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2/19/76

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THE WHITE HOUSE  
WASHINGTON

Note for record:

Per JC's instructions,  
called Ted Leland in  
Secretary Coleman's office  
and told him President  
had reviewed the memorandum  
but thought it best if  
Coleman and/or Usery would  
make the calls.

2/23  
10:10 am

2/19/76

THE WHITE HOUSE  
WASHINGTON

February 19, 1976

MR PRESIDENT:

Reorganization of the Bankrupt Railroads  
Secretary Coleman's memorandum 2/19/76

Staffing of the attached memorandum resulted in the following comments:

- Jim Cannon - He is cautious about recommending Presidential phone calls concerning a meeting the President will not attend. Will do so only if Usery strongly recommends. (See TAB B)
- Jack Marsh - "Concur in the meeting, but can not recommend the President make all these calls. Suggest they be made on his behalf. Perhaps we could make one to a titular leader."
- Jim Lynn - See TAB A

We are presently trying to contact Secretary Usery and Bill Seidman for their views.

*Usery  
& Coleman  
C*

Jim Connor



THE SECRETARY OF TRANSPORTATION  
WASHINGTON, D.C. 20590

February 19, 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Reorganization of the Bankrupt Railroads

USRA's Final System Plan made provision, pursuant to Congressional mandate, for rail competition throughout the Northeast and Midwest. In accordance with the Plan, the Chessie and the Southern Railroads tentatively agreed to purchase over 2,000 miles of the bankrupt rail properties. Most of the remaining bankrupt properties were to be consolidated into a federally assisted corporation - ConRail. Now the purchase of the bankrupt rail properties by the Chessie and the Southern is gravely endangered because of those railroads' inability to come to terms with the labor unions. If the Chessie and the Southern do not participate in the reorganization, ConRail will become the sole rail freight carrier throughout most of the Northeast and Midwest. This situation threatens the ultimate success of the reorganization because, without effective competition, ConRail will be less efficient and more likely to need perpetual government subsidy. Therefore I think it a matter of great importance to try to bring about labor agreements which will allow the Chessie and the Southern to participate in the rail reorganization.

Time is very short. In fact, the statutory deadline for reaching successful labor agreements has passed. ConRail at present is scheduled to take over, on April 1, the lines previously designated for private acquisition. However, key members of Congress have expressed a willingness to extend the deadline if we can quickly bring about a settlement. A settlement must come by the end of next week to be effective. It would be extremely helpful if you would call the prominent national labor leaders involved to ask them to meet at the first of next week with Secretary Usery (who has agreed to co-host such a meeting) and myself, along with the Presidents of the Chessie and the Southern and their top labor negotiators. Attached is a list of the labor leaders who should attend such a meeting and suggested remarks for a Presidential phone call.

There may be significant political consequences involved in the outcome of the Chessie and the Southern negotiations (see the attached Wall Street Journal editorial). For instance, the New England States are highly disturbed at the prospect of ConRail becoming a monopoly in the Region. It would be to the advantage of the Administration if we could secure the participation of the Chessie and the Southern in the rail reorganization and thereby insure rail competition in the Northeast and Midwest.

A handwritten signature in dark ink, appearing to read "Bill", is positioned above the printed name.

William T. Coleman, Jr.

Attachments

NATIONAL LABOR LEADERS WHO SHOULD BE CALLED

Al H. Chesser  
President  
United Transportation Union, AFL-CIO  
14600 Detroit Avenue  
Cleveland, Ohio 44107  
216/228-9400

B. N. Whitmire  
President  
Brotherhood of Locomotive Engineers (Independent)  
1112 B of LE Building  
1365 Ontario Avenue  
Cleveland, Ohio 44114  
216/241-2630

Harold C. Crotty  
President  
Brotherhood of Maintenance of Way Employees, AFL-CIO  
12050 Woodward Avenue  
Detroit, Michigan 48203  
313/TO 8-0489

C. L. (Les) Dennis  
International President  
Brotherhood of Railway, Airline and Steamship Clerks,  
Freight Handlers, Express and Station Employees, AFL-CIO  
6300 River Road  
Rosemont, Illinois 60018  
312/692-7711

Charles J. Chamberlain  
President  
Brotherhood of Railroad Signalmen, AFL-CIO  
(and also Chairman of the Railway Labor Executives  
Association)  
400 1st Street, N. W.  
Washington, D.C. 20001  
202/628-5935

