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Thank you and welcome to Washington. I am honored to be asked to speak to you tonight. Secretary Dole has also asked me to convey to you her warmest regards.

As we gather tonight, the American auto industry finds its situation tremendously improved from just a few years ago. As recently as 1980, the outlook for the automobile, and the American automobile industry, was clouded by energy concerns, a recession economy and competition from abroad.

No one deserves more credit for the auto industry's recovery than the industry's people themselves. Planned capital spending for 1985 is at an all-time high, and is expected to remain at extremely high levels through 1989. This investment is paying off in terms of cost controls and higher labor productivity. The industry is anticipating productivity gains averaging five percent per year for several years to come. Renewal of the U.S. auto industry is creating new opportunities for such critical, related industries as glass, steel, plastics, textiles, paint and rubber -- and increasingly, high-tech electronics. The world's eyes now turn again to America when looking for creativity, innovation and leadership in auto manufacturing. The American quest for the high-tech cars of tomorrow is capturing the headlines -- and the imaginations of millions.

I think we would all agree the auto industry's recovery would not have been possible without the strong resurgence of the American economy in general. America has been enjoying the strongest growth in 33 years; the lowest inflation in over a decade; and an average of almost 300,000 new jobs a month for 29 months in a row. Interest rates are falling again and the stock market is responding with enthusiasm.

President Reagan's Administration helped the American people bring about this progress through lower taxes, a halt to the acceleration of the growth of government spending and reform of what had been an overzealous regime of economic regulation.

Though the automotive industry has enjoyed trade protection and some other special considerations over the past few years, I believe its future well-being will depend in part on the success of sustaining our general economic growth in the U.S. and extending recovery worldwide. To achieve this we all need to resist the temptation to tinker and play with the political-economic order -- both domestic and global -- as though markets and the American ability to compete are stagnant. Instead, we must ever deepen and broaden our appreciation of the creativity that arises out of economic freedom. I strongly believe that the free market provides the soundest, surest, fairest means to reindustrialization. The Reagan Administration will continue to act on the premise that Detroit and Cleveland and St. Louis will benefit from free market policies that are good for all Americans.

We in the Administration believe that, contrary to the buzz of ideological slogans with which your industry is all too familiar, ours is a program of authentic consumerism. We subscribe to the premise that consumers can make intelligent choices. We take exception to the paternalistic view that consumers need to depend heavily on the supposedly good offices of regulatory agencies, judges and self-appointed public interest litigators.

One of the most constructive and successful reforms President Reagan has introduced is the decontrol of oil prices. Today's energy market is responsive to consumers, and the result is that gasoline prices are now 13.6 percent below their peak level of March 1981.

This is relevant, of course, to the current consideration of Corporate Average Fuel Economy standards. At the Department of Transportation, as you know, we have published for comment three petitions about CAFE standards. I know that strong, differing views on both sides of this issue are represented in this very room.

I do want to make it clear that at this time we do not advocate modifying CAFE standards by statute. Although there is legislation before the Congress which proposes CAFE levels for passenger cars as high as 45 miles per gallon during the 1990s, we are not aware of any evidence to support the advisability or, indeed, the feasibility of such standards. Our guiding principle is that choices should not be taken away from consumers by government, except in the rarest of cases.

This Administration holds that free market factors, rather than statutory standards, are the most efficient means of achieving appropriate levels of fuel economy over the long run. The free operation of the laws of supply and demand will balance the consumers' demand not only for fuel efficiency but also for such other attributes of automobiles as performance, durability, handling, and comfort.

Even as we re-examine the old order of economic regulation, we remain strongly committed to government's proper role in assuring public safety. The safety of the traveling public is Secretary Dole's foremost priority.

I know we cannot reasonably expect your industry to build the indestructible car, or expect wizards of technology to engineer miracle solutions to every safety problem. Nor can we lay the burden of safety responsibility solely on the states, the courts, or individual motorists.

It is clear today that no single approach to motor vehicle safety will suffice. We cannot regulate the industry to within an inch of its life, as government once tried to do, and at the same time do nothing to police the qualifications of those who drive. We cannot demand strict enforcement of traffic laws while tolerating lenient courts. We cannot build superb highways and then fail to properly maintain them. We cannot expect even the best-engineered safety systems in the world to save lives unless people accept and use them.

The simple truth is that the car, the driver and the highway all have a part in the safety problem and must share together in solving it.

We know that no matter what quality control techniques are used, it is impossible to build a perfect car. Despite the best intentions and the most advanced technology, the human element will always be with us. Even the most automated production techniques have their problems due to machinery tolerances and to the wear that all equipment suffers when used.

When problems do arise, prompt remedial action is necessary. For the most part, when a recall has been necessary, it has been initiated voluntarily by the manufacturer. This is important and beneficial to the driving public, because voluntary recalls usually occur quickly and defects are expeditiously corrected.

The goals of our enforcement efforts are to be consistently vigorous, balanced and fair. We have been pleased by the success of our efforts to encourage voluntary recalls, and we appreciate the cooperative spirit and concern for safety that makes this possible.

