DEPARTMENT OF TRANSPORTATION | NEWS

OFFICE OF THE SECRETARY

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REMARKS MADE BY ASSISTANT SECRETARY-DESIGNATE FOR POLICY AND INTERNATIONAL AFFAIRS CHARLES D. BAKER BEFORE THE FIFTH MANAGEMENT CONFERENCE OF FINANCIAL PROSPECTS FOR TRANSPORTATION, NORTHWESTERN UNIVERSITY, EVANSTON, ILLINOIS, MARCH 16, 1970

Urban Congestion

According to the U. S. Bureau of the Census, approximately 40 percent of our population lived in urban areas at the beginning of the twentieth century. By 1968, that proportion had doubled -- now 80 percent of our 200 million people live in cities. Taking this growth one step further, by the year 2000, 90 percent of our population of 300 million will be urban. As our urban population has grown, there has been a concomitant demand for transportation services. For the most part, this has been met by increased automobile ownership. In 1950, there were 40 million automobiles registered in the U. S. Today, nearly 20 years later, there are more than 80 million. To be sure not all are in urban areas, but as with population itself, most of them are.

(In 1967, almost 53 million automobiles were concentrated in urban areas). And, if urban population projections materialize as expected, the turn of the century will see almost 75 million additional cars in urban areas alone.

As automobile ownership has increased (and highway construction to accommodate them), there has been a parallel decline in public transit patronage, revenue, and service. Take urban transit companies, for example. In 1950, there were 1400 urban transit companies operating 87,000 vehicles. By 1967, there were 300 fewer companies and 25,000 fewer vehicles. In 1950, the transit companies carried 13.8 billion passengers, but by 1967, this number had dropped to 6.6 billion. Operating income showed a comparable decline. In 1950, the industry operated $66 million in the black, but by 1967, the picture was red -- to the tune of a $67 million deficit.

But it's a vicious circle, and while all of the above has been transpiring, the character of our urban population has undergone significant changes. Since 1960, suburban population has grown at a much greater rate than has the central business district -- 28 percent as opposed to one percent -- and thus the CBD population as a percentage of the total metropolitan population has declined from 51 percent to 45 percent. Most of this move to the suburbs has been by the white middle class -- in just the last ten years the white CBD population has declined from 30 to 26 percent and concomitantly the black population in the CBD has increased from 52 to 54 percent. This is particularly significant in terms of the transportation needs of the CBD because of different age, employment, and income characteristics of the two. The CBD has increasing numbers of those over 65 and under 16, of the unemployed and those with low incomes -- just that segment of the population to which the automobile is not accessible. Thus what we are seeing in the urban transportation area is increasing auto (commuter) congestion, declining public transportation and overall adverse impact on the very city people we are most anxious to help.

Air traffic is also bumper to bumper -- both in the skies and on the ground. Passengers often wait interminably in terminals; modern jet aircraft wait in long lines for takeoff; on short hauls air travelers may spend more time landing than traveling between cities; air freight that takes five hours to cross the Atlantic may take five days getting from John F. Kennedy to downtown Manhattan; and it can take the air traveller longer to get to the airport than it does to fly

to his destination. Here, too, one of the major contributors is growth. From 1963 to 1968, general aviation aircraft increased from 95,000 to 125,000. In commercial aviation, the number of passenger miles flown increased from 28.5 billion in 1958 to 101 billion, more than trebled, by 1968. In the same ten-year period, air freight tonnage grew from less than a billion ton miles to 3.11 billion ton miles. And this growth will continue over the next decade. The Federal Aviation Administration estimates that general aviation will continue its upward trend, that by 1980 domestic and foreign commercial enplanements will increase from the present level of 168 million to 429 million, and that air freight may reach 14 billion ton miles. And so like urban transportation -- and in some measure connected to it -- air transportation has its growing pains.

But some new considerations are also emerging or at least being more directly recognized. Not entirely unrelated to the unprecedented growth of our cities, automobile usage, aviation, and, indeed, industry in general is the problem of environmental pollution. And it must be here stated that the transportation industry has been a factor in creating this problem. Automobiles are by far the largest single contributor to air pollution. On a nationwide scale, more than 87 million tons of carbon monoxide are emitted annually, or nearly one-half ton per year per person; and of this, motor vehicles by some estimates account for some 67 million tons or about 77 percent. Motor vehicles are also responsible for more than half of the nationwide hydrocarbon emissions and nearly half the nitrogen oxides. Their contributions to particulate forms of air pollution and sulfur oxides is minor, although they are the chief source of one undesirable particulate, atmospheric lead.

Now air pollution caused by motor vehicles is largely a locational and not a gross emissions problem. The problem exists primarily in cities because it is here that a great number of vehicles are concentrated within a relatively limited area. (If automobile emissions were spread uniformly over the entire area of the U. S., we probably wouldn't know that much of a problem exists.) But there is a significant problem in many of our urban areas, and it has deleterious effects not only on human beings living in these areas and to vegetation and the ecology but also damages materials such as rubber, fabrics, and many metals as well.

But air is not alone in getting clobbered. Water pollution is another serious environmental problem and here too transportation is a contributor, although not to the same degree as with air pollution. The more than 8 million watercraft that navigate U. S. waters discharge a variety of pollutants, including sanitary

wastes, litter, ballast and bilge waters, and oil. And the danger grows as recreational boating and waterborne shipping increase.