Anthony L. Krause  
General President  
Brotherhood of Railway Carmen, AFL-CIO  
4929 Main Street  
Kansas City, Missouri 64112  
816/561-1112

Floyd E. (Red) Smith  
International President  
International Association of Machinists and Aerospace  
Workers, AFL-CIO  
1300 Connecticut Avenue, N. W.  
Washington, D.C. 20036, 202-1785-2525

Attorney William G. Mahoney  
(represents operating unions)  
1015 18th Street, N. W.  
Washington, D.C. 20036  
202/833-2020

Attorney Edward J. Hickey, Jr.  
(represents shop-craft unions)  
1125 15th Street, N. W.  
Washington, D.C. 20005  
202/833-8855

NOTE -- All of the above (except Whitmire) are probably  
in Miami through February 20 at the Americana  
Hotel: 305/865-7511.

SUGGESTED REMARKS FOR PRESIDENTIAL PHONE CALLS  
TO NATIONAL LABOR LEADERS

I am calling to ask you to come to a meeting the first of next week here in Washington with Secretary of Transportation Coleman and Secretary of Labor Usery to discuss the Chessie and the Southern Railroad labor negotiations with regard to the reorganization of the bankrupt railroads in the Northeast. I am also calling the presidents of the other key railroad unions and the presidents of the Chessie and the Southern.

I want to see if we can't get these negotiations back on the track. The transfers of the Erie Lackawanna and Reading lines to the Chessie, and of the Delmarva line to the Southern are crucial in my judgment to assuring the success of the reorganization.

Secretary Coleman will be in touch with you to arrange the time of the meeting.





EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

February 19, 1976

MEMORANDUM FOR: JIM CONNOR  
FROM: CAL COLLIER *Cal*  
SUBJECT: Reorganization of the Bankrupt  
Railroads

Our comments are as follows:

- (1) We strongly concur in Secretary Coleman's objective to bring formidable competitors back into the Northeast-Midwest rail freight system even though it can be argued that Big Conrail -- as a monopolist -- might enjoy a better financial outlook.
- (2) The attached news story indicates that only one union held out during the earlier negotiations. If this is the case, thought should be given to an alternative strategy of discussing the prospects for success with that union first.
- (3) We are unfamiliar with the extent of Congressional consultation on this issue that has occurred. We believe that it ought to be thorough and extensive prior to Presidential involvement.

Attachment

# Rail Plans Dealt Blow By Failure on Union Pact

By William H. Jones  
Washington Post Staff Writer

## Union Pact Failure Rocks Rail Plans

RAILS, From B19

Government plans for a multi-billion dollar reorganization of bankrupt Northeast railroads into a competitive system were dealt a severe blow early yesterday when one of 22 unions failed to reach agreement on future contracts with Chessie System and Southern Railway.

Since the Chessie was to take over on April 1 2,000 miles of key lines from Ohio into the New York City and Philadelphia areas — providing the only significant competition to a new Consolidated Rail Corp. — the result of yesterday's breakdown means that ConRail will have a virtual monopoly at a greater government expense.

Moreover, a much-heralded takeover by Washington-based Southern of all rail services on the Delmarva Peninsula also was terminated and ConRail will operate those lines, as well.

Although government planners said a bigger ConRail could develop as a more efficient operation, a goal of the reorganization legislation was to require competition in service from major urban centers — strengthening railroads moving into the region and offering shippers a chance to shop around for the best service.

Fears were expressed yesterday that the impact of a big ConRail, subsidized by the federal Treasury for many years, could mean an end to hopes for reviving free enterprise in the region's rail business. The small Delaware and Hudson agreed to extend its service south to Harrisburg over ConRail tracks but the big new rail firm will be dominant in the region, with 17,000 miles of track in 17 states.

An angry Sen. J. Glenn Beall (R-Md.), a principal sponsor of the massive rail reorganization, immediately called on Secretary of Transportation William T. Coleman Jr. to intervene and launch new negotiations — even though the deadline for Southern and Chessie to reach a final takeover accord was midnight Wednesday.

Although Beall said he thought Congress would pass legislation to extend the deadline, government officials yesterday began working under the expectation that no new talks would be held and that ConRail would begin operations on April 1 as the sole major carrier in the densely populated Pennsylvania-New York-New Jersey region.

