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Office of the Assistant Secretary for Public Affairs
Washington, D.C. 20590

Contact: Jennifer Hillings
Tele.: (202) 426-4570

REMARKS PREPARED FOR DELIVERY BY
DEPUTY SECRETARY JIM BURNLEY
NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE
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How fitting it is that the N.I.T. League chose this old and beautiful shipping center for its annual meeting. In New Orleans, birthplace of Dixieland jazz, your convention theme, "Keep In Tune With Transportation," is appropriate, for your organization is not only in tune but leading the way in developing strategies that will best serve America's shippers, consumers and carriers.

The N.I.T. League, with leaders like Tony Sarkis, Joseph Dewey, Stan Sender, Jim Bartley, John Lind and Lowell Anderson, among many others, has demonstrated both the vision and the wisdom we need as we progress toward a more efficient and effective freight transportation system. You have made the 1980s the distribution decade. You have harnessed the energies and accepted the challenge of change sparked by an Administration committed to free market principles. Together we are evoking change in favor of fresh ways of achieving the greater prosperity we seek as a nation.

Mark Twain once said, "Predictions are very difficult to make, especially when they deal with the future."

I have no quarrel with that. However, even if the long-term is uncertain, I have no doubt about the next few years, so I'll share with you my thoughts on where we are going in the remainder of this, the distribution decade and beyond.

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It is a decade marked by immense change. Someone said "change confounds before it comforts." Winston Churchill was much more optimistic. "To improve is to change," said the British statesman, "to be perfect is to change often." Indeed the almost revolutionary change being brought to transportation by deregulation is proving the wisdom of Churchill's words. Although by no means have we reached perfection yet, deregulation's success leaves no doubt that we cannot turn back the clock. In fact, you can be sure the Reagan Administration will be aggressive in taking economic deregulation further in the years ahead.

Like you in the N.I.T. League, we in the Reagan Administration believe in free enterprise, and we are committed to restoring it, to expanding it, to strengthening it.

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

Airline deregulation has provided the most stunning success story for transportation consumers. Since 1978, air carriers have cut costs and passed on savings to consumers amounting in the first four years of deregulation to $10 billion in reduced fares. Growth in air travel and rising profits in the airline industry leave no question that deregulation works.

The dynamics of airline deregulation have produced significant new benefits for shippers as well, including more competitive rates and a variety of new services. Small package carriers have grown dramatically in response to demands for their services. Deregulation began with cargo services, and we are delighted with the progress in this area.

The same philosophy that guides us today as we promote deregulation of aviation also provides the rationale for similar efforts to achieve complete economic deregulation of the motor carrier industry.

As you know, in September, Secretary Dole transmitted legislation to Congress calling for complete deregulation of the economic side of trucking. Economic regulation of transportation industries began some 98 years ago. Much of it has now become an expensive paper chase, with no offsetting benefits to consumers and questionable value to carriers. In fact, the research we have done since enactment of the Motor Carrier Act of 1980 has confirmed that shippers, for the most part, strongly favor deregulation. Overall, the 1980 Act has had significant, positive effects on the trucking industry. While the recession of 1981-82 caused substantial traffic declines and financial losses for some motor carriers, the industry as a

whole has been making the necessary adjustments to today's more competitive environment and has returned to profitability with the upturn in the overall economy.

With freer entry, we have had an explosion in the number of firms with Interstate Commerce Commission operating authority from roughly 18,000 in 1980 to almost 31,000 last year. New price and service options have been introduced. Established carriers have become more efficient and innovative by restructuring routes, reducing empty backhauls, providing simplified rate structures and offering shippers incentive to move freight more efficiently.

As impressive as the immediate benefits of deregulation have been, the long-term results may be even more significant. Overall distribution productivity is benefiting from improved information and inventory management systems, as well as from the greater transportation efficiency made possible by deregulation. Together, these trends are resulting in a virtual distribution revolution.

Many opponents of truck deregulation argued that passage of the Motor Carrier Act of 1980 would result in poor service to shippers, with residents of rural areas unable to obtain service at any price. These fears have been proven groundless, as truck service has remained good -- even in remote areas. Ninety-eight percent of all shippers contacted in a recent survey said service was at least as good as it had been before the Motor Carrier Act of 1980. Even 98.5 percent of shippers in remote areas --defined as 26 miles or more from an Interstate Highway --found service at least as good as it had been.

We, therefore, concluded that it is now time to eliminate those remaining economic regulations which no longer provide any benefits to shippers or consumers and are of questionable use to carriers.