Oil, although not necessarily the most damaging of the water pollutants, is certainly the most dramatic and indicates the magnitude of the problem we are facing in this area. Five years ago, daily consumption of oil in the U. S. was 11 million barrels. Today consumption has reached 14.1 million barrels and increasing amounts are being carried by barges on coastal waterways or imported by tanker. Already the damage being done by unwanted oil runs into billions of dollars a year and that figure may increase as our oil requirements grow and supertankers become commonplace.

Noise is a word of dubious origin, but two claimants to paternity are the Latin nausea (sickness) and noxa (harm) -- both convey neatly the condition of many of our urban citizens who live in a noise filled environment. It's said by some authorities that New York citizens, for example, start to show a hearing loss at 25, whereas primitive tribes do not show one until 70. And well-informed scientists figures that if city noise continues to rise at its present rate of increase, one decibel a year, city residents could be stone or at least tone deaf by the year 2000. The Surgeon General has recently announced that between 6 and 16 million Americans are exposed to possible hearing damage from occupational noise.

Automobiles, trucks, motorcycles, trains, and airplanes all contribute to this problem, and all are growing rapidly in usage. And of course the President has made it clear that a supersonic aircraft for commercial use will not be flown over the country while noise problems exist.

Now, a problem of an entirely different character -- but which to some degree determines our ability to deal with our other problems -- is the availability of and competition for resources by the various bodies that constitute the government. Establishment of priorities and obtaining funds for them is an extremely complex process. And like politicians, priorities come and go according to their political viability. Public attitudes change and these are reflected in our budgets and our appropriations. In the decade since sputnik research and development in general, but in particular in the areas of defense and aerospace, has been in vogue and received relatively large appropriations. This year the R&D emphasis is on the environment. Five years ago, OEO had a lot of sex appeal -- while the Justice Department didn't do so well. Now it's clear that Justice is getting some increased recognition.

Broad judgments vis a vis priorities (environment versus Vietnam) are usually made in the public domain (not necessarily by the man in the street), but the President usually leads the thrust. These are in turn handed down to the various departments for program development. Lesser program priorities are generated in the departments themselves and whether or not they finally surface in the form of budgetary requests and how successful they are in achieving requisite appropriations depends on their ability to compete and achieve broad based support.

At DOT, for example, we may have highway programs competing with programs for new subway systems, aircraft competing for attention with icebreakers, and safety programs competing with antipollution cont rol. Trade-offs among the modes and programs are ultimately a secretarial decision and the decisions made are reflected in the Departmental Budget sent to the BOB. Here, too, there is competition for funds, this time Interdepartmental. And, finally, Congress speaks with many voices, some regional, some partisan, and some special interest. The Legislative Committees traditionally are oriented towards programs for which they have developed the initiating legislation and the Appropriations Committees often have an entirely different set of priorities. And then again the Executive Branch may disagree. All this ıcts as a considerable constraint in determining just which problems will get attended to, what complexion that attention will be, and what resources we will have to work with.

Advances/Opportunities

Now, the problems I have just discussed are by no means the only or necessarily all the important issues in transportation today, but they do indicate something of what we have to work with. These problems are not insurmountable. Certainly, we are constrained economically and institutionally in dealing with them, but we also have a number of opportunities. I mentioned earlier that priorities are usually initiated by the public (or segments of the public). Public opinion can of course be a constraint, but it's the squeaky wheel that usually gets the oil and just as often public opinion can be a positive factor. Although we would often wish it otherwise, we at the Department are involved in a number of areas that currently have captured the public interest. This sometimes poses some operational difficulties, but in the final analysis it also serves to focus the attention of the President, the Congress, and other important officials in our direction.

Commuters, tired of traffic jams, agitate at the local level for improved public transportation. Local officials and institutions respond, and if the pressure applied is strong enough, some sort of Federal response is likely to result. Safety in all modes -- but particularly highway safety which I didn't mention earlier, simply because it is so well known -- and concern for the environment are two other areas where public recognition of the problem and demand for solutions have caused us to develop program responses, or at least facilitated and expedited their development. And Congress has reacted favorably to these in the form of increased appropriations.

Technological advances have given us a wealth of potential responses to the problems facing us. It is anticipated that the new wide body jets will solve some of the capacity problem facing commercial aviation (albeit they will create others). Passengers are being carried faster than ever before. The advent of commercial aviation cut the time required to cross the Atlantic from five days to five hours -- the SST promises a similar significant reduction in flying time. There are some interesting developments in high speed ground transportation as well. In the past year, the Turbotrain between Boston and New York and similarly the Metroliner from New York to Washington have often (but not always) reduced travel time in this congested corridor and indicated although perhaps not yet proved that the passenger train can compete with the airplane in attracting intercity travelers. Even more advanced systems are in the works -- the tracked air cushion vehicle, the dial-a-bus, and the hovercraft or hydrofoil may in specific situations all prove to be extremely viable commutation systems.

New systems are also being developed to transport freight. The wide body jets and supertankers make tremendously increased capacity possible. The container has made door-to-door shipment of freight a possibility if not a reality, and the LASH offers some exciting distribution efficiencies and economies. The use of pipelines is presently confined pretty much to the petroleum industry, but trends toward larger diameter pipes and improved automotive pumping operations as well as refinement of slurry techniques open up the possibility of transporting such commodities as coal, sulfur, potash, wood chips and iron ore by pipeline. Some optimists are even considering the feasibility of sending capsules of solids emersed in liquid slurries by pipeline.

