6)

DEPARTMENT OF TRANSPORTATION

NEWS

OFFICE OF THE SECRETARY

WASHINGTON, D.C. 20590

1-S-74

REMARKS BY SECRETARY OF TRANSPORTATION CLAUDE S. BRINEGAR TO THE NATIONAL TRANSPORTATION INSTITUTE, NEW YORK CITY, JANUARY 30, 1974.

It's a great pleasure to be here today--to be among so many people who, as I do, live and breathe transportation.

This week completes my first year as Secretary. To say it's been an eventful 12 months is to materially understate the facts. Without a doubt many of my experiences of the past year will last me all my life, if not longer.

If we named our years as the Chinese do--as in the Year of the Tiger or the Year of the Snake--I would guess that I just finished the Year of the Rail. And, by the same token, I would suspect I have just started the Year of Public Transit. But whatever our specific priorities may be, please let me assure you that the Administration is firmly committed to improving transportation as a whole--both for the providers and for the users.

We, of course, have many important transportation programs in progress and underway, and the President will shortly send to Congress two major new transportation legislative programs that should contribute to further progress. It's thus especially fortunate that today's meeting occurs when it does, for it gives me an opportunity to discuss in one place and at one time these various programs with so many leaders of the transportation industry.

Today I would like to concentrate on four issues that I find are occupying much of my time. These are (1) implementing the complex provisions of the recently signed Act to restructure and revitalize the bankrupt railroads of the Northeast and Midwest; (2) getting Congress to enact much-needed legislation to revamp the restrictive and outdated regulatory environment in which our railroads operate; (3) increasing the level and effectiveness of our support for urban transit; and (4) finding the way to help the transportation sector through the perils of the energy crisis.

The Regional Rail Reorganization Act President Nixon signed into law January 2nd was the product of intensive Administration and Congressional effort and cooperation, and I believe events will prove that the months of study and deliberation were time and energy well spent. The President's signature sets in motion a 21-month process designed to yield a streamlined and financially sound rail freight system for the 17-state Northeast and Midwest area.

Perhaps an economically viable Penn Central is meaningful only to people in the transportation business, but if the Penn Central had been forced to shut down I'm certain that the tremors would have been felt throughout the country. As the writer O. Henry once observed, you can't appreciate home until you've left it, or money until it's spent. Or, I could add, the Penn Central until it stops running. Let Penn Central shut down and within a few days we would have also shut down General Motors, U.S. Steel, Bethlehem Steel, and idled hundreds of other manufacturers who depend on the Nation's interlocking rail system. I believe that that worry is now behind us, although there are, of course, many other ones ahead.

The machinery to assemble the healthy new railroad out of the pieces of the various bankrupts is in place and starting to function. The United States Railway Association, the agency authorized by the Act to plan and finance the new consolidated rail system, will be incorporated in the District of Columbia this Friday. Treasury Secretary Shultz, ICC Chairman Stafford, and I will serve as the Association's board of directors until the Chairman and seven other directors are appointed by the President and confirmed by the Senate. We have now received from various transportation groups the names of candidate directors, and I expect to shortly submit to the President our recommendations for those appointments, including the post of Chairman. We are getting ready to start an inventory and property appraisal of the assets of the eight bankrupt railroads and, by this weekend, we will make public our several hundred page report on the rail services in the Northeast and Midwest that we believe should properly be included in the streamlined rail system. Though it's premature to go into the details I think it's important and reassuring to report that despite the need for substantial rail abandonments, the rail system that we are recommending will be able to carry most of the freight now moving by rail--and will have the capacity to carry significantly higher tonnages in the years ahead.

I recognize that some provisions of this Act are unnecessarily costly to the taxpayers, but overall I consider it to be a responsible piece of legislation. Its main significance, of course, is in assuring essential rail services in the Northeast. But I'm encouraged also because I believe it signifies a willing mood in Congress to deal with the problems of the rest of the Nation's rail freight system. It shows that a turnaround in rail fortunes is possible on a National scale--not toward increased government subsidy and control, but away from such evils. In spirit and in structure, the Regional Rail Reorganization Act sustains what your Association was established nearly 40 years ago to do--defend transportation against nationalization. While some may see this Act as a back-door way to nationalization, I see it as precisely the opposite--as a necessary salvage job in order to avoid a full Federal takeover.

