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U. S. DEPARTMENT OF TRANSPORTATION

SECRETARY BROCK ADAMS

PRESS CONFERENCE ON RAIL RATES

WITH

ALFRED KAHN  
and  
RICHARD BRIGGS

November 24, 1978

(TRANSCRIPT OF A TAPE RECORDING)

METROPOLITAN REPORTING SERVICE, INC.

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P R O C E E D I N G S

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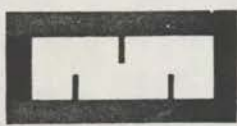
SECRETARY ADAMS: I am very pleased to be here today with Chairman Fred Kahn and with Dick Briggs, representing the American Association of Railroads, and with Jack Sullivan, of the Federal Railroad Administration, because we have now worked out a solution to be certain that the price increases within the railroad industry are within the President's guidelines.

I met with the industry leaders last week in Hershey, Pennsylvania, and indicated to them that the proposal that they had made was too high and did not meet the guidelines, and was, therefore, unacceptable.

I then talked with Chairman Kahn. We have been discussing this during the last week with the industry leaders, and we are dealing here with an industry, as you know from the reports we have issued, that is not a high profit industry. In fact, it is making a sacrifice in this case of nearly \$200 million during the next year.

And what we are saying is if an industry, that has been having the difficulty that the railroad industry has, can stand up, reduce its increase request by 12 percent, get below the President's guidelines, then the other industries ought to be able to do the same thing, and we think that they should.

I think that a private railroad industry is





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1       terribly important. I think that they have shown, by this  
2       action, that they wish to move ahead.

3               We anticipate proceeding with a deregulation  
4       proposal in the early part of next year so that there can be  
5       individual pricing within this industry. At the present time,  
6       the matter that has been presented by the railroad industry  
7       will be now heard by the ICC, and I and other members of the  
8       Administration will support the request of the railroad  
9       industry because it meets the President's guidelines, and  
10      we think it ought to be promptly enacted so that we can move  
11      ahead.

12             Chairman Kahn, would you like to say something to  
13      the group?

14             CHAIRMAN KAHN: Yes. I will be very brief.

15             I just wish that Secretary Adams had met these  
16      people in some place other than Hershey, Pennsylvania.

17      (Laughter.) We obviously need a Secretary of Chocolate  
18      Bars. (Laughter.)

19             I really do think we can be encouraged by this  
20      event, and I am delighted to appear here with Secretary  
21      Adams. I am genuinely grateful for the initiative that he  
22      took, and he did take the initiative in this.

23             We have spent several days looking as carefully as  
24      we could at the railroad's original filing. This reduction  
25      from 8.1 to 7.0 percent does appear to us to bring it into

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1 compliance with our standards in a number of ways, which I  
2 would be glad to elucidate if you wish to pursue it. That  
3 is just enormously encouraging considering the very weak  
4 financial position of the railroads.

5 We will -- let me say this first -- one cannot  
6 say that a price increase of 7.1 percent is non-inflationary,  
7 and I do not want to pretend that it wouldn't be better if  
8 it were zero. But the fact that this particular industry,  
9 in its condition, was willing to come back in, under per-  
10 suasion, of course, I think we have a right to regard as  
11 a victory.

12 We will be monitoring the continued performance of  
13 prices and realizations in the industry because there are  
14 some assumptions here that are based correctly on past  
15 records, but nevertheless, we will continue to watch to make  
16 certain that the filing remains within the standards.

17 Second, I do want to say that we are not tying the  
18 ICC's hands. They are an independent regulatory agency,  
19 and they must satisfy themselves, as well, but we are prepared  
20 to tell them that we are satisfied that the filing now, as  
21 reduced, comes within the standards. I think we have a right  
22 to take a great deal of satisfaction from that.

