DEPARTMENT OF TRANSPORTATION

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COMMENTS BY SECRETARY OF TRANSPORTATION CLAUDE S. BRINEGAR TO ANNUAL TRANSPORTATION AND LOGISTICS FORUM, NATIONAL DEFENSE TRANSPORTATION ASSOCIATION, LAS VEGAS, NEVADA, SEPTEMBER 24, 1974.

It is once again my great pleasure to speak to the National Defense Transportation Association. I appreciate very much this invitation for a return visit--not only because it signifies our continuing close relationship, which I value, but also because it reminds me of the fact that I have indeed survived an extraordinary 12 months in Washington.

Last September I was your concluding speaker--overbilled, if I recall correctly, as the provider of the "solutions" to the many transportation problems that had been so well described by the preceding speakers. I gratefully accept this year's promotion to keynoter.

I now have the chance to pose my own list of problems and challenge you to help me with the solutions.

Your Conference theme--Transportation, Builder of Nations--is accurate and timely. Our Nation has clearly built itself, from its earliest days forward, around its abilities to transport its people and goods. We have only to trace the historic development of our ports, rivers, canals, railroads, highways, and airports to trace what is, in fact, the development of America.

Today's transportation building is generally less physical than, say, a new railroad pushing its way across the virgin plains. Yet, the building is nevertheless continuing. Better and more efficient transportation systems are the keys to future economic growth, higher standards of living, improved international relations, and, of course, strengthened National security. It is to these objectives that I have dedicated the Department of Transportation.

Although we certainly have our problems, and I will discuss three of the most serious ones in a few minutes, America's transportation system <u>is</u> a good one. Mark Twain once characterized Wagner's music as being "better than it sounds." I would like to borrow this thought and assert that America's transportation system, taken as a whole, is "better than it looks."

Let's take a quick look at its major elements. Our intercity freight carriers--rail, truck, barge, and pipeline--transport over 2 trillion ton miles of freight annually--that's about 10,000 ton-miles for each of our 210 million Americans. Our 100+ million motor vehicles and our various public carriers, especially aviation, provide some 2 trillion passenger miles annually--that's about 10,000 passenger miles per each American. While there are some peak-hour capacity bottlenecks, especially in and near the dozen or so largest cities, when viewed broadly we find that our transportation system moves this freight and these people with an efficiency and at a unit cost that is unmatched in the world. In fact, as I have learned from my own visits abroad and from many visits here by my counterparts from around the world, the physical side of our system--its nearly 4 million miles of streets and highways, its 200,000 miles of rail, its 25,000 miles of navigable inland waterways, and its 12,500 airports--is properly recognized as one of America's greatest assets.

But this National transportation system, for all its physical strengths, has its dark side. I would like to use the balance of my time this morning to concentrate on three such dark elements that have serious long-term implications for the future health of our National transportation system. These three, which are occupying a great deal of my personal time, are: the viability of our private-sector rail system; the viability of our private-sector international air carrier system; and the future availability of reasonably priced and secure sources of energy.

First, let's talk about railroads. And when I say railroads I mean our private-sector freight system, not the quasi-public rail passenger service system of AMTRAK. AMTRAK is, of course, important, but in terms of relative magnitudes, our main rail focus must be on its freight operations.

In my comments of a year ago I described in considerable detail the problems facing the Penn Central railroad and the several other bankrupt rail carriers in the Midwest and Northeast. The particular threat we were facing then was the possible shut-down of the entire Penn Central system by the bankruptcy trustees because of cash shortages and the obvious impossibility of reorganizing the system profitably, at least without massive Federal help.

This crisis was met in late December, when Congress and the Administration agreed upon the Regional Rail Reorganization Act. This Act established the United States Railway Association, an organization with special powers to plan, acquire, and finance, as necessary, a new private-sector rail system for the Northeast and Midwest out of the wreckage of the bankrupts. USRA and DOT were also given special authority to finance interim rail operations as necessary.

