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REMARKS PREPARED FOR DELIVERY BY
DEPUTY SECRETARY JIM BURNLEY
NATIONAL COUNCIL OF PHYSICAL DISTRIBUTION MANAGEMENT
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I welcome this opportunity to be with you today. Your Council is widely recognized as a society of knowledgeable professionals endowed with a vast talent for ingenuity and innovation. You are the hands-on practitioners of distribution management. You make the free market decisions so important to transportation's future. You take the risks. You, more than anyone, deserve a lion's share of the credit for a transportation economy on the move in 1984.

As you know, under President Reagan's economic program, America's GNP grew a resounding 10.1 percent in the first quarter of this year and 7.6 percent during the second quarter. Inflation is running at about 4 percent. Economic growth is now settling down to a more moderate, sustainable rate which should prevent a rekindling of inflation. But the best economic news of all lies in business productivity gains. Productivity increased at an annual rate of 4.7 percent in the second quarter, the eighth increase in a row.

Let us not forget who is responsible for these business productivity gains -- in large measure, it is people like the managers of physical distribution. Today, transportation management, movement of goods, inventory control, production scheduling -- all these distribution functions -- command top corporate attention. Management -- be it in the pentagon or a fortune 500 company, an old established firm or a new manufacturer of high tech products -- recognizes physical distribution as a reliable wellspring for more effective cost control and greater efficiency. the trend toward greatly reduced inventories -- with all the cost benefits that policy implies -- is the brainchild of your profession.

Transportation is sharing in these productivity gains and in the economic resurgence we are enjoying. It is, in fact, responsible for some of those gains. Deregulation is the catalyst making it happen. While the deregulation process is not yet complete, we have gone a long way toward untangling the red tape that for a century had been choking our transportation industries and sapping their initiative. New market freedoms have brought new competitive opportunities. Carriers, enjoying new operating efficiencies, are sharing the benefits with shippers. New entries into the market are helping spur innovation and competition.

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At the same time, shippers and carriers alike are striving for a better understanding of their own businesses, consulting each other instead of a rate book -- following their competitive instincts rather than bureaucratic rules. Carriers today are more market-oriented. For example, many carriers are creating transportation information systems to help them understand cargo flow, cargo value, shipping patterns and transportation needs so that services can be tailored toward moving cargo to its destination the most efficient way possible.

Looking ahead, to the 1990s and beyond, those information systems almost certainly will be integrated with shippers and receivers to control the flow of goods to an exceedingly fine point. This will let producers reduce inventory to the lowest possible level. Each step along the way offers reduced costs and improved productivity.

Let's look at what has happened in the transportation industries as they have moved out of the regulatory womb into the real world. There have been some problems and discomforts as companies long insulated from competition learned to adjust to it. But, overall, there can be little doubt that deregulation is a success. For travelers and shippers, deregulation is delivering what it promised: wider choice, greater efficiency, more competitive rates and generally lower fares.

In air transportation, deregulation has transformed an industry long shielded from real price competition and new competitors. It has demonstrated the validity of at least one economic theory -- that a little competition is a good thing, and a lot is better still, especially for today's air travelers. Passengers favoring all the amenities of flight can still fly in the lap of luxury. Travelers looking for air transportation shorn of its frills, but nonetheless safe and reliable, can readily find that kind of service. Carriers have new incentives to reduce costs and operate more efficiently; and they have new freedom to select their own routes, schedules and fare structures. The government no longer guarantees that all airlines will succeed financially, but many carriers -- including some born of deregulation -- have found they can offer low fares and still turn a profit.

It is no coincidence, and should be no surprise, that the airline industry is now sharing the economic growth we're enjoying nationally. The major airlines chalked up a net income of 342.2 million dollars for the second quarter of 1984 compared with 24.5 million for the same period 1983. In short, the industry is recovering -- not without a few problems along the way, but those are largely matters of scheduling and cost control. Overall, airline deregulation is being accomplished as Congress intended and with the expected results.