All safety experts agree that we could dramatically reduce highway deaths and injuries if we removed drunk drivers from our roads, persuaded more people to wear safety belts and increased the use of child safety seats. These are the objectives we seek, and must continue to pursue, if we are to sharply improve the driver element in the safety equation.

For many years, drunk drivers alone have accounted for half our highway fatalities and for much of the misery resulting from broken bodies and shattered families. As a result of efforts by concerned citizens, community action groups and the Presidential Commission on Drunk Driving, state legislatures from one end of this country to the other have enacted tougher laws against drunk driving. Judges, juries and the public alike are much less tolerant today, and the drunk driver -- particularly the repeat offender -- increasingly faces criminal prosecution and severe penalties.

We are especially concerned about our young people. It is a tragic fact that alcohol-related accidents are the leading cause of death for young people n the 15 to 24 age group.

Last July, Congress passed and President Reagan signed legislation to encourage a national uniform drinking age. Certainly, we would have preferred to see the states act on their own to develop a uniform age 21 drinking age. The fact is they did not act cohesively. Throughout the nation there were different drinking ages in many neighboring states. A map of the Un ted States' drinking age requirements looked like a patchwork quilt, creating what have come to be known as blood borders.

Under the new law, states failing to prohibit purchase or public possession of alcoholic beverages by persons under age 21 would have five percent of their fiscal year 1987 highway apportionments and ten percent of the fiscal year 1988 apportionments withheld. However, the best incentive is saving the lives of our young people. In states where the drinking age has been raised to 21 there has been a 28 percent reduction in alcohol-related fatalities for drivers under 21. Since the federal statute was enacted, seven states have passed age 21 laws -- bringing the total number of states with the 21-year drinking age to thirty.

Unquestionably, we are making progress. Over the past few years, traffic fatalities have fallen dramatically. In fact, in 1983, the last year for which we have final figures, we had the lowest number of fatalities in twenty years. Our latest count indicates that 44,250 people died on our nation's roads. That is far too high, but it is 12,000 fewer than the peak year of 1972 when 54,589 people died in traffic accidents.

The 1983 fatality reduction is significant because it occurred during a period of economic recovery. The number of miles travelled increased, and with more travel, you might expect an increase in the number of traffic deaths. However, that was not the case; fatalities actually fell. Even though overall fatalities appear to have risen slightly in 1984, alcohol-related fatalities are still down from 1983; and, most important, the trend continues that each mile travelled on American highways is safer than before.

Secretary Dole and I are tremendously grateful for the effort the Motor Vehicle Manufacturers Association has made to promote safer driving, notably through your support for the educational programs of Traffic Safety Now. I would be remiss if I did not also take this occasion to express the warm appreciation we have for Jim Adduci at this, the last MVMA board meeting before his retirement later this month. We are very happy that Jim, while leaving the MVMA, is not retiring from public service, but instead will remain active as the new chairman of the National Commission Against Drunk Driving. Jim, please accept our thanks for all your efforts for safety, and our very best wishes in your new position. I should also remark how much we appreciate the diligent work that MVMA's vice president, Pete Griskivich, performs as Chairman of the National Highway Safety Advisory Committee.

We would very much appreciate the industry's further support in helping the public understand and make sound choices in the matter of occupant protection. While Traffic Safety Now is playing a constructive role in providing information to state legislatures on the advantages of mandatory safety belt use laws, we still face widespread misunderstanding of Secretary Dole's decision last year on Rule 208. Simply put, what motivated her action is the objective of saving as many lives as possible, as quickly as possible. The decision was crafted carefully to allow the public to begin reaping the lifesaving benefits of safety belt laws <u>immediately</u>, without waiting the ten to fifteen years it will take for automatic crash protection to be installed in all cars. I think it is important to recognize, too, that for the first time in the fifteen-year history of rulemaking, litigation and general contentiousness on this issue, we now have a rule that is actually saving lives. Since New York's new safety belt law took effect this January 1, for instance, traffic deaths in that state have declined by 27 percent.

Manufacturers can perform still another valuable public educational role by helping impress upon consumers that passive protection covers a number of alternatives, each with its own set of advantages and disadvantages. The public does not fully realize that manufacturers are free to install airbags, automatic safety belts, or other technology -- so long as performance standards are met. Moreover, the public should understand that no one technology will be a panacea.

However this round of the occupant protection discussions plays out, I do hope and expect it will lead to a period of predictability and certainty. While an issue of such importance cannot be resolved for all time, the public and your industry deserve at least a few years during which the federal, legislative, judicial and executive branches are not repeatedly reversing direction. I do not know whether we will end up with most states enacting effective seat belt laws or with full implementation of Rule 208; but I feel strongly that the debate should be allowed to go forward within the context set by the Supreme Court's 1983 decision and by the rule announced last summer.

I would like to spend a few moments before concluding by addressing you in your capacity as major rail shippers about another issue of great importance both to the Reagan Admin stration and your industry: the future of Conrail.

