
Public Hearing

before

SENATE TRANSPORTATION COMMITTEE
and
ASSEMBLY TRANSPORTATION AND
COMMUNICATIONS COMMITTEE

“Impact of the Conrail merger on New Jersey and the region”

LOCATION: Committee Room 11
State House Annex
Trenton, New Jersey

DATE: February 24, 1997
9:00 a.m.

MEMBERS OF COMMITTEES PRESENT:

Senator Andrew R. Ciesla, Chairman
Senator Martha W. Bark, Vice-Chairwoman
Senator Gerald Cardinale

Assemblyman Alex DeCroce, Chairman
Assemblyman Francis L. Bodine, Vice-Chairman
Assemblywoman Clare M. Farragher
Assemblyman E. Scott Garrett
Assemblyman Joseph Charles Jr.
Assemblyman John S. Wisniewski

ALSO PRESENT:

Peter R. Manoogian
Office of Legislative Services
Aide, Senate Transportation Committee
Amy E. Melick
Office of Legislative Services
Aide, Assembly Transportation and
Communications Committee



Hearing Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, CN 068, Trenton, New Jersey

TABLE OF CONTENTS

	<u>Page</u>
John J. Haley Jr. Acting Commissioner New Jersey Department of Transportation	2
John P. Sheridan Jr., Esq. Firm of Riker, Danzig, Scherer, Hyland & Perretti Representing Conrail, Inc.	13
William G. M. Goetz Assistant Vice President Asset Development and Utilization Intermodal Service Group Conrail, Inc.	14
Stephen M. Sullivan Director Planning and Strategy Corporate Strategy Department Conrail, Inc.	42
Roger A. Bodman Public Strategies-Impact Representing Norfolk Southern Corporation	46
James L. Granum Vice President Public Affairs Norfolk Southern Corporation	46
Steve Eisenach Director Strategic Planning Department Norfolk Southern Corporation	59

TABLE OF CONTENTS (continued)

	<u>Page</u>
Paul D. Gilmore Vice President Canadian Pacific Railway, and Chief Operating Officer Eastern Operations Canadian Pacific Railway, and President Delaware & Hudson Railway	71
Jim Blaze Kingsley Group Representing Norfolk Southern Corporation	84
Benjamin Friedland President and General Manager Morristown and Erie Railway, and Representing New Jersey Short Line Railroad Association	95
Thomas Adamski Chairman Bi-State Harbor Carriers Conference, and President New Jersey Motor Truck Association	104
Joel Weiner Executive Director North Jersey Transportation Planning Authority	110
Donald Shanis Associate Director Delaware Valley Regional Planning Commission	116
Michael A. Egenton Manager Government Relations New Jersey State Chamber of Commerce	120

TABLE OF CONTENTS (continued)

	<u>Page</u>
Arthur L. Reuben Legislative Representative New Jersey Association of Railroad Passengers	122
Donald Griffin Assistant General Counsel Brotherhood of Maintenance of Way Employees, and Representing Transportation Trades Department AFL-CIO	125
APPENDIX:	
Statement submitted by John J. Haley Jr.	1x
Statement submitted by William G. M. Goetz	7x
Statement submitted by James L. Granum	88x
“Principles of Balanced Rail Competition” plus attachments submitted by Steve Eisenach	96x
Statement submitted by Paul D. Gilmore	177x
Statement submitted by Thomas Adamski	184x

TABLE OF CONTENTS (continued)

APPENDIX (continued):

Page

Remarks submitted by Joel Weiner	185x
Testimony submitted by Donald Shanis	192x
Statement of James F. Leonard submitted by Michael A. Egenton	194x
Statement submitted by Arthur L. Reuben	197x
“Impact of the Conrail Merger” submitted by Albert F. Cafiero Chairman Transit Committee of Bergen County, New Jersey	198x
Testimony submitted by Robert A. Kurdock Vice President New York Susquehanna & Western Railway, Inc.	200x
Statement submitted by C. M. Chen and Kathy Mak Global Terminal & Container Services, Inc. Jersey City, New Jersey	203x

TABLE OF CONTENTS (continued)

APPENDIX (continued):

Page

Statement submitted by Paul D. DeMariano President and CEO Port of Philadelphia and Camden, Inc.	206x
Testimony submitted by Joseph A. Balzano Executive Director and CEO South Jersey Port Corporation Camden, New Jersey	210x
Statement submitted by Larry Willis Transportation Trades Department AFL-CIO Washington, D.C.	214x
Statement submitted by The Port Authority of New York and New Jersey	223x
ses: 1-135 (Internet edition 1997)	

ASSEMBLYMAN ALEX DeCROCE (Assembly Chairman):

Ladies and gentlemen, may I have your attention? We are waiting for Senator Ciesla and one or two others to come; however, we will be starting as soon as Senator Ciesla gets here. I'm sorry to inform you-- I thought they would all be here on time. It's unfortunate.

Good morning, everybody. We're ready now. Chairman Ciesla has arrived, and we are going to begin this morning. I thank you for waiting for everybody to get into their places.

I would just like to indicate to you that we are concerned for this merger and the corporate battle that has developed for control of Conrail. It has certainly had its share of drama and showmanship. We not really looking for that today. While Wall Street is concerned with shareholders, we have to be concerned with the cargo, the tracks, the trains, the competition.

We want to know, first and foremost, what's actually best for the State of New Jersey. That's why we have had you all assemble here this morning. We want to hear your stories, your concerns, and we want to try to get this thing expedited as quickly as possible.

Mr. Chairman.

SENATOR ANDREW R. CIESLA (Senate Chairman): Thank you very much, Chairman DeCroke.

Welcome, ladies and gentlemen. Thank you for attending. The issue before us is very substantive and important to the State of New Jersey. Obviously, the way in which we are going to be able to move our freight is going to have a significant impact upon the economics and its impact of New Jersey.

Hopefully, today we'll be able to get an understanding of what the potential merger discussions have been about and what considerations have been taken into consideration. We're anxious to learn what is best for New Jersey. Obviously, this is a large venture, one that I think is consistent with the way in which the nation is moving. But yet, nevertheless, in this very highly regulated atmosphere, the Legislature is concerned that there will be an impact on New Jersey that needs to be understood, needs to be couched in a way that is beneficial to the residents of the State and this region.

So with that, Mr. Chairman, I'll ask for the list of witnesses, please.

ASSEMBLYMAN DeCROCE: Thank you very much.

We're going to start first with the Acting Commissioner of the Department of Transportation of the State of New Jersey, the Honorable John J. Haley Jr.

Good morning, Commissioner.

ACTING COMMISSIONER JOHN J. HALEY JR:
Good morning, Chairman Ciesla, Chairman DeCroce, and members of the Senate Transportation and Assembly Transportation and Communications Committees.

Let me start by saying that I applaud the Committees' effort in assembling all of the interested parties here to discuss what is probably one of the most critical transportation policy issues that New Jersey must address.

I am here today to speak on behalf of -- in my dual responsibilities both as Chairman of the Board of New Jersey Transit and as the Acting Commissioner of the Department of Transportation. The future of New Jersey

as a distribution center and economic hub is directly linked with the future of Conrail.

With that, I just want to stop a minute to highlight a couple of important points of the importance and impact of the merger on the State of New Jersey. Conrail is really the only effective rail link to the largest port complex on the East Coast, that is the Port of New York and New Jersey. It also effectively is available to serve New Jersey's other two ports, the Delaware Regional Port Authority and the Port of Salem.

Conrail is the only Class I railroad that offers direct rail service to and from metropolitan New York and New Jersey -- I should say New Jersey and New York, excuse me -- and serves the thriving automotive, chemical, and general freight rail shippers in the Port. Conrail employs some 1800 New Jersey residents. Some 25 percent of Conrail traffic is generated here in New Jersey.

During the course of the hearing today, you'll hear many sets of presentations and statistics. My point is not to join that, but simply to stress and underscore the importance not only on the transportation and goods movements in New Jersey, but clearly on the economic impact on jobs and the continuing flourishing of the New Jersey economy.

So I just want to say again that I can concur with the Committees stressing the importance of this action for the State. I also want to recognize that the Committees providing everybody involved in this -- all the stakeholders an opportunity, as well as the public -- to go on record regarding the prospective impacts on the State will really be advantageous not only

through this process, but in helping us collectively form the State of New Jersey's policy position as it relates to this merger.

I will assure you that it's our intention in this administration to work with the Committees to ensure that the hearing's testimony is formally reflected in the State's evidence of record to be presented before the Federal Surface Transportation Board hearings. That will really be our opportunity to influence the final outcome of this, and I will pledge to you that we will work collectively to play an active role.

We have taken, already, a number of important steps to track what's going on. We have jointly sponsored a major analysis of the potential impacts on the State issues with the NJTPA. We are working with all of our partners throughout the State, as well as with the bistate agencies at both ends, to make sure that we continue to work towards developing a single administrative position which, after we consider the comments and work with you, should be coming out some time at the end of March or April.

The position should be anchored around a set of principles, and this set of principles are those that were adopted by the Northeast Council of Governors and put forth and signed off by Governor Whitman, as well. I just want to highlight today for you some of the key principles that we need to consider, and I would encourage all of you to consider as this activity goes forward.

First of all, we need to assure that New Jersey is left at the end of the day in the best competitive rail situation to serve its major needs. We really have a global, not just a domestic, economy. We are positioned through a number of efforts and through your help and assistance to expand that role.

We are blessed with some of the major intermodal terminals and facilities anywhere in the world. We need to make sure that we have the best array of competitive access for New Jersey.

We need to continue to support an effective interconnection to the regional short line railroads. New Jersey has 12 of them, and you'll be hearing a lot from them today.

The third principle: We need to continue to ensure the codevelopment of inner-city, commuter, and freight services where shared trackage is necessary, not only on the Raritan Valley and main line in Bergen County where traffic exists today, but to look to the future with some of the expansion plans that we have for commuter rail services and to balance that with the needs of the freight carriers.

I don't think I need to tell anybody on the Committees that Conrail was created out of a period of chaos that existed in the 1970s between freight and passenger rail. Part of our responsibility is to make sure that nothing like that ever happens again, and as the operator of the third largest transit system in the United States, we've got an obligation to make sure that we get the best deal for passenger service and that it coexists well with freight service.

The fourth principle is to improve the shipper choice and to support industrial and distribution-related development at the Port. What I mean by that, in a quick English translation, is simply to say that what this is about is choice. We have a port that's served well by rail freight and well by truck. We need to make sure that any connections make the most sense and

that any merger enhances the interconnectivity of the Ports and the vital investments that New Jersey has already made not detracts from them.

Finally, we want to make sure that we provide, under any set of scenarios, a reasonable accommodation for workers who may be impacted by any streamlining of this effort. I mentioned before the number of Conrail employees who are employed by New Jersey. We need to make sure that no matter what happens, there is a reasonable accommodation for these workers.

Again, my message today is that we stand ready to work with you on this. We'll be very engaged with you to work with our partners. This is, in fact, a critical issue for New Jersey. I congratulate the Committees for their interest and attention to this and look forward to working with you.

Thank you, Mr. Chairman.

ASSEMBLYMAN DeCROCE: Thank you, Commissioner.

I would just like to ask you-- You indicated that you will be coming up with, eventually, the-- I assume the Governor, your offices, and you'll work with us to formulate a decision as to which team we may support one way or another -- is that right? -- or which merger?

ACTING COMMISSIONER HALEY: Well, I think this is-- This is, ultimately, a-- Where we are right now is in the same place that the Committees are, in an information-gathering stage, if you will. I think it's important that we be an active gatherer of information.

There were certain things -- I tried to outline some of them in the principles -- that we know we have to have here in New Jersey, and how, as long as the ultimate-- As long as those principles are met, I think we could support any number of corporate configurations.

But I think we need to continue to have a commitment that our Ports, from a goods-movement perspective are provided for in a cost-effective fashion, because the competition with the Ports is going to continue to grow, and we are in a very competitive situation. You'll hear a lot of that today, as well as the need to continue to have passenger services coexist. Not to do so would be a major step backwards and that's unacceptable.

Many of the actions of your Committees and this Legislature have been designed to encourage a better mix or blend of traffic coordination in the goods movement area. We need to make sure the trucks and rail freight are both used to attract, retain, and expand business here in New Jersey.

Those kinds of things-- I think when you look at the principles, there are a number of corporate options that we could ultimately support. What we will do is continue to do the business analysis, do the traffic analysis, do the kind of smart analysis and consider the information that your Committees will collect during the course of these hearings and work on a policy position for the administration.

But I will tell you that we plan to be very engaged and active in the Surface Transportation Board hearings, because we feel that that will be the greatest opportunity for us to lay out what's important.

ASSEMBLYMAN DeCROCE: Well, we're a corridor state and we have all these rails coming -- between trucks and rails, we have everything coming into New Jersey. It's certainly essential for us to make sure we have the best merged system that's beneficial to all of us.

Are you going to be at these hearings personally? Are you going to be at the hearings when the Surface Transportation Board meets?

ACTING COMMISSIONER HALEY: I will talk that over with the Governor, but I will tell you that there will be-- Probably, she may be interested herself. She has been very engaged in this issue, and at some point down the road, either she or I will be -- have a presence at the hearings.

ASSEMBLYMAN DeCROCE: Okay.

Mr. Chairman.

SENATOR CIESLA: Commissioner, with respect to the actual merger activities -- since largely these are public corporations that are deciding what's in their best corporate interest to do -- other than testimony and supporting one plan or another, are there any administrative activities or even legislative activities that may be recommended so that we might have a better understanding and say in the ultimate disposition of what occurs?

ACTING COMMISSIONER HALEY: I think there are a number of activities. I guess they would range from operational to business kinds of activities that we need to be comfortable with. We will have-- Again, I go back to the Surface Transportation Board hearings as an opportunity to influence it.

For example, on a more-- I talked about the need to balance freight movement with passenger movement. One of the things that we have right now from a passenger movement standpoint on the Bergen line is a relatively favorable trackage rights agreement with Conrail that gives us a good level of control of dispatching so that our on-time performance is very good, as good as any commuter rail in the nation. One of the things we look for specifically in any kind of a merger is look at the ability -- what kinds of

trackage rights agreements we could get to make sure that we would have that kind of ability.

Similarly, the investments that New Jersey has made and continues to make in working with the Legislature on things like the Portway Project in the north-- We have not only New Jersey DOT, but the Port Authority, the toll roads, and substantial private developers all have substantial investments in that area

So that part of what we see, Senator -- the benefit of the hearings that you're conducting right now is an opportunity for us to listen to everybody, identify very specific issues, and work with you on a set of what those issues are. But I think, again, in terms of our -- at the State level, now I'm talking about -- ability to influence the outcome of this, what is, as you correctly point out, a corporate merger, I think the principle activities that-- And the Committees are off to a good start, to have a hearing such as this and then to consider some of that information and go with a firm State position to the Surface Transportation Board hearings.

SENATOR CIESLA: Thank you, Commissioner.

Are there any questions?

Assemblyman.

ASSEMBLYMAN CHARLES: Yes.

Just on that final -- that last comment of yours. Now, what's going to be the jurisdiction or the authority of the Surface Transportation Board? Are they going to have final approval over this merger in all of its aspects, or are they just going to be doing hearings, too, to hear what the plans are?

ACTING COMMISSIONER HALEY: Well, the Surface Transportation Board is the successor to the former Interstate Commerce Commission, and they have the approval rights of any formal merger. So those hearings, again, are very important, and they do have more than a consultative role.

One of the things, Mr. Chairman -- or Chairmen, if I may -- I will be happy to provide the Committees with the specific description of what the roles and responsibilities are and what the framework of their decision will be.

ASSEMBLYMAN CHARLES: What's New Jersey's presence as Commissioners or whatever that Board is composed of? Do we have any representatives who come directly from New Jersey on that Board?

ACTING COMMISSIONER HALEY: No. I can double-check, but I do not believe that any of the three people on the Board are from New Jersey.

But, again, if I may, Mr. Chair, I don't know that off the top of my head. I'd like to check and get back to you.

ASSEMBLYMAN CHARLES: Thank you.

ASSEMBLYMAN DeCROCE: Thank you.

Are there any other questions?

Senator Cardinale.

SENATOR CARDINALE: Thank you, Mr. Chairman.

In this question of trackage rights, there is a concern in some quarters with questions of denial of trackage rights. One of my constituents has indicated to me that there is currently an issue which he's concerned about -- expansion of this kind of problem -- that you, in your hat as New Jersey

Transit, are prohibited from granting trackage rights to the Susquehanna on the Bergen County Line. I know that's very specific. Is that true? Are you currently impeded in what might otherwise be possible to grant trackage rights over one of your lines?

ACTING COMMISSIONER HALEY: I'm not familiar-- Again, on this specific incident, I don't know enough about the details of the trackage rights agreement on Bergen County to know whether or not it prohibits us from giving rights to a third party.

I, again, with the Committees' indulgence, will check on that and give you a specific answer.

SENATOR CARDINALE: See, the concern would be: One, with present agreements and, certainly, with any future agreements that would, through the modality of trackage rights, be anticompetitive. Now, I note that there is a desire within this proposal for increased competition, but sometimes the details take away the headline. I think we would be in--

We have noted in the past on our Committee that Conrail has not been effusive in its desire to have, for instance, the West Shore Railroad obtain trackage rights for commuter service. That's an issue that has gone round and round on this Committee for over 20 years, or as long as Conrail has been in existence. This issue -- before Conrail's existence--

I would be personally concerned to see that your information gathering gives us a real handle on this entire issue of trackage rights and how that is going to impact on competitiveness.

ACTING COMMISSIONER HALEY: Well, you're absolutely right, and trackage rights agreements will be one of the key elements where

we'll have the ability to influence the Surface Transportation Board, because that approval--

ASSEMBLYMAN DeCROCE: Hit your button, Commissioner.
(referring to microphone) Hit your button, we're not hearing you.

ACTING COMMISSIONER HALEY: Because, clearly, that's the forum where some of that will play out. One of the things that we need to do in understanding -- this is, again, why we support the Committees' efforts -- what the concerns may be is to listen to the various proposals that will come forth in the course of this hearing and be able to judge them.

But I can assure you that trackage rights agreements are a very, very important element, as you well know, in railroad.

SENATOR CARDINALE: If I might just follow up with one other issue. It's alleged, again, by the same paper that has been submitted to us, that Conrail -- and I have no way of knowing whether it is true or it's not true -- has kept ownership of certain segments of lines so as to intercept and prevent their use by other freight railroads. It would seem to me that that's an anticompetitive practice that is alleged as currently happening.

I would be concerned that this new entity would expand on that principle. Or would we, in the course of this merger, have some leverage to interfere with those practices so that a greater competition could be, in fact, introduced and not just be something that we say we are aiming for?

ACTING COMMISSIONER HALEY: I've heard the same kind of concern not only here in New Jersey, but all over the Northeast. I think one of the things that needs to be looked at, and I used the term when I was describing these important points in my testimony as principles, but we are

committed to access for short line railroads. We made that point-- We've continued to make that point, and part of what we need to understand is how any merger would affect that. I think once we stand firm behind the principle that we're going to have access for the short line railroads, then we work to how do we get that, how do we maintain that and ensure that it is an important element in seeing that there is competition and access in New Jersey.

Again, I hate to sound like I'm a broken record on this, but part of what we need to understand is what specifically a merger means in terms of impacts on some of the existing infrastructure.

SENATOR CIESLA: Thank you, Commissioner.

Are there any other questions?

Thank you, and we look forward to your future comments, Commissioner. Obviously, you're going to be a leader in this particular area.

The next group to testify today will be representatives of Conrail and CSX. They are represented by John Sheridan; Bill Goetz from Conrail; and Mike Ruehling from CSX.

Welcome, gentlemen.

J O H N P. S H E R I D A N J R., E S Q.: Good morning. Good morning, Mr. Chairman.

ASSEMBLYMAN DeCROCE: Good morning.

MR. SHERIDAN: Chairman Ciesla, Chairman DeCroce, members of the Senate and Assembly Transportation Committees, my name is John Sheridan. I am with the firm of Riker Danzig, and we represent Conrail this morning. With me, I have Mr. Bill Goetz, who is an Assistant Vice President

of Conrail for Intermodal Assets -- on my right -- and on my left is Mike Ruehling, Director of Government Affairs for CSX.

We have a single presentation. Then, we will be available for as many questions as the Committee members wish to ask. Hopefully, we will shed some light and put some context to the hearing in terms of what the merger is all about.

Without further words, let me turn this over to Mr. Goetz.

WILLIAM G. M. GOETZ: Thank you, John.

Good morning. I'll also add that joining me today is Steve Sullivan, who is going to be showing some of the pictorials with us today, and also Mr. Robert Baker from Conrail. We're all very pleased to be here and applaud this group for assembling this meeting to get a better understanding of this very important transaction for New Jersey and for the whole northeastern United States. It's a personal pleasure to be here this morning.

Today, I want to do three things. First, I want to talk about Conrail and the realities of running a railroad in today's New Jersey economy. Second, I want to discuss the CSX-Conrail merger, and finally, I want to explain why the CSX-Conrail merger represents the best outcome for New Jersey.

First, a little history: Conrail was created from six bankrupt railroads in 1976. All six of those railroads, by the way, had operations -- significant operations -- in the State of New Jersey. The situation then was nothing short of a total disaster. I know, I was there.