In the trucking and rail freight industries, Congress directed the Interstate Commerce Commission to give carriers more flexibility to vary their services and to encourage competition. The Staggers Rail Act of 1980 and the Motor Carrier Act of the same year permitted a range of new freedoms -- authority for rail carriers to contract with shippers, to exempt classes of traffic from ICC rate regulation, to adjust rates within certain zones and to cancel joint rates and routes. The Motor Carrier Act made it easier for new companies to enter the trucking business. It allowed the mixing of exempt and regulated freight, and permitted private and contract carriers more hauling potential by eliminating unnecessary operation restrictions.

Still, neither law eliminated economic regulation entirely. There are "captive shippers" who rely primarily on one rail line for service, and the large investments

required to start a railroad from scratch may deter some potential competition; thus requiring some type of protection against possible monopoly pricing. The trucking industry, on the other hand, with its much lower initial capital costs, can become a classic free market.

The ICC generally continues to respond favorably to arguments in favor of deregulation on an incremental basis. We have supported their efforts to exempt export coal, boxcar traffic, frozen foods and various agricultural commodities carried by rail. We concurred in the exemption of railroad "piggyback" traffic from rate regulation, a decision resulting in a 20 percent growth in that business at a time when other rail traffic was declining. New rate and service freedoms permitted under the Staggers Act have also enabled shippers and carriers to enter into contract agreements on rates. To date, more than 16,000 contracts have been signed, providing distribution opportunities that simply didn't exist before 1980.

There is little doubt that these incentives to competition helped to restore the financial viability of the railroad industry. Less than a decade ago, low rates of return and dwindling markets were eroding both the resources and the spirit of America's railroads. Oft-delayed improvements and long-deferred maintenance had reduced efficiency and increased costs. Calls for federal bailouts or economic takeovers of the freight rail system were common. The stranglehold of the federal regulatory hand on our railroads was clearly a major cause of their decline.

Today, railroads are buying new equipment and maintaining existing stock. Track is rapidly being renewed. New cars are riding the rails. traffic is increasing. Costs are being vigorously cut. Together, America's class one railroads had a net railway operating income of 1.3 billion dollars last year, up substantially over 1982 levels. Deregulation can claim much of the credit for that, and for keeping the industry profitable even during the recession. The railroads have discovered the magic of the marketplace, and the fine art of competition.

Even a once-troubled line like Conrail is now making money and able to advertise "on-time freight delivery" with a money-back guarantee. As many of you know, we are proceeding in an orderly manner with efforts leading to the sale of Conrail. Secretary Dole has reviewed and evaluated 15 offers, narrowing that list to three -- the Marriott group, the Allegheny Corporation and Norfolk-Southern -- which best meet our criteria for assuring the railroad's future integrity and financial strength. The Secretary said last week she would move the process as rapidly as possible to determine the final bidder, but there is no artificial deadline. Let me assure you we remain committed to recommending the offer which, in our best judgment, leaves the railroad in the strongest financial condition after a sale, best preserves service to shippers and provides the maximum possible return to the taxpayers.

The results of regulatory reform in the trucking industry may appear less dramatic, but motor carriers were hit hard by the recession and fuel price increases. Trucking has been somewhat slower to recover, but industry financial results are now showing substantial improvement.

ICC data for the 100 largest motor carriers of property show that, although tonnage rose only slightly last year, net operating income increased from 216 million dollars in 1982 to 660 million in 1983. In addition, net income soared from 77 million dollars to 360 million; and average return on equity increased from 2.6 percent to

twelve point four percent. Moreover, this overall positive trend continued during the first quarter of 1984, with tonnage increasing by an impressive 9.6 percent and net operating income growing by 15.3 percent.

Some carriers have made the transition to deregulation more successfully than others. There has been a real revolution in the way motor carriers do business, and the most successful ones exhibit the greater efficiency and responsiveness to shipper needs made possible by reform.

