

FILE

REMARKS PREPARED FOR DELIVERY BY SECRETARY OF
TRANSPORTATION BROCK ADAMS, RAILROAD CONVENTION,
HERSHEY, PENNSYLVANIA, NOVEMBER 13, 1978.

LET ME SAY FIRST THAT I QUESTIONED THE WISDOM OF CALLING THIS MEETING A "RETREAT." THE RAILROADS HAVE BEEN "RETREATING" LONG ENOUGH. IT'S TIME TO TURN AROUND. IT'S TIME TO FACE UP TO OUR PROBLEMS SQUARELY AND -- TOGETHER -- DO SOMETHING ABOUT THEM. AS I SEE IT, THAT'S WHAT THIS MEETING IS ABOUT.

WE CAN TALK ABOUT THE CAUSES OF THE RAIL
INDUSTRY'S DIFFICULTIES UNTIL WE'RE BLUE IN THE
FACE. NO AMOUNT OF TALK OR WISHFUL THINKING OR
PROCRASTINATION IS GOING TO BRING BACK THE GLORY
DAYS OF RAILROADING, WHEN THE RAILROADS COULD AFFORD
THE FULL COSTS OF MAINTAINING A COMMON CARRIER SYSTEM.

A MONTH AGO WE RELEASED OUR STUDY OF THE
INDUSTRY'S CAPITAL NEEDS THROUGH 1985. IT'S A
THICK REPORT, BUT WHAT IT BOILS DOWN TO IS THE
ABSOLUTE NECESSITY FOR SOME BASIC CHANGES IF THE
INDUSTRY IS TO AVOID GOVERNMENT TAKEOVER.

YOU HAVE SEEN IT. YOU KNOW WHAT IT SAYS
ABOUT CAPITAL NEEDS, MARKET SHARE AND THE PROSPECTS
FOR PROFITABILITY. NONE OF THAT MAKES FOR LIGHT
OR WITTY READING.

THE REPORT IS NOT NECESSARILY THE FINAL WORD ON THE STATE OF THE RAILROADS. YOU MAY FIND SOME OF OUR CONCLUSIONS OPEN TO DEBATE. THAT'S WHY WE'RE HOLDING A SERIES OF PUBLIC HEARINGS BEFORE THE REPORT IS FINALIZED.

BUT I HOPE YOU WILL FOCUS, DURING THIS CONFERENCE, ON THE INDUSTRY'S ROOT PROBLEMS AND WHAT WE CAN DO TOGETHER TO RESOLVE THEM.

I EMPHASIZE TOGETHER. WE ARE FIRMLY COMMITTED TO A HEALTHY PRIVATE RAIL SYSTEM. BUT WE WILL NEED YOUR HELP -- NOT ONLY IN PROPOSING WHAT IS GOOD FOR A PROSPEROUS RAILROAD INDUSTRY, BUT IN CONVINCING THOSE NOT IMMEDIATELY SYMPATHETIC THAT OUR PLANS ARE FAIR AND REASONABLE FOR THE ENTIRE ECONOMY.

THERE ARE FIVE COURSES OF ACTION WE MUST TAKE.
FRANKLY, I DON'T SEE THEM AS "OPTIONS" OR "ALTERNATIVES."

EACH ACTION IS DEPENDENT ON THE OTHERS IF THE ECONOMIC
RESURRECTION OF THE RAILROADS IS TO SUCCEED.

FIRST; WE MUST FREE THE RAIL INDUSTRY FROM AN
OVER-REGULATED SYSTEM THAT IS UNFAIR, OUTDATED AND
UNBELIEVABLY CUMBERSOME.

THE 4-R ACT DID NOT GO FAR ENOUGH, IN TERMS OF REGULATORY REFORM. THE PRESIDENT HAS JUST SIGNED A BILL RELAXING FEDERAL CONTROLS OVER THE AIRLINES. AFTER MORE THAN A YEAR OF DELIBERATION, DURING WHICH -- I MIGHT ADD -- REDUCED FARES UNDER THE CIVIL AERONAUTICS BOARD'S MORE LIBERAL POLICIES LED TO RECORD AIRLINE EARNINGS -- VIRTUALLY EVERYONE INVOLVED CAN SEE THAT IT CAN ALL COME TOGETHER.