Advances in the hardware line provide us with lots of interesting alternatives, but hardware by itself can't solve all our transportation problems. Of the various alternatives available to us, how do we determine which will best suit the needs? Do we go hovercraft or hydrofoil, TACV or gravi-train? Do we build more roads or do we invest in other modes of transport? Indeed, how (if at all) should the Federal Government invest in a particular mode? How do we determine what the transportation needs will be in 1980, for example, and how do we prepare for them? What can we do to insure that new systems like containerization and LASH realize the potential they offer? And with money as tight as it now is and with so much competition for limited Federal funds, where are we going to get the resources to support our programs?

The questions are becoming ever more complex and finding the right answers, more difficult. But there are new ways of looking at things, both in the government and the private sector which increase our ability to find answers to these questions and to surmount these obstacles. A number of techniques of analysis that one may associate most with academia and the military planners can and are being used increasingly to solve transportation problems -- systems analysis, cost/benefit analysis, and so on. The national input-output table developed by the U. S. Department of Commerce has enabled us to make some projected demands of transportation services by mode as well as the principal inputs of materials and services needed for their operation as far as 1980. These data provide the basis for both short -- and long-range planning. If we can determine with some degree of accuracy what our needs will be, we will know better (I trust) where to put our resources!

And as competition for Federal resources has become more intense our thinking about financing becomes increasingly focused. Frequently, but not entirely -- as far as Federal involvement is concerned we are moving toward user charges. This is the concept that is basic to the Federal Highway Program and to our Airport Airways Bill presently before Congress. We feel that generally -- although not invariably -- government investments in transportation should be paid for by the principal users or beneficiaries of the system rather than by the tax payer at large. When the program in question is to benefit a specific user group (such as the automobile owner or the air traveler) and when there is a reasonable correlation between

paying and benefitting (as with the auto gasoline tax and the Highway Trust Fund). But there are times when 1) it is not politically viable and 2) when the "user" cannot afford to pay -- as with public transportation, 3) or perhaps we do not want him to pay i. e. , we are trying to achieve a social end quite beyond the transportation equation alone.

We shouldn't forget the private sector either. Here, too, there have been some interesting responses to the problems at hand. Back a while ago, I hailed the container and the LASH as significant advances. In concept both are, but in fact neither have realized the potential economies they offer. This is due to a variety of reasons, but one contributing factor is that the present regulatory environment and antitrust laws in some ways inhibit the intermodal coordination needed to exploit these new opportunities in ocean transport. And the industry response is interesting to note. Two cases presently before the Federal Maritime Commission reflect some of the thinking. In the first, a group of containership operators is seeking Commission approval of a super conference that would cover the broad European trade and is unlike any of the traditional shipping conferences. In another case before the Commission, U. S. Lines is seeking permission to charter its containerships to Sea-Land Service, one of its competitors. I think it would be unwise for me to hazard a guess as to the outcome of these two cases at least at the moment. I do want to point out that industry is clearly doing some serious thinking about its problems and coming up with some different approaches.

So, on the one hand, we in transportation are faced with a number of pretty staggering problems -- but on the other, we have a lot of advances -- technological and otherwise -- to bring to bear on these problems.

Now, within the government there are a number of bodies involved in transportation-related issues -- the CAB, the FMC, the ICC, the Department of Commerce, Labor, and so on -- but it is about the Department of Transportation that I would like to talk for a couple of minutes, for I think we are doing quite a bit to respond to these problems and opportunities.

The Department exercises its responsibility in several ways. It established standards (for example, safety and environmental) for transportation equipment and it develops legislation for financial support of transportation systems, regulation, research and development, and so on. Two pieces of legislation serve to illustrate.

Last summer we sent to Congress two programs which address the problems of congestion on our urban highways and in our skyways. The Public Transportation Act which has passed the Senate and is presently under consideration by the House would provide $10 billion over 12 years for (1) financial assistance to large and small cities with existing systems to replace, improve and expand equipment and facilities; (2) financing the capital investment for new systems in cities such as Pittsburgh and Seattle which back them; (3)an expanded research, development, and demonstration program to accelerate technological address of urban transportation problems. The program will, we think, relieve some of the congestion that presently chokes our cities by providing automobile users with an attractive transportation alternative. It will relieve some of the financial pressure now facing the transit companies by providing them with the necessary capital for equipment investment and improvement which they can't otherwise afford, and the long-term duration of the bill and the schedule of funding authorizations establish the Federal Government commitment necessary for local public agencies to pass bonding referenda. And finally we think that the program speaks to some of the serious social problems that are plaguing our cities. We must provide transportation for those of our populations who must rely on public transportation -- the young, the old, the handicapped, and the poor. And about 35 million Americans simply do not have access to a car.

The challenge facing us in aviation is not really one of quality or even of technology. Our air traffic control system is the best in the world and our airports are among the finest. But we simply do not have the capacity in our airways and airports to fulfill our present -- let alone our future -- needs. Obviously, the purpose of air transportation is to save time, but the ability of our aviation system to do this is diminishing. Early last summer DOT sent to Congress an airport/airways development program which we think will go a long way toward solving our air transportation problems. Broadly speaking, the program proposes:

(1) For airports, a ten-year, $2.5 billion grant-in-aid program.