With the freer entry permitted under deregulation, the number of ICC-regulated trucking firms has grown from 18,000 in 1980 to 33,000 in 1983. New price and service options have been introduced. Established carriers have become more efficient and innovative: for example, restructuring routes, reducing empty backhauls, providing simpler rate structures, and offering shippers incentives to consolidate freight into larger shipments. Furthermore, while opponents of reform had argued that service would deteriorate, surveys show that shippers -- even those in small and isolated communities -- remain satisfied with their truck service since deregulation.

The Reagan Administration has supported ICC reforms, including elimination of tariff-filing requirements for contract carriers, reduction of the notice period for common carrier rate changes, removal of most restrictions on the leasing of equipment and drivers by private carriers, and an end to the barriers blocking truck-rail intermodal coordination.

However, while generally satisfied with the pro-competitive manner in which the ICC has implemented the Motor Carrier Act, the Department has been very disappointed by the Commission's inaction on antitrust immunity for motor carrier collective ratemaking. The Department continues to believe that the removal of all remaining immunity is a very important goal.

Antitrust immunity for single-line ratemaking was removed on July 1, as provided by the Motor Carrier Act. Though some opponents of reform had predicted that "chaos" would result from this removal, it actually proceeded quite smoothly -- so smoothly, in fact, that some industry members have described it as a "non-event." It follows that the benefits of fully competitive, individual pricing should be extended to all ratemaking activities as soon as possible.

Finally, let me say just a word about maritime regulatory reform. For any of you who have struggled with international liner shipping, it is no secret that federal regulation has been characterized by both excess and confusion. Carriers operating in our trades have been unable to predict reliably the extent of the antitrust exemption under the Shipping Act of 1916, and they have felt unable to engage in many activities common on other trade routes.

For some years, the United States followed a philosophy that limited the activities of carrier conferences through a combination of regulatory and antitrust oversight of rates and practices. The result was insecurity; delays in regulatory approval for practices that are standard elsewhere; excessive and unpredictable government intervention; and the anomalies and irritations that inevitably arise from the attempt to impose our laws on foreign parties. Our foreign counterparts felt imposed upon in the name of a policy they do not embrace, and our own operators were the victims of an ever-changing policy that was only partially effective when applied to foreign operators.

The Shipping Act of 1984, signed last March by the President, ended much of the uncertainty and delay that had surrounded U.S. government regulation of ocean liner shipping. The new law establishes a predictable legal framework and streamlined regulatory process. It provides new intermodal authority, greater pricing flexibility, quick federal Maritime Commission approval of carrier agreements and more service freedoms.

It is interesting to note that the maritime regulatory legislation had to accomplish its purpose by giving shipowners a larger, rather than a smaller, exemption from the antitrust law. Shipowners got this new freedom from regulation by offering shippers opportunities for bargaining with conferences and shipowners. The legislation includes authority for "service contracts" between shipowners and shippers, offering an opportunity for each to reduce costs through volume contracts. In addition, all agreements must provide for the right of independent action by carriers and conference members.

We expect these provisions will provide shippers a much wider array of prices and services. Previously, shippers had far narrower rate flexibility and less opportunity for individual conference members to set independent rates or adjust their services and rates to shippers' special needs.

I regard this legislation as a very significant achievement in our long struggle to bring about regulatory reform of the ocean shipping industry.

In summary, we have come a long way in deregulating America's air, truck, rail, bus and maritime industries. We have long since passed the point of no return. We will not deregulate safety, but nothing in our experience argues for any departure from our commitment to bring transportation out of the economic dark ages and into the sunlight of competition. I would say the potential of deregulation will be as great or as limited as the vision of the men and women in this room. Physical distribution has long been a science. Deregulation has made it an art as well. The opportunities for delivering the goods faster, safer, cheaper and more effectively are as broad, inviting and challenging as free enterprise itself. It invokes your talents as professionals. It calls for the best you have to contribute.

Winston Churchill pleaded with Franklin Roosevelt during the dark hours of World War II: "Give us the tools and we will finish the job." The Reagan Administration has assisted in providing the tools -- a rebirth of free enterprise and competition, an economic environment conducive to greater productivity. As professionals you have shared in a remarkable transformation of the transportation industry. Working together we will finish the job.

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