Since 1976, when the government created Conrail, the taxpayers have spent several billion dollars to purchase and restore its physical plant and keep it in operation. Over the past four years, Conrail has turned a profit, thanks to the tools which the Staggers Act and the Northeast Rail Services Act of 1981 provided. The Northeast Rail Services Act also directed the Secretary of Transportation to develop a plan to return Conrail to the private sector.

As you know, the plan Secretary Dole submitted to Congress last February for selling Conrail to Norfolk Southern was developed after many months of careful deliberation and extended negotiations with a number of prospective purchasers, while keeping in mind the sacrifices and security of Conrail's employees, the needs of its shippers and the interests of its majority stockholders: the American taxpayers.

Norfolk Southern will pay the government a minimum of \$1.2 billion in cash at closing. Not one cent of that is leveraged off Conrail assets. Norfolk Southern will also surrender Conrail's accumulated tax benefits of \$1.8 billion in net operating losses and \$306 million in investment tax credits.

Additionally, Norfolk Southern has agreed to be bound by a strong set of protective covenants for five years during the transition to private ownership. The Secretary feels strongly that these covenants are a key part of the consideration we will receive from the buyer. They require high levels of maintenance and new capital investment, restrict dividends and guarantee existing contracts with shippers.

It is important to note, too, that the Conrail-Norfolk Southern agreement does not provide Norfolk Southern with any special tax treatment. The applicable tax rules are the same whether Conrail remains in the federal government, whether its stock is sold to a private buyer, or whether a public offering occurs.

I know you have had your traffic departments carefully reviewing how the sale to Norfolk Southern will affect your companies. They should be reporting to you that it will give you a greater ability to ship north-south on single-line routes at lower cost through the entire eastern half of the United States.

Although east-west shipping will remain about the same, there are some east-west shipping opportunities created by the divestitures required by the Justice Department. For shippers in the midwest who are shipping east, today at the Chicago gateway there are four major options -- north via the Grand Trunk; CSX to the south; Norfolk Southern to the south; and Conrail to the northeast. A new Norfolk Southern-Conrail company would offer shippers more: they would still have the Grand Trunk option to the north, but now shippers would have two single-line competitors to the northeastern ports and markets -- Guilford and Conrail. Shippers will have two single-line competitors to the south -- CSX and Norfolk Southern. Shippers coming in from the west who have used the St. Louis gateway pick up a second single-line carrier to the northeast because of the divestitures.

I want to make one final point about Conrail: Norfolk Southern's offer has had to face a tougher standard than any other rail merger. The Justice Department prescribed divestitures as a way to maintain a competitive balance in specific areas where they found there would be a reduction in competition. The Norfolk Southern has tentatively negotiated agreements to divest 1700 miles of track to Guilford Transportation Industries and the Pittsburgh and Lake Erie Railroad. The Justice Department has final approval on those divestiture agreements and is in the process of thoroughly reviewing them.

There have been recommendations that we choose another approach to the sale or wait for a better time. Just last month a new proposal for a sale to a syndicate with a secondary public offering at some later unspecified date was unveiled. However, the proposal announced by Morgan Stanley and Company is not fundamentally different from some we reviewed in the past. To the extent it will be helpful to Congress, we will respond to questions about the new proposal and our deliberations on similar purchase plans considered last year.

I believe the Secretary has chosen the best future course for Conrail, its employees and shippers. Through a merger with the Norfolk Southern, Conrail's long-term viability is guaranteed. No one is left wondering whether Norfolk Southern wants to operate a railroad; clearly it does, both now and ten years from now. It is not motivated by a desire to make a quick profit on resale of Conrail's stock; or to milk it of every dime it can yield in dividends; or to break it into two or three pieces which are sold off in a few years in an effort to maximize capital gains. When comparing the Secretary's recommended purchaser to the Morgan Stanley syndicate, look down the list of investors in that syndicate with care and ask yourselves the following question: Why do three Ivy League universities, a Greek shipping tycoon, two Swiss banks and a Japanese investment bank want to get into the railroad business?

Once you have answered this question, we would appreciate your further support for the sale. Your support does make a difference. With it, we will succeed in returning Conrail to the competitive environment of the private sector. Otherwise, we may well face a stalemate and continuing uncertainty about the future of railroading in the northeast and midwest.

Ladies and gentlemen, I have enjoyed this evening as your guest, and I appreciate this opportunity to review some of the major issues of particular concern to your industry. If I leave you with no other message tonight, though, I would like it to be this: The American people need your leadership to support the crucial economic reforms President Reagan is urging this year. If ever there were a moment for all of us to transcend our immediate, short-term interests for the sake of action of supreme importance to our nation, this is it.

President Reagan and the Senate majority have produced a budget package that will result in a truly meaningful reduction of the deficit. The President has a plan to simplify our absurdly complicated tax structure. Each sector of our society may see something to lose in each of these critical reforms. That parochial attitude tends to regard economic activity as a zero-sum game. The President's vision of the American people and their economic and social potential is free of such blinders.

I ask you to share his vision. I ask you to put your leadership talents to work for reforms that can help assure America's well-being well into the next century. For in the long run, what matters is how our children and their children will judge what each of us has done to preserve and strengthen the opportunities provided by a free society.

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