In its early years, Conrail lost \$1 million a day, but most importantly, the service levels that were provided by those predecessor

companies and by Conrail in its earlier years didn't come close to being competitive in terms of offering service transportation products that New Jersey customers were willing to pay for. The network Conrail--

Steve? Thank you. (begins visual presentation)

The network Conrail operates today was pieced together from those six carriers. Our service territory is generally shown by the blue area on that map. (indicating) As you can see, it has an east-west orientation to it. Conrail serves large population centers which have successfully migrated from heavy manufacturing to service-oriented economies.

You can see on the map, with those large, red circles on the East Coast, that we serve a number of cities where a lot of people live. Generally, we go to places that are-- We go to affluent states with strong service-oriented economies, where people have strong disposal income and they buy things. That's the nature of the economy that we serve.

As you travel around New Jersey, you're not going to find large strip-mining operations or big timber reserves being forested. What you're going to see are strong consuming areas, healthy cities with strong service-oriented economies. If you are a railroad that's operating in that kind of an area, you've got to get good at hauling consumer goods, because that's what type of economy we have in New Jersey and, for that matter, throughout the eastern United States. For a railroad, that's a tough business.

Since the interstate highway network was built, motor carriers have owned this market. This is a study that was done by Mercer Management that shows how the total transportation pie is divided up today. (indicating) As you can see by the very large slice of that pie, truckload motor

carriers have a very, very significant position in the market. You can see by that little beige-colored sliver that intermodal is a relatively small portion of the market today.

We're going to talk a little bit about intermodal because it's important to the New Jersey economy. With the service territory it has, Conrail discovered years ago that it had to get good at two things. First, it had to get good at intermodal. Intermodal is the movement of truck trailers and containers on railroad trains. Intermodal is the service product which has allowed Conrail to get back into the business of hauling consumer goods.

Last October, Conrail had the highest volume of intermodal traffic in our corporate history. We are very proud of that progress, because this is a very, very tough business to be in. It's very service sensitive. It's very price competitive. Why is that so? Well, think about it for a second. Nearly every intermodal shipment begins as a highway move. Nearly every intermodal shipment ends as a highway move. Most of the time the railroad doesn't own the truck trailer; a trucker or the customer owns the container or trailer that we move.

Some of the fastest growing railroad business is traffic where the railroad's own customer is the trucking company. This is a truckers' market with trucking equipment and economics. You need to understand that. This whole Conrail-CSX transaction is a transportation issue. It goes far beyond just a railroad issue. Anyone who comes in and discusses this solely in the narrow view of a railroad-to-railroad issue is thinking about railroading in the 1920s as opposed to railroading in 1997.

It's the reality of transportation in 1997 that intermodal and truck transportation is what has to be competitive. Nowhere is that more important than right here in New Jersey: 72 percent of Conrail's traffic in New Jersey is intermodal -- 72 percent of what we do in this State is intermodal business.

The second thing Conrail had to get good at was serving local customers. In our service territory, we tend to be on the receiving end of the equation. For example, we don't serve big, concentrated timber reserves or large natural resources like I mentioned earlier. What we serve would be a lot of lumberyards or distribution areas.

We're proud, in particular, of our short line program because it's helped us to maintain and grow our siding business in this State and others. As mentioned earlier, in New Jersey we have 12 short lines that we connect with. We have the largest staff dedicated to short lines of any major railroad. Recently, our Conrail Express Program has been recognized as a particularly innovative and strong way of supporting short lines, but we don't force our short lines to sign up with any specific prepackaged program.

So with that as a long introduction, let's talk about the CSX-Conrail merger. The first thing you need to know is that this is not a revolutionary idea. It's not even a new idea. The number of large railroads has changed from 52 to 9 in the past 20 years. Three large railroad mergers have occurred in the past 2 years alone.

The second thing -- something that you probably already know and that was mentioned earlier -- is that there is a well-defined Federal review process that governs transactions like this. I'm here to tell you that we intend to follow that procedure to the letter.

Now, let's look at this CSX-Conrail deal just a little closer. At Conrail, we make a big deal about the fact that the CSX-Conrail transaction is a merger of equals, and that should be a big deal for you, too, because it provides a level of comfort that your major serving carrier in this State is not going to be turned upside down by a management team you don't know.

Here's an example you should consider: Conrail operates freight trains in more passenger service districts than any other railroad. It takes a lot of concentration and finesse to get that kind of operation to work right. Our operating headquarters for most of the East Coast is right here in Mount Laurel, New Jersey. In that office, we have people who know NJT, SEPTA, MARC, and METRO North. They know how to get that job done. In a merger of equals that kind of expertise is valued for what it is.

A second example would be our short line program. When you have a merger of equals, you have the luxury of taking the best of the best from both sides. It's valuable, it's important, and you only get that result guaranteed with this transaction.

The next benefit I want to discuss is the new services which will result from the growth orientation of this merged company. I mentioned earlier that Conrail has a east-west orientation. This merger will position the new company to compete in the north-south corridor, as well.

In our operating plan, we expect to develop new single-line services linking northern New Jersey with Florida, Atlanta, and New Orleans. You will see a major new corridor develop over Memphis, Tennessee, to reach Texas and Mexico and those economies. We want to link those growing economies with the area of the northeast United States. It allows us to reach that -- to

participate in that transportation corridor on the diagonal as opposed to going to Chicago and making a turn down. By taking that circuitry out, we hope that we can be competitive with the motor carriers that are operating in that corridor today.

Neither Conrail nor CSX are in any kind of financial trouble today, but the new merged company will be even stronger. It will have a more diversified traffic base. For example, Conrail today has a heavy concentration of intermodal business in automotive business, because we serve the East Coast and we serve the Midwest where automotive manufacturing is a strong piece of the economy. CSX has a lot of coal. When you put those two together, you have a stronger company with a more diversified traffic base.

Working through our operating plan, we've discovered dozens of examples where the merged volumes introduce operating efficiency, and cost efficiency is extremely important when you're competing for traffic against motor carriers. If you want to grow your business in a market like New Jersey, you've got to get your costs down so that you can price competitively. Because profit margins are tight, the secret to success is becoming more efficient.

With a CSX-Conrail merger we'll have, for example, two main lines west of Pittsburgh to use. This map shows-- (indicating) The line in red is the CSX main line, which we hope to use as an express route for trains operating from the east to the west that don't have to make intermediate stops in, say, Cleveland or Toledo. So that will help us to run trains faster, cheaper, and more efficiently.

With the merged volumes, we'll also be able to realize savings in car utilization, as well. This picture (indicating) is kind of interesting because it shows a before and after in terms of some real-world operating efficiencies.

Today -- in fact, tonight -- there will be a Conrail and a CSX train leaving North Jersey heading for Chicago. This picture (indicating) shows the first railroad car of each of those trains. Actually, the five platforms you see are interconnected so they constitute one car. On a given night, that first car might contain on the Conrail train, five Los Angeles boxes, some Phoenixes, and a San Francisco. You might see something similar on the CSX train.

Because that first railroad car doesn't contain a solid load of Los Angeles boxes, when it gets to Chicago it has to be stopped, boxes have to be lifted, they have to be sorted out, and then a solid car is assembled to move to Los Angeles, Phoenix, and to the other points. But when you bring that merged volume together, you suddenly have the volume efficiencies of scale to make a solid car to move from North Jersey straight through without stopping it and incurring the additional time and the additional cost. It makes for a more competitive product, both from a service and from a cost perspective. Again, that's very important when you're competing against motor carriers today.

Before we open for questions, I want you to know that the CSX-Conrail merger represents the best option for New Jersey. Now, I suspect that you're going to hear from people today who have other plans for Conrail, and that might be the understatement of the year. Let's consider Conrail's position at the Port of New York and New Jersey for one example.

Conrail serves four major containerport cities. We serve Boston, Baltimore, Philadelphia, and New Jersey/New York. The CSX-Conrail merged company will retain that focus. The next fact is very important. The CSX-Conrail network will not have a route structure or port access advantage at the ports of Halifax, Montreal, or Norfolk. You need to know this because those ports have been growing at New Jersey's expense.

This picture (indicating) shows a before and after in terms of 1985 and 1995 traffic. It was prepared by Mercer Management. As you can see, the purple and the red areas, representing the port business at Norfolk and the Canadian ports, has been growing, while the large, blue area has been shrinking. If you're a rail carrier with a Canadian or a Norfolk franchise, this transfer has been benefitting you. With CSX-Conrail, you're going to know where your rail partner stands. If traffic shifts from New Jersey to Norfolk, you lose and CSX-Conrail loses, as well.

We've worked very hard at Conrail to grow our Atlantic intermodal container business. This business is so competitive that just a couple of years ago the rates and the margins nearly forced us out of this business. But we went to work on the cost structure, pushed down cost, and pushed down rates. It has been a very, very proud success. We've made our Atlantic international container traffic grow in New Jersey.

When these merger decisions are finished, New Jersey is going to have to live with the result. We know the CSX-Conrail transaction is a net benefit because it brings new services and efficiencies without subtracting anything Conrail already has in New Jersey. It's a net-plus.

Let's be clear about one thing, and maybe we can set the stage for much of what you're going to hear later today. I'll bet you that nobody is going to come in here today and propose to build their own new railroad into New Jersey. They're going to propose that part or all of Conrail be turned over to their operation, and they will describe benefits.

What they won't tell you is the negative impact their plans will have on Conrail's operation and efficiency. Conrail is not like a box of marbles where you can take three or four and not have any impact on the remaining marbles in the box. It's more like a clock, and if you take a couple of gears or springs out of it, it may not work the same way. What you won't hear is what the negative impact on Conrail would occur from fragmenting Conrail's rail operation. So you need to examine all of these proposals very carefully. If you sign up for a plan that takes more away from Conrail than it adds with a new carrier, you lose.

Let's go back to the port for one more example. A railroad's cost structure is driven by volume efficiencies. This is an interesting graph. (indicating) What it shows is the actual cost economics of Conrail's train that comes out of the Port Newark-Elizabeth complex every night. We call that train TV-207, and it's a full train that comes out of the port, heads up to Syracuse, then moves west from there. As you can see, the longer that train is, the lower the unit cost becomes.

Now, if you take that train operation and divide it into two smaller trains, you start moving towards the left, and your unit costs begin to increase. A fragmented operation is less competitive than an integrated network. A

fragmented operation uses more locomotives, burns more fuel, uses more people, and drives up unit costs.

This picture (indicating) shows a simulation of what the cost structure is for railroads serving the Port of New Jersey/New York with one railroad today and with that operation divided into two railroads. For every dollar that Conrail is spending today, in the fragmented scenario, the railroad would be spending \$1.37. Under any scenario, a 37 percent increase in cost is not a good thing.

You don't want to see your costs going up if your port is in hand-to-hand combat with the Port of Norfolk. You don't want to see your costs going up if you're trying to attract new business into New Jersey. When you divide up an operation, operating costs do go up.

Don't be fooled into believing that someone else is going to give you something without taking away at least a part of something you already have. That is why CSX and Conrail haven't embraced simplistic solutions to routing access questions. We are negotiating with other railroads to develop the best plan from both a competitive and efficiency perspective, and we are negotiating in good faith. I urge you to allow that process to reach a fruitful conclusion before taking any position on that particular merger aspect.

Let me close with these two thoughts: We have 20 years of progress on the line here. We at Conrail and CSX want to create the best operating railroad we possibly can, because we know our customers won't tolerate bad service or bad economics, and our customers vote with their feet.

Thank you, and I'll take your questions now.

ASSEMBLYMAN DeCROCE: Thank you, Mr. Goetz.

I have a couple of questions. Frankly, one of the criticisms, more or less, that I've heard of Conrail in the past -- and I've experienced a little myself, and I think you're aware of it -- is the fact that there are times when we write to Conrail and we don't ever receive responses. I mean, I myself have written your Chairman and never yet have received a response, and it was important to us at the time. I've talked to community leaders of local communities who have written to Conrail without receiving responses from time to time.

This is a question that we have if we're going to have a good-neighbor policy with the people we're going to be working with. We want to know that somebody is going to be out there and listening to the local people, whether it be short lines, whether it be communities, whatever it may be. We want to have a relationship. I would like your response on that.

MR. GOETZ: Well, we recognize the importance of being a good neighbor, and that's why we recognized that we need a full-time person dedicated to government relations just for the State of New Jersey. We needed a Jersey resident located in New Jersey to handle that. That man's name is John Cannon. He is on the job. That's all he does, because we want to make sure that we are responsive to the needs of all the people in this State.

ASSEMBLYMAN DeCROCE: Secondly, we've invested an awful lot of money in the New York and Susquehanna Railroad over the last several years -- meaning the State of New Jersey. Right now, that's doing a lot of freight work, but we're going to be putting some \$20 million into that railroad -- or have put in as much as \$20 million -- and we'll be putting in even more with the Federal dollars that are coming in to enhance the value of the railroad

to commuter traffic. We're wondering what your proposal may have to do -- how it will work with us in connection with that particular situation.

MR. GOETZ: Our operating plan will be released, probably, in late March or early April. In that, we will-- That operating plan describes, really, the story of the new merged railroad operation. That will be the official record of what the railroad's impact will be on all of the operations in this State.

If I was to quote from that plan today, I would say that there is really no adverse impact at all on the New York-Susquehanna and Western, nothing that detracts from its operation or subtracts from its traffic base.

ASSEMBLYMAN DeCROCE: That's interesting, because on another freight line that was once in New Jersey, the Delaware and Hudson, it was competition to Conrail, and frankly, Conrail drove the competition down by virtue of reductions in prices so as to almost eliminate the necessity for the Delaware and Hudson coming back into New Jersey; though I think they do occasionally. It's not very often. They could probably do a lot more.

Yet, it's my understanding that you don't want to inhibit competition, that's what I'm told.

MR. GOETZ: That's right. The Delaware and Hudson will continue its franchise and its franchise rights in this State. What we've seen, and this is not particularly the case with the Delaware and Hudson-- Oftentimes, rail carriers come in and they think that this is a high-margin business in New Jersey and that there are ripe profits to be plucked. When they come into this market and realize exactly how competitive it is and how

much rate competition there is, suddenly, it doesn't look like such a ripe plum to eat, and they don't stick around.

We have stayed in this market because this is the only market that we have. We have to make railroading in the Northeast work. We don't have some other business to retreat to, so we do fight to be competitive. We do fight to be competitive against motor carriers. We do fight to grow, and we have been successful.

ASSEMBLYMAN DeCROCE: Lastly, when you speak of profits, has Conrail been a profitable railroad over these last five, six, or seven years?

MR. GOETZ: Yes. When Conrail was sold by the Federal government, there were many who said that we couldn't make it, that we had to be put into some other operation and swallowed up. They said we didn't have the stuff to make it work. We've proved them wrong.

We've hung in there. We've run a profitable operation. You can see what has happened with our stock price. We're not coming here as a financially troubled company. We're not coming here saying we need someone to bail us out. We're coming here as a proud local railroad that's entering into a merger of equals.

ASSEMBLYMAN DeCROCE: Thank you, Mr. Goetz.

Mr. Chairman.

SENATOR CIESLA: Thank you very much, Mr. Chairman.

Mr. Goetz, I'd just like to direct your attention to the slide that was entitled "Truckers and other railroads govern intermodal prices." Is that particular slide showing the proportion of the market that's held in New Jersey or across the nation?

MR. GOETZ: That is across the nation.

SENATOR CIESLA: Is it different in the State of New Jersey?

MR. GOETZ: I don't know, because there is not a widely available transportation database.

SENATOR CIESLA: My question, therefore, becomes: To the extent that you get a larger share of the market here in New Jersey -- through the cost efficiencies that you're working to try to put in place -- do you then jeopardize the amount of market that the other existing railroad carriers have in the State of New Jersey, perhaps to the detriment of competition?

MR. GOETZ: No, because there is a free exchange of business between the various intermodal carriers that operate in this State.

For example, Norfolk Southern has a large intermodal operation in North Jersey. Norfolk Southern has taken container accounts away from Conrail. If you go up to the Resources Terminal in northern New Jersey, you'll see that it's filled with blue containers. That's an account that was on Conrail, and we didn't forfeit that. We didn't give that away, that was taken away in a healthy, competitive environment.

SENATOR CIESLA: When you say taken away, you mean that Conrail wasn't able to compete and then the price which your competitor puts--

MR. GOETZ: That's right. It was a competitive battle and that was one that we lost, and we'd like to have it back.

SENATOR CIESLA: And through the proposed merger, it would give you the ability to compete so that you might be able to get that back?

MR. GOETZ: That is possible.

SENATOR CIESLA: Is there, in your view, a balance where the competition no longer becomes healthy and, perhaps, becomes monopolistic?

MR. GOETZ: Well, one of the things that has received a lot of attention in this particular issue is the competitive balance of rail transportation on the East Coast. First of all, we need to put this in perspective. Again, most of the business that we handle here already has a high level of truck competitiveness. However, we have pledged from the start -- both Conrail and CSX -- that this merger would not result in any reduction of competition from the status quo today.

In entering into negotiations with other Class I carriers, we've recognized that this is not something that you may be able to do with a scalpel and look at customer by customer. Rather than using a scalpel, you may have to use a steak knife. We're not going to use a chainsaw approach to this, because we don't want to destroy our own railroad in the process. So we are negotiating in good faith. We are negotiating with open minds.

SENATOR CIESLA: Thank you very much, Mr. Goetz.

Are there any questions of the panel?

Yes, Assemblyman.

ASSEMBLYMAN BODINE: Thank you, Mr. Chairman.

Most of your presentation was oriented towards the Ports of New Jersey and New York and North Jersey. I am also interested in South Jersey. You mentioned the Port of Salem. Can you just tell me what you are doing, what you may expect to be doing there to retain or improve the service to that port, which we expect to be growing?

MR. GOETZ: We are concerned about the whole South Jersey and southeastern Pennsylvania market, as well. One of the things that we examined early on was Conrail's operations in the Delaware Valley region.

Today, what you see is there is a fairly small, outdated, congested CSX terminal in South Philadelphia. Conrail operates in a facility that's operated by the Delaware Valley -- the Delaware River Port Authority. They tend to be fairly small facilities. So we are looking at what we can do to develop a more modern facility to serve the whole Port of the Philadelphia and Camden area, and by extension, reach further into the whole South Jersey and Delaware County, Pennsylvania area.

What we're looking is to consolidate both those operations into a new modern facility. That ties in very well with Conrail's double-stack route, which heads out of Philadelphia through the State of Pennsylvania. That's only a couple of years old and gives us an additional efficient route from the west for that whole Delaware Valley market area.

ASSEMBLYMAN BODINE: The proposed port unification, which, hopefully, will take place in the near future-- I know, as you just mentioned, Philadelphia has a relatively new intermodal double-stacking facility. Is that now owned by Conrail?

MR. GOETZ: The facility that Conrail operates into, again, is owned by the Port Authority.

ASSEMBLYMAN BODINE: It is still owned by the DRPA?

MR. GOETZ: Yes, sir. It is located on Conrail real estate, though.

ASSEMBLYMAN BODINE: Is there any intention of acquiring that facility?

MR. GOETZ: In our plan we hope to develop a new facility on the footprint of our Greenwich Yard operation in South Philadelphia. That would replace the old CSX facility and integrate the facility that Conrail currently uses today. That would be a new state-of-the-art intermodal facility for that entire region.

ASSEMBLYMAN BODINE: I realize that the Camden South Jersey Port Corporation is not a containerport, but it does have a small percentage of its cargo coming through there that is containered. Would having the double stack and going west out of Philadelphia require that that part of the operation be moved over to Philadelphia?

MR. GOETZ: No, because you have-- Fortunately, you have a good local highway network to connect the intermodal terminal with the various port terminals up and down. There are port terminals up and down the Delaware River on both sides.

The other thing is, is that the whole Port of Philadelphia and Camden is a very strong break-bulk port. They have developed some very strong niches, for example, in the movement of steel. Our steel business out of that area has grown very, very nicely.

ASSEMBLYMAN BODINE: Thank you.

Thank you, Mr. Chairman.

ASSEMBLYMAN DeCROCE: Assemblyman.

ASSEMBLYMAN GARRETT: Just one question. There was an article in the press a while back with regard to some of the other suitors for Conrail, and the argument was that with some of the others that there would be less overlap. The theory being then, if there is less overlap, there is less

underutilized trackage and more efficiency there for the other way. Can you comment on the validity of that argument?

MR. GOETZ: Well, we at Conrail did a very thorough study. In fact, I was one of the people who was assigned to do that study. The key thing that we looked for in what would be the best merger partner with Conrail was we didn't want to overlap things that we already had, because all that did was just add redundant operations. We looked for places that Conrail did not get to today.

The two things that really stood out were, first of all, CSX's access to low-sulphur coal and also its greater siding penetration in the South. So we were looking for not so much something that overlapped what Conrail could already do, but could do things that Conrail was not equipped to do today. So CSX looked like the better merger combination from that perspective.

ASSEMBLYMAN GARRETT: All right. So what I understand you're saying is that by this combination that you're suggesting there will be a broadening, but is there also, at the same time, still an overlap -- a greater degree of overlapping under this scenario than there would be with some of the other suitors?

MR. GOETZ: I don't believe so. I don't believe so. In looking at the preliminary operating plan, I guess one of the telling things is that there has been very little in terms of abandoning or closing down rail facilities. When you look at the operating plan, it's not going to be a story about shutting things down, tearing things up, laying people off. There is very little in the way of facility closures. It's a story about growing, doing new things, and offering new services.

ASSEMBLYMAN GARRETT: Do we have a copy, or an idea of what that plan is?