Coleman, in an interview, called the breakdown "a great tragedy" and said he had telephoned leaders of the

unions and railroads. "It's up to the Chessie and Southern and unions to make an agreement," he said, "and if that's done in the next three or four days I'd undertake to make it effective," presumably by offering legislation to change the deadline.

At the same time, Coleman said he was "shocked" at an announcement by U.S. Railway Association that a bigger ConRail would need more U.S. aid. He ruled out such additional money and said having Southern and Chessie expand into the Northeast was to the benefit of shippers, cities, towns and labor unions.

Edward G. Jordan, chairman of the new ConRail — designed to supplant most of the bankrupt Penn Central and other bankrupt lines, said it is "essential" that his new company go forward with the April 1 startup.

At a news conference in Washington, government officials said the breakdown in labor negotiations means that a bigger ConRail system will require capital spending of \$6.84 billion instead of \$6.03 billion, as originally planned.

On the other hand, a ConRail monopoly could mean reduced losses, according to officials of U.S. Railway Association, the government planning agency which drew up the largest corporate reorganization in U.S. history.

For example, the bigger ConRail is projected to operate this year at a loss of \$305 million compared with projected losses for the smaller ConRail of \$359 million.

Officials of the Brotherhood of Railway and Airline Clerks — the one union which failed to reach an agreement — refused yesterday to talk with a Washington Post reporter because of the current strike against the newspaper.

However, the Wall Street Journal reported earlier that the unions were being faulted for "holding out for all they can get after receiving generous job-protection benefits" under the 1973 law

which created ConRail.

Government and industry sources yesterday said the BRAC declined to sign labor contracts with Southern and Chessie for three main reasons:

— Refusal of the firms to approve a cost-of-living escalator which the union said would cost workers \$400 a year; however, the question of such compensation currently is the subject of an industry-wide dispute and both Southern and Chessie ultimately would be required to follow whatever general settlement is reached.

— Refusal of the union to agree to work-rule changes asked by the Southern and Chessie, such as the right to move workers or to lay them off with pay if they elect not to move. Under the new ConRail, the BRAC will work under similar requirements.

— Refusal of the Southern to provide workers in the Wilmington area with commuter passes on government-funded regional commuter lines — passes not now provided by the Pennsy and not contemplated by ConRail.

Southern president W. Graham Claytor Jr. expressed "deep disappointment" at yesterday's action, which means his company won't begin serving a major market by new car floats across the Chesapeake Bay to Southern Delmarva and up to Wilmington.

Chessie chairman Hays T. Watkins noted that his company had been willing to undertake risks of enlarging its system by one-third but charged that assuming the same work rules that helped bring bankruptcy to the Pennsy "would have seriously restricted the performance of efficient rail transportation" and resulted in annual losses from the lines involved.



THE WHITE HOUSE  
WASHINGTON

February 19, 1976

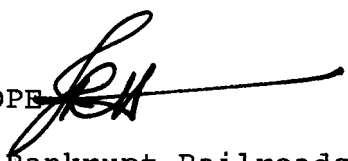
MEMORANDUM FOR : JIM ~~CANNON~~  
FROM : JIM CANNON

To confirm our telephone conversation, I recommend that the President make calls only if Usery recommends strongly that he do so.

THE WHITE HOUSE

WASHINGTON

February 19, 1976

MEMORANDUM FOR: JIM CONNOR  
THROUGH: JIM CANNON  
FROM: JUDITH RICHARDS HOPE   
SUBJECT: Reorganization of Bankrupt Railroads  
Presidential Calls

The participation of Chessie and Southern Railroads in the Final System Plan is of enormous importance if the re-organized railways are to have the best possible chance of becoming (eventually) a strong, private enterprise rail system.

Secretary Coleman is meeting now with the head of Southern Railway who, with the head of Chessie, would like to see the deal go through IF an acceptable labor agreement can be worked out.

Further, Bill Mahoney, the attorney for the operating unions, feels that there is a good chance that the local unions will re-consider their unyielding position of last week and lower their demands to make such an agreement possible.

Secretary Coleman has talked with Senators Hartke and Beall, and they agree that re-opening negotiations at this stage (and very quietly) is the way to proceed. This is already occurring. All feel that a nudge from the White House would be most helpful in achieving the hoped-for agreement. Coleman feels that it should be a call from the President, but notes that a call by Buchen at the President's request, would be "almost as good." Coleman feels that the chances of success at this point (pre-call) are about 65-35.

