15\frac{3}{4}$ percent today, plus 20 percent compensating balance to qualify for prime, and we're talking about over $18\frac{3}{4}$ percent, which is the real rate that prime borrowers buy. And this equates to $6\frac{1}{4}$ cents per bushel per month.

Now, the seriousness of this recitation is that profits are lost which in the long run will have an effect on total agriculture. Our company has aggressively worked to build and upgrade facilities on all railroads, including the Rock Island. And we've been a Rock Island customer for over half a century. We now have over 11 million bushels of terminal and country handling space located on the Rock Island. Many of these facilities are designed for the future.

In the last few years, we have built one new high capacity grain unit on the Rock Island at Greensburg, Kans. This is a very modern farm center with its own track, handling fertilizer, chemicals, gasoline, oil and other services. We had three Rock Island locations prior to 1970. Today we have nine.

My point is that we have been trying to meet the needs of agriculture, even on a troubled railroad. We have had two new grain elevators planned for Rock Island locations that have been tabled due to the present rail problems.

Farmers have a need for the facilities, and many do not understand our delay in meeting their need.

We are a rail-oriented company and because of this we have optimistic plans for growth at Rock Island locations. And this growth will not occur without a railroad.

Some people have suggested to me that truck substitution to another railroad from Rock Island locations is the answer. And most grain people will tell you it is not the answer. Besides influencing lower bid prices to farmers, we must also understand that other railroads are lacking in service and grain on other lines is not moving to market in an acceptable fashion.

All railroads have logistic problems. Many railroads are operating with good profits. The situation is that they are choosing business that most enhances their profit, and this isn't poor judgment from a fiscal point of view. But it does present a serious problem for our Nation today and to the future.

I'm sure that everyone involved in the decision of what to do with the Rock Island understands that they are not just solving today's problem, but they are setting a direction that will affect posterity. I hope we do as good a job of addressing America today as did our forefathers before us.

Mass transportation of people and material is one of the most serious problems facing our Nation today. Short-term solutions will result in further chaos. We will need more main line railroad tracks in the future if we are to properly address our Nation's needs.

To emphasize one big problem is to ask the question: How are we as a Nation going to move coal trains and their projected growth on track that in the past has had other historic preferences? We are fast heading toward dedicated track and highways, plus the building of more main line track, track that can handle not only the pressing needs of today, but possibly handle piggyback trailers that may not be able to get on a highway.

We must also consider fuel efficiency comparisons between rail and truck as we look to the future. The Rock Island represents the nucleus of a very desirous starting point to commence service and meet the needs of many successful businesses and communities. People who need rail service, that has in part been less than desirable in the past, should now recognize that we have a catalyst for big things to come. We need a new, aggressive attitude to rail lines and service, a positive attitude to the next generation.

All of us along the Rock Island, and grain elevators in particular, are suffering financial losses due to the lack of rail services. I want to give you my ideas on addressing the Rock Island problem.

Keep directed service orders until a decision is made onto whom or how the viable parts of the Rock Island are to be handled. Encourage the ICC to make judgments in the next few months. Sell the Rock Island in whole or in parts to other lines with orders of service to the public.

Two, if that doesn't work, assign operating authorities top existing railroads with instructions to serve designated routes of the Rock Island.

And if that doesn't work, if a decision cannot be reached regarding other railroads interests, then directed service should be continued until communities along the Rock Island can evaluate joint participation in a plan to be developed to save the railroad.

And if that doesn't work, we should reorganize the Rock Island and keep it running.

All of us, no matter what our prejudices are, owe to posterity a forward-looking determination that points aggressively to the needs of people, communities, State and Nation—and I didn't hear that today in ICC and DOT testimony—if we are to act in our country's best interests.

If we do not preserve what the Rock Island has built to date and add to it and make it better, we will be missing one of America's

best opportunities. We cannot let the Rock Island close. The grain industry alone has large grain inventories to ship, grain on hand that must be moved to get ready for harvest. We move grain year-round, and here we are in America with harvest a few months away talking of closing a class one main line railroad.

Instead of a progressive attitude, we are in fact following a path that could lead to similar transportation problems of emerging third world nations. Without the railroad, many people, communities and businesses will suffer, suffer in terms of preserving what they have done in the past and what rural American along the Rock Island has to project to the future.

Many towns may fade away and businesses may disappear, and a waste of America's birthright will take its place. We should not put asunder what America's dream is about. People are gathering to hear positive words for keeping a main line class one railroad. The hope in their eyes is clear, and their destiny is in the hands of someone, somewhere, and they know not whom. They do not want tears of tragedy. This is the promised land. Let's continue to build, and let's use this opportunity in a positive way for people.

Grant an extension of the ICC directed order, and then let's work on options for saving rail service, so important to America. Peace or a threat of war, the railroads are a must to accomplish America's goals.

Senator EXON. My next witness is Mr. Hansen of the Kansas City Board of Trade. Mr. Hansen, we will recognize you now.

Mr. SCHMID. Mr. Chairman, Senator Kassebaum: My name is John Schmid. I am president of the Kansas City Board of Trade, and I am accompanied by Jon Hansen, who is vice president of transportation.

Senator EXON. I was wondering who that other face was out there that I did not have on the list. The mystery has been solved.

Mr. SCHMID. That's me. And Mr. Hansen will present our prepared statement.

Senator EXON. Thank you.

Mr. HANSEN. Good morning, Mr. Chairman, Senator Kassebaum. Mr. Exon, I thought that Big Red was always good.

Senator EXON. I thought that it was, too. But I was not going to bring that up, because I did not want to offend you.

Mr. HANSEN. Is that—only at Lincoln, Nebr., I guess.

The Board of Trade of Kansas City, Mo., is an organization of 215 members representing over 100 firms engaged in various activities in the grain industry. The Kansas City Board of Trade is the designated futures contract market for hard winter wheat and the cash market for all kinds of grains, including soybeans. We are here today in support of S. 2253.

On October 22, 1979, at a hearing before the Office of Rail Public Counsel of the ICC in Kansas City, the Kansas City Board of Trade presented a paper supporting continued directed service of the Rock Island. The Kansas City Board of Trade's position today is substantially the same, which is why we support S. 2253. Directed service to be continued another 30 days beyond March 2, 1980, in hopes that meaningful conditions can be worked out for the permanent takeover of the main portions of the Rock Island so that both shippers and receivers will receive continued service.

The board of trade is located in the center of the greatest grain-producing area in the world. This territory is also substantially served by the Rock Island. Our member firms, which range from sole proprietorships to very large organizations, are involved in every aspect of the grain business, ranging from milling to world-wide exporting.

For those many grain firms which transport grain by rail, it is virtually a certainty they will be large shippers on the Rock Island, which in 1979 handled 8 percent of the grain moving by rail in the western United States, even with an 8-week shutdown before directed service.

In 1978, the Rock Island moved 10 percent of the grain in the western United States. Large quantities of this grain moved overseas, a most important element in aiding our beleaguered balance-of-payments and supporting good prices for U.S. producers. If grain cannot be shipped, it is of no value.

Another way to emphasize the vital interest of the grain trade in the continued operation of the Rock Island is to point out that a great concentration of its trackage is in Iowa, Kansas, and Oklahoma. These three States produced 20 percent of our Nation's corn, 34½ percent of our sorghum grains, 27 percent of our wheat, and 15 percent of soybeans in 1979.

Approximately 1,700 elevators are served by the Rock Island exclusively. If there is no Rock Island service, the only alternative would be to ship by motor carrier, and this raises issues of availability, capacity, cost, fuel availability, and efficiency, and roads and bridge conditions.

It is our understanding that various carriers are considering acquiring portions of the Rock Island. However, the line from Kansas City and Omaha west to Colorado is currently not a portion being mentioned for takeover as far as we know.

We'd like to discuss this line and urge the importance of keeping it operating. From Bellville, Kans., west to the Colorado border, which is an intensive grain-producing area, this part of the Rock Island passes through eight counties of Kansas. For the years 1976, 1977, and 1978, they averaged 27½ percent of the entire Kansas production of corn, wheat, and milo. In these eight counties, there were 46 million bushels of storage, of which 25.1 million or over 50 percent is in storage in 45 elevators which are served only by the Rock Island.

We want to quantify this to dollar terms. Assume that the average price per bushel of these three grains for the last 3 years is \$2.75 a bushel. Also assume an average put-through for each elevator of two times the storage capacity. This gives an approximate dollar value of grain moving through the elevators of nearly \$0.5 billion.

We believe it is self-evident from these figures that if this line, the Rock Island, were permanently shut down, there would be no practical way that the grain elevators in the eight counties or the adjacent counties to the north and south could begin to handle the large volume of grain that is handled by the elevators on this line.

Another matter about which we have concern, but we believe can be worked out by the individual firms involved, are situations such as in Kansas City where industries are served by the Rock

Island only. We've been informed that it may be feasible for short-term arrangements to be made for other carriers to serve them by obtaining trackage rights.

A more troublesome question is raised by three elevators declared regular by the Kansas City Board of Trade which are served by the Rock Island only. "Regular" means, among other things, that their warehouse receipts can be delivered in satisfaction of Kansas City Board of Trade wheat futures contract obligations.

February 29, 1980, is the first intention date for contracts expiring in March. Intentions must be filed the business day before actual delivery, which occurs with the warehouse receipt for 5,000 bushels each. However, the first delivery day is Monday, March 3, 1980, by which time the possibility exists of no Rock Island service.

Such a situation causes market uncertainty and eventual problems with the Commodities Futures Trading Commission, which could be resolved insofar as the March deliveries are concerned by this 30-day extension. Although temporary service is under consideration and while the markets can take various protective measures, a third extension would obviate the need for any emergency action during or just before a delivery month to declare elevator receipts ineligible for delivery on March futures contracts.

In closing, the Kansas City Board of Trade urges prompt and immediate action so that this bill can travel the lengthy route to passage and signing before March 2, 1980, in order to preserve service on the Rock Island for another 30 days.

Thank you for letting us appear. We'll try to answer any questions you may have.

Senator EXON. Thank you.

The next witness we have is Mr. Kenneth McDaniel, representing the American Agriculture Movement, from Kansas. Mr. McDaniel, we are pleased to recognize you at this time.

Mr. MCDANIEL. Yes; I'm a farmer from Brewster, Kans. And we've been without rail for a long time out there. Right now we're moving a lot of our grain by truck. And it's disastrous to us. We're losing money by shipping it by truck, because I sold wheat the other day for—it cost me at the elevator, it cost me 8 cents a bushel off the price that was on the board. And when I left home, wheat was \$3.40 a bushel. I feel that Rock Island could give us better service in some way.

All I see running up and down this Rock Island line is nothing but coal cars. What I'm saying: Why can't we have some grain cars? I want to know those answers. And it disturbs me and it disturbs a lot of my people out in the rural areas.

Rural America is dying. My small towns are dying. Between the embargo and everything else hitting us, we're in a chaos out there. So that's about—I'm just speaking for part of the farmers from Kansas, and I want to know some of these answers.

Senator EXON. Thank you.

I will call the final witness on this panel, and then we may ask questions: Mr. Dennis Wright from Kansas City, Missouri, who as I understand, is representing Nebraska Public Power District. Mr. Wright?

Mr. WRIGHT. Yes; Mr. Chairman and Senator Kassebaum: I am R. Dennis Wright and I am an attorney for the Nebraska Public

Power District. We have previously submitted a written statement. I would ask that the Chairman receive that on the record at this time.

Senator EXON. Without objection, so ordered.

Mr. WRIGHT. And I would like to extemporaneously summarize the principal points of that written statement.

The Nebraska Public Power District is a public corporation and a political subdivision of the State of Nebraska. It operates an integrated electrical utility system which provides electricity at wholesale and retail for thousands of individual customers, and also for many municipalities in that State.

The Nebraska Public Power District has a very large, 220-megawatt generating powerplant at Hallam, Nebr. Unfortunately, that plant is located in the 7 percent trackage of the Rock Island which nobody wants. The plant is located approximately between Lincoln, Nebr., on the north and Fairbury, Nebr., on the south.

At this point in time, due to the Rock Island strike of last fall, and other problems, the coal supply that is needed to fire that station is only two-thirds of that which is required. This station, if the embargo goes into effect on February 22, will no longer receive coal.

NPPD is going into a 9-week period commencing March 15 when Sheldon Station will become absolutely vital to the Nebraska Public Power District service area. At that time, a nuclear plant will be shut down for required maintenance and repair procedures.

Nebraska Public Power District has not waited until the last hour to try and continue the service that is absolutely vital for that plant to stay in operation. As soon as the ICC issued its Directed Service Order 1398, the Nebraska Public Power District began discussions with other rail carriers to determine if there was any interest in picking up that small portion of the Rock Island trackage.

Initially, the Denver-Rio Grande thought that it would be interested. The Denver-Rio Grande continued to indicate that interest to us until approximately 1 week before the Federal Railroad Administration's deadline on February 1 of this year, the deadline which required railroads to formally request the portions of the Rock Island each wanted.

At that point in time, we were advised that the Denver-Rio Grande had no present intention to acquire any part of the Rock. We were told that the primary reason was that the Rock Island labor issue had to be resolved, along with resolving the rehabilitation cost problems to upgrade the Rock between Denver, Colorado, and the station near Hallam, Nebr.

With the Denver-Rio Grande not showing an interest and no other railroad filing by February 1, 1980, the Nebraska Public Power District went to the Union Pacific and the Burlington Northern Railroad, both of which have main lines that more or less parallel the Rock Island track east from Denver to Nebraska.

We had anticipated some railroad interest in this portion of the Rock's system because Nebraska Public Power District is a large customer for any railroad. This one station, near Hallam, Nebr., ships approximately one-half of 1 million tons of coal each year. That plant has an economic life which should continue through the

rest of this century. This is a steady income stream from business that any railroad should be interested in.

Now, fortunately for us, the Union Pacific has decided to at least tentatively look into this matter. Nebraska Public Power District had filed with Interstate Commerce Commission a request for either a directed service order or for a service under section 11123 of the act.

The Union Pacific at this very moment—and we have called that company this morning to determine whether or not it will formally go to the Interstate Commerce Commission and ask to serve this station on a temporary emergency basis—is still trying to wrestle with the labor issue.

An hour ago we were told that there is a good chance that the UP will provide service on a temporary basis. However, the UP still has to convince its management that the UP somehow will not become embroiled in this labor protection issue.

We have reviewed the legislation that the subcommittee is considering today and we consider that Senator Kassebaum's bill is the most beneficial. However, we have two questions.

Nebraska Public Power District would prefer that the Union Pacific be allowed to serve its plant on a voluntary basis if the UP makes that determination today and assuming the ICC would authorize it.

We are somewhat concerned, however, that section 4(a) of S. 2253, containing mandatory language for directed service, may, in fact, require the directed rail carrier, Kansas City Terminal Railway, to continue service to Sheldon Station. I would hope that is not the intention. However, if it's necessary, this language might be modified to allow another rail carrier which desires to provide rail service involuntarily, under 11123 of the Interstate Commerce Act, to be allowed to do so.

Because we can't report to the subcommittee that we know for sure that the UP will come to our assistance, we have some concern about subsection (b) of section 4 of S. 2253. That provision provides that directed rail service may only go to those portions of the Rock Island Line where there is a bona fide offer of purchase. We are concerned that if the UP for some reason cannot provide the interim service, that after April 2, 1980, one of the largest powerplants in the State of Nebraska will not receive the coal necessary to fire it because of the language of S. 2253. We would urge the subcommittee to review this and hopefully the Interstate Commerce Commission's discretionary authority under other provisions of the act will not be influenced by the—what we perceive to be mandatory language in section 4 of S. 2253.

I think that we would agree with most of the other testimony that we have heard today concerning what is important as far as a long-term solution is concerned. Every railroad that we've talked to has indicated to us that it cannot seriously consider providing permanent service to our station until there is some resolution of the labor problem. So we would urge the subcommittee to consider this and to recognize that the interim relief that's being provided by S. 2253 in the long run will not be enough.

Thank you, and we appreciate the opportunity of being here.
[The statement follows:]

STATEMENT OF R. DENNIS WRIGHT ON BEHALF OF NEBRASKA PUBLIC POWER
DISTRICT

My name is R. Dennis Wright and I am an attorney for Nebraska Public Power District (NPPD). I am a partner in the law firm of Hillix, Brewer, Hoffhaus & Whittaker, 2715 Commerce Tower, Kansas City, Missouri 64105. NPPD has authorized me to make this statement on its behalf. I am authorized to practice law before all courts in Missouri, both state and federal. I also am authorized to practice before the United States Court of Appeals for the Fifth Circuit, Sixth circuit and Eighth Circuit. In addition, I am licensed to practice before the Interstate Commerce Commission and have appeared before the Commission on rail transportation matters. I have also testified before a Senate Subcommittee reviewing proposed legislation to deregulate the railroads.

NPPD is a public corporation and political subdivision of the State of Nebraska. Its management is vested in a board of directors consisting of eleven members who are popularly elected from districts comprising subdivisions of NPPD's chartered territory. These districts encompass 85 of Nebraska's 93 counties and portions of two other counties. NPPD operates an integrated electrical utility system, including facilities for generation, transmission and distribution of electric power and energy at wholesale.

NPPD presently serves approximately 105,000 customers at retail, including retail service in 245 municipalities and communities, and supplies at wholesale the total requirements of 78 municipalities, public power districts and cooperatives. In addition, NPPD provides at wholesale part of the requirements of the City of Lincoln, Nebraska, and also has interconnection agreements with 22 self-generating municipalities pursuant to which such municipalities may purchase part of their requirements from NPPD.

The purpose of this statement in this proceeding is to inform the Subcommittee of the need to continue uninterrupted rail services to NPPD's coal-fired electric generating plant ("Sheldon Station") near Hallam, Nebraska and to comment on proposed legislation.

There is a close relationship between the various components which ultimately must work together to bring electrical services to users. These components for coal-fired power supply are:

- (a) The coal mining or production facility;
- (b) The transportation system;
- (c) The power generating unit and
- (d) The electrical transmission and distribution system.

As one can readily discern, the transportation system is a key link between the fuel producer and the utility which utilizes that fuel to fire its plants. Without the transportation services link, the "system" breaks down completely.

One of NPPD's primary generating stations is Sheldon Station located near Hallam, Nebraska. Sheldon Station is a coal-fired 220 megawatt plant which is interconnected with NPPD's other generating, transmission and distribution facilities. For years NPPD has relied on the Rock Island to transport coal to Sheldon Station. Attached to this statement as Exhibit A is a map which shows in part Rock Island's route from Denver, Colorado to Sheldon Station at Hallam, Nebraska. The coal necessary to fire Sheldon Station has been delivered by the Denver Rio Grande and Western Railroad and Union Pacific Railroad to interchanges with the Rock Island Railroad in Denver, Colorado and Pullman, Colorado, respectively.

BACKGROUND OF NPPD'S EFFORTS TO RETAIN RAIL SERVICES

NPPD has been very active in its attempts to insure that Sheldon Station continues to receive the coal which is absolutely vital to its continued operation. After the Interstate Commerce Commission ("Commission") issued Directed Service Order 1398 requiring Kansas City Terminal Railway Company to act as the directed rail carrier, NPPD kept in close contact with the Denver Rio Grande and Western Railroad ("DRGW"). The DRGW indicated initial interest in acquiring the Rock Island trackage which had been utilized to deliver coal to Sheldon Station. After the Bankruptcy Court ordered liquidation of the Rock Island, NPPD received word that the Federal Railroad Administration ("FRA") would accept formal requests to acquire portions of the Rock Island on or before February 1, 1980. Just prior to February 1, 1980 NPPD was informed by the DRGW that it could not justify filing a formal request with the FRA to acquire the subject Rock Island trackage. NPPD was informed that the following problems would have to be resolved before the DRGW would consider acquiring the trackage:

- (1) Labor problems with the Rock Island's employees.

(2) Deterioration of the subject Rock Island trackage and resultant massive rehabilitation costs.

(3) Obtaining enough serviceable equipment from the Rock Island to meet DRGW's needs for the expanded service.

After learning of DRGW's decision, NPPD began discussions with Burlington Northern and the Union Pacific to determine whether either of those carriers would be interested in acquiring a portion of the Rock Island trackage from either Lincoln, Nebraska down to Hallam or from Fairbury, Nebraska up to Hallam. Neither carrier filed a formal request to acquire such trackage with the FRA.

On February 8, 1980 NPPD caused to be transmitted to the Interstate Commerce Commission a Request for Directed Service to Sheldon Station, Hallam, Nebraska; or, in the Alternative, Request for Limited Extension of Directed Service Order 1398 (Sub. No. 1). In such request, NPPD asked the Commission to order service to Sheldon Station under 49 U.S.C. §§ 11123-11125.

During the week of February 11, NPPD pursued further carrier discussions and learned Union Pacific would be willing to provide service on at least a temporary emergency basis to Sheldon Station. The Union Pacific proposed to provide such service subject to obtaining formal approval from its management and subject to obtaining temporary operating rights over the Rock Island tracks.

Hopefully, NPPD will be able to report to the Subcommittee on February 20 that Union Pacific has received all necessary approvals, including emergency authorization from the Interstate Commerce Commission. If the Union Pacific temporary authority proposal is not implemented, NPPD urges that the Subcommittee favorably report legislation which will continue uninterrupted service to Sheldon Station from and after March 2, 1980, the termination date of Directed Service Order 1398.

THE NEED FOR UNINTERRUPTED COAL SHIPMENTS IS GREAT

Due to the Rock Island strike last fall and other factors, the current coal inventory at the station is less than two-thirds that which should be stockpiled in the winter season. Normally, NPPD, on average, receives 35,000 to 40,000 tons of coal per month at Sheldon Station. The total 1980 coal requirements for the station are estimated to be 450,000 tons. The projected burn rate of coal for the next six months at the station is as follows:

Month and tons:		Month and tons:	
February	36,000	May	36,000
March	38,000	June	25,000
April	26,000	July	43,000

NPPD is entering into another period of heavy load requirements for Sheldon Station. This generating station is essential and will be relied upon very heavily to meet NPPD's load requirements for a nine week period commencing March 15, 1980. During this time, NPPD's Cooper Nuclear Station will be shutdown for required refueling and maintenance purposes. This is no feasible mode of transporting such coal other than by rail. If regular coal deliveries are not maintained, NPPD believes that severe power supply disruptions could follow. This, of course, would adversely affect many individual citizens of the State of Nebraska.

