

U.S. Department of Transportation

news:



Office of Assistant Secretary for Governmental and Public Affairs

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REMARKS PREPARED FOR DELIVERY BY SECRETARY NEIL GOLDSCHMIDT BEFORE STATE TRANSPORTATION OFFICIALS AND RAILROAD INDUSTRY LEADERS, DES MOINES, IOWA, THURSDAY, NOVEMBER 15, 1979

When I first talked to Graham Claytor about my new job, he told me that no single day would go by without a railroad problem reaching my desk. I am happy to report that I have solved that problem -- I move my desk every day. Today I am delighted to have brought my desk to Des Moines, a crossroads of the rail restructuring problem.

In fact, Graham was right. In the short run, there is no way to prevent a continuing series of rail problems. Passage of rail regulatory reform legislation will be of immense help in the long run, but that is a speech for another day. I have a very simple message today: all of us, you and I, must find ways to convert problems -- such as the bankruptcy of the Rock Island -- into rail restructuring opportunities.

We must do this if we are to move toward healthy railroads able to efficiently move the grain of this region to foreign and domestic markets.

I am proud of the fact that we were able to quickly restore service along the bankrupt Rock Island. But the directed service order now in place is an emergency device, a cushion of time which we must use to get a workable solution.

The existing directed service order expires December 3, and we cannot let it lapse without providing rail service beyond that date. Yet, if we rely solely on the ICC to extend the present service provided

by the Kansas City Terminal Railway Company for the maximum additional 180-day period, we will spend more than \$100 million in subsidies between now and May without producing lasting alternatives.

I am happy to report that we now have an opportunity to move toward a solution to the problem of the Rock Island Railroad. I expect -- with your cooperation -- that we can have at least the outlines of this permanent solution in place within 90 days. Therefore, the DOT staff will be recommending to the ICC that directed service be provided after December 3 but that it be divided into two phases. For the first 90 days, December 4 through March 2, I propose continuation of directed service by the Kansas City Terminal Company. During this time, we hope that the railroads will be forthcoming with proposals for acquisitions absolutely no later than February 1.

We need the stability of a 90-day continuation by the KCT to give railroads interested in acquiring or operating over Rock Island lines an opportunity to study traffic potential and make firm commitments.

But, from March 3 on, single-carrier directed service should terminate in favor of grants of interim operating rights and directed and voluntary service orders, to carriers interested in continuing service on specific line segments. The second phase will serve as the start-up time for the permanent solution to the Rock Island restructuring.

In order to be prepared to put these arrangements in place for the period after March 3, interested railroads must analyze the Rock Island lines and file either an acquisition or trackage rights application with the ICC, or make bona fide offers for acquisition of or operation over these lines. During February, the Rock Island reorganization court, the ICC, the Trustee, and the DOT will be evaluating these offers and making their own recommendations and decisions.

As you know, Section 401 of the 4R Act gives the Department special authority to facilitate rail restructuring actions. Working with the other involved parties, we will use that authority to promote a transition to permanent service solutions for the Rock Island. Let me just outline the range of possibilities for the March 3 - May 31 period.

First, DOT would strongly support grants of interim operating rights to carriers which have pending before the ICC an application to buy or jointly operate over a specific line segment. As a result of the recent Milwaukee Railroad restructuring act, a carrier can obtain an operating right on a line it proposes to buy through the Rock Island reorganization court. In supporting interim operating rights, we will want to see the proposed purchase price, what happens to Rock Island employees, and detailed traffic, operational and competitive information associated with the transaction. In some cases, difficult choices may have to be made among two or more carriers desiring such rights.

Second, if an actual contract is impossible to reach, but the major issues are resolved in principle by the end of February, the prospective carrier may offer to become a voluntary service operator under the appropriate provisions of the Interstate Commerce Act. Such offers should be accompanied by a description of line segments and stations to be served, and how the new services would fit into existing operations of the voluntary carrier. Since voluntary service orders do not require labor protection, the offering carrier should specify any labor accords that would facilitate ICC implementation of such service.

Third, a carrier may strongly desire to operate portions of the Rock Island, but not be ready to finance new service on March 3. Such a carrier may be considered as a directed service operator from March 3 through May 31. Again, the interested carrier should detail how its operation would fit into the carrier's normal operations and in addition should provide a cost estimate for the indicated period.