(2) For airways, annual authority for acquisition, establishment, and improvement of air navigational facilities at no less than $250 million a year, as well as an R&D effort at $60 million a year.

Now here we do not feel that the burden of financing our air transportation system should be placed on the general taxpayer -- thus nearly all of this program will be paid for by the various users of the system -- who can afford to pay. By apportioning the costs of airways and airports improvements among all users, the progress of civil aviation should be supported on an equitable, pay-as-we grow basis. You will be interested to know that this program has met with quite a lot of success on the Hill. It was passed almost unanimously by the House in December and just recently by the Senate. It is now going into conference and I look for a bill on the President's desk perhaps before this month is out.

Our involvement in pollution control and environmental concerns generally has been slightly different. Rather than investing Federal funds in large-scale pollution programs (not a traditional government role), we (cooperating with HEW) have concentrated on establishing standards on transportation equipment that limit the emission of pollutants (carbon monoxide and hydrocarbons). The first such standards written by HEW went into effect on automobiles and light trucks in 1968; a revised and more stringent set of standards will go into effect on 1970 model vehicles, and this year for the first time, emissions from new buses and heavy duty trucks have also been brought under Federal regulation. In future years, emission levels will probably be brought even lower -- 1973 and 1975 model standards will also cover the emission of nitrogen oxides and particulate emissions. Fuel composition and additives will also be regulated.

How far we can go with the internal combustion engine remains something of a question. Based on present trends, it is quite possible that by 1980 the increase in the sheer number of cars in densely populated areas will outrun the technological limits of our ability to reduce pollution from the internal combustion engine. And so the Department is interested in research and development in other types of propulsion systems -- for example, electric and steam-driven engines. How and how far our interest will progress is presently undergoing very serious review in DOT.

Our approach to aircraft noise and air pollution has been similar. Our FAA has recently issued our first noise rule, applicable to all subsonic jet transport, and other noise rules will be forthcoming. At the same time industry has been at work to curtail smoke and noise emissions from aircraft. These efforts are already showing results.

The engines of the 747 leave little visible air pollution trails and noise levels promise to be almost half the present levels for large jets on take off and landing.

Protection of the environment, however, involves far more than merely controlling noise and air pollution. It involves protecting our historic sites, parklands, and wildlife preserves, and ensuring that industrial growth does not disturb the ecology. It requires that in undertaking transportation projects we plan in terms of a larger social context, that we use these to improve the world we live in.

The DOT enabling legislation and the Environmental Quality Act charge us with such a responsibility. Section 4f of the DOT Act states specifically that the Secretary shall not approve any project involving Federal funds which requires use of public land from a public park, recreation area, wildlife refuge, or historic site unless there is no feasible alternative or the program includes all possible planning to minimize harm to such sites. The controversy which has arisen over the location of a jetport in the Everglades and a superhighway through New Orleans' French Quarter relate to exactly this provision. And as you know, Secretary Volpe decided to halt the New Orleans project because it was considered that the historic site would be damaged irreparably if a road were allowed to run through it. The other project was limited because it was feared that a large jetport might adversely affect the ecology of the Everglades, among other things removing alligators from the face of the earth. A similar decision was made not long ago with regard to a superhighway through Franconia Notch in New Hampshire's White Mountain National Forest -- the Secretary refused to approve interstate highway construction through the site, thus indefinitely postponing the construction of this section of Interstate 93 which links Boston to Montreal. With increased airport and public transit facility construction that is expected in the coming decade by virtue of the greater federal funds to be available we will have the requisite handle available to act really constructively in improving our environment and making our country a pleasanter place in which to live.

I have spoken of some of the problems in transportation and some of what I think we have to work with. Add to these the "new factors" of environment, safety, and the like and it is a large assignment our industry has. Where there is a challenge there is a way. We need broader thinking on the part of everyone involved in transportation and closer ties among the quadriad -- academia, the government (both at the Federal and local levels), the industry (carriers and operators), and the public, those who use and are affected by the system.

And I think this is happening. Public voices are increasingly being heard; government legislation is responding to transportation needs and broad social concerns; the carriers and operators are wrestling with new ways to do business; and the academics are perhaps more heavily involved in our planning and thinking than ever before. Out of this I think will come more balance, more long-range planning, a more sustained and general program, and ultimately better transportation. Thank you.

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DEPARTMENT OF TRANSPORTATION

NEWS

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WASHINGTON, D.C. 20590

REMARKS MADE BY ASSISTANT SECRETARY-DESIGNATE FOR POLICY AND INTERNATIONAL AFFAIRS, CHARLES D. BAKER BEFORE THE COMMERCIAL RESEARCH COMMITTEE, AMERICAN IRON AND STEEL INSTITUTE, DETROIT, MICHIGAN, MARCH 17, 1970

The industry I represent - transportation - is one of your largest consumers. Upwards of 29 percent of the steel consumed in this country goes into transportation-related activities. Understandably, the largest market is the automotive industry, which in 1969 represented 20 percent or 18 million tons of your total market. The rail industry, which includes equipment, rails, and accessories for urban public transit facilities as well as the common carrier, used 3.3 million tons or 3.5 percent of the total. Shipbuilding accounted for 900,000 tons or one percent and, finally, the aircraft industry, which doesn't rate a percentage but which is important to some of you small specialty producers is responsible for 80,000 tons. All that doesn't add up to the 29 percent I started out with so we must have forgotten something. Pipelines and other esoteric equipment must fit in there somehow. Anyway,

these statistics serve to indicate that the transportation industry is a significant market for you.