NPPD SUPPORTS S. 2253

Of the legislation which is before the Subcommittee, NPPD believes that S. 2253 is preferable. Both S. 2246 and S.J. Res. 139 require the Rock Island Railroad to maintain its entire railroad system as it existed on September 1, 1979. NPPD does not believe that reactivating Rock Island's service at this time will be in the best public interest. For many months now, the Kansas City Terminal Railway Company has been a directed rail carrier maintaining services over the Rock Island trackage. NPPD fears that replacing the Kansas City Terminal Railway with the Rock Island at this time would be disruptive and counterproductive in light of the Bankruptcy Court order to liquidate the Rock.

S. 2253 does not require the Rock Island to resume service over its system as does S. 2246 and the proposed resolution. S. 2253 requires "Directed service over the lines of the Rock Island Railroad that were in operation on the date of enactment of this Act . . . until April 2, 1980." Sec. 4(b) of S. 2253 is beneficial in that it allows carriers to commence service over those portions of the Rock Island system in which each is interested. This legislation would avoid a protracted postponement of what appears to be the inevitable dismantling of the Rock Island Railroad and would insure a smoother transition to a permanent carrier.

INTERIM AND LONG-TERM SOLUTIONS ARE NEEDED

Hopefully, NPPD will not need to be a beneficiary of S. 2253. If the Union Pacific obtains its required approvals, service should be maintained to Sheldon Station pursuant to a Commission service order under Section 11123 of the Interstate Commerce Act. This, however, is an interim solution. In order to obtain permanent rail services to Sheldon Station, NPPD believes that solutions to the Rock Island labor problems and rehabilitation cost problems must be found. According to railroad carriers which have discussed these matters with NPPD, there will be no real interest in acquiring portions of the Rock Island line on a permanent basis until these questions are resolved.

On behalf of the Nebraska Public Power District, I would like to express our appreciation to the Subcommittee for allowing us to appear and testify on this important matter.

Senator EXON. Thank you.

Do you care to respond to the question Mr. Wright has raised, Senator Kassebaum?

Senator KASSEBAUM. I'll try briefly. I think it's a good question. I don't think that there is anything that I could interpret as mandatory, because it certainly does still provide for discretionary authority for the ICC to give anyone continued service, whether it's through the KCT operation or not.

And certainly in this bill, if there has been a bona fide offer of purchase, of course then there is the continued service.

Mr. WRIGHT. We hope that interpretation would hold true. The other concern that we had is that section 4(a) contemplates having KCT remain as the directed rail carrier. If that were the case and if the ICC would favorably receive a 11123 request by the Union Pacific, I would hope that the ICC would have the discretion to grant that relief, as opposed to requiring service under section 4(a) of your bill.

Senator KASSEBAUM. I am assured they absolutely do.

Mr. WRIGHT. Thank you.

Senator EXON. Gentlemen, thank you very much. You have made excellent points, and it has been very helpful to those of us who are, have been, recognizing here for some time the needs of the farm States and the agribusiness industry that fuels and feeds basically the economy of all of these States.

Your testimony and your constructive suggestions have been very helpful to us.

And I have no particular question but just one other statement which I would make again. Following along the lines of what I said earlier, I agree with the statements which have been made here, to one degree or another, by all of you that the Rock Island is just the latest in a series of tremendously difficult transportation problems that we are faced with here.

It was 6 or 8 months ago that we were talking about Amtrak. And then it was the Milwaukee. And now it is the Rock Island. Before that, it was the northeast railroads.

I agree that we are probably going to have to take an all-out approach. And that is why I asked the Department of Transportation how they were progressing with plans and recommendations to the Congress as to how we are going to solve this most difficult problem.

At the same time, I hope that you have all recognized that not only do we recognize the problems that exist in the whole transpor-

tation area, but we also recognize that it costs money to get these things done.

And while I am pleased that the representatives of the various States have come before us today and have given us your recommendations, you all recognize that it is going to take money from, I assume, primarily the Federal Treasury to get the job done. And I do not know offhand where we are on this, but I suspect that the States represented by this panel and the States that are being represented by other panels that will follow are probably also the same States whose State legislators have passed resolutions directing us here to balance the Federal budget at the same time that we take care of all these other problems. So, please keep that in mind.

Senator Kassebaum?

Senator KASSEBAUM. I would like to follow through with just one other brief question, because Mr. Hansen touched on it—certainly Mr. Wright—and I'd like to ask Mr. Moser, with the Kansas Department of Transportation, if there has been any thought of a possible incentive for the purchase of the Northern route in more substantial segments than has been received so far?

Mr. MOSER. I'd just like to comment that from our public meetings we've found the shippers out there are willing to do whatever they can. They've talked about tax incentives, the relief of taxes. They've talked about revenue bonds, or anything of that nature. And that's one reason why we're asking time to set those things up if they're necessary.

I guess we're going along in the path that is mentioned by the gentleman from the Nebraska Power Co., that we're more and more concerned that the Denver Rio Grande's interest is less than active at least, although we haven't altogether given up. We're looking at other railroad companies. We might be able to do some things; and hopefully we can provide some service, or it can be provided through some other arrangement such as short lines. But we do need some help in the transition period.

Senator EXON. Gentlemen, we thank you each and every one for your valuable testimony.

You are excused.

The next panel is from Oklahoma and Texas.

Senator Boren is here from the State of Oklahoma. I believe the he will introduce the panel. And so if the Oklahoma and Texas panel could come forth at this time.

Senator Boren, I'm delighted that Oklahoma and Texas have united on something finally, and we welcome you here this morning.

STATEMENTS OF HON. DAVID L. BOREN, U.S. SENATOR FROM OKLAHOMA; JOHN BIVENS, REPRESENTING THE OKLAHOMA DEPARTMENT OF TRANSPORTATION; JOHN C. HOWARD, REPRESENTING CITIZENS OF EL RENO, ROCK ISLAND EMPLOYEES, FARMERS AND SHIPPERS; JOE NEAL HAMPTON, ENID BOARD OF TRADE, ENID, OKLA.; AND VICKY JACOBS, ECONOMIC DEVELOPMENT ADMINISTRATOR, PANHANDLE REGIONAL PLANNING COMMISSION, AMARILLO, TEX.

Senator BOREN. Thank you very much, Mr. Chairman. I must say that I'm pleased to find a situation in which I can find myself in

agreement with the distinguished chairman from Nebraska. We have a few days of the year when we don't find ourselves in agreement, but most of the time we do. And I'm glad this is one of those occasions.

Mr. Chairman and Senator Kassebaum, I appreciate the opportunity to appear before this committee and to address an important area of concern to many of us in the Midwest, the impending failure of the Rock Island Railroad. While I'm particularly concerned with the effect of the failure of the Rock Island on the State of Oklahoma, I feel that this issue is one of more overriding importance than its impact on any one State alone.

The Rock Island serves 13 States in the Midwestern part of the United States. These States account for the majority of the grain produced by our country. In many cases the Rock Island is the only railroad that serves some of these areas of grain production. This is certainly true in the case of the State of Oklahoma.

I don't want to belabor the consequences of a disruption in service over the Rock Island Line. These facts are well documented, and others testifying today have and will speak more specifically to the impact the disruption in service will have.

The Rock Island serves 154 communities in Oklahoma in an area which produces 73 percent of all the grain produced in our State. It's been estimated that a termination of service would add significantly to the cost of freight coming out of the pockets of farmers who can't afford it. I've seen very reasonable estimates in the range of 30 to 40 cents a bushel on the cost of wheat, for example. And this literally would come out of the pockets of the farmers.

Mr. Chairman, we are here today asking for some time so that all the intricate details of purchase of parts of the Rock Island by other railroads can be completed. Negotiations between the railroads and the FRA are continuing on a daily basis. We need more time for these details to be resolved. We need time so that our overflowing grain elevators can be emptied. We need time so that labor problems of the approximately 6,000 Rock Island employees can be resolved.

In Oklahoma two railroads have submitted bids to purchase portions of the Rock Island. These bids, if accepted, would only account for 39 percent of the total Rock Island trackage in Oklahoma. If we allow 61 percent of the Rock Island trackage in our State to be abandoned, we will have committed a serious error not only in lost service, but in lost opportunity for energy conservation. It would be very shortsighted not to realize the importance which rail transportation will continue to play in the future in terms of energy conservation.

Developments are taking place every day in Oklahoma, as well as in the other affected States, which show promise of providing some solution to the problems of the Rock Island. The U.S. Department of Transportation has recommended to the ICC that directed service be continued for 30 days. In some cases directed service may be provided by potential purchasers at little or no cost to the Federal Government.

Numerous State officials in Oklahoma have demonstrated that they are committed to the possibility of the State government being involved in the purchase of parts of the Rock Island. Gover-

nor Nigh and others are examining the availability of loans and grants from the FRA for the acquisition and rehabilitation of the Rock Island Line.

Mr. Chairman, I have brought with me a pamphlet which has been prepared by a committee organized in Oklahoma, the Committee for the Survival of Railroad Transportation. It contains a packet of letters from the Governor, from the leaders of the legislature and a huge number of individual members of the legislature, indicating their request to have additional time to activate a State railway authority trust in Oklahoma which may very well become involved in bidding for, and purchasing of, in some way portions of this track. I would like to ask that this be entered into the record as a part of my statement.

Senator EXON. Without objection, we are pleased to accept that by reference.

Senator BOREN. Even though the deadline set by the FRA for submitting bids to purchase the Rock Island was February 1, 1980, the State Transportation Department of Oklahoma is continuing to talk to railroads which might have an interest in operating parts of the Rock Island in our State. Our position is that Oklahoma would like to exhaust every possibility for having a private railroad operate our lines before the State government steps in and makes purchase bids for the line.

I know that the committee is aware of the serious consequences that a disruption in service will have. Senators Dole, Kassebaum and I have introduced a series of bills which this committee is now considering. We're mainly interested in getting some vehicle before the Committee from which it can work out a sensible solution that will provide for: first, an extension of service for a reasonable time—and this is of vital importance to us; second, transition assistance in the form of loans and grants to entities that wish to provide service over the Rock Island Line; and, third, protection for the employees of the line.

I'm sure that Senators Dole and Kassebaum would concur with me when I say that I'm committed in working with this committee to come up with legislation which will help to continue this essential railroad service without interruption.

I have great respect for the capability and expertise which the members of this committee bring to this issue. I think we are very fortunate that the committee contains among its members those who are intimately familiar with the economic impact that the termination of Rock Island service would have, not only to the entire region but to the entire country.

It is my hope that the committee will be able to draft legislation which we can all support and work toward its passage very rapidly in the Senate. I want you to know that I will do everything that I can to help.

And I thank you for allowing me this opportunity to testify. And Mr. Chairman, I would mention that we have some very distinguished people here with me who will be testifying.

On my right is Mr. John Howard, who is an attorney from El Reno, Okla. I might say even more importantly, he grew up in Seminole County, Okla., which obviously causes him to have great wisdom in viewing any problem. He represents a citizens group

that has been incorporated in Oklahoma. I mentioned it. It's called SORT, Survival of Our Railroad Transportation. This group has been instrumental in gathering support from State officials and others for the possibility of the State, through a public works authority, to perhaps purchase parts of the Rock Island.

Then I also have with me on my left Mr. John Bivens, who is a consultant with the Oklahoma Department of Transportation on rail matters, and he is representing Mr. Richard Ward, our State director of transportation.

On his left is Mr. Joe Neal Hampton, who is the general manager of the Enid Board of Trade, He's also executive secretary of the Oklahoma Grain and Feed Association. The Enid Board of Trade is a corporation formed to promote and protect the interests of member grain firms. It has facilities in Enid, and they have a storage capacity of over 67 million bushels. This is a very large operation. Members of the board own, operate, or are affiliated with elevators in Texas, Oklahoma, Kansas, Colorado, and also, Mr. Chairman, in Nebraska.

We also have represented with us, as you noted, a representative of the State of Texas, and we're very pleased to have this joint endeavor between Oklahoma and Texas: Ms. Vicky Jacobs, the economic development administrator of the Panhandle Regional Planning Commission, headquartered in Amarillo.

And Mr. Chairman, Senator Kassebaum, it's a real pleasure for me to introduce these members of the panel who will be providing more detailed information.

Senator EXON. Thank you very much, Senator Boren. We apologize for delaying you. You had to wait, since you came in when the other panel was on. We appreciate very much your being here with your testimony.

The next witness I have on the list is Mr. Ward. I understand Mr. Bivens is taking his place. So we will recognize Mr. Bivens at this time, if that is satisfactory with the panel.

Mr. BIVENS. Thank you very much. Mr. Chairman, Senator Kassebaum, I am privileged to appear before you representing not only Richard Ward, the director of the Oklahoma Department of Transportation, but Governor Nigh as well in terms of the position of the State of Oklahoma relative to the Rock Island Railroad problem.

With your permission, Mr. Chairman, I would like to request that a written copy of Mr. Ward's testimony be submitted for the record.

Senator EXON. Without objection, we're pleased to accept that.

Mr. BIVENS. Thank you very much, Mr. Chairman.

We've heard a lot of testimony today from a number of other States that are in what appears to Oklahoma to be the luxurious position of having a number of bidders on the Rock Island Lines. Oklahoma is much less fortunate in that regard. We're faced with an extremely critical and unusual problem that's especially acute for Oklahoma, and I'd like to briefly describe that problem and summarize a few points that need to be made, Mr. Chairman, if I may.

The 1,055 miles that the State of Oklahoma has of the entire Rock Island system represents 15 percent of that total system. Bids have only been received from one carrier for major portions of the

line. Continuing has been the bid from the Southern Pacific for a few miles of track across western Oklahoma. The total bids amount to 412 miles or 39 percent of our system.

That means that we stand to lose 61 percent of the entire Rock Island system in the State of Oklahoma. Now, what makes that doubly jeopardous is that we have no assurance that the bid from the Katy for the north-south line extending all the way from Herington south across our State down to Dallas-Fort Worth and extending from El Reno over to McAlester—we have no assurance that that bid will be accepted by the trustee.

In addition, we are quite certain that the tremendous volume of traffic that is currently carried over the Rock Island system in Oklahoma, if that traffic is put upon the State highway system and the county roads in the State of Oklahoma, they will not withstand that. And what we will have done in effect is increase the maintenance and reconstruction costs of a multibillion-dollar operation within the State of Oklahoma.

The bottom line, Mr. Chairman and members of the committee, is really that we have to have some additional time and we have to have some Federal aid. One of the conditions of the Katy's bid to the Federal Railroad Administration was Federal acquisition money and Federal rehabilitation.

We cannot afford interruptions in service, even on a temporary basis. That will be more costly to the taxpayers of this country than continuing service for a limited period of time. The State of Oklahoma, as Senator Boren has pointed out, is actively seeking permanent solutions to this problem. We all are. And it's a very perplexing and complex problem, as you well know.

We think we are making substantial progress in terms of permanent solutions. But we do need an extension of time, and that time really is to continue the progress that we're making. It's also to seek additional bidders. And finally, in the final analysis, the State of Oklahoma may well wind up purchasing portions or submitting bids for purchase on portions of the Rock Island system.

I leave you with several major issues that this time will afford us. One is really the labor problem itself. We have to resolve that. We have discussed it with major railroads, anyone who has expressed any interest in the State of Oklahoma lines. And the No. 1 issue that we've gotten from each of those carriers is, we must have some certainty in terms of where we stand on the labor situation. It will affect the price that we are willing to pay. It will affect the total cost of that operation.

Second, we see the need for money and we see that coming in terms of combinations of railroads themselves or rail carriers, whether they be class one or short line, from shippers, from the State and from the Federal Government. We think it's going to require combinations of resources in order to alleviate the problems.

And finally, we are deeply concerned about the equipment problem. As you well know, the Rock Island continues to lose locomotives and power. Our grain elevators and our agricultural communities in the State of Oklahoma are not getting adequate service in terms of availability of car supply.

These are issues that we hope will be adequately addressed. We're willing to do whatever we can to support this Congress and this committee in terms of seeking solutions to it. I'll be glad to answer any questions that you might have.

Thank you very much.

[The statement follows:]

STATEMENT OF RICHARD A. WARD, DIRECTOR, CHIEF ENGINEER, OKLAHOMA
DEPARTMENT OF TRANSPORTATION

MR. CHAIRMAN. I am Richard A. Ward, Director-Chief Engineer, Oklahoma Department of Transportation. I am also privileged to serve as Governor Nigh's agent for railroad issues in Oklahoma. I appreciate the opportunity to appear before you relative to the continuing crisis in our State brought about by the deterioration of rail service and the potential loss of this service to rail users of the Rock Island Railroad.

The interest being shown by your Committee through this hearing and the Congressional action which will follow is indeed necessary and appreciated. The Joint Resolution, S. J. Res. 139, sponsored by Senator David Boren and several of his colleagues, Senator Kassebaum's bill, S. 2253 and Senator Dole's proposal, S. 2246, all are significant and useful steps in the proper direction toward the solution of this most difficult and perplexing problem of continuing rail service on essential Rock Island lines. We certainly applaud all of these efforts.

Today, I will be brief and to the point. Therefore, I will not dwell on the reasons for the untenable position in which we find ourselves. You are already familiar with the background, actions and inactions which have lead to this rail service crisis.

I would, however, like to call to your attention certain facts on the importance of Congressional action in the near future not only to Oklahoma, but also to the entire Midwest—the "bread basket" of this country and in reality to the nation as a whole.

Oklahoma is especially hard hit by the demise of the Rock Island. We have over 15 percent of the Rock Island system serving our state. Only the states of Iowa with 1717 miles and Kansas with 1082 miles have more than the 1055 miles of Rock Island lines found in Oklahoma. This represents a substantial portion of our entire railroad network. The problem in Oklahoma is more severe than in Iowa or Kansas for a very clear reason—other Class I carriers have submitted bids to the Federal Railroad Administration for only 39 percent of the Rock Island lines. This means that 61 percent or 643 miles of Rock Island lines in Oklahoma have not received any purchase bids at this time. We are faced with the real possibility that shippers who have made extensive investments in grain elevators, businesses and industries on Rock Island lines may lose rail service. In many cases they have no reasonable transportation alternatives.

We have no assurance that the bids which have been submitted will be accepted. The Southern Pacific through a subsidiary submitted a bid over two years ago, for the "Tucumcari Line" which crosses Western Oklahoma. Although this bid is acceptable to the Trustee, the Interstate Commerce Commission has not granted approval for the purchase. The Missouri-Kansas-Texas railroad, the Katy, has submitted a bid for the north-south line through Enid and El Reno from Herington, Kansas to Dallas-Ft. Worth and from El Reno to McAlester on the east-west line. The car repair shops at El Reno have been excluded for this Katy bid. It remains to be seen if the Trustee will accept the bid and even if the bid is accepted, will the Bankruptcy Court and the I.C.C. grant approval in a reasonable line?

The Governor's Office and the Oklahoma Department of Transportation are doing everything possible within their own authority and resources to find reasonable solutions to the problem. We have met with the railroads which expressed an interest in Oklahoma Rock Island lines as a part of FRA's 401 process. Several significant problems have surfaced as the result of these meetings. Among the major stumbling blocks are labor protection, high acquisition costs, relatively low traffic volumes, very expensive rehabilitation costs, and inadequate car and power equipment. Each of these important issues must be addressed by the legislative remedies you seek to enact.

Time is required to complete the necessary negotiations for the lines which other carriers are seeking to purchase. Rail service on these lines must be continued until these negotiations are completed. Rail users on lines for which bids have not been received need and deserve rail service at least as a temporary measure of the type offered by the Kansas City Terminal (KCT) under directed service.

We recognize the reality that we will be unable to keep rail service on all of the Rock Island lines in Oklahoma in spite of all of our combined efforts. It is also quite clear that the State Highway System cannot accept all of the Rock Island traffic

which would be forced on our road network even if there were enough trucks available to meet shipping needs. Dumping additional truck traffic of this magnitude on the county roads and State Highway System would be disastrous.

The State of Oklahoma may have no other reasonable alternative than to purchase certain essential Rock Island lines in order to maintain rail service. If the State were to acquire such lines, we will need time and federal funds for the acquisition and the necessary rehabilitation.

Based upon these factors we urge the Congress to enact legislation having the following essential provisions:

1. A continuation of directed service for a minimum of 60 days on all lines which were in operation on February 1, 1980.
 2. A continuation of directed service on the lines for which one or more bids have been received until purchase agreements have been reached or until a carrier is granted temporary operating authority without compensation or until it is clear that purchase agreements cannot be reached.
 3. The Rock Island Estate should receive reasonable compensation for the use of its equipment in providing the required service.
 4. Abandonment provisions of the Milwaukee Railroad Restructuring Act should be modified to permit abandonment only on those lines for which there is no opposition by the State in which they are located.
 5. Expedited proceedings by the I.C.C. should be required.
 6. The value of Rock Island lines should be established by the Interstate Commerce Commission for the purpose of determining the amount of federal aid that would be available for purchase and rehabilitation.
 7. When price disputes arise, the Interstate Commerce Commission would determine the value and permit the purchaser to lease the property based upon this value until the final price determination is made through negotiations or litigations.
 8. Federal financial transition assistance should be made available through:
 - (a) Purchase of redeemable preference shares (505 programs)
 - (b) Loan guarantees (511 program)
 - (c) Grants under Section 803 for acquisition and rehabilitation
 9. Federal funds should be permitted to flow directly to private rail carriers if requested by the State for State approved projects.
 10. Incentives should be established to encourage private capital investments in Rock Island lines. Such incentives may include investment tax credits and accelerated depreciation.
 11. Labor protection and related agreements with federal assistance for employees who are not needed by the acquiring carriers.
 12. Waivers of NEPA.
 13. Determination of essentiality should not be subject to court challenge.
 14. Necessary increases in authorization and appropriations.
- Action by Congress is needed if rail service on the Rock Island lines in the Midwest is to be continued and this immediate crisis alleviated. Such action is in the best interest of not only the Midwest Region, but the nation as a whole. The adverse impact of loss of adequate rail service extends nationwide. Energy conservation, economic development, protection of local economics for lost jobs and business, and the balance of payments demand immediate attention.
- Thank you for the opportunity to present the Oklahoma views. With your support and assistance, perhaps we can combine our efforts to find adequate solutions to these complex problems. We look forward to the passage of this essential legislation. We will assist you in every possible way.

