



DEPARTMENT OF TRANSPORTATION

35)
NEWS

TAD-493

OFFICE OF THE SECRETARY

WASHINGTON, D. C. 20590

PRESS CONFERENCE STATEMENT BY SECRETARY OF TRANSPORTATION
CLAUDE S. BRINEGAR, DEPARTMENT OF TRANSPORTATION HEADQUARTERS
SEPTEMBER 26, 1973

President Nixon's September 10th message to Congress called for "a spirit of reasonable cooperation" in finding the ways to move forward in a number of key legislative matters. With particular reference to the problem of the railroads and the threatened liquidation of Penn Central, he said:

"A failure of any significant part of our Nation's railroad system would impair our ability to move freight efficiently to all parts of our Nation."

These words of the President put in proper perspective what is sometimes narrowly thought of as the "Northeast rail problem." It is, in fact, an urgent National problem that the Administration and Congress, working together, must promptly deal with -- and in a way that protects both the public interest and the taxpayer interest.

Stretching from New England to Chicago is a 30,000-mile rail network served principally by six rail carriers. These six are now in bankruptcy, and the biggest one, the Penn Central, is on the verge of a court-ordered shutdown. Such a shutdown would seriously affect the economy of the area served and the economic health of the Nation's full 200,000-mile rail system.

- more -

We are now at the point where only through responsible legislative action can a shutdown of Penn Central be avoided. Several months ago the Administration proposed to Congress a legislative program based on these four major principles:

First, the legislation must protect the public interest in seeing that adequate rail service is provided where warranted; second, it must provide for a restructuring that involves the bankrupt carriers as a group; third, since we want to avoid a future replay of today's crisis, the restructured system must be economically viable, at least in the long-term; and fourth, Federal financial assistance should be coupled with private sector involvement -- it must be a joint effort, not just a burden on the taxpayers. We believe that these are reasonable and attainable goals.

H.R. 9142, which yesterday was passed by a House subcommittee, offers a general framework built around the use of a "Federal National Railway Association" as a planning and a financing vehicle. We are hopeful that this approach is capable of meeting our objectives. While we are encouraged by this progress, we do, however, have problems with the legislation in four areas:

First, we believe that it is essential that the transfer of assets from the old to the new system be arranged by negotiation. We are opposed to provisions which mandate any direct or indirect Federal taking of bankrupt properties, as H.R. 9142 does. A mandatory procedure would, in our view, be dangerously close to nationalization, and could lead to excessive values being placed on the assets. We believe the proper way to establish the fair and equitable value of these bankrupt assets is by negotiation -- not by legislation. We are confident that once the process is started, the various parties of interest can find a way to work it out.

Second, we are opposed to an excessively-detailed legislative labor settlement. We do not think it appropriate to legislate rigid labor protection or exact settlement terms. We recognize that future job protection is necessary and that displaced employees need adequate compensation -- all established rail industry practice. But we would prefer to agree on general guidelines, and then have the specifics worked out after the restructuring is underway and the magnitude of the labor problem is better understood. Such flexibility cannot help but produce a better and more equitable overall settlement.

Third, we are opposed to any plan which commits the Federal Government -- in advance -- to an extensive financing program. We believe the proper approach is to first find out which is needed and then to arrange for the specific funds and guarantees.

And fourth, we do not believe the Federal Government should become burdened with a commitment to provide operating subsidies for local rail service which has little hope of becoming self-supporting.

Finally, I'd like to restate our strong desire to work with Congress in the spirit of responsible cooperation. I am meeting regularly with various Senate and House members on this legislation, as well as with labor and rail industry leaders. I am encouraged by the positive effort being shown by all sides and hopeful that a responsible solution will soon be forthcoming.

####

THE NORTHEAST RAIL PROBLEM

HIGHLIGHTS

THE PROBLEM.

Six northeastern rail carriers -- operating approximately 30,000 miles of trackage and accounting for about half of the area's freight tonnage -- are in bankruptcy. The Penn Central -- the Nation's largest railroad -- is threatened with near-term court-ordered liquidation. An abrupt Penn Central shutdown would seriously affect the national economy.

The other bankrupts are Central of New Jersey, Reading, Lehigh Valley, Erie-Lackawanna and Boston & Maine.

THE CAUSES.

The Northeast rail system is "overbuilt" in terms of present need. Lack of capital has caused rail and equipment maintenance to be deferred and has delayed needed yard consolidation.

The obsolete regulatory process administered by the Interstate Commerce Commission makes it difficult for railroads to adapt to changing economic conditions.

The Northeast economy has shifted from bulk commodity freight to the carriage of lighter weight, higher value products.

Truckers with the assistance of the Interstate Highway System have diverted from rails much of the high value freight.

In the case of the Penn Central, low productivity and problems stemming from the Pennsylvania-New York Central merger have made cost control difficult.

THE ADMINISTRATION'S POSITION.

The rail freight industry for the most part is financially sound. Partial or total nationalization is unnecessary and would not solve the Northeast problem.

The Northeast rail system needs a "streamlining" to permit accelerated consolidations and abandonments of uneconomic lines. Such a process should restructure the six bankrupts into one or more economically viable railroads.

The Federal government should provide the procedure to cause the streamlining within guidelines protecting the public interest. It should not attempt to design the detailed specifics of the solution.

The Federal government should provide "start-up" financing, assistance in solving the labor settlement and limited loan guarantees for modernization of the system. The financial involvement should be conditioned on maximum and early involvement of the private sector.

Rail regulatory procedures should be revised to enable the industry to make proper adjustments to changing economic conditions.

THE STATUS.

The Administration proposed legislation that would achieve the essential objective of long-term economic viability of a restructured Northeast rail system with minimum Federal financial involvement.

The Administration soon will introduce legislation to revise ICC regulatory procedures for railroads.

Three Northeast rail legislative approaches are emerging from Congress:

1. S.2188, Senator Hartke's bill, would essentially defer all action while the ICC makes a one-year study. The bill would continue the inefficient operation of the bankrupt carriers for an undetermined period.
2. Senators Pearson and Beall have proposed amendments to S.2188 that would bring the bill reasonably close to the Administration's approach.
3. The House Subcommittee has reported out a bill -- H.R.9142, the Shoup Bill -- which would go much farther toward solving the Northeast problem than would the Hartke Bill. While it is unacceptable to the Administration in its present form, we are hopeful that through amendments it can be made acceptable.

####

DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
Washington, D.C. 20590

Official Business

PENALTY FOR PRIVATE USE, \$300

POSTAGE AND FEES PAID
DEPARTMENT OF
TRANSPORTATION
DOT 518

FIRST CLASS