But it is not only as a market that transportation impacts on your activities. Fluctuations in transportation costs and the quality of transportation service directly affect your cost of doing business and thus the price of your product. Indeed, so dependent on transportation are you that a work stoppage in any one of several modes can prevent you from carrying on business at all.

Of the approximately 134 net tons of iron ore consumed by your industry in 1968, 85 million was domestic, by and large from the Great Lakes States. A significant portion of this came by water carrier to Great Lakes ports and then by rail to the steel mills in Pittsburgh, Baltimore, and so on. About 47 million tons were imported, some of this from the Great Lakes section of Canada (and this is handled similarly to domestic Great Lakes ore) but mostly (20 million tons) from Eastern Canada. Some of this latter ore was carried by water to East Coast ports, but I understand that most went via the St. Lawrence Seaway to Great Lakes ports and then again by rail to your mills.

The source for coal (88 million tons) is primarily domestic and most is shipped by rail, although some small amount does go by barge, scrap is all domestic. The better part of this -- 46 million tons -- is produced on site, thus requiring little or no transportation. About half of this amount (28 million tons) is obtained from independent scrap producers outside the industry, and this is shipped mostly by rail. At the far end of the picture, you reach your domestic market largely by rail, with some by truck. So, not only in terms of markets but also for distribution, transportation is of extreme importance to you.

We in the Federal Government are intimately involved with transportation albeit from a rather different point of view than you. There are a variety of Government bodies involved in one way or another in transportation. On the one hand, we have the regulatory bodies such as the ICC, the FMC, and so on, and on the other, the developmental agencies such as the Maritime Administration and the Department of Transportation. All of these are thinking about and hopefully doing things that directly or indirectly impact on the iron and steel industry.

As an exporter (5 million short tons in 1969) and a supplier to the shipbuilding industry, you should be interested in the new Maritime program that President Nixon and the Maritime Administration have recently sent to Congress. This program will restore the Merchant Marine of the country to its once dominant position in the shipping lanes of the world as well as to stimulate this country's declining shipbuilding industry.

The new program should make it possible for the shipbuilding industry to build more ships over the next ten years -- moving from the present level of about ten ships a year to a new annual level of thirty. The program is designed to meet both the problems which lie behind the recent decline in this field -- low production rates and high production costs. The proposal would encourage shipbuilders to construct more ships and at the same time to hold down the cost of each vessel. By planning a long-range building program, we hope to encourage builders to standardize ship design and introduce mass production techniques which have kept other U. S. products competitive in world markets. On the other hand, only if our builders are able to improve their efficiency and cut their costs can we afford to replace our declining merchant fleet with American-built/American manned vessels. The new program will provide a substantially improved system of construction differentials.

We are also responding to transportation needs in other areas. In rail, for example, we are involved in a number of activities that should improve your service and could potentially lower your transportation costs. The problem of freight car shortage and service is an area of major concern to us as I'm sure it is to you. There have in the past been a variety of attempts on the part of the government and industry to alleviate the problems, but none have been very successful. However, at DOT we have underway a study which is looking at some of the economic considerations involved in freight car distribution, and we may expand the scope of the study to include some specific recommendations on just how car utilization can be improved. We have a number of other efforts under consideration such as research to provide better information about the location of cars and to improve control of their assignment. We are also (at the suggestion of several shipper groups) considering holding sometime next fall a Secretarial Conference on the car service problem. We would hope that such a Conference would foster a more enlightened line of thinking than presently exists in car service discussions.

As you are all painfully aware I am sure, the railroads have recently requested another across-the-board six percent rate increase, effective June 30. The Department did not formally object to the November increase, but we did at that time recommend that the ICC investigate not only the proposed increase but also the larger question of whether this type of increase should be the way of life. We feel that perhaps the time has come for a fundamental change in the structure of railroad rates and for a new kind of revenue procedure. The Department is undertaking an evaluation of the present structure, its background, and the effect on it of this type of horizontal rate increase. We hope thereby to obtain material that can be used as a basis for developing a new rate structure.

Earlier on I mentioned that a large part of your iron ore is delivered at least partly by water carrier -- either on the Great Lakes or via the St. Lawrence Seaway - Great Lakes system. We are involved here from an operational point of view through the Coast Guard and the St. Lawrence Seaway Development Corporation. But above and beyond purely operational concerns, the Department is involved in some action of a rather more substantitive nature as well.

The St. Lawrence Seaway, as you know, is under review by Congress, the Administration, and a number of other interested bodies. The problems are several. But foremost is under-utilization of the system. We have now under study various ways to develop the Seaway system, such as the possibility of improving scheduling and/or increasing the speed with which ships are put through the locks.

Gentlemen, I have touched briefly on some of the aspects of transportation as I see them affecting you. The transportation industry is a large consumer of iron and steel and it is likewise a large and vital supplier of the services you use. Our Administration in its first year has attempted to focus on some of the issues that affect you. In 1970, and beyond, we'll be getting into new areas. The steel industry is vital to the Nation. So also is the industry that serves you - transportation.