I recommend that the President call the Presidents of the Unions listed on Secretary Coleman's list, but NOT the attorneys (William Mahoney and Edward Hickey).

PRO

--Strongly increases the possibility of much needed agreement;

--if successful, the President can take rightful credit for: (1) rescuing a key element in the railroad reorganization plan;

(2) enormous dollar savings for the U.S. Government which will result if the Chessie-Southern deals are re-activated; (3) ensuring rail competition for the north-east corridor, especially in freight rates, which is of particular concern to the New England states.

CON

If the Presidential effort fails, it may appear that local unions beat the President of the United States. (Note: however, such examples as: the steel crisis under Kennedy and Truman's actions in connection with the Taft-Hartley Act.

I also recommend that the President call the Presidents of the two railroads involved:

Hayes Watkins, President of the Chessie  
Chesapeake and Ohio Railroad  
Terminal Tower  
Cleveland, Ohio  
(216) 623-2200

Graham Clytor, President and Chairman, Southern Railway  
920 15th Street, N.W.  
Washington, D.C.  
(202) 628-4460



THE WHITE HOUSE  
WASHINGTON

NOTE OF TELEPHONE CALL

David Lissey and Judy Hope called.  
Re the recommended telephone calls  
that Secretary Coleman had wanted the  
President to make to the labor/union leaders,  
they reported that Lissey had been in touch  
with Usery's office. Usery does not recommend  
the President make the phone calls.  
Hope reported, however, that Coleman still  
does recommend the calls be made by the  
President.

However, it has been agreed by all parties  
that there should be ahold until Monday when  
Usery will get back to town and he and  
Coleman can discuss the issue. Therefore,  
there is no need for the President to do  
anything on this matter this weekend.

2/20/76  
5:30 pm

E. Connors  
Office of the Secretary  
to the Cabinet

THE WHITE HOUSE  
WASHINGTON

2/20

Trudy,

Judy Hope's office called. Re the recommended calls from Coleman to labor/union people.

They wanted to add one more person per Coleman's request. I told her I wasn't sure the President would be making the calls and in any case the package had already gone with the President to NH, but when we got it back, if it were possible, we would add the name. It is

James Yost, Chicago, Ill.  
He is a spokesman for shop craft unions and a "key" person according to Coleman. Tel. is 312-HA 7-9546.  
E.

---

THE WHITE HOUSE  
WASHINGTON

After the memorandum on Sec.  
Coleman's suggestion had gone -  
Roger Porter called ---  
Mr. Seidman did not think it  
appropriate for the President to  
make the calls. Perhaps Usery  
could do.

GBF 4 P.M.  
2/19/76

## THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: February 19, 1976

Time:

FOR ACTION:

cc (for information):

JACK MARSH

BILL SEIDMAN

JIM LYNN

JIM CANNON

FROM THE STAFF SECRETARY

DUE: Date: FEB. 19, 1976

Time: 1:30 PM

SUBJECT:

Coleman memo to President of Feb. 19 re reorganization of the  
Bankrupt Railroads

## ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

## REMARKS:

Would appreciate your return of attached by 1:30 today. May I have your comments on Coleman's proposal, particularly do you think the President should make some or all of the phone calls suggested by Secretary Coleman?

I see no need for the President to make these calls himself. It seems to me that Bill Usery could make the calls indicating that the President had requested that these individuals attend the proposed meeting. In any event, Bill Usery's judgment in this matter is critical and should be obtained before a decision is made.

*Roger B. Foster for William Seidman*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a

February 19, 1976

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**Reorganization of the Bankrupt Railroads**  
**Secretary Coleman's memorandum 2/19/76**

Staffing of the attached memorandum resulted in the following comments:

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- Jack Marsh - "Concur in the meeting, but can not recommend the President make all these calls. Suggest they be made on his behalf. Perhaps we could make one to a titular leader."
- Jim Lynn - See TAB A

We are presently trying to contact Secretary Usery and Bill Seidman for their views.

Jim Connor

up 2/19

## THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

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Time:

FOR ACTION:

cc (for information):

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JIM LYNN  
JIM CANNON

BILL SEIDMAN

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James Connor



THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

February 19, 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Reorganization of the Bankrupt Railroads

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William T. Coleman, Jr.

