

NATIONAL RAILWAY LABOR CONFERENCE

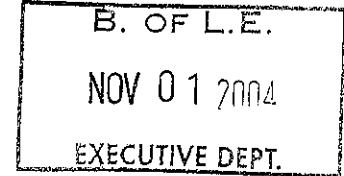
1901 L STREET, N.W., WASHINGTON, D.C. 20036-3514/AREA CODE: 202-862-7200 FAX: 202-862-7230

ROBERT F. ALLEN
Chairman

A. KENNETH GRADIA
Vice Chairman

JOHN F. HENNECKE
Director of Labor Relations

J. L. MOORHEAD
General Counsel



VIA FEDERAL EXPRESS

November 1, 2004

Mr. Don M. Hahs
President
Brotherhood of Locomotive Engineers and Trainmen
1370 Ontario Street
Cleveland, OH 44113

Dear Mr. Hahs:

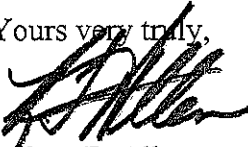
The rail freight carriers represented by the National Carriers' Conference Committee (NCCC) for the 2005 wage, rules and benefits round of collective bargaining intend to bargain on a concerted national basis with respect to their employees represented by your organization, as has been the case generally in all past bargaining rounds since the 1930's. Those carriers have authorized NCCC representation by duly executed powers of attorney and are listed in Attachment A hereto. That list will be supplemented from time to time as additional carriers authorize representation by the NCCC in national handling with respect to your organization.

Attachment B comprises a notice served nationally on your organization on behalf of these carriers pursuant to Section 6 of the Railway Labor Act. It is served upon you as the national representative of your organization and the carriers propose it be handled nationally and concurrently with any Section 6 proposals that may be served by your organization.

We believe that national handling represents the best opportunity for your organization and the freight railroads to manage our way to and through the next round of collective bargaining in a manner that serves the mutual interests of our respective constituents and their separate interests as well.

For convenience and expedition, we propose that initial conferences be waived on our notice and any notices that may be served by your organization. Please contact me so that we can schedule a date and time to meet.

Yours very truly,



Robert F. Allen

Attachments

cc: All NCCC-represented carriers

ATTACHMENT A

**CARRIERS REPRESENTED BY THE NATIONAL CARRIERS' CONFERENCE
COMMITTEE WITH RESPECT TO
BROTHERHOOD OF LOCOMOTIVE ENGINEERS AND TRAINMEN**

The Burlington Northern and Santa Fe Railway Company
The Belt Railway Company of Chicago
Consolidated Rail Corporation
CSX Transportation, Inc.
 The Baltimore and Ohio Railroad Company (former)
 The Baltimore and Ohio Chicago Terminal Railroad Company
 The Chesapeake and Ohio Railway Company (former)
 Consolidated Rail Corporation (former)
 Gainesville Midland Railroad Company
 Louisville and Nashville Railroad Company (former)
 Seaboard Coast Line Railroad Company (former)
 Western Railway of Alabama
Indiana Harbor Belt Railroad Company
The Kansas City Southern Railway Company
 Kansas City Southern Railway
 Louisiana and Arkansas Railway
 MidSouth Rail Corporation
 Gateway Western Railway
 Mid Louisiana Rail Corporation
 SouthRail Corporation
 TennRail Corporation
 Joint Agency
Longview Switching Company
Portland Terminal Railroad Company
The Texas and Mexican Railway Company
Union Pacific Railroad Company
Winston Salem Southbound Railway Company

ATTACHMENT "B"
BLET SECTION 6 PROPOSALS
November 1, 2004

Staffing/Consolidation

New technologies introduced over the last twenty years enable significant change in job content and design in railroad transportation. The safety and efficiency of railroad operations have been enhanced through these developments, and the benefits have flowed substantially to the shipping public and national economy overall. Present and emerging technologies promise productivity improvements that will advance this critical change process.

Despite recent volume and revenue growth, the industry still struggles to fund the enormous infusion of capital needed immediately to deliver service expected by our customers and to expand capacity essential to sustained growth. The railroads' current labor cost model (which still mandates staffing levels that require the employment of more people than are necessary to conduct the business and imposes above market wage and benefit costs) produces relentless labor cost inflation, and is incompatible with the industry's capital requirements over the period covered by the new bargaining round. Clearing the path for healthy capital investment through labor model reform will lead to steady business growth, new job opportunities in the long run, and a stronger, more balanced national transportation system. Moreover, the railroad industry's current demographics present a unique opportunity to effect such changes with minimal employee impact.

PROPOSED CHANGES:

- A.
1. All train and engine service positions shall be consolidated. The consolidated position shall be known as "transportation employee" and shall be governed by a common collective bargaining agreement.
 2. Subsequent to consolidation, the work formerly performed separately by the train and engine service positions shall be performed by qualified transportation employees.
 3. Concurrent with consolidation, crew size shall be based on operational needs as determined by the railroad.
 4. Representatives of the railroad and of the transportation employees shall jointly negotiate an equitable distribution of the work among transportation employees. In the event the parties are unable to

reach agreement, the matter shall be referred to final and binding arbitration.

5. Representatives of the railroad and of the transportation employees shall jointly negotiate an equitable protective arrangement in connection with these changes. In the event the parties are unable to reach agreement, the matter shall be referred to final and binding arbitration.

B. Absent agreement on staffing/consolidation, to the extent that any collective bargaining agreement requires a crew size which exceeds operational needs, the compensation of the entire crew shall not exceed the compensation which would have been paid to the crew had crew staffing been determined by the railroad by operational needs alone. Such reduced compensation shall be divided equally among the crew members.