Senator EXON. Thank you.

The next witness we have is Mr. John Howard, representing the citizens of El Reno, the Rock Island Employees, Farmers, and Shippers. Mr. Howard?

Mr. HOWARD. Thank you, Mr. Chairman.

Mr. Chairman, Senator Kassebaum, on behalf of the organization I represent and the people of Oklahoma, I wish to express our appreciation for the opportunity to address this committee in support of the proposed legislation now pending before you. Survival of Railway Transportation, Inc. or SORT, as we call it, is a nonprofit corporation which was created on January 29, 1980, in response to the notice of liquidation which we received on January 28, 1980. It represents an alliance of businesses, farmers, labor, shippers, com-

munity leaders, and people from all walks of life who know how tragically they will be affected as a result of the elimination of effective rail service and the attendant impact it will have on the economy in our part of the country.

We exist for the sole purpose of maintaining effective rail service in Oklahoma. Our group has now made contact with groups in other States, and we believe, under different names, SORT represents the voice of thousands of Americans all over the Southwest who are vitally concerned about the elimination of effective rail service. We continue to expand into community after community in Oklahoma. Even as I talk to you now, the second contingency from our organization to come to Washington in the last 3 weeks is talking with representatives of Federal agencies for the purpose of updating them as to our efforts to preserve railway service and asking further advice.

We do not come asking for the postponement of an inevitable occurrence. We do not come asking that you appropriate money wastefully. We are here seeking the short-term additional funding needed for the continued operation of rail service and the time to enable us to propose alternative plans to the Federal Railway Administration, the Interstate Commerce Commission, and the trustee in bankruptcy.

We were shocked when we first received the news that the reorganization plans were turned down. We were shocked when liquidation of the Rock Island was ordered. Finally, concerned citizens in our part of the country discovered that the southern division of the Rock Island had never been included in the reorganization plan. It immediately became apparent to us that we the people must act where the Rock Island had not previously acted.

To that end, we have formed together, raised money, and have started finding answers to some of the questions. We have thus far secured the commitment of the Governor of the State of Oklahoma, the president pro tem of our State senate, and the speaker of our house of representatives, as well as numerous other legislative leaders, to reactivate the Oklahoma Public Works Authority. This authority is already a part of the laws of our State. This authority will have the ability to issue the necessary bonds to fund the initial down payment. These funds can be supplemented with what we understand to be considerable Federal funds available on a low-interest basis to enable the authority to operate a railroad on a profitable basis.

We firmly believe that the traffic and business are there to operate the rail service in question on at least a break-even basis. We are prepared to do that. We are prepared to make whatever financial commitments are necessary to make it work.

But if our rail service is shut down, it will make it considerably more difficult to do this. It will also increase the likelihood that some railroad could come in and take the cream of the crop of the over 1,000 miles of Rock Island track in our State and leave the rest for scrap, to take the best and leave the other, less profitable parts to die on the vine, which will adversely affect thousands of people.

We are committed to our plan, our leaders are committed to it. It can work. All that we need is the time without a disruption in the work force and the service.

Our organization was formed barely 3 weeks ago. We came to Washington immediately. We were sent home and told to formulate a plan or else we could not expect a favorable result. In a short period of time, we have received a lightning-quick response from our State leaders. We have come back with a plan which will work.

All that we ask is the relatively short period of time it will take to implement it.

Thank you.

Senator EXON. Mr. Howard, when you say a relatively short period of time, are you supporting the Kassebaum bill?

Mr. HOWARD. Senator, we are supporting not only Senator Boren's bill but Senator Kassebaum's bill as well.

Senator EXON. Thank you.

Our next witness is Mr. Joe Neal Hampton, Enid Board of Trade, Enid, Okla. I want to especially welcome you here, Mr. Hampton. I have been in Enid, Okla., on numerous occasions, and I have a great many more friends there than I have in Norman.

So with that, I want to welcome you here.

Mr. HAMPTON. Thank you. Mr. Chairman, Senator Kassebaum: I appreciate the opportunity to appear here before you today. I believe my statement has already been entered in the record. So for the sake of time, I would just like to highlight it, if I may.

As Senator Boren has already said, our seven-member grain firms in Enid have a combined storage capacity in excess of 67 million bushels. And we also have another 118 elevator facilities on the Rock Island trackage in Oklahoma whose members are members of the Oklahoma Grain and Feed Association.

We believe it is imperative that directed service be continued until our Enid terminal elevator members have the opportunity to ship their Rock Island transit tonnage and until a smooth, uninterrupted transition can be made from service provided by the present directed carrier to service provided by whatever carrier or carriers purchase and begin future service over Rock Island trackage in Oklahoma.

During the past wheat harvest, the Enid market received over 60 million bushels of Rock Island transit tonnage, and our members paid the railroad over \$9 million in paid-in freight. And they accepted this transit tonnage and paid this freight in perfectly good faith, with assurances from the Rock Island management that they were going to be around to ship this tonnage out.

Obviously, this hasn't happened. But I guarantee you, if they knew this was going to happen they wouldn't have accepted 1 bushel of this Rock Island tonnage.

But the lack of a sufficient number of railcars provided by the present directed carrier, President Carter's Soviet grain embargo, plus the boycott of all Soviet grain loadings by the ILA, are factors beyond our members' control that have made it impossible for them to be able to ship their Rock Island tonnage prior to March 2.

As of last Thursday evening, February 14, our members still had over 4½ million bushels of Rock Island tonnage, with a total paid-in freight of almost \$1 million left to ship.

And Mr. Chairman, you brought up the point about the power supply. On Friday evening, the power supply of the designated carrier in Enid had deteriorated to the point that we had several cars awaiting shipment out of the market and we didn't have any power to move them out.

So if designated service is to be extended, then we would hope the designated carrier will be required to furnish enough cars and power to provide adequate rail service.

The impact of the loss of the Rock Island service to the Enid market would indeed be staggering. I have two tables in my statement that show the number of railcars that we have received in the past 3 years and the number of cars received during the harvest period. And I might say that, using this last 3-year average for the harvest period, it would take over 16,000 extra truckloads that would have been needed to replace the rail service by the Rock Island, and the year's total would have been almost 36,000 truckloads.

For the State of Oklahoma in 1978, it would have taken almost 85,000 truckloads that would have been needed to replace Rock Island rail service. And you can imagine what this would do to the Federal and State highways and roads, and to our Nation's fuel supply, if this were to happen.

Truck transportation is just not a feasible mode for movements of large quantities of grain, especially over the long haul. Locomotives have been estimated to be from four to five times more fuel efficient per ton-mile than trucks. One 4-man rail crew and 3 locomotives can move out of the Enid market in excess of 333,000 bushels of wheat, and this would take over 400 tractor-trailer rigs, with 400 drivers and a considerably larger amount of fuel, to move the same quantity of grain.

Contrary to some ICC staff reports that we have read, river transportation is not an alternative for us Oklahoma Rock Island shippers. Looking on the map here, most all of the Oklahoma wheat is grown from the Rock Island north-south line west. The Arkansas navigation system is in the very eastern part of the State.

If our Enid grain firms would choose to ship down the navigation system, their transportation costs would increase from 70 to 100 percent to get this same wheat down to Houston. So I want to make the point that we do not have river transportation as a viable alternative for Rock Island shippers in Oklahoma.

The impact of the loss of rail service to Oklahoma country elevator shippers would force them to become captive, in that their grain would only be able to be moved by truck. I have listed the three points in Oklahoma—one in the southwest, one in the north central, and one in the central part of the State—who have recently shipped grain to the gulf by truck because they could not get rail service from the designated carrier. And in each instance the increased cost of their truck shipments over rail was from 13½ to 32 cents a bushel.

These elevator operators and, more important, the wheat producer, desperately need the alternative to ship grain and to receive feed, fertilizer, and other products by rail. Otherwise, their overall transportation costs will increase dramatically.

Also, our country elevator operators continue to have millions of bushels of wheat that must be shipped to terminal storage facilities within the next 90 days before harvest. If they are unable to do this, millions of bushels of the new crop are likely to have to be dumped on the ground.

The Enid Board of Trade and the Oklahoma Feed Association certainly appreciate this opportunity to have presented our testimony before you. We believe that continued rail service to Oklahoma Rock Island shippers is extremely important, and we wholeheartedly support legislation before this committee that will extend directed service, will make additional Federal funds available for the purchase and rehabilitation of Rock Island trackage in Oklahoma.

The proposed liquidation of a major grain-hauling railroad such as the Rock Island is unprecedented in our Nation's history. Therefore, we encourage Congress to explore every possible avenue at their disposal to insure that rail service will be made available to Rock Island shippers. Additional time is needed to accomplish this task.

We believe that our country's energy problems mandate the necessity for an extensive rail system, and hopefully a continuation of rail service to Rock Island shippers will be a step in this direction.

I thank you. If you have any questions, I will be glad to try to answer them.

Senator EXON. Thank you.

Our last witness on this panel is Ms. Vicki Jacobs from south of the border. Vicki, I was hopeful that the male chauvanists from Sooner Land would have recognized you earlier. But since they did not choose to do that, my apologies, and we recognize you at this time.

Ms. JACOBS. Thank you.

I administer the economic development program for the council of governments and economic development district which serve the 25 counties in the Texas Panhandle. We have been working very closely with the eight counties which would be most adversely affected by the closing of the Rock Island and with the shippers along the Rock Island lines in the panhandle. And it's on their behalf that I'm here today.

I have submitted written testimony and I would like to simply summarize it for you now, if that's all right.

Senator EXON. Yes. We'll accept, without objection, your full testimony.

Ms. JACOBS. As you know, the economic base in the Texas Panhandle is agriculture and oil and gas. I think that sufficient testimony has been read into the record concerning the effect on the agricultural community so that I won't go into that in detail. I will say that the effect on the oil and gas industry, the petrochemical industry, would also be great in our area to the extent that two carbon black plants would have to close along with nine other

businesses. That would put 261 people out of work immediately, and we estimate that the number of primary and secondary jobs affected would be 619.

That may not sound like much, but in our rural area that's 3 percent of our labor force. In one county it amounts to 6.7 percent of the labor force. That particular county would lose \$1.5 million in primary payroll, and that county is currently having to deal with 21.8 percent poverty.

So the effects in the panhandle would be considerable, and it is for that reason that we have taken action locally to put together an alternative plan, since there have been no bids on the lines in our area. And I would like now to summarize for you the action which we have taken.

We have had three public meetings with a consultant to talk with us about the feasibility of setting up a short line operation. We have raised \$35,000 locally to pay attorney's fees and to finance a feasibility study which is currently in progress. This feasibility study will give us acquisition costs, rehabilitation costs, operating costs, projected revenue, and a proposed financial package which would make it profitable for a business to operate a short line enterprise in the panhandle.

We have put together a consortium of local governments under Texas State law and they have asked us to be their administrative unit to make application to purchase the line and to make application for various sources of funding, so that one application is presented rather than 10 or 11.

In addition to that, we had a very nice surprise last Wednesday. A local investor, a Mr. B. R. Barfield, came to our office and told us that he was interested in assisting us in any way possible, including purchasing the line himself. We have a letter to that effect and a letter from his banker as attachments to the written testimony.

Since Thursday when this was written, he has been in contact with the local elected officials involved and it looks very probable that some kind of arrangement will be worked out whereby the counties will make a purchase and he will lease the line from them and operate some sort of short line operation over the rail.

To this end, he is already putting together a corporate structure and is considering hiring staff.

In addition to that, we had a meeting in our office yesterday and two short line operators, Kyle Railroad and Montel Railroad, told us that they are interested in working with us either on a temporary or a permanent basis, but they do want to serve the Texas Panhandle.

So it looks right now that we have some options. What we don't have is time. Up until February 1, the shippers in our area were under the impression that there would be a bid on those lines. Obviously, that didn't happen. So in 30 days the shippers whose livelihood is affected are trying to do what class I railroads had approximately 5 years to do.

Our timetable looks like this. We expect our feasibility study to be completed around April 1, and we would hope that if there is a solution to the labor protection issue, that by then we would be in a position to at least be able to lease the line on a temporary basis. If we had 90 days, we would hope that we would be able to put

together a financial package and be able to effect a permanent solution in terms of purchase and lease.

We realize that it will cost a considerable amount of money. We think that the cost of not doing it is also considerable.

Thank you very much.

Senator EXON. Thank you very much.

I have no questions of the panel. Certainly, you have added significantly to the picture, which is important for the record, in an attempt to help out in this area. It is quite obvious, from looking at the map, that Iowa, and especially Kansas and Oklahoma, and to even a lesser extent Texas, are going to be dramatically ill effected unless something can be worked out on this.

So I thank you all for your very meaningful testimony.

Senator Kassebaum?

Senator KASSEBAUM. No, I have no questions. Thank you, Mr. Chairman.

Senator EXON. Thank you, and you're excused.

The last panel that we have represents the States of Iowa and Illinois. Mr. Kassel had testified earlier. So if Mr. Tyrus Stewart, Mr. John Kramer, and Mr. Lewis Hill will come forth at this time, we would very much like to hear your testimony.

If it is satisfactory with you gentlemen, we'll start out with Mr. Tyrus Stewart, director of transportation with the Monsanto Corp., in St. Louis, Mo.

STATEMENTS OF TYRUS C. STEWART, DIRECTOR OF TRANSPORTATION, MONSANTO CORP., ST. LOUIS, MO.; SCOTT NADLER, CHIEF, ILLINOIS BUREAU OF RAILROADS; AND LEWIS W. HILL, CHAIRMAN, REGIONAL TRANSIT AUTHORITY, STATE OF ILLINOIS

Mr. STEWART. Thank you, Mr. Chairman.

Mr. Chairman and Senator Kassebaum, I wish to just briefly emphasize three facts from my testimony. The first is urgency. Our largest plant located on the Rock Island is at Muscatine, Iowa. It makes herbicides. Those herbicides treat about 125 million acres annually of wheat, soybeans, milo, and corn, much of which is preemergence and must be in prior to planting. So timeliness of getting this to the market is very important.

We can ship out outbound products by truck. However, our raw materials move predominantly by and we depend upon rail, the reason being much of them are classified as hazardous by the DOT and we believe that specially built, privately owned tanker and hopper cars moving on restricted rail rights-of-way is the safest way of moving those hazardous products.

I'd like to emphasize why we come to you for help, why we are begging. We think that's so because of the Federal agency and Congress responsibility. Rock Island, as we heard, has had the longest going out of business sale in history—20 years. Although the ICC has been blamed, much of that delay was due to the courts. When property rights are conveyed, they are properly reviewable by the courts. I don't know how we can get around it. And when you have conflicting claims, they have in the past and they will for the future be reviewed by the courts, I'm sure.

Second, the Rock Island and ConRail and the Milwaukee can't make money because they can't control costs. The real reason they can't control costs is because of Federal laws and administrative rules in regard to labor, energy, tax, environmental protection, and because of their cost of right-of-way maintenance as opposed to motor and water.

Basically, the problems—labor we've heard. The other problem I haven't heard mentioned is that of the distribution of Rock Island's 29,000 pieces of equipment. Without that equipment, no bidding railroad can operate and serve the customers.

The next is that I don't believe there is any time compulsion for the trustee of the Rock Island or the bankruptcy court to accept bids. They're going to get the best bid that they can to protect their stockholders' assets, and I don't think there's any compulsion on when they may accept.

They've already indicated that they're not happy at all with the bids now made. So being very realistic, I don't think that a 3-week extension or a 60-day extension or a year extension will see the solving of this problem. I fully expect that disappointed bidders will be in the courts for the next 5 years, and that's based on past history. And again, property rights which are conveyed sure can go to the courts for final settlement.

On the equipment, I also believe that the railroads can sell, or the Rock Island can sell it to anyone it wishes to sell to whether or not it's the railroad who bids for the operating rights on their property. Now, that being so, I'd like to urge that we consider issuing interim orders for segments of the Rock Island which appear to be feasible and for which there appears to be viable bids, that would be successful, and that this order include, shall we say, unwilling operators on section of the Rock Island that have not been bid for, until the conveyance can be finalized and the successful bidder can begin operations, or until the lines not required and so accepted under our present laws are abandoned.

And I urge that to do this, that Congress fund this kind of operation until the new operation is fully operable, and that's to prevent, as you've heard from everyone else, these numberless problems we face as a nation.

I thank you very much for listening to me and for having the opportunity to talk to you.

[The statement follows:]

STATEMENT OF T. C. STEWART, DIRECTOR, TRANSPORTATION, MONSANTO CO.

My name is T. C. Stewart and I am Director, Transportation for Monsanto Company with headquarters at 800 North Lindbergh Boulevard, St. Louis, Missouri 63166.

I am here today to testify on the critical need for continued uninterrupted rail service over facilities of the Rock Island Railroad at Monsanto producing locations.

We are a major producer of chemicals, plastics, fertilizers, agricultural chemicals, and related products with two important production facilities which are served exclusively by the Rock Island and which are, therefore, dependent on it alone for rail service. These production facilities are located at Muscatine, Iowa and Maryland Heights, Missouri (near St. Louis).

MUSCATINE, IOWA

At Muscatine, we are engaged in the production of agricultural herbicides and plastics, which requires daily rail service for delivery and removal of inbound and

outbound cars, as well as plant switching services. Inbound rail activity at Muscatine involves the receipt of approximately 4,000 carloads of various raw materials annually. Virtually all of these raw materials are received in bulk form in tank cars and hopper cars. All of these movements are long-haul in nature and originate in the states of Florida, Georgia, Illinois, Mississippi, Louisiana, Texas, Michigan and Missouri.

Outbound shipping of manufactured products by rail approximates 800-900 carloads per year of herbicides and plastic products. The plastic products move in privately-owned hopper cars while the herbicides move in carrier furnished boxcars.

Our Muscatine plant is a substantial employer in the community, with approximately 500 employees and an annual payroll of \$12 million. Herbicides are our major business at Muscatine and are critical to the agricultural activity of the nation. Our product is applied to over 125 million acres of corn, soybean and milo. Should our Muscatine plant be closed down for lack of rail service, competitive products could be used, if available, however, the results will be an industry-wide supply shortage which, in turn, will dramatically affect food production.

Alternatives are being evaluated, however, their impact will have significant results. The estimated costs of these alternatives would exceed \$800,000 per month, and in addition, would place a severe burden on the supply of truck equipment now available.

These alternatives, involving a combination of rail and truck service, can be employed as a substitute for only the shortest periods, but for sustained long-term operation, are not acceptable from either a practical standpoint considering the high volume of tonnage to be moved, or from an economical standpoint considering the high costs which will be incurred.

MARYLAND HEIGHTS

At the Maryland Heights location we produce plastic bottles of various sizes and types. The principal raw material is polyethylene received in shipper-furnished hopper cars at the rate of 36 cars per year.

Outbound movement of plastic bottles is via truck and carrier-furnished boxcars. Our employment involves 71 people with an annual payroll of \$677,000.

While outbound shipments can, and do, move by truck, our receipts of raw materials are exclusively geared to rail service. We have no storage facilities, and production occurs as material flows from the car, therefore, we have no alternative to rail service.

CONCLUSION

Monsanto has an extremely vital need for continued and uninterrupted rail service at these important producing facilities.

It is, therefore, our urgent request that operations over the Rock Island be continued to allow orderly progress toward final disposition, and to assure satisfactory service for the future.

While we feel that the disposition of Rock Island property should be made promptly, and urge that the Interstate Commerce Commission issue interim service orders for portions of the property where a sale appears highly probable, it is believed it will be weeks, months, or years before sale agreements are final. To prevent irreparable harm to industry, the nation's agricultural program, and the mid-western economy, it is urged that interim operations be ordered until new owners can begin orderly operations.

Senator EXON. I have one question. I notice that there is no red on the Rock Island routes in Missouri. Does that indicate that—did you understand it that there is sufficient interest in other roads that they would pick up those lines in Missouri?

Mr. STEWART. Yes. The Southern Pacific made an offer some time ago from Santa Rosa and Tucumcari to Kansas City and on over to St. Louis, which would take care of us there. And there has been an order out authorizing that, but it's been delayed. And I believe the main delay right now is on this matter of equipment, who gets what portion of Rock Island's 29,000 cars.

Also, at Muscatine, Iowa, there are at least four or five bidders for that area from Davenport down to Muscatine. So it is not that we don't think that eventually someone will serve us. It's what

happens between the time when the demise is final and the service orders are finally out and everyone loses patience and the time when a sale is finalized and the new operator can start operating. And it's that interim that I think we need to cover, whether it be a month or however long, 5 years, until it's settled lawfully and rightfully.

Senator EXON. Thank you.

The next witness is Mr. John Kramer, secretary of the Illinois Department of Transportation. John, will you proceed at this time?

I notice that there apparently is no red in Illinois, either.

Mr. NADLER. Well, sir, we do have some issues in Illinois.

My name is Scott Nadler. I'm appearing here on Secretary Kramer's behalf.

I would like to submit our testimony for the record and make a few comments.

Senator EXON. Without objection, that's accepted.

Mr. NADLER. Thank you, sir.

The essence of our concern in Illinois is what happens from here. We do have bids in the long term. But we have two problems that face us.

First, is that the disruption which would occur from a service interruption would be severe. Second, is that as matters stand currently, that interruption appears to be almost inevitable if directed service isn't continued. Let me expand briefly on those two points.

First, the Rock Island in Illinois serves a different traffic mix than it serves in other areas. We're talking here about overwhelmingly manufacturing and chemical traffic, very high employment traffic, traffic which would be very hard to divert to other modes. We're talking about over 1 million tons a year of chemicals and explosives. We're talking about 2 million tons a year of non-metallic minerals.

We're also talking about traffic which is needed on an ongoing basis. We're talking about over 400 cars a week of food and alcohol.