The essential objective of USRA's work is to identify the elements of what will, in time, emerge as an efficient and profitable private-sector railroad. This will obviously require some streamlining of the old Penn Central system, which is still losing large amounts of money, and some consolidations with other rail systems. I must stress, however, that in no sense do I anticipate massive abandonments of track to result from this process. Some duplicate mainlines can be disposed of, but branch line abandonments will be limited to those cases where there is no hope of sufficient business to cover costs or where the communities or other operators have decided not to take it over.

USRA is not yet to the point of knowing the nature and extent of this streamlining, nor of the proper future corporate form of the new system. Alternatives now being carefully examined by the USRA Board, on which I serve, include: a single new large carrier constructed from all the bankrupts; a series of small, regional rail companies; or a controlled liquidation of asset sales to existing profitable railroads. Studies over the next three to six months should enable USRA to select the preferable solution. Once this solution is determined by USRA, the route map and the financing plan will be submitted to Congress for approval. Following this approval, title to the needed properties will be acquired from the estates of the bankrupts and the new system launched.

Some early court decisions have indicated that parts of the enabling legislation--especially the part that covers the asset acquisition--may violate the "due process" clause in the Constitution. If these decisions are upheld by the

Supreme Court, it will be necessary to amend the legislation to permit alternative approaches to the necessary acquisitions.

Another problem that we face is the very poor physical condition of the Penn Central system. Because of the backlog of deferred maintenance, there will almost certainly have to be some form of Federal financial assistance to improve the physical plant before this system can stand on its own feet and return, as it must, to the ranks of the private-sector. I reach this conclusion with regret, but I do so with the recognition that it is far better for the taxpayers to pay for a one-time upgrading of this essential system than to be pushed to the alternative of outright nationalization. And don't for a minute think we could get by with just nationalizing Penn Central. Domino-like, the heavy Federal hand would inevitably find itself controlling more and more of the interlocking rail systems, until all were taken.

Anyone who has studied the cost and freight service experiences of nationalized rail systems elsewhere in the world can quickly discover why it must not happen here. Our country is too big and our competitive private-sector freight carriers--rail, truck, and barge--are too efficient to burden with the anti-competitive blanket of Federal ownership. I ask your support for USRA's efforts. It must succeed. The alternative is unthinkable.

Pushing the rail issue a little further, I wish to stress that I see the Penn Central problem as the leading edge of a larger problem that is being faced, in varying degrees, by all our railroads. In a time when the prime rate exceeds 10%, overall rail earnings on invested capital average less than 4%, with the very best of our rail systems earning only 7-8%. Railroads are extremely efficient users of energy and very low-cost movers of bulk freight for distances beyond 400-500 miles. Somehow we must find the key to making it possible for the Nation to maximize these advantages. But it certainly won't happen with earnings that average only 4% on capital.

A special task force on productivity in the rail industry recently suggested four long-term steps that should help it move toward better operations and better profits. These are:

1. The rail industry must make increased uses of containers and specialized freight cars. In addition to the extra capital investments, such a step would also require that there be

more resources devoted to research and development, plus more innovative thinking by rail managers.

2. The industry should endeavor to use shorter, more frequent freight trains, with car management handled by centralized computers that are common to all rail companies. This will require the cooperation of the rail labor unions.

3. There should be less restrictive regulations by the ICC on rates and routes, thus giving the rail managers the ability to manage efficiently. (I should note that we now have a major Bill before the Congress that contains some of the needed regulatory modernization. This Bill has now been reported out by the House Committee on Interstate and Foreign Commerce, and will soon be before the full House.)

4. There should be several mergers of connecting railroads to form a limited number of competing cross-country rail systems.

I recognize that some of these recommendations are controversial and that all are in need of thorough analysis and study. But certainly the rail industry cannot long continue on its present course of low earnings and inadequate investments. Something positive <u>must</u> be done. Since the NDTA has a strong interest in a healthy National rail system, I urge your close consideration of the recommendations of this task force. Your perspective and support would be most welcome.