NOW, I'M WELL AWARE THAT THERE ARE BASIC DIFFERENCES BETWEEN AIRLINES AND RAILROADS. FOR ONE THING, THE AIRLINES OPERATE IN A GROWING MARKET, AND THEIR COMPETITION IS WITH EACH OTHER. RAILROADS, ON THE OTHER HAND, OPERATE TODAY IN AN EXTREMELY COMPETITIVE SURFACE TRANSPORTATION MARKET, AND THEY COMPETE WITH ONE ANOTHER AS WELL AS WITH TRUCKS AND BARGES.

MOREOVER, NO ONE IS ABOUT TO BUILD A NEW RAILROAD SO THERE IS NO THREAT OF ENTRY.

THE RAIL INDUSTRY TODAY IS 100 PERCENT REGULATED; THE TRUCK INDUSTRY -- ABOUT 40 PERCENT; THE DOMESTIC WATER INDUSTRY, LESS THAN 10 PERCENT.

YOU KNOW WHAT THIS DOES TO YOUR INDUSTRY. IT ALLOWS SHIPPERS TO "SHOP AROUND" FOR AN UNREGULATED CARRIER, WHERE THAT IS TO THE SHIPPER'S ADVANTAGE. IT FORCES RAILROADS TO PROVIDE UNPROFITABLE SERVICE IN SOME MARKETS, AND TO SET UNNECESSARILY HIGH RATES IN OTHER MARKETS.

IN SHORT, IT CAUSES THE RAILROAD TO ACCEPT ALL THE OBLIGATIONS OF THE "COMMON CARRIER," WHEN THE UNDERLYING PRINCIPLE -- THE ASSUMPTION OF MONOPOLY -- NO LONGER APPLIES.

THIS IS BASICALLY A GOVERNMENT PROBLEM, THOUGH I NOTE THE RECENT AND WELCOME DECLARATIONS OF SUPPORT FROM THE INDUSTRY FOR AN END TO SUCH ECONOMIC REGULATION.

I HAVEN'T COUNTED THEM, BUT JACK SULLIVAN TELLS ME THERE ARE MORE THAN THREE TRILLION RATES ON FILE WITH THE ICC. FRANKLY, I DON'T KNOW HOW THE RAIL SYSTEM OPERATES AT ALL UNDER SUCH A BURDEN, AND I DON'T KNOW HOW YOU COPE AS EXECUTIVES IN A BUSINESS SO ENTANGLED IN REGULATORY CLUTTER. I DON'T SEE HOW REGULATION, AS POSTULATED IN PRESENT LAW, CAN CONTINUE TO WORK IN THE FACE OF A TOTALLY CHANGED ECONOMIC ENVIRONMENT. CLEARLY, WE HAVE SOME VERY DIFFICULT CHANGES TO ACCOMPLISH.

THIS HAS NOT COME AS A SUDDEN REVELATION OR NEW FOUND TRUTH. AS I SAID ABOUT FIVE YEARS AGO, WHEN WE WERE WORKING ON THE SURFACE TRANSPORTATION PROPOSAL, "REGULATIONS SHOULD BE UNIFORM FOR ALL MODES" BUT SHOULD NOT EXCLUDE COMPETITION.

MY EXACT QUOTE, AS I WENT BACK TO DETERMINE, WAS AS FOLLOWS:

"GOVERNMENT REGULATIONS SHOULD TAKE INTO ACCOUNT THE IMPORTANCE OF BOTH TRANSPORTATION AND SHIPPING UNITS IN A PARTICULAR MARKET, WITH COMPETITION ALLOWED TO SET INDIVIDUAL PRICES ABOVE COST WHERE NEITHER SHIPPERS NOR THE INDUSTRY HAS POWER TO CONTROL RATES AND QUALITY OF SERVICE."

