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THE WHITE HOUSE
WASHINGTON

Don R.

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helpful.
MRC



THE PRESIDENT HAS SAID *dg*

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

January 28, 1975

MEMORANDUM FOR THE PRESIDENT

I'd like to offer a final word on three potential transportation crises that I expect you will be called upon to deal with in the coming months:

Penn Central Railroad: The necessary restructuring and refinancing of the bankrupt Penn Central and certain other railroads is being carried out by the United States Railway Association (a new government agency created by the Regional Rail Reorganization Act of 1973). It's my current guess that this work will prove harder, take longer, and that the final new system will require more Federal financial assistance (like \$1 billion more) than anyone will now publicly admit. In addition, the government may be called upon to provide further interim working capital to keep Penn Central going before the new system is ready in mid-1976.

I fear that you have no realistic alternative but to provide the funds. The really important thing is to keep the whole process on the track of meeting its one absolutely essential goal: the new rail system must, in time, be an efficient, profitable railroad that is owned by the private sector. Any other outcome is a step to rail nationalization--a disaster that would cost \$50 billion plus and create administrative miseries and economic inefficiencies without limit.

The key to legislative action (and you will need some) is joint agreement between Senators Hartke and Pearson. I have discussed the problem with both of them and I think they have a realistic appraisal of the situation. John Barnum, Deputy Secretary of Transportation, is fully aware of the problem and works well with these two Senators.

AMTRAK: AMTRAK is dangerously close to becoming a complete Congressional plaything--sort of a rolling "Pork Barrel." Its taxpayer subsidies for operating losses now exceed \$300 million per year and are rising, and its government guaranteed loans (really deferred grants) are approaching a billion dollars. AMTRAK needs better management (which may be on the way) and a better focus on its true mission (that of providing high-quality, high-speed rail service in densely populated corridors, such as Washington-New York-Boston). It may be necessary for you to veto the next AMTRAK authorization bill in order to get Congress' attention clearly focused on this growing mess.

Pan Am: It's my personal guess that unless Pan Am finds a financial "angel" it will be pushed into bankruptcy by next September. The banks have clearly gone their full limit. The only remaining angels I know of are the U.S. Treasury and the Shah of Iran. The choice thus seems to be: bankruptcy, subsidy, or foreign control. A merger between Pan Am and TWA makes some sense, but the regulatory process would take years and without \$200 million or so special help with taxpayer funds, I fear that the merger would quickly push both carriers into bankruptcy before they could realize any long-term benefits. The Administration very much needs to work out a firm position on this and related international aviation issues by early summer. Presently the Department of Justice has one view on what to do, the Department of Transportation has another, and the White House staff may well have a third.

* * * * *

The Department will, of course, face other crises, but the above three have the largest potential to involve you directly.

If I can be of help, please let me know.

Best of luck!


Claude S. Brinegar

THE WHITE HOUSE

WASHINGTON

February 10, 1975

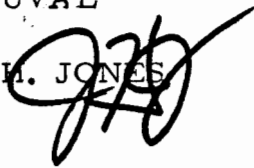
ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

MIKE DUVAL

FROM:

JERRY H. JONES



The attached memorandum was returned in the President's outbox. Would you please get back to this office with a report on any further action that may be needed.

Thank you.