23 SECRETARY ADAMS: Thank you, Fred.

24 Dick, do you have any comments you wish to make?

25 MR. BRIGGS: I think I just might emphasize that



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1 in view of the industry's declining earnings in the past  
2 year and the certain cost increases that we have to face in  
3 the next two years as the result of the wage pacts already  
4 signed before the guidelines came out, that this was a most  
5 difficult step.

6 However, we believe that if this action is followed  
7 by others across the national economy, that we can make  
8 major headway in reducing inflation, which has been one of  
9 the most difficult problems railroads have had to confront.

10 We are hopeful that with this roadblock removed,  
11 that the ICC can move ahead promptly to grant the rate  
12 increase in full amount on that that remains.

13 SECRETARY ADAMS: I would be happy to accept your  
14 questions if you will just indicate who you would like to  
15 have comment on these. I want to express my appreciation  
16 particularly to Jack Sullivan, who has been working with  
17 this industry during the course of the period of time since  
18 the meeting in Hershey, and been working with Chairman Kahn's  
19 staff and with Kalp's (phonetic) to achieve the reduction  
20 so that we fit within the guidelines.

21 Are there any questions? Yes?

22 Q: Mr. Kahn, have you talked with the ICC in  
23 general about them following the guidelines?

24 CHAIRMAN KAHN: Only in very general terms. You  
25 know that the ICC has issued a statement that they would

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ajh 1 not pass on increases that would exceed the guidelines, and  
2 I have discussed that only informally. So, I take it that  
3 our certification, now that this newly-arranged increase  
4 does fall within it, will be influential with them. But  
5 remember that they are an independent regulatory agency,  
6 and I speak for independent regulatory agencies, too.

7 (Laughter.)

8 SECRETARY ADAMS: You used to now, Fred. You used  
9 to. (Laughter.)

10 Are there any other questions? We will be happy  
11 to have everyone here, if some of you would like to come up  
12 and ask any detailed things, we would be pleased to do it.

13 Yes?

14 Q: What are the numerous ways that comes into a  
15 compliance?

16 CHAIRMAN KAHN: The price deceleration standard,  
17 which we intend to be our most important one, namely, that  
18 companies are expected to come in 0.5 percentage points  
19 below their 1976-1977 average, by our scrutiny of the BLS  
20 statistics, would have called for a 6.6 percent increase.

21 The Association of American Railroads presented  
22 us with evidence, on the basis of historical experience,  
23 that there is a good deal of slippage from an announced  
24 increase, and, therefore, their estimate is that the 7.1  
25 will, in fact, come out, I think on the basis of historical



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1 experience, to 6.4, I think is the number that we have.

2 The evidence that they presented seems reasonable,  
3 but it is that particularly that we will be examining.

4 I am sorry, there is one other detail -- I don't  
5 want to tell you more than you want to know, but there is  
6 very little danger because, after all, my own knowledge is  
7 veneer-thin.

8 The standards also call for only 50 percent of  
9 the allowable increase in a year being put in effect in each  
10 six-month period. At first blush, this filing would seem  
11 to violate that.

12 However, there are two conditions that they appear  
13 to have met to justify putting the whole thing in. One is  
14 if it reflects a historical practice, and obviously, the  
15 historical practice has been that when you have a major  
16 wage increase -- and as you have pointed out quite correctly,  
17 the wage increase came before the standard, and, therefore,  
18 has exposed the industry in this case to a real squeeze --  
19 then the historical practice is for the industry to come in  
20 and try to recover the annual wage increase.

21 The second condition is that it not increase  
22 their profit margins. We have been able to study the  
23 filings of 19 of the railroads. Are there 88 in total, or  
24 is it 88 plus 19?

25 MR. BRIGGS: There are more than that.

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1 CHAIRMAN KAHN: Even more. But we were able to  
2 review the biggest 19, who account for over 90 percent of  
3 the traffic, and they individually, each of them, meet  
4 this profit margin standard, as well. So, those are the  
5 things we satisfied ourselves on.