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U.S. DEPARTMENT OF TRANSPORTATION
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STATEMENT OF CHARLES D. BAKER, DEPUTY UNDER SECRETARY, DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON SURFACE TRANSPORTATION, SENATE COMMERCE COMMITTEE, REGARDING S.2355, WEDNESDAY, MARCH 18, 1970

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to speak before you today on S.2355, a bill dealing with an area of public concern in which the Department of Transportation has taken a great interest. This bill would establish an Advisory Commission on Freight Rates to be composed of thirteen members representing agriculture, industry generally, four modes of transportation, the general public, four agencies of the Federal Government, and finally a Chairman. This Commission would have the responsibility of reporting to the Congress after two years on every major aspect of the freight rate structures of the United States of all domestic carriers.

Two issues are presented by this proposal.

First, is this a subject worthy of national concern and the answer is yes. Frequent requests by carriers for rate increases affect not only the overall cost of transportation to the public, but also the structure of rates, leading to uneven impacts throughout the economic system. Unfortunately, no one is able to appraise the extent of structural distortion from rate increases or its impact on the economy. Moreover, there are still survivors of older patterns of regional rate disparities, not only in rail but in other modes. There is also the uneven structural impact of intermodal competition, causing problems for some regions and some carriers.

Second, is this the right way to go about dealing with the problem? The answer here is not necessarily.

We recognize, of course, that special commissions have made historic contributions to the solution of great public problems. On the other hand, not all of them have been so successful, and in recent years the Congress has had success with alternative procedures to deal with special problems. One of the most frequent, and generally successful, means of dealing with special problems has been the assignment by Congress of special tasks to competent agencies in the Executive Branch, where these agencies can mobilize their resources and advise Congress and the public in accordance with their statutory responsibilities.

Congressional assignment of special tasks has been particularly successful in the highway field; examples being the concept of the Interstate System, highway cost allocation, highway safety, apportionment of Interstate highway funds, and various highway safety activities. In other fields, the Department of Transportation has been authorized by Congress to prepare studies and recommendations dealing with automobile insurance, and the Aviation Facilities Expansion Act, which is now in conference, authorizes a study respecting the allocation of costs among the various users of the airport and airway system. This is a framework within which the Department of Transportation is accustomed to operate, and where the public has accepted the partnership of a cognizant Federal agency and the Congress in working out great national problems in transportation.

Indeed, the Congress recognized in its action in creating DOT the role that the Department can play in matters of this nature. The Congressional declaration of Purpose in the DOT Act states that the Department shall: "Develop and recommend to the President and the Congress for approval national transportation policies and programs to accomplish these objectives with full and appropriate consideration of the needs of the public, users, carriers, industry, labor, and the national defense."

The Department has developed a keen interest in the rate structure problem. We have urged the regulatory commissions to relate motor and rail rate increases to structural reforms. In our pleadings and evidence before the regulatory agencies during the past two years we have suggested means whereby this may be accomplished. We also plan to publish in the near future an evaluation of the existing structures of rail and motor rates. Efforts are also being made to respond to needs expressed by air carriers and users of their service for improvements in the structure of freight rates. Further, we have recently asked for proposals for the conduct of a study of domestic air freight rate structures, emphasizing the structural components in present air freight tariffs.

Beyond these activities which are well underway, there is a further critical question that must be addressed, and that deals with the timing and framework of the kind of study contemplated by this legislation. Recently, in response to Presidential directive, the Department of Transportation has undertaken a comprehensive study of all aspects of national transportation policy. This is a mammoth effort and will probe many significant aspects of public policy as it pertains to transportation.

It will concern itself, among other things, with the way in which regulation, including the regulation of rates and tariffs, affects particular modes of transportation and shippers.

In this national transportation policy study appropriate recognition is being given to the fact that structure, or the relationship among rates, has been a key issue in public policy in transportation. The Hoch-Smith Resolution in 1925 and the investigations by the ICC of the territorial rate classifications and scales, culminating in the historic decision in Docket 28300, which restructured basic railroad rates in 1952, are illustrative of this public concern.

We note that conditions have changed mightily since the basic work was done on Docket 28300. Transport competition has assumed a role not imagined by the researchers of the late 1930's and early 1940's. This means that there are structural impacts of competition, and that the competitive modes in air, highway, and water transport have structural problems of their own in addition to those of the railroads which were the traditional focus of concern. Inflation has emerged as a problem affecting rate structures. Regional growth and development has changed the basis of many traffic flows and would affect the issues involved in rate analysis. There is a new interest in foreign trade and balance of payments which give emphasis to the structure of export and import rates of domestic carriers. Moreover, there are new analytical tools available for the study of rate structures. These tools can be related to new methods of carrier and industrial management so that the implementation of rate recommendations can be carried out in ways much better than those prescribed in the older cases.

The issues confronting the shipper and the public in rate structures are numerous and go beyond the present evidence of geographical disparities. There are cost relationships involved in the structuring of rates, there are demand factors emphasizing the use of transportation in the transactions among the many sectors of the economy, there are numerous specific problems of regions and carriers, and, what may not be generally realized, there is a problem of the manner in which rates are published and interpreted. The complexity of tariffs themselves obscures many structural relationships, some good, some bad.

Because of the increased complexity of the issues involved in the freight rate structure, the content of any modern national transportation policy report must go well beyond those of the past of a similar nature. It will not be sufficient to perform an analytical task and then have some recommendations at the conclusion of the report. We cannot expect that any single agency or statute or even group of statutes and policies will solve the rate structure by itself. Much of the energy for changing the structure must come through the competitive incentives of the transportation industry itself, and policies should be designed principally to channel these incentives and be related to other regulatory statutes, factors, and conditions. The DOT policy study as it affects the rate structure area will probably have three objectives:

1. Basic analytical studies to provide background for policy recommendations.
2. Development of administrative methods and guidelines to channel carrier business incentives as an instrument of structural reform.

utilize empirical data from the operation of carrier activities as a means of further analysis and continuing revision and surveillance of rate structures.