I WENT ON TO SAY THAT "THE ICC SHOULD BE GIVEN A PERIOD OF TIME TO DEMONSTRATE WHETHER IT CAN OVERCOME ITS REGULATORY LAG; IF NOT, THEN THE REGULATORY SYSTEM SHOULD BE RESTRUCTURED SO AS TO PRODUCE PROMPT AND FAIR REGULATION."

NOW I AM WELL AWARE THAT WHEN WE TALK ABOUT GREATER RATE FREEDOMS WE ALSO HAVE TO TALK ABOUT INFLATION. THAT IS OUR NUMBER ONE PROBLEM. WE HAVE TO FIGHT IT ON EVERY FRONT -- AND THAT INCLUDES TRANSPORTATION.

RAILROADS HAVE HAD PRICE CONTROLS FOR YEARS.
ANY NEW RATE REQUESTS TODAY MUST BE EVALUATED AGAINST THE
PRESIDENT'S WAGE AND PRICE STANDARDS. AND I AM HERE TO
TELL YOU THAT THE INDUSTRY'S REQUESTED 8.3 PERCENT
INCREASE DOES NOT FALL WITHIN THOSE GUIDELINES.

IT IS TOO HIGH. THE INDUSTRY MUST LIVE WITHIN
THE GUIDELINES. AND FOR THAT REASON I AM ASKING YOU TO
MODIFY YOUR REQUEST FOR A GENERAL RATE INCREASE. WE WILL
THEN BE IN A POSITION TO SUPPORT YOUR REQUEST BEFORE
THE ICC.

I MUST TELL YOU SOMETHING ELSE. WE ARE MOVING TOWARD THE DEREGULATION OF THE TRUCKING INDUSTRY, AND THOSE OF YOU WHO MANAGE RAILROADS HAD BETTER GET YOUR MANAGEMENT IN ORDER. BECAUSE YOU'RE NEXT. THE RAILROADS HAVE BEEN SAYING THEY WANT TO LIVE IN A FREE ECONOMY. SO YOU HAD BETTER BE PREPARED TO COMPETE IN THAT WORLD.

SO MY MESSAGE TO YOU IS THIS: A NEW COMPETITIVE ERA IS JUST AROUND THE CORNER. IT WON'T HAPPEN OVERNIGHT, BUT IT'S COMING.

THE FIRST THING, THEN, THAT WE MUST DO IS PRESS
FOR AN END TO TOTAL ECONOMIC REGULATION, AND THE
ADMINISTRATION PROPOSES TO DO THAT IN THE 95TH CONGRESS.

TO CARRY THIS OUT:

(1) RAILROADS SHOULD HAVE THE FREEDOM TO
NEGOTIATE WITH SHIPPERS, JUST AS OTHER BUSINESSES
CAN.

(2) MANY SERVICES SHOULD BE EXEMPTED FROM ALL REGULATION IMMEDIATELY. RAILROADS SHOULD BE EXEMPT FROM REGULATION WHERE OTHER MODES ARE NOT REGULATED. IT MAKES NO SENSE FOR FRESH PRODUCE TRAFFIC, FOR EXAMPLE, WHICH IS DOMINATED BY UNREGULATED CARRIERS, STILL TO BE REGULATED WHEN IT MOVES BY RAIL. FURTHER, WHEN EFFECTIVE COMPETITION EXISTS, IT SHOULD BE SUBSTITUTED FOR REGULATION. AN IMPORTANT COROLLARY IS THAT HOLDING DOWN RATES TO SUBSIDIZE SHIPPERS OR GEOGRAPHICAL REGIONS AT THE EXPENSE OF THE RAILROADS IS NOT SERVING A PROPER "PUBLIC PURPOSE."

(3) THE ICC'S GENERAL SUSPENSION POWER HAS OUTLIVED ITS USEFULNESS, AS HAVE ICC-INITIATED INVESTIGATIONS. RATES SHOULD BE EFFECTIVE UPON FILING. RATE-MAKING FREEDOM WILL NOT WORK WITHOUT AN INCREASED RESPONSIBILITY FOR REASONABLE RATE CHANGES -- AND I THINK THE INDUSTRY SHOULD HAVE A CHANCE TO PROVE ITSELF IN THAT REGARD.