Also, the traffic we're talking about here, because it's so tightly involved in manufactured nationwide, would have impacts far beyond just Illinois were there to be any disruption. For example, if processors in Joliet shut down their activities, they have suppliers in Nevada and in Louisiana who similarly would have to reduce or cut down their activities. When businesses on the Rock Island stop purchasing paper products from, say, Louisiana or from Oregon, then those impacts will be felt far beyond the towns in Illinois where those processors currently are doing business.

We also have the unfortunate ability to show that the threat of disruption is very real. When the strike against the Rock Island hit in September of last year, we had the unfortunate ability to see that the various threats and prophecies of doom about the loss of jobs and about the economic disruption in fact did take place. The jobs were lost. Business did shut down. That was the result of just a very short-term loss of service.

The question is, are we facing that kind of disruption now. Unfortunately, so far as we can tell, that disruption is staring us in the face.

The maps to the left indicate that about 80 percent of the Rock Island system is currently covered by the so-called bids, and in Illinois that figure stretches to nearly 100 percent. The problem is, if you redefine that question and ask, what percentage of Rock Island traffic can be picked up by carriers who are willing to walk in right now and accept temporary authority in the current circumstances, that percentage falls from 88 percent to nearly zero. There are several major roadblocks in the way that block not only a permanent solution, but also any interim authorities and any interim solutions.

The largest of those roadblocks, labor, has been addressed a number of times today. And I'm very pleased to hear of progress here from both the Transportation Department and the RLEA.

The second major roadblock has not been directly addressed very frequently here today. That's the question of the value of the Rock Island properties. Unfortunately, the closest precedent we have for this issue is the Penn Central precedent, where the problem is not yet settled. In the transformation of the final system plan into a real railroad, a number of different proposals fell apart simply because railroads were not able at that point or willing to purchase a piece of railroad, not knowing how much it was finally going to cost them.

Business simply cannot be conducted with this kind of a blank check process. Until and unless some action is taken to resolve that issue, to resolve the question of what the property of the trustee is worth, both the land and equipment, it appears unlikely to us that any temporary authorities will in fact be implemented.

We, therefore, urge that directed service be continued until such time as temporary authorities can realistically be put into place. And we further suggest that any action taken at this time to extend directed service if at all possible be linked to some kind of process which will in fact lead to a resolution of those basic roadblocks which prohibit a private sector solution from taking place.

Thank you.

[The statement follows:]

STATEMENT OF JOHN D. KRAMER, SECRETARY, ILLINOIS DEPARTMENT OF
TRANSPORTATION

Good morning. I am John D. Kramer, Secretary of Transportation of the State of Illinois. I appreciate this opportunity to express Illinois' views concerning the threatened loss of rail service on the Rock Island lines.

Since last fall, service over Rock lines has been provided by the Kanaas City Terminal Railroad under an ICC directed service order. This order will run out March 2, with a February 22 embargo on inbound traffic, unless the ICC approves a new extension.

Under directed service, the Rock Island system serves thirteen mid-western states with 6,300 miles of track (plus another 400 miles of trackage rights) and provides nearly 8,600 jobs. In Illinois alone, the system serves more than 350 businesses shipping more than 110,000 carloads per year and 14,000 daily commuters, and directly employs nearly 3,000 workers. Countless other jobs are provided by shippers dependent on the Rock Island, their suppliers and customers.

There is great interest in significant portions of the Rock Island which are either active and economically viable or which would improve the efficiency of another railroad's existing system. However, interested parties are unwilling to acquire these important segments, or even undertake authority to operate them temporarily, until some answers are provided to several basic questions. The principle unresolved issues involve the disposition of Rock Island employees who may not be hired

by an acquiring railroad and the degree of risk to which a railroad choosing to operate lines under temporary authority is exposed.

A great deal of time has already been wasted due to the tangle of unfocused responsibility among the courts, the bankruptcy trustee, the ICC, and the US DOT. The parties are beginning to deal constructively with the key issues which must be resolved before final disposition of the Rock Island's assets can be accomplished.

A realistic procedure and time frame must be established for liquidating the Rock Island Railroad without incurring disastrous and unnecessary service disruptions and widespread loss of jobs. Time is needed for this process to take place.

I. ECONOMIC IMPORTANCE OF ROCK ISLAND LINES

The rail lines owned and operated by the Rock Island Railroad in Illinois provide vital transportation functions which are key to the economy of Illinois.

Rock commuter services link Joliet, Chicago and six communities in between, carrying 14,000 commuters to and from work each day.

Rock freight lines serve major industrial and manufacturing centers throughout northern Illinois. Businesses served directly by the Rock in Illinois annually generated more than 110,000 carloads, including machinery, equipment, shaped steel, chemicals, food and non-metallic minerals such as sand.

Rock freight services move goods from all around the nation to markets on the Rock Island in Illinois. For example, Rock deliveries to shippers in Illinois include wood and paper products from Washington, chemicals from Louisiana and minerals from Nevada.

These goods carried by the Rock to and from Illinois have one characteristic in common: they are processed goods, which generate jobs in the communities served by the Rock Island, and excellent revenue for railroads carrying these goods.

The value of these lines is clearly demonstrated by the interest shown by other railroads in acquiring large segments of the Rock Island. For example, in Illinois two carriers expressed interest in virtually the entire Rock system in Illinois, stretching from the Chicago area to the Quad Cities on the Mississippi, and including the major branch line to Peoria. The reasons for this interest is clear: The Rock Island lines combine a strong traffic base (with density well over 1,000 carloads originating/terminating per mile over major portions of the line) with excellent access to both eastern and western carriers.

Interest in acquiring the Rock goes well beyond these two carriers. At least nine other railroads have expressed interest in serving portions of the Rock in Illinois, ranging from short sections of industrial track to major portions of the mainline.

II. PROBLEMS BLOCK OTHER CARRIERS

However, several major problems effectively block assumption of service over the Rock by any other carriers. In discussions with the railroads interested in acquiring Rock trackage, we have been told repeatedly that many of the same problems which stand in the way of acquisition also stand in the way of any of three railroads accepting grant of temporary authority. These are complex problems, which will not simply disappear through the good faith of all parties involved. These problems include: the future of the Rock's employees, the value of the Rock's physical assets, the disposition of Rock-owned and leased equipment, the exposure of temporary carriers to possible liability, and the costs of rehabilitating and maintaining track.

The problems pose major legal and institutional questions that have never been faced in the context. There is no precedent for the complete dismemberment of a major railroad. Some of these problems must be resolved by negotiation among the affected railroads, labor unions and the trustee. However, others appear to defy private sector solution.

There are several ways in which the Rock Island can be liquidated without disrupting Illinois' essential transportation network. Illinois' transportation needs would be best served by having one railroad own and operate most or all of the Rock track in the state as an integral unit. This outcome would provide long term reliable service to the complex industrial system which has grown up around the availability of single-line service connecting the Joliet, Peoria and Quad Cities areas.

Even if single-line service is not continued, nearly all of the Rock shippers in Illinois could be served by dividing those portions of the Rock necessary to access shippers among a large number of interested railroads. These carriers could reach approximately 95 percent of the carloads originating and terminating on the Rock Island in Illinois.

Unfortunately, these options are closed off in the near future, unless the ICC, US DOT, and the Congress if needed, are able to act in a concerted manner to resolve some of the issues. Carriers are willing and eager to provide unsubsidized rail freight service—if only they can be assured that in so doing, they have not signed a blank check which they may have to honor later.

If these problems are not addressed, the FRA "bidding" process will fail. System-wide, over 88 percent of the Rock's carloads would be handled according to an analysis of bids received to date; in Illinois, the figure is over 95 percent. However, this will not happen unless uncertainties involving labor, valuation, equipment and other questions are clarified. In the absence of such clarification carriers are not going to be able to accept permanent or temporary authorities to serve Rock customers. Realistically, the answer to the question "how much of the Rock's traffic can be picked up by other carriers" is not 88 percent; at the moment the answer is nearer zero.

The carriers are ready, the shippers are willing, but the problems remain. No carrier appears willing or able to accept temporary authority unless these problems are resolved.

III. LACK OF RESOLUTION WILL CAUSE SEVERE ECONOMIC CONSEQUENCES

Rock Island shippers in Illinois claim that the nature of their businesses makes them particularly vulnerable to any loss of rail service. The commodities shipped in and out of Illinois include heavy machinery, corrosive chemicals, shaped steel, and other commodities which cannot easily or economically be diverted to other modes. We have had the misfortune to test this claim all too recently. When the Rock Island operations were massively reduced during last fall's strike, we discovered that the shipper claims were true. Faced with the reality of lost rail service, Illinois businesses were forced to lay off employees.

The affected shippers and their employees are in no way responsible for delaying the smooth liquidation of the Rock Island, but we know they will bear the economic brunt of a Rock service interruption. From Chicago and Joliet, through Ottawa and Peoria to the Quad Cities, hundreds of jobs would be lost within a month after the termination of service. Should any interruption show signs of lasting for a longer period, job loss would quickly mount to the thousands. Even those companies which have the capacity to switch to other modes will eliminate some jobs, as higher transportation costs increase the costs of operation.

Further, these impacts will be spread far beyond Illinois. When processors in Joliet shut down their rail-dependent activities, their suppliers in Colorado, Nevada will also suffer. When businesses in Rock Island stop purchasing paper products from Alexandria or Kraft, Louisiana, the impacts will be felt in Louisiana as in Illinois. The loss of rail service to Mokena, Illinois would eliminate the shipment of lumber in from Eugene or Dillard in Oregon.

The situation is frustrating. A long range solution for most of the Rock Island shippers appears to be within reach, yet disastrous service interruptions are imminent. There is simply not enough time between now and March 2 to work out a solution. Under these circumstances, it would be unconscionable to permit an interruption of service to businesses on Rock Island lines for which carriers have expressed serious interest. The directed service order must be extended.

IV. CONCLUSION

Several of the bills before this Committee address the unsettled issues. I urge the Committee to expedite their consideration of these bills and to report out a measure which affords a realistic procedure and time frame for dealing with the problems blocking a smooth transfer of ownership from the Rock Island to other railroads. Priority should be given to maintaining essential services for both freight and passenger movement.

I further urge the Committee to communicate to the ICC its understanding that the public interest demands an orderly liquidation of the Rock Island that avoids wasteful and unnecessary service disruptions on lines which are likely to be acquired. Money spent on service continuation during the time it would take to produce such an orderly transition would not be misspent. The costs involved in continuing service would be more than offset by the costs associated with first shutting down service on the Rock Island and later starting up under new management, and the savings to the economy from avoiding plant closures and unemployment that would result from the precipitous discontinuance of service.

I am not suggesting that we squander more money on the Rock Island. The Rock Island is dead. Now that liquidation has finally been ordered by the court, let's get on with it in a reasoned and responsible manner.

Illinois' main interest is in assuring uninterrupted service while simultaneously providing a framework in which interested railroads and the trustee of the bankrupt Rock Island Railroad can reach quick agreement on the sale of those segments of the Rock which still constitute vital transportation links.

Senator EXON. Thank you.

We have two remaining witnesses. I will recognize next Mr. Lewis W. Hill and Mr. Ed Wheeler, I believe, if you will come up, you would follow Mr. Hill.

Mr. Hill is the chairman of the Regional Transportation Authority in Chicago. We welcome you.

Mr. HILL. Thank you, Mr. Chairman.

Mr. Chairman, Senator Kassebaum: I'm pleased to testify before you this morning, with a slightly different thrust from the comments that you've heard before. The Regional Transportation Authority is a unit of local government established pursuant to Illinois legislation for the purpose of maintaining and preserving mass transportation services in the northeastern Illinois area, consisting of six counties, the city of Chicago, and the surrounding area, the metropolitan area of Chicago. Therefore, I'll focus on a part of the Rock Island service that has not been heavily dwelt on so far.

Each working day within our six-county area, approximately 2½ million trips are taken over a coordinated network of bus, railroad and elevated rapid transit lines. Approximately 30,000 commuter trips each day are on the Rock Island lines, which go from the central city of Chicago out through the southern area of Cook County, terminating in Joliet and Will Counties. Additionally, the Rock Island connects with 33 interconnecting bus and other commuter railroad facilities, and therefore a disruption or an interruption in just one segment of that overall network will create a severe problem throughout the area.

Should the Rock Island cease its commuter operations, we estimate that approximately 1,500 to 2,000 of the more than 14,000 daily commuters would be unable to travel to their places of employment, resulting in a direct economic loss of more than \$25 million a year. Additionally, the almost 500 Rock Island employees who work on the commuter service then would lose their jobs, with an additional loss of about \$10 million in payrolls and benefits.

About 4,000 to 5,000 persons would be unable to use alternative public transportation and would be forced to drive their own automobiles to work, thereby using an additional 3 million gallons of gas a year, which is hardly consistent with our problems in terms of energy security, and would incur additional travel and parking costs of about \$10 million.

Congestion on our already overcrowded Dan Ryan Expressway, which parallels some portions of the Rock Island, would be significantly increased as a result of the additional use of that route to and from the central business district.

Furthermore, given the dramatic increases in all transit ridership recently, there is insufficient capacity on other parallel RTA mass transportation carriers to adequately absorb the Rock Island commuters.

Clearly, Rock Island commuter services are not redundant. They're a viable and critical part of the RTA mass transportation network in northeastern Illinois.

For this reason, the RTA has been involved in a major capital program to improve and rehabilitate those Rock Island facilities used in the operation of the commuter rail service. The RTA has upgraded a substantial portion of the rail right-of-way between Joliet and Chicago, purchased 17 new locomotives and 50 new bilevel coaches. All in all, the RTA, the Illinois Department of Transportation, and the Urban Mass Transportation Administration have provided more than \$67 million in capital improvements to those elements of the Rock Island capital plant that are used for commuter service. In addition, over the past 3½ years, the RTA has provided \$32 million in operating subsidies for commuter service. This amounts to a total investment of \$99 million in Federal and local tax monies.

With the order of the U.S. District Court for the liquidation of the Rock on January 26, which I think we have to remember is less than 30 days ago, it continues to be incumbent upon the RTA to take all appropriate measures to preserve and maintain commuter service. To date, no other railroad has proposed the acquisition and operation of the commuter service. Therefore the RTA initiated negotiations with the Rock Island for acquisition of those lines and related facilities needed for commuter service. The negotiations are being conducted directly with the trustee in bankruptcy and with the consent and knowledge of the U.S. District Court. Further, these negotiations are sufficiently advanced to permit us to seek long-term financing for the purchase of the affected properties.

More particularly, we have advised the Federal Railroad Administration of our intent to seek financial assistance pursuant to section 511 of the Railroad Revitalization and Regulatory Reform Act of 1976. In order to expedite and facilitate the review of loan guarantee applications for the RTA and other public entities seeking financial assistance for acquisitions under section 511, we would ask that the Congress urge the FRA Administrator to waive those requirements not appropriate or necessary for public bodies.

The board of the RTA has taken steps to purchase and if necessary to operate directly or by contract the Rock Island commuter service. This includes our establishment of the Northeastern Illinois Railroad Corp., which is authorized under our State enabling legislation, for the purpose of maintaining and operating a commuter railroad service.

The consummation of such a complex transaction will take time. It's our considered opinion that these matters cannot be adequately concluded before the expiration of the existing directed service order. Furthermore, while we are aware of the administration's request to the ICC that the provisions of the DSO be extended for 30 days, this still provides insufficient time for the orderly transfer of the Rock Island commuter plant and related employees without interruption of service. Consequently, we would urge a continuation of the provisions of the existing DSO until such time as each affected Rock Island bidder can consummate necessary purchase, financing, and labor arrangements.

I briefly discuss dollars, time requirements, capital and operating expenses, and procedural steps. But I don't think we can lose sight of the fact that the thing we're most interested in is the continuation of this essential service for the users, the commuters.

Thank you.

Senator EXON. How much time? I do not believe you have indicated how much time you felt would be necessary. We have talked about 30 days. We have talked of 90 days.

Mr. HILL. I don't think we really know, Senator. The problem that we have, as was referred to, is negotiating a price that will be acceptable to the judge. We're into negotiations on an acquisition. We have further discussions with other bidders in terms of how much of the physical plant, the rail properties, would be acquired by us and how much by them.

Basically, we have a two-track line from Chicago out to Joliet. We repaired one for use by commuter services. The Rock Island was to have repaired the other for use by freight service. At this point our contemplated approach would be to acquire both tracks and then enter into an arrangement for freight service as appropriate with whoever might do that. But we're in discussions with those bidders as well.

If we buy two tracks, what we pay the Rock Island is going to be subject again to the courts in terms of the judgments there. And to say when we can resolve a price issue of that nature is almost—I'd mislead you if I gave you a date. We're moving in that regard.

Senator EXON. What does the Rock Island say about the density? I am just assuming that because of the density of population there, both for movement of freight and people, that that portion of the road is probably a profitable operation?

Mr. HILL. The difficulty is that the commuter service is obviously not.

Senator EXON. It is not?

Mr. HILL. It is not. Because we provide a subsidy for the commuter service of approximately \$10 million a year for its operation. Over the past years, the fares on the Rock Island have been substantially low because of outdated equipment and very poor track bed. And our board, as a matter of policy, has fares lower on the Rock Island service than on the other commuter lines because of the poor equipment.

As we've managed to upgrade it, we've been increasing the prices to almost parity with other commuters throughout the region. But we're still not there yet. We're about 15 percent below.

The complexity I might use to illustrate is that when we started talking with the Rock Island a couple of years ago about the acquisition, we were talking about approximately \$10 or \$12 million as a purchase price. They were talking \$80. So you see, we still have a little negotiation there.

They're to come in to the judge with their appraised values on February 25. We would hope that they would be closer to our figure than theirs. But this again, as has been pointed out repeatedly, is the first case of a railroad of this magnitude that's being disposed of in segments. And what is, in fact, real estate value for almost the world's longest bowling alley, if you will, as an alter-

nate use? Even the theory of how do you value is one that the appraisers have been exploring, trying to arrive at a conclusion on.

So that we would think that most likely a directed service order, and then interim agreements for operations, some transition period up until the time of actual purchase, would be an appropriate item.

I think that we're sympathetic with the Department of Transportation that you don't want to provide too much time, because everybody sits back and relaxes. But I think there has to be a realization here that there is enough time to do these complications.

We participated in the sessions that the Department of Transportation arranged with the FRA, with the labor unions. But again, we have a somewhat different aspect because we're not the typical purchaser that all of the other railroad purchasers are, because we're, of course, a not-for-profit entity. The other railroads, presumably, are trying to be profit motivated and profit oriented. Whether they are is another question.

But how many of the crew we take, what happens in that regard, will there be no commuter service for a while on those lines that we use for commuter—or no freight service? And if so, do we then have to absorb the costs of the tower man, signal system, that previously had been shared by freight and commuter services, for that interim period of time?

So there are a series of items that need to be worked through. And we've been in discussions with the Commerce Commission, with the FRA, and with the Department of Transportation on these aspects. So we're aggressively moving forward.

But I think that probably the solution would be an extension of the directed service order, and then an interim arrangement for operations pending the consummation of a purchase.

Senator Exon. Thank you.

The last witness this morning, then, is Mr. Edwin Wheeler, president of the Fertilizer Institute. And I assume that with Mr. Wheeler, we are moving from a commuter-type operation to a rather wide-range problem that the Fertilizer Institute might have with regard to the Rock Island. Glad to have you.

STATEMENT OF EDWIN M. WHEELER, PRESIDENT, FERTILIZER INSTITUTE

Mr. WHEELER. Mr. Chairman, Senator Kassebaum: It's a pleasure to be here this morning. I am going to be mercifully brief.

The problem we face with the Rock Island is essentially this. We move about 25,000 cars of material over the Rock Island. We paid the Rock Island about \$42 million this year to move that traffic.

I want to emphasize in the beginning of the testimony that our industry is not interested in supporting ConRail, Junior, or the ConRail-type proposition.

The transition orders and the embargo orders couldn't hit us at a worse possible time because spring is now rapidly approaching. To be very blunt about it, Senator, I know I'm going to appear before you shortly when Congress investigates the fertilizer shortage, because we've got one brewing now that's out of this world.

So we get into a situation, then, that producers in Florida that ship phosphate into this territory are asking us, do we dare load on

the Rock Island because of the embargo orders approaching. And the answer is, no, don't even consider shipping into that territory, because, one, you can sell the material someplace else, and, two, if we get an embargo on, if the embargo stands up, God knows where those cars are going to be.

So time is of the essence for the Congress to take some action, because of the ICC's reticence to really come to grips with this issue. I'd have to tell you in all candor, I think the Senate will act a lot quicker than the House. We're having the devil's own time getting the House to move on this thing. That's what all this conferences that's been going on in the back with some of my fellow lobbyists this morning, to see if we can get that thing cracking.

We will face the immediate shutdown of five major production plants on the Rock Island because all their material arrives by the Rock Island. There's no other way to get it there. We have seven big regional warehouses, and by that I mean in the 10,000 ton and above variety, that cannot be served by anybody but Rock Island. So you can see that we are really deeply concerned about this.

Let me make several suggestions and then I'm going to quit for this morning. First of all, 30 days will not do the trick under any circumstance. Our season is too long, the transition is too difficult. Somebody this morning—the Commission was talking about three weeks. That's the craziest thing I ever heard of.

Fifteen years ago today I was in Memphis, Tenn., as the assistant to the president of the Atcheson, Topeka & Santa Fe Railway, when we were trying to take over that Rock Island line that no one wants today. This Rock Island problem has been with us a long time, and 30 days is not going to cure that sick child.

We respectfully ask, therefore, that the bills pending before the committee be amended to at least give us 90 days. We know—and you can tell this morning from all the agencies in the State and Federal Government mixed up in this thing, there's no way to get this thing straightened out in 30 days. So we therefore ask for 90 days' extension of operation by the terminal company.

In addition, we respectfully ask the committee to give the ICC sufficient funds during that interim period. We hope that you will take a further look at the lending provisions on long-term substantial loans to permit some of the communities. Even some of our cooperative companies are considering taking over some of this track if the financial inducement is there for them.

I am not talking about a handout. I am talking about substantial monies at low rates of interest.