Manpower Utilization and Productivity Improvement

Unscheduled absences by some employees hamper the ability of the railroad to meet customer service commitments. While the problem is more acute on weekends and holidays, it may occur at any time. The workforce is sized to accommodate the generous paid leave provided to railroad operating employees. However, when large numbers of employees take additional, unscheduled time off, manpower planning becomes virtually impossible.

Some employees wrongly feel that they have a "right" to work on a less than full-time basis. Exploitation of "loopholes" in rules; the use of rules for other than their original intent; and the abuse of rules all facilitate the practice of some employees of taking unscheduled time off.

The changes proposed by the railroads in this section are designed to correct employee misconceptions concerning any "right" to elect to work on less than a full-time basis. The proposed changes will also eliminate rule provisions which facilitate unscheduled absences.

PROPOSED CHANGES:

1. If an employee does not meet the railroad's attendance standard for full time employment, a proportional reduction shall be made in the railroad's contributions toward that employee's benefits based on his/her availability. An employee who is available less than fifty (50) percent of the time will not be eligible for benefits.
2. Any existing rules relating to attendance or absences from service such as leaves of absence, guarantee, lay off, vacation scheduling, temporary vacancies, exercise of seniority, displacement, assignment, extra board regulation, and pool regulation, will be amended or eliminated so as to facilitate full-time employment.

Joint Legislative Proposal

The Federal Employers' Liability Act (enacted in 1908) governs compensation for on-the-job injuries in the railroad industry. The FELA is outmoded, counterproductive and should be replaced. Among the Act's many faults:

- It creates an adversarial relationship between employer and employee.
- Some injured employees get nothing while others receive excessive jury verdicts.
- An injured employee's negligence reduces and sometimes precludes any recovery.
- It encourages employees to stop working and creates disincentives for rehabilitation.
- It costs much more to administer than other injury compensation systems.
- Much of the excess cost unjustly enriches trial lawyers.
- It creates conflicts of interest for labor leaders that have resulted in corrupt practices.

Labor and management should act to protect the interests of injured employees by jointly drafting replacement legislation which avoids the shortcomings of FELA.

PROPOSED CHANGES:

1. Develop a joint legislative proposal governing employee compensation for on-the-job injuries that replaces the traditional adversarial fault-based approach with constructive and safety-focused procedures and options designed to better address the costs and interests of railroads and employees, and which would provide employees with a share of the millions of dollars that now go annually to FELA trial lawyers.
2. If a joint legislative proposal described in #1 is not developed and enacted, all rates of pay will be reduced by an amount that represents the excess costs to the railroads attributable to FELA.

Job Actions

The Railway Labor Act requires railroads and employees to make every reasonable effort to avoid interruptions to commerce. This requirement prohibits employees from engaging in work stoppages over a minor dispute and over a major dispute prior to completion of the Act's dispute resolution procedures.

Despite these clear statutory prohibitions, there is a history in the railroad industry of unlawful work stoppages and other illegal job actions. The result of these illegal activities is significant harm to the railroads, the nation's economy and the public interest as well as to the purpose and intent of the Railway Labor Act.

The changes proposed by the railroads in this section are designed to provide the railroads, the economy and the public with the protections they need and deserve while establishing a reasonable and orderly process to address disputes in a peaceful and lawful manner.

PROPOSED CHANGES:

1. In addition to prohibitions imposed by law or contained within existing agreements, require that the union and/or its employees give ten (10) days advance written notice to the railroad of any strike, picket, boycott, slowdown, or other self-help activity whether directed at the railroad or other parties.

Suspension of Rules

Provide that:

1. During any work stoppage or disruption in operations due to other forms of concerted self help by employees in any part of the railroad industry, any railroad shall have the unilateral right to suspend:
 - (a) all bulletin, assignment, displacement, mileage or earning rules or regulations; any pay and protective provisions of any applicable agreements;
 - (b) any other applicable agreements relating to the use or compensation of employees; and
 - (c) any agreements which provide for union or agency shop, deduction for union dues, union fee checkoff or political contributions.

2. Such agreements and rules may be suspended by the railroad for the duration of such work stoppage or disruption and employees will be assigned any compensation on a basis to be determined by the railroad in its discretion. This provision is not intended to modify protection provided under statutory-based employee protection agreements.

Health and Welfare

The cost to provide health and welfare benefits to railroad employees has risen significantly in recent years (over 100% since 1999) and, in 2004, cost more than \$1000 per month per employee. The benefit plan design for railroad employees is much more comprehensive than that available to employees in other industries. This contributes to the significantly higher costs (more than 70% higher than the U.S. Chamber of Commerce average for medical and life insurance in 2002).

Railroad employees have only recently begun to contribute toward the cost of their benefits and those employee contributions are relatively modest when compared to amounts contributed by employees in other industries. The railroads are in favor of changes promoting healthy lifestyles and more responsible use of plan funds by participants.

PROPOSED CHANGES:

1. Effective July 1, 2005 railroad employees will contribute, through a pre-tax payroll deduction, one-third of the cost of each of the benefits made available to them by various railroad benefit plans. Effective July 1 of each succeeding year, such employee contributions will be increased by one-half of the year-over-year increase in the cost to provide such benefits to employees.
2. In order to ameliorate the cost of such contributions made by employees, the parties shall jointly implement appropriate plan design changes that will reduce the cost to provide such benefits and provide additional choices under which employees may choose a lower level of benefits in return for lower contributions.

Paid Holidays

1. Revise existing agreements concerning paid holidays to substitute Martin Luther King's Birthday for President's Day.

Contract Duration

1. Contract Duration - As mutually agreed.

Moratorium

1. Provisions reflecting mutual understanding of complete labor peace during moratorium period.