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STATEMENT BY SECRETARY OF TRANSPORTATION CLAUDE S. BRINFGAR, PRESS
CONFERENCE, NORTHEAST RAILROADS RESTRUCTURING ACT, MAY 25, 1973

Good morning, ladies and gentlemen. Thank you for coming. At my press conference March 26th, I reported that we were working on proposed legislation for a restructuring of the rail system in the Northeast section of our country. That bill has now been completed and sent to Congress.

The "Northeast Railroad Restructuring Act of 1973" reflects the recommendations set forth in our Northeast Rail Report. The bill provides the legislative and administrative machinery needed to put the financially distressed Northeast railroads back on the track to economic recovery. Our proposal would accomplish that purpose at nominal cost to the taxpayers, with full consideration for the needs and interests of all concerned, and without recourse to wholesale bankruptcies or creeping nationalization.

The bill provides:

First; for the designation, within 90 days of enactment of a Core Rail Service for the Northeast. The Department will make that designation based on four considerations: the amount of rail service presently being provided in any given geographic area; whether rail service is more economically efficient than available transportation alternatives; the need for achieving rail service that is economically self-sustaining; and the need to preserve rail service competition in markets of heavy rail traffic.

The bill provides, secondly; for the creation of a Northeast Railroad Corporation to set up and administer the Core system. The Corporation will:

- (1) develop and implement the "service plan" for its rail operations;
- (2) negotiate the acquisition of rail assets;
- (3) issue and allocate stock in compensation for those assets;
- (4) negotiate agreements with the railroad employees to be hired by the Corporation;
- (5) negotiate debt financing to provide working capital and the capital needed to improve the system; and
- (6) provide for all needed rail services through direct operations, under contract, or by one or more operating corporations created for that purpose.

I should add that our bill also provides for the negotiation of fair and equitable arrangements for employees of the bankrupt railroads who cannot be hired by the Corporation.

Third; the bill authorizes the appropriation of \$40 million for the Corporation's organization and administrative expenses. These funds will not be used for capital or operating and administrative expenses.

Fourth; the bill establishes a special procedure for the abandonment of rail service. Bankrupt railroads could discontinue service on 60 days' notice in any geographic zone for which rail service is not provided under the Core concept.

During the first two years of providing service, the Corporation itself (or any designated operating corporation) could discontinue service - again, on 60 days' notice - if there is no reasonable prospect that service over the line in question could become self-sustaining.

Let me emphasize, however, that these abandonment provisions are not as negative as they may sound. The Corporation's first obligation is to try to make rail service viable through better management and increased efficiency. If such efforts are unsuccessful, track still would not be abandoned until state and local governments, shippers, or other interests had been given 120 days either to purchase the track for rail purposes or to contract for the continuation of service on a no-loss basis.

We are hopeful, of course, that in submitting this legislation Congress will act promptly and favorably in behalf of the nation's rail transportation needs. We have not yet reached the point of no return in fashioning a workable salvation for rail operations within the broad framework of the private sector, but that time may not be far off.

The course of action we are proposing protects the public interest, and at the same time preserves the private enterprise status of the rail industry. We believe what we have to offer is preferable to the alternatives (1) of piecemeal liquidation, or (2) massive Federal aid which, once applied, is hard to turn off. In my opinion, now is certainly no time to resort to large new Federal spending programs while a workable, and -- in my opinion -- superior alternative to the Federal "bail-out" proposal affords us a choice.

We must bear in mind that while the problems of the rail companies in the Northeast are more pronounced than the problems of rail companies elsewhere in the United States, the need for regulatory revision and modernization, improved freight car utilization, and increased efficiency is widespread throughout the industry. Accordingly, we will submit to the Congress, in the

in the very near future, two other bills we consider vital to the best interests of the Nation and the rail industry. The first bill provides for a number of significant changes to the system for economic regulation of railroads. The second bill proposes revisions of the procedure for the reorganization of railroads under Section 77 of the Bankruptcy Act.

We consider all three of these measures - the Restructuring Act I have described today and the two related bills to follow - essential to the effective implementation of the recommendations outlined in our Northeast Rail Report earlier this year.

I hope that historians will mark 1973 as the turning point for the fortunes of America's railroads. Action on the legislation we are proposing is imperative if the railroads are to return to solvency and to survive as producers, not consumers, of tax revenues.