Last but not least, we all know there's no way in the world, nor should equity permit it, for the Rock Island employees to be thrown out on the street. We can't get the bill through the Congress and we all know that. So we urge you to give the Rock Island employees fair treatment under a labor provision.

This concludes my testimony and I'm ready for questions.

[The statement follows:]

STATEMENT OF EDWIN M. WHEELER, PRESIDENT, THE FERTILIZER INSTITUTE

The Fertilizer Institute (hereinafter TFI) is a voluntary, non-profit association that represents about 90 percent of the nation's fertilizer industry whose member-

ship is engaged in every facet of supplying our nation's farmers with plant nutrients. Our membership consists of investor-owned as well as farmer-owned cooperatives. Over the past five years, fertilizer manufacturers have shipped between 45 and 51.5 million tons of material per year. This tonnage produces between 30-40 percent of the nation's total food and fiber output.

The Chicago, Rock Island and Pacific Railroad Company (Rock Island), serves twelve major grain producing states. The combined agricultural production of these twelve states is approximately 64 percent of the United States total agricultural commodities output. These states, producing in excess of 197.5 million tons of agricultural products, consumed 21.1 million tons of fertilizers (41.5 percent of U.S. consumption) in 1979. The Rock Island Originated and-or terminated 2 million tons¹ of fertilizer traffic (24,700 carloads) in 1978 within these states. For this traffic, the fertilizer industry paid the Rock Island approximately \$30 million.

To move the same traffic in 1980, as transported in 1978 (2 million tons), the Rock Island will receive \$42 million from the fertilizer industry.

In the event Rock Island service is discontinued, fertilizer products must be transported by an alternate means. Loss of fertilizer to the Rock Island serviced states will cost the farmer a minimum of 18.8 million tons of agricultural production (using the above grain to fertilizer ratio) or a loss of \$2.85 billion were it not delivered by any other mode. In turn, the fertilizer retailer would lose a minimum of \$300 million if the fertilizer were not delivered and sold to the farmers.

If fertilizer were delivered to the Rock Island serviced areas by an alternate railroad and truck combination, the additional cost would be approximately \$10 to \$15/ton on approximately \$150/ton fertilizer material. This modal switch would cost the farmers in the affected area an additional \$25 million for fertilizer.

The problem is far more complex than a switch to truck from rail for the Rock Island served fertilizer dealer. Trucks are not sufficiently available. During the peak fertilizer consumption season (March-June), we typically experience a truck shortage. The loss of Rock Island service this spring simply will lead to a loss of fertilization of crops. This means a loss of sales dollars to the fertilizer dealer, a loss of production to the farmer (approximately nine tons of grain per ton of fertilizer), and ultimately an increase in food costs to the consumer.

In addition to these problems and costs, it should be emphasized that the Rock Island services a minimum of five fertilizer plants and seven fertilizer warehouses. These plants are totally dependent upon the Rock Island for inbound products such as sulfuric acid and other raw materials to produce fertilizers.

In analyzing this situation the shutdown of Rock Island will mean a temporary closing of some of the plants and truck diversion for others. We estimate these problems will increase fertilizer prices another \$20 to \$30 per ton. A shortage of trucks and a tight 1980 fertilizer supply situation will increase this estimate greatly.

In summary, a shutdown of the Rock Island will create an extreme burden on both the truck and rail industry to transport the additional tonnage. Furthermore, the increased costs in fertilizer will be no less than \$30/ton or a 20 percent increase, and much of the tonnage in the peak spring demand season will not be delivered. Simply, the farmers serviced by the Rock Island could lose between \$500 million and \$1 billion due solely to the increased cost of fertilizer with termination of Rock Island service this spring. If fertilizer is not available at all, the farmer can potentially lose \$2.85 billion.

We, therefore, will support any legislation which will keep the Rock Island viable for 90 days. This will not only permit us time to deliver the fertilizer but will materially assist in cleaning up a substantial tonnage of grain from the country elevators.

We do not support nor do we want a Junior Conrail. Rather, we want and need this extension of time to permit an orderly transition to other purchasers and operators. Yes, we realize that a good deal of mileage (trackage) will be gone, but we will have to live with this—again 90 days gives us a chance to plan for the alternatives.

We recognize and support the various proposals to protect the several thousand Rock Island employees and their dependents.

We urge favorable consideration to a program of low cost, long term loans to encourage purchase of not only portions of the Rock Island not otherwise attractive but which are in need of major rehabilitation. Being a native of Kansas and reasonably familiar with the non-existent state of maintenance of the Rock Island, I urge the Committee to be generous in this regard. The Rock Island lines were never brought up to a state of maintenance that could handle the modern conveyor of agricultural products—the 100-ton hopper car. Be it fertilizer in or grain out, this

¹ Source: Interstate Commerce Commission, 1978 1 percent Waybill sample.

large very heavy car is the standard and to keep service into nearly all the Rock Island points which are to remain viable will call for substantial refurbishment.

In closing, we greatly appreciate the expedited hearing on this matter by your Staff members and yourselves.

ROCK ISLAND STATES, GRAIN PRODUCTION ¹

State	In thousands of bushels				Cotton in thousands of bales
	Corn	Sorghum	Wheat	Soybeans	
Arkansas	2,279	13,104	25,740	101,200	1,035
Colorado	80,620	8,463	57,100	.....	.....
Illinois	1,152,900	4,096	68,370	327,450	.....
Iowa	1,091,200	2,368	3,145	245,820	.....
Kansas	161,280	243,000	344,850	27,720	.....
Louisiana	3,380	660	918	62,980	656
Minnesota	600,000	.....	131,894	133,350	.....
Missouri	205,200	61,320	60,450	144,000	235
Nebraska	628,650	151,230	103,250	40,120	.....
New Mexico	10,260	11,424	9,137	.....	.....
Oklahoma	7,790	21,470	175,500	6,050	436
Texas	161,700	230,400	117,500	19,760	5,465
Total	4,105,259	747,535	1,097,584	1,108,450	7,988
Percent of total	64.4	94.5	54.2	69.6	55.9
United States	6,370,624	790,647	2,025,793	1,716,334	14,277

¹ Source: USDA, Crop Production Bulletin.

1979 Fertilizer consumption ¹

State:	Tonnage
Arkansas	664,894
Colorado	385,983
Illinois	4,217,959
Iowa	3,933,942
Kansas	1,578,331
Louisiana	631,826
Minnesota	2,389,626
Missouri	1,758,539
Nebraska	1,901,298
New Mexico	115,659
Oklahoma	858,850
Texas	2,730,539
Total (41.48 percent of total)	21,167,446
United States	51,031,349

¹ Source: U.S. Department of Agriculture, Commercial Fertilizer Consumption for year ended June 30, 1979.

MODAL DISTRIBUTION OF FERTILIZER MATERIALS ¹

[Phosphate rock and phosphate products]

Distribution State	Modal tonnage			
	Rail	Motor carrier	Water	Rail/water
Arkansas	21,762	.....	.....	.....
Colorado	5,083	66	.....	.....
Illinois	342,819	372	210,716	45,718
Iowa	216,784	95	79,635	509,919
Kansas	71,827	303	.....	.....
Louisiana	34,308	.....	55,895	4,284
Minnesota	124,385	404	309,535	29,457
Missouri	159,684	24	37,647	12,120

MODAL DISTRIBUTION OF FERTILIZER MATERIALS ¹—Continued

[Phosphate rock and phosphate products]

Distribution State	Modal tonnage			
	Rail	Motor carrier	Water	Rail/water
Nebraska	38,536	171	2,283	61
New Mexico	6,611	25		
Oklahoma	59,918	2,149		7,103
Texas	61,248	671		1,292
Total	1,142,965	4,235	785,711	113,128
Percent of total	55.86	0.2	38.4	5.53

¹ Source: The Fertilizer Institute, Fertilizer Transportation by Mode, December 1979.MODAL DISTRIBUTION OF FERTILIZER MATERIALS ¹

[Potash]

Distribution State	Modal tonnage		Water	Rail/water
	Rail	Motor carrier		
Arkansas	15,012	1,058		
Colorado	10,831	5,083		
Illinois	67,262			
Iowa	48,499	123		
Kansas	46,808	3,581		
Louisiana	38,351	49		1,236
Minnesota	6,172			
Missouri	51,247	2,307		
Nebraska	64,448	20,946		
New Mexico	14,896	3,037		
Oklahoma	18,152	4,599		
Texas	683,606	22,375		221,789
Total	1,065,284	63,158		223,025
Percent of total	78.8	4.67		16.5

¹ Source: The Fertilizer Institute, Fertilizer Transportation by Mode, December, 1979.

RAIL LINE TRACKAGE

State	Mileage	Rock Island mileage
Arkansas	3,522	605
Colorado	3,384	258
Illinois	10,555	257
Iowa	7,547	1,717
Kansas	7,514	1,082
Louisiana	3,710	131
Minnesota	7,294	174
Missouri	6,010	492
Nebraska	5,360	150
New Mexico	2,057	153
Oklahoma	4,897	1,055
Texas	13,255	885
Total	75,015	6,960
Percent of total		9.3

Rock Island, fertilizer plants

<i>Company and Rock Island Location:</i>	<i>Products:</i>
Mobil Chemical Co., DePue, Ill.....	Di-Ammonium phosphates.
Mobil Chemical Co., Houston, Tex.....	Ammonium phosphate.
Royster Co. & Smith-Douglass Marseilles, Ill.	Ammonium nitrate.
Phillips Chemical Co., Etter, Tex.....	Ammonium nitrate.
W.R. Grace Henry, Ill.....	Ammonium phosphates and mixed products.

ROCK ISLAND, FERTILIZER WAREHOUSES

Company and location:

Occidental Chemical Company, Montpelier, Iowa.
 Olin Corp. Joliet, Ill., Omaha, Nebr.
 International Minerals & Chemical Corp., Minneapolis, Minn.
 Estech General Chemicals Corp., DePue, Ill.
 Farmland Industries Inc., Mescatine, Iowa., Kansas City, Kans.

Senator EXON. Well, thank you, Mr. Wheeler.

I am cosponsor, as I indicated earlier, of Senator Kassebaum's bill, and I think the weight of the testimony this morning has been that 30 days is the time that we need. But my line of questioning all through this session has been, whether 3 weeks or 30 days, where do we go from there?

Let us take your suggestion of 90 days. You obviously have testified that 30 days is not enough.

Mr. WHEELER. Correct.

Senator EXON. On what do you base the theory that 90 days, therefore, would be time enough?

Mr. WHEELER. Ninety days will get us by the season.

Senator EXON. Oh, you mean—you're talking from the standpoint of the fertilizer?

Mr. WHEELER. Yes, sir. The second problem we have, Senator, is fairly clear from talking to a number of leaders in the House. We're not going to get a bill through the House with more than 90 days. They are adamant they don't want another ConRail on their hands. And even some of my superconservative friends over there that are old friends are saying, no, no, no. They don't want a bill at all. But obviously they're not from the territory that's affected, like the gentlemen that appeared here this morning. And I think we can get a bill through both Houses, if we don't set up baby ConRail. That's what's bothering me. I'm talking about a practical political matter, to be very honest with you.

Senator KASSEBAUM. What leads you to think it would be a baby ConRail?

Mr. WHEELER. They just don't even want to start down that path involving additional Government expenditures and so forth. They are very reluctant.

I think the House committee is so big—it has over 40 members—and they have had all of ConRail's woes and expenditures they want, because frankly, Senator, they don't ever think ConRail is going to walk on its own two feet, and they are scared to death this is another bottomless pit.

Senator KASSEBAUM. I just don't see this, though, as even being interpreted the same as ConRail.

Mr. WHEELER. Yes, ma'am, I agree with you. But there are some who disagree with both of us.

Senator KASSEBAUM. I'd also like to mention that in my bill there is the 30 days, up until April 1, and then 120—well, not to exceed 120 days of service on those lines that have had purchase bids.

Mr. WHEELER. But we're dead in the water on so much mileage in the rural areas that we need that extra 60 days that I'm asking you for. I think the people from Oklahoma really made a case this morning on that east-west run through there. You're going through some superagriculture territory, particularly in the Arkansas west—east of Little Rock. And this 30 days just isn't going to do it.

What we need is a double-barreled thing: One, a signal from the Congress to the people that pay the bills, us, what the Congress wants done; and second, put the pants on the ICC and say: This is a matter of policy that the Congress is directing you to keep directed service in effect for an additional 90 days.

The chairman this morning didn't quite tell the whole story. For the moment, he hasn't got the votes to get any more time out of them down there. They're in a deadlock, even though he's been interviewed at the White House several times.

Senator EXON. I have no further questions. Anything else, Senator Kassebaum?

Gentlemen, thank you very much.

We are adjourned.

[Whereupon, at 12:53 p.m., the hearing was adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF HON. TOM RAILSBACK, U.S. REPRESENTATIVE FROM ILLINOIS

Mr. Chairman and Members of the Subcommittee, since I was unable to appear in person, I want to thank you for giving me the opportunity to submit written testimony regarding the Rock Island Railroad to the Subcommittee on Surface Transportation of the Senate Commerce Committee.

Gentlemen, I feel it is absolutely essential to extend directed service on the Rock Island Railroad beyond the current March 2 deadline in order that a sale to a viable bidder can be consummated.

On February 4, 1980 the Federal Railway Administration advised me that there already were 18 railroads bidding on the Rock Island lines, covering 88 percent of present trackage and 65 percent of present mileage. These railroads seriously interested in purchasing segments of the Rock must have more time beyond the March 2 date to resolve labor issues and negotiate a viable sale. Given such keen interest expressed by these bidding railroads, it would be tragic and pointless for any disruption of service to occur.

I therefore strongly believe it is mandatory that rail service not be interrupted. Disruption in service would likely eventuate in substantial shutdown costs, vandalism, diminution in value of equipment and facilities, as well as substantial start-up costs if there is a future sale of the Rock.

As you are aware, Secretary of Transportation, Neil Goldschmidt has already expressed similar concerns and requested the Interstate Commerce to extend directed service.

The State of Illinois is one of the thirteen states is served by the Rock Island Railroad. The Rock Island provides a vital transportation service to the State of Illinois and the 19th Congressional District, which I serve. The significance of the transportation of grain, other agricultural commodities and farm implement equipment by the Railroad cannot be overemphasized.

During September of last year, the critical time in which the Rock Island was on strike, we were all aware of the adverse effects on the transportation of harvested grain. During this period, the biggest losses that occurred because of rail service were to the farmers and the grain dealers of the Midwest. They were the ones who had to bear the brunt of this strike as they moved into the critical time of harvest. Should the should Rock Island be shut down again on March 2, many farmers will again have to face the prospect of being unable to move their products to market. It should also be noted that the shutdown of some sections of the Rock Island could cause massive economic losses and could also affect our agricultural commitments abroad. The liquidation of the Rock Island before the consummation of a sale by another rail carrier will have a serious social and economic impact on approximately 8,000 employees.

To prevent a possible shutdown, more time is needed to allow the other railroads to continue serious negotiations and consummate sales.

The federal government has invested substantial amounts of time, energy and money into salvaging the Rock Island Railroad. To abandon this goal now would be to undermine all past efforts. For this reason, I feel it is imperative to continue directed service until a purchase of this essential transportation system can be consummated.

Thank you.

STATEMENT OF D. K. MCNEAR, PRESIDENT, SOUTHERN PACIFIC TRANSPORTATION CO. AND ST. LOUIS SOUTHWESTERN RAILWAY CO.

My name is D. K. McNear. I am President of Southern Pacific Transportation Company and its subsidiary St. Louis Southwestern Railway Company, which is also known as the Cotton Belt. I appreciate the opportunity to file this statement and I request that it be included as part of the record of the hearing.

Southern Pacific and Cotton Belt are vitally interested in developments concerning the Rock Island. Cotton Belt and the Trustee of the Rock Island and parties to a

1978 purchase contract under which Cotton Belt will pay the Trustee \$57 million in cash for Rock Island's so-called "Tucumcari Line", which extends 965 miles from Santa Rosa, New Mexico to St. Louis, Missouri, via Kansas City, and all trackage rights, properties and other interests incident thereto.

The sale is subject to the approval and authorization of the Federal Reorganization Court having jurisdiction over the Rock Island's estate and the Interstate Commerce Commission pursuant to Section 77(o) of the Federal Bankruptcy Act (11 U.S.C. § 205(o)), and to any conditions imposed by the ICC or the Court in their authorizations being satisfactory to Cotton Belt.

The Reorganization Court during 1978 authorized the Trustee to file a joint application with Cotton Belt for the approval and authority of the Interstate Commerce Commission to consummate the sale and Cotton Belt and the Trustee filed such an application. The Court reserved its own jurisdiction, following the Commission's decision on the application, to decide whether the sale is in the interest of the Rock's Island's estate and of its ultimate reorganization, under Section 77(o).

Hearings on Cotton's Belt's application to the ICC for approval of the sale agreement began May 1, 1979 before an ICC Administrative Law Judge assigned to take evidence in the case, and concluded on February 6, 1980. Cotton Belt is seeking approval of the sale agreement, which includes the right to operate over Union Pacific Railroad Company trackage between Topeka and Kansas City, as the successor of Rock Island, pursuant to an 1887 trackage agreement between Rock Island and Union Pacific, as well as Rock Island's interests in Kansas City Terminal Railway Company and Terminal Railroad Association of St. Louis. The application has been opposed by a number of western and mid-western railroads. The parties are now preparing opening briefs which must be filed by March 24, and reply briefs must be filed by April 18. Under the statutory time limits established by the 4-R Act, the full Interstate Commerce Commission must issue its final decision upon the application on or before the 180th day after the close of the record, or by August 4, 1980.

When it appeared that the Trustee would not be able to continue operations of the Rock Island, due to his worsening financial condition, and a strike by Rock Island employees, Cotton Belt on September 22, 1979 filed a petition for temporary authority to operate the Tucumcari Line. The ICC on September 26, 1979, by emergency directed Service Order No. 1398, directed the owners of Kansas City Terminal Railway Company (KCT-DRC) plus the Denver & Rio Grande Western and Southern Pacific-Cotton Belt to operate the Rock Island. That operation commenced on October 5, 1979, and is due to terminate on March 2, 1980.

By Service Order No. 1411, served December 7, 1979, the Commission granted Cotton Belt Temporary authority to operate the Tucumcari Line, based upon the continuance of the same emergency cashless condition of the Trustee as had caused the Commission to direct KCT-DRC to institute directed service on the Rock Island.

Cotton Belt's temporary authority operation will be under the provisions of Section 11123 of the Interstate Commerce Act, whereas KCT-DRC has been operating as a directed service carrier under Section 11125 of the Interstate Commerce Act. A major difference between the two sections is that KCT-DRC is being paid the excess of its expenses over its revenues, plus a profit since it began operations. Cotton Belt, on the other hand, represented to the Commission and plans to operate without any government funds to cover its expenses. The KCT directed service operations has been funded by the government at a cost of upwards of \$70 million to date and KCT has made a profit of approximately \$1 million per month which also has been paid by the government.

Because Cotton Belt expects to incur losses from its temporary operation of the Tucumcari Line, and it was concerned over the possible magnitude of those losses, it requested the Commission on December 13, 1979 to clarify various operations, labor, accounting and other problems which were not resolved in the Commission's December 6 decision. The Commission resolved some of these matters by its decision of February 4, 1980, but left others to be negotiated by Cotton Belt and other parties. These outstanding problems have been discussed with the other parties, including labor organizations and railroads. Agreements have been reached with several railroads, including St. Louis-San Francisco Railway Company (Frisco), Missouri Pacific, and Burlington Northern, with regard to operations at Kansas City, and Terminal Railroad Association of St. Louis, as to operations in the St. Louis area. Negotiations are continuing with Union Pacific Railroad Company; William M. Gibbons, the Rock Island's Trustee; and Kansas City Terminal Railway Company, acting as the directed service operator of the Rock Island. On February 11 Cotton Belt therefore requested the Commission to extend the seven day period for negotiations with the other parties for ten days, to February 21.

Cotton Belt will be ready to institute its temporary operation of the Tucumcari Line on March 3, 1980, subject only to the resolution of various labor protection and other employee problems which are the subject of ongoing negotiations with the labor organizations. This is our plan whether or not Congress extends Kansas City Terminal Railway Company's directed service operations for the various periods that are provided in the bills which have been introduced, such as Senator Kassebaum's bill, S. 2253, or S. 2246, or Senate Joint Resolution 139. Therefore, we are taking no position on the provisions of these bills to extend directed service to particular dates.

If new legislation is to be enacted, however, I suggest that several revisions should be considered. Section 4(a) of Senator Kassebaum's bill, S. 2253, should be amended so that Cotton Belt's temporary authority operations could begin on March 3. Accordingly, there should be added after "April 2, 1980", the following:

"Provided, however, That nothing herein shall be deemed to change the effective date of any temporary authority to operate over the lines of the Rock Island Railroad which has been or may be granted by the Commission, it being the sense of Congress that the Commission's right to grant such temporary authority is hereby confirmed."

Comparable revisions covering this point should also be made at the end of Section 1 of S. 2246 and at the end of Section 2 of Senate Joint Resolution 139 if either of these proposals is to be enacted.

I also suggest that Section 6 of S. 2253, which would amend Section 505 of the 4-R Act, should be changed so that Section 505 funds to purchase redeemable preference shares would also be available with respect to purchase applications filed with the Commission before January 1, 1980. This may be accomplished by eliminating the last sentence of the proposed revision to Section 505(h)(1) of the 4-R Act.

STATEMENT OF BRUCE T. GORDON, MANAGER, TRANSPORTATION SERVICES, THE
B. F. GOODRICH CO., CHEMICAL GROUP

My name is Bruce T. Gordon, Manager of Transportation Services for The B. F. Goodrich Company, Chemical Group, whose headquarters are at 6100 Oak Tree Boulevard, Cleveland, Ohio. 44131.

This testimony addresses the critical need for continued rail service for the B. F. Goodrich Company, Chemical Group, over the trackage providing connection to the Rock Island main line at Bureau, Illinois and to main line tracks of at least five major rail carriers at Peoria, Illinois. The B. F. Goodrich Company, Chemical Group, sincerely believes this need can be met through investment by the private sector rather than from open ended Government funding. It is imperative that the Senate Committee act in a manner to facilitate this process.