Next, let's turn to a review of our program for regulatory revisions and financial assistance to improve the competitiveness and financial health of the <u>entire</u> rail industry. The purpose of this program is, of course, to avoid a replay of the Penn Central disaster on a National scale. I ask that you examine the details of our proposed legislation--the Transportation Improvement Act of 1974--with care and an open mind. We think it is a good bill and properly targeted to do the needed job. In my opinion, it is a significant improvement over the department's prior bill, and, although it is similar in many ways, also an improvement over the Surface Transportation Act that the Congress has under consideration.

Pausing for a broad view for a moment, certainly by world standards our inter-urban freight system serves our large and diverse Nation with extraordinary skill, distributing in excess of two trillion ton miles of cargo throughout our country each year. Our rail and barge operations provide reliable, low-cost service for long-haul commodities and bulk freight. Our trucking industry, using the splendid interstate highway system, provides fast and dependable door-to-door delivery of higher-value freight and cargo that the other modes can't easily handle. A measure of how well we do in terms of shipping costs can be seen by comparing European and U.S. rail freight costs. While the European rail shipper must cope with costs of three to four cents per ton mile, the U.S. shipper, by contrast, pays our private sector rail system rates that are generally half that.

But our inter-urban freight system is not without its problems. Chief among them is the conflict between the need for the Nation to have a system that meets its requirements for transport services at the lowest possible overall resource cost, and a system that meets the regulators' and the courts' historic ideas of "public convenience and necessity." This conflict has been especially damaging to the railroads. Because rail operators have been delayed or prevented from adjusting their operations to meet changing economic conditions, the majority of the Nation's railroads--aside from those already in bankruptcy--have been unable to earn enough profits to permit them to even replace the assets they are wearing out, let alone expand. In 1973, the rail industry had total operating revenues of more than $13 billion. Yet, despite these billions the rail system was able to earn an average return on capital of something like three percent.

This problem is the number one target of our new bill. We believe it would help the rail industry--and the Nation's economy--in three important ways.

First: the bill authorizes up to $2 billion in Federal loan guarantees to assure that adequate financial resources are available to those railroads unable to finance essential improvements and additions to plant and equipment--most particularly those investments that will improve operating efficiency and reliability. Please let me stress that this would not be a hand-out. We would have to have assurances that any railroad requesting a loan would have the ability to repay it; we would also want to be sure that the project would qualify as a good investment in terms of projected return and better system efficiency.

Second: our proposal will assist the railroads by amending the Interstate Commerce Act to permit simplified rail abandonments, greater flexibility in rate-making, more timely rate changes, and greater opportunity for rate innovations. We are also seeking other needed regulatory reform to increase rail's abilities to compete and to adjust to changing economic conditions. I find that in the past railroads have been too often discouraged by regulatory roadblocks from implementing new services or from pursuing technical advances. We want to wipe out these restraints to innovation. To put it another way, we want to return to the rail managers the needed freedoms to manage.

A cornerstone of our bill is greater pricing flexibility. Our studies indicate that the rail industry now loses about $400 million a year on traffic carried at rates that are below variable costs. On the other hand, we would not propose to give the railroads a free hand to charge whatever the traffic will bear. We believe that rates should cover costs and, in total, provide for a realistic return. Rates must also have an element of flexibility in them so that both carriers and shippers have the ability to adjust to changing conditions. If our proposals are adopted, we would expect some rail rates to go up and some rates to come down. Increased rail efficiency would, in the long-run, benefit shippers as well as carriers.

I would also stress that our bill would not constitute a license for wholesale abandonment of rail lines. Abandonments would be permitted only on the basis of explicit standards and through at least a two-year process. Even then, the service could be retained if the local community makes up the difference between the line's revenues and operating costs. Our bill also allows for easier entry by motor or water carriers to markets no longer served by railroads.

And third: the Transportation Improvement Act would help the railroads by providing additional Federally-financed research and development of advanced rail technologies and operating techniques. The bill would authorize $35 million to design and put into operation a nationwide program for the efficient scheduling of freight cars. Although the situation varies from time to time, I believe that the so-called freight car shortage is more of a freight car management problem than an actual physical shortage. With 1.7 million cars on hand--and a new-order freight car backlog that reaches late in next year--I think our urgent effort should be on learning how to move what we have more efficiently. The typical