MR. GOETZ: It's not available to the public because it's just not done. That's the-- We are still working on that, and hopefully, we will have that available. It's a very, very large document and that will be available, probably, around the end of March or early April.

ASSEMBLYMAN GARRETT: Thank you, Mr. Chairman.

ASSEMBLYMAN DeCROCE: Assemblyman Charles.

ASSEMBLYMAN CHARLES: Yes. Is Conrail the largest freight operators in the State of New Jersey?

MR. GOETZ: Yes.

ASSEMBLYMAN CHARLES: How near is its closest competitor in terms of size and percentage of the market?

MR. GOETZ: I'm not sure what the second largest is, but we are by far -- we can say that we are by far the largest freight operator in the State.

ASSEMBLYMAN CHARLES: And for you, have the costs of shipping, particularly within the Conrail system, has that been going up over the years -- over recent years?

MR. GOETZ: Only recently with the rise of fuel, but, in general, we have been pushing costs down.

Steve, can you put the slide up that shows our Chicago-New York traffic again? (affirmative response) Because we kind of moved through that quickly.

Maybe I can just make an additional point that would help your question, sir.

ASSEMBLYMAN CHARLES: Thank you.

MR. GOETZ: Again, in this particular end of the business, operating in this part of the country, the key to success is to continually push your costs down, that's what you need to do. As you push your costs down, you can push your rates down.

What this shows (indicating) is what the story is in one particular lane. It's the New Jersey-New York lane, which is an important lane for Conrail. What's happened is, is that -- the red line indicates what's happened to the rate levels in real terms. The rate levels are now 74 percent of what they were previously. By pricing, by bringing costs down, and bringing rates down, we've been able to grow our business, and that's indicated that the 233 percent statistic on the volume line, which is shown in blue.

Now, what's made that happen have been all those little things indicated in green. (indicating) Those are all specific capital investments or the development of specific new services that have brought new things or new efficiencies to our operations in this State. This is how you succeed in railroading in New Jersey. You invest intelligently. You get your costs down, you make yourself more competitive, and you can grow your business. If you reverse this, you start to slip back to what Conrail was 20 years ago.

ASSEMBLYMAN CHARLES: What's the prediction or the projection by Conrail as to the impact on prices, on rates, if the merger is allowed? I mean, do you see a further decline in rates?

MR. GOETZ: Well, clearly, the CSX-Conrail merger is a story about growth. We want to grow our business. To grow our business, we're

going to have to be more competitive and price more competitively even than we do today. To do that, we need to continue to push down costs.

ASSEMBLYMAN CHARLES: So if that-- Excuse me, I don't mean to interrupt you. But if that happens then that, the competition that you have here in the State of New Jersey, which is not very considerable at the moment, becomes even less able to compete, do we end up with a situation where, because you're able to push your prices down further, that no one can compete against you to the point where it's then no competition at all in the State of New Jersey? And if that happens, is that good or is that bad? Maybe it's good.

MR. GOETZ: That argument would be true if I was here in saying I want to buy the New Jersey Turnpike or I-80. But I'm not in here proposing that.

ASSEMBLYMAN CHARLES: Well, I don't understand that.

MR. GOETZ: Again, remember my slice of the market is 3 percent to begin with.

ASSEMBLYMAN CHARLES: The truckers have the other? (no response) This is not-- This merger just won't affect their market share that much? So the arguments that we're going hear from the truckers in that part of the transportation industry is just them concerned about just a small decrease in their market share?

MR. GOETZ: The answer, sir, is that we have a long way to go before that 3 percent becomes that 61 percent.

ASSEMBLYMAN CHARLES: If you could just narrow it to the State of New Jersey. We are concerned about your whole system as it stretches in this whole region--

MR. GOETZ: Absolutely.

ASSEMBLYMAN CHARLES: --but we're more concerned about the State of New Jersey and its impact in New Jersey. We have a large trucking industry in the State of New Jersey. Does New Jersey win or lose in this type of a situation? Just looking at New Jersey's interests--

MR. GOETZ: Well, maybe I can answer your question with a specific example. When I'm not doing this, I spend time with my trucking customers. If I was calling on a Schneider Trucking or a J. B. Hunt Trucking Company, the conversation goes like this, "Conrail, we don't need you. We have trucks. We know how to drive them. We know where the highways are. We will use you if you do two things for us: First of all, you have to meet our service standards. If you screw up, I lose my customer. I'm not going to let you do that. The second thing is, you have to save me money. If you don't save me money, you don't provide me any value. Remember, I don't need you. I only use you if you can save me money." That's the kind of business that we're in.

ASSEMBLYMAN CHARLES: Well, I don't know if you've answered my question. You've said-- Well, maybe different parts of it I guess. Part of it is the businessperson says that "Conrail, you have to do this." We have a concern, too, about the job situation. While you may be helping the business entity, it may have some adverse impacts on job situations here in the

State of New Jersey. I have a concern about that, too, even if it means a little higher cost to doing business.

What's going to be the impact on employment? While you're satisfying this customer, this business entity who wants its product to be moved, and so on, are you jeopardizing any employee numbers and employee wages?

MR. GOETZ: We employ a lot of people in New Jersey. You have to look at it from a total perspective. Railroads employ people, too. We are a highly unionized industry. We pay a generally very high level of wages. A railroad job is a good job.

ASSEMBLYMAN CHARLES: Numbers then? Just so that I'll understand that, comparative numbers: You employ how many, and the trucking industry employs how many. So we'll know what you're talking about.

MR. GOETZ: I can't answer your question. I'm not sure.

ASSEMBLYMAN CHARLES: All right.

ASSEMBLYMAN DeCROCE: John Wisniewski.

ASSEMBLYMAN WISNIEWSKI: Thank you, Mr. Chairman.

Mr. Goetz, just a couple of brief questions. In New Jersey there are quite a few passenger lines that run across Conrail tracks, and my understanding is that Conrail works out agreements with New Jersey Transit as to the passage of those trains on those tracks.

My concern is if the economy of scale is one of the driving forces behind the merger and the increased traffic that you hope to have, which would be good for your business, how is that going to affect the trackage rights

and dispatching rights that currently exist or prospectively may need to exist? There is always talk of certain Conrail lines being converted into passenger track.

MR. GOETZ: One of the things that-- The operating plan has a whole separate chapter dealing specifically to passenger operations. We have spent a great deal of time working with-- We have assigned people to work specifically with the passenger agencies, such that that plan will not be a surprise to them. There is no anticipated negative impact on passenger operations as a result of this plan.

ASSEMBLYMAN WISNIEWSKI: Okay. I know that, for instance, there are areas of the State where New Jersey Transit is currently examining expanding passenger service onto existing Conrail right-of-ways. Those plans, if they meet all the other requirements, won't be adversely affected?

MR. GOETZ: We will continue that process as we would if you were dealing with Conrail independently.

ASSEMBLYMAN WISNIEWSKI: One of the other questions I had, Mr. Goetz, was: In terms of achieving the economies that make a merger joining financially wise -- obviously, you're going to be saving money -- how many jobs are going to be lost, or how many jobs are going to be done away with through attrition, through consolidation, through achieving these economies?

MR. GOETZ: That number has not been developed yet. That will be a key element in the operating plan, in terms of the employment impacts. Again, this plan is designed to make the company grow and be more

competitive, so I'm not here to promise that there will not be any job reductions, because that is a part of making a more efficient operation. Again, this is not a plan that is just designed to cut costs and pocket the money. This is a plan to cut costs, price competitively, and grow the business.

ASSEMBLYMAN WISNIEWSKI: You have pockets of employees throughout the system. The other line has pockets of employees throughout the system doing various functions. Has any thought been given to where, if any reductions were to take place -- where they would take place?

MR. GOETZ: Yes. Yes, that has been studied, and the operating plan will describe where specific changes in operations might occur.

ASSEMBLYMAN WISNIEWSKI: Can you share that with us?

MR. GOETZ: No, I can't, because, again, it's still being developed. The plan is not complete.

ASSEMBLYMAN WISNIEWSKI: Lastly, there are always local concerns about Conrail's operations. I know in my district, and I'm sure in just about every member's district, there are always concerns about the operations and how they impact on localities. There is always a great deal of frustration in trying to address these problems. In particular, one instance in my district: The dictates of getting trains out to Pittsburgh, coupling and uncoupling cars and putting things together so they leave at a certain time, has almost been paramount to the concerns of local residents who deal with trains 2:00, 3:00, 4:00 in the morning 10 feet from their back door.

My concern is that in achieving the economies -- and you have the graphic of the two trains becoming one train -- that those problems are only

going to get worse in meeting the economies that you need to meet. Tell me I'm wrong. Tell me how I'm wrong.

MR. GOETZ: Well, again, when you're operating a railroad in as densely a populated State as New Jersey, you're going to have places where you're going to have scuffles here and there. You know and I know that we have had those. We will continue to try to work those out in a way that's mutually beneficial. In most cases, the railroad has been here for a long time. So we have tried very, very hard to work those out and reach accommodations, try to keep our operation going in a way that's environmentally sensitive and sensitive to the communities that we operate through. We will continue to do that.

ASSEMBLYMAN WISNIEWSKI: But with all due respect, I don't think you answered the question. I guess the impression I'm being left with is that these problems might increase given the increase in volume of business that you're hoping to achieve through a merger.

MR. GOETZ: I would say that as you build a business and you become more successful, you may have additional issues that are raised. That will just increase our resolve to resolve them as expediently as possible.

ASSEMBLYMAN WISNIEWSKI: I'll leave you with this, it's very frustrating on all levels in trying -- and I echo the comments of Chairman DeCroke -- to sometimes maintain dialogue and communication to try to resolve these problems.

Thank you.

Thank you, Mr. Chairman.

ASSEMBLYMAN DeCROCE: Mr. Goetz, I still have two more questions. First of all, will short lines in regional railroads be able to offer their customers attractive connections for national markets? We haven't heard from you on that one.

MR. GOETZ: Yes. Again, this is one of the key aspects that we're working through in these negotiations that I discussed. The notion of competitive access and retaining a level of competition goes beyond just a specific customer. We need to look, also, at short line access, as well. So that it is a key element of the discussions that are being held.

ASSEMBLYMAN DeCROCE: Do you then enter into contracts with your short lines, and if so, what is the term of a contract and are they competitive, are they-- I just want to get an idea of where they are.

MR. GOETZ: Well, today, there are a variety of different relationships which a carrier like Conrail will have with their short lines. In some cases, the short line is entirely independent, prices its own product, interchanges traffic to Conrail, and operates like any other railroad.

We've developed-- For example, I mentioned the Conrail Express Program, which provides a little closer working relationship. Conrail takes over some of the billing and administrative functions. There's an agreed-upon pricing protocol between the short line and Conrail for interline traffic. We do such things as offer to repair locomotives in our shop and use our purchasing economies for railroad supplies and pass those economies on to our short lines. It's kind of like USAir Express and USAir. The whole theory is that if the short line wins, we win, too, because the business that they develop becomes business for us. It's like the analogy of the tree. If you cut off all the

branches, if you just have a big trunk standing up, it's not a very attractive tree.

ASSEMBLYMAN DeCROCE: Thank you. One other: You mentioned the merger of equals. Want to give us a little more detail on that, because I'm not sure that everybody understands that?

MR. GOETZ: Sure. In the CSX-Conrail merger transaction, there is a merger agreement between CSX Corporation and Conrail. That agreement has specific provisions that ensure that Conrail and its way of doing things don't just get wiped off the map. This is the only transaction which has that type of an agreement.

It provides, for example, that the merged company's board will be equally composed of Conrail and CSX board people. It provides for an orderly transition in terms of Conrail and CSX's Chief Executive Officers. It even provides such things as that the new company will be named neither Conrail nor CSX but something new. Also, it provides that the corporate headquarters of the new company will be located in Philadelphia, Pennsylvania.

ASSEMBLYMAN DeCROCE: Thank you. Thank you, Mr. Goetz.

MR. GOETZ: Thank you. It was a pleasure to be with you this morning.

ASSEMBLYMAN BODINE: I have one more question.

ASSEMBLYMAN DeCROCE: I'm sorry.

ASSEMBLYMAN BODINE: May I ask one more question?

ASSEMBLYMAN DeCROCE: Yes.

Assemblyman Bodine.

ASSEMBLYMAN BODINE: Thank you.

Just one more question. A proposal that is being considered would be light-rail from Camden to Trenton and, also, the possibility of a food distribution center being developed in Burlington -- in the Burlington Township-Florence area. The railroad that exists there now, I believe, is Conrail. It is freight, I believe.

Now, with these two possibilities that exist, would there be any problem of coexistence between the passenger light-rail and the freight system and, perhaps, even more demand for the need for freight carriers?

MR. GOETZ: Steve, can you respond to that? I'm not familiar with that specific operation on the Carlin (phonetic spelling) side.

STEPHEN M. SULLIVAN: (speaking off microphone) If you can hear me, Assemblyman--

ASSEMBLYMAN DeCROCE: If you could come to the mike, we would appreciate it.

MR. SULLIVAN: We're working very closely with New Jersey Transit on the light-rail proposals. Any existing freight business that we would preserve, we would continue to serve either by a shared right-of-way or some separated right-of-way. I'm not completely sure that we've come to conclusion on those negotiations, but if a new food terminal were to be built in Burlington County and we were providing service, we would be happy to continue and expand that service there.

ASSEMBLYMAN BODINE: Without any conflict with light-rail?

MR. SULLIVAN: That would have to be worked out with Transit. We may need to have separate rights-of-way, or we may need to serve during some sort of scheduling sequence -- off peak or whatever.

ASSEMBLYMAN BODINE: Thank you.

SENATOR CIESLA: Excuse me, just for the record, would you identify yourself for the staff?

MR. SULLIVAN: Yes. My name is Steve Sullivan. I'm Director of Corporate Strategy with Conrail.

SENATOR CIESLA: Thank you.

MR. GOETZ: Thank you, Steve.

SENATOR CIESLA: Assemblyman Charles.

ASSEMBLYMAN CHARLES: Just on that same point, Steve, the Bergen-Hudson Light-Rail System is something quite major to the whole State of New Jersey. It's safe to assume that that has specifically been contemplated within these merger talks--

MR. SULLIVAN: Yes.

ASSEMBLYMAN CHARLES: --and there is nothing that's involved in this merger that is going to affect that project in any kind of adverse way. Is it understood that what's on the drawing board right now remains on the drawing board as it is, as it pertains to developing that Bergen-Hudson Light-Rail?

MR. SULLIVAN: Yes, that's absolutely correct, Assemblyman. That project will continue going forward, and we see no impediments to that at all.

ASSEMBLYMAN CHARLES: It's not affected at all, in terms of what tracks are available, what right-of-ways, and so on, by this contemplated merger, is that correct?

MR. SULLIVAN: That's correct. It is not affected.

MR. SHERIDAN: Mr. Chairman, may I speak to that point?

I think that's one of the glowing examples of how Conrail has cooperated with the State of New Jersey. Conrail took its -- actually, is prepared to and signed an agreement many years ago, to take its freight service off the so-called river route in order to make that river route, and the Weehawken Tunnel, in particular, available for passenger service. That is how the Light-Rail Line is able to go forward. The freight service is completely removed on the east side of the Palisades in order to allow the Light-Rail Line, particularly north of Jersey City, to be completed.

SENATOR CIESLA: Thank you, Mr. Chairman.

Senator Cardinale, you had a question? I was just coming around to your area.

SENATOR CARDINALE: Thank you very much.

I think you've answered, as we would like to hear, with respect to the problems that would be created for various potential restoration or existing passenger service that is on your rights-of-way. I would like some specific reassurance that what we have already happening, to the extent that it is happening with respect to restoration of passenger service on the West Shore Railroad, that there would be any problem that you would foresee as a result of this merger that would add any additional impediment to the restoration of that service.

MR. GOETZ: I'm not aware of any additional issues that this merger would introduce to the specific question of passenger service on the West Shore.

SENATOR CARDINALE: How about on the Northern?

MR. GOETZ: Same answer.

SENATOR CARDINALE: And on the West Trenton line?

MR. GOETZ: Same answer.

SENATOR CARDINALE: Thank you.

ASSEMBLYMAN DeCROCE: I do have one more question. It's my understanding that CSX has an underfunded pension. What affect will this have on the Conrail merger?

MR. GOETZ: That has been specifically examined, and if you're concerned about that, believe me, I'm concerned about that since I am personally a beneficiary of that pension plan. I've asked that question myself on several occasions, and the answer I have received is this: That the combination of the overfunding of Conrail's pension plan and CSX's pension plan will continue to provide for a financially sound pension plan in the merged company.

ASSEMBLYMAN DeCROCE: Thank you.

SENATOR CIESLA: Okay. Seeing no further questions, thank you very much for your testimony.

MR. GOETZ: Thank you.

MR. SHERIDAN: Thank you very much.

SENATOR CIESLA: We appreciate you spending the time with the Committees today.

The next group of individuals to testify represent Norfolk Southern, and it's a Mr. Jim Granum and Steve Eisenach.

Gentlemen. You're being represented by Mr. Roger Bodman.

Good morning, Roger.

ROGER A. BODMAN: Good morning, Mr. Chairman.

JAMES L. GRANUM: Good morning.

I'm Jim Granum, Vice President of Norfolk Southern. I'm working in Washington, D.C. It's really a pleasure to be here with the Committees, and I commend you for looking so deeply into this issue.

The proposal that is on the table from CSX and Conrail would create a company that would control 70 percent of the tracks east of the Mississippi, 80 percent of the tracks in the Conrail territory, and 100 percent of the tracks in New Jersey -- of the big railroads. The presentation that was made this morning was pretty elementary. I think that would be our starting point for our testimony: The economies of scale, seamless transportation, port development, things like that, are all the same.

We have no track in New Jersey. We have no employees here. As close as we come to the State is Washington, D.C. and Alexandria, Virginia. We have been anxious to come to New Jersey for about 10 years and have tried several ways to get here. We're just very pleased with the warm reception that we've had. We've had very extensive conversations with communities, the metropolitan planning organizations, every port, every transit group, and it's been a very hospitable reception.

I think the threshold question for you is: You used to have six railroads, 20 years ago you got one, and you've only had one railroad for 20

years, Conrail -- one major railroad. What does this do to innovation, to pricing, to competition, to ideas, to stimulation both in the rail service and in the ports? So you're on the right track, but you have to figure out what's good for Conrail and what's good for New Jersey, and what is good for Conrail may not be what's good for New Jersey.

The other threshold question you have is that Conrail is gone as an entity. They have put themselves in play. It's a \$65 stock selling for \$105 because of the merger possibilities. It will never go back to being a \$65 stock; that nobody would stand for. CSX-Conrail is not Conrail. You bring in 24,000 more employees, 120 Sealand ships that CSX owns, I guess, 18,000 more miles of track. It's a different system, entirely different dynamics. So it's really an opportunity for you to reform your infrastructure in this State.

I've distributed copies of my testimony up there. Steve Eisenach, on the end, is our Director of Strategic Planning, and he's very intimate with the operating plan and the detail in New Jersey. I'm not allowed to do details, I do big things. Jim Blaze is a Consultant with the Kinglsey Group. He lives in New Jersey. He is a former Conrail employee and is helping us to devise a plan for New Jersey and to develop the operating plan. Roger Bodman -- you all know the Commissioner. We've employed the two gentlemen on either side to help us with the operating plan here.

We're somewhat stymied in our plan because CSX and Conrail have made a deal. They've got people in each other's headquarters. They're exchanging computer tapes. They've got teams exchanging information, and we are reconstructing the railroad from the outside. It's a little more expensive, a little more difficult, but we've got a good operating plan.

We own 9.9 percent of the Conrail stock, and we are filing an application with the Surface Transportation Board in April to acquire Conrail. In the meantime, we'll be working on the stock acquisition, and we'll be working on a competitive case -- that we think is better than anything you've seen here today -- to submit to the Board.

I'd like to do three things today. First, tell you something about Norfolk Southern, tell you the benefits of a Norfolk Southern merger with Conrail, and, hopefully, to encourage your endorsement of our proposal, and if you don't think we're the best operator for your railroad, at least, to endorse the principles of competition.

We're the fourth largest railroad in the U.S. We've got 14,000 miles of track throughout the Midwest and Southeast. We haul anything that moves by rail: coal, chemicals, automobiles, auto parts, grain, paper, construction materials. Importantly for New Jersey, we also move truck trailers and containers, known as intermodal, and that involves truck-train and train-ship traffic.

We're known for running a fine railroad -- a mighty fine line. We're the safest railroad on the continent for eight consecutive years. We've won the Harriman Safety Award, and our employees are-- This is a ground-up philosophy. It isn't imposed from the top down. Our employees are very imbued with safety. Every year, we exceed even our own benchmark and get safer than we were last year. At one time we won an award for getting safer than safe. We just got an award from *Fortune* magazine for being the most admired transportation company in the U.S. We were in the top 10 percent of all 431 companies in the *Fortune* survey.

We grossed \$4.8 billion last year. We netted \$770 million after taxes. We've got the lowest operating ratio in the country, the cost of doing business. We're \$7, a \$100 more efficient than Conrail. When you're talking about efficiency, costs, and things like that, we've got the lowest cost scale in the country. We're in a very competitive environment. We compete extensively with CSX. They're 40 percent larger than we are.