6 SECRETARY ADAMS: What you basically have, if  
7 you have filed it -- and I know that you have -- is that  
8 you have a flagging out after ICC action takes place, and  
9 the flagging out effect of this brings it below 6.6 percent  
10 down, really, to 6.4 percent. But, yes, that will be  
11 monitored to see if the flagging out occurs as it has in  
12 the past. We know of no reason why it will not, and,  
13 therefore, it fits right within the guidelines.

14 You had a question?

15 Q: Can Mr. Briggs explain the flagging out in  
16 plain simple English, why the whole increase never really  
17 takes effect?

18 MR. BRIGGS: The number of rates affected by a  
19 general rate increase go into the hundreds of millions.  
20 Rather than come in with hundreds of thousands of tariffs,  
21 it becomes simpler to develop criteria for commodities  
22 in regions in the aggregate, to post them, and then to make  
23 reductions therefrom.

24 The second reason for the reductions is that you  
25 find the competitive situations may vary. You have to



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1 remember that when this rate increase was first decided,  
2 we were back in August. Conditions change. By the time  
3 you develop the material for the Commission and go through  
4 the Commission's process, it is four to five months later,  
5 and naturally, there are changes.

6 So, there are reductions that may apply to specific  
7 regions, specific routes, or specific commodities, and  
8 resulting primarily in lower increases. It has been a  
9 natural phenomenon over the years.

10 Q: Well, are you saying, then, that not all of  
11 the railroads will put in the full increases they are  
12 allowed, is that right?

13 MR. BRIGGS: That is right.

14 SECRETARY ADAMS: That is right.

15 MR. BRIGGS: On every piece of traffic.

16 SECRETARY ADAMS: That is flagging out, and it  
17 works against both the competitive factors and the judgment  
18 of individual managements.

19 But what we are concerned about now is that this  
20 moves rapidly through the ICC, because as he pointed out,  
21 they started in August, and that is one of the reasons that  
22 we are pressing for less regulation within a zone or however  
23 the President wishes to finally approach it, because it  
24 takes so long to get through the ICC, that by the time you  
25 get through, where you were originally has changed. So, you

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1 never catch up. Whereas, other industries are able to put  
2 their price increases into effect by management saying,  
3 we are going to increase the price of -- you are right --  
4 the Hershey Bar, and how much chocolate is in it, and how  
5 many nuts.

6 Yes?

7 Q: I have two questions of Mr. Kahn and Dick  
8 Briggs.

9 The first one is: Were assurances received from  
10 any of the industries, which use the railroads, that they,  
11 too, would hold the line in the coming months? The second  
12 question: Are you saying that in reducing the 8.1 percent  
13 general increase to 7.1 percent, that regulatory lag, in  
14 effect, is going to chew up an additional 0.6 percent?

15 SECRETARY ADAMS: No, no, no, it is not regulatory  
16 lag. One of the reasons that we want to have a deregulation  
17 system, which I thought we had passed in the '76 Act --  
18 remember, which we called the yo-yo -- where you could go  
19 up or down a certain percentage point without going through  
20 the ICC -- they attached to that an amendment that said  
21 there could be no market dominance.

22 Well, that has just led to pure litigation. So,  
23 what happens before the ICC is they will come in with a  
24 general rate increase, and there will be a lag period. But  
25 that isn't what meets the guidelines here. What meets the



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1 guidelines is that the system of offering overall a percent-  
2 age increase means you can go up that much, but throughout  
3 the country, about a third of those rates will not go up.  
4 In other words, if you are in head-to-head competition  
5 with the barges or head-to-head competition with the trucks  
6 or with another company, you may not go up 8 percent. In  
7 fact, they seldom do in those commodities.

8 So that the total amount of increase will be  
9 less than 6.5 percent. That doesn't have to do with  
10 regulatory lag. It has to do with the fact that people  
11 won't increase that much.