As I have noted, our study is well underway and we anticipate that it will be concluded in early 1971 at the latest. It will not answer every specific question that might be raised about transportation, but it will provide the large context in which many such issues can be more properly addressed. It is our judgment that before taking final action on a study of the type proposed in S.2355, the Committee first give consideration to our upcoming national transportation policy evaluation. With this document in hand, and with an opportunity to consider the facts and ideas it will present, the Committee can better judge whether such a study is needed and what exactly its characteristics should be. We would, of course, welcome an opportunity to present our views and at that time to assist the Committee in any other way.

While it is our recommendation that action be postponed on S.2355, if the Committee believes that such a study should be initiated before the completion of the larger transportation policy report, it is our position that it would be far more preferable if the study were carried out by the Department of Transportation. To do this, however, suitable financing and other legislative authority would be needed.

This concludes my comments on S.2355, Mr. Chairman, I shall be pleased to answer any questions you or the members of the Committee may have.

DEPARTMENT OF TRANSPORTATION | NEWS

OFFICE OF THE SECRETARY
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REMARKS MADE BY ASSISTANT SECRETARY FOR POLICY AND INTERNATIONAL AFFAIRS, CHARLES D. BAKER, BEFORE THE TRANSPORTATION COMMITTEE OF THE AMERICAN PAPER INSTITUTE, ABSECON, NEW JERSEY, APRIL 30, 1970

Gentlemen, last year your industry picked up a transportation tab of nearly $2 billion -- something near to 20 percent of your total sales (of $11.5 billion). Shipments represented about two-thirds of this and purchases (raw materials) accounted for about one-third. By far the largest part of this latter, $125 million, was for transporting pulpwood and chips.

In 1969, your industry produced approximately 54 million tons of paper and paperboard. According to the 1969 Census of Transportation, a little more than half of this was shipped to market by rail and something over 40 percent by truck (of which three-fourths is by common carrier and one-fourth by private carrier). The remaining 2-plus percent goes

by other means, including -- primarily in the South -- barge lines.

The figures vary somewhat by region when it comes to procurement, but nationally the major inbound tonnage -- pulpwood -- looks as follows: rail again accounts for more than half -- 54 percent to be specific. The truck share inbound is roughly equivalent to the truck share outbound -- 44 percent. But the use of private carriage is much greater -- two-thirds versus one-fourth. However, to illustrate some of the regional variations: in the Northeast, nearly 80 percent of all pulpwood comes in by private (truck) carriage because of limitations on rail service to the sources. If ton miles instead of tons are looked at, rail plays an even more dominant role. Nearly 75 percent of the ton miles of pulp, paper, and allied products shipped and 85 percent of the inbound shipments of pulpwood are by rail. Of course, the industry is also engaged in international movements. Imports -- primarily from Canada and Finland -- ran about 15 million tons of raw stock paper and paperboard and another 5 million tons of pulp and pulpwood. Export shipments were not as large but still ran about 5 million tons of raw stock paper and paperboard and 4 million tons of pulp and pulpwood. These went primarily by water to Europe (England) and South America.

So much for the background music. Now, what does the song say? That by any measure you are a large consumer of a variety of transportation services and as such are significantly affected and sure as heck interested in events in this sector of our economy. Clearly, your primary concern is most often the railroads. (Given adequate service, rail is generally the most efficient way to ship/purchase large quantities of paper and pulpwood). But you do depend -- albeit to a lesser extent -- on trucks, both common and private carriage. Nor do your concerns stop there. For barge line and salt water operators serve you too.

Well, the Federal government is just as interested in transportation as you are, and in the last analysis pretty much from the same point of view. I'll get into our perspective in just a minute, but first let me indicate who in "Disneyland East" (Washington) is involved here. On the one hand, we have the rate and route setters -- the transportation regulatory bodies -- namely the ICC, the FMC, the CAB. On the other hand are the promotional or developmental agencies such as the Department of Transportation, the Department of Commerce (for maritime affairs), and the Corps of Engineers (for construction of inland waterways). Of course, there are others. Various elves in the State Department suggest how we might act in international transportation matters and the Bureau of the Budget pixies tell us how much money we can't ask Congress for. Interior helps us with the bird and bunny bit

so we don't pave over the Potomac River -- and government being the wonder that it is there are many others. However, in large degree, DOT is where government transportation interests are focused. So let me talk about it a bit.

I said earlier that your perspective and ours were pretty much the same. Let me elaborate. The Department of Transportation Act gives us certain implicit purviews. As I see it, we are responsible for developing national policies and programs that will result in fast, safe, efficient, service-oriented transportation systems that are compatible with other national objectives, including specifically the environment. This of course means developing effective programs encouraging cooperation between State and local governments; working with labor, management and other interested parties; and stimulating technological advances in transportation.

This then is our general role with regard to the overall transportation system. Our specific activities vary somewhat from mode to mode. You obviously are concerned about several modes -- rail, truck, etc. -- but I'll confine my brief remarks here to the railroads since that is generally your dominant area of interest.

