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Statement by Secretary of Transportation
Brock Adams
Concerning the Milwaukee Railroad

On December 19, 1977, the Chicago, Milwaukee, St. Paul and Pacific (Milwaukee Road) sought protection of its assets under Chapter 77 of the Federal Bankruptcy Statute. This event may have come as a surprise to some, but it was the inevitable result of long-term trends in that part of the railroad industry afflicted with too much trackage and too little traffic. The Midwest and some sections of even the Pacific Northwest are now experiencing the reality of failing rail service that occurred some years earlier in the Northeast.

The Milwaukee operates a 10,000 mile rail system. It serves 16 states in the Midwest and northern tier of states to the Pacific Northwest with its traffic base heavily concentrated in the north central states of Minnesota, Wisconsin and Iowa. On March 31, 1979, the railroad employed 10,878 people with a monthly direct labor expense of about \$18.5 million. Milwaukee carried 849,770 carloads in 1977 and 789,480 in 1978.

At the announcement of the Milwaukee's bankruptcy, I launched an intensive effort within the DOT to develop and implement equitable and responsible public policies dealing with this matter. I asked the Federal Railroad Administration to initiate on my behalf a process of industry cooperative action through coordinated use of rail facilities, as authorized in the Railroad Revitalization and Regulatory Reform Act of 1976. With the cooperation of Mr. Stanley E.G. Hillman, Trustee of the Milwaukee, two path-breaking agreements were reached in the summer of 1978, both involving the Milwaukee and the Chicago and Northwestern. This 4R Act restructuring process continues and will become an even more important ingredient in addressing rail service issues in the Midwest.

Trustee Hillman has now informed us that his revised cash flow estimates for the coming month indicate that he could not continue to operate the entire Milwaukee Railroad. He has submitted a statement to the reorganization court yesterday afternoon recommending that approximately eight thousand miles of the Milwaukee Road's present system be embargoed effective May 8. He seeks to continue to operate his "core" system as recommended in the final Booze, Allen & Hamilton analysis. That "core" railroad is focused in Eastern and Southern Minnesota, Wisconsin, and Northern Illinois, with lines to Kansas City and Louisville. States which would no longer be served by the Milwaukee are Washington, Idaho, Oregon, Montana, North Dakota, South Dakota and most of Iowa.

The Interstate Commerce Commission is considering issuing directed service orders to several different railroads to operate portions of the Milwaukee system to be embargoed.

There is no easy solution to the problem of the Milwaukee Railroad. The Department's recently published Prospectus for Change in the Railroad Freight Industry showed that the U.S. rail system as a whole is being forced to provide service at revenue levels that do not cover full costs. The Milwaukee is one of many railroads caught in the squeeze between tight government regulations, on the one hand, and strong competition from trucks and barges on the other. In the longer run, these issues can only be addressed by restructuring and the pricing flexibility that would come from passage of the Administrator's proposed rail deregulation legislation. Meanwhile, however, we must move swiftly to alleviate the case crisis which threatens to halt all Milwaukee operations.

I am recommending the following course of action which the DOT will take and will urge upon others:

I am concerned that sufficient funds be available to continue essential rail services. The Trustee has requested, and we support, \$15 million to be drawn from the railroad's wholly-owned subsidiary. To help provide time for more detailed studies of the Trustee's plan, we are ready to expedite consideration of limited additional assistance from Emergency Rail Services Act funds inasmuch as the Trustee believes a viable core may exist.

We will undertake an independent examination of the Trustee's core plan as soon as all information is made available to us in order to determine whether the core can become self-sustaining and whether it is economically feasible to expand the core to include additional lines.

We will urge the Trustee to use the 4R Act's expedited 60-day abandonment provisions, where appropriate, to abandon lines which he does not plan to operate within the core and those lines outside the core which can be legally abandoned.

Last December, I visited Detroit to challenge America's auto makers to do no less than re-invent the car -- to apply their proven ability and expertise to the development of cars that are cleaner, safer and much more energy-efficient.

In February I convened an international technical conference in Boston to define research directions which would lead to the advances in automotive technology which are critical to meeting our future transportation needs.

Less than two weeks ago, President Carter and I met with the chief executives of the American auto manufacturers in a White House conference at which we reached agreement on the principles of a cooperative industry-government program of basic research directed at automotive technology. This program is designed to stimulate more talent directed at basic research in the total automotive system.

This effort will involve our university, industrial and federal research centers -- bringing the Nation's top scientific and engineering talent to bear on the fundamental disciplines related to the automobile.

This basic research effort which was developed at the Boston conference and agreed to by the auto manufacturers at the White House, is expected to produce a pool of talent and information to aid automotive engineers in developing new automotive design, especially those related to the social concerns of fuel economy, emissions and safety. It would also be the source of new ideas and innovations, not only for the United States but the world community.

At this point let me depart from my prepared text to present to the chairman of this international forum a copy of this proposed research program and ask that it may be made part of the official proceedings. Mr. Chairman, I would like to announce at this time that the government of the U.S. will share this blueprint for advanced automotive research by making it available to each of your member governments.

While it is impossible to forecast how much progress in automotive fuel economy any of our nations may make alone, if we can share our resources and the fruits of that effort -- we will have succeeded in solving the number one problem in transportation. We will have guaranteed the mobility of our people into the 21st century.

Basic research programs of this kind have been the technological backbone on which the advances of the world's most dynamic technologies have been based.

This program will lay the technological base for a truly different car by the end of this century -- one with new structures, materials and sources of power.

President Carter has asked me over the next several months to develop a detailed proposal for the conduct, timing and scope of this automotive basic research program.

Our primary goal in this research effort is quite clear. It is to produce a car that uses substantially less fuel or uses a fuel that is not derived primarily from scarce petroleum resources.

In other words, a car of the future -- the product of coordinated research supported by each of our governments; conducted by those who are most expert at it, and those who have much to contribute -- the auto manufacturers.

Today I formally extend to the member nations of this conference an invitation to join us in this effort -- to expand this initiative beyond the boundaries of any one nation to a truly global undertaking.

I am proposing internationally shared research in automotive technology.

We have undertaken this type of coordinated and combined international effort before in the design and development of cars that are safer.

The International Experimental Safety Vehicle Program began in 1971 with memoranda of agreement signed by seven nations. In the course of the past eight years, tremendous advances have been made in the technology of motor vehicle safety -- advances toward which all nations contributed, and from which each nation has benefited.

When the technologies developed through this cooperative effort are applied universally, we will count the number of lives saved in the tens of thousands annually.

By any standard, the cooperative effort toward the development of cars that are structurally safer ranks as one of the most successful of all modern international initiatives.

I suggest we can do no less in our efforts to develop the car of the future -- a technically superior, socially responsible, fuel-efficient automobile that represents a new generation of automotive technology, based on collective research and international commitment.

I believe we are already well on the way to the development of what some have called "the global car."