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United Transportation Union, AFL-CIO  
14600 Detroit Avenue  
Cleveland, Ohio 44107  
216/228-9400

B. N. Whitmire  
President  
Brotherhood of Locomotive Engineers (Independent)  
1112 B of LE Building  
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Cleveland, Ohio 44114  
216/241-2630

Harold C. Crotty  
President  
Brotherhood of Maintenance of Way Employees, AFL-CIO  
12050 Woodward Avenue  
Detroit, Michigan 48203  
313/TO 8-0489

C. L. (Les) Dennis  
International President  
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Freight Handlers, Express and Station Employees, AFL-CIO  
6300 River Road  
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Anthony L. Krause  
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4929 Main Street  
Kansas City, Missouri 64112  
816/561-1112

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International President  
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Workers, AFL-CIO  
1300 Connecticut Avenue, N. W.  
Washington, D.C. 20036, 202-1785-2525

Attorney William G. Mahoney  
(represents operating unions)  
1015 18th Street, N. W.  
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SUGGESTED REMARKS FOR PRESIDENTIAL PHONE CALLS  
TO NATIONAL LABOR LEADERS

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I want to see if we can't get these negotiations back on the track. The transfers of the Erie Lackawanna and Reading lines to the Chessie, and of the Delmarva line to the Southern are crucial in my judgment to assuring the success of the reorganization.

Secretary Coleman will be in touch with you to arrange the time of the meeting.

## **The Rail Booby Trap**

A booby trap went off in the government's ambitious Northeast rail plan last week, proving again that the worst-laid schemes of mice and men are even more likely than the best-laid to go agley.

Unfortunately, the petard didn't wreck the plan. It will just cost more. It could prove to be the second most expensive experiment yet, after the Postal Service, in government monopoly.

The booby trap was set by the friends of organized labor, who insisted when the 1973 rail plan was being threshed out in Congress on certain protections for the rail unions. They got them, beyond a union leader's wildest dreams. The most obvious was a \$250 million federal fund which guaranteed a lifetime income for almost any employee likely to be displaced. The not so obvious part—and the one that exploded last week—gave the rail unions an effective veto over the government's hopes of preserving rail competition in the Northeast.

Those hopes rested on the idea that the Chessie System would pick up some of the bankrupt Northeast properties. Conrail, which is being set up under government auspices and with a generous federal appropriation, thus would have competition. The Chessie, a well-managed, profitable railroad, was willing to take some risk with the plan in return for northern trackage and access to New York.

But there was one hitch. The Northeast Rail Reorganization Act required that any private road participating in the plan must first make mutually satisfactory arrangements with the rail unions representing the employees it would acquire from the bankrupts. To the Chessie, "mutually satisfactory" meant eliminating the kinds of restrictive work rules that had helped put the Erie-Lackawanna et al into such dire straits. The Chessie wanted the 8,000 employees it would acquire to accept the same rules as the employees it now has, which hardly seemed unreasonable.

But thanks to Congress, the unions had a more attractive alternative. First of all, they had lifetime

income protections, whatever happens. Second, Conrail was not required to reach any mutual understanding with the unions prior to its scheduled start-up on April 1. It can take over the bankrupt properties, their unions, their contracts, lock, stock and barrel.

The unions, understandably, preferred to continue doing business with the government entity that might be influenced by their political friends. So they refused to strike a deal with the Chessie. And, very prudently, the Chessie withdrew from the plan. The Southern Railway, which had intended to pick up some minor DelMarVa peninsula property, did so too.

That means that Conrail will start up with about 2,200 more miles of track than it had planned. It will have something approximating a monopoly on access to New York from the West. And it will need extra money from the taxpayers in addition to the \$1.9 billion already appropriated by the House for rehabilitation and operating expenses.

How much it will need is a bit fuzzy. But the Chessie had planned to spend \$500 million of its own money over the next several years for rehabilitating the trackage it had planned to acquire. That gives some idea.

So even before Conrail is in business, it looks less like the streamlined, competitive enterprise hoped for by many of its progenitors and more and more like the kind of political offspring governments typically produce. It won't be any better than the bankrupts it will replace unless it faces some real pressures for efficiency, which competition from the Chessie might have supplied. As things stand now, it would appear that most of its pressures will be of the opposite kind, for preservation of the status quo, applied by unions and politicians.

Congress may eventually get tired of coughing up money for such enterprises. It may decide eventually to auction off Conrail properties and let labor take its chances. Since that is what it should have done in the first place, why wait?