My own feeling is that the trucking industry finds itself today in a no-man's land, halfway between the familiarity and protection of a regulated environment and the excitement of a free market. Reflect for a moment with me about the absurdity of the ICC's tariff filing requirements. Tariffs must be filed on peanuts "roasted and salted in the shell," while peanuts "shelled, salted, not roasted or otherwise" are exempt. Cranberries "partially frozen" are of no interest to the ICC, but cranberries "purposely quick frozen" must be filed in Washington. I'm sure you will all lie awake tonight wondering why no filing is needed for "manure, in the natural state," while it is absolutely required for "manure, fermented, with additives such as yeast and molds, producing a rich liquor which in water solution is used for soil enrichment."

Almost 1.4 million tariffs and tariff supplements will be filed this year. Finding a rate on a particular commodity involves combing through at least three -- perhaps as many as nine books. In the Middle Atlantic Rate Bureau, three trillion rates are on file, while all nine bureaus probably house as many as 30 trillion.

It simply does not make sense to continue this obsolete, inefficient approach. The reforms provided by the 1980 Act comprised a good first step toward complete deregulation of the trucking industry. We believe that now is the time to take the final steps necessary to complete that process.

Let me discuss very briefly some of the key changes we propose. Our bill would eliminate all remaining ICC regulation of trucking rates and entry. Interstate motor carriers of property would be able to carry whatever commodities they wish, over whatever routes they wish, at whatever rates are mutually agreeable between them and their customers. However, carriers would continue to be required to meet federal safety and financial responsibility standards in order to engage in interstate trucking operations.

A crucial provision of the Administration's bill would eliminate antitrust immunity for collective ratemaking. Antitrust immunity for collective setting of single-line rates -- that is, rates for shipments handled entirely by one motor carrier from origin to destination -- was removed on July 1, 1984, as provided by the Motor Carrier Act of 1980. However, many motor carrier ratemaking activities can still be undertaken collectively today, including the setting of joint-line rates, general rate increases and commodity classification. You may recall that we had previously agreed with N.I.T. League in Ex Parte No. MC-172 that antitrust immunity on joint line rates was not needed.

The same free market principles that have worked such wonders in the air transport market and in partial regulatory reform of trucking apply just as validly to other forms of transportation. Thus, there should be little wonder that the pleas for reregulation grow fainter and fewer.

Nevertheless, a few exist. For example, we oppose any attempt to change the Staggers Rail Act of 1980. When Congress debated the Staggers Rail Act six years ago, nearly one-quarter of the nation's track was in bankruptcy reorganization. The relatively prosperous 1970s had witnessed the failure of nine major carriers, coupled with a complete collapse of regional systems in the Northeast and Midwest.

I probably do not have to tell anyone in this room whose experience pre-dates 1980 that the problems afflicting the railroads touched every rail shipper and every community served. Deferred maintenance, derailments and unreliable service were commonplace. The rate of train accidents was three times as high as it is today. In fact, the late '70s brought a new accident category to the Federal Railroad Administration's data -- the standing derailment, in which a freight car, standing perfectly still, simply fell off a track. That, believe it or not, occurred twice in a single year.

The contrast between the 70's and current conditions makes the case for leaving the Staggers Rail Act alone, and permitting the ICC to fine-tune it where absolutely necessary. Today's railroad industry survived the deepest

recession since the 1930s without a single bankruptcy. Capital investment has increased dramatically. Deferred maintenance has been virtually eliminated from the nation's main lines and the pace of branch line abandonments has slowed.

No one has gained more from the railroads' turnaround than the railroad shipper. Today, price and service innovations like multiple car grain rates, just-in-time service, and reduced rate back hauls have become standard shipper benefits. With the new flexibility permitted under the Act, the railroads have introduced innovative rate and service options, entered into more than 30,000 contracts with shippers for guaranteed deliveries at guaranteed rates.

Coal shippers have entered more than one thousand long-term contracts and, to assist export coal shippers the rail industry has four times voluntarily foregone the inflation adjustment it was entitled to under Staggers Act provisions. The result: the railroads' coal revenue per ton mile has slightly decreased over the past three years (from 2.6 cents to 2.4 cents) and rail rates for coal are lower today in constant dollars than they were in 1972.

Perhaps one of the Act's greatest benefits is that it has led to a rethinking of the traditional relationships between the railroad and shipping communities. As Richard Haupt, director of transportation for Ford Motor Company, noted when he represented N.I.T. League before a Congressional committee early this month, under the environment created by strict regulation, carriers and shippers would have looked to Washington rather than themselves, for solutions to their problems with railroads. With five years' experience under the Act's more market-oriented philosophy, carriers and shippers have learned to explore new marketplace solutions to common problems.