We're concerned, at best, that Conrail's neutrality is gone, that we can't hand off goods in Washington, D.C. or in Hagerstown, Maryland and get them up to this area, because our competitor -- CSX -- will be our interchange partner coming into this area. The only way we can get through is to either truck it up or have the landlord give us trackage rights, which--

I think there was a question here: What are trackage rights? That's where the landlord says, "You can run on my track and compete with me," but how do you compete on price and service with your landlord? He's going to hold your trains back, and the dispatching concerns you had with Transit are applicable to two freight trains trying to compete with each other.

Conrail's neutrality in the past has gone. Conrail mentioned rail competition not being a factor, that's because they don't have any. They don't have a rail competitor at all. Truck is their only competitor. We feel that the ports of New Jersey and the infrastructure base in the State has stagnated under having just one railroad.

We have the largest Industrial Development Department in the rail industry, some 38 employees, who do nothing but seek to generate new business. The Mercedes plant in Alabama, the BMW plant in South Carolina, the Toyota plant in Kentucky are all on our lines. Eight of the eleven last

biggest automotive things in the country have been erected on our lines. About two months ago, we got a contract with the Ford Motor Company to distribute three million vehicles a year for 12 years all over the United States, and we don't go west of the Mississippi really. But our service, our innovation, our marketing, our contract-- We're going to cut three days off the delivery time of every vehicle that Ford Motor Company has, and it's an incredible marketing service -- reliability, cost, innovation -- that we blew all the other railroads away.

We had a plant in-- A. K. Steel Company was looking at Ohio. I talked to Governor Voinovich. He was very interested in that plant -- very personally involved. It was a \$1.1 billion capital investment. They went to Indiana, located on our lines, and the Governor said, because of competition, you're not going to put a \$1 billion capital investment in a one-railroad state. There was a statement made in the press by a high officer of one of our predecessors saying New York is a one-railroad state, and it's going to stay a one-railroad state. I think there is a certain applicability to New Jersey there, as well.

I think one of the things you heard was that somehow by introducing competition to New Jersey, as we propose, that costs are going up and that you will be hurt. If you believe that, we've got a bridge to sell you. We've got a nice bridge.

On intermodal, CSX's growth has been stagnant. For the last seven or eight years, Conrail's has grown 43 percent. We've grown 94 percent. We handle about 4000 vehicles a day that we take off the highway and put on our trains. There was a mention of Schneider and J. B. Hunt trucking

companies. We haul 59,000 a year for one of those trucking companies, and you've really got to be good on price and service before that trucker will take his truck off the long haul and put it on your railroad -- or our railroad.

New Jersey is part of the largest consumer market in the United States. The Port of New York/New Jersey, the largest East Coast containerport, is the first port of call for ships coming to the North Atlantic shipping lanes. Every other port on the East Coast has two railroads going to Philadelphia; Baltimore; Wilmington; Hampton Roads; Savannah; Jacksonville; Mobile, Alabama; New Orleans, and they're all prospering. The Port of New York has Conrail. We think the stimulus -- and the same way with Camden and Philadelphia-- You need more competition there.

We had a preliminary vote of the stockholders on the CSX-Conrail proposal. CSX owns 20 percent of Conrail's stock, and they wanted stockholder approval to waive the requirement that all stockholders in Conrail get paid the same. Pennsylvania law says everybody has to get the same price. The CSX-Conrail deal would give the first 40 percent of the stockholders cash to \$110 a share, and the rest get CSX stock down the road. The blended value of that is something like \$104. We've offered \$115 a share in cash, so they start out with a 20 percent vote. We got two-thirds of the vote and won -- 29 percent of Conrail employee stock voted against the deal of their management. They're pretty perceptive about what's in their interest.

So, ultimately, we're proceeding on two fronts. We have the financial front, and we have a tender offer out to buy all of Conrail at \$115 a share, cash. We've raised \$12 billion. We've got a line of credit of \$20 billion. We've been spending about \$500 million a year to buy our own stock, and

we're going to put that into buying Conrail stock instead. We think that's a better investment than our own. But I wouldn't be too concerned about taking financial advice from CSX or Conrail. We make more money than they do. We put more capital into our railroad than they will.

I think we had some question up here about jobs. I believe I saw that Conrail-CSX intended to save \$650 million a year in operating costs from the merged company. Now, where does that come from? Is that jobs? Is it people? Is it track, engines, cars? That's a huge savings, but they can't afford to open up competition in New Jersey.

Well, we can. We're the most efficient railroad in the country, and we think we can sell track, we can sell yards, we can sell facilities to a competitor -- not trackage rights and have somebody inferior to us being dispatched by us, but sell things outright -- compete head-to-head and beat them on a competitive conflict, I guess.

So we've got the only plan on the books that will put another major carrier into this region and into New Jersey. We're going to open up the port area between Port Reading, on Conrail, and Croxton Yard -- roughly between Woodbridge and Seacaucus -- to another Class I carrier, somebody who has revenue of more than \$500 million a year, I believe it is.

This includes competitive access to rail stations and customers within that terminal area, direct access to Port Newark and Port Elizabeth, and connections to all port-area short lines. The new competitor will have exclusive ownership of Conrail's Croxton intermodal terminal. We're going to sell them the whole facility, and they can put an automotive or other terminal on this property.

We will offer single-line service from New Jersey to Kansas City. That is a seamless route with no interchange with another carrier. You don't have swap engines and cars and accounting and things like that. It's jointly marketed and jointly operated and goes straight through. This will supplement Conrail's existing Chicago to St. Louis Gateway service.

We're going to serve New Jersey with the RoadRailer. It's an innovation that Norfolk Southern has perfected. It's a truck trailer with railroad wheels and truck wheels on it. It doesn't take a ramp. It doesn't take a crane. You can drive it up on the tracks, park it, and when we get to the end of our line, then truck it on up into the other areas. It's very flexible. It's very light. It has more characteristics of a passenger train because it starts quickly, operates fast, and doesn't have the conflicts that we do with freight and passenger. I think we're running probably 100 trains of those a day. Conrail has bought 50 percent of this subsidiary that we have that operates the RoadRailers. It was something we had to do to try to get our goods north of Washington.

We're going to provide faster north-south double stack, where you put two containers on top of every railroad car -- it requires improved clearances, raised tunnels, bridges, towers, communication lines, and all that -- between Harrisburg, Pennsylvania, and Hagerstown, Maryland, and east-west from Kansas City, Chicago, and St. Louis.

We'll clear the Pattenburg Tunnel to provide a double-stack route between Harrisburg and Newark via Allentown. Conrail has refused to make these tunnel improvements because the Canadian Pacific Railroad has operating rights over that route, and Conrail is protecting its own double-stack

route stranglehold on the port. So they won't let their competitor, who's a tenant, have access to double-stack technology. So we'll be introducing another rail competitor into the New York-New Jersey automobile distribution market, a huge market up here. We'll bring to New Jersey communities our industrial development effort that I mentioned in the opening comments.

We are a company that is a good corporate citizen. We're proud of our heritage. We recognize the honor, the richness of Conrail, and we salute the pride that New Jersey has in its own rich railroad past. This is the gateway for the immigrants from Ellis Island to venture off by the iron horse to begin their new life.

We're also aware of the Heritage Center in the State that has been pushed by the Chairman. While we're not making promises on that, we're willing to consider what role we can play in promoting that effort, but our number one objective is to have the safest, most customer-focused, competitive freight rail system in the world.

Our merger should have little impact on New Jersey employees. We don't have any facilities in New Jersey to worry about. There are no redundant yards, no redundant terminals, no redundant shops, no redundant workers.

We have some gray folders, also, I think that are available back there (indicating) that are principles of balanced rail competition. That's our written commitment that by merging with Conrail, we'll make sure that the largest markets, especially New Jersey, will be served by two large railroads.

Norfolk Southern has met repeatedly with the New Jersey DOT officials; the Port of New York/New Jersey, at the executive and at the staff

level; the North Jersey Transportation Planning Authority; the South Jersey Development Council in Camden; New Jersey Transit; New Jersey Short Line Association. We've met with the Union County community leaders. We've had frank exchanges of information. Much of what we have learned will be part of our application with the Surface Transportation Board.

In summary, we think that Norfolk Southern's merger will prevent New Jersey from becoming increasingly dependent and captive to this one monolithic carrier. We want the opportunity to show you what rail-to-rail competition can mean for New Jersey, for your highways, and your air quality. We want to work with you to stimulate economic development within your borders. So we would like three things from you:

One, is to support our effort. Two, if, for whatever reason, you can't endorse our merger proposal -- and we think it's the best one for New Jersey, it's specifically addressed to New Jersey -- we would like you to come out in favor of the principles of balanced competition that are generic and in your packet; and if you endorse competition -- balanced competition -- in this State, you've endorsed our proposal. It isn't in the CSX-Conrail proposal.

The Northeast Governors-- CONEG, the Council of Northeast Governors, nine governors unanimously endorsed a statement that was referred to by the DOT Commissioner, including Governor Whitman. The principles of competition were endorsed there. It didn't mention us by name, but it gave us great comfort that all the Northeast governors are behind this in this competitive principle.

We also need your feedback. We are talking to your constituents. We're listening, and in most instances, we are the only ones who are bothering the people. They haven't been troubled by calls from some of our competitors.

So we would be very pleased to welcome your questions, and we're delighted to be here.

SENATOR CIESLA: Thank you very much for your presentation, Jim.

I have a question and maybe it would clarify this proposed merger in my mind. It sounds exciting. Steve must be busy on the details. What is the net worth of Norfolk Southern in annual sales, just so I can put it in perspective?

MR. GRANUM: Our sales are \$4 billion, profit is \$770 million. Conrail's sales are \$3.8 billion--

Do you remember their profits? (speaking to associate)

SENATOR CIESLA: Did you say Conrail's are \$3.8 billion?

MR. GRANUM: Conrail is \$3.8 billion, and CSX is about \$10 billion a year. In addition to owning the railroad, they own the Greenbriar Resort; Sealand International Shipping Company; American Commercial Barge Lines; the Greenbriar Hotel; I think in Alaska, an oil pipeline. A lot of--

SENATOR CIESLA: Just so I have it in perspective then, so in terms of size -- at least national size -- Norfolk Southern is somewhere comparable, in terms of annual sales, to Conrail.

MR. GRANUM: Right. I think the merged CSX-Conrail would have \$14-plus billion in revenues. Our revenue plus Conrail's won't total--

Because of the competitive things we're instituting, we'll lose 500 to a billion dollars a year in revenue to the competitor.

SENATOR CIESLA: I'm also correct, at least in the notes I've taken, CSX owns 20 percent of Conrail stock, Norfolk Southern owns 9.9 percent of Conrail stock?

MR. GRANUM: Yes.

SENATOR CIESLA: Are there discussions between CSX and Norfolk Southern currently ongoing?

MR. GRANUM: Yes. Norfolk Southern, CSX, and Conrail.

SENATOR CIESLA: Are talking jointly?

MR. GRANUM: Yes.

SENATOR CIESLA: However, I gather from your opening comments that there seems to be a better discussion happening between Conrail and CSX? I mean, there is certainly nothing that we can do about it.

MR. GRANUM: Well, they've got a done deal. It was characterized as a bulletproof merger agreement. They took the Chairman of--

SENATOR CIESLA: You've got some metal-piercing bullets, I assume? (laughter)

MR. GRANUM: Yes. I think the Conrail Chairman's salary was increased from \$500,000 to \$2.5 million. They took six Conrail Directors, six CSX Directors, kept the headquarters in Philadelphia, and the heck with the stockholders and the rest of the institution -- in my personal opinion, which may get me run off.

SENATOR CIESLA: Are there any questions of the panel?

Senator Cardinale.

SENATOR CARDINALE: You spoke of trackage rights, and we did discuss that initially. It strikes me that in some other areas we've managed to create something of a balanced playing field for other industries, like telephone, electricity, gas, and so forth, and some of those are done, some of them are in place, and some are coming in the future. Is there any practical way to equalize that playing field with respect to trackage rights? It occurs to me that these are rights which come about through public rights-of-way, and I know there is a lot of history that has gone into it. But is there some way that we can introduce true competition by letting the railroads compete on some sort of equalized basis on trackage rights, both as to cost and as to practices? Is there anybody who has done any kind of work on that?

MR. GRANUM: I think the analogies of gas, electric, telephone-- These are pretty much spongeable commodities. With rail service, you have to get a car, an engine, and a crew to go on somebody else's land and, over their objection, tacit or not, force your way into a factory on their tracks. So they're dispatching you. They are maintaining the tracks standards, the clearance of the double stack, and they're the landlord.

But I think, because you've got actual movements -- you've got to get people, cargo, and equipment onto the other person's property -- it's more complicated than the dereg of electricity, gas, and telephone, where you might put electricity in one end of the line 1000 miles away and get different electricity out the other in the grid. It's spongeable. It isn't exact. It's more of an accounting procedure than in railroading where it's very, very specific.

But trackage in-- We think that for a market like this your competitor has to be large. It has to own its own property, have capital to buy

track, erect industrial development. With the Ford contract I mentioned, I think we put \$100 million of our own money in before we got the contract. With the BMW plant, we acquired the land just in the hopes that that factory would locate on us.

You can have a niche, a small carrier who is very, very good and very well-respected in your area, but they may be capital starved to have the equipment, the trains, the service, the port. The engines are \$1.2 million or so a piece. It's an expensive business. You need to be able to buy your own track and be a master of your own fate and be able to put up the 10s or 100s of millions of dollars of investment it takes to compete with a big railroad.

SENATOR CARDINALE: Well, I understand that your proposal is not one -- maybe I misunderstand it, correct me -- to put in new tracks, acquire new rights-of-way, build new terminals. You are seeking to buy existing, essentially monopolistic, rights-of-way. Now, we seem to be in a position of trading one monopoly for another, and I'd like you to explain to me why I am, perhaps, not seeing this correctly.

MR. GRANUM: Steve, will you talk about the divestiture--

STEVE EISENACH: May I step over here a second? (using visual aids)

SENATOR CIESLA: Excuse me, Steve, you're going to have to take one of the recording microphones with you, so that our stenographer can record your conversation.

MR. EISENACH: How about if I just--

SENATOR CIESLA: Steve, just pull that one out and take it with you. (referring to microphone)

MR. EISENACH: Okay.

SENATOR CIESLA: Right. You're actually only going to be talking into a recording microphone, so your voice is not going to be amplified. So you're going to have to yell.

MR. EISENACH: What I would like to just mention here for you is what we call our competitive alternative package. What this package does here and what we are suggesting is that, like Jim had mentioned earlier, Conrail currently has quite a big lock on the Northeast, as far as New York, Pennsylvania, talking about, if those two carriers get together, the cities of Philadelphia and Pittsburgh, Indianapolis, New York all become one-railroad towns, basically, for all intents and purposes.

We do have CP coming into New York right now on trackage rights, and Norfolk Southern does have one account, Hanjin, that they mentioned earlier, that goes to Chicago. What we are talking about here, however, is an opportunity to go back to what the United States Railway Association, when it formulated Conrail and when Congress established and created Conrail -- back to when the real intent of what Congress was, and that was to have competitive service in the Northeast. There are a number of reasons why that didn't happen. Basically, because of the crisis situation at the time, with the Penn Central and New York Central, they ended up, basically, with one railroad in the Northeast. The Delaware and Hudson was supposed to be the competitor to Conrail. That didn't happen.

What we are trying to do here with our competitive alternative plan -- and we don't know who this will be, we think it should be CSX-- If we could talk with CSX to this extent-- We would be introducing-- All of these

lines here (indicating) would be sold to a competitor. Now, the important thing about this-- That line from New York City to Buffalo would be a Conrail line, from Buffalo to Cleveland is a Norfolk Southern line, from Cleveland to Fort Wayne is Conrail line, and from Fort Wayne to Chicago is a Norfolk Southern line.

We are not talking about a breakup of Conrail. That's the most important thing, if I can do anything with you today, we are not talking about a breakup of Conrail. We are going to sell these lines to a competitor who will own every one of those lines through there or have operating rights into New York over transit lines.

This is a double-stack-cleared route. We'll have access to all the customers along this line. This particular system you see here, as well as from New York down to Philadelphia, would be part of it, so that there would also be access to the south for this carrier. Again, this works best with CSX.

This allows this new competitor access to about \$750 million of revenue. Now, the reason that's important -- because I want to get back to you real quickly but-- I want to show you a couple of things to address a question that was mentioned earlier.

This is why we think the CSX-Conrail proposal as they talk about does not compute. (indicating) This is the current revenue shares of the three corporations. This is operating revenue. This is rail revenue only. Now, CSX, as we mentioned to you, is a much larger company, but this is just strictly what moves by rail: coal, general merchandise, intermodal. You can see the comparisons right there.

Now, what happens if you put Conrail and CSX together, that's where we say you're going to run into the 70 percent to 30 percent market share imbalance in the East. We do not think that is good public policy. We think that there--

Again, CSX and Conrail have been saying, "We will address this through trackage rights," and not to worry about truck or rail-to-rail competition, it's really rail-to-truck competition that counts. Don't believe them. It's rail-to-rail competition in this market. For intermodal-- The majority of the traffic that moves by rail is heavy goods, coal, grain, chemicals, things that don't move by truck. You have to have rail-to-rail competition.

Now, what happens here-- If you think it's in the best public policy, in the best public interest to have balanced competition in the East, like we have in the West-- For those here who are students of the industry or have just been following in the general press, there has been mergermania out West for the last few years.

When all the dust settled, the Burlington Northern and the Santa Fe merged. There were four main carriers, and the Union Pacific and the Southern Pacific merged. The Union Pacific-- The market share between those two carriers when all this was done is 53 percent for the Union Pacific, 47 percent for the Burlington Northern-Santa Fe.

What Conrail and CSX are suggesting is a 70/30. Norfolk Southern and Conrail, if you put those numbers-- It starts out about 60/40. We see that's much too large, that's why we are suggesting that we have to sell those lines that I showed you on the map. Again, it does not mean a breakup of Conrail. However, if you say that is in the best public interest -- and this is

a decision you have to make for yourselves, ladies and gentlemen -- that we have balance in the East like we have balance in the West, this is the last chance to get it right.

This is what's going to have to happen -- what this graph shows here (indicating) -- in order to achieve a 55/45 share of market. If Norfolk Southern and Conrail have the 55, in order to have CSX get 45 percent, Norfolk Southern and Conrail would have to give up a little over \$250 million in revenue. Those are receipts, that is, gross receipts. So you have to have access to more because, competition being what it is, in order to get \$250 million, you have to have a larger market. The map I showed you, the competitive alternative plan that we have proposed, allows the other carrier to have about \$750 million access, which we think will get you to have about \$250 million to \$300 million.

Now, because of that huge imbalance I showed you, if you put Conrail and Norfolk Southern together, in order for us to achieve balance in the East, they would have to give up over \$1.5 billion in receipts in order to achieve the balance. Now, that requires a breakup of Conrail to do it, not the Norfolk Southern-Conrail proposal. If you go to what was achieved in the West, 53/47, the numbers get larger. We, of course, would have to take that package that we have proposed. We would have to give the other carrier even more access, but here CSX-Conrail would have to even be more.

SENATOR CIESLA: I think we understand.

Senator, do you have any further questions?

SENATOR CARDINALE: The Chairman may understand it, but I think I don't, totally. I think what you're saying is that overall in the region

you want to achieve some sort of balance, but as to any individual customer who has to get goods from point *A* to point *B*, he's still going to have to deal with the people who own the track in his particular area. Is that how it really works?

MR. EISENACH: That's actually how it really works, but if he has two people here, if I don't give him what he wants, if he has another party there who is right there and capable of delivering the service, he has an alternative.

SENATOR CARDINALE: Only if he takes by truck from one place to another.

MR. GRANUM: No. We will have two railroads serving northern New Jersey, whether it's just one today-- That 1200 miles of track will be sold. The line going east-west from New Jersey to Buffalo and from New Jersey to Philadelphia will be sold to a competitor. Those are tracks that only Conrail has--

SENATOR CARDINALE: I'm like the Chairman now. Now, I think I have got this. I just have one other question. You've heard the questions with respect to the various commuter lines, and they're running on rights-of-way that are currently owned by one or another entity. In your proposal, would your answer be any different than the answers you heard from Conrail; namely, that there would be no interference of any existing or proposed, as a result of the merger that you suggest?

MR. GRANUM: We would step into Conrail's shoes in terms of all the existing operations. We've actually had some interesting conversations with Jersey Transit and Amtrak because, while there is tension between freight

and passenger on these lines, there is also a need for revenue. If there is a way that we can utilize commuter lines at night or off-peak hours and get that freight revenue into the passenger carrier, it helps either their profitability or their contribution to capital needs. So we've had some pretty extensive conversations along those lines of perhaps going a step further.

SENATOR CARDINALE: Do you have no bias against running on the same track a commuter and passenger?

MR. GRANUM: No.

SENATOR CARDINALE: Thank you.

SENATOR CIESLA: Thank you very much.

Assemblyman Charles.

ASSEMBLYMAN CHARLES: The balanced competition that you made reference to, is that something that's required under Federal law or some other kind of law? Is that mandated on rail carriers?

MR. GRANUM: Well, it isn't in the CSX-Conrail proposal, but we think it makes our operating plan more attractive to the regulators. So we are going, maybe, further than the minimum to undo the monopoly that's been in this region for 20 years.

ASSEMBLYMAN CHARLES: All right, but my question -- see if you can answer it directly -- is there some mandate, some law that requires that there be balanced competition?

MR. GRANUM: It is one of the criteria of the Surface Transportation Board.

ASSEMBLYMAN CHARLES: What does balanced competition mean? Does it vary from situation to situation? Is it a 53/47 arrangement, or

does it depend upon what particular merger or other area you're looking at?
Is it a flexible concept?