In the interim, we request action be taken to provide continued rail service.

The B. F. Goodrich Chemical Group has located at Henry, Illinois, approximately 33 miles north of Peoria and 10 miles south of Bureau, a manufacturing plant producing plastic resins and rubber processing chemicals. The plant currently employs 380 people and has an estimated annual payroll of \$8,500,000. In Henry, whose population is 2,600, the impact of the continued operation of this plant on the economic welfare on the entire community is self evident. One hundred forty seven of our employees live within Henry, and surrounding Putnam County is the residence of an additional seventy-two of our employees.

The B. F. Goodrich Chemical Group has invested significantly in this plant location. The plant itself has a replacement cost value of \$11,000,000 while the machinery and equipment are valued at \$54,000,000. Included in this valuation is the plant's private rail siding of 5,940 feet of rail track. This siding is currently undergoing an expansion which will increase trackage by 4,462 feet. A further financial commitment valued at over \$6,000,000 has been made by Goodrich in the acquisition of rail tank cars and hopper cars for the movement of our raw materials and finished products. This rail fleet consists of roughly sixty tank cars and seventy hopper cars.

The transportation characteristics of the Henry Plant offer sufficient volume to provide opportunities for profitable railroad operations now and in the future. Goodrich moves on an annual basis 1,265 inbound loads and over 800 outbound loads. The distribution of our finished products is on a national basis. Raw materials are also received from suppliers throughout the country. All of this rail traffic is moved in privately owned rail equipment and produces gross railroad revenues of \$1,641,009 per year. In addition, the Henry Plant is currently undergoing an expansion in the rubber chemicals production area which will increase our annual railcar volume by 120 cars per year generating additional gross rail revenues of \$280,000.

Potential for further growth at the Henry Plant, in line with the overall expansion policy of the B. F. Goodrich Chemical Group, will remain in doubt until the question of access to rail transportation service is resolved.

In the case of the Goodrich plant at Henry there are no alternate modes of transportation available. Highway transportation is not feasible due to lack of suitable equipment to handle some of our raw materials in sufficient quantities. In addition, the competitive nature of the markets we serve will not permit delivery to our customers in other than rail equipment. For these reasons, we are captive to rail service at the Henry facility.

In brief, sustained operations of the B. F. Goodrich Chemical Group plant at Henry, Illinois is dependent on continuing rail service. Within five weeks of discontinuance of such service the B. F. Goodrich Chemical Group would be forced to shut down operations at its Henry Plant. One of the results of such action would be that 5.6 percent of Henry's total population would be laid off indefinitely. We, therefore, urge the Senate Commerce Committee to promote the expeditious transition of the Rock Island's trackage to interested parties in the private sector of the economy. We also request that action be taken to provide for continued service until the aforementioned transaction can be implemented.

STATEMENT OF THE SUN OIL CO. OF PENNSYLVANIA

INTRODUCTORY STATEMENT

The Sun Oil Company of Pennsylvania (Sun) is a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania with the principal place of business at 1608 Walnut Street, Philadelphia, Pennsylvania, 19103.

Sun is a fully integrated petroleum company engaged generally in the refining, marketing and distribution of refined petroleum and petroleum products, with five domestic refineries, numerous terminals and warehouse facilities to handle the distribution of these products. As here pertinent, a division of Sun, the Sun Petroleum Products Company, operates a 48,000-barrels-per-day refinery for Sun, located on the Rock Island Railroad (Chicago, Rock Island and Pacific Railroad Company) at Sunray, Oklahoma. Our refinery is located on Oklahoma Highway No. 81, a two-lane highway, approximately seven miles south of Duncan, Oklahoma. The refinery labor force consists of 330 employees with an annual payroll of \$8,000,000. We have capital expenditures budgeted for 1980 of \$11,000,000, half of which is labor-related with additional contracts for services of \$3,500,000. The estimated income to the community from the Sunray Refinery is in the magnitude of \$17,000,000 annually. The primary products shipped from our Sunray, Oklahoma refinery by rail service is Carbon Black Oil, Petroleum Naphtha, Petroleum Coke, Liquified Petroleum Gas and Molten Sulphur. Further, this refinery is a major supplier of aviation gasoline and jet fuels used by military establishments in the Oklahoma area as well as commercial users. The Sunray Refinery also purchases and receives via rail service materials for refinery operations.

STATEMENT OF FACTS

During the year 1979, except for the Rock Island strike, Sun shipped from the Sunray, Oklahoma refinery 842 tank cars of petroleum products and 1716 hopper cars of coke for a total of 2558 rail cars. Our inbound loads totaled 417 cars of material. Total outbound and inbound rail cars at the Sunray Refinery were 2975, generating rail revenue estimated at \$3,000,000. From August 28th until the directed service order was issued on September 26th with operations starting on October 5th, our Sunray Refinery was without rail service due to the Rock Island strike; therefore, our rail tonnage does not reflect anything for this period. Rail movements thereafter were somewhat curtailed due to operating difficulties of the Rock Island until October 17th when normal operation resumed.

Our Sunray, Oklahoma refinery is served locally by the Rock Island. The nearest connecting rail line is the Frisco Railroad Company at Chickasha, Oklahoma, approximately 45 miles away. If not provided with rail service at our Sunray Refinery, we could not effectively utilize any rail service whether from the Chickasha rail head or others due to the nature of the products involved and storing of our private equipment. Any protracted interruption of rail service at this plant would effectively blockade or embargo Sun from shipping via rail to any point from our Duncan Refinery.

The only alternative mode of transportation available would be common carrier truck. For the transportation of bulk products, common motor carrier service is available but with service restrictions and unfavorable economic penalties.

Our past experience of moving petroleum Coke by truck, however, has been a painful and costly experience. In fact, the last time we attempted to do this we were directed to cease utilizing this method due to environmental considerations.

Termination of rail service at our Sunray Refinery would certainly curtail any future expansion or major capital investments and would require that Sun reevaluate the economics of continuing to operate this vitally-needed energy-producing facility.

RELIEF SOUGHT

We urgently request the committee's assistance in securing uninterrupted rail service for our Sunray, Oklahoma refinery and permanent future stable rail service.

Essential rail service required cannot be interrupted during a period of time when the Rock Island shuts down operations and the bidding railroads, for segments of track of the Rock Island, become operational. Service must be continued while any acquisitions become final.

Permanent and stable rail service is the only viable solution in the operation of our Sunray Refinery. Any operational slow-down or stoppage of this refinery facility would have an adverse impact on the nation's critical energy situation. The potential loss of any jobs in this area would further increase the high national unemployment statistics and would be economically depressing to the local area itself.

In view of the aforementioned facts, Sun respectfully requests the Committee's support in insuring that we and all other affected shippers and the people of the Great State of Oklahoma continue to receive stable and uninterrupted rail service during this extremely difficult period.

STATEMENT OF JAMES R. FRASER, DIRECTOR OF DISTRIBUTION, BELLROSE SILICA CO.

Industrial sand is the principal ingredient in the manufacture of glass. It is also used by foundries, oil and gas well service companies, refractories, chemical manufacturers, water filtration and purification plants, and a wide variety of other purposes. Silica sand is one of the most common elements in the earth. It is a relatively low value, high volume commodity. For this reason it is extremely important to us, as a sand producer, that we have a reliable transportation system capable of moving large quantities at low cost on an every day basis. It has been our experience that bulk rail movement in covered hopper cars is the only efficient and economical way to move our product to most destinations. With other commodities, such as packaged freight, it may be possible to substitute truck service in one form or another for rail service. In the case of silica sand, however, it cannot simply be all transferred to truck, or shipped by truck to the closest railhead and then loaded into a rail car. For any distance at all, truck is not economically feasible on a large scale because the delivered cost to the ultimate user would be much too high. Although there are other railroads serving towns near Utica, we cannot truck to those rail connections. To do so would require construction of extensive storage and loadout facilities that would duplicate those already in existence at our plant. The cost of construction and maintenance of these facilities, plus the cost of trucking to them, and the additional labor expenses incurred would far exceed the entire value of the product itself.

Bellrose is in the unfortunate position of being the only sand supplier in that area that is totally dependent upon the Rock Island for rail transportation. If Bellrose is forced out of business by a shutdown of the Rock Island, however, it would not mean that our customers could simply switch to another nearby source of supply. There is presently not sufficient silica sand production and shipping capacity in our area to supply current demands. A careful review of all of our customers has indicated that many of them depend entirely upon Bellrose for their sand requirements. The majority of these companies have extremely limited storage facilities. They could not operate more than 3 or 4 days without receiving shipments of sand. In many cases scheduling of inbound raw material shipments is so close that our sand plant and the railroad are considered to be an integral part of our customer's production line. Without steady, reliable service, their production lines will stop. This is particularly true of the glass industry, which normally operates around the clock, 7 days a week, and must be supplied with raw materials on that same basis.

Industrial sand plays a critical part in many industries and processes that are vital to our national interests. Sand is the principal ingredient in fiberglass and solar glass, both of which are used to conserve heat and energy. Foundries that

produce farm equipment, military armaments, trucks and automobiles all depend on sand for their castings. One particular variety of sand produced by Bellrose is used for oil and gas well fracturing. This is a process that allows increased recovery from older wells. This particular type of sand is found in only a few locations in the world. At the present time, there is a heavy demand for all of the fracturing sand that we can produce. In addition to the regular grades of industrial silica sand, Bellrose Silica Company has developed processes and constructed a separate facility at Utica for the production of special products. These special grades are shipped regularly to all points in the United States, as well as to Canada, Mexico, Central and South America, Japan, Holland, Great Britain, Poland, West Germany, and Saudi Arabia. These special products generate approximately \$1 million in foreign payments that would be lost to the United States without rail service. Some of these products are not produced anywhere else except in our plant in Utica, Illinois.

The town of Utica, Illinois has a population of approximately 500 people. Bellrose Silica Company has 62 employees, most of whom reside in Utica. Closing the Bellrose plant would have a disastrous effect on this small community. As of February 13th, Bellrose was forced to reduce its operation by 20 percent because of deteriorating rail service and car supply. This was a direct and immediate result of embargo number 6-80 which prohibited acceptance of off-line cars by the Rock Island after February 15th. If the Rock Island Railroad discontinues service totally on March 2nd, as now mandated by the bankruptcy court, 38 of our 62 employees will be laid off. If rail service cannot be resumed immediately, all of the rest of our employees will ultimately become unemployed and the plant will cease operations. It is simply not economically realistic to continue operating the plant on a drastically reduced basis.

If, on the other hand, efficient rail service can be supplied on this line we would be able to expand our shipments considerably. We anticipate no difficulty on our part in being able to ship in excess of one million tons by rail from this plant in 1980. The only thing that has prevented us from doing it so far has been the shortage of adequate equipment and service by the Rock Island.

During recent years, Bellrose Silica Company has made every effort to continue and improve rail service. Since 1976, we have advanced more than ½ million dollars to the Rock Island Railroad to finance the repair of covered hopper cars to carry sand. Without this financial assistance these cars would sit idle and not produce any revenue for the railroad. In addition, we have extended credit to the railroad for the purchase of engine traction sand. We have also paid to repair Rock Island tracks and we have paid to put in additional tracks which are owned by the Rock Island. During their recent strike we have borne the costs of re-railing derailed cars and repairing cars supplied to us in unserviceable condition. All of these efforts were made with the knowledge that our existence depended upon the continuation of rail service and in the expectation that a permanent solution to the Rock Island's problems would be found.

I have no doubt that this rail line will prove to be an attractive acquisition for some other railroad. My concern is that it cannot be turned over to another railroad on March 2nd and operated without interruption. Unless something is done to provide interim service, therefore, this line will cease operations, at least for a matter of weeks and perhaps for several months. Bellrose Silica Company cannot exist in limbo during that time. We, too, will be forced to cease operations.

We don't advocate any one specific proposal over any other one as a solution to the problem. Rather, we urge that somehow or other, provision be made to continue rail service on the Rock Island until an orderly transition to other ownership can be accomplished. We are in complete agreement that a very definite time limit to accomplish this transfer should be established and adhered to. A deadline of March 2nd, however, is not workable and would be disastrous to us. We urge you, therefore to allow Bellrose to remain in business by providing for a continuation of Rock Island service, whether it be by extension of directed service, granting temporary operating authority, or any other workable solution.

STATEMENT OF MACK WALLACE, COMMISSIONER, RAILROAD COMMISSION OF TEXAS

I am Mack Wallace. I am a duly elected member of the Railroad Commission of Texas (hereinafter Commission), which is the agency of the state of Texas expressly empowered by the Legislature to exercise broad regulatory powers over intrastate railroads, oil and gas conservaton, surface mining of lignite and uranium, transmission and sale of natural gas by public utilities, for-hire transportation of persons by motor bus, for-hire transportation of property by motor carrier, safety regulation of LPG dealers and development of geothermal energy and associated resources.

One of the Commission's goals is to preserve essential rail lines within the State. In September, the Interstate Commerce Commission declared the Chicago, Rock Island and Pacific Railway cashless, and ordered directed service over these lines. By October, it became apparent that the Rock Island lines south of Kansas City would be liquidated. Two of these lines in the Panhandle region of our state, one from Texola on the Oklahoma border westward through Amarillo to Glenrio near the New Mexico border, and the other from Hitchland to Morse Junction and Wilco Spur, were among those to be liquidated. At that time, the Commission recognized that abandonment of those lines could have a severe impact on the area's economy.

In December, 1979, the Commission contracted with the Panhandle Regional Planning Commission to do detailed line segment analyses of the Rock Island lines in the Panhandle. The findings in the preliminary study indicate that loss of service on these lines would have a severe economic impact on shippers and farmers in that area. According to that study, discontinuance of rail service will result in the loss of at least 644 jobs and a payroll reduction of more than \$4.1 million annually.

When it became apparent that no carriers were going to make a bid on these lines, other alternatives were examined to ensure a continuation of rail service. A short line railroad is considered to be the most viable alternative, but time is needed to complete a detailed feasibility study. For purposes of completing this study and to continue uninterrupted rail service, I feel that it is essential to extend directed service over Rock Island lines in the Panhandle for an additional ninety days.

STATEMENT OF RICHARD A. TRAMPE, GENERAL TRAFFIC MANAGER, PABST BREWING Co., MILWAUKEE, WIS.

I am Richard Trampe, General Traffic Manager for the Pabst Brewing Company, 917 W. Juneau Avenue, Milwaukee, Wisconsin 53201. In this position it is my responsibility to oversee the company's total transportation policies for Pabst. When dealing with railroads, this included the procurement of sufficient rail cars to handle our products, service and negotiate competitive freight rates, among other things.

The Pabst Brewing Company is an established and nationally known producer and distributor of various malt liquors; more commonly known as beer. In 1979, Pabst had gross sales of \$793,626,171 thereby maintaining our fourth place ranking among the nations brewers.

In 1979, Pabst shipped a total of 15,115,033 barrels from four breweries located in Milwaukee, Wisconsin; Newark, New Jersey; Pabst, Georgia and Peoria, Illinois. To facilitate the production of this quantity of beer, Pabst depends on the movement of raw materials and finished products by railroads at our various plants. If that rail service is disrupted, Pabst will face serious production difficulties.

This hearing is for the purpose of maintaining rail service on two bankrupt railroads—The Milwaukee Road and the Rock Island. At the present time our primary concern is the Rock Island. The Rock Island furnishes rail service to the brewery and to the corn mill exclusively at Peoria, Illinois.

The brewery is located on a short branch line extending 5 miles from the Rock Island mainline. Pabst is the primary industry on this line, but a thriving industrial park known as Pioneer Industrial Park must also rely on the Rock Island for service. On a normal day Pabst will ship between 4 to 8 cars of beer and 3 cars of dried brewers grain. Inbound raw materials includes a total of 6 carloads of malt and corn grits. On an annual basis this plant handles approximately 6,200 cars. Adequate rail service is a definite need for Pabst.

The corn mill, located on the Rock Island mainline, is totally dependent on rail service. Raw corn arrives via rail car and is milled into corn grits for consumption at the various Pabst breweries. In 1980, we anticipate a total of 3,600 carloads that will be received and shipped from this plant. Due to a minimum of storage space available at this facility, we are extremely vulnerable to inadequate rail service.

In order to staff these facilities, Pabst employs 1,013 people from the surrounding Peoria area. This generates a payroll of \$30,863,725. Needless to say, Pabst is an important cog in Peoria economy.

Rail service on the Rock Island Railroad in the Peoria industrial areas must be maintained and preserved. To accomplish this, legislation must be forth coming to avert a possible shut down and the consequences that a shut down would precipitate.

I believe the bill proposed by Senator Nancy Kassebaum (S. 2253) offers the best solution for the users of the Rock, the employees of the Rock and the eventual

operators of the Rock. This committees' support of (S. 2253) would be an excellent beginning to the eventual resolution of a very serious transportation problem.

STATEMENT OF A. HEERMAN, VICE PRESIDENT, DIRECTOR OF TRANSPORTATION,
GREAT LAKES CARBON CORP.

My name is Armond Heerman. I am Vice President and director of transportation, Great Lakes Carbon Corporation with headquarters at 299 Park Avenue, New York, New York 10017.

Great Lakes Carbon Corporation operates 10 plants throughout the United States and Canada involved in the processing of petroleum coke and manufacture of carbon products. As Director of Transportation, I am responsible for all inbound and out bound movements via all modes of transportation to and from these plants.

One of the petroleum coke calcining plants operated by Great Lakes is located at Kremlin, Oklahoma switched exclusively by the Rock Island Railroad located approximately 11 track miles north of Enid, Oklahoma. This plant at Kremlin is included within the reciprocal switching limits of Enid, Oklahoma which allows access for road haul movements via the AT & SF and SLSF Railroads, but requires placement by the Rock due to track ownership.

Petroleum coke is the solidified residue from the destructive distillation of crude petroleum. Great Lakes contracts with refineries throughout the country to take their entire output on a daily, as produced basis. Generally, these refineries are only equipped to cut from the coke drums directly into railroad open hopper cars for outbound movement to our calcining plants. Furthermore, these refineries maintain little or no stockpile areas within the plant confines which necessitates consistent, daily rail movement. Attached Exhibit A indicates some of the normal origins for petroleum coke destined to our Kremlin calcining plant together with the carriers serving these refineries.

Under normal operations, our Kremlin, Oklahoma plant receives approximately 7,700 rail cars inbound on an annual basis, producing total freight charges of approximately \$4,700,000.

After processing at Kremlin, petroleum coke moves mainly via rail in either covered hopper or box cars to the aluminum and steel industry throughout the country. Exhibit A also indicates typical destinations for petroleum coke from our Kremlin plant. As can be seen from this list of destinations, in view of the long distances involved and in addition the substantial volumes, only rail service can meet our needs and the needs of our customers. Under normal operations, our Kremlin, Oklahoma plant ships approximately 5,100 rail cars outbound on an annual basis, producing total freight charges of approximately \$10,000,000.

Great Lakes applauds the Commission action in restoring Rock Island service under Emergency Service Order No. 1398 directing the Kansas City Terminal Railway Company to provide service for traffic originating or terminating on the lines of the Rock Island, and the extension of that order through March 2, 1980. This action was absolutely essential in order to ensure the continued operation of our Kremlin plant where we employ 100 to 125 people, involving an annual payroll of approximately \$1,000,000.

While we must object to the level of service that has been provided by KCT, we do recognize that substantial portions of the Rock Island are still embargoed and cannot be operated at anything near normal speed. As a result, since institution of service, our supply of equipment does not even meet 50 percent of our requirements. In addition, in view of embargo of the Ponca City, Oklahoma line, it is necessary to move coke from that point via the Santa Fe in lieu of Rock Island with a substantial increase in equipment requirement due to the longer transit times involved.

Despite these deficiencies, Great Lakes supports the extension of Emergency Service Order No. 1398 for an additional 90 days beyond the present expiration of March 2, 1980. We feel this is absolutely essential in order to provide other carriers the opportunity to explore Rock Island lines and determine what portions of the Rock Island can be continued. In view of the fact that the Santa Fe currently participates in a substantial portion of our inbound and outbound movements to and from Kremlin and the existence of a complete rate and route structure, we would support that carrier for acquisition of the line north of Enid to Kremlin. Unfortunately, however, rail carriers are reluctant to make offers for portions of The Rock pending resolution of labor protection conditions.

As stated, we cannot continue operations without rail service and have accordingly offered to purchase, from the Trustee, the eleven track miles required for our operations. Even this alternative requires more time for negotiation, permits, em-

ployee training and acquisition, etc., all of which cannot be accomplished by the presently scheduled expiration date of ICC DSO 1398.

We earnestly implore this committee to recommend legislation that will continue operations for those "captive shippers" of The Rock until such time as substitute carriers or services can be provided.

STATEMENT OF J. M. CRANOR, EXECUTIVE VICE PRESIDENT, KANSAS GRAIN AND FEED DEALERS ASSOCIATION

We appreciate the opportunity to appear before this Committee to present the views of the Kansas Grain and Feed Dealers Association on S. 2246, S. 2253, et al.

My name is J. M. Cranor, Executive Vice President of the Kansas Grain and Feed Dealers Association with principal offices located at 1722 North Plum Street, Hutchinson, KS 67501. This is a voluntary membership organization which represents approximately 90 percent of all the grain handlers, shippers and processors doing business in the State of Kansas. I have served in my present capacity for the last 16 years.

There are 31 counties in the State of Kansas which were served by the Rock Island Railroad. Economic endeavors for each of these counties are primarily devoted to the production of wheat, coarse grains and livestock. These counties are served by 143 local or terminal elevators which are served solely by the ROCK and an additional 48 local and terminal elevators are served by the ROCK plus at least one additional carrier.

These counties produce annually, based on the 1976-78 three year average: Wheat—111,650,000 bushels; Corn—50,157,000 bushels, Sorghum—68,630,000 bushels, or a three average production total of 230,437,000 bushels, which represents roughly 30 percent of all the grains produced in Kansas for the period.