FEB 19 1976  
THE WHITE HOUSE  
WASHINGTON

ACTION MEMORANDUM

LOG NO.: *due: 2/19 1:30*

Date: February 19, 1976

Time:

FOR ACTION:

cc (for information):

JACK MARSH BILL SEIDMAN  
JIM LYNN  
JIM CANNON

FROM THE STAFF SECRETARY

DUE: Date: FEB. 19, 1976

Time: 1:30 PM

SUBJECT:

Coleman memo to President of Feb. 19 re reorganization of the Bankrupt Railroads

ACTION REQUESTED:

<input type="checkbox"/> For Necessary Action	<input checked="" type="checkbox"/> For Your Recommendations
<input type="checkbox"/> Prepare Agenda and Brief	<input type="checkbox"/> Draft Reply
<input checked="" type="checkbox"/> For Your Comments	<input type="checkbox"/> Draft Remarks

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leader*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.  
For the President  
James Connor

*jam*

THE WHITE HOUSE

WASHINGTON

February 19, 1976

MEMORANDUM FOR : JIM CONNOR

FROM : JIM CANNON


To confirm our telephone conversation, I recommend that the President make calls only if Usery recommends strongly that he do so.

THE WHITE HOUSE

WASHINGTON  
February 19, 1976

MEMORANDUM FOR: JIM CONNOR

THROUGH: JIM CANNON

FROM: JUDITH RICHARDS HOPE 

SUBJECT: Reorganization of Bankrupt Railroads  
Presidential Calls

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Secretary Coleman is meeting now with the head of Southern Railway who, with the head of Chessie, would like to see the deal go through IF an acceptable labor agreement can be worked out.

Further, Bill Mahoney, the attorney for the operating unions, feels that there is a good chance that the local unions will re-consider their unyielding position of last week and lower their demands to make such an agreement possible.

Secretary Coleman has talked with Senators Hartke and Beall, and they agree that re-opening negotiations at this stage (and very quietly) is the way to proceed. This is already occurring. All feel that a nudge from the White House would be most helpful in achieving the hoped-for agreement. Coleman feels that it should be a call from the President, but notes that a call by Buchen at the President's request, would be "almost as good." Coleman feels that the chances of success at this point (pre-call) are about 65-35.

I recommend that the President call the Presidents of the Unions listed on Secretary Coleman's list, but NOT the attorneys (William Mahoney and Edward Hickey).

PRO

--Strongly increases the possibility of much needed agreement;

--if successful, the President can take rightful credit for: (1) rescuing a key element in the railroad reorganization plan;

(2) enormous dollar savings for the U.S. Government which will result if the Chessie-Southern deals are re-activated; (3) ensuring rail competition for the north-east corridor, especially in freight rates, which is of particular concern to the New England states.

CON

If the Presidential effort fails, it may appear that local unions beat the President of the United States. (Note: however, such examples as: the steel crisis under Kennedy and Truman's actions in connection with the Taft-Hartley Act.

I also recommend that the President call the Presidents of the two railroads involved:

Hayes Watkins, President of the Chessie  
Chesapeake and Ohio Railroad  
Terminal Tower  
Cleveland, Ohio  
(216) 623-2200

Graham Clytor, President and Chairman, Southern Railway  
920 15th Street, N.W.  
Washington, D.C.  
(202) 628-4460



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

February 19, 1976

MEMORANDUM FOR: JIM CONNOR  
FROM: CAL COLLIER *Cal*  
SUBJECT: Reorganization of the Bankrupt  
Railroads

Our comments are as follows:

- (1) We strongly concur in Secretary Coleman's objective to bring formidable competitors back into the Northeast-Midwest rail freight system even though it can be argued that Big Conrail -- as a monopolist -- might enjoy a better financial outlook.
- (2) The attached news story indicates that only one union held out during the earlier negotiations. If this is the case, thought should be given to an alternative strategy of discussing the prospects for success with that union first.
- (3) We are unfamiliar with the extent of Congressional consultation on this issue that has occurred. We believe that it ought to be thorough and extensive prior to Presidential involvement.

Attachment

# Rail Plans Dealt Blow By Failure on Union Pact

By William H. Jones  
Washington Post Staff Writer

Government plans for a multi-billion dollar reorganization of bankrupt Northeast railroads into a competitive system were dealt a severe blow early yesterday when one of 22 unions failed to reach agreement on future contracts with Chessie System and Southern Railway.