MR. EISENACH: What the test the Surface Transportation Board does, quite honestly, is it looks at the current competition, it looks at the combination and what happens. What the Surface Transportation Board is most concerned about is-- One of the tests is those markets where it goes from two rail competitors to one rail competitor. I think the CSX-Conrail merger is going to address that. Certainly, Norfolk Southern-Conrail will address that, but what we are doing with ours is going one step beyond. We are actually going beyond the test of the law and going from doing the one to two, whether it's one carrier going to two carriers. But balanced competition is not a criteria that the Surface Transportation Board will look at.

ASSEMBLYMAN CHARLES: It's a criteria you're saying?

MR. EISENACH: No, it is not necessarily a criteria, but it is something we think that--

ASSEMBLYMAN CHARLES: Will help your proposal.

MR. EISENACH: --public policy will drive it to balanced competition.

MR. GRANUM: Two to one, it is a criteria, and one to two is not.

ASSEMBLYMAN CHARLES: How do you know you're going to have somebody to buy this track?

MR. GRANUM: We're negotiating with other carriers now.

MR. EISENACH: We are negotiating with Canadian Pacific, the Canadian National, and the Illinois Central. We prefer to be dealing or negotiating with CSX.

ASSEMBLYMAN CHARLES: You're going to sell it for the amount of money you paid for it, or are you going to sell it for more than you paid for it?

MR. EISENACH: We will probably sell it at a similar multiple for what we paid for Conrail.

ASSEMBLYMAN CHARLES: I'm sorry. I didn't hear the first part.

MR. EISENACH: We would probably sell that track that we had divested -- about 1200 miles.

ASSEMBLYMAN CHARLES: Yes.

MR. EISENACH: That all depends on what -- negotiations, of course, but our starting point would probably be some multiple of what we're paying for Conrail.

ASSEMBLYMAN CHARLES: Something greater?

MR. GRANUM: No.

MR. EISENACH: No. It's about the same starting point.

ASSEMBLYMAN CHARLES: So something equal to that?

MR. EISENACH: As far as what we are paying for Conrail, the purchase price versus the revenue ratio, the revenue off of the lines from Conrail. We would look at those 1200 miles of railroad, see what kind of revenues it generates, and we would adjust the purchase price accordingly. But, again, that's all subject to negotiation.

ASSEMBLYMAN CHARLES: I understand you.

MR. GRANUM: We're paying about--

ASSEMBLYMAN CHARLES: It's a simple concept to me. The concept is this, forget about what you do to get added value, what you take into consideration. You reach a number, it's a dollar. Now, you pay the dollar for it after you do all your computations. Are you going to sell it for a dollar, or are you going to sell it for two dollars?

MR. GRANUM: We're paying about three-times revenue for Conrail -- \$10.5 billion in cash and assuming about \$2 billion in debt. We would think the same multiple would be applicable to line sales that we make to somebody else, roughly three-times revenues.

ASSEMBLYMAN CHARLES: Is that going to help prices? I mean, one of the things that we've been hearing in this testimony this morning is that this seamless transport, this single line, or whatever, this economy of scale tends to drive prices down, rates down, and everybody benefits from these lower rates. Now, if you have two, three, four people involved in transport from New Jersey out to Chicago what's going to be the impact on rates there?

MR. GRANUM: Well, there is one theory that there is not enough traffic to go around, so you have two starving dogs eating out of the same dish. But there is enough traffic here to support two carriers.

ASSEMBLYMAN CHARLES: On the same line, though?

MR. GRANUM: On competing adjacent lines.

ASSEMBLYMAN CHARLES: As I understood the graph, we're talking about adjacent lines-- You would sell track there so they have competing lines.

MR. EISENACH: Yes, sir. They would own and control their own line.

ASSEMBLYMAN CHARLES: Up to a certain point, what is the-- Currently, is there any area where Norfolk Southern operates, where its market share is greater than 53 percent?

MR. EISENACH: Yes, there are. I couldn't tell you exactly where they are. I know--

MR. GRANUM: I don't know where it would be. It's not New York. It's not Pennsylvania. It's not Maryland. It's not Delaware. It's not New Jersey. It's not Michigan. It isn't Indiana, Illinois, Ohio, Kentucky, Tennessee, Alabama, Georgia. I don't think there is anyplace where we've got that share, or if we do, it's 1 percent over. CSX and we or the Midwestern railroads, when you get into Illinois and Michigan and that area, are in balance.

ASSEMBLYMAN CHARLES: Are you headquartered in Virginia?

MR. GRANUM: In Norfolk, Virginia.

ASSEMBLYMAN CHARLES: In Norfolk. I think New Jersey has, obviously, an interest in its ports and right now one of our major competitors of the New Jersey/New York Port area is Norfolk, Virginia. We're seeing a lot of our shipping, a lot of the commerce leaving this area and going down to the Norfolk area. If your plan is adopted and you are the merged

entity, does New Jersey have to worry about that, that you will favor Norfolk and Virginia areas over the Port of New York and New Jersey?

MR. GRANUM: Well, it's a good question. Norfolk has CSX and Conrail both serving it--

MR. EISENACH: Not Conrail.

MR. GRANUM: I mean, CSX and Norfolk Southern. Babe Ruth hit home runs for Brooklyn and for Boston, and we think if you hire us we'll come up here and hit some home runs for you. But if we don't serve the New York/New Jersey Port or Camden/Philadelphia, we can't help you. But we're spending \$12 billion to get here. New York is the biggest market in the country and that's why we want Conrail.

ASSEMBLYMAN CHARLES: Just one final area: The double stacking, I've heard that used in your testimony and in others, and I have some information here about costs associated with creating, I guess, facilities or circumstances where there can be double stacking. Is there a need in New Jersey specifically -- a capital need -- where double stacking is concerned? How much is that?

MR. EISENACH: We talked earlier about we were going to clear the tunnel -- Pattenburg Tunnel -- which-- I think the estimate on that is, I guess, is about \$25 million or \$30 million, and then probably some additional track capacity as well.

ASSEMBLYMAN CHARLES: That's the New Jersey component of it?

MR. EISENACH: Yes, sir.

ASSEMBLYMAN CHARLES: Thank you, Mr. Chairman.

SENATOR CIESLA: Thank you, Assemblyman Charles.

Now, we're going to ask the indulgence of the Committees and the panel. Because of a scheduling conflict for Canadian Pacific, we're going to ask if we could ask them to come forward. They have to catch a flight. But we are going to call you right back when they're done, so that the panel can continue with their questioning.

So we ask for your indulgence, and we thank you for your testimony to this point.

With that, because of a flight which has been scheduled, Mr. Paul Gilmore, the President of Delaware and Hudson Railway, the Canadian Pacific arm.

Again, thank you to the panel for being indulgent.

ASSEMBLYMAN DeCROCE: Good morning.

PAUL D. GILMORE: Good morning. Good morning, Chairman Ciesla, Chairman DeCroce, members of the--

ASSEMBLYMAN DeCROCE: Hit your button. (referring to microphone)

MR. GILMORE: I beg your pardon?

ASSEMBLYMAN DeCROCE: Hit your button, it should go red.

MR. GILMORE: It should be red.

ASSEMBLYMAN DeCROCE: Now you're heard.

MR. GILMORE: It is red.

ASSEMBLYMAN DeCROCE: Okay.

MR. GILMORE: Good morning, Chairman Ciesla, Chairman DeCroce, members of the Committees, ladies and gentlemen. I

welcome the opportunity to testify before you this morning. I bring greetings from the Canadian Pacific Railway President, Rob Ritchie, with me.

Today, I am speaking with three hats: First, as the Vice President of the CPR, the Canadian Pacific Railway, as Chief Operating Officer of its operations in the eastern part of the continent, and finally, as the President of its subsidiary here in the Northeast, the Delaware and Hudson Railroad Company. My office is located near Albany, New York.

You have a busy day and I do appreciate your indulgence on my schedule, so I will be brief and confine my discussions to basically six points: the impact of the merger on the economy of New Jersey; the Delaware and Hudson Railroad in New Jersey; are we for or against a merger; what the Delaware and Hudson has to offer shippers; the significance of the link to the Canadian Pacific Railway; and how the CPR-D&H team is dealing with the merger.

The impact of the merger on the economy of New Jersey: CPR and its subsidiary in the Northeast, the Delaware and Hudson, has an interest in the merger because it will affect our business either positively or negatively. Putting myself in your shoes, I must assume that you, as well, are concerned about the economic impact of the merger and, in particular, its impact on jobs in New Jersey.

The health of the industries in New Jersey that require rail transportation depends on the effectiveness and competitiveness of its railroads. The railroad conceptually is simply an extension of the assembly line or processing plant leading to the customer. Its cost and effectiveness is a significant component of the cost and service level of the industries it supports.

I am sure that other witnesses representing the industries and shippers of New Jersey will testify about the need for rail competition. They will undoubtedly say that competition affects price and service levels. Indeed, there is a growing consensus that competitive issues that need to be addressed by a merger proposal must go beyond the traditional two-to-one problems that the ICC and the Surface Transportation Board have focused on in previous mergers. As an aside, the two-to-one issues I'm referring to are basically where a shipper has access now to two competitive railroads and those competitive railroads merge, that shipper now goes from a competition of two to a competition of one.

Shippers and carriers alike are now realizing how important it is to get it right in this proposal and getting it right demands actions well beyond localized competitive remedies. Your Committees cannot avoid the demands of shippers to correct the imbalance in competitive access that has existed since the implementation of the Rail System Plan of 1976. My testimony will focus on how that can be done and the role that we can play.

We recommend that you support a continued and expanded role of the Delaware and Hudson as a key carrier into New Jersey. We further recommend that you envision a competitive Class I alternative to the merged Conrail entity and that the CPR-D&H team be identified as being suitable as a carrier.

Point 2, the Delaware and Hudson in New Jersey: As a company we also have an interest in the merger. We are here in New Jersey and will be affected by any change in rail structure. We are not new arrivals here either. The Delaware and Hudson Company is the oldest continually operated

transportation company in the United States. Its history traces back to 1823, where the Delaware and Hudson Canal Company was formed, and to 1840 when the company became the first transportation company traded on the New York Stock Exchange. Today, the D&H lives on and serves New Jersey through its Oak Island Terminal. Our intermodal facility is located in Conrail's Oak Island Yard in Newark.

We operate in six states, the District of Columbia, and the Canadian Province of Quebec on some 1500 miles of track: 50 percent are trackage rights principally on Conrail's territory, and the other 50 percent are owned and controlled by the Delaware and Hudson. The primary Class I interchange partners with the Delaware and Hudson are Conrail, CSX, Norfolk Southern, and the Canadian National. The D&H also connects with 24 regional and short line railroads throughout its system. The D&H was identified as the competitive alternative to Conrail by the system plan that established the current rail structure in the Northeast; however, the resultant degree of competitive imbalance in New Jersey was, perhaps, not intended.

With the creation of Conrail in 1976 -- and I think the Acting Commissioner talked to that, about a period of chaos -- the United States Rail Authority incorrectly assumed that an enlarged Delaware and Hudson could retain its overhead business even though more than one-third of that traffic would originate on Conrail-owned lines. This assumption was wrong and the D&H came close to collapse.

In 1991, the Delaware and Hudson was acquired by Canadian Pacific. Since that time, the CPR has invested more than \$200 million toward the purchase, rehabilitation, and operating expenses of the D&H. We have

done a lot to turn around the D&H and made it compete. However, to a very large extent our hands are tied by the lack of access flowing from the System Plan of 1976.

For example: Our Oak Island Terminal, as I mentioned previously, is located in Conrail's Oak Island Yard, and geographically, it is virtually situated under one overpass on the Garden City Skyway. We were given rights to only six operating tracks, and short tracks at that, with five supporting tracks. We can store a maximum of 200 trailers or 400 containers. We have no rights to serve any on-line customers on our trackage-rights territories or local New Jersey customers. Quite an astounding fact, I think you'll agree, for the size of the port area of Newark and certainly the combined Port of New York and New Jersey.

Are we for or against a merger? Well, our view of a merger depends on the structure of that merger. It can be good or bad for some or all of the players. Our business interests and those of New Jersey shippers are best served by a merger that allows a competitive alternative that is viable and able to offer full service and, in our case, one that allows us to be a competitive alternative.

Like the two main protagonists, CSX and NS, the CP-D&H is well positioned to satisfy the competitive problems from any merger with Conrail. Some merger scenarios are not likely to be accepted. A deal between the two suitors that divides up the Northeast without consideration of the other railroads currently serving New Jersey and the region might satisfy some, but it would not be acceptable to us, nor to the regional railroads and short lines.

At the other extreme, a grouping of short lines and small regional railroads without the benefit of Class I capability would be rejected by shippers and the Surface Transportation Board. It would not be considered to be a real competitive alternative.

Our contingency planning is, therefore, underway for each merger scenario and, understandably, there are significant differences amongst the plans, and you've heard those differences so far this morning. There isn't a single business plan, because at this time there isn't a single, possible merger outcome.

What we have to offer shippers: Our railroad is particularly attractive to shippers in the Northeast as a competitive alternative. It has demonstrated its determination to serve its customers through such action as an expenditure of \$200 million on D&H operations since 1991 and contributing to double-stack clearance of the Conrail line through Pennsylvania.

Also, recently, we have been partners with the New York Susquehanna and Western in two joint venture bids in the last nine months; those being the operations of the freight portion of the Long Island Railroad and a bid, now pending, in front of the Port Authority, for the operation of the Staten Island Railroad.

The CPR-D&H team is a suitable competitive alternative because it is already well-positioned geographically in the heart of the Northeast. As I mentioned previously, in 1976 the Federal government designated the D&H to provide competition to Conrail, albeit, weak competition.

However, with proper access to shippers and the restructuring of rail-line ownership and rights in the Northeast within a merger framework, the revitalized D&H backed by its strong parent, the Canadian Pacific Railway, can offer a comprehensive, competitive solution for corridors connecting the eastern seaboard, and New Jersey in particular, to Chicago. Moreover, the D&H-CPR offers shippers a unique north-south service connecting the eastern railroad with the northern states and the Canadian Provinces of Quebec and Ontario.

The CPR link -- and my purpose in bringing this forward is to demonstrate to you that we are not talking about a short line or a regional railroad here. On joining the CPR, the Delaware and Hudson became an integral part of a major transcontinental Class I system.

I refer you to the maps that you have before you and the red-sided binder with a smaller one-page map at the back. (indicating) As you can see from the map, it is the only railroad among the suitors being discussed today that offers access to the Pacific and the booming markets of Asia. I need not remind you that this is one of the four main components of the Governor's Master Plan for the State of New Jersey.

The CPR is one of the largest rail systems in North America, with about 17,500 route miles of rail line in the U.S. and Canada, including the SOO Line Railroad in the U.S. Midwest. This railroad earns about \$3 billion in annual revenues and has about 21,000 employees in Canada, the U.S., and at offices in Hong Kong, Tokyo, London, and Hamburg.

The CPR fleet includes in excess of 1600 locomotives and just short of 50,000 railcars. The railway operates about 30 intermodal terminals

in Canada and the U.S., including a \$25 million terminal in Toronto that is the most modern facility of its kind in North America.

The CPR operates intercity passenger train services for the Amtrak system and Via rail system in Canada and has provided for Amtrak the best on-time performance during the last five years. The company also operates commuters trains through urban transit authorities in Chicago, Toronto, Montreal, and Vancouver. These services carry about 20 million passengers annually.

A point that isn't in the handout pack is the ability for Canadian Pacific to invest in research and development. We are one of the only railroads to have stuck by and perfected the robotized remote control of locomotives in midtrain and bulk trains in Western Canada. There are no people on these trains. They are remotely controlled from the lead locomotive. We are one of the pioneers still testing advantaged train control systems. We have remotely run a train from a distance of 90 miles away, completely by computer, stopping 30 feet short of its ultimate destination.

We use remote control chestpack technologies for switching in our local yards with no people on the locomotives. Like Norfolk Southern we are participating in the RoadRailer, and in conjunction with CSX Intermodal, we are testing the Iron Highway -- the new Iron Highway technology between Toronto and Montreal.

The final point I would like to make in front of the Joint Committee is how the CPR-D&H team is dealing with the merger. Our preferred strategy as the merger unfolds is to negotiate the business

opportunities with the merging entities. Confidential discussions have taken place with both CSX, Conrail, and NS.

We are prepared to invest capital to expand our participation in the Northeast if it is determined that such a move would offer a superior competitive solution. We would need to demonstrate a good business case, as in all investment decisions, but there are no arbitrary bounds on what we would consider.

We would need adequate assets, trackage rights, terminal facilities, and local customer access agreements to be commercially viable in the Northeast and an aggressive, effective competitor in both the north-south and east-west lanes from New Jersey and New York along a competitive corridor to Chicago.

Our operating approach is to utilize regional carriers already having assets and operations in the area. Conceptually, the regional carriers will perform certain of the local pick-up and delivery functions for us, and we will perform the long-haul work and national marketing. CPR will be the Class I thread throughout the whole plan. Where there are no surplus assets available from the merger partners, trackage rights with long-term financial predictability and equal treatment will be prerequisites.

In conclusion, ladies and gentlemen, again, I would like to thank you for the opportunity. Thank you to my NS counterparts for stepping by to accommodate my schedule.

But allow me to conclude with a recommendation to you. It goes without saying that in your consideration of the impact of the merger on shippers and the economy of New Jersey you will be demanding competitive

choices in rail competition. We respectfully ask that you also examine how these competitive choices will be provided. I think the tone of your questions this morning certainly would indicate to me that you are very well on that track. We ask that you agree that the CPR-D&H network offers a competitive Class I option with unique advantages for New Jersey that must figure in any merger proposal to the Surface Transportation Board.

I thank you for your time. I'm certainly available for questions, and I should point out that I am available after today for questions and can be reached through our representatives, the Gluxshaw Group. (phonetic spelling)

ASSEMBLYMAN DeCROCE: Mr. Gilmore, it's been indicated -- and I indicated it earlier -- that D&H was almost driven out of competitive business here in New Jersey by virtue of a driving down of rates supposedly by Conrail. That's what I received -- that's the information I got from some of your people. I wondered if you would like to comment on that, as to how we're going to have the competition if we're going to have these large companies -- whether it's Conrail or Norfolk Southern -- coming into New Jersey and then eventually driving down the rates so that the smaller people can't exist?

MR. GILMORE: Well, I guess the driving down of rates is a competitive factor that we all live with in all of our businesses. I think you're specifically referring to the domestic intermodal service we had established in late 1993 between Chicago and several Northeast terminals, including Oak Island here in New Jersey.

We ran the service for about two and a half years. If my numbers are correct, the route is approximately 1000 miles long. We actually operated

on 60 miles of that route. We're the only owned and D&H-controlled trackage in the whole 1000-mile run. We had to contract with two carriers within Chicago to get the traffic delivered to the Norfolk Southern, who, under haulage arrangements, delivered it to us in Buffalo. We operated our own trains over Conrail trackage rights to Binghamton, New York. Our own line went from Binghamton to Taylor, Pennsylvania, and continued on Conrail trackage-rights territory to Oak Island.

We ran the service for two and a half years. We were in some rate negotiations with both of the partners that we had, and we also found that we weren't competitive from a-- Because of the lack of control that we had, we weren't competitive in the transit time.

So we really put ourselves-- Like a Federal Express would offer, as opposed to a next-morning delivery or second-morning delivery, we put ourselves into the third-morning category. Actually, it was about a little after noon of day two, but to the intermodal business and the intermodal trucking business, if you're not on the street in the morning, then you are a next-day deliverer. So we put ourselves--

As a result of the network, we had to take less than the premium rates for the services, and rate pressure was only part of it. Lack of control, lack of total control, and lack of volume on the route contributed to our inability to squeeze all the costs out that we could. So it wasn't simply a rate issue, it was a combination of factors. But I think it demonstrates very well that in all particular cases, trackage rights alone do not give you proper competitive access, as they say, in all cases.

ASSEMBLYMAN DeCROCE: Do you presently have additional trackage rights in New Jersey, whether it be in northern or southern New Jersey, and if so, what areas may you cover?

MR. GILMORE: In New Jersey, our trackage rights really cover-- From Allentown, we cross the New Jersey border into Oak Island and then that is it. As I said in my testimony, we have no rights to serve any on-line business on that trackage, and we're only allowed to carry intermodal-type business into the Oak Island Terminal.

ASSEMBLYMAN DeCROCE: Thank you.

Is there anyone else? (no response)

Thank you very much, Mr. Gilmore.

MR. GILMORE: Thank you. Again, I thank you for accommodating my schedule.

ASSEMBLYMAN DeCROCE: If we can, we'd like to bring the Norfolk Southern people back in. There are additional questions, I know, on the panel, plus myself.

Assemblyman Bodine.

ASSEMBLYMAN BODINE: Thank you, Mr. Chairman.

As an elected official, I assure you I am always concerned about the best interest of the State of New Jersey as a whole. However, during your presentation I don't recall, other than maybe two or three times, hearing about Camden and Philadelphia.

I think I heard you say that you wanted to come to the State of New Jersey because of the Ports of New Jersey and New York. But in looking at some of the information that you provided to us, it concerns me that some

of the statements say that you would put new service between the Mid-Atlantic states, Harrisburg, North Jersey, intermodal operate via Allentown instead of the longer Philadelphia route. You propose automotive benefits -- a new distribution for automobiles in Philadelphia. Philadelphia is not an automobile-type of a port. Also, a \$300 million investment in intermodal improvements, a new superterminal in eastern Pennsylvania/New Jersey to avoid New Jersey highway terminal congestion. That distresses me because of the impact it may have on the Camden-Philadelphia area. Can you elaborate on that for me, please?