The Act has forced shippers and carriers to work directly with one another, to address their own problems and develop their own compromises. The success of that system can be measured in the historic agreements between the N.I.T. League and the Association of American Railroads on the difficult issues of joint rates, and product and geographic competition. Both those agreements have been adopted by the ICC as formal rules, and shippers will be able to take advantage of clearer, less burdensome regulations to obtain remedies where competition might not be sufficient to ensure reasonable rates and services.

Of course, Conrail is an excellent example of the benefits of the Staggers Act at work. After Congress created the railroad company in 1976, Conrail posted a string of losses. Then in 1981, after Staggers was enacted, Conrail combined the new market freedoms of the Staggers Act with certain consequences of government ownership such as below standard wage rates... exemption from taxes... and streamlined abandonment procedures, which it used liberally... to stage a spectacular comeback. In 1981, the company turned a profit for the first time, a record it has improved upon

each successive year until now. This year's results are well below 1984, but it is still showing a profit.

You know the rest. At Congress' direction, Secretary Dole, after much careful deliberation, chose the Norfolk Southern Corporation as the purchaser of Conrail. The Secretary chose Norfolk Southern because it would leave Conrail in the best financial condition after the sale; it would assure long term rail service in the Conrail region; and it would realize the best return to the taxpayers. The Secretary's recommendations have undergone much scrutiny as we expected they would. Counter proposals for a stand alone Conrail have been made and argued.

At Secretary Dole's request, the Antitrust Division of the Department of Justice has conducted a thorough, extensive review of the competitive implications of the sale of Conrail to Norfolk Southern. The Justice Department has required a series of divestitures to address the competitive concerns raised by this sale. Norfolk Southern has agreed to divestitures to Guilford Transportation Industries and the Pittsburgh and Lake Erie Railroad that satisfy all of the Justice Department's concerns.

The divestitures will also take advantage of a rare opportunity to restructure the rail system in the northeast. Conrail's monopoly of east-west single line service will be broken and competition in the region will be enhanced because regional railroads that have been Conrail's primary competition east of Buffalo and Pittsburgh will be greatly strengthened.

The maritime industry is also being released from some regulatory burdens. Passage of the Shipping Act of 1984 accomplished some of President Reagan's goals of regulatory reform of the maritime industry. The Shipping Act of 1984 has energized our maritime sector, although I would be the first to admit we still have much work to be done in this area. The Act altered regulatory patterns for shippers and carriers in the U.S. liner trade, while the economic flexibility permitted by the measure offers our operators the freedom to pursue much needed competitive opportunities. Our operators can charter space on foreign bottoms, enter into consortia arrangements, engage in conference agreements under liberal guidelines, form consolidated conferences, enter into service contracts and take advantage of flourishing shipper associations.

The Shipping Act provided important new benefits for shippers as well, including independent action, intermodal rates and service contracts. Indeed, it is accurate to say that the Act reflects a truly balanced approach to the regulation of international liner services -- a primary goal of the Administration. The active efforts of the N.I.T. League were instrumental in realizing that objective and achieving legislation that served the overall interest of the United States.

As the technology of ocean shipping and commercial practices change, to keep up, so too must the administrative and legal aspects of international transportation change. Nowhere is this more evident than in the area of

cargo liability. The 1936 Carriage of Goods at Sea Act (COGSA), which implements the 1924 Hague Rules, is outdated. COGSA simply did not anticipate the container age and the electronic data processing revolution. As a result, international cargo liability limits are too low, shippers are forced to shoulder liability burdens that are more properly the responsibility of carriers, and the cost savings and efficiency improvements that could flow from widespread acceptance of electronic bills of lading go largely unrealized.

To remedy these problems, the Department is drafting legislation to implement two more recent international conventions on cargo liability, the Visby and Hamburg Rules. This would result in a long overdue updating of the maritime bill of lading, permitting maximum use of modern electronic data processing techniques and reducing the amount of inefficient paper shuffling that now goes on, thereby facilitating international trade. It would also permit shippers to base liability claims on the weight of the cargo, rather than on the package concept, which has caused an endless amount of litigation as ocean shipping has evolved from breakbulk to container operations. Once implemented, these rules would significantly reduce the number of carrier defenses to liability -- from the current 17 to three.

I understand that your organization currently has before it a resolution dealing with cargo liability. I applaud your efforts and urge you to support the Department's approach in this important area.

As we proceed with regulatory reform across the board of transportation we have taken every step to ensure that safety is in no way diminished. So let us continue to work for safety as we shake off the shackles of economic regulation, and go as far and rise as high as our competitive skills will take us -- knowing full well that Churchill's "perfection" can never be completely achieved, but that we will all prosper in an economy guided by free market principles.

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