PROTECTION IS NEEDED FOR THE SMALL NUMBER OF TRULY CAPTIVE SHIPPERS. BUT THAT PROTECTIVE POWER MUST BE EXERCISED ONLY IN RESPONSE TO AN ABUSE OF RAILROAD MARKET POWER, NOT AS A PRIOR RESTRAINT ON THE RAILROADS.

(4) THE NOTICE PERIOD FOR SETTING, OR CANCELLING, VARIOUS PRICE CHANGES MUST BE REDUCED. THIS WOULD ENABLE THE RAILROADS TO RAISE OR LOWER RATES IN RESPONSE TO DEMAND, JUST AS THEIR COMPETITORS DO. WE ARE, THEREFORE, EXPECTING PEAK AND SEASONAL RATES THAT WORK.

(5) THE RAILROAD INDUSTRY SHOULD CONTROL
ITS OWN INTERLINE CAR MOVEMENTS AND PER DIEM
PAYMENTS.

THERE IS A SECOND COURSE OF ACTION THAT MUST
PARALLEL THE FIRST.

ALONG WITH LESS REGULATION OF RATES AND SERVICE,
THE INDUSTRY MUST HAVE MORE FREEDOM TO ELIMINATE
EXCESS OR REDUNDANT FACILITIES.

WE SOMETIMES HAVE TROUBLE IN THIS COUNTRY RECONCILING OUR TRADITIONAL CONCEPTS OF GROWTH WITH THE NOTION THAT CERTAIN MARKETS CAN BE BETTER SERVED IF THEY'RE SERVED SELECTIVELY. THE RAILROADS CANNOT PROFITABLY MATCH THE ROUTE STRUCTURE OR THE FLEXIBILITY OF THE TRUCKING INDUSTRY. AND THEY SHOULDN'T TRY. THERE IS AN URGENT NEED FOR RAILROADS TO STREAMLINE THEIR FACILITIES, AND WE MUST SEEK WAYS TO EASE BOTH THE PROCESS AND THE IMPACTS OF RESTRUCTURING.

WE HAVE TWO IMPORTANT TOOLS AVAILABLE TO US TO HASTEN THE STREAMLINING PROCESS. ONE IS THE BRANCH LINE AUTHORITY APPROVED BY THE LAST CONGRESS. THIS AUTHORITY ALLOWS STATES TO APPLY FEDERAL MONEY TO THE REHABILITATION OF BRANCH LINES WITHOUT AWAITING THE ICC ABANDONMENT PROCEDURES. THIS IS A CHANGE WE PRESSED FOR, AND I HOPE THAT ALL OF YOU IN THE RAILROAD COMMUNITY WILL WORK WITH EACH OTHER, WITH US AND WITH THE STATES TO MAKE FULL USE OF THIS VALUABLE NEW AUTHORITY.

THE OTHER IS SECTION 401 OF THE 4-R ACT WHICH
ALLOWS RAILROADS AND OTHERS TO PARTICIPATE WITH DOI IN
DISCUSSIONS OF CONSOLIDATION PROPOSALS WITHOUT FEAR OF
LIABILITY UNDER THE ANTI-TRUST LAWS.

I WANT YOU TO KNOW THAT I REMAIN CONVINCED THAT
WE ARE TALKING THE RIGHT PATH IN DEALING WITH RAIL
PROBLEMS IN THE MIDWEST. THE 401 PROCESS IS WORKING,
THOUGH NOT AS SWIFTLY AS I WOULD LIKE. THE MILWAUKEE
AND THE NORTHWESTERN HAVE MADE REAL PROGRESS.

BUT THERE IS STILL MUCH LEFT UNDONE. THE PROCESS UNDERWAY IN THE MIDWEST IS MERELY THE FIRST PHASE IN WHAT SHOULD BE AN INCREASING EFFORT.