MR. EISENACH: I don't know what the--

ASSEMBLYMAN BODINE: There was another statement made. I think I heard you say that the rest of, if I'm not mistaken, the Philadelphia lines would be sold to a competitor. Is that correct?

MR. EISENACH: No. Just the line from Port Reading Yard down to Philadelphia, but there are certainly going to be-- That's just one of several routes to Philadelphia. What that allows is the route from the southeast to Philadelphia up to New York and then to Boston and beyond for a competitive carrier for this area. So there would be two routes from the New York-New Jersey area to the southeast using maybe two single-line routes. Right now, of course, we can do that: CSX interchanges with Conrail, that gets it up here; Norfolk Southern interchanges with Conrail to get up here.

What we are proposing is the sale of the line, as I mentioned, from Port Reading Yard to Philadelphia, but we would have our own route. If CSX would have purchased that line, they would have their route into this area, as

well. So there would be two individually owned routes up to the New York-New Jersey area.

ASSEMBLYMAN BODINE: Would Philadelphia/Camden Ports have the same access to railroad lines that they have now?

MR. EISENACH: Actually, under a CSX-Conrail merger proposal, Philadelphia basically becomes a one-railroad town, because Norfolk Southern does not get there right now, Conrail and CSX do. What we are saying with the Norfolk Southern-Conrail merger, the first thing it does is preserve the status quo, the competition that is there right now.

ASSEMBLYMAN BODINE: How about other future plans for -- again, as I brought out with Conrail -- the development of the Port of Salem. It's a small port, but very, very important to the New Jersey community of South Jersey. Would there be some kind of-- Well, I can't ask for commitments, but what would the plans be for something like that?

J I M B L A Z E: At the present time, sir, Conrail does not -- I'm sorry, Norfolk Southern does not have access to actual revenue or marketing information about Conrail. It can only deal with the national weigh bill sample, which is just a small fragmentary sample of traffic. It does not have the right to discuss, with any of its compatriots in the Conrail marketing plan, certain market attributes.

So when there is a filing at the Surface Transportation Board in late March of Norfolk Southern's proposed merger for Conrail, that type of detail is liable to be lacking unless there are certain discovery documents being made available to Norfolk Southern.

So at the present time, we couldn't comment on that type of level for Salem, New Jersey, which, I'm happy to tell you, I live within earshot of. I live in Sicklerville.

It's just not possible at this time, sir.

ASSEMBLYMAN BODINE: So I can take some comfort then that you're not going to abandon the Philadelphia-South Jersey community?

MR. BLAZE: Norfolk Southern's operating plan assumes that it is going to acquire all of Conrail. This gentleman's question earlier-- It will acquire all of the Conrail envelope. This will be a stock acquisition. It will acquire all of the properties, and at this present time, the divestiture plan which Steven, my associate, outlined does not entail selling off properties down in southern New Jersey. So Norfolk Southern and Conrail would be the new entity, and they would operate those properties in South Jersey just as Conrail operates them today.

ASSEMBLYMAN BODINE: Thank you.

MR. BLAZE: And, importantly, there would not be a monopoly down there, because CSX would still be in the marketplace of Greater Philadelphia with its own properties.

MR. GRANUM: I think that Conrail sold 185 miles of track in South Jersey in the last month or so that we weren't aware of.

ASSEMBLYMAN BODINE: I wasn't either.

MR. GRANUM: Was that the development?

MR. BLAZE: I'm not aware of those details. We could find them out for you, sir. We have some associates here, and we could provide you with

that information. If it's publicly available, we could provide you with that information.

MR. GRANUM: When we met with the South Jersey development group in Camden, we learned about that sale. I think it was called the Railroad Development Group or something like that -- the purchaser.

ASSEMBLYMAN BODINE: I'm not familiar with it, but I will look into it. Thank you.

ASSEMBLYMAN DeCROCE: Assemblyman Wisniewski.

ASSEMBLYMAN WISNIEWSKI: Thank you, Mr. Chairman.

Mr. Granum, in your testimony earlier, you talked about opening up the port area between Conrail's Port Reading and Croxton Yards. Exactly what does that mean, opening up the port area between Conrail's Port Reading and Croxton?

MR. GRANUM: Steve.

MR. EISENACH: Essentially, what that means is that the yard, the port, the stations between -- now, there are probably about a dozen different stations, I don't have them right offhand -- we would be making that area-- Between that geographic area, between those two points, would basically become a terminal area.

That other carrier, whomever that will be -- whether it's a CP-D&H, whether it's CSX, or whomever -- will have access to all those customers and the port unlike they have today. They can have their choice of either direct access -- they could switch them themselves, they could ask Norfolk Southern-Conrail to do the switching for them, or the other alternative

would be to make that a terminal area operated by a neutral carrier. That's to be decided with whomever the other railroad is. But basically, it would be opening up the whole port there to two Class I carriers. It just does not have that today.

ASSEMBLYMAN WISNIEWSKI: All right. You all saw there was testimony about the Port Reading line being sold. Correct? There is 1200 miles of line being sold.

MR. EISENACH: That's correct.

ASSEMBLYMAN WISNIEWSKI: That would be part of the Port Reading line?

MR. EISENACH: That's from Port Reading south.

ASSEMBLYMAN WISNIEWSKI: Port Reading south. South to where?

MR. EISENACH: Philadelphia.

ASSEMBLYMAN WISNIEWSKI: So the Port Reading-- The lines from Port Reading south would be potentially owned either by CP or some other line?

MR. EISENACH: That's correct.

ASSEMBLYMAN WISNIEWSKI: Now, it seems to me that you're getting-- In order for the acquisition here, you're also getting rid of a large chunk of the rail line you're trying to acquire. Is this simply an attempt to gain port access that you otherwise don't have up here?

MR. EISENACH: What we are trying to do is achieve two things. The first, is to address -- the number one test that we have to make is to address where we go from two carriers to one carrier in markets. The second

thing, like I mentioned, is we are going beyond that to introduce competition to the North Jersey area by selling access. So, yes, we're doing it, but we are trying to do it with the sale of lines that will not cripple or will not destroy the underlying Conrail franchise. That's just too important to us. It would be too disruptive to customers, too disruptive to employees, if we were to do a massive sale-off of Conrail. We're trying to achieve those two objectives in the most humane way, I guess, possible.

ASSEMBLYMAN WISNIEWSKI: And in opening the port areas, is this going to result in additional traffic in the Port Reading Yard?

MR. EISENACH: I would suspect it probably would. You know, the traffic right-- You think all the traffic that is moved, all the goods that are moved into this area, only 3 percent moves by rail. We would certainly hope that by introducing competition and getting some fresh thinking that we ought to be able to get more traffic and that, of course, would mean probably more activity through that yard.

ASSEMBLYMAN WISNIEWSKI: Okay. Thank you.

ASSEMBLYMAN DeCROCE: I have several questions for you. If you merge with Conrail, are you going to have sufficient cash to be able to operate your railroad? Because this is going to be an expensive proposition for you.

MR. GRANUM: Yes, we have the lowest debt ratio of any railroad in the country, the best operating ratio, the best profit-to-revenue ratio. We have the best maintained plant, in our estimation, in the country. We've been spending \$500 million a year of our own money just to buy our own stock back off the market. So we've got that money available.

ASSEMBLYMAN DeCROCE: But you also indicate that you're going to-- You're spending approximately \$10.5 million for the purchase, plus \$2 billion in debt, and then you have a line of \$20 million. Is this going to cause rates to increase in the long run, I mean if you spend all of these-- I don't know how much it's going to cost if you spend it all.

MR. GRANUM: I think our balance sheet is so strong that when we went out to borrow money, it was like these credit card things you get in the mail. We had a Canadian bank send us an unsolicited offer to loan us \$1.2 billion in cash. We ended up with \$20 billion in credit offered, more than we were seeking. The stock market, the financial houses, nobody is concerned. We're very able to handle that, and we, of course, would be getting the income that Conrail is making itself -- would now be coming into the joint account. So we'll have their profits, our profits, and it's very manageable.

MR. EISENACH: If I may add, when we file our merger application with the Surface Transportation Board, all of the financials will be disclosed as part of that application, exactly how we will finance it. All of the pro formas will be there so it will be open for you to see.

MR. GRANUM: This filing will be two million pages of paper, and we're in the process of assembling that now. But the stack-- One copy will be about that high. (indicating)

ASSEMBLYMAN DeCROCE: We're used to summary reports, but we never get them. (laughter)

MR. GRANUM: If you want the executive summary--

ASSEMBLYMAN DeCROCE: By the same token, Conrail indicates that if you operate two lines, costs would probably be driven up

because of the necessity of two engines, two operating teams. I always thought competition was to drive the rates down, and yet, they seem to indicate to us that if you have more than one operating group, you're going to probably cause the rates to increase because there won't be enough business for everyone.

MR. GRANUM: It's counterintuitive, but CP was just here saying, "We are anxious to spend our money to buy into this market." I think in their economic judgement, it's a viable decision. In our economic judgement, it's a viable decision. It's curious that the concern comes from the guy who doesn't want a competitor, saying, "Oh, these guys are going to spend their own money and go broke up here. We want to protect them from that." We don't get our financial advice from Conrail or CSX.

ASSEMBLYMAN DeCROCE: Okay. Another question I have for you, I asked of the other people before. We have a railroad here in North Jersey that operates a line through Morris and Sussex Counties. The State of New Jersey has invested approximately \$20 million in this corridor. We'd like to be assured that the rail in this particular area, under your operation, would have sufficient trackage rights and be able to operate without being driven out of business.

MR. GRANUM: The Susquehanna commuter--

ASSEMBLYMAN DeCROCE: The Susquehanna Railroad.

MR. GRANUM: Do you want to pick up on that, Jim?

MR. EISENACH: I'm not familiar with it.

MR. BLAZE: Are you talking about the transit line, sir, or are you talking about--

ASSEMBLYMAN DeCROCE: I'm talking the transit line that's going to be operating over the New York and Susquehanna tracks right now.

MR. BLAZE: The operating plan that Norfolk Southern is currently trying to put together for the merged Norfolk Southern-Conrail entity would not affect that operation. We proposed at this time no freight operations would be going into that area. So there would be no negative impact.

ASSEMBLYMAN DeCROCE: Okay. Now, let me ask you this: Supposing you're not successful in this merger, are you the next takeover? Are you next to be taken over? What happens if you lose this merger?

MR. GRANUM: Well, we will have 20 percent of the market in Conrail territory or 30 percent of the market east of the Mississippi. We are still viable, but we're so dominated by the CSX-Conrail that it would be a much, much different company. But we will hunker down. Our franchise is fine, but I think we will have to pull back from this region.

ASSEMBLYMAN DeCROCE: The other question I have, frankly, is about your relationships with your municipalities, your states, and your counties that you work through, because we don't really have a history on Norfolk Southern here in New Jersey. Obviously, you haven't been working here, and though some of us have been somewhat critical of Conrail, we really don't know how you work either.

The fact of the matter is, I'd like to be assured that someone is going to be able to answer a question when any of us might have-- Whether it be one of our sister municipalities or whatever it might be or one of our short lines has a problem and they want to get to somebody within the company, I

hope we're going to have some sort of a voice here in New Jersey that someone can talk to from time to time.

MR. GRANUM: Well, I've handled politics in 20 states for Norfolk Southern and now am reaching out to the Conrail states that we don't serve. I've asked our people in the preliminary contacts we've done in this new area whether we've failed to talk to the Governor, to the DOT, to the transit, to the short lines, regional customers, planning organizations, any entity in any of these states if we've been derelict in reaching, and the feedback I'm getting is that we've touched all of the bases. We may not--

But that is our start-up position coming in; that we're touching all of the bases extremely extensively, I think, in the states. In most cases, the people we're talking to have not been approached by the others. That has been pointed out, that we are listening and learning, and this is an ongoing quality program that we have within our company that would not be abandoned, but extended and improved up here.

ASSEMBLYMAN DeCROCE: And you've had a relationship with short lines now, presently, in the southern states that you work in presently, and you're going to continue a relationship with the northern states, I assume?

MR. GRANUM: Yes, sir. Our Chairman met with the Board of Directors of the Regional Railroads of America and had a very, very good briefing session. We've got an ongoing relationship with the short lines, some of whom in this area -- because their only connection is Conrail -- are concerned about renouncing that company and embracing us. But we've got a strong short line position. These are the capital areas that nurture the arteries and the rest of the system. They've been very effective in gathering

and distributing cars at the retail level and are a very valued part of the circulation system for the economy.

MR. EISENACH: If I may just add briefly, in my other life, that's what I normally do. I work for short lines for Norfolk Southern and have been for 17 years. We have a very, very--

ASSEMBLYMAN DeCROCE: Do you respond to mail?

MR. EISENACH: Yes, sir. In your packet, that gray envelope -- the Norfolk Southern envelope -- there is a white paper in there about our short line policy. We call it, basically, our Ten Commandments of dealing with short lines, and we take it very seriously, sir.

ASSEMBLYMAN DeCROCE: Thank you.

You indicate that you do double stacking. Is that right?

MR. GRANUM: Yes.

ASSEMBLYMAN DeCROCE: Explain double stacking, because I'm not sure if everybody understands what double stacking is.

MR. GRANUM: To build a single train it takes a long yard, it takes long sidings to pass and meet other trains, and with the double stacking you can put two truck trailers or two ocean containers on top of each other; instead of having a mile-long train, have a half-mile-long train. Your yard is going to be smaller, your passing tracks shorter, your crossing blockings and interferences lessened, and the economy of double stack is very good.

But the expense of accommodating -- to double stack is very expensive and something we've done ourselves, including paying for double-stack clearances on Conrail territory so we could get our goods north of Hagerstown, Maryland. It may mean daylighting tunnels, improving

clearances, raising bridges. It's an extensive capital expense that we do on our own.

ASSEMBLYMAN DeCROCE: You're prepared to do that?

MR. GRANUM: Yes, sir.

ASSEMBLYMAN DeCROCE: Do you work closely with the trucking companies, because trucking in New Jersey is an integral part of our economic community. Though some of us, some of the residents of the State of New Jersey, get annoyed with the trucking industry from time to time, it's vital to our well-being.

MR. GRANUM: The J. B. Hunt Trucking Company, as mentioned earlier by the Conrail representative-- J. B. Hunt is one of our top 200 customers. Schneider Freight is a huge customer. United Parcel Service: We're running solid trains of UPS containers and trucks. The auto factories are running just-in-time manufacturing. We have a three-hour tolerance to get our trains through the factories or they close down. Some of this is intermodal, some of it is just parts.

The truckers are very demanding. Their service is wonderful. It's individualized, and we-- But our intermodal service has been growing 12 percent a year -- the fastest growing in the country. The trucks on the highway are like the Chinese marching into the sea. I mean, there are so many out there that we can take off 100 or 200 a day on I-95, and the trucking companies are pleased because it reduces their congestion. The automobile drivers are happy, and it saves you another two lanes on the interstate or another runway on the airport.

ASSEMBLYMAN DeCROCE: The Turnpike Authorities aren't happy. They lose money. (laughter)

That's all I really have now at this point, Mr. Chairman.

SENATOR CIESLA: Thank you very much, gentlemen. We appreciate the testimony. I'm sure that we'll continue the dialogue as we progress through this.

MR. GRANUM: We've got an endorsement letter we'd like to circulate.

SENATOR CIESLA: Please do that.

Our next witness is Mr. Benjamin Friedland from the New Jersey Short Line Railroad Association.

BENJAMIN FRIEDLAND: I guess good morning has turned into good afternoon.

ASSEMBLYMAN DeCROCE: Good afternoon, Mr. Friedland. How are you?

MR. FRIEDLAND: Very well, sir. Thank you.

I am here wearing a couple of hats. I think to introduce myself, I am the President and General Manager of the Morristown and Erie Railway, which is located, principally, in Morris County but serves a couple of stations in Essex County, as well. We also happen to handle the inplant switching at the Bayway Refinery for Exxon Chemical and Tosco Refining Company.

But my principle reason for being here today is as the representative of the New Jersey Short Line Railroad Association, which is a group of the 11 short lines in New Jersey. We also have membership from Conrail, CSX, CP, New Jersey Transit, and some ex officio members from both

NJDOT, as well as some of the county governments. I also wear another hat as a Director of the American Short Line Railroad Association, which is the national association.

Now, both of those associations have a policy regarding both advocacy and endorsement, so my position here today is more educational than it is to necessarily speak one way or another regarding either of the proposals that you heard this morning.

Our concern rests in a multiple of areas. I think it is extremely important to remember that to most of us in New Jersey, with the exception of the intermodal traffic that the New York Susquehanna and Western brings in -- which is a pittance of competition, if you will, to Conrail and you heard from the representative of CP about the debacle of their attempt to get back into the intermodal business-- No railroad in New Jersey is an intermodal carrier in the classic sense that you all think of, which is basically containers or trailers. We do compete somewhat in the intermodal area in terms of liquid and dry bulk, but that is generally not considered intermodal, per se. None of us compete in the New York Harbor situation, with the exception of that traffic that the Susquehanna brings into the area, and while one of our short lines does serve the Port of Salem, it does so only in a very, very limited basis and at the present time, it is not a competitive issue one way or another.

For that reason, when I speak to you today we have to look at it from the perspective of carload traffic, which effects the industries and the businesses of New Jersey. This carload traffic is the boxcar, the gondola, whatever it is loaded with merchandise, and while there is no question that the ports have to be considered, the competition with the highway traffic needs to

be considered in terms of both removing trailers, and so forth, from the highway.

The bottom line is that most of our customers are highly capital intensive and are captive to where they are. They want to be here in New Jersey. They're not here on a whim. Most of them want to be here. Most of them want to stay here. What we can do is to be able to deliver goods to them competitively, and our competition is either the trucker or Conrail.

We have found ourselves repeatedly -- even though Conrail is allegedly our partner -- competing with Conrail for the exact same business. Because in many instances, Conrail will bring it to a facility whether it be a transload, reload terminal, or whatever and truck it the final distance. We unfortunately have found ourselves on the short end of the stick because-- It reminds me of an old Bill Cosby story about Las Vegas where he says, "Keno is the only game in the world where you tell your opponent what your numbers are." The same is true when you do business with Conrail; that unfortunately, you end up telling Conrail what your numbers are and they can address the numbers. Now, this is not to say that that's not fair competition.

You heard earlier that in 1976 Conrail sort of came along as the result of the demise of the Northeast railroads and most of us breathed a sigh of relief that there even was a railroad left to connect with. Twenty-one years later, we find ourselves in a position where not only do we have an extremely strong and viable partner, but a partner that we've learned to work with and/or against when the need has arisen.

We have found ourselves in the situation where we have had to finesse our way into convincing Conrail that the business should come via the

short line. We have found ourselves in the situation where Conrail, at times, had to be told of the viability of the short line, where their own internal people had gone out and told the end customer, "You don't want to do business with that short line. After all, it's going to cost you more money. It's going to this, it's going to that."

In one instance, without getting into specifics, we actually had to go to a very high-ranking Conrail official to get them to, in turn, tell the salesman who was dealing with the actual customer to back off, because Conrail would have lost the business. New Jersey would have lost the business, too, because the decision wasn't a matter of locating on a short line, the decision was whether to stay in New Jersey or whether to go somewhere else to locate either on possibly CSX or Norfolk Southern.

It's important to note that all of us have learned how to work with Conrail, and our concern at this point rests in an unknown. You've heard both the representatives of CSX and NS say that your answers lie in the filing when that filing occurs. None of us have seen an operating plan. We've only heard answers to the specific questions that we've asked, most of which, while comforting, I'd rather see it in black and white and see whether or not that's really what comes of it all.

We've heard of the economies of north-south traffic that may affect some of our short line members. It may not affect others. We've heard of the economies of different gateways from what we see today. It may affect some. I could sit here and tell you war stories that say I know that it won't work in certain instances, but that's not my purpose here.

Our concern rests with the fact that we've learned how to live with our partner, Conrail, and we think that for the most part we're being served well. Our biggest concern rests from the fact that both CSX and NS have to look at what benefit they get from acquiring Conrail. One of the biggest benefits that they get is access from their Atlantic ports south of Philadelphia to Chicago.

Over the years, all of the Class I carriers have overrationalized their plants to the point that in many instances you don't have enough track today to handle the business that has returned to the rails. Right now, we have very, very good service through St. Louis coming to us for a lot of our chemical and plastics business. My question that I've raised and I don't have a direct answer on is: What is going to happen when this NS and/or CSX traffic occupies those rails between Pittsburgh and wherever and competes with my traffic coming in the other direction?

We don't necessarily see that there is going to be marked benefits for us in the merger. Our concern is whether there are going to be detriments that are going to adversely affect the railroads of New Jersey. It's important to remember that, unfortunately, the circumstance that we find ourselves in today is as the net result of the trickle down of 1976 till now. While it has worked to everybody's benefit in the long run, there may be opportunities that have been lost.

We do know, factually, that there is business that Conrail has seen to it that we cannot handle while they still have made other deals with their Class I partners. I mean, their involvement in Triple Crown business decision, a wise decision. They have other run-through arrangements with CSX and

other things that work to their benefit. If we ask to do the same thing or try to establish it, they're simply not interested in it.