12 Now, if you can get a system where every carrier  
13 prices within a percentage amount rather than going through  
14 the ICC and having the rate suspended, then you look at each  
15 one individually, and they decide how much to go up or down.  
16 Now, you go in with a top and subtract off of it.

17 We want them to start at a central point and go  
18 up or down according to their business management, and we  
19 will press that in the early part of the next Congress.

20 CHAIRMAN KAHN: And your other question? We are  
21 just beginning to get responses from the top 500 corporations  
22 to whom the President has written, asking for compliance.  
23 But in many cases they are waiting -- and I think properly  
24 so -- until we come back in response to the comments on  
25 these standards that were due to come in before December 2nd,

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1 so that they can be certain that they will be able to  
2 declare themselves in compliance.

3 But in point of fact, there are a couple of major  
4 railroad-using industries that have already told me informally  
5 that they will be writing letters to the President just  
6 as soon as the December 2nd period is past.

7 Q: Can you identify which industries?

8 CHAIRMAN KAHN: Well, let me identify one that  
9 has said so publicly. That was steel, after the trigger  
10 price increase, but I have also had conversations with the  
11 steel industry, and I have some notion, which I don't think  
12 I am at liberty to discuss, other than in general terms  
13 about what their plans are. They will definitely be in  
14 compliance.

15 SECRETARY ADAMS: Yes?

16 Q: (Inaudible) is achieved by averaging out what  
17 the various railroads will do and coming up with an acceptable  
18 figure. Wouldn't that be comparable to saying that any  
19 Hershey increase is okay as long as Nestle doesn't increase  
20 its --

21 CHAIRMAN KAHN: No, no. I am not certain about  
22 the application of the deceleration standard, whether we  
23 measured that company by company, but we did apply the  
24 profit margin test company by company. That is something  
25 one can do very easily. But each individual one of the 19



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1 companies, as I say, we have checked those, accounting for  
2 90 percent of the business. Each one meets that indi-  
3 vidually. Okay? I suspect -- and perhaps I shouldn't be  
4 speculating -- I suspect that we were not able to do that  
5 company by company on the pricing side.

6 You are presented here with a proposal by the  
7 entire industry, and, therefore, we worked with the relevant  
8 BLS indexes. Hersheys and Nestles cannot average.

9 SECRETARY ADAMS: Yes?

10 Q: Am I correct in what I hear, Mr. Briggs, that  
11 the industry will not file tariffs under the revised  
12 increases until after the Commission acts on it?

13 MR. BRIGGS: We have talked to the Commission this  
14 morning about what steps would be necessary. We do not have  
15 an answer back at this time as to whether a revised tariff  
16 would be necessary, Dave.

17 I will point out, though, that in all past  
18 increases, there have been changes made by the Commission,  
19 and there have been changes made by the carriers between  
20 the time on which they filed and the time on which a Com-  
21 mission decision came up.

22 I have 185 decreases, mostly of small note, already  
23 on notice. The normal way to take care of that has been  
24 once the Commission comes forth with its decision, we file  
25 a full tariff on short notice, so that it doesn't delay the

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1 process. I would be hopeful that we would be able to do  
2 the same thing on this case. They are a very simple level  
3 of increases. Anything that took 15 percent now takes 14.87

4 So, I wouldn't see the necessity for it, but we  
5 will work closely with the Commission and try and cooperate.

6 Q: There has been no informal talks with ICC  
7 officials on your part, Secretary Adams, or on your part,  
8 Dr. Kahn, none whatsoever?

9 SECRETARY ADAMS: On this particular increase,  
10 absolutely none. I have a feeling it might be ex parte,  
11 and you know ex parte, it means the party is over.

12 (Laughter.)

13 With that, the party is over. If anybody would  
14 like to come up and ask some questions, why, please do.  
15 We appreciate your coming on very short notice.

16 (End of Cassette Recording.)  
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