FRANKLY, I DON'T KNOW WHY WE HAVEN'T BEEN SWAMPED WITH CONSOLIDATION PROPOSALS. LAST YEAR WAS A TOUGH ONE FOR THE INDUSTRY. REPORTS ON 1978 RESULTS THUS FAR ARE NOT ENCOURAGING. I DON'T KNOW OF A RAILROAD, EVEN THOSE IN THE PROFIT COLUMN, THAT COULDN'T BENEFIT FROM A MARKET SWAP, TERMINAL CONSOLIDATION, JOINT USE AGREEMENT OR A COORDINATION AGREEMENT OF SOME KIND.

I EXTENDED THE INVITATION LAST JANUARY. IT IS STILL OPEN. WE HAVE DEMONSTRATED THAT WE CAN HELP, THAT OUR STAFF WILL BE FAIR, AND THAT WE ARE READY TO HELP STILL FURTHER. BUT, OF COURSE, YOU MUST HELP, TOO. I WOULD URGE YOU TO TAKE IMMEDIATE USE OF THIS PROVISION. IT IS A GOLDEN OPPORTUNITY TO HELP YOURSELVES AND, AS I SAID NEARLY A YEAR AGO, IT MAY BE THE LAST HOPE FOR REAL RESTRUCTURING INITIATIVES.

THEN, THIRD; THE GOVERNMENT MUST CARRY OUT
POLICIES THAT TREAT ALL MODES OF TRANSPORTATION FAIRLY.

THERE IS NO QUESTION THAT THE RAILROADS CAN
CARRY LARGE LOADS OF MANY COMMODITIES OVER MIXED
TERRAIN AND LONG DISTANCES CHEAPER THAN ANYONE ELSE --
AND THEY DO IT WITH THEIR OWN RESOURCES.

IT WAS A TOUGH BATTLE, BUT WE SUCCEEDED THIS YEAR IN TAKING A FIRST STEP TO CORRECT AN INEQUITY WHEN WE WON A WATERWAY USER TAX -- A SMALL ONE TO BEGIN WITH -- BUT AT LEAST WE HAVE ATTACKED THE PROBLEM OF UNEQUAL FEDERAL SUBSIDIES.

FOURTH; THERE HAS TO BE BASIC, TANGIBLE, GOOD FAITH PROGRESS IN IMPROVING RAIL MANAGEMENT AND IN THE RELATIONSHIPS BETWEEN MANAGEMENT AND LABOR. AND THIS HAS TO EXTEND DOWN THROUGH SECOND AND THIRD LEVEL MANAGEMENT AND IN THOSE WORKING AT ALL LEVELS IN THE LABOR FORCE WHERE MORALE NEEDS TO BE LIFTED.

IT IS GRATIFYING, FOR EXAMPLE, TO KNOW THAT -- BEGINNING NEXT SEPTEMBER -- THE 43 SEPARATE CONTRACTS BETWEEN CONRAIL AND THE UNITED TRANSPORTATION UNION WILL BE REPLACED BY A SINGLE CONTRACT WITH UNIFORM WORK RULES. A SIMILAR CONSOLIDATION IS BEING ACCOMPLISHED BETWEEN CONRAIL AND THE BLE (BROTHERHOOD OF LOCOMOTIVE ENGINEERS). THERE WERE SOMETHING LIKE 200 SEPARATE LABOR AGREEMENTS WHEN CONRAIL TOOK OVER FROM ITS BANKRUPT PREDECESSORS, SO THEY ARE WORKING THEIR WAY DOWN AND I THINK THAT SHOWS REAL COOPERATION BETWEEN LABOR AND MANAGEMENT. BUT MUCH MORE DRAMATIC CHANGES MUST CONTINUE TO TAKE PLACE IF THIS INDUSTRY IS TO BE COMPETITIVE THROUGHOUT THE ENTIRE NATION.

THESE NEW CONTRACTS, ALONG WITH THE MILWAUKEE AGREEMENT, REPRESENT NECESSARY FIRST STEPS. I HOPE THEY DEMONSTRATE A TRUE WILLINGNESS BY BOTH PARTIES TO BREAK THE PATTERNS OF THE PAST.