So the question really becomes in this particular instance, until these applications are filed and the short lines can, one way or another, make their individual decisions and decide whether they want to be participants before the Surface Transportation Board to address specific issues, we are simply not in a position, other than those points that I just brought to your attention that really concern us.

Thank you.

ASSEMBLYMAN DeCROCE: That would make you and the trucking companies somewhat-- Despite the fact that you're competitors, you would probably be allies in this regard. Am I right?

MR. FRIEDLAND: Well, the real question is not whether we're allies or not, because some of the commodities that we deal with simply don't lend themselves to long-haul trucking but would on a shorter term basis. The real question is-- The State of New Jersey is the most captive State of all of the states in Conrail's territory to Conrail, and the question becomes: How do you create competition not just for the short lines -- because we're only an extension if you will, of whoever that carrier is on a retail basis to the customers -- but to the businesses of New Jersey so that they become or remain competitive in the global economy.

ASSEMBLYMAN DeCROCE: Now, despite the fact that some of us are obviously interested in the Port of New York/New Jersey, we also have an interest in Camden, Philadelphia, and certainly, Salem. Salem is a deepwater port. The short lines now are operating in that area. What can you

do to enhance those facilities by working with either of the groups? Can you tell us that?

MR. FRIEDLAND: I don't think I have that answer at this point, part of it is going to come through the disclosures in their applications before the Surface Transportation Board. Remember, too, that Conrail has just entered into an agreement with a company out of Pittsburgh to sell South Jersey, if you will -- the majority of South Jersey -- to a short line operator or a regional operator, which as it relates to the Port of Salem, now puts two short lines between the Class I carrier and the Port of Salem.

ASSEMBLYMAN DeCROCE: Who are those two?

MR. FRIEDLAND: National Rail Development Corporation out of Pittsburgh and the Southern Railroad of New Jersey, who's the existing operator down there.

ASSEMBLYMAN DeCROCE: I'm not familiar with either.

MR. FRIEDLAND: One other point. Excuse me, one thing which I forgot to mention, which was mentioned by Conrail in their discussions earlier, about the various short line relations-- It should be noted that there are no Conrail Express partners in the State of New Jersey. There are Conrail Express partners in virtually every other state, but there are no Conrail Express partners in New Jersey.

It is interesting to note, too, that since the announcement of the merger, there has been a very active effort on Conrail's part to attract some of the New Jersey railroads to become Conrail Express partners. We are one of them that is involved in negotiation and there are at least three others that I'm

aware of. But of the eleven railroads, not one was part of the initial Conrail Express Program.

ASSEMBLYMAN DeCROCE: What are the terms of their contractual arrangements with the express?

MR. FRIEDLAND: Basically, they're 20-year contracts. You agree to rates up front, which are supposed to make you whole. I'll be very honest, they are attractive. The rates that we've been able to negotiate on our traffic on the existing Morristown and Erie actually provide us with a few fractions of a percent more money than we presently get today. There are built-in escalators. There are also other things which make the whole thing very, very attractive. It also simplifies paperwork, both for us and the customer, and so forth, and for Conrail. In reality, it's a very, very good-- I shouldn't say very, very good program. It's a very attractive program. We really won't know until, if we do sign on with this thing, we see how it works both ways.

But basically, it's a 20-year contract. There are many escapes on Conrail's part. We've attempted to negotiate in an escape on our part. They haven't balked totally yet, but it's still in negotiation.

ASSEMBLYMAN DeCROCE: Twenty-year contracts, are they prohibitive in any way?

MR. FRIEDLAND: Only to the extent that Conrail has full authority in pricing. So that while you could argue that if they don't want a sector of business that they would have 100 percent control in pricing the business so that it remains via truck or hot-air balloon, for that matter. I just don't know.

But, on the other hand, that's why I made the comment earlier that there needs to be retained some method of competitive access in the State of New Jersey. The suggestion about the terminal railroad is an interesting concept. There are other things that should give the shippers, the businesses in New Jersey, the opportunity to get to a second carrier to see if there is a competitive aspect.

ASSEMBLYMAN DeCROCE: Do you think that mainly the interest in the merger right now is the reason why Conrail is so interested in all of you fellows who are running short lines?

MR. FRIEDLAND: Strictly my thoughts on the matter, and that is that it seems like, perhaps, it would strengthen their position in the State of New Jersey, which I commented is the most captive State to Conrail. If they could turn around and say, "See, we have these Conrail Express partners and we obviously are working positively with them." I don't want to put words in their mouth and I certainly don't want to suggest that that is the reason, but it's highly coincidental.

ASSEMBLYMAN DeCROCE: Thank you. Thank you, Ben.
Is there anyone else?

ASSEMBLYMAN BODINE: Yes.

Just a quick question, Mr. Friedland. CSX mentioned a railroad development group where 185 miles of track was sold off by Conrail. Do you know anything about this group?

MR. FRIEDLAND: Yes. They own the Iowa Interstate Railroad out in Iowa. They also have some interests as partners in some foreign railroads. There has been a lot-- I shouldn't say there's been a lot. There has

been some joint venturing, if you will, partnering, with U.S. railroads and foreign carriers both in some Eastern bloc nations, as well as in South America, and they are involved in one of those.

ASSEMBLYMAN BODINE: It's much bigger than I anticipated. Would something like this be of benefit to the short lines or lines such as you?

MR. FRIEDLAND: You mean having them in as a railroad in New Jersey?

ASSEMBLYMAN BODINE: As an advantage-- I mean, would it be more of an advantage to you rather than dealing with Conrail? Would they, perhaps, offer you better rates and things of that nature?

MR. FRIEDLAND: Their deal with Conrail -- and we were one of the bidders on the South Jersey operation, as were many others, and we were not successful-- But the rates that are in place-- Conrail, just as I had indicated to the Chairman's question regarding Conrail Express or the Feeder-line Program, rates are set, somewhat cast in stone. These are allowance type levels. They know how much money they're going to get. If there is business beyond them, Conrail guarantees the rate to the short line beyond. So, in theory, everybody is made whole.

Is there a competitive aspect? Not really, because it goes right back to the fact that Conrail controls all pricing.

ASSEMBLYMAN BODINE: Thank you.

ASSEMBLYMAN DeCROCE: Is there anyone else? (no response)

Thank you very much.

MR. FRIEDLAND: Thank you.

ASSEMBLYMAN DeCROCE: Now I'm going to bring the truckers in. Tom Adamski from the Bi-State Harbor Carriers Conference.

Good afternoon, Mr. Adamski.

THOMAS ADAMSKI: Good afternoon.

I have a prepared statement, and obviously, I would like to elaborate somewhat on those comments.

Good afternoon, Chairman DeCroce, Chairman Ciesla, members of the Senate Transportation Committee. My name is Tom Adamski. I am Chairman of the Bi-State Harbor Carriers Conference and President of New Jersey Motor Truck Association.

I wish to thank the Senate Transportation Committee and the Assembly Transportation and Communication Committee for this opportunity to comment on the pending Conrail merger.

We all know that the propensity to deregulate lurks in every conversation regarding transportation, whether it's trucking, airlines, and, yes, railroads. I think we can all understand the impact and pros and cons on the airline industry and the trucking industry, but how do you deregulate a railroad?

Can anyone just purchase a right-of-way and lay down track? Can anyone buy a railroad engine and cars and lease current railroad tracks? Are railroad tracks comparable to interstate highways and airspaces in their availability for use to anyone who would choose to use them for a commercial purpose or otherwise? Obviously, not. So I believe we have a unique deregulation in what we normally accept this term to suggest when we talk about railroads.

We obviously will have a merger of some sort evolve out of all current conversations. We only wish to state that under no circumstance should any merger evolve without absolute warranties of services and competitive pricing to all current users and for potential users of rail services in this State.

We cannot be held hostage by an indiscriminate activities of a singular railroad without these warranties. Our State cannot afford it. Our corporate citizens cannot afford it. Our great port cannot afford it. I therefore suggest to you that the talks currently going on will come out with a proposal. We will support any proposal that ensure this great State its proper due for retention of its current industrial base and for its future transportation needs.

That ends my prepared statement, but I would like to elaborate on some of the conversation that took place. New Jersey, by benefit -- and I say benefit -- of location is really catapulted into a national scene. Because it obviously has an immense domestic market as its neighbor, as part of its whole northeastern quadrant, and obvious access to an international market, it's extremely important that every part of the transportation industry, whether it be trucking, rail, cars, or anything else, is extremely competitive.

We were told just recently that 72 percent of the activity in New Jersey is intermodal. I'm sure that everyone of you are totally familiar with what intermodal means. It means, for the people who are in the railroads, transportation via a railroad and something else. Something else, in more cases than not, is obviously a truck.

To put this whole thing in perspective for the State of New Jersey, as I see it or at least the trucking community sees it, our State is approximately

200 miles long and about 100 miles wide. Most railroad activity becomes competitive with trucks at 400 miles or beyond. So the real impact here to the State-- Now, this seems to be somewhat mind boggling, when you can sit down and listen to what just took place for the last, I guess, three and a half or four hours.

We sat here and we talked about different connections right through the Midwest, the whole bit, but for the local truck community here and the Port of New York, 72 percent of Conrail's 3 percent that they say is intermodal happens here in New Jersey. Because we are a State that, again, is a big, big gateway state. We provide-- The trucks are not going to go away. The trucks are here and, as Chairman DeCroce says, we have some impact on this State's economy.

But there are certain things that are directly related to movement by rail. There are certain things that are directly moved, obviously, by barge, by water, and by air. But remember that word intermodal. Something else and what I'm talking, a truck, because with the exception of the Express Port activity that you currently have in the Port of New York, almost everything else -- I would say 99 and 44/100ths percent of that activity moves by truck.

Express Port: there is a unique set of circumstances in the Port of New York where the cargo comes off the ships, is just hustled over, if you would, into an area, whether it be by a straddle carrier -- which are these gigantic machines that can move containers right next to the car, placed on the car, or otherwise-- But everything else, whether it's moved on a very short basis, is moved by truck. So we have a tremendous concern about competitiveness, as far as having the port attract more cargo.

Currently, we have approximately a million and change -- \$1.1 million, as last was recorded by the Port of New York -- of containers being discharged coming through the Port of New York. Currently, 10 percent of that activity moves via rail. Now, why would the truckers be concerned about cargo that theoretically we don't handle? Well, on the other end, it obviously will be handled probably by a truck when it gets to wherever it's going, whether it's Chicago, Indianapolis, or Indiana.

But it has a direct correlation to the amount of activity that comes through the port, which I'm sure many of you have talked about with this dredging thing that we have our concerns about with the port with 180,000 jobs. The more activity that comes through that port effectively lowers the cost to operate through that port.

The Port of New York is, as was said before many times, first in-first out. It also can attract more business. If we double that business, that's 200,000 or 300,000, whatever the multiple that comes up, that we can access and serve the rest of the country with through the Port of New York through the State of New Jersey. This is business that is directly correlated back to the coffers, if you would, of the State of New Jersey.

But what it does also is allow that other business to expand, because the cost to bring this cargo through the port is lowered, so it effectively allows us more local trade, if you would, and the associated work that evolves out of it. But, again, this has been extremely competitive business. I mean, it's highly competitive. There is not a lot of room for mistakes or, if you would, the supposed home runs -- when people hit a home run, their rates are high, and everybody makes a score, if you would, the whole bit--

I heard, more times than not, on how tricky the business that the truckers are involved in with the Port of New York or, if you would, in the whole State and how competitive it is. But I think what we have to suggest and really put into perspective-- You know Parker Brothers, in their infinite wisdom -- and I think I mentioned this before -- elected to draw on a city here in New Jersey, and in their wisdom, they elected to have four representative railroads in that game that they called Monopoly.

I suggest to you that whatever the railroad evolution turns out to be, however it comes out to be -- and I heard testimony just given by our short line representative -- that the need for having more than one access to this State's business -- the business that's captive here and the business that's gateway business-- We're a gateway business. It's tremendous business that passes through this State, because we're small. We're not a big deal, but yet, if you can be the first port out and the first port in, that business has to move through that State. You've got to have competition.

I trust Conrail and everybody else implicitly, but I think we could trust them so much more if there was maybe one or two. Imagine if we only had one truckman here in the Port of New York. We've got 1500 that are our members. If we only had one truckman in the State of New Jersey, for whatever reason it may be, and he controlled all of that cargo, I would suggest to you that he would probably be in pretty good shape because that suggests that you can do what you have to do and there's really-- In a deregulated state what oversight is there?

So I think what's absolutely of paramount importance is that a Committee like we have here now oversees or has input into what's going on. I think it's of paramount importance.

With that, I also heard a statement made that this merger and this New Jersey activity is not a ripe plum. I would suggest to you that I have problems with that. If it's not such a ripe plum, I have a problem understanding why Norfolk Southern is willing to spend \$12.5 billion. I think if it's not such a ripe plum, I have trouble understanding why the CP with it's D&H is so concerned about its nonaccess to intermodal activity in the State. I suggest to you that it is a ripe plum and I think it deserves your oversight, and I think it deserves every question that you people would be willing to put forth to these people to find out just what goes on.

We, from the trucking end of it, I suggest to you-- Everybody doesn't have a railroad siding at their door. We're going to be here. We will continue to be here. We've operated in those 100- to 200-mile corridor, and we will continue operating. I don't perceive this as a major threat, but we will do everything possible to enhance the stature of the State of New Jersey and make sure that whoever we have to partners with on the intermodal end with, we will do our absolutely best to make sure that that's possible.

Thank you.

ASSEMBLYMAN DeCROCE: Thank you, Tom.

Do any of the members of the Committees have any questions of Mr. Adamski? (no response)

Thank you very much.

SENATOR CIESLA: Thank you, Mr. Chairman.

Our next witness to testify is Mr. Joel Weiner, the Executive Director from the North Jersey Transportation Planning Authority.

Good afternoon, Joel.

JOEL WEINER: Good afternoon.

Is the microphone on? (affirmative response)

Good afternoon, Chairman Ciesla, Chairman DeCroce, and members of the Senate and Assembly Joint Committees, and ladies and gentlemen.

My name is Joel Weiner, and I am the Executive Director of the North Jersey Transportation Planning Authority. I am joined here today by John Hummer, who is our principle intermodal planner and who has been very much involved with a study that we have provided to both Chairs and we will also make part of our official testimony today that we will leave with you.

The NJTPA is the metropolitan planning organization for northern New Jersey and we represent the State's northern 13 counties. I would like to thank the Committees for the opportunity to address you today, particularly with respect to the impact of the proposed merger of Conrail with another Class I railroad.

Last November, as I mentioned a moment ago, in partnership with the New Jersey Department of Transportation, we did a study on the impact of the proposed merger of Conrail with CSX railroad on our economy and the State's overall transportation infrastructure. That was the study that Acting Commissioner Haley referred to this morning, as well.

The study has developed findings and recommendations that will lay the basis for a response by the State and other public agencies in the

regulatory process and in congressional hearings to issues of public interest and concern raised by the merger. Key elements of the Conrail study include a comprehensive survey of major industries that rely on rail service, as well as an extensive route and market analysis of key elements of the merger.

The study has made it clear that the NJTPA region's major transportation facilities serve as the lynchpin for freight distribution to the largest consumer market in the country. We're talking about some 18 million people in the greater New York-New Jersey metropolitan area. We're talking about all of northern New Jersey. We're talking about downstate New York, New York City, Long Island, mid-Hudson, and southwestern Connecticut, and certainly implications of the merger run throughout our State and beyond.

Fully 90 percent of the rail cargo destined for this huge metropolitan market is processed through major rail facilities in northern New Jersey. It is therefore vitally important that our State have a sound, competitive freight railroad structure, because rail freight represents the best option to expand the transportation system's goods-movement capacity. It also represents an opportunity for us to lower the high levels of truck activity on our region's highways. Further, efficient, competitive, and cost-effective rail services will provide the crucial factor in linking our port facilities to more distant inland producers and markets.

Our study has shown that a lack of competition has led to freight lines being underutilized on the major rail lines leading to our region. To create effective rail access to the port's facilities, there must be multiple Class I carriers accessing the many core intermodal facilities, such as express rail in

Port Elizabeth. Another possible option would be to create a port terminal railroad that provides equal service to Class Is.

For over 20 years, Conrail has exercised, in effect, a near monopoly in the State of New Jersey for major Class I railroad service. According to the survey conducted as part of our study -- and I underscore this is a finding of the study team -- Conrail has been able to set price and service parameters that have had negative effects on industry, consumers, and economic development. Its relations with some of the State's important short line railroads, many created by Conrail's divestitures of its less-profitable lines, have likewise been detrimental to the short lines' abilities to grow their businesses. Indeed, our surveys have found that rail customers have high praise for short line railroads because of their ability to offer better, more attentive service at low costs.

Conrail has no serious long-haul rail competition. Rail customers who must rely on Conrail to serve their long-distance freight needs do not buy its assertion that trucking offers sufficient competition, because trucking is a premium service that handles lower unit volumes at higher prices. They fear that without other serious Class I railroad competition, Conrail will be able to raise prices to a level that approaches trucking, thus, making it more expensive to do business.

Our surveys have repeatedly confirmed that the State's industries prefer to have access to balanced, competitive rail services because this is the best way to guarantee improved service options and lower transportation prices for long-distance delivery.

Another important element of the State's rail transportation picture, and one that is especially critical to our region -- and it has been

mentioned in earlier testimony -- is the need to share rail lines between both passenger and freight service. Conrail already enjoys access to lines operated by New Jersey Transit and Amtrak, and NJ Transit, likewise, enjoys access to Conrail-owned lines.

We believe that capacity may be underutilized, depending upon the time of day on many of the State's rail lines, and that some of these lines can handle increased traffic in both passenger and freight service to accommodate the growing needs of the State's commuters and industries. It is also important to note that some dedicated freight lines may represent the best opportunity for NJ Transit to expand its passenger operations into new markets. The State must be able to negotiate new line-sharing arrangements with the freight carriers that emerge as the Conrail merger process progresses.

I would now like to conclude my remarks with five key principles that have emerged in our analysis:

First, we believe that the State of New Jersey should act aggressively and proactively in ensuring that the needs of its industries and consumers are met after final resolution of the Conrail merger.

We envision a two-track process where the State and other agencies seek to negotiate with the merger parties for a railroad structure that meets these needs, while at the same time, the State should prepare to intervene at the Surface Transportation Board in Washington to accomplish those goals.

Second, New Jersey must insist that there be balanced, competitive rail service to its core intermodal terminals by more than one Class I railroad. This applies to key terminals in both the northern and southern parts of the

State. A key element of this competitive access is that a railroad should own its main access line and endpoint terminals that consolidate and distribute freight.

As I previously stated, a possible mechanism to guarantee balanced Class I access to the region's core terminal areas is to have a short line railroad act as a terminal railroad providing equal service to Class I carriers.

Third, balanced competition also implies that wherever possible the State's short line railroads must also have access to more than one Class I railroad.

Fourth, trackage rights, where a railroad operates trains over another railroad's owned lines, do not constitute adequate competition because railroads that operate with trackage rights are limited in their service options and their ability to develop businesses and to interchange with short line railroads en route.

Fifth, the State should insist that there be no arbitrary cutbacks in shared passenger-freight line service and that the freight railroads be receptive to new joint passenger and freight service options.

Again, I would like to thank the Committees for the time and opportunity to be here today. If you have any questions concerning my testimony or the elements of the study that we will transmit to the Committees, John Hummer and myself are here to address those concerns.

SENATOR CIESLA: Thank you very much, Joel.

Are there any questions of the panel? (no response)

Thank you very much for your testimony. We appreciate it. Give your report to the aide. Thank you.

The next individual to testify will be from the southern portion of the State. Donald -- I'll try this -- Shanis. (indicating pronunciation)

D O N A L D S H A N I S: Shanis. (indicating pronunciation) I guess it was spelled wrong.

SENATOR CIESLA: From the Delaware Valley Regional Planning Commission.

Welcome.

MR. SHANIS: Good afternoon.

My name is Donald Shanis. I am the Associate Director of the Delaware Valley Regional Planning Commission. I am joined here this afternoon with Ted Dalburg, who is the Manager of Goods Movement at the Regional Planning Commission. It is a pleasure to be before you today, and I'd like to thank the two Chairmen and all the Committee members for the opportunity to offer these remarks.

The railroad merger under discussion today brings together two things of fundamental importance to the DVRPC: The residents and businesses of South Jersey and transportation planning. DVRPC is the metropolitan planning organization for a nine-county organization, which is bistate over the Delaware Valley area. The region includes Burlington, Camden, Gloucester, and Mercer Counties in New Jersey and Philadelphia and four suburban counties in Pennsylvania. DVRPC's specific charge is to develop regional solutions for complex land use and transportation issues.

South Jersey is the fastest growing portion of the DVRPC region. How fast? Between 1997 and 2020, population may increase by more than 15 percent and employment nearly 20 percent. Forecasts of transportation

indices reflect this growth in residents and jobs. Vehicle miles of travel, the basic measure of automobile travel, may increase by as much as 25 percent, and auto ownership is growing even faster and may increase by more than a third.

Over the same time period, public investment in transportation will focus on system maintenance and preservation, not on capacity increases and new roads. The DVRPC Transportation Improvement Program and Long-Range Plan champion this strategy. Thus, greater and greater travel demand will be borne by essentially today's transportation network. It will be incumbent upon us to make the system more efficient for moving people and goods by using such strategies as Intelligent Transportation Systems and by finding the most optimal mergers and alliances.