Since the Chessie was to takeover on April 12, 600 miles of key lines from Ohio into the New York City and Philadelphia areas — providing the only significant competition to a new Consolidated Rail Corp. — the result of yesterday's breakdown means that ConRail will have a virtual monopoly at a greater government expense.

Moreover, a much-heralded takeover by Washington-based Southern of all rail services on the Delmarva peninsula also was terminated and ConRail will operate those lines, as well.

Although government planners said a bigger ConRail could develop as a more efficient operation, a goal of the reorganization legislation was to require competition in service from major urban centers — strengthening railroads moving into the region and offering shippers a chance to shop around for the best price.

Fears were expressed yesterday that the impact of a ConRail, subsidized by the Federal Treasury for many years, could mean an end to hopes for reviving free enterprise in the region's rail business. The small Delaware and Hudson agreed to extend service south to Harrisburg on ConRail tracks but the new rail firm will be dominant in the region, with 6,000 miles of track in 17 states.

An angry Sen. J. Glenn Beall (R-Md.), a principal sponsor of the massive rail reorganization, immediately called on Secretary of Transportation William T. Coleman Jr. to intervene and launch new negotiations — even though the deadline for Southern and Chessie to reach a final takeover accord was midnight Wednesday.

Although Beall said he thought Congress would pass legislation to extend the deadline, government officials yesterday began working under the expectation that no more talks would be held and that ConRail would begin operations on April 1 as the major carrier in the densely populated Pennsylvania-New York-New Jersey region.

Coleman, in an interview, called the breakdown "a great tragedy" and said he had summoned leaders of the

## Union Pact Failure Rocks Rail Plans

RAILS, From B19

unions and railroads. "It's up to the Chessie and Southern and unions to make an agreement," he said, "and if that's done in the next three or four days I'd undertake to make it effective," presumably by offering legislation to change the deadline.

At the same time, Coleman said he was "shocked" at an announcement by U.S. Railway Association that a bigger ConRail would need more U.S. aid. He ruled out such additional money and said having Southern and Chessie expand into the Northeast was to the benefit of shippers, cities, towns and labor unions.

Edward G. Jordan, chairman of the new ConRail — designed to supplant most of the bankrupt Penn Central and other bankrupt lines, said it is "essential" that his new company go forward with the April 1 startup.

At a news conference in Washington, government officials said the breakdown in labor negotiations means that a bigger ConRail system will require capital spending of \$3.64 billion instead of \$6.03 billion, as originally planned.

On the other hand, a ConRail monopoly could mean reduced losses, according to officials of U.S. Railway Association, the government planning agency which drew up the largest corporate reorganization in U.S. history.

For example, the bigger ConRail is projected to operate this year at a loss of \$365 million compared with projected losses for the smaller ConRail of \$359 million.

Officials of the Brotherhood of Railway and Airline Clerks — the one union which failed to reach an agreement — refused yesterday to talk with a Washington Post reporter because of the current strike against the newspaper.

However, the Wall Street Journal reported earlier that the unions were being faulted for "holding out for all they can get after receiving generous job protection benefits" under the 1973 law

which created ConRail.

Government and industry sources yesterday said the BRAC declined to sign labor contracts with Southern and Chessie for three main reasons:

— Refusal of the firms to approve a cost-of-living escalator which the union said would cost workers \$400 a year; however, the question of such compensation currently is the subject of an industry-wide dispute and both Southern and Chessie ultimately would be required to follow whatever general settlement is reached.

— Refusal of the union to agree to work-rule changes asked by the Southern and Chessie, such as the right to move workers or to lay them off with pay if they elect not to move. Under the new ConRail, the BRAC will work under similar requirements.

— Refusal of the Southern to provide workers in the Wilmington area with commuter passes on government-funded regional commuter lines — passes not now provided by the Pennsy and not contemplated by ConRail.

Southern president W. Graham Claytor Jr. expressed "deep disappointment" at yesterday's action, which means his company won't begin serving a major market by new car floats across the Chesapeake Bay to Southern Delmarva and up to Wilmington.

Chessie chairman Hays T. Watkins noted that his company had been willing to undertake risks of enlarging its system by one-third but charged that assuming the same work rules that helped bring bankruptcy to the Pennsy "would have seriously restricted the performance of efficient rail transportation" and resulted in annual losses from the lines involved.