INNOVATION HAS TO BE THE NAME OF THE GAME. THE RAILROADS MUST MAKE BETTER USE OF NEW TECHNOLOGIES, NEW MARKETING TECHNIQUES AND NEW WAYS TO INCREASE PRODUCTIVITY.

THE INDUSTRY HAS TO PROVE THAT ITS IMAGINATION IS EQUAL TO ITS MUSCLE, AND DEVELOP RAIL SERVICES THAT WILL ATTRACT NEW BUSINESS AND INTRODUCE PROCEDURES THAT REDUCE UNIT COSTS, OR IT WILL NOT SURVIVE AS A FULL SERVICE TRANSPORTATION INDUSTRY.

FIFTH; AND LAST, WHILE WE MUST BE MODERATE IN OUR RAIL ASSISTANCE PROGRAMS, IT IS NEVERTHELESS OBVIOUS THAT THE RAIL INDUSTRY, AS THE OTHER MODES, WILL NEED SOME FINANCIAL HELP FROM THE GOVERNMENT.

DURING THE NEW CONGRESSIONAL SESSION WE PROPOSE TO REWRITE THE GROUND RULES ON FEDERAL ASSISTANCE TO ENCOURAGE PROJECTS THAT WILL MAKE IMPROVEMENTS IN THE INDUSTRY'S EFFICIENCY. WE ALSO HOPE TO MAKE LOW-INTEREST ASSISTANCE AVAILABLE ON THE BASIS OF THE PUBLIC INTEREST ASPECTS OF A PROJECT, RATHER THAN A RAILROAD'S PROFITABILITY OR WHETHER IT RELATES TO "DEFERRED MAINTENANCE." AS RAILROAD EARNINGS IMPROVE, HOWEVER, WE AND THE PUBLIC WILL EXPECT THAT FUNDS GENERATED BY THE RAILROADS REPLACE FEDERAL ASSISTANCE.

I AM DEEPLY CONCERNED, FOR EXAMPLE, THAT
UNLESS CONRAIL CAN REDUCE ITS LOSSES THE FUTURE OF
THAT ORGANIZATION MAY BE IN JEOPARDY. THE FINAL
SYSTEM PLAN SIMPLY HASN'T WORKED AS IT SHOULD HAVE,
FOR MANY REASONS.

I HAVE TALKED TO ED JORDAN AND THE OTHER MEMBERS OF THE BOARD ABOUT THIS. THEY ARE AWARE THAT EXTENDING FURTHER FEDERAL ASSISTANCE MAY BE DIFFICULT IN A PERIOD OF NATIONAL INFLATION AND BUDGET RESTRAINTS. CONRAIL IS WORKING TOWARD A FIVE-YEAR PLAN WHICH WILL ADDRESS THIS CRITICAL MATTER. I CONSIDER IT CRITICAL BECAUSE I DO NOT BELIEVE THE GOVERNMENT CAN CONTINUE TO JUSTIFY LARGE OPERATING SUBSIDIES AND CAPITAL OUTLAYS, WITHOUT SOME REASONABLE ASSURANCE OF PROGRESS TOWARD FINANCIAL STABILITY AND SELF-SUFFICIENCY.

STILL, FOR ALL OF THEIR DIFFICULTIES, THE RAILROADS, I BELIEVE, CAN MAKE IT. WE NEED THE RAILROADS. WE NEED THEIR FUEL EFFICIENCY, THEIR CARRYING CAPACITIES, THEIR BRUTE STRENGTH AND INTERMODAL VERSATILITY. THE QUESTION IS: WILL THOSE QUALITIES ENDURE UNDER THE FLAG OF PRIVATE ENTERPRISE, OR AS WARDS OF THE GOVERNMENT?

I PREFER THE FORMER. I HAVE WORKED WITH THE RAIL PROBLEM LONG ENOUGH TO KNOW THAT THE RETURN OF A HEALTHY, PRIVATE RAIL SYSTEM IS POSSIBLE, BUT ONLY IF MANY FORCES AND FACTORS AND PEOPLE PULL TOGETHER. THE TIME TO DO THAT, I SUGGEST, IS NOW.