Now let's shift to transportation problem area number two: the plight of the U.S. international flag airlines.

America's air carriers--especially Pan American--were the pioneers in the development of world-wide air travel. Two decades ago, when there was a minimum of foreign competition, we even went so far as to authorize head-to-head competition between U.S. carriers serving the larger foreign markets. This pioneering has brought us many National benefits. Our aerospace industry has profited from the expanded markets; our trade balances have grown; and our international understanding has been enlarged by the availability to millions of convenient, low-cost foreign travel.

But other nations, as they developed economically and reached for international recognition, have increasingly demanded--and obtained--the rights to share these benefits with us. Today, for example, some two dozen foreign flag air carriers--almost exclusively equipped with U.S. built aircraft, it's worth noting--now fly scheduled service on the North Atlantic market in competition with three U.S. scheduled airlines (Pan Am, TWA, and National).

Since virtually all foreign air carriers are owned outright by the countries of origin, it's not surprising that the U.S. carriers are finding today's competitive battle an increasingly difficult one. Pan Am, the only U.S. carrier without the benefit of domestic routes, has lost nearly $200 million in the last five years. These losses, coupled with the sudden added burden of a tripling of foreign fuel prices since last fall, have combined to push Pan Am close to the financial wall.

Pan Am's request for an emergency interim direct cash subsidy of $10 million a month was turned down last week by the CAB. President Ford, after a full review of the situation, also concluded that the Administration could not now support such a request. The two main reasons for this conclusion are: (1) In these times of double-digit inflation and over-blown Federal budgets it is not fair to the Nation's taxpayers to ask them to pay direct cash subsidies to international air carriers, and (2) direct cash subsidies are not likely to lead to a real solution of the underlying problems.

To get at these underlying problems the President has directed that an all-out effort be undertaken to correct the competitive environment in which our international carriers now must operate. We have identified the following 7-point action program and are now pushing hard to carry it out:

1. Fares More in Line with Costs. Fare structures that more closely reflect today's costs should be promptly approved by the appropriate organizations. This includes fares both of the scheduled carriers and the charter carriers. Although no one wants to see travel fares go higher, realistically we must recognize that as costs go up the carriers must recover these costs in higher ticket prices.

2. Excess Capacity. Without question the many air carriers, including U.S. flag carriers, that have rights to fly international routes to and from the U.S., are flying excessive passenger capacity relative to today's demands. Recent agreements between U.S. carriers and the Italian and the British carriers for winter capacity reductions are an encouraging step, and we are looking for prompt agreements with the airlines of France and West Germany. In addition, the State Department has an intensive review underway, working with our Department and the CAB, to determine which of the foreign carriers are flying capacity to the U.S. that exceeds the rights provided by their bilateral agreements. I have been assured that there will be prompt action to correct the excesses.

3. Tariff Integrity. Together with the CAB and Department of Justice, we are pushing ahead on a program to eliminate, or at least reduce, illegal ticket discounting. As part of this program we are also investigating the roles of the travel agents and tour operators to determine if some form of Federal licensing is needed.

4. Fly U.S. Flag. While U.S. citizens constitute over 60% of those flying overseas to and from the U.S., our

flag carriers carry a far smaller share. An equitable balancing of these ratios would add some $200 million a year in new revenues to U.S. flag carriers. Together with the Department of Commerce, and, hopefully, with the cooperation of the Nation's travel agents, we will push a "fly U.S. flag" program to encourage U.S. citizens to increase their use of U.S. flag airlines when they travel and ship abroad.

5. Mail Rate Increases. We are encouraging the CAB to accelerate their actions to adjust international mail rates to reflect today's higher costs.

6. Overseas Discrimination. There are many instances where U.S. flag carriers are being discriminated against overseas in terms of excessive landing and other fees. Together with the State Department and the CAB, we are in the process of documenting the flagrant cases. We will seek immediate corrective action.