In terms of freight movement, the Intermodal Surface Transportation Efficiency Act, ISTEA, provided the states and MPOs with a powerful impetus to embrace goods movement as a vital public sector concern. Surveying work programs, projects, and conferences since generated by the planning community, it is quite evident that freight movement and facilities enjoyed a heightened profile and appreciation.

Through this looking glass, we know that the Class I railroad network is analogous to the nation's interstate highway system. We know that it is a separate but complementary transportation system, that it is the backbone of railroad traffic, boxcar moves, and intermodalism, and we know that it is the lifeblood of the short lines, customers, and consumers that they serve.

DVRPC regards the goods movement mandate with great care. In fact, we have sought to go beyond the mandate. We recognize that some transportation matters are strictly within the purview of the private sector, but that some critical areas of convergence demand partnerships between modes and private and public interests. The Delaware Valley Goods Movement Task Force is the centerpiece of DVRPC's freight work, and it enjoys a high level of involvement from all of the railroads, as well as with other members of the goods movement community.

This keen interest in freight transportation in South Jersey has led DVRPC to closely consider the impacts and implications of potential railroad mergers. The leadership of the New Jersey Department of Transportation in conducting a statewide assessment of the merger -- and I think you just heard about that -- has greatly facilitated this process. Our participation in this effort from the onset has been very helpful in solidifying an evaluation framework and identifying important policy and operational issues.

As a result of a thorough consideration of the disparate transportation needs and trends for the South Jersey area, we believe that the potential railroad merger creates an opportunity to advance several important transportation objectives. Concisely stated, the areas of concern and planning objectives are:

First, competitive access, and you've heard many of those statements today: South Jersey presently has no competitive access for Class I freight railroads. We support the principle of competitive access to serve area shippers and customers.

Secondly, the ports: The South Jersey Port complex is a major aspect of the local economy. We want good levels of rail service, recognizing that it is vital to success.

Thirdly, the short lines: South Jersey has a number of short lines including the Southern Railroad of New Jersey, SMS, and the Winchester and Western. We need them to flourish to serve local businesses and to reduce traffic congestion.

Fourth, the corridors shared by more than one interest: Combined freight and passenger operations must be afforded genuine consideration in precious rights-of-way, such as along the Bordentown Secondary. We want a true partnership among all transportation providers.

These concerns underscore the potential magnitude of the merger impacts on the quality of life in South Jersey. In the future, DVRPC will closely monitor merger developments and the release of the operating plans. As we have done in the past, this important issue will be kept in the forefront of our planning agenda. Working through our community structure, DVRPC will continue to be a forum for informed debate and the development of regional policies.

Thank you again for allowing me to share these perspectives with you. DVRPC looks forward to continued efforts in the coming months to effecting the best possible merger outcome for New Jersey residents, businesses, and the railroads.

I'm here to answer any questions, any thoughts you might have about South Jersey.

SENATOR CIESLA: Thank you. Thank you very much, Don. I'm sure your continued review of the operating plans as they're filed will be helpful to the Committees.

Are there any questions? (no response)

Seeing none, then I thank you for your testimony.

Our next witness to testify will be Mr. Jim Leonard from the State Chamber of Commerce.

Welcome, Jim.

M I C H A E L A . E G E N T O N: Mr. Chairman, Jim had another Committee hearing to attend to, so I will be filling in for him.

SENATOR CIESLA: Thank you.

MR. EGENTON: Good afternoon, Mr. Chairman. I am Michael Egenton, Manager of Government Relations for the New Jersey State Chamber of Commerce. On behalf of the business members of the Chamber and the regional Chambers of Commerce that make up our Chamber network, I thank you for this chance to speak to you today.

The results of the proposed merger between Conrail and either CSX or Norfolk Southern will have a significant and long-lasting impact on the economy and the workforce of New Jersey. When asked recently about the pending merger, members of the State Chamber had several key areas of concern. I would like to briefly review those areas for you, in no priority order.

The first area of concern for our members is competition. Members such as Maher Terminals and Anheuser-Busch commented that our State needs more than one Class I railroad in order to compete properly in today's market. This desire for rail competition is not new, but has been a

concern of business for quite some time. Significant market dominance by any one rail carrier in this region must be avoided. Competitors such as the Port of Baltimore and the Port of Hampton Roads currently have the luxury of being served by two major railroads. Any merger must ensure our State and our port no less.

The second area of concern voiced by our membership is rail viability. Rail transportation offers a reasonably priced alternative to truck transportation for many of the hauling needs businesses have today. With the current congestion on our roads and highways, the Surface Transportation Board should be encouraged to all within its power to help alleviate congestion and foster a transportation environment that relies on rail. Intermodal, the movement of trailers and containers on railcars, is less polluting and more energy efficient than standard truck transportation. In addition, rail intermodal helps solve some of our congestion problems by replacing heavy truck traffic.

Last year, an estimated 11 million intermodal shipments were made by the rail industry, with an increase seen every year since 1988. This increasing trend toward intermodal transportation is a trend we do not want to reverse.

The third area of concern for our membership deals with the continued improvement of our port. It is vital that the results of any merger guarantees that there is a commitment on the part of the successful party that the extensive financial investment the State and the taxpayers of New Jersey have made in our port be maintained. This commitment must be solid in order for any merger to continue.

Along with a commitment to the port, it is important that such a merger be built on a foundation that is financially sound. New Jersey should receive assurances that the merger parties are not so overleveraged that they do not have sufficient reserves to guarantee proper capital investments and upgrades which are constantly needed in this industry.

Finally, it is important that we maintain the jobs associated with the rail industry. A pledge by the merger parties that there will be no significant loss of jobs is a pledge that should be asked for.

I want to take this opportunity to thank the Chairmen and the Committees' members for providing a viable and practical avenue to air our concerns about rail transportation. By pursuing a reasoned approach to any merger, New Jersey can move forward in protecting the economic interests of our State and helping ensure our expansion into the next century.

Thank you, Mr. Chairman.

SENATOR CIESLA: Thank you very much for the comments of the Chamber.

Are there any questions? (no response)

Thank you.

Our next presenter is Mr. Joe Balzano, the Executive Director and Chief Executive Officer of the South Jersey Port.

Joe? (no response)

Richard Stocks, Manager and Legislative Counsel for Atlantic Electric. (no response) Richard is not here.

Moving right along, Arthur Reuben, from the New Jersey Association of Railroad Passengers, to be followed by Don Griffin.

Good afternoon.

ARTHUR L. REUBEN: Good afternoon.

Mr. Chairman, and members of the Joint Senate and Assembly Committees on Transportation. I am Arthur Reuben, and I am the Legislative Representative of the New Jersey Association of Railroad Passengers.

SENATOR CIESLA: Excuse me, Mr. Reuben, just wait a second. Is your button on, please? (referring to microphone) Is that on, so that people in back can hear you?

MR. REUBEN: Red?

SENATOR CIESLA: Red. Thank you, and speak into the mike, please.

MR. REUBEN: I thank you for this opportunity to present the views of the New Jersey Association of Railroad Passengers, a nonprofit organization whose membership encompasses all 21 counties. While we are primarily concerned about passenger transit issues, we recognize that freight movement is essential to the economy, and we are concerned about the efficient interface of freight and passenger movement.

In respect to the Conrail merger proposals, there are several critical areas that need to be brought to the attention of the Federal Surface Transportation Board, and we feel that as advocates for the citizens of New Jersey, the State Legislature could play a decisive role.

Conrail is probably one of the best examples of public-private enterprise where the positive role that government can play is illustrated. It is the successor of a number of private corporations that failed, even though they provided an essential service. The Federal government rescued this rail system

with funding and a policy that set a course that enabled Conrail to become a profitable corporation, while providing substantial economic benefits.

The State Legislature has also provided tax relief for the successor of the bankrupt railroads, Conrail. As such, we do not hesitate to commend the interests of the government in certain aspects of this merger and the need to provide a level playing field in competition with highway funding for tractor trailers.

There is a compelling need for the Surface Transportation Board to protect rail passenger service, both for New Jersey Transit and for Amtrak, whatever public carrier operation that Conrail evolves into, especially given its history of public taxpayer involvement. Trackage rights and equitable dispatching rights are essential for the preservation and expansion of rail passenger service in New Jersey.

In the present atmosphere of minimal regulations, we should reject the CSX-Conrail contention that monopoly operations lend themselves to greater efficiencies and recommend that New Jersey be served by competitive railroads.

Secondly, in order to assure that as much local freight be kept off the highways as possible, there is a need to provide greater safeguards to short lines. There must be clear and decisive specifications which allow access of the short-rail lines to the long-haul public carrier Goliaths with an adjudication process that guarantees reasonable rate structures.

Finally, I would just like to say that it becomes very important in New Jersey, in particular, that for the whole purpose of economic development that we have good rail service to our counties. Because there are many

municipalities in our State that have no other opportunity for increasing their economic development but through rail service.

Thank you for this opportunity in presenting our views.

SENATOR CIESLA: Thank you, Mr. Reuben, and thank you for sitting through the testimony this morning and providing your comments to us. We certainly appreciate it.

Our last individual to testify today is Mr. Don Griffin, who is the Assistant General Counsel for the Brotherhood of Maintenance of Way Employees.

Mr. Griffin.

DONALD GRIFFIN: Thank you, Mr. Chairman. I am here today on behalf of both my union, the Brotherhood of Maintenance of Way Employees -- which is a labor union representing those employees who maintain the tracks, buildings, bridges, and other structures of the railroads of the United States -- as well as the Transportation Trades Department of the AFL-CIO.

We at the TTD appreciate the opportunity to make our views known to the Committees today. The TTD consists of 29 affiliated unions who, together, represent several million workers employed in the transportation sector, including almost 200,000 directly employed in the rail industry. We, therefore, have a direct interest in any merger involving Conrail and appreciate the opportunity to have our views shared with you today.

The proposed CSX-Conrail tee or Conrail-NS mergers are another episode in the late 20th century remake of Charles Francis Addams' *Chapters of Erie*. It is ironic that the penultimate chapter of this round of

railroad mergers will occur in the same region made famous by Mr. Addams' account of the financial manipulations and legal battles between Jim Fiske and Commodor Vanderbilt over control of the old Erie Railroad.

Presently, both CSX and NS have pledged to spend over \$10 billion each in order to obtain Conrail and, thereby, reduce to four the number of major railroads in the United States. The merger of Conrail with one of its two eastern rivals will make the creation of two transcontinental railroad systems inevitable. Accordingly, this merger must be subjected to strong public scrutiny so that its full effects upon the Northeast, generally, and New Jersey, in particular, can be assessed.

Transportation labor has neither endorsed nor opposed either competing bid for Conrail. TTD, in close cooperation with its parent organization, the AFL-CIO, has agreed to approach these transactions on a unified basis in order to ensure that the employees of the three railroads and the other working families that will be impacted by the acquisition of Conrail are treated fairly.

At present, we have no way of knowing the specific impacts of any proposed merger of Conrail with either CSX or NS will have on working families because none of the three rail carriers have provided any substantive information to TTD or its affiliates regarding how their proposed acquisition will impact employees.

The carriers' reluctance to provide this information is surprising and disappointing because they clearly have this information, since it is a necessary part of any financial analysis related to the valuation of shares and the setting of solicitation prices for Conrail stock.

On February 15, 1997, TTD's Executive Committee passed a resolution voicing transportation labor's concern over the impact a Conrail takeover will have on the working people, calling on the railroads to begin a serious dialogue with labor over the specific impact their respective merger deals will have on railroad employees. So far, other than a few preliminary discussions with Conrail and CSX, we have been met with silence from the carriers.

Although the carriers have not been forthcoming with detailed information regarding their merger plans, TTD and our affiliates have experienced the effects of many major rail mergers in the past. Accordingly, we know, from bitter experience, the outlines of the impact either merger will have on rail and motor carrier employees, the communities they live and work in, other working families in the region, and the shippers who do business in the region. The impacts of merger generally are not favorable to any of those interested parties.

When the Surface Transportation Board formally reviews the competing applications, it is required by law to consider the interest of rail-carrier employees affected by the proposed transaction. TTD submits there are four general impacts upon employees that flow from rail mergers:

The first is job losses; the second is employee relocation; the third is employee impacts related to the financial strength of the surviving company; and the fourth item is attempts to compel changes in collective bargaining agreements. All of these impacts affect the communities in which those employees live and work.

The first point on job losses: The obvious impact upon employees flowing from a rail merger is that substantial job reductions become inevitable. For example, when two rail carriers merge, one of the carriers' general office buildings may become redundant and the employees working there become immediate victims of the transaction.

In recent mergers involving the Union Pacific and Chicago and Northwestern, the Burlington Northern and Santa Fe, and the Union Pacific and Southern Pacific, the carriers at each of those transactions estimated that more than 1000 employees working in the redundant office building would lose their jobs.

Another likely job target in mergers is the locomotive, car, and maintenance equipment repair shops. The workers employed in these facilities are highly skilled and their dislocation has dramatic effects upon them, as well as on the local economies in which they live. Often, some of these shops are closed and the employees who work in them either lose their jobs or are required to relocate to distant locations.

Finally, most merging carriers estimate that forces can be reduced through putative efficiencies in the utilization of employees across the merged system. In other words, the carriers contend they will produce more with less. We are skeptical that more is ever produced from a merger. We do know that less employees are working for the merged carrier after consummation of the transaction. Since 1980, when the current round of rail mergers began, rail employment in 1980 was about half a million. Today, it's down to the 200,000 mark.

Conrail, CSX, and NS undoubtedly will argue that the employees who lose their jobs will be eligible for generous severance benefits. Well, that claim is true for employees who can show their jobs were cut as a result of the merger. These benefits eventually come to an end and payment of a stipend for a limited time is not full compensation for the loss of self-worth that losing your job produces. Also, the compensation benefits provide only a scattershot protection to employees who remain working but for lower pay following the merger.

While the benefits originally were designed to make employees whole for a period of up to six years after the merger, recent arbitration decisions and decisions of the former Interstate Commerce Commission, the predecessor of the current Surface Transportation Board, and the current Board have made it extremely difficult for employees to obtain such benefits if the carrier contests their eligibility.

The job losses also have devastating impacts on the communities in which these employees live and work. The Texas Farm Bureau commissioned a study regarding the potential impact of job losses resulting from the Union Pacific-Southern Pacific merger on the State of Texas. The study assumed that Texas would lose 700 railroad jobs. The Farm Bureau study concluded that the loss of those 700 railroad jobs in the State of Texas would lead to an annual net loss of over \$39 million in retail sales and the net loss of over 3800 jobs.

There are well over 700 unionized positions in Conrail's Philadelphia headquarters. If that headquarters were closed and the employees laid off, the type of impact forecast for the entire State of Texas by the Farm

Bureau study could very well apply to the Philadelphia-southern New Jersey area.

While job losses are the most direct impact of rail mergers, there are other economic effects that flow from employee relocations. Oftentimes, railroad mergers result in the transfer of employees from one location to the other. Sometimes the transfers from point to point are a wash; an equal number of employees are transferred in as are transferred out. Usually, however, the result is a net loss of jobs for one area at the expense of another.

Moreover, while relocations may be offered to employees, their family circumstances may prevent a relocation. Many families contain two working spouses, other employees may have nearby family members who they support or care for. In those cases, relocation is not an option. Unfortunately, if an employee is offered relocation and refuses, he or she forfeits any right to any of the protective benefits imposed as a condition of the approval of the merger by the Surface Transportation Board, thereby, exacerbating the impacts of the merger on the employee or his or her family.

Finally, an employee who relocates may still retain a job, but for all intents and purposes, that employee no longer works, obviously, in the community from which he or she has moved, and that community has suffered a job loss.

Secondly, when employees relocate they tend to relocate enmasse which will result in a number of houses going on the real estate market at the same time, thereby, depressing property values in the particular localities where the employees are being transferred from.

Both CSX and NS' offers for Conrail are staggering; over \$10 billion offered for a rail carrier formed from the bankrupt shells of a half-dozen rail carriers. The NS offer of \$115 per share for Conrail is a pure cash transaction. The CSX offer is part cash and part stock swap. These offers seem somewhat bizarre, since the Board considers all three of these rail carriers revenue inadequate.

Regardless of which carrier actually acquires Conrail, it is clear that the winning carrier will have incurred substantial debts as a price of its victory. Debts must be repaid. The more leveraged the postmerger carrier is, the less capital it will have to invest in improvements to its physical plant, rolling stock, and locomotives. Additionally, the debt service could impact upon the company's expenditures for basic maintenance of these three items.

These financial concerns could affect both the employees and the communities served by the postmerger company. If the company has less money to spend on capital improvements, employment will suffer. If a cash squeeze affects basic maintenance, as it did on the former Penn Central, employment, rail safety, and a carrier's overall physical plant condition may be compromised. A railroad that must cut back on maintenance because it is servicing its acquisition debt runs the risk of more derailments or other accidents caused by worn or obsolete equipment.

This is not supposition. When the Southern Pacific was acquired in a leveraged deal in 1988, service on the acquisition debt effectively foreclosed that carrier for making the capital and maintenance expenditures that would have allowed it to compete with the other western railroads. As a

result, Union Pacific acquired Southern Pacific resulting in job losses and reduced rail competition west of the Mississippi.

Has CSX and NS bid up the price for Conrail to the extent that the surviving company will not have the financial strength to grow and prosper? We don't know. What we do know is the State of New Jersey suffered through the bankruptcies of the Penn Central, Central New Jersey, Lehigh Valley, and Erie-Lakawanna in the early 1970s. It is important to New Jersey and the country that the new eastern rail carrier, created by any merger, does not become another Penn Central.

Since 1983, the ICC and now the Board, have asserted an authority to compel unions to engage in mandatory bargaining over changes in collective bargaining agreements if the change, allegedly, is related to the carrying out of a merger.

In 1991, the NS convinced the Supreme Court that what is presently Section 11321 of the Interstate Commerce Act acts to override collective bargaining agreements negotiated under the Railway Labor Act. Since that decision, both the Board and the carriers have aggressively sought to compel changes to agreements they could not obtain in free collective bargaining under the Railway Labor Act.

Now, undoubtedly, the surviving postmerger entity will attempt the same maneuvers with the collective bargaining agreements that affect its employees. But what's important here is the impact of the Section 11321 on other laws. Now, Section 11321 provides that a rail carrier, corporation, or person participating in that approved or exempted transaction is exempt from the antitrust laws and from all laws, including state and municipal law, as

necessary to carry out the transaction; hold, maintain, and operate property; and exercise control or franchises acquired through the transaction.

In 1991, the Supreme Court held that the exemption from law includes all contracts that find their validity in the law. Moreover, the courts and the Board assert that this exemption is self-executing, whatever that means. From practice, it appears that the carrier need only claim the exemption to use it. Therefore, Board approval of a Conrail merger would exempt the new corporation from any State environmental, safety, zoning, employment standards laws, you name it.

Additionally, any contracts between the company and the State could be broken by a simple claim of necessity. The arbiter of that necessity claim probably is the Board, the same body that approved the merger in the first place. This is an important yet arcane issue that deserves closer scrutiny.

Finally, the TTD is concerned with the possible anticompetitive effects of this proposed merger. Each rail merger reduces the number of rail carrier options for shippers and the communities they serve. In the 17 years since rail deregulation was enacted, hundreds of communities have lost rail service all together. Three years ago, there were seven major rail carriers. After this merger, there will be four, and shortly after that, probably two. Common sense says that seven options are better than two. The rail carriers will try to tell you that isn't true. We aren't convinced.

Certainly, any price squeeze on shippers from rail carrier monopolies will result in either higher prices or cost cutting, meaning job cutting, in response. Either choice will create hardships for working families.

Conrail, CSX, and NS have not felt it necessary to tell the rest of us how any merger will be carried out. TTD can only express our general concerns about this merger based upon our experiences in prior mergers. We will be working hard in the coming months to ensure that the public is made aware of all of the possible impacts of this merger and believe this hearing is an important part of that process. We know from decades of experience that large rail mergers destroy jobs. It is that perspective we will inject into any and all deliberations at the State and Federal levels regarding the merger of Conrail with CSX or NS.

We thank you for giving us the opportunity to present our views today. Thank you.

ASSEMBLYMAN DeCROCE: Thank you. Frankly, it seems to me that you would be more than willing to sit down and negotiate with the carrier should they indicate a willingness on their part to work with you guys--

MR. GRIFFIN: That's absolutely correct.

ASSEMBLYMAN DeCROCE: --to be assured that you maintain your present quality of life and, certainly, your jobs. I don't think we're interested in seeing anyone lose jobs, nor are we-- I think we're looking for the best deal we can get for the people of the State of New Jersey, for those members of your union who work with the Brotherhood and live in New Jersey, and certainly, for the economic viability of the State of New Jersey, obviously.

So I think if you heard a lot of the things that were said earlier, I think a lot of them were covered -- some of your questions seemed to be covered in the earlier testimonies. However, I would advise that you stay close

to the issue and be willing to be a part of any conversations that might come up.

MR. GRIFFIN: We certainly intend to do that, Mr. Chairman.

ASSEMBLYMAN DeCROCE: Thank you.

Is there anyone else? (no response)

Okay, Mr. Chairman, it's yours.

SENATOR CIESLA: Thank you, Mr. Chairman.

If there is anyone who we missed, now is your opportunity. (no response) If not, on behalf of the Senate and the Assembly Transportation Committees, thank you for the time you shared with us today. We'll keep you advised as this process continues.

Thank you. Thank you to the members.

(HEARING CONCLUDED)