In the rail area much of our activity is specified by statute. We have several specific program responsibilities -- the operation of the Federally owned Alaska Railroad, the Office of High Speed Ground Transportation, and the Bureau of Railroad Safety. Since you are concerned with safety, let me comment on that area. As an outgrowth of our efforts and congressional deliberations the House is now considering and the Senate has already passed a bill which would replace the very limited existing Federal statutes on railroad safety, with a comprehensive statute authorizing the Secretary to prescribe Federal safety standards for most areas of railroad safety such as maintenance of way, rolling stock, and the like. The bill would also authorize a program of railroad safety research. Now, how will this program translate into better transportation for you? Railroad accidents (which continued upward last year for the 12th consecutive year) are causing significant loss and damage to railroad equipment as well as to shipments traveling in this equipment. This loss and damage takes a financial toll on the railroad industry but even more important to you it delays service and decreases an already inadequate supply of equipment. Improvement in railroad safety can only, in the long run, improve your service.

Now, let's look at another area -- rail passenger service. Railroads are losing over $200 million a year operating intercity rail passenger service and this affects you adversely because it means low profits for the industry, thus limiting reinvestment in new equipment. And

ultimately this also means poor service. Thus, although not of initial concern to you (unless you happen to be a traveler), a resolution of the present situation which requires the railroads to operate an unwanted -- and unprofitable -- business would benefit you by putting the railroads in a better financial position which eventually works to your benefit. The Department is now developing a legislative position on this passenger issue and we hope to see legislation this year which will solve this problem of cash drain on the roads. (It should also concurrently do much to restore good rail passenger service where needed.)

Another area of concern to you is regulation. Regulation was originally conceived essentially to protect the shipper against the monopoly power of the railroads. In the past 30 or 40 years, however, it has seemed to trend towards protecting the carriers' status quo -- not seemingly on the basis of actual events in the transportation world but rather more from ideals about preserving the common carrier system as it has existed. Thus some changes seem needed to improve the quality of the transportation service that is being provided and keep apace of the times.

In pre-DOT days, the Executive Branch did not get heavily involved in regulatory policy development, at least not in the economic regulation end of things (a prime function of the independent ICC). But certain of DOT's implicit responsibilities require us to get into the game.

This Administration has a firm commitment to increasing beneficial competition and, if appropriate, proposing revisions to or modifications of regulation and the regulatory process. Last year, for example, the Administration sent up the reorganization plan for the ICC providing for a Presidentially-approved nonrotating chairman which among other things was designed to provide new continuity to the Commission and permit new looks at regulation. An example of DOT involvement relates to Docket 34013 (re cost standards in intermodal rate proceedings). Here we recommended the adoption of a marginal cost pricing policy in competitive ratemaking situations and suggested a new concept for measuring and weighing allegations of destructive competition. We in DOT also think that some relaxation of 15a3 -- the Rule of Ratemaking -- may be called for. And the Trade Simplification Act which we submitted to Congress last year would allow greater freedom among carriers in joint ratemaking and equipment interchange.

And what does this concern and review of regulation mean for the paper industry? I think it should mean more flexible responses to your needs by the common carriers, better service, and generally lower cost. At least that's what it should mean and achievement of that aim is the obligation DOT is under.

Change may also be required in the freight rate structure. You are all painfully aware I am sure that the roads have recently requested another across-the-board six percent increase, effective June 30. The Department did not formally object to the November increase, but we did at that time recommend that the ICC investigate not only the proposed increase but also the larger question of whether this type of horizontal increase should be the way of life. Perhaps the time has come for a new revenue procedure and a fundamental change in the structure of railroad rates. To assess this question, the Department is undertaking an evaluation of the present structure, its background, and the effect on it of this type of horizontal rate increase. The results of such effort may result in some activity on our part before the ICC to bring about some basic changes.

Finally, I would like to take a few minutes to discuss a problem that I know is near and dear to your hearts -- that is the problem of car service. Over the years shippers, carriers, and Congressional leaders have been expressing concern over deficiencies in railroad freight car service. In large measure, this is an ICC responsibility, but we clearly are concerned. We have underway a study which is looking at some of the economic considerations involved in freight car distribution. We expect this study to tell us something of the impact of the supply deficiency on various sectors of the economy (for example, the lumber industry) as well as who bears what part of the burden. We may expand the scope of this study to include some specific recommendations on just how car utilization can be improved. Since investment affects car supply we got involved in that too. Specifically, we supported legislation in the Tax Reform Act so as to utilize the tax laws to encourage the acquisition of additional freight equipment. Now arising out of our various activities has grown a concensus that new and further solutions are required. And we are of the mind that something on the order of a national car service conference is needed, where information and points of view might be exchanged among all relevant parties -- Federal and State government leaders, shippers, carriers, consumers, and labor, as well as independent professionals. Present plans are to hold such a conference this fall. Arising from this activity we look for new ideas, fresh views so that industry and government can jointly address this problem of quantity, quality, availability, and utilization.

Gentlemen, transportation is important to you. And your concerns are our concerns. There are problems, but I think positive things are happening. I've mentioned rail safety and the need to do something about rail passenger deficits (to say nothing of service). Regulation and ratemaking are due for some review and are getting it. The car service problem -- while it may always have been with us -- doesn't have to be a way of life and we are moving to attack it.

The transportation that you need, that you pay for, has problems that need solving. I hope to leave you tonight with the view that we are on the track towards getting some solutions. Thank you.