7. Route Restructuring and Service Suspensions on Loss Operations. We are strongly urging the carriers themselves to consider agreements on overseas route rearrangements, and possibly even mergers, as well as unilateral actions to suspend service to points that have

inadequate traffic potential to cover costs. We may well have reached the point where most of the head-to-head competition between U.S. carriers flying to overseas locations can no longer be justified. I have urged the carriers to come forward with ideas along these lines, and assured them that the Administration will do what it can to see that meritorious proposals receive prompt approval.

We believe that the combined impact of these seven steps--steps that, in many ways, are long overdue--will, in time, do a great deal to improve the financial health of all our international flag carriers, including Pan Am. In particular, we believe that these positive and prompt actions by the Administration now provide assurances to the private-sector financial institutions that our international flag carriers do have a fine future, and that they deserve their continued financial support--not only in times of growth and good profits, but also in times of losses and short-term setbacks.

This brings me to the final transportation problem that I want to discuss today: the continued murky outlook for secure and reasonably priced sources of liquid fuels.

There has been, and continues to be, much talk about energy, so I will limit my remarks to the essential principles.

In my speech of a year ago I listed some "sobering facts" about the threatened energy crisis, including the following:

"Crude oil--the energy source that transportation is built around--is rapidly becoming one of the world's really scarce commodities. Our Nation has now moved into a substantial deficit position--about one-third of the total must be imported--and this position will worsen as U.S. oil production continues to decline from now on. Since the only region with a current capability to fill our growing oil needs is the Middle East we obviously must be prepared for increasing prices and increasing difficulties in securing adequate oil supplies."

Within weeks of that statement the 1973 Middle East War and its aftermath awakened the Nation to our vulnerability. But after a winter of oil embargo, gasoline lines, and even some energy conservation, we now appear to be settling back into our old energy spendthrift ways. To put it bluntly, I fear that our National sense of urgency to solve our energy problem is gone, or at least going.

But the long-term energy problem is, if anything, worse than a year ago. Domestic oil production continues to fall, our dependence upon Middle East oil--oil that is now three times the price of a year ago--continues to grow, and our efforts to develop alternative domestic energy sources remain modest in contrast with the need.

America's oil demand is presently about 18 million barrels per day--and again growing. To meet this need, we produce only some 10 million barrels of crude oil per day from 500,000 wells--an average of about 20 barrels per day per well. Saudi Arabia, by contrast, could easily produce an equal amount of oil, if it chose to, from less than 700 wells--wells that average 15,000 barrels per day. Faced with such disparities--500,000 wells vs 700--it's little wonder that the balance of energy power has shifted to the Middle East--along with $60-$70 billion per year of the world's monetary reserves. Quite clearly a continuation of such monetary accumulations will soon put intolerate strains on the Free World's monetary systems and economies. President Ford yesterday laid out this problem and its potential dangers quite well in his speech in Detroit. I urge that you read it.

I recognize that the magnitude of this problem goes beyond the normal interests of NDTA. But these are far from normal times. I ask your help in developing a long-term program of energy conservation and in pushing forward with major programs to develop additional domestic energy supplies. We need to develop our coal, which we have in abundance, and our atomic power on a massive scale. We need to reduce wasteful use of energy--especially in the family automobile. It is only through such efforts on our part that we will be successful in convincing the Middle East oil cartel that it must cut oil prices to levels that the rest of the world can afford. Without such action, America's transportation system--as well as much of its economy--will increasingly find itself a potential, if not an actual, hostage of the handful of nations that control the oil reserves of the Middle East.

Finally, I would ask that the NDTA join President Ford in his urgent battle on inflation. Our pre-summit conferences--and I hosted one in Los Angeles last Friday--have made it painfully clear that nothing can really be done rapidly. Yet, inflation must be licked. It will take time, patience, and understanding--understanding of the fact that government spending must be restrained, that we can't do everything we want to, that we must all buckle down and be prepared for sacrifices.

Our President needs your support. Please give it to him, and let him _know_ you're behind him.

Best of luck for a successful and productive Conference.

Thank you.

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