Fourth, if a self-sustainable Rock Island core railroad should be proposed by the trustee by December 10 -- and we have not ruled out the possibility of a core railroad which might be proposed under Judge McGarr's recent order -- we would be willing to look at its feasibility.

I would like to conclude with three points. In the first place, I would urge prospective carriers to be both careful and farsighted in their planning. Decisions made this winter will influence ultimate ownership patterns in the Midwest long into the future.

Secondly, I would emphasize the important role the states have in this process. Administrator Jack Sullivan met with you on October 10 to discuss your participation in this process and to encourage you to give us your recommendations on essential lines to be served and carriers to provide the service. I hope you will make use of the extended directed service period to revise your own state rail plans in light of the Rock Island and Milwaukee reorganizations and that you continue to talk with both FRA and the railroads. I encourage you to make full use of the rehabilitation features of the Local Rail Service Assistance Act amendments -- as South Dakota, North Dakota and Minnesota have already agreed to do for an important line of the Milwaukee Road. Some of you have already moved your state assistance efforts in this direction, but other states have a great deal of work left to do.

If we succeed with this restructuring of the Rock Island, I look forward to realization of a long-standing objective -- creation of a highly efficient rail grain system connecting the Twin Cities, Quad Cities and Kansas City. We stand ready to put the funds in to help rehabilitate the track, but we need to see a commitment to use the trackage reflected in joint ownership, usage and user charge arrangements. We would like to see that project done in two years, giving us a system able to handle 40 million ton-miles of traffic.

We are ready if you are.

That is the specific outline of our approach to restructuring rail service in this part of the country.

Now I'd like to take just a few minutes to describe why -- from the administration's perspective -- rail restructuring and rail and truck regulatory reform are so important.

Last week in Washington, I announced a new transportation initiative which you folks in the Midwest might call "Harvest to Harbors". I noted then the major role exports -- and particularly agricultural exports -- play in our national economy and in the world economy -- and how important they are to this country's balance of payments:

- * In 1975-76, 12 midwestern states accounted for over 53% of all United States agricultural exports

- * In 1978, one-third of the nation's imported oil costs were offset by U.S. agricultural export revenues; exports reached an all-time high, 127 million tons valued at \$27.2 billion

- * Farm exports have tripled over the decade of the 70's; in 1978 they rose by 14% and they are expected to rise at a 2 to 3% per year rate through the 80's. More and more of our farm product is being exported: ten years ago, the U.S. exported the product of one out of every 5 acres; today, that figure is one out of three acres.

These figures led us in the Department to invite the Department of Commerce to join us along with the Economic Development Administration and the Maritime Administration -- as well as the ports of this country -- in a planning process to identify transportation bottlenecks and inefficiencies, now or in the future, and recommend solutions. Our objective is to make sure that the ports of America have the transportation system they need in order to play their role in international trade. In that regard we are clearly partners of interest with the states and the railroads.

I have the same concern about the transportation system at this end of the harvest. It is a simple economic axiom that waste and inefficiency in transportation adds unnecessary expense to agricultural products -- and that means a tougher time in the marketplace and more inflation to the consumer. It doesn't matter whether that waste is a result of burdensome federal regulation or deferred maintenance -- the result is clearly the same.

- * That's why I'm worried when I see state figures from departments of transportation -- like those from Iowa -- that show non-interstate highway improvement projects facing 40-50% cutbacks. To attempt to remedy this problem -- which is a national dilemma -- I will bring together in Washington after the first of the year a group of people

who are most familiar with the highway maintenance issue to begin a national dialogue on this as well. It is my hope that out of these conversations will come a proposed solution to the question of funding for highway and road improvement. This is an issue of high priority to the nation.

* That's also why we've got to get rid of the waste that's built into the system by truck regulation. I've seen estimates that show \$5 billion savings to the consumers in this country if we change the way we regulate trucks. Those savings could be even greater if we come to rely more heavily on trucks in the movement of products to rail access points.

* It's also why rail regulatory reform is a necessity. A program of expanding agricultural exports in the '80's requires that we make sense of our rail transportation system.

I am happy to join you in this meeting. It can be a starting point for the accomplishment of this agenda. Our mutual objective should be not only to get beyond this period of directed service, but, more important, to see to it that this region of the country has the kind of transportation system -- both highway and rail -- that will be needed in the coming decade to move the agricultural products to market in a swift and economic fashion.

I can think of no other undertaking that bears as heavily on the future economic well-being of our country. And I can think of no better place and no better time than today, here and now, to begin this effort.

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