The local elevators located in these 31 counties have a total capacity of 98,237,000 bushels. Additionally, we would invite your attention to the fact that the majority of these country elevators also are engaged in a full service agri-business operation which necessitates the inbound movement, by rail, of thousands of tons of feed, fertilizer and chemicals each year.

We are aware that no single purchaser has come forth offering to purchase, in total, the existing Rock Island assets. However, there are viable carriers that have expressed an interest to purchase certain sectors of the existing system and there are other local groups that are interested in purchasing some of the branch line facilities in order to maintain rail service which would otherwise not be available.

Some of the parties that are interested in acquiring portions of the existing system will obviously need financial assistance and we believe that a 60 or 90 day extension for the directed service will be necessary in order to accomplish the financial requirements inherent with these transactions. Additionally, this will afford those elevators that have Rock Island transit billing in store a better opportunity to move that grain on out under the prevailing tariffs before the new ownership takes over.

The extended period should certainly not carry forward into the new crop wheat harvest time because we know of no shippers that would want to have Rock Island billing in store at a terminal point with beforehand knowledge that new ownership and operation of the selected rail facilities would be eminent.

We endorse these measures with the suggested modifications and trust that Congress will expedite the passage of legislation which will facilitate a smooth transition to the new ownership.

Again, we certainly appreciate this opportunity to express our views on these matters.

STATEMENT OF CATERPILLAR TRACTOR CO.

Caterpillar Tractor Co. is a multinational company which designs, manufactures, and markets earthmoving, construction and materials handling machinery and equipment, and diesel and natural gas engines. Worldwide sales were \$7.6 billion in 1979.

Headquartered in Peoria, Illinois, Caterpillar employs 89,400 people. Of these, 69,244 are employed in the United States. Over 55,000 people are employed at Caterpillar's Illinois facilities.

Caterpillar facilities at Joliet and Mossville, Illinois are totally dependent on the Rock Island system for rail service. Employment at the Joliet facility is 6,900, employment at Mossville is 8,300. In 1979, Caterpillar tonnage on the Rock Island

was 179,600 tons (5,877 carloads, 870 trailers). For 1980, the company projects tonnage at 192,179 tons (6,288 carloads, 931 trailers). In addition, Caterpillar's Illinois operations are dependent on Rock Island for freight service to the northwest, west and southwest.

The present uncertainty over the future of rail service after March 2 is highly disruptive of our manufacturing operations, and clearly has the potential to harm Caterpillar, plus the economies of the Joliet and Moxville communities. The present difficult business climate in Illinois and current economic malaise in the United States would be worsened if a rail service disruption is permitted to occur by the Interstate Commerce Commission.

Caterpillar Tractor Co. has absolutely no interest in which railroad company, or consortium of companies, is designated to provide service after March 2. The main point is that a determination of rail service continuity should be made as soon as possible so that Caterpillar, its employees, hundreds of supplier firms, and the affected communities can prepare for continued service, or a service stoppage.

The Interstate Commerce Commission has the authority to:

1. Implement an interim transportation program, which would provide service to those utilizing the railroad until a final plan can be executed.
2. Designate at once one of the roads presently interested in acquiring the Rock Island and allow them to establish ongoing operations.
3. Let the railroad stop operations as of March 2, 1980 and then decide what other railroads can buy portions of the Rock Island.

Clearly, the interests of all parties are best served by either alternative one or two. Alternate three would be an economic and social travesty.

Caterpillar recommends that the Commerce Committee strongly urge the Interstate Commerce Commission to bring the entire matter of the Rock Island operation and the plan to extend service, to a well-defined conclusion, as soon as practicable, and before March 2. The most desirable approach is to designate now a firm or firms to provide permanent rail service on the Rock Island.

The Committee presently has legislation before it which would extend the current interim service arrangement with the Kansas City Terminal Company. This is an acceptable temporary approach as long as the Interstate Commerce Commission is directed to implement a final service plan well before expiration of the interim arrangement. Sooner or later the determination must be made as to permanent continuity of service.

A determination for service continuity is needed today. March 2 is only 10 days away. Caterpillar respectfully requests that the Committee and Commission move with utmost dispatch to avoid a prolonged service interruption and the unconscionable economic and social harm that would result from such a disruption.

The company appreciates the opportunity to express its views on this critical transportation and economic issue.

STATEMENT OF THE ECONOMICS LABORATORY, INC., ST. PAUL, MINN.

Economics Laboratory, Inc. with its headquarters in St. Paul, Minnesota, is in the business of developing, manufacturing and marketing products, programs and systems for scientific cleaning, environmental and food processing sanitation worldwide. Our company markets products in all fifty states and in over fifty countries. During the fiscal year ending June 30, 1979, we enjoyed net sales of \$464,367,000 and anticipate that sales will exceed a half a billion dollars this fiscal year. Economics Laboratory supplies a wide variety of customers including, but not limited to, government agencies, hospitals, nursing homes, dairies, restaurants, industrial plants, transportation industries, and food handling industries.

Our chemical plant in Joliet, Illinois is essential to our operation. It employs 460 people presently and produces 58 percent of EL's U.S. chemical requirements. From this point, products are delivered directly to customers in a 400 mile radius. More distant areas are served by shipping product from Joliet via an intricate network of pool points and distribution centers. In order to satisfy customer service requirements, the product must be manufactured and delivered within a rigid time frame. Joliet required approximately 1,000 rail cars a year to be switched in, including box cars, tankers and covered hopper cars, in order to supply the plant with enough raw materials to produce the 430,000,000 pounds of product manufactured there last year. Fifty to sixty percent of the raw material which sustain this operation move into the plant by rail.

The interruption of rail service would have serious consequences for this facility. The Joliet plant was designed for receiving raw materials by rail and the company has a substantial investment in facilities designed for rail inbound and outbound

shipments. In planning for these facilities, strong consideration was given to economics and safety, as well as the energy conservation factors produced by rail transportation. Inventories are not sufficient to sustain the Joliet plant for an extended period. We would be required to shut down this plant within one week if rail service was disrupted. In addition, some crucial raw materials, such as ethylene oxide, chlorine, and propylene oxide, are insufficient inventory for only one and a half to two days of operation.

Transporting raw materials to this facility by truck is an unacceptable alternative. Ethylene oxide, chlorine and propylene oxide cannot be legally transported via truck due to safety considerations. In addition, truck transportation of raw materials multiplies our transportation costs by a factor of five. Previous experience during the severe winter weather of 1979, indicated that truck transportation was unexceptionable. The additional expense which EL incurred for truck transportation was in excess of a quarter of a million dollars. In addition, EL also lost fifty to seventy-five percent of production during the month of February 1979, at the Joliet facility as a result of rail disruption.

Clearly, it is in the best public interest to provide a legislative solution which would avoid disruptions of this nature for the Rock Island Railroad's customers.

STATEMENT OF HON. LARRY WINN, Jr., U.S. REPRESENTATIVE FROM KANSAS

Thank you, Mr. Chairman, for giving me an opportunity to present my views on the future of the Rock Island Railroad.

As lawyers and others are prone to say, Mr. Chairman: "Time is of the essence." Out of all the facts presented and all the thousands of pages documenting this matter, that one point is now the most important.

At the same time, this is not a sudden crisis. It is a forced crisis. The Rock Island has been in bankruptcy since 1975. The lengthy discussions and negotiations which have gone on since then are well known. Unfortunately, the fact that those negotiations have produced no resolution of the problem is also well known.

On February 6, I joined with my fellow Kansans, Keith Sebelius and Jim Jeffries, and our colleague from Nebraska, Doug Bereuter, in introducing H.R. 6449, a companion bill to Senator Kassebaum's measure, S. 2253, now pending before the committee. I did so because I believe it provides a solution which will benefit all the parties involved.

This legislation, as you know, directs the Interstate Commerce Commission to continue directed service along the Rock Island lines for an additional 30 days. It also provides transaction assistance to applying purchasers of portions of the system.

We are all well acquainted with the stalemate that has evolved between the ICC and the parties involved. It seems this may have happened because there has been a prevalent attitude during the negotiating process of "waiting to see if the Federal Government will offer a better deal." This dependency is unhealthy, and I think it is important that we make this a clear message of these proceedings.

Those most directly involved—the Rock Island's employees, those who ship products along the line, and, in turn, consumers—should not have to bear the continued hardships caused by delayed decisions. In this case, the issues have been known for some time; now, the decisions simply must be made.

The ICC has recognized the impact of this by delaying the embargo date, now set for February 22. It can carry this recognition one step further by agreeing, within the next two days, to extend the directed service order, as is recommended in S. 2253 and H.R. 6449. Since the authority to extend directed service exists, I believe this step should be taken promptly.

Mr. Chairman, I firmly believe that as many issues as possible should be resolved by the parties involved, without delay and without legislative intervention. Nevertheless, we are here today, because it has become obvious that a full and equitable resolution of the problem requires Congress to act.

Because of this requirement, I believe this legislation takes the proper approach to the problem, and I, therefore, join my colleagues in asking for support for it from the Committee.

STATEMENT OF THE PEORIA AREA CHAMBER OF COMMERCE

Peoria Area Chamber of Commerce represents companies in the greater metropolitan Peoria area. The companies manufacture and distribute a large number of different products and ship on a worldwide basis.

Peoria area serves over 350,000 people and is dependent on broad rail service to support the industrial heart of mid-Illinois.

The present uncertainty over the future of rail service after March 2, is highly disruptive of our manufacturing and distribution of the Greater Peoria Area operations, and clearly has the potential to harm the economy. The present difficult business climate in Illinois and current economic malaise in the United States would be worsened if a rail service disruption is permitted to occur by the Interstate Commerce Commission.

Peoria Chamber of Commerce has absolutely no interest in which railroad company, or consortium of companies, is designated to provide service after March 2. The main point is that a determination of rail service continuity should be made as soon as possible so that Peoria area and the affected communities can prepare for continued service, or a service stoppage.

The Interstate Commerce Commission has the authority to:

1. Implement an interim transportation program, which would provide service to those utilizing the railroad until a final plan can be executed.
2. Designate at once one of the roads presently interested in acquiring the Rock Island and allow them to establish ongoing operations.
3. Let the railroad stop operations as of March 2, 1980, and then decide what other railroads can buy portions of the Rock Island.

Clearly, the interests of all parties are best served by either alternative one or two. Alternate three would be an economic and social travesty.

The Peoria Chamber of Commerce recommends that the Commerce Committee strongly urge the Interstate Commerce Commission to bring the entire matter of the Rock Island operation and the plan to extend service, to a well-defined conclusion, as soon as practicable, and before March 2. All parties concerned recognizes that the entire situation is complicated by the necessity to accommodate the Rock Island work force and the pending bankruptcy proceedings. The most desirable approach is to designate now a firm or firms to provide permanent rail service on the Rock Island.

The Committee presently has legislation before it which would extend the current interim service arrangement with the Kansas City Terminal Company. This is an acceptable temporary approach as long as the Interstate Commerce Commission is directed to implement a final service plan well before expiration of the interim arrangement. Sooner or later the determination must be made as to permanent continuity of service.

A determination for service continuity is needed today. March 2 is only 10 days away. The Peoria Chamber of Commerce respectfully requests that the Committee and Commission move with utmost dispatch to avoid a prolonged service interruption and the unconscionable economic and social harm that would result from such a disruption.

Peoria appreciates the opportunity to express its views on this critical transportation and economic issue.

STATEMENT OF INTERNATIONAL HARVESTER CO.

International Harvester, a Chicago based corporation, is a major manufacturer of trucks, agricultural and construction equipment, and turbomachinery. The company has two major agricultural equipment manufacturing plants that are serviced by the Rock Island Railroad. These plants, located in the Quad Cities area are: The Farmall Plant, Rock Island, Illinois, which produces farm tractors and the East Moline Illinois Plant, which produces combines and agricultural implements.

A March 2, 1980, termination of service on the Rock Island Railroad will have a detrimental effect on the economy of the Quad city area. The Rock Island controls over 250 flatcars or roughly 25 percent of the total cars in this market. A loss of this magnitude will adversely affect service to IH, its suppliers and customers.

IH supports continuation of the current "directed service order" for an additional ninety (90) days. In addition, the ICC should provide prompt consideration of bona-fide offers to purchase all or parts of the Rock Island Lines to ensure continuity of service wherever possible.

NATIONAL GRAIN & FEED ASSOCIATION,
Washington, D.C., February 1, 1980.

Senator HOWARD W. CANNON,
Chairman, Committee on Commerce, Science, and Transportation,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN, The National Grain and Feed Association is a voluntary association of grain and feed firms ranging in size from the smallest country elevator to the largest grain and feed complex. Included in its members are country and terminal elevators, merchandisers, processors and exporters covering the wide spectrum of the grain and feed industry. Our membership is comprised of 1,250 companies and 46 state and regional grain and feed associations that include upwards of 10,000 grain and feed companies nationwide.

Our members rely heavily upon an efficient viable railroad system to market their grain and grain products. The recent action by the Interstate Commerce Commission in refusing to extend their directed service order to the Kansas City Terminal Railway Company to operate the Rock Island System will seriously disrupt our grain marketing system to the detriment of the producers, merchandisers and consumers.

It is requested that you ask the Interstate Commerce Commission to extend their directed service order for a period of 90 days to provide the time necessary for other railroads to take over the operations on the Rock Island System. The Commission already has this authority if funds are available.

Sincerely yours,

REEDER MILLER,
Chairman, Transportation Committee.

STATE OF TEXAS,
HOUSE OF REPRESENTATIVES,
Austin, Tex., February 13, 1980.

Hon. HOWARD CANNON,
Senate Commerce Committee, Russell Senate Office Building,
Washington, D.C.

DEAR MR. CANNON: I am sure you are aware of the Rock Island Railroad financial problem and the fact they are in receivership. I would like to call your attention to the foreseeable problem of transporting products, the bulk being agricultural products and merchandise, from West Texas and surrounding areas if the Interstate Commerce Commission proceeds with their orders to shut down the Rock Island Railroad as proposed on the enclosed map.¹ At the present time the major source of rail service for the Panhandle area is Santa Fe and Rock Island; and from past experience this rail network has been unable to serve this area adequately.

ICC has ordered the shutdown of rail service on the Rock Island Railroad, effective March 2. Commissioner George Stafford requested that the ICC grant a 90 day extension to their temporary order directing the Kansas City Terminal Railroad to operate the Rock Island. The ICC rejected the proposal. I understand there is legislation pending in Congress that would subsidize Rock Island for a few more months. However, this will be just a temporary solution.

On January 9, 1980, a conference was held in Topeka, Kansas, concerning this problem. At that time it was reported that Southern Pacific was interested in purchasing a 992 mile section extending from Tucumcari, New Mexico, to St. Louis, Missouri, with the intention of reworking this section and keeping it in operation. I would certainly endorse this move. However, I understand that Santa Fe and Union Pacific would like to purchase this same section for the purpose of abandoning it which I totally oppose.

If that area is forced to transport products by truck, it will increase transportation costs by 70 percent not to mention the increased use of motor fuels. Without this railroad, some areas in the Texas Panhandle as well as other states will be as much as 100 miles from any rail service.

I solicit your support in keeping this rail service in operation, and would appreciate your discussing this matter with members of the ICC, Federal Judge Fitzpatrick, and other members of the Texas delegation.

Sincerely,

L. P. "PETE" PATTERSON.

¹ The map was not reproducible.

CANDLE CORPORATION OF AMERICA,
Chicago, Ill., February 14, 1980.

Hon. HOWARD CANNON,
Senate Commerce Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR CANNON: We would like to make it a matter of public record that we are a manufacturer in Chicago, Illinois situated on and serviced by the Rock Island Railroad.

The proposed cessation of service by the Rock Island Railroad will jeopardize our manufacturing facility which employs approximately 300 people, mostly from minority groups. We ask that you lend your support to have the railroad continue directed service until solutions to the railroad's problems can be found. Please enter this testimony for us during the February, 20th 1980 hearing.

Thank you for your help in this very serious and urgent matter.

Sincerely,

JAMES R. FRIESE,
Vice President of Operations.

CALUMET AREA INDUSTRIAL COMMISSION,
Chicago, Ill., February 15, 1980.

Hon. Charles H. Percy,
Dirksen Senate Office Building,
Washington, D.C.

DEAR SENATOR PERCY: The Calumet Area Industrial Commission is a not for profit manufacturers association representing approximately 500 heavy industry oriented manufacturers on the south side of Chicago, surrounding the Chicago Regional Port District.

Most of the industries in this area are steel producers, steel suppliers or chemically related companies, and all of them are dependent on railroads. As you probably know, the south end of the Chicago Regional Port District, which handles a large portion of the grain loading for overseas shipments, and all of the following Companies are 100 percent dependent on the Rock Island Railroad: Sherwin-Williams Company (the world's largest paint factory), Pullman Corporation, Agar Products, Keebler Baking Company, Jays Potato Chips, Metron Steel Company, Solo Cup Company, Owens Illinois and over four million square feet of warehouse space, just to name a few.

We would like to recommend that your department take action immediately to assure these companies, who represent approximately 8,000 jobs, that they will be served by rail after the embargo on the Rock Island goes into effect on February 15.

Our organization would also like to meet with you to arrange for a long term service to this vital area or appear at any hearings to present testimony on industries' behalf.

Would you please see that this letter is entered into the Senate Commerce Committee hearings on Wednesday, February 20, 1980.

Sincerely,

KENNETH L. BRACE,
Executive Director.

THE SHERWIN-WILLIAMS CO.,
Cleveland, Ohio, February 18, 1980.

Hon. HOWARD W. CANNON,
Chairman, Committee on Commerce, U.S. Senate,
Russell Senate Office Building, Washington, D.C.

DEAR SENATOR CANNON: We will be unable to attend the hearing on February 20, 1980, before the Senate Commerce Committee and ask that the following statement be made a part of the record at that time.

My name is Thomas W. King, Manager of Traffic Services of the Sherwin-Williams Company. The Sherwin-Williams Company is a diversified Marketing and Manufacturing company whose operations are comprised of various business segments. Headquarters are in Cleveland, Ohio with plants, offices and other facilities located throughout the United States and Canada and in several other countries.

The Rock Island issue specifically affects our multi-plant facilities located at 11541 S. Champlain Avenue, Chicago, Illinois. The only rail service available to us, is that, provided by the Rock Island Railroad.

Our Chicago sit employs over 1,600 people, is located on 130 acres of land and operates over approximately 20 tracks with an estimated total length of 25,000 feet. The Rock Island Railroad annully handles over 2,300 rail cars consisting of inbound purchases of raw materials and outbound products to customers and other Sherwin-Williams facilities.

To support this activity a total of 25 switches per day is required from the Rock Island Railroad. We operate a privately owned fleet of box cars consisting of over 30 cars, used for the storage and movement of materials between our business segments. The Rock Island Railroad provides this intra-plant switching service.

We lease and operate a fleet of 64 tank cars with long term commitments exceeding \$460,000. These cars are used to transport bulk material to other business segments and customer demand points.

We are much involved with the purchasing of certain raw materials described as Hazardous, i.e. Flammable Liquid and Poison. The materials move in tank car lots from our vendors to the Chicago site. The frequency of these movements average from one to two tank cars per day and are handled by the Rock Island Railroad.

As you are aware, the I.C.C. has controlled service on the Rock Island since September 26th when it ruled the railroad had run out of cash to operate. It ordered a management team from the Kansas City terminal Railroad to take over and operate the Rock with Federal Subsidies. The directed service order by the Commission was originally to have ended in December 1979, but was extended for another 90 days until March 2, 1980.

On February 1st a Federal Judge overseeing the Rock Island's bankruptcy proceedings ordered the railroad to submit a liquidation plan to take effect March 2, 1980.

This order resulted in an embargo notice being issued on traffic to or from Rock Island points effective 12:59 p.m. on February 22, 1980. This embargo, if permitted to take effect, will affect box car and tank car traffic from and to our site in Chicago, which is located on the Rock Island.

We have purposely focused on these events since September 26th, to underscore the uncertainty of the Transportation environment, the massive impact on our business strategies, if essential rail service is discontinued at our site in Chicago, Illinois. Specifically, we will experience major shifts in cost and carrier selection process, with those materials described as hazardous, placed in bulk trucks and moved over the public highways.

The Sherwin-Williams Company respectfully submits that your good committee share this insight into the present transportation environment, and give consideration to those realistic proposals designed to continue service beyond the March 2 expiration of I.C.C. directed service.

In conclusion, the 1980's are bringing with them uncertainty on the direction of inflation, energy, the U.S. Economy and other factors affecting the business climate of the decade to come. One direction seems clear to us. The way we purchase and use our transportation will be drastically changed from what we use to in the 1970's and before. To remain competitive in the market place we must be ready to capitalize on these changes and turn them to our advantage. It is paramount that rail service be part of these changes and be provided by a privately owned railroad who can perform and offer consistent and reliable service to the shipping public.

Very truly yours,

THOMAS W. KING,
Manager, Traffic Services.

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, D.C., February 19, 1980.

Hon. RUSSELL B. LONG,
*Chairman, Subcommittee on Surface Transportation,
Dirksen Senate Office Building, Washington, D.C.*

DEAR SENATOR LONG: I regret that I am unable to attend these hearings and testify. However, I would appreciate it if my letter to the Chairman of the Interstate Commerce Commission, Mr. Darius W. Gaskins, be made a part of the record.

The agriculture producing and marketing activities of the Midwest and my state of Missouri are heavily dependent upon uninterrupted continuation of this service.

Any shutdown of the Rock Island before other railroads are in a position to take over all or part of the service could have crippling economic consequences.

With best regards.

Sincerely,

THOMAS F. EAGLETON.

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, D.C., February 14, 1980.

Mr. DARIUS W. GASKINS, Jr.,
Chairman, Interstate Commerce Commission,
Washington, D.C.

DEAR MR. CHAIRMAN: I am writing to urge the Commission to reconsider its February 1 decision to terminate directed service on the Rock Island line as of March 2, 1980. The agriculture producing and marketing activities of the Midwest and my state of Missouri are heavily dependent upon uninterrupted continuation of this service. The Missouri Farmers Association (MFA) alone has 14 retail stores with grain elevators which can store more than 1.7 million bushels of wheat that are located along the Rock Island line to provide easy access to terminal markets. Any shutdown of the Rock Island before other railroads are in a position to take over all or part of the service could have crippling economic consequences.

Without adequate rail transportation farm producers would be forced to rely on truck hauling which would add an estimate \$10 per ton to the cost and reduce producer profits by 10 cents to 20 cents on a bushel of grain. Not only would truck shipments be more costly but experience has shown that substantial amount of grain or dry-bulk materials are lost through that method of shipping. It is also questionable whether there is sufficient trucks available to accommodate the demand that would exist in the absence of a rail alternative.

Many of the railroads which have bid to take over parts of the Rock Island are concerned about incurring additional costs which would result from abandoning service before these bids are consummated. Kansas City Terminal has estimated that shutdown costs would be approximately \$15 million and restoration of service by any new rail company would take five months. This consideration could affect the thinking of the railroads which have submitted bids for parts of the Rock Island and may well jeopardize these offers.

I am sure the Commission is aware that legislation has been introduced in both the Senate and the House to provide for an extension of directed service on the Rock Island. The legislation would need to be accompanied by some lifting of the \$80 million ceiling which has been placed on directed service, but I believe such action would quickly follow approval of any of the pending bills. Hearings on this matter have been scheduled by the Senate Commerce Committee for February 20, 1980.

At the very least I would hope the Commission would consider deferring its proposed termination of directed service as well as its February 22 embargo date until Congress has had an opportunity to act.

With best wishes.

Sincerely,

THOMAS F. EAGLETON.

OFFICE OF THE GOVERNOR,
STATE CAPITOL,
Austin, Tex., February 19, 1980.

Hon. HOWARD CANNON,
Chairman, Senate Commerce Committee,
Russell Senate Office Building, Washington, D.C.

DEAR SENATOR CANNON: It is my understanding that the Senate Commerce Committee, Surface Transportation Subcommittee, is considering proposed legislation which would extend for 90 days directed rail service on lines of the cashless Chicago, Rock Island and Pacific Railroad. The agriculturally productive Texas Panhandle region is served by two such lines for which no other carrier has bid: 1) the segment from Glenrio on the Texas-New Mexico border east through Amarillo to Texola on the Oklahoma border; and 2) the segment from Hitchland on the Texas-Oklahoma border south and west through Morse and Etter and terminating at Wilco.

The availability of rail service in these areas is essential to agricultural producers in moving their products to market. The abandonment of these lines would result in the loss of hundreds of jobs and millions of dollars annually in payroll and tax losses as well as increased transportation costs. The establishment of a short line railroad may be the most viable alternative, however additional time is needed to complete a feasibility study currently underway.

In order to facilitate the completion of the study and the subsequent development of an alternate means of providing rail service along these lines, I believe it is crucial that directed service on Rock Island lines be extended for 90 days beyond March 2, 1980.

Sincerely,

WILLIAM P. CLEMENTS, JR.,
Governor of Texas.

THE NATIONAL INDUSTRIAL TRAFFIC LEAGUE,
OFFICE OF THE EXECUTIVE VICE PRESIDENT,
Washington, D.C., February 20, 1980.

Hon. RUSSELL B. LONG,
Chairman, Subcommittee on Surface Transportation, Committee on Commerce, Science and Transportation, U.S. Senate, Russell Senate Office Building, Washington, D.C.

DEAR CHAIRMAN LONG: While The National Industrial Traffic League, the oldest and largest nation-wide association of shippers and receivers, did not make a personal appearance before you and your Subcommittee during the February 20 hearing on the Rock Island, we have been active on the behalf of our members who are threatened with the loss of essential rail service.

So that you and your Subcommittee will have the full benefit of shippers' needs and concerns in this matter, the League respectfully requests that the attached copy of our February 11 letter to the Administrator of the Federal Railroad Administration be made part of your hearing record.

The League believes that any solution to the Rock Island problem must address those shippers' right to know how long they can be assured of essential rail service so that they can make informed decisions on meeting their transportation needs.

The League offers its fullest cooperation and assistance to your efforts in reaching an equitable solution to this critical transportation problem.

Sincerely,

JAMES E. BARTLEY,
Executive Vice President.

Attachment.

TRAFFIC LEAGUE,
Richmond, Va., February 11, 1980.

Hon. JOHN M. SULLIVAN,
Administrator, Federal Railroad Administration,
U.S. Department of Transportation, Washington, D.C.

DEAR MR. SULLIVAN: The members of The National Industrial Traffic League, as well as hundreds of other shippers and receivers, are deeply distressed, utterly confused, and intensely concerned with the present uncertainties confronting shippers dependent on the Rock Island railroad. Recent court and Interstate Commerce Commission decisions threaten the continuation of essential rail services in the region. The lack of meaningful decision-making information from Federal agencies—both the Interstate Commerce Commission and the Department of Transportation—has not helped to clarify the uncertainty concerning continued Rock Island service. Shippers are unable to adequately plan for future rail transportation to and from their Rock Island located plants, warehouses, and other facilities. Lack of specific information prevents proper arrangements for service from alternate railroads and other transport modes.

The Department of Transportation's release dated February 4 made available for the first time, in some instances, information to shippers concerning specific line segments that could be operated after March 2. Unfortunately, shippers still do not know and are unable to obtain information on whether specific rail service is going to be available, whether switching service will be provided at individual plants, and who will supply the necessary freight carrying equipment. The question of adequate motive power is another concern of shippers. These are viable plant operations, employing thousands of workers and contributing millions of dollars to the econo-

my. The nation's shippers deserve better treatment and we respectfully urge that you and the Department of Transportation provide them with the needed information that will permit orderly and economically feasible decisions on future transportation requirements.

Our members are substantial users of rail service and, as such, are extremely interested in minimizing the impact of any reduction in or withdrawal of essential rail service in the areas served by the Rock Island. It is vital that an early and viable resolution of the problems associated with the continued operation of these rail lines be forthcoming. It is equally vital that affected shippers and receivers receive from the Department of Transportation and the Interstate Commerce Commission an explicit indication of their efforts regarding service decisions. This is particularly necessary in the case of the Rock Island which has announced an embargo of inbound traffic effective February 15, in anticipation of a shutdown on March 2 following the expiration of the currently effective directed service order.

If the Department of Transportation or the Interstate Commerce Commission contemplates continued essential service on any segment of the Rock Island after March 2, based on pending bids for acquisition, the shipping public should be so informed as soon as possible. Undoubtedly, there are customers of the Rock Island whose need for rail service beyond March 2 is vital to their continued economic viability. Indeed, the cessation of service, in some cases, jeopardizes entire communities inasmuch as it will be necessary for plants to cease operation in the absence of reliable, economic transportation service. Adequate alternative transportation may or may not be available in all instances on such short notice. An early indication from the Department and/or the ICC concerning continued service is imperative to an orderly, rational, and effective transition.

The League has long advocated a free-enterprise, private sector solution to the problem of rail over-capacity in the United States. However, the League also recognizes that special circumstances may arise which require the limited intervention of outside parties, on a problem-responding basis, to ensure continued essential transportation service. In view of the continuing uncertainties and the prospects for economic hardship facing midwest rail users in this situation, the League urges the Department to ensure the continuance of essential rail services on the Rock Island beyond March 2. The Department should make maximum utilization of the authority granted to it under the Emergency Rail Services Act, the Milwaukee Railroad Restructuring Act, the Railroad Revitalization and Regulatory Reform Act and the Regional Rail Reorganization Act. Cessation of service and abandonment of track in the case of the Rock Island should be carefully weighed inasmuch as such a decision oftentimes is irreversible.

Finally, the League urges the Department to continue and improve its efforts in keeping affected parties completely informed of developments as it endeavors to reach an early, final resolution to the midwest rail crisis. This is particularly necessary in view of the fact that some plants operating on the Rock Island lines are contemplating a possible shutdown on March 2 absent specific information concerning the future availability of rail service.

The League, and its members, stand ready to provide whatever assistance we can in solving this complex problem. Please let me know how we can help.

Sincerely,

DONALD BOYES,
President.

OWENS-ILLINOIS, INC.,
Toledo, Ohio, February 20, 1980.

Hon. HOWARD CANNON,
U.S. Senate,
Washington, D.C.

DEAR SENATOR CANNON: Owens-Illinois, Inc. urges you to support the maintenance of uninterrupted rail service by the Chicago, Rock Island, and Pacific railroad. As an interim measure, we urge you to give favorable consideration to S. 2246 and S. 2253 to provide relief pending resolution of the railroad's present crisis.

Owens-Illinois has a composite can plant in Chicago, Illinois, which depends on the C.R.I. and P. railroad for over 200 rail cars annually for inbound raw material and outbound finished products. The embargo and shutdown of the C.R.I. and P. railroad system will impose considerable hardship at this plant, including layoffs and increased transportation costs. Layoffs will result from the loss of business with customers that depend on rail service. Two of our accounts can handle only railroad, not truck, deliveries. Loss of this business could have a rippling effect on national

accounts with an impact on other Owens-Illinois' manufacturing plants. Increased transportation costs will be detrimental to our Chicago plant where the current tax situation has already made severe inroads on profitability.

In summary, we sincerely hope that you will consider the foregoing problems in your deliberations on C.R.I. and P. rail service.

Very truly yours,

LLOYD HALLETT,
Plant Manager.

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., February 21, 1980.

Hon. HOWARD W. CANNON,
*Chairman, Committee on Commerce, Science, and Transportation,
U.S. Senate, Washington, D.C.*

DEAR SENATOR CANNON: Farm Bureau is the largest general farm organization in the United States, with a current membership of more than three million families in over 2,800 counties in 49 states and Puerto Rico. It is a voluntary, dues-supported organization, representing farmers and ranchers who produce virtually every agricultural commodity produced on a commercial basis in this country and who operate more than 75 percent of the nation's commercial farms and ranches.

Farm Bureau endorses a continuation of directed service by the ICC on the Rock Island System for an additional 60 days after March 2.

The 13 states served by the Rock Island include more than a million Farm Bureau members. This railroad is a vital transportation service to agriculture and to the overall economy in the heartland of America. Rail service is essential not only in moving agricultural products from farms and ranches to market, but also in moving essential production inputs to producing areas.

Service must be maintained on a major portion of the Rock Island System. We believe this can best be accomplished through well-planned transfers of facilities to profitable carriers rather than through efforts to revive the Rock Island as a corporate entity.

Farm Bureau is a strong advocate of free market, private sector solutions to problems affecting our economy, and the railroad situation is no exception. However, it appears that additional time is required by the federal planning and regulatory agencies to accomplish the necessary restructuring and to provide for orderly transfers to other carriers.

In providing funding for the additional 60 days of directed service, the Congress should make it clear to the Department of Transportation and the Interstate Commerce Commission that it wants the restructuring accomplished expeditiously within the additional 60-day period.

Sincerely,

VERNIE R. GLASSON,
Director, National Affairs Division.

STATE OF ARKANSAS,
OFFICE OF THE GOVERNOR,
Little Rock, Ark., February 21, 1980.

Hon. HOWARD W. CANNON,
*Commerce, Science, and Transportation Committee, Russell Senate Office Building,
U.S. Senate, Washington, D.C.*

DEAR SENATOR CANNON: Enclosed please find two copies of the testimony I would like to submit on the Rock Island Railroad situation to the United States Senate Subcommittee on Surface Transportation of the Committee on Commerce, Science and Transportation.

Although my general testimony covers these specific concerns, I feel I must emphasize the potential adverse impact any disruption in service, either temporary or permanent would have on shippers and communities located on the Rock Island line west of Perry, Arkansas, and at or near El Dorado, Arkansas. Without continued rail service west of Perry, the Ace Comb Company at Booneville, employer of 250-350 workers, would probably relocate to another city which has rail access. The proposed expansion of the Wolverine Toy Company of Booneville, employer of as many as 375 laborers at peak periods, is contingent upon continued rail service. Transportation costs to Simmons Lumber Company of Booneville would increase by 33 percent if it is required to convert totally to trucking, while Wayne Poultry,

receiver of virtually all the 717 carloads shipped to Danville shippers in 1978, would experience a similar increase in transportation costs if it, too, must resort to trucking.

Closure of the Velsicol Chemical Corporation south of El Dorado would be certain without rail service. From a practical standpoint, the chlorine this corporation requires in the manufacture of bromine can be shipped in only over rail. Within two weeks of temporary disruption in rail service, it is projected that four El Dorado industries with a combined annual payroll of \$45.2 million for their 2,280 employees would have to cease operation for the length of this disruption. Arkansas cannot afford this loss.

I would appreciate your making my letter and testimony a part of the permanent record on the Rock Island Railroad situation.

Sincerely,

BILL CLINTON, *Governor.*

Enclosure.

STATEMENT OF HON. BILL CLINTON, GOVERNOR, STATE OF ARKANSAS

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to submit this statement expressing my concern for the potential loss of service and ultimate abandonment of railroad lines comprising the Rock Island Railroad in Arkansas. While I will confine my remarks to the lines directly affecting Arkansas I am no less interested in preservation of the entire Rock Island system. I believe that our decreasing supply of energy, increasing energy costs and forecasted increases in the demand for transportation, especially the railroads, dictates the retention of our railroads. The convening of the Subcommittee is indicative, of your concern as well.

Although the Secretary of Transportation has reported bids from potential buyers for lines serving in excess of eighty percent of the Rock Island carloadings in Arkansas, my testimony represents justification for retention and operation of the entire lines referred to as the "Sunbelt Line," including the Louisiana portion.

ECONOMIC IMPACT OF ABANDONMENT OF SUNBELT LINES

Abandonment of the Sunbelt Lines in Arkansas will have an immediate financial impact in the amount of \$14 million dollars annually from railroad employment. Plant relocation or closure is expected to add an equal amount of loss from unemployment depending upon what service remains. Some industries are now experiencing higher transportation costs due to reduced service by the Kansas City Terminal and will be forced to consider relocation or closure with the loss of rail service.

The diversion of rail traffic to motor carriers not only increases the costs of goods sold but increases the traffic on the states highways. Arkansas, like many other states, faces the problems of deteriorating highways and escalating costs. Abandonment would immediately divert rail traffic to our highways, and in areas where both the highways and bridges preclude economical weights and sizes. Moreover, in conjunction with potential rail abandonment, the pending deregulation of truck lines could result in the deprivation of major rail and truck service to many small communities. This, too, would force the industries in these communities to relocate or close.

The Rock Island and the industries served as the bases for tax funding of many school operations in Arkansas. The loss of these industries and employment will severely erode the tax base of the state, requiring a reduction of services in other areas to alleviate this shortfall.

The loss of the Rock Island Lines precludes future economic growth for many areas of the state. Acquisition and construction by railroads in the future is not feasible due to costs and environmental considerations. Arkansas cannot afford to lose its railroads to the benefit of a few.

ENERGY IMPACT OF ABANDONMENT OF SUNBELT LINES

It is reported that the United States could only sustain itself for six and one-half years on its own oil reserves should the Middle East be lost. This is based upon our present consumption and known reserves. This frightening statistic is justification itself for retention of all the native railroad lines.

President Carter has dedicated our country to the use of coal for the generation of electric power. Because the coal from the Western States meets the Environmental Protection Agency standards the demand for that coal will be enormous.

In 1978 there were a total of 275 fossil fuel fired generating plants in the Sunbelt states of which 205 were fueled by natural gas or heating oil or a combination of

both. It is imperative that we retain the Sunbelt route to enable us to achieve this conversion as the remaining railroads in this area cannot handle the additional coal traffic generated from this conversion.

Abandonment of this line will divert traffic to less energy efficient modes, namely motor carriers. The latest Department of Energy studies reveal that railroads have a four to one energy advantage over trucks which would have a significant impact over the nine hundred mile route of the Sunbelt Line. Diversion to motor carriers will substantially impact the highways and cause expenditures for repairs far in excess of those required for acquisition and rehabilitation of the railroad lines.

Escalating highway costs and environmental consideration deem it essential that we retain this right of way and rail line. Future acquisition for highways will attract more opposition requiring greater justification. The right of way of the Sunbelt line can be developed into a joint use project with other transportation modes.

The loss of the Sunbelt Line will deter the growth and development of intermodal transportation advanced by the Federal Railroad Administration and encouraged by the Interstate Commerce Commission. The Memphis gateway and port are essential to this development and the loss of the Rock Island will hinder this development.

Because the public is expected to respond to the energy shortage through conservation it is incumbent upon government to respond accordingly. Failure to retain these rail lines will sharply increase fuel consumption by motor carriers, contrary to our energy needs.

IMPACT UPON COMPETITION FROM ABANDONMENT OF SUNBELT LINES

Contrary to the position of the railroads and the Federal Railroad Administration, the abandonment of the Rock Island system and the Sunbelt in particular will not benefit the shipping public. The carriers now serving Arkansas and the Memphis gateway are at capacity and cannot absorb the additional traffic. Railroad records will verify the delays experienced by the carriers in 1979 caused by record business volumes.

The loss of these lines will create car shortages due to the reduction in cars as well as shortages accruing from poor service caused by additional volumes on the lines absorbing the Rock Island traffic. The deterioration of service and accompanying shortage of cars will force shippers to other modes, contrary to the goal of rail restructuring.

Abandonment of the Sunbelt Line will cause an immediate increase in traffic rates since the Rock Island is the shortline route to West Texas. Shippers on the remaining lines will automatically lose their mainline status and be charged rates at off-line points.

Removal of the Sunbelt Line will create both linehaul and terminal delays which affect the proposed gains from restructuring the railroads. The terminals and mainline of the carriers in Arkansas cannot handle the new business of the Rock Island and the projected increases from coal traffic due to the conversion of power plants to that fuel.

This increased traffic and attendant delays, coupled with the certain shortage of cars and decreased labor productivity, will inevitably lead to higher rates. More business for railroads operating at capacity will produce only higher costs per unit of throughput rather than more revenue per unit.

Of great concern to Arkansas and the Sunbelt states is the impact of the proposed and announced merger upon the remaining rail system in the country. Too much investment has been made by business and industry on the premise that the railroads were part of the National Transportation Policy and essential to the nation's economy. Retention of the Sunbelt line will prevent the existing railroads from diverting traffic from existing gateways and jeopardizing entire regions.

JUSTIFICATION FOR RETENTION OF SUNBELT LINES

The National Transportation Policy dictates that regulation and government policy, including financial aid, must be used for preservation of the nation's railroad system. While the goal of that policy should be to maintain the railroads in the private sector of our economy, the future of the individual states cannot be left in the hands of the railroads. The railroads are part of our transportation policy and subject to the public will.

The recently concluded National Transportation Policy Study Commission reported that the demand for transportation will increase nine times faster than the population by the year 2000. Coal alone will move twice its current average distance, at three times its volume for a six-fold increase in ton miles or a 400 percent

increase over the current volume. Higher levels of demand can be expected since these forecasts were made prior to the fuel costs.

As stated earlier, many of the railroads today are operating at capacity and cannot handle the projected traffic increases. The Sunbelt line must be retained to relieve the congestion on the lines and pressure the competition at the gateways.

The Secretary of Transportation recently reported that the first 29,000 miles of Interstate Highway cost \$1,600,000 per mile to construct. He further reported that the remaining 3000 miles would cost over \$14,000,000 per mile to construct. Obviously, the nation cannot afford to continue its roadbuilding programs while allowing its railroads to be abandoned.

Competition of the various modes, and within the modes, remains the best equalizer and common denominator. Regulation, used wisely, will assure the competition necessary to meet the needs of the shipper and provide the return on investment sufficient to sustain the carrier. Like other nations, the railroads are a key element in our economic system but still part of a system.

PROPOSAL FOR RETENTION AND OPERATION OF THE SUNBELT LINES

The purposes to which the Rock Island line could be utilized are many-fold. Today I propose for your consideration a plan by which the Federal Government, as a feasible last resort in the event the carriers fail to sustain the Sunbelt Lines in their entirety, could acquire and put to beneficial use this portion of the Rock Island Line. The fifteen points of this plan encourages you to:

1. Enact legislation enabling U.S. Department of Transportation, or quasi-governmental corporation to acquire Sunbelt properties.
2. Rehabilitate rail lines, motive power, rolling stock and facilities.
3. Lease rail lines and equipment to operating railroads. This would be a test basis for future government ownership of rights of way and possible long term solution to Conrail.
4. Retain ownership of rail lines for use by Federal Railroad Administration Research and Development, Transportation Safety Institute, Association of American Railroads, and rail industry suppliers for testing new rail equipment.
5. Use as excess capacity line for other railroads; run through trains; future coal movements; and experimental runs.
6. Use line to develop and encourage intermodal transportation through construction of facilities at various gateways.
7. Experiment with Auto Train, Truck Train, Road Railer, and other alternate modes.
8. Designate line as hazardous material and material defense line and construct accordingly.
9. Line could be test bases for joint use such as coal slurry to the East and water to the West.
10. Line would serve shippers currently on Rock Island and assure economic growth to those states served.
11. Renovate car and engine repair facilities at Little Rock and El Reno to serve Sunbelt railroad and other railroads as proposed by rail industry management.
12. Build continuous welded rail facility on line to serve railroads without such capacity.
13. Build facility for the construction of Light Rail Vehicles to serve the growing mass transit market. This would eliminate the need to import such vehicles and reduce the balance of payments.
14. Employ disadvantaged or underemployed persons for training. Establish training programs in conjunction with rehabilitation of the railroad.
15. Line could be used for storage of rolling stock of leasing companies and shortline railroads to reduce or eliminate empty movement to a home road. Fees would be used for maintenance and other improvements.

I would appreciate any consideration you could give to this proposal. It is a solution that could work, an attractive alternative to abandonment. However, regardless of whether this proposal is accepted or even explored, I ask that you not allow any section of the Sunbelt Lines to be shut down for any period until final offers are made and accepted for purchase of all or part of the Rock Island trackage. The costs involved in starting up operation after temporary abandonment justify the direction of Congress to the Interstate Commerce Commission that the I.C.C. require carriers to continue service during the interim period from the date the directed service order is to lapse to the date the purchases are completed. Any shutdown, no matter how temporary, could cause undue and perhaps fatal hardships to industries serviced by the Rock Island.

Again, thank you for this opportunity to submit my views.



